

MILLIMAN REPORT

# The Part VII Transfer of a portfolio of long-term insurance business from Canada Life Limited to Countrywide Assured plc

The Report of the Independent Expert

19 June 2024

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# 1. Purpose and scope

## THE BACKGROUND TO THE SCHEME AND PURPOSE OF THIS REPORT

- 1.1 It is proposed to transfer certain long-term insurance business from Canada Life Limited (“**CLL**”) to Countrywide Assured plc (“**CA**”), comprising c.42,000 (as at 31 December 2023) individual non-profit term assurance policies.
- 1.2 CLL and CA (together, the “**Companies**”) are proprietary insurance companies operating in the UK.
- 1.3 Under UK law, a transfer of long-term insurance business must be carried out in accordance with Part VII of the Financial Services and Markets Act 2000 (“**FSMA**”)<sup>1</sup> and an application must be made to the High Court of Justice, Business and Property Courts of England and Wales, the Companies List or, in Scotland, to the Court of Session (collectively, the “**Court**”) for approval under Section 111 of the FSMA. Such transfers of insurance business are referred to in this report as “**Part VII Transfers**”.
- 1.4 I refer to the proposed Scheme providing for the transfer to CA of certain long-term insurance business of CLL as “**the Scheme**” or “**this Scheme**”.
- 1.5 Under Section 109 of the FSMA the application to the Court for approval of the Scheme must be accompanied by a report (the “**Scheme Report**”) by an Independent Expert on the terms of the proposed transfer Scheme. The Scheme Report consists of this report (the “**Report**”) and any subsequent supplementary reports issued by me covering the Scheme.

## MY APPOINTMENT AS INDEPENDENT EXPERT

- 1.6 I have been appointed by the Companies to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert, on the terms of the Scheme.
- 1.7 I am a Fellow of the Institute of Actuaries and a Principal of Milliman LLP (“**Milliman**”), part of Milliman Inc., a global consulting firm. I have over 35 years’ experience in the UK life insurance industry, and I have fulfilled the role of Independent Expert in relation to a number of transfers of long-term insurance business that have subsequently been approved by the Court, including transfers involving with-profits business. I hold Chief Actuary and With-Profits Actuary practising certificates issued by the Institute and Faculty of Actuaries. I currently act as Chief Actuary for a UK life company. I have also previously undertaken the role of Actuarial Function Holder, With-Profits Actuary and Appointed Actuary. I have additionally carried out a wide variety of actuarial consulting assignments, both in the UK and overseas, on topics including solvency and capital, asset-liability management, mergers and acquisitions, treating customers fairly, product and unit-pricing.
- 1.8 My appointment was approved by the Prudential Regulation Authority (“**PRA**”) after consultation with the Financial Conduct Authority (“**FCA**”) and was confirmed in a letter dated 8 January 2024. My terms of reference have been reviewed by the PRA and the FCA.
- 1.9 I submitted a statement of independence to the PRA and the FCA for review prior to their approval of me as the Independent Expert. I confirm that neither I nor Milliman have or have had any direct or indirect interest in any of CLL and CA or other related firms that could influence my independence. I do not hold any policies with CLL or CA. I have set out my independence considerations, as discussed and agreed with the PRA and the FCA, in Section 3 of this Report.
- 1.10 As with other costs of the Scheme, my firm’s fees will be borne by CLL and CA as described in Section 6 of this Report.

## MY REPORT AS INDEPENDENT EXPERT

- 1.11 This Report is produced for the Court to assist in its deliberations in respect of the Scheme. This Report and an overall summary of it, produced by me, (“**the Summary Report**”) will be made available to policyholders via the websites of CLL, CA and Chesnara plc (“**Chesnara**”), the parent company of CA. Policyholders may also request copies from CLL and CA. The Summary Report will be included in the communications packs that will be sent to

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<sup>1</sup> A notable exception to this is the case of Friendly Societies. Friendly Societies can write long-term insurance business in the UK, but any transfers of such business will be carried out in accordance with the Friendly Societies Act 1982.

the appropriate policyholders. The groups of policyholders who will receive a communications pack, and the reasons why, are set out in Section 12 of this Report.

- 1.12 This report has been prepared in accordance with the approach and expectations of the PRA, as set out in PS1/22: “The PRA’s approach to insurance business transfers” dated January 2022 (the “**PRA Statement of Policy**”), as well as Chapter 18 of the Supervision Manual (“**SUP 18**”) contained in the FCA Handbook, and the FCA’s Final Guidance “FG22/1: The FCA’s approach to the review of Part VII insurance business transfers” dated February 2022 (the “**FCA Final Guidance**”). Appendix E summarises how this Report complies with this guidance.
- 1.13 I confirm that the comments and conclusions in this Report apply to all policyholders of the Companies irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued.

#### **MY SUPPLEMENTARY REPORT**

- 1.14 I will prepare a further report (my “**Supplementary Report**”) prior to the Sanction Hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events subsequent to the date of the finalisation of this Report. My Supplementary Report will contain updates based on the latest available financial information. I will also respond in my Supplementary Report in general terms to any themes emerging from any objections or other feedback from policyholders.
- 1.15 My Supplementary Report will be available to policyholders via the CLL, CA and Chesnara websites.
- 1.16 I will prepare further reports on the Scheme, should the need arise.

#### **THE PARTIES FOR WHOM MY REPORT HAS BEEN PREPARED**

- 1.17 This Report and any extract thereof have been prepared for the particular use of:
- The Court;
  - The PRA and the FCA;
  - The Directors and senior management of the Companies; and
  - The professional advisers of any of the above.
- 1.18 I am not aware of any courts or regulators which need to approve or give consent to the Scheme other than those included in the list above.
- 1.19 I am available to assist any of the parties listed above in interpreting the Report.
- 1.20 In accordance with the legal requirements under the FSMA, copies of my report will be made available to the policyholders of the Companies and to other interested parties (which could include employees of the Companies and any insurance intermediaries which have relationships with the Companies).

#### **NOTE ON REPORT TERMINOLOGY**

- 1.21 I note that any technical terms, including those relating to the UK version of the Solvency II Regime (“**Solvency UK**”), are set out in capital letters, and are defined in the Glossary of Terms in Appendix C. I set out a general overview of the life insurance market and regulatory environment in the UK in Appendix A.

#### **RELIANCES AND LIMITATIONS**

- 1.22 In preparing my report, I have had access to certain documentary evidence provided by the Companies, the key items of which are listed in Appendix D. I have also had access to, and discussions with, senior management of the Companies. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without full independent verification. However, I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the UK life insurance industry.
- 1.23 I have relied on the work of the external auditors of the Companies in gaining confidence in the financial information as provided by the Companies throughout this Report. I note that not all of the financial information is subject to external audit, and hence this reliance is limited to that information which is subject to external audit. Where the

financial information has been subject to external audit, I consider this to mean that the relevant results are in compliance with applicable rules and guidance, in particular those in relation to Solvency UK.

- 1.24 CLL and CA have been advised by their own legal advisers in relation to the Scheme. Herbert Smith Freehills LLP (“**HSF**”) has advised CL. Addleshaw Goddard LLP (“**AG**”) advised CA until 14 March 2024 (inclusive); Slaughter and May (“**SM**”) has advised CA from 15 March 2024. I have reviewed the legal input provided by HSF, AG and SM following their reviews of drafts of this report and have taken into account that input in reaching my conclusions on the basis set out from paragraph 3.47. I have described in Section 3 why I think it is reasonable to use legal input in that way. For the avoidance of doubt, HSF, AG and SM have no liability to me or Milliman in respect of that input.
- 1.25 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose. I have provided a summary of this Report for inclusion in the communications with the applicable policyholders (and where relevant distribution to any persons requesting a copy of it). I have also provided an overall summary of this Report for inclusion on the relevant Part VII Transfer section of the CLL, CA and Chesnara websites. Any other purported summary of this Report or elements of this Report should not be treated as having been approved or authorised by me.
- 1.26 This Report has been prepared on a basis agreed with the PRA and the FCA and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of this Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.27 The Report does not provide financial or other advice to individual policyholders.
- 1.28 There are no documents or other information that I have requested and that have not been provided.
- 1.29 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing this Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the terms of the Scheme.
- 1.30 I have considered the terms of the Scheme proposals presented to me and I have not considered possible alternative scheme proposals.
- 1.31 The Report is based on information available to me as at 19 June 2024.

## REGULATORY AND PROFESSIONAL GUIDANCE

- 1.32 This Report has been prepared subject to the terms of the Technical Actuarial Standards (“**TASs**”) applicable to Insurance transformations (“**TAS 200: Insurance**”) issued by the Financial Reporting Council. In my opinion, this Report complies with the TAS 200: Insurance.
- 1.33 This Report is compliant with TAS 100 v2.0: Principles for Technical Actuarial Work, and in particular those aspects that are applicable to transformations.
- 1.34 In complying with these requirements, I note that a number of the key documents listed in Appendix D have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.
- 1.35 Actuarial Profession Standard X2, as issued by the Institute and Faculty of Actuaries (“**IFoA**”), requires members to consider whether their work requires an independent peer review.
- 1.36 In my view this Report does require independent peer review, and this has been carried out by an appropriate senior actuary in Milliman LLP who has not been part of my team working on this assignment (the “**Peer Reviewer**”).

## 2. Executive summary

### Introduction and the role of the Independent Expert

- 2.1 CLL is a proprietary life insurance company incorporated in England. CLL is a wholly owned subsidiary of The Canada Life Group (U.K.) Limited (“**CLG**”), incorporated in England and Wales. CLG is a subsidiary of Canada Life International Holdings Limited which itself is a subsidiary of The Canada Life Assurance Company, a leading Canadian insurer with interests in life insurance, health insurance, investment, retirement savings and reinsurance business, primarily in Canada, the US and Europe. The Canada Life Assurance Company is a subsidiary of Great-West Lifeco Inc.
- 2.2 CA is a proprietary insurance company registered in England & Wales. CA is a wholly owned subsidiary of an insurance group, Chesnara plc, a UK-listed holding company.
- 2.3 Both CLL and CA are authorised under the terms of FSMA to undertake long-term insurance business in Classes I, II, III, IV, VI and VII, set out in Part II of Schedule 1 to the Regulated Activities Order 2001.
- 2.4 Until November 2022, CLL wrote individual protection business in the UK. CLL closed this book to new business in November 2022. The Scheme provides for the proposed transfer of the remaining policies in this closed book of individual protection business from CLL to CA, other than a single policy which will be retained by CLL; it has been excluded because the policyholder is based in Guernsey<sup>2</sup> (the “**Guernsey Policy**”).
- 2.5 I have been appointed by CLL and CA to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert on the terms of the Scheme. It is my role as the Independent Expert to consider the effects of the Scheme on policyholders, including on their reasonable benefit expectations and their security of benefits, and on the standards of service, administration, management and governance applicable. I have been approved to carry out the role of Independent Expert by the PRA in consultation with the FCA.

### Current position regarding Canada Life Limited

- 2.6 CLL focuses on two areas of insurance business, namely life insurance and health insurance. The life insurance book constitutes the majority of CLL’s business and comprises annuities, group life insurance and individual life insurance.
- 2.7 CLL is subject to Solvency UK. CLL has approval from the PRA to calculate its Solvency UK capital requirements using a Partial Internal Model (“**PIM**”) in respect of longevity, credit and catastrophe risks; CLL employs the Standard Formula for all other risks. CLL also has various commonly used approvals from the PRA in relation to the application of Solvency UK, including the use of the Volatility Adjustment (“**VA**”).

### Current position regarding Countrywide Assured plc

- 2.8 Chesnara is a UK-listed holding company with a primary focus on consolidation in the life insurance and pensions market. CA is a wholly owned subsidiary of Chesnara and is the UK company into which Chesnara consolidates its acquisitions in the UK.
- 2.9 CA is also subject to Solvency UK. CA employs the Standard Formula for all risks to calculate its Solvency UK capital requirements. CA has approval from the PRA in relation to the application of the VA under Solvency UK.

### The Scheme

- 2.10 The proposed Scheme will transfer a closed book of approximately 42,000 (as at 31 December 2023) conventional life insurance policies from CLL to CA on the date the Scheme takes effect (the “**Effective Date**”). The Scheme does not include any amendment to the contractual benefits, rights or options of the policies.
- 2.11 The Effective Date of the Scheme will be determined upon the sanction of the Scheme by the Court. The Effective Date will be no earlier than 23 February 2025. CA’s operational readiness plan includes contingencies against unforeseen delays to ensure the Scheme is ready to become operational as of the preferred Effective Date of 23 February 2025. In the event that the migration needs to be deferred to after that date, the Scheme provides for the Effective Date to be deferred up to and including 22 May 2025 without further Court approval upon agreement

<sup>2</sup> To transfer this policy in the manner proposed for the other policies would require approval from the Royal Court of Guernsey, and the costs of doing so would be disproportionate.

between CLL and CA. The Effective Date of the Scheme will not be able to be deferred beyond 22 May 2025 without additional approval from the Court.

- 2.12 The policies included in the Scheme are individual life assurance protection policies, some of which were sold with an additional critical illness benefit. The policies include both single and joint life policies and the benefits payable on occurrence of a covered event are one of three bases: level term, level term with an inflation-linked option, or decreasing term.
- 2.13 Transferring this business under the Scheme will allow CLL to focus its resource and investment on other business areas, including its group protection business. The Scheme also aligns with CA's strategic aims of continuing to acquire life and pensions business, further strengthening the position of CA and the Chesnara Group within the UK consolidation market and supporting the company in achieving additional economies of scale as it spreads fixed costs over a greater number of policies.
- 2.14 CLL currently holds two external reinsurance treaties with third parties (that are not CA) in respect of the policies to be transferred. Since 16 May 2023, CLL has ceded to CA via a separate reinsurance agreement (the "**Reinsurance Agreement**") the part of the liabilities under these policies that is not externally reinsured, meaning that the majority of CLL's economic interests of this business has effectively already been transferred to CA. The Reinsurance Agreement between CLL and CA does not cover the single Guernsey Policy. Further details of the reinsurance arrangements related to the policies to be transferred are covered in paragraphs 4.67 to 4.72.
- 2.15 The current third-party reinsurance arrangements in place in respect of the business being transferred (the "**Transferred Business**") are expected to be transferred to CA as part of the Scheme. These are known as the "**Transferred Reinsurances**".

#### Financial impact of the Scheme

- 2.16 I have considered the financial impact of the Scheme, which forms a key part of my considerations, primarily in relation to the impact on the security of benefits for policyholders.
- 2.17 Figure 2.1, below, shows the pro forma post-Scheme financial position of CA measured on the Solvency UK basis. The CA pre-Scheme position makes allowance for the existing reinsurance arrangement between CLL and CA covering the policies being transferred by the Scheme (the "**Transferred Policies**"), which would no longer be effective in the post-Scheme position.
- 2.18 The balance sheets also show the position if the Scheme were not to be sanctioned for any reason. If the Scheme were not sanctioned it is assumed that the Reinsurance Agreement between CLL and CA would be unwound and CA would no longer have any exposure to the business proposed for transfer under the Scheme.

**Figure 2.1: CA pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023**

£ million	Pre-Scheme CA	Pro forma post-Scheme CA	If Scheme not Sanctioned
Assets (A)	4,453.0	4,453.0	4,456.8
Best Estimate Liability (" <b>BEL</b> ") (B)	4,113.1	4,113.1	4,126.6
Risk Margin (C)	12.0	12.0	11.2
<b>Technical Provisions (D = B + C)</b>	<b>4,125.1</b>	<b>4,125.1</b>	<b>4,137.8</b>
Other liabilities (E)	145.9	145.9	145.9
<b>Own Funds (before restrictions) (F = A – D – E)</b>	<b>182.0</b>	<b>182.1</b>	<b>173.1</b>
RFF Restriction (G)	0.5	0.5	0.5
Dividends (H)	35.0	35.0	35.0
<b>Restricted Own Funds (I = F – G – H)</b>	<b>146.5</b>	<b>146.6</b>	<b>137.6</b>
<b>SCR (J)</b>	<b>101.4</b>	<b>101.4</b>	<b>97.9</b>
Excess Own Funds (K = I – J)	45.1	45.2	39.7
<b>Solvency Ratio (L = I / J)</b>	<b>145%</b>	<b>145%</b>	<b>141%</b>

Source: Report by the Chief Actuary of CA on the Transfer.

- 2.19 The table above shows that, as a result of the Scheme, the Own Funds, the Ring-Fenced Fund Restriction (“**RFF Restriction**”), SCR and hence the Excess Own Funds of CA are largely unchanged post-Scheme as a result of the Transferred Business moving to CA. This is as a result of the Transferred Policies already being reinsured to CA and therefore being present in the pre-Scheme CA position as inwards reinsurance. The result is a minimal change (c.0.1%, not shown, above, in Figure 2.1 due to rounding) to the Solvency Ratio relative to the pre-Scheme position.
- 2.20 If the Scheme were not to be sanctioned for any reason, the Reinsurance Agreement would be terminated, and the holders of the Transferred Policies would remain policyholders of CLL. In this scenario CA would see a decrease to the level of its Own Funds of c.£9 million and of its SCR of c.£3.5 million. This would result in an overall decrease in the Solvency Ratio of 4 percentage points and therefore I am also satisfied that, if the Scheme were not to proceed, there would be no significant additional financial risk to CA.
- 2.21 Figure 2.2, below, shows the pre-Scheme and pro forma, post-Scheme financial position of CLL. The figures are shown on a Solvency UK basis as at 31 December 2023. The balance sheets also show the position if the Scheme were not to be sanctioned for any reason.

**Figure 2.2: CLL pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023**

£ million	Pre-Scheme CLL	Pro forma post-Scheme CLL	If Scheme not Sanctioned
Own Funds (A)	3,567	3,567	3,588
SCR (B)	2,204	2,204	2,206
Excess Own Funds (C = A – B)	1,363	1,363	1,382
Solvency Ratio (D = A / B)	162%	162%	163%

*Source: Report by the Chief Actuary of CLL on the Transfer.*

- 2.22 The movement between the pre- and post-Scheme financial positions of CLL reflects the transfer of the residual risk associated to the Transferred Business and the Reinsurance Agreement between CLL and CA falling away. The impact on the CLL Solvency Ratio is less than 1 percentage point.
- 2.23 Consequently, I am satisfied that there is no significant financial risk to CLL nor CA as a result of the Scheme.
- 2.24 I have also considered CA’s ability to withstand adverse stress and scenario circumstances, and whether the Scheme will have any material impact on this aspect.
- 2.25 In my opinion the stress and scenario testing combined with the qualitative analysis carried out by CA as part of its Own Risk and Solvency Assessment (“**ORSA**”) process sufficiently covers the risks to which CA is exposed and show that CA maintains a strong Solvency Ratio across a number of adverse scenarios. Consequently, it is my opinion that under a different market or business environment than as at 31 December 2023 it is likely that the Scheme would still be able to proceed without a significant financial impact on CA.
- 2.26 If the Scheme were not to be sanctioned for any reason, the existing reinsurance arrangement between CLL and CA would be terminated, and the policies that are included in the Scheme would remain with CLL. In this scenario CLL would see an increase to the level of its Own Funds of c.£20 million and to its SCR of c.£2 million. This would result in an overall increase in the Solvency Ratio of c.1 percentage point and therefore I am also satisfied that if the Scheme were not to proceed there would be no significant additional financial risk to CLL.
- 2.27 I will consider the financial impact of the Scheme as at 30 June 2024 in my Supplementary Report.

#### **The effect of the Scheme on the reasonable benefit expectations of policyholders**

- 2.28 I have considered the impact of the Scheme on the reasonable benefit expectations of all types and all groups of policyholders of the Companies, including holders of policies of either of the Companies that are not included in the Scheme.
- 2.29 The benefit amounts of the policies transferred will not be altered under the Scheme and will therefore remain at the same level post-Scheme as they would be under CLL, had the Scheme not occurred.
- 2.30 Similarly, it is expected that any contractual options and rights as specified in the relevant terms and conditions will also be unaltered. The administration of the policies transferred will be carried out by a third-party administrator,

SS&C Technologies (“**SS&C**”). I note that CA is currently investigating the administration systems of SS&C to ensure that, post-Scheme, it has the functionality to replicate all contractual options and rights that apply currently under CLL. This analysis is due to complete in July 2024 at which point any missing functionality that has been identified will be included in the planned developments of SS&C’s administration systems. I will comment further on the outcome of this investigation in my Supplementary Report and in particular highlight if there are any contractual options or rights that would be transmuted as a result.

- 2.31 The holders of the Transferred Policies (the “**Transferred Policyholders**”) currently benefit from additional non-contractual services. These benefits are serviced by third parties and include the Canada Life App (a mobile phone application offering discounts on everyday purchases) as well as a number of support services. CA will enter contracts with these third parties in order to continue offering these additional benefits to the Transferred Policyholders post-Scheme.
- 2.32 The terms and conditions, including any defined benefit amounts, of the policies of the Companies that are not included in the Scheme will not be altered as a result of the Scheme, nor does the Scheme have any adverse impact on the management of the business that could affect benefits that are variable in amount, such as unit-linked or with-profits business. In particular, CLL does not have any with-profits business, and the With-Profits Actuary (“**WPA**”) of CA has concluded that there will be no changes to the benefit expectations of the existing with-profits policyholders of CA as a result of the Scheme. Based on the evidence I have reviewed I agree with the conclusion of the WPA of CA.
- 2.33 I am therefore satisfied that the Scheme will not have a material adverse impact on the reasonable benefit expectations of any type or any group of policyholders.
- 2.34 I am also satisfied that for both of the Companies, the Scheme is equitable to all classes and generations of the policyholders.

#### **The effect of the Scheme on the security of the benefits for policyholders**

- 2.35 I have considered and analysed the impact of the Scheme on the security of benefits of all groups of policyholders of the Companies.
- 2.36 In my opinion, owing to the fact that the Scheme will not alter the policy terms and conditions, day-to-day management nor application of Solvency UK in respect of the policies of CLL or CA, and the fact that the Scheme has little impact on the solvency position of the Companies, there is no material adverse impact on such policyholders in relation to the security of their benefits as a result of the implementation of the Scheme.
- 2.37 The Transferred Policies will become part of CA. In my assessment of whether the security of the benefits of the Transferred Policyholders will remain adequate as a result of the Scheme, as well as comparable to the security of their benefits prior to the implementation of the Scheme, I have considered the following:
- The calculation of the Solvency UK Technical Provisions and SCR of the Companies;
  - The solvency position of the Companies, allowing for the impact of the Scheme;
  - The results of stress and scenario testing of those solvency positions;
  - The capital management policies (“**CMPs**”) applicable for the Companies;
  - The capital support in place for the Companies, as a result of their corresponding Group structure;
  - The differences in risk profile between the Companies;
  - Any other key differences between the Companies, including any differences in size, investment strategy and liquidity policies;
  - The impact of the Scheme on the reinsurance arrangements in place for the Companies, including the Reinsurance Agreement; and
  - Other considerations as a result of the Scheme, including the additional capital retained amounts being held, and the position should it become necessary to implement a Recovery and Resolution Plan.
- 2.38 In my opinion, there is no material adverse impact on the security of benefits of the Transferred Policyholders as a result of the implementation of the Scheme. My reasoning for reaching this conclusion is as follows:
- Both companies will continue to be subject to Solvency UK regulation post-Scheme.

- Differences in the calculations of the Solvency UK BEL, Technical Provisions and SCR in respect of the Transferred Business will not adversely affect, and may very marginally increase, the security of the benefits of those policies.
- The post-Scheme Solvency Ratio for both CLL and CA will remain above their respective target Solvency Ratios as set out in the CMPs.
- In particular, the liabilities associated to the Transferred Policies (the “**Transferred Liabilities**”) have already been reinsured to CA, which is in compliance with its regulatory capital requirement as well as its CMP and so the implementation of the Scheme introduces limited additional risk to CA’s ability to meet its liabilities as they fall due in the future.
- I am satisfied that the stress and scenario testing performed by CA, combined with its qualitative analysis carried out as part of its ORSA process, sufficiently covers the risks to which CA is exposed.
- The management of the Transferred Policyholders will move from being subject to the CLL CMP to being subject to the CA CMP. I note that CA’s target Solvency Ratio is lower than that of CLL, which may appear to be a lowering of the security of the Transferred Policyholder’s benefits. However, for reasons I set out in Section 9, I do not consider this comparison to be of direct relevance in considering the overall security of the benefits of the Transferred Policyholders. The reasons for this include:
  - CLL and CA are distinct entities that have set their Solvency Ratios in respect of their own mix and volumes of business, and therefore their target Solvency Ratios are not directly comparable; and
  - The Transferred Business represents a very small portion of the businesses of each insurer, and therefore the target Solvency Ratio of each of the Companies is more heavily influenced by the rest of its insurance business.
- I am satisfied that both Companies have adequate governance around the oversight and implementation of their risk appetite framework and have an established list of appropriate management actions to consider in various scenarios of the risk appetites being breached.
- The Transferred Policyholders will be exposed to CA’s risk profile instead of that of CLL as a result of the Scheme. Given the SCR of CA reflects its risk profile, and the capital buffer CA holds above its SCR, I do not consider the change in the Transferred Policyholder’s risk exposures to have a material adverse impact on the security of their benefits.
- There are additionally no changes expected to the external reinsurance arrangements relating to the Transferred Business, which will be transferred from CLL to CA as part of the Scheme (as the Transferred Reinsurances). This statement does not apply to the Reinsurance Agreement currently in place between CLL and CA in respect of the Transferred Business, which will cease upon the Effective Date.

### **The effect of the Scheme on the standards of service, administration, management and governance applicable to the policies**

- 2.39 I have considered the impact of the Scheme on the standards of service, administration, management and governance applicable for all policyholders of the Companies. I have considered both:
- The temporary impact of the Scheme on the customer service provided to the policyholders, due to expected increased activity in relation to the transfer; and
  - The impact of the Scheme on the administration and servicing arrangements in place.
- 2.40 CLL has established a ring-fenced team to handle the anticipated temporary increase in demand on customer service as a result of customers contacting it about the Scheme. Given CLL’s previous experience in handling schemes such as the one covered by this Report and their planned approach to this Scheme, I am satisfied that they are well-placed to maintain and manage a ring-fenced team with appropriate staffing levels, experience and knowledge of the Scheme and business-as-usual type queries triggered by the communications while also maintaining adequate service standards for non-Transferred Policies.
- 2.41 A change in administration arrangements is planned outside of the terms of the Scheme. CLL currently carries out the administration of all its policies in-house, including those to be transferred as part of the Scheme. The administration of the Transferred Policies is expected to transfer to SS&C, a specialist third-party administration provider, in February 2025, shortly ahead of the Scheme implementation. SS&C does not currently administer any

policies for CA, but CA also intend on migrating the administration of other blocks of policies to SS&C in due course. The migration of the Transferred Policies is not contingent on any other block being migrated.

- 2.42 Both of the Companies have therefore engaged in formulating a migration plan that involves the migration of the Transferred Policies to SS&C's systems in advance of the Effective Date to help ensure that, as of the Effective Date, the administration of the Transferred Business is ready to be carried out entirely on SS&C's platform and independently of the CLL administration system. The administration of the Transferred Policies will then be performed by SS&C from the Effective Date onwards. The Companies are monitoring the operational readiness of SS&C to complete the migration of the administration of the Transferred Policies as part of this migration plan.
- 2.43 This migration plan includes a contingency that, if SS&C were not ready to administer the policies within the planned time frame, the Effective Date could be delayed until up to and including 22 May 2025, as described in paragraph 2.11, during which time CLL would continue to administer the policies until the delayed Effective Date. In the event that the Effective Date of the Scheme had to be delayed beyond 22 May 2025 due to the migration to SS&C's systems not being ready on or before this date, CLL and CA would consider options for how to proceed. I note that these options have not yet been finalised or formally agreed upon given that the migration plan is currently progressing in line with the planned time frames.
- 2.44 I will provide an update on the status of the migration plan in my Supplementary Report. In the event that a delay of the Effective Date beyond 23 February 2025 (whether until before or after 22 May 2025) has become a realistic possibility, I will consider the appropriateness of any further policyholder communications and the contingency planning that may become necessary.
- 2.45 If the Scheme were not to proceed for any reason, then the administration of the Transferred Policies would remain in-house with CLL.
- 2.46 The implementation of the Scheme will therefore have an impact on:
- The system on which the data for the Transferred Policies are stored and administered;
  - The processes by which the Transferred Policies are serviced; and
  - The staff who are carrying out the servicing of the Transferred Policies.
- 2.47 CA monitors service standards as part of its ongoing risk management processes through the terms and service-level agreements ("**SLAs**") entered into with CA's outsourced providers. Following the expected migration of the Transferred Policies and some of CA's existing policies to SS&C, service standards with SS&C will be assessed through regular touchpoints as part of a process for identifying any issues and developing a plan to address any issues. This process will help ensure that service level standards remain within CA's risk tolerance levels. I note that the SLAs of CLL and CA are broadly comparable.
- 2.48 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the standards of service, administration, management and governance applicable to policyholders of the Companies. This conclusion applies both to the period when the Scheme communication process is underway (i.e. from the time of the policyholder mailings through to the Effective Date), and to the period following the Effective Date.
- 2.49 I will provide an update in my Supplementary Report with regard to the operational readiness of the Companies for the transfer.

#### **My other considerations arising from the Scheme**

- 2.50 I have considered a number of other additional aspects not covered above, that may have a bearing on the impact of the Scheme and the policyholders of the Companies. These aspects include:
- The future operation of the Scheme;
  - The effect of the Scheme on the other companies in the Canada Life Group not directly affected by the Scheme;
  - The effect of the Scheme on the other companies in the Chesnara Group not directly affected by the Scheme;
  - The effect of the Scheme on the reinsurers of CLL and CA;
  - The consequences of the Scheme on taxation issues;
  - The Solvency UK review being undertaken by HM Treasury and the PRA;

- Access to the Financial Services Compensation Scheme and the Financial Ombudsman Service;
- FCA Consumer Duty Rules;
- Emerging risks & volatility;
- Operational readiness for the Scheme;
- The effects of the Scheme not proceeding; and
- Other regulatory matters.

2.51 I have concluded that these matters do not have any material impact on my conclusions in respect of the Scheme.

#### **The approach to communications with policyholders**

2.52 I have considered the proposed communications strategy and the letters and documentation to be issued to the various groups of policyholders of the Companies. I have also considered the dispensations being sought by CLL in relation to communications to policyholders not included in the Scheme and certain classes of its policyholders included in the Scheme, as well as dispensations sought by CA in relation to communications to its existing policyholders.

2.53 I have considered the structure and content for the direct communication with the Transferred Policyholders, as well as the further distribution of information in respect of the Scheme, including this Report. I have also considered the adequacy of the support for vulnerable customers and how communication arrangements have been adapted to their specific needs.

2.54 Overall, I am satisfied that the proposed approaches to the communications with policyholders, including the applications for dispensations, and including the approach to vulnerable customers, are reasonable and that the communications themselves are clear, fair and not misleading.

#### **My conclusions**

2.55 I have considered and analysed the effects and the impact of the Scheme on all of the policyholders of CLL and CA, including the Transferred Policies, as set out in the sections of this Report.

2.56 In my opinion, the implementation of the Scheme will not have any material adverse effect on any of the following:

- The reasonable benefit expectations of the policyholders of CLL and CA.
- The security of the benefits of the policyholders of CLL and CA.
- The levels of administration, customer service, management and governance that apply to the policyholders of CLL and CA.

## 3. The role of the independent expert

### INTRODUCTION

- 3.1 Policyholders involved in UK insurance business transfers have four main layers of protection provided by the legal and regulatory system in the UK. These layers of protection are provided by:
- The obligations placed on the Companies to give notice of the proposed transfer to policyholders and other interested parties. Any person who considers they may be adversely affected by the Scheme may make a representation to the Court.
  - The Independent Expert. They produce the (publicly available) Scheme Report assessing the Scheme, including its impact on policyholders, and a Supplementary Report.
  - The UK regulators (the PRA and the FCA) as they:
    - Approve the appointment of the Independent Expert and the form of the Scheme Report;
    - Produce their own reports on the Scheme for consideration by the Court;
    - Are entitled to appear in or make a representation to the Court; and
    - Approve the form of the notices that are published and sent to policyholders.
  - The Court. There are two Court Hearings: the “**Directions Hearing**” and the “**Sanction Hearing**”. The proposed plan for notification of policyholders is considered at the Directions Hearing. The Court reviews the Scheme at the Sanction Hearing where the Court also takes into account the views of the regulators, the Independent Expert, various statements by the parties to the transfer, and any objections raised by policyholders and other interested parties.
- 3.2 My role as Independent Expert is to assess the Scheme and to report on this via the Scheme Report (this Report and any Supplementary Reports) to the Court. I set out below my significant areas of consideration in discharging this role.

### THE CONSIDERATIONS OF THE INDEPENDENT EXPERT

#### The regulatory requirements in respect of my role

- 3.3 The requirements in respect of the Scheme Report are set out in:
- The PRA Statement of Policy (paragraphs 2.27 to 2.40A);
  - Paragraphs 31 to 41 of Section 2 of SUP 18 of the FCA Handbook; and
  - The FCA Final Guidance (section 6).
- 3.4 This Report complies with these documents.
- 3.5 The Scheme should take due account of the FCA Principles for Businesses (detailed in paragraph A.67), including the concept of treating customers fairly as well as FCA’s new Consumer Duty (Principle 12) rules which require firms to act to deliver good outcomes for customers. From the policyholders’ perspective, the successful implementation of the Scheme must therefore be on the basis that they are treated fairly during the process and will be treated fairly in the future, and that it results in a positive outcome for them. The Scheme must also meet statutory and regulatory requirements. I have taken into account these Principles for Businesses in this Report, and in particular the more exacting Principle 12 on Consumer Duty is discussed in paragraphs 11.32 to 11.39 and in Appendix A.68 to A.70.
- 3.6 The Scheme concerns two life insurance companies: CLL and CA. I need to consider the terms of the Scheme generally and how the different types and groups of policyholders (both within and across the Companies) and the different generations of policyholders within the different types and groups are likely to be affected by the implementation of the Scheme. In particular I need to consider:
- The effect of the implementation of the Scheme on the reasonable expectations of policyholders in respect of their benefits;

- The effect of the implementation of the Scheme on the security of the policyholders' benefits, including the likelihood and potential effects of the insolvency of the insurer; and
- The effect of the implementation of the Scheme on the standards of service, administration, management and governance applicable to the policies.

3.7 My considerations in respect of each of these areas are set out in more detail below.

3.8 In this Report I have not restricted my assessment of the Scheme to adverse effects.

3.9 I am only required to comment on the effects of the Scheme on policyholders who enter into contracts with the Companies prior to the date the Effective Date. I am not required to consider the effects of the Scheme on new policyholders entering into contracts after this date. Further detail on the definition of the Effective Date of the Scheme is given in paragraph 6.5 and of its practical implementation in paragraph 6.14.

3.10 I am not required to consider possible alternative Schemes and I have therefore only considered the terms of the Scheme presented to me.

### **Policyholders' reasonable expectations in respect of their benefits**

3.11 As part of my role as Independent Expert for the Scheme, I need to consider the proposals in the context of the FCA's regulatory objectives and in particular the effect of the implementation of the Scheme on policyholders' reasonable expectations.

3.12 This includes considering the effect of the implementation of the Scheme on areas where the Board of the relevant insurance company has discretion with regard to the charges applied to a policy and the benefits (including with-profits bonuses) granted to the policyholder.

3.13 Policyholders' reasonable benefit expectations relate to expectations that are applicable in the context of the normal course of events and non-extreme scenarios. Therefore this consideration differs to the assessment of the financial security of policyholders' benefits, in that the latter assessment considers the security of benefits under extreme scenarios. In other words, it assesses the extent to which the policyholder has the same security of benefits under adverse risk events pre-Scheme and post-Scheme.

### **The security of policyholder benefits**

3.14 As noted above, as Independent Expert, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their benefits when these are due, and in particular consideration of this in adverse circumstances.

3.15 Solvency UK requires insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic best estimate of their liabilities to policyholders. This amount of capital is based on the risks being taken on by the insurance company. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios. I describe the UK regulatory regime in more detail in Appendix A.

3.16 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the benefits, and security is also provided by other capital resources in the insurance company. As well as the amount of available capital, the quality of that capital is also an important consideration in the context of security of benefits.

3.17 The life insurance companies involved in the Scheme have a different mix of policies and policyholders and the type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholders' risk exposure will be the characteristics of the company in which the policy is held such as the size of the company, the mix of different types of business and risk, the amount and quality of capital resources available, the investment strategy, and the internal CMP and risk appetite of the company.

### **Standards of service, administration, management and governance applicable to the policies**

3.18 As Independent Expert, I also need to consider the proposals in the context of the effect of the implementation of the Scheme on the quality of the levels of administration, servicing, management and governance in respect of the policies.

## THE FRAMEWORK FOR THE INDEPENDENT EXPERT'S CONSIDERATION OF THE SCHEME

3.19 The framework for my work and for my conclusions is a consequence of the Court's consideration of many prior schemes over previous years. A particular case worthy of note is the transfer of a portfolio of annuities from The Prudential Assurance Company Limited ("**Prudential**") to Rothesay Life Plc ("**Rothesay Life**"). An appeal was brought to the Court of Appeal by Prudential and Rothesay Life, following the initial Court ruling of Snowden J who, on 16 August 2019, declined to sanction the transfer.

3.20 In the judgement issued by the Court of Appeal some clarity was provided on the principles that a judge should consider when deciding whether to approve a Part VII Transfer. It clarified that:

- The crucial question for the Court remains whether the transfer results in a material adverse effect on policyholders, employees or other stakeholders.
- An adverse effect will only be material if it is:
  - a possibility that cannot sensibly be ignored, given the nature and gravity of feared harm in the particular case;
  - a consequence of the scheme in question; and
  - material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.
- In some cases it may also be necessary for the Court to consider whether there would be a material adverse effect in the event that the scheme in question was not sanctioned.
- Should a transfer result in a material adverse effect on some group(s) of policyholders, there may still be reasons to approve the scheme. However, if the impact of the scheme differs for different group(s) of policyholders then the Court will need to consider whether the scheme as a whole is fair.
- In reaching a decision, and determining the key factors for consideration, the Court must consider the nature of the business concerned (both transferring and non-transferring) as well as the circumstances surrounding the transfer.
- Whilst the Court has discretion over whether to sanction a transfer, in exercising this discretion, it must take into account and give proper weight to matters that ought to be considered and ignore matters that ought not properly to be taken into account. The decision as to what matters to consider will depend on the particular circumstances of the transfer.
- The Court scrutinises the reports of the Independent Expert, PRA and FCA, and the evidence of any person required to be heard by the Court. The Court is entitled to ask questions as is necessary to ensure that the opinions presented are fully understood and with a view to identifying any "errors, omissions, or instances of inadequate or defective reasoning". However, in the absence of such defects the Court should place "full weight" on the opinions of the Independent Expert, PRA and FCA and only depart from their conclusions if there are "significant and appropriate reasons" for doing so.
- Following the Court's evaluation, it will decide whether or not to sanction the scheme if it is appropriate in all the circumstances to do so. The Court cannot explicitly request for a scheme to be altered, although alterations may occur as a result of the Court expressing concerns in relation to certain aspects of the scheme.

