

MILLIMAN CLIENT REPORT

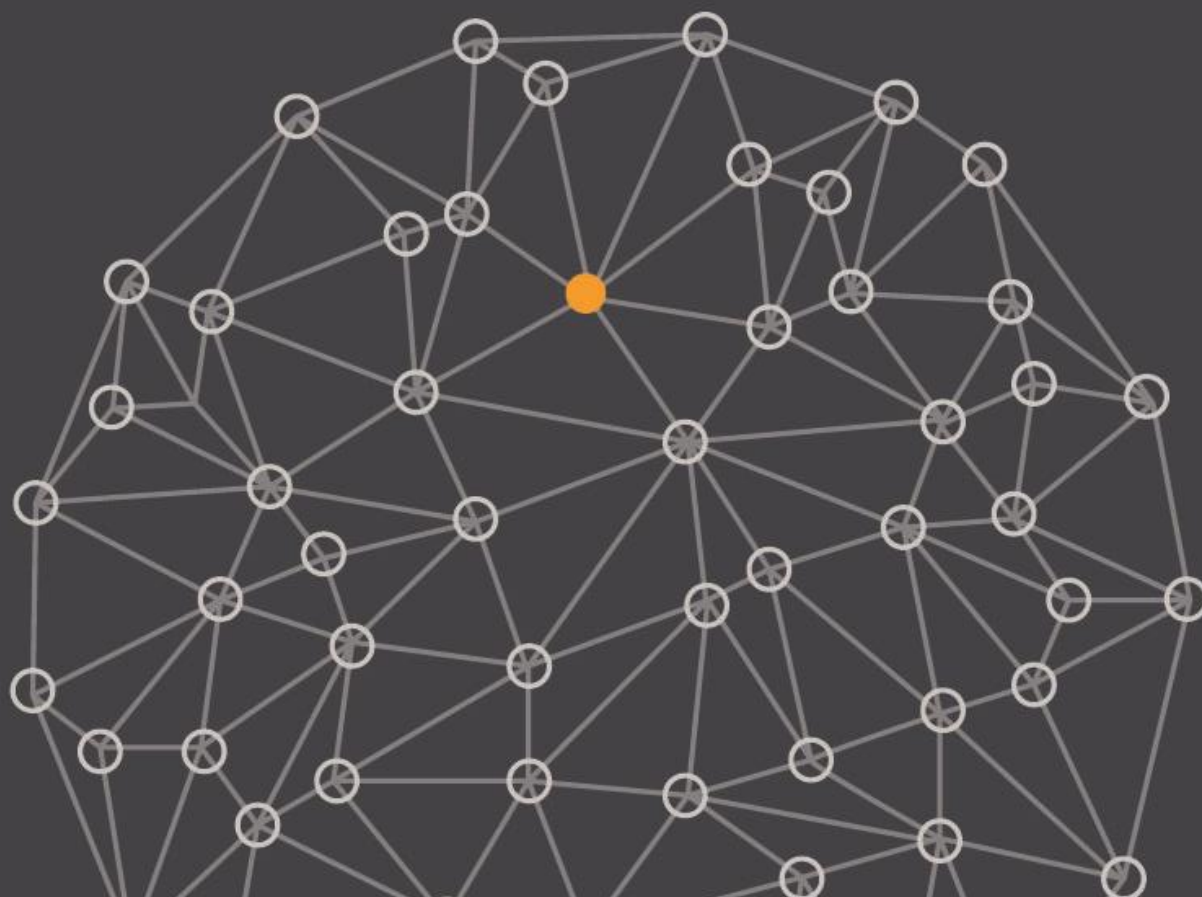
Assurant, Inc.

Report of the Independent Expert on the proposed transfer of life insurance business from Assurant Life Limited and London General Life Company Limited to Assurant Europe Life Insurance N.V.

Final Version

19 June 2020

[Philip Simpson](#), FIA





Contents

1. PURPOSE AND SCOPE	4
2. EXECUTIVE SUMMARY	9
3. THE INSURANCE MARKET AND REGULATORY ENVIRONMENT AND THE ROLE OF THE INDEPENDENT EXPERT	17
4. BACKGROUND REGARDING THE ENTITIES CONCERNED IN THE SCHEME.....	28
5. THE PROPOSED SCHEME	40
6. THE IMPACT OF THE SCHEME ON THE TRANSFERRED POLICYHOLDERS	44
7. THE IMPACT OF THE SCHEME ON THE REMAINING POLICYHOLDERS	66
8. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS	69
9. OTHER CONSIDERATIONS	73
10. CONCLUSIONS.....	81
APPENDIX A SELECTED FINANCIAL INFORMATION BEFORE THE IMPLEMENTATION OF THE SCHEME.....	82
APPENDIX B SELECTED FINANCIAL INFORMATION AFTER THE IMPLEMENTATION OF THE SCHEME	83
APPENDIX C CV FOR PHILIP SIMPSON	84
APPENDIX D SCOPE OF THE WORK OF THE INDEPENDENT EXPERT IN RELATION TO THE SCHEME	85
APPENDIX E THE SOLVENCY II REGULATORY REGIME.....	87
APPENDIX F THE REGULATION AND GOVERNANCE OF INSURANCE COMPANIES IN THE UK AND THE NETHERLANDS	91
APPENDIX G COMPLIANCE WITH THE PRA POLICY STATEMENT	93
APPENDIX H COMPLIANCE WITH THE FCA GUIDANCE	96
APPENDIX I CERTIFICATE OF COMPLIANCE.....	102
APPENDIX J DEFINITIONS.....	103
APPENDIX K KEY SOURCES OF DATA	108

1. PURPOSE AND SCOPE

PURPOSE OF THIS REPORT

- 1.1 It is proposed that particular blocks of long term insurance business of Assurant Life Limited ("ALL") and of London General Life Company Limited ("LGL") be transferred to Assurant Europe Life Insurance N.V. ("AEL") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). Together, ALL and LGL are the "Transferors" and AEL is the "Transferee".
- 1.2 Section 109 of FSMA requires that an application to the High Court of Justice in England and Wales ("the Court") for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the transfer ("the Independent Expert's Report") by an independent person ("the Independent Expert") having the skills necessary to make the report and who is nominated or approved by the Prudential Regulation Authority ("PRA"), having consulted with the Financial Conduct Authority ("FCA"). The Independent Expert's Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
- 1.3 ALL, LGL and AEL have collectively nominated me, Philip Simpson, to act as Independent Expert to provide the Independent Expert's Report in respect of the Scheme, and the PRA has approved my appointment following consultation with the FCA (see paragraph 1.23 below).
- 1.4 This report (the "Report") describes the proposed transfer and discusses its likely effects on the policyholders of ALL, LGL and AEL (in respect of all business of ALL, LGL and AEL), including its likely effects on the security of policyholder benefits and levels of service. As such, this Report fulfils the requirements of the Independent Expert's Report.
- 1.5 ALL and LGL are domiciled, authorised and regulated in the UK. AEL is domiciled, authorised and regulated in the Netherlands.
- 1.6 AEL, LGL and ALL are indirect subsidiaries of Assurant, Inc. ("Assurant"). In this Report, I refer to Assurant and its direct and indirect subsidiaries collectively as "the Assurant Group".
- 1.7 A list of terms defined in this Report is shown in Appendix J. Otherwise, I use the same defined terms as are in the document that sets out the terms of the proposed transfer (the "Scheme").

THE PROPOSED SCHEME

- 1.8 The proposed Scheme, if implemented, will transfer all of the assets and liabilities associated with the business of ALL and LGL that is within the scope of the Scheme (the "ALL Transferred Business" and the "LGL Transferred Business" respectively, collectively referred to as the "Transferred Business"), with the exception of any Residual Policies¹, to AEL on the Effective Date (i.e. the date on and from which the Scheme shall become effective). This business to be transferred consists of insurance policies written on a freedom of establishment basis through branches in Belgium, Germany, Italy, Netherlands and Spain and insurance policies written on a freedom of services basis in Ireland.
- 1.9 There is a similar proposed Scheme to transfer the non-UK short term business based in the European Union ("EU") from two UK non-life insurance subsidiaries of the Assurant Group to a newly established insurance subsidiary in the Netherlands. This proposed Scheme is the subject of a separate Part VII transfer for which the Independent Expert is Derek Newton, a Principal of Milliman LLP ("Milliman"), part of Milliman Inc. and is referred to as the "Assurant Non-Life Scheme". The Assurant Non-Life Scheme is being run in parallel to the proposed Scheme, is due to be presented to the Court on the same date as the Scheme and is intended to take effect at the same time as the Scheme.
- 1.10 There are some potential interactions between the two proposed schemes of transfer which are described in section 5 and subsequent sections.
- 1.11 The Effective Date of the Scheme is expected to be 2 November 2020.
- 1.12 AEL will have no Existing Policyholders as at the Effective Date.

¹ *The Residual Policies are those policies that cannot be transferred to AEL as at the Effective Date and would therefore remain with ALL or LGL as appropriate, but with the intention that each Residual Policy would be transferred to AEL promptly when possible. It is not intended that there will be any Residual Policies.*

- 1.13 The business involved in the Scheme, the arrangements for the Scheme and the effect of the Scheme are discussed in sections 4 to 9 of this Report.

THE INDEPENDENT EXPERT

- 1.14 I am a Principal of Milliman and I am based in its UK Life Insurance and Financial Services practice in London. I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), which was established in 2010 by the merger of the Institute of Actuaries and the Faculty of Actuaries. I became a Fellow of the Institute of Actuaries in 1992. My experience of life insurance includes acting previously as an Independent Expert, an Actuarial Function Holder and a With-Profits Actuary. I have included my Curriculum Vitae in Appendix C in which I explicitly note the insurance business transfer schemes for which I have acted as the Independent Expert.
- 1.15 I am not an expert in the detailed application of the pan EU prudential regulation regime, Solvency II, by the Dutch regulator, the Dutch Central Bank (the "DNB"), or in market practice in the Netherlands. I have been advised in these areas by experienced qualified actuaries from Milliman Inc.'s large office in the Netherlands.
- 1.16 I do not have any direct or indirect personal interest in any of the parties involved in the proposed Scheme, and, to the best of my knowledge, have never had any such interest. I have never had any life insurance policies with any of the companies within the Assurant Group, and I am not a shareholder or member of AEL or of any other Assurant Group entity. I have not previously acted in an advisory role to any Assurant Group entity.
- 1.17 I can confirm in the period 2016 to 2020 inclusive:
- Milliman has carried out no work for ALL, LGL or Assurant. Milliman has carried out work for The Warranty Group before it was acquired by Assurant;
 - The total work carried out for Assurant (including The Warranty Group) worldwide by Milliman Inc. represented less than 0.5% of Milliman's global revenue; and
 - The total work carried out for Assurant (including The Warranty Group) by Milliman represented approximately 1% of Milliman's revenue.
- 1.18 Assurant acquired The Warranty Group in 2018. This acquisition included LGL. For a period of less than a year up to 2016 Oliver Gillespie, a Principal of Milliman, held the Chief Actuary Function/Actuarial Function Holder role for LGL.
- 1.19 Milliman has not carried out any other work for Assurant, ALL or LGL in the period 2016 to 2020.
- 1.20 I believe that, for all practical purposes, I am independent for the purposes of assessing the proposed Scheme.
- 1.21 The Scheme is subject to sanction by the Court under Section 111 of FSMA.
- 1.22 The total costs of the Scheme will be split between Assurant, ALL, LGL and AEL, with the majority being met by Assurant. The costs of my work as Independent Expert specifically will be met by ALL and LGL on a proportionate basis as agreed between themselves. None of the costs of the Scheme will be met by any policyholders of ALL or LGL.

THE SCOPE OF MY REPORT

- 1.23 My terms of reference have been reviewed by the PRA and by the FCA and are set out in Appendix D.
- 1.24 I have considered the terms of the Scheme only and have not considered whether any other scheme or schemes or alternative arrangement might provide a more efficient or effective outcome.
- 1.25 The Report describes the Scheme and their likely effects on policyholders of ALL, LGL and AEL, including effects on the security of policyholders' benefits, the profile of risks to which policyholders are exposed, policyholders' reasonable benefit expectations and policy servicing standards.
- 1.26 The Report should be read in conjunction with the full terms of the Scheme.

- 1.27 My work has required an assessment of the liabilities of ALL, LGL and AEL for the purposes of describing the effect of the Scheme. My review of the liabilities was based on the technical provision assessments conducted by internal actuaries, on behalf of ALL, LGL and AEL. I have reviewed the methodology and assumptions used in their work and assessed the key areas of uncertainty in relation to these liabilities. I have not attempted to review in detail the calculations performed by the internal actuaries on behalf of ALL, LGL and AEL or to produce independent estimates of the liabilities.
- 1.28 In addition to the liabilities, I have assessed the appropriateness in nature and amount of any assets to be transferred under the Scheme, and the capital position of ALL, LGL and AEL both pre- and post-Scheme. Again, I have not attempted to review in detail the calculations of the capital position performed by AEL, LGL or ALL, and I have not attempted to produce independently my own estimates. I discuss my reliance on financial information in this Report, and why I consider such reliance to be reasonable, in more detail in section 3.
- 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 which nonetheless should be drawn to the attention of policyholders in their consideration of the Scheme.
- 1.30 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist the Court on matters within my expertise. This duty overrides any obligation to ALL, LGL and / or to AEL. I confirm that I have complied with this duty and will continue to comply with this duty throughout the course of my appointment as the Independent Expert.
- 1.31 I have taken account of the requirements regarding experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Protocol for Instruction of Experts to give Evidence in Civil Claims.
- 1.32 I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.33 This Report has been prepared during a period of great volatility in global and local economies, in the actions of national governments, in social and work activity and in consumer habits as a result of the Corona Virus Disease 2019 (“COVID-19”) pandemic. Although I have considered the impact of the pandemic on the Scheme in section 9 of this Report, I will, if necessary and immediately before the Directions Hearing, provide the Court with an addendum to this Report (the “Update Addendum”) that updates this Report, and in particular the conclusions therein, in respect of material developments relating to COVID-19 that are pertinent to the Scheme. If produced, the Update Addendum would be considered an integral part of the Report.
- 1.34 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (“Supplementary Report”) that will cover any relevant matters that might have arisen since the date of this Report. As part of my preparation of the Supplementary Report, I shall review and comment on the then most up-to-date financial information relating to ALL, LGL and/or AEL.
- 1.35 The letters, notices and advertisements to be sent to policyholders or published in relation to the Scheme will refer all queries to a postal address or a telephone number or a website address. ALL, LGL and AEL have stated that they will respond promptly to any such queries. It is intended that both this Report, the Supplementary Report and, if written, the Update Addendum, will be published on the AEL, LGL and ALL websites, and that copies will be sent to any policyholders who request them.

THE STRUCTURE OF MY REPORT

- 1.36 The remainder of this Report is set out as follows:
- Section 2: I provide an executive summary of this Report (I have also provided a separate summary of this Report, as described in paragraph 1.41, below).
- Section 3: I provide some background information regarding the regulatory environment in which ALL, LGL and AEL operate and also on the role of the Independent Expert.
- Section 4: I provide some background information regarding ALL, LGL and AEL.
- Section 5: I summarise the key provisions of the Scheme.
- Section 6: I consider the likely impact of the Scheme on the policyholders of ALL and LGL whose policies would be transferred to AEL under the Scheme (the “Transferred Policyholders”).

Section 7:	I consider the likely impact of the Scheme on the policyholders who would remain within LGL after the transfer has taken place (the "Remaining Policyholders").
Section 8:	I consider the likely impact of the Scheme on the fair treatment of customers.
Section 9:	I cover more general issues relating to the Scheme and the management of ALL, LGL and AEL.
Section 10	I summarise my conclusions.
Appendices	Include financial and other information.

RELIANCES AND LIMITATIONS

- 1.37 In carrying out my review and producing this Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me, in both written and oral form, by the Companies (the collective term for ALL, LGL and AEL). Reliance has been placed upon, but not limited to, the information detailed in Appendix K. My opinions depend on the substantial accuracy of this data, information and the underlying calculations. I am unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me. All information that I have requested in relation to my review has been provided. I have been assisted in my review of the information and my analyses by colleagues of mine at Milliman but I have not relied on their work or their advice. I note, in paragraph 3.85 below, that I have seen some legal advice sought by ALL, LGL and AEL and I have described there how I have used that advice and why I thought it reasonable to use it in that way. I have neither sought nor relied on any other legal advice.
- 1.38 The Report has been prepared for the purposes of the Scheme in accordance with Section 109 of FSMA. A copy of this Report will be sent to the FCA and PRA, and will accompany the Scheme application to the Court.
- 1.39 The Report must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.
- 1.40 Neither this Report, nor any extract from it, may be published without me having provided my specific written consent, save that:
- Copies of this Report may be made available for inspection by policyholders who might be affected by the Scheme; and
 - Copies may be provided to any person requesting the same in accordance with legal requirements.
- I also consent to this Report being made available on the website dedicated to the Scheme.
- 1.41 No summary of this Report may be made without my express consent. I will provide a summary of this Report (the "Report Summary") for inclusion in a document that will be made available to the affected policyholders of ALL, LGL and of AEL, to the lawyers and brokers dealing with or representing individual claimants in relation to the Transferred Business, to the affected reinsurers of ALL, and to other relevant bodies, e.g. to anyone who has been identified as having an interest in the policies being transferred or who has notified ALL, LGL or AEL of their interest (further details are provided in paragraphs 8.1 to 8.22, below). That document will be sent to the FCA and PRA, will accompany the Scheme application to the Court, and will be available on the website dedicated to the Scheme.
- 1.42 This Report has been prepared within the context of the assessment of the terms of the Scheme, and must not be relied upon for any other purpose. Milliman and/or I will accept no liability for any application of this Report to a purpose for which it was not intended or 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.
- 1.43 Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, economic and investment conditions. Therefore, it should be expected that the actual emergence of claims, premiums, expenses and investment income will vary from any estimate. Such variations in experience could have a significant effect on the results and conclusions of this Report. No warranty is given by Milliman or me that the assumptions, results and conclusions on which this Report is based will be reflected in actual future experience. I discuss my reliance on financial information in this Report in more detail in section 3.
- 1.44 This review does not comprise an audit of the financial resources and liabilities of ALL, LGL or AEL, or of the wider Assurant Group.

- 1.45 The Report should not be construed as investment advice.
- 1.46 Nothing in this Report should be regarded as providing a legal opinion on the effectiveness of the Scheme.
- 1.47 In considering the background to the Companies, and in considering the likely impact of the Scheme, I have made extensive use of financial information as at 31 December 2019 as that is, in general, the most recent date at which audited financial information will be available. I will provide commentary in my Supplementary Report regarding any material differences between the figures presented in this Report and the final audited figures as at 31 December 2019. I have asked the managements of the Companies for information regarding any developments between 31 December 2019 and the date of this Report that would have affected the Companies, in particular any development that might have affected the security of their policyholders, their risk profile, the reasonable benefit expectations of their policyholders or the standards of service provided to them, both now and in future. I have referred in this Report to the developments that they have reported to me. The only notable development is the COVID-19 pandemic, for which the Companies have provided estimated impacts. I comment on this development and how it may impact the proposed Scheme in section 9 of this Report. The managements of ALL, LGL and AEL have confirmed to me that there have been no other such developments. I have also searched using on-line resources for information regarding any such developments. At the date of this Report, I am not aware of any material changes in circumstances since 31 December 2019 other than those referred to in this Report. The Report also takes no account of any information that I have not received, or of any inaccuracies in the information provided to me. I will review any further financial statements of ALL, LGL and AEL, whether audited or unaudited, as and when they become available, and will comment on this information in my Supplementary Report.
- 1.48 All of the financial information with which I have been provided has been expressed in Pounds Sterling or Euros. However, I would expect that some of the underlying assets and transactions would be or would have been denominated in other currencies. I presume that, throughout the financial information, data in other currencies has been converted to Pounds Sterling and Euros at appropriate and mutually consistent currency exchange rates.
- 1.49 The use of Milliman's name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations, is not authorised without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

PROFESSIONAL AND REGULATORY GUIDANCE

- 1.50 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I have complied with such standards, subject to the principles of proportionality and materiality.
- 1.51 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA, I have considered whether this Report should be subject to review ("Work Review"). I concluded that it should and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Report or in the preparation of this Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Report should be subject to Independent Peer Review. I confirm that this Report has been subject to Independent Peer Review prior to its publication.
- 1.52 This Report has been prepared under the terms of the guidance set out in the Statement of Policy entitled *The Prudential Regulation Authority's approach to insurance business transfers* ("the Policy Statement"), issued in April 2015, and in Section 18 of the FCA Supervision Manual ("SUP18") contained in the Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. I have also followed the FCA's guidance FG18/4 entitled *The FCA's approach to the review of Part VII insurance business transfers* (the "FCA Guidance"). Appendix F and Appendix H sets out how this Report complies with the Policy Statement and the FCA Guidance respectively.

2. EXECUTIVE SUMMARY

INTRODUCTION

- 2.1 ALL is a proprietary company domiciled in the UK, whose shares are wholly owned by Assurant Group Limited (“AGL”) and whose principal activity is life insurance underwriting, in particular for creditor insurance programmes offering disability, death and critical illness cover for terms of up to 10 years.
- 2.2 As at 31 December 2019 ALL had two product lines with in-force policies; mortgage protection insurance and creditor insurance. These products were sold through seven intermediary clients, which include banks, credit unions and finance brokers, and there were c. 5,600 policies in force as at 31 December 2019. All of ALL’s in-force business was written on a freedom of establishment or freedom of services basis in Germany, Ireland, Italy and Spain.
- 2.3 The products written by ALL are no longer core to Assurant Europe Group’s (“AEG”) strategy and are no longer actively sold by ALL. Accordingly, ALL is now only servicing the existing policies until their expiry. All policies are due to expire by 2025.
- 2.4 LGL is a proprietary company in the UK, whose shares are wholly owned by The Warranty Group Europe Limited (“TWGE”) and whose principal activity is life insurance underwriting, in particular for creditor protection life insurance and permanent health insurance business covering unemployment, accident and death.
- 2.5 As at 31 December 2019 LGL had c. 10,700 in-force policies which were sold through seven intermediary clients. Aside from approximately 85 policies written by LGL in the UK, all of LGL’s in-force business was written on a freedom of establishment or freedom of services basis in Belgium, Ireland and the Netherlands.
- 2.6 LGL now only services the run-off of existing contracts and the renewal of existing business, with no new business sought.
- 2.7 AEL is a proprietary company in the Netherlands, whose shares are wholly owned by TWGE. AEL has obtained authorisation from the DNB, and has been established purely to service the existing business of ALL and LGL that was written on a freedom of establishment or freedom of services basis. AEL will not contain any business prior to the Effective Date. Following the Effective Date, AEL will only service the run-off of existing contracts and the renewal of existing business, and will not actively sell new business.

THE PROPOSED SCHEME

- 2.8 Following the UK’s departure from the EU in January 2020 (commonly referred to as “Brexit”), there is considerable uncertainty as to whether UK insurance companies will continue to be able to use the current passporting regime (“EEA Passport Rights”) to write and service business into the rest of the European Economic Area (“EEA”) via the EU’s freedom of establishment or freedom of service rules.
- 2.9 The proposed Scheme, if implemented, will transfer all insurance business, aside from Residual Business, written by ALL and LGL under EEA Passport Rights (the “ALL Transferred Business” and the “LGL Transferred Business”, or collectively the “Transferred Business”) to AEL, which is permitted to service business written in EEA member states under EEA Passport Rights.
- 2.10 Therefore, the proposed Scheme will enable the Assurant Group to continue to service the business of ALL and LGL written under EEA Passport Rights, regardless of the outcome of the Brexit negotiations.
- 2.11 The Transferred Business consists of c. 16,200 policies. The total policyholder liabilities proposed to be transferred amounted to c. £3.4m as at 31 December 2019. ALL and LGL would transfer all assets attributable to the Transferred Business to AEL.
- 2.12 The Residual Policies are those policies within the Transferred Policies that cannot be transferred to AEL as at the Effective Date and would therefore remain with ALL or LGL as appropriate, but with the intention that each Residual Policy would be transferred to AEL promptly when possible. It is not intended that there will be any Residual Policies.
- 2.13 The Scheme is expected to be presented to the Court for a Directions Hearing on 30 June 2020 and for a Sanction Hearing on 20 October 2020, with a planned Effective Date of 2 November 2020.

- 2.14 If approved by the Court, the Scheme will become operative on the Effective Date, at which point the Transferred Business will legally transfer from ALL and LGL to AEL.
- 2.15 There is a similar proposed Scheme to transfer the non-UK short term business based in the EU from two UK non-life insurance subsidiaries of the Assurant Group, Assurant General Insurance Limited (“AGIL”) and London General Insurance Company Limited (“LGI”), to a newly established insurance subsidiary in the Netherlands, Assurant Europe Insurance N.V. (“AEI”). This proposed Scheme is the subject of a separate Part VII transfer which is being run in parallel to the proposed Scheme, is due to be presented to the Court on the same dates as the Scheme and is intended to take effect at the same time as the Scheme. This is referred to as the Assurant Non-Life Scheme.
- 2.16 The creditor insurance policies insured by LGL include policies which were written jointly with LGI, which provide complementary non-life insurance cover. These are referred to in the Scheme as LGL EEA Creditor Policies.
- 2.17 Subject to the sanction by the Court of the Assurant Non-Life Scheme, LGI’s rights and obligations under each of the LGL EEA Creditor Policies will be transferred to AEL. The transfer of LGL’s rights and obligations under each of the LGL EEA Creditor Policies to AEL under this Scheme will be subject to the Court sanctioning the Assurant Non-Life Scheme.
- 2.18 Until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Policies will be Residual Policies for the purposes of the Scheme.
- 2.19 In this Report, unless otherwise specified, any references to the LGL Transferred Business assumes that this will include the LGL EEA Creditor Business.

MY CONSIDERATIONS WITH RESPECT TO THE PROPOSED SCHEME

- 2.20 The key points to consider in respect of each group of policyholders affected by the proposed Scheme are the likely changes (if any) to the following as a result of the implementation of the proposed Scheme:
- **The security of benefits under the policies:** this is derived from the financial strength supporting each group of policies under the appropriate risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
 - **The profile of risks to which the policies are exposed.**
 - **The regulatory regime that will apply to the policies.**
 - **The reasonable expectations of policyholders in respect of their benefits:** this includes the likely effects of the transfer on the policy servicing standards and governance applied to each group of policies.
- 2.21 In this Report I consider the effects of the proposed Scheme on the Transferred Policies in section 6 and the Remaining Policies in section 7, and I summarise these sections below.

THE IMPACT OF THE PROPOSED SCHEME ON TRANSFERRED POLICYHOLDERS

The effect of the Scheme on the security of Transferred Policy benefits

ALL Transferred Policyholders

- 2.22 Currently, the ALL Transferred Policyholders derive their benefit security from being policyholders of ALL, and the associated financial strength under the applicable risk appetite statement and capital management policy, the reinsurance arrangements that are in place and any support provided to ALL from its parent, AGL. In addition, in the extreme scenario of ALL becoming unable to pay policyholder benefits, the ALL Transferred Policies are currently protected under the Financial Services Compensation Scheme (“FSCS”), as described in paragraphs 3.29 to 3.30.
- 2.23 The implementation of the proposed Scheme would mean that ALL would cease to have a defined contractual obligation to the ALL Transferred Policyholders and that these obligations would be transferred to AEL. As the analysis in section 6 shows, if the Scheme were to be implemented I am satisfied that:
- There would be no material adverse effect on the security of benefits under the ALL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the AGL Capital Management Policy; and

- There would be no material adverse effect on the security of benefits under the ALL Transferred Policies as a result of being part of AEL after implementation of the Scheme rather than ALL as currently, including:
 - the reliance on the financial strength of AEL;
 - being subject to AEL's reinsurance arrangements;
 - AEL having TWGE as a parent rather than AGL; and
 - being subject to Dutch law relating to the rights on wind-up of a Dutch insurer.

2.24 If the Scheme were to be implemented, it is likely that the ALL Transferred Policies would no longer be covered under the FSCS for claims in respect of insured events arising after the Effective Date. I understand that there is no equivalent Dutch compensation scheme for the types of policies held by the ALL Transferred Policyholders.

2.25 However, I note that:

- The purpose of the proposed Scheme is to effect the transfer of the Transferred Business to AEL in order to enable its continued servicing, regardless of the outcome of the Brexit negotiations and in the absence of a practicable approach to utilising extended transitional periods on an individual EEA member state basis. Having certainty that the Transferred Policies can continue to be serviced lawfully after Brexit is key, and the loss of FSCS protection is an unavoidable consequence of this;
- Given AEL will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of AEL default or insolvency to be remote. Therefore, I consider the materiality of the loss of FSCS protection to be low; and
- Conclusions drawn on this matter from similar recent Part VII transfers that have been sanctioned by the Court could equally be applied in the case of this proposed Scheme.

2.26 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the ALL Transferred Policies.

2.27 In conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of ALL Transferred Policy benefits.

LGL Transferred Policyholders

2.28 Currently, the LGL Transferred Policyholders derive their benefit security from being policyholders of LGL, and the associated financial strength under the applicable risk appetite statement and capital management policy, the reinsurance arrangements that are in place and any support provided to LGL from its parent, TWGE. In addition, in the extreme scenario of LGL becoming unable to pay policyholder benefits, the LGL Transferred Policies are currently protected under the FSCS, as described in paragraphs 3.29 to 3.30.

2.29 The implementation of the proposed Scheme would mean that LGL would cease to have a defined contractual obligation to the LGL Transferred Policyholders and that these obligations would be transferred to AEL. As the analysis in section 6 shows, if the Scheme were to be implemented I am satisfied that:

- There would be no material adverse effect on the security of benefits under the LGL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the TWGE Capital Management Policy; and
- There would be no material adverse effect on the security of benefits under the LGL Transferred Policies as a result of being part of AEL after implementation of the Scheme rather than LGL as currently, including:
 - the reliance on the financial strength of AEL;
 - being subject to AEL's reinsurance arrangements;
 - AEL having TWGE as a parent; and
 - being subject to Dutch law relating to the rights on wind-up of a Dutch insurer.

2.30 If the Scheme were to be implemented, it is likely that the LGL Transferred Policies would no longer be covered under the FSCS for claims in respect of insured events arising after the Effective Date. I understand that there is no equivalent Dutch compensation scheme for the types of policies held by the LGL Transferred Policyholders.

2.31 However, I note that:

- The purpose of the proposed Scheme is to effect the transfer of the Transferred Business to AEL in order to enable its continued servicing, regardless of the outcome of the Brexit negotiations and in the absence of a practicable approach to utilising extended transitional periods on an individual EEA member state basis. Having certainty that the Transferred Policies can continue to be serviced lawfully after Brexit is key, and the loss of FSCS protection is an unavoidable consequence of this;
- Given AEL will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of AEL default or insolvency to be remote. Therefore, I consider the materiality of the loss of FSCS protection to be low; and
- Conclusions drawn on this matter from similar recent Part VII transfers that have been sanctioned by the Court could equally be applied in the case of this proposed Scheme.

2.32 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the LGL Transferred Policies.

2.33 In conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of LGL Transferred Policy benefits.

The effect of the Scheme on the profile of risks to which the Transferred Policies are exposed

ALL Transferred Policyholders

2.34 If the proposed Scheme were to be implemented, the ALL Transferred Policies would be direct policies of AEL and directly exposed to the risk profile of AEL.

2.35 Since AEL will contain both the ALL Transferred Business and the LGL Transferred Business, there would be a slightly higher absolute level of risk within AEL following the implementation of the proposed Scheme compared to ALL prior to the Scheme. However, AEL will be required to hold capital significantly in excess of the level determined by its actual risk profile. In addition, I note that the composition of risks to which AEL would be exposed is in line with those to which ALL is exposed, and these risks are typical of life insurance companies writing mortgage protection and creditor lines of insurance business. Therefore, from the perspective of ALL Transferred Policyholder security, the current risk profile of ALL and the risk profile of AEL after the implementation of the proposed Scheme are aligned.

2.36 Overall, I am satisfied that any change in risk profile would not have a material adverse effect on the ALL Transferred Policies.

LGL Transferred Policyholders

2.37 If the proposed Scheme were to be implemented, the LGL Transferred Policies would be direct policies of AEL and directly exposed to the risk profile of AEL.

2.38 The implementation of the proposed Scheme would increase the level of counterparty default risk to which LGL Transferred Policyholders are exposed, however this is offset by the reduced exposure to market risk and therefore overall there would be a slightly lower absolute level of risk within AEL following the implementation of the proposed Scheme compared to LGL prior to the Scheme. AEL will be required to hold capital significantly in excess of the level determined by its actual risk profile. Overall, from the perspective of LGL Transferred Policyholder security, the current risk profile of LGL and the risk profile of AEL after the implementation of the proposed Scheme are broadly aligned.

2.39 Overall, I am satisfied that any change in risk profile would not have a material adverse effect on the LGL Transferred Policies.

The effect on the Transferred Policies of the change in regulatory regime from the UK to the Netherlands

ALL Transferred Policyholders and LGL Transferred Policyholders

2.40 If the proposed Scheme were to be implemented, the Transferred Policyholders would become protected by the regulatory environment in the Netherlands rather than the UK as currently. As the analysis in section 6 shows, if the Scheme were to be implemented I am satisfied that:

- In terms of conduct of business regulation, there would be no material adverse effect on the Transferred Policies;
- The change in regulatory oversight in respect of prudential supervision from the PRA to the DNB would not have a material adverse effect on the Transferred Policies; and

- There would be no material adverse effect on the rights of Transferred Policyholders in relation to their access to an independent complaints service.

2.41 Therefore, in conclusion, I am satisfied that the change in regulatory regime from the UK to the Netherlands would not have a material adverse effect on the Transferred Policies.

