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

BACKGROUND

1. It is proposed to transfer a block of long-term insurance business from Legal and General Assurance Society Limited ("**LGAS**") to ReAssure Limited ("**ReAssure**").
2. I have been appointed by LGAS and ReAssure to report, pursuant to Section 109 of the Financial Services and Markets Act 2000 ("**FSMA**"), in the capacity of the Independent Expert on the terms of the proposed scheme (the "**Scheme**") providing for this transfer from LGAS to ReAssure.
3. I produced a report ("**my Main Report**") dated 3 July 2019 for the Directions Hearing at the High Court of Justice of England and Wales (the "**High Court**") on 11 July 2019 to assist the High Court in its deliberations on the Scheme. I also produced an addendum to my Main Report ("**the addendum**") dated 12 July 2019 following the news that the Initial Public Offering of shares in ReAssure Group plc ("**RGP**") had been suspended.
4. I produced a second report ("**my Supplementary Report**") dated 24 February 2020 to provide the High Court with an updated assessment of the likely effects of the Scheme ahead of the Sanction Hearing at the High Court on 10 March 2020.
5. My Main Report, the addendum and my Supplementary Report have been made available to policyholders via the Legal & General Group website (www.legalandgeneral.com) and the ReAssure website (www.reassure.co.uk).

THE PURPOSE OF THIS ADDENDUM TO MY SUPPLEMENTARY REPORT

6. The date of finalisation of my Supplementary Report was 24 February 2020 and since that time:
 - Further work has been completed on the migration of the policy data from LGAS to ReAssure to ensure that both firms are operationally ready for the transfer and that the transfer would not cause a detriment to customer outcomes;
 - A number of changes have been made to the Scheme relating to the requirements for notifying the UK regulators of a potential delay to the effective date of the transfer and applying for approval for the delay from the High Court;
 - Further objections have been received from policyholders;
 - It has been discovered that a small number of transferring LGAS policyholders with self-invested personal pensions ("**SIPPs**") were not sent a communications pack; and
 - The risks from the coronavirus ("**COVID-19**") have increased.

7. The purpose of this addendum (the “**Supplementary Report Addendum**”) is to provide an assessment as to whether any of these developments would provide any reason to change the conclusions in my Supplementary Report.

THE OPERATIONAL READINESS OF REASSURE

8. Since the date of my Supplementary Report, I have received:

- An update (as at 26 February 2020) from the ReAssure team tasked with preparing for, and carrying out, the migration.

This update indicated that all workstreams and the overall project continued to report a green status and that the migration remained on track. Therefore, ReAssure is happy to proceed with the Sanctions Hearing scheduled for 10 March 2020 and subsequent planned migration by 6 April 2020.

- A risk report (dated 26 February 2020) from the ReAssure Chief Risk Officer (“CRO”) providing his view on the status of the migration. In this report, the ReAssure CRO indicated that he:
 - Agreed that the overall project status is green;
 - Remained supportive of the decision to target a transfer effective date of 1 April 2020 and to proceed with the Sanction Hearing; and
 - Was satisfied that no customer detriment was expected from targeting these dates.
- A risk report (dated 26 February 2020) from the L&G Mature Savings CRO team providing its view on the status of the migration. In this report, it is stated that:
 - The outcome of the joint programme assessment of operational readiness is positive;
 - The latest risk review has not highlighted any areas of concern; and
 - The Mature Savings CRO team is supportive of the assessment of readiness and proceeding to the Sanction Hearing.

9. The witness statements include additional information on the data migration and cover the updates described above.

10. In addition to the updates described above, LGAS and ReAssure have recently conducted a successful “dress rehearsal” of the migration process which provides confidence that the project is on track for a successful migration by the planned date of 6 April 2020.

11. Therefore I am satisfied that these updates do not provide any reason to change the conclusions in my Supplementary Report.

CHANGES TO THE SCHEME

12. Since the finalisation of my Supplementary Report there have been some changes made to the Scheme as set out in Appendix A.

13. I have considered the changes to the Scheme and I am satisfied that they do not provide any reason to change the conclusions in my Supplementary Report.

FURTHER CORRESPONDENCE WITH LGAS AND REASSURE POLICYHOLDERS

Further objections

14. Since the date of my Supplementary Report, there have been 12 further formal objections to the Scheme by transferring policyholders of LGAS and no further formal objections to the Scheme by policyholders of ReAssure.
15. In addition, five policyholders of LGAS who had not previously stated their intention to attend the Sanction Hearing have now done so.
16. The 12 formal objections received from transferring LGAS policyholders can be split into the following categories:
 - Customer loyalty to LGAS (5 instances) and concerns with respect to ReAssure as a provider of life insurance and pensions (6 instances);
 - The Part VII transfer process (3 instances);
 - The treatment of policyholders after the transfer (1 instance);
 - The policy specifics (2 instances); and
 - Concerns about the sale of ReAssure to Phoenix Group Holdings Plc (“**Phoenix**”) (1 instance).
17. Some policyholders included a number of these categories in their formal objection and these were recorded as separate objection themes. Hence the numbers above add up to more than the 12 formal objections.
18. These areas and topics of objection were all covered in Section 8 of my Supplementary Report and are not repeated here.
19. There was one new area of objection that was not covered previously in my Supplementary Report and that was in respect of personal data being transferred between LGAS and ReAssure and between ReAssure and Phoenix who, as set out in Sections 1 and 5 of my Supplementary Report, on 6 December 2019 announced its intention to purchase ReAssure Group Plc.
20. In order for LGAS and ReAssure to communicate with their policyholders it is necessary for them to store some personal data in respect of each policyholder.
21. Shortly after the Directions Hearing (11 July 2019) at the High Court, the Scheme Guide was published on the Legal & General Group and ReAssure websites and sent to the transferring LGAS policyholders as part of the communications pack. In this Scheme Guide it was set out that policyholders’ personal data would be transferred to ReAssure shortly thereafter and that LGAS and ReAssure would ensure that this transfer of personal data would be secure at all times and in accordance with the requirements of the UK Data Protection Act 2018 (the “**Data Protection Act**”) which includes the General Data Protection Regulation (“**GDPR**”).
22. In response to the policyholder correspondence on the subject of the security of personal data I have raised this with LGAS and ReAssure and have received the following confirmations:
 - LGAS has confirmed that personal data has been shared with ReAssure and that all such sharing has been in accordance with the provisions of GDPR and has not been shared without statutory backing.
 - Any grounds for sharing personal data have been subject to external legal scrutiny from the external legal advisers of LGAS (Slaughter & May as set out in Section 4 of my Main Report).
 - Under the Data Protection Act, ReAssure is required to provide certain information about itself, how and for what purposes it will process personal data and the rights of policyholders in relation to personal data and this

information was published in ReAssure's privacy policy (reassure.co.uk/uploads/ReAssure-Privacy-Notice.pdf) which was highlighted to the transferring policyholders of LGAS in the Scheme Guide.

- ReAssure has confirmed that no LGAS policyholder personal data has been shared with Phoenix.

23. If the High Court were to approve the Scheme, ReAssure would succeed to all the rights, liabilities and obligations of LGAS in respect of the personal data of the transferring policyholders on the Legal Effective Date (6 April 2020).
24. If the High Court were not to approve the Scheme, ReAssure would only retain the personal data of the transferring policyholders to the extent allowed by the Data Protection Act, and LGAS would continue to hold the personal data of the transferring policyholders in order to continue to administer those policies.

Further correspondence other than objections

25. As well as new objections, since the date of my Supplementary Report, LGAS and ReAssure have had correspondence with 83 transferring policyholders of LGAS and 1 policyholder of ReAssure that had already raised objections.
26. I have reviewed this correspondence regarding existing objections and am satisfied that these have been addressed in Section 8 of my Supplementary Report.

Conclusion on further correspondence with policyholders

27. I am satisfied that the correspondence with policyholders since the date of finalisation of my Supplementary Report (24 February 2020) does not provide any reason to change the conclusions in my Supplementary Report.

THE MISSED COMMUNICATIONS WITH SOME SIPP POLICYHOLDERS

28. As set out in Section 5 of my Main Report, Legal & General (Portfolio Management Services) Limited ("PMS") is the operator of the SIPP contract.
29. On 21 February 2020, the Legal & General Group (the "L&G Group") identified that there were 42 transferring PMS SIPP policyholders who had not been sent a communications pack in respect of the Scheme:
- 25 SIPP policyholders were mailed on 25 February 2020 and, at the time of writing, L&G Group is in the process of making further contact with them (by telephone and email) to ensure that they have received and understood the mailing.
 - 17 SIPP policyholders have since transferred away from L&G Group leaving only impaired assets or otherwise hold only impaired assets with PMS.

16 of these customers were mailed on 28 February 2020 and L&G Group does not have contact details for the one remaining policyholder. At the time of writing, L&G Group is in the process of making further contact with them to ensure that they have received and understood the mailing.

30. L&G Group has since checked and confirmed that no other transferring policies have been missed from the communications regarding the Scheme.
31. This issue has affected a small number of policyholders and I am satisfied that the actions taken by L&G Group should minimise any detriment to the affected policyholders, such that the missed communications with SIPP policyholders do not provide any reason to change the conclusions in my Supplementary Report.

THE COVID-19 OUTBREAK

Introduction

32. The COVID-19 virus has been declared a global emergency by the World Health Organization and the outbreak continues to spread outside China, with a number of cases now confirmed in the UK.
33. The number of confirmed COVID-19 cases (both in Europe and globally) has increased since the time of finalisation of my Supplementary Report and the fast developing situation suggests that the economic disruption could be larger and more long lasting than previously envisaged.
34. In particular, the COVID-19 outbreak could lead to:
- Increased volatility in financial markets (market risk);
 - Increased mortality rate of the firms' insured policyholders, which would increase the cost of claims (mortality risk); and
 - Operational disruption.
35. I have therefore reconsidered the conclusions in my Supplementary Report in light of this development.

The potential market risk from COVID-19

36. In recent weeks there has been considerable volatility in the financial markets and I have been provided with updated solvency estimates from LGAS and ReAssure that take account of the recent market volatility and show the solvency of LGAS and ReAssure as at 29 February 2020.
37. These estimates show that both companies remain well capitalised and comfortably meet the requirements of their respective risk appetite statements.
38. Market volatility would have an effect on both unit-linked and with-profits policyholders to a greater or lesser extent and this would affect policyholders in the same way regardless of whether they were with LGAS or ReAssure and there would not be a systematic detriment to either non-transferring or transferring policyholders as a result of the Scheme.

The potential mortality risk from COVID-19

39. If COVID-19 were to develop into a global pandemic then there would be a likely increase in mortality rates for the policyholders of LGAS and ReAssure.
40. The effect on an insurer's solvency of worsening mortality experience would depend on the particular parts of the insurer's policyholder population that were most affected by the increase in mortality rates, the insurer's risk mitigation in place, and on the insurer's response to the changing experience.
41. It is too early in the development of COVID-19 for conclusions to be drawn in terms of infection rates, mortality rates, and the differences in incidence that may arise between different segments of the population. LGAS and ReAssure manage their exposures to risks and the capital held to protect policyholders in a number of ways (including with reinsurance) and have exposures to longevity risk that act as a natural hedge for rising mortality rates. As a result neither LGAS nor ReAssure expects that changes in mortality rates due to the COVID-19 virus would directly lead to a breach of their risk appetite.
42. I am satisfied that it is unlikely that a pandemic risk event of the nature of the COVID-19 virus that is currently being reported would lead to a breach of the risk appetite statements of LGAS or ReAssure.

The potential operational disruption from COVID-19

43. If the Scheme were to be sanctioned by the High Court then the management teams in LGAS and ReAssure would make a final decision as to whether to proceed with the migration on 27 March 2020. At this point LGAS and ReAssure would explicitly consider the impact of the Coronavirus and any other service impacting risks.
44. The Scheme makes provision for the migration to be deferred by up to three months and both the end of April 2020 and the end of June 2020 have been confirmed as viable cutover dates.
45. With regards to any potential impact on the standards of administration should the transfer be approved, both LGAS and ReAssure have comprehensive business continuity plans which would be invoked in response to any event that caused a material disruption to the operation of the business, including pandemic risk events.

Conclusion regarding the potential risks from COVID-19

46. I am satisfied that the developments in the COVID-19 epidemic since the finalisation of my Supplementary Report (24 February 2020) do not provide any reason to change the conclusions in my Supplementary Report.

CONCLUSION

47. For the reasons set out above, I am satisfied that the developments described in this Supplementary Report Addendum do not provide any reason to change my conclusions on the Scheme as set out in Section 10 of my Supplementary Report.



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APPENDIX A

As discussed in the main body of the report there have been some changes made to the Scheme since the finalisation of my Supplementary Report as set out below:

- **Clause 34.2:** Subject to clause 34.3, the Transferor and the Transferee may agree that the Legal Effective Date should be on or after the later of: (i) 7 July 2020; or (ii) the date that is three months after the stamped Order has been issued by the Court. The Transferor and the Transferee must apply to the Court for a further order if they agree to delay the Legal Effective Date until on or after such date. Any such application may specify any date on or after 7 July 2020 which, subject to the consent of the Court, shall then become the Legal Effective Date for the purposes of this Scheme. This Scheme shall then become effective on and with effect from the date so specified, provided that:
 - A. the PRA and FCA shall be notified and be provided with all relevant information and documentation reasonably available to the parties as soon as reasonably practicable, and in any case in advance, of any hearing of the Court at which such application is considered, and the PRA and FCA shall have the right to be heard at any such hearing;
 - B. such application shall be accompanied by a supplementary report certificate from the Independent Expert ~~containing a certificate~~ to the effect that the proposed Legal Effective Date will not materially adversely affect the Transferred Policyholders of the Transferred Policies or Residual Policies or existing ~~Transferred~~ Policyholders of the Transferor or the Transferee and such ~~supplementary report certificate~~ shall be published on the websites of the Transferor and the Transferee at least five days before the Court hearing; and
 - C. a notice of the making of such order is published on the websites of the Transferor and the Transferee within five days of the making of such further order by the Court.
- **Clause 34.3:** If the transfer of the Transferred Business has not become effective in accordance with the terms of this clause 34 on or before the later of (i) 6 October 2020; (ii) the date that is six months after the stamped Order has been issued by the Court; or (iii) such later date, if any, that the Transferor and the Transferee may agree in accordance with the requirements of clause 34.2(A)-(C) above and the Court may approve, the provisions of this Scheme shall lapse to the extent that they relate to such transfer.