

**SUPPLEMENTARY REPORT OF THE
INDEPENDENT EXPERT ON THE
PROPOSED TRANSFER OF CERTAIN
LONG-TERM BUSINESS OF CANADA LIFE
LIMITED TO SCOTTISH FRIENDLY
ASSURANCE SOCIETY LIMITED**

16th October 2019

Prepared by:



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1. Introduction

1.1. Introduction

I was jointly appointed by Canada Life Limited (“CLL”) and Scottish Friendly Assurance Society Limited (“SF”) to act as the Independent Expert in relation to the proposed transfer of certain long-term business of CLL to SF (the “Transfer”) under a scheme (the “Scheme”) made pursuant to Part VII of the Financial Services and Markets Act 2000 (“FSMA”). My report dated 17th June 2019 (the “Main Report”) sets out the details of my review. The Report was provided to Her Majesty’s High Court of Justice of England and Wales (the “Court”) as a requirement of the approval of the Transfer.

My views in the Main Report were formed having taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer, namely:

- Terms of the Transfer
- The UK insurance regulatory environment
- Financial positions of CLL and SF pre and post Transfer
- Financial effect of the Transfer on CLL and SF policyholders in relation to:
 - Security of benefits
 - Investment strategy
 - Expenses and charges
 - Benefit expectations and bonus prospects
 - Risk profile and capital management policy
- Administration and governance
- Membership rights and policyholder communications
- Other considerations (such as tax, reinsurance, Brexit impact and competition)

As indicated in the Main Report, I have prepared this report (the “Supplementary Report”), which is intended to be read in association with the Main Report, to set out my considerations of relevant updated information received since the Main Report was written, in relation to:

- The updated financial positions of CLL and SF as at 30th June 2019
- Update on action points arising from SF’s governance review and SF’s governance of unit-linked policies
- Progress on SF’s review of the risk management function and framework
- Update on matters related to service levels and administrative arrangements
- Consideration of any objections or complaints raised in advance of the Court hearing

- Any other developments I consider to be relevant to my consideration of the Transfer

In this report, I have used the same defined terms as the Main Report and a glossary of terms can be found as an appendix to the Main Report.

A summary of my findings and updated conclusions is set out in section 2.

1.2. Regulatory and professional guidance

I have produced this Report in accordance with the guidance set out in chapter 18 of the Supervision manual (“SUP”) of the Regulatory Handbook, the PRA’s policy statement “The Prudential Regulatory Authority’s approach to insurance business transfers” dated April 2015 and the FCA’s guidance “FG18/4: The FCA’s approach to the review of Part VII insurance business transfers” dated May 2018. Relevant sections of the guidance, with reference to where I have considered each one in the Main Report if relevant, are set out in Appendices A and B in the Main Report.

I have produced this Report in accordance with the Financial Reporting Council’s Technical Actuarial Standards (“TAS”) – TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance). It also complies with the Actuarial Profession Standards (“APS”) of the Institute & Faculty of Actuaries – APS X1 (Applying Standards to Actuarial Work) and APS X2 (Review of Actuarial Work).

1.3. Terms of reference

Full details of my terms of reference, which have been discussed and agreed with CLL and SF, are set out in the Main Report. The terms have been reviewed and approved by the PRA and FCA.

In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. In the context of this report, where I refer to a “material” issue in relation to the security of policyholder benefits, I define an issue as immaterial where the Transfer results in a remote likelihood of an event occurring which has a perceptible, but not significant, effect on policyholders, or where the Transfer results in an event which is likely to occur but has a small impact on policyholders. In addition, I have described some changes in financial positions and policyholder benefits as not being materially adverse. The reader should interpret this to mean that this change does not lead me to conclude that the Transfer should not take place.

I have considered the impact of the Transfer against the likely position of CLL and SF if the Transfer is not completed. With respect to CLL, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the pro-forma balance sheet position of CLL under the various solvency bases as set out in CLL’s Own Risk and Solvency Assessment (“ORSA”). While I have paid due regard to the CLL Board’s stated strategy to investigate opportunities to pursue a

similar transfer with other insurance companies and friendly societies, I have not considered any other possible alternative arrangements to the Transfer.

The Report assesses the likely impact of the Transfer on the existing policyholders of CLL and SF. It does not consider the impact of the Transfer on any new policies written into CLL or SF following the Transfer.

1.4. Peer Review

This Report has been reviewed by Neil Reynolds who is a Principal in Oliver Wyman Limited's actuarial practice in the UK with similar experience and standing to me, and he agrees with my conclusions as set out in this Report.

1.5. Information requested and data used

In producing the Report, I have relied on information provided by CLL, SF and their respective professional advisers without independent verification of the accuracy or completeness of information provided. However, wherever possible, I have reviewed the information for reasonableness and consistency and against my understanding of generally accepted market practice.

Furthermore, I have relied on the judgment and conclusions reached by the Chief Actuaries and With-Profits Actuaries for the respective funds in CLL and SF, as documented in the Chief Actuary and With-Profits Actuary reports and supplementary reports produced in connection with the Transfer.

I consider that it is reasonable for me to rely on the information and judgments described in this section as they are provided by parties acting in the interest of their respective members and policyholders and in accordance with the regulations and guidelines set out by:

- The PRA and FCA
- The Institute and Faculty of Actuaries
- The Financial Reporting Council

In addition, I have relied on the legal advice given to SF by its legal advisers, CMS Cameron McKenna Nabarro Olswang LLP ("CMS"). CMS have not been retained by me and do not have any liability to me for the advice that they have provided that has been made available to me. I am comfortable in not seeking separate legal advice because CMS is a large and reputable firm with extensive expertise and experience in UK insurance law.

Details of the information that I have been provided with are set out in Appendix A.

1.6. Policyholders residing in Jersey or Guernsey

There are separate schemes of transfer being carried out for transferring policies issued to or held by residents of Jersey (the "Jersey Scheme") and Guernsey (the

“Guernsey Scheme”), which provide for the transfer of policies on the same terms as the Scheme. The Guernsey Scheme and the Jersey Scheme are both conditional on the sanction of the Scheme by the Court and are expected to become effective on the same date.

My conclusions as set out in the Report apply equally in respect of any policies issued to or held by residents of Jersey and Guernsey.

1.7. Duty to the Court

I understand that my duty in preparing the Report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those from whom I have received instructions and / or are paying my fee. I confirm that I have complied with and will continue to comply with this duty.

I am aware of and have complied with the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the instruction of Experts in Civil Claims (2014).

I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

CLL and SF have both seen my report and have agreed that it is correct in terms of all factual elements of the transfer.

2. Executive summary and main conclusions

In section 3, I have considered the following areas of developments and progress updates with respect to the Transfer:

- The number of transferring CLL policies
- Progress update on action points arising from SF's recent governance review
- Update on SF's governance of unit-linked policies
- Update on matters related to service levels and administrative processes

In section 4, I have considered the impact of updated information on the financial position of CLL and SF pre and post Transfer. I have conducted an updated assessment of the financial effect of the Transfer on transferring CLL policyholders in terms of security of benefits. Based on the analysis as set out in the section, I am satisfied that my relevant conclusions from the Main Report remain unchanged.

In section 5, I have considered the responses to the policyholder communications and the objections that policyholders have raised. Based on my analysis of the objections raised by policyholders as set out in this section, I am satisfied that there are no fresh points raised by those objections which would prompt me to change my conclusions as stated in the Main Report.

In section 6, I have set out any other considerations that I regard as relevant to this report, including a consideration of the relevance of a recent High Court ruling on the proposed transfer of certain annuities from The Prudential Assurance Company Limited to Rothesay Life Plc.

