

Report of the Chief Actuary

on the proposed transfer of long-term insurance business

from

Legal & General Assurance Society Limited

to

ReAssure Limited

pursuant to Part VII of the Financial Services

and Markets Act (2000)

25 June 2019

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1 Introduction

1.1 Purpose

This report, addressed to the Board of Directors of Legal and General Assurance Society Limited (LGAS), is made in my capacity as Chief Actuary and concerns the proposed transfer of a block of business substantively representing the LGAS Mature Savings business to ReAssure Limited (ReAssure). The transfer is to be carried out by way of an insurance business transfer scheme under Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000, (the Scheme).

SUP 18.2.57E (2) of the Financial Conduct Authority (FCA) handbook states that reports on the transfer by the actuarial function holders of both firms would usually be included in the set of documents provided to the court as part of a transfer of long-term insurance business. However, the scope of this report and the role of the Chief Actuary in such a scheme is not defined in statute or regulation. I have considered the impact of the proposed transfer on LGAS policyholders in the light of the requirement of the Independent Expert under SUP 18 to consider the effects of the Scheme on the security of policyholders' contractual benefits and policyholders' reasonable benefit expectations.

LGAS also has a duty under FCA's Principle 6 to treat customers fairly. My assessment of the Scheme has also considered the potential impact of the proposed transfer on the fair treatment of customers.

This report may also be used by the Independent Expert (as defined below), the High Court, the Prudential Regulation Authority (PRA), the FCA and the Chief Actuary of ReAssure. It will also be made available to LGAS policyholders via the Legal & General (L&G) website as part of the planned communications to policyholders concerning the Scheme.

1.2 Status and disclosure

I am a Fellow of the Institute & Faculty of Actuaries, having qualified in 1995, and I hold a Chief Actuary (Life) Practising Certificate issued by the Institute & Faculty of Actuaries. I have over 30 years of experience in the UK life assurance industry, including eight years working for the L&G Group. I became Actuarial Function Holder of LGAS in November 2013 and then Chief Actuary when the Solvency II framework came into effect on 1 January 2016.

I am an employee of L&G Resources Limited, an L&G Group service company which provides services to LGAS. LGAS constitutes a significant part of the Group to which the service company provides services.

My financial and personal interests in the L&G Group are set out in Appendix A to this report. I consider that these do not represent a conflict of interests that would prevent me from assessing the impact of the Scheme on LGAS policyholders and I confirm that my interests in the L&G Group have not influenced me in reaching any of the conclusions in this report.

1.3 Other advice and opinions

Mr Oliver Gillespie of Milliman LLP has been retained by LGAS and ReAssure in the capacity of Independent Expert (in accordance with the provision of Section 109 of FSMA 2000) and has been approved as such by the relevant regulatory bodies. In finalising my report, I have read a draft of his report on the terms of the Scheme and considered its conclusions. A copy of this Chief Actuary's report has also been provided to the Independent Expert.

In addition, I have read and considered the report of the With-Profits Actuary, Mrs Tricia Ross, assessing the impact of the Scheme on the with-profits policyholders of LGAS. A copy of this Chief Actuary's report has also been provided to the With-Profits Actuary.

This report should be read in conjunction with the Scheme, the With-Profits Actuary's report and the Independent Expert's report.

1.4 Compliance with Actuarial Standards

This report has been prepared in accordance with, and in my opinion complies with, the Technical Actuarial Standards (TAS) issued by the Financial Reporting Council. In particular, I believe this report complies with TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. TAS compliance of the supporting papers, reports and models are considered separately by the relevant authors and reviewers as appropriate.

APS X2, issued by the Institute and Faculty of Actuaries, requires Actuaries to consider the appropriate level of review that should be applied to their work. This report has been subject to an Independent Peer Review by a suitably qualified Actuary within L&G and is therefore believed to be compliant with APS X2.

1.5 Structure of report

This report is structured as follows:

- Section 2 provides an Executive Summary of the report, including the main conclusions.
- Section 3 provides an overview of LGAS.
- Section 4 provides an overview of ReAssure.
- Section 5 outlines the terms of the proposed transfer, as set out in the Scheme.
- Section 6 considers the effect of the Scheme on transferring LGAS policyholders.
- Section 7 considers the effect of the Scheme on remaining LGAS policyholders.
- Section 8 sets out my conclusions.

1.6 Supplementary report

I will produce a Supplementary Report for the Board after the Directions Hearing, which is expected to be on 8 July 2019. This Supplementary Report will provide an update on my conclusions in the light of any significant developments since the date of this report.

2 Executive summary

2.1 Background

A strategic review by LGAS in early 2017 concluded that, in line with Group's objectives, it wished to focus on growth areas within its portfolio of businesses. As such it was decided to sell the Mature Savings business, which is substantially closed to new business and in run-off.

On 6 December 2017, LGAS agreed to sell a portfolio of business substantively representing the LGAS Mature Savings business to ReAssure. It is now proposed to transfer the business from LGAS to ReAssure by means of the Scheme. The intended transfer date is currently set to be 4 November 2019 (the Legal Effective Date) at which point the transferring business would legally transfer from LGAS to ReAssure and the Scheme will become operative between LGAS, ReAssure and the wider world. The Legal Effective Date must be approved by both LGAS and ReAssure which would only be the case if a successful migration had been confirmed. Subject to certain limits, the Legal Effective Date can be delayed by mutual agreement between LGAS and ReAssure and the firms would need to reapply to the Court if the proposed Legal Effective Date were to be after 4 February 2020. The Scheme would take effect between LGAS and ReAssure for accounting purposes on the first day of the calendar month in which the Legal Effective Date falls (the Economic Effective Date). The Economic Effective Date is the date at which any rights and obligations that exist between LGAS and ReAssure are treated as becoming effective. Based on a Legal Effective Date of 4 November 2019, the Economic Effective Date would be 1 November 2019.

A transfer under the Scheme is expected to achieve the following objectives for LGAS:

- It will enable LGAS to focus its management, financial strength and other resources on its core businesses and accelerate the scaling up of growth areas.
- It will reduce the risks to LGAS arising from the largely closed Mature Savings business.
- It will provide a good home for the Mature Savings business with ReAssure whose strategic focus is to manage closed in-force portfolios, focusing on delivering excellent service and outcomes to policyholders.

2.2 The proposed transfer

The business in scope of the proposed transfer represents 1 million policyholders and £28bn of liabilities as at 31 December 2018, including the entire LGAS With-Profits Fund. The key features of the proposed transfer are as follows:

- With effect from the Legal Effective Date, the transferring policyholders will become policyholders of ReAssure.
- The LGAS With-Profits Fund will form a new with-profits fund within ReAssure. Certain operational simplifications have been proposed to the financial management of with-

profits business. I have reviewed the proposed changes and I am satisfied that there would be no material adverse effect on policyholders.

- The LGAS unit-linked business will be invested in corresponding new unit-linked funds in ReAssure, which will be managed in the same way as the existing LGAS funds, other than some minor timing differences in relation to unit pricing. These timing differences do not lead to any systematic benefit or cost to policyholders.
- ReAssure will be responsible for the administration and servicing of the business with effect from the Legal Effective Date, with the exception of final salary pension schemes in the With-Profits Fund, which will remain under the administration of Deloitte. I am satisfied that customers will receive a level of service from ReAssure that is materially the same as that currently provided by L&G.
- Certain product changes have been proposed by ReAssure to facilitate the administration of the business on ReAssure systems, some of which will require changes to policy Terms and Conditions. I have reviewed the proposed changes and I am satisfied that there would be no material adverse effect on policyholders.

2.3 Financial strength

I have been provided with a copy of the current ReAssure capital management policy and I believe it would provide adequate benefit security for the transferring policyholders. I am satisfied that the risk of ReAssure being unable to pay benefits as they fall due is extremely remote.

Swiss Re has announced that it is exploring an Initial Public Offering (IPO) of ReAssure during 2019, and that following the potential IPO Swiss Re would likely no longer hold a majority stake. The ReAssure Board has approved a new capital policy in respect of ReAssure to take effect following the IPO. In addition the newly constituted Board of the new IPO holding company ("ReAssure Group Holdings PLC" or "RGP") approved a new associated capital policy for that entity. I have seen these approved policies, which are subject to completion of the IPO. I am satisfied that these policies, in the event the IPO is effected, would provide adequate benefit security for the transferring policyholders. For the avoidance of doubt, in the period prior to the IPO, or in the event that the IPO does not proceed, the current ReAssure capital management policy, as outlined above, will continue to apply.

The capital coverage ratio of LGAS is expected to be slightly improved by the proposed transfer.

2.4 Key conclusions and opinion

In my opinion:

- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the transferring LGAS policyholders.

- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the remaining LGAS policyholders.
- In respect of both the transferring and remaining policyholders, the proposed Scheme is consistent with the requirement to treat customers fairly.

Based on these considerations, my advice to the Board is therefore that there is no reason why the Scheme may not proceed.

In my Supplementary Report, I will consider whether any developments since the date of this report lead me to change any of my conclusions above.

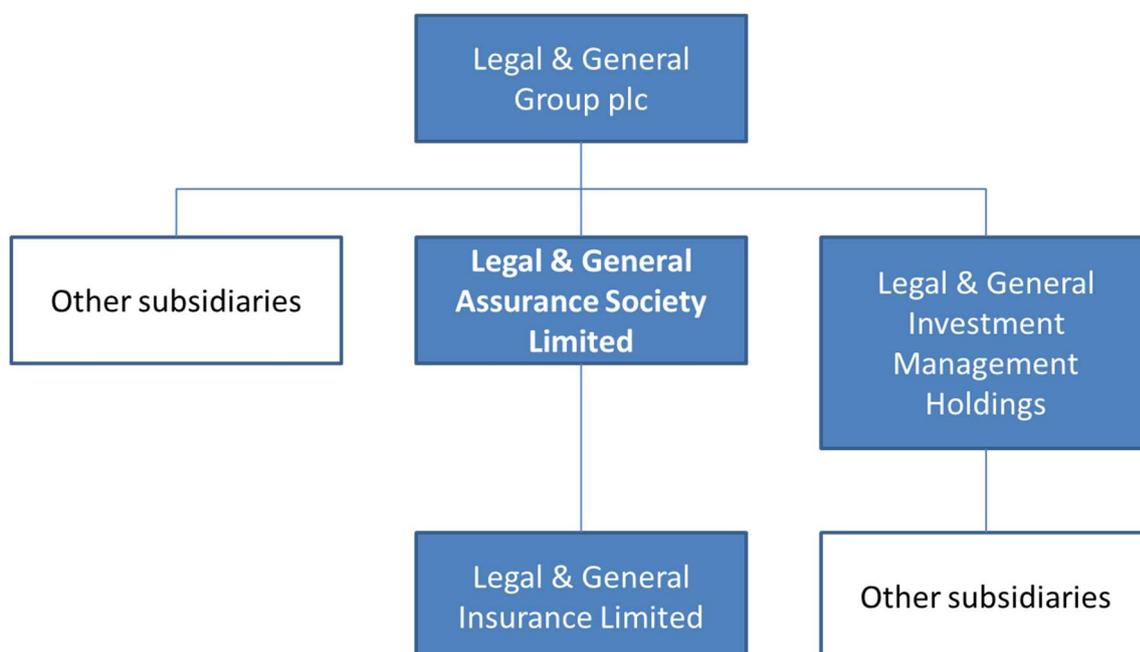
3 Background information on LGAS

3.1 Group structure

LGAS is a proprietary composite insurance company founded in 1836. It is authorised in the UK by the PRA to effect long term business classes I, II, III, IV, VI and VII set out in Part II of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and to transact general insurance business, and is regulated by both the PRA and FCA. LGAS policyholders do not acquire membership rights in LGAS by virtue of their policy.

LGAS is a wholly-owned, indirectly-held subsidiary of Legal & General Group plc. LGAS is the principal operating subsidiary of the L&G Group and is the regulated entity through which the majority of the Group's long-term insurance business is written. A simplified group structure is shown in Figure 3.1 below.

Figure 3.1: L&G group structure



3.2 L&G business

The L&G Group is divided into a number of business divisions, each with its own management team. The business of each division is summarised below. Except where otherwise stated, the long-term insurance business sold by these divisions is written in LGAS.