The effect of the Scheme on the benefit expectations of the Transferred Policyholders

ALL Transferred Policyholders

- 2.42 If the proposed Scheme were to be implemented, then there would be no change to the terms and conditions of the ALL Transferred Policies, except that the policies would become policies of AEL rather than ALL.
- 2.43 The ALL Transferred Business is currently subject to the management and governance of ALL and will, if the proposed Scheme is implemented, be subject to the management and governance of AEL. As the analysis in section 6 shows, I am satisfied that the management and governance of AEL is materially similar to the management and governance of ALL.
- 2.44 I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the benefit expectations of the ALL Transferred Policyholders.
- 2.45 If the proposed Scheme were to be implemented, the existing administration and servicing arrangements in respect of ALL Transferred Policies would continue, and the only change would be that AEL would become the internal client of the intermediary service companies currently providing these services, rather than ALL.
- 2.46 Overall, there would be no material change in the administration and servicing of ALL Transferred Policies if the Scheme were to be implemented. I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the ALL Transferred Policies.

LGL Transferred Policyholders

- 2.47 If the proposed Scheme were to be implemented, then there would be no change to the terms and conditions of the LGL Transferred Policies, except that the policies would become policies of AEL rather than LGL.
- 2.48 The LGL Transferred Business is currently subject to the management and governance of LGL and will, if the proposed Scheme is implemented, be subject to the management and governance of AEL. As the analysis in section 6 shows, I am satisfied that the management and governance of AEL is materially similar to the management and governance of LGL.
- 2.49 I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the benefit expectations of the LGL Transferred Policyholders.
- 2.50 If the proposed Scheme were to be implemented, the provision of services for LGL Transferred Business currently delivered by TWG Services Limited ("TWGS") would instead be provided by Assurant Europe Services B.V. ("AES"). However, the analysis in section 6 shows that there would be no fundamental change to the services provided from a policyholder perspective, since all material aspects of the servicing arrangements would be unchanged. This includes the systems and processes used, the employees performing the servicing, the location from which the services are provided and the service levels and key performance indicators to which AES would be subject.
- 2.51 Overall, I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the LGL Transferred Policies.

THE IMPACT OF THE PROPOSED SCHEME ON REMAINING POLICYHOLDERS

- 2.52 It is possible that the Scheme and the Assurant Non-Life Scheme do not become effective at the same time, and in this scenario the LGL EEA Creditor Policies would remain within LGL until such time as the Assurant Non-Life Scheme becomes effective.
- 2.53 I therefore consider two groups of Remaining Policyholders in section 7, one of which will only exist until such time as the Assurant Non-Life Scheme becomes effective:
- **LGL Remaining UK Policyholders:** the policyholders of LGL that were not intended to be transferred under the proposed Scheme (approximately 85 policies as at the time of writing); and

- **LGL EEA Creditor Policyholders:** the LGL EEA Creditor Policyholders that would continue to reside within LGL until such time as the Assurant Non-Life Scheme becomes effective.

The effect of the Scheme on the security of Remaining Policy benefits

LGL Remaining UK Policyholders

- 2.54 If the proposed Scheme were to be implemented:
- The LGL Remaining UK Business (approximately 85 policies as at the time of writing) would continue to be managed in line with the TWGE Risk Management Framework and TWGE Capital Management Policy;
 - LGL would continue to hold sufficient capital in respect of the LGL Remaining UK Business in line with the TWGE Capital Management Policy; and
 - The reinsurance treaty in respect of LGL Remaining UK Business would remain in place.
- 2.55 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the security of LGL Remaining UK Policy benefits.

LGL EEA Creditor Policyholders

- 2.56 If the proposed Scheme were to be implemented then, until the implementation of the Assurant Non-Life Scheme:
- The LGL EEA Creditor Business would continue to be managed in line with the TWGE Risk Management Framework and TWGE Capital Management Policy; and
 - LGL would continue to hold sufficient capital in respect of the LGL EEA Creditor Business in line with the TWGE Capital Management Policy.
- 2.57 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the security of LGL EEA Creditor Policy benefits.

The effect of the Scheme on the profile of risks to which the Remaining Policies are exposed

LGL Remaining UK Policyholders

- 2.58 The overall level of risk would reduce in LGL if the proposed Scheme were to be implemented due to lower business volumes (approximately 85 policies as at the time of writing), asset volumes, counterparty exposure and operational exposures compared to before the transfer. The overall reduction in counterparty default risk would be partially offset by an increase in relative counterparty default risk since the LGL Remaining UK Policies are 100% reinsured. There would also be less diversification across geographies and counterparties.
- 2.59 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the profile of risks to which the LGL Remaining UK Policies are exposed.

LGL EEA Creditor Policyholders

- 2.60 The LGL EEA Creditor Policyholders will remain within LGL until such time as the Assurant Non-Life Scheme becomes effective. It is expected that the risk profile of LGL would be largely unchanged if the LGL EEA Creditor Policies were to remain within LGL; however the overall level of risk within LGL would be reduced since the LGL Transferred Business would no longer reside within LGL.
- 2.61 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the profile of risks to which the LGL EEA Creditor Policies are exposed.

The effect of the Scheme on the benefit expectations of the Remaining Policyholders

LGL Remaining UK Policyholders

- 2.62 The implementation of the proposed Scheme would not change the terms and conditions of the LGL Remaining UK Policies (approximately 85 policies as at the time of writing), the governance or management of the LGL Remaining UK Policies or the administration or servicing arrangements in respect of the LGL Remaining UK Policies.
- 2.63 Therefore, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable benefit expectations of the LGL Remaining UK Policyholders or on the level and standards of administration and service that would apply to the LGL Remaining UK Business.

LGL EEA Creditor Policyholders

- 2.64 The implementation of the proposed Scheme would not change the terms and conditions of the LGL EEA Creditor Policies or the governance or management of the LGL EEA Creditor Policies.
- 2.65 The administration and servicing arrangements with respect to the LGL EEA Creditor Business would remain unchanged. If, however, the LGL EEA Creditor Business were to continue to reside with LGL at the end of the Brexit transition period, LGL's ability to manage, administer and service this business without breaching authorisation requirements maybe threatened and further actions may be required to ensure a continuation of its ability to lawfully service these policies.
- 2.66 Therefore, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable benefit expectations of the LGL EEA Creditor Policyholders or on the level and standards of administration and service that would apply to the LGL EEA Creditor Business.

THE FAIR TREATMENT OF POLICYHOLDERS

The approach to communications with policyholders

- 2.67 LGL intends to seek waivers from the regulatory requirements to send a written notice to the LGL Remaining UK Policyholders on the basis that:
- The LGL Board does not consider that any LGL Remaining UK Policyholder will be materially adversely impacted by the implementation of the proposed Scheme;
 - There will be significant wider publication of the proposed Scheme;
 - The key documentation relating to the proposed Scheme will be made available online or by written or telephone request; and
 - LGL is currently in discussion with the regulators with regard to the longer term future of LGL after the implementation of the proposed Scheme. LGL expects to write separately to the LGL Remaining UK Policyholders regarding any action that will be taken, and as part of that communication intends to refer to the Scheme.
- 2.68 ALL and LGL also intend to seek waivers from the regulatory requirements to send a written notice to other specified parties, such as intermediaries and brokers, joint policyholders, deceased policyholders, expired policies with no known current claims exposure and policies for which ALL or LGL hold no valid policyholder address. I have reviewed the reasons why these waivers have been sought and I am satisfied that the application for a waiver to send a written notice to such parties is reasonable.
- 2.69 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the proposed waivers, is fair and reasonable, and that the information contained in the communications with policyholders adequately describes the proposals to policyholders.

Future conduct and regulatory risk

- 2.70 If the proposed Scheme were to be implemented, any costs arising as a result of conduct or failure to comply with regulations will be met by ALL or LGL as appropriate for any such costs arising in relation to actions prior to the transfer, and AEL for any such costs arising in relation to actions after the transfer.
- 2.71 There is no known Payment Protection Insurance mis-selling risk associated with the ALL Transferred Business or the LGL Transferred business.

Costs of the Scheme

- 2.72 The total costs of the Scheme will be split between Assurant, ALL, LGL and AEL, with the majority being met by Assurant. None of the costs of the Scheme will be met by any policyholders of ALL or LGL.
- 2.73 If in the unlikely event, and in the context of the small financial size of ALL and LGL, any costs associated with the proposed Scheme threaten to breach the target solvency cover after the transfer, ALL and LGL will ensure that the target solvency cover is maintained in accordance with their capital management policies.
- 2.74 I am satisfied that the allocation of costs as described above is reasonable.

OTHER CONSIDERATIONS

The recent judgment on the Prudential Rothesay Scheme

- 2.75 On 16 August 2019, the Court declined to sanction the transfer of a £12 billion portfolio of annuities from Prudential to Rothesay. Prudential and Rothesay had sought to effect the transfer of the portfolio pursuant to Part VII of FSMA. I understand that Prudential and Rothesay are appealing the decision.
- 2.76 In section 9 I consider the key features that were identified as weighing against the sanctioning of the Prudential Rothesay Scheme.
- 2.77 In summary, while some of the factors which influenced the judgment on the Prudential Rothesay Scheme are relevant to the Scheme, in my view none applies to the Scheme to the same extent as to the Prudential Rothesay Scheme, and the overall relevance of these factors in combination is much reduced.
- 2.78 I am satisfied that the conclusions in this Report are unaffected by the judgment in the Prudential Rothesay Scheme.

The COVID-19 outbreak

- 2.79 The COVID-19 virus has been declared a pandemic by the World Health Organization and the outbreak continues to spread globally, with many cases now confirmed in the UK. The UK government has put a large number of restrictions in place in response to this outbreak.
- 2.80 In section 9 I consider the conclusions in this Report in light of the increased volatility in financial markets, the potential increased mortality rate of ALL and LGL's insured policyholders and the potential operational disruption caused by the COVID-19 outbreak.
- 2.81 In summary I am satisfied that:
- The increased volatility in financial markets resulting from COVID-19 is not expected to have a material adverse impact on the benefit security of policyholders of ALL, LGL and AEL, both before and after the implementation of the proposed Scheme;
 - It is unlikely that the pandemic risk event due to the outbreak of the COVID-19 virus would lead to a breach of the risk appetite statements of ALL or LGL; and
 - COVID-19 is not likely to materially change the impacts of the proposed Scheme on administration and service standards.
- 2.82 Overall, I am satisfied that the COVID-19 pandemic does not provide any reason to change the conclusions in this Report. However, given the rapidly developing nature of the COVID-19 outbreak, I will provide an update on the potential risks from COVID-19 in my Supplementary Report, and will also if necessary, provide an Update Addendum to the Court immediately before the Directions Hearing.

MY CONCLUSIONS

- 2.83 I confirm that I have considered the issues affecting the various policyholders of ALL and LGL separately, as set out in sections 6, 7, 8 and 9, and that I do not consider further subdivisions (other than those in this Report) to be necessary.
- 2.84 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- The security of the benefits under the Transferred Policies and the Remaining Policies;
 - The profile of risks to which the Transferred Policies the Remaining Policies are exposed;
 - The reasonable expectations of the Transferred Policyholders and the Remaining Policyholders in respect of their benefits; or
 - The level and standards of administration and service that would apply to the Transferred Policies and the Remaining Policies.
- 2.85 I am satisfied that the Scheme is equitable to all classes of ALL, LGL and AEL policyholders.

3. THE INSURANCE MARKET AND REGULATORY ENVIRONMENT AND THE ROLE OF THE INDEPENDENT EXPERT

INTRODUCTION

- 3.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert. Also relevant is the regulatory regime in the Netherlands the domicile of the Transferee, AEL.
- 3.2 This section provides some background on the types of long-term business involved in the transfer, and the solvency and governance requirements of the regulatory regimes in the UK. The background is provided in the context of this Scheme and is not intended to be a complete description of the products or regulatory environment in the UK and the Netherlands. The final paragraphs describe the role of the Independent Expert.

The UK referendum on the European Union – “Brexit”

- 3.3 Following the UK Referendum on Continuing EU Membership in June 2016, the UK government started the process by which the UK would leave the EU (commonly referred to as "Brexit"). The UK Parliament finally ratified the Withdrawal Agreement Bill on 22 January 2020 and the UK's withdrawal from the EU took place late on 31 January 2020.
- 3.4 Although the UK has now formally left the EU, there is a transition period that will last until 31 December 2020, during which period the existing trading relationships continue unaltered and the future relationship between the UK and the EU is being negotiated. This transition period may be extended to either 31 December 2021 or 31 December 2022, subject to the mutual agreement of the EU and UK, that agreement to be reached by 1 July 2020. Potentially this agreement may be delayed due to the impact of COVID-19.
- 3.5 I consider some of the other possible impacts of Brexit as they might affect the Scheme later in this Report, but at this stage I note that, following Brexit, the UK government might seek to cancel certain pieces of legislation that were enacted in accordance with EU Directives. One such legislative item might be that which implemented Solvency II. However, I note the following:
- The UK played a prominent role in the design, structuring and development of Solvency II;
 - The costs for the UK insurance industry of implementing Solvency II were considerable and it is likely that the costs of implementing a replacement solvency regime that was materially different from Solvency II would also be very large;
 - Solvency II took many years to develop and to implement, and it is likely that any materially different replacement solvency regime would also take a long time to develop and to implement;
 - There is a strong desire within the UK insurance industry that the UK solvency and prudential regime maintains "equivalence" with the Solvency II regime that will remain in place throughout the remaining countries of the EU, to facilitate cross-border operations without unnecessary duplication of regulation;
 - A UK Treasury Select Committee was formed in September 2016 to consider the Solvency II Directive 2009/138/EC (the "Solvency II Directive"), its impact on the UK insurance industry and what improvements could be made in the interests of the consumer. The UK Treasury Select Committee reported in October 2017. While it called for the development of a clear agreed strategy to refine the Solvency II Directive post-Brexit in order to foster innovation, competition and competitiveness for the benefit of UK consumers, it did not recommend the dismantling of the Solvency II Directive; rather it looked for greater harmonisation between UK insurance and international capital standards and emerging accounting standards; and
 - During 2020, the European Insurance and Occupational Pensions Authority ("EIOPA") is conducting a review of Solvency II and is currently scheduled to publish an opinion on this review in June 2020. No conclusions have been drawn at the time of writing this Report. I will provide an update on the status of this review in my Supplementary Report that is to be prepared in advance of the Sanction Hearing, in particular in relation to whether any conclusions have the potential to introduce a material divergence between the UK's Solvency II regime and the Solvency II regime that may apply after the Effective Date in the Netherlands and elsewhere.

- 3.6 I further note that, on 19 October 2019, the UK and EU agreed a Political Declaration setting out the framework for their future relationship. The declaration indicated that they expect arrangements for financial services to be included within the scope of a future trade deal, that this would include close cooperation on regulatory and supervisory matters, and that an assessment of the equivalence of each other's regulatory and supervisory regimes was expected to be completed before the end of June 2020.
- 3.7 Therefore, notwithstanding Brexit, I believe it to be very unlikely that there will be any material change to the UK solvency capital regime in the short to medium-term. I have therefore not considered further this possibility in this Report.
- 3.8 It is possible that the negotiations between the UK and EU regarding the terms of Brexit might result, post-Brexit, in continuation of the current EEA Passport Rights, for UK insurers or at least in some transitional arrangements that enable insurers to carry on cross UK/EEA border activities for a fixed period after the UK formally exits the EU. However, most insurers currently operating across UK/EEA borders have made plans in case the EEA Passport Rights are discontinued promptly on at the end of the Brexit transition period. Some that are UK based are establishing, or have established, a regulated entity in a (continuing) EU-member country, from which non-UK EEA business can be conducted and into which existing non-UK EEA business can be transferred from the UK-based entity. This Scheme is the result of such a plan for the Assurant Group, where ALL and LGL are UK insurance companies and AEL is the regulated entity in the Netherlands, a continuing EU member.

THE PRODUCTS AND LONG-TERM INSURANCE BUSINESS RELEVANT TO THE SCHEME

- 3.9 The long-term business that is proposed to be transferred under the Scheme is conventional non-profit business.
- 3.10 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount or calculated based on a fixed formula. For example, a life insurance policy that pays a fixed death benefit or a mortgage protection policy that is designed to pay the outstanding sum on a repayment mortgage.

THE SOLVENCY II REGIME REQUIREMENTS

Introduction

- 3.11 The current regulatory solvency framework for the EEA insurance and reinsurance industry (from 1 January 2016 onwards) is known as Solvency II and all but the smallest EEA insurance companies are required to adhere to the Solvency II regime.
- 3.12 The Solvency II regime is summarised in Appendix E of this Report and I bring out below some of the features of the regime that are particularly important to understand in the context of the proposed transfer.

The Solvency II capital requirements

- 3.13 Under Solvency II, assets are, broadly speaking, reported at market value.
- 3.14 A company's liabilities are called the "technical provisions" which consist of the sum of the best estimate liabilities (the "BEL") and the "risk margin".
- 3.15 The BEL is a market consistent² value of liabilities calculated by projecting the expected future obligations of the insurer over the lifetime of the contracts using the most up-to-date financial information (at the date of the valuation) and the best estimate actuarial assumptions. The BEL is the present value of these projected cash-flows.
- 3.16 The risk margin is an adjustment designed to bring the total 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.
- 3.17 The excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital available in the company to cover capital requirements.
- 3.18 The Solvency Capital Requirement ("SCR") 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%.

² 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.

- 3.19 In calculating the SCR, it is expected that most firms will use the “Standard Formula”, as prescribed by EIOPA.
- 3.20 The Minimum Capital Requirement (“MCR”), which is usually 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, and is calibrated to a confidence level of 85% over a one year time frame (compared to 99.5% for the SCR). The MCR is subject to an absolute minimum monetary amount (currently €3.7m) which is periodically increased.

THE REGULATION OF INSURANCE COMPANIES IN THE UK

- 3.21 ALL and LGL are authorised by the PRA and regulated by the PRA and FCA in the UK.
- 3.22 The roles of the regulators are described in more detail in Appendix F of this Report but in summary:
- The PRA is a part of the Bank of England and is responsible for the prudential regulation and supervision in the UK of banks, building societies, credit unions, insurers and major investment firms; and
 - The FCA regulates the conduct of all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.

The governance of long-term insurers in the UK

- 3.23 The governance of long-term insurers in the UK is set out in more detail in Appendix F of this Report but in summary:
- The Board of Directors of a proprietary long-term insurer 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.
 - Under Solvency II, all insurers are required to establish the following key functions:
 - Actuarial function: This function is required, inter alia, to coordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions.
 - 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.
 - Since 10 December 2018, UK insurers have been subject to the Senior Managers and Certification Regime (“SM&CR”). The SM&CR defines a set of senior management functions (“SMF”), which includes:
 - Chief Executive Officer;
 - Chief Financial Officer;
 - Chief Risk Officer;
 - Chief Actuary;
 - Head of Internal Audit; and
 - Head of Key Business Area.

A FIRM'S RISK APPETITE AND INTERNAL CAPITAL POLICY

- 3.24 The Board of an insurer 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 of not being able to pay policyholder liabilities as they fall due and/or meet regulatory capital requirements.
- 3.25 In order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of their risk appetite and regulatory capital requirements, firms 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 internal capital policy.
- 3.26 The internal capital policy 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 the internal capital policy usually require Board approval and appropriate consultation with the relevant regulator (the PRA in the UK).
- 3.27 The capital policy 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, the capital policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to the capital policy.
- 3.28 The level of capital required may also be driven by the desire of the Board to maintain a particular credit rating with external credit rating agencies.

Financial Services Compensation Scheme

- 3.29 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.
- 3.30 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

- 3.31 The Financial Ombudsman Service ("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:
- £355,000 for complaints referred to the FOS on or after 1 April 2020 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; and
 - £160,000 for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019.
- 3.32 The "Dispute Resolution: Complaints" section of the FCA Handbook sets out the jurisdiction and scope of the FOS in the UK.

FCA Conduct Principles

- 3.33 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.
- 3.34 These outcomes, which are often summarised as "Treating Customers Fairly" ("TCF"), 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.
- 3.35 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; and
 - 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.

The Insurers (Reorganisation and Winding-Up) Regulations 2004

- 3.36 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, etc.) 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.

The Insurance Distribution Directive

- 3.37 The Insurance Distribution Directive ("IDD") has applied in the UK (and in all other EU Member States) with effect from 1 October 2018. The key requirements of the IDD are:
- Product oversight and governance arrangements aimed at ensuring that customers' interests are taken into consideration throughout the whole life cycle of an insurance product;
 - Transparency of inducement schemes to ensure respect of customers' interests;
 - The insurance undertaking (or insurance intermediary) providing advice to a customer is responsible for the assessment as to whether the insurance product(s) is/are suitable and appropriate, having regard to the customer's profile; and
 - A conflict of interest policy to facilitate customers' understanding of an insurance undertaking's actions taken on their behalf.
- 3.38 Business conducted via an EU branch is subject to the conduct of business regulations, including consumer protection rules, of the host country of each respective branch. The regulator in the country hosting each branch oversees the compliance of that branch with its insurance laws and regulations, implementing, if appropriate, the relevant EU Directives.

OVERVIEW OF NETHERLANDS INSURANCE REGULATION

Background

- 3.39 Dutch insurers, as well as other financial services organisations, are regulated by both the DNB and the Netherlands Authority for the Financial Markets ("AFM").

- 3.40 The roles of the regulators are described in more detail in Appendix F of this Report but in summary:
- The DNB is responsible for the prudential supervision of Dutch insurance companies, and monitors Dutch insurance companies' compliance with rules and regulations under the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*); and
 - The AFM is responsible for conduct of business supervision on financial markets for Dutch insurance companies, and supervises the integrity of advisers and intermediaries.
- 3.41 The solvency capital framework applicable to Dutch insurers is the European Solvency II framework described in Appendix E. Implementation of the Solvency II Directive in The Netherlands has been effectuated within the framework of the Dutch Act on Financial Supervision.

Governance of insurers in the Netherlands

- 3.42 The governance of insurers in the Netherlands is set out in more detail in Appendix F, but in summary:
- Both financial regulation and Dutch corporate law are fundamental to the principles and practices for the governance of Dutch insurers;
 - The major Dutch insurers use a two-tier governance structure consisting of a management board and a supervisory board;
 - The management board is responsible for setting company strategy; and
 - The supervisory board is responsible for supervising the manner in which the management board implements its strategy.
 - Under Solvency II, all insurers are required to establish the same keyfunctions as those set out within paragraph 3.23 above.

Dutch Financial Services Complaints Institute

- 3.43 The Dutch Financial Services Complaints Institute ("Kifid") provides private individuals with a n independent service for resolving disputes with financial companies which is free other than a fee charged for any appeals made regarding Kifid's decision. Kifid will deal with most consumer complaints concerning any financial services provider that is registered with Kifid.
- 3.44 In the case that Kifid is unable to resolve a dispute between an individual and a financial company, a decision is made with regards to the resolution by the Disputes Committee within Kifid. Decisions made by the Disputes Committee are usually legally binding, provided both parties have accepted that such decision will be legally binding prior to the decision being made. If, however, the individual is dissatisfied with the decision of the Disputes Committee and the decision is not binding, in general they may take the case to the Dutch court, where any decision made would be legally binding.
- 3.45 Kifid does not act on claims above €1m.

Policyholder ranking upon wind up of a Dutch insurer

- 3.46 Under Dutch law, the winding-up of an insurance undertaking is governed by the *Dutch Insolvency Act*. Under these regulations, policyholders of insurance policies are preferential creditors and as such, insurance claims have precedence over any claim on the insurance undertaking with the exception of certain preferential claims with respect to the whole of the insurance undertaking's assets. The preferential claims ranking ahead of insurance claims include claims from creditors with a mortgage claim over the assets of the insurer, claims relating to employee pensions and some claims relating to employee wages. 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.

THE ROLE OF THE INDEPENDENT EXPERT

Background

- 3.47 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 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 Court; and
 - Approve the form of the notices which are published and sent to policyholders.
 - The Independent Expert. He/she produces the (publicly available) Scheme Report assessing the Scheme and an updated Supplementary Report for the Final Hearing.
 - 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 Court. There are two Court hearings: the Directions Hearing and the Final (or Sanction) Hearing. The Court reviews the Scheme at the Final Hearing where the Court also takes into account the views of the regulators, the Independent Expert, evidence on behalf of the parties to the transfer, and any objections raised by policyholders and other interested parties.
- 3.48 My role as Independent Expert, as the second layer of protection for policyholders described above, is to assess the Scheme and to report on this via the Scheme Report (this Report, any supplemental reports and, if produced, the Update Addendum) 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

- 3.49 The requirements in respect of my Scheme Report are set out in:
- The PRA Statement of Policy (paragraphs 2.27 to 2.40 of the PRA Statement);
 - Paragraphs 31 to 41 of section 2 of SUP 18 of the FCA Handbook; and
 - The FCA Guidance described in paragraph 1.52.
- 3.50 My Report complies with these requirements.
- 3.51 In considering the Scheme, the concept of TCF should be applied. From the policyholders' perspective, the successful implementation of the Scheme must be on the basis that they are treated fairly during the process and will be treated fairly in the future.
- 3.52 As described in section 1 of this Report, the Scheme concerns three life insurance companies: ALL, LGL and AEL. I need to consider the terms of the Scheme generally and how any different groups of policyholders of ALL, LGL and AEL are likely to be affected by the implementation of the Scheme, including whether any different generations of policyholders within each group will be affected differently. In particular I need to consider:
- The effect of the implementation of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - The effect of the implementation of the Scheme on the reasonable expectations of policyholders in respect of their benefits; and
 - The effect of the implementation of the Scheme on the standards of service, administration, management and governance applicable to the policies.
- 3.53 My considerations in respect of each of these areas are set out in more detail below.
- 3.54 In this Report I have not restricted my assessment of the Scheme to adverse effects.
- 3.55 I am only required to comment on the effects of the implementation of the Scheme on policyholders who enter into contracts with ALL and LGL prior to the date of the implementation of the Scheme which is expected to be the Effective Date. AEL is not expected to have any policyholders prior to the transfer and so there are no AEL policyholders that I need to consider before the Effective Date of the Scheme. I am not required to consider the effects of the Scheme on new policyholders entering into contracts after this date; however I note in any event that AEL does not intend to write any new business.
- 3.56 I am not required to consider possible alternative schemes and I have therefore only considered the terms of the Scheme presented to me.

The security of policyholder benefits

- 3.57 As part of my role as Independent Expert for the Scheme, 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.
- 3.58 The EU regulations require insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic estimate of their liabilities to policyholders. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios.
- 3.59 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.
- 3.60 The Transferors 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, the amount and quality of capital resources available, and the internal capital policy and risk appetite of the company.

Policyholders' reasonable expectations in respect of their benefits and the levels of service received

- 3.61 As Independent Expert I also 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 in respect of their benefits and the quality of the levels of administration, servicing, management and governance in respect of their policies.
- 3.62 This includes considering the effect of the implementation of the Scheme on any areas where discretion may be involved on behalf of the relevant insurance company with regard to the charges applied to a policy and the benefits granted to the policyholder.

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

- 3.63 The framework for my conclusions is a consequence of the Court's consideration of prior schemes. In particular, principles stated by Evans-Lombe J. in *Re Axa Equity & Law Life Assurance Society plc and AXA Sun Life plc* (2001) (based on principles outlined by Hoffman J. in *Re London Life Association Limited* (1989)) are often used as the basis for the consideration of insurance business transfers by the Independent Expert and by the Court.
- 3.64 In particular, Evans-Lombe J. stated in *Re AXA Equity & Law* that "the court is concerned whether a policyholder, employee or other interested person or any group of them will be adversely affected by the scheme". He went on to state: "That individual policyholders or groups of policyholders may be adversely affected does not mean that the scheme has to be rejected by the court. The fundamental question is whether the scheme as a whole is fair as between the interests of the different classes of persons affected". The most common interpretation of these (and other relevant) statements has been that a conclusion that "no group of policyholders is materially adversely affected by the Scheme" provides a sufficient condition to conclude that the fairness of the Scheme as a whole has been demonstrated.
- 3.65 On 16 August 2019, the Court declined to sanction the transfer of a £12 billion portfolio of annuities from Prudential Assurance Company Limited ("Prudential") to Rothesay Life Limited ("Rothesay"). I discuss the possible implications of this judgment to the Scheme in paragraphs 9.19 et seq.
- 3.66 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of expert judgment regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 3.67 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that the Court should reject the Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.

- 3.68 In order to acknowledge this inherent uncertainty, and to be consistent with the statements by the Court noted above, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.
- 3.69 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.
- 3.70 This is the framework in which I undertake my consideration of the Scheme.

RELIANCES OF THE INDEPENDENT EXPERT IN THIS REPORT

The financial information in this Report

- 3.71 Appendices A and B show the current (i.e. before the implementation of the Scheme) and pro-forma post-Scheme Solvency II balance sheets (including capital requirements) as at 31 December 2019 for ALL, LGL and AEL and this financial information is used in the analysis of the effects of the implementation of the Scheme as set out in sections 6 to 9.
- 3.72 In respect of this financial information:
- For ALL, LGL and AEL the risk margin and SCR have been calculated using the Standard Formula; and
 - For the purpose of deriving the pro-forma post-Scheme balance sheet for ALL, LGL and AEL, the risk margin and SCR for the Transferred Business has been calculated using the Standard Formula.
- 3.73 In addition, I have been provided with financial projections showing the expected path (if the proposed Scheme were to be implemented) for the AEL solvency position until 31 December 2022.

The checks that have been carried out on the financial information

- 3.74 I have not carried out an independent review of the financial information but:
- The reported Solvency II balance sheets as at 31 December 2019 (shown in Appendix A) will be subject to an external audit by PwC and approved by the Chief Actuary and the respective Audit Committees and Boards.
 - I have carried out a high level reconciliation of the pro-forma post-Scheme Solvency II balance sheets as at 31 December 2019 for ALL, LGL and AEL, shown in Appendix B, back to the current Solvency II balance sheets for ALL and LGL, shown in Appendix A.

The checks on the ALL financial information

- 3.75 The current Solvency II balance sheet for ALL as at 31 December 2019 will be put through a full standard reporting process, including a review by the Solvency Capital Forum, and a review and opinion by the PwC audit team. I will provide commentary in my Supplementary Report regarding any material differences between the figures presented in this Report and the final audited figures as at 31 December 2019. To derive the pro-forma post-Scheme balance sheet, a number of overlays have been applied by an actuary on the Assurant Part VII team, which have been checked and approved by the ALL Chief Actuary.
- 3.76 The Standard Formula results for the ALL Transferred Business that are used to produce the pro-forma post-Scheme balance sheet for AEL are based on the absolute floor MCR, €3.7m, as specified by Solvency II, as this was the biting capital requirement for ALL as at 31 December 2019.
- 3.77 Some of the financial projections I have received from ALL were produced as part of the 2019 Own Risk and Solvency Assessment ("ORSA") and have undergone the normal checking, review and governance required as part of this process.

The checks on the LGL financial information

- 3.78 The current Solvency II balance sheet for LGL as at 31 December 2019 will be put through a full standard reporting process, including a review by the Solvency Capital Forum, and a review and opinion by the PwC audit team. The external audit is due to be completed in May 2020 and I will provide commentary in my Update Addendum if produced, and otherwise my Supplementary Report, regarding any material differences between the figures presented in this Report and the final audited figures as at 31 December 2019. To derive the pro-forma post-Scheme balance sheet, a number of overlays have been applied by an actuary on the Assurant Part VII team, which have been checked and approved by the LGL Chief Actuary.
- 3.79 The Standard Formula results for LGL Transferred Business that are used to produce the pro-forma post-Scheme balance sheet for AEL are based on the absolute floor MCR, €3.7m, as specified by Solvency II, as this was the biting capital requirement for LGL as at 31 December 2019.
- 3.80 Some of the financial projections I have received from LGL were produced as part of the 2019 ORSA and have undergone the normal checking, review and governance required as part of this process.

The checks on the AEL financial information

- 3.81 The pro-forma pre-Scheme Solvency II balance sheet for AEL as at 31 December 2019 has been estimated based on the assets and liabilities that will transfer under the proposed Scheme, as included in the existing ALL and LGL Solvency II balance sheets as at 31 December 2019. In order to derive the pro-forma post-Scheme Solvency II balance sheet for AEL as at 31 December 2019, a number of overlays have been applied by an actuary on the Part VII team. The pro-forma pre-Scheme and post-Scheme balance sheets for AEL as at 31 December 2019 have been checked and approved by the ALL and LGL Chief Actuary.
- 3.82 Some of the financial projections I have received in respect of AEL were produced as part of the initial ORSA that has been prepared in respect of AEL and AEI.

Conclusion in respect of the financial information

- 3.83 Given the level of external review and internal checking and governance to which the financial information will be 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.
- 3.84 My Supplementary Report will contain financial information as at 30 June 2020 and will provide an update on the effect of the implementation of the Scheme based upon these figures. My Update Addendum will also contain commentary on any material differences between the figures presented in this Report and the final audited figures as at 31 December 2019. In addition, as outlined in paragraph 1.33 I will, if necessary, provide an Update Addendum to the Court immediately before the Directions Hearing.

My reliance on legal advice

- 3.85 My 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 incorporate the input of experts in UK insurance law in relation to a number of areas. In particular:
- I rely on confirmation from Assurant that there are no previous schemes covering in-force business that could, in conjunction with the implementation of the Scheme, result in a material adverse impact on policyholders; and
 - I incorporate the input given by legal experts in order to ensure that my understanding of the Scheme, and my description of its relevant features in my Report, is materially accurate.
- 3.86 Obtaining information 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.
- 3.87 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 incorporate the input of the legal firms retained by ALL, LGL and AEL in respect of this Scheme, namely Pinsent Masons LLP in relation to the UK aspects of the Scheme and Kennedy Van der Laan in relation to the Dutch aspects of the 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 incorporate the input of Pinsent Masons LLP and Kennedy Van der Laan.
- 3.88 Pinsent Masons LLP and Kennedy Van der Laan have not been retained by me, and Pinsent Masons LLP and Kennedy Van der Laan have no liability for any input that has been made available to me in order to provide me with information that I consider relevant to my assessment of the effects of the Scheme.

