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Re: The Part VII transfer of part of the long-term business of Legal and General Assurance Society Limited to ReAssure Limited

BACKGROUND

1. It is proposed to transfer a block of long-term insurance business from Legal and General Assurance Society Limited ("**LGAS**") to ReAssure Limited ("**ReAssure**").
2. I have been appointed by LGAS and ReAssure to report, pursuant to Section 109 of the Financial Services and Markets Act 2000 ("**FSMA**"), in the capacity of the Independent Expert on the terms of the proposed scheme (the "**Scheme**") providing for this transfer from LGAS to ReAssure.
3. In my role as Independent Expert for the Scheme, I have produced:
 - A report ("**my Main Report**") dated 3 July 2019 for the Directions Hearing at the High Court of Justice of England and Wales (the "**High Court**") on 11 July 2019 to assist the High Court in its deliberations on the Scheme.
 - An addendum to my Main Report ("**the Main Report Addendum**") dated 12 July 2019 following the news that the Initial Public Offering of shares in ReAssure Group plc ("**RGP**") had been suspended.
 - A supplementary report ("**my Supplementary Report**") dated 24 February 2020 to provide the High Court with an updated assessment of the likely effects of the Scheme ahead of the Sanction Hearing at the High Court on 10 March 2020.
 - An addendum to my Supplementary Report ("**the Supplementary Report Addendum**") dated 6 March 2020 providing an update to the Court on the operational readiness of ReAssure, late changes to the Scheme, updates on communications with policyholders in respect of objections and the potential effects of the coronavirus ("**COVID-19**") pandemic.
 - A letter ("**the First Letter to the High Court**") dated 11 March 2020 in response to a request from Mr Justice Zacaroli that provided further information to the High Court with respect to the Fixed Expense Agreement (described in Section 7).
 - A letter ("**the Second Letter to the High Court**") dated 12 March 2020 in response to a request from Mr Justice Zacaroli that provided further information to the High Court with respect to the standards of administration and service that apply to the LGAS and ReAssure policies.
 - A letter ("**the Third Letter to the High Court**") dated 22 March 2020 that provided further information to the High Court with respect to a number of questions from Mr Justice Zacaroli relating to the effects of the COVID-19 pandemic on the economic environment and the operational resilience of the two firms and the potential implications on the proposed Scheme.

- A second supplementary report (“**my Second Supplementary Report**”) dated 29 July 2020 to provide an updated assessment of the likely effects of the proposed Scheme ahead of the Sanction Hearing on 13 August 2020.
4. All of the reports, addenda and letters listed above have been made available to policyholders via the Legal & General Group website (www.legalandgeneral.com) and the ReAssure website (www.reassure.co.uk).

THE PURPOSE OF THIS ADDENDUM TO MY SECOND SUPPLEMENTARY REPORT

5. The date of finalisation of my Second Supplementary Report was 29 July 2020 and since that time:
- The estimated financial information in respect of LGAS and ReAssure as at 30 June 2020 that was provided to me for my Second Supplementary Report has been finalised;
 - Further work has been completed on the migration of the policy data from LGAS to ReAssure to ensure that both firms are operationally ready for the transfer and that the transfer would not cause a detriment to customer outcomes; and
 - Further objections have been received from policyholders.
6. The purpose of this addendum (the “**Second Supplementary Report Addendum**”) is to provide an assessment as to whether any of these developments would provide any reason to change the conclusions in my Second Supplementary Report.

THE FINALISED FINANCIAL INFORMATION AS AT 30 JUNE 2020

Background

7. At the date of finalisation of my Second Supplementary Report the financial information as at 30 June 2020 remained subject to internal scrutiny by the relevant Boards and committees and so was referred to in my Second Supplementary Report as ‘estimated’ financial information. This information was on a pre-Scheme basis.
8. I have now been provided with the finalised pre-Scheme financial information as at 30 June 2020 from both LGAS and ReAssure which reflects economic conditions as at 30 June 2020.
9. Estimated pro-forma Solvency II Pillar 1 financial information assuming the Scheme had been implemented as at 30 June 2020 was not provided.

The finalised financial information provided as at 30 June 2020

10. The finalised financial information for LGAS and ReAssure was on a pre-Scheme basis and consisted of the following for each firm:
- The assets;
 - The Best Estimate Liabilities (“**BEL**”) and other liabilities;
 - The Risk Margin and the Transitional Measure on Technical Provisions (the “**TMTTP**”);
 - The Own Funds; and
 - The Solvency Capital Requirement (the “**SCR**”).
11. For both LGAS and ReAssure, the finalised financial information (including the solvency coverage ratio) was different to the estimated financial information provided to me for the finalisation of my Second Supplementary Report on 29 July 2020.

12. However, the finalised financial information as at 30 June 2020 was consistent with the estimated figures as it showed that both LGAS and ReAssure remained financially strong and comfortably above the requirements of their respective risk appetite statements and I am satisfied that the finalised financial information for LGAS and ReAssure provided to me on 5 August 2020 does not provide any reason to change the conclusions of my Main Report, my Supplementary Report or my Second Supplementary Report.

