Actuarial Report on Incoming Business

Assurant Europe Life Insurance N.V.

FINAL

Date: 25 June 2020

Purpose: *to consider the likely impact of the proposed transfer of business from London General Life Company Limited (LGL) & Assurant Life Limited (ALL) to Assurant Europe Life Insurance N.V.(AEL)*

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Acting as 2nd Line Actuary for AEL

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1. Introduction

This report has been produced by the actuarial function of Assurant Europe Life Insurance N.V. (**AEL**) for the Management Board of AEL in respect of the proposed Transfer of insurance policies from Assurant Life Limited (**ALL**) and London General Life Company Limited (**LGL**) in the UK (**the Transferors**), to AEL in the Netherlands. The Transfer will comprise the European insurance policies of ALL and LGL (excluding the policies of UK policyholders).

This Transfer is necessary in response to the UK's decision to leave the European Union, commonly known as 'Brexit'. Some changes to the business are necessary to ensure the continuity of cover to all customers with European risks, so that it will be possible to continue to service the policyholders and claimants across Europe post-Brexit.

The selected solution is known as a "Part VII" transfer. This is a legal mechanism under English law which transfers insurance business of one company to another. The Transfer requires court approval and is governed by Part VII of the Financial Services and Markets Act 2000. The court takes guidance from a report by an Independent Expert. ALL, LGL and AEL have nominated Philip Simpson (Principal at Milliman LLP) to act as the Independent Expert for the proposed Transfer. In addition, the Chief Actuary of ALL and LGL also produces a report to inform the Boards of ALL and LGL in relation to the proposed Transfer.

I have been requested to provide this report to the Transferees, independent of the reports provided to the Transferors by the Chief Actuary. Therefore, I have been granted the delegated responsibility to act as the 2nd line actuary for the purposes of the Part VII transfer. Beyond this, the 2nd line responsibility will revert to William Diffey who is the Chief Actuary of the Transferors.

The Transfer is intended to be effective on 2 November 2020 ("the **Effective Date**"). In order to review this proposed Transfer, the valuation has been examined on two bases;

- First, as if the Transfer had taken place at YE 2019, referred to as "as if YE2019";
- Second, projected roll-forward financials positions to a 30 September 2020 Transfer date referred to as "as at Q32020".

This is to allow evaluation of the Transfer on the most recent audited financial statements "as if YE2019", and to give the view of capital at the nearest quarter-end before the Effective Date "as at Q32020".

As part of this transferring procedure, acting as the 2nd Line Actuary of AEL, I, Craig Fothergill, Fellow of the Institute of Actuaries, am performing an analysis of the proposed Transfer with the aim of providing assurance to the Management Board of AEL. This report may also be provided, if requested, to any or all of; the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA), De Nederlandsche Bank (DNB) and the Court. This report is written with Part VII of the Financial Services and Markets Act (FSMA) 2000 in mind.

The objectives of this report are to:

- Describe in detail the transferring business;
- Perform actuarial analysis of the incoming portfolio to highlight its key features;
- Set out the likely impact of the Transfer on AEL's portfolio, reserving and solvency position;
- Provide assurance that the transferring business is well-understood, well-managed, and within the risk appetite of AEL;
- Provide assurance that policyholders will not be materially adversely affected by the transfer.

The report has been written in accordance with the Technical Actuarial Standards (TAS) of the (UK) Institute and Faculty of Actuaries, and also in accordance with the Actuarial Professional Standard APS X2 with regards to peer review.

2. Executive Summary

2.1. Overview

This report considers the likely impact of the proposed Transfer of a portfolio of Life insurance business from ALL and LGL, two UK legal entities of the Assurant Group, into AEL, an entity established specifically to assume said portfolio, also part of the Assurant group, which has recently been authorised for business in the Netherlands.

As part of Brexit-induced restructuring, Assurant Europe has established two new insurance companies, Assurant Europe Insurance NV (**AEI**) and AEL, based in the Netherlands. AEI is a general insurance company and AEL is a life and health insurance company. These entities were authorised by the Dutch regulator (DNB) on 9 June 2020.

This report deals with the Transfer of life insurance business of ALL and LGL into AEL. The Transfer of the general insurance business of London General Insurance Company Limited (**LGI**) and Assurant General Insurance Limited (**AGIL**) into Assurant Europe Insurance NV (AEI) is covered in a separate report. The proposed transfers are independent and not conditional upon each other, but are interconnected due to various creditor insurance policies written jointly by LGI and LGL.

There are no plans for AEL to write any new insurance thus its business will comprise wholly of the transferred business.

2.2. Actuarial Function

The 2nd line Actuarial function for AEL is provided by William Diffey & Craig Fothergill (myself). Both are Fellows of the Institute of Actuaries' with 25- and 15-years' experience respectively.

Mr Diffey also serves as Chief Actuary of the Assurant UK businesses (the transferors) and is the author of the Chief Actuary reports relating to the Transfer, from the point of view of the transferors.

To provide an independent view to the Management Board of AEL, I am acting as 2nd Line Actuary to advise the Management Board from the perspective of transferee, and hence I am the author of this report. I confirm that I have been granted sufficient independence and I have been supported by appropriately experienced interim resource.

For completeness, the 1st line Actuarial Function of AEL supports the local CFO and consists of appropriate qualified actuarial resource based in Amsterdam, with Willis Towers Watson (WTW) Amsterdam providing support.

2.3. Approach

The Transfer to AEL of Life Insurance Business carried on by ALL and LGL means that the Assurant group can continue to perform their obligations to policyholders in the EU27 States.

The approach to assess the likely impact of the proposed Transfer is to:

- Understand the nature and structure of the incoming portfolios;
- Identify the groups of incoming policyholders and existing policyholders (if any) of AEL that would be affected;
- Assess the pre- and post-Transfer financial position of AEL: technical insurance liabilities, assets and capital;
- Consider the risk management implications, including reinsurance and other risk mitigation aspects;
- Consider the implications of the incoming portfolio on the level of security provided to the incoming and any existing policyholders before and after the transfer;
- Consider the potential impact on levels of customer service;

- Consider other financial factors that might affect policyholders; and
- Consider other non-financial factors that might affect policyholders.

2.4. Conclusions

The findings stated in this report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report.

The financial strength of AEL, measured in terms of ratio of Solvency II Own Funds (**OF**) to Regulatory Capital Requirement (**aMCR**), called the MCR coverage ratio (**aMCR%**), pre- and post-Transfer is presented in the table below (with the Transfer presented as occurring as if 31 December 2019 and as at Q32020, both with COVID-19 impact):

	As if YE2019		As at Q32020	
€m	Pre-transfer	Post-transfer	Pre-transfer	Post-transfer
with COVID Impact	AEL	AEL	AEL	AEL
Eligible Own Funds	5.4	5.4	5.4	5.4
Regulatory aMCR	3.7	3.7	3.7	3.7
aMCR%	146%	146%	146%	146%
Risk Appetite buffer target	120%	120%	120%	120%
Surplus (over the target buffer)	1.0	1.0	1.0	1.0

The valuation has been examined on two bases;

- First, as if the Transfer had taken place at YE 2019, referred to as "as if YE2019";
- Second, projected roll-forward financials positions to a 30 September 2020 Transfer date referred to as "as at Q32020".

AEL does not hold any business before the Transfer at YE2019 and AEL is well capitalised, pre- and post-Transfer, as its solvency ratio (aMCR%), where calculated, is well above 100% and above its target pre- and post-Transfer. On both assessment bases, the solvency ratios are maintained as the eligible own funds stay at the same strong level, which is in line with the capital management policy.

The transferring policyholders of ALL and LGL to AEL will benefit from strong financial capacity of AEL. AEL also benefits from a letter of undertaking of continued parental support from its immediate UK parent company, TWG Europe Limited.

With this financial analysis in mind, the main aspects of the Transfer have been considered and can be summarized as:

Benefits of the Transfer	Neither Benefits nor Disadvantages of the Transfer	Disadvantages of the transfer
- Provision of a legal and compliant policy post-Brexit (i.e. continuity of capacity to provide insurance and service the policies)	- Similar risk profile	- Loss of UK financial protection through the Financial Services Compensation Scheme (**FSCS**), in case of insolvency of the insurer
- Oversight of local Management Board and Supervisory Board based in the EU27	- Similar asset quality	- Reduction in target capital levels (aMCR%) and hence (long term) financial security
	- Similar financial solidity	
	- Same parental support	
	- Same benefits expectation	
	- Cost of transfer funded by the Assurant group, so no impact on expense levels	
	- Same service standards - availability of the same corporate and operational resources through remaining part of the Assurant group	
	- Similar risk management policy and governance structure	

In my opinion, the provision of a legal and compliant policy post-Brexit far outweighs any of the disadvantages listed. The disadvantages are in my opinion minor, being relevant only in the extreme case of company insolvency. Therefore, I conclude that the implementation of the Transfer has no material adverse impacts for the policyholders. In particular, I believe that the Transfer will at least maintain the security of benefits of all transferring ALL, LGL policyholders once they become AEL policyholders and ensure that they continue to be treated fairly.

