



ABBAY LIFE ASSURANCE COMPANY LIMITED

Proposed Scheme to transfer the entire business of Abbey Life
Assurance Company Limited to Phoenix Life Limited

Supplementary Report by the Chief Actuary on the
Impact of the Scheme on Policyholders of
Abbey Life Assurance Company Limited

20 November 2018

1. Purpose of Report

This report is a supplementary report to my report entitled 'Report by the Chief Actuary on the Impact of the Scheme on Policyholders of Abbey Life Assurance Company Limited' dated 11 July 2018 ("my report"). All definitions and abbreviations used in my report apply also to this supplementary report. For ease, these are also shown in Appendix Two.

In my report I concluded that no class of policyholder of Abbey Life will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should not have any material adverse impact on the security of benefits or benefit expectations of Abbey Life policyholders.

In this supplementary report, I consider whether, taking into account developments since the date of my report and their potential impact on Abbey Life and Phoenix and on Abbey Life's policyholders, it remains appropriate to proceed with the Scheme. In considering the position, it is important to distinguish between changes that affect or would affect Abbey Life policyholders in any event, irrespective of the implementation of the Scheme, and changes in the position of policyholders or a particular group of policyholders that arise or might arise as a result of the implementation of the Scheme. It is only the second type of change that is of relevance in deciding whether the conclusions reached in my report remain valid notwithstanding any changed circumstances.

As part of my consideration of the Scheme in this supplementary report, I have updated the financial analysis to use financial information as at 30 June 2018 (see section 3), taken into account events that have occurred since then and considered whether the impact of the Scheme on the security and benefits of Abbey Life policyholders would be affected in light of that updated information.

My conclusions are given in section 6. Appendix One includes an opinion given by the With Profits Actuary supporting these conclusions in respect of the with-profits policyholders of Abbey Life.

This supplementary report is written for the Abbey Life Board in my capacity as Chief Actuary for Abbey Life. As well as the Board, the report may be used by the Independent Expert, the High Court, the PRA, the FCA and any overseas regulators and courts in forming their own judgements about the Scheme. It is supplementary to my report and should accordingly be read alongside my report.

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this supplementary report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

2. Developments since my report

2.1 Changes to the Scheme

I note that there have been no changes to the Scheme since the date of my report.

2.2 Economic Conditions since the end of March 2018

The financial analysis in my report was prepared as at 31 March 2018. Investment markets have been relatively stable – equity values increased to June, but subsequently have fallen back to levels close to those at 31 March and there has been some widening in spreads over the period. The following table sets out the value of some key indicators of economic conditions during 2018.

Table 1	31/3/2018	30/6/2018	30/9/2018	31/10/2018
FTSE-100	7056.6	7636.9	7510.2	7128.10
<i>Change since 31/3/18</i>		8.2%	6.4%	1.0%
Corporate Bond Spreads (basis points over gilts)				
AAA	34.2	39.7	42.13	39.4
AA	56.1	60.9	61.34	60.5
A	102.3	112.0	108.9	115.7
BBB	113.0	125.9	128.6	133.3
Property Index	847.2	885.5	833.3	819.3
<i>Change since 31/3/18</i>		4.5%	-1.6%	-3.3%
15 year gilt yield	1.7	1.7	1.8	1.7

The impact of these and other movements have been reflected in the analysis shown in section 3.

2.3 Developments affecting the financial position of Abbey Life and Phoenix

My report showed the position of Abbey Life before and Phoenix after the Scheme based on the position as at 31 March 2018. I also included comment on the impact of events from then to 30 June 2018. Below I summarise the key developments in the second half of 2018 which have affected or are expected to affect the financial position of Abbey Life and/or Phoenix by the end of 2018 and which are not included in the financial analysis shown in section 3.1. The impact of these on the financial analysis is considered in section 3.2.

2.3.1 Valuation Assumptions – Abbey Life and Phoenix each undertook a valuation of its assets and liabilities as at 30 September 2018. As part of these and in line with established practice, the assumptions and methodologies were reviewed and, where appropriate, the Boards approved changes to these.

2.3.2 Review of Capital Policies – In August 2018 and in line with established practice, the Boards of Phoenix and Abbey Life reviewed the parameters of their respective capital policies. Such a review is undertaken to ensure that the capital policy continues to meet its objective and a change in the percentage does not mean a change to the strength of the capital policy. As a result of this review, the amount of capital that Phoenix must hold under the PCP is equal to 29 percent of the SCR (previously 31 percent) in addition to the capital necessary to meet the SCR itself. The Abbey Life Board made no change to the parameters of its capital policy.

2.3.3 **Dividend** – At meetings in November 2018, the Board of Abbey Life declared a dividend of £200m and the Board of Phoenix declared a dividend of £80m.

2.4 Other Developments

2.4.1 **Acquisition of Standard Life Assurance Limited** – Since the date of my report, Phoenix Group has confirmed the acquisition of Standard Life Assurance Limited and associated companies. This acquisition has not directly affected Abbey Life, Phoenix or the Scheme, although it is expected over time to lead to some harmonisation across the group

2.4.2 **FCA investigation into fair treatment of long standing customers of Abbey Life** – the FCA announced in September 2018 that it had closed its investigation into Abbey Life and that the conduct of Abbey Life did not warrant enforcement action.