There have been a small number of minor changes made to the Scheme since it was presented to the Court at the Directions hearing on 21st June 2019. I discuss these changes, none of which affect my conclusions as set out in the Main Report, in section 6.

2.1. Main conclusions

In the Main Report, I made the following main conclusions:

- The Transfer will not have a material adverse effect on transferring CLL policyholders, non-transferring CLL policyholders or SF policyholders in relation to:
 - Security of benefits
 - Benefit expectations
 - Risk profile
 - Service standards and governance arrangements
- I am satisfied that the Transfer is equitable to all classes and generations of CLL and SF policyholders

Having reviewed the updated information, conducted further analysis and discussions with relevant stakeholders as described in this report, I remain satisfied that all my conclusions are unchanged.

3. Recent Developments

3.1. Number of transferring CLL policies

The following table compares the number of transferring CLL policies as at 31st December 2018 and 30th June 2019:

	Number of policies as at 31 st December 2018	Number of policies as at 30 th June 2019	Percentage change
Transferring policies (excluding the Manulife Fund)	121,368	115,319	(5%)
Transferring policies in the Manulife Fund	12,322	11,789	(4%)

Source: CLL

It is natural for the number of policies to reduce over time, driven by a combination of maturities, surrenders and other claims' triggering events (e.g. deaths). The level of policy attrition over the six-month period from 31st December 2018 to 30th June 2019 is consistent with my expectations given the type and nature of the policies in the transferring portfolio.

3.2. Action points arising from SF's governance review

As noted in the Main Report, SF appointed an external consultant to undertake a review of its with-profits governance framework and assess whether those arrangements are suitably robust, and all associated conflicts of interest are managed effectively. This includes an assessment of the effectiveness of its existing with-profits advisory arrangements. The review also supported its investigations into certain historic practices with respect to one of the sub-funds, focussing on whether the recent approach to distributing the estate of that fund is fully equitable to all generations of policyholders.

The review was completed in March 2019 and SF's Board agreed to implement action points arising from recommendations resulting from the review, including a proposal to establish a with-profits committee. In the Main Report, I stated my opinion that:

- The recommendations were in line with what I would have expected based on my knowledge and experience of with-profits governance, and that they were sensible and reasonable
- The recommendations accepted by the Board will result in a strengthening of SF's governance framework in relation to its with-profits policyholders

SF has provided me with an update on the action points associated with the review, highlighting that all significant findings have been addressed, including the establishment of a with-profits committee and completion of the planned remediation

exercise. Work is ongoing to address the less significant findings subject to oversight by the with-profits committee.

In addition, I have reviewed the terms of reference of the with-profits committee including its membership, planned frequency of meetings, authority and duties, and its reporting procedures. I consider the terms of reference to be reasonable, appropriate for SF and in line with my knowledge and experience of the governance of a with-profits committee. For example:

- The majority of the with-profits committee members must be independent from SF
- The with-profits committee is required to meet at least four times a year (and more frequently if deemed necessary)
- The with-profits committee has authority to seek any information it requires from SF and to obtain external professional advice if it is considered necessary to perform its role effectively
- The scope of the with-profits committee's duties is wide ranging and comprehensive, and I have not identified any obvious material gaps in the scope

I am therefore satisfied that SF's framework for the governance of with-profits business is fit for purpose, underpinned by a with-profits committee which has the appropriate level of independence, authority and responsibility to perform its duties. Based on updated information provided by SF, I am satisfied that my opinion as stated in the Main Report remains valid.

3.3. SF's governance of unit-linked policies

At the time the Main Report was completed, SF was in the process of establishing a document to formalise its approach to managing all of its unit-linked business (the "Unit-Linked Funds Principles and Practices"), which is intended to substantially replicate the relevant principles adopted by CLL and, where relevant and practicable, adopt the practices. It was also in the process of establishing a Unit-Linked Governance Committee at the time.

SF has now confirmed that a Unit-Linked Governance Committee has been established. Furthermore, the Unit-Linked Funds Principles and Practices document has now been formalised with governance standards and principles that currently apply in CLL being replicated in SF post Transfer. I have reviewed the document and consider it to be reasonable and comprehensive in key areas that I would expect such a document to address.

Based on the situation outlined above, I remain of the opinion (as stated in the Main Report) that the Transfer will not have a materially adverse effect on transferring CLL unit-linked policyholders in relation to governance.

3.4. SF's review of the risk management function and framework

As noted in the Main Report, SF worked with an external consultancy to help them undertake a detailed and wide-ranging review of its risk function and risk management framework including:

- The effectiveness of the risk function and risk management framework
- The role of risk management in terms of challenge, oversight and independence from the front office
- The governance structure in place at board level with respect to risk
- What SF's risk culture means in managing risk within SF

At the time the Main Report was completed, the review was at an early stage and I discussed the review with SF's CRO and other senior management. As stated in the Main Report, I was satisfied that the Board and senior management were open to change to ensure that SF has the proper risk capabilities going forward to perform as an effective risk function in preparation for the Transfer and going forward post Transfer.

The review has now been completed and SF has provided me with all relevant details I requested in relation to the review.

The review concluded that SF's risk function's processes are largely adequate for the current size, business model and risk exposure. However, it also identified several recommendations for SF to address in advance of the Transfer to ensure that the risk function remains appropriate to support the increased scale of the business following the Transfer.

In response, SF has developed a plan to address the recommendations, including obtaining external consultancy support to accelerate the delivery of the plan. It has also put in place appropriate governance for the plan delivery and will obtain an independent review of the plan's progress prior to the Transfer. I have conducted a high level assessment of SF's plan, and note that a significant amount of work has already been completed and that responsibility for the delivery of the plan sits directly with SF's executive management team. I have also seen clear evidence that SF is placing a strong focus and a high level of priority on the delivery of the plan.

Having reviewed the relevant materials and discussed their content with the CRO, I am reassured that an appropriate level of risk management capabilities is already in place for the current business prior to the Transfer and I am in agreement with the recommendations identified to enhance the current position before the Transfer. Finally, I have placed significant weight in reaching my conclusions on the actions already taken by SF over the past 12 months to improve the skills and capabilities of its risk function.

I therefore remain satisfied that SF is committed to developing the proper risk capabilities going forward to perform an effective risk function in preparation for the

Transfer and going forward post Transfer. Furthermore, I am satisfied that sufficient safeguards are in place to ensure that the capabilities will be in place before the Transfer.

3.5. Service levels and administration update

In section 9.2 of the Main Report, I discussed matters related to service levels and administrative arrangements with respect to the Transfer and stated my opinion that:

- Adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in standards of service being experienced by both transferring CLL and existing SF policyholders following the Transfer
- SF operates to a high level of service standard and has the necessary experience and ability to manage the transition of transferring CLL policies into SF
- Taking into account factors described in the Main Report, SF will have sufficient resources and IT capability to apply the service level it proposes for the Transfer

In the Main Report, I indicated that I would provide a progress update on the following specific areas:

- Knowledge transfer process with respect to administration of standalone income protection policies
- Data migration plan
- Terms of the Transitional Services Agreement

SF currently plans to appoint a recognised third-party expert in the claims underwriting of income protection policies to support its claims administration for standalone income protection policies. It has now selected a preferred provider to support in this area. The provider has been assessed as having extensive UK experience and established relationships with reinsurers for the portfolio. The appointment process is expected to be completed by the middle of October 2019 with an expectation that a robust claims mechanism for income protection claims will be operational when the Transfer completes. Whilst the selected provider will supply the requisite claims underwriting expertise in the background, SF will retain full control and responsibility for client contact and administrative communication. In my opinion, this is a reasonable and practical step to address an area where SF has only limited experience.