The basis of preparation and review of the financial information as at 30 June 2020

13. The LGAS financial information as at 30 June 2020 has been calculated in accordance with LGAS's Solvency II assumptions and methodology as used by LGAS for the 2019 year end reporting cycle and reviewed at that time by the external auditors (KPMG LLP). Any subsequent material updates to the 2019 year end assumptions and methodology will have been approved by the LGAS Audit Committee and reviewed by KPMG.
14. Furthermore, the finalised LGAS financial information as at 30 June 2020 has been subject to review and approval by:
- The L&G Group Chief Financial Officer;
 - The L&G Group Actuary;
 - The LGAS Chief Actuary; and
 - The LGAS second line risk function.
15. The ReAssure financial information as at 30 June 2020 was calculated using assumptions and methodology that were materially unchanged from those used by ReAssure for the 2019 year end reporting cycle and reviewed at that time by the external auditors (PwC LLP).
16. Furthermore, the finalised ReAssure financial information as at 30 June 2020 has been subject to review and approval by the Technical Approval Committee (the "TAC"). The TAC has authority to approve the financial information as at 30 June 2020 owing to the authority delegated to it by the ReAssure Board and the TAC's members include:
- The ReAssure Chief Financial Officer;
 - The ReAssure Chief Actuary; and
 - The ReAssure Chief Risk Officer.
17. I am satisfied that it is appropriate to rely upon the financial information as at 30 June 2020 for LGAS and ReAssure for the purpose of this Second Supplementary Report Addendum.

The effect of the Scheme based on the financial information as at 30 June 2020

18. As stated above, estimated pro-forma Solvency II Pillar 1 financial information assuming the Scheme had been implemented as at 30 June 2020 was not provided.
19. This was primarily because of the short time between the finalisation of the financial information as at 30 June 2020 (5 August 2020) and the start of the Sanction Hearing (13 August 2020). That said, I note that:
- The effects of the implementation of the proposed Scheme on the financial position of LGAS and ReAssure have been reviewed at previous 'as at' dates in my Main Report, Supplementary Report and Second Supplementary Report and these effects have been materially consistent.
 - LGAS and ReAssure have confirmed that there is nothing in the financial information as at 30 June 2020 results nor any reason for them to believe that, based on the financial information as at 30 June 2020, both

LGAS and ReAssure would not, if the Scheme were to be implemented on that date, remain well capitalised and in adherence with the requirements of their respective risk appetite statements.

20. Therefore I am satisfied that, despite the lack of pro-forma results as at 30 June 2020, it is unlikely that the availability of such financial information would change my conclusions.

Conclusion on finalised financial information as at 30 June 2020

21. I am satisfied that the finalised information as at 30 June 2020 does not provide any reason to change the conclusions of my Main Report, my Supplementary Report or my Second Supplementary Report.

THE OPERATIONAL READINESS OF THE FIRMS AND THE MIGRATION PROCESS

22. Since the date of the finalisation of my Second Supplementary Report (29 July 2020), I have received:

- An update (as at 31 July 2020) providing a summary of a meeting between the LGAS and ReAssure management teams where the latest status of the agreed readiness criteria were discussed and agreed to have been satisfied.

This update indicated that, in relation to the four areas highlighted in Section 6 of my Second Supplementary Report:

i. Programme structure and tracking:

Appropriate governance and oversight continued in place and remains effective.

ii. Readiness gate assessments

The T-7 Business Readiness Gate assessment showed an overall improvement across the various criteria compared to the T-30 assessment described in my Second Supplementary Report. The status of the readiness criteria (as defined in Section 6 of the Second Supplementary Report) have been assessed as below:

- 65 criteria are Blue;
- 78 criteria are Green;
- 3 criteria are Amber; and
- 0 criteria are Red.

Of the three criteria of amber status identified in my Second Supplementary Report, one has moved to a green status and the other two have remained amber. Further details on the criteria with an amber status are provided below:

- The testing of the bonus setting model functionality.

The majority of the testing relating to the bonus setting functionality has been satisfactorily completed and regular updates are being provided to the LGAS With-Profits Actuary.

It is expected that this criterion will change to a green status prior to the T-7 Business Readiness Gate Assessment for the migration.

- The retention of knowledgeable and experienced resources.

This remains a risk due to the loss of actuarial role holders in the Transfer of Undertakings (Protection of Employment) (“TUPE”) population and the potential impact on the day 1 management of the LGWPF.

This criterion is expected to remain amber until the final decision point as to whether to proceed with the migration (which is currently scheduled for 21 August 2020). It is expected that this criterion would then change to a green status.

One criterion that was previously assessed as green status was moved to amber status as at the time of the T-7 Business Readiness Gate assessment for the Sanction Hearing. This criterion related to discussions between ReAssure and the FCA regarding the mailing requirements for SIPP customers which were still ongoing at the time the T-7 Business Readiness Gate assessment was carried out. It has since been confirmed that the FCA is satisfied with ReAssure's proposed approach and that this criterion now has a green status.

iii. Operational Stability:

- Overall, both LGAS and ReAssure were operating ahead of their SLA targets.
- Updated estimates (as at 23 July 2020) of the resource requirements and resource availability of ReAssure (around the time the migration will be performed and beyond) showed that ReAssure expected to have sufficient resources (both based in the UK and offshore) to meet the anticipated resource demands.