3.89 My reasons for incorporating the input of Pinsent Masons LLP and Kennedy Van der Laan are:

- Pinsent Masons LLP is a large international legal firm 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;
- Kennedy Van der Laan is a large Dutch legal firm with a wide range of experience in Dutch insurance law and the application of insurance regulation 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 Netherlands;
- The nature of the input from Pinsent Masons LLP which I have incorporated is factual and primarily deals with the specifics of the Scheme and how it works in accordance with UK law;
- The nature of the input from Kennedy Van der Laan which I have incorporated reflects general Dutch insurance law and regulation;
- The legal matters summarised in the two immediately preceding bullet points do not appear to be contentious; and
- The fair treatment of policyholders is not dependent on the legal input.

3.90 Given the factual and non-contentious nature of the legal input provided, I am satisfied that this input was not influenced by the fact that it was obtained via appointment by Assurant rather than independent appointment. Therefore, I am satisfied that the input given by Pinsent Masons LLP and Kennedy Van der Laan would not be different if they were retained directly by me in respect of the Scheme.

3.91 I am therefore satisfied that it is appropriate for me to incorporate the input of Pinsent Masons LLP and Kennedy Van der Laan in forming my view on the Scheme.

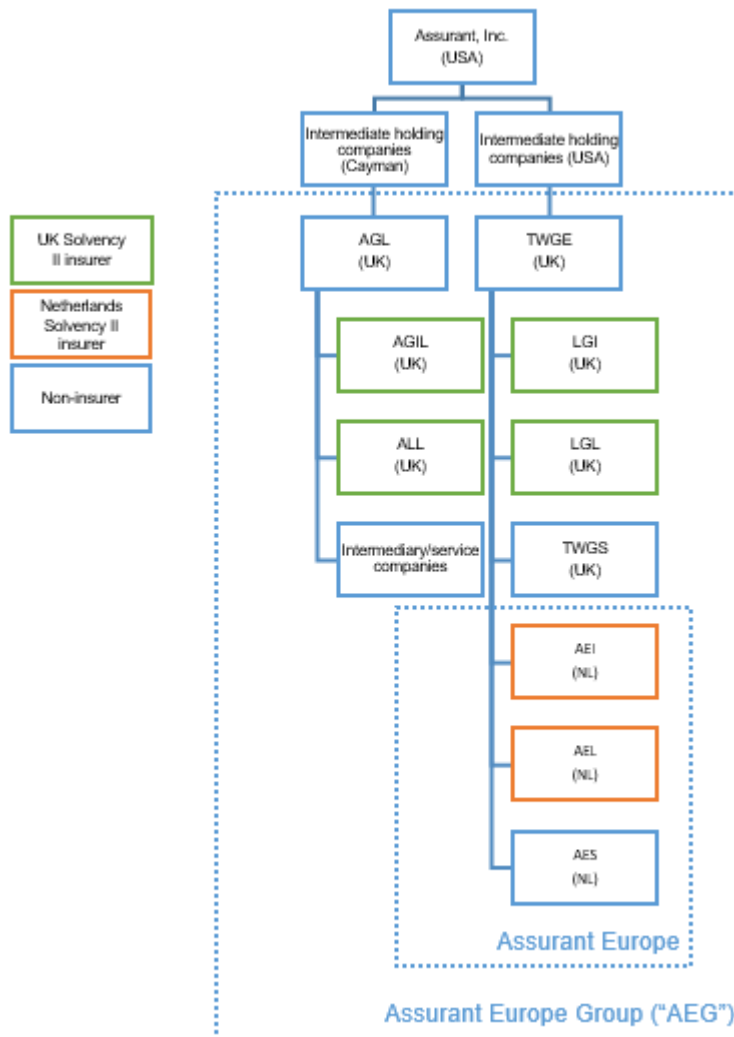
4. BACKGROUND REGARDING THE ENTITIES CONCERNED IN THE SCHEME

4.1 In this section of the Report, I set out some background information and key metrics relating to the entities that are involved in the Scheme.

ASSURANT EUROPE GROUP STRUCTURE

4.2 All three entities that are involved in the Scheme are members of a group of indirect subsidiaries of Assurant, known as AEG. Within AEG, there is a subset of recently formed companies, including AEL, collectively known as “Assurant Europe”. In 4.1 below, I set out a simplified structure chart for AEG, capturing the entities that are impacted by the Scheme.

FIGURE 4.1 SIMPLIFIED COMPANY STRUCTURE



Source: based on diagram from Solvency and Capital Forum slide pack, January 2020

ALL

Background

4.3 ALL is registered in England and Wales as a private company limited by shares (registered number 03264844) under the Companies Act 2006, and was incorporated on 17 October 1996. ALL’s shares are wholly owned by AGL. AGL is part of AEG, as illustrated in Figure 4.1 above. ALL is regulated by the PRA and the FCA.

- 4.4 ALL is authorised to write life and annuity and permanent health business. ALL's principal activity is life insurance underwriting, in particular for creditor insurance programmes offering disability, death and critical illness cover for terms of up to 10 years.
- 4.5 As well as having written business in the UK, ALL has written business on a freedom of establishment basis through branches in Germany, Italy and Spain. ALL has also written business on a freedom of services basis across a number of EEA member states.
- 4.6 The products written by ALL are no longer core to AEG's strategy and are no longer actively sold by ALL. Accordingly, ALL is now only servicing the existing policies until their expiry. All policies are due to expire by 2025.
- 4.7 As at 31 December 2019 ALL had two product lines with in-force policies; mortgage protection insurance and creditor insurance. These products were sold through seven intermediary clients, which include banks, credit unions and finance brokers, and there were c. 5,600 policies in-force as at 31 December 2019.
- 4.8 Mortgage protection insurance protects policyholders from being unable to meet their mortgage payments in the event of ill-health, disability, unemployment or death. Similarly, creditor insurance protects policyholders from being unable to make credit repayments against a loan in the event of ill-health, disability, unemployment or death. Mortgage protection and creditor insurance allows policyholders to continue paying off their mortgage or credit repayments in the event that they are no longer able to receive a secure income.

Key financial information

- 4.9 ALL prepares its Solvency II results in accordance with the Standard Formula and does not make use of the Solvency II matching adjustment, volatility adjustment or transitional measures on technical provisions ("TMTP").
- 4.10 The Solvency II Pillar 1 results for ALL as at 31 December 2019 are set out in Appendix A.
- 4.11 Under Solvency II, assets are classified into three tiers depending on their quality, with tier 1 representing the highest quality. As at 31 December 2019, ALL's Own Funds consisted entirely of tier 1 capital.
- 4.12 ALL's SCR is lower than the absolute floor MCR as specified by Solvency II, and therefore ALL holds sufficient capital to ensure it covers the MCR.

Risk profile

- 4.13 Whilst ALL holds sufficient capital to ensure it covers the MCR, the calculated Pillar 1 SCR provides an indication of the key risks to which ALL is exposed. The table below sets out the breakdown of ALL's SCR as at 31 December 2019.

FIGURE 4.2 ALL'S SCR BREAKDOWN AS AT 31 DECEMBER 2019

	£'000
Market risk	579
Counterparty Default Risk	675
Health Underwriting Risk	19
Life Underwriting Risk	246
Total pre-diversification	1,519
Diversification	(416)
Basic SCR	1,103
Operational Risk	25
SCR	1,128

Source: AEL SCR and RST as of YE2019

- 4.14 The main components of ALL's SCR on an undiversified basis are counterparty default risk and market risk, followed by life underwriting risk.

- 4.15 ALL's exposure to counterparty default risk is primarily driven by holding cash in highly liquid money market funds with next day access. ALL does not make use of any specific risk mitigation techniques in respect of this risk exposure, however all cash holdings must comply with certain requirements as set out in ALL's Financial Risk Policy.
- 4.16 ALL is exposed to market risk as a result of its participation in the financial markets and the inherent volatility of the market prices of assets and liabilities. ALL does not make use of risk mitigation techniques to manage its market risk exposure. However, investments are managed in line with an Investment Management Agreement which reflects AGL's market risk appetite.
- 4.17 ALL's exposure to life underwriting risk and health underwriting risk is largely driven by the fact that it is no longer writing new business, and therefore cannot amend future premiums to offset adverse performance of previously underwritten products. As described in paragraph 4.21, ALL has three reinsurance treaties in place which partially mitigate this risk.

ALL's non-UK business (the ALL Transferred Business)

- 4.18 Since all of ALL's UK business had expired by 31 December 2019, ALL's business consists wholly of non-UK business which is split across two product lines: mortgage protection business and creditor business.
- 4.19 The table below shows the ALL non-UK business policy count as at 31 December 2019.

FIGURE 4.3 ALL'S NON-UK BUSINESS AS AT 31 DECEMBER 2019

COUNTRY	POLICY COUNT
Germany	745
Ireland	100
Italy	4,782
Spain	2
Total	5,629

Source: Policy and product count per territory 120620

- 4.20 All of ALL's non-UK business is due to expire by 2025.

ALL's reinsurance arrangements

- 4.21 ALL has three quota share reinsurance treaties in place with external reinsurers which covers the business relating to three of ALL's clients. As at 31 December 2019 ALL had ceded technical provisions of £70k out of a total of £1.37m technical provisions. The business covered by these reinsurance arrangements is included within the ALL Transferred Business.

ALL's governance arrangements

- 4.22 Ultimate responsibility for ALL's business rests with the ALL Board. The AEG Board oversees a number of entities within AEG, including ALL and AGIL, another subsidiary of AGL. There is common membership between the ALL Board and the AEG Board comprising a combination of executive directors, group non-executive directors and independent non-executive directors. Thus the ALL Board has delegated to the AEG Board general governance oversight of the business of ALL, subject to certain reserved matters which must remain with the ALL Board.
- 4.23 The AEG Board is supported by the UK Audit, Risk and Compliance Committee ("UK ARCC"), which is a board-level committee chaired by an independent non-executive director. The UK ARCC's key responsibilities include assessing the integrity of the annual report and accounts, scrutinising internal financial systems and control and risk management systems, overseeing the solvency and capital position of the entities within AEG, including ALL, and ensuring compliance with legal and regulatory requirements.
- 4.24 In addition, the AEG Board is supported by the European Leadership Committee, which is responsible for overseeing the day to day management of AEG (including ALL), including ensuring that activities are consistent with business strategy, risk appetite and policies approved by the AEG Board. The European Leadership Committee has various management-level sub-committees and forums to enable it to perform its duties, including the UK Insurance Committee, the UK Management Risk Committee, the Solvency & Capital Forum and the Reserving Forum.

4.25 Whilst the AEG Board delegates certain responsibilities to the European Leadership Committee, there are a number of matters reserved for the AEG Board's decision covering specified aspects of strategy and management, structure and capital, financial reporting and controls, risk management and internal controls, communications, board membership and corporate governance.

ALL's risk management strategy

4.26 AEG maintains a Risk Management Framework, through which risk management is embedded throughout AEG, including ALL. The AEG Board is responsible for ensuring appropriate governance over risk across AEG, and the Chief Executive Officer of AEG is ultimately responsible for ensuring the risk profiles of the entities within AEG remain within the agreed risk appetite approved by the AEG Board.

4.27 The key components of the AEG Risk Management Framework include:

- **Risk appetite statement:** specifies the amount and type of risk that AGL is willing to accept in pursuit of strategic goals. These are expressed as a series of appetite statements, limits and measures that enable to AGL Board to set, monitor and manage risk appetite, risk capacity and risk profile.
- **Risk taxonomy:** categorises the universe of risks that AGL is exposed to. The Risk taxonomy consists of six main categories of risk, namely: insurance risk, market risk, credit risk, operational risk, regulatory risk and strategic risk. Within each of these main categories are a number of sub-categories of risk.
- **Risk management process:** sets out the agreed protocols for identifying, measuring, managing, monitoring and reporting risks.
- **Key risk policies:** a series of Solvency II policies, owned by members of the European Leadership Committee and reviewed at least annually. These policies define the scope, objective or reason for the policy, the key responsibilities for complying with the policies and the relevant policy statement, which outline the key controls in place to ensure proper governance of the risk.
- **Risk event escalation and breach reporting:** specifies the requirements for reporting risk events and the means by which risk events are monitored and escalated.
- **Stress testing and scenario analysis:** performed at least annually to ensure the adequacy of capital resources under a range of stresses and scenarios.
- **ORSA:** a forward looking assessment of risks, solvency needs and adequacy of capital resources. The ORSA is produced at least annually or with each significant change in risk profile, and provides a company-specific assessment of the risk profile and solvency requirements. A single ORSA is used for AGL, which is applicable to ALL.

ALL's capital management

4.28 I have been provided with AGL's Capital Management Policy which covers the capital management of ALL. The AGL Capital Management Policy sets out requirements for the assessment of Own Fund items, the maintenance of a medium-term capital management plan and the use of two capital buffers, which represent margins to be held above the MCR. The capital buffers for ALL are set with reference to the MCR since, as described in paragraph 4.12, this is the biting capital requirement. For the avoidance of doubt, if the Pillar 1 SCR were to be the biting capital requirement, then the capital buffers would instead be set with reference to the Pillar 1 SCR.

4.29 The two capital buffers are intended to ensure ALL maintains sufficient Own Funds to cover the adverse events defined in the ORSA stress tests. The capital buffers are defined as specified ratios of Own Funds to MCR. The higher of the two capital buffers is referred to as the ALL Target Working Capital Ratio. If the ratio of ALL Own Funds to MCR, referred to hereafter as the ALL MCR Ratio, is below the ALL Target Working Capital Ratio, it has "Amber" status, as specified in the AGL Capital Management Policy. The lower of the two capital buffers is referred to as the ALL Capital Buffer. If the ALL MCR Ratio is below the ALL Capital Buffer it has "Red" status. The AGL Capital Management Policy sets out the management actions that will be considered to return the MCR Ratio to above the ALL Target Working Capital Ratio when the ALL MCR Ratio has Amber or Red status, with more stringent actions specified under the Red status.

4.30 The level at which the two capital buffers are set is reassessed with each ORSA process, which takes place at least annually.

4.31 As at 31 December 2019 the ALL Target Working Capital Ratio was set at 150% of the MCR. The ALL Capital Buffer is confidential and is therefore not disclosed. Both the ALL Target Working Capital Ratio and the ALL Capital Buffer are set in terms of the MCR rather than the SCR, since, as outlined in paragraph 4.12, this is the biting capital requirement for ALL. Therefore, at 239% as at 31 December 2019, the ALL MCR Ratio was in excess of the ALL Target Working Capital Ratio of 150%, i.e. it had “Green” status.

ALL’s administration and servicing arrangements

4.32 The administration and servicing of ALL policies is outsourced to various internal intermediary service companies within AGL. ALL manages all of its servicing relationships in accordance with the European Operations Outsource Oversight Framework, which applies across AEG. This framework sets out the roles and responsibilities in relation to the outsourcing of services, the controls in place to monitor outsource providers and the governance structure surrounding the management of outsourcing.

4.33 In addition, AEG maintains a number of group-wide policies covering customer-facing services in order to ensure consistent customer service and fair treatment of customers across AEG. These policies cover aspects such as product governance, complaints handling, claims management and treating customers fairly.

4.34 Outsourcing contracts are structured in accordance with the European Operations Outsource Oversight Framework and relevant regulatory guidelines. Specific service levels and key performance indicators are documented within each outsourcing contract and typically relate to aspects of policy servicing such as IT system availability, telephone answering times, claims handling timescales and complaints handling timescales. Performance against these metrics is tracked and monitored in periodic reports which are provided to the European Leadership Committee, alongside root cause analysis and remedial actions in instances where target service levels or key performance indicators have not been met.

LGL

Background

4.35 LGL is registered in England and Wales as a private company limited by shares (registered number 02443666) under the Companies Act 2006, and was incorporated on 16 November 1989. LGL’s shares are wholly owned by TWGE. TWGE is part of AEG, as illustrated in Figure 4.1 above. LGL is regulated by the PRA and the FCA.

4.36 LGL is authorised to write life and annuity, linked long-term and permanent health business. LGL’s principal activity is life insurance underwriting, in particular for creditor protection life insurance and permanent health insurance business covering unemployment, accident and death.

4.37 As well as having written business in the UK, LGL has written business on a freedom of establishment basis through branches in Belgium, France, Germany, Ireland, Italy, Netherlands, Poland and Spain. LGL has also written business on a freedom of services basis across a number of EEA member states.

4.38 As at 31 December 2019 LGL had c. 10,700 in-force policies which were sold through seven intermediary clients.

4.39 LGL now only services the run-off of existing contracts and the renewal of existing business, with no new business sought.

4.40 In May 2018 LGL’s ultimate parent company, The Warranty Group Inc., was acquired by Assurant. TWGE remains a separate supervised group to AGL and there has therefore been little direct impact on the business of LGL.

Key financial information

4.41 LGL prepares its Solvency II results in accordance with the Standard Formula and does not make use of the Solvency II matching adjustment, volatility adjustment or TMTP.

4.42 The Solvency II Pillar 1 results for LGL as at 31 December 2019 are set out in Appendix A.

4.43 As at 31 December 2019, LGL’s Own Funds consisted entirely of tier 1 capital.

4.44 LGL’s SCR is lower than the absolute floor MCR as specified by Solvency II, and therefore LGL holds sufficient capital to ensure it covers the MCR.

Risk profile

4.45 Whilst LGL holds sufficient capital to ensure it covers the MCR, the calculated Pillar 1 SCR provides an indication of the key risks to which LGL is exposed. The table below sets out the breakdown of LGL's SCR as at 31 December 2019.

FIGURE 4.4 LGL'S SCR BREAKDOWN AS AT 31 DECEMBER 2019

	£'000
Market risk	1,226
Counterparty Default Risk	61
Health Underwriting Risk	1
Life Underwriting Risk	194
Total pre-diversification	1,481
Diversification	(175)
Basic SCR	1,306
Operational Risk	10
SCR	1,316

Source: AEL SCR and RST as of YE2019

- 4.46 The main component of LGL's SCR on an undiversified basis is market risk, followed by life underwriting risk.
- 4.47 LGL is exposed to market risk as a result of its participation in the financial markets and the inherent volatility of the market prices of assets and liabilities. LGL does not make use of risk mitigation techniques to manage its market risk exposure. However, investments are managed in line with an Investment Management Agreement, adherence to which is monitored by the LGL Investment Committee.
- 4.48 LGL's exposure to life underwriting risk is largely driven by the fact that it is no longer writing new business, and therefore cannot amend future premiums to offset adverse performance of previously underwritten products. As described in paragraph 4.51, LGL has one reinsurance treaty in place which partially mitigates this risk.

LGL's UK business (the LGL Remaining Business)

- 4.49 LGL has a very small portfolio of in-force UK business. As at the time of writing there were 85 UK policies within LGL, all of which were 100% reinsured to an external reinsurer. LGL's UK business is due to expire by 2048.

LGL's non-UK business (the LGL Transferred Business)

- 4.50 All of LGL's non-UK business is due to expire by 2028. The table below shows the LGL non-UK business policy count as at 31 December 2019. Please note that the 22 Irish policies do not form part of the LGL Transferred Business as these policies are expected to be fully run-off before the Effective Date.

FIGURE 4.5 LGL'S NON-UK BUSINESS AS AT 31 DECEMBER 2019

COUNTRY	POLICY COUNT
Belgium	5,783*
Ireland	22
Netherlands	4,810**
Total	10,615

Source: Policy and product count per territory 120620

* This includes 3,591 LGL EEA Creditor Policies

**This includes 249 LGL EEA Creditor Policies

LGL's reinsurance arrangements

- 4.51 LGL has one reinsurance treaty in place with an external reinsurer which relates to the UK business; this treaty will remain with LGL and will not transfer in the proposed Scheme. The reinsured business within LGL is immaterial compared to LGL's overall business volumes. There are no reinsurance arrangements relating to the LGL Transferred Business.

LGL's governance arrangements

- 4.52 Following the acquisition of TWGE by Assurant, the governance arrangements for TWGE and its subsidiaries, which includes LGL, have been combined with those for AEG. There is therefore a single governance structure used across AEG.
- 4.53 Ultimate responsibility for LGL's business rests with the AEG Board. The AEG Board oversees a number of entities within AEG, including LGL and LGI, another subsidiary of TWGE. There is common membership between the LGL Board and the AEG Board comprising a combination of executive directors, group non-executive directors and independent non-executive directors. Thus the LGL Board has delegated to the AEG Board general governance oversight of the business of LGL, subject to certain reserved matters which must remain with the LGL Board.
- 4.54 The AEG Board is supported by the UK ARCC, which is a board-level committee chaired by an independent non-executive director. The UK ARCC's key responsibilities include assessing the integrity of the annual report and accounts, scrutinising internal financial systems and control and risk management systems, overseeing the solvency and capital position of the entities within AEG, including LGL, and ensuring compliance with legal and regulatory requirements.
- 4.55 In addition, the AEG Board is supported by the European Leadership Committee, which is responsible for overseeing the day to day management of AEG (including LGL), including ensuring that activities are consistent with business strategy, risk appetite and policies approved by the AEG Board. The European Leadership Committee has various management-level sub-committees and forums to enable it to perform its duties, including the UK Insurance Committee, the UK Management Risk Committee, the Solvency & Capital Forum and the Reserving Forum.
- 4.56 Whilst the AEG Board delegates certain responsibilities to the European Leadership Committee, there are a number of matters reserved for the AEG Board's decision covering specified aspects of strategy and management, structure and capital, financial reporting and controls, risk management and internal controls, communications, board membership and corporate governance.

LGL's risk management strategy

- 4.57 I understand from Assurant management that the TWGE Risk Management Framework is currently being redrafted to reflect the acquisition of TWGE by Assurant. Given this was not complete at the time of writing this Report, in this Report I consider the existing TWGE Risk Management Framework that is in place, and will address any subsequent changes in my Supplementary Report.
- 4.58 TWGE maintains a Risk Management Framework, through which risk management is embedded throughout TWGE, including LGL. The AEG Board is responsible for ensuring appropriate governance of risk across TWGE, and the Chief Executive Officer of AEG is ultimately responsible for ensuring risk profiles of the entities within AEG remains within the agreed risk appetite approved by the AEG Board.
- 4.59 The key components of TWGE Risk Management Framework include:
- **Risk strategy:** summarises TWGE's approach to managing risks, including the risk lifecycle of: identification, assessment, management and reporting, and monitoring.
 - **Risk appetite:** articulates the short to medium term willingness of TWGE to accept a certain level of risk, for each material risk that it is exposed to, with associated tolerances.
 - **Risk framework:** details for each identified key risk category: the committees within AEG which oversee the risk profile, the relevant underlying policies and the risk sub-categories.
 - **Risk register:** sets out the requirement to maintain a risk register for all identified risks which includes, for each risk, a risk owner, risk likelihood and impact and the controls in place.
 - **Event management:** specifies the requirement for reporting risk events and ensuring suitable mitigating actions are considered.
 - **ORSA:** this provides a comprehensive assessment of how TWGE manages risk, its current and forward looking risk exposure and the ability to meet capital requirements.

- **Stress and scenario testing:** considers forward looking stresses of extreme, but realistic scenarios that could impact TWGE. This is performed on an annual cycle.

LGL's capital management

- 4.60 I understand that the TWGE Capital Management Policy is currently being redrafted to reflect the acquisition of TWGE by Assurant. Given this was not complete at the time of writing this Report, in this Report I consider the existing TWGE Capital Management Policy that is in place, and will address any subsequent changes in my Supplementary Report.
- 4.61 I have been provided with TWGE's Capital Management Policy which covers the capital management of LGL. The TWGE Capital Management Policy sets out requirements for the assessment, monitoring and reporting of LGL's capital position, the capital planning process, the capital allocation process and rules surrounding dividend declarations.
- 4.62 LGL's capital position is assessed with reference to the LGL Risk Appetite Buffer, and the TWGE Capital Management Policy sets out actions available depending on how the LGL MCR Ratio compares to the LGL Risk Appetite Buffer. The LGL Risk Appetite Buffer is set with reference to the MCR since, as described in paragraph 4.44, this is the biting capital requirement. For the avoidance of doubt, if the Pillar 1 SCR were to be the biting capital requirement, then the LGL Risk Appetite Buffer would instead be set with reference to the Pillar 1 SCR.
- 4.63 If the LGL MCR Ratio is:
- **Above the LGL Risk Appetite Buffer:** no action is taken and a dividend distribution is considered.
 - **Below, or is projected to be below, the LGL Risk Appetite Buffer but above the regulatory capital requirement:** management actions will be proposed by the Chief Financial Officer for approval by the TWGE Operating Board and a dividend distribution will not be considered.
 - **Below, or has the potential to be below, the regulatory capital requirement:** in addition to the actions in the above threshold, the PRA will be notified and an action plan agreed.
- 4.64 The LGL Risk Appetite Buffer is set equal to the ALL Capital Buffer.
- 4.65 I understand that one of the planned changes to the TWGE Capital Management Policy is to introduce a second capital buffer, in order to align the TWGE Capital Management Policy with the AGL Capital Management Policy. This second capital buffer, referred to as the LGL Target Capital, would be higher than the LGL Risk Appetite Buffer. If the LGL MCR Ratio were to be higher than the LGL Target Capital then a dividend distribution would be considered, and if the LGL MCR Ratio were to be below the LGL Target Capital but above the LGL Risk Appetite Buffer, no action would be taken but a dividend distribution would not be considered. Aside from this, the thresholds outlined in paragraph 4.63 would still apply.
- 4.66 As at 31 December 2019 the LGL Target Capital was set at 145% of the MCR. The LGL Risk Appetite Buffer is confidential and is therefore not disclosed. The LGL Target Capital and LGL Risk Appetite Buffer are set in terms of the MCR rather than the SCR, since, as outlined in paragraph 4.44, this is the biting capital requirement for LGL. As at 31 December 2019, the LGL MCR Ratio at 162% was in excess of the LGL Target Capital of 145%.

LGL's administration and servicing arrangements

- 4.67 The administration and servicing of LGL policies is outsourced to TWGS, a subsidiary of TWGE. LGL manages its outsourcing relationship with TWGS in accordance with the European Operations Outsourcing Oversight Framework, which applies across AEG. This framework sets out the roles and responsibilities in relation to outsourcing, the controls in place to monitor outsource providers and the governance structure surrounding the management of outsourcing.
- 4.68 In addition, AEG maintains a number of group-wide policies covering customer-facing services in order to ensure consistent customer service and fair treatment of customers across AEG. These policies cover aspects such as product governance, complaints handling, claims management and treating customers fairly.

- 4.69 Outsourcing contracts are structured in accordance with the European Operations Outsource Oversight Framework and relevant regulatory guidelines. Specific service levels and key performance indicators are documented within each outsourcing contract and typically relate to aspects of policy servicing such as IT system availability, telephone answering times, claims handling timescales and complaints handling timescales. Performance against these metrics is tracked and monitored in periodic reports which are provided to the European Leadership Committee, alongside root cause analysis and remedial actions in instances where target service levels or key performance indicators have not been met.

AEL

Background

- 4.70 AEL is a limited company (registered number 72959312) incorporated in the Netherlands and regulated by the DNB. AEL's shares are wholly owned by TWGE. AEL is authorised in the Netherlands for classes I (life and annuity) and IV (permanent health insurance) of life insurance business under the Dutch Act on Financial Supervision.
- 4.71 As described in paragraph 3.8, AEL has been set up as a result of Assurant Group's uncertainty as to whether, post-Brexit, ALL and LGL will continue to be able to service business written in EEA member states under EEA Passport Rights. AEL is able to service business written in EEA member states under EEA Passport Rights.
- 4.72 Since AEL is being established purely to service the existing business of ALL and LGL that was written in EEA member states under EEA Passport Rights, AEL will not contain any business prior to the Effective Date. Following the Effective Date, AEL will only service the run-off of existing contracts and the renewal of existing business, and will not actively sell new business.
- 4.73 AEL has been set up in conjunction with AEI and AES. Collectively, these three companies are referred to as "Assurant Europe".

Key financial information

- 4.74 AEL intends to prepare its Solvency II results in accordance with the Standard Formula and does not intend to make use of the Solvency II matching adjustment, volatility adjustment or TMTP.
- 4.75 AEL has issued ordinary share capital to TWGE (AEL's sole and existing shareholder) of c. €5.4m, which is sufficient to ensure that AEL meets the AEL Target Capital (described further in paragraphs 4.91 to 4.95 below).
- 4.76 Pro-forma Solvency II Pillar 1 results for AEL as at 31 December 2019 are set out in Appendix A and Appendix B. As at 31 December 2019, LGL's Own Funds consisted entirely of tier 1 capital.
- 4.77 All of AEL's capital will qualify as tier 1 capital.
- 4.78 Given the volume of the Transferred Business, AEL's SCR will immediately be lower than the absolute floor MCR as specified by Solvency II, and therefore the MCR will be the regulatory capital requirement for AEL. AEL will therefore be required to hold sufficient capital to ensure it covers the MCR.

Risk profile

- 4.79 Whilst AEL is required to hold sufficient capital to ensure it covers the MCR, the calculated Pillar 1 SCR provides an indication of the key risks to which AEL is expected to be exposed. The table below sets out the breakdown of AEL's SCR as at 31 December 2019 based on the pro-forma financial information assuming the Scheme had been implemented at that date.

FIGURE 4.6 AEL'S SCR BREAKDOWN AS AT 31 DECEMBER 2019

	£'000
Market risk	534
Counterparty Default Risk	719
Health Underwriting Risk	19
Life Underwriting Risk	421
Total pre-diversification	1,693
Diversification	(488)
Basic SCR	1,205
Operational Risk	25
SCR	1,230

Source: AEL SCR and RST as of YE2019

- 4.80 Assuming the Scheme had been implemented as at 31 December 2019, the main component of AEL's SCR on an undiversified basis would have been counterparty default risk and market risk, followed by life underwriting risk.
- 4.81 AEL's exposure to counterparty default risk is primarily driven by holding cash in highly liquid money market funds with next day access, as well as exposure to other counterparties such as reinsurers. AEL's exposure to market risk is a result of its participation in the financial markets and the inherent volatility of the market prices of assets and liabilities. AEL's exposure to life underwriting risk is largely driven by the fact that it does not write new business, and therefore cannot amend future premiums to offset adverse performance of previously underwritten products. As stated in paragraph 4.83, AEL plans to make use of external reinsurance arrangements which would partially mitigate this risk.

AEL's existing business

- 4.82 As explained in paragraphs 4.71 to 4.72, AEL will not contain any business prior to the Effective Date.

AEL's reinsurance arrangements

- 4.83 AEL plans to make use of the three existing external reinsurance arrangements in use by ALL to manage its business, as described in paragraph 4.21.

AEL's governance arrangements

- 4.84 There is a single governance structure used across all companies within Assurant Europe, including AEL. This governance structure is separate from the governance structure for the rest of AEG, as described in paragraphs 4.22 to 4.25 above, although Assurant Europe does report into the AEG Board.
- 4.85 Each entity within Assurant Europe uses a two-tier board structure, as applied across financial institutions in the Netherlands:

- **The NL Supervisory Board ("NLSB")**

This consists of three non-executive board members, two of which are independent. One of these individuals is also a member of the AEG Board, providing alignment with the wider AEG. The primary objective of the NLSB is to supervise the NL Management Board and Assurant Europe's general course of affairs and business, and to advise the NL Management Board.

The NLSB of each Assurant Europe entity has common membership and thus operate as a consolidated governance structure for the Assurant Europe entities and will normally sit as a consolidated NLSB representing each of the Assurant Europe NLSBs. Certain matters are reserved for the specific NLSB where individual company board approval is required.

- **The NL Management Board ("NLMB")**

This consists of three Assurant Europe managing directors. The NLMB sits below the NLSB, and the primary objective of the NLMB is to manage Assurant Europe in accordance with applicable good governance rules, codes and regulations and in line with company objectives.

The NLMB of each Assurant Europe entity has common membership and thus operate as a consolidated governance structure for the Assurant Europe entities and will normally sit as a consolidated NLMB representing each of the Assurant Europe NLMBs. Certain matters are reserved for the specific NLMB where individual company board approval is required.

- 4.86 The NLSB is supported by the Board Audit Risk and Compliance Committee (“NL ARCC”). The key responsibilities of the NL ARCC include overseeing the statutory audit, monitoring the financial reporting process, monitoring the effectiveness of the internal quality control and risk management systems and monitoring the audit of the annual and consolidated financial statements.
- 4.87 In addition, the NLMB is supported by a number of management-level sub-committees and forums to enable it to perform its duties, including the EU Management Risk Committee, the EU Insurance Committee, the Solvency and Capital Forum and the Reserving Forum.
- 4.88 Whilst the NLMB is responsible for day to day management, there are a number of matters reserved for the NLSB’s decision covering specified aspects of corporate governance, corporate structure, strategy, risk management, capital and liquidity, internal controls etc. Where appropriate such matters are also referred to the individual NLSB for approval.

AEL’s risk management strategy

- 4.89 Assurant Europe will maintain a Risk Management Framework, through which risk management is embedded throughout Assurant Europe, including AEL, consistent with that in place within AEG. The Assurant Europe Head of Risk will be responsible for oversight of the application of the Risk Management Framework.
- 4.90 The key components of the Assurant Europe Risk Management Framework include:
- **Risk strategy:** summarises Assurant Europe’s approach to managing risks, including the risk lifecycle of: identification, assessment, management and reporting, and monitoring.
 - **Risk appetite:** articulates the short to medium term willingness of Assurant Europe to accept a certain level of risk, for each material risk that it is exposed to, with associated tolerances.
 - **Risk framework:** details for each identified key risk category: the committees within Assurant Europe which oversee the risk profile, the relevant underlying policies and the risk sub-categories.
 - **Risk register:** sets out the requirement to maintain a risk register for all identified risks which includes, for each risk, a risk owner, risk likelihood and impact and the controls in place.
 - **Event management:** specifies the requirement for reporting risk events and ensuring suitable mitigating actions are considered.
 - **ORSA:** this provides a comprehensive assessment of how Assurant Europe manages risk, its current and forward looking risk exposure and the ability to meet capital requirements.
 - **Stress and scenario testing:** considers forward looking stresses of extreme, but realistic scenarios that could impact Assurant Europe. This is performed on an annual cycle.