SF has provided me with a “critical path” document showing updates relative to its migration plan and highlighting the progress made on areas that are considered to be critical. The document indicates that significant progress has been made and most of the tasks are either completed or on track. Whilst some tasks are behind

schedule, I do not consider them to be a cause for concern because there are currently sufficient remaining contingencies in place to address them.

SF conducted a comprehensive assessment of its management's operational readiness to take on the transferring CLL policies, covering a wide range of areas including data audit and migration, modelling functionality, investment infrastructure, back office functionality and people. The assessment report was completed in late September 2019 and concluded that *"sufficient operational capability has been delivered and will be in place to allow take on of the Project Mars portfolio"*.

SF has provided me with a copy of a "near final" draft of the report which was submitted to the Board Risk Committee (together with written commentary on changes that will be made to the report) and I have reviewed its content in detail. Based on evidence set out in the report, I am in agreement with the conclusions drawn by the report, noting in particular that *"where expected gaps against original planned functionality have been identified, these are either in non-critical areas with limited business impact or appropriate interim processes have been identified."*

I was also provided with and have reviewed a paper setting out the independent opinion of the CRO on the operational readiness assessment. The CRO supports the management's assessment, and also expressed the same view as me that *"there is no need for the Project to plan to effect the Transitional Service Agreement (TSA) to deliver specific services"*.

In addition, the Transitional Services Agreement remains in place as a credible backup option in the event of unexpected significant issues being encountered by SF in the administration of the transferring CLL business post Transfer. Whilst the Transitional Services Agreement functions primarily as a back-up plan and is not intended to be operational, there are ongoing discussions between SF and CLL to agree the terms of the agreement. As stated in the Main Report, I have reviewed the draft terms for the Transitional Services Agreement, which states that the services to be provided are intended to reflect the same type, scope and level of service that CLL applied prior to the Transfer.

Based on my review of updated information from SF and the situation outlined above, I remain satisfied that my opinion as set out in the Main Report on matters related to service levels and administrative arrangements remains valid.

4. Updated financial position as at 30th June 2019

In this section, I consider and comment on the impact of the Transfer on the updated Solvency II Pillar 1 financial positions of SF and CLL as at 30th June 2019. I also consider and comment on risk profiles of SF and CLL as at 30th June 2019.

4.1. Financial impact of the Transfer on CLL

The table below compares the actual reported Solvency II Pillar 1 balance sheet position of CLL as at 31st December 2018 and as at 30th June 2019 and the pro-forma positions post Transfer.

£m	31 st December 2018		30 th June 2019	
	Actual reported	Pro Forma Post-Transfer	Actual	Pro Forma Post-Transfer
A. Assets	32,468	30,057	33,617	31,131
B. Liabilities	28,322	25,971	29,770	27,336
C. Impact of ring-fencing restrictions	0	0	0	0
D. Available Capital ("Own Funds") [A - B - C]	4,146	4,086	3,846	3,795
E. Solvency Capital Requirement ("SCR")	2,608	2,568	2,774	2,731
F. Surplus [D - E]	1,538	1,518	1,072	1,064
SCR Coverage Ratio [D / E]	159%	159%	139%	139%

Source: CLL SFCR as at 31st December 2018, CLL Chief Actuary Supplementary Report on the Transfer

It is notable that CLL's SCR Coverage Ratio fell by 20 percentage points between the two dates. CLL's Chief Actuary explained in his supplementary report that the main drivers for the reduction are a fall in interest rates and a dividend payment to CLL's parent company (CLG). CLL has provided me with additional information setting out more detailed analyses of the movement in solvency position, which I have not disclosed in this report because CLL considers it to be commercially sensitive. Having reviewed the information, I am satisfied that the change in SCR Coverage Ratio is reasonable and within the range of my expectations. It should also be noted that CLL's SCR Coverage Ratio as at 30th June 2019 remained above its early warning trigger level as per the Capital Management Policy.

The impact of the Transfer on the Solvency II Pillar 1 financial position of CLL has not materially changed between 31st December 2018 and 30th June 2019, namely:

- The Transfer results in a c. £2.5bn reduction in the total assets and liabilities of CLL as at 30th June 2019 (£2.4bn as at 31st December 2018)

- The Transfer results in a £51m reduction in CLL's Own Funds (or 1% in proportional terms) as at 30th June 2019 (£60m as at 31st December 2018), which indicates that the Transfer has a limited impact on CLL's financial resources
- The Transfer results in a £43m reduction in CLL's SCR (or 2% in proportional terms) as at 30th June 2019 (£40m as at 31st December 2018), which indicates that the Transfer has a limited impact on CLL's risk profile
- The Transfer has a minimal impact on CLL's Surplus and SCR Coverage Ratio

Taking into account the information and analysis set out above, I remain satisfied that the Transfer will not have a material adverse effect on CLL's Solvency II Pillar 1 financial position.

4.1.1. Financial impact of the Transfer on the Manulife Fund

In the Main report, I stated my opinion that the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of the New Manulife Fund (relative to the financial position of the Manulife Fund in CLL prior to the Transfer), taking into account:

- The existence of liabilities which are "loss absorbing" in the event of a stress scenario (£39m as at 31st December 2018)
- In the absence of "loss absorbing" liabilities, the gross SCR would have been £14m as at 31st December 2018
- The expected financial position of the New Manulife Fund post Transfer will be the same as the position of the Manulife Fund in CLL pre Transfer

CLL has provided an updated financial position for the Manulife Fund as at 30th June 2019 which showed that:

- The total assets in the fund have increased slightly to £170m
- The size of discretionary "loss absorbing" liabilities decreased slightly to £38m
- The gross SCR in the absence of "loss absorbing" liabilities increased slightly to £15m

Taking into account the immaterial change to the financial position for the Manulife Fund as shown above, I am satisfied that my opinion remains valid.

4.1.2. Risk profile of CLL

In the Main Report, I stated my opinion that the Transfer will result in only minimal changes to the risk profile of CLL as at 31st December 2018 and therefore does not have a materially adverse effect on the non-transferring CLL policyholders.

The table below compares the impact of the Transfer on the components of the SCR for CLL as at 31st December 2018 and as at 30th June 2019:

	31 st December 2018		30 th June 2019	
£m	Actual reported	Pro Forma Post-Transfer	Actual	Pro Forma Post-Transfer
Market Risk	2,214	2,194	2,265	2,242
Counterparty default risk	29	29	31	31
Life Underwriting risk	740	713	825	798
Health Underwriting risk	183	177	193	187
Diversification benefits	(591)	(573)	(640)	(622)
Basic Solvency Capital Requirement	2,576	2,541	2,675	2,636
Operational Risk	156	152	194	190
Loss absorbency adjustments	(125)	(125)	(95)	(95)
Solvency Capital Requirement	2,608	2,568	2,774	2,731

Source: CLL Chief Actuary Report on the Transfer, additional information provided by CLL

The table shows that there have been no material changes in the CLL risk profile since 31st December 2018 and that the impact of the Transfer on the risk profile of CLL remains minimal as at 30th June 2019.

Therefore, I am satisfied that my opinion remains valid.

4.2. Financial impact of the Transfer on SF

The table below compares the Solvency II Pillar 1 balance sheet position of SF as at 31st December 2018 and as at 30th June 2019 and the pro-forma positions post Transfer.