2.4.3 **Equity Release Mortgages** – The PRA announced in October 2018 that it would not be introducing any changes resulting from its consultation on Equity Release Mortgages (CP13/18) until at least 31 December 2019.

2.4.4 **Applications to PRA** – Phoenix plans to make:

- A major model change application to the PRA in December 2018 to address some governance and policy changes related to the Internal Model. This will have no direct impact on the SCR calculation for Phoenix and hence on the amount of the excess adjusted own funds over SCR.
- A further Matching Adjustment application in December 2018. This relates to Equity Release Mortgages and deferred pensioner buy-ins. If approved it will not have any immediate financial impact on the solvency position of Phoenix.

3. Review of financial analysis

I have reviewed the contents of section 5 of my report and an update is given below.

3.1. Position of Abbey Life before and Phoenix after the transfer

My report showed the projected position of Abbey Life before and Phoenix after the Scheme based on the position as at 31 March 2018. The following tables and the comments in this section 3 update this analysis as at 30 June 2018, taking into account the economic conditions at that date as referred to in section 2.2.

Table 2 below shows the financial position of Abbey Life as at 30 June 2018, taking into account the dividend declared in November 2018. The estimated position as at 31 March 2018 in my report, which allowed for an anticipated dividend of £250m which was paid in June 2018, is shown for comparison.

Table 2	Abbey Life as at 30 June 2018 before the effect of the Scheme			Abbey Life as at 31 March 2018 before the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
WPFs	0	-	3	0	-	4
NP Fund and Shareholders' Fund	75	-	22	279	-	18
Total	75	-	26	279	-	22
			Total	Total		

Table 2	Abbey Life as at 30 June 2018 before the effect of the Scheme			Abbey Life as at 31 March 2018 before the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
WPFs	0	-	3	0	-	4
Excess of Adjusted Own Funds over SCR			£50m		£257m	
Solvency Ratio			292%		1284%	

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

The main driver for the decrease in the Excess of Adjusted Own Funds over SCR between the two sets of figures was the dividend payment made by Abbey Life in November 2018.

Table 3 below shows the estimated financial position of Phoenix as at 30 June 2018, as if the Scheme had been implemented on that date. The estimated position as at 31 March 2018 given in my report is shown for comparison. For both companies, these figures as at 30 June 2018 allow for the dividends declared in November 2018. These figures have been provided by the Phoenix Chief Actuary and I have not verified them.

Table 3	Phoenix as at 30 June 2018 after the effect of the Scheme			Phoenix as at 31 March 2018 after the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Unsupported WPFs	1,945	366	1,197	1,402	170	950
Supported WPFs	-	-	-	338	-	291
NP Fund and Shareholders' Fund	2,374	-	1,791	2,486	-	1,676
Total	4,319	366	2,987	4,226	170	2,917
			Total		Total	
Excess of Adjusted Own Funds over SCR			£966m		£1,139m	
Solvency Ratio – All funds			132%		139%	
Solvency Ratio excluding unsupported WPFs			154%		158%	

Table 3 shows that between the two dates there was a decrease in the Excess of Adjusted Own Funds over SCR following implementation of the Scheme. This is as a direct result of including allowance for the dividends made in November and without these there would have been an increase. Note that as at 30 June 2018, the capital position of the two with-profits funds, which had previously been supported, improved so that such support was no longer required.

Based on analysis of the position of Phoenix after implementation of the Scheme, Phoenix would have met its regulatory capital requirements and the higher levels implied by the PCP on 30 June 2018.

3.2. Impact of events since 30 June 2018

Abbey Life and Phoenix calculate and report their solvency position and other key financial metrics to the PRA on a quarterly basis. The position as at 30 June 2018 is shown above. The valuation as at 30 September 2018 has not been finalised, but the provisional position, taking into account events referred to in sections 2.3.1 and 2.3.2, market movements and the run-off of policies to that date, showed that the

Excess of Adjusted Own Funds over SCR of Abbey Life before the Scheme was implemented was very close to that shown above. For Phoenix after the Scheme was implemented the Excess of Adjusted Own Funds over SCR is expected to be improved compared to the position at 30 June 2018. This analysis also showed that Phoenix continued to meet the more onerous requirements of the PCP.

Taking into account events since 30 September 2018, market movements and the run-off of policies since then, Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP at the date of this supplementary report and is expected to do so at the end of 2018.

Whilst these events, and particular the dividend payments made by Abbey Life and Phoenix, have affected the overall level of solvency of Phoenix, they have not had a material effect on the impact of the Scheme.

4. Effect of the Scheme on Abbey Life policyholders

4.1. Policyholder Security

The key points in my report with regard to the effect of the Scheme on the security of Abbey Life policyholders were:

- Phoenix currently meets its PRA capital requirements and those of its PCP which provides an additional buffer over the PRA requirements.
- The financial position of Phoenix will be improved following implementation of the Scheme.
- There are no differences in approach between Phoenix and Abbey Life in calculating their respective technical provisions and SCR nor to the underlying strength of or governance for their respective capital policies.