- **Legal & General Retirement (LGR):** The business of LGR is further subdivided between LGR Retail and LGR Institutional. LGR Retail writes individual annuities and lifetime mortgage business. LGR Institutional writes worldwide pension risk transfer business, including bulk annuities and longevity insurance.
- **Legal & General Insurance (LGI):** LGI offers protection products, predominately non-linked but also some unit-linked products, which provide mortality or morbidity benefits. The business includes retail and group protection business written in the UK and protection business written in the US.
- **Mature Savings (MS):** Mature Savings includes a variety of savings contracts, which may also include protection benefits. This includes with-profits business written in the LGAS With-Profits Fund and unit-linked savings and pension products. These products are all closed to new business, except for increases to existing pension policies and new members into existing group pension schemes.
- **L&G Investment Management (LGIM):** LGIM is the investment management division of L&G. It is responsible for managing the majority of the investments in respect of LGAS's long-term business, as well as providing investment management services to external

retail and institutional clients. The LGIM division also manages LGAS's Workplace Savings business, focusing on the UK auto-enrolment pensions market.

- **Legal & General Capital (LGC):** LGC is responsible for managing the Group's shareholder capital, including the LGAS shareholder funds.
- **General Insurance (GI):** GI business is written in Legal & General Insurance Limited, a wholly-owned subsidiary of LGAS.

The long-term insurance business of LGAS is divided into two funds:

- **The With-Profits Fund:** This fund contains LGAS's participating with-profits business as well as non-participating unit-linked business and other savings business. This fund is a ring-fenced fund for the purposes of Solvency II.
- **The Non-Profit Fund:** By convention, the assets and liabilities that are not held within the ring-fenced With-Profits Fund are referred to as the Non-Profit Fund.

A summary of the in-force long-term business of LGAS as at 31 December 2018 is shown in Figure 3.2 below. This shows the number of in-force policies and the Best Estimate Liability (BEL) on the same basis as in the LGAS regulatory returns for 31 December 2018. The BEL represents the probability-weighted average of future cashflows, taking into account the time value of money and without any deduction for amounts recoverable from reinsurance contracts. It is the main component of the Technical Provisions included in the regulatory solvency valuation under Solvency II.

Figure 3.2: LGAS long-term business as at 31 December 2018

	Number of policies	BEL (£bn)
Non-Profit Fund	11,022,988	96.9
With-Profits Fund	681,216	17.8
Total LGAS	11,704,204	114.7

3.3 Governance

The LGAS Board is accountable for the long-term success of the company by setting the company's strategic objectives, within the overall strategy defined by the Group Board, and by monitoring performance against these objectives.

The LGAS Board delegates certain matters to committees of the L&G Group Board.

- **The Group Risk Committee:** The purpose of the Committee is to assist the Board in fulfilling its responsibilities in relation to the oversight of risk within the company and to provide advice in relation to current and potential future risk exposures of the company.

- **Group Remuneration Committee:** This Committee is responsible for determining and approving the framework for the remuneration policy for the Group and its subsidiaries.

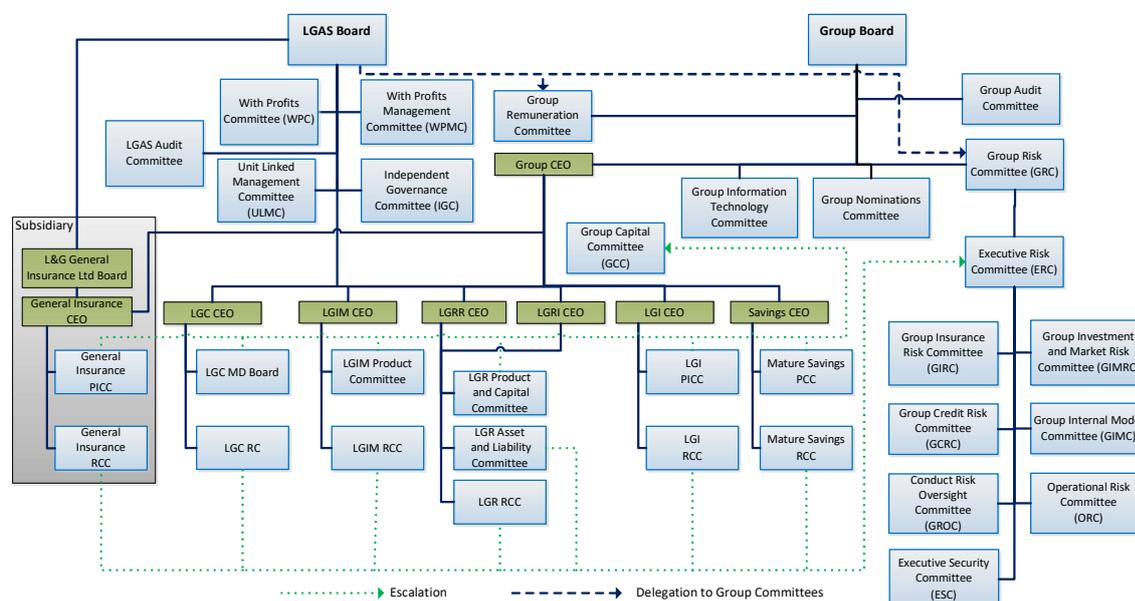
Day-to-day operations and decision making are delegated by the L&G Group CEO to the heads of the Group's business divisions.

The LGAS Board has established six committees to assist the Board in the management of the company's with-profits, savings and workplace pensions businesses:

- **The LGAS Audit Committee:** The primary responsibility of this Committee is to assist the LGAS Board in discharging its responsibilities with regards to monitoring the integrity of the Company's financial statements, the effectiveness of internal control and the independence and objectivity of the internal and external auditors.
- **Independent Governance Committee (IGC):** The IGC provides oversight of the workplace pension products, specifically to assess the ongoing value for money.
- **Unit-Linked Management Committee (ULMC):** The ULMC provides oversight of the management of the company's unit-linked funds.
- **Fund Risk Oversight Committee (FROC):** The FROC provides oversight of the management of the company's unit-linked funds for Workplace Savings products.
- **With-Profits Management Committee (WPMC):** The WPMC provides oversight of the management of the With-Profits Fund.
- **With-Profits Committee (WPC):** The WPC provides independent oversight of the management of the With-Profits Fund from a policyholder perspective.

The L&G governance structure is illustrated in Figure 3.3 below.

Figure 3.3: L&G governance structure



3.4 Regulatory solvency

Following the implementation of the Solvency II regulatory regime which came into force on 1 January 2016, LGAS's capital resources are managed on a Solvency II basis, as adopted by the PRA.

The principle that underlies the valuation methodology for Solvency II purposes is that the assets and liabilities are valued at the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction. The excess of the value of assets over the value of liabilities is referred to as Own Funds.

The capital required under the Solvency II regime (the Solvency Capital Requirement or SCR) is a risk-based capital assessment, based on a 1-in-200 year event over a one year time horizon. The SCR is calculated using the L&G Group's Partial Internal Model, which has received regulatory approval. LGAS also has the following additional regulatory approvals in respect of Solvency II:

- Approval to use the Matching Adjustment, which applies as an addition to the discount rate, in the valuation of non-profit annuity business.
- Approval to use the Transitional Measure on Technical Provisions, which has the effect of phasing in the differences from the balance sheet under the previous regulatory regime (Solvency I) over a period of 16 years from 1 January 2016.

The solvency position of LGAS at 31 December 2018 is summarised in Figure 3.4 below. The position is after the payment of a dividend in December 2018 to reflect 2018 performance.

Figure 3.4: LGAS solvency II surplus (management view) at 31 December 2018

	£m
Own Funds	10,574
Capital requirements	(7,039)
Surplus	3,535
Capital coverage ratio	150%

The calculation of the SCR allows for the reduction in risk arising from the Risk Transfer Agreement between LGAS and ReAssure, which is described in section 5.9 of this report.

The Own Funds as at 31 December 2018 incorporated L&G management's estimate of the impact of recalculating the Transitional Measure on Technical Provisions, as this was believed to provide the most up-to-date and meaningful view of the Solvency II position. In line with regulatory guidance, the next formal recalculation will take place no later than January 2020.

The Regulatory capital coverage ratio at 31 December 2018 as reported in the Solvency and Financial Condition Report, i.e. excluding this recalculation, was 160%.

3.5 Capital management

LGAS's business involves the acceptance and management of risk. The Board of LGAS has established a risk appetite, which includes quantitative limits for the Solvency II capital coverage ratio. LGAS was being managed within its risk appetite at 31 December 2018.

A review of the LGAS capital management policy is undertaken as part of the annual Own Risk and Solvency Assessment (ORSA) process. If changes are recommended these would need to be approved by the LGAS Board. Changes would also be reported to the PRA as part of the ORSA process.

3.6 With-profits management

With-Profits products are only written in the With-Profits Fund. The products of the With-Profits Fund are mainly pension and investment contracts.

The With-Profits Fund is managed in accordance with the Principles and Practices of Financial Management (PPFM) required under COBS 20 of the FCA handbook.

Profits arising from the business of the With-Profits Fund are determined annually by the Board, which may, at its absolute discretion, decide to distribute such profits to those entitled to share in them. Profits distributed from the fund are split such that not less than 90% is distributed to with-profits policyholders and not more than 10% to shareholders.

The With-Profits Fund was formally closed to new business on 31 January 2015. Only increases to existing pension policies and new members to existing group pension schemes have been accepted after that date. Following the closure to new business, a formal run-off plan has been developed for the With-Profits Fund, as required by COBS 20.2.53R. The run-off plan is regularly updated, and shared with the FCA on request.

An expense agreement is in place, which limits the expenses that can be charged to the With-Profits Fund by LGAS until the end of June 2019. The maintenance expenses that were charged to the fund for in-force policies were fixed at £35.5m for 2018. In early 2019 this cap was translated into an equivalent schedule of per policy expenses, increased with inflation, which will be used to determine the maintenance expenses to be charged to the fund during the first half of 2019. The terms of this expense agreement allow extension to cover the second half of 2019 at the advice of the With-Profits Committee; should the agreement not be extended an alternative expense apportionment methodology would be used to apply between 30 June 2019 and the Legal Effective Date. Expenses for incremental business are charged on a defined per-policy basis, increasing with inflation.

4 Background information on ReAssure

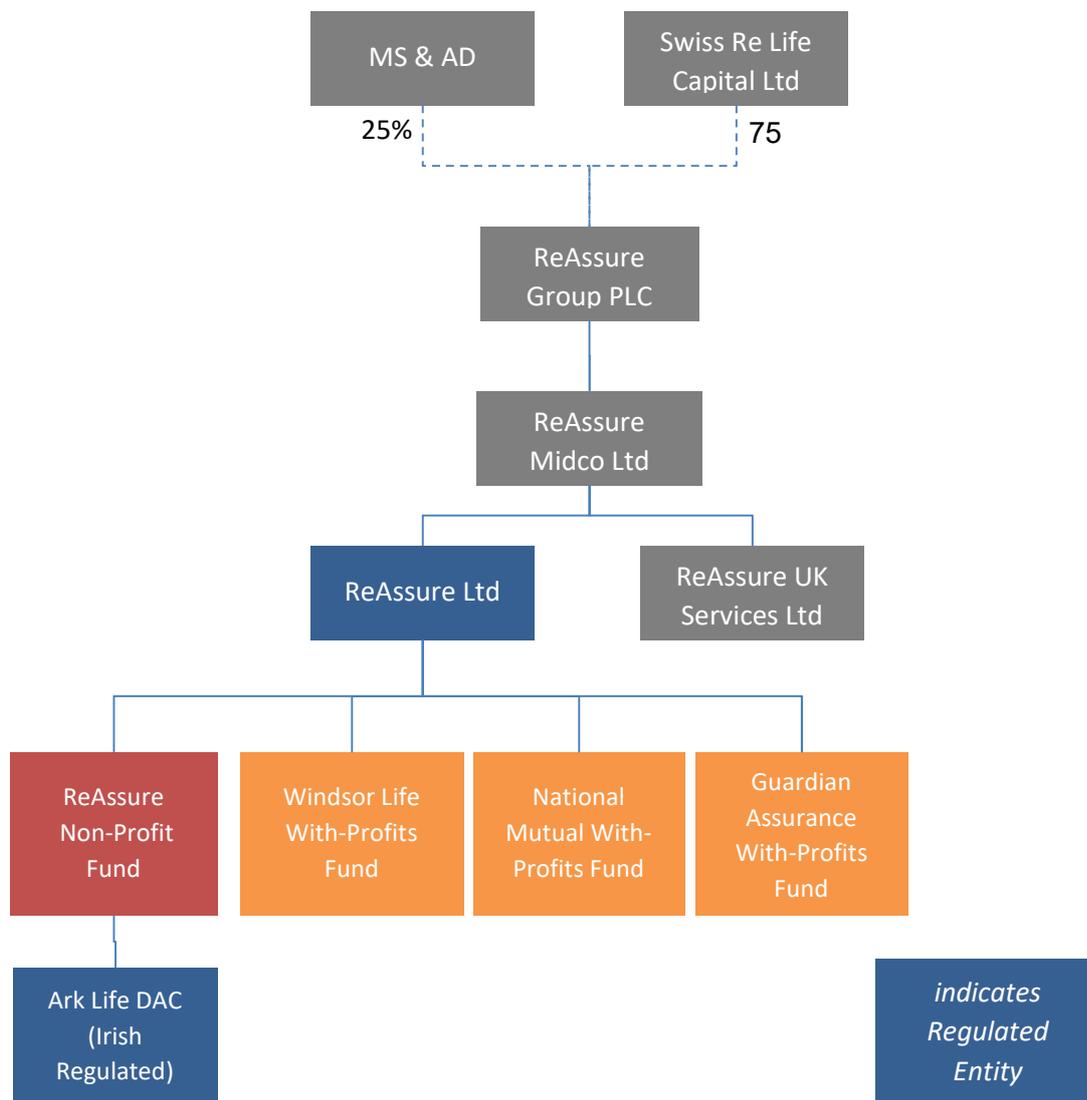
The information in this section has been provided by ReAssure.