	31st December 2018		30th June 2019	
£m	Actual reported	Pro Forma Post-Transfer	Actual	Pro Forma Post-Transfer
A. Assets	2,633	5,005	2,746	5,192
B. Liabilities	2,447	4,761	2,550	4,931
C. Impact of ring-fencing restrictions	75	75	87	87
D. Available Capital ("Own Funds") [A – B – C]	111	169	108	173
E. Solvency Capital Requirement ("SCR")	59	98	63	108
F. Surplus [D – E]	52	71	45	65
SCR Coverage Ratio [D / E]	188%	172%	171%	160%

Source: SF Chief Actuary Supplementary Report on the Transfer

It is notable that SF's SCR Coverage Ratio fell by 17 percentage points between the two dates. SF's Chief Actuary explained in his supplementary report that the main drivers for the reduction are a fall in interest rates and changes in market conditions that resulted in a higher SCR, and having reviewed additional analysis and discussed this with SF's Chief Actuary, I consider the explanations to be reasonable.

In the table below, I repeat the relevant observations and comments from the Main Report in relation to SF's financial position (which were based on the 31st December 2018 financial positions) and provide an updated assessment based on the 30th June 2019 financial positions:

Observations and comments from the Main Report based on 31st December 2018 financial positions	Updated assessment based on 30th June 2019 financial positions
The Transfer results in a c. £2.4bn and c. £2.3bn increase in the total assets and liabilities of SF respectively, which effectively doubles SF's asset and liability base	Corresponding figures at 30 th June 2019 have changed slightly but comments remain valid. The Transfer results in a c. £2.4bn increase in the total assets and liabilities of SF
The Transfer results in a £58m increase in SF's Own Funds (or 52% in proportional terms)	Corresponding figures at 30 th June 2019 have changed. The increase is £65m (or 60% in proportional terms)
The Transfer results in a £39m increase in SF's SCR (or 67% in proportional terms). The increase in SCR is lower than the corresponding decrease in CLL's SCR because SF benefits from greater diversification in its SCR calculations	Corresponding figures at 30 th June 2019 have changed but comments remain valid. The increase is £45m (or 71% in proportional terms)

The Transfer therefore results in a significant increase in SF in terms of total assets, financial resources and capital requirements	Comments remain valid
While SF's Surplus would increase post Transfer, its SCR Coverage Ratio falls from 188% to 172%. I do not consider such a change in SCR coverage in this range to be materially adverse. In addition, the post Transfer SCR Coverage Ratio of 172% remains above the trigger point of 150% as set out in SF's capital management policy which is discussed further in section 8.6 of the Main Report. To put this into further context, an SCR Coverage Ratio of higher than 150% can be taken to mean that SF has an additional buffer to ensure that there is less than a 1-in-10 chance of not covering the SCR after one year. Furthermore 172% is significantly in excess of SF's Risk Tolerance of 130% as defined in the Risk Appetite Framework and the point at which require management to take action in order to bring the risk exposure back into appetite	Corresponding figures at 30 th June 2019 have changed but comments remain valid SCR Coverage Ratio falls from 171% to 160%, which I do not consider to be materially adverse. 160% remains above the trigger point of 150% as set out in SF's capital management policy
I have also noted that while SF does not currently use permitted adjustments to Solvency II calculations (e.g. TMTP, MA and VA) to increase its reported Pillar 1 financial position, it has the option to do so in the future (subject to regulatory approvals).	Comments remain valid

Taking into account the updated information and analysis set out above, I remain satisfied that the Transfer will not have a material adverse effect on SF's Solvency II Pillar 1 financial position.

4.2.1. Risk profile of SF

The table below compares the impact of the Transfer on the components of the SCR for SF as at 31st December 2018 and as at 30th June 2019:

	31 st December 2018		30 th June 2019	
	Pre Transfer	Pro forma Post Transfer	Pre Transfer	Pro forma Post Transfer
Proportion of total undiversified SCR				
Market Risk	41%	37%	40%	40%
Counterparty default risk	10%	7%	8%	6%
Life Underwriting risk	42%	46%	45%	45%
Health Underwriting risk	0%	3%	0%	3%
Operational Risk	7%	7%	7%	6%

Source: SF Chief Actuary Supplementary Report on the Transfer

The table shows that there have been no material changes in the SF risk profile since 31st December 2018. In terms of the impact of the Transfer:

- Market risk and life underwriting risk as at 30th June 2019 as a proportion of the overall undiversified SCR are similar before and after the Transfer (in contrast to

the position at 31st December 2018, when there was a slight decrease in market risk and slight increase in life underwriting risk). SF has provided additional information detailing the reasons behind the change, which I have reviewed and discussed with senior management, and consider to be reasonable

- As a result of transferring income protection business, health underwriting risk increases from de minimis levels to 3% of overall undiversified SCR (there was an almost identical impact at 31st December 2018). As noted in the Main Report, while it represents exposure to a new type of risk to SF, it remains only a small component of the overall risk profile

I therefore remain satisfied that my opinion as stated in the Main Report remains valid, namely that the Transfer will not have an adverse effect on the risk profile of SF.

4.3. Updated assessment of the financial effect of the Transfer on transferring CLL policyholders in terms of security of benefits

In section 6.2 of the Main Report, I discussed the financial effect of the Transfer on transferring CLL policyholders in terms of security of benefits and stated my opinion that the security of benefits for transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo, explaining that:

- The SCR Coverage Ratio for SF post Transfer is higher than the SCR Coverage Ratio for CLL pre Transfer, which represents a strengthening of financial position compared to the status quo for transferring policies
- However, the Surplus in absolute terms for SF post Transfer is significantly lower than the Surplus for CLL pre Transfer. Whilst this may appear at first sight to be a weakening of financial position, I have taken into account that CLL's Surplus pre Transfer was intended to support all of CLL's business and not just the transferring policies. In addition, CLL has a significantly larger book of liabilities than SF, and adverse movements of an equal probability would result in a larger reduction in CLL's Surplus. I have further taken into consideration that while there are differences in the risk profile of CLL pre Transfer and SF post Transfer (as discussed in section 6.6 of the Main Report), the Transfer will not have a materially adverse effect in relation to the profile of risks that transferring policyholders will be exposed to. Finally, I have drawn comfort from the stress testing conducted by SF as part of its most recent ORSA which includes the CLL business. I therefore do not consider this to represent a material weakening of financial position compared to the status quo for transferring policies
- When considering the financial security of benefits, I have also taken into account SF's and CLL's respective capital management policies

I have updated the comparison of the Solvency II Pillar 1 financial position of CLL pre Transfer with the financial position of SF post Transfer in the following table:

	31 st December 2018		30 th June 2019	
£m	CLL Actual Pre Transfer	SF Pro Forma Post Transfer	CLL Actual Pre Transfer	SF Pro Forma Post Transfer
A. Assets	32,468	5,005	33,617	5,192
B. Liabilities	28,322	4,761	29,770	4,931
C. Impact of ring-fencing restrictions	0	75	0	87
D. Available Capital ("Own Funds") [A - B - C]	4,146	169	3,846	173
E. Solvency Capital Requirement ("SCR")	2,608	98	2,774	108
F. Surplus [D - E]	1,538	71	1,072	65
SCR Coverage Ratio [D / E]	159%	172%	139%	160%

Source: CLL & SF Chief Actuary Supplementary Reports on the Transfer

Taking into account the updated information and analysis set out above, I am satisfied that my explanations are valid, and my opinion remains unchanged that the security of benefits for transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo.

