

Second Supplementary Report of the Chief Actuary

on the proposed transfer of long-term insurance business

from

Legal and General Assurance Society Limited

to

ReAssure Limited

pursuant to Part VII of the Financial Services

and Markets Act (2000)

29 July 2020

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## 1 Introduction

### 1.1 Purpose

In my capacity as Chief Actuary of Legal and General Assurance Society Limited ("LGAS"), I prepared a report for the Board of Directors of LGAS (the "Board") dated 25 June 2019 (the "Main Report") on the proposed transfer of a block of business (the "Transferring Business") from LGAS 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"). Subsequently, I prepared a supplementary report for the Directors of LGAS dated 21 February 2020 (the "February Supplementary Report").

On 25 March 2020, the High Court of England and Wales (the "Court") agreed to an adjournment of the Sanction Hearing ("Main Sanction Hearing") for the proposed transfer in light of the uncertainties surrounding the operational impact of the emerging COVID-19 pandemic. A further Sanction Hearing is now scheduled for 13 August 2020.

The purpose of this report (the "Supplementary Report") is to consider whether the conclusions in the Main Report and February Supplementary Report remain appropriate in light of developments since the dates of those reports. In particular, this Supplementary Report considers the impact of the COVID-19 pandemic on the proposed transfer. As such, this Supplementary Report should be read in conjunction with the Main Report and the February Supplementary Report. Details of the business to be transferred and the terms of the Scheme are set out in the Main Report and are not repeated in this Supplementary Report.

As in the case of my Main Report and the February Supplementary Report, the primary audience for this Supplementary Report is the Board. However, it may also be used by the Independent Expert, the Court, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and the Chief Actuary of ReAssure. This Supplementary Report has also been shared with the LGAS With-Profits Actuary, and will also be made available to LGAS policyholders via the Legal & General ("L&G") website.

### 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 nine 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 Supplementary 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 Supplementary Report.

### 1.3 Other advice and opinions

The Independent Expert and the LGAS With-Profits Actuary have each prepared a further supplementary report to update the conclusions set out in their respective main and supplementary reports (each a "Second Supplementary Report") in light of more recent developments. This Supplementary Report should be read in conjunction with the respective Second Supplementary Reports of the Independent Expert and the LGAS With-Profits Actuary.

In finalising my Supplementary Report, I have read drafts of the Second Supplementary Reports of the Independent Expert and the LGAS With-Profits Actuary. Copies of this Second Supplementary Report have also been provided to the Independent Expert and the LGAS With-Profits Actuary.

### 1.4 Compliance with Actuarial Standards

This Supplementary 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 Supplementary 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 Supplementary Report is compliant with APS X2 and has been subject to an independent peer review by a suitably qualified actuary within the L&G group.

### 1.5 Structure of report

This Supplementary Report is structured as follows:

- Section 2 provides an Executive Summary of the Supplementary Report, including the main conclusions.
- Section 3 considers the updated financial position of LGAS and ReAssure as at 31 December 2019 and changes since that date.
- Section 4 considers the potential impacts of COVID-19.
- Section 5 considers the responses to the recent LGAS policyholder mailing.
- Section 6 considers other developments since issuing my February Supplementary Report.
- Section 7 sets out my conclusions.

## 2 Executive summary

### 2.1 Background

On 25 March 2020, the Court agreed to an adjournment of the Main Sanction Hearing for the proposed transfer in light of the uncertainties surrounding the operational impact of the emerging COVID-19 pandemic. The potential impacts of the COVID-19 pandemic on the proposed transfer are considered in this Supplementary Report.

### 2.2 Financial strength

Based on the financial information as at 31 December 2019, it remains the case that:

- the solvency position of ReAssure, together with its approved capital management policies, provides sufficient financial strength for the transferring policies and ensures that the risk of ReAssure being unable to pay benefits as they fall due is extremely remote;
- the implementation of the proposed Scheme is projected to have an immaterial effect on the solvency position of LGAS; and
- as observed in my Main Report, a comparison of the levels of surplus and capital coverage in the two entities only provides a snapshot at a point in time. It is also necessary to consider the capital management of the two entities. As described in my Main Report and also in the February Supplementary Report, I have compared the capital management policies of the two entities and consider that the ReAssure policy would provide adequate benefit security for transferring policyholders.

Therefore, I am satisfied that the proposed Scheme would not have a material adverse effect on the benefit security of either the transferring policyholders or the remaining policyholders as at 31 December 2019.

In respect of the period since 31 December 2019, both LGAS and ReAssure have continued to monitor their solvency in 2020 regularly.

I have reviewed the estimated solvency position of LGAS and the estimated impact of the transfer as at 31 March 2020. I have also been provided with the estimated solvency position of ReAssure, allowing for the estimated impact of the transfer on a Partial Internal Model (PIM) basis as at 31 March 2020. I have compared these financial positions and I am satisfied this does not change my conclusions in respect of benefit security, either for transferring or non-transferring policyholders.