3.21 In the particular case of the Prudential to Rothesay Life transfer, the Court of Appeal judgement also drew the following conclusions:

- It was justifiable for the Independent Expert, PRA and FCA to rely on Solvency UK metrics at a specific date to support their opinions that there was a remote chance of parental support being needed in the future as Rothesay would continue to be regulated under these same rules for the foreseeable future.
- The possibility of non-contractual parental support being available in the future was not a relevant factor for consideration.
- Given the extensive financial and actuarial evidence available to the Court, the subjective factors raised by the policyholders (such as the age, venerability and reputation of Prudential) were not relevant.

- 3.22 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately and necessarily a matter of expert judgement regarding the likelihood and impact of future possible events. However, the analytical approaches and tools available to me to carry out my work (as set out in this Report) enable me to exercise this judgement in an objective and explainable manner. I confirm that my work has been carried out and my conclusions developed consistently with the principles arising (as summarised above) from the Court of Appeal judgment in the Prudential and Rothesay Life transfer.
- 3.23 Given the judgements involved, it is well-established (and reconfirmed by the Prudential and Rothesay Life Court of Appeal judgement as referred to above) that the Independent Expert can take into account the concept of materiality in carrying out their work and forming their conclusions. Without this concept, an otherwise acceptable scheme (including a scheme which ultimately benefits policyholders) might not be able to proceed due to aspects or issues which are clearly immaterial. For example, in relation to benefit expectations there might be the possibility of immaterial changes in either direction, where immaterial is considered both in relation to the total expected benefits and in relation to changes in total expected benefits which can occur in the normal course of events absent the scheme in question. In relation to benefit security, the level of coverage for capital requirements immediately pre-scheme and post-scheme may be different, but still comfortably in excess of regulatory minimums. In both of these cases an Independent Expert might reasonably conclude that there are no material adverse effects on the policyholders concerned. Given that (as explained above) benefit expectations take into account both the normal course of events and non-extreme scenarios, in my view it is appropriate for an Independent Expert to take particular care in assessing materiality for any potential changes in benefit expectations.
- 3.24 I confirm that I have taken materiality into account in carrying out my work and in forming my conclusions, and wherever I have made use of the concept of materiality in forming my conclusions I have highlighted and explained this in the relevant sections of this Report. My working definition of and my approach to materiality is consistent with that set out by the Court of Appeal in paragraph 3.20.
- 3.25 The above is the framework for my work and my consideration of the Scheme.

## **THE INDEPENDENCE OF THE INDEPENDENT EXPERT**

### **Policies held by the Independent Expert and Peer Reviewer**

- 3.26 I do not hold any policies with CLL or CA.
- 3.27 Canada Life provides Group Life and Group Income Protection insurance policies to Milliman LLP. Though I am covered by these policies (as are the other staff of Milliman LLP) I have not claimed any benefits under these insurance protection policies.
- 3.28 Given the above, I am confident that the provision of group insurance policies does not affect my independence or objectivity in carrying out my role as Independent Expert. As a Fellow of the Institute of Actuaries, I am bound by a professional code of conduct, which requires me to act with integrity and impartiality.
- 3.29 My work as Independent Expert will be reviewed by another senior actuary who is independent of the Companies, known as the Peer Reviewer. The Peer Reviewer does not hold any policies with any of the companies involved in the transfer.

### **Previous work carried out for CLL and CA by the Independent Expert and the Peer Reviewer**

- 3.30 I have carried out no work for CLL in the past five years and neither has my Peer Reviewer.
- 3.31 I have not carried out any previous work for CA and neither has my Peer Reviewer.
- 3.32 I am of the view that none of the above work affects my independence or objectivity in carrying out the role of Independent Expert

### **Regulatory view on the independence of the Independent Expert**

- 3.33 The PRA has reviewed my statement of independence and is satisfied that I am independent of CLL and CA (and other related firms).
- 3.34 My appointment was approved by the PRA after consultation with the FCA and was confirmed in a letter dated 8 January 2024.

## RELIANCES OF THE INDEPENDENT EXPERT IN THIS REPORT

### The financial information in this Report

- 3.35 The current regulatory solvency framework for the European Economic Area (“**EEA**”) insurance and reinsurance industry came into effect on 1 January 2016; this regime is known as Solvency II. The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK’s exit from the European Union (“**EU**”) (and the EEA). Since 1 January 2021, the UK has been free to determine an appropriate regulatory regime for insurance companies, which I refer to throughout this Report as Solvency UK.
- 3.36 Solvency UK is applicable to both CLL and CA.
- 3.37 A few changes were implemented prior to year-end 2023 to the Solvency UK regime, including a change to the yield curves used to discount the components of the balance sheet, which came into force during 2021.
- 3.38 The reforms to the Risk Margin under Solvency UK, as described in paragraph A.9, came into force with effect from 31 December 2023 following the enactment of Statutory Instrument No. 1346 – Financial Services and Markets – The Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023, dated 7 December 2023.<sup>3</sup>
- 3.39 In February 2024, the PRA published the first of two sets of rules expected to be published during 2024 as part of its ongoing regulatory review. The rules include “Policy Statement 2/24 – Review of Solvency II: Adapting to the UK insurance market” (“**PS2/24**”)<sup>4</sup>, and “Policy Statement 3/24 – Review of Solvency II: Reporting and disclosure phase 2 near-final” (“**PS3/24**”)<sup>5</sup>. The Policy Statements will come into effect on 31 December 2024.
- 3.40 The second set of rules is likely to cover areas consulted on in the late 2023, when the PRA published “Consultation Paper – 19/23: Review of Solvency II: Reform of the Matching Adjustment” (“**CP19/23**”)<sup>6</sup>. CP19/23 includes various reform proposals related to the Matching Adjustment (“**MA**”) (described in paragraph A.9).
- 3.41 In April 2024, the PRA released “Consultation Paper 5/24 – Review of Solvency II: Restatement of assimilated law” (“**CP5/24**”)<sup>7</sup>. CP5/24 includes various reform proposals related to PRA rules and other policy materials which will replace Solvency II assimilated law<sup>8</sup>.
- 3.42 Consideration on the potential impact of the proposed reforms to Solvency UK are covered in more detail in paragraphs 11.24 to 11.28.
- 3.43 Section 7 shows the current (i.e. before the implementation of the Scheme) and the pro forma post-Scheme Solvency UK balance sheets (including capital requirements) as at 31 December 2023 for CLL and CA, and this financial information is used in the analysis of the effects of the implementation of the Scheme as set out in Sections 8 to 11.

### The checks that have been carried out on the financial information

- 3.44 I have not carried out an independent review of the financial information provided by the Companies. However:
- The reported Solvency UK balance sheets as at 31 December 2023 (shown in Sections 4 and 5) have been reviewed and approved by the respective Chief Actuaries, Audit Committees and Boards. I note that actuarial input from the Chief Actuaries and With-Profits Actuaries is subject to TAS requirements and Actuarial Profession Standards (“**APS**”);
  - I have carried out a high level reconciliation of the pro forma post-Scheme Solvency UK balance sheets as at 31 December 2023 for CLL and CA, shown in Section 7, back to the pre-Scheme Solvency UK balance sheets of the Companies; and
  - I have reviewed the financial information and where required sought explanation to the extent as necessary for me to gain a thorough understanding of the results.

<sup>3</sup> [https://www.legislation.gov.uk/uksi/2023/1346/pdfs/ukxi\\_20231346\\_en.pdf](https://www.legislation.gov.uk/uksi/2023/1346/pdfs/ukxi_20231346_en.pdf)

<sup>4</sup> [PS2/24 – Review of Solvency II: Adapting to the UK insurance market | Bank of England](#)

<sup>5</sup> [PS3/24 – Review of Solvency II: Reporting and disclosure phase 2 near-final | Bank of England](#)

<sup>6</sup> [CP19/23 – Review of Solvency II: Reform of the Matching Adjustment | Bank of England](#)

<sup>7</sup> [CP5/24 – Review of Solvency II: Restatement of assimilated law | Bank of England](#)

<sup>8</sup> Assimilated law refers to the Solvency II rules and regulations which were transferred into UK law upon the UK’s exit from the EU.

## Conclusion in respect of the financial information

3.45 Given the level of external review and internal checking and governance to which the financial information has been subject, as well as my own high-level review and reasonableness checks, I am satisfied that it is appropriate to rely upon this financial information for the purpose of this Report.

3.46 My Supplementary Report will contain more up to date financial information as at 30 June 2024 and will provide an update on the effect of the implementation of the Scheme based on this more up to date information.

## My reliance on legal advice

3.47 This Report is prepared for the Court as part of the process of submission of the Scheme to the Court. I am not an expert in legal matters and hold no qualifications in UK law (insurance regulations or otherwise) and therefore take into account input from experts in UK insurance law in relation to a number of areas. In particular:

- I note that the previous schemes involving CLL or CA (as described in Sections 4 and 5) have been through previous Part VII Transfers or equivalent processes, and thus these schemes and their rationale do not need to be considered afresh by me; and
- I have taken into account the input given by legal experts following their review of drafts of this report in order to ensure that my understanding of the Scheme, and my description of its relevant features in this Report, is materially accurate.

3.48 Obtaining information where necessary in respect of the operation of the Scheme from the legal experts provides a sound basis from which to carry out my review and analysis using actuarial expertise.

3.49 In order to get a sound understanding of the legal effect of the Scheme, the options available to me are to retain my own legal adviser to carry out the relevant legal review, or to take into account the input of the legal firms retained by the Companies in respect of this Scheme. In this case, I consider that it is not necessary for me to obtain independent legal input and that it is appropriate for me to take into account the input provided by HSF advising CLL and AG and SM advising CA (on the basis described in paragraph 1.24).

3.50 HSF, AG and SM have not been retained by me. HSF, AG and SM have no liability to me or Milliman for any input that has been made available to me that I consider relevant to my assessment of the effects of the Scheme.

3.51 My reasons for taking this input into account are:

- HSF, AG and SM are large international legal firms with a wide range of experience in UK insurance law and Part VII Transfers and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK;
- The nature of the information and input from HSF, AG and SM which I have taken into account concerns how the Scheme works, both factually and in accordance with UK law; and
- The relevant legal matters do not appear to be contentious.

3.52 For these reasons, I am satisfied that the input or information provided to me by HSF, AG and SM would not be different if they were retained directly by me in respect of the Scheme.

## My reliance on tax advice

3.53 I have been provided with information from the tax teams of CLL and CA on the tax implications of the Scheme. I have a good working knowledge of life company taxation, but I am not an expert in detailed tax related matters, and therefore I have taken into account input from experts on UK tax law, namely the UK Tax Director of Canada Life and the Chesnara Head of Tax<sup>9</sup>.

3.54 From a legal perspective, CLL has consulted HSF on whether any tax clearances are needed in respect of the Scheme and concluded that none are required. CA's internal tax team have concluded that no policyholder tax clearances will be sought, but that CA should seek a Corporation Tax clearance from HM Revenue and Customs ("HMRC") under Section 133 of the Finance Act 2012. No other external tax advice has been sought in respect of this Scheme at this time.

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<sup>9</sup> CA is part of the Chesnara Group. The Chesnara Head of Tax is responsible for tax considerations related to CA.

- 3.55 I also note that there are no material impacts or changes in respect of taxation arising as a result of the Scheme, in particular that there is no material impact on policyholder tax.
- 3.56 I am satisfied that it is appropriate for me to receive and take into account the input of the CLL and CA tax teams in forming my view of the tax related impacts of the Scheme. I will comment further in my Supplementary Report should there be any changes to the tax advice as outlined above.

## 4. Current position regarding CLL

### INTRODUCTION

- 4.1 CLL is a proprietary life insurance company incorporated in England and Wales. CLL is a wholly owned subsidiary of CLG (incorporated in England and Wales). CLG is a subsidiary of Canada Life International Holdings Limited which itself is a subsidiary of The Canada Life Assurance Company, a leading Canadian insurer with interests in life insurance, health insurance, investment, retirement savings and reinsurance business, primarily in Canada, the US and Europe. The Canada Life Assurance Company is a subsidiary of Great-West Lifeco Inc. ("**GWL**").
- 4.2 GWL and its subsidiaries, including CLL, had approximately 2.9 trillion Canadian dollars as at 31 December 2023 in consolidated assets under administration and are members of the Power Financial Corporation Group of companies.
- 4.3 CLL is authorised under the terms of FSMA to undertake long-term insurance business in Classes I, II, III, IV, VI and VII, set out in Part II of Schedule 1 to the Regulated Activities Order 2001.

### COMPANY HISTORY

- 4.4 Canada Life was founded in Canada in 1847 as the first Canadian life assurance company. Canada Life began operating in the UK in 1903, offering pensions, life insurance and investment products to both individuals and companies.
- 4.5 In 2020, The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company amalgamated to form one company, retaining the name The Canada Life Assurance Company. The Canada Life Assurance Company is a subsidiary of Great-West Lifeco Inc.
- 4.6 CLL is therefore an indirect subsidiary of its ultimate parent company, Great-West Lifeco Inc.
- 4.7 The principal subsidiary of CLL is Irish Life Group Limited ("**ILG**"). The principal trading subsidiaries of ILG are Irish Life Assurance plc and Irish Life Health DAC.

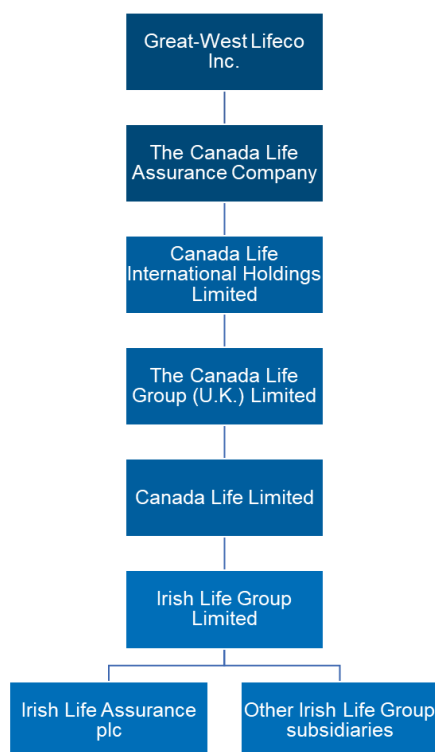
### PREVIOUS CLL SCHEMES

- 4.8 CLL has prior experience of Part VII Transfers, including:
- Equitable Life Assurance Society ("**ELAS**"): the transfer of Equitable Life Assurance Society's unit-linked annuities to CLL (February 2016);
  - Scottish Friendly ("**SF**"): the transfer of a closed book of life, pensions and protection, unit-linked, and non-linked, including ring-fenced with-profits business, from Canada Life Limited to Scottish Friendly Assurance Society Limited (November 2019);
  - MGM Advantage ("**MGM**"): the transfer of long-term insurance business from MGM Advantage Life Limited to Canada Life Limited (January 2020); and
  - Irish Life Assurance ("**ILA**"): the transfer of c.700 long-term insurance policies written in Ireland and Germany from Canada Life Limited to Irish Life Assurance plc (December 2020).
- 4.9 The previous schemes of CLL will not have any material impact on the Scheme covered by this report.

### CLL'S STRUCTURE

- 4.10 A simplified organisational structure for Canada Life is shown in Figure 4.1, below:

**Figure 4.1: Organisational structure of CLL**



Source: confirmed by CLL (summarised by Milliman).

#### **CLL'S BUSINESS BY FUND**

- 4.11 CLL's business strategy is to be a leader in its chosen market of retirement, investments and protection.
- 4.12 CLL focuses on two areas of insurance business, namely life insurance and health insurance. The life insurance business constitutes the majority of CLL's business and comprises annuities, group life insurance and individual life insurance.
- 4.13 Following the transfer of CLL's with-profits business to SF in 2019, CLL has no with-profits business.
- 4.14 Until November 2022, CLL wrote individual protection business in the UK. CLL closed this book to new business in in November 2022. CLL does not write offshore individual protection business outside of the UK and therefore has ceased to write new individual protection business entirely.
- 4.15 CLL sells insurance policies exclusively through third party advisors.
- 4.16 A breakdown of the business held within CLL as at 31 December 2023, including the Solvency UK Technical Provisions<sup>10</sup>, is shown Figure 4.2, below. The negative BEL and Technical Provisions in respect of the Individual Protection line of business are explained in paragraph 4.74. This business is fully reinsured, as described in paragraphs 4.67 to 4.70, resulting in a negative reinsurance asset.

<sup>10</sup> For clarity, where Solvency UK BEL amounts are stated in this report, they have been calculated using the PRA discount curve.

**Figure 4.2: Breakdown of CLL’s Solvency UK Technical Provisions as at 31 December 2023**

Line of Business	£ million						
	Number of policies <sup>11</sup>	BEL <sup>(1)</sup>	Transitional Measure on Technical Provisions <sup>(2)</sup>	Risk Margin <sup>12</sup> <sup>(3)</sup>	Technical Provisions <sup>(4) = (1)+(2)+(3)</sup>	Reinsurance Asset <sup>(5)</sup>	Technical Provisions Net of Reinsurance <sup>(6) = (4)-(5)</sup>
<b>Remaining with CLL</b>							
Annuities	453,074	16,422	330	188	16,280	2,216	14,064
Group Health	589,247	726	10	24	739	40	699
Group Life	2,416,900	158	0	20	178	3	174
Unit-Linked	19,133	2,436	0	2	2,438	0	2,438
Legacy	n/a	3	0	0	3	0	3
<b>Proposed to Transfer</b>							
Individual Protection	42,024	-29	0	0	-29	-29	0
<b>Total</b>							
<b>Total</b>	<b>3,520,378</b>	<b>19,716</b>	<b>340</b>	<b>234</b>	<b>19,610</b>	<b>2,231</b>	<b>17,379</b>

Source: provided by CLL.

4.17 CLL manages its insurance business across the following categories of funds:

- The Non-Linked MA Funds (Non-Par) which cover the business in respect of which CLL applies the Solvency UK MA, including annuities;
- The Non-Linked Funds (Non-Par) which cover all other annuities, individual life, group life and group health;
- The Unit-Linked Funds which cover the unit-linked business; and
- Surplus funds for any assets not specifically backing liabilities.

#### CLL FINANCIAL POSITION

4.18 CLL has received approval from the PRA to apply a MA in respect of certain lines of business, primarily annuities in payment. The MA increases the discount rate applied to calculate the present value of those future liabilities, and so reduces that value.

4.19 CLL has received approval from the PRA to apply a VA in respect of certain lines of business, primarily annuities in payment not included in the MA funds, income protection claims in payment, individual life business and group insurance business. A VA is an adjustment (typically an increase) to the discount rate applied to calculate the present value of the relevant future liabilities.

4.20 CLL has also received approval from the PRA to use the Transitional Measure on Technical Provisions (“**TMTP**”). The TMTP acts to reduce the Technical Provisions under Solvency UK enabling a smooth transition from the previous regulatory regime (Solvency I) from 1 January 2016 over a 16-year period.

4.21 CLL was granted approval from the PRA to use a PIM in respect of longevity, credit and catastrophe risks in November 2019. The use of a PIM facilitates CLL calculating its Solvency Capital Requirement (“**SCR**”) in a manner which more appropriately reflects the risk profile of the business than the approach under the Standard Formula. CLL uses the Standard Formula in respect of all other risks.

4.22 There are ongoing regulatory reviews of Solvency UK which may impact the CLL balance sheet position in the future. In particular, a change to the calculation of the Risk Margin took effect from 31 December 2023. This change reduced the Risk Margin for all firms and therefore will have resulted in a higher Solvency Ratio for CLL in isolation.

<sup>11</sup> The number of policies shown for both Group Health and Group Life are the number of lives covered by this business, rather than the number of individual schemes.

<sup>12</sup> The Risk Margin shown is at 31 December 2023 and is therefore allows for the change in the Risk Margin calculation that took effect from 31 December 2023.

4.23 As of 31 December 2023, Great-West Lifeco Inc. has received a credit rating of A from Fitch Ratings in respect of senior debt. As of 31 December 2023, The Canada Life Assurance Company has received a credit rating of AA and A+ from the Fitch Ratings in respect of financial strength and subordinated debt respectively.

4.24 Figure 4.3, below, summarises CLL's reported Solvency UK balance sheet as at 31 December 2023.

**Figure 4.3: CLL's Solvency balance sheet as at 31 December 2023**

£ million	31 December 2023
Assets (excluding Reinsurance Assets) (A)	23,951.0
Reinsurance Recoverable Assets (B)	2,230.6
<b>Total Assets (C = A + B)</b>	<b>26,181.5</b>
Best Estimate Liabilities (D)	19,716.0
TMTP (E)	340.0
Risk Margin <sup>13</sup> (F)	233.7
<b>Technical Provisions (G = D - E + F)</b>	<b>19,609.7</b>
Other liabilities (H)	3,545.6
Sub debt and Ancillary Own Funds (I)	540.6
<b>Own Funds (before restrictions) (J = C - G - H + I)</b>	<b>3,566.8</b>
RFF Restriction (K)	-
Dividends (L) <sup>14</sup>	-
<b>Restricted Own Funds (M = J - K - L)</b>	<b>3,566.8</b>
<b>SCR (N)</b>	<b>2,203.6</b>
Excess Own Funds (O = M - N)	1,363.2
<b>Solvency Ratio (P = M / N)</b>	<b>162%</b>

Source: provided by CLL.

4.25 The split of CLL's Own Funds between Tier 1, Tier 2 and Tier 3 capital as at 31 December 2023 is shown Figure 4.4, below. As is required by Solvency UK regulation, the majority of CLL's Own Funds is backed by Tier 1 Capital (over 80%).

**Figure 4.4: Split of CLL's Own Funds as at 31 December 2023**

£ million	31 December 2023
<b>Tier 1 – unrestricted</b>	
Issued share capital	342
Share premium account	812
Initial funds	397
Reconciliation reserve	1,394
<b>Tier 2</b>	
Subordinated liabilities	341
Ancillary own funds	200
<b>Tier 3</b>	
Tier 3 assets	81
<b>Total Own Funds</b>	<b>3,567</b>

Source: provided by CLL.

4.26 I will comment on the solvency position of CLL as at 30 June 2024 in my Supplementary Report.

<sup>13</sup> The Risk Margin shown is at 31 December 2023 and is therefore allows for the change in the Risk Margin calculation that took effect from 31 December 2023.

<sup>14</sup> No dividends are shown in Figure 4.3 and therefore the Restricted Own Funds, Excess Own Funds and Solvency Ratio do not allow for dividends; while the corresponding table for CA shown as Figure 5.5 does make an allowance for dividends, I have also considered the effect of removing the dividends on CA's balance sheet in a footnote to Figure 5.5.

## CAPITAL MANAGEMENT POLICY OF CLL

- 4.27 CLL's CMP, known internally as the Capital Management Operating Policy, aims to ensure that CLL has sufficient capital and reserves to meet its liabilities and regulatory solvency requirements under a range of stressed scenarios, whilst also being able to carry out its business plan within its risk appetite. The policy details the Capital Plan as well as the approaches to identifying, measuring, managing, monitoring and reporting risks associated with capital management.
- 4.28 The Board Audit Committee is responsible for maintaining oversight of the business' capital management and recommending the CMP to the Board. The Board is responsible for approving this the CMP as well as maintaining oversight of the business' capital management, which includes the approval of the Capital Plan on at least an annual basis.
- 4.29 CLL's Risk Appetite Framework sets out the company's Risk Appetite Statement, detailing the business objectives considered in setting the aggregate level of risk the company is willing to accept.
- 4.30 CLL's Risk Appetite Framework also defines the Risk Limits to which it adheres in order to meet these objectives, comprising a "Hard Limit", "Trigger" and, in specific cases, "Lower Triggers". These Risk Limits ensure that CLL measures, monitors and manages its capital and liquidity position in response to key risk drivers. The actions and escalations required as a result of a breach of these Risk Limits are also detailed.
- 4.31 A key Risk Limit defined in CLL's Risk Appetite Framework is a threshold for the Solvency Ratio, below which further action is triggered. Despite not being prohibited from a regulatory perspective, CLL has no appetite to maintain a Solvency Ratio below this level and therefore the Executive Risk Management Committee ("**ERMC**") would consider whether the remedial action is required.
- 4.32 CLL sets a Capital Operating Target above that of the Risk Limit which is its preferred level of Solvency Ratio. CLL has no appetite to hold capital significantly in excess of the Capital Operating Target although it will only declare dividends where it is satisfied that doing so will not cause the Solvency Ratio to fall below the Capital Operating Target.
- 4.33 Another key Risk Limit defined in CLL's Risk Appetite Framework is the threshold for the Liquidity Ratio, below which further action is triggered. The Liquidity Ratio is calculated as the realisable value of the company's available liquid assets divided by liquidity requirements under a 1-in-200-year stress, allowing for diversification between risks.
- 4.34 If either the Solvency Ratio or Liquidity Ratio fall under their defined thresholds, and outside of CLL's risk appetite, the ERMC would consider whether the remedial action is required.
- 4.35 Subject to Board approval, if the ERMC decides to implement the remedial action, then management actions specified in the Recovery Sourcebook may be activated until the Solvency Ratio and Liquidity Ratio are restored to an appropriate level. The full decision-making process, including the order in which management actions may be considered, is documented in the Recovery Sourcebook. These management actions may include reviewing dividends, selling parts of CLL's portfolio or an equity capital injection.
- 4.36 CLL's Risk Appetite Framework is consistent with its parent CLG's wider Risk Appetite Framework.

## CLL RISK PROFILE

4.37 The split of CLL's SCR as at 31 December 2023 by risk category is shown in Figure 4.5 below:

**Figure 4.5: Breakdown of CLL's SCR by risk category as at 31 December 2023**

	(£m)	Percentage of undiversified SCR
<b>Standard Formula Risks</b>		
Market	989.5	29%
Counterparty default	61.5	2%
Life underwriting	116.4	3%
Health underwriting	141.1	4%
<b>Internal Model Risks</b>		
Credit	979.4	29%
Longevity	645.7	19%
Catastrophe	448.0	13%
<b>Total Undiversified Components</b>	<b>3,381.8</b>	
Diversification	(1,198.3)	-
Adjustment due to aggregation	0	-
<b>Other Adjustments</b>		
Operational risk	134.2	-
Loss-absorbing capacity of deferred tax	(114.0)	-
<b>SCR</b>	<b>2,203.6</b>	

Source: provided by CLL.

- 4.38 Amongst the risks for which CLL uses the Solvency UK Standard Formula to calculate its associated SCR, the most material risk category is market risk which comprises equity, currency, market concentration, property and interest rate risks.
- 4.39 CLL also has exposure to counterparty default, life underwriting, health underwriting and operational risk as defined under the Solvency UK Standard Formula.
- 4.40 Amongst the risks for which CLL uses its PIM to calculate its associated SCR, the most material risk category is credit risk.
- 4.41 The risk profile of CLL is diversified, resulting in a significant diversification benefit in the aggregation of the total SCR.
- 4.42 CLL also makes use of the loss absorbing capacity of deferred taxes ("LACDT") whereby some of the SCR impact is offset against deferred taxes on the balance sheet. The Solvency UK balance sheet recognises expected future profits, and the tax that would be payable on those (known as deferred tax), after allowing for any carried forward tax losses that can be offset against the deferred tax. When an adverse scenario is evaluated (for example for SCR purposes), the amount of future profits and hence future tax payable will generally be lower, and this gives rise to an offsetting factor in the outcome of the scenario. This offsetting factor is known as LACDT and serves to reduce the SCR.

## CLL'S REINSURANCE ARRANGEMENTS

- 4.43 CLL makes use of several reinsurance arrangements, both internal (i.e. within CLG) and external, to mitigate its key risks, manage capital and benefit from external expertise. Examples of reinsurance arrangements include:
- Internal quota share reinsurance arrangements with Canada Life Annuity Reinsurance (Barbados) Corporation ("CLAR") and Canada Life Assurance Company Barbados Branch ("CLACBB") covering its individual and bulk annuities business;

- External longevity swap arrangements with JP Morgan Chase Funding Inc., Royal Bank of Canada Insurance Company Ltd., General Reinsurance, Resolution Re and Hannover Re UK covering its annuities business;
- External longevity swaps with Metropolitan Tower Life Insurance and Hannover Re UK covering its annuity business;
- External quota share arrangements with Hannover Re UK covering its individual annuity business;
- External quota share or quota share risk premium reinsurance arrangements with Swiss Re and Pacific Life Re covering its individual protection business; and
- External quota share and surplus arrangements with Munich Re, Swiss Re and General Reinsurance, covering its Group Life and Group Income Protection business.

4.44 Additionally, CLL entered a reinsurance arrangement with CA in respect of the Transferred Business, which is described in paragraph 4.69.

4.45 Figure 4.6, below, details a breakdown of CLL's ceded reinsurance exposures as at 31 December 2023.

**Figure 4.6: Breakdown of CLL's ceded reinsurance exposures and credit rating as at 31 December 2023**

Reinsurer	Reinsurance Balance Sheet Impact £m	Credit Rating <sup>15</sup>	Rating Agency
<b>Internal</b>			
The Canada Life Assurance Company, Barbados Branch	(107.3)	Aa3	Moody's Ratings
Canada Life Annuity Reinsurance (Barbados) Co.	(167.0)	Not rated	
<b>External</b>			
Hannover Re UK Life Branch	587.9	AA-	S&P Global Ratings
Royal Bank of Canada Insurance Company Ltd.	(102.4)	AA- <sup>16</sup>	S&P Global Ratings
Munich Re Company United Kingdom Life Branch	15.7	AA-	S&P Global Ratings
Swiss Re Europe S.A., UK branch	31.5	AA-	S&P Global Ratings
General Reinsurance, London Branch	(0.2)	AA+	S&P Global Ratings
Pacific Life Reinsurance	(12.5)	AA-	S&P Global Ratings
JP Morgan Chase Funding Inc.	(55.2)	A-	S&P Global Ratings
Metropolitan Tower Life Insurance	(7.1)	AA-	S&P Global Ratings
Countrywide Assured plc	(19.7)	Not rated	
Resolution Re	2,067.0	A3	Moody's Ratings
<b>Total</b>	<b>2,230.6</b>		

Source: provided by CLL.

## THE ADMINISTRATION AND SERVICING OF CLL POLICIES

4.46 The administration of CLL's business, including the Transferred Policies, is performed internally.

## GOVERNANCE IN CLL

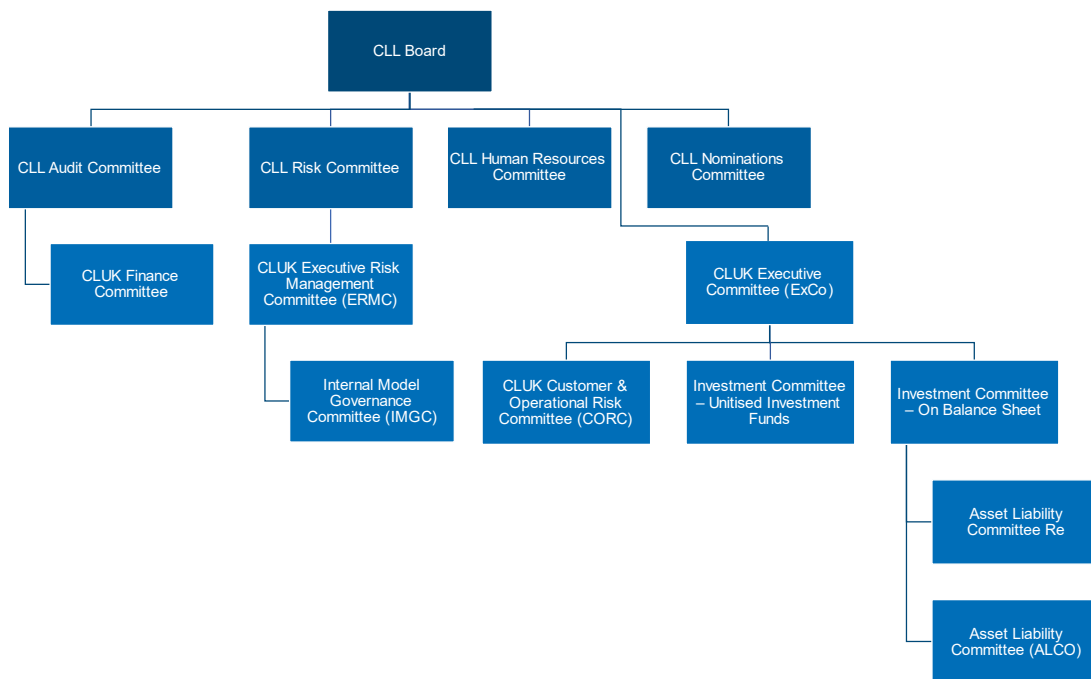
4.47 CLL operates a three lines of defence risk governance model. In this model, the first line of defence against risk is the business functions. The second line of defence is the oversight and control functions of the business which control, monitor and report risks within the group risk governance structure. The third line of defence is the independent assurance provided by the Internal Audit function.

<sup>15</sup> We have shown the lower credit rating of Moody's Ratings and S&P Global Ratings for each reinsurer for consistency with CA's approach (as described in paragraph 5.71).

<sup>16</sup> The credit rating for Royal Bank of Canada Insurance Company Ltd. is in respect of Senior Legacy Debt (the parent company of the insurance company) rather than the subsidiary that writes the reinsurance.

4.48 Figure 4.7, below, shows CLL's governance structure.

**Figure 4.7: Governance structure of CLL**



Source: provided by CLL.

4.49 The Board is responsible for the long-term success of the Company and its subsidiaries, and its duties entail the oversight of the design and implementation of the CLL's strategy whilst ensuring an appropriate system of governance is in place throughout the business.

4.50 The Board is supported in its oversight and decision-making responsibilities by four governance committees, each of which are chaired by an independent non-executive director:

- The Audit Committee, the role of which is to review financial reporting and disclosures as well as monitoring the effectiveness of internal controls. The Audit Committee also provides oversight of the Finance, Actuarial and Internal Audit functions;
- The Risk Committee, the role of which is to support the Board in overseeing the integration and effectiveness of CLL's risk strategy by supporting and informing strategic objectives and business planning, ensuring that risks are identified, assessed and monitored in line with overall risk appetites and risk limits. The Risk Committee also provides oversight of CLL's Risk and Compliance functions;
- The Human Resources Committee, the role of which is to support the Board's oversight that remuneration practices comply with regulatory requirements, are consistent with CLL's culture, and do not promote excessive risk taking. The Human Resources Committee also reviews the succession plans for the CEO and other senior executives and CLL's talent management programmes; and
- The Nominations Committee, the role of which is to identify and nominate candidates to fill vacancies on the Board and Board committees as and when they arise, and to ensure that a formal review of the Board's effectiveness, including the composition of the Board and its committee structure, is undertaken annually.

4.51 In addition, various management committees assist these governance committees in the delivery of their management and oversight functions. This includes the Finance Committee, Executive Risk Management Committee and the Executive Committee.

#### ASSET MANAGEMENT IN CLL

4.52 Figure 4.8, below, shows the breakdown of the CLL assets as used for Solvency UK reporting as at 31 December 2023.

**Figure 4.8: CLL Assets as at 31 December 2023**

<b>Assets</b>	<b>£m</b>
Fixed Income Securities	13,604
Other Loans and Mortgages	3,627
Assets held for Unit-linked and Index-linked Funds	2,425
Reinsurance Recoverable Asset	2,231
Participations	1,753
Property	1,351
Other Investments	297
Trade Receivables	231
Collective Investment Undertakings	201
Insurance and Intermediaries Receivable	125
Deferred Tax Asset	97
Cash and Cash Equivalents	81
Deposits other than Cash Equivalents	45
Derivatives	18
Listed Equities	12
Reinsurance Receivables	11
Other Assets	72
<b>Total</b>	<b>26,182</b>

Source: provided by CLL.

#### **THE TRANSFERRED BUSINESS**

- 4.53 The Transferred Business consists of, as at 31 December 2023, approximately 42,000 Transferred Policies and their associated liabilities (the Transferred Liabilities).
- 4.54 There are no financial assets to be transferred as part of the Scheme as the business is already reinsured from CLL to CA. The reinsured business also has a negative BEL as at 31 December 2023; that is, future premiums are expected to exceed future claims and expenses on a best estimate basis.
- 4.55 There are two third-party reinsurance treaties currently held by CLL (not involving CA) in respect of the Transferred Business that will also be transferred (the Transferred Reinsurances). These are described in paragraph 4.67.
- 4.56 The Transferred Policies comprise term assurance policies, written on both a single life and joint life basis. The list of product types is listed below:
- CanProtect Level Term;
  - CanProtect Level Term with Inflation Linked Option;
  - CanProtect Decreasing Term;
  - CanProtect Decreasing Term Plus;
  - CanProtect Level Term Plus;
  - CanProtect Level Term Plus with Inflation Linked Option;
  - Life Insurance Level Term;
  - Life Insurance Level Term with Inflation Linked Option;
  - Life Insurance Decreasing Term;
  - Life Insurance Level Term Plus Critical Illness Cover Level Term;
  - Life Insurance Level Term Plus Critical Illness Cover Level Term with Inflation Linked Option; and
  - Life Insurance Level Term Plus Critical Illness Cover Decreasing Term.