4.3.1. Impact of the Transfer on transferring CLL policyholders in terms of risk profile

In the Main Report, I discussed the impact of the Transfer on transferring CLL policyholders in terms of risk profile, highlighting that:

- The risk profile in relation to transferring CLL policyholders will change following the Transfer as SF and CLL operate different business models and are therefore exposed to different types of risk
- There is significant variation in the underlying components of risk within market risk and life underwriting risk
- In my opinion, neither risk profile is inherently superior to the other, as long as they are appropriately managed by the insurer, in line with the risk appetite as articulated by the Board in accordance with its governance process and are appropriately managed within the context of the capital management framework adopted by the insurer
- On balance, I am satisfied that while the profile of risks to which the transferring CLL policyholders will be exposed will change in several aspects, the Transfer will not have a materially adverse effect in relation to the change in risk profile

Based on updated information provided by CLL and SF as at 30th June 2019 (see sections 4.1.2 and 4.2.1), I am satisfied that my opinion remains valid.

4.3.2. *Impact of the Transfer on transferring CLL policyholders in terms of capital management policy*

In the Main Report, I discussed the impact of the Transfer on transferring CLL policyholders in terms of CLL's and SF's capital management policies, highlighting that:

- The impact of the Transfer on capital management policy associated with the transferring policyholders is a nuanced consideration as it can be over simplistic to just directly compare the capital management policy of two insurers without further consideration of other factors
- This is because the capital management policy is only a single component of the overall risk management framework (including risk appetite and exposures as a result of each insurer's chosen business strategy) which is unique to each insurer
- I have compared CLL's and SF's capital management policies and trigger levels at a broad level, with due regard for both insurers' inherent financial position, group structures, risk management policies and business strategies
- I concluded from my review that:
 - Both CLL's and SF's capital management policies are reasonable and appropriate for their respective businesses
 - I am satisfied that SF's capital management policy is at least as strong as CLL's capital management policy however, as the target ranges are commercially sensitive I have not quoted them in the Main Report or this one

Based on updated information provided by CLL and SF for this report, I am satisfied that my opinion remains valid.

4.4. *Movements since 30th June 2019*

Since 30th June 2019, there has been considerable and continued volatility in long term interest rates as well as the wider financial markets. Both SF and CLL have confirmed to me that they will continue to closely and regularly monitor market movements and their effects on their respective financial positions (in line with their respective capital management policies) as well as their effects on the Transfer.

I have requested, and both SF and CLL have agreed, to provide me with monthly updates on their respective financial positions. I shall continue to monitor the situation and, if appropriate, will provide an update to the Court in the run up to the Sanctions hearing.

5. Policyholder communications, responses and objections

As noted in section 10 of the Main Report, it is my opinion that CLL's and SF's planned communications strategies for the Transfer have been reasonable, fair and not misleading.

In addition, the PRA, FCA, any affected policyholder, reinsurer or any person (including an employee of CLL or SF) who alleges that the person would be adversely affected by the carrying out of the Transfer have the right to raise their objections to the Court. Communication materials for CLL and SF policyholders clearly set out those rights and the process by which policyholders can make their representations.

CLL completed the mailing of information packs to its policyholders and notices of the application for the Transfer were published in appropriate newspapers and on its website in July 2019. As at 3rd October 2019, CLL and SF had received 2,570 responses from its policyholders, of which:

- 2,541 were either general administrative queries not directly related to Transfer or requests for additional information regarding the Transfer where no objections were lodged
- 29 were objections to CLL which I have considered in further detail below

I have also noted that the number of objections represents only 0.02% of the total number of transferring policies. This indicates that the level of policyholder dissatisfaction with the transfer is very low.

With respect to the objections received, CLL has written to each individual objecting policyholder in order to:

- Confirm that a formal objection has been recorded
- Confirm that the objection will be submitted to the High Court for consideration
- Where appropriate, respond to specific points raised by the policyholder

I believe that this process and approach is correct for dealing with policyholder objections.

I have been provided with and have reviewed details of submissions made by policyholders and CLL's responses to those submissions. I also understand that copies of all objections (including submissions and CLL's written responses) have been shared with the PRA and FCA and will be submitted to the Court. As CLL has looked at each individual objection separately and tailored each written response to address specific points made by the objector (including the provision of additional information and materials where appropriate) I am satisfied that it has appropriately addressed the concerns raised by the policyholders.

I also understand from CLL that at the time this report was finalised, there are no outstanding objections or follow-on correspondence to which CLL has not yet responded in writing.

For the purpose of my review, I have classified the objections by types of reason or nature, and comment on each of these in turn below. I have performed my classification exercise independently of CLL and subsequently compared the results of the classifications. I found that while there were some small differences (the main one being that CLL has allocated each objection to a single reason, whereas I have allocated objections to multiple reasons where I deemed it appropriate to do so) the classifications were broadly consistent. My detailed comments follow below:

- Four transferring CLL policyholders objected to the Transfer on the basis of general concerns about the financial security of SF without raising any specific areas of concerns
 - For example, one objector was concerned that SF *“would go bust because they haven’t heard of them”* and another objector said they *“would like to know how SF will cope with their policy”*
 - In section 6 of the Main Report, I concluded that the security of benefits for all transferring CLL policyholders will not be materially adversely affected by the Transfer and explained the reasons behind reaching that conclusion
 - Based on a review of updated information as set out in this report, in my opinion the conclusion remains valid. An updated assessment of the financial effect of the Transfer on transferring CLL policyholders in terms of security of benefits is set out in section 4.3 of the report
- Three transferring CLL policyholders objected to the Transfer on the basis of a lack of information or knowledge about SF in general
 - For example, one objector wrote *“I know nothing about Scottish Friendly and this has caused me a great deal of concern”* while another objector also complained that they *“do not know anything about”* SF
 - As stated in the Main Report, I have reviewed CLL’s communication materials to its policyholders with respect to the Transfer and consider them to be reasonable and appropriate
 - I have also reviewed materials published on CLL’s and SF’s website (including my reports), and I am satisfied that sufficiently comprehensive information about SF has been provided or made available to all transferring CLL policyholders
 - Furthermore, I have taken into account SF’s long established history of writing life insurance business in the UK (as described in section 3.2 of the Main Report). I also consider the history, reputation and brand strength of CLL and SF to be comparable in the UK

- Three transferring CLL policyholders expressed concerns over SF's service and administrative standards
 - For example, one policyholder wrote that "*SF has a poor administrative reputation, evidenced by existing policy holders and social media*" without providing further specific details. Another policyholder indicated in a telephone call that their "*family has had a bad experience with Scottish Friendly in the past*"
 - I have provided a comprehensive analysis of matters related to service levels and administrative arrangements with respect to the Transfer in the Main Report and provided an update on the analysis in section 3.5 of this report
 - As noted in the Main Report, the administration of transferring CLL policies will be migrated to Sonata post Transfer, which is a well respected up-to-date IT system used by several significant insurers in the UK with a reputation for strong scalability and adaptability. In contrast, these policies are currently administered on CLL's old technology platform which will become increasingly outdated over time. There is therefore a benefit to transferring policyholders in having their policies administered using modern technology within a firm where they are a core part of the business
 - In summary, I am satisfied that adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in standards of service experienced by both transferring CLL and existing SF policyholders following the Transfer
 - Whilst it is understandable for policyholders to be concerned about whether a new provider can maintain service standards that they are used to, I remain of the opinion that SF is adequately prepared to provide a satisfactory level of service to transferring CLL policyholders following the Transfer
- One transferring CLL policyholder expressed general concerns over how SF's will conduct the investment management of their unit-linked policies
 - As stated in the Main Report, SF will establish corresponding unit-linked funds for each of CLL's transferring funds and those funds will be initially established with the same investment objectives, restrictions and policies applied by CLL prior to the Transfer. Furthermore, CLAM will retain the investment mandate for a minimum of four years. I retain the view that impact of the Transfer on transferring CLL unit-linked policyholders will be minimal
- Two transferring CLL policyholders questioned why only some CLL policyholders are transferring (while others are not), or submitted a request not be transferred to SF (i.e. to opt-out of the Transfer)
 - As noted in the Main Report, the Transfer involves policies in the Legacy portfolio, which comprises policies that have largely been closed to new business since 2003. Policies not in the Legacy portfolio are related to CLL's

chosen core markets (annuities, group protection and wealth management) and will remain with CLL