I note the information at this date reflects the impact of the considerable market volatility experienced in the first three months of 2020 as a result of the COVID-19 pandemic. I am satisfied that the capital coverage ratio of LGAS remained within, and was still being managed to, its risk appetite at 31 March 2020. This would also have been the case, had the Scheme been effective at that date.

I will continue to monitor the ongoing solvency position of LGAS during the period up to the Sanction Hearing on 13 August 2020.

## 2.3 Potential Impacts of COVID-19 Pandemic

### ***Impact on Operational Readiness to transfer***

I have been provided with an update on the joint programme assessment of operational readiness, as at 7 July 2020. The outcome of this assessment was positive, with the vast majority of the programme's business readiness criteria having been completed or on track for completion. There were three metrics reported as "behind target" which related to actuarial resourcing and were not assessed as critical for the migration. Mitigation plans are in place for these areas, for example a secondment agreement is being prepared to loan ReAssure the actuarial resources, therefore these do not cause material concern at the time of writing this report.

The readiness assessment was reviewed by the LGAS Risk team, who concluded the evidence supported the business assessment of readiness, and recognised that some metrics were not due to be completed until later in the programme.

The readiness assessment was also reviewed by the ReAssure Risk Management team and a paper was provided to me following their review. I note from the paper that the ReAssure Risk Management team supported the position for the proposed transfer date to continue to be targeted.

Significant work has been undertaken across both LGAS and ReAssure to stabilise operations in the COVID-19 environment and to demonstrate the service level can be maintained post transfer. In addition, remote testing has been conducted across all workstreams through a successful remote dress rehearsal in May 2020, and separate remote testing for components not included in that rehearsal.

Based on the assessment performed by LGAS and ReAssure, I am satisfied with the resilience of the migration process and service levels, such that the transfer would not materially adversely affect any group of LGAS policyholders. If any material developments on operational readiness come to my attention after the date of this Supplementary Report, I will make my views on them known to the Board and the Court.

### ***Impact on Customer Service***

ReAssure's service capacity based on the proposed effective date of the Scheme continues to be monitored and this remains within planned levels. It has been confirmed that ReAssure continued to operate within planned service levels throughout the lockdown imposed as a result of the COVID-19 pandemic.

More details can be found in Section 4.

## 2.4 Policyholder communications

LGAS and ReAssure updated their websites on 25 March 2020 to inform policyholders of the adjournment of the Main Sanction Hearing. The objectors who appeared in Court at the Main Sanction Hearing in March 2020 were also separately notified of the adjournment. I understand that LGAS has mailed all of the objecting policyholders to notify them of the date of the Sanction Hearing on 13 August 2020 and will send a further mailing enclosing the Independent Expert's Second Supplementary Report (once published).

The policyholder response-handling functions have been, and will continue to be, kept in place until the adjourned Sanction Hearing so that further objections can be addressed.

In my February Supplementary Report, I commented on the responses and objections from policyholders up to 16 February 2020. Since this date, 2,235 responses from policyholders and other interested parties have been received bringing the total number of responses to 23,073 as at 19 July 2020. In aggregate these represent 2.5% of the population that was written to. During this period (17 February 2020 to 19 July 2020), there were 29 new objectors, two responses received prior to 17 February 2020 reclassified as objections and 17 withdrawn objectors, bringing the total number objections to 1,155. Six policyholders' responses were categorised as complaints, bringing the total number of complaints to 48 cases. The remainder of the responses comprise general Part VII and business as usual enquiries. The 1,155 objections represent 0.15% of the population that was written to.

A new theme has been added to those outlined in my February Supplementary Report in order to classify any objections about the transfer proceeding in light of the COVID-19 outbreak. One objection has been classified in this category as at 19 July 2020. This was raised by an existing objector who raised concerns about the Court ruling on pre-COVID-19 conditions due to the broader business implications from the COVID-19 outbreak. The existing objector expects the Court and all other parties to reconsider the transfer in light of the COVID-19 pandemic.

I have considered the impact of COVID-19 in Section 4 and I am satisfied that there is no material adverse effect on the benefit expectations of transferring policyholders taking into consideration the impact of the COVID-19 pandemic on LGAS and ReAssure.

More details on policyholder communications can be found in Section 5 of this report.

## 2.5 Other issues

In this Supplementary Report, I have commented on a number of issues which either I indicated in my February Supplementary Report I would revisit, or have subsequently come to my attention. In summary:

- The proposed Legal Effective Date and Economic Effective Date of the transfer have been postponed to 7 September 2020 and 1 September 2020 respectively. This supports the desired outcome of a successful migration, which is in the interests of transferring policyholders, and does not change my conclusions in respect of policyholder benefit

expectations.