- 4.57 These policies provide a guaranteed sum assured benefit upon death of the life assured (or, if written on a joint life basis, the first death of the lives assured) that is level (with an option to increase the benefit in line with inflation) or decreases over the term of the policy. Where a policyholder has opted to increase their benefits in line with inflation, an inflation-linked increase will also apply to their premiums. Where a policyholder has opted to have a sum assured that decreases over the term of the policy, their premiums will remain level over the term of the policy.
- 4.58 Additionally, policies may opt to receive the guaranteed sum assured upon the following events:
- The diagnosis of a terminal illness;
  - The diagnosis of one of specified “Core” critical illnesses; and
  - The life assured becoming totally and permanently disabled before the age of 70 (“**Total Permanent Disability**”).
- 4.59 Upon payment of the sum assured benefit following one of the aforementioned insured events, the policy ceases.
- 4.60 Policies may also have an optional benefit that grants a waiver of the policy’s premiums upon incapacity of the life assured over a defined period; that is, the life assured is not able to perform the duties required under the paid occupation held at the time of application (“own occupation”) due to illness or injury.
- 4.61 Additionally, policies under the “Plus Critical Illness” product variant receive benefits to cover the funeral costs of a child of a life assured, or upon the following events:
- The diagnosis of one of specified “Additional” critical illnesses that do not qualify as a Core critical illnesses;
  - The diagnosis for a child of the life assured of one of a Core critical illness, Additional critical illness, or specified “Children Specific” critical illness;
  - The diagnosis of a child of the life assured of a terminal illness; and
  - The hospitalisation of the life assured following a serious accident.
- 4.62 The payment of the benefit following one of these additional aforementioned events does not impact any other benefit under the same policy, including the guaranteed sum assured.
- 4.63 The exact details of the conditions required to qualify for the various insured benefits, the amount of the benefit and the number of times a benefit is payable are specified in the policy terms and conditions.
- 4.64 Approximately 10,500 of the Transferred Policies (a quarter of all Transferred Policies) have some form of optional critical illness benefit as at 31 December 2023. Approximately 3,000 have Total Permanent Disability cover as at 31 December 2023.
- 4.65 All the Transferred Policies were written on or after August 2015. As a result of CLL’s decision to close its individual protection book to new business in November 2022, all Transferred Policies were written prior to 1 January 2023. The Transferred Policies represent the entirety of CLL’s remaining individual protection business with the exception of the Guernsey Policy.
- 4.66 The Transferred Policies are currently administered internally by CLL.
- 4.67 CLL has the following active reinsurance treaties in respect of its individual protection business:
- In August 2015, CLL entered a quota share reinsurance arrangement with Pacific Life Re Limited; and
  - With effect from September 2019, CLL entered a quota share reinsurance arrangement with Swiss Re Europe S.A., UK branch.
- 4.68 These two reinsurance treaties are included in the Scheme (the Transferred Reinsurances). Both Swiss Re and Pacific Life Re have been informed of the proposed transfer of the reinsurance arrangements to CA and will receive a formal notification as part of the Scheme communications explaining their right to object to the transfer. At the time of writing, it is not anticipated that Swiss Re and Pacific Life Re will object to the transfer and so these two reinsurance treaties will transfer from CLL to CA as part of the Scheme.
- 4.69 In addition, on 16 May 2023, CLL and CA entered the Reinsurance Agreement whereby CLL cedes the Transferred Liabilities, net of the reinsurance with Pacific Life Re Limited and Swiss Re, to CA. The Reinsurance Agreement does not include the Guernsey Policy. This agreement entails a regular payment in respect of the claims and expenses incurred by CLL in respect of the Transferred Business (allowing for premiums and receivables relating to the two reinsurance treaties described above), net of the policyholder premiums. This Reinsurance Agreement

transferred the economic risk and reward of the business with effect from 1 January 2023. The payment currently flows from CLL to CA as the premiums exceed the claims and expenses incurred.

- 4.70 The Reinsurance Agreement therefore serves to transfer the majority of the economic interests of the Transferred Business from CLL to CA in advance of the transfer of the business to CA that will be effected by the Scheme.
- 4.71 The Reinsurance Agreement will not be transferred as part of the Scheme and will instead terminate upon the implementation of the Scheme, subject to the Court's approval of the Scheme. If the Scheme were not to be sanctioned or were not to proceed for whatever reason, the Reinsurance Agreement would also terminate.
- 4.72 The Reinsurance Agreement cedes the full amount of policy claims to CA but an approximate amount to cover the expenses. Therefore, until the implementation date of the Scheme, CLL retains a limited amount of residual risk to the extent that the expenses it actually incurs in the administration of the Transferred Business (while still owned by CLL) deviate from the expense payments as defined in the Reinsurance Agreement that it receives from CA. In particular, CLL assumes it does not retain any exposure to counterparty default risk in respect of the Transferred Business (in respect of CA via the Reinsurance Agreement) for reasons explained in paragraph 4.78.
- 4.73 A breakdown of the Transferred Policies by product variant as at 31 December 2023 is shown in figure 4.9, below. CLL's Solvency UK Best Estimate Liability for each variant is also shown.

**Figure 4.9: Breakdown of Transferred Policies as at 31 December 2023**

Product variant	Single or Joint Life	Total Permanent Disability Cover	Number of policies	Solvency UK Best Estimate Liability (£m)
<b>Policies without CI cover</b>				
Level	Single	No	16,249	(9.0)
Level	Joint	No	3,062	(1.6)
Level Inflating	Single	No	3,616	(4.5)
Level Inflating	Joint	No	214	(0.3)
Decreasing	Single	No	3,887	(2.0)
Decreasing	Joint	No	4,486	(2.8)
<b>Policies with CI cover</b>				
Level	Single	No	4,160	(2.7)
Level	Single	Yes	1,257	(0.9)
Level	Joint	No	342	(0.3)
Level	Joint	Yes	93	(0.1)
Level Inflating	Single	No	970	(1.3)
Level Inflating	Single	Yes	433	(0.6)
Level Inflating	Joint	No	11	(0.0)
Level Inflating	Joint	Yes	16	(0.0)
Decreasing	Single	No	1,671	(1.9)
Decreasing	Single	Yes	878	(1.2)
Decreasing	Joint	No	366	(0.5)
Decreasing	Joint	Yes	313	(0.5)
<b>Total</b>				
<b>Total</b>			<b>42,024</b>	<b>(30.2)</b>

Source: provided by CLL.

- 4.74 The total gross Solvency UK BEL of the Transferred Business as at 31 December 2023 was approximately -£30.2 million. The negative liability reflects that this business has been written profitably, and that future premiums are expected to more than offset future claims and expenses, which is common for such protection business.
- 4.75 In addition, there is a further £1.5 million liability in respect of pending critical illness claims. The BEL of the Transferred Policies under Solvency UK, including this manual adjustment, is therefore c.-£28.7 million.

4.76 The SCR of the Transferred Business (before allowance for diversification) as at 31 December 2023 is split by risk category in the Figure 4.10, below.

**Figure 4.10: Breakdown of CLL’s SCR in respect of the Transferred Business by risk category as at 31 December 2023**

SCR	£m	Percentage of undiversified SCR
<b>Standard Formula Risks</b>		
Market	0.4	4%
Counterparty default	-	-
Life underwriting	7.9	89%
Health underwriting	-	-
<b>Internal Model Risks</b>		
Credit	-	-
Longevity	-	-
Catastrophe	0.6	7%
<b>Total undiversified SCR</b>	<b>8.9</b>	

Source: provided by CLL.

4.77 The most material risk relating to the Transferred Business is life underwriting risk, primarily arising from lapse risk. The Transferred Business is also exposed to mortality, expense, life catastrophe and interest rate risk.

4.78 Given CLL has ceded the risk of this business to CA via the Reinsurance Agreement, there is an immaterial amount of residual risk retained by CLL. In particular, the residual expense risk allowing for the Reinsurance Agreement is c.£0.4 million and the counterparty default risk can be assumed to be zero given the BEL is negative, as mentioned in paragraph 4.72. As a result, the Risk Margin for this Transferred Business is effectively zero. The total Technical Provisions of the Transferred Business is therefore -£28.7m.

## 5. Current position regarding CA

### INTRODUCTION

- 5.1 CA is a proprietary insurance company registered in England & Wales. Countrywide Assured is a wholly owned subsidiary of an insurance group, Chesnara, a UK-listed holding company.
- 5.2 CA is authorised under the terms of FSMA to undertake long-term insurance business in Classes I, II, III, IV, VI and VII, set out in Part II of Schedule 1 to the Regulated Activities Order 2001.
- 5.3 CA is substantially closed to new business with the exception of increments to existing policies and sales of onshore bonds.

### COMPANY HISTORY

- 5.4 CA was initially incorporated in 1988 under the name of Hambro Guardian Assurance plc, which was formed as a joint venture between Hambro Countrywide plc and Guardian Assurance plc. The company changed its name in 1995 to Hambro Assured plc and acquired the business of Premium Life Assurance Holdings Limited ("**Premium Life**"). The company name was changed again in 1998 to become Countrywide Assured, upon becoming part of the Countrywide plc estate agency group. The company was substantially closed to new business in 2003, before transferring to become a subsidiary of a new listed entity Chesnara in 2004.
- 5.5 Chesnara has grown since 2004 through a series of acquisitions, the most recent being the acquisition of the business of Sanlam Life & Pensions UK Ltd ("**Sanlam**") in September 2021. The company was renamed CASLP Limited ("**CASLP**") upon acquisition by Chesnara. This business was transferred into CA in accordance with Part VII of the FSMA on 31 December 2023. Further details are given on the other past acquisitions of CA in paragraph 5.8.
- 5.6 At the time of writing all UK insurance business of Chesnara is held within CA; that is CA is the sole UK insurance entity of the Chesnara group of companies ("**the Chesnara Group**") which holds insurance business, following the transfer of the business of CASLP into CA. At this time CASLP has not yet been deauthorised, however there is no long-term insurance business remaining within the entity.

### PREVIOUS CA SCHEMES

- 5.7 CA has grown primarily by acquisition in recent years and has acquired the bulk of its business through previous schemes.
- 5.8 The company's business can be split into five life and pensions blocks which arise from the different past schemes. These are:
- Original Countrywide Assured ("**Original CA**") block: this business is the original life and pensions business of CA when part of the Countrywide estate agency group. This block includes the business acquired from Premium Life i.e. all of the business prior to becoming part of the Chesnara Group.
  - City of Westminster Assurance ("**CWA**") block: this business was transferred into CA from City of Westminster Assurance Company Limited under a Part VII Transfer which completed in 2006. The City of Westminster Assurance Company Limited was initially acquired by Chesnara in 2005.
  - Save & Prosper ("**S&P**")<sup>17</sup> block: this business was transferred into CA from Save & Prosper Insurance Limited ("**SPI**") and Save & Prosper Pensions Limited ("**SPP**") under a Part VII Transfer which completed in 2011. The two companies were initially acquired by Chesnara in 2010.
  - Protection Life ("**PL**") block: this business was transferred into CA from Protection Life Company Limited under a Part VII Transfer which completed in 2014. The Protection Life Company Limited was initially acquired by Chesnara in 2013 from Direct Line Insurance Group plc. The company was renamed from Direct Line Life Insurance Company Limited upon acquisition.

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<sup>17</sup> The S&P block which was acquired from Save & Prosper Insurance is unrelated to S&P Global Ratings mentioned elsewhere in this Report.

- CASLP block: this business was transferred into CA from CASLP under a Part VII Transfer which completed on 31 December 2023. Sanlam was initially acquired by Chesnara in 2021. The company was renamed to CASLP Limited upon acquisition.

5.9 It is not anticipated that the previous schemes of CA will have any impact on the Scheme covered by this report.

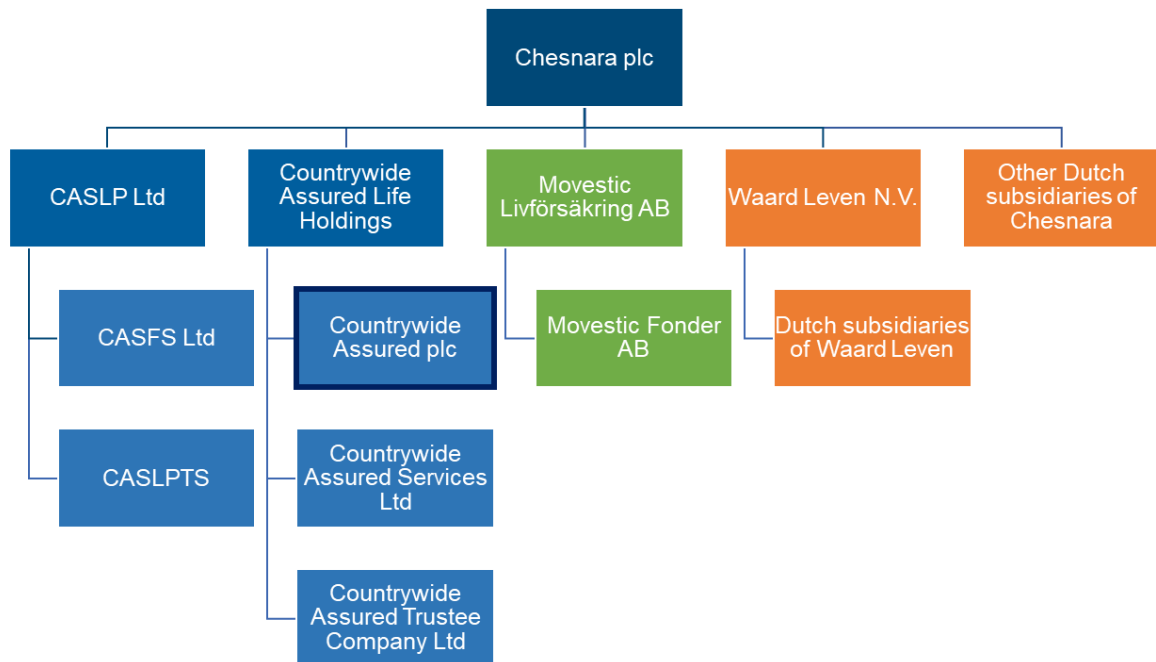
## CA'S STRUCTURE

5.10 Chesnara is a UK-listed holding company with a primary focus on consolidation in the life insurance and pensions market. CA is a wholly owned subsidiary of Chesnara and is the UK company into which Chesnara consolidates its acquisitions.

5.11 The Chesnara Group also operates in Sweden and the Netherlands where it writes new business as well as acquiring portfolios and companies to consolidate into the Chesnara Group.

5.12 The group structure is shown Figure 5.1, below, with the UK-registered companies being shown in blue, Swedish companies are shown in green, and the Dutch companies are shown in orange. The receiving company for this transaction is Countrywide Assured plc, which is shown in blue with a bold outline. CASLP and associated companies have not been closed at this time, however there is no longer any insurance business held within the company.

**Figure 5.1: Group structure of Chesnara Group**



Source: Chesnara Group Structure Diagram.

5.13 The Chesnara Group manages over £11 billion of assets under management (“AUM”) and over one million policies as at 31 December 2023.

5.14 CA operates two ring-fenced with-profits funds arising from the two former companies comprising the S&P business, namely:

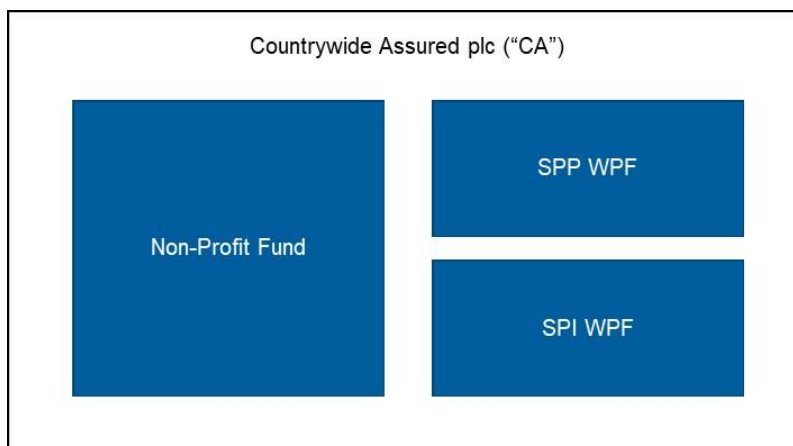
- The SPP With-Profits Fund (“SPP WPF”); and
- The SPI With-Profits Fund (“SPI WPF”).

5.15 All other business of CA is managed together in the main fund. The main fund is referred to as the “Non-Profit Fund” within the Scheme (and sometimes as the Remaining Part of CA in other scheme-related documents).

5.16 It should be noted that there is a small amount of with-profits business arising from the Original CA book held within the Non-Profit Fund. This business is fully reinsured.

5.17 Figure 5.2, below, shows the fund structure of CA covering the two ring-fenced funds and the Non-Profit Fund as described above.

**Figure 5.2: Fund structure of CA**



Source: provided by CA.

### Outsourcing

- 5.18 CA operates an outsourced business model with respect to a number of functions and areas of the business.
- 5.19 CA has the following outsourcing arrangements in place:
- Administration of the Original CA, S&P (including the SPI and SPP ring-fenced business) and the majority of the PL business is outsourced to HCL Insurance BPO Services Limited (“**HCL**”);
  - Administration of the CWA business is outsourced to Capita Life & Pensions Regulated Services Limited (“**Capita**”);
  - Administration of some of the non-linked protection business (over 50s guaranteed acceptance plans) of the PL block is outsourced to Outsourced Professional Administration Limited (“**OPAL**”);
  - Administration of the CASLP business is outsourced to a specialist third-party administrator, SS&C, although the migration of the administration system is ongoing. Previously this administration was carried out in-house by CASLP staff, however relevant administration staff and systems were transferred to SS&C ahead of the migration to SS&C’s own system;
  - Investment management of certain funds of the CASLP business is outsourced to Sanlam Investments<sup>18</sup>;
  - Investment management is outsourced to Schroder Investment Management Limited (“**Schroders**”) for all other business;
  - Fund administration and unit pricing is outsourced to Curo Fund Services (Pty) Ltd for the CASLP funds managed by Sanlam Investments;
  - Outsourced actuarial modelling and valuation services support is provided by Towers Watson Limited (“**WTW**”); and
  - The role of With-Profits Actuary for CA is outsourced to Karen Miller of WTW.
- 5.20 There are additional services related to the CASLP business covering custody, underwriting, payroll, IT and archive storage which are also outsourced.
- 5.21 CA has agreed a new outsourcing arrangement with SS&C to provide additional administration services. SS&C provides policy administration and investment operations for a wide variety of life insurance and pension products. This arrangement will cover the business currently administered by HCL and the Transferred Business (should the Scheme be approved) which is currently administered by Canada Life, as well as the CASLP business which is currently managed by SS&C on a heritage platform taken on as part of the CASLP transfer but this has not yet been migrated to SS&C’s own system. The Transferred Business will be migrated to the SS&C system ahead of the CASLP business and the business currently administered by HCL. The administration of the Transferred Business is expected to migrate to SS&C in February 2025. I consider this outsourcing arrangement further in paragraphs 10.8 to 10.30.

<sup>18</sup> Certain other policyholders of the CASLP business have the option to invest in certain third-party funds, that are not managed by CA.

## CA'S BUSINESS BY FUND

### Overview

- 5.22 CA operates as a consolidator within the UK life insurance and pensions market. The business strategy is to grow the number of policies through acquisition of other life insurers or blocks of life and pensions business. The business of CA covers a number of different products and business types.
- 5.23 The business of CA is split across three funds with details of the products contained in each covered in the following sections. The three funds are:
- The Non-Profit Fund;
  - The SPP WPF; and
  - The SPI WPF.
- 5.24 A breakdown of the business held within CA as at 31 December 2023 is shown in Figure 5.3 below. The breakdown is split according to the block from which the business arises, and also includes the Reinsurance Agreement covering the Transferred Policies from CLL.

**Figure 5.3: Breakdown of CA business as at 31 December 2023**

Business Group	Policy Count	Net BEL £m
<b>Non-profit Fund</b>		
Original CA	17,877	307.4
CWA	29,669	576.3
S&P	51,175	568.3
PL	64,970	52.5
CASLP	61,647	2,425.2
Reinsurance Asset	0	(165.3)
CLL Reinsurance Agreement	42,024	(13.5)
<b>Sub-total</b>	<b>267,362</b>	<b>3,751.0</b>
<b>Ring-Fenced With-Profits Funds</b>		
SPP	20,204	187.2
SPI	1,562	9.6
<b>Sub-total</b>	<b>21,766</b>	<b>196.8</b>
<b>Total</b>	<b>289,128</b>	<b>3,947.8</b>

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 5.25 The £13.5 million net BEL in respect of the CLL Reinsurance Agreement differs from the £30.2 million shown by CLL in Figure 4.9. Figure 5.4 below provides a bridge between the two values used to explain the difference.

**Figure 5.4: Bridge between CLL and CA view of the Transferred Business BEL as at 31 December 2023**

	BEL £m
<b>CLL Position (Gross) (shown in Figure 4.9)</b>	<b>(30.2)</b>
Critical illness claims adjustment	1.5
CLL view of expenses	(4.1)
Bad debts provision	0.3
Reinsurance	9.4
CA view of expenses	9.7
<b>CA Position (Net) (shown in Figure 5.3)</b>	<b>(13.5)</b>

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 5.26 The items which account for the differences between the CLL and CA view of the Transferred Business BEL are as follows:
- The critical illness claims adjustment is in respect of pending claims as detailed in paragraph 4.75;
  - The CLL view of the expenses for managing the business. This is deducted to back out the expected future cost to CLL of managing the business;
  - A manual provision for bad debts in respect of the Transferred Business;
  - The reinsurance which reflects the Transferred Reinsurances with Swiss Re and Pacific Life Re. CLL has used a gross (of reinsurance) BEL in Figure 4.9 whereas CA has used the net of reinsurance position; and
  - The CA view of the expenses for managing the business to reflect the expected future cost to CA. This includes one-off costs associated to the Transferred Business.

### Non-Profit Fund

- 5.27 The majority of CA's business is held within the Non-Profit Fund which contains a mixture of business types from CA's past acquisitions. The Non-Profit Fund contains all of the business of CA with the exception of the S&P with-profits business which has been ring-fenced into the two with-profits funds.
- 5.28 The Original CA business consists of a mixture of indexed-linked and unit-linked critical illness and income protection products; pensions products; in-payment annuities and some with-profits business. This with-profits business is not ring-fenced like the with-profits business from the S&P block. The Original CA with-profits business is 100% reinsured to Reassure Limited ("**ReAssure**"), a subsidiary of Phoenix Group Holdings plc, a FTSE 100<sup>19</sup> listed company. Further details on the relevant reinsurance agreement are provided in paragraph 5.72. Other reinsurance arrangements are also in place for the original CA business.
- 5.29 The CWA business consists of unit-linked pensions products and in-payment annuities. The in-payment annuities are reinsured to Monument Re as detailed in paragraph 5.74.
- 5.30 The S&P business held in the Non-Profit Fund consists of unit-linked pensions products and unit-linked endowments. Various reinsurance arrangements exist on the S&P business as detailed in the section on CA's reinsurance arrangements.
- 5.31 The PL business consists of term assurance (including some with critical illness cover) over 50s plans. Various reinsurance arrangements exist on the PL block as detailed in the section on CA's reinsurance arrangements.
- 5.32 The CASLP business consists of unit-linked life and pensions business (including onshore bonds and self-invested personal pensions); in-payment annuities; and permanent health insurance business. There is a small reinsurance arrangement with Munich Re in place for mortality risk on certain products of the CASLP business, as well as an insurance contract with Allianz covering mis-selling claims in relation to policies historically sold by the Merchant Investors salesforce (CASLP was part of the Merchant Investors Group at the time).
- 5.33 The reinsurance asset is in respect of the various outwards reinsurance arrangements in place for CA's business.
- 5.34 The Reinsurance Agreement with CLL is the inwards reinsurance of the Transferred Policies from CLL which was executed on 16 May 2023, and which transferred the economic risk and reward of the business with effect from 1 January 2023. CA took over responsibility for the liabilities from that date, net of the liabilities covered by the two third-party reinsurance arrangements on the Transferred Business held by CLL.

### SPP WPF and SPI WPF

- 5.35 The SPP WPF is a ring-fenced fund within CA. The SPP WPF contains the bulk of CA's with-profits business with assets of c.£198 million as at 31 December 2023.
- 5.36 The SPI WPF is a ring-fenced fund within CA, separate to the SPP WPF. The SPI WPF contains the smallest of CA's with-profit blocks with assets of c.£12 million as at 31 December 2023.
- 5.37 All of the with-profits business held in the SPP WPF and the SPI WPF includes some form of guarantees. This is either a guaranteed minimum pension or a guaranteed minimum fund value.

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<sup>19</sup> The Financial Times Stock Exchange 100 Index ("**FTSE 100**") is a share index of the one hundred companies listed on the London Stock Exchange with the highest market capitalisation.

- 5.38 There are no reinsurance arrangements in place which impact the SPP WPF and the SPI WPF.
- 5.39 As part of its ongoing management of its with-profits funds, CA reviews whether the assets in these funds fall below specified thresholds that would allow it to consolidate the ring-fenced funds into the Non-Profit Fund. Should such a consolidation be expected to occur prior to the Effective Date, I will consider this and any consequent impacts for the Scheme in my Supplementary Report.

### **New business**

- 5.40 CA is substantially closed to new business and there are no plans to sell any new products. Any new business sales are from existing policies as a result of additional increments to the policy or new onshore bond policies. CA does remain open to future growth through acquisitions.

### **CA'S FINANCIAL POSITION**

- 5.41 CA calculates its SCR using the Standard Formula under Solvency UK. Firms who make use of the Standard Formula for calculating the SCR are required to assess whether this remains appropriate on a regular basis. CA last assessed the appropriateness of the Standard Formula as part of the 2023 CA ORSA.
- 5.42 The 2023 CA ORSA was carried out ahead of the transfer of the CASLP business into CA, however, the CASLP business was included as part of CA for the purposes of the 2023 CA ORSA. Consequently CASLP was included as part of the consideration of the appropriateness of the Standard Formula for CA's business.
- 5.43 The Standard Formula appropriateness will be assessed again as part of the 2024 CA ORSA which will be completed later in 2024.
- 5.44 The Own Funds of CA consist entirely of Tier 1 capital, which is the highest quality capital under Solvency UK requirements.
- 5.45 Both CA and its parent company Chesnara have received a credit rating of A- from Fitch Ratings with respect to long-term issuer default<sup>20</sup>. CA has also received a credit rating of A from Fitch Ratings in respect of financial strength on 28 November 2023.
- 5.46 CA reflects a number of reinsurance arrangements within the calculation of the SCR. The reinsurance arrangements are detailed further in paragraphs 5.70 to 5.80.
- 5.47 CA does not make use of any other risk mitigation techniques, nor does CA make use of future management actions within the calculation of the SCR.
- 5.48 Figure 5.5, below, summarises the CA balance sheet as at 31 December 2023. The balance sheet position makes allowance for the Reinsurance Agreement covering the Transferred Policies from CLL.

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<sup>20</sup> <https://www.chesnara.co.uk/investor-relations/debt-investors-and-credit-ratings> (20 December 2023).

**Figure 5.5: CA's Solvency balance sheet as at 31 December 2023**

£ million	31 December 2023
Assets (excluding Reinsurance Assets) (A)	4,287.7
Reinsurance Recoverable Assets (B)	165.3
<b>Total Assets (C = A + B)</b>	<b>4,453.0</b>
Best Estimate Liabilities (D)	4,113.1
TMTP (E) <sup>21</sup>	-
Risk Margin <sup>22</sup> (F)	12.0
<b>Technical Provisions (G = D – E + F)</b>	<b>4,125.1</b>
Other liabilities (H)	145.9
Sub debt and Ancillary Own Funds (I)	-
<b>Own Funds (before restrictions) (J = C – G – H + I)</b>	<b>182.0</b>
RFF Restriction (K)	0.5
Dividends (L) <sup>23</sup>	35.0
<b>Restricted Own Funds (M = J – K – L)</b>	<b>146.5</b>
<b>SCR (N)</b>	<b>101.4</b>
Excess Own Funds (O = M – N)	45.1
<b>Solvency Ratio (P = M / N)</b>	<b>145%</b>

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 5.49 The other liabilities include deferred tax, some of which can be used to reduce the impact of the SCR as noted in paragraph 4.42.
- 5.50 The Own Funds are subject to two restrictions:
- An RFF Restriction of £0.5 million, which limits the extent to which any surplus capital in a ring-fenced fund can be reflected as available capital in the aggregate balance sheet of the insurer. In this case the relevant funds are the SPP WPF and SPI WPF; and
  - A £35 million foreseeable dividend which had been declared but not yet paid as at 31 December 2023.
- 5.51 CA has regulatory permission to use the VA and makes use of this to reduce short-term volatility in the market on its Solvency UK balance sheet. CA applied the VA to all of its business with the exception of:
- the unit-linked business;
  - the Original CA with-profits business (which is fully reinsured);
  - the business held in the ring-fenced SPI WPF; and
  - the business reinsured from CLL under the Reinsurance Agreement.
- 5.52 CA does not have regulatory permission to use the MA or a TMTP, and consequently does not make use of these measures.
- 5.53 There are ongoing regulatory reviews of Solvency UK which may impact the CA balance sheet position in the future. In particular there was a change to the calculation of the Risk Margin that took effect from 31 December 2023 which has reduced the Risk Margin for all firms. This change contributed to CA's Risk Margin reducing from £26.5 million as at 30 June 2023 to £12.0 million as at 31 December 2023.
- 5.54 I will comment on the solvency position of CA as at 30 June 2024 in my Supplementary Report.

<sup>21</sup> TMTP is shown in Figure 5.5 as zero as in practice CA does not apply any TMTP. The corresponding table for CLL, shown as Figure 4.3, does show the impact of CLL's TMTP.

<sup>22</sup> The Risk Margin shown is at 31 December 2023 and is therefore allows for the change in the Risk Margin calculation that took effect from 31 December 2023.

<sup>23</sup> For consistency with the respective Chief Actuary reports of CLL and CA, the impact of dividends is included in Figure 5.5, while the corresponding table for CLL shown as Figure 4.3 does not make an allowance for dividends. If Figure 5.5 were shown without an allowance for dividends, the Dividends, Restricted Own Funds, Excess Own Funds and Solvency Ratio would become £0.0m, c.£181.5m, c.£80.1m and c.179% respectively. There would be no other impact on Figure 5.5.

## CAPITAL MANAGEMENT POLICY OF CA

- 5.55 CA's Own Funds are managed in line with its CMP. The CA CMP covers the following aspects of its capital management:
- The roles and responsibilities of the Board and management;
  - Reporting procedures; and
  - Controls and processes.
- 5.56 CA's CMP includes three statements to specify how the company manages its Own Funds. These are:
- Board Risk Appetite: CA maintains a capital buffer above its regulatory capital requirements to minimise the risk of not being able to cover the firm's capital requirements. The level of the buffer is reviewed and tested each year as part of the firm's ORSA.
  - Dividend Paying Limit: if the firm's Own Funds as a percentage of SCR falls below 120%, the firm cannot pay a dividend until the Own Funds are restored to above this level.
  - Management Actions Limit: if the firm's Own Funds as a percentage of SCR falls below 110%, additional management actions would need to be taken to restore the Own Funds back above this level.
- 5.57 The statements outlined in the above paragraph set out the levels of intervention as specified by the Board of CA.
- 5.58 It is possible that the specified limits could be waived where capital is required to support another company within the Chesnara Group. This would only occur under extreme circumstances where no group funds are available and be subject to CA's Own Funds still being able to cover its capital requirements. In such a scenario, management actions would be considered to improve CA's Solvency Ratio.
- 5.59 The CMP of CA is one of the firm's internal policies covering risk management. All of these policies are reviewed annually, any necessary changes implemented, and ultimately sent to the CA Board for approval. CA's CMP and other internal risk policies are separate from but consistent with and aligned to the equivalent policies of the Chesnara Group.
- 5.60 CA maintains a separate liquidity risk policy, which is subject to the same annual review process as CA's CMP as outlined in paragraph 5.59.
- 5.61 CA's liquidity policy sets out the company's limited appetite for liquidity risk including a risk appetite statement specifying CA's goal of minimising exposure to liquidity risk. In order to monitor this risk tolerance thresholds have been set which consider CA's total market value of primary liquid assets.
- 5.62 The CA liquidity policy also sets out: principles for liquidity risk management; reporting and oversight requirements; the processes and controls to be applied; as well as the roles and responsibilities of the Board, CA Investment Committee, CA Executive Committee and internal functions with respect to liquidity risk management.

## CA RISK PROFILE

- 5.63 Figure 5.6, below, shows the breakdown of the CA SCR as at 31 December 2023. The SCR breakdown also makes allowance for the Reinsurance Agreement covering the Transferred Policies from CLL. The table also shows the breakdown of the undiversified SCR.

**Figure 5.6: Breakdown of CA SCR as at 31 December 2023**

Risk category	£m	Percentage of undiversified SCR
Market	64.0	51%
Counterparty default	4.3	3%
Life underwriting	56.2	45%
Health underwriting	3.6	2%
<b>Undiversified SCR</b>	<b>128.0</b>	
Diversification	(28.1)	
Operational risk	6.1	
LACDT	(4.7)	
<b>SCR</b>	<b>101.4</b>	

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 5.64 The largest category is market risk, which is dominated by equity risk.
- 5.65 The second largest risk category is life underwriting risk, the largest component of which is lapse risk (contributing around 30% of the undiversified SCR). The lapse risk component of CA has increased significantly since the transfer of the CASLP business, however the CASLP transfer also led to greater diversification within CA's SCR calculation. CA entered into a new mass lapse reinsurance arrangement which took effect on 31 December 2023 to manage the company's exposures to lapse risk which is reflected in the above position.
- 5.66 CA also has exposure to operational risk, counterparty default risk and health underwriting risk as defined under the Solvency UK Standard Formula.
- 5.67 The risk profile of CA is significantly diversified which results in a significant diversification benefit within the SCR.
- 5.68 CA also makes use of LACDT in the calculation of its SCR.
- 5.69 CA is substantially closed to new business and the majority of the business is in run-off meaning that the risk profile of the firm is relatively stable with regards to the risks to which the firm is exposed.

#### **CA'S REINSURANCE ARRANGEMENTS**

- 5.70 CA makes use of a number of external reinsurance arrangements to manage the firm's risk exposures. The number of reinsurance arrangements is reflective of the breadth of products managed by CA with the treaties often having been transferred to CA as part of previous schemes.
- 5.71 Figure 5.7, below, details a breakdown of CA's ceded reinsurance exposures as at 31 December 2023, including the credit ratings of the reinsurers. CA sources its credit ratings from two external credit rating agencies, S&P Global Ratings and Moody's Ratings, taking the lowest rating between the two. A third credit rating agency, Fitch Ratings, will be used if no other ratings are available. Figure 5.7 does not show CA's reinsurance accepted (that is, where a third party cedes reinsurance to CA) and in particular the balance sheet impact of £13.5m of the Reinsurance Agreement with CLL described in paragraph 4.69.

**Figure 5.7: Breakdown of CA's ceded reinsurance exposures and credit rating as at 31 December 2023**

Reinsurer	Reinsurance Balance Sheet Impact £m	Credit Rating	Rating Agency
ReAssure	68.8	AA-	S&P Global Ratings
Monument Re	44.5	N/A	
Swiss Re	34.3	Aa3	Moody's Ratings
Munich Re	9.6	Aa3	Moody's Ratings
Phoenix	5.3	AA-	S&P Global Ratings
RGA	1.7	AA-	S&P Global Ratings
Friends Provident	(1.6)	Aa3	Moody's Ratings
Misc	2.6	AA-	Various
<b>Total reinsurance recoverables</b>	<b>165.3</b>		

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 5.72 The Original CA with-profits business is 100% reinsured to ReAssure. The policies are reinsured to the Guardian Assurance With-Profits Fund which is a ring-fenced fund of ReAssure. The reinsurance to ReAssure contains a legal charge between the companies which ensures that, in the event of reinsurer insolvency, the CA reinsured liabilities rank equally with the direct liabilities of ReAssure.
- 5.73 There is a second reinsurance treaty with ReAssure which is a 50% quota share of risk relating to the Original CA unit-linked business.
- 5.74 The annuity business of CA, which arises from the Original CA and CWA blocks, is reinsured to Monument Re. Assets backing the annuity liabilities are held on the CA balance sheet as collateral for this reinsurance arrangement to reduce CA's counterparty risk.
- 5.75 The majority of the exposure to Swiss Re comes from a 90% quota share treaty covering the PL term assurance business. The balance of the exposure to Swiss Re is from a number of smaller quota share treaties covering protection business.
- 5.76 There are also a number of smaller reinsurance treaties in place:
- The Munich Re treaties which are a 50% quota share treaty on term assurances and endowments from the PL block and a mortality risk treaty on certain products of the CASLP block;
  - The Phoenix treaty which provides 100% reinsurance on the S&P unit-linked endowments;
  - The RGA treaty which provides cover on term assurances and endowments from the PL block;
  - The Friends Provident treaty which provides original terms cover on select protection products of the Original CA block. This treaty shows as negative in the table as the expected value of future premiums to be paid to the reinsurer is higher than the expected future value of the reinsurers portion of the claims; and
  - A number of treaties with low materiality in place with other counterparties e.g. Hannover Re and SCOR.
- 5.77 During the fourth quarter of 2023, CA entered into a new mass lapse reinsurance treaty with Swiss Re with the aim of managing CA's exposure to mass lapse risk which has increased recently as a result of the CASLP transfer. This treaty has been put in place to reduce the aggregate level of mass lapse risk post-CASLP transfer and covers unit-linked, non-linked and term assurance business, but does not cover the with-profits business, the Transferred Business or the CASLP business itself. The treaty took effect from 31 December 2023 and covers events where more than 25% of the reinsured book lapses over a one-year period. The impact of this was a £6.5 million reduction in the SCR and consequential £1.3 million reduction in the Risk Margin.
- 5.78 CA also has two inwards reinsurance arrangements in place, namely the Reinsurance Agreement between CLL and CA as well as a small reinsurance treaty with RL360 Insurance Company Limited in respect of its offshore bond business that was recently acquired as part of the CASLP transfer.
- 5.79 On 16 May 2023, CA entered into the Reinsurance Agreement with CLL in relation to the Transferred Policies to be transferred under the Scheme. The Reinsurance Agreement transfers the majority of the insurance and economic

risks of the Transferred Policies from CLL to CA ahead of the Transfer. The risk exposure remaining with CLL in respect of the Transferred Policies is expense risk associated with policy administration.

- 5.80 Subject to approval of the Scheme by the Court, the Reinsurance Agreement will terminate on the Effective Date of the Scheme as the Transferred Policies will become policies of CA at that time. The Guernsey Policy will remain part of CLL. If the Scheme were not to be sanctioned or were not to proceed for whatever reason, the Reinsurance Agreement would also terminate.

