

Summary of the report of the Independent Expert

Background

I have been instructed by MGM Advantage Life Limited (“**MALL**”) and Canada Life Limited (“**CLL**”) to report to the High Court of Justice of England and Wales (the “**Court**”) on the terms of the proposed transfer of long-term insurance business of MALL (the “**Transferring Policies**”) to CLL. The transfer will be effected by means of a scheme of transfer (the “**Scheme**”) in accordance with Part VII of the Financial Services and Markets Act 2000. Subject to Court approval, the date on which the transfer takes place (the “**Effective Date**”) is expected to be 31 December 2019.

In January 2018, The Canada Life Group (U.K.) Ltd (“**CLG**”) acquired MGM Advantage Holdings Limited, the parent company of MALL, and MALL became an indirect subsidiary of CLG. Since the time of the acquisition by CLG, it has been the intention to consolidate the business of MALL into CLL, and operate both under the “Canada Life” brand.

The transferring business of MALL comprises retirement products in the form of guaranteed annuities, unit-linked non-profit investment annuities, and unitised pension products. MALL has one product open to new business, The Retirement Account (“**TRA**”), which is a Personal Pension Plan (“**PPP**”) comprising individually underwritten annuities and/or a unitised drawdown fund. There is a project underway to transform the structure of TRA from a PPP into a Self-Invested Personal Pension (“**SIPP**”), which will give TRA customers the option to invest in Open Ended Investment Companies (“**OEICs**”). As with the current PPP-based TRA, the SIPP will be used for pension accumulation and decumulation and MALL will act as the SIPP operator (referred to as the “**TRA Operator**”). To facilitate the conversion, it is necessary for MALL to seek the consent of individual TRA customers. TRA customers who explicitly decline the conversion will remain in a legacy PPP version of the TRA product. TRA annuities and investments in MALL unitised funds are held in Trustee Investment Plans (“**TIPs**”), and these will transfer to CLL under the Scheme, but TRA contracts between customers and MALL as the TRA operator will remain in MALL.

Stonehaven UK Limited, a subsidiary of MGM Advantage Holdings Limited, is an Equity Release Mortgage (“**ERM**”) provider, originating and servicing ERMs for MALL. ERMs are loans secured against a residential property with repayment triggered by death or entry into long term care. MALL uses ERM assets, restructured to achieve more favourable regulatory treatment, to match certain annuity liabilities.

Before the Effective Date of this Scheme, CLL expects to complete the transfer of a block of legacy business to Scottish Friendly Assurance Society Limited (“**Scottish Friendly**”) (the “**Mars transfer**”), through a separate Part VII process. Implementation of this Scheme is not dependent upon completion of the Mars transfer, and in my full report I have considered the expected impact of the Scheme on the financial position of CLL if it becomes effective before or after the Mars transfer.

I am a Fellow of the Institute and Faculty of Actuaries in the UK and a partner of Milliman LLP. I have fulfilled the role of Independent Expert for over 20 insurance business transfers. I confirm that I do not have any direct or indirect interest in MALL, CLL or other related firms that could compromise my independence.

My assessment of the effect of the transfer has been informed by the financial positions of MALL and CLL at 31 December 2018, the most recent date at which financial results for both companies are available at the time of writing. I have been provided with preliminary results as at 30 June 2019, on which I comment in my main report.

This is a summary of my full report dated 22 August 2019. Please refer to my full report (which is available from the CLL website) for the scope of my work and my conclusions, and the reliances, limitations and standards applying to my work. The full report and this summary do not provide financial or other advice to individual policyholders.

Before the final Court Hearing I will prepare a further report (the “**Supplementary Report**”) to provide an update on my conclusions regarding the effect of the proposed transfer on the different groups of policyholders in light of any significant events arising after my full report has been finalised. The Supplementary Report will include information on the financial position of the companies at 30 June 2019.

The effect of the transfer on transferring policies of MALL

Security of benefits of the Transferring Policies

Solvency cover: If the proposed transfer had taken place on 31 December 2018, the level of cover for regulatory solvency requirements¹ would have been higher in CLL post-transfer than that in MALL pre-transfer. While there are some differences in the calculation of solvency capital requirements between the two companies, MALL using a Partial Internal Model (“PIM”) while CLL uses the Solvency II Standard Formula, both are calibrated to the same standard. CLG has applied for approval from the PRA to use a PIM to calculate its future regulatory capital requirements, and those of CLL and MALL.