AEL’s capital management

- 4.91 I have been provided with Assurant Europe’s Capital Management Policy which covers the capital management of AEL. The Assurant Europe Capital Management Policy sets out requirements for the assessment, monitoring and reporting of AEL’s capital position, the capital planning process, the capital allocation process and rules surrounding dividend declarations and intragroup transactions.
- 4.92 AEL’s capital position is assessed with reference to two capital buffers, and the Assurant Europe Capital Management Policy sets out actions available depending on how the AEL MCR Ratio compares to the two capital buffers. The capital buffers are set with reference to the MCR since, as described in paragraph 4.78, this is the biting capital requirement. For the avoidance of doubt, if the Pillar 1 SCR were to be the biting capital requirement, then the capital buffers would instead be set with reference to the Pillar 1 SCR.
- 4.93 The higher of the two capital buffers is referred to as the AEL Target Capital, and the lower of the two capital buffers is referred to as the AEL Minimum Capital Buffer. If the AEL MCR Ratio is:
- **Above the AEL Target Capital:** no action is taken and a dividend distribution is considered.
 - **Below, or is projected to be below, the AEL Target Capital but above the AEL Minimum Capital Buffer:** no action is taken but a dividend distribution is not considered.

- **Below, or is projected to be below, the AEL Minimum Capital Buffer but above the regulatory capital requirement:** management actions will be proposed by the Chief Financial Officer for approval by the Assurant Europe Management Board and a dividend distribution will not be considered.
- **Below, or has the potential to be below, the regulatory capital requirement:** in addition to the actions in the above threshold, the DNB will be notified and an action plan agreed.

4.94 The two capital buffers are set by the NLSB, giving consideration to the volume of business within AEL and the duration of the remaining liabilities.

4.95 On a pro-forma basis, as at 31 December 2019 the AEL Target Capital was set at 120%. The AEL Minimum Capital Buffer is confidential and is therefore not disclosed. As described in paragraph 4.75, share capital has been issued to TWGE to ensure AEL meet's the AEL Target Capital.

4.96 Any capital held by AEL in excess of the AEL Target Capital will be eligible for distribution as a dividend.

AEL's administration and servicing arrangements

4.97 Following the implementation of the proposed Scheme, AEL would be responsible for the administration and servicing of Transferred Policies.

4.98 AEL will make use of the same internal intermediary service providers as ALL for its administration and servicing of certain policies. In addition, AES will provide certain services to AEL.

4.99 As is the case for ALL and LGL, AEL is part of AEG and therefore AEL's approach to administration and servicing will be consistent with the approach used across AEG.

4.100 In particular, AEL will manage all of its servicing relationships in accordance with the European Operations Outsource Oversight Framework, which applies across AEG. This framework sets out the roles and responsibilities in relation to the outsourcing of services, the controls in place to monitor outsource providers and the governance structure surrounding the management of outsourcing.

4.101 In addition, AEG maintains a number of group-wide policies covering customer-facing services in order to ensure consistent customer service and fair treatment of customers across AEG. These policies cover aspects such as product governance, complaints handling, claims management and treating customers fairly.

4.102 Outsourcing contracts are structured in accordance with the European Operations Outsource Oversight Framework and relevant regulatory guidelines. Specific service levels and key performance indicators are documented within each outsourcing contract and typically relate to aspects of policy servicing such as IT system availability, telephone answering times, claims handling timescales and complaints handling timescales. Performance against these metrics is tracked and monitored in periodic reports which are provided to NLMB, alongside root cause analysis and remedial actions in instances where target service levels or key performance indicators have not been met.

5. THE PROPOSED SCHEME

MOTIVATION FOR THE SCHEME

- 5.1 As outlined in paragraphs 3.3 to 3.8 above, following the UK's departure from the EU in January 2020, there is considerable uncertainty as to whether UK insurance companies will continue to be able to use EEA Passport Rights to write and service business into the rest of the EEA via the EU's freedom of establishment or freedom of service rules. Indeed, in a white paper, dated July 2018 and entitled "*The Future Relationship between the United Kingdom and the European Union*", the UK government made clear its expectation that future arrangements relating to financial services "*will not replicate the EU's passporting regimes*". However, it is still possible that a future trade deal between the UK and EU will include arrangements that would allow ALL and LGL to continue to run-off their existing EEA business from the UK. It is also possible that individual EEA member states (that are places of management for the EEA business of ALL and LGL) would introduce domestic legislation that would permit allowing ALL and LGL to continue the run-off of their respective EEA business from the UK. Such legislation could be introduced in the absence of an adequate run-off mechanism being included within a UK/EU trade deal or in the event that the UK and EU are unable to agree a trade deal during the transition period. Despite this, the uncertainty around whether the UK will be able to continue using EEA Passport Rights after the transition period remains.
- 5.2 As part of AEG's Brexit planning, it investigated the potential for utilising extended transitional periods on an individual EEA member state basis in order to allow for the run-off of the existing EEA business within ALL and LGL. This investigation highlighted that a variety of approaches would be required across each EEA member state, and these potential approaches lacked the level of certainty that AEG required regarding its ability to continue to service its existing EEA business.
- 5.3 Taking the above factors into account, as well as other factors such as the requirement for a consistent and cost effective approach to servicing all policies, and the timelines and resources required to effect changes on an individual EEA member state basis, this approach was deemed impracticable by AEG.
- 5.4 This being the case, a Part VII transfer was considered the appropriate mechanism for AEG to ensure that it could continue to service its EEA business following the end of the Brexit transition period. Since it generally takes at least 18 months to implement a Part VII transfer, it was not deemed practicable or appropriate for the Transferors and AEG to await more definitive outcomes from the Brexit negotiations before taking action. Therefore, the motivation for the proposed Scheme is to ensure that the AEG is able to continue to service the business of ALL and LGL written under EEA Passport Rights regardless of the outcome of the Brexit negotiations.
- 5.5 The incorporation of a new subsidiary of TWGE in the Netherlands, AEL, will enable AEG to achieve this aim, since AEL is able to service business written in EEA member states under EEA Passport Rights, having obtained authorisation from the DNB.

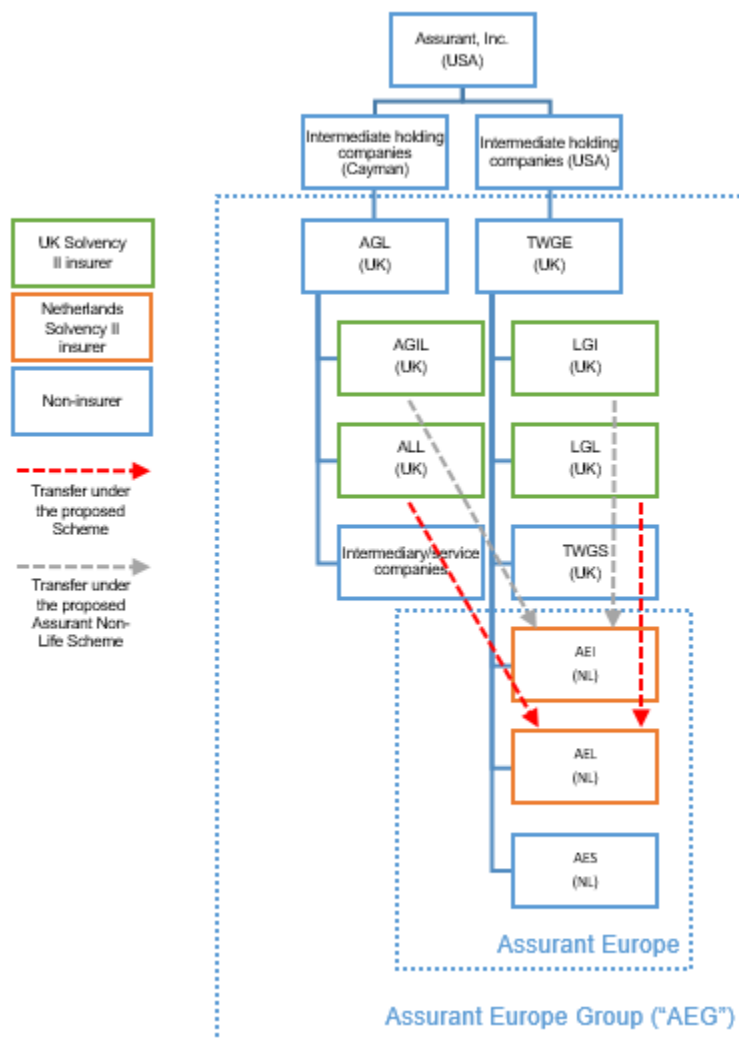
SUMMARY OF THE SCHEME

- 5.6 If the proposed Scheme were to be implemented, all of the assets and liabilities associated with the ALL Transferred Business and the LGL Transferred Business, with the exception of any Residual Policies as outlined in paragraphs 5.14 to 5.17 below, would be transferred to AEL on the Effective Date. This consists of business written on a freedom of establishment basis through branches in Belgium, Germany, Italy, the Netherlands and Spain and business written on a freedom of services basis in Ireland. Figure 4.3 and Figure 4.5 set out the number of policies transferring from each EEA member state for ALL and LGL respectively as at 31 December 2019.
- 5.7 The ALL Transferred Business and LGL Transferred Business (collectively referred to as the "Transferred Business") consists of c. 16,200 policies. The total policyholder liabilities proposed to be transferred amounted to c. £3.4m as at 31 December 2019. ALL and LGL would transfer all assets attributable to the Transferred Business to AEL.
- 5.8 The Scheme is expected to be presented to the Court for a Directions Hearing on 30 June 2020 and for a Sanction Hearing on 20 October 2020, with a planned Effective Date of 2 November 2020.
- 5.9 If approved by the Court, the Scheme will become operative on the Effective Date, at which point the Transferred Business will legally transfer from ALL and LGL to AEL.

5.10 There are not expected to be any policies in the groups of business listed above in paragraph 5.6 that would be excluded from the transfer, aside from the potential exceptions outlined in paragraphs 5.18 to 5.22 below.

5.11 The diagram below illustrates the movement of non-UK business between entities under the proposed Scheme, together with the corresponding movement under the proposed Assurant Non-Life Scheme, as outlined in paragraph 1.9.

FIGURE 5.1 SIMPLIFIED COMPANY STRUCTURE



Source: based on diagram from Solvency and Capital Forum slide pack, January 2020

POLICYHOLDERS AFFECTED

5.12 I have considered the effects of the Scheme on the following groups of policyholders:

- The Transferred Policyholders; and
- The policyholders of ALL or LGL whose policies are not being transferred to AEL by the Scheme, i.e. the Remaining Policyholders.

5.13 I do not consider the policyholders of any other insurance companies that may be affected by the Scheme.

RESIDUAL POLICIES

5.14 Residual Policies are those policies within the Transferred Policies that cannot be transferred to AEL as at the Effective Date. If the proposed Scheme were to be implemented, all liabilities that relate to the Residual Policies would not be transferred to AEL as at the Effective Date but would remain with ALL or LGL, as appropriate, but with the intention that each Residual Policy would be transferred to AEL subsequently.

- 5.15 As and when all consents, permissions or other requirements for the transfer of a Residual Policy from ALL or LGL to AEL have been obtained, such Residual Policy will promptly be transferred to AEL, together with the assets and liabilities that relate to the Residual Policy. It will then be treated in all respects as if it had been transferred to AEL with effect from the Effective Date.
- 5.16 If any Residual Policy is novated to AEL, then such Residual Policy will subsequently be dealt with by AEL under the provisions of this Scheme in all respects as if it were a Transferred Policy.
- 5.17 It is not intended that there will be any Residual Policies.

CREDITOR INSURANCE POLICIES

- 5.18 The LGL Transferred Policies includes policies that provide non-life cover as well as life cover. In this Report I delineate such policies as "LGL EEA Creditor Policies". For each of the LGL EEA Creditor Policies, the non-life insurance element of the cover has been provided by LGL.
- 5.19 Subject to the sanction by the Court of the Assurant Non-Life Scheme, LGL's rights and obligations under each of the LGL EEA Creditor Policies will be transferred to AEL. The Scheme and the Assurant Non-Life Scheme are intended to take effect at the same time.
- 5.20 The transfer of LGL's rights and obligations under each of the LGL EEA Creditor Policies to AEL under this Scheme will be subject to the Court sanctioning the Assurant Non-Life Scheme.
- 5.21 Until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Policies will be Residual Policies for the purposes of the Scheme.
- 5.22 In this Report, unless otherwise specified, any references to the LGL Transferred Business assumes that this will include the LGL EEA Creditor Business.
- 5.23 I have, however, considered the impact of the proposed Scheme on LGL EEA Creditor Policyholders in the scenario that the Assurant Non-Life Scheme does not become effective at the same time as the Scheme and the LGL EEA Creditor Policyholders therefore continue to reside in LGL as Residual Policyholders. This is covered in section 7 of this Report, since until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Policies would effectively be Remaining Policyholders of LGL.

REINSURANCE

- 5.24 As outlined in paragraph 4.21 above, ALL has three reinsurance treaties in place with external reinsurers which cover a portion of the ALL Transferred Business.
- 5.25 As outlined in paragraph 4.51 above, LGL has one reinsurance treaty in place with an external reinsurer which relates to UK business which is not transferring to AEL.
- 5.26 If the proposed Scheme were to be implemented:
- The three reinsurance treaties that ALL has in place would be transferred to AEL under the Scheme where possible and otherwise novated to AEL. I understand from Assurant management that there would be no other changes to the terms and conditions; and
 - There would be no change to the reinsurance treaty that LGL has in place.
- 5.27 I cover the effects of the changing reinsurance arrangements in respect of the Transferred Business and the Remaining Business in sections 6 and 7 respectively.

ADMINISTRATION AND SERVICING ARRANGEMENTS

- 5.28 The current administration and servicing arrangements for the Transferred Business are set out in section 4.
- 5.29 If the proposed Scheme is implemented, the internal provision of services for ALL Transferred Business will continue to be delivered by the existing local intermediary service companies within AGL currently providing these services, and therefore the only change for these arrangements is that AEL would become the internal client of these companies, rather than ALL. These outsourcing arrangements would continue to be covered by the European Operations Outsource Oversight Framework and the various AEG-wide policies covering customer-facing services referred to in paragraph 4.33.

- 5.30 If the proposed Scheme were to be implemented, the provision of services for LGL Transferred Business currently delivered by TWGS would instead be provided by AES. The outsourcing arrangement that AEL would have in place with AES would be covered by the European Operations Outsource Oversight Framework and the various AEG-wide policies covering customer-facing services referred to in paragraph 4.68.
- 5.31 As described in paragraph 5.21, until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Policies will be treated as Residual Policies under the Scheme. In this scenario, administration and servicing arrangements with respect to the LGL EEA Creditor Policies will be delivered by AES rather than TWGS. If, however, the Scheme and the Assurant Non-Life Scheme do not become effective before the end of the Brexit transition period, LGL's ability to manage, administer and service this business without breaching authorisation requirements may be threatened and further actions may be required to ensure a continuation of its ability to lawfully service these policies.
- 5.32 I cover the effects of the changing administration and servicing arrangements in respect of the Transferred Business and the Remaining Business in sections 6 and 7 respectively.

COSTS OF THE SCHEME

- 5.33 The total costs of the proposed Scheme will be split between Assurant, ALL, LGL and AEL, with the majority being met by Assurant. The costs of my work as Independent Expert specifically will be met by ALL and LGL on a proportionate basis as agreed between themselves.

STRUCTURE AFTER THE IMPLEMENTATION OF THE SCHEME

- 5.34 If the proposed Scheme were to be implemented, all of the Transferred Business would be part of AEL, and AEL would continue to service this business until both the ALL Transferred Business and LGL Transferred Business is fully run-off, which is expected to occur by 2028.
- 5.35 If the proposed Scheme and the Assurant Non-Life Scheme were to be implemented on the Effective Date:
- ALL would cease to have any business. As a result, it is expected that ALL would be apply to be deauthorised and then wound up;
 - LGL would maintain a small amount of UK business (approximately 85 policies as at the time of writing). I outline LGL's considerations regarding these policies in paragraph 7.15;
 - AEL would service the Transferred Business but would not write any further business, aside from renewals associated with the Transferred Business;
 - AEL would make use of the external reinsurance arrangements set out in paragraph 5.26; and
 - AEL would make use of the administration and servicing arrangements set out in paragraphs 5.29 and 5.30.
- 5.36 As outlined in paragraph 5.21 above, until such time as the Assurant Non-Life Scheme becomes effective, LGL would retain the LGL EEA Creditor Policies as Residual Policies under the Scheme.

6. THE IMPACT OF THE SCHEME ON THE TRANSFERRED POLICYHOLDERS

INTRODUCTION

- 6.1 If the proposed Scheme were to be implemented, the Transferred Business will be transferred to AEL.
- 6.2 In this section of my Report I consider the likely effects on the Transferred Policyholders of the implementation of the proposed Scheme. The key points to consider in respect of the Transferred Policyholders are the changes in the following due to the transfer:
- **The security of Transferred Policy benefits:** this is derived from the financial strength supporting each group of policies under the appropriate risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
This is covered in paragraphs 6.4 to 6.112.
 - **The profile of risks to which the Transferred Policies are exposed:** if the proposed Scheme were to be implemented, the Transferred Policies would become directly exposed to the risk profile of AEL rather than ALL and LGL.
This is covered in paragraphs 6.113 to 6.122.
 - **The regulatory regime that will apply to the Transferred Policies:** if the proposed Scheme were to be implemented, the Transferred Policies would move from being subject to the laws and regulations of the UK to those of the Netherlands.
This is covered in paragraphs 6.123 to 6.143.
 - **The reasonable expectations of the Transferred Policyholders in respect of their benefits:** this includes the likely effects of the transfer on the policy servicing standards and governance applied to Transferred Policies by AEL compared to ALL and LGL.
This is covered in paragraphs 6.144 to 6.163.
- 6.3 These are considered in turn in this section. I have considered each of these key aspects for ALL Transferred Policyholders and LGL Transferred Policyholders separately.

THE EFFECT OF THE SCHEME ON THE SECURITY OF TRANSFERRING POLICY BENEFITS

ALL Transferred Policyholders

Introduction

- 6.4 Currently, the ALL Transferred Policyholders derive their benefit security from being policyholders of ALL, and the associated financial strength under the applicable risk appetite statement and capital management policy, the reinsurance arrangements that are in place and any support provided to ALL from its parent, AGL. In addition, in the extreme scenario of ALL becoming unable to pay policyholder benefits, the ALL Transferred Policies are currently protected under the FSCS (as described in section 3 of this Report).
- 6.5 The implementation of the proposed Scheme would mean that ALL would cease to have a defined contractual obligation to the ALL Transferred Policyholders and that these obligations would be transferred to AEL. Therefore, after the implementation of the proposed Scheme, the ALL Transferred Policyholders would derive their security of benefits from being policyholders of AEL and the associated financial strength under AEL's risk appetite statement, capital management policy, reinsurance arrangements and support provided to AEL from its parent, TWGE.
- 6.6 In considering the effects of the proposed Scheme on the security of benefits under the ALL Transferred Policies, I therefore need to consider the effects on the security of the benefits under the ALL Transferred Policies of:
- The change of applicable risk appetite statement and capital management policy, including the controls and governance around these policies, from the AGL risk appetite statement and the AGL Capital Management Policy to the Assurant Europe risk appetite statement and the Assurant Europe Capital Management Policy;
 - Becoming part of AEL after the transfer rather than ALL, which will include consideration of the changes to:

- The financial strength provided by AEL compared to ALL;
- The changes to the reinsurance arrangements from those in place within ALL to those in place within AEL; and
- The support available from the parent company.
- The protections conferred by the FSCS and the FOS for ALL Transferred Policyholders compared to those available following the transfer.

6.7 These are covered in order below.

The effect on the security of ALL Transferred Policy benefits of a change in the applicable risk appetite statements and capital policies

- 6.8 The risk appetite and capital management policies for ALL and AEL are described in section 4.
- 6.9 The capital management policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increase the security of the policies within the business covered by the capital management policy.
- 6.10 When considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy, as assets in excess of capital policy requirements need not be kept in the company and could, subject to appropriate governance procedures, be transferred out of the company.
- 6.11 The strength of a risk appetite statement is derived from both the relative level of capital required, as stipulated via the capital management policy, and the qualitative aspects such as the governance surrounding changes to the risk appetite and the required response of management to a breach.
- 6.12 The AGL Capital Management Policy sets out a required level of capital for ALL with reference to two capital buffers which are calculated as a percentage of the MCR. The capital buffers are set with reference to the MCR since, as described in paragraph 4.12, this is the biting capital requirement for ALL. The capital buffers are described in more detail in paragraphs 4.28 to 4.31. As at 31 December 2019 the ALL Target Working Capital Ratio was 150%.
- 6.13 Similarly, the Assurant Europe Capital Management Policy sets out a required level of capital for AEL with reference to two capital buffers which are calculated as a percentage of the MCR. The capital buffers are set with reference to the MCR since, as described in paragraph 4.78, this is the biting capital requirement for AEL. The capital buffers are described in more detail in paragraphs 4.91 to 4.95. On a pro-forma basis, as at 31 December 2019 the AEL Target Capital would have been 120%.
- 6.14 Under the Scheme, ALL Transferred Policies would be moving from a company which targets holding sufficient capital to cover 150% of its MCR to one which targets holding sufficient capital to cover 120% of its MCR. As a result, AEL will be holding a lower amount of additional capital in excess of its regulatory capital requirement than ALL. However, it is important to note that for both ALL and AEL, the regulatory capital requirement does not accurately reflect the actual risk profile of the entities, as this is reflected within the SCR rather than the MCR.
- 6.15 For ALL, the calculated Pillar 1 SCR as at 31 December 2019 was £1.1m compared to an MCR of £3.2m. ALL aims to hold sufficient capital to cover 150% of its MCR, which equates to holding sufficient capital to cover c. 420% of its SCR. Similarly, the estimated Pillar 1 SCR for AEL as at 31 December 2019 was £1.2m, assuming the transfer had taken place at that time, compared to an MCR of £3.2m. AEL aims to hold sufficient capital to cover 120% of its MCR, which equates to holding sufficient capital to cover c. 310% of its SCR.
- 6.16 As such, by virtue of the MCR being the biting capital requirement, both ALL and AEL aim to hold capital significantly in excess of its SCR, which more accurately reflects their risk profiles than the MCR.
- 6.17 In addition, I understand that AEL's rationale for targeting a lower relative level of capital than ALL is:
- The ALL Target Working Capital Ratio and ALL Capital Buffer have not been adjusted to accurately reflect the risk profile of ALL in recent years, whilst the risk profile would have permitted such an adjustment. If such an adjustment had been implemented, the difference in the relative levels of capital targeted by ALL and AEL would be reduced;

- The AEL Target Capital of 120% of MCR is considered sufficient to cover the actual risk profile of AEL;
 - AEL will adopt a low risk investment strategy consisting of investment in cash and government bonds with a duration to match the duration of the technical provisions. This will result in a low exposure to market risk for AEL compared to the exposure to market risk of ALL and LGL individually; and
 - AEL's business will be in run-off: total liabilities within AEL are projected to reduce by c. 61% over the period to 31 December 2022 and all business is due to run-off by 2028. AEL's SCR is therefore expected to decline over time. As a result, the amount of capital to be held by AEL, which is set with reference to a fixed monetary amount, i.e. the MCR, will represent an increasing percentage of AEL's actual risk exposure as measured by its SCR.
- 6.18 I acknowledge that moving to a company which holds a lower amount of capital in excess of its regulatory requirement potentially represents an increase in risk in respect of ALL Transferred Policy benefits. However, given the overall strength of AEL as indicated by the amount of capital it will hold in excess of its SCR, which reflects AEL's risk profile, I am satisfied that this increase in risk is not material.
- 6.19 Overall, I am therefore satisfied that the change in excess capital held in respect of ALL Transferred Policies would not have a material adverse effect on the security of the benefits under the ALL Transferred Policies.
- 6.20 The management actions available to respond to risk appetite in AEL are not identical to those available in ALL. However, the management actions available are similar, for example a capital injection from the parent company or measures to reduce risk such as changing the investment portfolio or reviewing reinsurance arrangements.
- 6.21 However, a more useful comparison between ALL and AEL is to consider the intervention measures and governance applied in the response to a breach in risk appetite by each company, rather than comparing the specific management actions available.
- 6.22 The intervention measures and governance applied by ALL and AEL upon a breach in risk appetite are similar. In particular:
- **Dividend distribution:** If the ALL MCR Ratio falls below the ALL Target Capital then dividends may be cancelled if the capital position is not expected to revert to the Green status within a reasonable time period. If the ALL MCR Ratio falls below the ALL Capital Buffer then dividends must be cancelled. Similarly, if the AEL MCR Ratio falls below the AEL Target Capital, dividends will be cancelled.
 - **Capital monitoring:** If the ALL MCR Ratio falls below the ALL Capital Buffer, more frequent monitoring of the capital position is carried out. Similarly, if the AEL MCR Ratio falls below the AEL Minimum Capital Buffer, there is more frequent reporting of the capital position.
 - **Management action approval:** If the ALL MCR Ratio falls below the ALL Capital Buffer, management actions are proposed by the Chief Financial Officer to the AEG Board for approval. Similarly, if the AEL MCR Ratio falls below the AEL Minimum Capital Buffer, the Chief Financial Officer proposes management actions to the NLMB for approval.
- 6.23 Further, changes to the capital management policy of ALL and AEL must be approved by the AEG Board and the NLSB respectively.
- 6.24 Overall, I am satisfied that there would be no material adverse effect on the security of benefits under the ALL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the AGL Capital Management Policy.

The effect on the security of benefits due to being part of AEL after implementation of the Scheme compared to ALL currently

Introduction

- 6.25 If the proposed Scheme were to be implemented then the ALL Transferred Policies would be transferred from ALL to AEL and they would derive their security of benefits from:
- The financial strength of AEL as provided by the assets backing the Own Funds as required by the Solvency II regulations;
 - The reinsurance arrangements of AEL after the implementation of the Scheme; and
 - The support from TWGE as parent of AEL.

The financial strength of AEL

- 6.26 If the proposed Scheme were to be implemented, the financial strength of AEL would be provided by:
- The assets backing the technical provisions and MCR as required by the Solvency II regulations. In respect of these I note that:
 - Both ALL and AEL are subject to the Solvency II regime, and the technical provisions and SCR/MCR of both ALL and AEL are calculated in accordance with the Solvency II regulations;
 - The Solvency II regulations governing the calculation of the technical provisions and the SCR/MCR are consistent between the UK and the Netherlands; and
 - The Scheme would not change the Solvency II Standard Formula as set by EIOPA.
 - The excess assets (in excess of total technical provisions and MCR) in AEL up to the level of the requirements of the AEL Capital Management Policy.
- 6.27 The table below sets out the pre-Scheme ALL and pro-forma post-Scheme AEL SCR Ratio and MCR Ratio as at 31 December 2019.

FIGURE 6.1 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2019

	ALL PRE-SCHEME	AEL POST-SCHEME
SCR Ratio	675%	378%
MCR Ratio	239%	146%

Source: Appendix A and Appendix B

- 6.28 This shows that, as at 31 December 2019, if the proposed Scheme were to have been implemented at this date, AEL would exceed the requirements of the Assurant Europe Capital Management Policy. As described in paragraph 4.96, any capital held by AEL in excess of the AEL Target Capital will be eligible for distribution as a dividend. As at 31 December 2019 ALL holds capital significantly in excess of the requirements of the AGL Capital Management Policy.
- 6.29 The projected decrease in SCR Ratio and MCR Ratio that would be experienced by the ALL Transferred Policies as a result of the Scheme may, in isolation, be taken to imply a negative impact on the security of the ALL Transferred Policies. However, I am satisfied that the projected decrease in SCR Ratio and MCR Ratio would not materially adversely affect the security of the ALL Transferred Policies for the following reasons:
- As outlined in paragraphs 6.14 to 6.16, the MCR does not reflect the risk profile of a company, and therefore the amount of capital held in excess of the MCR is not a reliable indicator of a company's financial strength. With regard to the SCR Ratio, whilst the SCR more accurately reflects a company's risk profile than the MCR, SCR Ratios are indicators of, or proxies for, financial strength and a decrease in the SCR Ratio does not necessarily indicate a material reduction in security. In particular, when considering the solvency coverage, one should only take into account the capital resources that the firm is required to hold up to the level required according to the capital management policy because capital resources in excess of this may be transferred out of the company.
 - The proportion of excess capital held by both ALL and AEL in relation to its SCR, which is intended to reflect the risk profile of the two companies, is substantial.
 - I have been provided with the medium term capital management plan for AEL, which forecasts the expected Own Funds over a three year period if the proposed Scheme were to be implemented. These projections show that AEL is not expected to breach the AEL Capital Target during the projection period. Further, AEL does not intend to distribute the additional capital held between the 120% and 146% level as a dividend during the projection period, and the AEL MCR Ratio is projected to remain around the initial level of 146% as at 31 December 2019 throughout this period.

- The business transferring to AEL under the proposed Scheme is in run-off; total liabilities within AEL are projected to reduce by c. 61% over the period to 31 December 2022 and all business is due to run-off by 2028. As a result, I note that the SCR of AEL is expected to decline over time. Therefore, since the amount of capital to be held is set with reference to a fixed monetary amount, i.e. the MCR, the amount of capital held in relation to the SCR, as a ratio, will increase over time as the business runs off.
 - There is a difference between regulatory insolvency (which in AEL's case would occur if it failed to hold sufficient capital to meet its MCR), and claims-paying insolvency (which would occur if AEL failed to hold sufficient capital to pay policyholders' claims as they fall due). The lower SCR Ratio and MCR Ratio of AEL compared to ALL do not increase the risk of claims-paying insolvency. I note that if AEL were to breach its MCR and become insolvent from a regulatory perspective, it would be required to submit a restructuring scheme to the DNB for approval.
 - Whilst AEL aims to hold sufficient capital to cover 120% of its MCR, as outlined in paragraph 6.15 above, this equates to holding sufficient capital to cover c. 310% of its SCR.
- 6.30 Overall, I acknowledge the projected decrease in MCR Ratio that would be experienced by the ALL Transferred Policyholders potentially does lead to an increase in risk of breaching the regulatory capital requirement. However, I consider the increase in risk to be low, given it would require AEL to make a large dividend distribution in the short term which it does not intend to do, given the fact that the risk profile of AEL is expected to decline over time, and since it would only require a small capital injection in monetary terms to restore the MCR Ratio to the level of the AEL Target Capital, i.e. 120%. Therefore I am satisfied that this increase in risk is not material.
- 6.31 Reverse stress testing has been performed to assess the resilience of AEL's capital position under increasingly extreme pandemic scenarios, which entail simultaneous shocks to disability risk, catastrophe risk and counterparty default risk. The scenarios considered did not entail a market risk shock. I consider this to be appropriate given AEL invests in cash and government bonds, and therefore the exposure to the risk of interest rates rising from their currently low levels would lead to an increase in the Solvency II risk-free rate, reducing the BEL and therefore reducing the starting point from which the SCR is calculated.
- 6.32 This analysis shows that the risk of a material deterioration in AEL's capital position is remote when allowing for AEL's MCR Ratio of 146%. In particular:
- Starting from AEL's initial MCR Ratio of 146%, in order to breach the AEL Target Capital of 120%, AEL would need to experience a scenario more severe than the following combination of events:
 - A disability risk stress of 1.5 times the 1 in 200 Standard Formula stress;
 - A catastrophe risk stress of 10 times the 1 in 200 Standard Formula Stress; and
 - An increase in counterparty type 2 exposures of 50%.
 - In order to breach its regulatory capital requirement, AEL would need to experience a scenario in line with the above, but with a catastrophe risk stress of 14 times the 1 in 200 Standard Formula stress.
- 6.33 Given the analysis above is based on AEL's MCR Ratio as at 31 December 2019, i.e. 146%, I acknowledge that the risk of a material deterioration in AEL's capital position would increase if AEL were to hold capital at a level closer to, or at, the AEL Target Capital of 120%. However, the likelihood of breaching the AEL Target Capital will be lower at the Effective Date compared to the analysis as at 31 December 2019 and will continue to decrease over time, in particular due to the rapid run-off of liabilities as described in paragraph 6.29. Further analysis on this risk will be performed based on 30 June 2020 figures and I will provide my views on this in the Supplementary Report.
- 6.34 In summary, I am satisfied that the reliance on the financial strength of AEL if the proposed Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the ALL Transferred Policies.

The reinsurance arrangements of AEL after the implementation of the Scheme

- 6.35 As outlined in paragraph 4.21 above, ALL has three reinsurance treaties in place with external reinsurers which covers a small portion of the ALL Transferred Business (as at 31 December 2019 ALL had ceded technical provisions of £70k out of a total of £1.37m technical provisions). If the proposed Scheme were to be implemented, these three reinsurance treaties would be transferred to AEL under the Scheme where possible and otherwise novated to AEL with effect from the Effective Date, subject to the consent of the reinsurers. I understand from Assurant management that there would be no other changes to the terms and conditions of these reinsurance treaties.
- 6.36 Overall, there would be no material change to the reinsurance arrangements in respect of ALL Transferred Business. I am therefore satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the ALL Transferred Policies as a result of AEL's reinsurance arrangements.