These estimates have improved since the date of my Second Supplementary Report, partly due to a further successful release of an update to the policy administration system (implemented just prior to that date).

iv. Contingency Options

The plans remain in place for an alternative migration date at the end of September 2020.

Consideration had also been given to the potential impact of a second wave of COVID-19 on both the operational stability of the firms and on financial markets and both LGAS and ReAssure confirmed that, in such a scenario, services would be maintained and the migration would proceed.

The migration weekend involves a Bank Holiday on 31 August 2020 and this should partially mitigate the risks of market volatility.

- A risk report (dated 31 July 2020) from the LGAS Mature Savings Chief Risk Officer (“CRO”) stating that:
 - Overall, the T-7 risk review did not highlight any areas of material concern;
 - The migration risks had been further mitigated since the last report and additional assurance had been provided through second and third line reviews; and
 - The CRO supported proceeding to the adjourned sanction hearing.
- A risk report (dated 31 July 2020) from the ReAssure CRO stating that Risk Management supported the position that an end of August migration would continue to be targeted, and that the Programme should proceed with the Sanctions Hearing scheduled for 13-14 August.

Conclusion on the operational readiness of the firms and the migration process

23. I am satisfied that the updated information that has been provided to me relating to the operational readiness of the firms and the status of the migration process does not provide any reason to change the conclusions in my Main Report, my Supplementary Report or my Second Supplementary Report.

FURTHER CORRESPONDENCE WITH LGAS AND REASSURE POLICYHOLDERS

Further objections

24. Between 19 July 2020 (the last date for which I reviewed objections for the purposes of my Second Supplementary Report) and 7 August 2020 there were 8 further formal objections to the Scheme by transferring policyholders of LGAS and no further formal objections to the Scheme by policyholders of ReAssure.
25. In addition, 12 policyholders of LGAS who had not previously stated their intention to attend the Sanction Hearing have now done so.
26. The 8 formal objections received from transferring LGAS policyholders can be split into the following categories:
 - i. Customer loyalty to LGAS (1 instances) and concerns with respect to ReAssure as a provider of life insurance and pensions (2 instances);
 - ii. The Part VII transfer process (1 instance);
 - iii. Non-specific concerns relating to the transfer (1 instance); and
 - iv. The policy specifics (3 instances).
27. Areas i, ii and iii were all covered in Section 8 of my Supplementary Report or Section 8 of my Second Supplementary Report and are not repeated here.
28. For area iv, the 'policy specifics' category, the three new objections were objections on a topic that had not been previously raised: the suspension of withdrawals from the Linked Life and Linked Pension property funds of LGAS following the uncertainty in the property market due to the COVID-19 pandemic.
29. It is common practice to suspend withdrawals from unit-linked funds in times of uncertainty, when the value of particular asset classes are uncertain, as it is not in the best interests of the investors within those funds to liquidate assets when the realisable value is volatile.
30. The three mentioned in area iv above expressed a desire to transfer their policies to another provider prior to the transfer to ReAssure and made the point that, owing to the suspension, they would not now be able to do this.
31. This issue is not a result of the proposed Scheme but is rather a result of the current macro-economic environment as a result in the main of the COVID-19 pandemic. The decision to suspend withdrawals from the funds would have been made in the absence of the transfer to ReAssure and the decision to resume trading in the property fund relies on advice from the independent valuation agent and the investment managers both of which would be unchanged by the Scheme.
32. I am satisfied that the suspension of withdrawals from the LGAS unit-linked property funds provides no reason to change the conclusions of my Main Report, my Supplementary Report or my Second Supplementary Report.
33. Once the suspension of the fund is lifted, the affected policyholders would be able to transfer their policies to another provider should they wish to do so.

Further correspondence other than objections

34. As well as new objections, since the 19 July 2020, LGAS and ReAssure have had correspondence with 24 transferring policyholders of LGAS and 1 policyholder of ReAssure that had already raised objections.
35. I have reviewed this correspondence regarding existing objections and am satisfied that these have been addressed in Section 8 of my Supplementary Report or Section 8 of my Second Supplementary Report.

Conclusion on further correspondence with policyholders

36. I am satisfied that the correspondence with policyholders since the 19 July 2020 does not provide any reason to change the conclusions in my Main Report, my Supplementary Report or my Second Supplementary Report.

CONCLUSION

37. For the reasons set out above, I am satisfied that the developments described in this Second Supplementary Report Addendum do not provide any reason to change the conclusions on the proposed Scheme as set out in my Main Report, my Supplementary Report or my Second Supplementary Report.



Oliver Gillespie

August 10, 2020

Partner of Milliman LLP

Fellow of the Institute and Faculty of Actuaries