Capital policies: MALL and CLL have capital policies aimed at maintaining cover for regulatory solvency requirements within an appropriate range. The policies express a target operating range and establish a minimum level of cover, below which appropriate actions are available to restore this minimum level. At 31 December 2018, the solvency cover of each company exceeded the target level.

I have reviewed the capital policies of both companies and have concluded that CLL’s capital management policy provides a slightly higher level of security for policyholders’ benefits than MALL’s policy.

Risk exposures: The dominant risks of CLL are broadly similar to those of MALL; however the Transferring Policies will have increased exposure to catastrophe risk through CLL’s group insurance business, and currency risk through CLL’s strategic equity investment in the Irish Life Group Limited.

Based on my review of all the relevant factors, I am satisfied that the transfer will not have a material adverse impact on the security of benefits of the Transferring Policies.

Reasonable expectations of Transferring Policyholders

The Transferring Policies comprise individual guaranteed and unit-linked annuities, and TIP policies held by the TRA trustee. In my view, policyholders’ reasonable expectations in respect of their guaranteed and unit-linked annuities are principally that:

- They receive their benefits as guaranteed under the policy, on the dates specified, from the point of purchase;
- The administration, management, and governance of the policies are in line with the contractual terms under the policies;
- The standards of service received are at least as good as those they currently receive; and
- For unit-linked annuities, the unit pricing methodology, charges, and terms applicable to the minimum income guarantee are consistent.

There are no areas of discretion involved in determining the benefits payable on the transferring guaranteed immediate annuity policies. Therefore, policyholders’ reasonable expectations in respect of their benefits are that they receive the amounts guaranteed under the policy. No changes are proposed to the terms and conditions of the Transferring Policies, and so the contractual benefits will be unchanged by the Scheme.

For unit-linked annuities, there will be no change to the terms of the minimum income guarantee as a result of the Scheme, and no changes to the range, charges, management or pricing of the unit-linked funds. Moreover the Scheme will not result in a change to the basis on which mortality credits for these contracts are determined.²

MALL’s unit-linked insured funds will transfer to CLL as part of the Scheme. The Transferring Policies will remain invested in the same funds as previously, with the same range of funds available to them. Investment mandates, the level of charges and the pricing principles, including the allowance of tax, will be unchanged by the Scheme,

¹ UK insurance regulations specify minimum levels of capital that an insurer must hold based upon the risks that it has written. Cover for regulatory solvency requirements is the actual capital that an insurer holds expressed as a percentage of the regulatory minimum.

² The basis on which mortality credits are determined may change as part of an annual review in line with the terms and conditions, however.

and investment management of the underlying unit-linked funds will continue to be carried out by Canada Life Asset Management Limited.

Following the transfer, the Transferring Policies will be managed by CLL and subject to the governance of the CLL Board. MALL and CLL are subject to the same regulatory requirements concerning the governance of their long-term business, and CLL is experienced in the management of annuities and unit-linked business.

MALL policies are currently administered by Equiniti through an outsourcing agreement, which incorporates certain service levels. After implementation of the Scheme, Equiniti will continue to provide administration under a new outsourcing contract with comparable service levels.

Conclusions for Transferring Policies

I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the Transferring Policies;
- The reasonable expectations of the Transferring Policyholders; or
- The service standards and governance applicable to the Transferring Policies.

The effect of the transfer on non-transferring contracts of MALL

Security of benefits of the non-transferring MALL contracts

Following the implementation of the Scheme all the long-term insurance business of MALL will be transferred to CLL. TRA contracts will remain in MALL, which will continue to arrange investment dealing and the issue of life policies for these contracts.

Following the implementation of the Scheme, MALL will still be subject to insurance regulations and will need to meet the minimum Solvency II capital requirement of approximately £3.3m. However, it is expected that soon after the transfer, MALL's insurance permissions will be removed and MALL will then be subject to the FCA capital requirement of a SIPP operator. Based on TRA business as at 31 December 2018, this capital requirement would have been approximately £1.1m, which would have resulted in post-transfer solvency cover exceeding the upper end of the target range.