The support for AEL from TWGE as the parent of AEL

- 6.37 There is no formal capital support arrangement between AEL and TWGE and therefore, as TWGE's interest in AEL is limited to owning the entire issued share capital of AEL, as a matter of company law, TWGE is not under any legal obligation to provide capital support to AEL.
- 6.38 However, there are certain aspects of TWGE's relationship with AEL which, in my view, limit TWGE's ability to decline support to AEL in all but the most extreme scenarios when TWGE itself is at risk of not being able to meet its own claims. In particular:
- TWGE's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries, including AEL. The financial position of AEL would therefore affect TWGE's capital position and the failure of AEL to meet its MCR would be expected to lead to regulatory intervention by the DNB, which could ultimately lead to a constraint on TWGE's ability to pay a dividend. In addition, given TWGE is part of a UK group it is also subject to regulatory oversight and potential intervention by the PRA and the FCA.
 - TWGE may not freely sell a material proportion of its shares in AEL to a third party without the prior approval of the DNB, and approval would only be given if the DNB was satisfied with the suitability of the acquirer and financial soundness of the acquisition.
- 6.39 Therefore, although there is no formal capital support arrangement in place with TWGE, AEL can derive security from having TWGE as its parent as in all but the most extreme scenarios there would be a strong incentive to TWGE to provide support to AEL as and when required.
- 6.40 In addition, I note that:
- Prior to the transfer, there is no formal capital support arrangement between ALL and its parent, AGL. As such, the position on formal capital support from the parent company would be unchanged by the Scheme.
 - Similarly to TWGE, AGL's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries, including ALL. The financial position of ALL would therefore affect AGL's capital position and the failure of ALL to meet its MCR would be expected to lead to regulatory intervention by the PRA, which could ultimately lead to a constraint on AGL's ability to pay a dividend. Therefore, in the same way that AGL currently has an interest in the financial position of ALL, if the proposed Scheme were to be implemented TWGE would equally have an interest in the financial position of AEL.
 - AGL may not freely sell a material proportion of its shares in ALL to a third party without the prior approval of the PRA, and approval would only be given if the PRA was satisfied with the suitability of the acquirer and financial soundness of the acquisition.
 - As at 31 December 2019 Assurant, Inc., ALL's and AEL's ultimate parent, had total assets of \$44.3bn, total revenue of \$10.1bn, holding company liquidity of \$534m and a total net income of \$0.4bn.
 - The amount of capital that AEL aims to hold in excess of its MCR is less than £640k in monetary terms (i.e. 20% of the MCR), and therefore, if AEL's MCR Ratio falls below the AEL Minimum Capital Buffer, the cost to Assurant, Inc. of restoring the AEL Minimum Capital Buffer and thereby protecting its reputation is low.

- 6.41 Therefore, overall, the support available for AEL from TWGE as its parent is comparable to the support available for ALL from AGL is its parent.
- 6.42 I am therefore satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the ALL Transferred Policies as a result of having TWGE as a parent rather than AGL.

Additional security for ALL Transferred Policies

- 6.43 Under the regulatory regime in the Netherlands, in the extreme scenario of AEL becoming insolvent (i.e. when its technical provisions exceeds assets held), the AEL policies would have a priority claim on the assets of AEL backing the Solvency II technical provisions. The only claims that would take precedence over insurance claims are claims from creditors with a mortgage claim over the assets of the insurer, claims relating to employee pensions and some claims relating to employee wages.
- 6.44 This would apply to all AEL policies (without exception) and they would rank pari passu (i.e. on equal footing) as regards all the assets held against the technical provisions. The ranking of insurance claimants upon wind-up of an insurer provides additional security for the benefits under the AEL policies, including the ALL Transferred Policies, which would not necessarily be available in the absence of such wind-up regulations.
- 6.45 Under the UK regulatory regime the position is different. Insurance claims take precedence over any other claims, with the exception of:
- Claims by employees;
 - Claims by public bodies on taxes;
 - Claims by social security systems; and
 - Claims on assets subject to rights in rem (i.e. subject to rights someone might have in the asset itself).
- 6.46 Overall, the policyholder ranking upon wind-up of a Dutch insurer is at least as favourable as the policyholder ranking upon wind-up of a UK insurer.

Summary and conclusion

- 6.47 As set out above, if the proposed Scheme were to be implemented, the ALL Transferred Policies would be transferred to be part of AEL rather than ALL, and I am satisfied that there would be no material adverse effect on the security of benefits under the ALL Transferred Policies as a result of:
- The reliance on the financial strength of AEL rather than ALL;
 - AEL's reinsurance arrangements;
 - AEL having TWGE as a parent rather than AGL;
 - Being subject to Dutch law relating to the rights on wind-up of an insurer.
- 6.48 Therefore I am satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of the benefits of the ALL Transferred Policies as a result of being part of AEL after implementation of the Scheme rather than ALL as currently.

The effect on the security of ALL Transferred Policy benefits due a change in the protections conferred by the FSCS and the FOS to those available following the transfer

- 6.49 Currently the ALL Transferred Policyholders are covered under the UK's statutory "fund of last resort", the FSCS. In the event that ALL were to become insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance benefits, 100% of the benefits are protected and the coverage is automatic for policyholders of UK authorised insurers and is funded by levies on firms authorised by the PRA and FCA.
- 6.50 If the proposed Scheme were to be implemented, it is likely that the ALL Transferred Policies would no longer be covered under the FSCS for claims in respect of insured events arising after the Effective Date. I understand that there is no relevant equivalent Dutch compensation scheme for the types of policies held by the ALL Transferred Policyholders.
- 6.51 Therefore, it is likely that if the proposed Scheme were to be implemented, ALL Transferred Policyholders would no longer have access to a scheme offering protection in the event of insurer insolvency. However, I note that:

- The purpose of the proposed Scheme is to effect the transfer of the Transferred Business to AEL in order to enable its continued servicing, regardless of the outcome of the Brexit negotiations and in the absence of a practicable approach to utilising extended transitional periods on an individual EEA member state basis. Having certainty that the Transferred Policies can continue to be serviced lawfully after Brexit is key, and the loss of FSCS protection is an unavoidable consequence of this; and
- Given AEL will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of AEL default or insolvency to be remote. In particular, paragraph 6.32 illustrates the low likelihood of regulatory insolvency for AEL, and the likelihood of claims-paying insolvency as discussed in paragraph 6.29 would be even lower. Therefore, I consider the materiality of the loss of FSCS protection to be low.

6.52 In addition, I note that there have been a number of past Part VII transfers presented to the Court from other insurers with the same motivation as the motivation for this Scheme, i.e. in preparation for the possible loss of EU Passport Rights as a result of Brexit. The loss of FSCS protection or deterioration in protection was a key matter in these past Part VII transfers. Some examples of the Court's judgments in relation to this matter are as follows:

- In the Part VII transfer of EEA business from The Royal London Mutual Insurance Society Limited to Royal London Insurance D.A.C., which was sanctioned by the Court on 31 January 2019, Snowden J concluded that *"I regard the potential loss of FSCS protection for some transferring policyholders as being a largely theoretical risk, as against the very real prejudice that all EEA policyholders would face in the event of a 'no-deal' Brexit if the Scheme were not implemented."*
- In the Part VII transfer of EEA business from Scottish Widows Limited to Scottish Widows Europe S.A., which was sanctioned by the Court on 14 March 2019, Snowden J concluded that *"In my view, the loss of FSCS protection is too remote a potential prejudice to policyholders to warrant refusing to sanction the Scheme which will provide the means by which, if required, Scottish Widows Limited can provide far more immediate benefit of certainty of continued service to all its EEA policyholders."*

6.53 It is my opinion that these conclusions could equally be applied in the case of this proposed Scheme, given the motivation for the proposed Scheme is the same as the motivation for the schemes in the examples above, and I have demonstrated in my analysis in this Report that I consider the likelihood of AEL default or insolvency to be remote.

6.54 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of ALL Transferred Policyholder benefits.

6.55 I discuss the effects on the security of ALL Transferred Policy benefits due to a change in the protections conferred by the FOS and those available following the transfer in paragraphs 6.133 to 6.140 below.

Overall conclusion on the effect of the Scheme on the security of ALL Transferred Policy benefits

6.56 In summary, I am satisfied that, if the proposed Scheme were to be implemented:

- There would be no material adverse effect on the security of benefits under the ALL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the AGL Capital Management Policy;
- There would be no material adverse effect on the security of benefits under the ALL Transferred Policies as a result of being part of AEL rather than ALL as currently; and
- The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the ALL Transferred Policies.

6.57 Therefore, in conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of ALL Transferred Policy benefits.

LGL Transferred Policyholders

Introduction

- 6.58 Currently, the LGL Transferred Policyholders derive their benefit security from being policyholders of LGL, and the associated financial strength under the applicable risk appetite statement and capital management policy, the reinsurance arrangements that are in place and any support provided to LGL from its parent, TWGE. In addition, in the extreme scenario of LGL becoming unable to pay policyholder benefits, the LGL Transferred Policies are currently protected under the FSCS (as described in section 3 of this Report).
- 6.59 The implementation of the proposed Scheme would mean that LGL would cease to have a defined contractual obligation to the LGL Transferred Policyholders and that these obligations would be transferred to AEL. Therefore, after the implementation of the proposed Scheme, the LGL Transferred Policyholders would derive their security of benefits from being policyholders of AEL and the associated financial strength under AEL's risk appetite statement, capital management policy, reinsurance arrangements and support provided to AEL from its parent, TWGE.
- 6.60 In considering the effects of the proposed Scheme on the security of benefits under the LGL Transferred Policies, I therefore need to consider the effects on the security of the benefits under the LGL Transferred Policies of:
- The change of applicable risk appetite statement and capital management policy, including the controls and governance around these policies, from the TWGE risk appetite statement and the TWGE Capital Management Policy to the Assurant Europe risk appetite statement and the Assurant Europe Capital Management Policy;
 - Becoming part of AEL after the transfer rather than LGL, which will include consideration of the changes to:
 - The financial strength provided by AEL compared to LGL;
 - The changes to the reinsurance arrangements from those in place within LGL to those in place within AEL; and
 - The support available from the parent company.
 - The protections conferred by the FSCS and the FOS for LGL Transferred Policyholders compared to those available following the transfer.
- 6.61 These are covered in order below. In order to avoid the need for cross-referencing, where appropriate the text in paragraphs 6.8 to 6.57 in relation to ALL Transferred Policies has been repeated in the following sections as it relates to LGL Transferred Policies.

The effect on the security of LGL Transferred Policy benefits of a change in the applicable risk appetite statements and capital policies

- 6.62 The risk appetite and capital management policies for LGL and AEL are described in section 4.
- 6.63 The capital management policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increase the security of the policies within the business covered by the capital management policy.
- 6.64 When considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy, as assets in excess of capital policy requirements need not be kept in the company and could, subject to appropriate governance procedures, be transferred out of the company.
- 6.65 The strength of a risk appetite statement is derived from both the relative level of capital required, as stipulated via the capital management policy, and the qualitative aspects such as the governance surrounding changes to the risk appetite and the required response of management to a breach.
- 6.66 The TWGE Capital Management Policy sets out a required level of capital for TWGE with reference to a capital buffer which is calculated as a percentage of the MCR. In practice, there are two capital buffers which are used by LGL. These capital buffers are set with reference to the MCR since, as described in paragraph 4.44, this is the biting capital requirement for LGL. The capital buffers are described in more detail in paragraphs 4.60 to 4.66. As at 31 December 2019 the LGL Target Capital was 145%.

- 6.67 Similarly, the Assurant Europe Capital Management Policy sets out a required level of capital for AEL with reference to two capital buffers which are calculated as a percentage of the MCR. The capital buffers are set with reference to the MCR since, as described in paragraph 4.78, this is the biting capital requirement for AEL. The capital buffers are described in more detail in paragraphs 4.91 to 4.95. On a pro-forma basis, as at 31 December 2019 the AEL Target Capital would have been 120%.
- 6.68 Under the Scheme, LGL Transferred Policies would be moving from a company which targets holding sufficient capital to cover 145% of its MCR to one which targets holding sufficient capital to cover 120% of its MCR. As a result, AEL will be holding a lower amount of additional capital in excess of its regulatory capital requirement than LGL. However, it is important to note that for both LGL and AEL, the regulatory capital requirement does not accurately reflect the actual risk profile of the entities, as this is reflected within the SCR rather than the MCR.
- 6.69 For LGL, the calculated Pillar 1 SCR as at 31 December 2019 was £1.3m compared to an MCR of £3.2m. LGL aims to hold sufficient capital to cover 145% of its MCR, which equates to holding sufficient capital to cover c. 350% of its SCR. Similarly, the estimated Pillar 1 SCR for AEL as at 31 December 2019 was £1.2m, assuming the transfer had taken place at that time, compared to an MCR of £3.2m. AEL aims to hold sufficient capital to cover 120% of its MCR, which equates to holding sufficient capital to cover c. 310% of its SCR.
- 6.70 As such, by virtue of the MCR being the biting capital requirement, both LGL and AEL aim to hold capital significantly in excess of its SCR, which more accurately reflects their risk profiles than the MCR.
- 6.71 In addition, I understand that AEL's rationale for targeting a lower relative level of capital than LGL is:
- The LGL Target Capital and LGL Risk Appetite Buffer have not been adjusted to accurately reflect the risk profile of LGL in recent years, whilst the risk profile would have permitted such an adjustment. If such an adjustment had been implemented, the difference in the relative levels of capital targeted by LGL and AEL would be reduced;
 - The AEL Target Capital of 120% of MCR is considered sufficient to cover the actual risk profile of AEL;
 - AEL will adopt a low risk investment strategy consisting of investment in cash and government bonds with a duration to match the duration of the technical provisions. This will result in a low exposure to market risk for AEL compared to the exposure to market risk of ALL and LGL individually; and
 - AEL's business will be in run-off: total liabilities within AEL are projected to reduce by c. 61% over the period to 31 December 2022 and all business is due to run-off by 2028. AEL's SCR is therefore expected to decline over time. As a result, the amount of capital to be held by AEL, which is set with reference to a fixed monetary amount, i.e. the MCR, will represent an increasing percentage of AEL's actual risk exposure as measured by its SCR.
- 6.72 I acknowledge that moving to a company which holds a lower amount of capital in excess of its regulatory requirement potentially represents an increase in risk in respect of LGL Transferred Policy benefits. However, given the overall strength of AEL as indicated by the amount of capital it will hold in excess of its SCR, which reflects AEL's risk profile, I am satisfied that this increase in risk is not material.
- 6.73 Overall, I am therefore satisfied that the change in excess capital held in respect of LGL Transferred Policies would not have a material adverse effect on the security of the benefits under the LGL Transferred Policies.
- 6.74 The management actions available to respond to risk appetite in AEL similar to those available in LGL, for example, a capital injection from the parent company or measures to reduce risk such as reviewing reinsurance arrangements.
- 6.75 However, a more useful comparison between LGL and AEL is to consider the intervention measures and governance applied in the response to a breach in risk appetite by each company, rather than comparing the specific management actions available.
- 6.76 The intervention measures and governance applied by LGL and AEL upon a breach in risk appetite are similar. In particular:
- **Dividend distribution:** If the LGL MCR Ratio falls below the LGL Risk Appetite Buffer, dividends will be cancelled. Likewise, if the AEL MCR Ratio falls below the AEL Target Capital, dividends will be cancelled.
 - **Capital monitoring:** If the LGL MCR Ratio falls below the LGL Risk Appetite Buffer, there is more frequent reporting of the capital position. Likewise, if the AEL MCR Ratio falls below the AEL Minimum Capital Buffer, there is more frequent reporting of the capital position.

- **Management action approval:** If the LGL MCR Ratio falls below the LGL Risk Appetite Buffer, management actions are proposed by the Chief Financial Officer to the AEG Board for approval. Similarly, if the AEL MCR Ratio falls below the AEL Minimum Capital Buffer, the Chief Financial Officer proposes management actions to the NLMB for approval.

6.77 Further, changes to the capital management policy of LGL and AEL must be approved by the AEG Board and the NLSB respectively.

6.78 Overall, I am satisfied that there would be no material adverse effect on the security of benefits under the LGL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the TWGE Capital Management Policy.

The effect on the security of benefits due to being part of AEL after implementation of the Scheme compared to LGL currently

Introduction

6.79 If the proposed Scheme were to be implemented then the LGL Transferred Policies would be transferred from LGL to AEL and they would derive their security of benefits from:

- The financial strength of AEL as provided by the assets backing the Own Funds as required by the Solvency II regulations;
- The reinsurance arrangements of AEL after the implementation of the Scheme; and
- The support from TWGE as parent of AEL.

The financial strength of AEL

6.80 If the proposed Scheme were to be implemented, the financial strength of AEL would be provided by:

- The assets backing the technical provisions and MCR as required by the Solvency II regulations. In respect of these I note that:
 - Both LGL and AEL are subject to the Solvency II regime, and the technical provisions and SCR/MCR of both LGL and AEL are calculated in accordance with the Solvency II regulations;
 - The Solvency II regulations governing the calculation of the technical provisions and the SCR/MCR are consistent between the UK and the Netherlands; and
 - The Scheme would not change the Solvency II Standard Formula as set by EIOPA.
- The excess assets (in excess of total technical provisions and MCR) in AEL up to the level of the requirements of the AEL Capital Management Policy.

6.81 The table below sets out the pre-Scheme LGL and pro-forma post-Scheme AEL SCR Ratio and MCR Ratio as at 31 December 2019.

FIGURE 6.2 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2019

	LGL PRE-SCHEME	AEL POST-SCHEME
SCR Ratio	392%	378%
MCR Ratio	162%	146%

Source: Appendix A and Appendix B

6.82 This shows that, as at 31 December 2019, if the proposed Scheme were to have been implemented at this date, AEL would exceed the requirements of the Assurant Europe Capital Management Policy. As described in paragraph 4.96, any capital held by AEL in excess of the AEL Target Capital will be eligible for distribution as a dividend. As at 31 December 2019 LGL held capital in excess of the requirements of the TWGE Capital Management Policy.

6.83 The projected decrease in SCR Ratio and MCR Ratio that would be experienced by the LGL Transferred Policies as a result of the Scheme may, in isolation, be taken to imply a negative impact on the security of the LGL Transferred Policies. However, I am satisfied that the projected decrease in SCR Ratio and MCR Ratio would not materially adversely affect the security of the LGL Transferred Policies for the following reasons:

- As outlined in paragraphs 6.68 to 6.70, the MCR does not reflect the risk profile of a company, and therefore the amount of capital held in excess of the MCR is not a reliable indicator of a company's financial strength. With regard to the SCR Ratio, whilst the SCR more accurately reflects a company's risk profile than the MCR, SCR Ratios are indicators of, or proxies for, financial strength and a decrease in the SCR Ratio does not necessarily indicate a material reduction in security. In particular, when considering the solvency coverage, one should only take into account the capital resources that the firm is required to hold up to the level required according to the capital management policy because capital resources in excess of this may be transferred out of the company.
- The proportion of excess capital held by both LGL and AEL in relation to its SCR, which is intended to reflect the risk profile of the two companies, is substantial.
- I have been provided with the medium term capital management plan for AEL, which forecasts the expected Own Funds over a three year period if the proposed Scheme were to be implemented. These projections show that AEL is not expected to breach the AEL Capital Target during the projection period. Further, AEL does not intend to distribute the additional capital held between the 120% and 146% level as a dividend during the projection period, and the AEL MCR Ratio is projected to remain around the initial level of 146% as at 31 December 2019 throughout this period.
- The business transferring to AEL under the proposed Scheme is in run-off; total liabilities within AEL are projected to reduce by c. 61% over the period to 31 December 2022 and all business is due to run-off by 2028. As a result, I note that the SCR of AEL is expected to decline over time. Therefore, since the amount of capital to be held is set with reference to a fixed monetary amount, i.e. the MCR, the amount of capital held in relation to the SCR, as a ratio, will increase over time as the business runs off.
- There is a difference between regulatory insolvency (which in AEL's case would occur if it failed to hold sufficient capital to meet its MCR), and claims-paying insolvency (which would occur if AEL failed to hold sufficient capital to pay policyholders' claims as they fall due). The lower SCR Ratio and MCR Ratio of AEL compared to LGL do not increase the risk of claims-paying insolvency. I note that if AEL were to breach its MCR and become insolvent from a regulatory perspective, it would be required to submit a restructuring scheme to the DNB for approval.
- Whilst AEL aims to hold sufficient capital to cover 120% of its MCR, as outlined in paragraph 6.69 above, this equates to holding sufficient capital to cover c. 310% of its SCR.

6.84 Overall, I acknowledge the projected decrease in MCR Ratio that would be experienced by the LGL Transferred Policyholders potentially does lead to an increase in risk of breaching the regulatory capital requirement. However, I consider the increase in risk to be low, given it would require AEL to make a large dividend distribution in the short term which it does not intend to do, given the fact that the risk profile of AEL is expected to decline over time, and since it would only require a small capital injection in monetary terms to restore the MCR Ratio to the level of the AEL Target Capital, i.e. 120%. Therefore I am satisfied that this increase in risk is not material.

6.85 Reverse stress testing has been performed to assess the resilience of AEL's capital position under increasingly extreme pandemic scenarios, which entail simultaneous shocks to disability risk, catastrophe risk and counterparty default risk. The scenarios considered did not entail a market risk shock. I consider this to be appropriate given AEL invests in cash and government bonds, and therefore the exposure to the risk of interest rates rising from their currently low levels would lead to an increase in the Solvency II risk-free rate, reducing the BEL and therefore reducing the starting point from which the SCR is calculated.

6.86 This analysis shows that the risk of a material deterioration in AEL's capital position is remote when allowing for AEL's MCR Ratio of 146%. In particular:

- Starting from AEL's initial MCR Ratio of 146%, in order to breach the AEL Target Capital of 120%, AEL would need to experience a scenario more severe than the following combination of events:
 - A disability risk stress of 1.5 times the 1 in 200 Standard Formula stress;

- A catastrophe risk stress of 10 times the 1 in 200 Standard Formula Stress; and
 - An increase in counterparty type 2 exposures of 50%.
- In order to breach its regulatory capital requirement, AEL would need to experience a scenario in line with the above, but with a catastrophe risk stress of 14 times the 1 in 200 Standard Formula stress.
- 6.87 Given the analysis above is based on AEL's MCR Ratio as at 31 December 2019, i.e. 14.6%, I acknowledge that the risk of a material deterioration in AEL's capital position would increase if AEL were to hold capital at a level closer to, or at, the AEL Target Capital of 120%. However, the likelihood of breaching the AEL Target Capital will be lower at the Effective Date compared to the analysis as at 31 December 2019 and will continue to decrease over time, in particular due to the rapid run-off of liabilities as described in paragraph 6.83. Further analysis on this risk will be performed based on 30 June 2020 figures and I will provide my views on this in the Supplementary Report.
- 6.88 In summary, I am satisfied that the reliance on the financial strength of AEL if the proposed Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the LGL Transferred Policies.

The reinsurance arrangements of AEL after the implementation of the Scheme

- 6.89 As outlined in paragraph 4.51 above, LGL does not have any reinsurance arrangement in place in respect of the LGL Transferred Business. This will continue to be the case for LGL Transferred Business when it becomes part of AEL rather than LGL.
- 6.90 I am therefore satisfied that, if the proposed Scheme were to be implemented, there would be no effect on the security of benefits under the LGL Transferred Policies as a result of AEL's reinsurance arrangements.

The support for AEL from TWGE as the parent of AEL

- 6.91 There is no formal capital support arrangement between AEL and TWGE and therefore, as TWGE's interest in AEL is limited to owning the entire issued share capital of AEL, as a matter of company law, TWGE is not under any legal obligation to provide capital support to AEL.
- 6.92 However, there are certain aspects of TWGE's relationship with AEL which, in my view, limit TWGE's ability to decline support to AEL in all but the most extreme scenarios when TWGE itself is at risk of not being able to meet its own claims. In particular:
- TWGE's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries, including AEL. The financial position of AEL would therefore affect TWGE's capital position and the failure of AEL to meet its MCR would be expected to lead to regulatory intervention by the DNB, which could ultimately lead to a constraint on TWGE's ability to pay a dividend. In addition, given TWGE is part of a UK group it is also subject to regulatory oversight and potential intervention by the PRA and the FCA.
 - TWGE may not freely sell a material proportion of its shares in AEL to a third party without the prior approval of the DNB, and approval would only be given if the DNB was satisfied with the suitability of the acquirer and financial soundness of the acquisition.
- 6.93 Therefore, although there is no formal capital support arrangement in place with TWGE, AEL can derive security from having TWGE as its parent as in all but the most extreme scenarios there would be a strong incentive to TWGE to provide support to AEL as and when required.
- 6.94 I note that this position is unchanged in respect of the LGL Transferred Business, since there is no change in parent company as a result of the implementation of the Scheme. Further, prior to the transfer, there is no formal capital support arrangement between LGL and TWGE.
- 6.95 In addition, I note that:
- Prior to the transfer, there is no formal capital support arrangement between LGL and its parent, TWGE. As such, the position on formal capital support from the parent company would be unchanged by the Scheme.
 - As will be the case for AEL, TWGE's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries, including LGL. The financial position of LGL would therefore affect TWGE's capital position and the failure of LGL to meet its MCR would be expected to lead to regulatory intervention by the PRA, which could ultimately lead to a constraint on TWGE's ability to pay a

dividend. Therefore, in the same way that TWGE currently has an interest in the financial position of LGL, if the proposed Scheme were to be implemented it would equally have an interest in the financial position of AEL.

- TWGE may not freely sell a material proportion of its shares in LGL to a third party without the prior approval of the PRA, and approval would only be given if the PRA was satisfied with the suitability of the acquirer and financial soundness of the acquisition.
- As at 31 December 2019 Assurant, Inc., LGL's and AEL's ultimate parent, had total assets of \$44.3bn, total revenue of \$10.1bn, holding company liquidity of \$534m and a total net income of \$0.4bn.
- The amount of capital that AEL aims to hold in excess of its MCR is less than £640k in monetary terms (i.e. 20% of the MCR), and therefore, if AEL's MCR Ratio falls below the AEL Minimum Capital Buffer, the cost to Assurant, Inc. of restoring the AEL Minimum Capital Buffer and thereby protecting its reputation is low.

6.96 Therefore, overall, the support available for AEL from TWGE as its parent is comparable to the support for LGL from TWGE as its parent.

6.97 I am therefore satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the LGL Transferred Policies as a result of having TWGE as a parent.

Additional security for LGL Transferred Policies

6.98 Under the regulatory regime in the Netherlands, in the extreme scenario of AEL becoming insolvent, the AEL policies would have a priority claim on the assets of AEL backing the Solvency II technical provisions. The only claims that would take precedence over insurance claims are claims from creditors with a mortgage claim over the assets of the insurer, claims relating to employee pensions and some claims relating to employee wages.

6.99 This would apply to all AEL policies (without exception) and they would rank *pari passu* (i.e. on equal footing) as regards all the assets held against the technical provisions. The ranking of insurance claimants upon wind-up of an insurer provides additional security for the benefits under the AEL policies, including the LGL Transferred Policies, which would not necessarily be available in the absence of such wind-up regulations.

6.100 Under the UK regulatory regime the position is different. Insurance claims take precedence over any other claims, with the exception of:

- Claims by employees;
- Claims by public bodies on taxes;
- Claims by social security systems; and
- Claims on assets subject to rights in rem (i.e. subject to rights someone might have in the asset itself).

6.101 Overall, the policyholder ranking upon wind-up of a Dutch insurer is at least as favourable as the policyholder ranking upon wind-up of a UK insurer.

Summary and conclusion

6.102 As set out above, if the proposed Scheme were to be implemented, the LGL Transferred Policies would be transferred to be part of AEL rather than LGL, and I am satisfied that there would be no material adverse effect on the security of benefits under the LGL Transferred Policies as a result of:

- The reliance on the financial strength of AEL rather than LGL;
- AEL's reinsurance arrangements;
- Having TWGE as a parent; and
- Being subject to Dutch law relating to the rights on wind-up of an insurer.

6.103 Therefore I am satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of the benefits of the LGL Transferred Policies as a result of being part of AEL after implementation of the Scheme rather than LGL as currently.

The effect on the security of LGL Transferred Policy benefits due a change in the protections conferred by the FSCS and the FOS to those available following the transfer

- 6.104 Currently the LGL Transferred Policyholders are covered under the UK's statutory "fund of last resort", the FSCS. In the event that LGL were to become insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance benefits, 100% of the benefits are protected and the coverage is automatic for policyholders of UK authorised insurers and is funded by levies on firms authorised by the PRA and FCA.
- 6.105 If the proposed Scheme were to be implemented, it is likely that the LGL Transferred Policies would no longer be covered under the FSCS for claims in respect of insured events arising after the Effective Date. I understand that there is no relevant equivalent Dutch compensation scheme for the types of policies held by the LGL Transferred Policyholders.
- 6.106 Therefore, it is likely that if the proposed Scheme were to be implemented, LGL Transferred Policyholders would no longer have access to a scheme offering protection in the event of insurer insolvency. However, I note that:
- The purpose of the proposed Scheme is to effect the transfer of the Transferred Business to AEL in order to enable its continued servicing, regardless of the outcome of the Brexit negotiations and in the absence of a practicable approach to utilising extended transitional periods on an individual EEA member state basis. Having certainty that the Transferred Policies can continue to be serviced lawfully after Brexit is key, and the loss of FSCS protection is an unavoidable consequence of this; and
 - Given AEL will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of AEL default or insolvency to be remote. In particular, paragraph 6.86 illustrates the low likelihood of regulatory insolvency for AEL, and the likelihood of claims-paying insolvency as discussed in paragraph 6.83 would be even lower. Therefore, I consider the materiality of the loss of FSCS protection to be low.
- 6.107 In addition, I note that there have been a number of past Part VII transfers presented to the Court from other insurers with the same motivation as the motivation for this Scheme, i.e. in preparation for the possible loss of EU Passport Rights as a result of Brexit. The loss of FSCS protection or deterioration in protection was a key matter in these past Part VII transfers. Some examples of the Court's judgments in relation to this matter are as follows:
- In the Part VII transfer of EEA business from The Royal London Mutual Insurance Society Limited to Royal London Insurance D.A.C., which was sanctioned by the Court on 31 January 2019, Snowden J concluded that *"I regard the potential loss of FSCS protection for some transferring policyholders as being a largely theoretical risk, as against the very real prejudice that all EEA policyholders would face in the event of a 'no-deal' Brexit if the Scheme were not implemented."*
 - In the Part VII transfer of EEA business from Scottish Widows Limited to Scottish Widows Europe S.A., which was sanctioned by the Court on 14 March 2019, Snowden J concluded that *"In my view, the loss of FSCS protection is too remote a potential prejudice to policyholders to warrant refusing to sanction the Scheme which will provide the means by which, if required, Scottish Widows Limited can provide far more immediate benefit of certainty of continued service to all its EEA policyholders."*
- 6.108 It is my opinion that these conclusions could equally be applied in the case of this proposed Scheme, given the motivation for the proposed Scheme is the same as the motivation for the schemes in the examples above, and I have demonstrated in my analysis in this Report that I consider the likelihood of AEL default or insolvency to be remote.
- 6.109 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of LGL Transferred Policyholder benefits.
- 6.110 I discuss the effects on the security of LGL Transferred Policy benefits due to a change in the protections conferred by the FOS and those available following the transfer in paragraphs 6.133 to 6.140 below.

Overall conclusion on the effect of the Scheme on the security of LGL Transferred Policy benefits

- 6.111 In summary, I am satisfied that, if the proposed Scheme were to be implemented:
- There would be no material adverse effect on the security of benefits under the LGL Transferred Policies from being subject to the Assurant Europe Capital Management Policy rather than the TWGE Capital Management Policy;

- There would be no material adverse effect on the security of benefits under the LGL Transferred Policies as a result of being part of AEL rather than LGL as currently; and
- The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the LGL Transferred Policies.

6.112 Therefore, in conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of LGL Transferred Policy benefits.

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

ALL Transferred Policyholders

6.113 If the proposed Scheme were to be implemented, the ALL Transferred Policies would be direct policies of AEL and directly exposed to the risk profile of AEL.

6.114 As outlined in paragraphs 4.13 to 4.17, the main risks to which ALL is exposed are counterparty default risk, market risk and life underwriting risk. As outlined in paragraphs 4.79 to 4.81, if the proposed Scheme were to be implemented then AEL would also be exposed to these three key risks. In particular:

- Counterparty default risk would be higher in AEL compared to ALL in absolute terms, as the transfer of both ALL Transferred Business and LGL Transferred Business into AEL would lead to a higher level of counterparty exposure;
- Market risk would be lower in AEL compared to ALL in absolute terms, as the assets will be mainly composed of cash and government bonds, and there would be no currency risk due to holding assets in Euros;
- Life underwriting risk would be higher in AEL compared to ALL in absolute terms, as the transfer of both ALL Transferred Business and LGL Transferred Business into AEL would lead to higher business volumes; and
- Operational risk in AEL would be in line with operational risk in ALL, due to the methodology for determining operational risk under the Standard Formula.

6.115 Whilst there will, however, be greater diversification across geographies, lines of business and counterparties, the overall result will be that AEL has a slightly higher absolute level of risk following the implementation of the proposed Scheme than ALL prior to the Scheme.

6.116 Despite the slightly higher absolute level of risk in AEL, as outlined in paragraph 4.78, AEL's SCR will immediately be lower than the absolute floor MCR as specified by Solvency II, and therefore AEL will hold capital significantly in excess of the required capital determined by its actual risk profile. In addition, I note that the composition of risks to which AEL would be exposed is in line with those to which ALL is exposed, and these risks are typical of life insurance companies writing mortgage protection and creditor lines of insurance business. Therefore, from the perspective of ALL Transferred Policyholder security, the current risk profile of ALL and the risk profile of AEL after the implementation of the proposed Scheme are aligned.

6.117 Overall, I am satisfied that any change in risk profile would not have a material adverse effect on the ALL Transferred Policies.

LGL Transferred Policyholders

6.118 If the proposed Scheme were to be implemented, the LGL Transferred Policies would be direct policies of AEL and directly exposed to the risk profile of AEL.