2.5. Opinion of the 2nd Line Actuary

I have conducted a detailed assessment of the proposed Transfer, its likely impact on the different policyholder groups, on the companies involved and on the Assurant group.

I have assessed the proposed Transfer from an actuarial point of view but also with consideration to the other non-technical, non-actuarial aspects. My conclusion is that the risk of any policyholder group being adversely affected is immaterial.

Therefore, in reference to the objectives of the report:

- Describe in detail the transferring business;

I conclude that I have a clear view of the transferred business and confirm that it is in line with the Assurant group's strategic and operational plans.

- Perform actuarial analysis of the incoming portfolio to highlight its key features;

Having performed actuarial analysis, I conclude that the risk profile of AEL post-Transfer is similar to the existing risk profile of LGL and ALL pre-Transfer (with the exception that currency risk is significantly reduced). This is not anticipated to change in any material fashion since AEL will not write new business, thus only the transferred business will be written by AEL.

- Set out the likely impact of the scheme on AEL's portfolio, reserving and solvency position, pre- and post-Transfer;

I have obtained assurance as to the financial solidity of AEL post-Transfer.

I have considered the risk posed by COVID-19 on the world economy including the illness and deaths of people and the additional volatility in financial markets. The full impact of this uncertainty and potential market movements has not been assessed in detail at present, but the risk is closely monitored by management and an addendum to this report will be provided if necessary.

- Provide assurance that the transferring business is well-understood, well-managed, and within the risk appetite of AEL;

I consider that the portfolio is well-understood, well-managed, and within the risk appetite of AEL. This includes the range of products offered, the range of customers served, the range of clients used to distribute products, and the commercial arrangements such as profit shares. This is reinforced since the transferring business already sits within the Assurant group and the same core management team and corporate resources will continue to be involved.

I have considered the broader risk management issues in relation to the underlying businesses and risk profiles of the transferred portfolio and existing portfolio, including an assessment of insurance risk, market risk, credit risk and operational risk. I am satisfied that the risk management framework, including governance of AEL, is of a high standard and will remain at the same standard after the incoming Transfer.

- Provide assurance that policyholders will not be adversely affected by the proposed Transfer.

I am assured that customers will be subject to fair treatment before and after the Transfer as no material change to the servicing and administration of the transferring policies is planned. I consider the loss of FSCS protection to be relatively immaterial compared with the benefit of the ongoing financial and operational security for policyholders achieved through the Transfer and the very limited potential for an insolvency scenario arising.

3. Background

3.1. Scope of the Report

This report covers the life insurance policies of ALL and LGL that are to be transferred to AEL, and the portfolio of AEL after this incoming transfer. AEL is a life insurance company, recently authorised in the Netherlands to service and write Life and Health lines of business to commercial clients and to the general public with policies covering business originated from several EEA countries. AEL is expected to be operational from 1 July 2020 and expects to receive the policies transferred from ALL and LGL on 2 November 2020.

The legal entities from which the insurance policies will be transferred, the “transferors”, are:

- Assurant Life Limited (ALL), based in the UK;
- London General Life Company Limited (LGL), based in the UK.

Both companies are writers of Life and Health insurance business. They provide cover to individuals via commercial clients. ALL has live policies in Italy, Spain, Ireland and Germany. LGL has live policies in Netherlands, UK and Belgium.

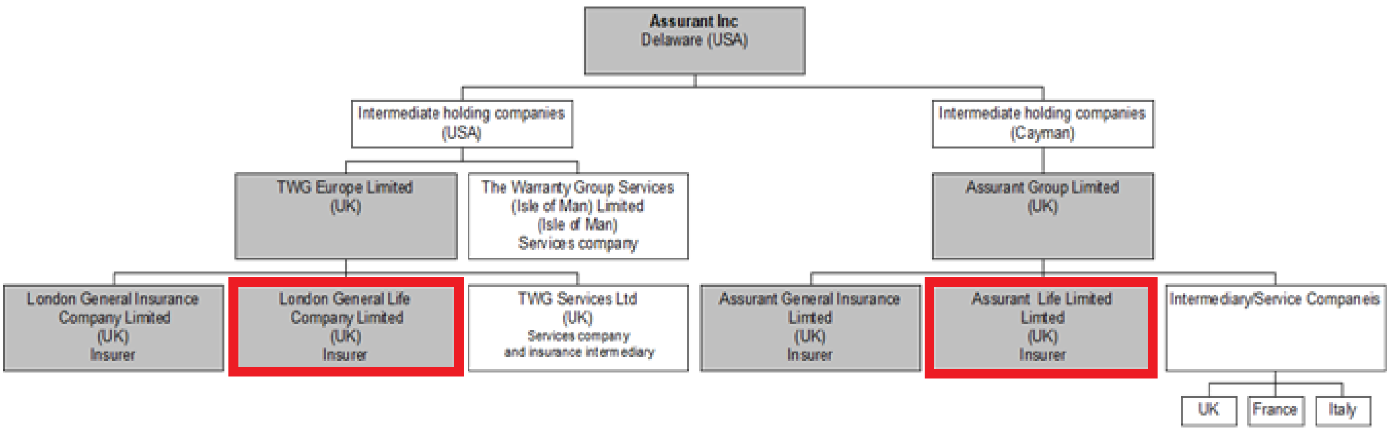
The legal entity to which the insurance policies will be transferred, the “transferee”, is Assurant Europe Life Insurance NV (AEL), based in the Netherlands.

By construction, AEL will service Life and Health insurance business with live policies in Italy, Spain, Germany, Netherlands, Ireland and Belgium. Note that UK business will not be transferred.

3.2. Legal Entity Structure

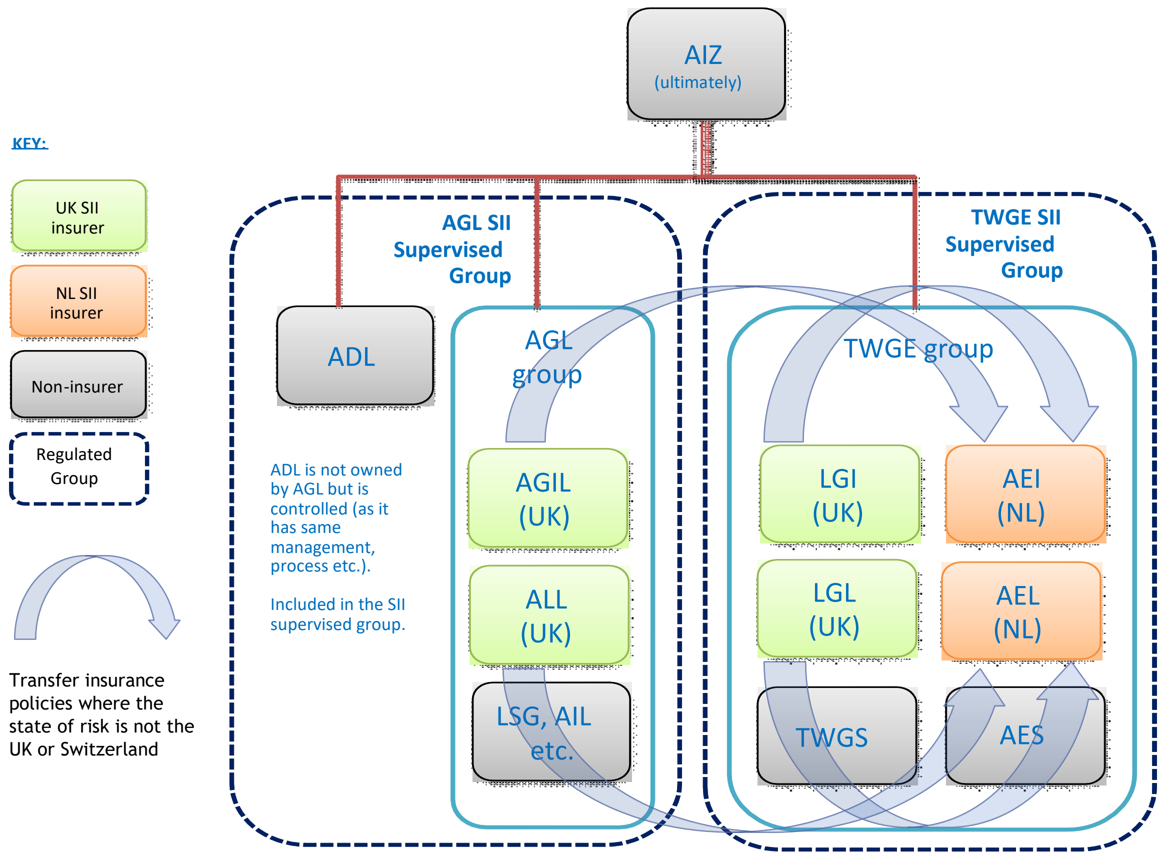
This section presents the structure of entities and ownership within the Assurant group pre- and post-transfer.