- There have been some minor changes to the Scheme to account for passage of time and to reflect discussions at the Main Sanction Hearing in March 2020. I am satisfied that these changes will not have any material impact on transferring policyholders.
- There have been no further product changes proposed by ReAssure beyond those commented on in my Main Report.
- There have been no material changes to the proposed Annuity Introducer Agreement as set out in my Main Report, and no further changes are proposed which would have a material impact on policyholders.
- There have been no further changes proposed for the administration of transferring unit-linked funds.
- The main amendment to the Business Transfer Agreement ("BTA") is the extension of the deadline for the Part VII transfer to the 11 January 2021.
- The estimated ReAssure post-transition solvency position assumes ReAssure will be granted permission to extend the Transitional Measure on Technical Provisions ("TMTP") to the Transferring Business, but this has yet to be approved by the PRA. This assumption is consistent with previous reports (Main Report and February Supplementary Report). I have no reason to believe the PRA will not approve this application, and I consider allowance for the TMTP within the ReAssure figures to be a reasonable assumption.
- The Change in Control ("CIC") application submitted by Phoenix Group Holdings plc ("Phoenix") on 30 April 2020 has been approved by the PRA, and took effect from 22 July 2020. I considered the CIC application in my February Supplementary Report, and remain satisfied that its approval does not affect the conclusions set out in my Main Report.

More details can be found in Section 6 of this Supplementary Report.

## 2.6 Key conclusions and opinion

Having considered the matters set out above in this Supplementary Report, my opinion is that the conclusions of my Main Report and the February Supplementary Report still stand. In particular:

- 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 at present why the Scheme may not proceed. If any material developments on ReAssure's expected operational readiness to take on the Transferring Business come to my attention after the date of this report, I will make my views on them known to the Board for consideration.

### 3 Financial strength

#### 3.1 LGAS solvency position

##### *Pre-transfer solvency position*

The conclusions in my Main Report and February Supplementary Report were based on the solvency position of LGAS as at 31 December 2018 and 30 June 2019 respectively. Figure 3.1 shows the updated position as at 31 December 2019, with the previous 30 June 2019 and 31 December 2018 positions for comparison.

**Figure 3.1: LGAS solvency II surplus (management view)**

£m	31 December 2019	30 June 2019	31 December 2018
Own Funds	10,698	10,681	10,574
Capital requirements	(6,567)	(7,429)	(7,039)
<b>Surplus</b>	<b>4,130</b>	<b>3,253</b>	<b>3,535</b>
Capital coverage ratio	163%	144%	150%

The Own Funds as at 30 June 2019 and 31 December 2018 incorporated L&G management's estimate of the impact of recalculating the TMTP, as this was believed to provide the most up-to-date and meaningful view of the Solvency II position. The Own Funds as at 31 December 2019 allows for the formal recalculation of the TMTP.

The movement in surplus over 2019 reflects a number of items, principally increases in the operational surplus, as a result of model changes and an increase in quota share reinsurance from LGAS to L&G Reinsurance, which are offset by the strain from significant annuity new business, the payment of company dividends and the impact of yield movements.

The 31 December 2019 capital coverage ratio of 163% remains comfortably within LGAS's risk appetite.

##### *Post-transfer solvency position*

Figure 3.2 below shows the solvency positions of LGAS at 31 December 2019, 30 June 2019 and 31 December 2018, had the Scheme had been effective at each date.

**Figure 3.2: LGAS solvency II surplus if Scheme had been in effect (management view)**

£m	31 December 2019	30 June 2019	31 December 2018
Own Funds	10,086	10,114	10,071
Capital requirements	(6,165)	(6,961)	(6,558)
<b>Surplus</b>	<b>3,920</b>	<b>3,153</b>	<b>3,512</b>
Capital coverage ratio	164%	145%	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 risk transfer agreement between ReAssure and LGAS and the associated SCR.

The removal of these items leads to a reduction in the monetary amount of the surplus, and an increase in the capital coverage ratio (due to the lower aggregate capital requirements).

### ***Capital management policy***

There have been no changes to the LGAS risk appetite statement and capital management policy since the publication of my February Supplementary Report.

### ***Developments since 31 December 2019***

The solvency position of LGAS is regularly monitored between formal external half-yearly reporting dates.

I have reviewed the estimated solvency position of LGAS and the estimated impact of the transfer at 31 March 2020. Whilst this financial information is unaudited, it has been subject to internal review and sign-off by senior management within LGAS (including myself, as Chief Actuary, and the Group Chief Financial Officer). I note the information at this date reflects the impact of the considerable market volatility experienced in the first three months of 2020 as a result of the COVID-19 pandemic. I am satisfied that the capital coverage ratio of LGAS remained within, and was still being managed to, its risk appetite at 31 March 2020. This would also be the case had the Scheme been effective at that date.

I will continue to monitor the ongoing solvency position of LGAS during the period up to the Sanction Hearing on 13 August 2020.

I have also considered a range of stress and scenario testing information (including, but not limited to, the sensitivity information set out in section 4.1) to assess the resilience of LGAS's balance sheet as at YE 2019. I am also aware that LGAS retains optionality over deploying management actions that could improve the solvency position and increase resilience to further financial shocks.