6.119 As outlined in paragraphs 4.45 to 4.48, the main component of LGL's SCR on an undiversified basis is market risk, followed by life underwriting risk. As outlined in paragraphs 4.79 to 4.81, if the proposed Scheme were to be implemented then AEL would also be exposed to these two risks, as well as counterparty default risk. In particular:

- Counterparty default risk would be notably higher in AEL compared to LGL, as the transfer of both ALL Transferred Business and LGL Transferred Business into AEL would lead to a higher level of counterparty exposure. In particular, AEL would be exposed to the risk associated with the reinsurance arrangements in place in respect of ALL Transferred Policies, which LGL is not exposed to;

- Market risk would be lower in AEL compared to LGL in absolute terms, as the assets will be mainly composed of cash and government bonds, and there would be no currency risk due to holding assets in Euros;
- Life underwriting risk would be higher in AEL compared to LGL in absolute terms, as the transfer of both ALL Transferred Business and LGL Transferred Business into AEL would lead to higher business volumes; and
- Operational risk would be higher in AEL compared to LGL in absolute terms, as the transfer of both ALL Transferred Business and LGL Transferred Business into AEL would lead to a higher operational exposures.

6.120 There will, however, be greater diversification across geographies, lines of business and counterparties within AEL. The overall result will be that AEL has a slightly lower absolute level of risk following the implementation of the proposed Scheme than LGL prior to the Scheme, driven largely by the reduced exposure to market risk.

6.121 As outlined in paragraph 4.78, AEL's SCR will immediately be lower than the absolute floor MCR as specified by Solvency II, and therefore AEL will hold capital significantly in excess of the required capital determined by its actual risk profile. Overall, from the perspective of LGL Transferred Policyholder security, the current risk profile of LGL and the risk profile of AEL after the implementation of the proposed Scheme are broadly aligned.

6.122 Overall, I am satisfied that any change in risk profile would not have a material adverse effect on the LGL Transferred Policies.

THE EFFECT ON THE TRANSFERRING POLICIES OF THE CHANGE IN REGULATORY REGIME FROM THE UK TO THE NETHERLANDS

ALL Transferred Policyholders and LGL Transferred Policyholders

Introduction

6.123 If the proposed Scheme were to be implemented, the Transferred Policyholders would become protected by the regulatory environment in the Netherlands rather than the UK as currently. This would involve a change to:

- Regulation in respect of conduct of business. This is regulated by the FCA in the UK and the AFM in the Netherlands;
- The supervisory body responsible for prudential regulation. The supervisors are the PRA in the UK and the DNB in the Netherlands;
- The access of policyholders to the services of an independent complaints service to opine on alleged cases of policyholder mistreatment. This role is currently fulfilled by the FOS in the UK and Kifid in the Netherlands; and
- The access of policyholders to a compensation scheme in the event of insurer default or insolvency. This protection is conferred by the FSCS in the UK, however there is no equivalent to the FSCS in the Netherlands.

6.124 Since the ALL Transferred Policyholders and LGL Transferred Policyholders are both currently subject to the same UK regulatory regime, and will also be subject to the same, but different, Netherlands regulatory regime if the proposed Scheme were to be implemented, I consider both groups of policyholders together in this section.

Regulation in respect of the conduct of business

6.125 Although there may be circumstances in which the FCA retains a role, in general conduct of business responsibility for the policies serviced under EEAPassport Rights is shared with the host state supervisors.

6.126 Therefore, the Transferred Business which was written in Belgium, Germany, Ireland, Italy, the Netherlands and Spain currently falls within the regulatory responsibility for conduct of business of the relevant authority in Belgium (the FSMA), Germany (BaFin), Ireland (the CBI), Italy (the IVASS), the Netherlands (the AFM) and Spain (the DGSFP) respectively. This would not change if the proposed Scheme were to be implemented.

- 6.127 As described in paragraphs 3.33 to 3.35, the FCA sets out various outcomes that firms should strive to achieve to ensure the fair treatment of customers. The FCA also sets out guidance on the principles that firms should adopt to ensure they fulfil their TCF duties. Further, the Conduct of Business Sourcebook (“COBS”) section of the FCA Handbook applies to firms with respect to the conduct of certain activities carried on in the UK.
- 6.128 If the proposed Scheme were to be implemented, conduct oversight would become the responsibility of the AFM rather than the FCA. Within the Netherlands, the Dutch Corporate Governance Code contains principles and best practices relating to the governance of companies. Further, the DNB and AFM are both members of EIOPA and operate within a significant and sophisticated insurance market, and there is therefore no reason to believe that the oversight standards would be any lower than those applied within the UK. Finally, AEL is wholly owned by TWGE, a company which is regulated by the PRA and the FCA in the UK.
- 6.129 I am therefore satisfied that, in terms of conduct of business regulation, the implementation of the proposed Scheme would not have a material adverse effect on the Transferred Policies.

Regulation in respect of prudential supervision

- 6.130 If the proposed Scheme were to be implemented there would be a change in the regulator responsible for prudential supervision from the PRA to the DNB. At a high level, the PRA and DNB have aligned aims of promoting the strength and financial soundness of financial institutions in the UK and the Netherlands respectively.
- 6.131 The change in prudential regulatory supervision from the PRA to the DNB would not have a material adverse effect on:
- The Solvency II regulations that would apply to the Transferred Business, i.e. the Transferred Business would continue to be subject to the same Solvency II regulations after the implementation of the proposed Scheme;
 - The adherence to the Solvency II regulations in relation to the methodologies and assumptions used to calculate the Solvency II balance sheet (in particular the technical provisions and the SCR using the Standard Formula);
 - The adherence to the appropriate risk appetite statements, i.e. both the PRA and DNB exercise prudential supervision over the risk management of insurers; and/or
 - The governance, management (including risk management) and servicing standards that apply to the Transferred Policies, i.e. these aspects would continue to be subject to prudential supervision, however this would be exercised by the DNB rather than the PRA.
- 6.132 Therefore, I am satisfied that the change in regulatory oversight in respect of prudential supervision from the PRA to the DNB would not have a material adverse effect on the Transferred Policies.

The access of Transferred Policyholders to the services of an independent complaints service

- 6.133 If the proposed Scheme were to be implemented, the Transferred Policyholders would no longer have access to the FOS and the provisions of the “Dispute Resolution: Complaints” section of the FCA Handbook would no longer apply, except for in relation to the following cases whereby AEL must comply with such provisions:
- Complaints that have commenced but have not been settled before the Effective Date; and
 - Complaints in respect of acts or omissions of ALL or LGL prior to the Effective Date.
- 6.134 In respect of acts and omissions subsequent to the implementation of the proposed Scheme, the Transferred Policyholders would no longer have access to the FOS but would be able to pursue complaints against the insurer through Kifid. In circumstances where ALL or LGL currently refer policyholders to the FOS, AEL would refer those policyholders to Kifid and to the policyholder’s local ombudsman service.
- 6.135 I therefore need to consider whether the independent complaints service provided by Kifid rather than the FOS constitutes a material weakening in the independent complaints services available for Transferred Policyholders.

- 6.136 I note that policyholders of ALL and LGL outside the UK are currently offered access to a local dispute resolution process in the policyholder's home territory in addition to access to the FOS. In a similar manner AEL would refer those policyholders to Kifid and to the policyholder's local dispute resolution process. In addition Kifid is a member FIN-NET, an international partnership of financial complaint institutes. FIN-NET published a Memorandum with its intent on cross-border-co-operation between the affiliated complaint institutes (this includes Kifid). The memorandum outlines the mechanisms and other conditions according to which the affiliated complaint institutes intend to co-operate.
- 6.137 The complaints procedures for both the FOS and Kifid are broadly similar. The FOS will not consider any appeals against its decisions, and once accepted by the individual, decisions are legally binding. Under Kifid, if an individual does not accept Kifid's decision in relation to their case, a decision is made regarding the resolution by the Disputes Committee within Kifid, whose decisions are usually legally binding, provided both parties have accepted that such decision will be legally binding prior to the decision being made. The maximum amount the FOS can make a business pay an individual is £150,000, whereas Kifid does not act on claims above €1m.
- 6.138 I consider the services provided by the FOS and Kifid to be broadly similar and I do not consider the differences outlined above to represent a material weakening in the independent complaints services available to Transferred Policyholders.
- 6.139 In addition to Kifid, policies written out of the various branches of ALL and LGL would continue to have access to their local ombudsman services, and the experience of ALL and LGL indicates that this is typically the preferred option for most policyholders.
- 6.140 Overall, given the similarities in the services provided by the FOS and Kifid, and the continued access to local ombudsman services, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the rights of the Transferred Policyholders in relation to their access to the services of an independent complaints service.

The access of Transferred Policyholders to a compensation scheme in the event of insurer default or insolvency

- 6.141 The implications of the loss of FSCS protection are discussed in paragraphs 6.49 to 6.52 and 6.104 to 6.108 of this Report.

Overall conclusion on effect on the Transferred Policies of the change in regulatory regime from the UK to the Netherlands

- 6.142 In summary, I am satisfied that, if the proposed Scheme were to be implemented:
- In terms of conduct of business regulation, there would be no material adverse effect on the Transferred Policies;
 - The change in regulatory oversight in respect of prudential supervision from the PRA to the DNB would not have a material adverse effect on the Transferred Policies; and
 - There would be no material adverse effect on the rights of Transferred Policyholders in relation to their access to an independent complaints service.
- 6.143 Therefore, in conclusion, I am satisfied that the change in regulatory regime from the UK to the Netherlands would not have a material adverse effect on the Transferred Policies.

THE EFFECT OF THE SCHEME ON THE BENEFIT EXPECTATIONS OF THE TRANSFERRING POLICYHOLDERS

ALL Transferred Policyholders

Introduction

- 6.144 The ALL Transferred Business consists solely of non-profit business. For this type of business, policyholders' expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions; and
 - The management, governance, administration, and servicing of the policies after implementation of the Scheme are in line with what they have had up until the point of implementation.

The benefit expectations of the ALL Transferred Policyholders

- 6.145 If the proposed Scheme were to be implemented, then there would be no change to the terms and conditions of the ALL Transferred Policies, except that the policies would become policies of AEL rather than ALL).
- 6.146 The ALL Transferred Business is currently subject to the management and governance of ALL and will, if the proposed Scheme is implemented, be subject to the management and governance of AEL. I note the following in respect of the planned management of the ALL Transferred Business after the transfer:
- The NLSB and NLMB would replace the AEG Board as the governing body with responsibility for the ALL Transferred Business.
 - The NLSB and NLMB have relevant experience and expertise in managing the types of business that make up the ALL Transferred Business.
 - The matters which are reserved for the NLSB are similar in nature to those reserved for the AEG Board. Examples of some of these reserved matters which may impact policyholder benefits include:
 - Determining the risk management framework and capital management policy;
 - Issuing of inter-company funding or support arrangements;
 - Implementing changes to outsourcing arrangements; and
 - Approving mergers, acquisitions, disposals or joint ventures.
 - The analysis performed above into the impact of the Scheme on the security of ALL Transferred Policy benefits shows that there is not expected to be a material increase in the likelihood that ALL Transferred Policyholders would not receive their benefits in full.
 - The ALL Transferred Policies do not contain any discretionary elements, such as discretionary benefits or discretionary surrender values. Surrender values are determined using a prescribed method specified in the policy terms and conditions. Therefore, being subject to the management and governance of AEL rather than ALL will not introduce any potential divergence in the exercise of discretion.
- 6.147 I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the benefit expectations of the ALL Transferred Policyholders.

The effect of the Scheme on the administration and servicing of the ALL Transferred Policies

- 6.148 Currently, the ALL Transferred Policies are administered and serviced via outsourcing arrangements with various internal intermediary service companies within AGL, each of which are authorised in EEA member states in which ALL Transferred Business is written. These arrangements are managed in accordance with the European Operations Outsource Oversight Framework and various AEG-wide policies covering customer-facing services.
- 6.149 If the proposed Scheme were to be implemented then the ALL Transferred Policies would continue to be administered and serviced by the existing intermediary service companies. In addition, I note the following:
- The outsourcing arrangements would continue to be managed in accordance with the European Operations Outsource Oversight Framework and the various AEG-wide policies covering customer-facing services;
 - The same administration systems and processes would be used to administer ALL Transferring Policies;
 - The same staff and management would be responsible for the servicing of ALL Transferred Policies;
 - The service levels and key performance indicators documented within each outsourcing contract would be unchanged; and
 - The governance process in place to track and monitor performance against target service levels and key performance indicators would be unchanged.
- 6.150 Therefore, the only change as a result of the implementation of the Scheme would be that AEL would become the internal client to these companies, rather than ALL.

- 6.151 Although the administration and servicing of the ALL Transferred Policies would be outsourced as described above, AEL would retain ultimate responsibility for the administration and servicing of the ALL Transferred Policies.
- 6.152 ALL currently manages its policyholder data in accordance with General Data Protection Regulation (“GDPR”), the EU-wide data protection regime. Likewise, AEL will be required to manage its policyholder data in accordance with GDPR. Therefore, if the proposed Scheme were to be implemented, the ALL Transferred Policyholders would continue to be protected by GDPR.
- 6.153 Overall, there would be no material change in the administration and servicing of ALL Transferred Policies if the Scheme were to be implemented. I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the ALL Transferred Policies.

LGL Transferred Policyholders

Introduction

- 6.154 The LGL Transferred Business consists solely of non-profit business. For this type of business, policyholders’ expectations in respect of their benefits are that:
- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions; and
 - The management, governance, administration, and servicing of the policies after implementation of the Scheme are in line with what they have had up until the point of implementation.

The benefit expectations of the LGL Transferred Policyholders

- 6.155 If the proposed Scheme were to be implemented, then there would be no change to the terms and conditions of the LGL Transferred Policies, except that the policies would become policies of AEL rather than LGL.
- 6.156 The LGL Transferred Business is currently subject to the management and governance of LGL and will, if the proposed Scheme is implemented, be subject to the management and governance of AEL. I note the following in respect of the planned management of the LGL Transferred Business after the transfer:
- The NLSB and NLMB would replace the AEG Board as the governing body with responsibility for the LGL Transferred Business.
 - The NLSB and NLMB have relevant experience and expertise in managing the types of business that make up the LGL Transferred Business.
 - The matters which are reserved for the NLSB are similar in nature to those reserved for the AEG Board. Examples of some of these reserved matters which may impact policyholder benefits include:
 - Determining the risk management framework and capital management policy;
 - Issuing of inter-company funding or support arrangements;
 - Implementing changes to outsourcing arrangements; and
 - Approving mergers, acquisitions, disposals or joint ventures.
 - The analysis performed above into the impact of the Scheme on the security of LGL Transferred Policy benefits shows that there is not expected to be a material increase in the likelihood that LGL Transferred Policyholders would not receive their benefits in full.
 - The LGL Transferred Policies do not contain any discretionary elements, such as discretionary benefits or discretionary surrender values. Surrender values are determined using a prescribed method specified in the policy terms and conditions. Therefore, being subject to the management and governance of AEL rather than LGL will not introduce any potential divergence in the exercise of discretion.
- 6.157 I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the benefit expectations of the LGL Transferred Policyholders.

The effect of the Scheme on the administration and servicing of the LGL Transferred Policies

- 6.158 Currently, the LGL Transferred Policies are administered and serviced via an outsourcing arrangement with TWGS, which is authorised in the UK. This arrangement is managed in accordance with the European Operations Outsource Oversight Framework and various AEG-wide policies covering customer-facing services.
- 6.159 If the proposed Scheme were to be implemented, the provision of services for LGL Transferred Business currently delivered by TWGS would instead be provided by AES, which is incorporated in the Netherlands. I note the following in relation to the services to be provided by AES:
- The outsourcing arrangement with AES would be managed in accordance with the European Operations Outsource Oversight Framework and the various AEG-wide policies covering customer-facing services;
 - The same administration systems and processes currently used by TWGS would be used by AES to administer LGL Transferring Policies;
 - All employees of TWGS would instead become employees of AES, and therefore the same staff and management would be responsible for the servicing of LGL Transferred Policies;
 - The service levels and key performance indicators documented within the outsourcing contract between AEL and AES would be unchanged from those currently in place between LGL and TWGS;
 - The governance process in place to track and monitor performance against target service levels and key performance indicators would be unchanged; and
 - The services provided by AES would be performed in the same location as those currently provided by TWGS.
- 6.160 As such, if the proposed Scheme were to be implemented, then whilst LGL Transferred Policies would be administered and serviced by AES rather than TWGS, there would be no fundamental change from a policyholder perspective.
- 6.161 Although the administration and servicing of the LGL Transferred Policies would be outsourced as described above, AEL would retain ultimate responsibility for the administration and servicing of the LGL Transferred Policies.
- 6.162 LGL currently manages its policyholder data in accordance with GDPR. Likewise, AEL will be required to manage its policyholder data in accordance with GDPR. Therefore, if the proposed Scheme were to be implemented, the LGL Transferred Policyholders would continue to be protected by GDPR.
- 6.163 Overall, I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the LGL Transferred Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON THE TRANSFERRING POLICIES

- 6.164 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- The security of benefits under the Transferred Policies;
 - The reasonable expectations of the Transferred Policyholders in respect of their benefits; or
 - The standards of administration, service, management and governance that apply to the Transferred Policies.

7. THE IMPACT OF THE SCHEME ON THE REMAINING POLICYHOLDERS

INTRODUCTION

- 7.1 In this section of the Report, I consider the likely effects of the implementation of the proposed Scheme on those policyholders whose policies will not be transferred to AEL but who therefore will remain LGL policyholders after the Effective Date, i.e. the holders of Remaining Policies.
- 7.2 In my consideration of the proposed Scheme, the key points in respect of the Remaining Policies are the likely effects of the transfer of the LGL Transferred Policies out of LGL on the following:
- **The security of Remaining Policy benefits:** this is derived from the financial strength available to provide security for the benefits under the Remaining Policies. Financial strength is derived from the applicable risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
 - **The profile of risks to which the Remaining Policies are exposed:** this includes the impact of the transfer of LGL Transferred Policies out of LGL on the risk profile of ALL and LGL.
 - **The reasonable expectations of the Remaining Policyholders in respect of their benefits:** this includes the policy servicing standards and governance applied to Remaining Policies.
- 7.3 These are considered in turn in this section.
- 7.4 Since all policies within ALL are proposed to be transferred to AEL under the terms of the Scheme, it is not intended that there would be any policies remaining within ALL after the Effective Date.
- 7.5 With regards to LGL, as outlined in paragraph 5.34, if the proposed Scheme were to be implemented LGL would maintain a small amount of UK business, the “LGL Remaining UK Business”, which I discuss under the relevant headings below. However, as described in paragraph 5.21, until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Policies will also remain within LGL.
- 7.6 Since it is expected that both the Scheme and the Assurant Non-Life Scheme will become effective at the same time, the impact of the proposed Scheme on LGL EEA Creditor Policies is reflected within the analysis for LGL Transferred Business in section 6.
- 7.7 However, since it is possible that the Scheme and the Assurant Non-Life Scheme do not become effective at the same time, I consider in this section the impact of the Scheme on LGL EEA Creditor Policies in the scenario that they were to continue to reside within LGL.
- 7.8 I therefore consider two groups of Remaining Policyholders in this section:
- **LGL Remaining UK Policyholders:** the policyholders of LGL that were not intended to be transferred under the proposed Scheme; and
 - **LGL EEA Creditor Policyholders:** the LGL EEA Creditor Policyholders that would continue to reside within LGL until such time as the Assurant Non-Life Scheme becomes effective.

THE EFFECT OF THE SCHEME ON THE SECURITY OF REMAINING POLICY BENEFITS

LGL Remaining UK Policies

- 7.9 The LGL Transferred Business (including the LGL EEA Creditor Business) consists of c. 10,600 policies and c. £1.9m of liabilities as at 31 December 2019. In comparison, the LGL Remaining UK Business consists of approximately 85 policies and c. £94,000 of liabilities as at 31 December 2019. The final LGL Remaining UK Policy is due to expire in 2048.
- 7.10 The LGL Remaining UK Business is therefore very low in volume in comparison to the LGL Transferred Business.
- 7.11 The LGL Remaining UK Business will continue to be managed in line with the TWGE Risk Management Framework and TWGE Capital Management Policy (or equivalent, as both of these items are currently being redrafted) if the proposed Scheme is implemented. Changes to the TWGE Capital Management Policy will continue to require AEG Board approval.

- 7.12 LGL will continue to hold sufficient capital in respect of the LGL Remaining UK Business in line with the TWGE Capital Management Policy and the LGL Target Capital. As shown in Appendix B, following the implementation of the proposed Scheme, LGL's MCR Ratio is estimated to be 162% compared to an LGL Target Capital of 145%.
- 7.13 As outlined in paragraph 4.51, LGL has one reinsurance treaty in place with an external reinsurer. This reinsurance treaty relates to the LGL Remaining UK Business. This reinsurance treaty will remain in place and there will therefore be no impact on the reinsurance arrangements of LGL as a result of the implementation of the proposed Scheme.
- 7.14 There is no formal capital support arrangement between LGL and its parent, TWGE. This will be unchanged as a result of the implementation of the proposed Scheme.
- 7.15 Given the minimal volume of business that would remain within LGL following the implementation of the proposed Scheme, LGL is in discussion with the regulators with regard to the longer term future of LGL subsequent to the transfer. Provided that LGL meets all of the regulators' requirements regarding any action taken, including those relating to the fair treatment of customers, I am satisfied that the action taken should not be materially disadvantageous to the LGL Remaining UK Policyholders.
- 7.16 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the security of LGL Remaining UK Policy benefits.

LGL EEA Creditor Policies

- 7.17 Until such time as the Assurant Non-Life Scheme becomes effective, the LGL EEA Creditor Business would continue to be managed in line with the TWGE Risk Management Framework and TWGE Capital Management Policy (or equivalent, as both of these items are currently being redrafted), and changes to the TWGE Capital Management Policy would continue to require AEG Board approval.
- 7.18 LGL would continue to hold sufficient capital in respect of the LGL EEA Creditor Business in line with the TWGE Capital Management Policy.
- 7.19 There are no reinsurance treaties in place relating to the LGL EEA Creditor Business and this would continue to be the case following the implementation of the proposed Scheme.
- 7.20 There is no formal capital support arrangement between LGL and its parent, TWGE. This would be unchanged as a result of the implementation of the proposed Scheme.
- 7.21 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the security of LGL EEA Creditor Policy benefits.

THE EFFECT OF THE SCHEME ON THE PROFILE OF RISKS TO WHICH THE REMAINING POLICIES ARE EXPOSED

LGL Remaining UK Policies

- 7.22 As outlined in paragraphs 4.45 to 4.48, the main risks to which LGL is currently exposed are market risk and life underwriting risk. There has been no formal assessment of the anticipated risk profile of LGL if the proposed Scheme were to be implemented.
- 7.23 In general, underwriting risk, market risk, counterparty default risk and operational risk would all reduce in LGL if the proposed Scheme were to be implemented due to lower business volumes, asset volumes, counterparty exposure and operational exposures compared to before the transfer. Currency risk would reduce as euro assets would no longer be held. The overall reduction in counterparty default risk would be partially offset by an increase in relative counterparty default risk since the LGL Remaining UK Policies are 100% reinsured. There would also be less diversification across geographies and counterparties.
- 7.24 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the profile of risks to which the LGL Remaining UK Policies are exposed.

LGL EEA Creditor Policies

- 7.25 As outlined in paragraphs 4.45 to 4.48, the main risks to which LGL is currently exposed are market risk and life underwriting risk. It is expected that the risk profile of LGL would be largely unchanged if the LGL EEA Creditor Policies were to remain within LGL; however the overall level of risk within LGL would be reduced since the LGL Transferred Business would no longer reside within LGL.

7.26 Overall, if the proposed Scheme were to be implemented, I am satisfied that there would be no material adverse effect on the profile of risks to which the LGL EEA Creditor Policies are exposed.

THE EFFECT OF THE SCHEME ON THE BENEFIT EXPECTATIONS OF REMAINING POLICYHOLDERS

LGL Remaining UK Policies

7.27 The implementation of the proposed Scheme would not change:

- The terms and conditions of the LGL Remaining UK Policies;
- The governance or management of the LGL Remaining UK Policies; and
- There will be no change to the administration or servicing arrangements in respect of the LGL UK Remaining Policies.

7.28 Therefore, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable benefit expectations of the LGL Remaining UK Policyholders or on the level and standards of administration and service that would apply to the LGL Remaining UK Business.

LGL EEA Creditor Policies

7.29 The implementation of the proposed Scheme would not change:

- The terms and conditions of the LGL EEA Creditor Policies; and
- The governance or management of the LGL EEA Creditor Policies.

7.30 As described in paragraph 5.31, the administration and servicing arrangements with respect to the LGL EEA Creditor Business would be delivered by AES rather than TWGS. I concluded in section 6 that this would not have a material adverse effect on the levels and standards of administration and service that would apply to LGL Transferred Policies, and this conclusion would apply equally to LGL EEA Creditor Policies. If, however, the LGL EEA Creditor Business were to continue to reside with LGL at the end of the Brexit transition period, LGL's ability to manage, administer and service this business without breaching authorisation requirements may be threatened and further actions may be required to ensure a continuation of its ability to lawfully service these policies.

7.31 Therefore, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable benefit expectations of the LGL EEA Creditor Policyholders or on the level and standards of administration and service that would apply to the LGL EEA Creditor Business.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON REMAINING POLICIES

7.32 Overall, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Remaining Policies;
- The profile of risks to which the Remaining Policies are exposed;
- The reasonable expectations of the Remaining Policyholders in respect of their benefits; or
- The level and standards of administration and service that would apply to the Remaining Policies (provided the Assurant Non-Life Scheme becomes effective before the end of the Brexit transition period).

8. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

Introduction

8.1 Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties under the Scheme. However, this requirement may be waived at the discretion of the Court which will give consideration to issues such as the practicality and costs of sending notices relative to the likely benefits for policyholders of receiving such communications.

The proposed waiver applications

Remaining Policyholders

8.2 LGL intends to seek waivers from the regulatory requirements to send a written notice to the policyholders that would not be transferred if the proposed Scheme were to be implemented on the basis that:

- The LGL Board has considered the likely impact of the Scheme on all policyholders and considers that LGL Remaining UK Policyholders will not be materially adversely affected by the Scheme;
- As described in paragraphs 8.20 to 8.21 below, there will be significant wider publication of the proposed Scheme in excess of the statutory requirement;
- As described in paragraphs 8.18 to 8.19 below, the key documentation relating to the Scheme will be made available free of charge on the ALL and LGL websites; and
- As noted in paragraph 7.15, LGL is currently in discussion with the regulators with regard to the longer term future of LGL after the implementation of the proposed Scheme. LGL expects to write separately to the LGL Remaining UK Policyholders regarding any action that will be taken, and as part of that communication intends to refer to the Scheme and to make LGL Remaining UK Policyholders aware that, if the proposed Scheme is implemented, the LGL Transferred Business will be transferred to AEL.

8.3 As outlined in paragraph 5.35, there are only a small number of policies for which this waiver is sought, namely the LGL Remaining UK Policyholders. In section 7 of this Report I considered the impact of the proposed Scheme on LGL Remaining UK Policyholders and concluded that in my view the implementation of the Scheme would not have a material adverse effect on:

- The security of benefits under any such policies;
- The profile of risks to which such policies are exposed;
- The reasonable benefit expectations under any such policies; and
- The standards of administration, service, management and governance that apply to such policies.

8.4 I am therefore satisfied that the application for a waiver from the regulatory requirements to send a written notice to the Remaining Policyholders is reasonable.

Additional parties for which a waiver is sought

8.5 In addition to the parties outlined above, ALL and LGL intend to seek waivers from the regulatory requirements to send a written notice to the following parties:

- Intermediaries and brokers;
- Assignees;
- Other potential claimants;
- Trustees in bankruptcy, receivers and administrative receivers;
- Joint policyholders (only one of the policyholders of a joint policy will be notified);
- Deceased policyholders;
- Expired policies with no known current claims exposure; and

- Policyholders of ALL or LGL for which no valid policyholder address is held on ALL or LGL's computerised database (known as "gone-aways" or "address unknowns").

8.6 ALL and LGL intend to seek waivers from the regulatory requirements to send a written notice to these parties on the basis of:

- Impossibility;
- Practicality;
- Utility to the policyholder and the Court;
- Availability of other information channels;
- Proportionality;
- The impact of controlled commercial concerns, such as cost implications; or
- The object of the transfer and its likely impact on policyholders.

8.7 I have reviewed the reasons why these waivers have been sought and I am satisfied that the application for a waiver to send a written notice to the parties outlined above is reasonable.

Publication in EEA member states

8.8 ALL and LGL intend to seek waivers from the regulatory requirements to publish a legal notice of the transfer in two national newspapers in each EEA member state where there is a state of commitment at policy inception in respect of a Transferred Policyholder on the basis that:

- The policyholder addresses held on ALL and LGL's computerised databases may not accurately represent the EEA member state which is the state of commitment and it is not possible to confirm whether these policies fall within the regulatory requirements;
- ALL and LGL have never purposely or directly conducted business in any EEA member state other than those set out in paragraphs 4.5 and 4.37, and ALL and LGL consider it very unlikely that the EEA member state which is the state of commitment of any Transferred Policy is an EEA member state other than those specified;
- Individual policyholders will be sent a mailing pack and will therefore be made aware of the Scheme;
- It is estimated that arranging for publication of a legal notice in two newspapers in each EEA member state would be significant; and
- ALL and LGL intend to publish the legal notice in the international edition of the Financial Times at least six weeks before the Sanction Hearing. This newspaper is circulated in all EEA member states except Iceland and Liechtenstein.

8.9 ALL and LGL therefore considers that compliance with this regulatory requirement would be disproportionate due to the significant costs involved and unnecessary given information regarding the proposed Scheme will be made available via other means, as discussed in paragraphs 8.18 to 8.21.

8.10 Given the rationale provided by ALL and LGL, I am satisfied that the application for this waiver is reasonable.

The mailing pack

8.11 Both the PRA Statement of Policy and the FCA Proposed 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 Sanction Hearing at which the application to sanction the Scheme will be heard.

8.12 The method for communicating with Transferred Policyholders will depend upon the way in which the policy was originally distributed and sold. This will result in two methods for communicating with Transferred Policyholders:

- For Transferred Policyholders who receive business-as-usual communications directly from ALL or LGL, the Transferred Policyholder will be sent the mailing pack directly based on their preferred method of communication, which may be via post or email; and

- For Transferred Policyholders who do not receive business-as-usual communications directly from ALL or LGL, and for whom ALL or LGL's client handles customer communications instead, ALL and LGL will liaise with their client in order for the mailing pack to be shared with the Transferred Policyholder via their clients using their preferred method of communication, which maybe via post or email. For Transferred Policyholders who are notified about this Scheme in this way, ALL and LGL will require confirmation from their clients that communications have been provided to policyholders as intended.
- 8.13 The mailing pack that is to be sent to Transferred Policyholders, either directly or via ALL and LGL's clients, will provide information about the proposed Scheme to enable Transferred Policyholders to make representations to the Court if they feel they may be disadvantaged by the proposals. The mailing pack will contain:
- A covering letter; and
 - A summary of the transfer, which describes at a high level how the transfer affects the policyholder and provides answers to some key questions regarding the Scheme.
- 8.14 The mailing pack will be tailored to ALL Transferred Policyholders and LGL Transferred Policyholders as required. For LGL EEA Creditor Policies who hold a policy with both LGL and LGI, a mailing pack will be issued for each policy held.
- 8.15 In addition, further detail regarding the transfer will be summarised in a policyholder booklet, which will be available online or can be provided to policyholders via email or post upon request. The policyholder booklet will contain:
- An introduction to the Scheme;
 - Confirmation that there is not expected to be any changes to the management or administration of the Transferred Policies;
 - Questions and answers explaining the impact of the Scheme;
 - An overview of the legal process and the rights that policyholders have to object to the Scheme; and
 - A copy of the legal notice.
- 8.16 The mailing pack and policyholder booklet will be translated into the language in which the original policy terms and conditions were written.
- 8.17 The mailing pack and policyholder booklet will also explain the sources from which policyholders can obtain further information about the Scheme, including online and using a telephone line directed to the same administration team that is responsible for the day to day administration of that policyholder's policy.

Further publication of the Scheme and distribution of information in respect of the Scheme

- 8.18 The ALL and LGL websites (www.assurant.co.uk and www.thewarrantygroup.eu) will contain the following information:
- Sample copies of the mailing pack;
 - The policyholder booklet;
 - My Report (this Report), a summary of my Report and any supplementary reports;
 - The full Scheme document and a summary of the Scheme document;
 - The ALL and LGL Chief Actuary report; and
 - The legal notice.
- 8.19 This information will also be available free of charge by written request from ALL or LGL, or by telephoning a relevant helpline set out in the mailing pack.
- 8.20 ALL, LGL and AEL will publish a notice in a form approved by the PRA and the FCA in the following publications in the UK:
- The London Gazette;
 - The Edinburgh Gazette;

- The Belfast Gazette;
- The Daily Mail;
- The UK edition of the Financial Times; and
- The Times.

8.21 Subject to any waiver granted by the Court this will also be published in two national newspapers in each EEA State of the commitment for any policy included in the transfer.

Conclusion

8.22 I am satisfied that the proposed approach to communication with policyholders, including the application for the waivers, is fair and reasonable, and that the information contained in the notification to policyholders adequately describes the proposals to policyholders.

FUTURE CONDUCT AND REGULATORY RISK

8.23 If the proposed Scheme were to be implemented, any costs arising as a result of conduct or failure to comply with regulations will be met as follows:

- For any such costs arising in relation to the actions of ALL or LGL in respect of the ALL Transferred Business or the LGL Transferred Business prior to the transfer, the costs would be met by ALL or LGL respectively (or their parents, AGL or TWGE respectively, if such costs arise at a point in time when ALL or LGL has been wound up); and
- For any such costs arising in relation to the actions of AEL in respect of the Transferred Business after the transfer, the costs would be met by AEL.

8.24 There is no known Payment Protection Insurance mis-selling risk associated with the ALL Transferred Business or the LGL Transferred business.