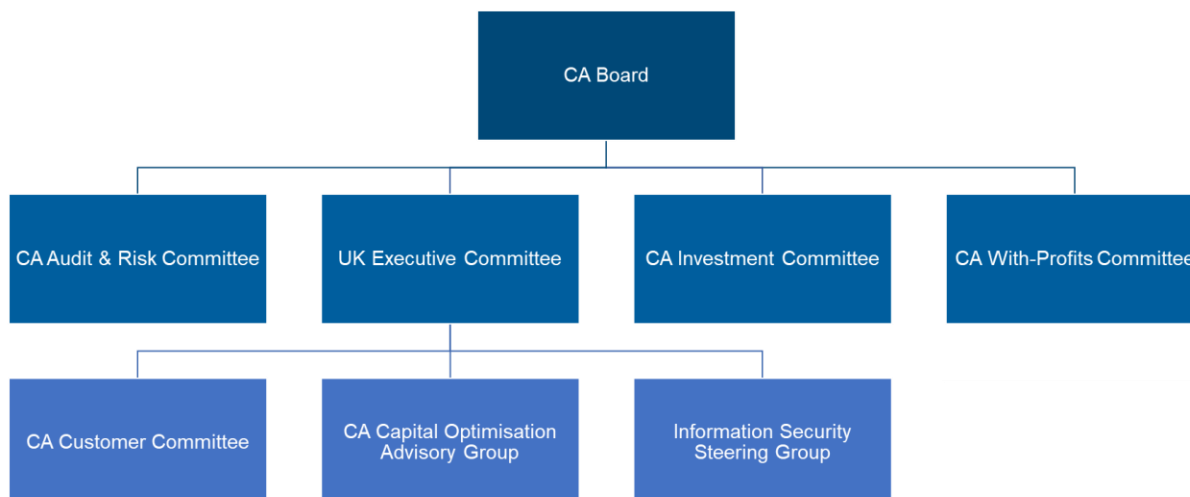
#### **THE ADMINISTRATION AND SERVICING OF CA POLICIES**

- 5.81 CA makes use of a number of outsourcing arrangements in areas including policy administration, investment management and actuarial support as set out in paragraph 5.19.
- 5.82 The Transferred Policies will make use of the same outsourcing arrangements after the Effective Date, and in particular the administration of the Transferred Policies is planned to migrate to SS&C as detailed in paragraph 5.21.
- 5.83 The outsourcing agreement between CA and SS&C is a new arrangement which will ultimately cover the administration for a significant portion of the CA business.
- 5.84 The administration of the Transferred Business is expected to migrate to SS&C by February 2025, to coincide with the Effective Date of the Scheme. For the Transferred Business the administration migration is dependent on the Scheme with the preference of CLL and CA being that the Scheme and the administration migration occur concurrently.
- 5.85 Following the migration of the Transferred Business to SS&C, the CASLP, Original CA, S&P and the majority of the PL business will be migrated to SS&C, with the current outsourcing arrangement with HCL expected to cease after that migration. The migration of the Transferred Business is not contingent on the timing of the migration of any other block of business, nor is the administration migration of the other blocks of CA business dependent on the Scheme.
- 5.86 If the Transferred Business was not ready for migration at this time, CLL would continue to administer the policies and the Effective Date would be moved back to allow for the migration to be complete ahead of the Scheme and take effect from the Effective Date.
- 5.87 CLL and CA have agreed to align the Effective Date of the Scheme and the administration migration to reduce operational complexity and ensure Transferring Policyholders receive a consistent message in terms of branding, which may not be the case if the dates did not align. The flexibility in the Effective Date of the Scheme increases the ability of the Companies to align the Effective Date with the administration migration.

#### **GOVERNANCE IN CA**

- 5.88 The governance of CA sits within the governance of the Chesnara Group. The CA Board maintains its own governance arrangement separately from those of the Chesnara Group, however the approaches are aligned.
- 5.89 Figure 5.8, below, shows CA's governance structure.

**Figure 5.8: Governance Structure of CA**



Source: provided by CA.

- 5.90 The CA Board is responsible for promoting the success of the CA business by directing and supervising its activities. It provides leadership within a control framework to allow risks to be assessed and managed as well as setting the strategy and the business plan for CA, including ensuring the necessary resources are in place to meet objectives and monitor management performance.
- 5.91 The CA Board is supported in its management and supervising responsibilities by four committees, namely:
- The CA Audit and Risk Committee, the role of which is to provide oversight and review of the firm’s internal controls and risk management function, including monitoring compliance with and advising on updates to the Board Risk Appetite. The CA Audit and Risk Committee also oversees the internal audit and compliance functions of CA.
  - The CA UK Executive Committee, the role of which is to assist the CEO in carrying out the responsibilities assigned by the CA Board, including strategy, objectives and day-to-day management of the business. The CA UK Executive Committee is supported by three subcommittees:
    - The CA Customer Committee, the role of which is to focus on consumer outcomes, including customer challenge and advice to the CA UK Executive Committee in relation to treating customers fairly and fair outcomes for customers;
    - The CA Capital Optimisation Advisory Group, the role of which is to identify, recommend, manage and prioritise capital optimisation opportunities for CA; and
    - The Information Security Steering Group, the role of which is to promote the principles of information and cyber security within CA and ensure relevant standards are maintained.
  - The CA Investment Committee, the role of which is to review the investment strategy of CA, maintain the investment policy and challenge the investment performance.
  - The CA With-Profits Committee, the role of which is to ensure the interests of with-profits policyholders are appropriately taken account of within governance arrangements and to consider more widely the issues which may affect the with-profits policyholders.
- 5.92 Oversight and review of CA’s outsourcing arrangements is a key part of the CA governance framework. The outsourcing oversight falls under the remit of the professional corporate governance team which is responsible for regulatory and operational requirements. Performance of outsourcing arrangements are ultimately overseen by the CA CEO with support from the CA UK Executive Committee.
- 5.93 Outsourcing oversight is a significant focus of the governance team, and it ensures the relevant service and performance standards through SLAs and continuous performance monitoring.

## ASSET MANAGEMENT IN CA

- 5.94 CA outsources the management of the majority of its investments to Schroders, including investments linked to CA's unit-linked blocks and ring-fenced with-profits funds. In 2020, CA consolidated and transferred all of its investment management at the time to Schroders to simplify the overall structure of its investments.
- 5.95 An additional investment management relationship has been entered, as a result of the transfer of the CASLP business on 31 December 2023. This arrangement covers the management of certain funds outsourced to Sanlam Investments. Certain other policies have the option to self-select third-party funds.
- 5.96 Figure 5.9, below, shows the breakdown of the CA assets as used for Solvency UK reporting as at 31 December 2023.

**Figure 5.9: CA Assets (excluding the reinsurance recoverable asset) as at 31 December 2023**

Assets	£m
Government bonds	149
Corporate bonds	99
Collective investments undertakings	240
Derivatives	0
Deposits (other than cash equivalents)	0
Assets held for index-linked and unit-linked contracts	3,755
Loans on policies	0
Insurance and intermediaries' receivables	4
Reinsurance receivables	20
Receivables (trade, not insurance)	11
Cash and cash equivalents	8
Other assets	1
<b>Total</b>	<b>4,288</b>

Source: Report by the Chief Actuary of CA on the Transfer.

- 5.97 The majority of the collective investment undertakings is the assets backing the with-profits business which are managed by Schroders. There is also collateral held for the annuity reinsurance arrangement and liquidity collectives held with Schroders and JP Morgan. The liquidity collectives are held as an alternative to cash and cash equivalents to spread CA's risk exposures.

## CA WP MANAGEMENT

- 5.98 The with-profits business of CA is split into three distinct blocks: the fully reinsured Original CA with-profits business; the SPP WPF; and the SPI WPF.
- 5.99 Oversight of the with-profits business is carried out in part by CA's With-Profits Committee ("WPC") which provides recommendations to CA's Board on the management of its with-profits business. This includes advice from CA's WPA role, which has been outsourced to Karen Miller of WTW.
- 5.100 The SPP WPF and SPI WPF are each maintained in three sub-funds which have separate investment strategies to reflect the purpose of each sub-fund. The sub-funds are:
- Policyholder asset shares;
  - Guarantee Fund; and
  - Shareholder Fund.

### **Policyholder Asset Shares**

- 5.101 The Policyholder Asset Shares represent the accumulated premiums less charges as well as any bonuses declared depending on the performance of the underlying assets. Bonus declarations are carried out on a smoothed basis to reduce fluctuations in the investment performance.
- 5.102 The Policyholder Asset Shares alongside the Guarantee Fund are the assets to which the policyholders are entitled.

### **Guarantee Fund**

- 5.103 The policies of SPP WPF and SPI WPF provide a guaranteed minimum amount on death or retirement equal to the amount of premiums paid accumulated with an investment growth rate which depends on the type of policy and the commencement date.
- 5.104 CA has the ability to apply a guarantee charge of up to 1.5% p.a. of asset share to support the guarantees on the SPP WPF and SPI WPF business. The charges are reviewed at least annually, and the amounts credited to the Guarantee Fund.
- 5.105 If the Guarantee Fund has a surplus in excess of the amount required to meet the guarantees of the policies, the surplus may be re-credited to the remaining Policyholder Asset Shares.

### **Shareholder Fund**

- 5.106 The Shareholder Fund is the assets which belong to the shareholders and represent the charges minus costs, as well as the shareholder capital. These assets belong to the shareholders in their entirety. The Shareholder Fund can be used to support the guarantees of the with-profits business where necessary.
- 5.107 The policies within the two ring-fenced with-profits funds are subject to annual management charges, expense charges, risk charges and guarantee charges depending on the policy. These are deducted from asset shares and credited to the Shareholder Fund.
- 5.108 The costs incurred in respect of the SPP WPF and SPI WPF are deducted from the Shareholder Fund.
- 5.109 The SPP WPF and SPI WPF also contain shareholder capital in the Shareholder Fund to ensure the security of the policyholder benefits, including to meet any guarantees where the Guaranteed Fund falls short. Subject to the guarantees being met, the shareholders are entitled to the entirety of the Shareholder Fund.

### **Fund Management**

- 5.110 The ring-fenced with-profits funds are structured differently to other with-profits funds by having this clear delineation between policyholder and shareholder assets and consequently CA has a waiver from certain FCA requirements in respect of with-profits business. This helps CA with managing its surplus capital within the Shareholder Fund.
- 5.111 CA does not have to hold assets to cover the SCR of each ring-fenced fund within the ring-fenced fund itself under the requirements of Solvency UK. The CA CMP does, however, make reference to providing an appropriate level of coverage within each fund, which is allowed to vary in line with the CA company-level risk appetite.

## 6. The Scheme

### THE MOTIVATION FOR THE SCHEME

- 6.1 CLL carried out a review of its individual protection business, which resulted in CLL closing that business to new business in November 2022. Transferring this business under the Scheme will allow CLL to focus its resources and investment on other business areas, including its group protection business.
- 6.2 From the perspective of the Chesnara Group, the acquisition of the Transferred Policies from CLL is aligned with the strategic aim to continue acquiring life and pensions business. The acquisition of this business further strengthens the position of CA and the Chesnara Group within the UK consolidation market and supports the company in achieving additional economies of scale as it spreads fixed costs over a greater number of policies.
- 6.3 The Scheme will also result in additional diversification benefits within CA. The diversification benefits have mostly been realised already by the Reinsurance Agreement.
- 6.4 Both Companies considered the Scheme to be the option that best met their strategic objectives compared to alternative arrangements. CLL considered retaining the business and either migrating the business to a new system or fully outsourcing the business, but concluded a full sale of the business would enable CLL to provide greater focus on the rest of its business and therefore provide a better outcome for all sets of policyholders. CA considers the Scheme to be the only mechanism that fully supports its aims of providing additional scale to its operations and demonstrating its ability to undertake full transactions of portfolios.

### THE PROCESS AND TIMETABLE OF THE SCHEME

- 6.5 In order to implement the Scheme, certain steps must be undertaken, and will be, as follows:
- **The Directions Hearing:** an initial court hearing at which the Companies' plans for notifying policyholders and other interested third parties are considered. The Directions Hearing is scheduled to take place on 28 June 2024 and this Report will be submitted to the Court for that hearing.
  - **The Policyholder Communications:** the regulations under the FSMA require a notification regarding the Scheme to be sent to every policyholder of the parties under the Scheme. The approach to this is covered in detail in Section 12.
  - **The Supplementary Report:** ahead of the Sanction Hearing, I will undertake a final review of the Scheme, and any policyholder or other objections raised, and produce a Supplementary Report as a follow up to this Report, stating my conclusions. My Supplementary Report will contain updated financial information as appropriate.
  - **The Sanction Hearing:** a hearing of the Court to consider approving the terms of the Scheme prior to the proposed Effective Date of the Scheme. The Sanction Hearing is expected to take place in February 2025 and my Supplementary Report will be submitted to the Court for that hearing.
  - **The Effective Date:** if the Scheme is approved by the Court, the Scheme will become operational on the Effective Date, which will be no earlier than 23 February 2025. The Companies will set the Effective Date with consideration to the operational readiness of SS&C as it is the expected third-party outsourcer for the administration of the Transferred Business. The administration will transfer on the Effective Date. CA's operational readiness plan includes contingencies against unforeseen delays to ensure the Scheme is expected to become operational as of the preferred Effective Date of 23 February 2025.

The Scheme provides for the Effective Date to be deferred up to and including 22 May 2025 without further Court approval upon agreement between CLL and CA if it is not reasonably practicable for the migration to be implemented on 23 February 2025, provided that such a decision takes into account the interests of the Transferred Policyholders. In such a case, CLL and CA would notify the PRA and the FCA as soon as reasonably practicable and it is expected that CLL would continue to administer the Transferred Business until the delayed Effective Date.

The Effective Date of the Scheme will not be able to be deferred beyond 22 May 2025 without additional approval from the Court. I consider the actions that would be taken in the event of a delay to the Effective Date, whether before or after 22 May 2025, in paragraphs 10.13 to 10.18.

- 6.6 For the avoidance of doubt, all policies in force as at the Effective Date fall within my scope as Independent Expert.

6.7 If the Scheme has not become effective on or before 23:59 on 30 July 2025 (or a later date if agreed between CLL and CA and allowed by the Court), the Scheme shall lapse.

#### A SUMMARY OF THE SCHEME

6.8 The proposed Scheme will transfer a closed book of conventional life insurance policies from CLL to CA, consisting of c.42,000 policies (as at 31 December 2023). This business represents a small proportion of CLL's total Technical Provisions (c.0.2%<sup>24</sup>) and will contribute a similarly small proportion to the future Technical Provisions of CA (c.0.3%).

6.9 The effect of the Scheme will be to transfer the in-scope policies (the Transferred Policies) to CA on the Effective Date, without any changes to the contractual benefits of the Transferred Policies.

6.10 The policies are individual protection policies, some of which were sold with an additional critical illness benefit. The policies are a mixture of single and joint life and are on one of three bases: level term, level term with an inflation-linked option, or decreasing term. The basis that has been selected will determine the movement in the contractual premiums and sum assured for the policy over time.

6.11 The average outstanding duration of the Transferred Policies is c.20 years, and consequently it is expected that the holders of these policies will become policyholders of CA for around 20 years if the Scheme is sanctioned by the Court.

6.12 The Transferred Policies represent almost all of CA's book of UK individual protection business with the exception of the Guernsey Policy. This policy will not be subject to the Scheme and has not been incorporated within the Reinsurance Agreement between CLL and CA. The exclusion of the Guernsey Policy has been decided based on local legal advice.

6.13 Additionally, within the Transferred Policies there are ten policyholders based in the Isle of Man who will be transferred as part of the Scheme. The inclusion of the policyholders based in the Isle of Man has been decided based on local legal advice which concludes that a separate legal scheme would not be required to transfer these policies. These policies are covered by the Reinsurance Agreement.

6.14 On the Effective Date of the Scheme:

- The Transferred Policies will become policies of CA and CA will be responsible for all the risks and liabilities associated to those policies. The Transferred Policies will transfer to the Non-Profit Fund of CA;
- The Reinsurance Agreement between CLL and CA in respect of the Transferred Policies will cease; and
- The two other reinsurance arrangements that CLL has in place with respect to the Transferred Policies (with Pacific Life Re and Swiss Re) are expected to transfer under the Scheme and become reinsurance arrangements of CA (the Transferred Reinsurances).

6.15 Any Transferred Policy which is active but not able to be transferred to CLL on the Effective Date of the Scheme will remain with CLL indefinitely (as a "**Residual Policy**") until such time that the impediment which means that the policy is not able to be transferred to CA is removed, at which point the policy will be transferred to CA. A policy may be a Residual Policy if:

- The policy cannot be transferred to CA pursuant to FSMA at the Effective Date;
- The policy cannot be transferred to CA pursuant to the Court's decision; or
- The holder of the policy is a sanctions target.

6.16 CLL has confirmed to me that its Financial Crime team performs a check on a daily basis for policyholders who are sanctions targets against various international sanctions lists, including that maintained by HM Treasury's Office for Financial Sanctions Implementation. Any matches found by this screening would be reported to CLL's Money Laundering Reporting Officer. CLL also checks for foreign and domestic Politically Exposed Persons ("**PEP**"). At the time of writing, no Transferred Policyholders have been identified as either sanctions targets or as PEP. In addition, there is no possibility of sanctioned financial assets being transferred under the Scheme given that no financial assets are included in the Scheme.

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<sup>24</sup> I note that the Technical Provisions of the Transferred Business is negative and therefore reduce the total Technical Provisions of either Company; the percentage figures in Section 6.8 are included as absolute values to convey the relative size of the Transferred Business to the Companies' whole businesses.

- 6.17 Overall, CLL has confirmed it is not aware of any Residual Policies.
- 6.18 As the Transferred Policies will become policies of CA's Non-Profit Fund, the Scheme will have no impact on the fund structure of CA.
- 6.19 Independent of the Scheme considered by this Report, the majority of the economic interests of the Transferred Business has already been transferred from CLL to CA through the Reinsurance Agreement. The exception is a small amount of expense risk which has been retained by CLL.

#### **The current schemes applicable to the Companies**

- 6.20 Both CLL and CA have been subject to past schemes as detailed in paragraphs 4.8 and 5.8 respectively. In particular the transfer of the CASLP business into CA completed on 31 December 2023.
- 6.21 There are no provisions of previous schemes undertaken by either CLL or CA which will have an impact on this Scheme due to the lack dependency between the schemes. This has been confirmed by both CLL and CA.

#### **Future amendments to the Scheme**

- 6.22 The Scheme may be modified before the Effective Date with consent from both CLL and CA. Such modifications would be subject to consideration by the Court, the PRA and the FCA as well as the Independent Expert as part of the Scheme process.
- 6.23 The Scheme permits future amendments to its terms after the Effective Date, where there is express provision within the Scheme to make such amendments, or where CA applies to the Court to amend the Scheme.
- 6.24 Consent of the Court is not required for amendments to the Scheme after the Effective Date where the amendment to the Scheme is:
- Minor or technical;
  - Necessary to comply with Applicable Law and Regulation;
  - Necessary to reflect any changes in generally accepted actuarial principles; or
  - Required to protect the rights and reasonable expectations of holders of the Transferred Policies.
- 6.25 CA needs to notify the PRA, the FCA and CLL if it plans to make any changes in respect of the cases set out in paragraph 6.24.
- 6.26 For any case not covered by paragraph 6.24, an amendment may be applied for through the Court, provided that certain conditions are met by CA, including notifications to the PRA, the FCA and CLL, accompanying the application with a certificate from an independent actuary stating that in their opinion, the proposed amendment does not materially adversely affect the security or reasonable expectations of the policyholders, and compliance with the Court's directions regarding publicity of the proposed amendment.
- 6.27 Should CA obtain approval from the Court to amend the Scheme, then the Scheme can be amended in accordance with the consent.

#### **THE COSTS OF THE SCHEME**

- 6.28 Unless otherwise agreed in writing, both CLL and CA will cover their own costs and expenses in relation to the Scheme preparation and implementation. Certain costs will be shared equally between CLL and CA where appropriate.
- 6.29 In particular:
- CLL will bear the following costs:
    - CLL's legal fees and other advisory fees; and
    - Any communications to the CLL policyholders other than the Transferred Policyholders.
  - CA will bear the following costs:
    - CA's legal fees and other advisory fees;

- Welcome communications for Transferred Policyholders;
- Any communications to existing CA policyholders; and
- Advertisements placed in respect of the Scheme on or after the Effective Date.
- The following costs will be apportioned equally between CLL and CA:
  - Costs and expenses of the Independent Expert;
  - Fees in respect of the Counsel jointly appointed in connection with the Scheme;
  - Court fees;
  - Regulatory fees associated to the Scheme;
  - Advertisements placed in respect of the Scheme prior to the Effective Date; and
  - Costs of communicating with the Transferred Policyholders and other interested third-parties in respect of the Scheme (including the required notifications).

## REINSURANCE ARRANGEMENTS

### Reinsurance Agreement covering the Transferred Policies from CLL to CA

- 6.30 The existing Reinsurance Agreement between CLL and CA in respect of the Transferred Policies will cease on the Effective Date of the Scheme. The Reinsurance Agreement would also be terminated if the transfer did not proceed for any reason, for example if the Scheme were not sanctioned and that decision was not appealed.
- 6.31 If some, but not all, of the Transferred Policies were unable to be transferred at the Effective Date under the Part VII Transfer, or if the Court for any reason determined that certain policies are not to be transferred under the Scheme, then the Scheme provides for CLL to continue reinsuring those policies to CA under the Reinsurance Agreement until such time as the policies were able to be transferred.

### Other reinsurance arrangements of the Transferred Policies

- 6.32 CLL has in place two other reinsurance arrangements related to the Transferred Policies as detailed in paragraph 4.67. These arrangements are with Swiss Re and Pacific Life Re and are expected to transfer under the Scheme. This means that CA will be the new counterparty to the Transferred Reinsurances with Swiss Re and Pacific Life Re and CA will have additional counterparty exposures in respect of these firms from the Effective Date.
- 6.33 Swiss Re and Pacific Life Re have been informed of the proposed transfer of the reinsurance arrangements to CA and consented to the Reinsurance Agreement being entered into. Both Swiss Re and Pacific Life Re will receive a formal notification as part of the Scheme communications explaining their right to object to the transfer.

## EXCLUDED POLICIES

- 6.34 Any policies which are not being transferred under this Part VII Transfer are excluded from the Transferred Policies. Such policies are known as “**Excluded Policies**” and the policies and the assets and liabilities related to such policies, will not transfer to CA as part of the Scheme.
- 6.35 The Excluded Policies of this Scheme include all policies which are not Transferred Policies i.e. the business which is not covered by the Reinsurance Agreement.
- 6.36 The Excluded Policies include the Guernsey Policy. This policy will be retained by CLL and not be transferred to CA. The administration of this policy will not be transferred to CA and will remain with CLL. I will provide an update on the Guernsey policy in my Supplementary Report.

## OTHER CHANGES OCCURRING AT THE SAME TIME AS THE SCHEME

- 6.37 The administration of the Transferred Policies will be migrating from CLL to SS&C, a third-party outsourcer specialising in administration, providing services to CA. The administration migration of the Transferred Policies is separate to, but dependent on the Scheme itself. The administration migration of the other blocks of CA business which will be transitioning to SS&C is not dependent on the Scheme.

- 6.38 The Transferred Business is expected to be ready to migrate to SS&C by February 2025, ahead of the Effective Date of the Scheme. CLL and CA have planned for unforeseen delays to the migration of the Transferred Business. If the Transferred Business were not ready for migration at this time, the Companies will ensure that the administration migration is managed in a way that minimises disruption to the Transferred Policyholders. I have commented on this point further in paragraphs 10.11 to 10.18, including the contingency in the Scheme that allows for the Effective Date of the Scheme to be deferred up to 22 May 2025 without further Court approval upon agreement between CLL and CA.
- 6.39 At the time of writing, I understand that the administration migration for the Transferred Policies is on track to be ready ahead of February 2025 in line with the planned time frame and it is therefore not expected that a delay to the Effective Date beyond 23 February 2025 will be required.

## 7. Financial impact of the Scheme

### INTRODUCTION

- 7.1 In this section I have set out the financial impact of the Scheme. This financial impact of the Scheme forms part of my conclusions in respect of the impact of the Scheme, primarily on the security of benefits for policyholders of the Companies, covered in Section 9.
- 7.2 As the Transferred Business is a very small amount of CLL's business (c.0.2% absolute value of CLL's total Technical Provisions) and the majority of the economic interest in it has already been transferred to CA from CLL via reinsurance, in this section I have primarily focussed on the financial impact of the transfer on CA as the financial impact on CLL is minimal. I have considered the impact on CLL in paragraphs 7.25 to 7.28.

### FINANCIAL IMPACT ON CA

- 7.3 Figure 7.1, below, shows the pre-Scheme and pro forma, post-Scheme financial position of CA. The figures are shown on a Solvency UK basis as at 31 December 2023.
- 7.4 The CA pre-Scheme position makes allowance for the Reinsurance Agreement covering the Transferred Policies from CLL. The Reinsurance Agreement is assumed to fall away in the post-Scheme balance sheet.

**Figure 7.1: CA pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023**

£ million	Pre-Scheme CA	Pro forma post-Scheme CA	If Scheme not Sanctioned
Assets (A)	4,453.0	4,453.0	4,456.8
BEL (B)	4,113.1	4,113.1	4,126.6
Risk Margin (C)	12.0	12.0	11.2
<b>Technical Provisions (D = B + C)</b>	<b>4,125.1</b>	<b>4,125.1</b>	<b>4,137.8</b>
Other liabilities (E)	145.9	145.9	145.9
<b>Own Funds (before restrictions) (F = A – D – E)</b>	<b>182.0</b>	<b>182.1</b>	<b>173.1</b>
RFF Restriction (G)	0.5	0.5	0.5
Dividends (H)	35.0	35.0	35.0
<b>Restricted Own Funds (I = F – G – H)</b>	<b>146.5</b>	<b>146.6</b>	<b>137.6</b>
<b>SCR (J)</b>	<b>101.4</b>	<b>101.4</b>	<b>97.9</b>
Excess Own Funds (K = I – J)	45.1	45.2	39.7
<b>Solvency Ratio (L = I / J)</b>	<b>145%</b>	<b>145%</b>	<b>141%</b>

Source: Report by the Chief Actuary of CA on the Transfer (summarised by Milliman).

- 7.5 The pro forma, post-Scheme financial position of CA has been calculated under the following assumptions:
- That the Standard Formula is used to calculate the SCR both pre- and post-Scheme;
  - The VA is not applied to the Transferred Business pre- or post-Scheme. Regulatory approval would need to be sought by CA to apply the VA to the Transferred Business;
  - Additional diversification arises within the SCR and Risk Margin from the Reinsurance Agreement between CLL and CA falling away and being replaced by direct policies of CA for the Transferred Policies, however this is minimal; and
  - No additional dividends are foreseeable as a result of the Transferred Business becoming direct business of CA.
- 7.6 The table above shows that, as a result of the Scheme, the Own Funds, RFF Restriction, SCR and hence the Excess Own Funds of CA is largely unchanged post-Scheme as a result of the Transferred Business moving to CA. This is as a result of the Transferred Policies already being reinsured to CA and therefore being present in the pre-Scheme CA position as inwards reinsurance.

- 7.7 Figure 7.1 shows that, if the Scheme had been implemented on 31 December 2023, the Own Funds of CA post restrictions would have covered its SCR with a ratio of 145%. This represents minimal change relative to the pre-Scheme position (the impact is a 0.04% increase to the SCR coverage, however this is not visible due to rounding). This is expected as a result of the Transferred Business already having been reinsured to CA. This position remains in excess of the CA Board Risk Appetite.
- 7.8 I am satisfied that the assumptions used, including the PRA approvals as described in paragraph 7.5 to determine the pro forma post-Scheme financial position (in Figure 7.1), are reasonable.
- 7.9 Figure 7.1 shows that, on a Solvency UK basis, if the Scheme had been implemented on 31 December 2023 the following synergies would arise:
- The movement in Own Funds is very small as a result of the transfer in of the Transferred Business to CA. This results in the existing Reinsurance Agreement being cancelled and the Transferred Business becoming direct policyholders of CA. The post-Scheme CA position is largely unchanged from the pre-Scheme CA position due to the Reinsurance Agreement having already transferred the majority of the economic interests of the Transferred Business to CA; and
  - The movement in SCR is also very small as a result of the transfer in of the Transferred Business to CA, due to the Reinsurance Agreement having already transferred the majority of the economic interests of the Transferred Business to CA. The pre-Scheme SCR does include allowance for the Reinsurance Agreement and consequently the only impact is the small additional diversification benefit from the remaining expense risk transferring to CA.
- 7.10 Overall, the impact of the Scheme on the financial position of CA is not material.
- 7.11 If the Scheme were not to be sanctioned for any reason, the Reinsurance Agreement would be terminated, and the holders of the Transferred Policies would remain policyholders of CLL. In this scenario CA would see a decrease to the level of its Own Funds of c.£9 million and of its SCR of c.£3.5 million. This would result in an overall decrease in the Solvency Ratio of c.4 percentage points and therefore I am also satisfied that, if the Scheme were not to proceed, there would be no significant financial risk to CA.

## SCR

- 7.12 In considering the impact of the Scheme on the capital requirements of CA it is, in my opinion, appropriate to comment on the pre- and post-Reinsurance Agreement SCR positions to assess the capital impact of CA taking on the Transferred Business.
- 7.13 Figure 7.2, below, shows the pre- and post-Reinsurance Agreement SCR breakdown of CA, alongside the SCR which arises from the Transferred Business. This table shows the impact on the CA SCR of the Transferred Business.

**Figure 7.2: CA pre- and post-Reinsurance Agreement SCR breakdown as at 31 December 2023**

Risk category (£ million)	Pre-Reinsurance Agreement (A)	Transferred Business (B)	Synergy (C)	Post-Reinsurance Agreement (D = A + B - C)
Interest	10.5	(0.2)		10.3
Equity	42.9			42.9
Property	2.4			2.4
Spread	15.1			15.1
Market concentration	1.0			1.0
Currency	13.7			13.7
Diversification	(21.6)	0.2	(0.0)	(21.5)
<b>Market</b>	<b>64.0</b>	<b>(0.1)</b>	<b>(0.0)</b>	<b>64.0</b>
<b>Counterparty default</b>	<b>4.2</b>	<b>0.1</b>	<b>(0.1)</b>	<b>4.2</b>
Mortality	4.9	1.2		6.1
Longevity	6.5			6.5
Disability	0.6			0.6
Expense	18.7	1.5		20.2
Lapse	32.4	6.5		38.9
Catastrophe	1.8	1.1		2.9
Diversification	(16.4)	(2.6)	0.0	(19.0)
<b>Life underwriting</b>	<b>48.5</b>	<b>7.7</b>	<b>0.0</b>	<b>56.2</b>
<b>Health underwriting</b>	<b>3.6</b>	<b>(0.1)</b>	<b>0.1</b>	<b>3.6</b>
Diversification	(26.5)	(1.8)	0.2	(28.1)
Operational risk	6.0	0.2		6.1
LACDT	(1.9)		(2.8)	(4.7)
<b>SCR</b>	<b>97.9</b>	<b>6.1</b>	<b>(2.6)</b>	<b>101.4</b>

Source: Report by the Chief Actuary of CA on the Transfer.

- 7.14 The table above shows that the Reinsurance Agreement covering the Transferred Business resulted in higher levels of counterparty default, life underwriting and operational risk. There is a small benefit from opposing biting interest rate risks<sup>25</sup> and from additional diversification within the market and life underwriting risk modules.
- 7.15 The synergy is the additional change in capital requirements which arises when the existing CA business is combined with the Transferred Business when compared to the simple sum of the two capital requirements.
- 7.16 As shown in Figure 7.2, , there is an additional LACDT synergy of £2.8 million which arises. This is offset by a lower diversification benefit at the total SCR level (£0.2 million reduction) when the Transferred Business is combined with the existing CA business.
- 7.17 Overall, the CA SCR increases from £97.9 million to £101.4 million as a result of the Reinsurance Agreement which arises from CA taking on the £6.1 million of capital requirements related to the Transferred Business and realising a £2.6 million synergy.
- 7.18 The post-Reinsurance Agreement SCR of £101.4 million matches the amount shown in Figure 7.1 above and shows that as a result of the Reinsurance Agreement the majority of the additional diversification benefit has already been realised by CA.

<sup>25</sup> Under Solvency II and Solvency UK, the interest rate SCR stress under the Standard Formula is the more onerous of an increase to interest rates and a decrease to interest rates, specified within the regulations. The more onerous of the two stresses will differ across different assets and blocks of business. The interest rate SCR is calculated at the company level which means that the interest rate stress arising from each asset or block of business are added together to determine the most onerous stress and consequently there can be an element of offsetting within the calculation. The biting stress that would have applied to the Transferred Business if the transfer had effected at 31 December 2023 is different from that which actually applied at that date; as shown in the second column of figures in Figure 7.2, this results in a reduction in the SCR interest rate stress of £0.2 million for that business.

## Chesnara Group Impact

- 7.19 Given the minimal impact of the transfer on the financial position of CA I expect a similar minimal impact for Chesnara and consequently on the Chesnara Group.

### STRESS AND SCENARIO TESTING

- 7.20 In addition to my considerations based on the latest available financial information as set out above, I also need to consider the ability of CA to withstand adverse stress and scenario circumstances, and whether the Scheme will have any material impact on this aspect. The regulatory SCR requirements cover severe adverse 1-in-200-year circumstances, but it is also necessary to consider the position following less severe but plausible adverse events.
- 7.21 As part of the 2023 CA ORSA, CA considered the impact on the Pillar 2 balance sheet<sup>26</sup> at 30 June 2023 of a number of sensitivities to market and demographic conditions. This included two sensitivities focussed on the Transferred Business. The Solvency Ratio remained reasonably strong in all scenarios, with CA continuing to cover its SCR.
- 7.22 Figure 7.3, below, outlines the stress and scenario tests detailed in the 2023 CA ORSA.

**Figure 7.3: Stress and Scenario tests considered as part of the 2023 CA ORSA**

Risk	Stress
Yields fall	300bps flat reduction in yield curve
Yields rise	300bps flat increase in yield curve
Equity fall	25% reduction in equity values
GBP appreciates	15% appreciation of GBP versus foreign currencies
Bond yields fixed, fall in swap rates	50bps flat reduction in yield curve, no change to bond yields
Spreads widen	Increase in spreads dependent on credit rating of asset
Expenses increase	10% increase to variable expenses
Long-term inflation	100bps flat increase in inflation curve
Short-term inflation	Price inflation 10%, salary inflation 6% until end-2025, both falling to long-term targets thereafter
Mass Lapse	20% mass lapse event
Mortality/Morbidity increase	10% increase in mortality and morbidity rates
Loss of VA	Removal of VA
Combined scenario	Based on geopolitical event
Mortality/morbidity	15% increase to mortality/morbidity rates (Transferred Business only)
Lapse rates	More onerous of 20% increase or 20% decrease in lapse rates (Transferred Business only)

Source: 2023 CA ORSA.

- 7.23 CA also considered non-financial and emerging risks, including climate change risk, as part of its 2023 ORSA.
- 7.24 In my opinion the stress and scenario testing combined with the qualitative analysis carried out by CA as part of its ORSA process sufficiently covers the risks to which CA is exposed and shows that CA maintains a strong Solvency Ratio across a number of adverse scenarios. Consequently, it is my opinion that under a different market or business environment than tested as at 30 June 2023 under the ORSA, it is likely that the Scheme would still be able to proceed without a significant financial impact on CA.

<sup>26</sup> The three pillars of Solvency II/Solvency UK and the differences between them are detailed in paragraph A.13 of Appendix A covering the UK life insurance market and regulatory environment.

## FINANCIAL IMPACT ON CLL

7.25 As noted above, the impact of the Scheme on CLL's financial position is expected to be minimal due to the Reinsurance Agreement having already transferred the majority of the economic interest of the Transferred Business to CA.

7.26 Figure 7.4, below, shows the pre-Scheme and pro forma, post-Scheme financial position of CLL. The figures are shown on a Solvency UK basis as at 31 December 2023. The balance sheets also show the position if the Scheme were not to be sanctioned for any reason.

**Figure 7.4: CLL pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023**

£ million	Pre-Scheme	Pro forma post-Scheme	If Scheme not Sanctioned
Own Funds (A)	3,567	3,567	3,588
SCR (B)	2,204	2,204	2,206
Excess Own Funds (C = A – B)	1,363	1,363	1,382
Solvency Ratio (D = A / B)	162%	162%	163%

*Source: Report by the Chief Actuary of CLL on the Transfer.*

7.27 The movement between the pre- and post-Scheme financial positions of CLL is only the transfer of the residual risk associated to the Transferred Business and the Reinsurance Agreement falling away. The impact on the CLL Solvency Ratio is less than 1 percentage point and consequently I am satisfied that there is no significant financial risk to CLL as a result of the Scheme.

7.28 If the Scheme were not to be sanctioned for any reason, the Reinsurance Agreement would be terminated, and the holders of the Transferred Policies would remain policyholders of CLL. In this scenario CLL would see an increase to the level of its Own Funds of c.£20 million and of its SCR of c.£2 million. This would result in an overall increase in the Solvency Ratio of c.1 percentage point and therefore I am also satisfied that, if the Scheme were not to proceed, there would be no significant financial risk to CLL.

7.29 I have not covered the Pillar 2 position of CLL in detail within this report, however based on the 2022 CLL ORSA, the Pillar 2 position would also be relatively insensitive to the Scheme being sanctioned. As with the Pillar 1 position, this is mainly due to the existing Reinsurance Agreement between CLL and CA. I will review CLL's Pillar 2 position as at 2023 in my Supplementary Report, by which point the 2023 CLL ORSA is expected to be available.

## 8. The effect of the Scheme on the reasonable benefit expectations of policyholders

### INTRODUCTION

- 8.1 In this section I have set out my consideration of the impact of the Scheme on the reasonable benefit expectations of the following groups of policyholders:
- The Transferred Policyholders of CLL;
  - Existing CLL policyholders other than the Transferred Policyholders; and
  - Existing CA policyholders.
- 8.2 In this section I will describe the impact of the Scheme on the reasonable benefit expectations of each group of policyholders separately.
- 8.3 For non-linked non-profit policyholders their reasonable benefit expectations are primarily that their benefits will be paid in full on the expected date. For unit-linked policyholders, their reasonable benefit expectations also allow for how unit prices are determined, expenses charged directly to unit-linked funds, and how discretion is exercised in relation to reviewable policy charges. For with-profits policyholders, their reasonable benefit expectations also allow for the expenses and charges which are applied to their policies and to the with-profits fund in which their policy sits.
- 8.4 The impact of the Scheme on policyholders' reasonable benefit expectations in adverse circumstances will depend on the impact of the Scheme on the security of benefits for policyholders, and I have considered this security aspect in Section 9.