The first diagram below shows the corporate structure of Assurant Group before the transfer, with the parties to the Transfer highlighted in red.



LGL is a direct subsidiary of TWG Europe Limited (TWGE) while ALL is a direct subsidiary of Assurant Group Limited (AGL). All are UK entities. Assurant, Inc., a company registered in Delaware (USA), is the ultimate parent of each entity.

The second diagram (below) shows the corporate structure and the supervisory groups post-transfer.



All European insurance operations are conducted by entities that are subsidiaries of either Assurant Group (UK) Limited or TWG Europe Limited collectively known as Assurant Europe Group. ALL is a wholly owned subsidiary of Assurant Group Limited, a limited liability insurance holding company incorporated in England and Wales. LGL is a wholly owned subsidiary of TWG Europe Limited, a limited liability insurance holding company incorporated in England and Wales. Assurant, Inc., a company registered in Delaware (US), is the ultimate parent of each entity.

During the transfer, the EU27 life insurance policies of ALL and LGL will move to AEL, while the EU27 non-life insurance policies of AGIL and LGI will move to AEI. This report covers the Transfer into AEL. The Transfer into AEI is covered by a separate report.

Post-transfer, both AGL and TWGE still remain UK Groups and Solvency II regulated. However, TWGE will have some legal entities in the Netherlands, namely AEI, AEL and AES, while all of the insurance entities of AGL are UK domiciled.

Currently, and up to 31 December 2020 (being the last date of the transition period under of the Agreement on the Withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union), the EU's Solvency II regulatory regime continues to apply in the UK. Whilst it is not absolutely certain that Solvency II in its current format and contents will still be the UK regulatory regime from 1 January 2021, it is a current working assumption that the UK will retain Solvency II after 31 December 2020. AGL and TWGE will continue to submit group reporting to the UK regulator, and at solo entity level, AEI and AEL will report to the Dutch regulator while the other entities (AGIL, LGI, ALL and LGL) will continue to report to the UK regulator.

Note that no new life business has been written by the insurance companies of AGL and TWGE either in the UK or the rest of Europe after 2018 and no new life business is planned. Setting up a new life entity (AEL) in the Netherlands addresses the singular need for a new life insurance company in Europe post-Brexit to service the policies written prior to 2019 in a compliant manner in Europe post-Brexit. Accordingly, with the business strategy (see section 10), AEL will not write new business.

4. Transfer of the Business, Assets and Liabilities

4.1. Transferred Business

The Part VII Transfer will transfer all insurance business written by ALL and LGL where the state of risk is an EEA country, to AEL. Any business for which the risk is located in the UK will not be transferred.

The portfolio to be transferred constitutes:

- insurance policies,
- related reinsurance treaties, and
- all other related commercial contracts, the "B2B Contracts".

In some territories, local legal requirements may require additional contractual documentation in addition to the formal Part VII Transfer and this will be documented in parallel to enable the contracts to be transferred fully to AEL.

AEL is a limited company incorporated in the Netherlands. It is registered in the trade register of the Dutch Chamber of Commerce under number 72959312. The registered office of AEL is at Paasheuvelweg 1, 1105 BE Amsterdam, the Netherlands. AEL has recently (9 June 2020) received authorisation from the DNB under *Wet op het financieel toezich* (the **Dutch Act on Financial Supervision**) to carry on Life Insurance Business in the Netherlands in the EU27 in the following lines of business:

1. Life and Annuity;
2. Permanent health insurance.

AEL intends to passport certain of its permissions referred to in this paragraph into the following EEA states: Belgium, Germany, Ireland, Italy and Spain.

4.2. Excluded Policies

The policies excluded from the Transfer are those policies written by ALL and LGL with the state of risk being the UK.

In ALL there are no such policies and therefore all policies within ALL are to be transferred.

In LGL there are approximately 85 policies covering UK customers which will be excluded from the Transfer. All other policies will be transferred.

4.3. Transferred Liabilities

The business transferring to AEL is life and health insurance business primarily relating to creditor/payment protection risks, and is relatively small compared to the associated general insurance business. LGL and ALL are in run-off, meaning that while no new business is being written, the existing monthly premium business and single premium business that are not yet expired are still provided for and administered by LGL and ALL.

Note that some policies have an automatic renewal clause which cannot be changed by ALL or LGL and these policies will renew as long as the customer does not request otherwise.

AEL’s initial primary mission is to service the policies of the EU policyholder, i.e. the EU business of LGL and ALL.

Assurant Life Limited (ALL)

ALL is authorised by the Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority (the "FCA") and the PRA to effect and carry on Long-Term Business in the United Kingdom in classes Life, Annuity and Permanent health.

ALL has made freedom of services notifications into the following 28 EEA Member States (and Gibraltar): Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. It also passports from the UK into Germany, Italy and Spain on a freedom of establishment (branch) basis.

ALL's in-force insurance business covers mortgage protection insurance and creditor insurance. The risks covered are life and permanent health and so the profitability of the business is affected mostly by mortality and the expenses of servicing the portfolio. ALL has been closed to new business since 2015. Most business was written on a single premium basis, but there is a small amount of regular premium business. Policies were distributed through different financial services companies including banks, credit unions and finance brokers alongside the mortgage and other loan products they offered.

The business had initial terms of five years or more. For the most part the policies are non-cancellable by the insurers.

The table below gives the number of policies remaining in-force at the end of 2019, based on policy terms where there is still premium being earned. It can be seen that post 2019, no UK policy is in force and all of the policies remaining in force are EU policies, hence all policies are moving to AEL.

Assurant Life Limited	
Country	Number of in-force policies as at YE 2019
Italy	4782
Germany	745
Ireland	100
Spain	2
TOTAL	**5,629**

The summary table of the TPs related to those policies (without Risk Margin) before and after the Transfer as if YE2019 without COVID-19 impact is:

	As if YE 2019, Without COVID-19					
	GROSS of RI				NET of RI	
	Split by country		Total Pre-Transfer	Post-Transfer	Total Pre-Transfer	Post-Transfer
In €000s	UK	EU				
ALL TPs BEST ESTIMATE excl RM						
Claims Reserves	-	612.3	612.3	-	580.2	-
Premiums Reserves	-	993.3	993.3	-	947.7	-

Following completion of the proposed Transfer, Assurant plans to deauthorise and wind up ALL.

London General Life Insurance Company Limited (LGL)

LGL is authorised by the PRA, and regulated by the FCA and the PRA to carry on Long-Term Business in the United Kingdom in Life, Annuity and Permanent Health.

LGL has made freedom of services notifications into the following 15 EEA Member States: Austria, Belgium, Czech Republic, France, Germany, Hungary, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain and Sweden. It also passports from the UK into Belgium, France, Germany, Ireland, Italy, the Netherlands, Poland and Spain on a freedom of establishment (branch) basis.

LGL's in-force insurance business covers creditor insurance. Policies underwritten by LGL were distributed on its behalf through regulated financial service providers, including banks, credit unions and financial brokers. From June 2018, no new life business was written by LGL (except for contractual renewals on certain existing contracts). All other contracts are in the process of being terminated progressively. The contractual renewals noted include certain life business underwritten in the Netherlands and Belgium where local regulation states that these policies cannot be cancelled by LGL. For these policies, coverage ceases when either the policyholder cancels the policy, or reaches the end of the policy term. The maximum policy term is ten years which means that all of LGL's business should have expired by June 2028 at the latest.