COSTS OF THE SCHEME

8.25 As outlined in paragraph 5.33, the total costs of the Scheme will be split between Assurant, ALL, LGL and AEL, with the majority being met by Assurant. The costs of my work as Independent Expert specifically will be met by ALL and LGL on a proportionate basis as agreed between themselves. None of the costs of the Scheme will be met by any policyholders of ALL or LGL.

8.26 If in the unlikely event, and in the context of the small financial size of ALL and LGL, any costs associated with the proposed Scheme threaten to breach the target solvency cover after the transfer ALL and LGL will ensure that the target solvency cover is maintained in accordance with their capital management policies.

8.27 I am satisfied that the allocation of costs as described above is reasonable.

9. OTHER CONSIDERATIONS

THE FUTURE OPERATION OF THE SCHEME

- 9.1 If the proposed Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), ALL, LGL and AEL are committed to implementing the Scheme as set out in the Scheme document (and reflected in this Report). In giving effect to those obligations, the Directors of ALL, LGL and AEL must act in accordance with their fiduciary responsibilities under UK and Dutch company law.
- 9.2 At any time after the Court's sanction of the Scheme, AEL must apply to the Court for sanction of any amendments to it, except where the amendment is considered to be minor or technical, or necessary as a result of a regulatory change, in which case AEL must notify the DNB.
- 9.3 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 LIKELY EFFECTS OF THE SCHEME UPON REINSURERS OF THE TRANSFERRING BUSINESS

- 9.4 As outlined in paragraph 5.26, if the proposed Scheme were to be implemented, the three reinsurance treaties that ALL has in place with an external reinsurer in respect of the ALL Transferred Business would be either transferred or novated to AEL, subject to the agreement of the external reinsurers, with no other changes to the terms and conditions anticipated. Since these reinsurance arrangements will continue to cover the same policies after the transfer, I am satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurers.
- 9.5 There are no external reinsurance treaties in respect of the LGL Transferred Business.

TAX IMPLICATIONS OF THE SCHEME

- 9.6 I am not an expert in tax matters and therefore, in forming my opinion on the tax implications of the proposed Scheme, I have relied on information provided by ALL and LGL's in-house tax team.
- 9.7 The implementation of the proposed Scheme is not expected to result in a change to policyholder taxation for Transferred Policyholders, since it does not result in a material change to the terms and conditions of their policies, or the country in which policyholder taxation will be assessed.
- 9.8 Therefore, based on the information provided, as described above, if the proposed Scheme were to be implemented I am satisfied that there would not be a material adverse change to policyholders' tax liabilities.
- 9.9 ALL and LGL have taken advice from their tax advisors, KPMG, regarding the implications of the implementation of the proposed Scheme on corporation tax. This advice confirms that, since assets and liabilities transferred under the Scheme will be of the same value, such that there is a net nil-value transfer from ALL and LGL to AEL, there would be no taxable gain arising in the UK or any other branch territories of ALL and LGL.

WHAT WOULD HAPPEN WERE THE SCHEME NOT TO PROCEED?

- 9.10 In order for the Scheme to be successfully implemented as intended, there are certain actions that must take place. In preparing this Report I have placed reliance on these actions taking place. These are:
- AEL receives authorisation from the DNB prior to the Effective Date. I understand that AEL has now obtained authorisation from the DNB;
 - There is an effective legal transfer of ALL and LGL's business to business contracts³ relating to the Transferred Policies to AEL on the Effective Date, either under the terms of the proposed Scheme or as a separate legal transfer where necessary;
 - The Assurant Non-Life Scheme becomes effective before the end of the Brexit transition period;
 - AEL receives sufficient capital from ALL and LGL to meet the AEL Target Capital on or before the Effective Date; and

³ "Business to business contracts" are the contracts in place between ALL, LGL and their clients which support their insurance business.

- The reinsurance treaties in respect of the ALL Transferred Business are successfully either transferred to AEL under the proposed Scheme or novated to AEL on the Effective Date.
- 9.11 If the proposed Scheme does not proceed for any reason, then the ALL Transferred Policies will not become policies of AEL and will remain within ALL. Likewise, the LGL Transferred Policies will not become policies of AEL and will remain within LGL.
- 9.12 ALL's ability to manage, administer and service the ALL Transferred Business in Germany, Ireland, Italy and Spain without breaching authorisation requirements may be threatened and would be subject to the outcome of Brexit negotiations. The ability to manage, administer and service the ALL Transferred Business would vary between each EEA member state and further actions might be required from ALL to ensure a continuation of its ability to lawfully service these policies.
- 9.13 Likewise, LGL's ability to manage, administer and service the LGL Transferred Business in Belgium and the Netherlands without breaching authorisation requirements may be threatened and would be subject to the outcome of Brexit negotiations. The ability to manage, administer and service the LGL Transferred Business would vary between each EEA member state and further actions might be required from LGL to ensure a continuation of its ability to lawfully service these policies.
- 9.14 I will provide an update on the progress made in relation to the actions set out in paragraph 9.10 in my Supplementary Report.

WHAT WOULD HAPPEN WERE THE ASSURANT NON-LIFE SCHEME NOT TO PROCEED?

- 9.15 If the proposed Scheme were to proceed but the Assurant Non-Life Scheme does not become effective on the same date as the Scheme, then the LGL EEA Creditor Policies will not become policies of AEL and will remain within LGL. In the scenario, the LGL EEA Creditor Policies will be treated as Residual Policies in LGL until such time as the Assurant Non-Life Scheme becomes effective. I have therefore considered the impact on these policies under this scenario in section 7.
- 9.16 In this scenario, once the Assurant Non-Life Scheme has become effective, the LGL EEA Creditor Policies will promptly be transferred to AEL and will thereafter be treated in all respects as if they had been transferred to AEL with effect from the Effective Date.
- 9.17 If, however, the Assurant Non-Life Scheme does not become effective before the end of the Brexit transition period, LGL's ability to manage, administer and service the LGL EEA Creditor Business in Belgium and the Netherlands without breaching authorisation requirements may be threatened and would be subject to the outcome of Brexit negotiations. The ability to manage, administer and service the LGL EEA Creditor Business would vary between each EEA member state and further actions might be required from LGL to ensure a continuation of its ability to lawfully service these policies.
- 9.18 Overall, it is necessary that both the Scheme and the Assurant Non-Life Scheme become effective before the end of the Brexit transition period in order for there to be certainty that the LGL EEA Creditor Business can continue to be serviced. Indeed, ensuring certainty over the ability to continue to service business after the end of the Brexit transition period is the motivation for both the Scheme and the Assurant Non-Life Scheme, as outlined in paragraphs 5.1 to 5.5.

THE RECENT JUDGMENT ON THE PRUDENTIAL ROTHESAY SCHEME

Introduction

- 9.19 On 16 August 2019, the Court declined to sanction the transfer of a £12 billion portfolio of annuities from Prudential to Rothesay. Prudential and Rothesay had sought to effect the transfer of the portfolio pursuant to Part VII of FSMA. I understand that Prudential and Rothesay are appealing the decision. If the outcome of the appeal is known by the time of the Sanction Hearing I will address any points raised by it in my Supplementary Report.
- 9.20 It is at the discretion of the Court as to whether or not to sanction a scheme that is put before it but, in my experience it is unusual for a Part VII transfer between life insurers to be declined by the Court, and so I have considered the Scheme in the context of the Court's decision on the Prudential Rothesay transfer and as I set out below I am satisfied that the conclusions in this Report are unaffected by the judgment in the Prudential Rothesay Scheme.

The Judgment on the Prudential Rothesay Scheme

9.21 The presiding judge for the Prudential Rothesay Scheme was Snowden J and he set out his decision not to sanction the Prudential Rothesay Scheme in his Approved Judgment for Case No: CR -2018-003686 dated 16 August 2019 (the “Approved Judgment”) and I have summarised the reasons for his decision into the following subsections:

- **The policy types (annuities) that were to be transferred under the Prudential Rothesay Scheme**

Snowden J asked the question, “Can annuity policies be transferred?” and considered the nature of annuity policies in the context of the Scheme.

- **The reasonable expectations of policyholders**

- **The security of the benefits under the policies affected by the Scheme**

Snowden J considered the analysis that had been carried out by the Independent Expert and the regulators based on the solvency coverage ratios, the capital management policies and the provision of support from the parent company or group companies.

Snowden J stated that, in his opinion, he could not “disregard as fanciful the possibility that Prudential or Rothesay might require external (e.g. parental) financial support over the lifetime of the annuitants”.

- **The age and reputation (sometimes called the “venerability”) of the transferee (Rothesay) compared to that of the transferor (Prudential)**

- **The balance between the interests of the policyholders and the interests of the commercial parties to the transfer**

- **The complaints about, and objections to, the Scheme**

9.22 Further detail on each of these areas is provided below along with my views on the relevance to the proposed Scheme of each such area.

The policies to be transferred under the Scheme

The policies in the Prudential Rothesay Scheme

9.23 Under the Prudential Rothesay Scheme the transferring business consisted exclusively of annuity policies. Such policies typically provide an income in retirement to customers while they are still alive, in return for a single payment at outset. The following features of these policies were highlighted in the judgment:

- The customers had no realistic option to change the annuity to another provider;
- The initial investment made and the subsequent income provided by the annuity were likely to be a significant part of the customer’s wealth; and
- Given these annuities paid an income to customers in retirement it was likely that if the risk of failure by the company however remote, were to eventuate, then the result would be catastrophic for policyholders.

The policies in the Scheme

9.24 I have not conducted a detailed review of the portfolio of Prudential policies that were the subject of the Prudential Rothesay transfer but there are various pieces of publicly available information from which I have been able to gain a high level insight into the demographic profile of the portfolio. I have reviewed the Transferred Business in order to ascertain its profile.

9.25 Based on this it appears that the business intended for transfer under the Prudential Rothesay Scheme had certain important differences to the Transferred Business under the Scheme that is the subject of this Report. The main differences were that the (intended) transferring portfolio of Prudential policies had:

- A profile of older policyholders;
- Different types of policy; and
- No flexible surrender and withdrawal conditions (as they were annuities).

- 9.26 Consequently, when compared to the Prudential policies in the Prudential Rothesay transfer, the Transferred Business would be expected to be less vulnerable to the type of catastrophic consequences of insurance company failure that was envisaged by Snowden J in the Prudential Rothesay judgment, particularly as it is an intragroup transfer.
- 9.27 It should also be noted that, as the Prudential Rothesay Scheme only concerned annuity policies, Snowden J's judgment only concerned annuity business.
- 9.28 There are no annuities in the Transferred Business.

Conclusion on policy types

- 9.29 I am satisfied that the points made by Snowden J (summarised above) in the judgment on the Prudential Rothesay Scheme regarding the policy types, specifically annuities, do not have the same weight in the proposed Scheme and therefore do not affect my conclusions in this Report.

The reasonable expectations of policyholders

The expectations in respect of the transfer of a policy

- 9.30 In the context of a Part VII scheme, the concept of the "reasonable expectations" of policyholders refers to how an insurer will perform its obligations under the policy.
- 9.31 For the Prudential Rothesay Scheme Snowden J stated that he considered there to be merit in the arguments from policyholders that they had "reasonable assumptions" that Prudential would not transfer its obligations under the policyholder's policy to another company. In forming this view Snowden J made reference to:
- The absence of any reference in the policy documents to the possibility of a transfer of the policy in the future; and
 - Various statements made over the years by Prudential regarding its longevity and trustworthiness.
- 9.32 Snowden J raised these as points for consideration in the exercise of his discretion in accordance with section 111(3) of FSMA and stated that whilst it is reasonable that these points should be taken into consideration, on their own they do not lead to the conclusion that the Scheme should not be sanctioned as a matter of law.
- 9.33 The first of these bullet points in Section 9.31 may apply to an extent to the ALL and LGL policies that would be transferred to AEL and so I have considered this part of the Approved Judgment in the context of the Scheme.
- 9.34 The Transferred Policies are more flexible than annuities and allow surrender and/or lapse (albeit sometimes with a penalty).

The Approved Judgment of Snowden J

- 9.35 In paragraphs 127 to 131 of his Approved Judgment Snowden J sets out his views on the reasonable expectations or assumptions of policyholders and in particular he makes reference to past judgments on Part VII schemes and how these have established the framework for current considerations around the reasonable expectations of policyholders in the context of a Part VII scheme. These past judgments include that by Evans-Lombe J in *Re Axa Equity & Law Life Assurance Society plc* and *AXA Sun Life plc (2001)* to which I refer in section 3 of this Report.
- 9.36 As well as referencing past schemes, Snowden J describes how the concept of policyholders' reasonable expectations is currently "**generally** understood my emphasis to relate to how an insurer will perform its obligations under the policy." Snowden J does not appear to suggest that this represents a change.
- 9.37 Taking into account the references to past judgments on Part VII schemes, the adherence to the "generally" accepted understanding of policyholder expectations, the exercising of discretion in line with FSMA my understanding is that the judgment does not seek to change the way in which the reasonable expectations of policyholders should be understood and considered in a Part VII Scheme.

Conclusion on the reasonable expectations of policyholders

- 9.38 It should also be noted that, in the time since the publication of Snowden J's Approved Judgment there have been a number of other Part VII schemes that have been approved by the Court. These Part VII schemes include one between Canada Life and Scottish Friendly Assurance Society and one between Equitable Life and Utmost Life and Pensions. The judgments in these Part VII schemes have not viewed policyholders' reasonable expectations in a different way to that in the Part VII schemes prior to the Prudential Rothesay Scheme.
- 9.39 Taking all this together I am satisfied that the Prudential Rothesay judgment does not provide any reason to change the way in which I should consider the reasonable expectations of policyholders and therefore the conclusions this Report are that the implementation of the proposed Scheme would not contravene the reasonable expectations of the Transferred Policyholders.

The security of benefits under the policies affected by the Scheme

- 9.40 In his Approved Judgment on the Prudential Rothesay Scheme, Snowden J highlighted the potential differences in the availability of financial resources between Prudential and Rothesay. In particular, it was his view that Prudential's parent provided greater security to Prudential than Rothesay's parent companies did for Rothesay because he felt that Rothesay's three main shareholders could more easily distance themselves from their subsidiary should they wish to do so.
- 9.41 This is covered in section 6 of this Report and in summary:
- The security of the benefits under the policies within a firm arises primarily from the financial strength of the firm itself and its ability to withstand severe and extreme events; and
 - The availability of support from the group companies or from a parent company provides extra financial strength and security for the policy benefits in the event that this extra security is required because the faith placed in the financial strength of the firm proves to be misplaced.
- 9.42 Therefore the security of benefits is provided by the financial strength of ALL and LGL and any support from being subsidiaries of the Assurant Group and post transfer by the financial strength of AEL and any support from being a subsidiary of the Assurant Group.
- 9.43 In conclusion, I am satisfied that if the proposed Scheme were to be implemented this would not have a material adverse effect on the security of the benefits of the Transferred Policies or Remaining Policies.

The age and reputation of the firms involved in the Scheme

- 9.44 For the Prudential Rothesay Scheme, Snowden J considered that it was relevant for the Court to consider the "respective ages and reputations of the transferor and transferee" when considering whether to sanction the transfer. In this context he compared Rothesay unfavourably with Prudential.
- 9.45 In the proposed Scheme the transfer is between subsidiaries of the same group, the Assurant Group. Whilst it is possible in the UK that policyholders may be more aware of the name of the Warranty Group than the Assurant Group, LGL was established a few years before ALL and AEL is a new company. In addition, I note that most of ALL and LGL's insurance business has been written under the brand of their clients, and therefore awareness of the Assurant Group or the Warranty Group is likely to be low for most policyholders. I do not believe that there are significant differences between the age and reputation for the Assurant subsidiaries involved in the scheme.
- 9.46 I am satisfied that if the proposed Scheme were to be implemented and the Transferred Policies were to transfer from ALL and LGL to AEL, the difference between the respective ages and reputations of the companies would not lead to a material adverse effect on the Transferred Policies.

The balance between the interests of the policyholders and those of the commercial parties to the transfer

Introduction

- 9.47 The main purpose of the Prudential Rothesay transaction was stated to be to enable the release of solvency capital for the Prudential de-merger plans and in his judgment on the scheme, Snowden J noted that most of the economic benefits of the transaction had already been achieved via the reinsurance arrangement that had been put in place between the two firms in respect of the Transferred Business.

9.48 Snowden J was of the opinion that whereas Prudential and Rothesay had largely achieved their business purpose without the Prudential Rothesay Scheme, the implementation of this scheme would lead to a “fundamental change” to the transferring Prudential annuitants and Snowden J therefore felt there was an imbalance between the interests of the policyholders and those of the commercial parties to the transfer.

The rationale for the Scheme

9.49 As stated in section 5 of this Report the reason for the proposed Scheme results from the decision of the UK to leave the EU and is not driven by commercial reasons.

9.50 Consequently as the reasons for the proposed Scheme are essentially legal and regulatory in nature I am happy that it strikes a reasonable balance between the interests of the policyholders and the commercial interests of the Assurant Group and its subsidiaries involved in the transfer.

The number of complaints about, and objections to, the Scheme

9.51 Under the Prudential Rothesay Scheme, around 1,000 of the responses received could be classified as objections and this was considered a significant level of objections from policyholders even though it only amounted to around 0.4% of total communications (Prudential sent out approximately 250,000 communications packs to policyholders).

9.52 As of the date of this Report the policyholder communication process has not begun. I will comment on any significant policyholder objections in my Supplementary Report.

Overall conclusions regarding the recent judgment on the Prudential Rothesay Scheme

9.53 In this section I have considered the key features that Snowden J identified as weighing against the sanctioning of the Prudential Rothesay Scheme.

9.54 While some of the factors which influenced the judgment on the Prudential Rothesay Scheme are relevant to the Scheme, in my view none applies to the Scheme to the same extent as to the Prudential Rothesay Scheme, and the overall relevance of these factors in combination is much reduced.

9.55 I am satisfied that the conclusions in this Report are unaffected by the judgment in the Prudential Rothesay Scheme.

THE COVID-19 OUTBREAK

Introduction

9.56 The COVID-19 virus has been declared a pandemic by the World Health Organization and the outbreak continues to spread globally, with many cases now confirmed in the UK. The UK government has put a large number of restrictions in place in response to this outbreak.

9.57 At the time of writing this Report, the number of confirmed COVID-19 cases (both in Europe and globally) is increasing rapidly and the fast developing situation suggests that significant and potentially long lasting economic disruption is possible.

9.58 In particular, the COVID-19 outbreak could lead to:

- Increased volatility in financial markets (market risk);
- Increased mortality rate of ALL and LGL’s insured policyholders, which would increase the cost of claims (mortality risk); and
- Operational disruption.

9.59 I have therefore considered the conclusions in this Report in light of this development.

The potential market risk from COVID-19

9.60 In recent weeks there has been considerable volatility in the financial markets. I have been provided estimated balance sheet impacts for ALL, LGL and AEL that take account of the recent market volatility and show the solvency of ALL, LGL and AEL as at 31 December 2019, assuming that the market volatility had occurred at this time.

9.61 In producing the estimated balance sheet impacts, the following assumptions have been made:

- A reduction in market value of assets of 5%, reflecting the observed movement in assets resulting from COVID-19; and

- An increase in technical provisions of 5%, reflecting the Companies' views on the impact of COVID-19 on the portfolios of business in aggregate.
- 9.62 I note that at the time of writing this Report, the volatility caused by COVID-19 is moving on a daily basis and it is therefore difficult to quantify the expected impact at a particular point in time. However, the approach used to determine the assumptions made, as outlined above, appears broadly reasonable.
- 9.63 The balance sheet impacts I have been provided show that ALL, LGL and AEL all continue to hold capital at least equal to their target MCR Ratios in each of their capital management policies both before and after the implementation of the proposed Scheme as at 31 December 2019, assuming the market volatility resulting from COVID-19 had occurred at this time.
- 9.64 I have also been provided with the projected impact of COVID-19 at 30 September 2020. These projections also show that ALL, LGL and AEL all continue to hold capital at least equal to their target MCR Ratios in each of their capital management policies both before and after the implementation of the proposed Scheme as at 30 September 2020, assuming the market volatility resulting from COVID-19 had occurred at this time.
- 9.65 Overall, I am therefore satisfied that the increased volatility in financial markets resulting from COVID-19 is not expected to have a material adverse impact on the benefit security of policyholders of ALL, LGL and AEL both before and after the implementation of the proposed Scheme. However, given the rapidly developing nature of the COVID-19 outbreak, I will provide an update on the potential market risk from COVID-19, as well as any other potential impacts of COVID-19 such as any government intervention that may occur during the intervening period, in my Supplementary Report. I will also if necessary, provide an Update Addendum to the Court immediately before the Directions Hearing.

The potential mortality risk from COVID-19

- 9.66 The development of COVID-19 into a global pandemic signifies a likely increase in mortality rates for the policyholders of ALL and LGL.
- 9.67 The effect on an insurer's solvency of worsening mortality experience would depend on the particular parts of the insurer's policyholder population that were most affected by the increase in mortality rates, the insurer's risk mitigation in place, and on the insurer's response to the changing experience.
- 9.68 It is too early in the development of COVID-19 for conclusions to be drawn in terms of infection rates, mortality rates, and the differences in incidence that may arise between different segments of the population. Whilst neither ALL nor LGL has material exposure to mortality risk, the expected impact on liabilities has been reflected in the estimated balance sheet impacts discussed above in paragraphs 9.60 to 9.65. Overall, neither ALL nor LGL expects that changes in mortality rates due to the COVID-19 virus would directly lead to a breach of their risk appetite.
- 9.69 Overall, I am satisfied that it is unlikely that the pandemic risk event due to the outbreak of the COVID-19 virus would lead to a breach of the risk appetite statements of ALL or LGL.

The potential operational disruption from COVID-19

- 9.70 The restrictions put in place by the UK government, as well as many other governments globally, in response to the outbreak of COVID-19 have the potential to cause considerable operational disruption across multiple industries.
- 9.71 AEG has taken a number of steps to minimise the operational disruption from COVID-19. These include:
- Enabling staff to work remotely where possible and improving infrastructure to enable increased levels of simultaneous remote working;
 - Holding daily meetings amongst senior leadership to monitor the ongoing situation and amongst enterprise business continuity and facilities teams to enable escalation of issues;
 - Continuing to hold governance meetings as planned using existing tele and video conferencing facilities;
 - Sharing data in respect of the percentage of staff working remotely and other measures taken with Assurant on a weekly basis; and
 - The use of detailed contingency plans tailored to each AEG site.

- 9.72 Overall, AEG is taking an aligned approach to dealing with the operation disruption from COVID-19 across all of its entities, which include ALL, LGL and AEL. Therefore, the measures taken by ALL and LGL to ensure the continued administration and servicing of its policies in the event of operational disruption are aligned to those that AEL would take in respect of Transferred Policies if the Scheme were to be implemented.
- 9.73 In addition, I concluded in section 6 that the implementation of the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to Transferred Policyholders, as all material aspects of policy administration and servicing will be unchanged by the implementation of the proposed Scheme. Therefore, I would not expect any operational disruption that could arise from COVID-19 to differ materially across ALL, LGL and AEL in respect of policy servicing and administration.
- 9.74 Finally, I note that ALL and LGL are currently working with all third-party providers to ensure that all customer communications in relation to the proposed Scheme will be delivered despite COVID-19 restrictions.
- 9.75 The steps being taken by AEG in response to the operational disruption from COVID-19 appear to be reasonable and I am therefore satisfied that COVID-19 is not likely to materially change the impacts of the proposed Scheme on administration and service standards.

FCA draft guidance

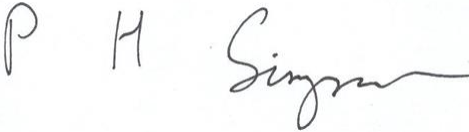
- 9.76 On 1 May 2020, the FCA issued draft guidance for insurance firms regarding product value and the COVID-19 pandemic. The guidance was then finalised and became effective on 3 June 2020. Under the guidance, insurers are expected to consider whether and how COVID-19 may have materially affected the value of their insurance products. Where such material changes are identified, they are further expected to consider the appropriate action to take.
- 9.77 I have been informed by ALL and LGL that they are aware of the guidance and have discussed this topic and their products with the regulators during May 2020. They have conducted a review of their entire product base and, while this has yet to be ratified by the ALL Board and the LGL Board, the current view is that their products continue to provide fair value to their customers and they do not anticipate making any material changes. In addition, ALL and LGL consider the potential risks to be limited given their business is in run-off and is relatively small in scale.

Conclusion regarding the potential risks from COVID-19

- 9.78 Having taken the above factors into account, I am satisfied that the COVID-19 pandemic does not provide any reason to change the conclusions in this Report. However, given the rapidly developing nature of the COVID-19 outbreak, I will provide an update on the potential risks from COVID-19 in my Supplementary Report, and will also if necessary, provide an Update Addendum to the Court immediately before the Directions Hearing.

10. CONCLUSIONS

- 10.1 I confirm that I have considered the issues affecting the various policyholders of ALL and LGL separately, as set out in sections 6, 7, 8 and 9, and that I do not consider further subdivisions (other than those in this Report) to be necessary.
- 10.2 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- The security of the benefits under the Transferred Policies;
 - The profile of risks to which the Transferred Policies are exposed;
 - The reasonable expectations of the Transferred Policyholders in respect of their benefits; or
 - The level and standards of administration and service that would apply to the Transferred Policies.
- 10.3 In addition, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- The security of benefits under the Remaining Policies;
 - The profile of risks to which the Remaining Policies are exposed;
 - The reasonable expectations of the Remaining Policyholders in respect of their benefits; or
 - The level and standards of administration and service that would apply to the Remaining Policies.
- 10.4 I am satisfied that the Scheme is equitable to all classes of ALL, LGL and AEL policyholders.

Handwritten signature of Philip Simpson, consisting of the initials 'P H' followed by the name 'Simpson' in a cursive script.

Philip Simpson

19 June 2020

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix A Selected financial information before the implementation of the Scheme

SOLVENCY II PILLAR 1 FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

£'000	ALL	LGL	AEL
Total assets	11,157	9,327	4,646
Total liabilities	3,543	4,167	-
Own Funds	7,614	5,161	4,646
SCR	1,128	1,316	-
Excess assets after SCR	6,486	3,845	-
SCR Ratio	675%	392%	-
MCR	3,187	3,187	3,187
Excess assets after MCR	4,427	1,974	1,459
MCR Ratio	239%	162%	146%

Source: Data request for IE – ALL LGL and AEL Financials

Notes:

- A.1 Both ALL and LGL's SCRs are lower than the absolute floor MCR as specified by Solvency II, and therefore both ALL and LGL hold sufficient capital to ensure it covers the MCR.
- A.2 Figures are provided on a net of reinsurance basis.
- A.3 AEL's position is as if it had been authorised at that date and the intended capital injected.

Appendix B Selected financial information after the implementation of the Scheme

SOLVENCY II PILLAR 1 POST-SCHEME FINANCIAL INFORMATION AS AT 31 DECEMBER 2019

£'000	ALL	LGL	AEL
Total assets	9,674	7,462	7,994
Total liabilities	2,060	2,301	3,348
Own Funds	7,614	5,161	4,646
SCR			1,230
Excess assets after SCR			3,416
SCR Ratio			378%
MCR	3,187	3,187	3,187
Excess assets after MCR	4,427	1,974	1,459
MCR Ratio	239%	162%	146%

Source: Data request for IE – ALL LGL and AEL Financials and SCR AEL

Notes:

- B.1 ALL, LGL and AEL's SCRs are all expected to be lower than the absolute floor MCR as specified by Solvency II, and therefore ALL, LGL and AEL are all expected to hold sufficient capital to ensure each covers the MCR.
- B.2 Figures are provided on a net of reinsurance basis.
- B.3 AEL's position is as if it had been authorised at that date and the intended capital injected.
- B.4 The post-Scheme SCR as at 31 December 2019 has not been calculated for ALL as ALL will cease to have any policyholders following the implementation of the proposed Scheme.
- B.5 The post-Scheme SCR as at 31 December 2019 has not been calculated for LGL as LGL will have an immaterial number of policies and therefore the MCR would be substantially larger than the calculated SCR following the implementation of the proposed Scheme.

Appendix C CV for Philip Simpson

- C.1 Philip Simpson is a Principal and actuarial consultant in Milliman's London office. He has worked with the firm and its predecessors since 1999.
- C.2 Philip specialises in life insurance and reinsurance. His consulting assignments include insurance business transfers; with-profits business; mergers and acquisitions; unit-linked business, reinsurance, financial reporting, annuities, longevity, Solvency II, Embedded Value, company reconstructions, new company launches, and product design and pricing.
- C.3 Philip has acted as an Independent Expert or Actuary on a number of insurance business transfers. He has worked on over 40 transactions, including insurance business transfers, in the last 15 years.
- C.4 Philip has advised sellers and purchasers on a large number of business transformations and mergers and acquisitions, including ones with material levels of mortality or longevity risk and with-profits exposure.
- C.5 Philip has consulted on a wide range of with-profits, unit-linked and longevity related assignments including bonus reviews, reinsurance programmes, product design, reserve reviews, financial reporting and pricing.
- C.6 Philip acts, or has acted, as a Head of Actuarial Function, an Actuarial Function Holder, a With Profits Actuary, an Appointed Actuary, an Independent Expert, an Independent Actuary and a Life Reinsurance Signing Actuary. He has wide experience in with-profits business, unit-linked business, annuity business and traditional business.
- C.7 Philip holds a Chief Actuary (Life) Certificate and a With Profits Actuary Certificate.
- C.8 Philip leads Milliman's global research into Shareholder Value reporting and is one of the key authors of Milliman's Shareholder Value publications.
- C.9 Philip is a Member of the UK actuarial profession's Life Board and Mortality Research Steering Group and was previously co-chair of its Life Insurance Solvency II working group.
- C.10 Philip is a member of the International Actuarial Association's Insurance Regulation Committee.
- C.11 Since 2012, Philip acted as the Independent Expert in respect of the following Part VII transfers:
- Transfer of the business of the Finnish branch of Skandia Life Assurance Company limited to a new life company in Finland, a transfer that was sanctioned in 2012;
 - Transfer of the business of Hannover Life Reassurance (UK) Limited to its parent company Hannover Rückversicherung AG, a transfer that was sanctioned in 2012;
 - Transfer of the long-term business from PEL Altraplan (Gibraltar) PCC Limited to Augura Life Ireland Limited ("ALI"), a transfer that was sanctioned in 2014; and
 - Transfer for a block of long-term business from Mobius Life to Scottish Friendly, a transfer that was sanctioned in 2018.
- C.12 In addition, Philip has been peer reviewer to the Independent Expert for a significant number of Part VII transfers.
- C.13 Before joining Milliman, Philip worked in reinsurance for 12 years.

Appendix D Scope of the Work of the Independent Expert in relation to the Scheme

The following was included within the letter of engagement that was agreed between the Companies, Milliman and me, and which was shown to the PRA prior to the approval by the PRA and FCA of my appointment as the Independent Expert in respect of the Scheme. Therefore, the following constitutes my terms of reference in respect of this assignment.

“My report is to consider the terms of the Scheme generally and the effect that the Scheme will have on the Companies’ different groups of policyholders, including, for the avoidance of doubt, the policyholders of ALL, LGL and AEL.

In particular, my report will consider the following specific matters in both such scenarios:

- The impact of the Scheme on the security of benefits of policyholders, and on the risks to which policyholders will be exposed;*
- The impact of the Scheme on the benefit expectations of policyholders;*
- How the application of any management discretion that is embedded in the current policies would be affected by the transfer; and,*
- The impact of the Scheme on existing service levels and agreements.*

The review and report will address generally the way in which the Companies have conducted their business but taking into account the particular circumstances of each class of insurance business to be transferred. It will deal inter alia with the following aspects:

- Reserving, capital and security;*
- The terms of the respective policies issued by the Companies;*
- The Companies’ respective reinsurance agreements;*
- Any service, or other relevant, agreements with intra-group companies;*
- The regulatory regime, financial ombudsman scheme (or equivalent) and financial services compensation scheme (or equivalent) that policyholders of the transferor and transferee are subject to;*
- The existing and proposed internal working arrangements relating to the financial management of the business funds, including the operational and administrative arrangements which will apply to the business to be transferred under the terms of the insurance scheme;*
- The terms and conditions expected to be imposed by the Scheme to be presented to the Court;*
- The views expressed by the governing bodies or management of the Companies with respect to the Scheme;*
- The terms of any previous Schemes of transfer concerning the policyholders of the Companies; and*
- The assessment of any adverse effect of a conduct nature, such as those effects that might arise from changes to the product terms and conditions, service and administration, and the relative governance arrangements between the firms.*

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered to be relevant.

I shall not be directly involved in the formulation of the proposed transfer although I should expect to give guidance (to both the transferor and transferee) during the evolution of the detailed proposals on those issues which concern me, or which I consider unsatisfactory.

The Scheme Report will be prepared in accordance with the form approved by the PRA pursuant to section 109(3) of the Act and will comply with all lawful requirements of the PRA and in particular those requirements set out in the PRA’s Statement of Policy, The Prudential Regulation Authority’s approach to insurance business transfers (the “PRA Statement of Policy”), and Chapter 18 of the Supervision Manual (“SUP 18”) contained in the FCA Handbook.

The Scheme Report will consider the consequences of the Scheme for those policyholders likely to be affected by the implementation of the Scheme.

The Scheme Report (and any supplemental Scheme Report in relation to the Scheme) will comply with relevant Technical Actuarial Standards issued by the Financial Reporting Council and/or any relevant Actuarial Profession Standards issued by the Institute and Faculty of Actuaries.

If the PRA lawfully requires the form and content of the Scheme Report to include matters not set out in this Appendix D, such matters will be deemed to be included in this Appendix D for the purposes of this Agreement. In preparing the Scheme Report, the Independent Expert will give due consideration to all material facts and take proper care to ensure that the Scheme Report will, in its final form, accurately represent his opinion, honestly held, on the matters set out in this Appendix D and be limited to the matters of opinion which fall within his area of expertise.