### Transferred Policyholders of CLL

- 8.5 The Transferred Policies are non-profit in nature. The details of their benefits were discussed in paragraphs 4.56 to 4.64.
- 8.6 Therefore, for Transferred Policyholders, the reasonable benefit expectations upon the implementation of the Scheme will be that:
- They receive their benefits as guaranteed under the policy or policies, on the dates and in the contingencies specified in the relevant terms and conditions;
  - They do not pay a higher level of premiums for the same level of benefits than they would if the Scheme were not to occur; and
  - They retain the same options and rights as their existing policy or policies, as specified in the relevant terms and conditions.
- 8.7 Under the Scheme, the terms and conditions of the Transferred Policies will not be altered other than to change the insurer. Therefore, the contractual benefits, as well as the dates and contingencies which apply to contractual benefits, will be the same post-Scheme as they would be under CLL, had the Scheme not occurred. The methodology for calculating premiums corresponding to the contractual benefits will also be unaltered.
- 8.8 Similarly, it is expected that any contractual options and rights as specified in the relevant terms and conditions will also be unaltered. I note that CA is currently investigating SS&C's administration systems to ensure that, post-Scheme, it has the functionality to replicate all options and rights that apply currently under CLL. This analysis is due to complete in July 2024 at which point any missing functionality that has been identified will be included in the planned developments of SS&C's administration systems. I will comment further on the outcome of this investigation in my Supplementary Report and in particular highlight if there are any options or benefits transmuted as a result.
- 8.9 The Transferred Policyholders currently benefit from additional non-contractual services (run by third parties) including The Canada Life App (a mobile phone application offering discounts on everyday purchases) along with a number of support services such as PersonalCare (a round-the-clock service that provides access to professional support, including counselling, advice and family support). Further services available to policyholders include bereavement counselling, a probate helpline, access to a nurse for emotional and practical support and a second medical opinion service.

- 8.10 It is noted that, despite those services being non-contractual, CA plc will offer the additional benefits described above whereby the corresponding third parties and CA plc will enter a new contract. This means that Transferred Policyholders will be able to continue to access the additional benefits from the Effective Date, when the administration of the Transferred Business moves to CA plc. The difference will be in the branding of these additional services, which will move to become associated with CA plc, and the services will continue to be accessible through a mobile phone application.
- 8.11 I am satisfied that the implementation of the Scheme would not have a material adverse effect on the reasonable benefit expectations of the Transferred Policyholders and that the Scheme is equitable to all classes and generations of the Transferred Policyholders.

### **Existing CLL policyholders other than the Transferred Policyholders**

- 8.12 The existing CLL policies other than the Transferred Policies include non-profit policies and unit-linked business.
- 8.13 Therefore, for existing CLL policyholders other than the Transferred Policyholders, the reasonable benefit expectations are that:
- They receive their benefits as guaranteed under the policy or policies, on the dates and in the contingencies specified in the relevant terms and conditions;
  - Where applicable, for non-linked policies, they do not pay a higher level of premiums for the same level of benefits than they would if the Scheme were not to occur;
  - They retain the same options and rights as their existing policy or policies, as specified in the relevant terms and conditions;
  - Where applicable, the benefits they receive from a unit-linked policy reflect the value of its underlying units, and particularly the number of units, current unit prices of the linked funds in which they are invested, as well as any contractual charges set out in the relevant terms and conditions; and
  - The discretion used in the management of the unit-linked funds, as well as that in relation to reviewable policy charges, will not be materially affected.
- 8.14 Under the Scheme, the terms and conditions of the existing CLL policies that are not Transferred Policies will not be altered.
- 8.15 There is a single individual protection policy excluded from the Scheme where the policyholder is based in Guernsey, as described in paragraph 6.12. I will provide an update on the treatment of this policy in my Supplementary Report.
- 8.16 The management of the Transferred Policies does not materially affect CLL's management of its unit-linked business.
- 8.17 I am satisfied that the implementation of the Scheme would not have a material adverse effect on the reasonable benefit expectations of the existing CLL policyholders other than the Transferred Policyholders and that the Scheme is equitable to all classes and generations of CLL's existing policyholders other than the Transferred Policyholders.

### **Existing CA policyholders**

- 8.18 The existing CA policyholders include non-profit, unit-linked and with-profits business. A summary of CA's existing business was provided in Section 5.
- 8.19 Therefore, for existing CA policyholders, the reasonable benefit expectations upon the implementation of the Scheme will be that:
- They receive their benefits as guaranteed under the policy or policies, on the dates and in the contingencies specified in the relevant terms and conditions; and
  - Where applicable, for non-linked policies, they do not pay a higher level of premiums for the same level of benefits than they would if the Scheme were not to occur; and
  - They retain the same options and rights as their existing policy or policies, as specified in the relevant terms and conditions.
- 8.20 Under the Scheme, the terms and conditions of the existing CA policies will not be altered.

- 8.21 The CA WPA's report in relation to the Scheme has confirmed that, as a result of the Scheme, there will be no alteration to the:
- Policyholder terms and conditions;
  - Expenses or charges;
  - Investment and bonus strategies of the with-profits funds;
  - CMP;
  - Capital support arrangements; nor
  - Principles and Practices of Financial Management

in respect of the existing with-profits policies of CA.

- 8.22 The SPI and SPP blocks of with-profits business are held in ring-fenced funds and consequently the benefits of these policyholders will be unaffected by the Transferred Business entering the Non-Profit Fund. There will be no change to the ring-fencing arrangements as a result of the Scheme.
- 8.23 Furthermore the with-profits business held within the Non-Profit Fund is fully reinsured to ReAssure and consequently the benefits of these policyholders will also be unaffected by the Transferred Business entering the Non-Profit Fund. There will be no change to the reinsurance arrangement relating to the with-profits business as a result of the Scheme.
- 8.24 The WPA of CA has concluded in her report that will be no material changes to the benefit expectations of the existing with-profits policyholders of CA as a result of the Scheme. Based on the evidence set out above I agree with the conclusion of the WPA of CA.
- 8.25 I am satisfied that the implementation of the Scheme would not have a material adverse effect on the reasonable benefit expectations of existing CA policyholders, including those of with-profits policyholders, and that the Scheme is equitable to all classes and generations of CA's policyholders.

#### **OVERALL CONCLUSION**

- 8.26 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the reasonable benefit expectations of any of the policyholders of the Companies.
- 8.27 I am also satisfied that for both of the Companies, the Scheme is equitable to all classes and generations of the policyholders.

## 9. The effect of the Scheme on the security of the benefits for policyholders

### INTRODUCTION

- 9.1 In this section I have set out my consideration of the impact of the Scheme on the security of benefits for policyholders of the Companies.
- 9.2 Given that I consider the impact of the Scheme on the policyholders of the Companies that are not Transferred Policyholders to be minimal, I consider these policyholders first before commenting on the Transferred Policyholders for the rest of the section.

### POLICYHOLDERS OF THE COMPANIES OTHER THAN THE TRANSFERRED POLICYHOLDERS

- 9.3 Policies of CLL or CA that are not part of the Scheme will continue to be serviced by their respective companies. Their terms and conditions will not be altered as a result of the Scheme.
- 9.4 Solvency UK will continue to apply to all policies and there will therefore be no change as a result of the Scheme to the methodology used by either company to calculate the Technical Provisions and SCR in respect of the business not included in the Scheme.
- 9.5 There will be no impact on the day-to-day management of the business not included in the Scheme, as well as the risk management processes, governance and CMPs of either of the Companies.
- 9.6 As I commented upon in Section 7, the impact of the Scheme on the solvency position and risk profiles of the Companies is not material, owing to the relatively small size of the Transferred Business compared to the rest of the Companies' businesses.
- 9.7 I consider the impact of the Scheme on the security of the benefits of the policies of CLL and CA other than the Transferred Policyholders to be minimal and therefore that security will remain at an adequate level after the implementation of the Scheme.

### FACTORS AFFECTING THE SECURITY OF THE BENEFITS OF THE TRANSFERRED POLICYHOLDERS

- 9.8 For the rest of this section, I will consider the impact of the Scheme on the security of the benefits of Transferred Policyholders specifically.
- 9.9 Currently, the Transferred Policyholders are within CLL and principally derive security for their benefits from:
- The assets of CLL held to cover:
    - The Technical Provisions and SCR calculated in accordance with the Solvency UK regulatory regime; and
    - The additional financial strength required in excess of its SCR and in line with CLL's CMP including the strength of the governance around the risk appetite statements and the governance around any future changes to them.
  - The wider aspects of the CMP (other than the financial strength requirements outlined above).
- 9.10 While the factors described in paragraph 9.9 are the primary methods for ensuring the security of the benefits of the Transferred Policyholders, there are other factors which contribute additional security, albeit of secondary importance. This includes:
- The reinsurance arrangements in place relating to the Transferred Business, which serve to transfer the risks from CLL to third parties. I provided an overview of the reinsurance arrangements related to the Transferred Business in paragraphs 4.67 to 4.72.
  - Additional security may be provided by the fact that CLL is part of the sub-group headed by CLG. CLG is required to meet the Solvency UK regulatory capital requirements for insurance groups and additionally has its own CMP. Furthermore, CLG may decide to inject capital into its subsidiaries in order to restore compliance with the CMP of the subsidiary in circumstances where such capital is required, it is available

for CLG to provide (given that CLG may also have requests from other subsidiaries in such circumstances) and agreed to by CLG.

- 9.11 After the implementation of the Scheme, the security of the Transferred Policyholders will be provided by CA by the corresponding elements discussed in paragraphs 9.9 to 9.10 arising from CA and the Chesnara Group.
- 9.12 In my assessment of whether the security of the benefits of the Transferred Policyholders will remain adequate as a result of the Scheme, as well as comparable to the security of their benefits prior to the implementation of the Scheme, I have considered the following:
- The calculation of the Solvency UK Technical Provisions and SCR;
  - The solvency position of the Companies, allowing for the impact of the Scheme;
  - The results of stress and scenario testing of those solvency positions;
  - The CMPs applicable for the Companies;
  - The capital support in place for the Companies, as a result of their corresponding Group structure;
  - The differences in risk profile between the Companies;
  - Any other key differences between the Companies, including any differences in size, investment strategy and liquidity policies;
  - The impact of the Scheme on the reinsurance arrangements in place for the Companies, including the Reinsurance Agreement; and
  - Other considerations as a result of the Scheme, including the additional capital retained amounts being held, and the position should it become necessary to implement a Recovery and Resolution Plan.
- 9.13 The risk profile of the two ring-fenced with-profits funds of CA are not covered in detail, as these funds remain ring-fenced and there is not expected to be any change in the risk profile of the with-profits funds as a result of the Scheme.
- 9.14 In the following sections, I have set out my considerations in respect of each of the considerations in paragraph 9.12.

#### **SOLVENCY UK TECHNICAL PROVISIONS AND SCR**

- 9.15 Both CLL and CA are within the scope of the Solvency UK regime, and this will not change as a result of the implementation of the Scheme and so the BEL, Technical Provisions and SCR in respect of the Transferred Business will continue to be calculated in accordance with the Solvency UK regulations.

#### **Best Estimate Liability**

- 9.16 CA expects to use the same methodology in calculating the Solvency UK BEL in respect of the Transferred Liabilities as is currently applied by CLL, with the exception of the application of the VA.
- 9.17 CLL currently applies the VA in respect of the Transferred Business.
- 9.18 CA has indicated that it does not plan on applying the VA to the Transferred Business once transferred to CA upon the implementation of the Scheme.
- 9.19 Upon the implementation of the Scheme, the BEL of the Transferred Liabilities would therefore change from having the VA applied (by CLL) to no VA applied (by CA) and currently would result in future cashflows being discounted at a lower rate.
- 9.20 The effect of the removal of the application of the VA in the calculation of the Transferred Liabilities is uncertain but will likely lead to a relatively higher BEL. However, I note that the impact of the removal of the application of the VA is expected to have low materiality (estimated to be less than 0.1% of the BEL of the Transferred Business, gross of reinsurance, as at 31 December 2023).
- 9.21 In addition, the BEL of the Transferred Business is small in the context of the total liabilities of CA, and so I am satisfied that the fact that CA will not apply the VA when determining that BEL will not have a material effect on the financial position of CA nor the security of the benefits of the Transferred Policyholders.

## Technical Provisions

- 9.22 The Solvency UK Technical Provisions are the sum of the BEL and Risk Margin, possibly with an adjustment in respect of the TMTP. The Scheme's impact on the Technical Provisions will therefore be determined by its impact on each of these components, with the additional consideration of interdependence between them.
- 9.23 I commented on the potential changes to the calculation of the BEL in paragraphs 9.16 to 9.21.
- 9.24 The calculation of the Risk Margin is prescribed and there will therefore be no change in the calculation of the Risk Margin as a result of the Scheme. In particular, the calculation by either of the Companies allows for the reforms to the Risk Margin calculation introduced under Solvency UK as at 31 December 2023.
- 9.25 CLL does apply a TMTP as noted in paragraph 4.20. CA does not currently have regulatory approval to apply the TMTP to its business and has indicated it does not plan to apply for approval for it to be applied to the Transferred Business post-Scheme.
- 9.26 The potential TMTP that could be applied by CA to reduce the Technical Provisions required to be held in respect of the Transferred Business following the Effective Date, if approval were granted by the PRA, would be small in the context of the total liabilities of CA, and in any case the reduction would diminish to zero by 2032. Accordingly, I am satisfied that the fact that CA will not apply a TMTP when calculating the Technical Provisions for the Transferred Business will not have a material effect on the financial position of CA nor the security of the benefits of the Transferred Policyholders.

## Solvency Capital Requirements

- 9.27 CLL applies its PIM to calculate the SCR in respect of the life catastrophe risk exposure of the Transferred Business. It applies the Standard Formula to all other risks (the Transferred Business is not exposed to credit nor longevity risk).
- 9.28 CA applies the Standard Formula to calculate the SCRs of all risks for its existing business (including those in respect of the Transferred Business to which it is currently exposed). It is CA's intention to continue using the Standard Formula after the Effective Date.
- 9.29 Therefore the only difference between the way that CLL currently calculates the SCR in respect of the Transferred Business, and the way that, if the Scheme were to be implemented, CA would calculate the SCR in respect of the Transferred Business, is the calculation of the life catastrophe SCR.
- 9.30 The catastrophe risk component constitutes a small proportion, approximately 7%, of CLL's undiversified SCR in respect of the Transferred Business in isolation as at 31 December 2023, as presented in paragraph 4.76.
- 9.31 Applying the Standard Formula methodology in place of CLL's PIM methodology would be expected, all other factors staying the same, to increase the catastrophe risk component of the Transferred Business. Therefore the total undiversified SCR of the Transferred Business would likely slightly increase as calculated by CA post-Scheme compared to the current calculation by CLL.
- 9.32 The calculation of the SCR is dependent on the size of the Technical Provisions. Therefore, as well as the change to the calculation of the catastrophe risk component of the SCR, the overall impact of the Scheme on the SCR will also depend on the changes to the Technical Provisions commented upon in paragraphs 9.22 to 9.26.

## Overall impact on Solvency UK liabilities

- 9.33 The overall impact on the Solvency UK Technical Provisions, net of TMTP, as a result of the Scheme is uncertain and may depend on factors such as the use of TMTP, changes in the risk profile of the Transferred Business and market conditions.
- 9.34 However, I note that CA's calculation of the Technical Provisions for the Transferred Business will likely be higher post-Scheme than that of CLL.
- 9.35 The differences in the SCR calculation between the Companies may lead to a marginally higher undiversified SCR under CA than under CLL.
- 9.36 I am satisfied that the overall impact of the Scheme on the Solvency UK Technical Provisions and SCR calculated in respect of the Transferred Business is immaterial, but in any case, that it is likely to remain comparable or else slightly increase post-Scheme.

- 9.37 To the extent that the differences in methodology result in a higher Technical Provisions and SCR requirement for CA than would otherwise be the case, CA would need to allocate relatively more capital in respect of the Transferred Liabilities. This would likely lead to a marginal increase in the security of the benefits of the Transferred Policyholders.
- 9.38 Overall, I am satisfied that the security of the benefits of the Transferred Policyholders will remain adequate, or else possibly slightly increase, as a result of the post-Scheme changes in the calculation of the Solvency UK Technical Provisions and SCR.

#### **SOLVENCY POSITION OF THE COMPANIES**

- 9.39 The financial impact of the Scheme on CA as a whole is covered in Section 7.
- 9.40 As I concluded in Section 7, I am satisfied that the impact of the Scheme on the financial strength and the solvency position of CA post-Scheme is not material. In particular, the Reinsurance Agreement has effectively already transferred most of the economic effects of the Transferred Business to CA, meaning the Scheme will itself have minimal further impact on the solvency position of CA.
- 9.41 I am therefore satisfied that the Transferred Policies will form part of a sufficiently capitalised company post-Scheme and that the security of the benefits will not be compromised as a result.

#### **STRESS AND SCENARIO TESTING**

- 9.42 Stress and scenario testing has been analysed in paragraphs 7.20 to 7.24.
- 9.43 As I concluded in Section 7, I am satisfied that the stress and scenario testing performed by CA, combined with its qualitative analysis carried out as part of its ORSA process, sufficiently covers the risks to which CA is exposed.
- 9.44 Overall, I am satisfied that the Scheme would not have an adverse impact on the extent, or the outcome of the stress and scenario testing carried out by the Companies.

#### **CAPITAL MANAGEMENT POLICIES**

- 9.45 The CMP of a firm sets out its approach to capital management, including governance in capital management, the firm's risk appetite, dividend policies and its strategy in improving its capital position if the risk appetite is breached. The CMP therefore forms a key role in determining the security of policyholder benefits.
- 9.46 CLL's CMP, which is currently applied in respect of CLL's business including the Transferred Policies, was described in Section 4. Post-Scheme, the Transferred Policies will be subject to the CMP of CA, as described in Section 5.
- 9.47 The respective CMPs of CLL and CA are not affected by, or contingent on, the Scheme itself.
- 9.48 In the comparison of CLL's and CA's CMPs, I will consider the following two features:
- The relative level of capital required as per the company's risk appetite; and
  - The response of the company in the event of a breach of a company's risk appetite.
- 9.49 It is out of my scope to provide an assessment of the appropriateness of the CMPs of the Companies applied to their respective businesses as a whole. In the following sections, I have only considered the effect on the security of the benefits of the Transferred Policyholders as a result of the being transferred between these two CMPs as part of the Scheme.

#### **A comparison of the relative level of capital required as per CLL's and CA's risk appetite**

- 9.50 Both CLL and CA define their risk appetite for the level of capital to be held in terms of the Solvency Ratio at the company level.
- 9.51 Both firms have limited risk appetite to be significantly above their respective target Solvency Ratios and therefore, in such a situation, the firms are likely to distribute dividends in order to return to, or to an acceptable level within, their target Solvency Ratios.

- 9.52 The implementation of the Scheme is by itself not expected to materially impact the Solvency Ratio for either CLL or CA.
- 9.53 I have reviewed both CLL's and CA's risk appetite levels for the Solvency Ratio at the company level. As of 31 December 2023, CA works to operate with a minimum Solvency Ratio of 120%, which is lower than CLL's target Solvency Ratio. However, CA is substantially closed to new business (other than sales of onshore bonds, increments to existing policies and any further acquisitions<sup>27</sup>) and CLL is open to new business. Typically firms open to new business have target capital levels more in excess of the prescribed levels than do firms closed to new business who do not need to finance new business or hold capital against their planned growth.
- 9.54 The objective of both companies in setting a risk appetite for their Solvency Ratio is to ensure it holds a capital buffer that reduces the likelihood in the future of the company not holding enough capital to meet its SCR to an acceptable level.
- 9.55 Both companies set their target Solvency Ratio on an annual basis, in conjunction with its ORSA, stress and scenario testing and reverse stress testing. In addition, CLL's calibration is informed by its PIM.
- 9.56 Despite the similar underlying principles, there are reasons why the companies' respective risk appetites may not be directly comparable.
- 9.57 The primary reason for this is that CLL and CA are distinct companies with different underlying insurance business profiles, which produce different risk exposures. CLL and CA may also have different strategies in the event of a breach of their risk appetite, as discussed in paragraphs 9.64 to 9.69. As a result, CLL and CA will have different capacities to continue to meet their SCR in adverse conditions.
- 9.58 The Transferred Liabilities constitute a very small proportion of CLL's business. As a result, CLL's risk appetite, and in particular its target Solvency Ratio, is more heavily influenced by its other insurance business, such as its annuities.
- 9.59 Similarly, upon the implementation of the Scheme, the Transferred Liabilities will constitute a very small proportion of CA's business. As a result, CA's risk appetite, and in particular its target Solvency Ratio, will be more heavily influenced by its other insurance business.
- 9.60 As a result, the target Solvency Ratio of the firm cannot by itself be treated as a direct indication of the security of the Transferred Policyholders' benefits, either pre or post Scheme.
- 9.61 While the CMPs of CLL and CA may differ in terms of its target Solvency Ratio, the Transferred Policyholders would benefit from CA holding the SCR together with a capital buffer upon the implementation of the Scheme, as they do the currently from CLL holding its SCR and capital buffer. This fundamental alignment of the two CMPs ensures there is therefore no adverse material change in the security of the benefits of the Transferred Policyholders as a result of the Scheme.
- 9.62 Finally, I note that the financial impact of the Transferred Liabilities has largely already been transferred economically to CA via the Reinsurance Agreement discussed in paragraph 4.69. Therefore, although CLL is still principally liable for the Transferred Liabilities, the Scheme itself would have a minimal additional impact on the security of the Transferred Policyholders' benefits, since CA is already indirectly liable for such claims (net of the Transferred Reinsurances).
- 9.63 Therefore, while CA has a lower target Solvency Ratio than CLL at a company level, considering the points discussed above, I am satisfied that the change in the relative level of capital required to be held by CLL to that of CA, as defined in their CMPs, would not have a material adverse effect on the security of the Transferred Policyholders' benefits.

#### **A comparison of CLL's and CA's response in the event of a breach of the company's risk appetite**

- 9.64 Both Companies' approaches to setting their risk appetite consider various levels of severity in the event of a breach (e.g., "Red", "Amber" and "Green" tolerances). Both companies set these risk appetites in respect of the overall solvency risk (i.e. ability to meet the SCR) and at an individual risk level (including liquidity, market risks and insurance risks).

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<sup>27</sup> If an acquisition was contemplated then the Chesnara group would consider the amount of capital required to effect that acquisition and to provide ongoing support the acquired business, and from where that capital would be sourced. CA would not be expected to hold capital in respect of an acquisition that is not yet contemplated.

- 9.65 Neither CLL nor CA defines these risk appetites in terms of explicit statistical calibrations. However, both Companies' risk appetites are determined with the same underlying principle of ensuring the company holds a buffer sufficient to ensure the company can continue to meet the SCR in a range of adverse scenarios, validated through the use of stress and scenario testing as part of its ORSA.
- 9.66 Both Companies' CMPs clearly delineate the responsibilities of relevant stakeholders both in the ongoing oversight and monitoring of the company's risk exposure, as well as in the event of a risk appetite being breached. In particular, both policies define the owner of the CMP documents and the frequency at which the owner is required to review the CMP.
- 9.67 The CMPs also make explicit the roles and responsibilities of the Board, which is required to approve and maintain ultimate responsibility for the CMP under both Companies, and the risk function, which is responsible for implementation and ongoing compliance under both Companies.
- 9.68 Both Companies have Board-approved documented approaches to addressing a breach of the company's risk appetite which include a list of management actions which consider the proportionality of these actions as well as the speed of implementation. These management actions include, as mentioned in paragraph 4.35 for CLL, a review of the dividend payment and a capital injection.
- 9.69 I am satisfied that the change in the company's response in the event of a risk appetite breach from that of CLL to that of CA, as defined in their CMPs, would not have a material adverse effect on the security of the Transferred Policyholders' benefits.

#### **Conclusion regarding the comparison of the CMPs of CLL and CA**

- 9.70 I am satisfied that, if the Scheme were to be implemented, the application of the CA CMP in respect of the Transferred Policies in place of the CLL CMP would not have a material adverse effect on the security of the Transferred Policyholders' benefits.

#### **CAPITAL SUPPORT**

- 9.71 It is acknowledged that neither CLL's group nor CA's group have legal obligations in place to provide additional capital to their subsidiaries. However, it is nevertheless the case that insurance groups are regulated by the PRA on a group basis, with a group solvency and financial condition report ("**SFCR**") and group capital requirements in order to ensure the amount distributed to shareholders via dividends or transferred out of the group is consistent with the group's risk profile.
- 9.72 Therefore, the consideration of group supervision and the need for the group to put extra capital into a subsidiary should the subsidiary run into difficulty is part of insurance regulation, and both entities and groups must be solvent on their own bases. Therefore, should CA run into financial difficulties post-Scheme, then it is likely that the Chesnara Group would wherever possible provide capital support to CA. Whilst it is both important and relevant to note this, I do not place any reliance on it in order to form my conclusions in respect of the Scheme's impact on the security of policyholders' benefits.

#### **CHANGE IN RISK PROFILE**

- 9.73 If the Scheme were to be implemented, the Transferred Policyholders will change from being policies of CLL to being policies of CA and will therefore be directly exposed to the risk profile of a different company.
- 9.74 Both CLL and CA have a variety of in-force business that exposes both the Companies to a range of different risk types. I presented CLL's and CA's overall risk profiles as at 31 December 2023 in paragraphs 4.37 and 5.63 respectively.
- 9.75 An approximate comparison of the Companies' risk profiles is shown in Figure 9.1 below. I note that, given CLL and CA have different business models, CLL and CA measure different risk categories in the calculation of their SCR and so apply diversification at different granularities. As a result, a direct comparison is not possible, and Figure 9.1, below, should be treated only as an indicative comparison of the risk profiles of the Companies.

**Figure 9.1: Approximate comparison of risk profiles of CLL and CA as at 31 December 2023**

Risk	CLL risk profile (% of undiversified SCR)	CA risk profile (post-Scheme) (% of undiversified SCR)	Difference
Interest	5%	6%	2%
Equity	9%	25%	16%
Property	9%	1%	(7%)
Spread	22%	9%	(13%)
Market concentration	5%	1%	(5%)
Currency	8%	8%	0%
Other market	3%	0%	(3%)
<b>Market</b>	<b>61%</b>	<b>51%</b>	<b>(10%)</b>
Mortality	2%	4%	2%
Longevity	16%	4%	(12%)
Disability	3%	0%	(3%)
Expense	1%	12%	11%
Lapse	0%	23%	23%
Catastrophe	11%	2%	(9%)
<b>Life underwriting</b>	<b>33%</b>	<b>45%</b>	<b>11%</b>
<b>Counterparty default</b>	<b>1%</b>	<b>3%</b>	<b>1%</b>
<b>Health underwriting</b>	<b>4%</b>	<b>2%</b>	<b>(2%)</b>

Source: provided by CLL and CA (summarised by Milliman).

- 9.76 In addition, CLL's operational risk as a percentage of its SCR (after allowing for all diversification and LACDT<sup>28</sup>) is 6%. The proportion of CA's operational risk post-Scheme a percentage of its SCR is also 6%.
- 9.77 Post-Scheme, the Transferred Policyholders would continue to be exposed to similar risk categories as they are currently but the levels of exposure to these risk categories would change, given that CA has different business mixes and volumes.
- 9.78 While there are no new risk categories that the Transferred Policyholders will be exposed to as a result of the Scheme, the Transferred Policyholders will be relatively more exposed to interest, equity, mortality, expense and lapse risks. Market risk is still the most significant risk group exposure with life underwriting risk remaining as the second most significant risk group, albeit at a higher level in CA compared to CLL.
- 9.79 The most significant increase in risk exposure to which the Transferred Policyholders are exposed as a result of the Scheme is lapse risk. I note that Figure 9.1, above, reflects the mass lapse reinsurance arrangement that CA entered into from 31 December 2023 which I described in paragraph 5.77. This reinsurance arrangement has served to reduce CA's exposure to lapse risk which has reduced the change of the Transferred Policyholders' relative exposure to lapse risk that would otherwise apply. The Transferred Business is not covered directly by the mass lapse reinsurance arrangement.
- 9.80 Currently Transferred Policyholders benefit from CLL holding its SCR calculated in accordance with the Solvency UK regime, which reflects CLL risk profile, and from CLL holding capital in excess of its SCR. Post Scheme, the Transferred Policyholders will benefit from CA holding its SCR calculated in accordance with the Solvency UK regime, which reflects CA's risk profile, in addition to the capital buffer CA hold above its SCR.
- 9.81 Under the Reinsurance Agreement between CLL and CA, benefits (and most expenses) arising in respect of Transferred Policies are met by CA. In the event that CA were to become insolvent and be unable to meet its liabilities under the Reinsurance Agreement, CLL would still be required to meet benefit payments and expenses in respect of Transferred Policies if it were able to do so. If the Scheme is effected then the Transferred Policies will become policies of CA, and this additional layer of protection for Transferred Policies will fall away. The reinsurance was put in place in anticipation of the transfer of the policies to CA (and will be cancelled if the Scheme is not

<sup>28</sup> I have compared the Companies' level of operational risk as a proportion of the SCR allowing for diversification and LACDT, rather than the undiversified SCR as done for other risks, as under the Standard Formula operational risk is calculated after allowing for diversification of all non-operational risks.

effected), and so I do not consider the continuation of this temporary additional layer of protection to be a reasonable expectation of holders of Transferred Policies. In addition, based on my assessment of its financial condition, I consider the likelihood of CA being unable to meet its liabilities in the future to be small and, accordingly, I consider the benefit of this additional layer of protection to be minimal.

- 9.82 Overall I am satisfied that the change in the risk profile to which the Transferred Policyholder's will be exposed will not have a material adverse impact on the security of their benefits.

#### **OTHER DIFFERENCES BETWEEN THE COMPANIES**

- 9.83 This section sets out my consideration of other key differences between the Companies that could impact the security of benefits of policyholders, and my conclusions in respect of these differences.
- 9.84 I note that CLL is a larger company than CA in terms of assets and liabilities.
- 9.85 However, as I commented upon in paragraph 9.65, both Companies' risk appetites are set with the same underlying principle of ensuring the company holds a buffer sufficient to ensure it can continue to meet the SCR in a range of adverse scenarios, validated through the use of stress and scenario testing as part of the ORSA. Furthermore, as I commented upon in paragraph 9.67, both Companies have developed adequate governance in setting, overseeing and reviewing their risk appetite.
- 9.86 I believe that ensuring the regulatory capital requirements continue to be met, including the use of an appropriate capital buffer that is held to ensure the regulatory capital requirements are met on an ongoing basis even in adverse circumstances, as well as a robust governance process to set and monitor the appropriateness of, the company's CMP, are together of more fundamental importance in ensuring the security of the policyholder's benefit than the inherent size of the wider business.
- 9.87 Therefore, although the Companies are of different sizes, I do not consider this to imply that the Scheme will lead to a tangible adverse impact on the security of the Transferred Policyholders' benefits.
- 9.88 The Companies set their investment strategies at a granular level for their business lines and this aspect will remain the same post-Scheme.
- 9.89 Given that the BEL of the Transferred Business is negative, relatively few assets (in respect of minimum capital requirements), are currently held in respect of the Transferred Business by either firm. I therefore do not consider the investment strategies of either CLL or CA relating to the assets backing the Transferred Business to be material to the security of the benefits of the Transferred Policyholders.
- 9.90 I also consider CA's investment strategy in relation to any other assets of its business to have no material impact on the security of the benefits of the Transferred Policyholders post-Scheme, given the small size of the Transferred Business relative to the rest of CA's business and the fact that such investment strategies will be managed in the context of CA's CMP and risk appetite, which I have reviewed in paragraphs 9.45 to 9.70.
- 9.91 While CLL is closed to new business in respect of its individual protection business, it is open to new business in respect of other lines of business such as annuities. CA is substantially closed to new business.
- 9.92 I am satisfied there are no potentially material adverse effects of the Scheme with respect to the security of the benefits of the Transferred Policyholders that would arise from the fact that CA is open to new business.
- 9.93 The liquidity policies for each of CLL and CA, and in particular its liquidity risk appetite and governance in reviewing the liquidity policy, will be unchanged by the Scheme, and will continue to be applied consistently post-Scheme.

#### **REINSURANCE**

- 9.94 This section sets out my conclusions in respect of the implications of changes to the reinsurance arrangements on policyholders' benefit security.

#### **Reinsurance Agreement covering the Transferred Policies from CLL to CA**

- 9.95 If the proposed Scheme is sanctioned, the existing Reinsurance Agreement between CLL and CA in respect of the Transferred Policies will cease on the Effective Date of the Scheme.
- 9.96 In my opinion there is no adverse impact on policyholders' benefit security if the Scheme is sanctioned and the Reinsurance Agreement is therefore terminated, as the Reinsurance Agreement means that CA is already indirectly

liable for the Transferred Liabilities. The main effect of the Scheme is therefore that the Transferred Policies will instead become direct insurance policies of CA and, as such, CA will become directly liable for the Transferred Liabilities.

- 9.97 The Reinsurance Agreement would also be terminated if the transfer did not proceed for any reason, or the Scheme was not sanctioned.
- 9.98 If the transfer did not proceed or if the Scheme were not to be sanctioned, the reinsurance of the Transferred Policies from CLL to CA would cease and the Transferred Policyholders would continue to be policyholders of CLL. In this scenario, the Transferred Policies would continue to be exposed to the risks of CLL, but CLL would not have the benefit of the Reinsurance Agreement. The Transferred Policies are currently exposed to the risks of CLL notwithstanding the Reinsurance Agreement between CLL and CA and therefore in my opinion this has no adverse impact on policyholders' benefit security. Additionally, the Transferred Policies would continue to be managed in the same way they have in the past prior to the Reinsurance Agreement between CLL and CA.
- 9.99 If certain policyholders of the Transferred Policies were unable to be transferred under the Scheme, this would result in CA continuing to reinsure CLL under the terms of the Scheme for those remaining Transferred Policyholders until such time as the policies were able to be transferred or there ceased to be any of the relevant policies remaining. In such a scenario, the remaining Transferred Policyholders would see no change to their policies as a result of the Scheme, until they are able to be transferred to CA, at which point the terms and conditions will still remain unchanged other than the insurer. In my opinion this arrangement will not result in any adverse impact on the security of the benefits of Transferred Policyholders who are not able to be transferred under the Scheme as at the Effective Date.

#### **Other reinsurance arrangements of the Transferred Policies**

- 9.100 Under the Scheme, both third-party reinsurance treaties which relate to the Transferred Policies are expected to be transferred. These Transferred Reinsurances, held with Swiss Re and Pacific Life Re, were described in paragraph 4.67.
- 9.101 These treaties will thus continue to operate and provide the same protection in relation to the relevant business in the same way as they did before the Effective Date, provided these treaties do indeed transfer under the Scheme. The Scheme will also not affect the operation of the reinsurance treaties from the perspective of the two reinsurers, with the exception of the change in counterparty from CLL to CA. No other changes will be made to the reinsurance treaties as part of the Scheme.
- 9.102 Swiss Re and Pacific Life Re have both been informed of the Scheme and will receive formal notification of the Scheme as part of the Scheme communications, including details on the companies' right to object to the transfer. At the time of writing this Report, I am not aware of any objections or issues raised by either reinsurer, but they have yet to receive the formal communications regarding the transfer. Therefore, at this stage I have concluded that there are no material implications for the security of Transferred Policyholder benefits once CA becomes party to the external reinsurance treaties.
- 9.103 I understand that if either of the reinsurance arrangements cannot be transferred the Scheme will proceed and the reinsurance arrangements will be transferred later when the issues preventing their transfer have been addressed. This is consistent with the treatment of the Residual Policies.
- 9.104 In the event that one of the reinsurers notified their objection to the Scheme, a recapture of the reinsurance would be sought. Policyholders' level of service would be unaffected by a recapture as claims payments are not contingent on receipt of monies from the reinsurers. There are no penalties imposed if either of the third-party reinsurance is recaptured and consequently no additional expense is expected to be incurred. CLL has the right to recapture both reinsurance treaties where the agreement is prohibited in some way or rendered impossible.
- 9.105 If one of the third-party reinsurance contracts was recaptured, CA would evaluate its position after the Effective Date and make a decision as to whether to retain the small additional risk on the CA balance sheet or to seek a new reinsurance arrangement to replace the recaptured arrangement.

#### **Other reinsurance arrangements of CLL and CA**

- 9.106 The Scheme will have no impact on any reinsurance arrangements of CLL and CA which do not relate to the Transferred Policies.

## Summary in relation to reinsurance

- 9.107 In summary, I am satisfied that the changes to the Reinsurance Agreement covering the Transferred Policies as a result of the Scheme and the transfer of the various reinsurance arrangements as described above from CLL to CA, will not have any material adverse effect on the security of any of the policyholders' benefits.

## OTHER CONSIDERATIONS

### Applications for regulatory approval

- 9.108 CLL and CA have Solvency UK regulatory approvals from the PRA as detailed in Sections 4 and 5.
- 9.109 In paragraphs 9.19 and 9.26, I commented on the fact that CLL currently applies the VA and TMTP respectively in respect of the Transferred Business but that the use of the VA and TMTP would be discontinued by CA upon the transfer.
- 9.110 As I have concluded in paragraph 9.38, I am satisfied that the change in the calculation of the Solvency UK Technical Provisions will not cause a material adverse impact on the security of the benefits of the Transferred Policyholders.
- 9.111 I note that no other PRA approvals with regards to the Transferred Business are expected to change as a result of the Scheme.
- 9.112 Given my conclusion in Section 7 regarding the financial impact of the Scheme on the Companies, I am satisfied that the Scheme should not have a material impact on the PRA approvals granted to CLL and CA, and their use post-Scheme, in relation to their businesses excluding the Transferred Business.
- 9.113 I am also therefore satisfied that the approvals assumed in calculating the pro forma post-Scheme financial position in Section 7 are reasonable.