LGL's business does contain a small group of approximately 85 live UK policies. These will not transfer to AEL.

The table below summarizes the in-force policies YE2019 in EU:

London General Life Country	Number of in-force policies as at YE 2019
Belgium	5783
Netherlands	4810
TOTAL	**10,593**

This generates the summary table of the TPs (without Risk Margin) before and after the Transfer as if YE2019 without COVID-19 impact:

	As if YE 2019, Without COVID-19					
	GROSS of RI				NET of RI	
	Split by country		Total Pre-Transfer	Post-Transfer	Total Pre-Transfer	Post-Transfer
In €' 000s	UK	EU				
LGL TPs BEST ESTIMATE excl RM						
Claims Reserves	9.9	840.4	850.3	9.9	840.4	-
Premiums Reserves	100.1	1,215.7	1,315.9	-	1,315.9	-

Assurant Europe Life Insurance NV ("AEL")

AEL is the new Life and Health insurance company incorporated in the Netherlands and is a wholly owned subsidiary of TWG Europe Limited, an insurance holding company incorporated in England and Wales.

AEL will have the right to write business in multiple European countries and intends to passport the permissions from the Netherlands into Belgium, Germany, Ireland, Italy and Spain in order to service the transferred insurance business on a Freedom Of Service (FOS) basis in each of those jurisdictions.

AEL's preference is to write business through its head office in the Netherlands and in the other territories on a FOS basis in order to facilitate the most expeditious solution to the issues posed by the UK's departure from the EU.

There are no current plans for AEL to write any new business in the foreseeable future but to service the existing business originated from EU countries and historically written by ALL and LGL.

The total number of transferred policies is **16,222** and if the Transfer had occurred at YE2019, the TPs (without Risk Margin) for AEL without COVID-19 impact before and after the Transfer would be:

	As if YE 2019, Without COVID-19					
	GROSS of RI				NET of RI	
	Split by country		Total Pre-Transfer	Post-Transfer	Total Pre-Transfer	Post-Transfer
In €' 000s	UK	EU				
AEL TPs BEST ESTIMATE excl RM						
Claims Reserves	-	-	-	1,452.8	-	1,420.6
Premiums Reserves	-	-	-	2,309.1	-	2,263.5

The EU portfolios to be transferred represent the entirety of the ALL portfolio and 99% of the LGL portfolio before the transfer, measured by Net Technical Provisions.

I have no reason to believe that the Solvency II Technical Provisions lie outside a range of reasonable best estimates.

In addition, I have concluded that, whilst I consider that elements of the reserving may err on the side of caution, I do not consider the best estimate reserves for the transferring portfolios and the transferee portfolio to lie outside the range of plausible outcomes.

4.4. Transferred Assets

Assets will be transferred to AEL alongside the liabilities with the aims of;

- AEL being able to fulfil the obligations under the transferred policies,
- Not making profit or loss from the Part VII transaction, and
- Maintaining a strong capital position (target solvency ratio not less than 120%).

The assets to be transferred to AEL are mainly composed of cash. The monetary value post-Transfer is forecasted to be:

- €9.1m without COVID impact or €9.3m with COVID impact, on the “as if YE2019” basis;
- €8.0m at the Effective Date (with COVID impact).

It is noted that the group employs asset/liability management whereby the duration of assets and the duration of liabilities are matched by currency, and this will be taken into consideration when moving assets and liabilities during the implementation of the transfer. Thus, the investment strategy of AEL (post-Transfer) will be broadly the same as that of ALL and LGL pre-Transfer and it is likely that the same asset managers will administer AEL’s investment portfolio. The most likely investment assets for AEL will be Dutch government bonds.

4.5. Mandates and Other Payments

All premiums payable on and after the Effective Date in respect of the transferred policies, if any, shall be payable to AEL.

Any direct debit mandate, standing order or other instruction or authority in force at the Effective Date (including, without limitation, any instructions given to a bank by its customer in the form of direct debit or standing order) that provides for the payment by a bank or other intermediary of premiums or other amounts payable to ALL or LGL under any transferred policy shall thereafter take effect as if it had provided for and authorised such payment to AEL.

Any mandate or other instruction in force on the Effective Date as to the manner of payment of any sum payable by ALL or LGL under any of the transferred Policies shall, on and from the Effective Date, continue in force as an effective authority to AEL.

5. Financial Position Before and After the Transfer

5.1. Key Assumptions used in Forecasting

In order to assess the financial position pre- and post-Transfer, forecasted balance sheets of the transferors (ALL and LGL) and that of the transferee (AEL) have been constructed by Finance. The costs of the Transfer are initially covered at a group level. A legal entity cost allocation recharge process ensures that all relevant costs are recharged to each entity on an arms' length basis. The Plan financials for ALL, LGL & AEL include cost recharges and these recharges, where relevant, will include a share of Brexit Part VII costs. It should be noted that in the event that actual cost recharges are higher than plan, or Brexit Part VII costs are higher than expected, this would not impact solvency levels as additional capital would be injected into regulated entities to maintain their solvency levels.

The key assumptions used in constructing these balance sheets are:

- Insurance contracts transferred at economic value (Solvency II basis), for no profit or loss.
- ALL and LGL will transfer EU business to AEL on 2 November 2020; AEL assumes responsibility for managing the transferred business after the Transfer.
- Assets and Liabilities likely to be transferred, forecast using 2019 Year End balances as proxy:
    - Financial investments;
    - Debtors (including Reinsurance);
    - Cash and cash equivalents;
    - Technical provisions;
    - Creditors (including Reinsurance).

In more detail:

<u>**The "as if" YE2019 Basis**</u>

Technical Provisions

- Starting with YE19 position, TPs are calculated as if the Transfer happened at YE2019 by allowing for movements in premiums and claims (occurrence and payment). Approximately the YE2019 accounts of the transferors were divided according to the movements in terms of TPs of policies to be transferred and combined into proforma YE2019 positions of AEL.
- The impact of COVID-19 has been allowed for in the TPs by applying an uplift of 5% to the TPs, based on a combination of quantitative and qualitative information about the footprint of the disease and its likely financial impact on ALL and LGL businesses, and overlaid with expert judgment. The rationale is that COVID-19 has increased mortality primarily in the over 70s. However, at that end of the age spectrum, creditor policyholders with loans and mortgage protection might be nearing the end of their policy term and the sum assured (generally the remaining liability) is usually not material. Most mortgage lenders do not lend with repayment terms going over retirement age. Therefore, the impact on mortgage protection might not be material.
- The risk margin for AEL at YE2019 is calculated as the sum of risk margins of ALL and LGL, which are themselves calculated by taking the risk margin relating to TPs at YE2019.

Assets

- Assets are valued at their mark to market value in line with the Solvency II Delegated Acts. Note that AEL's assets will be composed primarily of cash.
- A 5% reduction to asset values is applied in the "with COVID-19" case.

Debtors and Creditors

- Debtors and Creditors for Premium, Commission and Claims have been calculated using a fixed factor of relevant technical provisions.

Capital

- The Capital Requirements for ALL and LGL have been set at the absolute Minimum Capital Requirement (aMCR) and have been approved by the PRA.
- The aMCR is €3.7m for Life insurance companies.
- The Capital Requirement for AEL is also set at the aMCR and the intention is for AEL to have approval from the Dutch Regulator for functioning at the absolute Minimum Capital Requirement.

Capital Injection

- Initial seed capital was provided with an initial cash injection of €5.4m (146% of aMCR). This transfer was made on the 20 May 2020.
- This capital injection amount comes from a fund set up by the Assurant Group (Assurant, Inc) specially for the purpose of the Transfer and funded from prior year dividends from the UK insurance subsidiaries.
- A balancing amount of cash (or cash equivalent investments) will be transferred if necessary, so that;
    - the Part VII transaction does not generate a profit or loss,
    - any additional tax impact is accounted for, and
    - it is ensured that AEL aMCR coverage is not less than the target capital coverage ratio of 120%.

<u>The "as at" Q32020 Basis</u>

The methodology is broadly the same.

TPs are rolled forward to Q32020 by allowing for movements in premium and claims (occurrence and payment) which have been approximated across the portfolio by applying a linear trend to the historical TPs movements using the average of the last two/three years' TP evolution and allowing for COVID-19 to project future TPs. The Risk Margin is derived from those Q32020 TPs.

The initial cash injection stays the same, at €5.4m to meet the same target capital coverage ratio.