Appendix E The Solvency II regulatory regime

INTRODUCTION

- E.1 A new 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 aims to introduce solvency requirements that better reflect the risks that insurers and reinsurers actually face and to introduce consistency across the EEA.
- E.2 All but the smallest EEA insurance companies must comply with Solvency II and are required to adhere to a set of new, risk-based capital requirements and the results will be shared with the public.
- E.3 Solvency II is based on three pillars:
- Under Pillar 1, quantitative requirements define a market consistent⁴ 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 ORSA, and senior management must demonstrate that the ORSA actively informs business planning, management actions and risk mitigation.
 - Under Pillar 3, there are explicit requirements governing disclosures to supervisors and policyholders. Firms will produce private reports to supervisors and a public solvency and financial condition report.

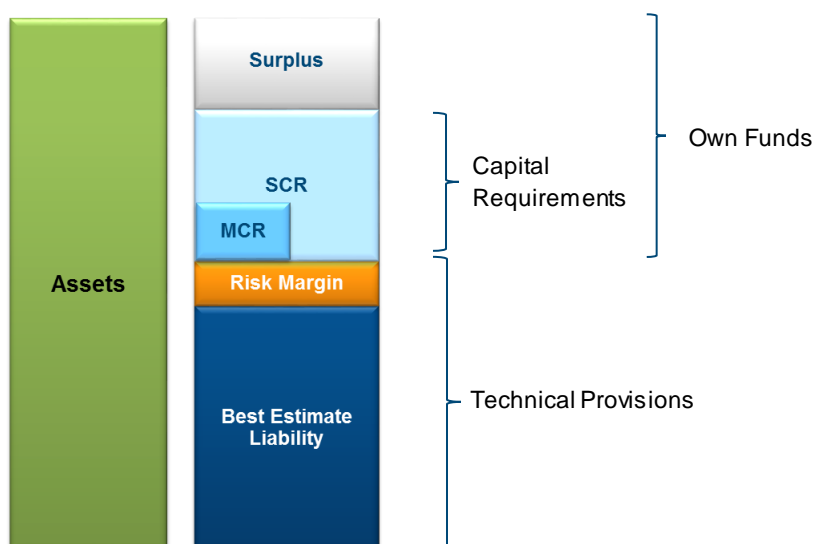
THE PILLAR 1 REQUIREMENTS

- E.4 Assets are, broadly speaking, reported at market value under Pillar 1.
- E.5 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 up-to-date financial information and the best estimate actuarial assumptions, and the BEL represents the present value of these projected cash-flows.
- E.6 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.
- E.7 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%.
- E.8 The MCR, which is 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.
- E.9 In calculating the SCR, it is expected that most firms will use the "Standard Formula", as prescribed by EIOPA. However, Solvency II also permits firms to use their own internal models (or a combination of a "partial internal model" and the Standard Formula) 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
- E.10 EIOPA has published the implementing technical standards and guidelines for the new regime and these have been endorsed by the European Commission, are legally binding and apply to all national regulators under the scope of Solvency II.
- E.11 Many of the technical requirements of Solvency II are contained in Commission Delegated regulation (EU) 2015/35, known as the Delegated Acts, adopted by the European Commission in October 2014.

⁴ 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.

OWN FUNDS AND CAPITAL

- E.12 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 available in the company to cover capital requirements.
- E.13 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.
- E.14 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.
- E.15 The following diagram shows the structure of the balance sheet for a UK life insurance company under a Solvency II market consistent valuation.



REGULATORY APPROVALS UNDER SOLVENCY II

- E.16 Any UK firms intending to use an internal model, transitional measures, a matching adjustment or a volatility adjustment (as described in the paragraphs below) must apply to the PRA for approval.
- E.17 At the end of 2018, 28 life insurers in the UK had applied and been approved for the volatility adjustment and 27 life insurers had been approved for the matching adjustment.
- E.18 Under the Solvency II regulations, 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.
- E.19 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.
- E.20 Additionally, firms are permitted to seek approval to undertake a recalculation of their TMTP, as described below, every six months if their risk profile has changed materially since the previous recalculation.

THE MATCHING ADJUSTMENT

- E.21 In calculating the BEL, the Solvency II regulations permit firms to apply to their regulator to make use of the “matching adjustment”. The matching adjustment 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 (swap rates under Solvency II) 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.
- E.22 Firms using the matching adjustment 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 cash flows is permitted.

THE VOLATILITY ADJUSTMENT

- E.23 Where insurers have liabilities that are not eligible for use of the matching adjustment, the Solvency II regulations permit firms to apply to their regulator to make use of the “volatility adjustment”. The volatility adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the matching adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.
- E.24 The volatility adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the volatility adjustment are published by EIOPA.

THE TRANSITIONAL MEASURES

- E.25 Insurers are also permitted to apply to their regulator (the PRA in the UK) 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.
- E.26 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.
- E.27 A further test is then carried out to determine whether deducting the calculated TMTP from the firm’s Solvency II technical provisions at 31 December 2015 would result in a Financial Resources Requirement (“FRR”) under Solvency II that is lower than the firm’s FRR under the previous Pillar I and Pillar II regimes at the same valuation date.
- E.28 The FRR for a given solvency regime is calculated as the total liabilities plus the firm’s capital requirement under that regime. If the Solvency II FRR after deduction of the TMTP is lower than the FRR under the Solvency I regime (Pillar I and Pillar II) then the calculated TMTP must be reduced to a level that ensures that this is no longer the case. The purpose of the FRR test is to ensure that firms are not able to hold lower amounts of financial resources under Solvency II than under the Solvency I regime as a result of the use of the TMTP.
- E.29 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.
- E.30 The PRA has stated publicly⁵ that it regards the financial benefit conferred by the TMTP as Tier 1 capital.

⁵ <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/829.aspx>

- E.31 The Solvency II Directive provides for firms' TMTPs to be subject to recalculation every two years, with more frequent recalculations permitted if the firm's risk profile has materially changed, as described above.

RING-FENCED FUNDS

- E.32 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.
- E.33 In the UK, many firms have set up 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 within the with-profits fund.

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

- E.34 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 (the "SHF"). 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.
- E.35 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 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).
- E.36 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 business outside of the ring-fenced funds. Such a notional fund is sometimes referred to as the non-profit fund.

Appendix F The regulation and governance of insurance companies in the UK and the Netherlands

THE REGULATORS IN THE UK

- F.1 Since 1 April 2013, responsibility for the regulation of insurance companies in the UK has been split between the PRA and the FCA.
- F.2 The PRA is a part of the Bank of England, and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.
- F.3 The PRA has statutory objectives to promote the safety and soundness of the insurers that it regulates, and to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated UK insurers have resilience against failure (although this is not a “zero failure” regime) and that disruption to the stability of the UK financial system from regulated UK insurers is minimised.
- F.4 The FCA regulates the conduct of all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers. The FCA does not have conduct of business responsibility for the policies serviced under EEA Passport Rights as responsibility for the conduct of business of such policies lies with the host state supervisors.

THE REGULATORS IN THE NETHERLANDS

- F.5 Dutch insurers, as well as other financial services organisations, are regulated by both the DNB and the AFM.
- F.6 The DNB exercises prudential supervision of Dutch insurance companies, and monitors Dutch insurance companies' compliance with rules and regulations under the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*). The DNB works with its European partners to achieve:
- Price stability and a balanced macroeconomic development;
 - A shock-resilient financial system and a secure, reliable and effective payment system; and
 - Strong and sound financial institutions that meet their obligations and commitments.
- F.7 The AFM is a separate institution which performs conduct of business supervision on financial markets for Dutch insurance companies. The AFM has the following three strategic objectives:
- Promoting the fair and conscientious provision of financial services;
 - Promoting the fair and efficient operation of the capital markets; and
 - Contributing to the stability of the financial system.
- F.8 The DNB and the AFM cooperate with one another in line with terms and conditions set out in a cooperation covenant. In addition, cooperation and information exchange takes place on subjects of mutual interest between the DNB and the AFM, such as on enforcement, remuneration policy and controlled and ethical business operations.

THE GOVERNANCE OF LONG-TERM INSURERS IN THE UK AND THE NETHERLANDS

Governance in the UK

- F.9 The Board of Directors of a proprietary long-term insurer 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.
- F.10 Under Solvency II, all insurers are required to establish the following key functions:
- Actuarial function: This function is required, inter alia, to coordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions.

- 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.

F.11 Since 10 December 2018, UK insurers have been subject to the SM&CR, operated jointly by the PRA and the FCA. This replaced the separate Senior Insurance Managers Regime, and has brought insurers under the same governance regime as other UK financial institutions. The SM&CR defines a set of SMFs, which includes:

- Chief Executive Officer;
- Chief Financial Officer;
- Chief Risk Officer;
- Chief Actuary;
- Head of Internal Audit; and
- Head of Key Business Area.

The individuals responsible for these functions are subject to PRA approval.

F.12 In addition to the roles listed above, those firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function". 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 he has been appointed.

F.13 Firms with with-profits business must appoint a With-Profits Committee (or a "with-profits advisory arrangement" if appropriate given the size, nature and complexity of the fund in question) in respect of the with-profits business. The With-Profits Committee's role 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.

Governance in the Netherlands

F.14 The Dutch Corporate Governance Code contains principles and best practices on the governance of listed companies.

F.15 A two-tier governance structure is typically used within the Netherlands, whereby management and supervision are divided between two company bodies: the management board and the supervisory board, with the management board consisting solely of executive directors and the supervisory board consisting solely of non-executive directors. The Dutch Corporate Governance Code provides guidance relating to this governance structure, as well as guidance for firms operating a one-tier governance structure.

F.16 The management board of a Dutch insurer is responsible for the continuity of the company and for setting a strategy in line with its view on long-term value creation. The supervisory board is responsible for supervising the manner in which the management board implements its strategy, and must be independent from the management board, which is achieved in part by consisting of non-executive directors only.

F.17 Since the Solvency II framework is applicable to Dutch insurers, all insurers are required to establish the key functions set out in paragraph F.10.

Appendix G Compliance with the PRA Policy Statement

The table below indicates how I have complied with the provisions of the Policy Statement (“*The Prudential Regulation Authority’s approach to insurance business transfers*”, dated April 2015) that pertain to the form of the Report. I have not included references to paragraphs in the Executive Summary of this Report; there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

I note that, in preparing this Report, I have also been mindful of the contents of SUP18 and the FCA Guidance.

PRA Policy Statement Reference	Requirement	Report paragraph reference
2.30 (1)	Who appointed the Independent Expert and who is bearing the costs of that appointment	1.3 and 1.22
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator	1.3
2.30 (3)	A statement of the independent expert’s professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.14 and Appendix C
2.30 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties that might be thought to influence his independence, and details of any such interest	1.16 to 1.20
2.30 (5)	The scope of the report	1.23 to 1.35
2.30 (6)	The purpose of the Scheme(s)	5.1 to 5.5
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	Section 5
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided	1.37, Appendix A, Appendix B and Appendix K
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.37
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	1.15 and 3.85 to 3.91
2.30 (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	Sections 6, 7 and 10
2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	9.4 to 9.5
2.30 (13)	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	Not applicable
2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons	Sections 6 to 9

2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	5.24 to 5.27
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	Not applicable
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	9.10 to 9.14
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether he considered alternative arrangements and, if so, what	1.24 and 3.56
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should, 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	Sections 6 and 7
2.33 (4)	The independent expert's opinion of the likely effects of the scheme on policyholders should 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; (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 (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	(a) 6.4 to 6.112 and 7.9 to 7.21 (b) 6.144 to 6.163 and 7.27 to 7.31 (c) 8.25 to 8.27 and 9.6 to 9.9
2.35 (1)	For any mutual company involved in the scheme, the report should 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 that could affect their entitlements as policyholders	Not applicable
2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	Not applicable
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without	Not applicable

2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	Not applicable
2.36 (2)	For a scheme involving long-term insurance business, the report should, 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	6.49 to 6.55 and 6.104 to 6.110
2.36 (3)	For a scheme involving long-term insurance business, the report should 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 (b) the levels of any discretionary charges	Not applicable
2.36 (4)	For a scheme involving long-term insurance business, the report should 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	9.1 to 9.3
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	6.144 to 6.163 and 7.27 to 7.31
2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	10.4
2.36 (7)	For a scheme involving long-term insurance business, the report should 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	9.1 to 9.3

Appendix H Compliance with the FCA Guidance

The table below indicates how I have complied with the provisions of the FCA Guidance (“The FCA’s approach to the review of Part VII insurance business transfers”) that pertain to the form of the Report. I have not included references to paragraphs in the Executive Summary of this Report; there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

I note that, in preparing this Report, I have also been mindful of the contents of SUP18 and the Policy Statement.

FCA FG18/4 reference	Requirement	Report paragraph reference
6.2	<p>Report is constructed in such a way that it is easily readable and understandable by all its users, paying attention to the following:</p> <ul style="list-style-type: none"> • Technical terms and acronyms should be defined on first use. • There should be an executive summary that explains, at least in outline, the proposed transfer and the IE’s conclusions. • The business to be transferred should be described early in the report. • The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when viewed as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. • IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. 	<p>Appendix J</p> <p>Section 2</p> <p>Section 2</p> <p>Sections 6 and 7</p>
6.3	<p>Report must consider and compare:</p> <ul style="list-style-type: none"> • Reasonable benefit expectations (including impact of charges). • Type and level of service (including claims handling). • Management, administration and governance arrangements. 	<p>Sections 6 and 7</p> <p>Sections 6 and 7</p> <p>Sections 6 and 7</p>
The level of reliance on the Applicants assessments and assertions		
6.6	Question the adequacy of assessments carried out by Applicants before relying on them to reach own conclusions (including requesting additional work and evidence from Applicants in order to support their assertions).	3.71 to 3.91
6.7	Explain the nature of any challenges made to the Applicants and the outcome of these within the IE report, rather than just stating the final position.	Documented separately
6.8	<p>Where conclusions are supported solely or largely by statements such as ‘I have discussed with the firm’s management and they tell me that...’ followed by ‘I have no reason to doubt what they have told me...’, then:</p> <ul style="list-style-type: none"> • Where a feature of the proposed transfer forms a significant part of the IE’s own assessment of the Scheme’s impact, the IE should review relevant underlying material, rather than relying on the Applicants’ analysis of the material and subsequent assertions. • If there are concerns about matters that fall outside the IE’s sphere of expertise, such as legal issues, the Applicants must provide the IE with any advice that they have received. If the issue is significant or remains uncertain, the IE must ensure that the Applicants had obtained appropriate advice from a suitably qualified independent subject matter expert. 	<p>Appendix K</p> <p>3.85 to 3.91</p>
6.9	<p>IE has challenged calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, the IE should:</p> <ul style="list-style-type: none"> • review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate • challenge the factual accuracy of matters that, on the face of the documents or considering the IE’s knowledge and experience, appear inconsistent, confusing or incomplete 	<p>3.74 to 3.84</p> <p>Not applicable</p>
6.10	Documents provided by the Applicants have been challenged where they contain an insufficient level of detail or analysis. For example:	

	<ul style="list-style-type: none"> Applicants' assertions that service levels will be maintained to at least the pre-transfer standard: IE should include not only details of the Applicant's plans and any gap analyses that have been produced but also include their view of their adequacy. 	Section 6
	<ul style="list-style-type: none"> Change in governance arrangements in the Transferee that may lead to poorer customer outcomes: the IE must review and compare the governance arrangements in the Transferor which produce good customer outcomes (e.g. any committees with conduct responsibilities) within the Transferee's governance arrangements. 	Section 6
	<ul style="list-style-type: none"> Consideration of the strain on resources that may occur post-transfer and that could impact on the service standards of the Transferee's existing customers and/or control over conduct of business risk. The IE report should include a review of relevant management information indicators and related contingency planning. 	Section 6
Sufficient comparative regulatory framework analysis		
6.11	Where the regulatory framework is different for the Transferor and Transferee, the IE has carried out sufficient analysis of the differences including, where appropriate, taking independent advice.	Sections 3 and 6
6.12	For cross-border transfers ensure there is a sufficiently detailed analysis of regulatory protections post-transfer. This can include: <ul style="list-style-type: none"> The extent to which existing regulatory requirements and protections continue, including whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme. The comparative regulatory requirements and conduct protections across any relevant jurisdictions, including but not limited to complaints or compensation bodies compared to the UK. Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential mitigations. Whether a Solvency II equivalence assessment is necessary. 	Section 6 Section 6 Section 6 Section 3
6.13	The IE report must contain a statement describing the two regimes as well as a considered comparison, highlighting points of significant difference that could adversely impact Policyholders. The level of detail to be included must be sufficient for the Court to be in a position to be satisfied.	Section 3 and Appendix E
6.14	If the IE's analysis is inconclusive or there are potential conduct risks due to differences in the regulatory framework, we expect to see sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	Section 6
6.15	When stating that the IE is satisfied by referencing the Scheme, the IE must adequately explain how the features have led to their satisfaction. The IE must include both the evidence and their reasoning.	Sections 6 to 9
Balanced judgments and sufficient reasoning		
6.16	The IE must state in their report whether they are certain there will be no material adverse impact to Policyholders or whether this is their best judgment, but lacks certainty. In these instances, the IE must consider the following: <ul style="list-style-type: none"> Where the IE takes the view that there is probably no material adverse impact, the IE must challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree. The IE should challenge the Applicants in order to gain the necessary level of confidence that their report's conclusions are robust. Applicants and IEs should be aware that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups. 	Documented separately Sections 6 and 7
6.17	The IE must check that the documents they are relying, and forming judgments, on are the most up-to-date available when finalising their report.	1.47

6.18	If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgment, the Applicants must discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgment is unchanged.	1.47
Sufficient regard to relevant considerations affecting Policyholders		
6.19	Consider all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. The IE is expected, when giving their opinion, to consider the: <ul style="list-style-type: none"> • Current and proposed future position of each Policyholder group • Potential effects of the transfer on each of the different Policyholder groups • Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated 	Sections 6 and 7 Sections 6 and 7 Sections 6 and 7
6.20	Consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.	10.1
6.21	Review and give opinion on administrative changes affecting Policyholders, including: <ul style="list-style-type: none"> • Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Provide a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations. • For the case where the IE concludes that because the transfer will not create any change to the administrative arrangements, there will be no material impact on Policyholders: consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process. 	Sections 6 and 7 Sections 6 to 9
6.22	Review and provide opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer: <ul style="list-style-type: none"> • Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. • If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, consider the Scheme as if the reinsurance was not in place. 	Not applicable Not applicable
6.23	If the IE identifies particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected, the IE should take into account the Transferor's obligations under Principle 6 (Customers' interests) of the FCA's Principles for Businesses.	Not applicable
6.24	Ensure there is consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material.	Section 6
6.25	Provide the analysis outlined in 6.24 even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where: <ul style="list-style-type: none"> • Some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure. 	Not applicable

	<ul style="list-style-type: none"> Some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer. 	Not applicable
6.26	Ensure that no conclusions are reached based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	Not applicable
6.28	Present the consideration, evidence and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially adversely impact a group of Policyholders.	Sections 6 to 9
Commercially sensitive or confidential information		
6.29	When considering commercially sensitive information, consider Policyholders interests as the information will not be publically available.	Risk appetite statements and costs of the Scheme
6.30	In these situations, document the analysis and the information relied upon. Consider sending a separate document with further details, solely for the Court's use and not for public disclosure	Appendix K
The level of reliance on the work of other experts		
6.31	For large scale and complex insurance business transfers, if relying on the analytical work of other qualified professionals, it is still expected the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	3.71 to 3.91
6.32	Obtain a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	3.85 to 3.91 and Appendix K
6.33	If referring to factors outside of expertise and relying on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue.	3.85 to 3.91
6.34	Consider if the IE needs to obtain separate legal advice, this will depend on the significance and materiality of the issue.	3.85 to 3.91
6.35	Consider whether it is reasonable for the IE to rely on advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers may be challenged.	3.85 to 3.91
6.36	<p>When deciding whether to obtain independent legal advice, the IE should consider, amongst other things, the following:</p> <ul style="list-style-type: none"> The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice. How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. Whether, depending on the issue's significance or uncertainty, the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. 	3.85 to 3.91

	<ul style="list-style-type: none"> Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	
6.37	The IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. The IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. Consider where risks are identified with no suggestion about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations would allow the IE to consider the worst case scenario of these impacts.	3.87
6.38	Consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	Not applicable
6.40	Consider obtaining a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-EEA jurisdictions. Should the work of overseas legal advisors be relied upon, the IE should not use such advice as the sole basis of their conclusion that there are no materially adverse effects, the IE is expected to consider the position if the advice turns out to be incorrect.	Not applicable
6.41	<p>If the IE is uncertain and cannot form a conclusion on an issue, they may wish to obtain further independent legal advice to ensure they can reach a more considered conclusion. Additionally:</p> <ul style="list-style-type: none"> Get a legal opinion that states that it is likely that an overseas jurisdiction will recognise the transfer, but that there is a degree of uncertainty. The IE should consider, and be satisfied with, what the impact on Policyholders may be if the transfer is not recognised overseas. Where the Transferor is to have their authorisations cancelled and wind up, then the IE should consider and explain what may happen if the transfer is not recognised in the overseas jurisdiction. Consider obtaining advice that even if the Scheme is not formally recognised in another jurisdiction, the Courts of that jurisdiction would still act to prevent the Transferee from denying that it is liable. In cases with unresolved risk or uncertainty, the IE should properly consider, and see legal advice which explains, what the impact on Policyholders would be and any ways to mitigate this impact. Mitigates could include Transferee indemnities in the Scheme which are directly enforceable by Policyholders in either the UK or the relevant jurisdiction. 	<p>Not applicable</p> <p>Not applicable</p> <p>Not applicable</p> <p>Not applicable</p>
6.42	Where the Transferor remains in existence and the Scheme anticipates that the Policyholders will still be able to claim against the Transferor; an IE may want to seek an independent legal opinion on how likely it is that the Transferee will indemnify the Transferor in these circumstances.	Not applicable
6.43	Ensure the likelihood for consumers to be adversely affected is low. The IE should take a view on that and seek the appropriate reassurances.	Sections 6 to 9
6.45	At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. Overly general reliance will indicate a lack of critical assessment or challenge.	1.37 to 1.49
6.47	<p>If the report does not reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:</p> <ul style="list-style-type: none"> That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. How the IE satisfied themselves about the identified uncertainty and formed an opinion on any potential impact. 	<p>Not applicable</p> <p>Not applicable</p>

Demonstrating challenge		
6.48	To ensure the IE report is complete and considered there should be challenge from all involved parties. Including evidence that Applicants have made appropriate challenges, particularly when believed that the IE has not fully addressed issues. Applicants have an interest in ensuring that the Court, regulators and Policyholders are able to rely on the IE report, taking into account to the IE's disclaimers. Applicants should make the challenges without compromising the IE's independence.	1.51
6.49	To ensure effective two-way challenge it is expected the IE engages with FCA or PRA approved persons of sufficient seniority at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the Chief Financial Officer, Senior Underwriters and so on.	Appendix K
6.50	IEs who are members of the Institute & Faculty of Actuaries should pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, particularly those for compiling actuarial reports.	1.50
6.51	IEs should be aware of TAS (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.	1.50
6.52	Ensure compliance with paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information' and to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	1.50
6.53	Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	1.51
Review of the communications strategy		
7.3	IEs should include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. There should be evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential impacts on Policyholders and how these have been addressed.	8.1 to 8.22

Appendix I 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, and have complied with, the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the instruction of Experts in Civil Claims 2014. As required by rule 35.10(2) of Part 35 of the Civil Procedure Rules and by paragraph 3.2(9)(b) of Practice Direction 35, I hereby confirm that I have understood, and have complied with, my duty to the Court.

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.

Appendix J Definitions

TERM	DEFINITION
AEG	Assurant Europe Group, a group of indirect subsidiaries of Assurant, Inc.
AEI	Assurant Europe Insurance N.V.
AEL	Assurant Europe Life Insurance N.V.
AES	Assurant Europe Services B.V.
AFM	The Netherlands Authority for Financial Markets (“AFM”), which is responsible for conduct of business supervision for Dutch insurance companies.
AGIL	Assurant General Insurance Limited.
ALL	Assurant Life Limited.
Assurant	Assurant, Inc.
The Assurant Non-Life Scheme	The proposal, separate to the context of this Report, that the transferring business of AGIL and of LGI be transferred to AEI under the provisions of Part VII of FSMA.
Assurant Europe	Collectively, AEI, AEL and AES.
The Assurant Group	The group of companies comprising Assurant, Inc. and its direct and indirect subsidiaries (including ALL, LGL and AEL).
BEL	The best estimate liability under Solvency II
Best estimate	This term is used in this Report in reference to an estimate of outstanding claim amounts and is intended to represent an expected value over a reasonable range of estimates. As such a “best estimate” is not deliberately biased upwards or downwards, and does not include any margins. However, the limitations of actuarial projection methods mean that a “best estimate” is not a statistically rigorous estimate of the mean of the underlying distribution of all possible outcomes.
Brexit	“Brexit” refers to the exit of the UK from the EU on 31 January 2020, following the referendum on continuing membership held in the UK in June 2016. As at the time of drafting this Report, the future relationship between the UK and the EU, including the regulatory environment for insurers operating across UK/EEA borders, was being negotiated. Until the completion of the transition period (currently scheduled to finish on 31 December 2020) the regulatory environment for insurers remains unaltered from its pre-Brexit state.
The Companies	The collective term for ALL, LGL and AEL.
The Court	The High Court of Justice of England and Wales.
COVID-19	Corona Virus Disease 2019
Directions Hearing	A short hearing at which the Court makes procedural orders with regard to a proposed Part VII transfer, in particular in relation to communications with policyholders.
DNB	The Dutch Central Bank (“DNB”), which is responsible for the prudential supervision of Dutch insurance companies.
Dutch Corporate Governance Code	Sets out principles and best practices on the governance of listed companies in the Netherlands.
EEA	The European Economic Area (“EEA”) was established by the EEA Agreement on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
EEA Passport Rights	The right under the EU Directives (and as manifested in the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (as amended)) for UK regulated insurers to operate freely in other EEA member states.

Effective Date	The date on and from which the Scheme shall become effective.
EIOPA	The European Insurance and Occupational Pensions Authority (“EIOPA”) was established in consequence of the reforms to the structure of supervision of the financial sector in the EU, with the goals of: better protecting consumers and rebuilding trust in the financial system; ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions; greater harmonisation and coherent application of rules for financial institutions & markets across the EU; strengthening oversight of cross-border groups; and promoting coordinated EU supervisory responses.
EU	European Union.
EU Directives	The legal acts of the EU, applicable to all EU members.
FCA	The Financial Conduct Authority (“FCA”) is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
The FCA Guidance	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.
FOS	Set up by the UK Parliament, the Financial Ombudsman Service (“FOS”) is the UK’s official expert in sorting out problems with financial services.
FSCS	The Financial Services Compensation Scheme (“FSCS”) is the compensation fund of last resort for customers of UK authorised financial services firms.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
GDPR	The General Data Protection Regime (“GDPR”), the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and repealing Directive 95/46/EC (General Data Protection Regulation) OJ L 119/1, 4.5.2016.
IDD	The Insurance Distribution Directive, which has applied in the UK (and in all other EU Member States) with effect from 1 October 2018.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
Independent Expert	The Independent Expert prepares the Independent Expert’s Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Expert’s Report	A report on the terms of a transfer under Part VII of FSMA, to be prepared by an independent person. The Independent Expert’s Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
Kifid	The Dutch Financial Services Complaints Institute (“Kifid”) is the Netherlands’ independent service for resolving disputes with financial companies.
LGI	London General Insurance Company Limited.
LGL	London General Life Company Limited.
LGL EEA Creditor Business	Business within the LGL Transferred Business for which LGL has provided life insurance cover and LGI has provided non-life insurance cover.

LGL EEA Creditor Policies	The policies of LGL that are included within the LGL EEA Creditor Business.
LGL EEA Creditor Policyholders	The policyholders of the LGL EEA Creditor Business.
LGL Remaining UK Business	The business of LGL that is not to be transferred to AEL under the Scheme.
LGL Remaining UK Policies	The policies of LGL that are included within the LGL Remaining UK Business.
LGL Remaining UK Policyholders	The policyholders of the LGL Remaining UK Business.
MCR	The Solvency II Minimum Capital Requirement (“MCR”) is usually lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR).
MCR Ratio	The ratio of Solvency II Own Funds to MCR.
Milliman	Milliman LLP, a member of the Milliman Group.
The Milliman Group	The group of entities whose ultimate parent is Milliman, Inc.
NL ARCC	The NL Board Audit, Risk and Compliance Committee (“NL ARCC”), a board-level committee within Assurant Europe.
NLMB	The NL Management Board (“NLMB”), the management board of Assurant Europe.
NLSB	The NL Supervisory Board (“NLSB”), the supervisory board of Assurant Europe.
ORSA	The Own Risk and Solvency Assessment (“ORSA”) is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and ancillary own funds (e.g. additional premiums from members), which require regulatory approval.
The Policy Statement	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority’s approach to insurance business transfers, issued in April 2015.
PRA	The Prudential Regulation Authority (“PRA”) is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Prudential	Prudential Assurance Company Limited
Remaining Business	The business of LGL that is not to be transferred to AEL under the Scheme.
Remaining Policies	The policies of LGL that are included within the Remaining Business.
Remaining Policyholders	The policyholders of the Remaining Business.
Report	References to the “Report” refer to this report.
Report Summary	The summary of this Report, prepared specifically to be included in a document that also summarises the Scheme and which will be made available to policyholders of the Companies and to others who might be affected by the Scheme.
Residual Policy	A contract of insurance (if any) written or assumed by ALL or LGL under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferred Business but which, for any reason, is not transferred by order of the Court pursuant to Part VII of FSMA on the Effective Date.

Risk margin	Under Solvency II, the risk margin is an adjustment designed to bring the total 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.
Rothesay	RothesayLife Limited
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers, a guidance document published by the FCA in January 2018.
Sanction Hearing (or Final Hearing)	A hearing at which the Court hears the application to sanction a proposed Part VII transfer.
The Scheme	In the context of this Report, the proposal that the transferring business of ALL and of LGL be transferred to AEL under the provisions of Part VII of FSMA.
SCR	The Solvency Capital Requirement ("SCR") under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading time frame with a likelihood of 99.5%.
SCR Ratio	The ratio of Solvency II Own Funds to SCR.
SM&CR	The Senior Managers and Certification Regime ("SM&CR") is the PRA and FCA's governance regime for UK insurers, which became effective on 10 December 2018.
SMF	The Senior Management Functions ("SMF") are the set of roles required within UK insurers as prescribed in the SM&CR.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
Solvency II Directive	The Solvency II Directive 2009/138/EC.
Standard Formula	A method for calculating the SCR under Solvency II, as prescribed by EIOPA.
SUP18	Section 18 of the FCA Supervision Manual.
Supplementary Report	A report I will prepare in advance of the Court hearing to sanction the Scheme covering any relevant matters that might have arisen since the date of this Report.
TCF	The TCF ("treating customers fairly") principles aim to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to: help customers fully understand the features, benefits, risks and costs of the financial products they buy; and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.
Technical provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk (see Appendix E for further details).
TMTP	Transitional measures on technical provisions ("TMTP") allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is AEL.
Transferor	The entity from which business is being transferred – in the case of the Scheme, there are two transferors: ALL and LGL.
Transferred Business	The business of ALL and of LGL that is to be transferred to AEL under the Scheme. The business that relates specifically to ALL is referred to as ALL Transferred Business; the business that relates specifically to LGL is referred to as LGL Transferred Business.

Transferred Policies	The policies of ALL and LGL that are included within the Transferred Business. Those that relate specifically to ALL are referred to as ALL Transferred Policies; those that relate specifically to LGL are referred to as LGL Transferred Policies.
Transferred Policyholders	The policyholders of the Transferred Business. Those that relate specifically to ALL are referred to as ALL Transferred Policyholders; those that relate specifically to LGL are referred to as LGL Transferred Policyholders.
TWGE	The Warranty Group Europe, the parent company of LGL, LGI, AEL, AEI and AES.
TWGS	TWG Services Limited
UK ARCC	The UK Audit, Risk and Compliance Committee (“UKARCC”), a board-level committee within AEG.
Update Addendum	An update to this Report that will be provided to Court immediately before the Directions Hearing, if required, in order to update the Report and the conclusions therein in respect of material developments relating to COVID-19 that are pertinent to the Scheme.
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

Appendix K Key Sources of Data

K.1 In writing this Report, I relied upon the accuracy of certain documents provided by ALL, LGL and AEL. These included, but were not limited to, the following:

DOCUMENT	DATE OF DOCUMENT
The SFCR of AGL	31/12/2018
The SFCR of TWGE	31/12/2018
The QRTs of ALL	31/12/2019
The QRTs of LGL	31/12/2019
The 2019 ORSA of AGL	23/05/2019
The 2019 ORSA of TWGE	23/05/2019
The initial ORSA of Assurant Europe	Undated
The AGL and TWGE Actuarial Function Report 2019	31/12/2019
The AGL Capital Management Policy	01/01/2016
The TWGE Capital Management Policy	Undated
The Assurant Europe Capital Management Policy	Undated
The AGL Risk Management Framework	28/03/2018
The AGL Risk Appetite Statement	28/03/2018
The TWGE Risk Management Framework	Undated
The Assurant Europe Risk Policy	Undated
The Scheme Document	12/06/2020
The ALL and LGL Witness Statement	12/06/2020
The AEL Witness Statement	12/06/2020
Policyholder communications	14/04/2020
The report of the ALL and LGL Chief Actuary on the proposed transfer	15/06/2020
The report of the AEL Chief Actuary on the proposed transfer	01/04/2020
Data request for IE - ALL LGL and AEL Financials	21/05/2020
AEL BS Forecast	04/06/2020
AEL SCR and RST as if YE2019	Undated
Various additional underlying documentation	n/a

K.2 Information relating to the items listed above was also gathered during discussions with staff of ALL, LGL and AEL.