## CONCLUSIONS FOR ALL GROUPS OF POLICYHOLDERS

- 9.114 I have considered and analysed the impact of the Scheme on the security of benefits of all groups of policyholders of the Companies.
- 9.115 In my opinion, owing to the fact that the Scheme will not alter the policy terms and conditions, day-to-day management nor application of Solvency UK in respect the policies of CLL or CA other than the Transferred Policies, and the fact that the Scheme has little impact on either CLL's or CA's solvency position or risk profile, there is no material adverse impact on such policyholders in relation to the security of their benefits as a result of the implementation of the Scheme.
- 9.116 In my opinion, there is no material adverse impact on policyholders in relation to the security of benefits of the Transferred Policyholders as a result of the implementation of the Scheme. My reasoning for reaching this conclusion is as follows:
- Both companies will continue to be subject to the Solvency UK regulation post-Scheme.
  - Differences in the calculations of the Solvency UK Technical Provisions and SCR in respect of the Transferred Business will not adversely affect, and may very marginally increase, the security of the benefits of those policies.
  - The post-Scheme Solvency Ratio for both CLL and CA will remain above their respective target Solvency Ratios as set out in the CMPs.
  - In particular, the Transferred Liabilities have already been reinsured to CA which is in compliance with its regulatory capital requirement as well as its CMP and so the implementation of the Scheme introduces limited additional risk to CA's ability to meet its liabilities as they fall due in the future.
  - I am satisfied that the stress and scenario testing performed by CA, combined with its qualitative analysis carried out as part of its ORSA process, sufficiently covers the risks to which CA is exposed.
  - The management of the Transferred Policyholders will move from being subject to the CLL CMP to being subject to the CA CMP. I note that CA's target Solvency Ratio is lower than that of CLL's, which may appear to be a lowering of the security of the Transferred Policyholder's benefits. However, for reasons I

have set out above, I do not consider this comparison to be of direct relevance in considering the overall security of the benefits of the Transferred Policyholders. The reasons for this include:

- CLL and CA are distinct entities that have set their Solvency Ratios in respect of their business plans, own mix and own volumes of business, and therefore their target Solvency Ratios are not directly comparable; and
- The Transferred Business represent a very small portion of the businesses of each insurer, and therefore each of CLL's and CA's target Solvency Ratio is more heavily influenced by the rest of its insurance business.
- I am satisfied that both Companies have adequate governance around the oversight and implementation of their risk appetite framework and have an established list of appropriate management actions to consider in various scenarios of the risk appetites being breached.
- The Transferred Policyholders will be exposed to CA's risk profile instead of that of CLL as a result of the Scheme. Given the SCR of CA reflects its risk profile, and the capital buffer CA holds above its SCR, I do not consider the change in the Transferred Policyholder's risk exposures to have a material adverse impact on the security of their benefits.
- There are additionally no changes expected to the external reinsurance arrangements relating to the Transferred Business, which will be transferred from CLL to CA as part of the Scheme (as the Transferred Reinsurances). This statement does not apply to the Reinsurance Agreement currently in place between CLL and CA in respect of the Transferred Business, which will cease upon the Effective Date.

## 10. The effect of the Scheme on the standards of service, administration, management and governance applicable to the policies

### INTRODUCTION

- 10.1 In this section I have set out my consideration of the impact of the Scheme on the standards of service, administration, management and governance applicable to the Transferred Policies, as well as the existing policies of CA and the non-Transferred policies of CLL.
- 10.2 I set out my considerations in respect of each of these below.

### ADMINISTRATION AND SERVICING

#### Introduction

- 10.3 In assessing the impact of the Scheme on the standards of administration and servicing of the Transferred Policies, the existing policies of CA and the non-Transferred Policies of CLL, I need to consider both:
- The temporary impact of the Scheme on the customer service provided to the policyholders, due to expected increased activity in relation to the transfer; and
  - The impact of the Scheme on the administration and servicing arrangements in place.

#### Transferred Policies (prior to the Effective Date)

- 10.4 CLL has established a ring-fenced team to handle the anticipated temporary increase in demand on customer service as a result of customers contacting it about the Scheme. This covers the additional demand for customer service regarding the Scheme and Scheme communications, as well as any additional business-as-usual queries triggered by receipt of the Scheme communications.
- 10.5 The ring-fenced team will be composed of current team members from the CLL customer contact team as well as some subject matter experts on the Scheme to support with answering questions. CLL has adopted this approach for past transfers, and I understand the approach has worked well. I consider the potential impact of the formation of this ring-fenced team on the non-Transferred Policies in paragraph 10.38 below.
- 10.6 The contact team for the Scheme will receive training in order to answer queries satisfactorily, including on the Court process and timeline, the frequently asked questions, dealing with vulnerable customers, the impact of the Scheme and the objections process.
- 10.7 CLL has previous experience in handling schemes such as the one covered by this Report, and I am satisfied that they are well-placed to maintain and manage a ring-fenced team with appropriate staffing levels, experience and knowledge of the Scheme and business-as-usual type queries triggered by the communications.
- 10.8 A change in administration arrangements is planned outside of the terms of the Scheme. CLL currently carries out the administration of the Transferred Policies and this task is expected to transfer to SS&C, a specialist third-party administration provider, in February 2025, shortly ahead of the Scheme implementation. SS&C does not currently administer any policies for CA, but CA also intend on migrating the administration of other blocks of policies to SS&C in due course. The migration of the Transferred Policies is not contingent on the timing of any other block being migrated. I note that while SS&C does not currently administer any policies for CA, it does currently administer protection insurance policies for other firms.
- 10.9 This planned change in administration is linked to, but not part of, the Scheme itself. If the Scheme were not to proceed for any reason, then the administration of the Transferred Policies would remain in-house with CLL. The change in administration would therefore not go ahead without the Scheme and consequently the Scheme will have an impact on the administration and servicing for the Transferred Policies.
- 10.10 The implementation of the Scheme will therefore have an impact on:
- The system on which the data for Transferred Policies are stored and administered;
  - The processes by which the policies of the Transferred Policies are serviced; and

- The staff who are carrying out the servicing of Transferred Policies.

- 10.11 As noted above, there is a plan in place to migrate the Transferred Policies to SS&C which will service and administer the Transferred Policies when they become part of CA. In preparation for this outsourcing arrangement with SS&C, the Transferred Policies will be migrated to SS&C's systems in advance of the Effective Date to help ensure that, as of the Effective Date, the administration of the Transferred Business is ready to be carried out entirely on SS&C's platform and independently of the CLL administration system. The administration of the Transferred Policies will then be performed by SS&C from the Effective Date onwards. CLL has sight of this plan and will be informed of progress in respect of all key milestones for the migration. This will allow CLL and CA to learn from any issues as the work progresses and support a smooth transition of the administration of the Transferred Policies.
- 10.12 CA will not proceed with the migration of the Transferred Policies to SS&C without full confidence in SS&C's readiness to accept the migration of the Transferred Policies from the Effective Date onwards. CA's due diligence of SS&C's readiness to accept the migration of the Transferred Policies is ongoing and CA will continue to monitor progress until the migration date to reduce the risk that a delay of the Effective Date beyond 23 February 2025 is required. As mentioned in paragraph 6.5, CA's operational readiness plan for the migration includes contingencies against unforeseen delays which also reduces the risk of a delay.
- 10.13 If the migration of the Transferred Policies to SS&C's platform were not ready ahead of the Effective Date of 23 February 2025, the Companies will ensure that the administration migration is managed in a way that minimises disruption to the Transferred Policyholders. In particular, CLL and CA will seek to ensure that claims payments and premium collections will continue to operate as normal during the delayed period. CLL and CA would also consider the policyholder communications that should be issued to keep policyholders informed of this development and to prevent confusion. Provided the new Effective Date remained on or prior to 22 May 2025, it is expected that policyholders would be updated via the Scheme-specific websites mentioned in paragraph 12.34.
- 10.14 As described in paragraph 6.5, in the event that the migration needs to be deferred to after that date, the Scheme provides the ability to defer the Effective Date until 22 May 2025 without further Court approval upon agreement between CLL and CA, provided such a decision takes into accounts the interests of the Transferred Policyholders. In this case, CLL and CA would notify the PRA and the FCA as soon as reasonably practicable and it is expected that CLL would continue to administer the Transferred Business until the delayed Effective Date. CLL and CA have indicated to me that, while they do not expect to invoke this mechanism within the Scheme, they consider this a prudent contingency to include in the Scheme in the unlikely event that the migration of the Transferred Business is not ready in time for the planned Effective Date of 23 February 2025 as greater policyholder protection can be derived from postponing this for a short period for time until such date that SS&C's administration systems are ready. In particular, CLL and CA have considered the FCA Final Guidance in formulating this mechanism in the Scheme.
- 10.15 The Effective Date of the Scheme cannot be deferred beyond 22 May 2025 without additional approval from the Court. In the event that the Effective Date of the Scheme had to be delayed beyond 22 May 2025 due to the migration to SS&C's systems not being ready on or before this date, CLL and CA would consider options for how to proceed. Potential options that CLL and CA could consider include: not proceeding with the Scheme; proceeding with the Scheme with CLL providing the administration services until they can be transferred to a third party; or delaying the Scheme until an alternative third-party administration provider is in place. I note that these options have not yet been finalised or formally agreed upon given that the migration plan is currently progressing in line with the planned time frames.
- 10.16 If there is expected to be any delay to the Effective Date beyond 23 February 2025, whether beyond 22 May 2025 or not, then, in line with the FCA Final Guidance, CA would consider what further policyholder communications should be issued, if any, as a result of the previous notifications and this Report becoming out of date. In particular without further agreement between the Companies and the Court the Scheme will lapse on 30 July 2025.
- 10.17 As mentioned in paragraph 6.39, at the time of writing, I understand that the migration of the administration of the Transferred Policies is on track to be ready ahead of February 2025 in line with planned time frame and it is therefore not expected that a delay to the Effective Date beyond 23 February 2025 will be required.
- 10.18 I will provide an update on the status of the implementation of the migration plan in my Supplementary Report. In the event that a delay of the Effective Date beyond 23 February 2025 (whether until before or after 22 May 2025) becomes a realistic prospect, I will consider the appropriateness of any further policyholder communications and the contingency planning that may become necessary. I will also provide an update on which of the options outlined

in paragraph 10.15, or any other option, that the Companies will use should the Effective Date of the Scheme be deferred beyond 22 May 2025.

10.19 SS&C already administers protection business for other clients and therefore the migration of the Transferred Policies to the SS&C platform is not, in my opinion, a high-risk migration from an operational perspective. In particular, the other protection business currently administered by SS&C's includes life cover, critical illness, Total Permanent Disability, waiver of premium and hospitalisation benefits all of which are applicable to at least some of the Transferred Policies.

#### Transferred Policies (after the Effective Date)

10.20 For a period of at least 12 months following the Effective Date, CA will seek to ensure the administration of the Transferred Policies will be consistent with the way in which they are administered prior to the Effective Date, in order to minimise any disruption in the standards of service received by the Transferred Policyholders as a result of the Scheme. CA has no plans at this time to change the administration of the Transferred Policies after the 12-month period, though it is possible that minor modifications are made to the manner in which CA administers the Transferred Business; such modifications would be made in accordance with regulatory requirements, good industry practice and CA's overall business. I believe that this is a reasonable approach giving policyholders comfort on the administration standards going forward for a period. I note that if the transfer were not to be implemented Transferred Policyholders would have a similar exposure regarding the future of the administration.

10.21 The implementation of the Scheme will not have any impact on:

- The standards and levels of service that CA requires of its internal process and outsourced administration; or
- The metrics against which CA measures their success or otherwise in customer servicing.

10.22 CA monitors service standards as part of its ongoing risk management processes through the terms and SLAs entered into with CA's outsourced providers.

10.23 Figure 10.1 below summarises the SLAs targeted by each of the Companies.

**Figure 10.1: Service-level Agreements of CLL and CA**

Metric	CLL	CA
Claim Processing	3 days	5 days
Monies In/Direct Debit Mandate	2 days	3 days
Monies out	4 days	2 days
Policy Maintenance	4 days	5 days
Quote/Illustration	N/A	3 days
Commission Queries	5 days	5 days
Contact Centre	85% accessibility	80% in 10 secs
Abandon Rate <sup>29</sup>	5%	3%
Complaints	5 days	10 days
Document Dispatch	3 days	1 day
Unit Pricing/Switch	1 day	1 day
Reconciliations	Daily	Daily

Source: Provided by CLL and CA.

10.24 Figure 10.2 below summarises the red-amber-green ("RAG") thresholds which, when measuring CLL's and CA's servicing standards against the metrics in the SLA specified above, inform the remedial action taken by CLL or CA to restore the servicing standards in line with the SLA.

<sup>29</sup> Abandon Rate refers to the percentage of calls received where the customer aborts the call before the Customer Service team answer.

**Figure 10.2: RAG thresholds of SLA performance of CLL and CA**

RAG threshold	CLL threshold	CA threshold
Green	95%+	98%+
Amber	70-95%	95-98%
Red	<70%	<95%

Source: Provided by CLL and CA.

- 10.25 The remedial action taken by either of CLL or CA in the case of a breach of their respective RAG thresholds would depend on the metric of the SLA under consideration and the length of time of the breach. For CLL, this would include, for example, assigning more resources within its customer services team in order to address any areas in which CA is underperforming compared to the SLA. In respect of the Transferred Business post-Scheme, CA may request a plan from SS&C detailing its actions to restore the RAG threshold of the impacted metric of the SLA within a suitable time frame.
- 10.26 Overall, Figure 10.1 above shows the SLAs applied by CLL and CA are broadly comparable. Figure 10.2 shows that CA applies slightly stricter RAG thresholds than CLL.
- 10.27 Following the expected migration of CA's policies to SS&C, the service standards in respect of the Transferred Policies will be assessed through regular touchpoints with SS&C. This ensures a process is in place for identifying any issues, including any breaches with CA's SLAs, and developing a plan to address such issues. This will help ensure that, post-Scheme, SLAs remain within CA's risk tolerance levels and that remedial action is taken to return to compliance with CA's SLAs if these are breached.
- 10.28 Additional recourse available to CA should SS&C not meet agreed performance requirements include:
- Service credits (financial compensation payable by SS&C to CA);
  - "Step-in rights" that allow CA to recover responsibility of the administration and servicing of the Transferred Business from SS&C in the event of SS&C's failure; and
  - Exit of the contract in place with SS&C.
- 10.29 CLL operates a resourcing model of its customer service team where it can adapt the number of staff members assigned to the Transferred Business (or other business) in response to customer demand. I therefore do not expect directing some current CLL customer contact team members to handle Scheme-related queries will impact on CLL servicing its other customers. Under CA's outsourcing arrangement with SS&C, there will be no ring-fenced team within SS&C's customer services team in respect of the Transferred Business post-Scheme, but I note that SS&C will be able to draw from a pool of over 1,200 operations and customer service staff as needed to service these policies.
- 10.30 CA's decision to outsource the administration of the Transferred Business post-Scheme is necessary given CA does not have an in-house processing function. I note that there are both advantages and disadvantages associated with this decision compared to alternative options. In particular, while it introduces a dependency on an external party, it may be reasoned that SS&C is able to perform this function to a level that is comparable or better than that which could be provided by an in-house processing function developed by CA given SS&C's specialisation and experience in providing this service. In addition, this arrangement is consistent with CA's wider business model which seeks to outsource a number of its administration, investment and actuarial functions to third parties as described in paragraph 5.19.
- 10.31 I am satisfied that CA has performed adequate due diligence in assessing the planned outsourcing arrangement with SS&C and that this outsourcing arrangement has appropriate SLAs, an adequate process in place to address breaches of those SLAs, adequate recourse available to CA, as well as adequate resourcing levels, to help ensure the administration and servicing of the Transferred Policies is not adversely affected.
- 10.32 Overall, I am satisfied that the implementation of the Scheme would not have an adverse effect on the standards of service and administration applicable to the Transferred Policies, both prior to and following the Effective Date. In particular, given the SLAs in place and the conditions of the agreement with SS&C, I am satisfied that CA should be able to ensure the administration of the Transferred Policies, for a period of at least 12 months following the Effective Date, will be consistent with the way in which they are administered prior to the Effective Date. This is an

area I will continue to monitor as the migration moves forward and on which I will comment further in my Supplementary Report.

### **Existing CA Policies**

- 10.33 CA operates an outsourced business model with respect to a number of functions including administration and investment management and consequently it is possible for CA to increase the service capacity to cater for the additional policyholders of the Transferred Business without impacting the existing CA policies.
- 10.34 As described in paragraph 5.21, a number of CA's existing blocks of business are also planned to migrate to SS&C, in the future. The administration migration of existing CA policies is not related to the Scheme and consequently is unaffected by the Scheme provisions.
- 10.35 There will be no change to the administration of the CWA business and certain business of PL, which will continue to be outsourced to Capita and OPAL respectively.
- 10.36 There will be no other changes made to the administration in relation to the existing CA policies and consequently it is not expected that there will be any significant adverse effect on the services standards as a result of the Scheme.

### **Non-Transferred Policies of CLL**

- 10.37 There will be no change to the services provided to, nor the administration of, the non-Transferred Policies of CLL as a result of the Scheme.
- 10.38 Prior to the Effective Date, as described in paragraphs 10.4 to 10.6, a ring-fenced team will be established to handle customer cases relating to the Scheme. This approach ensures that other team members are still focussed on providing the usual service standards to non-Transferred Policyholders without interruption due to customer enquiries arising as a result of the Scheme. I note that the number of employees required for the ring-fenced team is a small proportion of CLL's large customer service team which operates in a flexible manner to adapt to workloads. Consequently the impact on CLL's ability to continue servicing its non-Transferred Policies compared to the current levels of service is likely to be limited. Furthermore, as noted in paragraph 10.5, CLL has adopted this approach for past transfers, and it has worked efficiently without any material impact on policyholders of CLL.
- 10.39 After the Effective Date, there will be an overall reduction in the number of policies which need to be serviced by CLL as a result of the Transferred Policies moving to CA under the Scheme, however the Transferred Business only constitutes c.42,000 policyholders out of CLL's c.3.5 million policyholders (as at 31 December 2023). Consequently the Scheme is not expected to have an impact on the service standards of the non-Transferred policies of CLL after the Effective Date.
- 10.40 For avoidance of doubt, the considerations made in paragraphs 10.38 and 10.39 of any change in service standards extend to the Guernsey Policy. In particular, post-transfer, CLL will continue to use the same administration system for the Guernsey Policy and CLL will retain the team members in its customer contact team, that are trained in its individual protection business, post-Scheme so that the servicing of the Guernsey Policy is unaffected.
- 10.41 I am satisfied that neither the services provided to, nor the administration of, the non-Transferred Policies of CLL will significantly change as a result of the Scheme and, moreover, that the standard of service provided will not be materially adversely affected as a result of the Scheme, either prior to or after the Effective Date.

### **MANAGEMENT AND GOVERNANCE**

- 10.42 Following the implementation of the Scheme, the Transferred Policyholders will become policyholders of CA and CA will become solely responsible for managing the policies. The governance frameworks of CA will have responsibility for the Transferred Policyholders' interests. CA's governance framework already considers the Transferred Policyholders as a result of the Reinsurance Agreement.
- 10.43 CLL's current governance for the Transferred Policyholders will fall away after the Effective Date, which will result in an overall reduction in the level of review and oversight surrounding these policyholders. The governance framework, including the Board and Board committees of CA is comparable to the governance framework of CLL and consequently the review and oversight of the Transferred Policyholders is largely duplicated by the two Companies. I consequently have no significant concerns that the CLL governance falling away after the Effective Date will materially reduce the level of review and oversight surrounding the Transferred Policies.

- 10.44 Both CLL and CA are managed at the top level by their respective Boards which are responsible for providing leadership to the Companies and overseeing the activities and business plans. The Boards of CA and CLL delegate certain responsibilities to their governance and management committees. The precise structure of the governance and management committees differs between CLL and CA, however within both firms these cover certain key business functions and operations e.g. risk management, internal audit, compliance, investments and management of the day-to-day business. Consequently, I am not aware of any differences between the CLL and CA governance structures which would result in a material adverse effect on the level of management and governance applicable to the Transferred Policies after the implementation of the Scheme.
- 10.45 The management and governance applicable to the existing policies of CA and the non-Transferred policies of CLL will be unchanged as a result of the Scheme.

#### **RECOVERY AND RESOLUTION PLANS**

- 10.46 CLL maintains documents covering recovery and resolution planning for the firm. These documents include options available for recovery from significantly adverse financial or operational circumstances, as well as practical advice and guidance for situations where recovery is not possible.
- 10.47 CA does not maintain an individual Recovery and Resolution Plan; however other documents contain the options available to CA in such situations. This includes management actions which could be taken in certain scenarios which are detailed in its CMP.
- 10.48 There is no regulatory requirement for CLL or CA to maintain a standalone Recovery and Resolution Plan.
- 10.49 The approaches adopted by CLL and CA to recovery and resolution planning are different, however they materially cover the same considerations and consequently I am satisfied that there is no material adverse effect on the governance applicable to the Transferred Policyholders as a result of the Scheme.
- 10.50 Recovery and Resolution Plans are an area of ongoing focus for the PRA, and future options may include requiring all life insurance companies to produce such a plan. If future regulation changes require all life insurers to write and maintain a formal Recovery and Resolution Plan, then CLL and CA would both be subject to this regulation.
- 10.51 Another area of focus for the PRA is ensuring that firms have a documented plan for a solvent exit of the insurance market, that is, the wind-down of the insurance business of the firm in an orderly manner and without resorting to insolvency or resolution processes. Both CLL and CA would be subject to this requirement if implemented in the future and would therefore have to produce and maintain a solvent exit plan.

#### **OVERALL CONCLUSION**

- 10.52 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the standards of service, administration, management and governance applicable to policyholders of the Companies. This conclusion applies both to the period when the Scheme communication process is underway (i.e. from the time of the policyholder mailings through to the Effective Date), and to the period following the Effective Date.

## 11. My other considerations arising from the Scheme

### INTRODUCTION

- 11.1 In this section, I have set out other considerations not covered in earlier sections of this Report that might nonetheless have a bearing on the Scheme and its impact on policyholders. This includes:
- The future operation of the Scheme;
  - The effect of the Scheme on the other companies in the Canada Life Group not directly affected by the Scheme;
  - The effect of the Scheme on the other companies in the Chesnara Group not directly affected by the Scheme;
  - The effect of the Scheme on the reinsurers of CLL and CA;
  - The consequences of the Scheme on taxation issues;
  - The Solvency UK review being undertaken by HM Treasury and the PRA;
  - Access to the Financial Services Compensation Scheme and the Financial Ombudsman Service;
  - FCA Consumer Duty Rules;
  - Emerging risks & volatility;
  - Operational readiness for the Scheme;
  - The effects of the Scheme not proceeding; and
  - Other regulatory matters.

### THE FUTURE OPERATION OF THE SCHEME

- 11.2 If the Scheme were to be sanctioned by the Court (and subject to any subsequent amendment of the Scheme, as considered below), the Scheme would be legally binding. The Boards of CLL and CA would be expected to implement the Scheme in accordance with their fiduciary duties under UK company law and regulatory responsibilities under PRA and FCA rules, as well as their obligations to the Court.
- 11.3 This Scheme would be sanctioned when a Court Judge has made an Order to that effect and would become operational on the Effective Date. However, if the Scheme did not become operative in its entirety on or before 22 May 2025, the Scheme would lapse and none of its terms would take effect.
- 11.4 At any time after the Court's approval of the Scheme, CA would be required to apply to the Court for sanction of any amendments to it, except in cases where the amendment is considered to be:
- Minor or technical;
  - Necessary to comply with Applicable Law and Regulation;
  - Necessary to reflect any changes in generally accepted actuarial principles; or
  - Required to protect the rights and reasonable expectations of holders of the Transferred Policies.
- 11.5 CA needs to notify the PRA and FCA if it plans to make any changes in respect of the cases set out in paragraph 11.4.
- 11.6 For any case not covered by paragraph 11.4, an amendment may be applied for through the Court, provided that certain conditions are met by CA, including notifications to the PRA and the FCA, accompanying the application with a certificate from an independent actuary stating that in their opinion, the proposed amendment does not materially adversely affect the security or reasonable expectations of the policyholders, and compliance with the Court's directions regarding publicity of the proposed amendment.
- 11.7 Should CA obtain approval from the Court to amend the Scheme, then the Scheme can be amended in accordance with the consent.

11.8 As described in Section 5, CA is subject to a number of previous schemes, and is therefore experienced in ensuring that the provisions of those schemes are adhered to.

11.9 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court.

#### **THE EFFECT OF THE SCHEME ON OTHER COMPANIES IN THE CANADA LIFE GROUP NOT DIRECTLY AFFECTED BY THE SCHEME**

11.10 Although the position of other companies in CLG is not directly part of my scope, I have for the sake of completeness considered the effect of the Scheme on the other companies within the CLG sub-group.

11.11 None of the changes proposed under the Scheme would impact CLG and I also note that there is no material change in the solvency position of CLG or the other companies of the CLG sub-group.

11.12 I note that CLL is a parent company of ILG and ILG's subsidiaries. However, no parental guarantees of capital support exist between CLL and ILG or ILG's subsidiaries. Provided that the financial impact of the Scheme on CLL is immaterial and will therefore not breach CLL's compliance with regulatory capital requirements, the impact of the Scheme on ILG is extremely limited. In particular, it will not impact ILG's financial strength or its ability to operate on a day-to-day basis.

#### **THE EFFECT OF THE SCHEME ON OTHER COMPANIES IN THE CHESNARA GROUP NOT DIRECTLY AFFECTED BY THE SCHEME**

11.13 Although the position of other companies in the Chesnara Group is not directly part of my scope, I have for the sake of completeness considered the effect of the Scheme on the other companies within the Chesnara Group.

11.14 None of the changes proposed under the Scheme would impact the insurance subsidiaries of the Chesnara Group based in the Netherlands and Sweden, and there are no intragroup reinsurance arrangements between CA and the non-UK insurance entities within the Chesnara Group.

11.15 For the sake of completeness and as noted in paragraph 7.19 I note that there is no material change in the solvency position of Chesnara, which is relevant to all companies within the Chesnara Group.

#### **THE EFFECT OF THE SCHEME ON REINSURERS**

11.16 As described in Sections 4 and 5, the Companies have various external reinsurance arrangements. These arrangements will be unchanged by the Scheme, other than the Transferred Reinsurances with Swiss Re and Pacific Life Re in respect of the Transferred Policies which will be transferred and moved to become reinsurance arrangements of CA. Swiss Re and Pacific Life Re have been informed of the Scheme and will receive formal notification as part of the Scheme communications including details of the companies' right to object to the transfer.

11.17 The implementation of the Scheme will also result in the existing Reinsurance Agreement between CLL and CA in respect of the Transferred Policies to cease. The notable exception to this would be if any Transferred Policies, which are not currently Excluded Policies, needed to be excluded for any reason. In this scenario, the Reinsurance Agreement would remain in place for these policies.

#### **TAX**

11.18 CLL has considered the tax consequences of the Scheme, and I have been provided with a summary of the conclusions from the UK Tax Director of Canada Life in discussion with the Chesnara Head of Tax. In forming my view on the Scheme, I have taken these conclusions into account as expert opinions on the tax implications of the Scheme on the Companies, including policyholders.

11.19 The conclusions include that there are no further actions or activities to be considered as part of business readiness for completion of the Part VII Transfer and data migration from a tax perspective. In particular:

- Corporation tax will be dealt with as part of business as usual operations;
- The Guernsey Policy is not part of the Transferred Business and consequently there are no additional tax implications related to this policy;

- There is no additional tax implication related to the Isle of Man policies which are part of the Transferred Business;
- There is not expected to be a negative impact on the UK tax position of CLL policyholders;
- Inheritance tax due remains the responsibility of those dealing with the estate of a deceased policyholder and not CLL;
- There is no special tax regime applicable to a Part VII Transfer; and
- Other types of tax are also not expected to be applicable or required based on the understanding of the UK Tax Director of CLL.

- 11.20 In addition, the CA Chief Actuary Report on the Scheme concludes that it is not expected that there will be any adverse tax consequences for CA policyholders as a result of implementing the Scheme.
- 11.21 CLL has consulted with its internal tax team and has concluded that no tax clearances are needed in respect of the Scheme and, consequently, the Scheme is not contingent on any such clearances being obtained. From a legal perspective, HSF has also been consulted by CLL on the conclusion that no tax clearances are needed in respect of the Scheme.
- 11.22 CA has consulted with its internal tax team has concluded that no policyholder tax clearances will be sought, but that CA should seek a corporation tax clearance from HMRC under Section 133 of the Finance Act 2012. No other external tax advice has been sought in respect of this Scheme at this time.
- 11.23 In summary, after taking into account the information from the CLL and CA tax teams, I am satisfied that the Scheme will not materially adversely affect any policyholders of the Companies. I will comment further in my Supplementary Report should there be any changes to the tax advice as outlined above.

#### **SOLVENCY UK REVIEW**

- 11.24 The current regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II, and it imposes minimum solvency requirements that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are subject to Solvency II, and as a result are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.
- 11.25 The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021 the UK has been free to determine an appropriate regulatory regime for insurance companies, which is known as Solvency UK. A few changes have been made to date to the Solvency II regime as it is applied to UK incorporated and authorised insurers and reinsurers, including a change to the yield curves used to discount the components of the balance sheet and the removal of certain Quantitative Reporting Templates (“**QRTs**”).
- 11.26 The UK Government published a consultation document on proposed reforms as part of Solvency UK in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. Further documents have set out in more detail the plans of the UK Government and the PRA, including:
- A substantial reduction in the Risk Margin (which forms part of the Technical Provisions that must be held);
  - A requirement for additional attestation in relation to the calculation of the MA;
  - A potential expansion of the scope of the MA; and
  - A reduction in the level of regulatory reporting.
- 11.27 Further details on the proposed changes to the Solvency UK regime are set out in paragraphs A.7 to A.12 of the appendices.
- 11.28 The changes which arise from the reforms to Solvency UK will impact the Companies whether the Scheme is implemented or not, and there is not currently any reason to believe that the impact would materially differ due to the implementation of the Scheme. I have considered the relevant changes proposed as part of the Solvency UK reforms in turn below:

- Risk Margin – the change to the Risk Margin came into force as at 31 December 2023 and affects all UK insurance companies, therefore is already reflected in the financial positions shown within this Report. In particular both CLL and CA have seen a reduction in their Risk Margin as a result of this change and consequently the change will have an equivalent impact before and after the Scheme on all groups of policyholders.
- Matching Adjustment – the potential changes to the MA will only affect CLL as CA does not apply the MA to any of its business. CLL does not apply the MA to the Transferred Business and consequently any changes to the MA as part of the Solvency UK review will impact the non-Transferred Business in the same way regardless of the Scheme. The Transferred Business will not be materially impacted by the changes to the MA whether or not the Scheme is sanctioned. The MA changes will have no impact on the existing CA policyholders.
- Transitional Measure on Technical Provisions – the proposals include simplified recalculations of the TMTP and removal of some of the expectations and requirements surrounding the TMTP to reduce the burden on firms. As with the MA changes, the TMTP changes will only affect CLL as CA does not apply a TMTP to its business, however due to the transitional nature any benefit from the TMTP will reduce to zero by 2032. The Transferred Business does not see any significant impact from the TMTP as shown in Figure 4.2 and CA does not intend to apply to use the TMTP in respect of the Transferred Business if the Scheme is sanctioned, as outlined in paragraph 9.26. Consequently the changes to the TMTP are unlikely to have any material impact on the Transferred Policyholders and the existing CA policyholders. The non-Transferred Policyholders of CLL may see an impact on the level of the Technical Provisions, however this will happen regardless of the Scheme and the TMTP will ultimately run off in line with the transitional period.
- Internal Model – the proposals introduce a streamlined set of rules for firms using an Internal Model to calculate some or all of the capital requirements. CLL makes use of a PIM while CA uses the Standard Formula and I have considered the impact of moving from one method to the other in paragraphs 9.27 to 9.32. As the proposed changes are a streamlining of the requirements as opposed to a significant change in how Internal Models should work the proposed changes is not expected to have any additional material impact on the Transferred Business, nor on the non-Transferring Policyholders of CLL. The Internal Model changes will have no impact on the existing CA policyholders.
- Other proposed changes – all other proposed changes will either not affect CLL or CA (e.g. requirements on third-country branches and mobilisation of new insurers) or apply consistently to both CLL and CA such that all groups of policyholders, including the Transferred Policyholders will see the same impact regardless of the Scheme (e.g. thresholds at which Solvency UK rules apply, currency redenomination of amounts specified in the regulations and changes to regulatory reporting requirements)

11.29 The Companies are still considering the impact of CP5/24 detailed in paragraph 3.41 on their policyholders, including the Transferred Policyholders. At the time of writing the Companies do not expect CP5/24 to have any significant impact on policyholders.

11.30 I will consider the impact of the reforms to Solvency UK, including CP 5/24, on the Companies further in my Supplementary Report

#### **ACCESS TO THE FINANCIAL SERVICES COMPENSATION SCHEME AND THE FINANCIAL OMBUDSMAN SERVICE**

11.31 As CA is a UK-regulated company like CLL, the access for the Transferred Policyholders to the Financial Services Compensation Scheme (“**FSCS**”) and the Financial Ombudsman Service (“**FOS**”) would be unaffected by the Scheme. For the avoidance of doubt, this includes no change in access to the FSCS and FOS for the 10 policyholders based in the Isle of Man, who are entitled to use both services before, and after, the Effective Date of the Scheme. Further details on these services are provided in Appendix A.

#### **FCA CONSUMER DUTY RULES**

11.32 In July 2022, the FCA published its Policy Statement and Finalised Guidance for the new Consumer Duty (the “**FCA Consumer Duty Rules**”), which sets higher and clearer standards of consumer protection across financial services in the UK and requires firms to put their customers’ needs first. Further details on the Consumer Duty are provided in Appendix A.

- 11.33 The Consumer Duty includes a new Consumer Principle (Principle 12 of the Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers. These rules came into force on 31 July 2023 for new and existing products or services that are open to new business and will come into force on 31 July 2024 for closed products or services, including the Transferred Business.
- 11.34 The new rules go a step further than the principle of treating customers fairly (Principle 6) and require firms to look at all aspects of the running of their business.
- 11.35 CLL has a plan in place for ensuring regulatory compliance with the Consumer Duty for the Transferred Business with various steps that will be implemented ahead of the 31 July 2024 deadline. As is the case for the wider UK life insurance industry with respect to closed products and services, CLL's implementation of Consumer Duty in respect of its individual protection business is currently ongoing at the time of writing. This implementation includes, but is not limited to:
- A mapping of the customer journey;
  - Identification of foreseeable harm and associated remediation;
  - Fair value assessments and customer outcome reporting;
  - Assessment of policyholder communications, including that related to this Transfer (commented upon further in paragraph 12.45);
  - Identification of data gaps, for example using a third party to screen the accuracy of policyholder address data; and
  - Monitoring of regulatory compliance in respect of Consumer Duty.
- 11.36 This plan has been shared with and agreed with CA and also shared with me. Additionally, CA has monthly meetings with CLL to monitor progress on the Consumer Duty for the Transferred Business.
- 11.37 As part of CA's review of the CLL Consumer Duty plan for the Transferred Business, CA has confirmed that there are no notable differences between CLL's approach and how CA would have approached the Consumer Duty for the Transferred Business. CA has also confirmed that any changes implemented by CLL prior to migration of the administration will be incorporated by SS&C as part of the future administration. I note that CA's Consumer Duty programme for SS&C is ongoing with further work to be undertaken ahead of the 31 July 2024 deadline and that CA have indicated to me that, at the time of writing, its Consumer Duty plan is progressing as expected, with a key focus around providing a price and value outcome to the Transferred Policyholders in line with expectations set out by the FCA Consumer Duty Rules. Other considerations of CA include forward-looking fair value assessments, treatment of vulnerable customers and reviews of policyholder communications.
- 11.38 I note that any impact arising from this process will be the same whether or not the Scheme is implemented. In particular, the same standards under the FCA Consumer Duty Rules will apply to both CLL and CA, regardless of whether the Scheme is approved or not. I am not aware of any aspect of the Scheme or its implementation which would form any impediment to either firm implementing the requirements of the new FCA Consumer Duty Rules. In addition, given CA has been involved in formulating CLL's Consumer Duty plan in respect of the Transferred Business and confirmed it will incorporate the elements of this plan in its own implementation, I am satisfied that there will be sufficient continuity in compliance with the FCA Consumer Duty Rules post-Scheme and that the policyholders will not be materially adversely affected as a result of the Scheme.
- 11.39 CLL and CA have not brought to my attention any issues with their implementation of Consumer Duty in respect of closed books of business to date. Given both Companies' planning and implementation of Consumer Duty is ongoing at the time of writing, I will continue to monitor this and I will provide an update in my Supplementary Report.

## **EMERGING RISKS & VOLATILITY**

- 11.40 When considering the impact of the implementation of the Scheme, I have continued to review emerging risks in the wider operating environment and whether these affect my conclusions in relation to the Scheme. In light of recent and ongoing events, such as the Covid-19 pandemic, the wars in Ukraine, the Israeli-Palestinian conflict and the wider political unrest in the Middle East, I have considered a range of scenarios that, in my view, are the most plausible and relevant to the Scheme, including:
- The potential for further volatility in financial markets;
  - The potential for operational disruption within the Companies;

- The potential for disruption to third parties that play a role in the implementation of the Scheme; and
- The wider societal impacts that may affect policyholders' ability to engage with the Scheme.

11.41 Furthermore, as noted in paragraphs 6.16, CLL has confirmed to me that its Financial Crime team performs a check on a daily basis for policyholders who are sanctions targets against various international sanctions lists, including that maintained by HM Treasury's Office for Financial Sanctions Implementation. Any matches found by this screening would be reported to CLL's Money Laundering Reporting Officer. CLL also checks for foreign and domestic PEP. At the time of writing, no Transferred Policyholders have been identified as either sanctions targets or as PEP. In addition, there is no possibility of sanctioned financial assets being transferred under the Scheme given that no financial assets are included in the Scheme. I am satisfied that the level of due diligence CLL performs in identifying Transferred Policyholders who are sanctions targets is appropriate.

11.42 I note that the impact of climate change is a key emerging risk for all insurance companies and will affect both the assets and liabilities of insurance companies. The Bank of England has particularly emphasised that assessing and managing the risks arising from climate change are a key priority for insurers. However, this risk will apply regardless of the Scheme and the Scheme will not impact the emergence of this risk.

11.43 In the event that I considered that any emerging risks were to render it inappropriate for the Companies to proceed with the Scheme within the planned timeframes, I would make my views on this known to the Companies. Based on current conditions, in my view it remains appropriate for the Companies to continue to pursue the Scheme. However, I will continue to monitor this, and I will provide an update in my Supplementary Report. My Supplementary Report is expected to include updated financial information and analysis as at 30 June 2024. The effect of any significant market volatility arising between 31 December 2023 and the date of my Supplementary Report will be covered in my Supplementary Report, and I will, if necessary, update the Court prior to the Sanction Hearing.