From the analysis shown in section 3 of this supplementary report I note that Phoenix will on a pro forma basis continue to meet its regulatory capital requirements and the more onerous requirements of the PCP after the Scheme is implemented.

I also note that there have been no changes to the way technical provisions and SCR is calculated nor to the underlying strength and governance of the respective capital policies.

Therefore, my opinion remains unchanged that there will be no material adverse impact on the security for benefits for Abbey Life's policyholders after the Scheme is implemented.

4.2. Policyholder Benefits

In my report, I noted that the Scheme would have no material adverse impact on the benefit expectations of Abbey Life policyholders. None of the developments since my report have affected the conclusions drawn by me in my report and, therefore, my opinion remains that the benefit expectations of the Abbey Life policyholders will not be materially adversely affected by the implementation of the Scheme.

5. Other Matters

5.1. Policyholder Communications

I have reviewed the mailing pack, including the relevant Scheme guides, which have been sent to Abbey Life policyholders and made available on its website. I am satisfied that the information regarding the proposals as contained therein adequately bring the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this supplementary report to the attention of policyholders.

10,853 phone calls and letters have been received as at 16 November 2018 all of which were from Abbey Life policyholders. An analysis of these calls and letters indicated that 2,021 (19%) were related to the transfer.

As at 16 November 2018, 14 objections have been received to the transfer, all of which have come from Abbey Life policyholders. The objections relate to a variety of concerns, including with the impact of the conversion of with-profits policies, with Phoenix and its financial strength and with how the process operates. I have reviewed the objections received together with the responses to those objections. I note that all objections have been replied to and have been passed to the regulators and to the Independent Expert for their information, and will also be passed to the High Court.

I have not seen anything in those objections from Abbey Life policyholders that affects the conclusions in my report and this supplementary report.

6. Conclusion

My view is that the changes in the economic conditions and the other matters referred to in this supplementary report have not affected the conclusions that I reached in my report. Therefore my opinion remains that no class of Abbey Life policyholder will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should not have any adverse impact on the security of benefits or benefit expectations of policyholders. I believe that the Scheme is consistent with Abbey Life's obligation to treat its customers fairly and there should be no adverse effect on the levels of service provided to policyholders.



K P N Edgington
Fellow of the Institute of Actuaries
Chief Actuary
20 November 2018

APPENDIX ONE – Opinion of the With Profits Actuary

Introduction

This opinion is supplementary to my opinions set out in my report dated 11 July 2018 entitled “Proposed Scheme to transfer the entire business of Abbey Life Assurance Company Limited to Phoenix Life Limited - Report by the With Profits Actuary on the impact of the Scheme on With-Profits Policyholders of Abbey Life Assurance Company Limited” and should accordingly be read alongside that report. Terms used in this opinion have the same meanings given to them in that report

This opinion and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this supplementary report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

Considerations and Opinion

I note that there have been no changes to the terms of the Scheme since the date of my report, including in respect of the conversion of with-profits policyholders of Abbey Life to non-profit.

I have reviewed the objections received from Abbey Life with-profits policyholders in response to the publicity for the Scheme together with Abbey Life’s responses to those objections. Those objections did not raise any points that I had not previously considered and I have not seen anything in those objections which affects the conclusions in my report and this opinion.

I have considered the supplementary report produced by the Chief Actuary of Abbey Life and support its conclusions in respect of the with-profits policyholders of Abbey Life.

In my opinion, for the reasons set out in the supplementary report of the Abbey Life Chief Actuary and in this opinion, I remain satisfied no class of Abbey Life with-profits policyholder will be materially adversely affected by the implementation of the Scheme. In particular, I believe that the Scheme should not have any adverse impact on the security of benefits or benefit expectations of the Abbey Life with-profits policyholders



K J Arnott

Fellow of the Institute of Actuaries
With Profits Actuary
20 November 2018

APPENDIX TWO – Glossary

Term	Definition
Abbey Life	Abbey Life Assurance Company Limited
FCA	Financial Conduct Authority
High Court	The High Court of Justice of England and Wales, the High Court in Jersey and the High Court in Guernsey (as the case maybe)
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model or the Standard Formula
NP Fund	Non-Profit Fund
Own Funds	The excess of an insurer's admissible assets over its technical provisions and other liabilities on a Solvency II basis
Phoenix	Phoenix Life Limited
PRA	Prudential Regulation Authority
RFF Restriction	Ring-fenced Fund Restriction. This means that any surplus within an unsupported with-profits fund in excess of its capital requirements does not contribute to the overall solvency position of the company.
SCR	Solvency Capital Requirement. A capital regulatory requirement under the Solvency II regime
Solvency II	A new regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries
The Scheme	The transfer of insurance business from Abbey Life Assurance Company Limited to Phoenix Life Limited
Unsupported Funds	With-profits funds that do not need support from the shareholder fund to meet their regulatory and or capital policy requirements
WPF	With-Profits Fund