I am satisfied this information does not change my conclusions in respect of benefit security for non-transferring policyholders.

## **3.2 ReAssure solvency position**

### ***Pre-transfer solvency position***

The conclusions in my Main Report and February Supplementary Report were based on the solvency position of ReAssure as at 31 December 2018 and 30 June 2019 respectively.

Figure 3.3 shows the updated position as at 31 December 2019, with the previous 30 June 2019 and 31 December 2018 position for comparison.

**Figure 3.3: ReAssure Solvency II surplus**

£m	31 December 2019	30 June 2019	31 December 2018
Own Funds	4,870	4,312	3,901
Capital requirements	(2,906)	(2,863)	(2,678)
<b>Surplus</b>	<b>1,964</b>	<b>1,449</b>	<b>1,223</b>
Capital coverage ratio	168%	151%	146%

The figures for ReAssure have been provided by the Chief Actuary of ReAssure. I note, as outlined in the ReAssure Chief Actuary's Second Supplementary Report, that the basis of preparation of the pre-transfer figures above at 31 December 2019 is largely unchanged from 30 June 2019, except in respect of an update to the annuitant mortality basis to reflect recent experience and an update to the investment management assumption on unit-linked business to reflect the updates to strategic asset allocation.

I note the ReAssure dividend payment (paid in May 2020) was not accrued in the 31 December 2019 financials as a "foreseeable dividend" since ReAssure's Board had not reviewed any proposal or provided any approval. Had it been included such, it would have reduced ReAssure 31 December 2019 solvency ratio by around 14% to 154%.

The ReAssure capital requirement in Figure 3.3 was calculated using a Partial Internal Model ("PIM") and the CIC application submitted by Phoenix on 30 April 2020 notes that ReAssure's capital requirement calculations would revert to the Standard Formula ("SF") basis post-completion.

If the ReAssure capital requirement as at 31 December 2019 had been calculated using the SF rather than the PIM, the capital requirement would have been £2,846m. The SF SCR being lower than the PIM SCR would have resulted in (i) a reduction in Risk Margin and; (ii) a reduction in TMTP, with the latter offsetting the impact of the lower SF SCR and Risk Margin. Overall the impact of the SF calculation applying to the ReAssure business at 31 December 2019 would have been such that excess of Own Funds over the SCR would be unchanged but the lower SF SCR would slightly increase the capital coverage ratio to 169%.

### ***Post-transfer solvency position***

Figure 3.4 below shows the estimated solvency positions of ReAssure at 31 December 2019, 30 June 2019 and 31 December 2018, if the Scheme had been effective at each date.

**Figure 3.4: ReAssure Solvency II surplus if Scheme had been in effect**

£m	31 December 2019	30 June 2019	31 December 2018
Own Funds	5,244	4,751	4,231
Capital requirements	(3,229)	(3,266)	(3,067)
<b>Surplus</b>	<b>2,015</b>	<b>1,485</b>	<b>1,164</b>
Capital coverage ratio	162%	145%	138%

It is assumed that ReAssure will be granted permission to extend the TMTP to cover the Transferring Business. This is consistent with previous reports (Main Report and February

Supplementary Report). I have made further comments on ReAssure's assumed use of the TMTP for the Transferring Business in Section 6 below.

If the ReAssure capital requirement as at 31 December 2019 had been calculated using the SF rather than the PIM, the post-transfer capital requirement would have been £3,184m, increasing the capital coverage ratio to 163%.

At 31 December 2019, both LGAS and ReAssure were being managed with a level of capital in excess of the levels required by their risk appetite statements, and this would remain the case following transfer. Therefore, these financial comparisons do not change my conclusions on benefit security for transferring policyholders as set out in my Main Report and February Supplementary Report.

### ***Capital management policy***

There have been no changes to the ReAssure risk appetite statement and capital management policy since the publication of my February Supplementary Report.

### ***Developments since 31 December 2019***

I understand that ReAssure carry out regular monitoring of their solvency position and regularly estimate their capital coverage ratio. In particular, I have been provided with the estimated solvency position of ReAssure, which makes allowance for the estimated impact of the transfer on a PIM basis, as at 31 March 2020. I have made a comparison of this against the estimated LGAS solvency position at the same date, and I am satisfied this does not change my conclusions in respect of benefit security for transferring policyholders.

## **3.3 Conclusions from updated financial information**

Based on the financial information as at 31 December 2019, it remains the case that:

- the solvency position of ReAssure, together with its approved capital management policies, provides sufficient financial strength for the transferring policies and ensures that the risk of ReAssure being unable to pay benefits as they fall due is extremely remote;
- the implementation of the proposed Scheme is projected to have an immaterial effect on the solvency position of LGAS; and
- as observed in my Main Report, a comparison of the levels of surplus and capital coverage in the two entities only provides a snapshot at a point in time. It is also necessary to consider the capital management of the two entities. As described in my Main Report, I have compared the capital management policies of the two entities and consider that the ReAssure policy would provide adequate benefit security for transferring policyholders.