#### **OPERATIONAL READINESS FOR THE SCHEME**

11.44 Implementation of the Scheme process, from the commencement of the policyholder mailings, through to the final processes which take place on the Effective Date and immediately thereafter, clearly constitutes a major operational exercise for the Companies. However this is a small Part VII Transfer considering the size of the Transferred Business relative to the Companies.

11.45 The Transferred Business will move to CA's outsourced business model including:

- The migration of the policy administration from CLL to SS&C, which is not part of but is directly linked to the Scheme. The outsourcing to SS&C is part of a wider strategic move by CA to outsource the majority of its policy administration to SS&C. This is an ongoing process, and the Transferred Business is only one small part of the business being migrated; and
- The actuarial modelling which will be carried out by WTW. This follows on from the successful outsourcing of the actuarial modelling for the CASLP business to WTW.

11.46 I will continue to monitor the state of operational readiness for the implementation of the Scheme, including the outstanding tasks and issues, and provide an update in my Supplementary Report. In particular, I will comment on the status of CA's wider administration migration to SS&C.

#### **EFFECTS OF THE SCHEME NOT PROCEEDING**

11.47 For the sake of completeness, I have considered the likely effects on all policyholders of the Companies if for any reason the Scheme were not to be put into effect.

11.48 In such a scenario, the Reinsurance Agreement between CLL and CA in respect of the Transferred Policies would be terminated and the Transferred Policies would remain policies of CLL. This would also result in the policy administration of the Transferred Business not migrating to SS&C and instead remaining in-house with CLL.

11.49 The third-party reinsurance arrangements with Swiss Re and Pacific Life Re would be unaffected by the Scheme not proceeding and remain in place with CLL in such a scenario i.e. the arrangements would not become Transferred Reinsurances.

#### **OTHER REGULATORY MATTERS**

11.50 I am not aware of any other regulatory matters which may have a bearing on the Scheme.

11.51 I will consider if there are any further regulatory matters which arise after the publication of this Report and consider these matters in my Supplementary Report.

## 12. The approach to communications with policyholders

### INTRODUCTION

12.1 Regulations under the FSMA require a communication regarding the Scheme to be sent to every policyholder of the parties under the Scheme. However, this requirement may be modified via dispensations at the discretion of the Court, which will give consideration to issues such as the impact of the Scheme on each group of policyholders. The proposed communications regarding the Scheme can be split into three broad groups:

- Communications to the Transferred Policyholders;
- Communications to other CLL policyholders (who are not transferring under the Scheme); and
- Communications to the existing CA policyholders.

### TRANSFERRED POLICYHOLDERS

12.2 Subject to a minor proposed dispensations (set out in paragraphs 12.14 to 12.22), CLL and CA will send a version of the pack of information setting out the details of the Scheme (the “**Mailing Pack**”) to the named policyholders of the Transferred Policies, and not any person associated to the Transferred Policy by a court order. The variant of the Mailing Pack received will depend on the policy type, the number of policies held, the relationship to the policyholder (e.g. trustee or power of attorney) and whether the policyholder has any identified vulnerabilities. In addition, the communications will be provided using the branding that the customer is familiar with. The details of the Mailing Pack are set out from paragraph 12.24.

### THE PROPOSED DISPENSATION APPLICATIONS

#### Policyholders of CLL other than the Transferred Policyholders

12.3 The policies of CLL that are not Transferred Policies will see minimal impact as a result of the Scheme and so CLL intends to seek a dispensation from the requirement to directly contact all of its policyholders.

12.4 Allowing for this proposed dispensation, approximately 99% of the policyholders of CLL (approximately 3.5 million policies as at 31 December 2023) would not be notified of the Scheme.

12.5 I note that the Scheme and associated documents will be available on the CLL website as detailed in paragraph 12.34, and consequently accessible to those who do not receive the Mailing Pack as set out above. Public notification of the Scheme in a number of newspapers will also take place, and this is planned to be in line with that required by the regulations.

12.6 Although the FSMA requirement is to contact all policyholders within the companies involved in a Part VII Transfer, it is accepted and established practice that dispensations may be sought for certain groups of policyholders. This balances the requirement to inform policyholders against the cost of so doing, and against the possibility of causing policyholders to worry unnecessarily. I am satisfied that it is reasonable to notify only the Transferred Policyholders of CLL for the following reasons:

- The policies of CLL other than the Transferred Policies are not transferring to a different company. Although there is the possibility of a change in the security of benefits arising from the transfer, I have concluded in Section 9 that I am satisfied that the implementation of the Scheme would not have a material adverse impact on the security of benefits for the policyholders of the Companies;
- The Scheme would not result in any changes to the benefits or terms and conditions for non-Transferred CLL policies, and so benefit expectations for these policyholders would be unchanged in all circumstances; and
- The Scheme would not result in any changes to the servicing, administration, management and governance arrangements applicable to non-Transferred policies.

12.7 The cost of mailing all policyholders of CLL would significantly increase the costs associated to the Scheme. The mailing of all CLL policyholders is estimated by CLL at £3.9 million whereas mailing only the Transferred Policies is estimated at £64,000. The costs quoted here refer to the direct printing and mailing only and not any additional costs from handling additional correspondence and queries from non-Transferred policyholders of CLL.

12.8 In addition, there is the risk that notification of the Scheme could be more detrimental than beneficial given the minimal impact of the Scheme on these policyholders. The notifications could cause unnecessary concern for some policyholders, including older policyholders and those with annuities who rely on the income from their CLL policy, when they are unlikely to see any changes as a result of the Scheme.

12.9 I am thus satisfied that the application for a dispensation from the regulatory requirement to send a written notice to CLL policyholders other than the Transferred Policies as set out above is reasonable.

### Policyholders of CA

12.10 The policyholders of CA will see minimal impact as a result of the Scheme and consequently CA intends to seek a dispensation from the requirement to directly contact its policyholders. This approach is consistent with CA's approach for the recent successful transfer of the CASLP business. Under this previous Scheme CA did not notify the existing policyholders of CA and instead only notified the policyholders of CASLP transferring into CA.

12.11 I note that the Scheme and associated documents will be available on the CA and Chesnara websites as detailed in paragraph 12.34, and consequently accessible to the existing policyholders of CA. Public advertisement of the Scheme will also take place, and this is aligned with the requirements in the regulations.

12.12 As with the policyholders of CLL other than the Transferred Policies, I am satisfied that it is reasonable to not notify the policyholders of CA for the following reasons:

- I have concluded in Section 9 that I am satisfied that the implementation of the Scheme would not have a material adverse impact on the security of benefits for the policyholders of CA;
- The Scheme would not result in any changes to the benefits or terms and conditions for CA policies, and so benefit expectations for holders of these policies would be unchanged in all circumstances; and
- The Scheme would not result in any changes to the servicing, administration, management and governance arrangements applicable to CA policies.

12.13 The cost of mailing the policyholders of CA would significantly increase the costs associated to the Scheme. The mailing of the CA policyholders is estimated by CA at £371,000<sup>30</sup>. The costs quoted here refer to the mailing only and not any additional costs from handling additional correspondence and queries from CA policyholders.

### Goneaways

12.14 "**Goneaways**" are policies where the company does not have a valid address for the policyholder, and subsequent reasonable attempts to trace the policyholder have been unsuccessful. This also includes policies where the address details are incomplete, mis-keyed or unreadable. CLL intend to seek dispensation from sending a written notice of the Scheme to Goneaways which are Transferred Policyholders, as it will not be possible for the Companies to notify these policyholders.

12.15 The estimated number of Goneaways within the Transferred Policies is 210 (or c.0.4% of Transferred Policyholders). The proportion of Goneaways is in line with those which I have seen for other UK life insurance companies and makes up a very small proportion of the overall Transferred Business.

12.16 In the case of joint life policies, mailings will be made to either one or two addresses depending on the details CLL holds for the policyholders. There is not expected to be any additional Goneaways arising from joint life policies as a result of this process.

12.17 To seek to bring the Scheme to the attention of Goneaway customers, the Companies will include advertising in two UK national newspapers chosen to reflect the current residency and assumed majority newspaper preferences of CLL and CA policyholders. Notice of the Scheme will also be published in three regional gazettes. Further details on the newspapers and gazettes selected are provided in paragraph 12.36.

12.18 The Companies will make the Scheme and associated documents, including this Report, the Summary Report and the Mailing Pack, on the CLL, CA and Chesnara websites.

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<sup>30</sup> I have noted that the estimated per-policy cost of mailing CA's existing policyholders of c.£1.50 is higher than CLL's estimated per-policy cost of mailing CLL's existing policyholders of c.£1.15. However, these expenses are spread over significantly more policyholders for CLL than for CA and it is therefore reasonable to expect that larger economies of scale would exist in the communication expenses of CLL compared to those of CA.

12.19 I have reviewed and discussed with the Companies' their strategy for re-engaging with Goneaways, both as part of the business-as-usual processes, and the additional steps in respect of advertising the Scheme as set out above. I am satisfied that the steps that have been taken to minimise the number of Goneaways are reasonable and proportionate, and in line with normal practice for similar schemes.

### Other proposed dispensations

12.20 CLL does not propose to send the Mailing Pack to any executors or other personal representatives appointed on the death of a policyholder within the Transferred Business. Executors and personal representatives may not have notified Canada Life of their appointment and in those circumstances CLL will consequently not have the necessary contact details to be able to distribute the Mailing Pack to them.

12.21 For the avoidance of doubt, where CLL has been notified by an executor or other personal representative of the death of a policyholder, the named person will be issued with a copy of the Mailing Pack.

12.22 I have reviewed the additional dispensation, and I am satisfied that it is appropriate and in line with normal practice for similar schemes.

## CONTENTS OF COMMUNICATIONS WITH POLICYHOLDERS

### Introduction

12.23 Having set out the dispensations sought and their corresponding rationales, I now consider in more detail the structure and content of the direct written communication with the Transferred Policyholders. I note that CLL has designed the structure and content of the communications in order to provide policyholders with the relevant information in an efficient and logical manner and in line with the communication methods and styles which the policyholders are accustomed to seeing. CLL has also taken into consideration the FCA Consumer Duty Rules in preparing the communications. The correspondence has been reviewed by CA.

### The Mailing Pack

12.24 The Mailing Pack will contain:

- A cover letter, which includes how the transfer happens, what it means for Transferred Policyholders, including an overview of the process of a Part VII Transfer, and signposting of relevant information including on the website.
- A detailed guide to the Scheme (the "**Customer Guide**") which will contain:
  - A summary of the terms of the Scheme and a summary of this Report (which has been drafted by me);
  - A copy of the legal notice to the Court; and
  - A section covering common questions and answers ("**Q&A**").
- The above will contain details of how policyholders can contact CLL, raise objections, and/or attend the final Court hearing.

12.25 The Mailing Pack will be tailored for other interested parties, such as trustees, distributors or reinsurers who need to be contacted regarding the Scheme.

12.26 There are several variations of the cover letter, including a main customer letter, a letter for trustees, a letter for distributors, a letter for the reinsurers and various letters covering policies which are in the claims process at the time of mailing.

12.27 The cover letter will notify the Transferred Policyholders (and trustees, distributors and reinsurers as relevant) of the Scheme and how the transfer will happen.

12.28 The cover letter will also inform the Transferred Policyholders that all documents relating to this Scheme are available on the CLL website, including the Scheme document, this Report in full, the Summary Report and the Customer Guide to the Scheme. The letter also details how policyholders can contact CLL to discuss the Scheme as well as request the information in alternative formats.

### **Communications for holders of joint life policies**

- 12.29 The Transferred Policies include a number of joint life policies where there will be two policyholders. Where the two policyholders reside at the same address, only one Mailing Pack will be sent to the address. For joint life policies where the two policyholders reside at separate addresses as recorded on the CLL system, two Mailing Packs will be distributed, one to each address.

### **Communications for policyholders holding more than one policy**

- 12.30 Policyholders holding more than one policy will receive only one Mailing Pack from CLL covering both policies. There are approximately 3,900 Transferred Policyholders who hold more than one policy within the Transferred Business. Generally most policyholders who hold more than one policy do so for different elements of cover i.e. the policyholder has both a life insurance policy and a critical illness policy.
- 12.31 CLL also has a very small number of policyholders who hold one (or more) policy in the Transferred Business and at least one non-Transferred policy with CLL. These policyholders have been given additional consideration to ensure that it is clear in the communications to them that one policy will be transferred to CA while the other will remain with CLL. This will be addressed within the Q&A section of the Mailing Pack.

### **My review of the direct communications with policyholders**

- 12.32 I confirm that I have reviewed the draft Mailing Packs, including the variants, as set out above. I have raised queries which have been answered to my satisfaction.

### **The timetable for direct communications**

- 12.33 Both the PRA Statement of Policy and the FCA Final Guidance state that, in respect of insurance business transfers, companies are required to notify the policyholders, or interested persons, at least six weeks before the date of the Court hearing at which the application to sanction the Scheme will be heard (the Sanction Hearing). CLL proposes to notify the Transferred Policyholders over the week commencing 1 July 2024 to ensure that policyholders will have at least thirty weeks' notice prior to the Sanction Hearing, well in excess of the minimum period of notice stated by the PRA and FCA.

### **FURTHER PUBLICATION OF THE SCHEME AND DISTRIBUTION OF INFORMATION IN RESPECT OF THE SCHEME**

- 12.34 The CLL, CA and Chesnara websites will have dedicated sections containing information relevant to the Scheme. The websites will contain the following information:
- The Mailing Pack, including sample copies of each variation of the cover letter;
  - The Customer Guide including:
    - The statement, as required by Regulation 3(4) of the FSMA Regulations, setting out the terms of the Scheme, and including a summary of my report (that has been drafted by me);
    - A copy of the legal notice of the Court hearing;
    - Q&As regarding the transfer;
  - The full Scheme document;
  - My report (this Report), the Summary Report and any Supplementary Reports;
  - The reports of the CLL and CA Chief Actuaries and CA WPA on the Scheme; and
  - Details of how policyholders can contact the Companies, raise objections, and/or attend the final Court hearing.
- 12.35 Physical copies of this Report, the Scheme and the Scheme Guide will be made available by post on request for policyholders who require them.
- 12.36 The Companies will publish a notice in a form approved by the PRA in the following publications:

- In the London, Edinburgh and Belfast Gazettes (as per the legal requirement<sup>31</sup>);
- In two UK national newspapers: the Times and the Daily Mail. This satisfies the legal requirement<sup>32</sup> to publish in two national newspapers. These newspapers have been selected to reflect the current residency and assumed majority newspaper preferences of CLL and CA policyholders.

12.37 In my view the selection of the three regional gazettes and the two UK national newspapers is appropriate for notifying CLL and CA policyholders. Both the Times and the Daily Mail have a wide readership across the UK and across different demographics, while the London, Edinburgh and Belfast Gazettes cover different geographic regions across the UK. The vast majority of CLL and CA's policyholders reside in the UK and consequently I am satisfied that the Companies have selected an appropriate set of newspapers and gazettes to notify their policyholders.

## **THE ROUTE FOR POLICYHOLDER RESPONSES, ENQUIRIES AND OBJECTIONS**

12.38 Policyholder responses, enquiries and objections following the notifications outlined above will be received via phone, email, and post.

12.39 CLL will be the primary contact for Transferred Policyholders wishing to discuss the Scheme with details on how to contact CLL included within the Mailing Pack and on the CLL, CA and Chesnara websites. This will be carried out by a separate ring-fenced team established to handle enquiries related to the Scheme. This team will be composed of current team members from the CLL customer contact team as well as some subject matter experts on the Scheme to support with answering questions. CLL has adopted this approach for past transfers, and I understand the approach has worked well.

12.40 If CLL policyholders reach out to CA with queries on the Scheme, these will be redirected to the ring-fenced contact team within CLL.

12.41 The contact team will receive training in order to answer queries satisfactorily, including on the Scheme process and timeline, the frequently asked questions, dealing with vulnerable customers, the impact of the Scheme and the objections process. All potential objections will be referred to a relevant subject matter expert.

12.42 The ring-fenced contact team covers the additional demand for CLL customer service regarding the Scheme and Scheme communications, as well as any additional business-as-usual queries triggered by receipt of the Scheme communications.

12.43 As set out in paragraphs 10.4 to 10.5, CLL has previous experience in handling schemes such as the one covered by this Report, and I am satisfied that they are well-placed to establish a ring-fenced team with appropriate staffing levels, experience and knowledge of the Scheme and business-as-usual type queries triggered by the communications.

12.44 Response handling information and statistics will be provided to me, as well as to the PRA, the FCA, and senior management within CLL and CA. In conjunction with the Companies, I will review analyses of any complaints and/or objections received, and comment on these in my Supplementary Report. All policyholder objections will be presented to the Court and policyholders will have the right to make representations to the Court should they wish to do so. As noted in paragraph 12.24 and 12.34, full details of the routes to object to the Scheme and/or make representations to the Court will be clearly set out in the Mailing Packs and on the CLL, CA and Chesnara websites.

## **FCA CONSUMER DUTY RULES**

12.45 CLL has considered the FCA Consumer Duty Rules throughout the preparation of its communications strategy and shared examples of actions taken by CLL to enact Consumer Duty as part of its policyholder communications relating to the Scheme with me. These include:

- Ensuring availability of communications via a variety of channels including telephone, email, letter and website updates;
- Testing of policyholder communications to check for understandability and identify potential areas of confusion as a result of the content or structure;

<sup>31</sup> In accordance with regulation 3(2)(a)(i) and (ii) of the FSMA.

<sup>32</sup> In accordance with regulation 3(2)(a)(i) and (ii) of the FSMA.

- Ensuring policyholder communications comply with internal communication guidelines formulated with a third-party specialist communications agency;
- Additional review of communications by copywriters to check for ease of understanding; and
- Provision of additional attention to vulnerable customers, including the measures described in paragraphs 12.46 to 12.50.

## **SUPPORT FOR VULNERABLE CUSTOMERS**

- 12.46 As part of business-as-usual processes, CLL customer service operators use codes applied to customer records to signify potential vulnerabilities and tailor the policyholder's engagement accordingly. Customer services operators within the ring-fenced team for dealing with Scheme enquiries and objections will have access to this information and the training provided on how to identify and to properly treat vulnerable policyholders in line with CLL's policy.
- 12.47 The Scheme communication and the relevant sections of the CLL, CA and Chesnara websites have also been designed and drafted with vulnerable customers in mind. The Mailing Pack will be made available on request in alternative formats, for example in large print, braille or audio. The Mailing Pack contains wording to reassure vulnerable customers that their accessibility needs will be supported.
- 12.48 Furthermore, policyholders calling CLL can connect via Relay UK if they have any speech or hearing difficulties. Relay UK is a website and app which helps deaf, speech-impaired, and hearing people talk to each other using a relay service.
- 12.49 CLL's ring-fenced team will consider whether instances of policyholder feedback received display signs of potential vulnerability. In such a case, this will be recorded and appropriate action will be considered.
- 12.50 The response handling information and statistics mentioned in paragraph 12.44 will include separate information and statistics relating specifically to vulnerable customers. I will review the analyses of any complaints and/or objections relating specifically to vulnerable customers in my Supplementary Report.
- 12.51 As mentioned in paragraph 12.45, the above treatment of vulnerable customers has also been considered as part of CLL's Consumer Duty's plan in respect of the Transferred Business.
- 12.52 I also note that CLL's past experience in managing Part VII Transfer processes includes identifying and treating properly vulnerable customers.

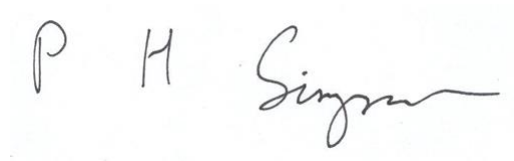
## **CONCLUSION**

- 12.53 I have considered the proposed communications strategy and the letters and documentation to be issued to the various groups of policyholders of the Companies. I have also considered the dispensations being sought by the CLL in relation to communications to policyholders not included in the Scheme and certain classes of its policyholders included in the Scheme, as well as dispensations sought by CA in relation to communications to its existing policyholders.
- 12.54 I have considered the structure and content for the direct communication with the Transferred Policyholders, as well as the further distribution of information in respect of the Scheme, including this Report. I have also considered the adequacy of the support for vulnerable customers and how communication arrangements have been adapted to their specific needs.
- 12.55 Overall, I am satisfied that the proposed approaches to communication with policyholders, including the application for the dispensations, and including the approach to vulnerable customers, are fair, clear and not misleading.

## 13. My conclusions

### MY CONCLUSIONS IN RESPECT OF THE SCHEME

- 13.1 I have considered and analysed the effects and the impact of the Scheme on all of the policyholders of CLL and CA, including the Transferred Policies, as set out in previous sections of this Report.
- 13.2 In my opinion, the implementation of the Scheme will not have any material adverse effect on any of the following:
- The reasonable benefit expectations of the policyholders of CLL and CA.
  - The security of the benefits of the policyholders of CLL and CA.
  - The levels of administration, customer service, management and governance that apply to the policyholders of CLL and CA.

A handwritten signature in black ink, consisting of the initials 'P H' followed by the name 'Simpson' in a cursive script.

**Philip Simpson**

Fellow of the Institute and Faculty of Actuaries

Principal, Milliman LLP

19 June 2024

# Appendix A – The UK life insurance market and regulatory environment

## INTRODUCTION

- A.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and are summarised in this section.

## THE UK REGULATORS

- A.2 Prior to 1 April 2013, regulation of insurance companies was the responsibility of the Financial Services Authority. Since 1 April 2013, responsibility for the regulation of such companies has been split between the PRA and the FCA.
- A.3 The PRA is a part of the Bank of England and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms.
- A.4 The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms they regulate, and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.
- A.5 The FCA regulates the conduct of all financial services firms with the strategic objective to make sure the relevant markets function well. The FCA has operational objectives in relation to consumer protection, industry stability and the promotion of healthy competition between providers.

## THE SOLVENCY II REGULATORY REGIME

### Introduction

- A.6 The current regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II, and it imposes minimum solvency requirements that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are subject to Solvency II, and as a result are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.
- A.7 The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021 the UK has been free to determine an appropriate regulatory regime for insurance companies, which is known as Solvency UK. A few changes have been made to date to the Solvency II regime as it is applied to UK incorporated and authorised insurers and reinsurers, including a change to the yield curves used to discount the components of the balance sheet and the removal of certain QRTs.
- A.8 The UK Government published a consultation document on proposed reforms as part of Solvency UK in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. Further documents have set out in more detail the plans of the UK Government and the PRA, including:
- A substantial reduction in the Risk Margin (which forms part of the Technical Provisions that must be held);
  - A requirement for additional attestation in relation to the calculation of the MA;
  - A potential expansion of the scope of the MA; and
  - A reduction in the level of regulatory reporting.
- A.9 Further details have subsequently been released on the changes to the calculation of the Risk Margin and reporting and disclosure, as well as on proposed changes to the MA. These details include:
- For the Risk Margin calculation, the cost of capital rate applied in the calculation reduced from 6.0% to 4.0% and the Risk Margin projection introduced a new "lambda factor" which reduces the size of the

projection over time by taking respective powers of the factor. The lambda factor is prescribed as 0.9 for life insurers and reinsurers and 1.0 for non-life insurers and reinsurers, with a floor of 0.25 for all firms. The Risk Margin changes took effect from 31 December 2023;

- A requirement for firms to recalculate their TMTP to take account for the Risk Margin changes, as well as simplifications for recalculations of the TMTP;
- Identifying additional QRTs which are expected to be removed in the future and which have been made optional in the interim;
- Removal of the requirement to submit a Regular Supervisory Report (“RSR”);
- For the proposed changes to the MA set out in CP19/23, this covers:
  - Greater investment flexibility, including the ability to use assets with highly predictable cashflows;
  - Allowing the MA to apply to a wider range of liabilities e.g. guaranteed component of with-profits annuities;
  - Greater guidance and scope on how to treat internal credit assessments and sub-investment grade assets;
  - Additional rules around eligibility of assets and proportionality for breaches of the MA conditions;
  - Requirement to provide an attestation from a senior management function (“SMF”) on the sufficiency of the fundamental spread and the quality of the MA;
  - Introduction of formalised assumptions which underlie the MA;
  - Formalised regulatory data collection on the MA;
  - Increased granularity in the fundamental spread, including notching where appropriate.

A.10 The list of changes set out above is not intended to be exhaustive and there are other areas being considered for reform as part of Solvency UK.

A.11 Other than the changes (and proposed changes) outlined above, Solvency UK remains aligned to Solvency II within the EU, and consequently the remainder of this Appendix focuses on the Solvency II requirements.

A.12 The changes which arise from the reforms to Solvency UK will impact the Companies whether the Scheme is implemented or not, and there is not currently any reason to believe that the impact would materially differ due to the implementation of the Scheme.

### The Solvency II three pillars

A.13 Solvency II is based on three pillars:

- Under Pillar 1, quantitative requirements define a market consistent<sup>33</sup> framework for valuing the company’s assets and liabilities, the results of which will be publicly disclosed.
- Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of capital resources, called the Own Risk and Solvency Assessment, and senior management must demonstrate that this actively informs business planning, management actions and risk mitigation.
- Under Pillar 3, there are explicit requirements governing disclosures to supervisors and to the public. Firms produce private reports to supervisors (the PRA in the UK) and a publicly available SFCR. The private RSR is no longer required under Solvency UK.

### The Pillar 1 requirements

A.14 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the BEL. The expected future obligations of the insurer are projected over the lifetime of the contracts using the most

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<sup>33</sup> A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

up-to-date financial information and using best estimate actuarial assumptions, and the BEL represents the present value of these projected cashflows, discounted at risk-free interest rates.

- A.15 Under Solvency II, a company's Pillar 1 liabilities are called the "Technical Provisions" which consist of the sum of the BEL and the "Risk Margin". The Risk Margin is an adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.
- A.16 Insurers are permitted to apply to their regulator (the PRA in the UK) to make use of the TMTP, which allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm's insurance liabilities under the previous Solvency I Pillar II regime. In the UK, the TMTP is subject to a mandatory recalculation every two years, and additionally, firms are permitted to seek approval from the PRA to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.
- A.17 Under Pillar 1, the assets of the insurer are, broadly speaking, recognised at their market value.
- A.18 The SCR under Solvency II is the capital requirement under Pillar 1 and is intended to be the amount required to ensure that the firm's assets continue to exceed its Technical Provisions over a one year time frame with a probability of 99.5%.
- A.19 The minimum capital requirement ("**MCR**"), which is generally lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation but is also subject to an absolute minimum value.
- A.20 In calculating the SCR, the majority of firms use the "Standard Formula", as prescribed by the European Insurance and Occupational Pensions Authority. However, Solvency II also permits firms to use their own internal models (or a combination of an internal model and the standard formula, known as a partial internal model) to derive the SCR. These internal models and partial internal models are subject to approval by the relevant regulator. In the UK, this is the PRA.

### Own Funds and capital resources

- A.21 Under the Solvency II regime, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital resources available in the company to cover capital requirements.
- A.22 Under Solvency II, companies are required to classify their Own Funds into three tiers, which broadly represent the quality of the Own Funds in relation to their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must exhibit both of the following:
- Permanent availability, i.e., the item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up.
  - Subordination, i.e., in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.
- A.23 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

### Ring-fenced funds

- A.24 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.
- A.25 In the UK, many firms have established ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business allocated to such with-profits funds.

## THE LONG-TERM FUND AND SHAREHOLDERS' FUND IN THE UK

- A.26 Prior to the implementation of Solvency II, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund (the "LTF"). The other assets of a proprietary company were typically allocated to the shareholders' fund. Under the PRA rules, the assets in the LTF were only available to be used to support the firm's long-term insurance business and firms were required to maintain assets in the LTF sufficient in value to cover the fund's mathematical reserves.
- A.27 Following the implementation of Solvency II, the requirement to maintain a separate LTF has been removed and therefore a firm's "fund structure" now consists of the ring-fenced funds and the business outside of the ring-fenced funds. This business outside the ring-fenced funds is often called the "non-profit fund" (if it is all long-term insurance business) or the "shareholder-backed fund" (this could include short-term or general insurance business) but whatever the name, it includes the assets and liabilities of what were, under the previous regime, called the non-profit fund (in the LTF) and the shareholders' fund (outside of the LTF).
- A.28 Although not required to do so for regulatory purposes, some firms continue to maintain a notional fund for accounting purposes in respect of long-term insurance business outside of the ring-fenced funds. Such a notional fund is sometimes referred to as the non-profit fund.

## REGULATORY APPROVALS UNDER SOLVENCY II

- A.29 Any UK firms intending to use an internal model, transitional measures, a MA or VA (as described from paragraph A.32) must apply to the PRA for approval. The PRA has the right to remove approvals for the use of any of these measures if the firm is found to be in breach of the restrictions and conditions on which the original approval was based.
- A.30 Firms must apply to the PRA if they wish to make changes to the terms of their existing approvals. For example, firms would seek approval from the PRA to make a major change to their internal model and would not be expected to submit more than one major change application per year. A major change can comprise a single change or an accumulation of minor changes that, in aggregate, comprise a major change.
- A.31 Additionally, firms are permitted to seek approval to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.

### The Matching Adjustment

- A.32 In calculating the BEL, the Solvency II regulations permit firms to apply to their regulator to make use of the MA. The MA is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk free rate that they expect to earn from a "hold to maturity" investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in-payment annuity liabilities.
- A.33 Firms using the MA are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cashflows is permitted.
- A.34 As noted above, there are proposed changes to the MA under Solvency UK which take effect in 2024.

### The Volatility Adjustment

- A.35 Where insurers have liabilities that are not eligible for use of the MA, the Solvency II regulations permit firms to apply to their regulator to make use of the VA. The VA is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the MA) which aims to prevent forced sales of assets in the event of extreme bond spread movements.
- A.36 The VA is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the VA are published by the PRA in the UK.

## The transitional measures

- A.37 Insurers are also permitted to apply to their regulator to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:
- The TMTP allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm's Solvency I Pillar II liabilities.
  - The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen year period.
- A.38 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e., 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm's Technical Provisions under Solvency II and the firm's insurance liabilities under the previous Solvency I Pillar II regime.
- A.39 The final calculated TMTP is deducted from the firm's Technical Provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen year period.
- A.40 The Solvency II Directive provides for firms' TMTP to be subject to recalculation every two years, with more frequent recalculations permitted if the firm's risk profile has materially changed.
- A.41 There have been changes to simplify future recalculations of the TMTP under Solvency UK, as well as a requirement for firms to recalculate in respect of the changes to the Risk Margin calculation which took effect from 31 December 2023.

## THE PRODUCTS AND LONG-TERM INSURANCE BUSINESS RELEVANT TO THIS REPORT

- A.42 The Companies have a wide variety of in-force long-term insurance policies, covering both with-profits and non-profit life and pension policies.
- A.43 Non-profit business refers to insurance business whose policyholders do not share in the profits of the insurer and all surplus is typically attributable to the providers of capital, for example the company's shareholders or holders of with-profits policies issued by the company. Non-profit business typically refers to the following classes of insurance business:
- Conventional non-profit business;
  - Unit-linked business; and
  - Index-linked business.
- A.44 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount, for example a life insurance policy that pays a fixed death benefit or a pension annuity that pays a fixed annuity amount each year whilst the policyholder remains alive. Insurance companies aim to make a profit from conventional non-profit business by setting premium amounts that, in conjunction with the investment returns earned on invested policyholder premiums, are expected to be more than sufficient to cover the benefits payable and any associated expenses.
- A.45 Unit-linked business is principally a type of investment product where policyholders' premiums are used to buy units in investment funds. The value of the policyholder's units is generally updated on a daily basis, such that it moves in line with the performance of the investments in the fund, net of any charges levied on the policy. Insurance companies' profits from unit-linked contracts are determined by the extent to which the income they receive from these charges exceeds the expenses they incur in incepting and maintaining the business.
- A.46 Index-linked business is an insurance product where the policyholder's benefits are determined by reference to an index, such as an inflation index, rather than being a fixed monetary amount. An annuity providing payments linked to changes in the RPI is an example of an index-linked contract.

- A.47 With-profits business refers to insurance business where policyholders are entitled to share in the profits of a specified pool of assets and liabilities. Conventional with-profits business typically refers to policies where policyholders' premiums are fixed, and they have a benefit that is guaranteed at the outset in monetary terms if the policy is held to maturity. This benefit can subsequently be increased by annual bonuses that are awarded at the discretion of the insurer, depending upon the amount of surplus emerging in the insurance fund in which the policies are invested. Once they have been awarded, bonuses are typically guaranteed, and insurers are not able to take them away. A final bonus may also be awarded at claim.
- A.48 For with-profits business, it is typical for insurers to target policyholder pay-outs to be relatively close to the policy's "asset share", which is a measure of the true value of the policy based on actual investment returns and expenses incurred by the fund. Therefore, where final bonuses are paid, it is typical for these to be calibrated in order to target something close to asset share, subject often to a degree of smoothing, as well as being subject to honouring any guaranteed benefits to which the policyholder is entitled.

## THE GOVERNANCE OF UK LONG-TERM INSURERS

- A.49 For most UK long-term insurers, the Board of Directors is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management, and approving the firm's financial statements.
- A.50 Under Solvency II, all insurers are required to establish the following key functions:
- **Actuarial function:** The actuarial function is responsible for, *inter alia*, coordinating the calculation of the Technical Provisions and providing an opinion on the firm's underwriting policy and the adequacy of the firm's reinsurance arrangements.
  - **Compliance function:** This function is required, *inter alia*, to advise the insurer on compliance with the Solvency II regulations.
  - **Internal audit function:** This function is required, *inter alia*, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.
  - **Risk management function:** This function is required, *inter alia*, to facilitate the implementation of the insurer's risk management system.
- A.51 These functions are not defined by the Solvency II regulations as being performed by an individual; however, in the UK, the PRA and FCA have introduced a governance regime for UK insurers called the Senior Managers and Certification Regime ("**SM&CR**"), which became effective on 10 December 2018 and defines a set of SMFs, including:
- SMF 1 – Chief Executive Officer;
  - SMF 2 – Chief Financial Officer;
  - SMF 4 – Chief Risk Officer;
  - SMF 5 – Head of Internal Audit;
  - SMF 6 – Head of Key Business Area;
  - SMF 15 – Chair of the WPC;
  - SMF 20 – Chief Actuary; and
  - SMF20a – WPA.
- A.52 Under the SM&CR, the persons having responsibility for the actuarial function, internal audit function and risk management under Solvency II are the Chief Actuary, Head of Internal Audit and Chief Risk Officer respectively, and the individuals responsible for these functions are subject to PRA approval.
- A.53 In addition, those firms with with-profits business must appoint an actuary (or actuaries) to perform the WPA function (also subject to PRA approval). This individual's responsibilities include advising the firm's management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which they have been appointed.

- A.54 Under the SM&CR, SMF holders are subject to a 'Duty of Responsibility'. If a firm breaches a regulatory requirement, the regulators can take action directly against the SMF holder responsible for the area relevant to the breach if the regulators can show that the SMF holder had failed to take reasonable steps to prevent or stop the breach.
- A.55 In relation to each with-profits fund, firms must appoint a WPC (or a "with-profits advisory arrangement" if appropriate given the size, nature, and complexity of the fund in question). The role of the WPC is to advise and provide recommendations to the firm's governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures. The Chair of the WPC is one of the SMFs defined under the SM&CR.

#### **A FIRM'S RISK APPETITE AND CAPITAL MANAGEMENT POLICY**

- A.56 The Board of a firm is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept not being able to pay policyholder liabilities as they fall due and/or meet regulatory requirements.
- A.57 In order to ensure that day-to-day fluctuations in markets and other experience do not lead to a breach of their risk appetite and regulatory capital requirements, insurers usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's CMP.
- A.58 The CMP of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to this policy usually require Board approval and appropriate consultation with the prudential regulator (the PRA in the UK).
- A.59 The CMP is typically stated in terms of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example, for the Solvency II regulatory regime it is a 99.5% probability of remaining solvent over a one-year time horizon. By requiring additional capital to be held on top of the regulatory requirements, adherence to the CMP increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to that policy.
- A.60 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

#### **Financial Services Compensation Scheme**

- A.61 As well as through the PRA and FCA regulations, consumer protection is also provided by the FSCS. This is a statutory "fund of last resort", which compensates customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or FCA.
- A.62 The FSCS provides compensation (100% of the policyholder's entitlement) to individual holders of long-term insurance policies issued by UK insurers in the UK or another EEA state in the event of the insolvency of an insurer (the failure of that insurer to pay benefits). In the event of an insolvency, a call on the FSCS is covered by levies on the insurers in the UK insurance industry.

#### **Financial Ombudsman Service**

- A.63 The FOS is an independent public body that aims to resolve disputes between individuals and UK financial services companies and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. The FOS may direct UK financial services companies to pay compensation up to a maximum limit of:
- £415,000 for complaints referred to the FOS on or after 1 April 2023 about acts or omissions by firms on or after 1 April 2019;
  - £375,000 for complaints referred to the FOS between 1 April 2022 and 31 March 2023 about acts or omissions by firms on or after 1 April 2019;
  - £355,000 for complaints referred to the FOS between 1 April 2020 and 31 March 2022 about acts or omissions by firms on or after 1 April 2019;

- £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019;
- £190,000 for complaints referred to the FOS on or after 1 April 2023 about acts or omissions by firms before 1 April 2019;
- £170,000 for complaints referred to the FOS between 1 April 2022 and 31 March 2023 about acts or omissions by firms before 1 April 2019; and
- £160,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2022 about acts or omissions by firms before 1 April 2019.

A.64 The "Dispute Resolution: Complaints" section of the FCA Handbook sets out the jurisdiction and scope of the FOS in the UK.

### FCA Conduct Principles

A.65 Within its document "Fair treatment of customers", the FCA sets out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:

- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
- Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.

A.66 These outcomes, which are often summarised as "Treating Customers Fairly", apply even for firms that do not have direct contact with retail customers. The FCA's rationale is that risks and poor conduct can be carried from wholesale to retail markets.

A.67 The FCA has supplemented its Fair Treatment of Customers document with guidance, published in January 2018, entitled The Responsibilities of Providers and Distributors for the Fair Treatment of Customers ("**RPPD**"). This provides the FCA's view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:

- Principle 2: A firm must conduct its business with due skill, care and diligence;
- Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly;
- Principle 7: A firm must pay due regard to the information needs of its clients and communicate information to them in a way that is clear, fair and not misleading; and
- Principle 12: A firm must act to deliver good outcomes for retail customers.