4.1 Group structure

ReAssure is a UK life and pensions business with a focus on managing closed in-force portfolios. Prior to December 2011 it was known as Windsor Life Assurance Company Limited.

ReAssure is part of the Swiss Re group, as shown in the simplified structure chart in Figure 4.1 below.

Figure 4.1: ReAssure group structure



Swiss Re Limited is the ultimate holding company of the Swiss Re Group. The structure below Swiss Re Limited comprises three legally separate entities for the group's Reinsurance, Corporate Solutions and Life Capital business units. Currently ReAssure Group is the largest business within the Life Capital unit.

Swiss Re Group purchased Life Assurance Holdings Company Limited in 2004, which was subsequently renamed Admin Re UK Limited (ARUK). ARUK was renamed ReAssure Group Limited ("RAGL") in 2016. RAGL is the UK holding company, which owns 100% of ReAssure Limited and ReAssure UK Services Limited (RUKSL). RAGL's parent company is ReAssure Jersey One Limited, which is 75% owned by Swiss Re Life Capital Limited. A minority 25%

share of Reassure Jersey One Limited is owned by MS & AD Insurance Group Holdings (MS & AD), a Japanese insurance company listed on the Tokyo Stock Exchange.

RUKSL provides services to ReAssure for the administration of policies and related activities. It also has third-party administration contracts with Aviva, MetLife and Genworth. ReAssure pays a fixed schedule of per-policy administration fees to RUKSL and an allowance for inflation is added to the schedule each year. Other non-recurring costs may also be added, such as discretionary projects.

On 3 August 2018, Swiss Re announced that it is exploring a UK listing of ReAssure during 2019 via an Initial Public Offering (IPO) in order to provide access to new capital to grow the business. Swiss Re said that it expected to remain a significant investor in ReAssure after the potential IPO but that it would likely no longer hold a majority stake. At the time of writing the exact date of the IPO is unknown, but is expected to take place in July 2019, and therefore prior to the transfer of business which is the subject of this report. As such, I expect to comment further in my Supplementary report.

4.2 ReAssure's business

In recent years, ReAssure has grown by transferring in existing blocks of business acquired from other companies, or by entering into reinsurance arrangements with other entities.

The long-term insurance business of ReAssure is divided into four funds:

- **The National Mutual With-Profits Fund:** This fund contains the with-profits business (and a small number of non-profit policies) originally written by the National Mutual Life Assurance Society. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time to with-profits policies as they mature or otherwise discontinue. The shareholders have no entitlement to any of the future surplus. There is an obligation under the terms of the National Mutual scheme to provide financial support of the National Mutual With-Profits Fund if required. The level of this financial support was set at £200m at the date of the scheme and reduces broadly in line with the size of the fund.
- **The Windsor Life With-Profits Fund:** This fund contains the with-profits business of Windsor Life. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time to with-profits policies as they mature or otherwise discontinue. With-profits policyholders receive 90% of distributed profits through declared bonuses, with shareholders receiving the balance.
- **The Guardian Assurance With-Profits Fund:** This fund contains the with-profits business originally written by Guardian Assurance and transferred into ReAssure in 2016. The fund is closed to new business (apart from a small number of increases to existing policies) and is being run so as to distribute all its surplus assets over time to with-profits policies as they mature or otherwise discontinue. With-profits policyholders

receive 90% of distributed profits through declared bonuses, with shareholders receiving the balance.

- **The ReAssure Non-Profit Fund:** This fund contains the remaining long-term insurance business of ReAssure. It comprises a mix of non-profit and unit-linked policies arising from a number of transactions and includes:
 - immediate annuities in payment;
 - deferred annuities;
 - a unit-linked portfolio comprising acquired portfolios of unit-linked life and pensions business from a series of acquisitions; and
 - a portfolio of non-profit protection and income protection policies.

The three with-profits funds are ring-fenced funds for the purposes of Solvency II.

The in-force business of ReAssure as at 31 December 2018 is shown in Figure 4.2 below.

Figure 4.2: ReAssure in-force business as at 31 December 2018

	Number of policies	BEL (£m)
Non-Profit Fund	2,084,274	30,926
Windsor Life WPF	10,728	414
National Mutual WPF	34,900	1,269
Guardian WPF	30,912	1,465
Total ReAssure	2,160,814	34,074

4.3 Governance

The ReAssure Board is accountable for the long-term success of the company. The ReAssure Board delegates certain matters to the following Board Committees:

- **Board Audit Committee:** The purpose of this Committee is to oversee the integrity of the companies' financial statements and to monitor the performance of external and internal auditors.
- **Board Risk Committee:** The purpose of this Committee is to oversee the development and implementation of the companies' internal control environment and to review the aggregated risks being borne by the business relative to agreed risk appetite.
- **Board Fairness (Conduct Risk Management) Committee:** The purpose of this Committee is to oversee the fair treatment of policyholders, monitor compliance with the Board-approved Conduct Strategy and to act as the With-Profits Committee for ReAssure. It also fulfils certain obligations assigned to the Committee by previous Schemes of transfer.

- **Board Investment Committee:** The purpose of this Committee is to recommend the overall investment strategy to the company and to oversee its implementation.

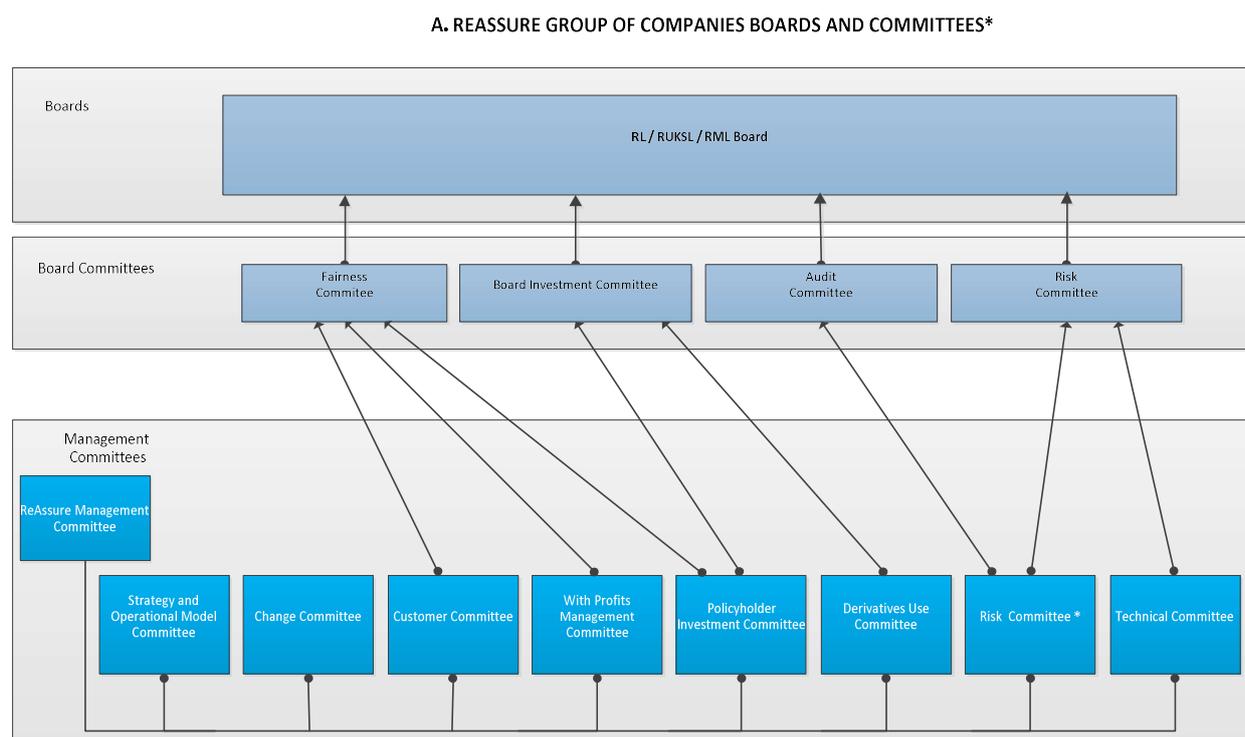
Where possible, the Board Committees of ReAssure Group Limited, ReAssure Limited and ReAssure UK Services Limited operate on a combined basis across the ReAssure companies.

The ReAssure Group CEO is responsible for the development and execution of the ReAssure Group's overall strategy in line with the policies, standards and objectives agreed by the RGL Board or ReAssure Group Management Team, as appropriate.

Leadership is also effected through the ReAssure Management Committee (RMC), acting under powers delegated to it by the Boards. The RMC is supported by other management level operational committees, which carry out specific functions.

The current governance structure is illustrated in Figure 4.3 below.

Figure 4.3: ReAssure governance structure



* scope covers range of ReAssure Group entities

Escalations, interactions and reporting as appropriate by issues

(a) the Product Management Committee and Unit Pricing Committee report and escalate issues to the Customer Committee
 (b) The Fund Performance Working Group reports to the Policyholder Investment Committee

Separately, the Independent Governance Committee exists to scrutinise whether workplace pension schemes operated by ReAssure are offering a value for money product in an appropriate way.

4.4 Regulatory solvency

ReAssure is subject to the same Solvency II regulatory capital requirements as LGAS. In December 2018, the PRA approved ReAssure's Partial Internal Model for the calculation of the SCR for the majority of business in its Non-Profit Fund. ReAssure uses the Standard Formula to calculate the SCR for its with-profits funds and the Risk Transfer Agreement (RTA). As soon as is practically possible following transfer, ReAssure intends to apply for use of its Partial Internal Model in respect of transferring non-profit business (but not transferring with-profits business). The Standard Formula aims to capture the material quantifiable risks to which most insurance undertakings are exposed, with a calibration equivalent to a 1-in-200 event over one year. In order to use the Standard Formula, a firm is required to consider whether the assumptions underlying this formula are consistent with its own risk profile. ReAssure has carried out this assessment, and determined that the Standard Formula is appropriate for its with-profits funds with no capital add-on required.

ReAssure has the following additional regulatory approvals in respect of Solvency II:

- Approval to use the Matching Adjustment, which applies as an addition to the discount rate, in the valuation of certain non-profit annuity business.
- Approval to use the Transitional Measure on Technical Provisions, which has the effect of phasing in the differences from the balance sheet under the previous regulatory regime (Solvency I) over a period of 16 years from 1 January 2016.
- Approval to use the Volatility Adjustment, which applies as an addition to the discount rate, in the valuation of its with-profits business and the non-profit annuity business to which the Matching Adjustment does not apply.

The solvency position at 31 December 2018 is summarised in the Figure 4.4 below.

Figure 4.4: ReAssure solvency II surplus as at 31 December 2018

£m	£m
Own funds	3,901
Capital requirements	(2,678)
Surplus	1,223
Capital coverage ratio	146%

4.5 Capital management

The ReAssure Group Capitalisation Policy describes the capital management framework that applies to ReAssure Limited. It constitutes an agreement between the Swiss Re Group and ReAssure on its capitalisation framework and describes the process whereby any additional capital contributions are made by Swiss Re Group, and potentially by MS&AD.

To the extent that a material risk event crystallises, or there is a fundamental change in the perception of the potential liability for a specific insurance risk category necessitating

increased capital resources, ReAssure will seek additional financial resources from Swiss Re Group, and potentially by MS&AD. The policy sets out the process and the timescale for additional capital to be provided.

The ReAssure Group Capitalisation Policy may be reviewed upon any significant change affecting the business, such as an acquisition or material change to the regulatory requirements. Any changes would be subject to Board approval and would be notified to the PRA.