Therefore, I am satisfied that the proposed Scheme would not have a material adverse effect on the benefit security of either the transferring policyholders or the remaining policyholders as at 31 December 2019.

As set out above, having made a comparison of the financial positions of both LGAS and ReAssure as at 31 March 2020, I am satisfied that this does not change my conclusions in respect of benefit security, either for transferring or non-transferring policyholders.

## 4 Potential Impacts of COVID-19 Pandemic

On 25 March 2020, the Court agreed to an adjournment of the Main Sanction Hearing for the proposed transfer in light of the uncertainties surrounding the operational impact of the emerging COVID-19 pandemic. The various impacts of the COVID-19 pandemic on LGAS, and the potential implications for the transfer are considered in this Supplementary Report.

### 4.1 Impact of Covid-19 on LGAS

The outbreak of the COVID-19 pandemic exposes LGAS to risk in a number of areas, namely operational risk, insurance risk and market / credit risk (including asset valuation uncertainty).

#### ***Operational risk***

Since the unprecedented restrictions imposed by the UK government in response to the COVID-19 pandemic, LGAS has taken action to support the resilience of its business operations, for example extending the capability and capacity for most employees to work from home (including those employees in customer-facing roles). LGAS has well-established management procedures to respond to such scenarios as they develop.

LGAS is exposed to the risk of further business disruption, should LGAS's employees or those who work in the supply chains become unwell. LGAS is also exposed to risk in relation to certain suppliers and their ability to continue to deliver services in light of new ways of working and infrastructure limitations.

#### ***Insurance risk***

From an insurance risk perspective, the impact of COVID-19 on the mortality for those that LGAS insures is difficult to predict, however I note material insurance downside risk has not crystallised for LGAS to date. The Board continues to monitor the developing situation and the potential range of outcomes. Pandemic risk is considered within LGAS's pricing of its protection business and is a key part of LGAS's reinsurance, liquidity and capital management strategies, and the capital held in excess of regulatory requirements.

As part of ongoing monitoring of COVID-19, LGAS is in close contact with its reinsurance partners to ensure a common understanding of the emerging experience, and ensure that reinsurers are both operationally and financially ready to support LGAS as the pandemic evolves.

#### ***Market and credit risk***

LGAS is exposed to market risks (including equity, property and interest rate risks) and credit risks (including credit spread, downgrade and default risk), and has strong mitigants in place to manage these risks. In 2020, markets have been extremely volatile as the scale and impact of the COVID-19 outbreak on the global economy have become apparent.

In April 2020, LGAS disclosed a range of sensitivity tests to provide an indication of the impact of market movements on the Solvency II coverage ratio of LGAS.

**Figure 4.1: LGAS Solvency II sensitivities as at YE 2019**

Risk	Description	Impact on net of tax capital surplus as at 31 December 2019 (£bn)	Impact on Solvency II coverage ratio as at 31 December 2019 (%)
CREDIT	Credit spreads widen by 100bps assuming a level addition to all ratings <sup>1</sup>	0.2	8
	Credit spreads widen by 100bps assuming an escalating addition to all ratings <sup>1,2</sup>	0.2	7
	Credit spreads narrow by 100bps assuming a level addition to all ratings <sup>1</sup>	(0.3)	(9)
	Credit spreads narrow by 100bps assuming an escalating addition to all ratings <sup>1,2</sup>	(0.3)	(8)
	Credit migration <sup>3</sup>	(0.6)	(10)
MARKET	15% fall in property markets <sup>4</sup>	(0.2)	(3)
	15% rise in property markets <sup>4</sup>	0.2	2
	25% fall in property markets <sup>4</sup>	(0.5)	(7)
	25% fall in equity markets <sup>5</sup>	(0.3)	(4)
	25% rise in equity markets <sup>5</sup>	0.3	4
	100bps decrease in interest rate (IFRS) / risk free rates(SII) <sup>6,7</sup>	(0.9)	(18)
	100bps increase in interest rate (IFRS) / risk free rates(SII) <sup>6</sup>	0.8	20
	50bps decrease in interest rate (IFRS) / risk free rates(SII) <sup>6,7</sup>	(0.5)	(10)
	50bps increase in gilt spreads over EIOPA risk free rates	(0.0)	(0)
	50bps increase in future inflation expectation <sup>6</sup>	(0.1)	(3)
GBP exchange rates fall by 25%	0.0	0	

1. The spread sensitivity applies to Legal & General's corporate bond (and similar) holdings, with no change in the firm's long term default expectations. Restructured Lifetime Mortgages are excluded.

2. The stress for AA bonds is twice that for AAA bonds, for A bonds it is three times, for BBB four times and so on, such that the weighted average spread stress for the portfolio is 100 basis points.

3. Credit migration stress covers the cost of an immediate big letter downgrade on 20% of all assets where the capital treatment depends on a credit rating (including corporate bonds, Sale & Leaseback rental strips and LTM senior notes).

4. Assets stressed include residual values from sale and leaseback, the full amount of lifetime mortgages and direct investments treated as property.

5. This relates primarily to equity exposure in LGC but will also include equity-based mutual funds and other investments that receive an equity stress (for example, certain investments in subsidiaries). Some assets have factors that increase or decrease the stress relative to general equity levels via a beta factor.

6. Assuming a recalculation of the Transitional Measure on Technical Provisions that partially offsets the impact on Risk Margin.

7. In the interest rate down stress, negative rates are allowed, i.e. there is no floor at zero rates.

In the above sensitivity analysis, the following management actions are assumed to reduce the SCR impacts, which are in-line with LGAS's practice of managing the asset portfolio:

- the credit migration stress assumes a rebalancing of the annuity portfolio back to the original credit rating;
- the stress to a fall in property values assumes a rebalancing of the structured bonds from the Lifetime Mortgages to the original credit rating; and
- a dynamic currency hedge management action in the annuity business.

The sensitivity analysis does not reflect all management actions which could be taken to reduce the impacts. In practice, LGAS actively manages its asset and liability positions to respond to market movements.

These are all independent stresses to a single risk. In practice, the balance sheet is impacted by combinations of stresses and the combined impact can be different from adding together the impacts of the same stresses in isolation. It is expected that, particularly for market risks, adverse scenarios would occur as a combination of stresses to different risks.

The impacts of these stresses are not linear. Therefore, these results should not be used to extrapolate the impact of a smaller or larger stress. The results of these tests are indicative of the market conditions prevailing at the balance sheet date. The results could be different if performed at an alternative reporting date.

In addition to these sensitivities, I have also been kept apprised of the estimated ongoing solvency position of LGAS via regular monitoring, together with internal stress and scenario testing designed to assess the ongoing resilience of LGAS's balance sheet.

The regular monitoring of the solvency position of LGAS utilises the sensitivities listed above. At the time of this report LGAS's balance sheet remains strong and the solvency ratio robust. The capital coverage ratio has moved broadly in line with the published sensitivities listed above since the latest published figure of 163% (at 31 December 2019).

## **4.2 Impact on operational readiness to transfer**

In my February Supplementary Report, I outlined the overall process around the assessment of operational readiness and concluded that the process is robust.

I have been provided with an update on the joint programme assessment of operational readiness, as at 7 July 2020. The outcome of this assessment was positive, with the vast majority of the programme's business readiness criteria having been completed or on track for completion. There were three metrics reported as "behind target" which related to actuarial resourcing and were not assessed as critical for the migration. Mitigation plans are in place for these areas, for example a secondment agreement is being prepared to loan ReAssure the actuarial resources, therefore these do not cause material concern at the time of writing this report.

The readiness assessment was reviewed by the LGAS Risk team, who concluded the evidence supported the business assessment of readiness, and recognised that some metrics were not due to be completed until later in the programme.

The readiness assessment was also reviewed by the ReAssure Risk Management team and a paper was provided to me following their review. I note from the paper that the ReAssure Risk Management team supported the position for the proposed transfer date to continue to be targeted.

Significant work has been undertaken across both LGAS and ReAssure to stabilise operations in the COVID-19 environment and to demonstrate the service level can be maintained post transfer. In addition, remote testing has been conducted across all workstreams through a successful remote dress rehearsal in May 2020, and separate remote testing for components not included in that rehearsal.

Overall, the outcome of the operational readiness has not highlighted any areas of material concern. There remain some key areas of delivery outstanding; however these are on track for completion within the agreed timescales. The COVID-19 risks impacting the migration have been mitigated and other key risks are being actively managed.

## **Conclusion**

Based on the assessment performed by LGAS and ReAssure, I am satisfied with the resilience of the migration process and service levels, such that the transfer would not materially adversely affect any group of LGAS policyholders. If any material developments on operational readiness come to my attention after the date of this report, I will make my views on them known to the Board and the Court.

### **4.3 Impact on customer service**

The restrictions imposed by the UK government in response to the COVID-19 pandemic initially impacted LGAS's response time to policyholders. The response-handling team was able to adapt quickly to remote working and the response time is now in line with the service level agreement before the COVID-19 outbreak.

ReAssure's service capacity based on the proposed effective date continues to be monitored and this remains within planned levels. It has been confirmed that ReAssure continues to operate within planned service levels throughout the lockdown imposed as a result of the COVID-19 pandemic.

Based on the information above, I have reasonable assurance that the conclusions within my Main Report in respect of customer service – which were restated in my February Supplementary Report – remain sound.