5.2. Forecasted Financial Positions

In this section, the forecasted financial impact of the Transfer is presented in terms of balance sheet on Solvency II basis pre- and post-Transfer. The Effective Date is assumed to be 2 November 2020.

5.2.1. Year End 2019 Basis

In this basis, the Effective Date is assumed to be 31 December 2019 without considering COVID-19 impact. Therefore, the pre-Transfer position relates to 31 Dec 2019 and post-Transfer position relates to "31 Dec 2019 + impact of Transfer (assessed as at 31 Dec 2019)".

AEL (€m)	As if YE2019 without COVID impact		
	Pre-Transfer	Transfer Impact	Post-Transfer
Assets:			
Cash	-	1.6	1.6
Investments	5.4	2.0	7.4
Ceded technical provisions	-	0.1	0.1
Other assets	-	0.2	0.2
Total assets	**5.4**	**3.9**	**9.4**
Liabilities:			
Gross tech provisions (excl risk margin)	-	3.8	3.8
Risk margin	-	0.1	0.1
Other liabilities	-	0.1	0.1
Total liabilities	**-**	**3.9**	**3.9**
Excess of assets over liabilities	5.4	-	5.4
Adjustments	-	-	-
Eligible Own Funds	**5.4**	**-**	**5.4**
Capital Requirement (aMCR)	3.7	-	3.7
aMCR %	146%		146%

- The Gross technical provisions of AEL is made of 43% liabilities coming from ALL and 57% coming from LGL.
- The Transfer is at zero profit or loss.
- Initial cash injection of €5.4m to AEL before the transfer. These are accounted for in the investment line on the balance sheet.
- AEL is operating at the aMcR.
- The Own Funds coverage of the aMCR is above the target of 120% pre- and post-Transfer.

5.2.2. Year End 2019 with COVID-19 impact

To derive the following figures, the assessment made in the section above is used and the estimated impact of COVID-19 as at YE2019 is applied.[1]

As specified in section 5.1, the impact of COVID-19 on the liabilities is assumed to be;

- an uplift to the Technical Provision of + 5% for ALL, LGL and AEL, and
- a reduction of asset values by 5%, noting this affects ALL and LGL pre-Transfer, and does not impact AEL.

The impact on the assets is based on actual movements in asset values observed in the first quarter of year 2020. In assessing the likely impact of the COVID-19 pandemic outbreak, we have considered the loss of asset values across stock exchanges across the world and the general economic slowdown. Note that the COVID-19 situation is still unfolding and there is uncertainty to what the ultimate impact of COVID-19 will be on the liabilities and on the assets side of the balance sheet.

[1] COVID-19 was not yet an issue at YE2019. However, we have done a “as-if” assessment of COVID-19 on the “as-if” YE2019 Transfer at YE2019 to assess the impact that disease might have on the Transfer.

AEL (€m)	As if YE2019 with COVID impact		
	Pre-Transfer	Transfer Impact	Post-Transfer
Assets:			
Cash	-	1.7	1.7
Investments	5.4	2.1	7.6
Ceded technical provisions	-	0.1	0.1
Other assets	-	0.2	0.2
Total assets	**5.4**	**4.1**	**9.6**
Liabilities:			
Gross tech provisions (excl risk margin)	-	3.9	3.9
Risk margin	-	0.1	0.1
Other liabilities	-	0.1	0.1
Total liabilities	**-**	**4.1**	**4.1**
Excess of assets over liabilities	5.4	-	5.4
Adjustments	-	-	-
Eligible Own Funds	**5.4**	**-**	**5.4**
Capital Requirement (aMCR)	3.7	-	3.7
aMCR %	146%		146%

In summary, AEL is minimally impacted because;

- it holds good quality of assets (essentially cash), and it will obtain assets equal to the increased value of technical provisions at the moment of Transfer,
- the forecasted impact on TPs do not change the level of capital requirement (which remains at the aMCR),

The Own Funds coverage of the aMCR stays above the target of 120%, at 146% pre- and post-Transfer.

5.2.3. Q32020 with COVID-19 impact

This financial assessment of the Transfer has been performed at the end of quarter three (Q32020) as business produces financial information only at quarter end. The report did not attempt to roll forward the Q32020 position by one month to do a valuation as at 2 November 2020, as it is assumed there will not be a material difference; therefore, pre-Transfer position relates to end Q32020 and post-Transfer position relates to "Q32020 + impact of transfer".

AEL (€m)	Q32020 with COVID impact		
	Pre-Transfer	Transfer Impact	Post-Transfer
Assets:			
Cash	-	1.3	1.3
Investments	5.4	1.3	6.7
Ceded technical provisions	-	0.1	0.1
Other assets	-	0.2	0.2
Total assets	**5.4**	**2.8**	**8.2**
Liabilities:			
Gross tech provisions (excl risk margin)	-	2.7	2.7
Risk margin	-	0.0	0.0
Other liabilities	-	0.1	0.1
Total liabilities	**-**	**2.8**	**2.8**
Excess of assets over liabilities	5.4	-	5.4
Adjustments	-	-	-
Eligible Own Funds	**5.4**	**-**	**5.4**
Capital Requirement (aMCR)	3.7	-	3.7
aMCR %	146%		146%

- The Gross Technical Provisions of AEL is made up of 43% liabilities coming from ALL and 57% coming from LGL;
- The Transfer is at zero profit or loss;
- Initial cash injection of €5.4m to AEL before the Transfer. This is accounted for in the investment line on the balance sheet;
- AEL is operating at the aMCR;
- The Own Funds coverage of the aMCR stays above 120% pre- and post-Transfer, due to the level of contributed capital.

6. Reinsurance

Generally, Assurant Europe does not rely upon reinsurance as a key risk management tool for the life insurance entities, but as part of their overall commercial structure, certain client relationships do use reinsurance. Where appropriate AEL plans to adopt similar structures. ALL and LGL do not use reinsurance cover beyond the client-specific reinsurance arrangements described below. It is intended that AEL will maintain the same approach.

6.1. Reinsurance relating to Individual Clients

Reinsurance with individual clients can arise in various ways. As part of the commercial negotiations with a client, it is sometimes agreed that Assurant cedes a certain proportion of the underwriting risk to the client's preferred captive or external insurance partner by way of reinsurance. Alternatively, there may be elements of the product offering for which Assurant has limited underwriting experience or appetite. In such situations Assurant will seek to utilise reinsurance arrangements to manage the risk and share the underwriting returns with the client.

Note that for LGL, there is no reinsurance with the European clients.

The client-specific reinsurance contracts for ALL will be transferred to AEL within the Part VII Transfer mechanism. This is not foreseen to materially impact the books as the terms of the contracts will remain the same, only the name of the ceding insurer will change.

7. Determination of Capital Requirements

For ALL and LGL, regulatory capital is calculated using the Solvency II Standard Formula framework. ALL and LGL businesses are a mixture of short-term to long-term creditor and mortgage protection risks linked to health and life risks. They are in run-off. The Standard Formula is deemed appropriate for calculating the regulatory capital. As a result of their size, both ALL and LGL both set their capital requirements at the Solvency II absolute Minimum Capital Requirement (aMCR) of €3.7m (£3.3m as at Q32020) for life insurance companies.

LGL and ALL capital is managed on the basis of the regulatory capital requirement set at aMCR plus an appropriate risk appetite buffer, 50% for ALL and 45% for LGL.

AEL capital management will follow the same approach, i.e. it will be based on the Standard Formula framework and set to the absolute MCR (aMCR), €3.7m, for the regulatory capital.

For AEL, the capital buffer is planned to be set at 20% on top of the aMCR. The reason that this target buffer is set at a lower level for AEL than for ALL and LGL is that the buffer level for the latter two UK companies has not been adjusted in line with their risk profile in the past few years, whilst their risk profile would have allowed this. At the point of establishment of AEL the buffer level was reconsidered.

More precisely, the reasons that the AEL target buffer of 20% is set at a lower level than for ALL (150%) and LGL (145%) are that at the point of establishment of AEL the buffer level was reconsidered over the projected period, noting that:

- the business written is in run off;
- the investment strategy is based on government bonds matching the technical provisions duration;
- counterparty default risk will decrease.

I note that this reduction in capital buffer does in theory mean that policyholders will be slightly less protected from the insurer's insolvency. However, I believe that to be a remote possibility given the parental support of the Assurant group.

The initial capital injection has been set at 46% above the aMCR, which is in excess of the target level and more in line with the coverage ratios existing in ALL and LGL.