- In my opinion, there is a clear distinction between transferring and non-transferring policies in terms of types of policies and markets, and the rationale of the distinction is well understood - there has been no cherry picking of particular CLL policyholders
 - There are no provisions in the Transfer terms to permit policyholders to opt-out if they so wish. It is common practice for such transfers not to provide policyholders with opt-out provisions, and in my opinion a reasonable one given CLL's desire to focus its business on core markets
- Two transferring CLL policyholders either stated that they were not made aware of the possibility that CLL may transfer its business to another insurer or that the possibility of a transfer was not stated in the policy terms and conditions
 - One objector believed that CLL has *"broken his contract"* by transferring their policy while another objector wrote that they were *"never told that the policies could be transferred or changed in anyway"*
 - There are no legal obligations or regulatory requirements for insurers to make policyholders aware (at the time the policy was effected) or include in policy terms and conditions of the possibility that the policies may be transferred in the future
 - I also do not consider the possibility of a future transfer to be a key feature of a policy or something that one would reasonably expect to be highlighted
 - The provisions under the FSMA for insurers to effect a transfer of business do not require the insurer to have first made its policyholders aware of the possibility or state so in the policy terms and conditions
- One transferring CLL policyholder stated that they had not provided consent for CLL to transfer its business to SF
 - Insurers are legally permitted under the FSMA to effect a transfer of business (subject to following due Court process which places a strong emphasis on safeguarding policyholder interests and includes regulatory scrutiny) without obtaining policyholder consent to do so
- One transferring CLL policyholder objected to the Transfer on the basis that the business would be transferred to a company registered in Scotland due to the risk that Scotland may become independent from the United Kingdom in the future
 - Taking into consideration the fact that CLL and SF are both regulated by the FCA and PRA, in my opinion the Scottish domicile of SF is not a factor that is relevant to my assessment of the Transfer

- I have nevertheless reviewed CLL's written response to the objection and consider its content to be appropriate
 - It is not my role to determine the likelihood or otherwise of a scenario whereby Scotland becomes independent in the future. However, I have noted that SF had developed a robust set of contingency plans in the run up to the Scottish Referendum in 2014, and if necessary, it would be able to implement an updated version of those plans relatively quickly should the need arise
 - Finally, the policyholder retains the option of surrendering their policy in the future prior to such an event occurring
- One CLL policyholder objected to CLL passing on their personal data to SF prior to Transfer
 - Although CLL has shared certain personal data of transferring policyholders with SF prior to Transfer, I understand that this was done in accordance with its Data Protection Notice¹ and in strict compliance with relevant data protection legislation
 - I consider that it is reasonable and necessary for CLL to share certain personal data of transferring policyholders in order to facilitate the Transfer
 - One CLL policyholder highlighted that the Effective Date of the Transfer is expected to be 1st November 2019, which is one day after the expected deadline for Brexit (i.e. the UK's intended withdrawal from the European Union), and that therefore there are risks that any Brexit related market volatilities could affect the Transfer
 - As stated in the Main Report:
 - The Transfer will not immediately result in any changes to the investment of assets in the New Manulife Fund. Therefore, transferring CLL with-profits policyholders will not be adversely affected by the Transfer in relation to investment strategy
 - For reasons described in the Main report and repeated earlier in this section, the impact of the Transfer on transferring CLL unit-linked policyholders will be minimal
 - Investment strategy and market volatilities have no bearing on benefits due under non-profit policies
 - Consequently, the impact of Brexit on transferring CLL policyholders in relation to investment strategy and market volatilities would be unaffected by the Transfer

¹ CLL's Data Protection Notice is set out in its website (<https://www.canadalife.co.uk/data-protection-notice>)

- I am therefore satisfied that the potential risk of additional market volatility due to the proximity of the Effective Date to Brexit is not a material factor to take into account in my considerations of the Transfer
- 16 CLL policyholders objected to the Transfer, but did not raise any specific issues in connection with their objections. I shall not comment further on these objections

Having reviewed the objections raised by policyholders, I am satisfied that there are no fresh points raised by those objections which would prompt me to change my conclusions as stated in the Main Report.

SF completed the mailing of information packs to its Delegates (who represent the interests of all policyholders) and posted all relevant communication materials on its website on 28th June 2019. SF subsequently received no written or verbal communications from its Delegates and policyholders.

A Special General Meeting was held by SF on 16th July 2019, which was attended by 22 out of a possible 29 Delegates. Prior to voting, a number of Delegates raised questions with SF on various aspects of the Transfer and these were discussed at the meeting. Following those discussions, all attending Delegates voted unanimously to approve the Transfer.

6. Other Considerations

6.1. General updates

The following changes have been made to the Scheme since it was presented to the Court at the Directions Hearing on 21st June 2019:

- Various square brackets and drafting notes in the definitions of "Data File" and "Property Funds" and paragraph 22 (Effective Date) have been deleted. These changes simply reflect the fact that the proposals set out in the original version of the Scheme have now been confirmed
- A minor amendment has been made to the drafting of paragraph 23.2(b) of the Scheme, which relates to the certificate to be provided by an independent actuary in the event an application is made to amend the Scheme in the future, to clarify the scope of the independent actuary's review. I do not consider that this change involves any substantive change to the requirements of this provision
- As discussed in section 6.5 below, Canada Life has decided to write off the policy loans attaching to a small number of the policies comprised within the transferring business. In order to ensure that no liability relating to any of these policy loans (including any liability for historical policy loans) transfers to Scottish Friendly, the definition of "Excluded Liabilities" has been amended to include an additional limb covering any liabilities in respect of any policy loans entered into in connection with or under the terms of any transferring policy at any time prior to the Effective Date. Given the decision to exclude these policy loans from the transfer, I consider this a sensible and helpful amendment to make to the Scheme in order to give clarity to each party's liability

I also note that, as provided for in the definition of "Data" in the Scheme, Canada Life and Scottish Friendly have separately agreed to update the list of Transferred Policies to include certain policies which have matured or lapsed but whose policyholder could not be traced. This will mean that, in the event the policyholder (or their estate) is subsequently identified, Scottish Friendly will pay out the relevant claim.

In my opinion, these amendments are either immaterial or else helpful clarifications to the provisions of the Scheme and none of them affect my conclusions as set out in the Main Report.