## 5 Policyholder communications

### 5.1 Communications to LGAS policyholders and other third parties

I commented on the communications to LGAS policyholders, management of the responses and policyholders' responses in my February Supplementary Report. Only new developments in relation to these matters are included in this Supplementary Report.

LGAS and ReAssure updated their website on 25 March 2020 to inform policyholders of the adjournment to the Main Sanction Hearing. The objectors who appeared in Court at the Main Sanction Hearing in March 2020 were also notified of the adjournment. I understand that LGAS has mailed all of the objecting policyholders to notify them of the date of the Sanction Hearing on 13 August 2020 and will send a further mailing enclosing the Independent Expert's Second Supplementary Report (once published).

Since my February Supplementary Report, LGAS has re-issued mailing packs to policyholders who have now been traced and who will transfer under the Scheme. LGAS also completed a mailing in advance of the Sanction Hearing in August 2020, which was sent to new joiners of in-scope pension schemes (those effectively being new policyholders who will be within the scope of the Scheme).

In respect of all other EEA states, the PRA was requested at the directions hearing to notify the relevant regulators in those states of the Scheme. I commented in my February Supplementary Report that this process was begun on 11 July 2019 and those regulators had three months from the date of notification within which to respond. There were no objections from EEA states regulators to the Scheme.

### 5.2 Policyholder responses

The policyholder response-handling functions have been, and will continue to be, kept in place until the Sanction Hearing in August 2020 so that further objections can be addressed.

Previously, a weekly summary of the statistics and objections was provided to key stakeholders including the PRA, the FCA, the Independent Expert, the LGAS With-Profits Actuary and myself. However, it was agreed with the PRA, the FCA and Independent Expert that the frequency of these summaries would be reduced after the Main Sanction Hearing and, if necessary, would be increased closer to the Sanction Hearing in August 2020.

In my February Supplementary Report, I commented on the responses and objections from policyholders up to 16 February 2020. Since this date, 2,235 responses from policyholders and other interested parties have been received bringing the total number of responses to 23,073 as at 19 July 2020. In aggregate these represent 2.5% of the population that was written to.

During this period (17 February 2020 to 19 July 2020), there were 29 new objectors, two responses received prior to 17 February reclassified as objections and 17 withdrawn objectors, bringing the total number objectors to 1,155 as at 19 July 2020. Six policyholders' responses were categorised as complaints, bringing the total number of complaints to 48 cases. The remainder of the responses comprise general Part VII and business as usual enquiries. The

1,155 objectors represent 0.15% of the population that was written to. 1,152 objections have had a full response with no further action expected to be taken, unless the customer responds with further queries.

A new theme has been added to those outlined in my February Supplementary Report in order to classify any objections about the transfer proceeding in light of the COVID-19 outbreak.

### **COVID-19**

One objection has been classified in this category as at 19 July 2020. This was raised by an existing objector who raised concerns about the Court ruling on pre-COVID-19 conditions due to the broader business implications from the Covid-19 outbreak. The existing objector expects the Court and all other parties to reconsider the transfer in light of the COVID-19 pandemic.

I have considered the impact of COVID-19 in Section 3 and I am satisfied that there is no material adverse effect on the benefit expectations of transferring policyholders taken into consideration the impact of COVID-19 on LGAS and ReAssure.

### **Existing themes**

As at 19 July 2020, 1,721 objections have been recorded against the themes which I covered in my Main Report and February Supplementary Report.

I note that an objector may raise objections in respect of more than one theme therefore the number of objections is more than the number of objectors.

<b>Objection Themes</b>	<b>Number of objections since February Supplementary Report</b>	<b>Total number of objections</b>
Loyalty to L&G	11	358
Concerns about ReAssure	9	551
Process before transfer	11	160
Process surrounding transfer	3	49
Treatment of policyholders after transfer	4	210
Policy specific enquiries	1	148
Non-specific concerns	4	217
Delay to transfer	0	1
Sale to Phoenix Group	7	27
<b>Total</b>	<b>50</b>	<b>1,721</b>

For the objections recorded against these existing themes since the date of my February Supplementary Report, my conclusion in my previous reports in respect of these existing themes remains valid.

### **5.3 Conclusions on policyholder communications**

Overall, having reviewed the nature of the objections raised by policyholders, I am satisfied that the issues raised do not alter my conclusions as set out in my February Supplementary Report.

## **6 Other issues**

### **6.1 Changes to the Proposed Effective Date**

Since the February Supplementary Report, the proposed Legal Effective Date of the transfer has been changed from 6 April 2020 to 7 September 2020. This has been in response to the Main Sanction Hearing being adjourned and the transfer being delayed as a result of the COVID-19 pandemic. In order to gain the support of the Independent Expert and the regulators for the transfer to go ahead, the transfer programme will need to demonstrate the ability of ReAssure to service the business post-transfer, potentially whilst still responding to the impacts of the COVID-19 pandemic. The proposed date will allow sufficient time for the transfer programme to demonstrate this requirement.