7.1. Capital Position

The capital position of AEL "as if YE2019" and "as at Q32020", both with COVID-19 impact is as follows:

	As if YE2019		As at Q32020	
€m	Pre-transfer	Post-transfer	Pre-transfer	Post-transfer
with COVID Impact	AEL	AEL	AEL	AEL
Eligible Own Funds	5.4	5.4	5.4	5.4
Regulatory aMCR	3.7	3.7	3.7	3.7
aMCR%	146%	146%	146%	146%
Risk Appetite buffer target	120%	120%	120%	120%
Surplus (over the target buffer)	1.0	1.0	1.0	1.0

It can be seen from the table above that AEL remains strongly capitalised after the Transfer. There has been capital injection in AEL of €5.4m before the Transfer[2] so that the Capital Requirement coverage stays above its minimum target of 120%, despite any exchange rate effect and COVID-19 impact.

The SCR of AEL remains much lower than the aMCR (€1.4m < €3.7m):

€000s	AEL post-Transfer	ALL pre-Transfer	LGL pre-Transfer
BSCR Components: Standalone			
Intangible	-	0	0
Non-Life	0	0	0
Health	22	22	1
Life	493	288	227
Market	625	678	1,435
Counterparty	842	790	71
TOTAL	1,982	1,778	1,735
Operational Risk	29	29	12
SCR	1,440	1,321	1,541

[2] In the "as-if" Transfer scenario, the initial cash injection of €5.4m made before the Transfer to AEL are assumed to take place the same day, on 31 December 2019. However, in the actual Transfer process, the initial cash injection of €5.4m has been made during the submission to the DNB for authorization of AEL.

8. Exchange Rate Impact

The Transfer will move Euro-denominated liabilities and assets to AEL. Therefore, there is no FX impact on the incoming transfer. However, AEL being a subsidiary of a UK group, TWGE, there will be an FX impact in the consolidated group reporting at TWGE level.

9. Continuity of Service

9.1. Expected Impact of the Transfer on Risk Profile

AEL's risk profile will be determined by the incoming portfolio and its investment policy.

At legal entity level, the aggregate risk will decrease for LGL and ALL when the business transfers out. At risk category level, insurance risk, market risk, credit risk and operational risk will all decrease for ALL and LGL as a result of the Transfer in absolute terms.

Post-Transfer, all risks of AEL will be lower than the corresponding ALL and LGL combined individual risk categories, generally due to diversification benefits. Market risk will decrease due to the change of base currency from GBP to EUR. Thus, the aggregate risk for AEL will be lower than that of ALL and LGL combined.

Although the risk profile at legal entity and risk category levels will change for LGL, ALL and AEL, the risk management for those legal entities follows similar frameworks and there are risk controls and mitigation in place. Additional cash will be injected into AEL at outset, as management targets a Capital Requirement cover ratio of not less than 120% for AEL post-transfer, which provides a strong financial backing of the business for the three legal entities involved in the Transfer. The 120% buffer represents the considered view of the AEL Management Board (MB) and reflects the limited size and risk associated with the portfolio.

In conclusion, post-Transfer, no policyholder group will be in a significantly less favourable financial strength situation compared to the pre-Transfer position.

9.2. Legal Risk to Policyholders

ALL and LGL have clearly identified the transferring policies, assets, liabilities and the possibility of a delay in policies transferring if there is any delay in the non-life scheme. This is due to creditor policies written jointly between LGI and LGL, which offer both life and non-life covers within a single policy. The table below shows the number of policies that are written jointly between LGI and LGL, split by territory. It can be seen that the linked policies make up 36% of the LGL book.

Linked Policies	Creditor		Total
	LGL only	Linked (LGI + LGL)	
Netherlands	4,561	249	4,810
Belgium	2,192	3,591	5,783
Grand Total	**6,753**	**3,840**	**10,593**

After the Brexit transition period, to provide legal service to policyholders, the Transfer will need to have been implemented. Hence the act of carrying out the Transfer is positive from a policyholder protection standpoint as it is the only way identified that guarantees that Assurant can continue to service the EU run-off business of ALL and LGL after 31 December 2020.

9.3. Policy Terms and Conditions

After the Transfer, policyholders will have a policy provided by AEL rather than ALL or LGL. There is no change in the terms and conditions of the policies being transferred from an insurance liability point of view. However, the business contracts for the distribution channel (B2B contracts) might require adaptation, depending on the legal framework of transferability. This does not impact the terms and conditions of policyholders.

9.4. Policy and Claims Administration

Following the implementation of the proposed Transfer, AEL would be responsible for the administration and servicing of Transferred Policies. The policy and claims administration of AEL will be handled by Assurant Europe Services BV (AES), a service company similar to the existing arrangements through TWG Services Limited (TWGS) to service the existing policies of the transferors. AEL will make use of the same internal resources as ALL and LGL for its administration and servicing of policies.

ALL and LGL manage all of their servicing relationships in accordance with the European Operations Outsource Oversight Framework, which applies across Assurant Europe Group (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.

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 and apply to ALL, LGL and AEL.

It is therefore not anticipated that there will be material changes in expense levels or any change in quality of service of policy and claims administration as a result of the Transfer that would create an adverse impact to the policyholders being transferred. Notwithstanding the change of service provider, the same resources and staff will be used to provide the service before and after the Transfer as the service providers remain within the same corporate group.

9.5. Communication Strategy

There are four strands to the communication strategy relating to the Transfer:

(1) notify transferring policyholders and other affected parties (by email or by post);

(2) publish formal notices in newspapers/gazettes in the relevant territories;

(3) seek a waiver from the notification requirements for non-transferring policyholders or where direct policyholder notification is impractical; and

(4) seek a waiver from newspaper/gazette notices in EU territories other than those relating to the transferring policies.

It might not be possible to reach out to each and every policyholder due to various factors such as change of address and non-responding contact details. Therefore, a proportionate and reasonable approach is expected to be taken, including seeking a waiver from the requirement to notify non-transferring policyholders

Assurant does not propose to contact policyholders whose policies are not transferring, policyholders of expired policies and policyholders whose current contact information cannot be readily confirmed. For such policyholders, reliance will be placed upon the notices to be published in the national publication(s) in each relevant territory and notice to the relevant clients and intermediaries through whom the policies were sold.

The aim is to notify all policyholders through direct or indirect notices. It is noted that this might trigger an awakening of dormant claims. However, the claims liability estimation has already included an allowance for late reporting of claims and no additional provision is needed. The review of the reserving for the purpose of the Transfer has not detected any material deviation from best practice in the current reserving and roll-forward assumptions; therefore, the reserves are deemed sufficient.

9.6. Benefits Expectation

There is no foreseen change in policyholder benefits after the Transfer as all policy terms and conditions and administration arrangements will remain fundamentally the same.

Application of policy terms and conditions and exercise of appropriate management discretion in dealing with claims is not anticipated to change as all parties remain part of the same Assurant Europe Group and apply consistent corporate policies (such as Product Governance and Treating Customers Fairly).

The transferring creditor business contains some policies with both life and general insurance elements. A creditor policy of LGL and LGI consists of single document referring separately to LGL and LGI. With this in mind, in order to be effective in respect of the creditor business, for this segment of policies the Part VII Transfer will need to be made for both the Non-Life (AGIL/LGI to AEI) and Life (ALL/LGL to AEL) business concurrently and hence both transfers will need to proceed in order for this process to be fully effective.

Based on the simultaneous progress of the planned Part VII Transfers, this is not deemed to be a material issue. Hence in my opinion I do not consider that there to be a material adverse impact on the transferring policyholders in relation to benefit expectations.

9.7. Treating Customers Fairly

Post Transfer, the policyholders of AEL transferred from ALL and LGL will benefit from the same level of administration services as they did under ALL or LGL. The Assurant Europe Group of companies follow the same processes and culture of customer service in accordance with corporate policies established at a group level.

Therefore, the Transfer will have no significant impact on the treatment of incoming transferring policyholders from ALL and LGL to AEL.

9.8. Consumer Protection Schemes

Post-transfer, AEL’s policyholders will continue to benefit from European laws, especially GDPR and other consumer protection laws.

There will arise a difference in policyholder protection in relation to insurer insolvency. There is no equivalent to the UK Financial Services Compensation Scheme (FSCS) in the Netherlands to protect policyholders of Dutch insurers in case of insurer insolvency. Thus, nominally policyholders will lose an element of contingent financial protection through the Transfer as a result of Brexit impact.