### The Consumer Duty

A.68 In July 2022, the FCA published its Policy Statement and Finalised Guidance for the new Consumer Duty, which sets higher and clearer standards of consumer protection across financial services in the UK and require firms to put their customers' needs first.

A.69 The Consumer Duty consists of three parts:

- A new Consumer Principle (Principle 12 of the FCA Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers;
- The “cross-cutting rules” which develop expectations for firms’ behaviour and how they should act to deliver good outcomes. It also informs firms on how to interpret the four outcomes; and
- The “four outcomes” which are rules and guidance to provide detailed expectations for firms. The outcomes cover:
  - The governance of products and services;
  - Price and value;
  - Consumer understanding; and
  - Consumer support.

A.70 These rules came into force on 31 July 2023 for new and existing products or services that are open to new business and will come into force on 31 July 2024 for closed products or services.

#### **The Insurers (Reorganisation and Winding-Up) Regulations 2004**

A.71 Under UK law, the winding-up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding-Up) Regulations 2004 (as amended, including under the Solvency II Regulations 2015). Under these regulations, insurance claims have precedence over any claim on the insurance undertaking with the exception of certain preferential claims (e.g., claims by employees) with respect to the whole of the insurance undertaking's assets. Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

#### **RISK CATEGORIES RELEVANT TO THE COMPANIES**

A.72 It is common for insurers to divide the risks to which they are exposed into categories. Categories of risk to which the Companies are exposed are:

- **Market risk:** The risk of adverse changes in the price, level or volatility of financial instruments and market variables such as interest rates, inflation, property and equity prices.
- **Expense risk:** The risk of the insurer underestimating the level of its expense base, resulting in higher than expected expense outgoings.
- **Lapse risk:** The risk of higher or lower than expected surrenders of life insurance policies or transfers of pension policies.
- **Mortality risk:** The risk of higher than expected deaths amongst holders of life insurance policies.
- **Longevity risk:** The risk of greater than expected longevity amongst holders of annuities and other products.
- **Disability risk:** The risk of higher than expected rates of disability, sickness or morbidity for policies which protect the policyholder against such risks.
- **Life catastrophe risk:** The risk resulting from significant uncertainties in pricing assumptions related to extreme or irregular events.
- **Health underwriting risk:** the risks arising from the underwriting of health insurance policies.
- **Counterparty default risk:** the risk of losses resulting from the unexpected default or deterioration in credit quality of counterparties and debtors. This includes risk mitigation contracts, securitisations, derivatives and receivables from intermediaries.
- **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

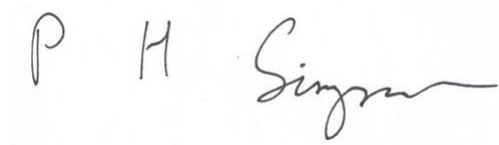
## Appendix B – Certificate of compliance

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules<sup>34</sup>, the Practice Direction<sup>35</sup> and the Guidance for the Instruction of Experts in Civil Claims 2014<sup>36</sup> produced by the UK's Civil Justice Council and have complied with and will continue to comply with them. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the Court and have complied with and will continue to comply with this duty.

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

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.

A handwritten signature in black ink, consisting of the initials 'P H' followed by the name 'Simpson' in a cursive script.

**Philip Simpson**

Fellow of the Institute and Faculty of Actuaries

Principal, Milliman LLP

19 June 2024

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<sup>34</sup> Rules & Practice Directions - Civil Procedure Rules ([justice.gov.uk](http://justice.gov.uk))

<sup>35</sup> PART 35 - EXPERTS AND ASSESSORS - Civil Procedure Rules ([justice.gov.uk](http://justice.gov.uk))

<sup>36</sup> Guidance for the instruction of experts in civil claims | Courts and Tribunals Judiciary

## Appendix C – Glossary of terms

A glossary of the abbreviations used throughout the report is given below.

### A

<b>AG</b>	Addleshaw Goddard LLP. A legal firm which advised CA on the Scheme until 14 March 2024 (inclusive).
<b>APS</b>	Actuarial Professional Standards. Standards for the actuarial profession produced by the IFoA which all members must adhere to regardless of location or area of practice.
<b>AUM</b>	Assets under management. The total market value of assets managed by a company.

### B

<b>BEL</b>	Best Estimate Liability. One of the components of the Technical Provisions under Solvency II (including Solvency UK). The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cashflows.
<b>Buffer</b>	This general term refers to an amount of capital held in addition to the regulatory capital requirements. The purpose of this additional capital is to seek to ensure that regulatory capital requirements can still be met after an adverse event.

### C

<b>CA</b>	Countrywide Assured plc. A UK life insurance subsidiary of the Chesnara Group focused on growing its position with the UK consolidation market.
<b>Capita</b>	Capita Life & Pensions Regulated Services Limited. An administration company used by CA to administer certain blocks of business.
<b>Catastrophe risk</b>	Catastrophe risk, or life catastrophe risk, is the risk of adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and reserving assumptions related to extreme or irregular events.
<b>CASLP</b>	CASLP Limited. The business of Sanlam Life & Pensions which was acquired by the Chesnara Group. The business was renamed to CASLP upon acquisition and was transferred into CA on 31 December 2023 under a separate Part VII Transfer.
<b>Chesnara</b>	Chesnara plc. The UK-listed holding company of the Chesnara Group of which CA is a subsidiary.
<b>Chesnara Group</b>	The group of companies controlled and managed by Chesnara plc. This includes CA in the UK.
<b>CLACBB</b>	The Barbados branch of the Canada Life Assurance Company, which is a major Canadian insurer and subsidiary of GWL. CLACBB provides intragroup reinsurance to CLL.
<b>CLAR</b>	Canada Life Annuity Reinsurance (Barbados) Corporation. A reinsurance firm which is part of Canada Life based in Barbados. CLAR provides intragroup reinsurance to CLL.
<b>CLG</b>	The Canada Life Group (U.K.) Limited. CLG is an indirect subsidiary of GWL and is the parent company of the sub-group of companies of which CLL is a part.
<b>CLL</b>	Canada Life Limited. A UK life insurance subsidiary of CLG with a business strategy of being a leader in its chosen market of retirement, investments and group protection.

<b>Companies</b>	CLL and CA collectively.
<b>Counterparty default risk</b>	Counterparty default risk reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months, taking appropriate account of collateral and the risks associated therewith.
<b>Court</b>	Collectively, the High Court of Justice, Business and Property Courts of England and Wales, the Companies List, and the Court of Session.
<b>Court of Session</b>	The supreme civil court in Scotland.
<b>CP19/23</b>	Consultation Paper 19/23 – Review of Solvency II: Reform of the Matching Adjustment. This CP includes various reform proposals related to the MA in the UK.
<b>CP5/24</b>	Consultation Paper 5/24 – Review of Solvency II: Restatement of assimilated law. This CP includes various reform proposals related to PRA rules and other policy materials which will replace Solvency II assimilated law.
<b>CMP</b>	Capital Management Policy. The policy by which a firm sets out its controls, processes reporting and responsibilities in relation to capital management.
<b>Credit risk</b>	Credit risk, or spread risk, is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
<b>Currency risk</b>	Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.
<b>Customer Guide</b>	A guide to the Scheme including summaries, detailed explanations and Q&A.
<b>CWA</b>	City of Westminster Assurance. The business of City of Westminster Assurance Company Limited which was transferred into CA by a previous Part VII Transfer
	<b>D</b>
<b>Directions Hearing</b>	An initial court hearing at which the Companies' plans for notifying policyholders (and other preliminary matters) are considered.
	<b>E</b>
<b>EEA</b>	The European Economic Area. An international agreement which enables the extension of the European Union's single market to member states of the European Free Trade Association. The EEA comprises the EU together with Iceland, Liechtenstein and Norway.
<b>Effective Date</b>	The date, expected to be 23 February 2025, from which the Scheme will be effective legally and for the purposes of financial and regulatory reporting.
<b>ELAS</b>	Equitable Life Assurance Society. The unit-linked annuity business of the Equitable Life Assurance Society was transferred into CLL by a previous Part VII Transfer.
<b>ERMC</b>	Executive Risk Management Committee. A senior level committee within CLL with oversight of the firm's risk management.
<b>EU</b>	The European Union.
<b>Equity risk</b>	Equity risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.

<b>Excluded Policies</b>	Policies which are not being transferred under the Scheme. The policies and the assets and liabilities related to such policies, will not transfer as part of the Scheme. The Excluded Policies of this Scheme includes all policies which are not Transferred Policies.
<b>Expense risk</b>	Expense risk, or life expense risk, is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
<b>F</b>	
<b>FCA</b>	Financial Conduct Authority. Responsible for regulating the conduct of financial services firms in the UK. Its roles include protecting consumers, supporting a stable financial sector and promoting healthy competition between financial service providers.
<b>FCA Consumer Duty Rules</b>	New FCA rules which are applicable from 31 July 2023 (for open products) and 31 July 2024 (for closed products, such as the Transferred Policies) and which require financial firms to seek good outcomes for their customers. See paragraph 11.32.
<b>FCA Final Guidance</b>	Guidance provided by the FCA, FG22/1: The FCA's approach to the review of Part VII insurance business transfers.
<b>Fitch Ratings</b>	Fitch Ratings is a credit rating agency that assigns ratings to debt instruments as well as issuers of debt.
<b>FOS</b>	Financial Ombudsman Service. A service in the UK which settles claims between consumers and businesses that provide financial services.
<b>FSCS</b>	Financial Services Compensation Scheme. A scheme which provides compensation to holders of long-term insurance policies in the event of the insolvency of a UK or an EEA or other overseas insurer in respect of its UK customers.
<b>FSMA</b>	Financial Services and Markets Act 2000. An Act that makes provision about the regulation of financial services and markets, provides for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies.
<b>FTSE 100</b>	The Financial Times Stock Exchange 100 Index. A share index of the one hundred companies listed on the London Stock Exchange with the highest market capitalisation.
<b>G</b>	
<b>Goneaways</b>	Policies where the company does not have a valid address for the policyholder, and subsequent reasonable attempts to trace the policyholder have been unsuccessful
<b>Guernsey Policy</b>	The Guernsey based policy which is part of the Transferred Policies, but which will not be transferred under the Scheme.
<b>GWL</b>	Great-West Lifeco Inc., the ultimate parent company of The Canada Life Assurance Company and consequently of CLG, CLL and others.
<b>H</b>	
<b>HCL</b>	HCL Insurance BPO Limited. An administration company used by CA to administer certain blocks of business.
<b>Health underwriting risk</b>	Health underwriting risk refers to the risk arising from health insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk.
<b>HMRC</b>	His Majesty's Revenue and Customs is the UK's tax, payments and customs authority.

<b>HM Treasury</b>	His Majesty's Treasury is the government's economic and finance ministry.
<b>HSF</b>	Herbert Smith Freehills. A legal firm advising CLL on the Scheme.
<b>I</b>	
<b>IFoA</b>	Institute and Faculty of Actuaries, the UK chartered professional body which is responsible for regulating actuaries.
<b>ILA</b>	Irish Life Assurance. A book of long-term insurance policies written in Ireland and Germany was transferred from CLL into ILA by a previous Part VII Transfer. ILA is also a subsidiary of ILG, itself a subsidiary of CLL.
<b>ILG</b>	Irish Life Group Limited, an Irish insurance group which is a subsidiary of CLL.
<b>Interest rate risk</b>	Interest rate risks is the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.
<b>Internal Model</b>	An approach to calculating the SCR under Solvency II or Solvency UK where the Standard Formula is not used. Use of and the nature of an Internal Model must be approved by the appropriate regulator.
<b>L</b>	
<b>LACDT</b>	Loss absorbing capacity of deferred tax. A balance sheet item under Solvency UK that represents to the fact that, in a stressed situation, a deferred tax asset would arise, and therefore the Own Funds are increased.
<b>Lapse risk</b>	Lapse risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
<b>Life underwriting risk</b>	Life underwriting risk refers to the risk arising from life insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk.
<b>LLP</b>	Limited Liability Partnership.
<b>Longevity risk</b>	Longevity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.
<b>Longevity swap</b>	A longevity swap is a form of reinsurance whereby one counterparty (the insurer) usually pays the other counterparty (the reinsurer) fixed periodic payments in exchange for periodic payments that are linked to the difference between the actual and expected longevity experience of the insurer's policyholders.
<b>LTF</b>	Long-term insurance fund. Prior to the implementation of Solvency II or Solvency UK, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund.
<b>M</b>	
<b>Mailing Pack</b>	An information pack distributed to policyholders setting out the details of the Scheme. This includes a cover letter and the Customer Guide which will contain details on how policyholders can raise responses, enquiries and objections in respect of the Scheme.
<b>Market concentration risk</b>	Market concentration risk is those additional risks stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.

<b>Market risk</b>	Market risk reflect the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities, comprising at least interest rate risk, equity risk, property risk, credit risk, currency risk and market concentration risk.
<b>Matching Adjustment or MA</b>	The Matching Adjustment or MA is an upwards adjustment to the risk-free rate sometimes used under Solvency II or Solvency UK to discount long-term liabilities, where those liabilities are well-matched by long-term assets and the intention is to hold those assets to maturity. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL. MA is a more extensive form of the VA with consequently more onerous requirements.
<b>MCR</b>	Minimum Capital Requirement. The MCR is lower than the SCR and defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.
<b>MGM</b>	MGM Advantage. The business of MGM Advantage Life Limited which was transferred into CLL by a previous Part VII Transfer.
<b>Milliman</b>	Milliman Limited Liability Partnership registered in England and Wales.
<b>Money Laundering Reporting Officer</b>	A designated individual within a financial institution who is responsible for the oversight of all activity relating to anti-money laundering, as required by the FCA.
<b>Moody's Ratings</b>	Moody's Rating is a credit rating agency that assigns ratings to debt instruments as well as issuers of debt.
<b>Morbidity risk</b>	Morbidity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.
<b>Mortality risk</b>	Mortality risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
	<b>N</b>
<b>Non-Profit Fund</b>	The main fund of CA is referred to in this Report as the Non-Profit Fund to distinguish it from the two ring-fenced with-profits funds.
	<b>O</b>
<b>OPAL</b>	Outsourced Professional Administration Limited. An administration company used by CA to administer a small block of business.
<b>Operational risk</b>	Operational risk refers to those operational risks to the extent they are not already reflected in the life underwriting risk, health underwriting risk, market risk and counterparty default risk.
<b>Original CA</b>	Original Countrywide Assured. The original life and pensions business of CA, including business acquired from Premium Life. This includes all business of the company prior to becoming part of the Chesnara group
<b>ORSA</b>	Own Risk and Solvency Assessment. A requirement under Solvency UK whereby insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of their capital resources.
<b>Other Liabilities</b>	These are liabilities under Solvency II (and Solvency UK) other than Technical Provisions which need to be added to the Technical Provisions in arriving at the total liabilities. For example, accounting liabilities such as tax due.
<b>Own Funds</b>	The excess of an insurer's assets over its liabilities on a Solvency UK basis.

**P**

<b>Part VII Transfer</b>	The transfer of long-term insurance business under UK law in accordance with Part VII of the FSMA.
<b>Peer Reviewer</b>	A senior consultant at Milliman who has independently reviewed this Report.
<b>Partial Internal Model or PIM</b>	Partial Internal Model. A combination of an internal model and the prescribed Standard Formula method for calculating the SCR that requires approval from the relevant regulator (the PRA in the UK).
<b>PEP</b>	Politically Exposed Person. An individual entrusted with a prominent public function, either domestically, by a foreign country or by an international organisation.
<b>PL</b>	Protection Life. The business of Protection Life Company Limited which was transferred into CA by a previous Part VII Transfer. The company was renamed from Direct Line Life Insurance Company Limited upon acquisition.
<b>PRA</b>	Prudential Regulation Authority. Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
<b>PRA Statement of Policy</b>	“The Prudential Regulation Authority’s approach to insurance business transfers”, dated January 2022, updating the April 2015 version.
<b>Premium Life</b>	Premium Life Assurance Holdings Limited. A separate UK life insurance entity which was acquired by CA prior to its own acquisition by the Chesnara Group. The business of Premium Life forms part of the Original CA block of business.
<b>Property risk</b>	Property risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate.
<b>Prudential</b>	The Prudential Assurance Company Limited, a UK life insurance company that was involved in a Part VII Transfer which is noteworthy for the Court of Appeal judgement relating to this transfer, particularly as regards the Independent Expert’s considerations regarding the Scheme.
<b>PS2/24</b>	Policy Statement 2/24 – Review of Solvency II: Adapting to the UK insurance market. This PS includes various reforms to TMTP, internal models and currency redenomination among other changes.
<b>PS3/24</b>	Policy Statement 3/24 – Review of Solvency II: Reporting and disclosure phase 2 near-final. This PS includes various reforms to the reporting and disclosure required from firms.
	<b>Q</b>
<b>Q&amp;A</b>	Questions and Answers. A particular section of the Customer Guide covering common questions and the answers to provide information to the policyholders.
<b>QRT</b>	Quantitative Reporting Template. Specified templates which firms must complete under the requirements of Solvency II or Solvency UK as part of the Pillar 3 requirements.
<b>Quota share reinsurance</b>	A reinsurance arrangement whereby the insurer cedes a fixed percentage of its insurance liabilities to a reinsurer.
	<b>R</b>
<b>ReAssure</b>	ReAssure Limited. A UK life insurance and reinsurance entity which is part of the Phoenix Group. ReAssure provides reinsurance of the Original CA with-profits business to CA.

<b>Recovery and Resolution Plan</b>	A plan which sets out how the insurance company or group would implement actions to return its solvency coverage to an appropriate level this being referred to as “recovery”) or run off and ultimately close itself down (this being referred to as “resolution”) in as orderly a manner as possible and with the minimum adverse impact on policyholders should extreme events make it impossible for the company or group to carry on as normal.
<b>Reinsurance Agreement</b>	The reinsurance agreement between CLL and CA to reinsure the risks of the Transferred Business to CA ahead of the Scheme, and separate to the other reinsurance arrangements CLL and CA have with other third parties as described in paragraphs 4.43 to 4.45 and 5.70 to 5.78 respectively.
<b>Residual Policy</b>	A Transferred Policy that is not able to be transferred from CLL to CA at the Effective Date of the Scheme, and will therefore be retained by CLL until such further date it can be transferred to CA.
<b>Revision risk</b>	Revision risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.
<b>RFF Restriction</b>	Ring-fenced Fund Restriction. The restriction on the use of capital allocated to each with-profits fund within a company.
<b>Risk Margin</b>	The amount held under Solvency II or Solvency UK as part of Technical Provisions which is based on the cost of holding capital in relation to the non-hedgeable components of the SCR.
<b>Risk premium reinsurance</b>	A reinsurance arrangement whereby the insurer cedes a portion of its insurance liabilities in return for a reinsurance premium determined the reinsurer.
<b>Rothsay Life</b>	Rothsay Life Plc, a UK life insurance company that was involved in a Part VII Transfer which is noteworthy for the Court of Appeal judgement relating to this transfer, particularly as regards the Independent Expert’s considerations regarding the Scheme.
<b>RPPD</b>	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers. FCA guide on the principles and rules required for providers and distributors to treat customers fairly.
<b>RSR</b>	Regular Supervisory Report. A private report to the regulator which firms must complete under the requirements of Solvency II or Solvency UK at least every three years as part of the Pillar 3 requirements. From 31 December 2023 the RSR is no longer required for firms reporting under Solvency UK.
<b>S</b>	
<b>S&amp;P</b>	Save & Prosper. The business of SPP and SPI which was transferred into CA by a previous Part VII Transfer.
<b>S&amp;P Global Ratings</b>	S&P Global Ratings (previously Standard & Poor’s) is a credit rating agency that assigns ratings to debt instruments as well as issuers of debt.
<b>Sanction Hearing</b>	A hearing of the Court to approve the terms of the Scheme prior to the Effective Date of the Scheme.
<b>Sanlam</b>	Sanlam Life & Pensions UK Ltd. A separate UK life insurance entity which was purchased by the Chesnara Group. The company was renamed to CASLP upon acquisition and was transferred into CA on 31 December 2023 under a separate Part VII Transfer.
<b>Scheme</b>	The Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation. Also referred to as “this Scheme”.

<b>Scheme Report</b>	A report on the terms of the Scheme by an Independent Expert. This includes this Report and any subsequent Supplementary Reports covering the Scheme.
<b>Schroders</b>	Schroders Investment Management Limited. An investment management firm which CA uses to outsource its investment management.
<b>SLA</b>	Service-level agreement. A target set of metrics for the performance of specific customer services provided.
<b>Solvency Capital Requirement or SCR</b>	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II (and Solvency UK). Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time period with a probability of 99.5%.
<b>SF</b>	Scottish Friendly. A closed book of life, pensions and protection, unit-linked, non-linked including ring-fenced with-profits business of CLL was transferred into SF by a previous Part VII Transfer.
<b>SFCR</b>	Solvency and Financial Condition Report. A public report which firms must complete under the requirements of Solvency II or Solvency UK as part of the Pillar 3 requirements.
<b>SM</b>	Slaughter and May. A legal firm advising CA on the Scheme from 15 March 2024.
<b>SM&amp;CR</b>	Senior Managers and Certification Regime. This is the FCA UK governance regime that replaced the Approved Persons Regime. It aims to reduce harm to customers and strengthen market integrity by making individuals working within the financial services industry accountable for their conduct and competence.
<b>SMF</b>	Senior Management Function. A component of the SM&CR that allocates specific responsibilities to Senior Managers for key conduct and prudential risks.
<b>SPI</b>	Save & Prosper Insurance Limited. One of the two companies acquired by CA from S&P. This was transferred into CA via a previous Part VII Transfer.
<b>SPI WPF</b>	The ring-fenced with-profits fund within CA established to hold the with-profits business of SPI.
<b>SPP</b>	Save & Prosper Pensions Limited. One of the two companies acquired by CA from S&P. This was transferred into CA via a previous Part VII Transfer.
<b>SPP WPF</b>	The ring-fenced with-profits fund within CA established to hold the with-profits business of SPP.
<b>Solvency II</b>	The regulatory solvency framework for the European Economic Area insurance and reinsurance industry. See also Solvency UK.
<b>Solvency UK</b>	The regulatory solvency framework for insurance and reinsurance companies in the UK since 1 January 2021 when Brexit became fully effective.
<b>Solvency Ratio</b>	The Solvency Ratio is the ratio of the eligible Own Funds divided by the SCR as calculated under Solvency II or Solvency UK. It represents the extent to which an insurer covers their SCR and is required to be at least 100%.
<b>SS&amp;C</b>	SS&C Technologies. A third-party outsourcing company, specialising in insurance policy administration, used by CA to administer certain blocks of business, including ultimately the Transferred Business.

<b>Standard Formula</b>	The prescribed method for calculating the SCR where an approved Internal Model is not used. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model.
<b>Summary Report</b>	The summarised version of the Scheme Report which will be made available to policyholders alongside this Report.
<b>SUP</b>	The Supervision Manual contained in the FCA Handbook. This addresses the day-to-day relationship between the FCA, authorised persons (firms), key individuals within them, their appointed representatives and tied agents, and those who own or control them.
<b>SUP 18</b>	Chapter 18 of SUP, covering transfers of business.
<b>Supplementary Report</b>	A further report produced prior to the Sanction Hearing to provide an update for the Court on the Independent Expert's conclusions in the light of any significant events subsequent to the date of the finalisation of this Report.
<b>Surplus reinsurance</b>	A reinsurance arrangement whereby the insurer retains a fixed amount of an insurance liability and cedes the rest to a reinsurer.

## T

<b>TASs</b>	Technical Actuarial Standards. The TASs are standards issued by the Financial Reporting Council which apply to work in the UK involving the use of actuarial principles and/or techniques and the exercise of judgement. Compliance with the TASs for work in their scope is required for members of the IFOA.
<b>TAS 200: Insurance</b>	The Technical Actuarial Standards applicable to Insurance transformations (such as the Scheme that is the subject of this Report), issued by the Financial Reporting Council.
<b>Technical Provisions</b>	The value of the technical insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II (and Solvency UK), the Technical Provisions comprise the BEL and the Risk Margin. There are also Other Liabilities which need to be added to the Technical Provisions in arriving at the total liabilities.
<b>Total Permanent Disability</b>	Total Permanent Disability is a condition in which a policyholder is no longer able to work due to injuries. Certain insurance policies (including some of the Transferred Policies) will provide cover for Total Permanent Disability where the policyholder has opted in.
<b>Transferred Business</b>	The Transferred Policies and the associated Transferred Liabilities which will transfer from CLL to CA on the Scheme Effective Date.
<b>Transferred Liabilities</b>	The associated liabilities of the policies which will transfer from CLL to CA on the Scheme Effective Date.
<b>Transferred Policies</b>	The policies which will transfer from CLL to CA on the Scheme Effective Date.
<b>Transferred Policyholders</b>	The holders of the Transferred Policies which will transfer from CLL to CA on the Scheme Effective Date.
<b>Transferred Reinsurances</b>	The two reinsurance treaties held by CLL covering the Transferred Business held with Pacific Life Re Limited and Swiss Re.

<b>Transitional Measure on Technical Provisions or TMTP</b>	<p>Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016. Insurers must apply to the regulator (the PRA in the UK) to use a TMTP.</p> <p><b>U</b></p>
<b>Unit-Linked Fund(s)</b>	<p>These are funds of assets maintained separately within a life company, with the value of these funds being used to determine the benefits under unit-linked policies.</p> <p><b>V</b></p>
<b>Volatility Adjustment or VA</b>	<p>An increase to the discount rate sometimes used under Solvency II or Solvency UK in the calculation of the BEL (other than for liabilities that are subject to the MA) based on the rationale of avoiding forced sales of assets in the event of extreme bond spread movements. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL.</p> <p><b>W</b></p>
<b>WPA</b>	<p>With-Profits Actuary. The person or persons fulfilling the With-Profits Actuary function. A regulated role in the UK with a responsibility for advising a firm's Board on the key areas of discretion exercised in managing its with-profits business.</p>
<b>WPC</b>	<p>With-Profits Committee. A committee that provides oversight of the management of a with-profits fund. The role of the WPC is to act in an advisory capacity to a firm's Board on decisions affecting with-profits policyholders, to ensure the interests of with-profits policyholders are appropriately considered within the firm's governance structures.</p>
<b>WTW</b>	<p>Towers Watson Limited. A professional services firm which provides outsourced actuarial modelling and valuation services to CA as well as fulfilling CA's WPA role.</p>

## Appendix D – Documents and data relied on

D.1 In addition to discussions (comprising face-to-face meetings, video and telephone calls, and emails) with the staff of the Companies, I have relied upon the information shown in the list below in formulating my conclusions. The list below comprises the main items of information and is not a complete list of all items:

- Memorandum and Articles of Association of CLL
- CLL Risk Appetite Framework
- CLL Capital Management Operating Policy
- CLL Investment Operating Policy
- Breakdown of CLL Solvency II Balance Sheet as at 31 December 2023 under the following scenarios:
  - The Scheme is not sanctioned and the Reinsurance Agreement between CLL and CA is unwound;
  - The Scheme is not sanctioned and the Reinsurance Agreement between CLL and CA is not unwound;
  - The Scheme is sanctioned.
- Breakdown of CLL Solvency Capital Requirements as at 31 December 2023
- Summary of Transferred Policies as at 31 December 2023
- CLL Actuarial Functions Report as at 31 December 2022
- CLL Report and Financial Statements as at 31 December 2023, 31 December 2022 and 31 December 2021
- 2022 CLL RSR
- 2023 and 2022 CLL SFCRs
- 2022 CLL ORSA report
- CLL Governance Diagram
- Policy details on CLL Life Insurance and Life Insurance Plus Critical Illness Cover products
- Advice from Appleby on policies sold to residents of Guernsey or Isle of Man
- Reinsurance treaty between CLL and Pacific Life Re
- Reinsurance treaty between CLL and Swiss Re
- CLL Reinsurer Credit Ratings as at 31 December 2023
- CLL Reinsurance Balance Sheet impacts as at 31 December 2023
- CLL discussions on the implications of the Scheme on tax
- Advice from HSF on tax clearances
- CLL Chief Actuary Report on the impact of the Scheme (version as at 19 June 2024)
- Summary of CLL's rationale for the Scheme
- The Scheme document (version as at 13 June 2024)
- CLL First Witness Statement (version as at 11 June 2024)
- CLL Communication Strategy (version as at 30 May 2024)
- Guide to the Scheme (version as at 14 June 2024)
- Variants of CLL Policyholder Letter (version as at 14 June 2024)
- CLL Consumer Duty Plan (as at November 2023) and Plan Update (as at December 2023)
- CLL Migration Plan (version as at 13 May 2024)
- Reinsurance Agreement between CLL and CA in respect of the Transferred Business

- Framework Agreement between CLL and CA in respect of the sale and purchase of the Transferred Business
- Disclosure Letter between CLL and CA in respect of the sale and purchase of the Transferred Business
- Memorandum and Articles of Association of CA
- CA Risk Management System Policy
- CA Liquidity Policy
- CA Corporate Responsibilities Map
- Chesnara Group Structure Chart
- 2022 CA and CASLP Risk Appetite Review
- CA and CASLP Risk Report as at 30 August 2023
- CA and CASLP Capital Management Policy
- CA and CASLP Annual Report and Financial Statements as at 31 December 2022
- 2022 CA and CASLP RSRs
- 2022 CA and CASLP SFCRs
- 2023 CA SFCR
- 2022 CA and CASLP ORSA reports
- 2023 CA ORSA report
- CA Chief Actuary Report on Solvency Position of CA and CASLP as at 30 June 2023
- CA Chief Actuary Report on Solvency Position of CA and CASLP as at 30 September 2023
- CA Chief Actuary Report on the impact of the Scheme (version as at 19 June 2024)
- CA With-Profits Actuary on the impact of the Scheme (version as at 19 June 2024)
- CA First Witness Statement (version as at 19 June 2024)
- 2022 Chesnara Group SFCR
- Responses from CLL and CA to the questions and answer log maintained by Milliman

## Appendix E – Compliance of this Report with Guidance

FCA HANDBOOK (SUPERVISION CHAPTER)<sup>37</sup>

Table E.1 Compliance of this Report with the SUP 18.2 of the FCA Handbook

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE 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.	Yes
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.	Yes – the report has been updated to reflect queries and feedback from the regulator where applicable
18.2.33	The scheme report should comply with the applicable rules on expert evidence and contain the following information:	Yes – paragraphs 1.6 and 1.10
	(1) who appointed the independent expert and who is bearing the costs of that appointment;	
	(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;	Yes – paragraph 1.8
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	Yes – paragraph 1.7
	(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;	Yes – paragraphs 3.26 to 3.32
	(5) the scope of the report;	Yes – section 1
	(6) the purpose of the scheme;	Yes – section 1, paragraphs 6.1 to 6.3

<sup>37</sup> <https://www.handbook.fca.org.uk/handbook/SUP/18/>

	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	Yes – section 6
	(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;	Yes - Appendix D
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others;	Yes – paragraphs 1.22 to 1.30, paragraphs 3.35 to 3.56
	(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	Yes – paragraphs 1.22 to 1.30, paragraphs 3.35 to 3.56
	(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: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee;	Yes – sections 8 to 11
	(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;	Yes – paragraphs 11.16 to 11.17
	(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	None – see paragraph 1.29
	(13) for each opinion that the independent expert expresses in the report, an outline of his reasons.	Yes – throughout the report
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.	Yes
18.2.35	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	Yes – paragraphs 6.32 to 6.33

	(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.	Yes – paragraphs 6.30 to 6.31
18.2.36	The independent expert's opinion of the likely effects of the scheme on policyholders should:  (1) include a comparison of the likely effects if it is or is not implemented;	Yes – paragraphs 11.47 to 11.48
	(2) state whether he considered alternative arrangements and, if so, what;	Yes – paragraph 1.30 and paragraph 6.4
	(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	Yes – sections 8 to 11
	(4) include his views on:  (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;	Yes – section 9
	(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:  (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and	Yes – section 0
	(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.	Yes – paragraphs 6.28 to 6.29, 11.18 to 11.23
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.	Yes – paragraph 3.9
18.2.38	For any mutual company involved in the scheme, the report should:  (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;  (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and  (3) comment on the appropriateness of any compensation, paying particular attention to any	N/A

	differences in treatment between members with voting rights and those without.	
18.2.39	For a scheme involving long-term insurance business, the report should:  (1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	Yes – sections 8 to 0
	(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;	N/A
	(3) describe the likely effect of the scheme on the approach used to determine:  (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	N/A
	(b) the levels of any discretionary charges;	N/A
	(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;	Yes – section 8
	(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;	Yes – section 8
	(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	Yes – section 8
	(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.	Yes – section 8 - 9
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.	N/A – Scheme is standalone and not linked to any other Scheme

18.2.41	<p>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: (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</p> <p>(2) otherwise, he is unable to report on this aspect in the time available.</p>	N/A - No benefits reduced
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**STATEMENT OF POLICY: THE PRA'S APPROACH TO INSURANCE BUSINESS TRANSFERS<sup>38</sup>**

**Table E.2 Compliance of this report with the PRA'S approach to insurance business transfers (Paragraphs 2.27 to 2.40)**

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE 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).	Yes
2.27A	<p>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:</p> <p>(1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and</p> <p>(2) incorporates appropriate reasoning.</p>	<p>(1) Yes - all relevant issues covered in detail</p> <p>(2) Yes - appropriate reasoning used and explained in reaching conclusions</p>
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	See below
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	Yes – the report has been updated to reflect queries and feedback from the regulator where applicable

<sup>38</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2022/the-pras-approach-to-insurance-business-transfers-sop-jan-2022.pdf>

	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.	
<b>2.30</b>	The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information: (1) who appointed the independent expert and who is bearing the costs of that appointment;	Yes – paragraphs 1.6 and 1.10
	(2) confirmation that the independent expert has been approved or nominated by the PRA;	Yes – paragraph 1.8
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	Yes – paragraph 1.7
	(4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	Yes – paragraphs 3.26 to 3.32
	(5) the scope of the report;	Yes – section 1
	(6) the purpose of the scheme;	Yes – section 1, paragraphs 6.1 to 6.3
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	Yes – section 6
	(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	Yes - Appendix D
	(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;	Yes – sections 4,5 and 7
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	Yes – paragraphs 1.22 to 1.30, paragraphs 3.35 to 3.56
	(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	Yes – paragraphs 1.22 to 1.30, paragraphs 3.35 to 3.56
(11) 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: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	Yes – sections 8 to 11	

	(12) their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;	Yes – paragraphs 11.16 to 11.17
	(12A) their definition of ‘material adverse’ effect;	Yes – paragraphs 3.23 to 3.24
	(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;	None – see paragraph 1.29
	(14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	Yes – throughout the report
	(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	N/A – Scheme is standalone and not linked to any other Scheme
<b>2.31</b>	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.	Yes
<b>2.31A</b>	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.	Yes – paragraphs 1.22 to 1.30, paragraphs 3.35 to 3.56
<b>2.32</b>	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and (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.	Yes – paragraphs 6.32 to 6.33
<b>2.33</b>	The independent expert’s opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should: (1) include a comparison of the likely effects if it is or is not implemented;	Yes – paragraphs 11.47 to 11.48
	(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	Yes – paragraph 1.30
	(2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and	Yes – sections 8 to 11

	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;	
	(3) include the independent expert's views on:  (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 ;	Yes – section 9. Stress and scenario testing covered in paragraphs 7.20 to 7.24
	(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 even there is a material deterioration of their balance sheets;	Yes – paragraphs 9.45 to 9.70, 10.42 to 10.50
	(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;	Yes – section 9
	(aaaa) whether the transferee'(s)' existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	Yes – paragraph 9.28
	(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:  (i) the security of policyholders' contractual rights,  (ii) levels of service provided to policyholders,  (iii) for long-term insurance business, the reasonable expectations of policyholders;	Yes – section 0
	(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	Yes – paragraphs 6.28 to 6.29, 11.18 to 11.23
	(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.	Yes – paragraphs 9.73 to 9.80

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.	Yes – paragraph 3.9
2.35	<p>For any mutual company involved in the scheme, the report should:</p> <p>(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;</p> <p>(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and The PRA's approach to insurance business transfers January 2022 10</p> <p>(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.</p>	N/A
2.36	<p>For a scheme involving long-term insurance business, the report should:</p> <p>(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;</p>	Yes – sections 8 to 0
	<p>(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;</p>	N/A
	<p>(3) describe the likely effect of the scheme on the approach used to determine:</p> <p>(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and</p>	N/A
	<p>(b) the levels of any discretionary charges;</p>	N/A
	<p>(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;</p>	Yes – section 8
	<p>(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;</p>	Yes – section 8

	(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	Yes – section 8
	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.	Yes – section 8 - 9
<b>2.37</b>	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.	N/A – Scheme is standalone and not linked to any other Scheme
<b>2.38</b>	<p>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:</p> <p>(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</p> <p>(2) they are unable to report on this aspect in the time available.</p> <p>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.</p>	N/A - No benefits reduced
<b>2.39</b>	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.	Supplementary Report to be produced in due course
<b>2.40</b>	The purpose of the supplementary report is for the independent expert to provide an update on any relevant	Supplementary Report to be produced in due course

	<p>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:</p> <p>(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; (2) any recent economic, financial or regulatory developments; and</p> <p>(3) any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report.</p>	
<b>2.40A</b>	<p>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.</p>	Information only, no requirements within this report

**FINALISED GUIDANCE FG22/1: THE FCA’S APPROACH TO THE REVIEW OF PART VII INSURANCE BUSINESS TRANSFERS<sup>39</sup>**

E.2 The FCA Guidance in FG22/1 is more general than the items listed in SUP 18.2 and in the PRA Statement of Policy, both as covered above. It sets out extensively the FCA’s expectations in general terms, including examples for consideration, examples of good practice, and examples of where the FCA has thought that reports could be better. The FCA Guidance also sets out the level of detail into which the FCA expects an Independent Expert to go in various areas. I have reviewed this guidance and I believe that this Report complies with it and goes into the required level of detail, explanation, and justification in all of the various areas. I also note that there is a degree of overlap between the FCA Guidance and SUP 18.2 and the PRA Statement of Policy.

<sup>39</sup> <https://www.fca.org.uk/publication/finalised-guidance/fg22-1.pdf>