Furthermore:

- All relevant tax clearances have been received from HMRC and there have been no changes to the expected tax impact of the Transfer since the completion of the Main Report. Therefore, I remain satisfied that the Transfer is not expected to have any significant adverse tax impact on the policyholders of CLL and SF, and that no changes are expected to the tax status of transferring CLL policies as a result of the Transfer

- All reinsurers whose reinsurance arrangements will transfer from CLL to SF pursuant to the Scheme have been given notice of and acknowledged the Transfer, and none of them has raised any objections to the Scheme
- Relevant EEA regulator notifications have been made with the three month consultation period ending on 8th October 2019 and no objections were received
- Furthermore, it has been established following further analysis by SF that there are no states that it is required to hold a passport for as none of the transferring policies were sold outside the UK
- As noted in section 3.4 of the Main Report, CLL's unit-linked property funds are invested in several direct property investments. As the unit-linked property funds do not have full ownership of the direct property investments (and there would therefore be practical difficulties in those properties being transferred to SF), CLL intended to sell the properties in question before the Effective Date. I have subsequently been informed that some of the properties will be sold after the Effective Date, and therefore CLL will retain legal ownership of the direct property investments (for the benefit of the unit-linked properties funds under the ULRA) until the sales are completed. Based on a review of materials provided to me by CLL and SF, I am satisfied that this has no effect on SF's solvency position post Transfer and therefore would not change any of my conclusions
- As noted in section 9.10 of the Main Report, CLL will retain around 300 Hong Kong policies, but outsource the administration to Scottish Friendly Insurance Services Limited, the terms of which are governed by a separate outsourcing agreement. Although the Hong Kong policies are not part of the transferring CLL policies, they will be administered by SF post Transfer. CLL has informed the Hong Kong Insurance Authority of its intention to outsource these policies and they have confirmed that they do not object to the new arrangement

6.2. Transfer of Retirement Advantage into CLL

As noted in the Main Report, a separate process is underway to transfer the business of Retirement Advantage to CLL under Part VII of FSMA (the "Retirement Advantage Transfer"). The planned timetable for the Retirement Advantage Transfer means that it will not come into effect until after the Transfer. I also stated in the Main Report that in my opinion the Retirement Advantage Transfer and the Transfer are independent of each other and the implementation of each transfer does not depend on the completion of the other.

CLL has updated me on the developments of the with Retirement Advantage Transfer, which is progressing as planned. Based on information provided by CLL, I remain satisfied that my opinion as stated above remains valid.

6.3. Corporate developments at Great West LifeCo Inc

On 19th July 2019, Great West LifeCo Inc (the group parent of CLL) announced plans to amalgamate five separate group entities into a single company, Canada Life Assurance Company (which is the Canadian parent company of CLL) by 1st January

2020 subject to regulatory approvals. This amalgamation is a Canadian law concept of which there is no equivalent of in the UK. Following the amalgamation process, each Canadian entity will continue to exist as part of the amalgamated company but will cease to exist as a separate legal entity.

I have discussed the development with CLL and am satisfied that Great West LifeCo Inc's amalgamation plan has no bearing on my considerations for the proposed transfer, because it has no direct effect on CLL's financial position and therefore does not impact on the financial effects of the Transfer.

6.4. Impact of Brexit

In the Main Report I considered the potential impact of the UK's intended withdrawal from the European Union ("Brexit") and noted that:

- The impact of Brexit on non-transferring CLL policyholders and on existing SF policyholders is unchanged by the Transfer
- SF has in place contingency plans to mitigate risks related to its ability to continue to fulfil existing contracts for policyholders residing in any EEA state, including any transferring CLL policyholders

The SF Chief Actuary noted in his report the possibility that in the event that the UK leaves the EU with no deal in place, there is a risk that there are operational or legal barriers to servicing the policyholders resident in the EU, and that this would have been the case with or without the Scheme. Whilst I agree with this view, it should be noted that CLL and SF have each developed their own contingency plan to mitigate risks related to their ability to continue to fulfil existing contracts for policyholders residing in any EEA state and that both plans have been shared with the PRA and FCA. The respective contingency plans are different and will apply in different ways depending on the scenario and relevant circumstances at the time.

I have focused my review on two specific points in relation to Brexit:

- For the policyholders residing in an EEA state outside of UK, whether the associated policies were concluded or committed in the UK
- The risks related to SF's ability to service policyholders resident in the EEA

As noted in CLL's Second Witness Statement, although the nature of the legal and factual tests mean that it cannot ever be absolutely certain of any transferring policy's State of the commitment, CLL has a high degree of confidence (but is not absolutely certain) that the State of commitment for all of the transferring CLL policies were in the UK, and consequently have administered them as UK policies. I consider this to be a reasonable view, as the policies were specifically designed for and marketed exclusively to UK residents at the time, the policies were distributed mainly by a direct sales force who were directed to sell to UK residents only, and any pension policies would have required UK earnings to be established. From this I

concluded that the 1,100 policyholders who are currently resident in EEA states, other than the UK, where it may later be identified as having a non-UK state of commitment to be very small.

I have reviewed Brexit related advice published by the European Insurance and Occupational Pension Authority (“EIOPA”)² which included a recommendation to local EEA regulators that they should aim to minimise the detriment to policyholders in their treatment of UK insurers and that *“Where a policyholder with habitual residence ... in the UK concluded a life insurance contract with a UK insurance undertaking and afterwards the policyholder changed its habitual residence ... to a EU27 Member State, [local regulators] should take into account in the supervisory review that the insurance contract was concluded in the UK and the UK insurance undertaking did not provide cross-border services for the EU27 for this contract.”* Whilst it does not guarantee that local EEA regulators will adhere to the recommendations, I am satisfied that the risks related to SF’s ability to service policyholders resident in the EEA will be low.

In addition, in order to assess the risks involved in continuing to service the policies that were sold by CLL in the UK to UK resident policyholders who have since moved to another EEA state (the “expat policies”) SF sought advice from the law firm, CMS. In the week commencing 7th October 2019 CMS contacted local counsel in 12 EEA jurisdictions to seek their advice as to the risk involved in SF continuing to service the expat policies following a hard Brexit. These 12 jurisdictions represented the jurisdictions with the highest concentration of relevant policyholders and covered 94% of the impacted expat policies. Local counsel were asked whether the continued servicing of the expat policies would:

- (i) cause SF to carry out regulated activities in that jurisdiction, and
- (ii) if so, whether there was a material risk that the regulator would take action against SF in such circumstances

Each of these jurisdictions advised that either no local licence was required or that there was no material risk of the regulator taking any action against SF in the circumstances.

Following questions raised by the PRA concerning the reliance placed on EIOPA’s Recommendation 6, as discussed above, without confirmation from local regulators that they intend to comply with this Recommendation, CMS contacted each of the initial 12 jurisdictions to ask whether the conclusions reached in their initial advice would differ if EIOPA Recommendation 6 had not been published. Each jurisdiction confirmed that their conclusions as to the need for a licence or the materiality of the risk would remain unchanged.

² “Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union”, EIOPA, 19 February 2019

CMS has now contacted the remaining 13 jurisdictions in which relevant policyholders are understood to reside in order to request equivalent advice to that already received from the initial 12 jurisdictions.

Taking the above into account and in summary, my view remains that whilst there is continued political uncertainty around the timing and nature of Brexit, SF's contingency plans provide appropriate protection against the operational and legal risks associated with Brexit-related outcomes with respect to transferring CLL policyholders who are EEA residents.

I therefore remain satisfied that Brexit-related risks do not materially impact my considerations on the impact of the Transfer.

6.5. Policy loans

As noted in the Main Report, the transferring business currently includes policy loan assets historically advanced in the past by CLL to its policyholders which are secured against the value of the associated policies.

SF did not hold the regulatory permissions necessary to carry on these policy loans and therefore intended to apply for a variation of its permissions to enable it to do so with effect from the Effective Date. However, during the course of SF's application, issues were identified with the regulatory status of some of the policy loans and, having carried out an analysis in order to assess the extent of the issue and the potential for any of its policyholders to have suffered any detriment, CLL determined that the appropriate course of action for it to take, having regard to policyholder interests and the potential impact on the overall Transfer, was for it to write off the policy loans with effect from the Effective Date, with all costs of that write-off being met by CLL's shareholder.

Writing off the policy loans means that they will not transfer to SF as part of the transferring business (SF will instead receive other assets with an equivalent value) and that SF does not require a variation of its permissions in order for the Transfer to proceed. CLL's decision to write off the loans is therefore not directly relevant to my assessment of the impact of the Transfer on CLL and SF's policyholders. However, I have been provided with details about the investigations which CLL has carried out and its analysis of the potential impact on policyholders and am satisfied that CLL's proposed approach is consistent with the fair treatment of all of its policyholders, including the transferring policyholders. I also note that CLL is in the process of writing to all affected policyholders to notify them that their loans are being written off and I am satisfied that the way in which this has been communicated to affected transferring policyholders is satisfactory.

6.6. Recent ruling on the proposed transfer of certain annuities from The Prudential Assurance Company Limited to Rothesay Life Plc

In a recent development related to Part VII transfers, on 16th August 2019 the High Court declined to approve the proposed transfer of certain annuities from The

Prudential Assurance Company Limited (“Prudential”) to Rothesay Life Plc (“Rothesay”) (the “judgment”). The parties were granted leave to appeal and have now done so.

I have reviewed the judgment and analysed what I consider to be the key factors taken into account by the Judge in arriving at his decision and assessed their relevance to my assessment of the Transfer, from the perspective of my role as an Independent Expert. These factors are discussed below:

- **History, reputation and brand strength:** the judgment highlighted the contrast between the long established history, reputation and strength of the Prudential brand relative to Rothesay which is “*a relatively new entrant without an established reputation in the business*”. Whilst history, reputation and brand strength are important factors when a policyholder selects an insurance provider, they are in my view merely a proxy for financial strength rather than a reliable measure. Nevertheless, in this regard, I consider the history, reputation and brand strength of CLL and SF to be comparable in the UK, taking into account that both firms were established over 100 years ago
- **Access to wider pool of capital:** the judgment also placed emphasis on Prudential’s potential access to the capital resources of a larger group, if required. It should be noted that in general, there is no legal obligation for group owners of insurance companies in the UK to provide additional capital, although there may be strong reputational reasons to do so depending on circumstances. Parallels could be drawn between this aspect of the judgment and the Transfer, in that CLL is part of a larger financial group (albeit headquartered in another country) whereas SF is a standalone mutual insurer. Related to this, SF (as a mutual with no shareholders) does not have an option to raise additional capital from shareholders, although the fact that there are no shareholders also means that no dividends are paid and any profits which are granted through regular bonuses or not yet paid out as final bonuses to with-profits policyholders taking their benefits remain within SF. However, in my opinion, only a very limited weight should be placed on this factor, which is of a second order compared to an assessment of (a) the financial strength of the insurers on a standalone basis and (b) a comparison of the capital management policies of the insurers. These were described in detail in sections 6.2 and 6.7 of the Main Report (and the updated analyses are described in other sections of this report), but in summary, I am satisfied that that SF’s capital management policy is at least as strong as CLL’s capital management policy and that there is no material weakening of standalone insurer financial position compared to the status quo for transferring CLL policies
- **Nature of the policies:** the judgment highlighted that the Prudential to Rothesay transfer consisted entirely of annuities, and the lifetime nature and very long duration of those policies. In contrast, the transferring portfolio mainly consists of

unit linked, with-profits and non-profit protection policies (albeit with a small number of annuities³), noting that:

- Exit charges are not applied to unit linked policies (which make up the vast majority of the transferring portfolio)
- With-profits policyholders are entitled to surrender their policy for a cash sum, or in the case of a pension policy, transfer to another provider
- CLL's current practice, which SF will adopt, is not to charge a market value reduction in these circumstances
- In the case of non-profit protection policies, policyholders are entitled at any time to lapse their policies and seek to obtain replacement cover with another provider (albeit that this would require them to go through an underwriting process with the new insurer)
- **Level of policyholder objections:** the judgment also noted that the volume of objections recorded for the Prudential/Rothsay transfer was relatively high in the context of such transfers (around 0.4% of communications). In contrast, the number of objections to the Transfer is significantly lower at around 0.02% of total policies

Taking into account the analysis set out above, I have concluded that the characteristics of the proposed Prudential to Rothsay transfer are materially different to the Transfer and most of the factors taken into account in the judgment are either irrelevant or not applicable to the Transfer. The only exception is potential access to wider group capital where some parallels could be drawn with the Transfer, but for reasons stated above, I consider this to be a second order consideration.

Finally, I have also noted that in contrast to the Prudential to Rothsay transfer, where the Judge took the view that the commercial benefits to the insurers of completing the transfer were relatively limited, the Transfer is of strategic and operational importance to both CLL and SF. The transferring CLL policies, which for CLL are becoming non-core as it focusses on other segments of the UK insurance market and increasingly difficult to administer on CLL's old technology, will transfer to SF's more modern technology where they will be a core part of the SF business. Although impossible to quantify, I consider there to be a benefit to policyholders in being in a firm with an ongoing commitment to a particular market, as it is more likely that the firm will invest to reflect emerging market developments in the future. I also note that, unlike in the Prudential to Rothsay transfer, there has been no interim reinsurance arrangement pending completion of the Transfer, and it will only be by

³ There were 1,100 transferring CLL lifetime annuities in payment as at 31st December 2018 (as shown in CLL's Second Witness Statement), majority of which were transferred into CLL rather than originated directly with CLL. There were a further 1,121 transferring unit-linked policies which included temporary linked annuities for terms of up to 10 years (but typically 3 to 5 years)

completing the Transfer itself that the parties will receive any of its commercial benefits.

Therefore, I remain satisfied that there are no fresh points raised by the judgment which would prompt me to change my conclusions as stated in the Main Report.

Appendix A. Data

Information provided by CLL

Item	Date received
Information on objections raised to CLL from 22 nd July to 19 th September 2019	8 th August 2019 to 3 rd October 2019
Updated policy counts for transferring business	8 th August 2019
Updated Solvency position	8 th August 2019
Chief Actuary Supplementary Report for the Transfer	Various Drafts from 18 th August 2019 to 9 th October 2019
With Profit Actuary Supplementary Report for the Transfer	Various Drafts from 18 th August 2019 to 9 th October 2019
Documents related to policy loans	8 th October 2019
2 nd Witness Statement of Douglas Allan Brown	15 th October 2019

Information provided by SF

Item	Date received
Chief Actuary Supplementary Report for the Transfer	Various Drafts from 16 th August 2019 to 11 th October 2019
With Profit Actuary Supplementary Report for the Transfer	Various Drafts from 16 th August 2019 to 9 th October 2019
Note outlining approach to managing Income Protection claims	27 th August 2019
EEA regulator response	22 nd August 2019
Critical Path document	22 nd August 2019
Unit-Linked Funds Principles and Practices ("ULPP")	22 nd August 2019
Documents related to risk management review	16 th August 2019 to 29 th August 2019
Documents related to policy loans	29 th August 2019
Minutes of Special General Meeting held on 16 th July 2019	29 th August 2019
Draft Operational Readiness Assessment	26 th September 2019
Risk Opinion on Operational Readiness Assessment	26 th September 2019
Final Operational Readiness Assessment	3 rd October 2019
Documents related to Brexit contingency planning	9 th October 2019

2nd Witness Statement of Jim Galbraith

15th October 2019

Other Documents Provided

Item	Date received
Updated Scheme Document	11 th October 2019



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