In response to the postponement of the proposed Legal Effective Date, the Economic Effective Date has been similarly postponed to 1 September 2020.

All policyholders who have made objections to the transfer have been informed in writing of the change in proposed transfer date. The change of proposed transfer date will also be published on the L&G website.

### **6.2 Changes to the Scheme**

In my February Supplementary Report, I commented on some final minor changes to the scheme prior to the submission to the Court. There has been a further minor change to the scheme confirming the £50m due from the with-profits fund established by ReAssure in respect of the transferring with-profits policies (the "LGWPF") to the ReAssure's Non-Profit Fund on the Legal Effective Date. This amount is to allow for fixed expenses to be charged to the LGWPF following the Legal Effective Date. These changes have no impact on the conclusions reached in my Main Report.

### **6.3 Changes to products**

Since the publication of my February Supplementary Report, no further changes to products have been proposed by ReAssure.

### **6.4 Annuity Introducer Agreement**

Amendments were made to the Annuity Introducer Agreement in March 2020 to change the definition of 'Excluded Policies' and include a new clause on "Gap Risk". The new clause sets out the action to be taken in the event that it comes to light that an annuity purchased is incompatible with the ReAssure contract terms and conditions. In this case ReAssure will be responsible for meeting the cost of the shortfall including any compensation cost.

## 6.5 Management of Unit-Linked Business

ReAssure confirmed that there have been no further changes proposed for the administration of transferring unit-linked funds apart from those included in my February Supplementary Report.

## 6.6 Amendment of the BTA

At the time of writing this Supplementary Report, I have been made aware that an amended version of the BTA has been agreed by all parties. The main amendment of the BTA is the extension of the deadline for the completion of the Part VII transfer to 11 January 2021, which I have covered in section 6.1.

The other amendments of the BTA are summarised below.

- Include a carve-out from the requirements on LGAS pre-transfer and ReAssure post-transfer to conduct the business in the same way as the 12 months prior to the Economic Transfer Date (i.e. 1 Jan 2018) due to disruption caused by the COVID-19 pandemic, and in order to reflect the recent changes in working patterns from the disruption. In my opinion, this amendment provides protection to the transferring policyholders to ensure business is conducted the same way as 12 months prior to the Economic Transfer Date.
- Allocate responsibility for certain Transfer of Undertakings (Protection of Employment) (TUPE) process costs between the shareholders of ReAssure and LGAS.

These changes do not have any impact on the conclusions reached in my Main Report.

## 6.7 Phoenix Purchase of ReAssure

The CIC application submitted by Phoenix on 30 April 2020 has been approved by the PRA, and took effect from 22 July 2020.

I considered the CIC application in my February Supplementary Report, and remain satisfied that its approval does not affect the conclusions set out in my Main Report.

## 6.8 ReAssure TMTP

As noted in Section 3.2, above, the estimated ReAssure post-scheme solvency position assumes that ReAssure will be granted permission to extend the TMTP to cover the Transferring Business.

In my February Supplementary Report, I noted that ReAssure submitted an application to the PRA to extend the TMTP to cover the Transferring Business. Subsequently, ReAssure submitted an application to the PRA requesting a full TMTP recalculation as at the Economic Effective Date of the Scheme (which was then scheduled to be 1 April 2020). I understand that ReAssure have submitted a revised application to the PRA requesting a full TMTP recalculation as at 30 September 2020.

I also note that, following the approval of the CIC application, the ReAssure capital requirement calculations would revert to the SF basis post-completion and this would trigger a TMTP recalculation. It is expected that this recalculation would be carried out using Q2 2020 reporting information.

My conclusion in my Main Report and February Supplementary Report remains valid. I have no reason to believe the PRA or the ReAssure audit committee will not approve this, and I consider allowance for the TMTP within the ReAssure figures to be a reasonable assumption. This matter was also commented on in the Second Supplementary Report of the Chief Actuary of ReAssure. This report indicated that "...The change in solvency ratio as a result of the Scheme implementation, whether a TMTP recalculation is assumed or not, was noted as being relatively immaterial at a company level in both the Original Report and the Supplementary Report."

I take comfort from this statement as it indicates that the impact in ReAssure's solvency ratio is relatively immaterial if the application is not approved. Therefore, an adverse outcome of ReAssure's TMTP application would not lead to a change in my conclusions around the benefit security of transferring policyholders.

## 7 Conclusions

Having considered the matters set out above in this Supplementary Report, my opinion is that the conclusions of my Main Report and the February Supplementary Report still stand. In particular:

- 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 at present why the Scheme may not proceed. If any material developments on ReAssure's expected operational readiness to take on the Transferring Business come to my attention after the date of this report, I will make my views on them known to the Board for consideration.

DocuSigned by:  
  
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29/7/2020

## 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	16,483
Ordinary Share	9,012
Share Bonus Plan	25,854

I also hold a number of share options in Legal & General Group Plc in Save as You Earn Contracts. The options held at 16 July 2020 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.