While this may appear to be a reduction in protection, it is noted that:

- FSCS protection applies in the case of insolvency, which due to the application of Solvency II regulations, the high level of capital maintained by AEL, and parental support from Assurant, is a very remote possibility,

- Customers in EU countries are unlikely to have been aware of their protection under FSCS when buying insurance, so this is unlikely to have been a material consideration for them,
- Loss of FSCS protection is an unavoidable consequence of the transfer.

Based on the planned capital and solvency management of AEL and ongoing parental support, this is deemed to be a noteworthy but not material issue. It is an inevitable consequence of the need to implement the proposed Transfer as a result of Brexit.

10. Business Strategy

The strategy for AEL is aligned to the Assurant Europe Group as a whole and is based on a European purpose to create and deliver solutions that increase customer loyalty, and value to clients and customers. The strategy sets growth targets in terms of the number of customers and the products that will be offered in order to achieve the intended business growth.

Assurant Europe Group is forecasting growth in earnings and profits in the near future by continuing to grow its client relationships in both insurance and insurance service business and winning new clients across Europe by executing a strategy of developing capability in various product areas. These forecasts assume no new life or health insurance.

AEL's business plan is aligned to these forecasts to contribute to performance at a group level through the run-off the transfer portfolio.

The creditor and furniture product lines have been placed into run-off which has the impact of de-risking the overall European business with the movement into shorter-tail products. For AEL, the immediate plan is to run-off the existing policies.

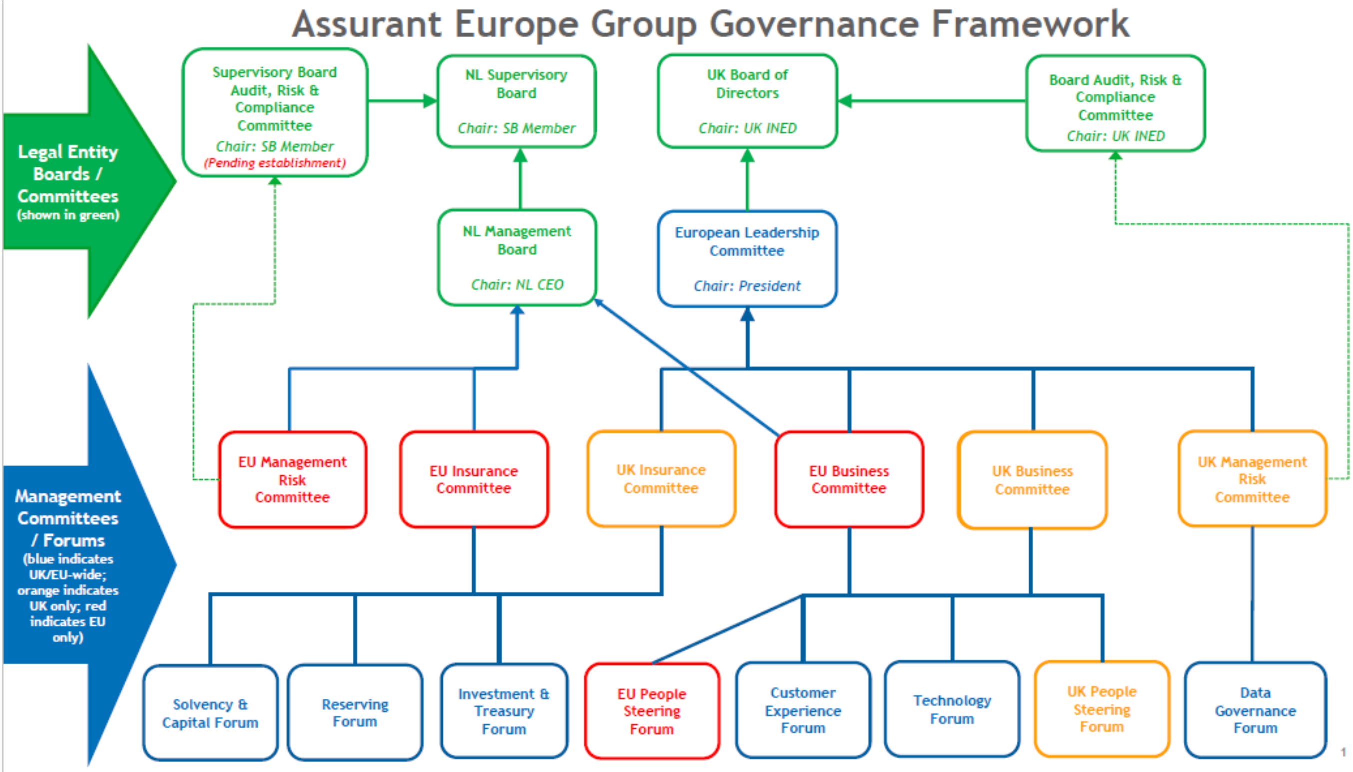
The three-year financial plan of Assurant Europe Group is founded on supporting the European strategy above concentrating on mobile protection products and extended service contracts whilst continuing to run-off creditor and furniture products.

The strategy of Assurant Europe Group will not change as a result of the Transfer, and indeed the Transfer is itself a key part of delivering this strategy.

It follows that, in my opinion, the Scheme will not have any material adverse impact to the transferring policyholders in relation to the business strategy they are exposed to in the new legal entity, as the business strategy is the same as that of the existing legal entity.

11. Governance Framework

The governance structure at the European group level applies to the existing entities and the new entities AEI and AEL. Both AEI and AEL have their own Management and Supervisory Boards which operate independently of the UK insurance company boards, however the resources to support the governance of each of the insurers are largely shared across the group. The chart below shows the governance of AEG and shows how the oversight of UK and EU entities interact and the various supporting technical and operational committees. The transferors and the transferee are part of the same governance structure.



Below is the list of committees with their chairs, deputy chairs and secretaries.

Governance Chairs, Deputies & Secretaries

Board/Committee/Forum	Chair	Deputy Chair	Secretary
UK Board of Directors	Colin Kersley	None appointed	Company Secretariat
UK Board Audit, Risk & Compliance Committee	Stuart Purdy	None appointed	Company Secretariat
NL Supervisory Board	Fred Gertsen	Tamara Monzon	Company Secretariat
NL SB Audit, Risk & Compliance Committee	Tamara Monzon	None appointed	Company Secretariat
NL Management Board	Ingo Soesman	Andy Schaut	Company Secretariat (via Citco NL)
European Leadership Committee	Christian Formby	Claude Sarfo	Company Secretariat (via KPMG UK)
UK Business Committee	Rich Green	Colin Graham	Stephanie Howman
UK Insurance Committee	Glyn Davies	Claude Sarfo	Paige Lewis
UK Management Risk Committee	Michael Schofield	Richard Weddell	TBC
UK People Steering Forum	Michael Carter	Julie Lane	Helen Kennedy
EU Business Committee	Marco Prada	Pascal Briodin	Fabienne Marque
EU Insurance Committee	Ingo Soesman	Reinier Tienkamp	Zoe Lubbers
EU Management Risk Committee	Reinier Tienkamp	Ingo Soesman	Tim van der Heijden
EU People Steering Forum	Michael Carter	TBC	Helen Kennedy
Technology Forum	Mark Davies	Nobin Rashid	TBC
Customer Experience Forum	Ross Carson	Sharon Cartner	Hannah Goodwin
Solvency & Capital Forum	Claude Sarfo	William Diffey	Tim Machin
Reserving Forum	William Diffey	Claude Sarfo	Rajeev Sharma
Investment & Treasury Forum	Claude Sarfo	Tim Machin	Tim Machin
Data Governance Forum	William Diffey	Richard Weddell	Eve Burke/TBC

The governance structure of the Transferee (AEL) is similar to the governance structure of transferors (ALL and LGL). In fact, it is the same overall governance framework of Assurant Europe Group that covers ALL, LGL and AEL.

The Management and Supervisory Boards will have fewer responsibilities than the European Leadership Committee, which will allow more focus on the business and customers of AEL.

Therefore, it is my opinion that the policyholders being transferred will still benefit from the same strong oversight and governance.

12. Other Considerations

12.1. B2B contracts

The scheme will transfer two broad categories of contracts: the insurance policy contracts and other business to business (B2B) contracts which support the insurance business.

EU and UK Laws, specifically Article 39 of the Solvency II Directive, provide for mutual recognition throughout the EEA of the Transfer of a portfolio of insurance contracts. However, the transferability and procedures for the Transfer of B2B contracts that are governed by non-UK law are not always clear. Assurant has sought legal advice to clarify the appropriate mechanisms to effect a full legal transfer of these B2B contracts.