I am therefore satisfied that the transfer will not have a material adverse impact on the security of benefits of the non-transferring MALL contracts.

Reasonable expectations of holders of non-transferring MALL contracts

The remaining contracts will be the TRA SIPP contracts and any legacy TRA personal pension contracts. The reasonable expectations of the TRA contract holders are that:

- Their contractual benefit entitlements will be met;
- Charges will be fair and in line with contractual provisions;
- Appropriate governance arrangements will remain in place;
- The range of investment options will not be materially reduced; and
- The service levels provided by MALL as the TRA operator will be maintained.

The range of investible funds (which will include OEICS following conversion to a SIPP structure) is not expected to change as a result of the Scheme, but may change as a result of periodic reviews of the investible fund range.

No changes will be made to the administration and governance arrangements applicable to the non-transferring MALL contracts as a result of the transfer, and MALL will continue to act as TRA operator.

Conclusions for non-transferring MALL policies

I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits on the non-transferring MALL contracts; and
- The reasonable benefit expectations of the holders of non-transferring MALL contracts.

The effect of the transfer on the existing policies of CLL

Security of benefits of the existing CLL policies

Based on the financial information I have received as at 31 December 2018, there would have been no material change to the financial strength of CLL as a result of the Scheme, and CLL's solvency cover would have continued to exceed the target level had the transfer taken place at that date.

CLL's existing business will not be materially changed as a result of the Scheme. However CLL will be exposed to a new risk type through the introduction of ERMs. A key feature of ERMs is the no negative equity guarantee, which means that CLL will incur a loss if the proceeds from the property sale are insufficient to cover the outstanding loan balance. There is the risk that property values are lower than expected over the long term, and the consequent losses increase further if policyholders live longer than expected. CLL intends to invest in new ERMs, whether or not the proposed transfer takes place.

The proposed transfer will not lead to any material change in the risk appetite or capital policy in accordance with which CLL is managed, and CLL's ability to comply with its capital policy will not be materially affected by the transfer.

Reasonable expectations of existing CLL policyholders

Following completion of the Mars transfer, the existing CLL policies will be protection, annuities and unit-linked contracts and therefore, in my view, policyholders' reasonable expectations in respect of their benefits under such products are:

- For protection products, policyholders receive their benefits as guaranteed under the policy;
- Annuity policyholders receive their income as guaranteed under the policy, on the dates specified; and
- For unit-linked business, policyholders receive their contractual benefits as set out under the policy, and the policies are operated in accordance with their contractual terms, including the level of charges.

The reasonable expectations of policyholders covered by the Mars transfer will be unaffected by the Scheme, whether it precedes or follows the Mars transfer.

The transfer will not lead to any changes to the servicing and administration arrangements for existing CLL policies, and no change is expected to service standards for these policies as a result of the Scheme.

There will be no changes to the contractual terms of existing CLL policies under the terms of the Scheme and there are not expected to be any changes to the benefits which any existing CLL policyholder can expect to receive as a result of the Scheme.

There will be no changes to the types or amounts of charges levied on the unit-linked funds as a result of the Scheme.

The governance of the existing policies will continue to be the responsibility of the CLL Board.

Conclusions for existing CLL policies

I am satisfied that the implementation of the Scheme will not have a material effect on:

- The security of benefits of the policyholders of CLL;

- The reasonable expectations of the policyholders of CLL; or
- The service standards and governance applicable to the policyholders of CLL.

Overall Conclusions

I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of MALL and CLL;
- The reasonable benefit expectations of the policyholders of MALL and CLL; or
- The service standards and governance applicable to the MALL and CLL policies.

I am also satisfied that the Scheme is equitable to all classes and generations of MALL and CLL policyholders.

The Independent Expert's full report is available online at <http://www.canadalife.co.uk/Part-VII-Transfer>. It shows in much more detail how the Independent Expert has reached his conclusions. You can also request a copy by post, by calling MALL's helpline on 0800 032 7691 or 01903 894 153 if calling from outside the UK, or by writing to MALL at Canada Life, Part VII Transfer, PO Box 4993, Worthing, BN99 4AE.