4.6 With-profits management

The with-profits funds are managed in accordance with the provisions of the relevant PPFM, run-off plan and any prior Schemes of Transfer. The ReAssure Fairness Committee acts as the With-Profits Committee for ReAssure and is responsible for overseeing the fair treatment of policyholders. However, the remit of the Fairness Committee is broader than a typical With-Profits Committee, as it considers other conduct risk matters and its remit also extends to policyholders outside of the with-profits funds.

5 Proposed transfer of business

5.1 Background

A strategic review by LGAS in early 2017 concluded that, in line with Group's objectives, it wished to focus on growth areas within its portfolio of businesses. As such it was decided to sell the substantially closed Mature Savings business.

It is now proposed to transfer this business from LGAS to ReAssure by way of an insurance business transfer scheme under Part VII of, and Schedule 12 to, the Financial Services and Markets Act 2000. Separate Schemes will be required in respect of business written in Jersey and Guernsey and the court processes will run in parallel. The intended legal effective date of the Schemes is 4 November 2019, although L&G and ReAssure can agree to defer the transfer up to 4 February 2020 without further approval from the Courts. The economic effective date agreed between LGAS and ReAssure will be 1 November 2019, to allow LGAS to align its closing balance sheet to its month-end reporting process.

The transfer is expected to achieve the following objectives for LGAS:

- It will enable LGAS to focus its management, financial strength and other resources on its core businesses and accelerate the scaling up of growth areas.
- It will reduce the risk to LGAS arising from the largely closed Mature Savings business.
- It will provide a good home for the Mature Savings business with ReAssure whose strategic focus is to manage closed in-force portfolios, focusing on delivering excellent service and outcomes to policyholders.

5.2 Business Transfer Agreement

The agreement between LGAS and ReAssure to transfer the business is formalised in the Business Transfer Agreement (BTA), which was signed by the two parties on 6 December 2017. The BTA commits both parties to the transaction (other than in the event of insolvency, illegality or a material breach of obligations by the other party) and requires both parties to use best endeavours to complete the Part VII transfer by a target date of 1 July 2019, and by no later than 31 December 2019 (except where agreed between the parties). L&G and ReAssure have agreed a target Part VII legally effective transfer date of 4 November 2019.

The BTA provides for the transfer of certain data, business contracts, actuarial models and employees to ReAssure to enable it to manage the business after the transfer.

The BTA also sets out requirements of both parties in respect of the management of the transfer project, to ensure an orderly transfer of the business.

5.3 Business transferring

The portfolio of business to be transferred (the Transferring Business) is defined in the Scheme. It primarily represents the business of the Mature Savings division of LGAS, which consists predominantly of with-profits business and non-profit unit-linked business. It also includes the following LGAS lines of business from other L&G business divisions:

- With-profit group pensions business, which is managed by LGIM but is part of the transferring LGAS With-Profits Fund.
- With-profits annuity business, which is managed by LGR but is part of the transferring LGAS With-Profits Fund.
- Certain non-profit annuity business, representing the protected rights benefits corresponding to some with-profits annuities.
- Individual Stakeholder Pensions business, which is managed by LGIM. Group Stakeholder pensions business will remain within LGAS and hence the LGAS Stakeholder pensions scheme will not be transferring. It is intended that the individual business, including associated Relief At Source ("RAS") tax declarations, will transfer into a new Stakeholder pensions scheme administered by ReAssure
- Unit-linked protection business managed by LGI, consisting of policies written within both the LGAS With-Profits fund and the LGAS Non-Profit Fund.
- The insurance element of Flexible Mortgage ISA business. This product consists of an investment ISA with an additional protection benefit, which pays the excess of the sum assured over the ISA account balance on death or critical illness. A charge is deducted

from the premium to pay for the protection benefit, with the excess invested in the ISA. Following the transfer, ReAssure will assume the liability for the protection benefit, but the ISA contract will remain with L&G.

The business in the LGAS With-Profits Fund will form a new with-profits fund in ReAssure, alongside the three existing with-profits funds. The transferring non-profit business will be allocated to the Non-Profit Fund of ReAssure, along with ReAssure's existing non-profit business.

The transferring business includes Self-Invested Personal Pension Plans (SIPPs). This includes both investments in unit-linked insurance funds and non-insured investments. The non-insured investments are not written in LGAS and so they are not within the scope of my report.

A summary of the LGAS Transferring Business as at 31 December 2018 is provided in Figure 5.1 below.

Figure 5.1: Summary of LGAS Transferring Business as at 31 December 2018

	Number of policies	BEL (£m)
<i>Non-Profit Fund</i>		
Unit-linked life – savings	130,064	6,450
Individual protection – savings	59,324	69
Unit-linked life – assurance	30,193	133
Unit-linked pensions	71,729	3,404
Non-linked life	21,845	(2)
Non-linked pensions	1,079	5
Non-profit annuities	1,625	27
Total Non-Profit Fund	315,859	10,085
<i>With-Profits Fund</i>		
Conventional with-profits life	23,656	205
Conventional with-profits pensions	29,607	895
Unitised with-profits life	96,803	3,680
Unitised with-profits pensions	160,175	3,647
With-profits annuities	8,481	361
Non-participating unit-linked	360,963	8,777
Non-participating non-linked	1,531	189
Total With-Profits Fund	681,216	17,753
Grand total	997,075	27,838

By, comparing Figure 5.1 with Figure 3.2, the transferring business can be seen in the context of the total LGAS business as at 31 December 2018, as shown in Figure 5.2 below.

Figure 5.2: Transferring Business relative to LGAS total in-force business

	Policy Count			BEL (£m)		
	Transferring	LGAS in-force	%	Transferring	LGAS in-force	%
Non-Profit Fund	315,859	11,022,988	3%	10,085	96,934	10%
With-Profits Fund	681,216	681,216	100%	17,753	17,753	100%
Total	997,075	11,704,204	9%	27,838	114,687	24%

It can be seen that the Transferring Business represents all of the LGAS With-Profits Fund, and a significant minority part of the Non-Profit Fund. Overall the transfer represents 9% of LGAS's business by policy count or 24% by BEL.

Similarly, by comparing Figure 5.1 with Figure 4.2, the transferring business can be seen in the context of the existing ReAssure business as at 31 December 2018, as shown in Figure 5.3 below.

Figure 5.3: Transferring Business relative to ReAssure total in force business

	Policy Count			BEL (£m)		
	Transferring	ReAssure in-force	%	Transferring	ReAssure in-force	%
Non-Profit Fund	315,859	2,084,274	15%	10,085	30,926	33%
With-profits funds	681,216	76,540	890%	17,753	3,148	564%
<i>Of which with-profits participating</i>	<i>318,722</i>	<i>76,540</i>	<i>416%</i>	<i>8,788</i>	<i>3,148</i>	<i>279%</i>
Total	997,075	2,160,814	46%	27,838	34,074	82%

It can be seen that the Transferring Business would represent a significant increase in the volume of business in ReAssure's Non-Profit Fund, and an order-of-magnitude increase in ReAssure's with-profits funds, although it should be noted there is a significant element of non-participating business within the LGAS With-Profits Fund.

All potential historic liabilities associated with policies that were either within the LGAS With-Profits Fund or within the specified non-profit product categories will transfer to ReAssure, with the exception of any regulatory fines and shareholder tax liabilities. LGAS has provided specific indemnities to ReAssure in respect of "systematic" mis-selling and mal-administration prior to 1 January 2018. The effect of these indemnities is to share the cost of meeting these liabilities according to a defined formula for a period following the transfer, with LGAS's total liability capped at £165m.

The reinsurance treaties associated with the Transferring Business, all of which are with Swiss Re, will be transferred to ReAssure.

5.4 Governance of Transferring Business

The existing ReAssure governance structure is set out in section 4.3. The following changes are proposed to provide appropriate governance for the Transferring Business. These changes primarily reflect the significantly increased volume and complexity of ReAssure's with-profits business following the transfer:

- The remit of the ReAssure Fairness Committee will be extended to include the former LGAS With-Profits Fund and the meeting duration will be extended as appropriate to ensure sufficient time to cover these additional responsibilities. Plans are in place to ensure appropriate knowledge transfer to the ReAssure Fairness Committee ahead of the Legal Effective Date.
- The existing Treating Customers Fairly Management Committee will be reconstituted as the ReAssure With-Profits Management Committee, incorporating the responsibilities of the current L&G With-Profits Management Committee. This Committee will include membership from Actuarial, Finance, Risk, Asset Management, Compliance and Products & Proposition. Whilst not formally a member, the With-Profits Actuary will have a standing invitation to attend.

More minor changes have been made to the Terms of Reference of the ReAssure Product Management Committee. The responsibilities of the old Technical Actuarial TCF Committee have been reallocated to the new ReAssure With-Profits Management Committee in relation to With-Profits business and to the ReAssure Product Management Committee in relation to non-profit and unit-linked business.. Minor changes will also be made to the Terms of Reference of other committees to incorporate the Transferring Business, as appropriate.

These changes were initiated by ReAssure in June 2018 in response to the anticipated transfer to ensure the governance would be appropriate for transferring business. In parallel a review was undertaken by the L&G Mature Savings Chief Risk Officer and his conduct risk team in 2018 to ensure the governance structure was appropriate for the transferring business. A follow-up review in 2019 by the CRO and conduct risk team of the final proposed changes concluded that these would bring the governance to a position that was broadly equivalent to the current LGAS governance, and that as a result policyholders' reasonable expectations should not be materially impacted by a transfer. All changes have now been fully approved by ReAssure, although some elements would only come into force following the intended Part VII transfer.

5.5 Administration and servicing

Migration

With effect from the date of the Part VII transfer, ReAssure will take over responsibility for administration and servicing of the majority of the Transferring Business. The IT systems

used by LGAS to administer the Transferring Business will not transfer to ReAssure, instead the data will be transferred and loaded onto ReAssure administration system. The migration of the data onto ReAssure's systems is scheduled to take place over the weekend of 2-3 November 2019, with a number of test runs over the months leading up to the transfer. It is anticipated that there will be a limited period of servicing downtime on either side of this weekend. LGAS and ReAssure are developing solutions to ensure premium collection is not disrupted, and that regular payments out which are potentially affected by the migration window, are received by customers either on, or in advance of, the normal payment date. ReAssure have committed that customers will not be financially exposed, positively or negatively, by the movement of unit prices during the transition window, and that customer transactions will reflect the unit price that would have applied had those transactions been applied during this time.. Some policy transactions such as surrenders might experience a short delay as a result of the transfer, but this is expected to be minimal.

The exception to this is final salary pension schemes in the With-Profits Fund. The administration of these schemes is currently outsourced to Deloitte. Deloitte will continue to administer the business following the transfer of the business to ReAssure and the outsourcing contract will be transferred from LGAS to ReAssure as part of the Scheme.

Ongoing administration

Under the BTA ReAssure are required to use reasonable endeavours to administer the business in the same manner in which it was administered in the 12 months prior to the signing of the BTA. Thereafter, ReAssure are required to use reasonable endeavours to administer the business in the same manner as it administers its business generally.

L&G and ReAssure have undertaken a "discovery" process to identify differences the product features currently supported by ReAssure's administration systems and the current product features of L&G. L&G has provided ReAssure with the policy Terms and Conditions for all transferring policies together with other information on how the business is operated. ReAssure has then carried out a gap analysis to identify where the current operation of the products cannot be supported by their current administration systems.

In many cases ReAssure has committed to carry out systems developments to support the existing LGAS product features. However, some changes to products are proposed in order to provide operational consistency with ReAssure's current ways of working where this can be achieved without any material adverse effect on policyholders, and thereby facilitate ReAssure's administration of the Transferring Business. These changes have been approved by ReAssure's Product Management Committee (PMC), a sub-committee of the Treating Customers Fairly Management Committee.

The more significant changes that will affect policyholders are listed below.

- **Payment dates:** ReAssure are unable to process regular payments (premiums, annuity payments or regular withdrawals) on 29th, 30th or 31st of the month. Where policyholders currently have regular payments falling on these dates, they will be moved to 28th of the month, unless the customer requests a different payment date. If the earlier payment

date causes a problem for customers, they will be permitted to miss a premium, with the option to pay the missing premium later in the term if they wish. In addition, ReAssure only permit premiums to be collected in the month they are due.

- **AMC frequency:** Annual management charges for unit-linked business are currently applied at the end of each month. A part-month adjustment is applied in respect of accrued charges on claims. ReAssure propose to deduct these charges on a daily basis. It has been demonstrated that the difference in fund value is very small.
- **Bonus rates:** Various simplifications are proposed to the way annual, interim and final bonus rates are calculated and applied to policies, which are expected to lead to small impacts on the balance between different types of bonus with no material or systematic impact on payouts in normal circumstances and no systematic increase or decrease where payouts may change in more extreme circumstances.
- **Death claims:** Death claims for L&G customers have a valuation date based on the date of receipt of satisfactory evidence of death. ReAssure will apply their standard process, which uses the date of notification of death as the valuation date.
- **Policy reviews:** Various minor changes are proposed to the methodology for carrying out regular reviews to ensure policies are on track to meet the target benefit level.
- **Stakeholder charge cap:** Various minor changes are proposed to the way the charge cap is applied. It has been demonstrated that the impact is very small.
- **Indexation:** Benefit amounts on certain protection products are set to increase in line with RPI every three or five years. ReAssure propose to apply these increases annually. Customers will be offered the option to increase their cover, along with the corresponding premium increase, in a bespoke communication sent to them each year, but this will not be mandatory.
- **Charges for insurance benefits:** Various changes are proposed to the calculation of charges for insurance benefits on unit-linked business. ReAssure have committed to implementing these changes, which will apply at the point of transfer, in a way that has no adverse effect on policyholders.
- **With-profits annuity statements:** Statements currently provided by LGAS show both the gross and net of tax benefits, based on the policyholders' tax codes. ReAssure statements show only the gross of tax amount, and refer customers to the HMRC website to calculate the net of tax amount. This difference will be clearly highlighted on the statements.
- **Online portals:** ReAssure does not currently offer online access to its products, but is building secure web-based portals for its policyholders ("ReAssure Now") and employer pension schemes ("ReAct") in advance of the transfer. These will be rolled out to transferring policyholders following the Sanctions Hearing.

Some of these changes are permitted by the product Terms and Conditions. Where the change is not consistent with the Terms and Conditions then the changes will be made by giving notice under the variation clause in the Terms and Conditions. Customers will be informed of the changes through the communications relating to the transfer.

I have relied upon the analysis carried out by ReAssure to identify all the changes to products that will be required as part of the transfer. I have also relied upon the information provided to me on where these changes will require a change in Terms and Conditions. This has been produced by ReAssure and reviewed by L&G.

It is possible that further changes will be identified as the development and testing of ReAssure's systems progresses. I will provide an update on this process in my Supplementary Report.

Vesting annuities

Under an Introducer Agreement signed by ReAssure and LGAS, pensions customers approaching retirement will be provided with contact details for LGAS Retail Retirement as ReAssure's annuity partner, while also reminding customers of their freedom to shop around to potentially secure a better annuity income using the open market option. The customer does not have to contact LGAS and is able to choose any other retirement option or deal with any other annuity provider.

Every LGAS quote will be accompanied by a quote from a whole of market quote comparison, obtained via a whole of market aggregator service. If this comparison finds that the customer can get a higher annuity income from another provider, LGAS will invite the customer to directly access the results of the comparison via its whole of market comparison service, through which the customer will be able to pursue the market leading quote.

An exception to this Introducer Agreement is where the customer also has an existing ReAssure policy, or is a customer in a final salary pension scheme, or the holder of a pension endowment or endowment with a purchase life annuity. In this case, they will follow the standard ReAssure vesting process, in which LV= is the whole of market annuity panel provider in place of LGAS.

If a customer has a product that provides a guaranteed minimum level of annuity benefits, the guaranteed annuity will only be available from LGAS, as is the case currently, and customers will be informed of this. The exception to this is in the case where policyholders could be liable to tax where their annual or lifetime allowance limits, calculated by LGAS, are breached, in which case the annuity would be provided by ReAssure.

As the annuity introducer agreement has not been finalised at the time of writing, I may need to comment further on this in my Supplementary Report.

Investment management

ReAssure and LGIM have signed an Investment Management Agreement, under which LGIM will continue to manage the investments of the Transferring Business for the first seven years after the Legal Effective Date. Additionally, ReAssure can withdraw assets from a portfolio if performance criteria are not met.

The fees paid by ReAssure to LGIM are defined in the agreement and are equal to those currently being paid by LGAS. The fees are reviewable on 1 January 2023 or earlier if fees paid generally in the market by large UK insurance companies have reduced.

5.6 Management of unit-linked business

Fund structure

The Transferring Business is currently invested in separate unit-linked funds from the non-transferring business within LGAS. The assets and liabilities of the Transferring Business funds will transfer to new unit-linked funds within ReAssure.

Prior to the transfer, some funds have been restructured so that they align with ReAssure's operating model. ReAssure operate a two-tier structure of unit-linked funds: customers invest in the top-tier "profile" funds, and these funds are invested solely in underlying "base" funds. The base funds invest only in external assets, typically in a single asset class. The vast majority of LGAS funds already fitted this model. However, there were some funds that required some restructuring: for example, cross-holdings between customer facing funds.

The Scheme allows ReAssure to close, merge, divide or wind up unit-linked funds, or to modify their investment objectives, on terms that are considered equitable by the ReAssure Board, having regard to the advice of the ReAssure Chief Actuary and the Fairness Committee. Where a fund is wound up, policyholders will be given units of equal value in a similar fund. For some policyholders this represents a change to terms and conditions, which state that policyholders funds are moved into cash. Policyholders affected by any of these changes will be allowed a free switch to another fund any time within 12 months.

Ongoing management of unit-linked business

ReAssure have confirmed that they intend no changes to the administration of unit-linked funds, including the approach to unit pricing and any exercise of discretion, subject to the following exceptions.

- **Valuation point:** Assets are currently valued at either mid-day or 3pm to determine unit prices, depending on the fund. This will be standardised to ReAssure's methodology of valuing assets at the close of business on the previous day.

- **Cut-off times:** The business is currently administered on a number of different platforms with different cut-off times for transactions to receive the current day's unit price. ReAssure's intention is to standardise cut-off times, both for switches and other transactions.

ReAssure have committed that they will continue to manage the unit-linked funds in a manner consistent with LGAS's documented unit-linked principles and practices for a period of 12 months following the transfer. While there are no current plans to make changes beyond this point, any changes would be subject to appropriate governance within ReAssure. The completion of a unit linked principles and practices document is expected to be completed by the end of June 2019, and as a result I may need to comment on this in my Supplementary Report.

5.7 Management of with-profits business

Fund structure

The LGAS With-Profits Fund will transfer into a new with-profits fund within ReAssure.

The Scheme provides for certain changes to be made to the structure of the With-Profits Fund in certain limited circumstances:

- If the market value of assets in the With-Profits Fund falls below £400m increased with RPI from the Legal Effective Date, the fund may be merged into another ReAssure with-profits fund. Participating with-profits policies in the fund would continue to participate in profits.
- If the market value of assets in the With-Profits Fund falls below £80m increased with RPI from the Legal Effective Date, the fund may be merged into the ReAssure Non-Profit Fund and the policies will cease to participate in profits. A similar merger may be applied if the value of assets in the With-Profits Fund is between £80m and £400m (increased with RPI), if the ReAssure Board and an independent actuary conclude that policyholders will not be materially adversely affected by ceasing to maintain the fund as a separate with-profits fund.
- Non-participating business in the With-Profits Fund may be transferred to the ReAssure Non-Profit Fund, together with an appropriate amount of assets.
- Another ReAssure with-profits fund may merge into the With-Profits Fund, subject to any constraints in its own Scheme.

In all cases, any proposed change must be approved by the ReAssure Board (after taking actuarial advice and consulting the Fairness Committee). Also, with the exception of transfers of non-participating business below £150m increasing with RPI from the Legal Effective Date an independent actuary is required to confirm that the merger or transfer will not materially adversely affect policyholders' interests, the proposed change must be notified to the PRA and

FCA, and it may not proceed if either the PRA or FCA objects within two months of notification.

The purpose of these clauses is to avoid constraining ReAssure's ability to take sensible actions to manage the business in run-off, and thereby to avoid the issues that would otherwise arise in managing a small and mature with-profits fund. The limit of £400m is approximately 2% of the current fund size, and based on L&G's current projections is expected to be reached in around 2045. The limit of £80m is approximately 0.4% of the current fund size, and is expected to be reached in about 2050, assuming no future new business is written and that no non-participating business has been transferred out of the WPF. This is accelerated by around three years if all the non participating business has been transferred out. Based on ReAssure's projections, the existing ReAssure funds are expected to satisfy the conditions to merge into the LGAS With-Profits Fund between 2021 and 2026.

Other than in the cases above, the Scheme requires the With-Profits Fund to be maintained in its entirety as a separate with-profits fund within ReAssure.

Expenses charged to With-Profits Fund

The existing expense agreement described in section 3.6 terminates at the Legal Effective Date.

The With-Profits Fund will pay £50m to ReAssure following the transfer as a contribution to migration costs. Thereafter, the maintenance expenses and the initial expenses for incremental business that will be charged to the fund within ReAssure will be defined on a fixed per-policy basis for the lifetime of the business, increasing annually at RPI + 0.5%. The fixed per-policy charges have been calculated such that the total amount equates to £32.4m in 2018 terms. Flexibility has also been allowed for the Scheme to deal with the possibility that policies will be counted in different ways using new ReAssure systems following transfer. In this eventuality, true-up factors would be calculated following transfer, and applied to the per-policy charge such that both the charge in aggregate for the fund, and the charge for defined product subgroups, would be as intended in the expense deal. Use of such true-up factors would need to go through approval at ReAssure's Fairness Committee, and it would need to be demonstrated they had the desired effect. Investment management fees paid to the investment manager will be charged in addition to this.

The schedule of per-policy expenses may be modified following a merger with another with-profits fund and ceases to apply if the With-Profits Fund is merged into the ReAssure Non-Profit Fund. This must be taken into account by the ReAssure Board, the Fairness Committee and the independent actuary in their assessment of the impact of the merger on policyholders.

Ongoing management of with-profits business

ReAssure intend to manage the With-Profits Fund in a manner that is materially the same as it has been managed by LGAS. However, ReAssure have proposed a number of operational simplifications to the management and modelling of the with-profits business to de-risk the

handover of the management of the With-Profits Fund and ensure that ReAssure can manage the fund on an ongoing basis. These changes are as follows:

- (i) Simplifying the asset share methodology for unitised-with-profits business. As part of this simplification, certain profits and losses, such as those arising from surrenders, will in future be spread over larger groups of policyholders.
- (ii) Simplifying the process of making deductions from asset shares for the cost of options and guarantees and augmentations to asset shares to distribute the inherited estate where applicable.
- (iii) Developing a revised approach to the Economic Capital balance sheet metric to manage the With-Profits Fund, which does not rely on the LGAS Partial Internal Model. The revised approach is based on a modified version of the Solvency II Standard Formula calculation. Under this metric, the liabilities would exclude the Risk Margin and the Transitional Measure on Technical Provisions, but include the full value of shareholder transfers expected to be paid from the fund. The capital requirements would be amended to reflect ReAssure's views of the risk factors, the appropriate 1-in-200 stresses to those risk factors, and the correlations between them, consistent with the approach adopted for ReAssure's existing with-profits funds.
- (iv) Simplifying the range of management actions that can be applied in the 1-in-200 scenario for the purpose of calculating required capital for Solvency II and Economic Capital.

ReAssure have also re-drafted the PPFM, not only to reflect the transfer and the changes above, but also to align with ReAssure's existing PPFM documents in respect of structure and language. The changes proposed by ReAssure have been reviewed by the LGAS WP Actuary.

The With-Profits Fund will continue to be taxed on a stand-alone basis and so the tax allocated to the With-Profits Fund will be unaffected by the transfer.

5.8 Costs of the transfer

The following costs will be split equally between LGAS and ReAssure:

- the costs and expenses incurred by the Independent Expert;
- any costs and expenses in relation to the appointment and advice of Counsel in respect of the Scheme;
- any court fees;
- any fees of any Regulatory Authority incurred;
- any advertisements placed in respect of the Scheme; and
- the costs of notifying transferring policyholders.

The allocation of other costs relating to the transfer has been agreed between L&G and ReAssure.

The costs above will be borne by the LGAS and ReAssure shareholder funds respectively. In addition, please note that following transfer a £50m payment in respect of the fixed expense agreement will be made from LGAS WP fund to the ReAssure shareholder fund..

5.9 Risk Transfer Agreement

On 6 December 2017, LGAS and ReAssure entered into a Risk Transfer Agreement (RTA) in connection with the proposed transaction. The purpose of the RTA is to transfer most of the economic risks and rewards associated with the Transferring Business to ReAssure with effect from 1 January 2018, pending completion of the Part VII Transfer. LGAS retains the expense and operational risks until the transfer. The transferring non-profit annuity business is also excluded from the scope of the RTA.

ReAssure paid £650m to LGAS on 4 January 2018 as an advance claim amount under the RTA. In return, ReAssure will receive the profits and losses arising on the business calculated on a defined basis.

The RTA will terminate when the Part VII transfer is completed. However, in the event that the Part VII is not completed, the RTA can remain in-force for the full duration of the liabilities. Neither LGAS nor ReAssure can terminate the RTA except in certain limited situations, such as insolvency of one party or illegality of the agreement.

5.10 Communication of the transfer to policyholders

Regulatory requirements

Requirements for communications with policyholders are set out in regulations made under the Financial Services and Markets Act 2000.

The regulations require that a notice is sent to every policyholder of both LGAS and ReAssure informing them of the proposed transfer. The regulations also require that a notice stating that an application to Court has been made for an order sanctioning the proposed transfer must be published in (i) the London, Edinburgh and Belfast Gazettes; (ii) two national newspapers in the UK; and (iii) where an EEA state other than the UK is the jurisdiction in which the contracts were concluded, in two national newspapers in that EEA state.

Communications strategy

LGAS and ReAssure have each developed a Communications Strategy setting out how they will communicate with policyholders in relation to the proposed transfer in accordance with the regulations.

In respect of the mailing to transferring policyholders, LGAS intends to follow the statutory definition, regulatory guidance and market practice in determining which individuals are considered "policyholders" in this context. LGAS intends to send each transferring policyholder a communications pack, consisting of a covering letter specific to their circumstances together with a standardised brochure containing full details of the transfer, a summary of the Independent Expert's report, the date of the proposed final hearing and information on how to object (should they wish to do so). This mailing is planned to take place in July/August 2019 following the Directions Hearing. In addition, paper copies of the full Scheme document and full Independent Expert's report will be provided without charge upon request and will be available on both the L&G and ReAssure websites. Drafts of the communications pack have been tested with groups of customers and amended to take account of learnings from this experience, to ensure that customers will understand the key messages.

It is proposed to carry out a programme of newspaper advertising within the UK that exceeds the legal requirements set out in the regulations. Notice of the application will be published as required in the London, Edinburgh and Belfast Gazettes. LGAS will also publish notice of the application in five national UK newspapers. A similar programme of advertising will be carried out in Jersey and Guernsey. In respect of other EEA states, advertisements will be placed in the international editions of certain UK newspapers. LGAS does not propose to advertise in any local newspapers of EEA states other than the UK. Social media will also be used.

Dispensations

LGAS intends to seek a number of dispensations from the Court to waive the obligation in the regulations to write to all policyholders. These are set out below.

- **Non-transferring policyholders:** LGAS does not propose to notify non-transferring policyholders on the grounds that the Scheme has no material impact on non-transferring policyholders, and as such policyholders may find it confusing to receive a communication about it. It is therefore considered that the costs of the mailing would be disproportionate to the benefit to policyholders of receiving the mailing.
- **"Gone-aways":** "Gone-aways" are policyholders for whom LGAS does not have current addresses. These policyholders will already have been through LGAS's standard gone-away tracing process at the time they were reported as gone-away and then generally every three years thereafter. In preparation for the proposed transfer, LGAS has instigated an additional bulk tracing process with a third-party supplier who will attempt to trace all gone-away policyholders in the 12 months prior to the mailing. Other tracing efforts will be made including such sources as Experian, Google searches and BT directory enquiries. Any policyholders for whom LGAS has been unable to obtain contact details following all of these processes will be excluded from the mailing. Gone-aways represent 6.5% of the transferring policies as at February 2019.
- **Minors:** There are around 2,700 transferring policies that have been taken out by an adult on behalf of a minor. LGAS intends to send the communications pack to the responsible adult rather than the minor, on the grounds that the complexity of the

process is such that it would be in the minor's best interests for any decision making to be assisted by or made by an appropriate adult.

- **Multiple policyholders:** The communications pack will be sent only to the first policyholder or only to the policyholder who has been nominated by the other policyholders to receive communications. LGAS has, over the term of the policy, only written to one policyholder and details of the additional policyholders are not typically held. The nominated policyholder will be asked explicitly in the covering letter to share the contents with the other policyholders.
- **Unknown policyholders:** LGAS intends to seek a dispensation to cover certain situations where individuals have become policyholders without LGAS having been notified (e.g. contingent annuitants where written on an "any spouse" basis).
- **Out-of-force policyholders:** Although the transfer also includes historic liabilities, LGAS does not intend to send the communications pack to out-of-force policyholders, on the grounds that details of out-of-force policyholders are not easily accessible and it could be confusing to these policyholders to receive a communication from a company after their policy has terminated.
- **Policyholders in trust-based schemes:** LGAS intends to seek a dispensation not to write directly to members of trust based pensions but instead fulfil this through the obligation through the Pension Trustee.
- **Beneficiaries and Dependents:** LGAS intends to seek a dispensation in respect of policies where a dependent or beneficiary would have a right in the event of something happening to the main policyholder.

LGAS also intends to seek a dispensation from the requirement to advertise in other EEA states where contracts were concluded. LGAS's administration systems do not record the state where the contract was concluded. As at September 2018 there were 7,584 policies with a current address in an EEA state other than the UK, equivalent to 0.8% of the transferring policies with known addresses. However, it is considered that this is due to migration since the policies were taken out on the grounds that the policies were marketed exclusively in the UK, Jersey and Guernsey and the terms and conditions state that the policyholder must be resident in the UK, Jersey or Guernsey when the policy is taken out. LGAS considers it more appropriate to communicate to these policyholders via UK newspapers that are available overseas rather than through local newspapers.

6 Impact of Scheme on transferring LGAS policyholders

6.1 Principles of assessment

Following the Scheme, the transferring policyholders will become policyholders of ReAssure. This section focuses on the impact of the Scheme on the transferring LGAS policyholders. In particular I consider the impact of the Scheme on:

- the security of the benefits of the transferring LGAS policyholders;
- the reasonable benefit expectations of the transferring LGAS policyholders; and
- the wider responsibility to treat customer fairly, under the FCA's Principle 6.

As described in section 5.9 above, the majority of the economic risks and rewards of the Transferring Business were transferred to ReAssure with effect from 1 January 2018 under the RTA. In the event that the Part VII does not proceed, the RTA is capable of remaining in-force over the full duration of the liabilities, and can only be cancelled in certain limited circumstances. I therefore consider it appropriate to include the RTA as part of the status quo position when assessing the impact of the Scheme.

6.2 Security of benefits

Sources of benefit security

For transferring policies the security of benefits will be provided by:

- the Solvency II regulatory requirements, which are intended to ensure that the insurance companies can remain solvent after a 1-in-200 year event; and
- the ReAssure capital policy, which provides additional security over the Solvency II requirements.

These protections will be supported by:

- ReAssure taking appropriate management actions if their capital policy is breached;
- the PRA taking actions if its minimum requirements are breached; and
- the controls on how the ReAssure capital policy can be changed.

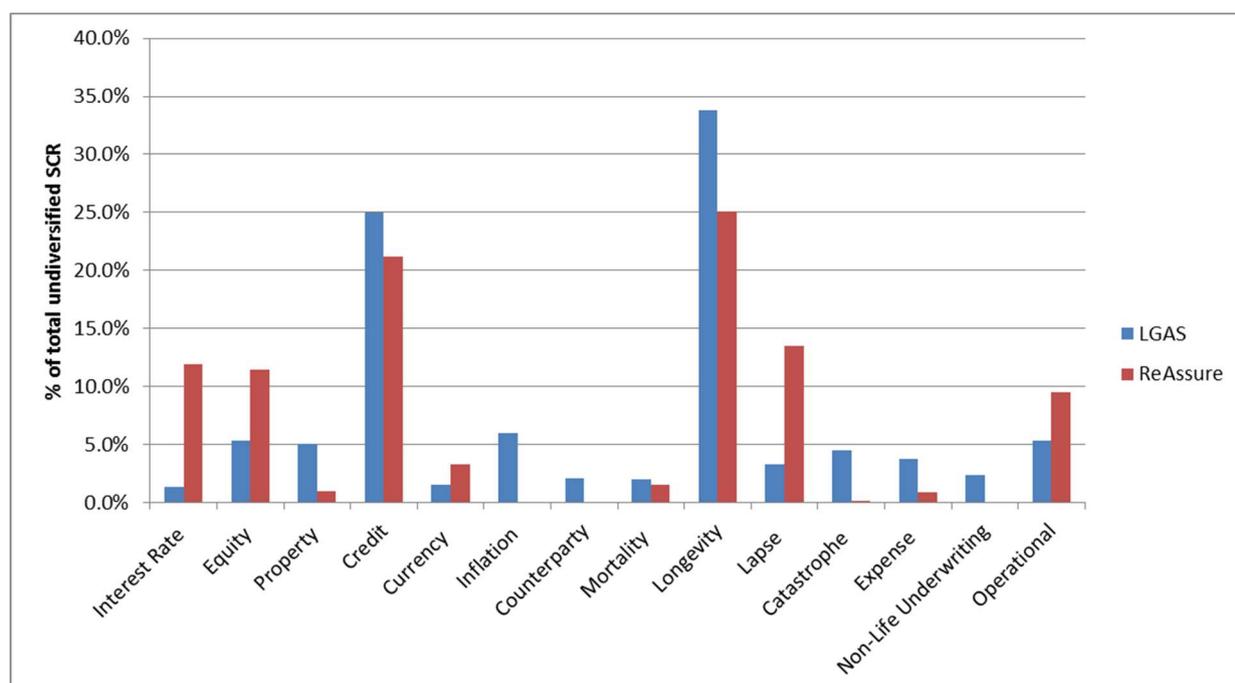
Since ReAssure is a UK-regulated company, policyholders' protections and rights as provided by the Financial Services Compensation Scheme are unaffected by the transfer.

Changes to risk profile

In this section I will compare the relative magnitude of risks to the solvency position of LGAS and ReAssure as a whole, and hence to the benefit security of the transferring policyholders.

Figure 6.1 shows a breakdown of the undiversified Solvency II capital requirements by risk for the Non-Profit Fund of LGAS (before the transfer) and the Non-Profit Fund of ReAssure (after the transfer) as at 31 December 2018. The risks within the With-Profits Fund are materially unchanged by the transfer, although they would be measured differently under the Standard Formula compared with the L&G Group's Partial Internal Model.

Figure 6.1: Comparison of risk profiles between LGAS and ReAssure



The graph above compares the material risk types for LGAS and ReAssure. It can be seen that the most material risks in both companies are equity, credit, longevity and lapse risk. However, the balance between these risks is different. In particular, LGAS has proportionately higher longevity risk, reflecting the large volume of non-profit annuity business.

I would not expect these changes in the risk profile to have a material impact on the security of benefits for the transferring policyholders.

Regulatory capital requirements

Both LGAS and ReAssure are regulated by the PRA and are subject to the Solvency II regulatory capital requirements. The PRA is able to take actions to protect policyholders if these minimum capital requirements are breached.

There are some differences in the way that LGAS and ReAssure calculate their Solvency II technical provisions and SCR:

- LGAS has approval from the PRA to use its Partial Internal Model to calculate the SCR, whereas ReAssure currently uses the Standard Formula for its with-profits funds and will initially use the Standard Formula for all of the Transferring Business, including business in the Non-Profit Fund. Both approaches are intended to reflect a 1-in-200 view of the risks to which the business is exposed. ReAssure have confirmed that the Standard Formula remains appropriate for their business in aggregate following the transfer and no capital add-on is required. ReAssure has also agreed with the PRA that the transferring non-profit business will be brought within the scope of the Partial Internal Model through a model change as soon as practically possible.
- ReAssure has approval from the PRA to apply the Volatility Adjustment to increase the risk free yield curve for certain business by a fixed amount specified by EIOPA. The impact of this adjustment on ReAssure's regulatory balance sheet at 31 December 2018 was an increase in Own Funds of £61m and a reduction in SCR of £17m. The impact of the Volatility Adjustment would become more significant in stressed market conditions.

Overall, both firms are complying with their regulatory capital requirements, holding sufficient capital to withstand at least a 1-in-200 year event. I would not expect these differences in the approach to determining the technical provisions and SCR to have a material impact on the security of benefits for the transferring policyholders.

Surplus regulatory capital

Additional benefit security is provided by capital held in excess of regulatory capital requirements, which reduces the risk of assets being insufficient to cover Technical Provisions to a level less than a 1-in-200 year event.

Figure 6.2 shows a comparison of the regulatory solvency position of LGAS immediately before the transfer and ReAssure immediately after the transfer, assuming that the transfer took place on 31 December 2018. The figures for ReAssure have been provided by the Chief Actuary of ReAssure. It is assumed that ReAssure will be granted permission to extend the Transitional Measure on Technical Provisions to cover the Transferring Business, although the methodology for calculating TMTP will have to be approved by the PRA. ReAssure have confirmed they do not intend to apply the Volatility Adjustment to any Transferring Business.

Figure 6.2: Comparison of solvency position (management view) at 31 December 2018

£m	LGAS pre-transfer	ReAssure post-transfer
Own funds	10,574	4,210
Capital requirements	(7,039)	(3,067)
Surplus	3,535	1,143
Capital coverage ratio	150%	137%

Both LGAS and ReAssure were being managed with a level of capital in excess of the levels required by their risk appetites as set out in sections 3.5 and 4.5 respectively, with LGAS being in a comparatively stronger financial position than ReAssure.

However, this comparison only provides a snapshot at a point in time. Subject to certain logistical and governance hurdles, surplus capital could in principle be transferred out of either company through dividends. I therefore consider it appropriate to put only limited weight on a comparison of the level of excess regulatory capital at any particular point in time. In order to provide meaningful security to policyholders' benefits, it is necessary that capital is held within the company over full duration of those benefits. It is therefore more instructive to compare the capital management policies of the two companies, in order to understand the level of surplus capital that is expected to be held over the longer term.

Comparison of capital management policies

Both LGAS and ReAssure have capital management policies that have been approved by their respective Boards. These policies articulate target levels of excess capital under the Solvency II regulatory regime and triggers to take management actions if the actual capital level fell below these points.

The capital management policies of LGAS and ReAssure are described in sections 3.5 and 4.5 of this report respectively.

I have been provided with a copy of the current ReAssure capital management policy and I believe it would provide adequate benefit security for the transferring policyholders.

For both ReAssure and LGAS, changes to the capital management policy would require Board approval, and would be notified to the PRA. I will confirm in my Supplementary Report whether any updated version of either policy that is available at that time would affect my conclusions.

As noted in section 4.1, Swiss Re has announced that it is exploring an IPO of ReAssure during 2019. The ReAssure Board has approved a new capital policy to take effect following the IPO. In addition the Board of the new IPO holding company RGP has approved a new capital management policy for that entity. I have been provided with a copy of these capital management policies and I believe they would provide adequate benefit security for the transferring policyholders.

Conclusion on security of benefits

Overall, I am satisfied that the likelihood of ReAssure being unable to meet benefits to policyholders as they fall due is extremely remote and hence the transfer would have no material effect on the benefit security of the transferring policies.

I will comment on any further developments relating to the potential IPO of ReAssure that may affect this conclusion in my Supplementary Report.

6.3 Benefit expectations

Factors affecting benefit expectations

For non-profit non-linked business, the level of benefits is defined in the policy Terms and Conditions. However, for other types of business, other factors may also affect benefit expectations. These are:

- For linked business, the exercise of discretion in areas such as unit prices and charges.
- For with-profits business, factors affecting the level of surplus arising within the fund, and the methodology used to translate the surplus arising into declared bonus rates.

Additionally, any changes to tax payable by policyholders as a result of the Scheme could affect their benefit expectations net of tax.

These are discussed in the sections below.

Terms and conditions

As noted in section 5.5, the changes to policy Terms and Conditions will be made in a number of areas, in order to facilitate the future administration of the business on ReAssure's systems. I have reviewed the proposed changes as summarised in section 5.5 and I conclude that they do not materially affect policyholders' reasonable benefit expectations and that they are fair to policyholders. In reaching this conclusion, I have taken into account the conclusions of the Products & Propositions workstream of the transfer programme, which has reviewed the proposed changes on behalf of Legal & General. This workstream has concluded that the changes that have been agreed to date are not expected to have a material adverse impact on any group of policyholders. It remains possible that other changes will be proposed by ReAssure, and if so I will provide an update on this in my Supplementary Report.

Management of unit-linked business

As noted in section 5.6, there are no intended changes to the management of unit-linked business, other than the time of day at which assets are valued to determine unit prices and the cut-off time by which transactions must be processed to receive the current day's unit price. The completion of a unit linked principles and practices document is expected by the end of June 2019, and as a result I may need to comment on this in my Supplementary Report.

Compared with the current LGAS approach, the effect of this change is to move the asset valuation point backwards or forward by half a business day, depending on the time of day when the transaction is processed. During this half day, assets may increase or decrease in value, but there is no systematic benefit or cost for policyholders. I therefore believe this

change is fair to policyholders and it does not represent a material effect on their benefit expectations.

I have reviewed the provisions in the Scheme relating to ReAssure's ability to close, merge, divide or wind-up unit-linked funds and I am satisfied that sufficient safeguards are in place to ensure there would be no material adverse effect on transferring policyholders.

Management of with-profits business

ReAssure have provided me with details of their proposed Economic Capital metric, calibrated to half-year 2018 results, and to year-end 2018 results, both of which I have reviewed. While necessarily different from the LGAS methodology, I am content that the proposed methodology is reasonable and appropriate. Until ReAssure has fully developed its actuarial models of the LGAS With-Profits Fund, it is not possible to say with confidence whether the Economic Capital Requirement calculated under ReAssure's methodology will be similar to that calculated under LGAS's methodology, and hence what impact any difference might have on policyholders. However, in the event that the results were materially different immediately following the transfer, this would be escalated to the ReAssure Fairness Committee to ensure a fair outcome for the transferring policyholders.

I have also reviewed the other proposed changes to the management of with-profits business as set out in section 5.6 and I am satisfied they will have no material adverse effect on with-profits policyholders.

I consider that the fixed schedule of per-policy expenses that will apply to the With-Profits Fund within ReAssure will be beneficial to with-profits policyholders. In addition to being lower than the current level of expenses charged to the fund, the agreement protects policyholders from most expense risk, particularly the diseconomies of scale that can be expected to arise over time in a closed and contracting fund. It should be noted that policyholders are still exposed to inflation on expense risk; however, this is also the position without an expense deal. The Scheme provides a permanent solution to this issue for policyholders, whereas under the status quo, per policy expenses are fixed only until 2019. Analysis has been carried out to demonstrate that the value of the fixed expense arrangement exceeds the £50m contribution to migration costs that the With-Profits Fund will pay to ReAssure under the Scheme under a range of plausible scenarios.

I consider that the clauses in the Scheme relating to merger of the With-Profits Fund with other funds are sensible provisions to manage run-off and appropriate protections are built into the Scheme to protect policyholders' interests. If the transfer to ReAssure does not occur, LGAS is likely to consider similar actions in due course as the With-Profits Fund runs off (with the exception of merging with another with-profits fund, as LGAS has no other with-profits funds), and these actions would be subject to similar governance and fairness requirements.

In reaching these conclusions, I have taken into account the views of the LGAS With-Profits Actuary. She has confirmed that, in her opinion, these changes would not be expected to lead to a material adverse effect on any group of policyholders.

Taxation

I have received advice from L&G Group Tax on the tax impact of the Scheme on policyholders. Their report identifies the following potential impacts:

- LGAS currently anticipate that capital allowances will not transfer under the Part VII. It has therefore been agreed that LGAS will settle the value of the With-Profits Fund's allowances with the fund at the time of the Part VII. This gives rise to a cash tax benefit for the With-Profits Fund.
- The With-Profits Fund will be subject to separate tax calculations for the periods before and after the transfer. This could result in a different tax charge if there were to be a significant reduction in investment income and gains such that the fund had unrelieved expenses in respect of its BLAGAB business in one of those periods. If the unrelieved expenses were to arise in the first period, the tax asset would transfer with the fund and would be relievable against investment income in the second period, except to the extent that the asset had already been utilised to reduce total tax payments within LGAS. If this is the case, LGAS will settle the tax value of such excess BLAGAB expenses with the With-Profits Fund. If the unrelieved expenses were to arise in the second period, then ReAssure have confirmed they will put the fund back into the same position as it would have been had the tax been calculated on the basis of a 12-month period.
- The With-Profits Fund has certain unspread transitional adjustments that will fully crystallise at the date of the Part VII. This will accelerate a tax deduction for the fund of c£4m for life policies and c£22m for pension policies. Given this is the acceleration of a tax deduction this is not considered to adversely impact policyholders, and again gives rise to a cash tax benefit for the with-profits fund.
- A technical issue was identified on the operation of a specific provision within the tax legislation, which has not been tested as part of a previous Part VII since it came into force. The current expectation is that this will be resolved with no tax impact. However, in the worst case scenario; the with-profits fund would be charged to tax a large one-off trading profit, with tax relief given over a period of c10 years. This would give rise to a cash tax disadvantage. In the unlikely event that this liability were to arise, LGAS and ReAssure have agreed that LGAS will recover the liability from ReAssure, as stated in the BTA, and it will not be charged to the WPF.

LGAS has a number of claims lodged for repayment of tax on policyholder investment returns. LGAS's practice would be to credit any tax recovered through these claims, net of the costs incurred in making the claims, back to policyholders by crediting unit pricing or asset shares as appropriate. Following the transfer, LGAS will continue to pursue these claims and any amounts recovered will be paid to LGAS in the first instance. The BTA requires any amounts attributable to the Transferring Business to be paid to ReAssure and credited to policyholders, thereby ensuring that policyholders do not lose out on these recoveries of past tax payments. The costs incurred in making the claims will also be shared appropriately.

As described in section 5.3 above, LGAS and ReAssure's approach for individual stakeholder pensions business will be to transfer Relief At Source ("RAS") tax declarations to ReAssure along with the policies as part of the Scheme, thereby avoiding the need for policyholders to complete new declarations to continue receiving tax relief on their contributions. In my view this approach is appropriate, and avoids the disruption of seeking additional RAS declarations for pension scheme members.

Group Tax has confirmed that the status of qualifying life policies should not be impacted by the transfer.

Overall, I am satisfied that there will be no material adverse tax effect on transferring policyholders as a result of the Scheme.

Conclusion on benefit expectations

Considering the factors above, I conclude that the Scheme will have no material adverse effect on the reasonable benefit expectations of existing LGAS policyholders.

6.4 Treating Customers Fairly

Factors pertaining to the fair treatment of customers

In addition to the security of benefits and reasonable benefit expectations, the following additional factors should be considered in order to determine whether the effects of the Scheme are fair to existing LGAS policyholders.

- The standards of customer service that customers can expect from ReAssure compared with the standards they currently receive from LGAS.
- The communications that policyholders will receive from LGAS concerning the transfer.
- The governance and risk management arrangements that will apply to the Transferring Business.
- The potential impact of the United Kingdom leaving the European Union in 2019 ("Brexit"), and how this impact might be affected by the proposed transfer.

Customer service

Under the BTA ReAssure are required to use reasonable endeavours to administer the business in the same manner in which it was administered in the 12 months prior to the signing of the BTA. Thereafter, ReAssure are required to use reasonable endeavours to administer the business in the same manner as it administers its business generally.

A comparison of key applicable service standards of LGAS and ReAssure has been carried out, focussing on key metrics such as call handling response times; member data update

service levels; issuance of retirement quotations and complaints. This comparison shows the target level of service against a number of metrics and the actual performance against those targets over a period of 6 months to March 2019. Whilst ReAssure and L&G report against different target timescales, the actual performance achieved is similar across the range of processes at both L&G and ReAssure, and our CRO team and Operations Management team are satisfied there will be no material detriment in the administration and servicing experience for transferring policyholders. However, as shown in Figure 5.3, the Transferring Business represents a significant increase in ReAssure's business volumes and so it is important to ensure that ReAssure are operationally ready, both in terms of capacity and competency, to deliver against target service levels.

In preparation for the transfer, LGAS and ReAssure has followed a rigorous process to ensure that all activities required to operate the Transferring Business have been captured, including migration and reconciliation of data, systems development and testing and recruitment and training of appropriate staff. Detailed workstream plans are in place to transfer these activities to ReAssure and the delivery of these plans is being managed.

In order for the transfer to proceed, the Project Sponsors will be required to attest that all key deliverables have been met and that readiness to transfer has been achieved, any residual risks have been accepted and that the transfer of the business to ReAssure will be completed successfully. This attestation is required 10 days in advance of the Directions Hearing, the Sanctions Hearing and the Legal Effective Date. A monthly reporting process has been set up to collect tracking information from each project workstream to support these attestations.

At the date of writing, I have been provided with ReAssure's most recent view of operational readiness for the transfer of the business. This has been provided in the form of written documents and verbal confirmations from the CEO and CRO of ReAssure. I understand that the build on ReAssure systems is progressing, but in some areas it has been identified that additional manual processes will be required in order to accept the business on the intended legal effective date. ReAssure have put plans in place to recruit or redeploy resource to execute these manual processes, and are confident all resource can be put in place in good time. The CEO and CRO have confirmed that a credible plan (including appropriate contingency) is in place to support the transfer of the business by the legal effective date, and that their initial analysis indicates the risk of any customer detriment through such manual processes is low.

Based on these assurances I have reasonable confidence that there will be no customer detriment in executing the transfer on the effective date. However, for the avoidance of doubt, my conclusion is also contingent on a successful outcome from the readiness attestation outlined above.

Additionally, certain metrics and targets have been defined to measure the operational stability of both L&G (in respect of the Transferring Business) and ReAssure (in respect of its existing business) in the three months leading up to the High Court Sanctions Hearing. If these metrics are not met, this will be reviewed by the programme's Joint Steering Committee, which will consider whether the transfer should proceed and if so what actions should be taken to mitigate any increased risks.

As noted in Section 5.5 above, there will be a period on either side of the proposed migration weekend, when some servicing downtime will be experienced. I am satisfied that solutions are being developed to minimise any inconvenience to customers, such as processing regular payments in advance where necessary. There may be some delay to the processing of ad-hoc customer transactions such as surrenders, but these are expected to be minimal. In addition ReAssure have committed to ensure no customer will be financially disadvantaged as a result of movements in unit prices applying to transactions that would have otherwise occurred during this time. As a result I am satisfied this does not present a material detriment to customer expectations.

I am therefore satisfied that robust plans are in place to ensure ReAssure are able to take on the operation of the Transferring Business. I will provide an update on this in my Supplementary Report.

In my view, the Introducer Agreement for vesting annuities described in section 5.5 is fair to customers. It provides customers with sufficient information to understand all of their retirement choices and encourages them to shop around to obtain the highest income. I believe the process is compliant with the FCA's annuity rule COBs 19.9. As the Introducer Agreement has not been finalised at the time of writing, I may need to comment further on this in my Supplementary Report.

Some of the changes to products set out in section 5.5 will result in a slightly different service being provided to customers than they currently experience from L&G. However, I am satisfied that the changes do not amount to a material adverse effect on any group of customers.

Policyholders' rights to refer complaints to the Financial Ombudsman's Service will be unaffected by the proposed transfer.

Communication of the transfer

The communications plan in respect of the Scheme is summarised in section 5.10 of this report. I am satisfied that the proposed communications plan in respect of transferring policyholders is appropriate taking into account the significance of the transfer. In particular, I am satisfied that the areas in which LGAS is seeking dispensation from the regulatory requirements in respect of transferring policyholders are appropriate.

I have reviewed drafts of the brochure and covering letters that will be sent to transferring policyholders and I am satisfied that they adequately describe the Scheme.

Governance arrangements

The L&G Mature Savings Chief Risk Officer has reviewed ReAssure's current governance structure and the proposed changes to that governance structure to incorporate the Transferring Business, as set out in section 5.4 of this report. He concluded that ReAssure has a strong existing governance framework in place and that, if the planned changes were

also implemented, they would together be sufficient for the Transferring Business. All changes have now been fully approved by ReAssure, although some elements would only come into force following the intended Part VII transfer. As a result I am satisfied policyholders' reasonable expectations should not be materially impacted by a transfer in this respect.

Brexit

The UK Government and the EU have agreed a further delay to Brexit. Whilst discussion continues between the UK and EU the actual outcome and effective date remains uncertain. Legal & General and ReAssure will continue to monitor Brexit carefully and our current view is this should have little effect on the timeline or the recognition of the Scheme as the transferring policies are governed by English Law and the Scheme is between two English companies. Legal & General and ReAssure have considered how to react in the event the UK leaves the EU without a withdrawal agreement or transition period. There might be some practical differences between the two firms in how they approach such a scenario and comply with a changing regulatory landscape. However both firms will continue to monitor the situation and will update their policyholders if necessary.

Conclusion on treating customers fairly

I am satisfied that the design of the Scheme has paid due regard to the interests of policyholders and the need to treat them fairly.

6.5 Conclusions

For the reasons set out above, I conclude that the proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the transferring LGAS policyholders and that it is consistent with the requirement to treat customers fairly.

7 Impact of Scheme on remaining LGAS policyholders

7.1 Principles of assessment

This section focuses on the impact of the Scheme on the remaining LGAS policyholders. In particular I consider the impact of the Scheme on:

- the security of the benefits of the remaining LGAS policyholders;
- the reasonable benefit expectations of the remaining LGAS policyholders; and
- the wider responsibility to treat customer fairly, under the FCA's Principle 6.

As in section 6, I consider the RTA to be part of the status quo position, and hence the impact of the Scheme is assessed against the current position with the RTA in place.

7.2 Security of benefits

Changes to risks

The majority of the economic risks and rewards in respect of the Transferring Business have already been transferred to ReAssure with effect from 1 January 2018. The Scheme will therefore not materially change the risks to which LGAS is exposed. There are some secondary changes to risks arising from the Scheme, which are discussed below.

- **Expense risk:** Until the transfer is effected, the administration of the Transferring Business and hence the expense risk remains with LGAS, as the defined measure of profit and loss for the purposes of the RTA is based on a fixed schedule of per-policy charges. Following the Part VII transfer, the responsibility for administration and the associated expense risk will be borne by ReAssure. Some overhead expenses currently allocated to the Transferring Business are expected to remain with LGAS, where they will be re-allocated to other parts of the business. It has been estimated that these costs amount to £14m out of the 2018 Mature Savings cost base of £65m. Opportunities are being explored to further reduce these costs.
- **Operational risk:** Until the transfer is effected, LGAS is exposed to operational risks arising from the Transferring Business, including the additional complexities arising from operating the RTA. LGAS's exposure to these risks will be largely removed following the transfer, although LGAS will still incur some of the costs (and hence risks) arising from historic mis-selling and mal-administration as noted in section 5.3.
- **Reputation risk:** There are certain risks to the L&G Group's reputation if the transfer is not executed efficiently or if transferring policyholders expectations are not met by ReAssure. However, I am confident that these risks have been appropriately mitigated by rigorous planning and project management of the transfer programme. In any case, I

consider that the reputational risk is borne primarily by L&G Group shareholders and not by LGAS policyholders.

I would not expect these changes in the risk profile to have a material impact on the security of benefits for the remaining policyholders.

Management view solvency position

Figure 7.1 shows a comparison of the solvency position of LGAS immediately before the transfer and immediately after the transfer, assuming that the transfer took place on 31 December 2018. More detailed balance sheets before and after the transfer are shown in Appendix B.

Figure 7.1: Comparison of solvency position (management view) as at 31 December 2018

£m	LGAS pre-transfer	LGAS post-transfer
Own funds	10,574	10,071
Capital requirements	(7,039)	(6,558)
Surplus	3,535	3,512
Capital coverage ratio	150%	154%

The primary effect of the transfer is to remove the Own Funds and SCR in respect of the With-Profits Fund from the balance sheet, together with the liability to pay the shareholder transfers to ReAssure under the RTA and the associated SCR. The removal of these items does not materially change the monetary amount of the surplus, but leads to increase in the capital coverage ratio due to the lower aggregate capital requirements.

The reduction in the absolute amount of surplus primarily arises due to:

- the loss of tax synergies between the Transferring Business and the remaining LGAS business; and
- LGAS's share of the expected costs of the transfer, to the extent that these had not already been incurred by 31 December 2018.

The solvency position of LGAS is monitored regularly between formal valuations and I am not aware of any events since 31 December 2018 (up to the date of this report) that would materially change the impact of the transfer. I will continue to monitor the solvency position and risk profile of LGAS and will provide an update in the Supplementary Report.

Capital management

There are no changes to the LGAS approach to capital management or the LGAS capital risk appetite as a result of the Scheme.

Conclusion on security of benefits

Based on the analysis above, I conclude that the Scheme will have no adverse effect on the benefit security of remaining LGAS policyholders.

7.3 Benefit expectations

No changes are proposed to the Terms and Conditions of any remaining LGAS policyholders as a result of the Scheme. Similarly, no changes are proposed to the exercise of discretion in respect of this business.

Group Tax have confirmed that the transfer is not expected to affect the tax position of any non-transferring policyholders.

I therefore conclude that the Scheme will have no adverse effect on the reasonable benefit expectations of remaining LGAS policyholders.

7.4 Treating Customers Fairly

Customer service

As noted in Section 5.5 above, there will be a period on either side of the proposed migration weekend, when some servicing downtime will be experienced. However, for non-transferring policies any disruption is expected to be limited to a few hours on either side of the migration weekend, and impacts on processing are unlikely. As a result I am satisfied this does not present a material detriment to customer expectations.

Some employers have both GPP schemes (which are transferring) and Group Stakeholder schemes (which are not transferring), and these are administered through a single automated interface. Following the transfer, the employers will need to deal with two separate entities in order to service the overall arrangement. Whilst there are 26 employers impacted, in reality the most significant impact will be on the 11 employers with schemes accepting new premiums, due to the reliance on the payroll interface. Communication of this change to the employers will be managed by L&G relationship managers. However, there will be no impact on individual scheme members.

No other changes are proposed to the servicing or administration of remaining LGAS policyholders as a result of the Scheme.

Overall, there is no reason to believe that the experience of any remaining LGAS customers will be adversely affected by the Scheme.

Communications strategy

As noted in section 5.11 above, LGAS intends to seek a waiver from the requirement to mail the remaining LGAS customers of the transfer. In view of my conclusions above, I concur that an individual mailing to each remaining LGAS policyholder would be disproportionate. I consider that the indirect methods of communication included in the communications strategy such as newspaper advertisements are sufficient to meet the communication needs of these policyholders.

7.5 Conclusions

For the reasons set out above, I conclude that the proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the remaining LGAS policyholders and that it is consistent with the requirement to treat customers fairly.

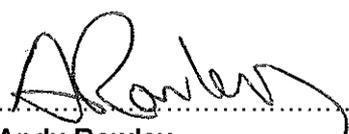
8 Conclusions

In my opinion:

- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the transferring LGAS policyholders.
- The proposed Scheme will have no material adverse effect on the security and reasonable benefit expectations of the remaining LGAS policyholders.
- In respect of both the transferring and remaining policyholders, the proposed Scheme is consistent with the requirement to treat customers fairly.

Based on these considerations, my advice to the Board is therefore that there is no reason why the Scheme may not proceed.

In my Supplementary Report, I will consider whether any further developments since this report was produced lead me to change my conclusions above.


.....
Andy Rowley
LGAS Chief Actuary

3rd July 2019.

Appendix A – Personal interests

Remuneration

I am an employee of Legal & General Resources Limited, a company within the L&G Group.

As an employee of Legal & General Resources Limited, I am subject to a similar pay and benefits structure as other senior managers in the organisation.

I have no individual performance incentives directly related to the success or otherwise of this Part VII transfer.

Share interests

I have the following share interests in Legal & General Group Plc:

Employee Share Plan	14,169
Ordinary Share	9,012
Share Bonus Plan 2010 Combined	12,141

I also hold a number of share options in Legal & General Group Plc in Save as You Earn Contracts. The options held at 24 June 2019 are:

Number of Options	Option Price	Option date
2488	£2.17	1 June 2022
1791	£2.01	1 June 2020

Policies

I hold no policies with LGAS.

Pension

As an employee of Legal & General Resources Limited, I am enrolled in the Legal & General Employee Pension Plan.

Appendix B – LGAS balance sheets as at 31 December 2018

Pre-transfer

£m	Non-Profit Fund	With-Profits Fund	Total
Assets	123,770	18,613	142,383
BEL	(96,948)	(17,753)	(114,701)
Other liabilities	(16,690)	(221)	(16,911)
Risk Margin	(3,984)	(76)	(4,060)
TMP	3,787	76	3,863
Basic own funds	9,934	640	10,574
Eligibility restrictions	-	-	-
Eligible own funds	9,934	640	10,574
SCR	(6,507)	(532)	(7,039)
Surplus / (deficit)	3,427	108	3,535
Solvency coverage ratio	153%	120%	150%

Post-transfer

£m	Non-Profit Fund	With-Profits Fund	Total
Assets	113,239	-	113,239
BEL	(86,269)	-	(86,269)
Other liabilities	(16,685)	-	(16,685)
Risk Margin	(3,984)	-	(3,984)
TMP	3,771	-	3,771
Basic own funds	10,071	-	10,071
Eligibility restrictions	-	-	-
Eligible own funds	10,071	-	10,071
SCR	(6,558)	-	(6,558)
Surplus / (deficit)	3,512	-	3,512
Solvency coverage ratio	154%	-	154%