Whilst the question is not actuarial in nature, the matter is pertinent for the following reasons:

- Part VII of FSMA provides that any person who considers that they would be adversely affected by the Transfer is entitled to be heard by the Court. Therefore, should any B2B partner object, the matter may be referred to the Court and can have an impact on the decision to authorise the Transfer. This could be an impediment to the whole Transfer or to a component of the Transfer including the effective date of the Transfer.

- Some of these B2Bs contract are material to the run-off business of AEL where they structure the distribution of AEL's insurance such as the commercial relationship agreements with clients.

The legal advice provided to Assurant confirms that in some relevant EEA states the Transfer of B2B contracts which are governed by non-UK law may require additional consents from the counter parties. This will require individual contractual changes and a case by case contract novation approach is being formulated.

There is a small number of B2B contracts to be transferred individually, which has risks in terms of timelines and effectiveness before the Transfer. There is also a risk that the counterparties may have a reluctance to cooperate or have a conflicting commercial agenda.

The risks involved are being clarified and an action plan is being formulated to minimise the risks to the timeliness and effectiveness of the Transfer and the ongoing business of AEL.

12.2. Reputation of ALL, LGL and AEL

A recent Part VII transfer elsewhere within the industry was not approved as the policies were proposed to be transferred from an established company to a much younger entity. The Court interpreted this as a detriment to customers, as the policies being transferred were long-term policies and a longstanding prudent reputation has some value. Customers may be less likely to buy such a policy from an unknown company.

In addition, in that case the court assessed that the nature of the long term annuities being transferred increased the risk that additional capital might be required in the future to fund the transferred liabilities and could give rise to lesser financial security for policyholders.

I do not believe that similar considerations apply to this Transfer, for the following reasons;

- Neither LGL nor ALL are well-known companies to the wider public.
- The direct customers relationship is typically with a bank or trusted adviser and policies were sold through such parties and branded with their brands, not that of the insurer.

- Post-transfer, customers will remain part of the same wider group (Assurant, Inc.).
- The nature and risk profile of the policies being transferred to AEL are very different from those of long-term annuities and are thus deemed much less risky to the customer.

In summary, customers will not face any detriment from loss of reputation.

12.3. Group Services support Post-Brexit

Assurant Europe Group endeavours to operate on a consolidated and resource effective basis where possible across its European operations. Corporate and technical services are provided at a group level where practicable through the group's UK service companies. These UK companies will cease to hold EEA passported authorisations as a result of Brexit. Therefore, the regulatory implications of supporting elements of the EEA business of AEL on this basis after the Brexit transition period have been considered and reviewed.

Guidance has been received from the Compliance function and external legal advisers. The legal advice received confirms that there are restrictions, depending on the type of services provided. These restrictions prevent a non-EEA authorised entity effecting and carrying out contracts of insurance for an EEA insurer. However, these activities can be distinguished from general administrative and support functions that may be carried on by the UK companies for the EEA insurer, as these would not form part of the effecting or carrying out of regulated activities.

Thus, the services provided to AEL by other companies of Assurant Europe Group will be split accordingly:
- regulated insurance services will be provided by service companies of the group with EU authorisations, including AES in the Netherlands;
- other administration and support services (non-regulated) will continue to be provided by the relevant group companies based in the UK

13. Limitations

The assessment of the Transfer is based on:

- Analytical data;

  The YE2019 financial data are audited figures while Q32020 is made of projections. Assumptions are made to derive estimated results, such as: the cancellation level between YE2019 and Q32020, the impact of COVID-19, the business plan 2020, the FX rates, the capital position. Each of these assumptions has its own limitations.

- Non-analytical data;

  The 2nd line actuary has taken into consideration non-analytical information based on business, regulatory and general economic views, some of which are facts, and some are based on our understanding and perceptions. However, various expertise, internal and external to support us have been used thus reducing the risk of erroneous assumptions.

The valuation of the proposed Transfer has been based on an Effective Date of 2 November 2020, with the date itself subject to court approval.

The list of limitations mentioned above are non-exhaustive but are inherent to this type of work. The work has been done by experienced actuaries with multiple peer reviews to mitigate the limitations of the work.

14. Conclusion

<u>The main aspects of the Transfer have been considered and can be summarized as:</u>

Benefits from the Transfer	Neither Benefits nor Disadvantages from the Transfer	Disadvantages from the transfer
- Provision of a legal and compliant policy post-Brexit (i.e. continuity of capacity to provide insurance and service the policies)	- Similar risk profile	- Loss of UK financial protection through the Financial Services Compensation Scheme (**FSCS**), in case of insolvency of the insurer
- Oversight of local Management Board and Supervisory Board based in the EU27	- Similar asset quality	- Reduction in target capital levels (aMCR%) and hence (long term) financial security
	- Similar financial solidity	
	- Same parental support	
	- Same benefits expectation	
	- Continued application of Solvency II regulation	
	- Cost of transfer funded by the Assurant group, so no impact on expense levels	
	- Same service standard - availability of the same corporate and operational resources through remaining part of the Assurant group	
	- Similar risk management policy and governance structure	

In my opinion, the provision of a legal and compliant policy post-Brexit far outweighs any of the disadvantages listed. The disadvantages are in my opinion minor, being relevant only in the extreme case of company insolvency, which I deem to be a minor risk given the capital and solvency structure of AEI and ongoing Solvency II compliance. Therefore, I conclude that the implementation of the Transfer has no material adverse impacts for the policyholders. In particular, I believe that the Transfer will at least maintain the security of benefits of all transferring policyholders and ensure that they continue to be treated fairly.

Glossary

- **AEI**: Assurant Europe Insurance N.V., the proposed non-life transferee established in Netherlands
- **AEL**: Assurant Europe Life Insurance N.V., the proposed non-life transferee established in Netherlands
- **AGIL**: Assurant General Insurance Limited, one of the non-life transferors' companies within the group (Assurant Inc)
- **ALL**: Assurant Life Limited, one of the life transferors' companies within the group (Assurant INC)
- **DNB**: De Nederlandsche Bank is the independent central bank, supervisory authority and resolution authority of Netherlands committed to a stable financial system: stable prices, solid financial institutions and properly functioning payment transfers.
- **FCA**: The Financial Conduct Authority is the conduct regulator for 59,000 financial services firms and financial markets in the UK and the prudential supervisor for 49,000 firms, setting specific standards for 19,000 firms.
- **FRC**: Financial Reporting Council is responsible to set and Maintain the TAS, and oversight the regulation of actuaries by the Faculty of Actuaries (IFoA)
- **FSCS**: Set-up by parliament and funded by the financial services industry in UK, FSCS is a completely independent and free service which protects customers funds when financial firms fail.
- **LGI**: London General Insurance Limited, one of the non-life transferors' companies within the group (Assurant Inc)
- **LGL**: London General Life Company Limited, one of the life transferors' companies within the group (Assurant INC)
- **MCR**: Minimum Capital Requirement is the capital requirement instituted by Solvency II. The MCR has a floor of 25% and a cap of 45% of the SCR, and there is an absolute minimum capital requirement (**aMCR**) (this floor is different for reinsurers, life and non-life insurers). The MCR is the ultimate point of supervisory intervention, below which the company would lose its authorisation.
- **PRA**: The Prudential Regulation Authority is the prudential regulator in UK of around 1,500 banks, building societies, credit unions, insurers and major investment firms. As a prudential regulator, it has a general objective to promote the safety and soundness of the firms it regulates.
- **SCR:** The Solvency Capital Requirement (SCR) is the total amount of funds that insurance and reinsurance companies in the European Union (EU) are required to hold. SCR is a formula-based figure calibrated to ensure that all quantifiable risks are considered, including non-life underwriting; life underwriting; health underwriting; and market, credit, operational, and counterparty risks.
- **Solvency II**: The regulatory framework applied to all EU insurance and reinsurance companies with gross premium income exceeding €5 million or gross technical provisions in excess of €25 million. It became operative from 1 January 2016.
  The key objectives of Solvency II are to increase the level of harmonisation of solvency regulation across Europe, to protect policyholders, to introduce Europe-wide capital requirements that are more sensitive (than the previous minimum Solvency I requirements) to the levels of risk being undertaken, and to provide appropriate incentives for good risk management.
- **TAS**: Technical Actuarial Standards are UK norms to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession, to the benefit of all those who rely on actuarial advice.
- **TP**: Technical Provisions represent the amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts.