Milliman Client Report

The Part VII transfer of some of the long-term business from Phoenix Life Limited to ReAssure Limited

The report of the Independent Expert

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1 INTRODUCTION

The Independent Expert

1.1 When an application is made to the High Court of Justice of England and Wales (the "Court") for an order to sanction the transfer of long-term insurance or reinsurance business from one insurer to another, the application is subject to Part VII of the Financial Services and Markets Act 2000 ("FSMA") and approval by the Court under Section 111 of FSMA. FSMA requires the application to be accompanied by a report on the terms of the transfer scheme by an Independent Expert.

1.2 I have been appointed by Phoenix Life Limited ("Phoenix") and ReAssure Limited ("ReAssure") to report, pursuant to Section 109 of FSMA, in the capacity of the Independent Expert, on the terms of the proposed scheme providing for the transfer of some of the business of Phoenix to ReAssure (the "Phoenix Annuity Scheme").

1.3 As with the other costs of the Phoenix Annuity Scheme, my fees will be borne by Phoenix and ReAssure.

1.4 The purpose of this report is to review the proposed transfer of some of the business of Phoenix to ReAssure and, in particular, to consider the impact of the proposed transfer on the security of the benefits and the reasonable expectations of the policyholders of Phoenix and ReAssure in respect of the benefits due under their policies.

1.5 In this report ("my report") I refer to the proposed scheme as the "Phoenix Annuity Scheme", "the Scheme", or "this Scheme" and throughout the remainder of this report, these terms are used to cover all the proposals included in the scheme of transfer, including any documents referred to therein relating to the proposed implementation and operation of the scheme of transfer.

1.6 The Phoenix Annuity Scheme will be presented to the Court for sanction under Section 111 of FSMA.

The scope of my report

1.7 My terms of reference have been reviewed by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

1.8 My report has been prepared in accordance with the approach and expectations of the PRA, as set out in "The Prudential Regulation Authority's approach to insurance business transfers", dated April 2015 (the "PRA Statement of Policy"), as well as Chapter 18 of the Supervision Manual ("SUP 18") contained in the FCA Handbook.

1.9 My report considers the consequences of the Phoenix Annuity Scheme for those policyholders likely to be affected by the implementation of the Scheme: principally the policyholders of Phoenix and ReAssure.

1.10 I confirm that the comments and conclusions in this report apply to all policyholders of Phoenix and ReAssure irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued.

1.11 My report will be presented to the Court and will be made available to policyholders via the ReAssure website (www.reassure.co.uk) and the Phoenix website (www.phoenixlife.co.uk/AT16scheme) and a summary of my report will be included in the communications pack that is sent to policyholders.

1.12 In assessing the impact of the implementation of the Phoenix Annuity Scheme on the policyholders of Phoenix and ReAssure, and whether those policyholders are being treated fairly as a result of the implementation of the Scheme, I have had regard to the likely effect of the implementation of the Scheme on the security of policyholder benefits and on the benefit and other expectations of policyholders created by the contractual terms and conditions of the policies and the past practices employed and statements made by each company. In particular I have considered:

- The Scheme document;
- The Principles and Practices of Financial Management ("PPFM") of Phoenix;
- The PPFM of ReAssure;
- The report of the Chief Actuary of Phoenix;
- The report of the Chief Actuary of ReAssure;

- The report of the With-Profits Actuaries ("WPAs") of Phoenix; and
- The report of the WPA of ReAssure.

1.13 There are no documents or other information that I have requested and that have not been provided. Appendix 4 contains a list of the data upon which I have relied.

1.14 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing my report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the terms of the Scheme.

Qualifications and disclosures

1.15 I am a Fellow of the Institute and Faculty of Actuaries and hold certificates issued by the Institute and Faculty of Actuaries enabling me to act as a Chief Actuary and a With-Profits Actuary.

1.16 I am a partner of Milliman LLP ("Milliman") and I am based in its UK Life Insurance and Financial Services practice. I am an approved person on the Financial Services Register and I currently hold a number of Chief Actuary and WPA roles. I have fulfilled the role of Independent Expert in relation to a number of Part VII transfers that have subsequently been approved by the Court.

1.17 My appointment as the Independent Expert was approved by the PRA (after consulting with the FCA) in a letter dated 26 February 2016 to ReAssure.

1.18 I submitted a statement of independence to the PRA and FCA for review before my approval and this statement of independence has been approved by the PRA and FCA. In this statement I have set out why I believe I am able to act independently in relation to this assignment. In particular:

- I am not a shareholder in Swiss Re or the Phoenix Group, including their subsidiaries. I hold no individual policies issued by either company or their subsidiaries and I am not a member of any of the pension schemes under the management of ReAssure or the Phoenix Group.
- Work carried out for Swiss Re and its subsidiaries worldwide and for Phoenix and its subsidiaries worldwide by Milliman represented less than 1% of Milliman's global revenue between 2013 and 2015 inclusive.

1.19 I confirm that neither I nor Milliman LLP have or have had any direct or indirect interest in any of Phoenix, ReAssure or other related firms that could influence my independence.

The parties for whom the report has been prepared

1.20 This report, and any extract or summary thereof has been prepared particularly for the use of:

- The Court;
- The Directors and senior management of ReAssure;
- The Fairness Committee of ReAssure;
- The Directors and senior management of Phoenix;
- The With-Profits Committee ("WPC") of Phoenix;
- The FCA and the PRA, and any governmental department or agency having responsibility for the regulation of insurance companies in the UK;
- The insurance regulator of any EEA country who requests a copy of the report; and
- The professional advisers of any of the above.

1.21 In accordance with the legal requirements under FSMA, copies of my report may be made available to the policyholders of ReAssure and Phoenix and to other interested parties.

My approach to a related Part VII transfer

1.22 As described in Section 4 of this report, another Part VII transfer involving ReAssure and its sister company ReAssure Life Limited ("RLL") is taking place simultaneously to the Phoenix Annuity Scheme. This scheme is referred to as the "RLL Scheme" and is scheduled to be implemented on the same day as this Scheme, with the implementation taking place immediately following the implementation of the Phoenix Annuity Scheme. I have also been appointed as independent expert for the RLL Scheme.

1.23 As the Scheme to which this report relates is scheduled to be implemented first, in this report I have generally considered the impact of this Scheme in isolation but then, where appropriate, considered possible impacts from the subsequent implementation of the RLL Scheme.

1.24 My report on the RLL Scheme considers the impact of the RLL Scheme on all relevant groups of policyholders in the two consequent scenarios, i.e. that the implementation of the Phoenix Annuity Scheme does and does not go ahead. There is no interconditionality between the two Schemes; the Phoenix Annuity Scheme is not dependent on the RLL Scheme, and vice versa.

1.25 I have summarised my conclusions in relation to the RLL Scheme in this report in Section 7.

Limitations

1.26 In preparing my report, I have had access to certain documentary evidence provided by Phoenix and ReAssure, the key elements of which are listed in Appendix 3. I have also had access to, and discussions with, senior management of Phoenix and ReAssure. My conclusions depend on the substantial accuracy of this information and I have relied on this information without independent verification. I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the UK life assurance industry.

1.27 This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this report should not be relied upon for any purpose. I have provided a summary of my report for inclusion in the policyholder information booklet (and, where relevant, distribution to any persons requesting a copy of it). Any other purported summary of my report or elements within my report should not be treated as having been approved or authorised by me.

1.28 This report has been prepared on an agreed basis for Phoenix and ReAssure in the context of the Scheme and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of my report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

The Technical Actuarial Standards ("TAS")

1.29 My report has been prepared subject to the terms of the TAS applicable to Transformations ("Transformations TAS") issued by the Financial Reporting Council. In my opinion, my report complies with the Transformations TAS and is compliant with those elements of the TASs on Data, Modelling, Reporting and Insurance that are applicable to transformations. In complying with these requirements, I note that a number of the key documents listed in Appendix 3 have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.

The Actuarial Profession Standards ("APS")

1.30 APS X2, as issued by the Institute and Faculty of Actuaries, requires members to consider whether their work requires an independent peer review.

1.31 In my view this report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

The structure of my report

1.32 Section 2 of this report covers the considerations of the Independent Expert for a Part VII transfer of long-term insurance business in the UK.

1.33 Section 3 provides some background information on the regulatory regime in the UK, and Sections 4 and 5 provide background to ReAssure and Phoenix respectively.

1.34 Section 6 provides a summary of the key aspects of the Scheme.

1.35 The effects of the implementation of the Scheme on the policies of Phoenix and ReAssure and on the holders of these policies, as well as the effects on other stakeholders, are covered in Sections 7, 8, 9 and 11.

1.36 Section 10 contains my considerations in respect of conduct of business and the treatment of customers.

1.37 Section 12 contains my conclusions on the Scheme.

1.38 The appendices contain financial information relevant to the companies involved in the Scheme, some relevant background information and a glossary of terms used in my report.

2 THE GENERAL CONSIDERATIONS OF THE INDEPENDENT EXPERT

The role of the Independent Expert

2.1 I have compiled my report in accordance with the PRA Statement of Policy (paragraphs 2.27 to 2.40) and with paragraphs 31 to 41 of section 2 of SUP 18, which give guidance on the form of the Scheme Report.

2.2 In considering the proposed Scheme, the concept of treating customers fairly ("TCF") should be applied. To ensure that customers are treated fairly in the future, it is necessary to establish the ways in which customers have been treated in the past. From the policyholders' perspective, the successful implementation of the Scheme must be on the basis that their benefits and fair treatment are not materially adversely affected.

2.3 As described in Section 1 of this report, the Scheme concerns two life insurance companies: Phoenix and ReAssure. I need to consider the terms of the Scheme generally and how the different groups of policyholders of Phoenix and ReAssure and the different generations of policyholders within the different groups are likely to be affected by the implementation of the proposed Scheme. In particular I need to consider:

- The effect of the implementation of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- The effect of the implementation of the Scheme on the reasonable benefit expectations of policyholders; and
- The effect of the implementation of the Scheme on the service standards and governance applicable to policyholders.

2.4 In this report I have not restricted my assessment of the Scheme to adverse effects.

2.5 The two life insurance companies involved in the Scheme have a different mix of policies and policyholders. The type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholder's risk exposure will be the characteristics of the company in which the policy is held, for example:

- The size of the company;
- The amount and quality of capital resources available, other calls on those capital resources and capital support currently available to the company;
- The internal capital policy of the company;
- The investment strategy of the company;
- The mix of business of the company;
- The company's strategy, and governance around its objectives and strategy: for example, its acquisition and new business strategy; and
- Other factors, such as operational risks faced by the company, reinsurance agreements of the company, the company's governance framework and its tax position.

2.6 Some of these risks are company-specific, for example risks arising from the particular mix of business written or from the company's strategy, and some are common to various different groups of policyholders across the companies subject to the Scheme.

Exclusions from the role of Independent Expert

2.7 I am only required to comment on the effects of the implementation of the proposed Scheme on policyholders who enter into contracts with Phoenix and ReAssure prior to the Transfer Date of the Scheme. I am not required to consider the effects of the Scheme on new policyholders entering into contracts after this date.

2.8 I am not required to consider possible alternative schemes and I have therefore only considered the terms of the Scheme presented to me.

The security of policyholder benefits

2.9 As part of my role as Independent Expert for the Scheme, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their guaranteed benefits when these are due.

2.10 In considering and commenting upon policyholder security, I shall primarily consider policyholders' guaranteed benefits and, as appropriate, their reasonable benefit expectations.

2.11 The regulations require insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic estimate of their liabilities to policyholders. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios.

2.12 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the guaranteed benefits and security is also provided by other capital resources in the insurance company.

Policyholders' reasonable expectations in respect of their benefits and the levels of service received

2.13 As Independent Expert, I also need to consider the proposals in the context of the FCA's regulatory objectives and, in particular, the effect of the implementation of the Scheme on policyholders' reasonable expectations in respect of their benefits and treatment in respect of their policies.

2.14 This includes considering the effect of the implementation of the Scheme on areas where discretion is involved on behalf of the relevant insurance company with regard to the charges applied to a policy and the benefits (including with-profits bonuses) granted to the policyholder, to confirm that the implementation of the Scheme will not have a material adverse impact on policyholders' reasonable expectations in respect of their policy benefits.

2.15 In addition, I need to consider the effect of the implementation of the Scheme on the management, service and governance standards of the company in question to ensure that policyholders' reasonable expectations in relation to these areas are not materially adversely affected.

The framework for the consideration of the proposed Scheme

2.16 The framework for my conclusions is a consequence of the Court's consideration of prior schemes. In particular, principles stated by Evans-Lombe J. in Re Axa Equity & Law Life Assurance Society plc and AXA Sun Life plc (2001) (based on principles outlined by Hoffman J. in Re London Life Association Ltd (1989)) are often used as the basis for the consideration of insurance business transfers by the Independent Expert and by the Court.

2.17 In particular, Evans-Lombe J. stated in Re AXA Equity & Law that "the court is concerned whether a policyholder, employee or other interested person or any group of them will be adversely affected by the scheme". He went on to state: "That individual policyholders or groups of policyholders may be adversely affected does not mean that the scheme has to be rejected by the court. The fundamental question is whether the scheme as a whole is fair as between the interests of the different classes of persons affected". The most common interpretation of these (and other relevant) statements has been that a conclusion that "no group of policyholders is materially adversely affected by the Scheme" provides a sufficient condition to conclude that the fairness of the Scheme as a whole has been demonstrated.

2.18 Therefore, as Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of actuarial judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.

2.19 A Scheme may have both positive and negative effects on a group of policies and the existence of detrimental effects should not necessarily imply that the Court should reject the Scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.

2.20 In order to acknowledge this inherent uncertainty, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.

2.21 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' guaranteed benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

2.22 This is the framework in which I undertake my consideration of the proposed Scheme.

My Supplementary Report

2.23 I will prepare a further report (the "Supplementary Report") prior to the final Court Hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events subsequent to the date of the finalisation of my main report.

2.24 My Supplementary Report will be available to policyholders on the ReAssure and Phoenix websites.

3 THE UK LIFE INSURANCE MARKET AND REGULATORY ENVIRONMENT

Introduction

3.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and the UK regulatory environment for insurance companies is summarised in this section.

The UK regulators

3.2 Prior to 1 April 2013, regulation of insurance companies was the responsibility of the Financial Services Authority ("FSA"). Since 1 April 2013, responsibility for the regulation of such companies has been split between the PRA and the FCA.

3.3 The PRA is a part of the Bank of England, and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

3.4 The PRA has statutory objectives to promote the safety and soundness of the insurers that it regulates, and to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.

3.5 The FCA regulates the conduct of all financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.

The Solvency II regulatory regime

Introduction

3.6 A new regulatory solvency framework for the European Economic Area ("EEA") insurance and reinsurance industry came into effect on 1 January 2016. This new regime is known as Solvency II and aims to introduce solvency requirements that better reflect the risks that insurers and reinsurers actually face and to introduce consistency across the EEA. All but the smallest EEA insurance companies are required to adhere to a set of new, risk-based capital requirements and the results will be shared with the public.

3.7 Solvency II is based on three pillars:

- Under Pillar 1, quantitative requirements define a market consistent[1] framework for valuing the company's assets and liabilities, the results of which will be publicly disclosed.
- Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward looking assessment of risks, solvency needs and adequacy of capital resources, called the Own Risk and Solvency Assessment ("ORSA"), and senior management must demonstrate that the ORSA actively informs business planning, management actions and risk mitigation.
- Under Pillar 3, there are explicit requirements governing disclosures to supervisors and policyholders. Firms will produce private reports to supervisors and a public solvency and financial condition report.

The Pillar 1 requirements

3.8 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the best estimate liabilities ("BEL"). The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and the best estimate actuarial assumptions, and the BEL represents the present value of these projected cash-flows.

[1] A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

3.9 Under Solvency II, a company's Pillar 1 liabilities are called the "technical provisions" which consist of the sum of the BEL and the "risk margin". The risk margin is an adjustment designed to bring the technical provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.

3.10 The Pillar 1 assets are, broadly speaking, held at market value.

3.11 The Solvency Capital Requirement ("SCR") under Solvency II is the capital requirement under Pillar 1, and is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5%.

3.12 The Minimum Capital Requirement ("MCR"), which is lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.

3.13 In calculating the SCR, it is expected that most firms will use the "Standard Formula", as prescribed by the European Insurance and Occupational Pensions Authority ("EIOPA"). However, Solvency II also permits firms to use their own internal models (or a combination of a "partial internal model" and the Standard Formula) to derive the SCR. These internal models and partial internal models are subject to approval by the relevant regulator: in the UK this is the PRA.

3.14 On 9 March 2015, "The Solvency 2 Regulations 2015" were laid before the UK Parliament. These regulations implement, in part, the Solvency II Directive (as amended by the subsequent Omnibus II Directive) into UK law and came into force on 1 January 2016.

3.15 The remainder of the Solvency II Directive has been implemented by the FSMA, by rules and binding requirements imposed by the PRA and the FCA, and by directly applicable regulations made by the European Commission. The PRA has issued final statements on the transposition of Solvency II, as amended by the Omnibus II Directive, into the UK national framework. These set out its approach to the prudential regulation, and its expectations, of firms subject to Solvency II.

3.16 EIOPA has published the implementing technical standards ("ITS") and guidelines for the new regime and these have been endorsed by the European Commission, are legally binding and apply to all national regulators under the scope of Solvency II.

3.17 Any UK firms intending to use an internal model, transitional measures, a matching adjustment or a volatility adjustment (as described in the paragraphs below) must formally apply to the PRA for approval. Applications have been accepted by the PRA since 1 April 2015 and the PRA has issued a number of consultation papers and other communications which provide further clarity on the approval processes and set out the PRA's expectations of firms.

3.18 The outcome of firms' applications for measures to take effect from 1 January 2016 was communicated by the PRA in late 2015.

The matching adjustment

3.19 In calculating the BEL, the Solvency II rules permit firms to apply to their regulator to make use of the "matching adjustment". The matching adjustment is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk free rate (swap rates under Solvency II) that they expect to earn from a "hold to maturity" investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in-payment annuity liabilities.

3.20 Firms using the matching adjustment are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cash flows is permitted.

The volatility adjustment

3.21 Where insurers have liabilities that are not eligible for use of the matching adjustment, the Solvency II rules permit firms to apply to their regulator to make use of the "volatility adjustment". The volatility adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the matching adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.

3.22 The volatility adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the volatility adjustment are published by EIOPA.

The transitional measures

3.23 Insurers are also permitted to apply to their regulator (the PRA in the UK) to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:

- The Transitional Measure on Technical Provisions ("TMTP") allows firms to phase in the increase in technical provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm's Solvency I Pillar II liabilities.
- The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen year period.

3.24 In the UK, it is expected that most life insurers will benefit from the transitional measures.

3.25 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e. 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm's technical provisions under Solvency II and the firm's insurance liabilities under the previous Pillar II regime.

3.26 A further test is then carried out to determine whether deducting the calculated TMTP from the firm's Solvency II technical provisions at 31 December 2015 would result in a Financial Resources Requirement ("FRR") under Solvency II that is lower than the firm's FRR under the previous Pillar I and Pillar II regimes at the same valuation date.

3.27 The FRR for a given solvency regime is calculated as the total liabilities plus the firm's capital requirement under that regime. If the Solvency II FRR after deduction of the TMTP is lower than the FRR under the Solvency I regime (Pillar I and Pillar II) then the calculated TMTP must be reduced to a level that ensures that this is no longer the case. The purpose of the FRR test is to ensure that firms are not able to hold lower amounts of financial resources under Solvency II than under the Solvency I regime as a result of the use of the TMTP.

3.28 The final calculated TMTP is deducted from the firm's technical provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen year period.

3.29 The Solvency II Directive provides for firms' TMTPs to be subject to recalculation every two years. The PRA published Supervisory Statement 6/16 ("SS6/16") in May 2016 which set out the PRA's expectations around more frequent recalculations. SS6/16 states that firms will be able to apply to the PRA to recalculate their TMTP every six months if they believe that their risk profile has changed materially since the previous recalculation. It is likely that a Part VII Scheme involving the transfer of the risks associated with material volume of insurance business written before 31 December 2015 would constitute such a material change.

Ring-fenced funds

3.30 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.

3.31 In the UK, many firms have set up ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business within the with-profits fund.

The long-term fund and shareholders' fund

3.32 Prior to the implementation of Solvency II, proprietary firms writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund (the "LTF"). The other assets of a

proprietary company were typically allocated to the shareholders' fund (the "SHF"). Under the PRA rules, the assets in the LTF were only available to be used to support the firm's long-term insurance business and firms were required to maintain assets in the LTF sufficient in value to cover the fund's mathematical reserves.

3.33 Following the implementation of Solvency II, the requirement to maintain a separate LTF has been removed and therefore a firm's "fund structure" now consists of the ring-fenced funds and the business outside of the ring-fenced funds. This business outside the ring-fenced funds is often called the "non-profit fund" or "shareholder backed fund" but whatever the name it includes the assets and liabilities of what was, under the previous regime, called the non-profit fund (in the LTF) and the shareholders' fund (outside of the LTF).

The governance of UK long-term insurers

3.34 The Board of Directors of a long-term insurer is normally the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.

3.35 Under Solvency II, all insurers are required to establish an actuarial function, but it is not defined as being performed by an individual. The actuarial function is responsible for, amongst other things, coordinating the calculation of the technical provisions and expressing opinions on the firm's underwriting policy and the adequacy of the firm's reinsurance agreements. The person having responsibility for the actuarial function under Solvency II is known in the UK as the Chief Actuary.

3.36 The PRA has introduced a new governance regime for UK insurers called the Senior Insurance Managers Regime ("SIMR") which became effective on 7 March 2016, and which defines a set of senior insurance management functions ("SIMF"), including:

- SIMF 1 - Chief Executive Officer ("CEO");
- SIMF 2 - Chief Financial Officer ("CFO");
- SIMF 4 - Chief Risk Officer ("CRO");
- SIMF 20 - Chief Actuary;
- SIMF 5 - Head of Internal Audit; and
- SIMF 22 - Chief Underwriting Officer (general insurance firms only).

3.37 The individuals responsible for these functions will be subject to PRA approval, although there are "grandfathering" arrangements under which individuals approved under the previous approved persons regime may take up approved roles under SIMR.

3.38 In addition to the roles listed above, those firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function". This individual is the WPA, and his responsibilities include advising the firm's management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed. The WPA role is SIMF 21 under SIMR.

3.39 Firms must appoint a With-Profits Committee ("WPC") (or a "with-profits advisory arrangement" if appropriate given the size, nature and complexity of the fund in question) in respect of with-profits business. The WPC's role is to advise and provide recommendations to the firm's governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures.

A firm's risk appetite and internal capital policy

3.40 The Board of a firm is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept of not being able to pay policyholder liabilities as they fall due and/or meet regulatory requirements.

3.41 In order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of their risk appetite and regulatory capital requirements firms usually aim to hold more capital than strictly required to meet

the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's internal capital policy.

3.42 The internal capital policy of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to the internal capital policy usually require Board approval and appropriate consultation with the regulators (the PRA in the UK).

3.43 The capital policy is typically stated in terms of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example for the Solvency II regulatory regime it is a 99.5% probability of remaining solvent over a one year time horizon. By requiring additional capital to be held on top of the regulatory requirements, the capital policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to the capital policy.

3.44 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

The products and long-term insurance business relevant to the proposed Scheme

3.45 The companies (Phoenix and ReAssure) concerned with the proposed Scheme have a wide variety of in-force long-term insurance policies, covering both with-profits and non-profit life and pensions policies.

3.46 The transferring business comprises approximately 58,000 non-profit in-payment annuities currently held in three of Phoenix's ring-fenced funds.

3.47 The proposed Scheme provides for the transfer of a block of non-profit in-payment pension annuities from Phoenix to ReAssure. These annuities provide a guaranteed income to the policyholders until their death and, as non-profit policies, all benefits payable to policyholders are fixed (or subject to fixed or non-discretionary increases) and are not eligible to be amended or increased by discretionary bonuses.

The financial information in this report

3.48 During 2015, the PRA granted approval to:

- Phoenix to use the matching adjustment, the TMTP and its internal model for Solvency II reporting; and
- ReAssure to use the matching adjustment, the volatility adjustment and the TMTP for Solvency II reporting.

3.49 Appendices 1 and 2 show the Solvency II balance sheets as at 31 December 2015 for ReAssure and Phoenix which reflect:

- The use of the matching adjustment;
- The use of the TMTP;
- For ReAssure, the use of the volatility adjustment; and
- For Phoenix, the use of the final and PRA approved version of the internal model methodology and assumptions.

3.50 The financial information used in the analysis of the effects of the proposed Scheme as set out in Sections 7, 8, and 9 is derived from the Solvency II information shown in Appendices 1 and 2. I have not considered the effect of the implementation of the Scheme on the financial position of the relevant firms under the regulatory regime in force prior to Solvency II.

3.51 I have not carried out an independent review of these Solvency II results as at 31 December 2015.

3.52 In respect of the Phoenix Solvency II results as at 31 December 2015:

- The Phoenix Solvency II results as at 31 December 2015 have been approved by the Phoenix Audit Committee and the Phoenix Board;
- The Solvency II own funds have been reviewed by the Phoenix external auditors (Ernst & Young LLP);

- The TMTP has been reviewed internally and signed off/approved by the chairman of the Phoenix Audit Committee; and
- The SCR has been calculated using the PRA approved internal model.

3.53 In respect of the ReAssure Solvency II results as at 31 December 2015:

  - The results have been reconciled to the liabilities on the other audited 31 December 2015 valuation bases, including the previous Pillar I regime. These reconciliations have not been externally audited. I have carried out a high level review of these reconciliations and I am satisfied that I can rely upon them for the purposes of this report.
  - The movement of BEL from the externally reviewed 31 December 2014 Solvency II results has been explained and analysed. I have carried out a high level review of these reconciliations and I am satisfied that I can rely upon them for the purposes of this report.
  - A two stage review of the 31 December 2014 ReAssure Solvency II results was carried out by the external auditors (PwC LLP) in 2015.

- The pro-forma post-Scheme Solvency II figures as at 31 December 2015 have been approved by the ReAssure Board.

3.54 For ReAssure, I have been provided with a reconciliation between the audited Pillar I mathematical reserves at 31 December 2015 and the Solvency II BEL at the same date, and I am satisfied that the components of this reconciliation are, in direction and quantum, in line with what I would expect given my experience of the insurance products involved.

3.55 I am satisfied that it is appropriate to rely upon these Solvency II results for the purpose of this report.

3.56 My Supplementary Report will contain Solvency II numbers as at 30 June 2016 and will provide an update on the effect of the implementation of the proposed Scheme based upon these figures.

Reliance on legal advice

3.57 My report is prepared for the Court as part of the process of submission of the Scheme to the Court. I am not an expert in legal matters and hold no qualifications in UK law (insurance regulations or otherwise) and therefore rely on input from experts in UK insurance law in relation to a number of areas. In particular:

- I rely on a legal review of previous schemes to ensure that there are no provisions in previous schemes that could, in conjunction with the implementation of the proposed Scheme, result in a material adverse impact on policyholders; and
- I rely on input from legal experts in order to ensure that my understanding of the proposed Scheme, and my description of its relevant features in my report, is accurate.

3.58 Once I have obtained the facts around the operation of the Scheme from the legal experts, I can then carry out my review and analysis using my actuarial expertise knowing that I am working from a sound basis.

3.59 In order to get a sound legal understanding of the Scheme the options available to me are to retain my own legal adviser to carry out the relevant legal review, or to rely upon the advice and input of the legal firm retained by ReAssure and Phoenix in respect of this Scheme, namely Linklaters LLP (“Linklaters”) and Hogan Lovells International LLP (“Hogan Lovells”) respectively. In this case, I consider that it is not necessary for me to obtain independent legal advice, and that it is appropriate for me to rely upon the advice provided by Linklaters and Hogan Lovells. My reasons for this are;

- Linklaters and Hogan Lovells are large international legal firms with a wide range of experience in UK insurance law and Part VII transfers and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK.
- The nature of the information and advice from Linklaters and Hogan Lovells upon which I have relied is factual and in particular concerns how a particular aspect of Phoenix or ReAssure (pre or post the implementation of the proposed Scheme) works in accordance with UK law. As such, I am satisfied that the advice or information

given by Linklaters and Hogan Lovells would not be different if they were retained directly by me in respect of the proposed Scheme.

- For the same reason, I consider it unlikely that I would receive a different answer from a different (but similarly qualified) legal expert.

3.60 I am therefore comfortable that it is appropriate for me to rely on the conclusions of Linklaters and Hogan Lovells in forming my view on the Scheme.

4 INFORMATION REGARDING REASSURE

Introduction

4.1 ReAssure is a proprietary company whose immediate parent is Admin Re UK Limited ("ARUK").

4.2 ReAssure and ARUK are part of the Swiss Re Group: ARUK is a wholly-owned subsidiary of Swiss Re Life Capital Limited ("SRLC"), which in turn is a wholly-owned subsidiary of Swiss Re Limited ("SRL"), the ultimate holding company of the Swiss Re group.

4.3 ARUK aims to grow its business through the acquisition of blocks of life insurance business and then integrating them with ReAssure by means of legal transfers of business, or by means of reinsurance agreements, administration contracts and longevity swap deals. This objective has led to a number of transfers of business since 1982, some of which are listed below.

4.4 ReAssure is authorised under the terms of FSMA to undertake long- term insurance business in Classes I to IV, VI and VII and general insurance business in Classes 1 and 2.

The history of ReAssure

4.5 The Occidental Life Insurance Company Limited was founded in 1963 and changed its name to The Life Casualty & General Insurance Company in 1966 and then to Windsor Life Assurance Company Limited ("Windsor Life") in 1972.

4.6 Swiss Re Group acquired Life Assurance Holding Company Limited ("LAHC"), the holding company of Windsor Life, in 2004.

4.7 LAHC was renamed ARUK in 2008 and Windsor Life was renamed ReAssure in 2011. ARUK remains the holding company of ReAssure.

4.8 In January 2016, ARUK acquired Guardian Financial Services Holdings UK Limited ("GFSHUKL"), the parent company of UK insurance company Guardian Assurance Limited ("GAL") and its Irish insurance subsidiary Ark Life Assurance Company Limited ("Ark").

4.9 On 27 June 2016, GAL was renamed RLL.

The transfers of long-term business into ReAssure

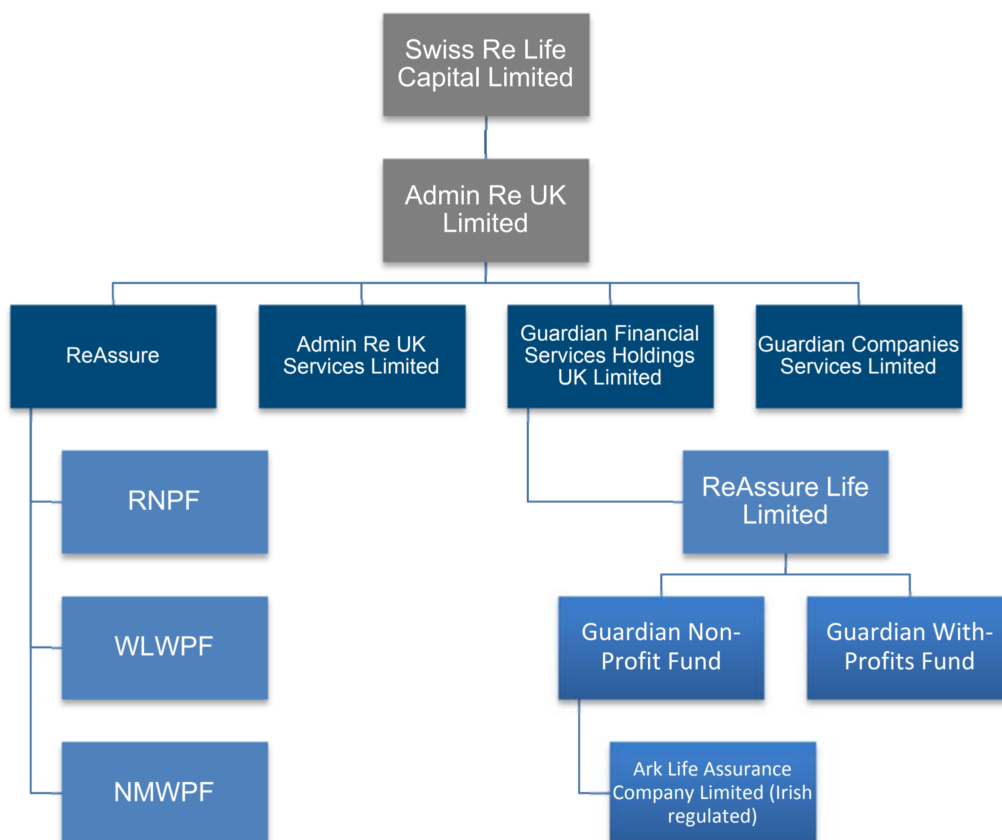
4.10 Over the years there have been a number of Part VII transfers (or equivalent under previous legislation) of the following into ReAssure:

- Gresham Life Assurance Limited / Gresham Unit Assurance Limited in 1992;
- Aetna Life Insurance Company Limited in 1993;
- Crown Life Assurance Company Limited in 1995;
- Lifetime Assurance Company Limited (UK branch) in 1996;
- Combined Life Assurance Company Limited (linked life and pensions business) in 1996;
- RFSG (UK) plc in 1998;
- GAN UK plc and subsidiaries in 1998;
- Reassure UK Life Assurance Company Limited (formerly Zurich Life Assurance Company Limited) in 2005;
- Virgin Money Life Limited in 2005;
- National Mutual Life Limited ("NMLL") and National Mutual Pensions Limited ("NMPL") in 2007 (the "NM Scheme");
- A block of business from Zurich Assurance Limited in 2008 (the "ZAL Scheme");

- Barclays Life Assurance Company Limited in 2011 (the "Barclays Scheme");
- A block of business from American Life Insurance Company (UK Branch) ("ALICO") in 2012 (the "ALICO Scheme"); and
- A block of business from HSBC Life (UK) Limited in 2015 (the "HSBC Scheme").

The current ReAssure structure

Figure 4.1: Simplified ARUK Structure (see the text below for the meanings of the abbreviations)



4.11 ReAssure currently has two ring-fenced funds as defined under Solvency II. These are:

- The Windsor Life With-Profits Fund (the "WLWPF"); and
- The National Mutual With-Profits Fund (the "NMWPF").

4.12 Under Solvency II, all assets not in a ring-fenced fund must be allocated to either the long-term insurance business or the general insurance business of the company.

4.13 For Solvency II reporting purposes, the business outside the ring-fenced funds is referred to as the ReAssure Non-Profit Fund (the "RNPF") business and I follow this convention in my report. For the avoidance of doubt, the RNPF includes the assets and liabilities of what were, prior to the implementation of Solvency II, the ReAssure NPF and the ReAssure SHF (as described in Section 3).

4.14 Under Solvency II, the business of the RNPF consists of:

- The long-term non-profit business (the "RNPF LT business");
- The short-term non-profit business – i.e. the ReAssure general insurance business; and

- All other assets and liabilities of ReAssure outside the ReAssure ring-fenced funds, including the wholly owned subsidiaries of ReAssure:
    - Admin Re Trustees Limited;
    - Gresham Life Assurance Society Limited;
    - National Mutual ("NM") Life Assurance Society Limited; and
    - Admin Re Pension Trustees Limited.

4.15 ReAssure's long-term insurance business consists of with-profits business and non-profit business in the ring-fenced funds (the WLWPF and the NMWPF) and the RNPF LT business. The business consists of:

- Conventional with-profits ("CWP") and unitised with-profits ("UWP") life and pensions business;
- Unit-linked life and pensions business;
- Non-profit annuities;
- With-profits annuities;
- Other non-profit, non-linked, life and pensions business; and
- Pension scheme longevity swaps.

4.16 The long-term business written in each of the WLWPF, the NMWPF and the RNPF is described in turn below.

The WLWPF business

4.17 The WLWPF is a ring-fenced fund and consists of CWP and UWP business, most of which originated from an earlier transfer into ReAssure, and a significant amount of non-profit linked and non-linked business.

4.18 The WLWPF closed to new business in 2012 (apart from contractual increases to existing policies) and ReAssure aims to distribute the assets in excess of those required to cover the realistic liabilities fairly and evenly over the lifetime of the remaining policies. Surplus arising in the WLWPF that is deemed distributable is shared with at least 90% being allocated to with-profits policyholders and the balance to the RNPF.

4.19 As at 31 December 2015, the WLWPF had Solvency II best estimate liabilities totalling £0.7 billion (including the Defined Book – see below) and consisted of:

- UWP business;
- CWP business;
- With-profits annuity business;
- Non-profit business; and
- The Defined Book ("DB") which is an identifiable portfolio of non-profit annuity and hybrid unit-linked and UWP business mainly originating from transfers of other blocks of business into the WLWPF.

4.20 The table below summarises the in-force business of the WLWPF at 31 December 2015.

Table 4.1 – Breakdown of the business of the WLWPF at 31 December 2015

Product type	Number of policies	Gross BEL (£m)	Reinsurance recoverables (£m)	Net BEL (£m)
UWP Life	1,845	27	-	27
UWP Pensions	1,410	63	-	63
CWP Life	950	16	-	16
CWP Pensions	905	64	-	64
With-Profits Annuities	7,604	253	-	253
Conventional Non-Profit	814	12	-	12
Defined Book (Unit-Linked/UWP Life)*	950	(1)	-	(1)
Defined Book (Unit-Linked/UWP Pensions)*	389,842	(356)	-	(356)
Defined Book (Non-Profit Annuities)*	28,862	541	-	541
Defined Book (Other Conventional Non-Profit)*	14,987	51	-	51
Total	**448,169**	**671**	**-**	**671**

**This table does not reflect the WLWPF's inter-fund arrangements described in paragraphs 4.21 and 4.22 below.*

4.21 The investment element of the UWP parts of the DB policies is linked to the NMWPF.

4.22 Until 2012, the WLWPF received a 15.75% share of the profits from the DB with the remainder being paid to the RNPF. In 2012, the WLWPF sold (via an intra-company arrangement) its share of the surpluses arising to the RNPF in exchange for a ceding commission. As a result, the RNPF currently receives 100% of the surplus arising from the DB.

4.23 The WLWPF includes some liabilities that have approval to use the volatility adjustment, including the in-payment annuities within the DB and the cost of guarantees on with-profits business.

The NMWPF business

4.24 The NMWPF is a ring-fenced fund and was created in ReAssure under the terms of the NM Scheme in 2007. The majority of the NMWPF is pensions with-profits business (both conventional and unitised) and there is also a small amount of non-profit business. The non-profit business is mainly deferred annuity and endowment policies.

4.25 Surplus arising in the NMWPF that is deemed distributable is all distributed to policyholders over time whilst maintaining equity among policies maturing at different times. The RNPF does not receive a share of NMWPF profits.

4.26 The NMWPF is closed to new business, other than for a small number of increments to existing policies.

4.27 As at 31 December 2015, the NMWPF had Solvency II best estimate liabilities totalling £1.4 billion and consisted of:

- CWP business;
- UWP pensions business; and
- Non-profit business.

4.28 The table below summarises the in-force business of the NMWPF at 31 December 2015.

Table 4.2 – Breakdown of the business of the NMWPF at 31 December 2015

Product type	Number of policies	Gross best estimate liabilities (£m)	Reinsurance recoverables (£m)	Gross best estimate liabilities less reinsurance recoverables (£m)
UWP Pensions	21,385	625	-	625
CWP Life	661	31	-	31
CWP Pensions	22,059	703	-	703
GAR reserves (unit-linked)	-	2	-	2
Conventional non-profit	1,256	50	-	50
Total	**45,361**	**1,411**	**-**	**1,411**

4.29 As set out in the NM Scheme, a Capital Support Facility (the "NM CSF") has been established and is maintained to provide capital support to the NMWPF in the event that the NMWPF is unable to meet its regulatory capital requirements at the end of any quarter. The support provided by the NM CSF can be achieved by means of:

- An assignment to the NMWPF of a proportion of the share of the surplus allocated to the RNPF projected to arise in the future under part of the business held elsewhere in ReAssure; and / or
- A contingent loan advanced to the NMWPF, repayable by reference to the surplus that emerges in the NMWPF and is subject to interest accruing at a rate equal to 2.5% p.a. above the 5 year FTSE gilt index yield as at the date the loan is advanced.

4.30 The maximum level of the Capital Support Facility was originally set at £200 million as at 8 April 2002 (the date on which National Mutual Life Assurance Society demutualised) and this amount reduces broadly in line with the size of the NMWPF. As at 31 December 2015, this maximum amount had reduced to approximately £150 million compared to a BEL for the NMWPF of £1.4 billion. At the date of this report, the support facility has never been drawn upon.

4.31 Once the admissible value of the assets in the NMWPF falls below £300 million (increased from 2008 in line with the Retail Prices Index), the NM Scheme allows for the NMWPF to be merged with another with-profits fund, subject to certain conditions being met (including the approval of both the PRA and the ReAssure Fairness Committee – see below). At the date of this report, the threshold is approximately £375 million after allowing for inflation.

4.32 If the admissible assets in the NMWPF fall below £60 million (increased from 2008 in line with the RPI), the NM Scheme requires the fund to be merged with one of ReAssure's other long term insurance business sub-funds and the benefits under any remaining with-profits policies converted to fixed non-profit benefits. At the date of this report, the threshold has increased to approximately £75 million after allowing for inflation.

The RNPF LT business

4.33 The RNPF LT business had Solvency II technical provisions, as at 31 December 2015, of £24.0 billion. The RNPF LT business consists of:

- Unit-linked life business;
- Unit-linked pensions business;
- Non-profit annuity business;
- Other non-linked non-profit business including level and decreasing term assurance, critical illness, income protection, endowment and deposit administration products; and
- Pension scheme longevity swaps.

4.34 The non-profit annuities include a significant amount of annuities acquired from Zurich Assurance Limited in 2007 and transferred to ReAssure in 2008. All of the longevity risk on these annuities (other than on the index-linked annuities) is reinsured to Swiss Reinsurance Company Limited ("SRZ").

4.35 In addition, the non-profit annuities include the annuities acquired from HSBC Life (UK) Limited in 2015, which are reinsured via a 100% quota share reinsurance agreement with Hannover Re.

4.36 The table below summarises the in-force RNPF LT business at 31 December 2015.

Table 4.3 – Breakdown of the RNPF LT business at 31 December 2015

Product type*	Number of policies	Gross BEL (£m)	Reinsurance recoverables (£m)	Net BEL (£m)
Unit-Linked Life**	142,746	(145)	3	(148)
Unit-Linked Pensions**	653,912	(445)	-	(445)
Non-Profit Annuities	345,134	6,367	504	5,864
Longevity Swaps	3	(324)	(249)	(75)
Other Conventional Non-Profit	288,402	464	8	456
Total	**1,430,197**	**5,918**	**265**	**5,653**

** This table does not reflect the inter-fund arrangements in relation to the DB described in paragraphs 4.21 and 4.22.*

***This table does not include the unit reserves of the unit-linked policies.*

4.37 The RNPF includes a Matching Adjustment Portfolio (“MAP”) and a Volatility Adjustment Portfolio (“VAP”). The MAP consists of the in-payment annuities within the RNPF excluding those that are index-linked, of which the majority are included within the VAP.

4.38 The RNPF is open to new business; however; other than fulfilling obligations to existing policyholders, this only arises through transactions with third parties to acquire new books of risks, for example, portfolio reinsurance agreements.

The ReAssure general insurance business

4.39 The ReAssure general insurance business is maintained separately from the RNPF LT business but is part of the RNPF. These policies were originally written in American Life Insurance Company (“ALICO”).

4.40 The ReAssure general insurance business comprises approximately £500,000 of Incurred But Not Reported (“IBNR”) claims reserves and associated capital requirements in respect of general insurance business that is no longer in force. These reserves are held in relation to potential claim events under the expired policies that may not yet have been reported to ReAssure. They are not included in Table 4.3 as they do not relate to long-term business.

Solvency II for ReAssure

4.41 ReAssure has informed the PRA that it will use the Standard Formula for the purpose of calculating its capital requirements under Solvency II and has received no objection from the PRA to this approach. The PRA has not imposed any capital add-ons to the Standard Formula.

4.42 ReAssure has an approved MAP within the RNPF made up of the in-payment annuities within the fund with the exception of index-linked annuities and certain other minor product classes.

4.43 ReAssure has submitted an application to vary its Matching Adjustment approval in advance of the implementation of the Phoenix Annuity Scheme and the RLL Scheme (see above) in respect of:

- Inclusion of an additional asset type, specifically interest rate swaps;
- Inclusion of an additional liability type, specifically index-linked annuities;
- Additional liquidity requirements arising from the need to post collateral for derivative positions; and
- Changes to the rules governing trading in the MAP.

4.44 In advance of the implementation of the RLL Scheme, ReAssure has also applied for approval to create two new MAPs within the RNPF to which the business currently allocated to RLL’s two MAPs would be allocated following the implementation of the RLL Scheme.

4.45 ReAssure also has a block of business for which it has approval to apply a Volatility Adjustment. This business consists of:

- Most of the index-linked in-payment annuities within the RNPF;
- In-payment annuities within the DB of the WLWPF; and
- The cost of guarantees associated with with-profits business in the ring-fenced funds.

4.46 ReAssure has submitted an application to vary its Volatility Adjustment approval in advance of the implementation of the Phoenix Annuity Scheme and the RLL Scheme to permit the inclusion of deferred annuity business in its VAP.

4.47 The PRA has approved ReAssure's application to apply a TMTP. As at 31 December 2015 ReAssure's Pillar 1 Financial Resources Requirement (the "FRR") exceeded its Solvency II FRR, and as a consequence the allowable amount of TMTP was zero.

4.48 It should be noted that in anticipation of the RLL Scheme, ReAssure has applied for, and received, approval from the PRA to vary its TMTP approval which would increase the allowable TMTP by a small amount (approximately £30 million). However, due to the Phoenix Reinsurance Agreement, the implementation of the Phoenix Annuity Scheme would not result in a material change to the risk profile of ReAssure and is therefore not considered to be a trigger event for a recalculation of the TMTP.

4.49 It should be noted that, in the event that the RLL Scheme is implemented, the allowable TMTP in ReAssure will increase significantly (to approximately £800 million).

Recent relevant events

The acquisition of Guardian Financial Services

4.50 In January 2016, ARUK acquired Guardian Financial Services Holdings UK Limited ("GFSHUKL"), the parent company of Guardian Companies Services Ltd ("GCSL") and a UK-based regulated insurance company Guardian Assurance Limited ("GAL"). On 27 June 2016, GAL was renamed RLL (ReAssure Life Limited).

4.51 RLL has an Irish-based insurance subsidiary, Ark Life Assurance Company Limited ("Ark").

The Part VII transfer of the business of RLL into ReAssure

4.52 ReAssure currently proposes to transfer the business of RLL into ReAssure by means of a Part VII transfer ("the RLL Scheme"). Ark, which is currently a subsidiary of RLL, will become a subsidiary of ReAssure.

4.53 It is intended that the RLL Scheme will be implemented on the same day as the Phoenix Annuity Scheme being considered in this report, with the Phoenix Annuity Scheme taking place first, and the RLL Scheme taking place immediately afterwards.

4.54 I have also been appointed as Independent Expert in relation to the RLL Scheme.

4.55 In this report, I intend to consider the impact of the Phoenix Annuity Scheme in the context that the RLL Scheme is proposed but may or may not be sanctioned by the Court. Therefore I shall be drawing conclusions through a comparison of the current pre-transfer situation with two possible post-transfer scenarios: firstly where the RLL Scheme is not sanctioned and secondly where the RLL Scheme is sanctioned.

The ReAssure Fairness Committee and the ReAssure Independent Governance Committee

4.56 The main purpose of the ReAssure Fairness Committee is to oversee the fair treatment of the policyholders within ReAssure, including both non-profit and with-profit policyholders. It acts as the ReAssure WPC (therefore fulfilling the requirement of COBS 20.5.1 from the FCA Handbook to appoint a WPC) and is therefore responsible for the oversight and challenge to the management of the WLWPF and the NMWPF, as well as monitoring the compliance with their respective PPFMs. The ReAssure Fairness Committee is also required to review ReAssure's unit-linked business practices, including the investment objectives and investment managers. As and when significant transactions arise within ReAssure, it is the duty of the ReAssure Fairness Committee to advise the ReAssure Board on the impact of such transactions and to monitor compliance with previous transfer schemes.

4.57 The purpose of the ReAssure Independent Governance Committee is to review the value for money for policyholders of the ReAssure workplace personal pensions in relation to investment strategies, investment performance, fund charges and service standards.

ReAssure's internal linked funds

4.58 ReAssure maintains a range of internal linked funds for its unitised policies, although some external links to collective investment funds also exist to align with policy terms where necessary. Due to the large number of business transfers that have been made into ReAssure, it has a diverse range of policies, funds and unit types. In order to ease the consequent management challenges, ReAssure has adopted a layered approach to managing the linked funds.

4.59 At the lowest level, ReAssure maintains a series of internal asset pools, each of which is, in effect, a specialist fund holding a single asset class, for example, UK equities or UK gilts. These are referred to as the Base Funds. At the next level, ReAssure maintains internal funds that reflect the investment objectives set out for each of the investment links that ReAssure's linked policyholders may choose; these are invested in the Base Funds. At the final layer, a number of separate series of units are maintained reflecting different charging structures arising from the in-force policies, for example, different rates of management charge or bid / offer spread. Each policyholder unit series is assigned to a "Profile Fund" with an appropriate investment objective.

4.60 As noted above, the practices adopted by ReAssure in relation to its unitised business are subject to review by its Fairness Committee, which considers the continuing suitability of the practices and their application. In addition, the ReAssure Independent Governance Committee reviews the value for money of the workplace personal pensions, including an assessment of the investment strategies, investment performance, fund charges and service standards.

4.61 Subject to policy terms and conditions being satisfied, ReAssure may close or combine existing internal linked funds from time to time if it is believed that doing so will be beneficial for policyholders, either due to reduced costs or by achieving investment objectives more effectively. New funds may also be introduced.

ReAssure's reinsurance agreements

4.62 ReAssure has external reinsurance agreements (where ReAssure is the cedant) with RGA, Generali Worldwide Insurance Company Limited, Munich Re, SCOR, Hannover Re, and PartnerRe.

4.63 In addition, ReAssure has a number of intra-group reinsurance agreements in place (where ReAssure is the cedant) with Swiss Reinsurance Europe S.A. ("SRE") and SRZ. These are all reinsurance agreements structured as longevity swaps and include the annuities (including index-linked) that were transferred into ReAssure under the ZAL Scheme in 2008. The arrangement for the ZAL annuities has been reinsured to SRZ.

4.64 The UWP elements of the hybrid DB business within the WLWPF are linked to the NMWPF under an inter-fund arrangement so that the investment risk on the UWP hybrid DB policies is passed to the NMWPF. All other surplus on the DB policies accrues to the RNPF under the terms of the 2007 National Mutual Scheme and under a subsequent inter-fund arrangement.

4.65 There is not currently any material business that is reinsured into ReAssure from another insurance company.

The capital policies relevant to ReAssure

The ARUK Group capital policy

4.66 The ARUK Group of companies are wholly owned subsidiaries of Swiss Re Group which is a listed company on the Swiss stock exchange. The Swiss Re Group ratings as at 31 December 2015 were:

- Standard & Poor's: AA-
- Moody's: Aa3
- AM Best: A+

4.67 The Swiss Re Group rating is significant to ARUK for the following reasons:

- Swiss Re Group would not wish its exposure to its subsidiaries to impair its ability to achieve its desired credit rating. This has an impact on the amount of capital held in ARUK.
- It is important in the context of the overall exposure of ARUK and the subsidiaries to the Swiss Re Group.

4.68 The primary capital management target of ARUK is to maintain a minimum excess Solvency II capital resource of 20% of the Solvency II SCR, subject to the discretion of the Board and on the interaction of the buffer with any specific capital margins required by the PRA.

4.69 The intent of the buffer is to ensure sufficient Own Funds are maintained to cover the SCR under the normal course of market volatility. Group policy is for legal entities to hold sufficient capital to cover 1 in 10 year event stresses.

The ReAssure capital policy

4.70 In March 2016, the Admin Re Group Boards approved a new capital policy (the "ReAssure Capital Policy" or "RCP") that is applicable to the regulated insurance companies overseen by ARUK, including ReAssure and RLL. The previous capital policy provided for a capital management buffer to be maintained over and above the capital required under the previous (Solvency I) regulatory regime.

4.71 The RCP specifies that capital resources should be sufficient to cover the ReAssure SCR and 20% of the RNPF SCR. ReAssure's analysis indicates that this capital buffer is broadly consistent with ReAssure being able to maintain 100% SCR coverage following a 1-in-10 year event. In other words, ReAssure believes that its capital policy buffer allows ReAssure to maintain at least 100% SCR coverage with 90% confidence over a one year period.

4.72 In addition to the capital buffer, the RCP includes a requirement in relation to the TMTP that, where ReAssure or RLL would be unable to cover its SCR in the absence of the TMTP, any dividends paid are to be restricted to:

- Any separately identifiable undistributed surplus arising from a previous period; plus
- Any surplus arising in the period; less
- The amount of phasing-in set out in the relevant transitional plan for that period.

4.73 Any assets in excess of those required under the RCP may be distributed to the shareholder or used to finance other strategic initiatives.

4.74 It should be noted that ReAssure's TMTP deduction is currently zero as the FRR under the previous Pillar I regime is higher than the FRR under Solvency II.

4.75 Should the RCP be breached, the management actions taken to restore solvency to the required level will depend upon the nature of the events causing the strain on the solvency position of ReAssure. Previous management actions have involved intra-group reinsurance agreements and monetisation of future unit-linked business profits, both of which aim to reduce the SCR and technical provisions.

4.76 If such actions are not projected to bring ReAssure into compliance with the RCP in the required timeframe, then a capital injection (usually in the form of a contingent loan) should be made. The ARUK group capital policy states that capital will be provided by the Swiss Re Group should management actions be unable to mitigate a breach in the RCP.

The administration and servicing of the ReAssure policies

4.77 The administration and servicing for the majority of ReAssure policies is carried out by Admin Re UK Services Limited ("ARUKSL"). This is subject to a Management Services Agreement and fees are agreed on a per-policy basis, increasing in line with an external inflation index.

4.78 In addition, ReAssure has a Management Services Agreement with HCL Insurance Services BPO Limited for the business transferred under the 2011 Barclays Scheme.

4.79 The administration for the annuity business transferred under the HSBC Scheme in 2015 is included under the terms of the reinsurance agreement with Hannover Re.

4.80 Swiss Re Asset Management manages the majority of ReAssure's non-profit, non-linked assets, however the management of credit assets have largely been sub-contracted to BlackRock Asset Management Limited. The remaining non-profit non-linked assets are managed by external asset managers.

4.81 The majority of ReAssure's unit-linked assets are managed by Aberdeen Asset Management Limited, however HSBC Asset Management Limited provides the asset management in respect of the pension business transferred under the HSBC Scheme in 2015. In addition, there are a number of direct unit-linked policyholder investment links into external collective schemes.

4.82 ReAssure's with-profits assets are managed by Aberdeen Asset Management Limited.

5 INFORMATION REGARDING PHOENIX

Introduction

5.1 Phoenix Group has two active UK regulated life companies: Phoenix and Phoenix Life Assurance Limited ("PLAL"). Phoenix Life Holdings Limited ("PLHL") is the senior UK and European Community insurance holding company in the Group. Phoenix Group Holdings, which is listed on the London Stock Exchange and is a FTSE 250 company, is the parent.

5.2 The Phoenix Group specialises in the management and acquisition of closed life and pensions funds, and operates primarily in the UK.

5.3 Phoenix is authorised under the terms of FSMA to undertake long term insurance business falling in Classes I - IV, VI and VII.

The history of Phoenix

5.4 The Phoenix Group can trace its origins back to 1782 with the establishment of Phoenix Assurance. Its evolution since then is complex and further details of the Phoenix Group's and Phoenix's evolution can be found on the group's website.

5.5 Phoenix was incorporated in England and Wales on 30 June 1971 under the Companies Acts 1948 to 1967 as a private limited company and it closed to new business in 2002, except in respect of increments and options under existing policies. Since 2002, Phoenix has grown in size as a result of a number of insurance business transfers and has approximately £39 billion of assets under management as at 31 December 2015.

The Phoenix current fund structure

5.6 Phoenix has ten ring-fenced funds as defined under Solvency II. Outside of the ring-fenced funds, Phoenix has non-profit long-term business.

5.7 As discussed in Section 3, the requirement to segregate the assets of a non-profit fund and a shareholders' fund is no longer in place under Solvency II. For Solvency II reporting purposes, the business outside the ring-fenced funds is referred to as the Phoenix Non-Profit Fund ("PNPF") business and I follow this convention in my report. For the avoidance of doubt, the PNPF includes the assets and liabilities of what were, prior to the implementation of Solvency II, the Phoenix NPF and the Phoenix SHF (as described in Section 3).

5.8 The ring-fenced funds from which the non-profit annuities are to be transferred under the Phoenix Annuity Scheme are

- The Alba WPF;
- The SAL WPF; and
- The Phoenix WPF.

5.9 A summary description of each of these is provided below.

The Alba WPF

5.10 The Alba WPF is a ring-fenced fund and comprises business that was transferred to Phoenix in 2006 from Alba Life Limited. It is closed to new business except to the extent that it is necessary to honour policy options under existing contracts (for example increments to existing policies).

5.11 In the Alba WPF, with-profits policies are divided into various classes for the purposes of allocating annual bonuses, final bonuses and interest payments. For some of these, distributed surplus is shared among the with-profits policyholders and the Phoenix NPF and for others distributed surplus is wholly distributed to the with-profits policyholders.

5.12 The majority of the business is CWP life and CWP group pension arrangements (including buy outs from existing group pension arrangements). There is also some UWP and non-profit deferred and in-payment annuity business.

The SAL WPF

5.13 The SAL WPF is a ring-fenced fund and consists of the following business transferred into Phoenix under a Part VII transfer in 2011 from Phoenix & London Assurance Limited:

- CWP policies;
- UWP policies;
- Non-profit non-linked policies;
- Unit-linked policies; and
- In-payment and deferred non-profit annuities.

5.14 For the majority of the SAL WPF business, the distributed surplus is shared with at least 90% being allocated to with-profits policyholders and the balance to the Phoenix NPF.

The Phoenix WPF

5.15 The Phoenix WPF is a ring-fenced fund and consists of the business transferred to Phoenix under a Part VII transfer in 2006 from Phoenix Life & Pensions Limited. The with-profits business consists mainly of:

- CWP endowment policies;
- CWP pension polices, most of which have embedded guaranteed annuity rate options;
- Single premium UWP whole life bonds; and
- UWP pension policies, some of which are reassured to the fund from the SAL WPF.

5.16 For the majority of the Phoenix WPF business, the distributed surplus is shared with at least 90% being allocated to with-profits policyholders and the balance to the Phoenix NPF.

5.17 There is also a range of non-profit contracts in the Phoenix WPF.

Other Phoenix ring-fenced funds

5.18 The remaining seven ring-fenced funds in Phoenix, along with the ratio of the distribution of distributable surplus are as follows:

- The 100% WPF (100:0);
- The 90% WPF (90:10);
- The Britannic Industrial Branch Fund (90:10);
- The Britannic WPF (90:10);
- The NPI WPF (100:0);
- The Scottish Mutual WPF (90:10); and
- The SPI WPF (90:10).

The PNPF

5.19 The PNPF contains the following non-profit business:

- Endowment policies;
- Whole life policies;
- Term assurance policies;
- Critical illness policies;

- In-payment and deferred annuities; and
- Unit-linked regular and single premium pension policies.

Recent relevant events

The Phoenix 2013 Scheme

5.20 In September 2013, over 300,000 in-payment pension annuities from the non-profit funds of Phoenix and Phoenix Life Assurance Limited, and from National Provident Life Limited comprising approximately £5 billion of reserves were transferred to GAL (now RLL) under the Phoenix 2013 Scheme.

The reinsurance agreement with RLL

5.21 On 31 July 2014, Phoenix and RLL entered into an annuity business transfer agreement under which Phoenix and RLL agreed to transfer certain annuity policies and the associated assets and liabilities from three Phoenix WPFs to RLL's NPF.

5.22 At the same time, in order to accelerate the transfer of the economic risk and reward associated with the transferring business, Phoenix and RLL entered into a reinsurance agreement in relation to these annuity policies together with certain other related agreements. These are collectively referred to in this report as "the reinsurance agreement".

5.23 Under the terms of the reinsurance agreement, which took effect from 1 January 2014, Phoenix is responsible for the payment of the annuities being transferred and continues to bear the administration costs, and Phoenix must then claim for the annuity amounts from RLL. RLL is responsible for making a payment to Phoenix in respect of the annuity payments. Pursuant to the reinsurance agreement, the majority of the assets backing the liabilities under the transferring business (approximately £1.8 billion in value as at 31 December 2015) were transferred to RLL as the premium under the reinsurance agreement.

5.24 There is also a security deed under which RLL was required to open certain accounts with a custodian bank (Citibank N.A. in the first instance), to which the assets transferred to RLL were allocated. RLL gave a charge over the assets credited to those accounts in favour of Phoenix as security for its performance of its obligations under the reinsurance agreement.

5.25 RLL is required to ensure that the value of the assets in the security account are at least 103% of the reinsured liabilities. This deed and its subsequent variation are referred to in this report as the "security agreement".

5.26 Under the security agreement, investment restrictions are imposed on the assets transferred to RLL. These restrictions limit investments backing the reinsured annuities to certain asset classes, cash and other listed assets: corporate bonds, covered bonds, asset-backed securities (other than floating asset-back securities), government securities, supranational securities, holdings in UCITS funds and certain derivative instruments. Rules are also set out in respect of currencies, credit ratings and maximum exposures.

5.27 The annuity business transfer agreement described above has recently been renegotiated to permit the transfer of the Phoenix annuity policies into ReAssure rather than into RLL as originally agreed.

The Phoenix capital policy

5.28 The Phoenix capital policy ("PCP") is governed in part by the terms of the Part VII transfer in 2009 of most of the long-term insurance business of Scottish Mutual Assurance Limited and Scottish Provident Limited into Phoenix. The objective of the PCP is to ensure that Phoenix can continue to meet its regulatory capital requirements under certain stress scenarios and also to govern the use of shareholder funding to support the Phoenix with-profits funds, should they require it.

5.29 In March 2016, the Phoenix Board approved a new, interim PCP to reflect the transition to Solvency II. Phoenix has received non-objection from the PRA to this interim capital policy under which a capital buffer equal to 28% of the SCR should be held.

5.30 This has been derived to maintain policyholder protection at a level that is at least equivalent to Phoenix's Solvency I Pillar II regulatory capital requirements (including any capital add-ons) at the time of the 2009 change of control.

5.31 The percentage is broadly equivalent to a 1-in-10 level of confidence of 100% SCR coverage over a one year period, after allowing for one year of expected surplus emerging.

5.32 The percentage will be reviewed from time to time to ensure that the PCP continues to meet its objective. The percentage may therefore change without affecting the strength of the capital policy.

5.33 The Phoenix Board has further determined that, after any extraction of capital, a surplus in excess of the PCP requirements will be held in Phoenix. This excess required capital is currently £50 million and is regularly reviewed to reflect emerging risks and the volatility of investment markets.

5.34 Any assets in excess of the PCP requirements in the PNPF may be distributed to Phoenix's shareholders or used to finance other strategic initiatives.

5.35 The PCP states that the implications of a capital policy breach are based on the following Red, Amber and Green (RAG) thresholds:

Green	Amber	Red
Above capital policy	Below capital policy but recovery to green is expected within 4 months and not below the target SCR cover by more than a third	Below capital policy and recovery to green is not expected within 4 months or below the target SCR coverage by more than a third

5.36 An amber status would result in notification to the Board and the PRA along with a plan showing how the status would be restored in a 4 month time horizon. A Red status means that there is a sufficient deficit against the policy that immediate action should be taken.

5.37 If management actions are not projected to bring Phoenix into compliance with the PCP in the required timeframe, then a capital injection should be made. PLHL currently holds £100 million of capital that can be injected into Phoenix should management actions be unable to mitigate a breach in the PCP, although the requirement to hold this capital will fall away at 31 December 2016 in accordance with the 2009 change in control conditions.

5.38 In addition, there is a liquidity test that was introduced as part of the 2009 Phoenix Part VII scheme which requires that, under stressed conditions, the PNPF must have sufficient assets available to be able to cover its own liabilities and sufficient excess liquid assets to provide support to the Phoenix ring-fenced funds if necessary.

5.39 A final Solvency II capital policy, based on Phoenix's Solvency II balance sheet at 31 December 2015, has recently been considered by the Phoenix Board. Phoenix is currently awaiting non-objection from the PRA before the new capital policy may be implemented.

5.40 I will comment on any changes to the PCP in my supplementary report if such changes have been agreed at that time.

The reinsurance agreements of Phoenix

5.41 Phoenix has a number of external reinsurance agreements (where Phoenix is the cedant) in place with RLL, XL Re Limited, American International Reinsurance Company Limited, , Munich Re Group, SCOR Global Life SE, Hannover Rück SE, Swiss Re Europe Holdings SA, Pacific Life Re, UNUM Limited, General Reinsurance SE, , Legal and General Assurance Society Limited, and RGA International Reinsurance Company Limited.

5.42 In addition, the PNPF and NPI WPF of PLL reinsure certain elements connected with the business of NPI Limited (which was transferred to Phoenix in 2012) to PLAL. Phoenix accepts the reinsurance of the investment element and certain expense liabilities on unit-linked business from the NPL WPF within PLAL.

The administration and servicing of the Phoenix policies

5.43 The administration and servicing of the Phoenix policies is carried out by Pearl Group Management Services Limited ("PGMS"), another Phoenix Group company. Fees under this arrangement are based on unit charges and policy volumes, with the unit charges subject to annual increases linked to an external index.

5.44 PGMS, in turn, outsources the policy administration to a number of administration providers including Diligenta Limited ("Diligenta") and Capita Life & Pensions Services Limited ("Capita"), the companies relevant to the policies affected by the proposed Scheme.

5.45 Assets are mostly managed by Ignis Asset Management ("IAM"), in return for fees which vary by asset class and fund.

6 THE PROPOSED PHOENIX ANNUITY SCHEME

The motivation for the Phoenix Annuity Scheme

6.1 The transferring business is currently allocated to the Phoenix WPF, the Alba WPF and the SAL WPF and, prior to ARUK's acquisition of GAL (as RLL was then called), Phoenix and GAL intended to transfer this business into GAL in order to fulfil the obligations of Phoenix and GAL under the annuity transfer agreement dated 31 July 2014.

6.2 Following the acquisition of GAL by ARUK, the renaming of GAL as RLL in June 2016 and the agreement of a revised annuity transfer agreement in June 2016, the implementation of the Phoenix Annuity Scheme will transfer the transferring business from Phoenix to ReAssure. The transferring business continues to be reinsured to RLL, as it has been since the annuity transfer agreement was entered into between Phoenix and RLL on 31 July 2014.

6.3 The senior management of Phoenix has described the motivation for entering into the Scheme as to:

- Remove the risks associated with these blocks of annuities from the Phoenix WPF, the Alba WPF and the SAL WPF;
- Facilitate the fairer distribution of the remaining assets of the Phoenix WPF, the Alba WPF and the SAL WPF to the relevant with-profits policyholders;
- Remove a significant illiquid asset from Phoenix WPF, the Alba WPF and the SAL WPF; and
- Remove the need for Phoenix to account for the reinsurance agreement thus reducing the associated administration costs.

6.4 The motivation for the Scheme from ReAssure's perspective is to facilitate the transfer of the transferring Phoenix business into ReAssure. This, in conjunction with the implementation of the RLL Scheme, will allow ReAssure to:

- Gain control over the administration of the transferring Phoenix business by directly contracting with the outsource service providers (Diligenta and Capita).
- Remove the investment restrictions imposed by the security and collateral arrangements under the reinsurance agreement and security agreement – this will be achieved only if and when the RLL Scheme is also implemented.
- The economic effect of the current reinsurance agreement is that RLL in effect bears the risk of the transferring Phoenix business. This will be unchanged by the Phoenix Annuity Scheme but this scheme will facilitate the ultimate transferral of this economic risk and benefit to ReAssure (the RNPF).

A summary of the Phoenix Annuity Scheme

6.5 The Phoenix Annuity Scheme is expected to be presented to the Court for a Directions Hearing in September 2016 and for a Final Hearing in December 2016. If approved by the Court it will be implemented with a Transfer Date of 31 December 2016.

6.6 If the Scheme is approved by the Court, then on the Transfer Date the transferring business will transfer from the Phoenix WPF, the Alba WPF and the SAL WPF to ReAssure. The policies of the transferring business are those non-profit pension in-payment policies that are currently reinsured to RLL under the terms of the reinsurance agreement.

6.7 Following the implementation of the Scheme, the reinsurance agreement will transfer as part of the Scheme, resulting in a change in cedant from Phoenix to ReAssure, until such time as the RLL Scheme (as described in Section 4) becomes effective, which may occur immediately after the Phoenix Annuity Scheme has become effective.

6.8 The implementation of the Scheme will have no effect on the terms and conditions of the transferring policies.

6.9 The majority of the assets backing the reserves in respect of the transferring business have already been transferred to RLL under the reinsurance agreement. Under the Scheme, Phoenix's rights and obligations in respect of the transferring policies will transfer to ReAssure, together with certain additional assets.

Transferring assets and liabilities

6.10 Under the Phoenix Annuity Scheme it is proposed that the non-profit annuities from the following Phoenix ring-fenced funds will be transferred to the RNPF:

- The Alba WPF;
- The SAL WPF; and
- The Phoenix WPF.

6.11 The Scheme will transfer Phoenix's rights and obligations in respect of the transferring policies to ReAssure.

6.12 Using figures as at 31 December 2015, the number of annuities to be transferred is approximately 58,000, constituting approximately £1.8 billion of Solvency II technical provisions.

6.13 The transferring business represents a relatively small proportion of Phoenix's total long-term business, approximately 4.5% when measured by liabilities. However, the gross Solvency II technical provisions in respect of the transferring business, when expressed as a percentage of the appropriate ring-fenced fund were more significant, accounting for (as at 31 December 2015): 11% of the Alba WPF, 16% of the Phoenix WPF, and 20% of the SAL WPF. These figures are gross of reinsurance, as 100% of the risks associated with the transferring policies are reinsured to RLL.

6.14 The majority of the assets backing the liabilities under the annuities were transferred to RLL as the premium under the reinsurance agreement and the Scheme will transfer certain additional assets from Phoenix to ReAssure in relation to the amount required to meet the charges of the third party administration providers. The calculation of this amount, known as the Initial Expense Reserve Amount ("IERA"), is set out in the business transfer agreement and has been estimated to be £20 million based on financial information at 31 December 2015. The actual amount to be transferred will be confirmed by the parties between the Directions Hearing and the Sanctions Hearing and I shall comment on the reasonableness of the IERA, in the context of the additional expenses expected for ReAssure, in my Supplementary Report which will be issued prior to the Sanctions Hearing.

6.15 As a result of the Scheme all remaining risks associated with the transferring policies will be transferred to ReAssure, other than:

- A small and temporary residual expense risk which will be retained by Phoenix until a 'true-up' process is completed shortly after the Transfer Date (this will determine the final expense reserve to be transferred to ReAssure); and
- Phoenix's liability for its past management of the transferring business, including liabilities in relation to any mis-selling activities.

The other policies of Phoenix

6.16 The policies of Phoenix that are not part of the transferring business will remain in their current funds and the implementation of the Phoenix Annuity Scheme will not have any effect on:

- The terms and conditions under these policies;
- The operation of the Phoenix ring-fenced funds or the Phoenix NPF; or
- The governance, servicing and management of the policies.

Administration and investment management

6.17 The administrative arrangements and investment management agreements in respect of the non-transferring Phoenix policies or the existing ReAssure business will continue unchanged if the Phoenix Annuity Scheme is implemented.

6.18 Phoenix policies are currently serviced by PGMS which outsources the policy administration for the transferring business, along with other business, to Diligenta and to Capita.

6.19 Following the implementation of the Scheme, ReAssure will enter into an agreement with GCSL in relation to the administration of the transferring business. GCSL will put in place new outsourcing arrangements with Diligenta and Capita.

The costs of the Scheme

6.20 The costs of the Phoenix Annuity Scheme will be borne by ReAssure and Phoenix. Each party will pay its own costs and expenses in relation to the negotiation, preparation, execution, carrying into effect and potential termination of the Scheme.

6.21 However, the first £2 million of external costs, including those of the Independent Expert, the court fees, and any advertising, printing and mailing costs, will be borne by ReAssure. Thereafter such costs will be split equally between the two parties.

6.22 The Scheme costs borne by Phoenix are to be split between the Phoenix WPF, the Alba WPF and the SAL WPF in proportion to the value of the transferring best estimate policyholder benefit liabilities as at 31 December 2015: 17% to the Alba WPF, 31% to the Phoenix WPF and 52% to the SAL WPF.

6.23 ReAssure's share of any costs of the Scheme will be charged to the RNPF and not to the ring-fenced funds.

Residual policies

6.24 A "Residual Policy" is defined in the Scheme as a Phoenix policy that:

- Was concluded in an EEA State other than the UK for the purposes of paragraph 1(2A) of Schedule 12 to FSMA and for which the PRA has not provided the certificate referred to in paragraph 3A of Part 1 of Schedule 12 to FSMA with respect to the relevant EEA state; or
- Is not otherwise capable of being transferred pursuant to FSMA.

6.25 Any policy that is a Residual Policy, and as a result cannot be transferred as part of the proposed Scheme on the Transfer Date, will be reinsured under the Scheme into ReAssure through a Residual Policies reinsurance agreement (as set out in the Scheme) from the Transfer Date on a basis intended to replicate the financial effects of a transfer of such policies to ReAssure.

6.26 If the Phoenix Annuity Scheme and the RLL Scheme are both implemented, the RLL reinsurance agreement for the transferring business will terminate and the Residual Policies reinsurance agreement will reinsure any Residual Policies from Phoenix to ReAssure.

6.27 In the event that the Phoenix Annuity Scheme is implemented but the RLL Scheme is not, the Residual Policies reinsurance agreement will reinsure any Residual Policies from Phoenix to Reassure and the RLL reinsurance agreement will remain in place reinsuring the transferring policies (now in ReAssure) to RLL.

6.28 The Residual Policies reinsurance agreement will terminate no later than 6 months after the Transfer Date, at which point ReAssure will transfer back assets to Phoenix of an amount to be agreed in respect of any remaining residual policies.

6.29 The administration arrangements for residual policies will remain unchanged.

The RLL Scheme

6.30 Under a separate scheme, called the RLL Scheme, ARUK intends to effect the Part VII transfer of the business of RLL into ReAssure and, if the RLL Scheme is implemented, the reinsurance agreement between ReAssure and RLL will terminate along with the associated security agreement.

6.31 If the RLL Scheme is not implemented, the security agreement and the reinsurance agreement between RLL and ReAssure will remain in place.

6.32 I have also been appointed as the Independent Expert in respect of the RLL Scheme and I will comment on the impact of the RLL Scheme in my report as Independent Expert on that scheme.

The structure after the implementation of the Phoenix Annuity Scheme

6.33 After the implementation of the Scheme, the liabilities and residual backing assets of the transferring business will have been removed from the Phoenix WPF, the Alba WPF and the SAL WPF and the inherited estates of these funds will have been charged an appropriate share of the costs of the Scheme. This will result in a reduction in the assets and liabilities of the Phoenix WPF, the Alba WPF and the SAL WPF, as well as a reduction in Phoenix's overall SCR under Solvency II.

6.34 There will be no change to the other ring-fenced funds of Phoenix.

6.35 The transferring business will be allocated to the RNPF and no change will be made to other funds of ReAssure.

My report on the Phoenix Annuity Scheme

6.36 In order to cover the potential effects of the Phoenix Annuity Scheme on the affected policies I have divided the affected policies into the following groups for consideration in this report:

- The policies transferring from Phoenix to ReAssure;
- The policies of ReAssure:
    - The policies of the RNPF; and
    - The other policies of ReAssure outside the RNPF.
- The other policies in Phoenix:
    - The other polices in the Alba WPF, the Phoenix WPF and the SAL WPF; and
    - The policies of Phoenix outside these three ring-fenced funds.

6.37 The following Sections 7, 8, and 9 of cover these sub-divisions of policies and Section 10 covers some general points in respect of the Phoenix Annuity Scheme.

7 THE EFFECT OF THE SCHEME ON THE TRANSFERRING PHOENIX POLICIES

Introduction

7.1 As described in Section 6, the transferring business consists of non-profit in-payment annuities with Solvency II technical provisions of approximately £1.8 billion (as at 31 December 2015) from the following Phoenix ring-fenced funds:

- The Alba WPF;
- The SAL WPF; and
- The Phoenix WPF.

7.2 The longevity and investment risks under the transferring business are currently 100% reinsured to RLL.

7.3 If the Phoenix Annuity Scheme is approved by the Court, the transferring policies will transfer into and become direct policies of the RNPF. Therefore, the key points to consider are:

- The financial strength available to provide security for the benefits under the transferring Phoenix policies after the implementation of the Scheme compared to that currently available;
- Any change to the profile of risks to which the transferring Phoenix policies will be exposed as a result of the implementation of the Scheme; and
- The effect of the implementation of the Scheme on the reasonable expectations of the transferring Phoenix policyholders in respect of their benefits and the service standards, management and governance applied to the transferring Phoenix policies.

7.4 These are considered in turn below.

The financial strength available to provide security of benefits

Introduction

7.5 The risks under the transferring policies are currently reinsured to RLL through the reinsurance agreement. When a claim arises under one of the transferring policies, Phoenix is responsible for paying the benefits due and then it subsequently recovers an appropriate amount from RLL.

7.6 The transferring policies currently achieve security for their guaranteed benefits from the assets in Phoenix. That is:

- Assets backing the liabilities of the transferring business in the appropriate ring-fenced fund, including the reinsurance asset that results from the reinsurance of the transferring business to RLL;
- Any inherited estate; and
- Excess capital resources in the PNPF.

7.7 The ability of RLL to fulfil its obligations under the reinsurance agreement contributes to the financial strength of Phoenix and therefore part of the security for the transferring policies is currently provided by the assets held in RLL. In particular, the assets held in accordance with the security agreement have restricted risk exposures and are ring-fenced for the benefit of Phoenix, thus contributing to the security of the benefits of the transferring policies. As noted in section 6, this reinsurance agreement will remain in place after the implementation of the Phoenix Annuity Scheme and the cedant will change from Phoenix to ReAssure.

7.8 Appendix 1 shows the current strength of the Phoenix ring-fenced funds and the PNPF.

7.9 The financial strength available to provide support for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength. For both Phoenix and ReAssure, such

restrictions are set out in the relevant capital policy and are expressed in terms of the capital required to be held under the current Solvency II regulatory regime.

7.10 Capital within ring-fenced funds generally only provides security for the policies within that ring-fenced fund except in extreme scenarios. Capital held outside the ring-fenced funds in excess of that required by the regulatory minimum and the relevant capital policy should not be relied upon for the provision of security in the context of assessing the suitability or otherwise of a proposed Scheme because it could, subject to certain logistical hurdles, be transferred out.

7.11 In addition to the level of capital required under each relevant capital policy, consideration should be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.

7.12 For the transferring policies, the security of the guaranteed benefits is currently provided by:

- The financial strength required by the Solvency II regulations for Phoenix;
- The financial strength required by the PCP;
- The strength of the governance around the PCP and changes to it; and
- The financial strength provided by the security agreement.

7.13 If the Scheme is approved by the Court then, after its implementation, the security of the guaranteed benefits under the transferring policies will be provided by:

- The financial strength required by the Solvency II regulations for ReAssure;
- The financial strength required by the RCP;
- The strength of the governance around the RCP and changes to it; and
- The financial strength provided by the security agreement.

7.14 In the following paragraphs of this section, I consider the relative financial strength available to provide security for the transferring Phoenix policies before and after the implementation of the Scheme by considering the bullets above in turn.

The financial strength required under Solvency II for Phoenix and ReAssure

7.15 Clearly the Solvency II regime will not change as a result of the Scheme and so the financial strength and security provided by the Solvency II regime will be the same before and after the implementation of the Scheme.

7.16 Under Solvency II the assets held in respect of a policy or group of policies are represented by the technical provisions (consisting of the BEL and risk margin) and the SCR. This amount is then increased in accordance with the firm's capital policy: the PCP for Phoenix and the RCP for ReAssure.

7.17 Due to the structure of Solvency II there are some differences in the way that Phoenix and ReAssure calculate their Solvency II technical provisions and SCR:

- The Solvency II technical provisions:
  - Phoenix has gained approval from the PRA for the use of the MA and the TMTP when calculating its Solvency II technical provisions.
  - ReAssure has gained approval from the PRA for the use of the MA, the VA and the TMTP when calculating its Solvency II technical provisions.
- The Solvency II SCR:
  - Phoenix has gained approval from the PRA to use its internal model for the calculation of its SCR.
  - The PRA has not objected to ReAssure's use of the Standard Formula.

7.18 For technical provisions, both companies adhere to the Solvency II regulations and use the MA and TMTP. ReAssure also uses a VA but overall I have no reason to believe that this would lead to a material difference in the security provided by the strength of the technical provisions in Phoenix and ReAssure.

7.19 As indicated above, under the Phoenix Annuity Scheme, the transferring policyholders will be transferring from a firm that calculates its SCR using an internal model to one that uses the Standard Formula.

7.20 The Solvency II regulations require that the internal model is calibrated such that the SCR provides a probability of at least 99.5% of remaining solvent over a one year time horizon and the Standard Formula was derived by the European regulators (EIOPA) with the same target probability of solvency.

7.21 The Standard Formula is intended to be widely applied and has been designed to be appropriate for a wide variety of firms. There are many other UK firms using the Standard Formula for large blocks of in-payment annuities and this has not been deemed an unacceptable approach by the PRA.

7.22 Although the use of an internal model and the Standard Formula may produce different values for the SCR, the Solvency II rules ensure that both will provide financial strength and security for the relevant policies such that the company can survive severe events with at least a 99.5% probability of remaining solvent over a one year time horizon.

7.23 The PRA has approved the internal model of Phoenix for use in calculating its SCR and if at any point the PRA believes that the internal model is no longer reflecting the risks of Phoenix appropriately then the PRA can withdraw this approval.

7.24 Similarly, if at any point the PRA is not convinced that the Standard Formula fully reflects the risks of ReAssure, the PRA could apply a capital add-on and/or take further regulatory action, such as requiring ReAssure to develop an internal or partial internal model. At the time of writing this report, the PRA has not imposed any capital add-ons to the Standard Formula nor has the PRA taken any other regulatory action in this respect.

7.25 I am satisfied that, although the approach of ReAssure to calculating its technical provisions and capital requirements is different from that of Phoenix, ReAssure's approach is in line with the Solvency II regulations and that therefore the security provided by the technical provisions and SCR of ReAssure will not have a material adverse effect on the security of benefits under the transferring policies.

The Phoenix and ReAssure capital policies

7.26 The capital policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the relevant policies subject to the capital policy.

7.27 The security of the benefits under the transferring Phoenix policies currently depends upon the assets of Phoenix held in accordance with the PCP as set out in Section 5. Following the implementation of the Scheme, the transferring business and any residual assets attributed to it will be transferred into the RNPF and the security of the benefits of the transferring Phoenix policies will be provided by the assets of ReAssure held in accordance with the RCP as set out in Section 4.

7.28 The proposed transfer will not change the risk appetite or capital policies of ReAssure and therefore a comparison of the relative strengths of the capital policies of Phoenix and ReAssure is an important factor in the context of considering of the effect of the proposed Scheme on the benefit security of the transferring policies. This should be a comparison of both the relative levels of capital required under the two policies, and the qualitative aspects of the capital policies such as the governance surrounding each capital policy and the required response of management to a breach of the capital policy, and these are covered in turn below.

The relative strengths of the current capital policies

7.29 The PCP currently provides for a capital buffer of 28% of the Solvency II SCR. The PNPF must hold this buffer for its own business and for any supported with-profits funds. A buffer does not need to be held in the PNPF in relation to the unsupported with-profits funds as these sub-funds do not require additional funds to cover their capital requirements and PCP requirements.

7.30 This capital buffer broadly corresponds to a commitment to maintain regulatory solvency at a level that maintains policyholder protection at least equivalent to Phoenix's Solvency I Pillar II regulatory capital requirements (including any capital add-ons) at the time of the 2009 change of control. A buffer of 28% is broadly equivalent to being able to meet capital requirements following a 1-in-10 year event (after allowing for one year of expected surplus emerging).

7.31 As a percentage of its total SCR, Phoenix's excess assets are 117%. However, excluding the SCR of those with-profits funds that are able to cover their capital requirements from their own resources gives excess assets sufficient to cover 128% of the SCR.

7.32 Under the PCP, Phoenix must not pay a dividend if the PCP requirements are not being met prior to the payment, or if the payment of the dividend would result in a breach of the PCP.

7.33 The RCP currently provides for a capital buffer of 20% of the RNPF Solvency II SCR, with a further commitment to restrict dividend payments in the event that ReAssure is unable to cover its SCR in absence of the TMTP. As with the PCP, ReAssure must not pay a dividend if the RCP requirements are not being met prior to the payment, or if the payment of the dividend would result in a breach of the RCP.

7.34 The capital buffer of 20% of the RNPF SCR broadly corresponds to a commitment to maintain the solvency of ReAssure to the Solvency II level of a 99.5% likelihood of remaining solvent over a one year time horizon, following a 1-in-10 year event.

7.35 An initial comparison of the PCP buffer over SCR (28%) with that of the RCP (20%) may suggest that the capital policy that applies to ReAssure is not as strong as that which applies to Phoenix. However, when comparing the financial strength and therefore the security that would result from the application of these two capital policies, it should be noted that:

- Despite the differences in the percentages of the SCR, the PCP and the RCP are both derived so as to be broadly equivalent to ensuring the SCR is covered after a 1-in-10 year event.
- The coverage percentages apply to financial numbers derived by different companies using different underlying assumptions.
- Phoenix calculates its SCR using its approved internal model which results in an SCR that is significantly larger than the SCR that would be calculated if Phoenix were to use the Standard Formula.
- ReAssure calculates its SCR using the Solvency II Standard Formula and, as described in paragraph 7.25, I am satisfied that the use of the Standard Formula by ReAssure will not lead to a material reduction in the security of benefits of transferring policies.

7.36 Although not part of the PCP, Phoenix has undertaken that in the event of any extraction of capital, it is the intention to retain a £50 million surplus over the amount required by the PCP. The amount of this additional margin is to be regularly reviewed to reflect emerging risks and the volatility of investment markets.

7.37 Taking all the above into account it is not possible to say with certainty whether the PCP or the RCP is the stronger but in my view both appear reasonably strong and neither policy is inconsistent with what I have seen elsewhere in the UK life insurance industry.

7.38 When considering events at the extreme edges of the distribution of possible events, it is difficult to be precise regarding the likelihood of those extreme events occurring. However, it can be estimated that the likelihood of the capital required under the RCP being insufficient to cover its liabilities under the transferring policies is remote, and likely to be less than 1 in 1,000 in any given year.

7.39 Although the RCP and PCP are different in many ways, I am satisfied that the likelihood of insolvency under the RCP is sufficiently remote for there to be no material effect on the security of the transferring policies by being subject to the RCP rather than the PCP.

The governance of amending the capital policies

7.40 The governance surrounding the circumstances in which the capital policies can be amended is different between the PCP and RCP.

7.41 The PCP is reviewed annually and a paper is presented for approval to the Phoenix Board. Any proposed changes to the PCP that would weaken its overall effect or lead to a reduction in the percentage (even if the strength of the PCP was unaffected) must receive non-objection from the PRA under the terms of the 2009 change of control process which is due to expire on 31 December 2016. After this date, I would still expect Phoenix to require, in practice, non-objection from the PRA for a weakening of the PCP.

7.42 Updates to the RCP are approved by the Board. The PRA is provided with all of ReAssure's Board papers, and would therefore have the opportunity to intervene when changes are proposed, but it has no formal requirement for non-objection. However, in practice I understand that ReAssure would notify the PRA of any change to the RCP and that it is very unlikely that ReAssure would go ahead with a change if, after notification of the PRA, the PRA objected to the proposed change. Hence, I do not consider this to be a material difference in the strength of the governance around the capital policies.

7.43 There is no defined review cycle of the RCP, although reviews will take place upon major business changes such as acquisitions.

7.44 The RCP is to be reviewed once ReAssure moves to an internal model and Phoenix intends to update the PCP during 2016. I will provide an update and a comparison of the prevailing Phoenix and ReAssure capital policies in my Supplementary Report.

The monitoring of the capital policies

7.45 Phoenix monitors its capital position against the PCP on a daily basis and provides weekly updates to the PRA. The PCP gives actions that should be taken at various levels of breach as set out below.

7.46 ReAssure monitors its capital position compared to the RCP on a monthly basis and, should the excess over capital buffer get close to the buffer level (20% of the RNPF SCR), potential management actions would be considered.

7.47 The RCP does not include details of the actions that should be taken upon a breach of the policy, nor any defined timescales for restoration of solvency, but does provide for contingency actions of seeking additional financial resources from the Swiss Re Group.

The required response of management to a breach of the capital policies

7.48 There are differences between the capital policies in the required response of management to a breach of the capital policy.

7.49 The PCP states that the implications of a capital policy breach is based on the Red, Amber and Green (RAG) thresholds as set out in Section 5.

7.50 An amber status would result in notification to the Board and the PRA along with a plan showing how the status would be restored within a 4 month time horizon. A red status would mean that immediate rectification action should be taken.

7.51 As stated above, ReAssure monitors its capital position versus the RCP on a monthly basis and, should the excess over capital buffer become strained, potential management actions would be considered. The management actions will depend upon the nature of the events causing the strain on the solvency position. They are not subject to a defined timetable, but the Swiss Re Group is committed to implementing a solution within 10 working days. Previous management actions have involved setting up intra-group reinsurance agreements and the monetisation of future unit-linked business profits and, whilst these management actions were taken under the previous Solvency I regime, they would be just as effective under the Solvency II regime.

7.52 For both Phoenix and ReAssure, if management actions are not projected to bring the relevant firm into compliance with the appropriate capital policy in the required timeframe, then a capital injection (usually in the form of a contingent loan) should be made.

7.53 The ARUK group capital policy states that capital will be provided by the Swiss Re Group should management actions be projected to be unable to mitigate a breach in the RCP. It also states that this should be forthcoming within 10 working days of the capital injection proposal.

7.54 PLHL currently holds £100 million of capital that can be injected into Phoenix should management actions be unable to mitigate a breach in the PCP, although this requirement may not remain in place beyond 31 December 2016.

Conclusion on the security of benefits in respect of the differences between the PCP and the RCP

7.55 There are a number of differences between the RCP and the PCP but the key considerations for the transferring policyholders are as follows:

- The likelihood of insolvency under the RCP is sufficiently remote for there to be no material effect on the security of the transferring policies by being subject to the RCP rather than the PCP.
- Changes to the RCP would, in practice, be subject to the non-objection of the PRA.
- The RCP is monitored regularly and management actions will be employed if the position becomes strained.
- If such actions are not projected to be sufficient to bring ReAssure into compliance with the RCP in the required timeframe, then a capital injection (usually in the form of a contingent loan) would be made.
- The ARUK group capital policy states that capital will be provided by the Swiss Re Group should management actions be unable to mitigate a breach in the RCP within 10 working days of the capital injection proposal.
- The ReAssure Board has confirmed that it would not approve a payment (dividend) out of the RNPF whilst the RCP was not being complied with and that no payment would be made that would result in a breach of the RCP.

7.56 Therefore I am satisfied that the security that will be provided to the transferring policyholders by the RCP is sufficiently strong for there to be no material adverse effect on the security of the benefits under the transferring policies as a result of the change from the PCP to the RCP.

The liquidity requirements for Phoenix and ReAssure

7.57 As set out in Section 5, there is a liquidity requirement under the PCP which requires that, under stressed conditions, the PNPF must have sufficient assets available to be able to cover its own liabilities and sufficient excess liquid assets to provide support to the Phoenix ring-fenced funds if necessary.

7.58 ReAssure and RLL do not have a comparable liquidity requirement in their capital policies, but they are required to monitor liquidity requirements and follow the Swiss Re Group's approach to liquidity risk management. The transferring policies are non-profit annuities, and therefore have liability cash flows that are not subject to significant unexpected liquidity demands in the context of the financial resources of ReAssure and the reinsurer of the annuities, RLL.

7.59 I am satisfied that any change to the liquidity provisions to which the transferring policies are subject will not have a material adverse effect on the security of benefits under the transferring policies.

The security provided by the security agreement

7.60 As described above, there is currently some additional security provided to the transferring policyholders by the security agreement, which acts to reduce the counterparty risk exposure to RLL.

7.61 The security agreement provides enhanced security to all of the Phoenix policyholders (including but not limited to the transferring policyholders). The support provided by the security agreement would only make a difference to the transferring policyholders in the scenario where Phoenix was unable to make the annuity payments and RLL would, in the absence of the security agreement, be unable to honour its obligations under the reinsurance agreement. In this scenario the transferring policyholders would not have any preferential claim on any assets provided to Phoenix under the security agreement as such assets would be available to support all of Phoenix's business. Therefore the security provided to the transferring policies by the security agreement is small.

7.62 Following the implementation of the Phoenix Annuity Scheme, the security agreement will transfer to become for the benefit of ReAssure, and therefore the Scheme will not affect the additional security provided to the transferring policyholders from this agreement.

7.63 In the event that the RLL Scheme is subsequently implemented, the security agreement will terminate and the assets that are subject to the security agreement will transfer to become assets directly held by ReAssure in respect of the business outside of the ring-fenced funds. As such these assets will contribute to the security of the

ReAssure business outside of the ring-fenced funds which, after the implementation of the RLL Scheme, will include the business transferring under the Phoenix Annuity Scheme.

7.64 As stated above, the security currently provided by the security agreement is small, and therefore I am satisfied that, if the RLL Scheme is implemented subsequent to the Phoenix Annuity Scheme, the termination of the security agreement will not result in a material adverse effect on the policies transferring under the Phoenix Annuity Scheme.

The effect of the Scheme on the financial strength of Phoenix and ReAssure

7.65 The tables in Appendices 1 and 2 present the pre-Scheme and projected post-Scheme financial strength of Phoenix and ReAssure as at 31 December 2015 and show that:

- Prior to the implementation of the Scheme, the capital resources of Phoenix covered its SCR (excluding unsupported with-profits funds) with a ratio of 128%, with excess capital (after capital requirements and PRA approvals) of c. £0.4 billion; and
- If the Scheme had been implemented on 31 December 2015, the capital resources of ReAssure would have covered its SCR with a ratio of 164%, with excess capital (after capital requirements and PRA approvals) of c. £0.9 billion.

7.66 I have commented on developments since 31 December 2015 that affect the financial position of the companies in Section 11.

7.67 As stated above, the two companies have PRA approval for different elements of their balance sheets and the presence or absence of such approvals can result in materially different SCR coverage ratios for companies that are otherwise similar and therefore, one should be wary of drawing too many conclusions from the fact that the SCR cover of Phoenix pre-Scheme is lower than the projected SCR cover of ReAssure if the proposed Scheme had been implemented.

7.68 The more important consideration is the projected financial strength of the RNPF and of ReAssure as a whole after the proposed Scheme. As stated above, the Solvency II technical provisions and SCR are in keeping with the Solvency II rules and therefore the current ratio of 165% indicates considerable security for the benefits of the policies in ReAssure. However, in accordance with the RCP, ReAssure is not obliged to maintain the SCR coverage above its SCR plus 20% of the RNPF SCR and therefore could transfer out the excess capital above this level, and indeed ReAssure paid a dividend of £336 million in June 2016. The RCP is unchanged by the implementation of the proposed Scheme.

7.69 I am satisfied that the RNPF and ReAssure are projected to be sufficiently strong after the implementation of the Scheme so that the Scheme will not have a material adverse effect on the security of the benefits of the transferring Phoenix policies.

Conclusion on the financial strength available to provide security of benefits

7.70 In conclusion I am satisfied that:

- Despite there being differences in the way that Phoenix and ReAssure calculate their technical provisions and SCR under Solvency II, these will not lead to a material adverse impact upon the security of the benefits of the transferring policyholders should the Scheme be implemented;
- Although the Scheme will lead to a change for the transferring policies such that the capital policy to which they are subject will change from the PCP to the RCP, overall this change will not have a material effect on the security of benefits for the transferring business;
- The Scheme will not affect the security of benefits for the transferring business provided by the security agreement; and
- The financial strength of ReAssure is sufficient to provide a level of security for the transferring business after the implementation of the Scheme that is not materially different to that prior to the implementation of the Scheme.

7.71 Therefore I am satisfied that the implementation of the proposed Scheme will not have a material adverse effect on the security of the benefits under the transferring policies.

The profile of risks to which the transferring Phoenix policies are exposed

7.72 After the implementation of the Scheme, the transferring Phoenix policies will be direct policies of the RNPF and therefore directly exposed to the risk profile of a different company that has written different business, through different distribution channels, to policyholders with different demographic profiles.

7.73 Both Phoenix and ReAssure have a large variety of in-force business that exposes both firms to a range of different risk types, including insurance risks (such as mortality risk and persistency risk) and market risks. The transferring Phoenix policies will therefore continue to be exposed to similar risk categories (albeit to different extents) following the implementation of the Scheme. A possible exception is equity risk as the ring-fenced funds in Phoenix have higher exposures to equity risk than the RNPF. However, a portion of the equity risk in Phoenix's ring-fenced funds is loss-absorbing, in the sense that part of the risk may be passed on to with-profits policyholders through lower pay-outs, so the non-profit annuities are less exposed to this risk.

7.74 In addition, the ReAssure Solvency II balance sheet will reflect the risk profile of the company, its business and its risk concentrations, and this will feed through into the capital that will be held in accordance with the RCP. Also, as discussed above, the security agreement will remain in place and as a result there will be no change to the investment risk to which the assets in respect of the transferring business are exposed.

7.75 Therefore I am satisfied that the change in risk profile will not have a material adverse effect on the security of the benefits of the transferring Phoenix policies.

The governance and management of the transferring Phoenix policies

7.76 The transferring business is currently managed by, and subject to the governance of, the Board of Phoenix and, as the transferring business is all currently within certain ring-fenced funds of Phoenix, the transferring business also comes under the remit of the Phoenix WPC.

7.77 Following the implementation of the Scheme, the transferring business will be subject to the governance of the ReAssure Board and will also be subject to oversight by the ReAssure Fairness Committee, which fulfils the role of a WPC for ReAssure, but also oversees non-profit business outside of the ring-fenced funds.

7.78 The ReAssure Board is experienced in the management and governance of non-profit annuity business. In particular, the RNPF currently includes nearly 400,000 annuities with a gross BEL of £6.6 billion (figures as at 31 December 2015), and therefore the transfer into ReAssure of 58,000 new annuities will not result in significantly different requirements from the point of view of governance. In addition, the ReAssure Fairness Committee will oversee the transferring business in relation to the fair treatment of customers which has a responsibility to monitor, review and challenge the application of the delivery of fair outcomes to policyholders.

7.79 Taking all of this into account, I am satisfied that the governance to which the transferring policies will be subject following the implementation of the Scheme will not be materially different from the governance arrangements to which they are subject within Phoenix, and that the change in governance arrangements will not have a material impact on the ability of the relevant firm to secure good outcomes for customers.

7.80 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the standards of governance and management applicable to the transferring business.

The administration and service standards applied to the transferring Phoenix policies

7.81 The administration of the transferring Phoenix policies is currently outsourced by PGMS to Diligenta and Capita. ReAssure has put in place new outsourcing arrangements, via an intermediary agreement with GCSL, with Diligenta and Capita that are similar to the arrangements in place between PGMS and these two outsource services providers. In particular, I understand that the contracts in place between GCSL and Diligenta/Capita provide for the same services and the same level of service to that currently received by PGMS. Therefore there should be no material change to the servicing and administration standards as a result of the implementation of the proposed Scheme. Capita and Diligenta already carry out administration for RLL in respect of the annuity business transferred to RLL under the Phoenix 2013 Scheme.

7.82 Under the terms of the reinsurance agreement between Phoenix and RLL, the majority of the assets backing the liabilities of the transferring business were transferred to RLL. RLL outsources the management of these assets to IAM and this will remain the case following the implementation of the Scheme.

7.83 ReAssure intends to migrate the administration of the transferring business to ARUKSL following the transfer, although this will only be implemented if the transferring and existing policyholders, whose policies are currently administered by ARUKSL, are expected to receive a comparable level of service following the migration. It should also be noted that ARUKSL currently administers a large amount of business including approximately 382,000 in-payment annuities and has maintained servicing and administration levels following recent migrations.

7.84 I am therefore satisfied that the implementation of the Scheme will not have a material impact on the administration and service standards of the transferring policies.

The reasonable expectations of the transferring Phoenix policyholders

7.85 The transferring Phoenix policies are non-profit in-payment annuities and therefore, policyholders' reasonable expectations in respect of their benefits are that:

- They receive their income 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; and
- The standards of service received are at least as good as those they currently receive.

7.86 The implementation of the proposed Phoenix Annuity Scheme will not change:

- The level of guaranteed income under the transferring Phoenix policies or the dates on which this income is received;
- The terms and conditions of the transferring Phoenix policies (except that the policies will become policies of ReAssure);
- The charges that apply to the transferring Phoenix policies; or
- The outsourcing and asset management arrangements for the transferring Phoenix policies.

7.87 Furthermore, as discussed above, I am satisfied that:

- The implementation of the Scheme will not have a material effect on the security of the guaranteed benefits of the transferring Phoenix policies;
- The implementation of the Scheme will not affect the administration and service standards applicable to the holders of the transferring Phoenix policies; and
- The implementation of the Scheme will not have a material effect on the management or the governance of the transferring Phoenix policies.

7.88 Therefore, I am satisfied that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the reasonable benefit expectations of the transferring Phoenix policyholders or on the governance, management and service standards that apply to the transferring business.

The RLL Scheme

7.89 As discussed in Section 6, there is another Part VII transfer proposed to be implemented on the same day as the Phoenix Annuity Scheme. This is known as the RLL Scheme, under which it is proposed to transfer the business of RLL into ReAssure.

7.90 The RLL Scheme is due to be implemented immediately after the Phoenix Annuity Scheme but is separate from that scheme and its implementation does not depend on whether the Court sanctions the Phoenix Annuity Scheme. Although separate from the Phoenix Annuity Scheme, I have considered the potential effects of the RLL Scheme on the transferring policies and I cover these below.

7.91 If the RLL Scheme is not sanctioned by the Court then after the implementation of the proposed Phoenix Annuity Scheme the reinsurance agreement will remain in place between ReAssure and RLL in respect of the transferring policies and, for the reasons given above, I am satisfied that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the security of the benefits under the transferring policies or on the reasonable expectations of the holders of those policies.

7.92 If the RLL Scheme is sanctioned by the Court then it will be implemented immediately after the Phoenix Annuity Scheme and the RLL business will be transferred to ReAssure. The impacts for the transferring policies are:

- The RLL business will be transferred to ReAssure thus potentially changing the risk exposures of the business in ReAssure (including the business transferred in under the Phoenix Annuity Scheme); and
- The reinsurance agreement between ReAssure and RLL and the associated security agreement will terminate.

7.93 ReAssure is in the process of making a number of applications to the PRA to vary the terms of some of its Solvency II approvals in advance of the implementation of the RLL Scheme. The financial information contained in this report assumes that these variations have taken place and the relevant approvals granted. In the event that the RLL Scheme is not implemented, these variations will not take place which could have an impact on the financial information presented in this report. However, equivalent approvals are in place within RLL and would remain in place following the implementation of the Phoenix Annuity Scheme.

7.94 I have been appointed as the Independent Expert for the RLL Scheme and I have therefore considered the potential effects of that scheme on the policies in ReAssure, including the policies transferred in from Phoenix under the Phoenix Annuity Scheme. My report on that scheme is available on the ReAssure website and I shall not reproduce all my analysis in this report, but in summary:

- If the RLL Scheme is implemented ReAssure will remain under the Solvency II regime and will have to hold capital in accordance with the Solvency II regulations regarding the technical provisions and the SCR.
- The implementation of the RLL Scheme will not affect the RCP or the monitoring and governance around it.
- ReAssure will continue to meet the RCP after the implementation of both Schemes.
- The assets covered by the security agreement will be transferred to ReAssure and ReAssure will have direct control over the related investment strategy.
- In respect of the Phoenix policies being transferred to ReAssure under the Phoenix Annuity Scheme, the implementation of the RLL Scheme will have no impact on:
    - The terms and conditions of the transferring Phoenix policies;
    - The providers of administration and asset management services to the transferring Phoenix policies; or
    - The management and governance to which the transferring Phoenix policies are subject.
- Whilst the Solvency II approval variations described in paragraph 7.93 have an impact on the financial information in this report and are contingent on the implementation of the RLL Scheme, I am satisfied that the differences that may result in the financial information in the absence of the RLL Scheme are not material.

7.95 I am therefore satisfied that my conclusions above hold in the event that the RLL Scheme is implemented.

Conclusion for the transferring Phoenix policies

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

- The security of benefits under the transferring Phoenix policies;
- The reasonable expectations of the transferring Phoenix policyholders in respect of their benefits; or
- The service standards and governance applicable to the transferring Phoenix policies.

7.97 These conclusions hold whether or not the RLL Scheme is sanctioned by the Court and implemented immediately after the Phoenix Annuity Scheme.

8 THE EFFECT OF THE SCHEME ON THE REASSURE POLICIES

Introduction

8.1 In this section I consider the effect of the implementation of the Phoenix Annuity Scheme on the ReAssure policies, which, as described in Section 4, can be divided into the following groups:

- The RNPF LT business;
- The policies in the ReAssure ring-fenced funds: the WLWPF and the NMWPF;
- The ReAssure general insurance business within the RNPF; and
- The policies of the subsidiaries held by the RNPF.

8.2 If the Phoenix Annuity Scheme is approved by the Court, the transferring policies will transfer out of Phoenix and into the RNPF, and therefore the key points to consider in respect of the ReAssure policies are:

- The financial strength available to provide security for the benefits under the ReAssure policies after the implementation of the Scheme compared to that currently available;
- Any change to the profile of risks to which the ReAssure policies will be exposed as a result of the implementation of the Scheme; and
- The effect of the implementation of the Scheme on the reasonable expectations of the ReAssure policyholders in respect of their benefits and the service standards, management and governance applied to the non-transferring ReAssure policies.

8.3 These are considered in turn below for each group of ReAssure policies.

The RNPF LT business

Introduction

8.4 Currently the transferring business is reinsured from Phoenix to RLL's NPF, which is called the Guardian Non-Profit Fund. If the Phoenix Annuity Scheme is implemented, the transferring policies will be transferred to the RNPF and the reinsurance agreement will be changed so that the cedant is ReAssure rather than Phoenix.

The financial strength available to provide security of benefits

8.5 Currently, the security of the guaranteed benefits of the RNPF LT business is provided by a combination of:

- The assets backing the technical provisions held in respect of the guaranteed benefits of the RNPF LT business;
- The assets in excess of the technical provisions within the RNPF ;
- Assets elsewhere in ReAssure; and
- The reinsurance agreements with companies outside of ReAssure.

8.6 As highlighted in Section 7, when considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy as, strictly speaking, assets in excess of the capital policy requirements could be taken out (subject to PRA non-objection).

8.7 The proposed Phoenix Annuity Scheme will not change the risk appetite or capital policy in accordance with which the RNPF is managed and the figures in Appendix 2 show that the RNPF's compliance with the RCP will not be changed as a result of the implementation of the Scheme. As the RCP requires the RNPF to hold capital in excess of regulatory capital requirements, non-transferring policyholders in the RNPF will continue to be afforded a greater level of security than that required under the PRA's rules.

8.8 After the implementation of the Scheme, the security of the guaranteed benefits of the RNPF LT business will continue to be provided by the same elements listed above. In particular:

- The implementation of the Scheme will have no effect on the technical provisions held in relation to the current RNPF LT business.
- The tables in Appendices 1 and 2 show the current and the projected post-Scheme financial strength of ReAssure as at 31 December 2015 under Solvency II Pillar 1 and show that:
- Prior to the implementation of the Scheme (as at 31 December 2015):
  - The capital resources of the RNPF (including the value of its subsidiaries) covered its SCR with a ratio of 166%; and
  - The excess capital (after capital requirements and PRA approvals) in the RNPF business was £0.9 billion.
- If the Scheme had been implemented on 31 December 2015:
  - The capital resources of the RNPF (including the value of its subsidiaries) would have covered its SCR with a ratio of 165%; and
  - The excess capital (after capital requirements and PRA approvals) of the RNPF would have been £0.9 billion.

8.9 The financial strength available to provide support for guaranteed benefits must be considered in the context of the restrictions that are in place in respect of changing that financial strength and for ReAssure, such restrictions are set out in the RCP. Capital held in excess of that required by the RCP should not be relied upon for the provision of security because such capital could be reduced or used for other purposes.

8.10 In addition to the level of capital required under the relevant capital policy, consideration must also be given to the governance around changes to the policy and the response of the firm to breaches of the capital policy.

8.11 The Solvency II financial information shows that the implementation of the Scheme is not expected to materially affect the Solvency II position of the RNPF and that the RNPF is projected to be comfortably in excess of the requirements of the RCP both before and after the implementation of the Phoenix Annuity Scheme. The implementation of the Scheme will have no effect on the RCP or on the governance around the RCP.

8.12 Furthermore, the implementation of the Scheme will have no effect on:

- The existing reinsurance agreements with companies outside of ReAssure;
- The ring-fenced funds of ReAssure; or
- The potential support that could be provided by the ring-fenced funds in the extreme scenario where the resources of the RNPF are insufficient to meet its liabilities and the restrictions on the ring-fenced funds break down.

Conclusions regarding financial strength

8.13 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the financial strength available to support the security of the RNPF LT business' benefits.

The profile of risks to which the RNPF LT business is exposed

8.14 The transfer of a significant volume of annuity business into a non-profit fund would ordinarily introduce new types of risk to the non-profit fund due to the potentially different characteristics of the annuity business relative to the existing RNPF business. In particular, the business being transferred in would increase the direct exposure of the RNPF to longevity, investment and credit risks. In addition, the business transferred in may have arisen from different sources, through different sales channels and the underlying policyholder group may have different demographic characteristics from the existing policyholder group.

8.15 However, under the reinsurance agreement, which will transfer to ReAssure under the terms of the Scheme, Phoenix has already ceded the longevity and investment risks to RLL. The additional counterparty default risk that

the RNPF will be exposed to as a result of the transfer is immaterial due to the security agreement in place, as the assets in respect of the transferring business are ring-fenced with restricted risk exposures, and will protect the existing RNPF LT business policyholders in the scenario where RLL is unable to fulfil its obligations.

8.16 It should be noted that, in the event of the implementation of the RLL Scheme, the business of RLL would be transferred into ReAssure and the reinsurance agreement and the associated security agreement would terminate. I have considered the impact of this on RNFP LT policyholders, including those transferring in from Phoenix under the Phoenix Annuity Scheme, in my report on the RLL Scheme.

8.17 Phoenix will retain liability for management of the transferring business prior to the Transfer Date.

8.18 Following the Transfer Date, ReAssure will assume responsibility for administering the transferring business and thus will take on additional expense and operational risk. However, these risks are considered to be small in relation to the existing risk profile of the RNPF and additional assets in excess of those already transferred to RLL under the reinsurance agreement will be transferred from Phoenix to ReAssure in respect of these liabilities.

8.19 In addition, Phoenix will, under the terms of the Scheme, retain liability for the administration and other services provided in respect of the transferring business prior to the Transfer Date. Phoenix has also agreed to indemnify ReAssure against any costs, charges and expenses which arise from claims being made against ReAssure in relation to the business which relates to the liabilities retained by Phoenix.

8.20 Therefore, I am satisfied that the implementation of the Scheme will not have a material effect on the profile of risks to which the existing RNPF LT business policyholders are exposed.

The reasonable expectations of the RNPF LT policyholders

8.21 The RNPF LT business is non-profit or unit-linked in nature and, as such, policyholders' expectations in respect of their benefits are that:

- They receive their contractual benefits as set out under the policy;
- The policies are operated in accordance with their contractual terms, including the level of charges for unit-linked policies;
- The administration, servicing, management, and governance of the policies are in line with the contractual terms under the policies and do not deteriorate as a result of the transfer.

8.22 The implementation of the proposed Phoenix Annuity Scheme will not change:

- The terms and conditions of the existing RNPF LT policies;
- The methodology used to calculate the surrender values of the RNPF LT policies;
- The charges that apply to the RNPF LT policies;
- The exercise of discretion in respect of the management of the unit-linked funds;
- The operation of ReAssure, the ring-fenced funds or the RNPF;
- The outsourcing and asset management arrangements for the policies of ReAssure and the governance around these, including the performance standards of ReAssure to which these outsourcing and asset management arrangements are held;
- The governance and management of the RNPF LT policies, which will continue to be the responsibility of the ReAssure Board; or
- The risk appetite to which ReAssure is managed.

8.23 ReAssure management has discretion with regard to the level of charges on existing unit-linked RNPF LT business. The extent of this discretion will not be affected by the Scheme.

8.24 ARUKSL provides the administration and servicing for the majority of existing ReAssure policies and, as noted in Section 10, ReAssure intends to migrate the administration of the transferring business to ARUKSL following the transfer. This migration will only proceed if the ReAssure policies at the time (including the transferring policies if

the Phoenix Annuity Scheme has been implemented) are expected to receive a comparable level of servicing and administration following the migration.

8.25 ARUKSL currently administers a large amount of business including approximately 382,000 in-payment annuities and has maintained service levels following recent migrations. I am therefore satisfied that the potential migration to ARUKSL will not affect the service standards provided to the existing RNPF LT business policyholders.

8.26 I am therefore satisfied that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders of the RNPF LT business or on the governance, management and service standards that apply to the RNPF LT business.

Conclusions for the RNPF LT business

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

- The security of benefits of the RNPF LT business policyholders;
- The reasonable expectations of the RNPF LT policyholders in respect of their benefits; or
- The service standards and governance applicable to the RNPF LT business policyholders.

The policies of the ReAssure ring-fenced funds (the WLWPF and the NMWPF)

The security of benefits of the policies of the ReAssure ring-fenced funds

8.28 Under the Phoenix Annuity Scheme, there will be no business transferred into or out of the WLWPF or NMWPF and no change to the financial strength of these ring-fenced funds.

8.29 The potential changes due to the implementation of the Phoenix Annuity Scheme stem from the possibility that, as a result of the transfer of the transferring Phoenix business into ReAssure:

- The contagion risk to the ring-fenced funds of ReAssure would increase due to an increase in the probability of the claims-paying insolvency of ReAssure (at which point the restrictions on the use of the assets in the ring-fenced funds would break down).
- There may be extra calls on the capital in ReAssure such that there is a restriction of the capital available to support the ring-fenced funds if and when required.

8.30 The tables in Appendices 1 and 2 show that the implementation of the Scheme is not expected to have a material effect on the financial strength of the RNPF and therefore no material impact on the likelihood of extra calls on the capital in ReAssure or on the likelihood of the RNPF becoming insolvent on a claims paying basis.

8.31 The risks of the transferring business are currently reinsured by RLL and this will remain the case after the implementation of the Scheme.

8.32 As discussed in Section 7, there is another Part VII transfer (the RLL Scheme) that is proposed to be implemented on the same day as the Phoenix Annuity Scheme. The RLL Scheme is due to be implemented immediately after the Phoenix Annuity Scheme but is separate from that scheme and its implementation does not depend on whether the Court sanctions the Phoenix Annuity Scheme. Although separate from the Phoenix Annuity Scheme, I have considered the potential effects of the RLL Scheme on the existing ReAssure policies.

8.33 If the RLL Scheme is not sanctioned by the Court and therefore not implemented then the reinsurance and security agreements will remain in place between ReAssure and RLL.

8.34 If the RLL Scheme is sanctioned by the Court then the RLL business will be transferred into ReAssure and the reinsurance agreement and security agreement will terminate. The assets held under the security agreement will be transferred to the RNPF and will compensate the RNPF for the liabilities due to the transferring-in Phoenix policies. The change in risk exposures for the policies of the ring-fenced funds as a result of the RLL Scheme are covered in my report on the RLL Scheme.

8.35 Therefore I am satisfied that the implementation of the Phoenix Annuity Scheme will not have a material effect on the security of the benefits of the policyholders within the WLWPF or the NMWPF.

The reasonable expectations of the policyholders of the ring-fenced funds

8.36 The implementation of the proposed Phoenix Annuity Scheme will not change:

- The terms and conditions of the existing policies of the ReAssure ring-fenced funds;
- The principles and practices used in the management of the ReAssure ring-fenced funds;
- The rights of the ReAssure policies to any future distributions from the inherited estates;
- The methodology used to calculate asset shares and surrender values of ReAssure with-profits policies;
- The bonus and pay-out policies applied to ReAssure with-profits policies;
- The charges that apply to the existing policies of the ReAssure ring-fenced funds;
- The operation of ReAssure, the ring-fenced funds or the RNPF;
- The outsourcing and asset management arrangements for the policies of ReAssure and the governance around these, including the performance standards of ReAssure to which these outsourcing and asset management arrangements are held;
- The governance and management of the existing policies of the ReAssure ring-fenced funds which will continue to be the responsibility of the ReAssure Board and subject to the oversight of the ReAssure Fairness Committee; or
- The risk appetite to which ReAssure is managed.

8.37 I am satisfied that the implementation of the Phoenix Annuity Scheme will not affect the service standards, investment management, management or governance of the policies in the WLWPF and the NMWPF and therefore that the implementation of the Scheme will not have a material adverse effect on the benefit expectations of the policyholders of the WLWPF and the NMWPF.

8.38 The WPA of ReAssure has confirmed that in his view the with-profits policyholders of ReAssure would not suffer a reduction in the security of their benefits or any impact on their reasonable benefit expectations if the Phoenix Annuity Scheme were to be implemented.

8.39 Taking all this into consideration, I am satisfied that the implementation of the Phoenix Annuity Scheme will not have a material adverse effect on the reasonable benefit expectations of the policyholders of the ReAssure ring-fenced funds or on the governance, management and service standards that apply to the policies of the ReAssure ring-fenced funds.

Conclusions for the policies of the ReAssure ring-fenced funds

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

- The security of benefits of the policies of the ReAssure ring-fenced funds;
- The reasonable expectations of the policyholders of the ReAssure ring-fenced funds in respect of their benefits; or
- The service standards and governance applicable to the policies of the ReAssure ring-fenced funds.

The ReAssure general insurance business

8.41 The ReAssure general insurance business is maintained separately from the RNPF LT business although it is part of the RNPF.

8.42 ReAssure does not currently write or sell general insurance policies and does not have any current in-force general insurance policies. As noted in Section 4, ReAssure holds a small amount of Incurred But Not Reported (“IBNR”) reserves and solvency capital in respect of potential claims arising from the expired general insurance business.

8.43 As stated above, I do not expect the implementation of the Scheme to have a material impact on the likelihood of extra calls on the capital in ReAssure or on the likelihood of claims paying insolvency. I am therefore satisfied that

the implementation of the Scheme will not have a material adverse effect on the security of the benefits of the holders of expired general insurance policies.

8.44 The policy servicing arrangements, management and governance for the expired general insurance policies will not change as a result of the implementation of the Scheme.

8.45 I am therefore satisfied that the implementation of the Scheme will not have a material adverse effect on the reasonable benefit expectations of the holders of expired general insurance policies.

The policies of the subsidiaries of the RNPF

8.46 The current subsidiaries of the RNPF are:

- Admin Re Trustees Limited;
- Gresham Life Assurance Society Limited;
- National Mutual Life Assurance Society Limited; and
- Admin Re Pension Trustees Limited.

8.47 After the implementation of the proposed Scheme these companies will remain as subsidiaries of the RNPF and there will be no business transferred into or out of them.

8.48 None of these subsidiaries contain any insurance business with the exception of National Mutual Life Assurance Society Limited, which contains two policies written on the lives of directors of National Mutual Pensions Limited. These policies would pay out a nominal benefit to ReAssure, and are owned by ReAssure.

8.49 There will be no changes to the terms and conditions of the policies of the subsidiaries of the RNPF and the policy servicing arrangements, investment management, management and governance for these policies will not change as a result of the implementation of the Scheme.

8.50 I am satisfied that the implementation of the Scheme will not have a material adverse effect on the security of benefits or on the reasonable benefit expectations of the policyholders of the subsidiaries of the RNPF.

Conclusion for the existing ReAssure policies

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

- The security of benefits under the existing ReAssure policies;
- The reasonable expectations of the existing ReAssure policyholders in respect of their benefits; or
- The service standards and governance applicable to the existing ReAssure policies.

The RLL Scheme

8.52 As discussed in Section 7, there is another Part VII transfer (the RLL Scheme) that is proposed to be implemented on the same day as the Phoenix Annuity Scheme. The RLL Scheme is due to be implemented immediately after the Phoenix Annuity Scheme but is separate from that scheme and its implementation does not depend on whether the Court sanctions the Phoenix Annuity Scheme.

8.53 If the RLL Scheme is sanctioned by the Court then the RLL business will be transferred into ReAssure and the reinsurance agreement and security agreement will terminate. The assets held under the security agreement will be transferred into the RNPF and will compensate the RNPF for the risk exposures due to the transferring in Phoenix policies.

8.54 I have also been appointed as the Independent Expert in respect of the RLL Scheme and I have considered the potential effects of the RLL Scheme on the existing ReAssure policies in my report on the RLL Scheme. In Section 8 of that report I conclude that the implementation of the RLL Scheme will not have a material adverse effect on:

- The security of benefits of the policyholders of ReAssure;

- The reasonable expectations of the policyholders of ReAssure with respect to their benefits; or
- The service standards and governance applicable to the ReAssure policies.

8.55 Section 9 of my report on the RLL Scheme sets out why I am satisfied that these conclusions remain valid whether or not the Phoenix Annuity Scheme is implemented.

8.56 I am therefore satisfied that my conclusions in this section in relation to the Phoenix Annuity Scheme hold in the event that the RLL Scheme is implemented.

8.57 If the RLL Scheme is not sanctioned by the Court and therefore not implemented then the reinsurance and security agreements will remain in place between ReAssure and RLL and my conclusions above hold.

9 THE EFFECT OF THE SCHEME ON THE NON-TRANSFERRING PHOENIX POLICIES

Introduction

9.1 In this section I consider the effect of the implementation of the Scheme on the policies of Phoenix that are not transferred to ReAssure under the Phoenix Annuity Scheme. These are:

- The business other than the transferring business in the Alba WPF, the SAL WPF, and the Phoenix WPF;
- The business in the other seven ring-fenced funds of Phoenix (as set out in Section 6); and
- The business of the PNPF.

9.2 If the Phoenix Annuity Scheme is approved by the Court, the transferring policies will transfer out of Phoenix and therefore, the key points to consider are:

- The financial strength available to provide security for the benefits under the non-transferring Phoenix policies after the implementation of the Scheme compared to that currently available;
- Any change to the profile of risks to which the non-transferring Phoenix policies will be exposed as a result of the implementation of the Scheme; and
- The effect of the implementation of the Scheme on the reasonable expectations of the non-transferring Phoenix policyholders in respect of their benefits and the service standards, management and governance applied to the non-transferring Phoenix policies.

9.3 These are considered in turn below.

The financial strength available to provide security of benefits

9.4 The non-transferring Phoenix policies currently receive security from the assets in Phoenix. Policies in the ring-fenced funds receive security from assets (including the inherited estates where relevant) of the ring-fenced fund of which they are a part and from the assets of the PNPF. Policies of the PNPF receive security from the assets of the PNPF. In an extreme scenario the barriers between the ring-fenced funds would break down and the resources of the ring-fenced funds would be available to provide support for the other ring-fenced funds and the PNPF.

9.5 The reinsurance agreement with RLL is an asset of Phoenix so the ability of RLL to fulfil its obligations under the reinsurance agreement currently affects the strength of Phoenix and therefore the security of the non-transferring policies. In particular, the assets held in accordance with the security agreement have restricted risk exposures and are ring-fenced for the benefit of Phoenix.

9.6 When considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy, as assets in excess of the requirements of the capital policy could be taken out (subject to PRA non-objection).

9.7 The implementation of the Phoenix Annuity Scheme will not change the risk appetite or the PCP in accordance with which Phoenix is managed and the figures in Appendix 2 show that Phoenix's compliance with the PCP will not be changed as a result of the implementation of the Scheme. If the Scheme were to be implemented, the non-transferring Phoenix policies would continue to be afforded the same level of security from the PCP as they are currently.

9.8 The ratios provided by the tables in Appendices 1 and 2 show the current and the projected post-transfer strength of the Phoenix WPF, the Alba WPF and the SAL WPF as at 31 December 2015 on a Solvency II basis. These tables show that the transfer results in a modest increase in the capital coverage ratio for Phoenix because:

- The expense reserve release of approximately £42 million for transferring policies is greater than the value of the residual assets (approximately £20 million) expected to be transferred to ReAssure in respect of the third party administration costs.

- There will be a modest reduction (approximately £9 million) in Phoenix's SCR following the implementation of the Scheme due to the removal of the counterparty and expense risks associated with the transferring business.
- As a result of the decrease in the SCR, the size of the risk margin will reduce by approximately £4 million.
- These will be partially offset by:
  - The costs of the Scheme: approximately £5 million spread across the Phoenix WPF, the Alba WPF and the SAL WPF as set out in Section 6.
  - An increase of approximately £13 million in the Phoenix SCR due to an increase in the restriction on the SCR due to the Phoenix WPF being a ring-fenced fund. The Alba WPF and SAL WPF rely upon support from outside of the ring-fenced funds and the Scheme will not alter the ring-fenced fund restrictions in respect of these funds.
  - A small decrease of approximately £5 million in the Phoenix TMTP.

9.9 The tables in Appendices 1 and 2 show that the strength of the PNPF is projected to remain unchanged by the implementation of the proposed Scheme and therefore the Scheme is not expected to affect the level of support available to the Phoenix ring-fenced funds from the PNPF.

9.10 I am therefore satisfied that the proposed Scheme will not have a material adverse effect on the financial strength available to support the security of the benefits of the non-transferring Phoenix policies.

The profile of risks to which the non-transferring Phoenix policies are exposed

9.11 The reinsurance agreement between Phoenix and RLL has already removed the longevity and investment risk associated with these policies from Phoenix and the implementation of the Phoenix Annuity Scheme will remove the residual expense and operational risks. Furthermore, following the proposed transfer, Phoenix will no longer incur any administration costs in relation to the existing reinsurance agreement.

9.12 Due to the security agreement in place, there is currently no material counterparty default risk associated with the reinsurance agreement and if the Scheme is implemented there will be no counterparty risk in respect of the transferring business.

9.13 The removal of the residual expense and operational risk represents a small reduction in the risk exposure of the non-transferring Phoenix policies and hence I am satisfied that the implementation of the Scheme will not have a material adverse effect on the risk profile to which the non-transferring Phoenix policies are exposed.

The governance, management and service standards applicable to the non-transferring Phoenix policies

9.14 The implementation of the proposed Phoenix Annuity Scheme will not change:

- The operation of Phoenix, the ring-fenced funds or the PNPF;
- The outsourcing and asset management arrangements for the policies of Phoenix and the governance around these including the performance standards of Phoenix to which these outsourcing and asset management arrangements are held;
- The governance and management of the Phoenix policies, which will continue to be the responsibility of the Phoenix Board and, in the case of the Phoenix ring-fenced funds subject to the oversight of the Phoenix WPC; or
- The risk appetite to which Phoenix is managed.

9.15 It should also be noted that the Phoenix WPC recommended the transfer of the annuities out of Phoenix for the benefit of with-profits policyholders in the relevant ring-fenced funds.

9.16 I am therefore satisfied that the implementation of the Scheme will not have a material effect on the governance, management and service standards of the non-transferring policies in Phoenix.

The reasonable expectations of the non-transferring Phoenix policyholders

9.17 The implementation of the proposed Phoenix Annuity Scheme will not change:

- The terms and conditions of the non-transferring Phoenix policies;
- The principles and practices used in the management of the Phoenix ring-fenced funds or the PNPF;
- The rights of the Phoenix policies to support any future distributions from the inherited estates;
- The methodology used to calculate asset shares and surrender values of Phoenix with-profits policies;
- The methodology used to calculate the surrender values of the non-transferring PNPF business;
- The asset allocation and asset management of the Phoenix ring-fenced funds and the PNPF;
- The bonus and pay-out policies applied to Phoenix with-profits policies;
- The charges applied to Phoenix policies; or
- The exercise of discretion in respect of the management of the unit-linked funds.

9.18 A small reduction in the risks to which the ring-fenced funds are exposed and a small increase in capital coverage following the implementation of the Phoenix Annuity Scheme would give rise to increased inherited estates in the ring-fenced funds, and the potential for a marginal acceleration of the distribution of the inherited estates to with-profits policyholders. At present, distributions of the Alba WPF and the SAL WPF inherited estates are not being made but the Scheme may bring forward the date at which these distributions could commence.

9.19 The WPAs of Phoenix have confirmed that, in their view, the with-profits policyholders of Phoenix would not suffer a reduction in the security of their benefits or any impact on their reasonable benefit expectations if the Phoenix Annuity Scheme were to be implemented.

9.20 Taking all of this into consideration, I am satisfied that the Scheme will not have a material adverse effect on the reasonable benefit expectations of the non-transferring policyholders in Phoenix.

Conclusion for the non-transferring Phoenix policies

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

- The security of benefits under the non-transferring Phoenix policies;
- The reasonable expectations of the holders of the non-transferring Phoenix policies in respect of their benefits; or
- The service standards, management and governance applicable to the non-transferring Phoenix policies.

9.22 These conclusions hold whether or not the RLL Scheme is sanctioned by the Court and implemented immediately after the Phoenix Annuity Scheme.

10 CONSIDERATIONS IN RESPECT OF THE TREATMENT OF CUSTOMERS

The approach to communication with policyholders

10.1 Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties under the Scheme. However, consideration may be given to the practicality and costs of sending notices against the likely benefits for policyholders of receiving such communications. In order to comply with paragraph 2.53 of the PRA's policy statement on insurance business transfers, the companies would be expected to notify the policyholders, or interested persons, at least six weeks before the date of the Court hearing at which the application to sanction the Scheme will be heard.

10.2 Phoenix and ReAssure will publish a notice in a form approved by the PRA in the London Gazette, the Edinburgh Gazette, the Belfast Gazette and the following national newspapers in the UK: the Times, the Daily Telegraph, the Daily Mirror and the Daily Mail.

10.3 Additionally, Phoenix and ReAssure will publish a notice in two national newspapers in each EEA state, other than the United Kingdom, in which 150 or more transferring policies are held. At the time of writing this report, it is anticipated that this will only incorporate Ireland, France and Spain.

10.4 Phoenix and ReAssure propose that the Scheme be notified to the supervisory authorities in all EEA States, and Phoenix intends to request this from the PRA.

10.5 Phoenix and ReAssure propose that a mailing pack is sent to all the transferring policyholders of Phoenix. The pack will include:

- An explanatory letter;
- A detailed guide to the Scheme, including the terms of the Scheme, a summary of the Independent Expert's Report and the Notice; and
- A Questions and Answers leaflet.

10.6 Phoenix and ReAssure intend to seek waivers from the requirements to communicate directly with the existing policyholders of ReAssure and the non-transferring Phoenix policyholders as they believe it would be disproportionate to do so, and in particular:

- The non-transferring Phoenix policies will remain as Phoenix policies as they are not being transferred under the proposed Scheme;
- The existing ReAssure policies will remain as ReAssure policies as they are not being transferred under the proposed Scheme;
- There will be no change to the terms and conditions of any such policies;
- As described in earlier sections of this report, in my view there will be no material adverse effect on the security of benefits under any such policies;
- There will be no change to the governance, servicing and administration arrangements applicable to such policies;
- As described in earlier sections of this report, in my view there will be no material change to the reasonable benefit expectations under any such policies; and
- The cost of mailing such policyholders is considered disproportionate relative to the benefits to the policyholders that would result from any such mailing. These costs have been estimated at £6 million to £8 million in respect of the Phoenix policyholders and approximately £3 million in respect of ReAssure policyholders. The Scheme costs payable by Phoenix would be borne by the inherited estates of the ring-fenced funds from which the business is transferring.

10.7 Assuming the application for the waivers is successful, the existing policyholders of ReAssure and the non-transferring policyholders of Phoenix will be notified via newspaper advertisements and via the Phoenix and ReAssure websites. The existing policyholders of ReAssure, the non-transferring policyholders of Phoenix and other interested parties will be able to obtain information from the Phoenix and ReAssure websites that will contain

detailed policyholder guides regarding the Scheme or, on request, from the helpline operated by Phoenix and ReAssure.

10.8 Policyholders will have at least 9 weeks to contact ReAssure or Phoenix via phone, letter or electronic form. There will be a dedicated Part VII call response centre that will handle any questions relating to the proposed transfer. Any technical questions that cannot be answered by the call centre teams will be referred to technical teams within Phoenix and ReAssure with actuarial and legal input.

10.9 The Chief Actuary and the WPA of ReAssure have confirmed that in their views it is reasonable and proportionate that the policyholders of the ReAssure ring-fenced funds will not receive a direct communication in respect of the Phoenix Annuity Scheme.

10.10 The Chief Actuary of Phoenix and the WPAs of Phoenix have confirmed that in their view it is reasonable and proportionate that the policyholders holding non-transferring Phoenix policies will not receive a direct communication in respect of the Phoenix Annuity Scheme.

10.11 I am satisfied that the proposed approach to communication with policyholders, including the application for the waiver, is fair and reasonable.

The loss of potential advantages for the non-transferring policies in the Phoenix ring-fenced funds

10.12 From the perspective of the relevant Phoenix ring-fenced funds, the implementation of the proposed Scheme would remove the residual risks in relation to the transferring business; for example expense risk and counterparty default risk in relation to RLL (to the extent that RLL is required to top up the assets in the security account in the event of higher than expected annuity outgo on the reinsured annuity business).

10.13 The removal of these risk exposures would mean that any possible advantage or benefit in relation to those risks can no longer accrue to the with-profits policyholders in those ring-fenced funds. However, in practice it is unlikely that this would be a material disadvantage for the non-transferring policies in the Phoenix ring-fenced funds because:

- The Phoenix ring-fenced funds will have realised the majority of any economic benefit of the transferring annuities under the pricing of the reinsurance agreement with RLL, meaning that these residual risk exposures are small in the context of the relevant ring-fenced funds and so any potential advantage that would be lost is small; and
- The expected release of reserves and capital requirements held against these residual risks within the Phoenix ring-fenced funds would increase the surplus within these ring-fenced funds.

10.14 I am satisfied that there is, in practice, unlikely to be any material potential advantage lost and so there would not be a material adverse impact on the policies in the Phoenix ring-fenced funds.

Administration and servicing

10.15 ReAssure intends to migrate the administration of the transferring business to ARUKSL following the transfer, although this will only be approved if the transferring and existing policyholders, whose policies are currently administered by ARUKSL, are expected to receive a comparable level of service following the migration. It should also be noted that ARUKSL currently administers a large amount of business including approximately 382,000 in-payment annuities and has maintained service levels following recent migrations.

The costs of the Scheme

10.16 The costs of the Scheme will be borne by ReAssure and the inherited estates of the Phoenix WPF, the Alba WPF and the SAL WPF. Each party will pay its own costs and expenses in relation to the negotiation, preparation, execution, carrying into effect and potential termination of the Scheme.

10.17 The first £2 million of external costs, including those in respect of the Independent Expert, the Court, and any advertising, printing and mailing costs, will be borne by ReAssure. Thereafter such costs will be split equally between ReAssure and Phoenix.

10.18 Phoenix's share of the costs of the Scheme are estimated at £5 million and will be borne by the Phoenix WPF, the Alba WPF and the SAL WPF.

10.19 The implementation of the Scheme is expected to slightly improve the solvency position of the Phoenix WPF, the Alba WPF and the SAL WPF and this benefit will ultimately accrue to the with-profits policyholders of the relevant ring-fenced fund as it will release capital that will be eligible for distribution to with-profits policyholders whilst at least maintaining benefit security and expectations at pre-Scheme levels.

10.20 In addition, the transfer was requested by the Phoenix WPC and is primarily for the benefit of the non-transferring with-profits policyholders within the Phoenix WPF, Alba WPF and SAL WPF. I am therefore satisfied that it is reasonable for the Scheme costs payable by Phoenix to be met by these funds.

10.21 The Scheme costs borne by Phoenix are to be split between the three Phoenix ring-fenced funds in proportion to the value of the transferring gross best estimate policyholder benefit liabilities as at 31 December 2015. I am satisfied that this method is appropriate as the BEL is broadly a proxy for the amount of risk inherent in the annuities, and therefore the costs borne by each fund approximately reflects the level of risk that is being removed from the fund.

10.22 ReAssure's share of any costs of the Scheme will be charged to the RNPF and not to the ring-fenced funds.

10.23 I am satisfied that the approach of Phoenix and ReAssure to the allocation of the costs of the Scheme is reasonable.

Other creditors

10.24 Phoenix and ReAssure have confirmed that there are no bondholders or third parties to securitisation arrangements or any other creditors of either company who would be affected by the proposed Scheme.

Financial Services Compensation Scheme ("FSCS") and Financial Ombudsman Service ("FOS")

10.25 The FSCS provides compensation to individual holders of long-term insurance policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of the insurer's default. Compensation to eligible holders of in-payment annuities is the full amount of the annuity, without limit. Implementation of the Scheme will not adversely affect eligibility for compensation from the FSCS for either transferring or non-transferring policyholders.

10.26 The FOS is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. In circumstances where Phoenix currently refers policyholders to the FOS, ReAssure will continue to do so following implementation of the Scheme.

10.27 The implementation of the Scheme will have no impact on the rights of the policyholders of Phoenix or ReAssure in relation to the FSCS or FOS.

11 OTHER CONSIDERATIONS ARISING FROM THE SCHEME

The non-implementation of the Scheme

11.1 If the Scheme does not proceed for any reason, then the transferring Phoenix policies will not become policies of ReAssure and will remain within Phoenix.

11.2 Under this situation the reinsurance and security agreements will remain in place between Phoenix and RLL. If the RLL Scheme is subsequently sanctioned, then the reinsurance and security agreements and the associated risks will transfer from RLL to ReAssure such that the cedant remains Phoenix and the reinsurer becomes ReAssure.

11.3 The counterparty risk that exists for Phoenix would then relate to ReAssure, not RLL. However this is mitigated by the security agreement, which will transfer over into ReAssure from RLL.

11.4 My report on the RLL Scheme considers the impact on the reinsured Phoenix policies under this scenario.

The ORSA

11.5 The risk profile of Phoenix is not expected to change materially as a result of the implementation of the Scheme.

11.6 The risk profile of ReAssure will not change materially as a result of the Phoenix Annuity Scheme. However, in the event that the RLL Scheme is implemented, this will constitute a material change in the risk profile of ReAssure, and the most recent ReAssure ORSA reflects this change, as well as the minor changes expected to result from the implementation of the Phoenix Annuity Scheme, in its forward looking assessment of risks.

Approvals under Solvency II

Phoenix

11.7 The transferring business does not currently form part of Phoenix's matching adjustment portfolio and so the Scheme will have no impact on the matching adjustment approval for Phoenix.

11.8 The implementation of the proposed Scheme has been considered by the appropriate governance committees in Phoenix in the context of the Phoenix internal model and whether the transfer out of the transferring business would be classified as a "major change" to the internal model and therefore require approval from the PRA.

11.9 Following that review it was concluded that the implementation of the Phoenix Annuity Scheme would not constitute a change of sufficient complexity or a material change to the risk profile of Phoenix to require re-approval by the PRA of the Phoenix internal model.

11.10 The Scheme will result in a small decrease in Phoenix's TMTP. However, a full recalculation will not be triggered as there will not be a material change in the risk profile of Phoenix.

11.11 Phoenix does not currently have approval to use the volatility adjustment and this will remain the case after the transfer.

11.12 I am therefore satisfied that the Scheme will not have a material impact on the PRA approvals granted to Phoenix.

ReAssure

11.13 The transferring business will not form part of ReAssure's matching adjustment portfolio unless and until the implementation of the RLL Scheme.

11.14 In anticipation of the implementation of the RLL Scheme, ReAssure has submitted an application to the PRA to vary the terms of its matching adjustment approval to seek permission to:

- Include additional asset types, specifically interest rate swaps, floating rate notes and inflation swaps;
- Include an additional liability type, specifically index-linked annuities;

- Introduce additional liquidity requirements arising from the need to post collateral for derivative positions; and
- Make changes to the rules around trading in the Matching Adjustment Portfolios.

11.15 I understand that approval or non-approval of this reapplication would not have a material financial impact on ReAssure in the context of the Phoenix Annuity Scheme.

11.16 As noted in Section 4, approximately £150 million of index-linked annuity liabilities are expected to be transferred into the ReAssure MAP from the VAP on the Transfer Date.

11.17 The Scheme will not result in a change to the ReAssure TMTP (currently zero).

11.18 ReAssure currently has approval to use the volatility adjustment and this will remain the case after the transfer.

11.19 I am therefore satisfied that the Scheme will not have a material impact on the PRA approvals granted to ReAssure.

Developments for ReAssure and Phoenix from 31 December 2015 to 30 June 2016

11.20 There have been a number of developments since the date of the financial information in this report (31 December 2015) that could have a significant effect on the financial position of ReAssure and Phoenix. These include:

- Financial market conditions in the UK have changed since 31 December 2015 and, in particular, in the period to 30 June 2016:
    - The risk-free spot curve published by EIOPA fell by an average (unweighted average of the first 20 years of spot rates) of 98 bps;
    - Credit spreads widened at most durations; and
    - Equity markets exhibited relatively high volatility.
- The Board of ReAssure approved a dividend of £336 million and this was paid out of the RNPF in June 2016.
- ReAssure has changed the methodology used to calculate the allowance for the loss-absorbing capacity of deferred taxes within its SCR.
- Phoenix has recalculated its TMTP as at 30 June 2016 following approval from the PRA.

11.21 Both ReAssure and Phoenix have provided estimated financial positions as at 30 June 2016 that reflect the various developments listed above. This updated financial information shows that:

- In respect of ReAssure:
    - It has comfortably covered its SCR at all times during the first half of 2016;
    - The excess assets in the RNPF remain in excess of the capital buffer set out in the RCP; and
    - It remains the case that the implementation of the Scheme does not have a material effect on the SCR coverage or on the solvency of ReAssure.
- In respect of Phoenix:
    - It has comfortably covered its SCR at all times during the first half of 2016;
    - The capital buffer set out in the PCP will be covered after the allowance for future management actions; and
    - It remains the case that implementation of the proposed Scheme is projected to result in a modest increase in the capital coverage ratio for Phoenix.

11.22 Given that:

- The transferring policyholders are moving to ReAssure;
- ReAssure is projected to be able to cover its capital policy buffer at 30 June 2016; and

- The implementation of the Scheme is expected to result in a modest increase in Phoenix's capital coverage ratio,

11.23 I am satisfied that my conclusions in Sections 7, 8, 9 and 10 remain valid after consideration of the developments between 31 December 2015 and 30 June 2016.

11.24 As noted in Section 4, ReAssure has submitted applications to the PRA to vary the terms of its matching adjustment, volatility adjustment and TMTP approvals. I shall provide an update on these and any other developments, including market movements and any management actions taken by ReAssure and/or Phoenix, in my Supplementary Report.

Developments since 30 June 2016

11.25 I have considered the latest available information provided to me by ReAssure and Phoenix in respect of events and market movements subsequent to 30 June 2016. Nothing in that information changes the conclusions reached in Sections 7, 8, 9 and 10 of this report.

11.26 My Supplementary Report will include financial information as at 30 June 2016 and commentary on the effects of events and market movements on the policies concerned in the proposed Scheme.

Quality of own funds capital

11.27 Both ReAssure (with the exception of a small deferred tax asset of c.£3 million) and Phoenix have own funds that are entirely comprised of Tier 1 items, i.e. the highest quality in terms of loss absorbency.

11.28 Following the implementation of the Scheme, ReAssure's own funds will continue to be comprised entirely of Tier 1 items.

11.29 Therefore I am satisfied that any changes in own funds capital items will not have a material adverse effect on the existing policyholders of ReAssure or the transferring policyholders of Phoenix.

Future corporate transactions

11.30 On 27 May 2016 it was announced that the Phoenix Group has agreed terms to purchase the pensions and protection business of AXA Wealth for consideration of £375 million. It is the intention that the acquired business will initially be fully reinsured into the Phoenix NPF.

11.31 This acquisition is conditional upon the PRA's change of control process, which will take place over the coming months. This process will assess any adverse impact on policyholders, including as a result of the reinsurance of the acquired business into Phoenix.

11.32 Any future Part VII transfer of the acquired business into Phoenix or any other insurer would be subject to due process at that time including a court process and a report by an independent expert.

11.33 I am therefore satisfied that this acquisition will be subject to an appropriate level of due process and scrutiny to ensure that it does not have an adverse impact on existing policyholders of Phoenix, including those policyholders whose policies are transferring under this Scheme.

11.34 ARUK's strategy is to play an active role as a closed-book consolidation vehicle, and therefore it is likely that ARUK will make new acquisitions in the future.

11.35 I know of no transactions in the pipeline for ARUK but it is possible that ARUK will make new acquisitions prior to the implementation of the Scheme. If such a transaction is made then:

- Any acquisition of another insurance entity would be subject to the PRA's change of control process and the associated level of due process and scrutiny, and such new acquisitions would not directly involve the balance sheet of ReAssure.

- Any transfer of acquired business into ReAssure would require a Part VII transfer and the sanction of the Court, scrutiny from the PRA and FCA and the report of an Independent Expert and the relevant Chief Actuaries.

- Any reinsurance transaction that involved ReAssure taking on a material amount of risk would require non-objection from the PRA. I would also expect to be informed and given the opportunity to scrutinise any such transactions from the perspective of any impact on the Phoenix Annuity Scheme to the extent that they are known about prior to the implementation of the Phoenix Annuity Scheme.

11.36 I am therefore satisfied that any acquisitions that are made by ARUK would be subject to an appropriate level of due process and scrutiny to ensure that they do not have an adverse impact on existing policyholders of ReAssure nor on the policyholders whose policies are transferring under this Scheme.

11.37 If there are any further developments with respect to transactions or Part VII transfers before the date of my Supplementary Report then I shall deal with the implications for this Scheme, and the policyholders concerned in this Scheme, in my Supplementary Report.

The effect of the proposed Scheme on previous schemes

11.38 The legal firms retained by Phoenix and ReAssure in respect of the Phoenix Annuity Scheme have carried out legal reviews of the Scheme and are satisfied that the implementation of the Scheme will not have a material effect on any previous schemes implemented by Phoenix or ReAssure.

11.39 As discussed in Section 3, I am satisfied that it is appropriate for me to rely on the conclusions of Hogan Lovells and Linklaters in relation to the Scheme.

The impact of the Scheme upon RLL as the reinsurer

11.40 As noted in section 6, RLL currently reinsures the transferring Phoenix annuities and this arrangement is to remain in place after the implementation of the Scheme with the cedant changing from Phoenix to ReAssure.

11.41 The majority of the assets backing the liabilities under the transferring policies were transferred to RLL as the premium under the reinsurance agreement and no further premiums are due to RLL.

11.42 I am therefore satisfied that the implementation of the Scheme will not impact RLL as the reinsurer of the transferring policies.

The future operation of the Scheme

11.43 If the Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), the Directors of Phoenix and ReAssure are committed to implementing the Scheme as set out in the Scheme document (and reflected in this report) in accordance with their fiduciary responsibilities under UK company law.

11.44 At any time after the Court's sanction of the Scheme, Phoenix and ReAssure must apply to the Court for sanction of any amendments to it, except where the amendment is considered to be minor or technical, in which case the companies must notify the PRA and FCA.

11.45 The published financial position of ReAssure will be calculated by the firm's actuaries and accountants and will be subject to external audit. The business being transferred consists of non-profit business and therefore the most important aspect is that ReAssure will continue to meet any guaranteed liabilities, including the in-payment annuities, and that sufficient resources are put aside to enable this.

11.46 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court.

Tax

11.47 No chargeable gains are expected to arise as a result of the initial expense reserve transfer or the subsequent true-up process to settle the final expense reserve.

11.48 Following implementation of the Scheme, Phoenix will release the expense reserves currently held in respect of the transferring business. Any profit will be credited to the estate of the appropriate WPF and therefore will not

benefit the owners of Phoenix until it is distributed to policyholders as bonuses. When bonuses are paid at a future date, the shareholders' share of these bonuses will be subject to tax at the full shareholder rate of corporation tax.

11.49 At or close to the Transfer Date, Phoenix will pass over the details of the transferring business (policyholders and their annuities) to ReAssure who will operate a separate payroll and thereafter take on responsibility for RTI reporting to HM Revenue & Customs ("HMRC") and the Isle of Man's Income Tax Division in respect of this block of business at the same time that Phoenix ends or changes its RTI reporting to HMRC and the Isle of Man's Income Tax Division.

11.50 Phoenix and ReAssure have been in discussions with HMRC to mitigate any short term tax adjustments to policyholder tax PAYE codes that may arise. HMRC has agreed in principle to accept a separate data submission in advance of the Transfer Date, and to suspend automatic PAYE code updates that arise when one income stops and another starts. This should enable HMRC to work through customers' tax records with a view to providing PAYE codes that avoid any discontinuity in the income tax position at the time of the transfer. Phoenix is also planning to seek confirmation from HMRC that the transfer should not give rise to any unauthorised payments.

11.51 The Scheme is not expected to lead to any other material changes to the aggregate future level of tax payable by Phoenix and ReAssure.

11.52 Assuming the clearances referred to above are obtained, I consider that there should be no material adverse effect on transferring policyholders, existing policyholders of ReAssure and non-transferring policyholders of Phoenix.

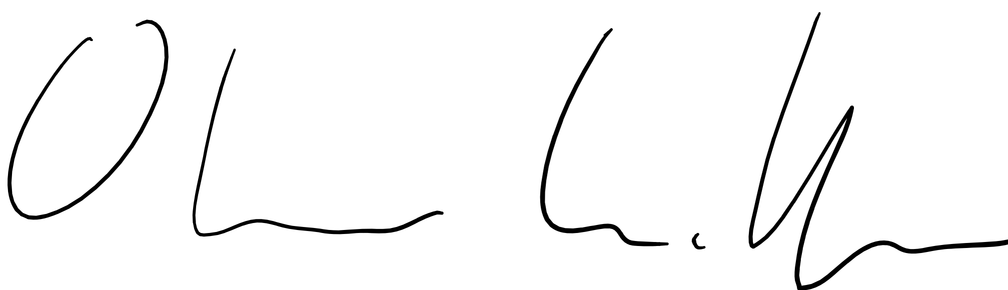
12 CONCLUSIONS

12.1 I confirm that I have considered the issues affecting the policyholders of Phoenix, and of ReAssure separately (as set out in Sections 7, 8, 9, and 10) and that I do not consider further subdivisions (other than those in this report) to be necessary.

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

- The security of benefits of the policyholders of Phoenix and ReAssure;
- The reasonable expectations of the policyholders of Phoenix and ReAssure with respect to their benefits; or
- The service standards and governance applicable to the ReAssure and Phoenix policies.

12.3 These conclusions hold whether or not the RLL Scheme is implemented.



Oliver Gillespie 5 September 2016

Fellow of the Institute and Faculty of Actuaries

APPENDIX 1 – SELECTED FINANCIAL INFORMATION BEFORE THE IMPLEMENTATION OF THE SCHEME

Solvency II financial information as at 31 December 2015

Phoenix

31-Dec-15	Alba WPF	SAL WPF	Phoenix WPF	Other PLL WPFs	PNPF	Total
	£m	£m	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	1,039	4,307	3,501	9,211	17,067	35,125
Technical provisions (net of transitional measure)	987	4,006	3,069	8,188	15,674	31,924
Deduction to Own Funds	0	0	55	147	0	202
Available Own Funds	**52**	**301**	**378**	**875**	**1,393**	**2,999**
SCR	72	406	319	659	1,100	2,556
Excess capital	**(20)**	**(105)**	**59**	**217**	**293**	**443**
SCR coverage ratio	**72%**	**74%**	**118%**	**133%**	**127%**	**117%**
SCR coverage ratio (excl. unsupported WPFs)						**128%**
Capital policy buffer	20	114	0	3	278	415
Available capital above capital policy buffer	**(40)**	**(219)**	**59**	**214**	**15**	**28**

Notes:

1) The capital policy buffer includes an allowance for future management actions and a reassessment of the RFF restriction (deduction to Own Funds).

ReAssure

31-Dec-15	RNPF	NMWPF	WLWPF	Total
	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	26,131	1,538	482	28,151
Technical provisions (net of transitional measure)	(23,963)	(1,426)	(441)	(25,830)
Deduction to Own Funds	0	(77)	(19)	(96)
Available Own Funds	**2,167**	**35**	**23**	**2,225**
SCR	1,305	35	12	1,352
Excess capital	**862**	**0**	**11**	**873**
SCR coverage ratio	**166%**	**N/A**	**N/A**	**165%**
Capital policy buffer	261	0	0	261
Available capital above capital policy buffer	**601**	**0**	**11**	**612**

Notes:

1) The figures in this table are presented before the allowance of a £336 million dividend that was paid out of ReAssure in June 2016.

APPENDIX 2 – SELECTED FINANCIAL INFORMATION AFTER THE IMPLEMENTATION OF THE SCHEME

Solvency II financial information as at 31 December 2015

Phoenix

31-Dec-15	Alba WPF	SAL WPF	Phoenix WPF	Other PLL WPFs	PNPF	Total
	£m	£m	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	1,039	4,307	3,501	9,211	17,067	35,125
Technical provisions (net of transitional measure)	972	3,995	3,058	8,188	15,674	31,887
Deduction to Own Funds	0	0	67	147	0	215
Available Own Funds	**67**	**313**	**375**	**875**	**1,393**	**3,023**
SCR	69	403	317	659	1,100	2,547
Excess capital	**(2)**	**(90)**	**59**	**217**	**293**	**476**
SCR coverage ratio	**97%**	**78%**	**119%**	**133%**	**127%**	**119%**
SCR coverage ratio (excl. unsupported WPFs)						**130%**
Capital policy buffer	19	113	0	3	278	413
Available capital above capital policy buffer	**(22)**	**(203)**	**59**	**214**	**15**	**63**

Notes:

1) The capital policy buffer includes an allowance for future management actions and a reassessment of the RFF restriction (deduction to Own Funds).

ReAssure

31-Dec-15	RNPF	NMWPF	WLWPF	Total
	£m	£m	£m	£m
Assets (net of current liabilities and including reinsurance assets)	27,811	1,538	482	29,831
Technical provisions (net of transitional measure)	(25,647)	(1,426)	(441)	(27,514)
Deduction to Own Funds	0	(77)	(19)	(96)
Available Own Funds	**2,164**	**35**	**23**	**2,222**
SCR	1,309	35	12	1,356
Excess capital	**855**	**0**	**11**	**866**
SCR coverage ratio	**165%**	**N/A**	**N/A**	**164%**
Capital policy buffer	262	0	0	262
Available capital above capital policy buffer	**593**	**0**	**11**	**604**

Notes:

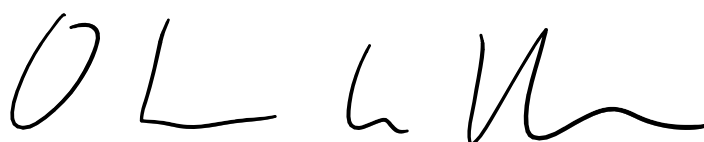
2) The financial information presented above does not assume any new Solvency II approvals in relation to the RLL Scheme.
3) The figures in this table are presented before the allowance of a £336 million dividend that was paid out of ReAssure in June 2016.

APPENDIX 3 – CERTIFICATE OF COMPLIANCE

I understand that my duty in preparing my report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that 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. As required by rule 35.10(2) of Part 35 of the Civil Procedure Rules and by paragraph 3.2(9)(b) of Practice Direction 35, I hereby confirm that I have understood, and have complied with, my duty to the Court.

I confirm that I have made clear which facts and matters referred to in my 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.



Oliver Gillespie 5 September 2016

APPENDIX 4 – DATA RELIED UPON

In addition to discussions (both orally and electronically) with ReAssure and Phoenix staff, I have relied upon the public and non-public information shown in the table below in formulating my conclusions:

Document	Date of document
Scheme of transfer	5 September 2016
Capital policy of Phoenix	16 March 2016
Capital policy of ReAssure	30 March 2016
Report of the Chief Actuary of Phoenix on the Scheme	5 September 2016
Report of the Chief Actuary of ReAssure on the Scheme	5 September 2016
Report of the WPA of Phoenix on the Scheme	11 August 2016
Report of the WPA of ReAssure on the Scheme	5 September 2016
End-2015 Returns to the PRA of Phoenix	17 March 2016
End-2015 Returns to the PRA of ReAssure	30 March 2016
End-2015 Report and Accounts of Phoenix	16 March 2016
End-2015 Report and Accounts of ReAssure	30 March 2016
End-2015 ICA report of Phoenix	4 May 2016
Pre- and post-Scheme financials as at Q4 2015 for Phoenix	17 May 2016
Pre- and post-Scheme financials as at Q4 2015 for ReAssure	5 September 2016
The ORSA of Phoenix	30 September 2015
The ORSA of ReAssure	29 June 2016
The Solvency II internal model methodology for Phoenix	26 June 2015
The Solvency II YE2015 SCR methodology for ReAssure	27 May 2015
The ReAssure Solvency II basis of preparation	6 August 2015
The reinsurance treaty between Phoenix and the RLL NPF	31 July 2014
The liability bridge between Solvency I Pillar I and ICA for ReAssure	17 May 2016
The liability bridge between ICA and Solvency II for ReAssure	17 May 2016
First witness statement of Andrew Moss	25 August 2016
First witness statement of Simon True	31 August 2016
First witness statement of Matthew Hilmar Cuhls	5 September 2016
Phoenix HY16 pre-scheme solvency update (pre and post-TMTP recalculation)	1 July 2016
ReAssure HY16 pre and post-Scheme estimated financial position	31 August 2016
ReAssure/RLL Capital Management Policy - March 2016 risk management review	30 March 2016
Legal advice to Phoenix from Hogan Lovells re past schemes	27 June 2016

APPENDIX 5 – GLOSSARY OF TERMS

A glossary of abbreviations used throughout the report is given below.

A

APS	Actuarial Profession Standards
ARUK	Admin Re UK Limited
ARUKSL	Admin Re UK Services Limited
Asset share	A measure of a policy's value in the absence of guarantees, defined as the total premiums paid by policyholders, accumulated by actual investment returns, less attributable expenses, benefits paid and other relevant deductions.

B

BAU	Business as usual
BEL	The best estimate liability under Solvency II

C

CA	Chief Actuary
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
Credit spreads	Credit spreads are the differences between corporate bond yields and risk-free (government bond) yields at various bond quality ratings and durations.
CWP	Conventional with-profits

D

DB	The ReAssure Defined Book

E

EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority

F

FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FRR	Financial Resources Requirement
FSA	Financial Services Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
FTSE	Financial Times Stock Exchange

G

GAL	Guardian Assurance Limited
GCSL	Guardian Companies Services Ltd
GFSHUKL	Guardian Financial Services Holdings UK Limited

H

HMRC	HM Revenue & Customs
Hogan Lovells	Hogan Lovells International LLP

I

IAM	Ignis Asset Management
IBNR	Incurred But Not Reported
IE	Independent Expert
IERA	Initial expense reserve amount
ITS	Implementing Technical Standards

L

LAHC	Life Assurance Holding Company Limited
LTF	The long-term insurance Fund

M

MA	Matching Adjustment
MAP	Matching Adjustment Portfolio
MCR	Minimum Capital Requirement

N

NM	National Mutual
NM CSF	The National Mutual Capital Support Facility set up under the terms of the NM Scheme to provide support for the NMWPF in the event that the NMWPF is unable to meet its regulatory capital requirements.
NMLL	National Mutual Life Limited
NMPL	National Mutual Pensions Limited
NMWPF	National Mutual With-Profits Fund
NPF	Non-profit Fund

O

ORSA	Own Risk and Solvency Assessment

P

PCP	The Phoenix Capital Policy
PGMS	Pearl Group Management Services
Phoenix	Phoenix Life Limited
PLAL	Phoenix Life Assurance Limited
PLHL	Phoenix Life Holdings Limited
PNPF	The Phoenix Non-Profit Fund
PPFM	The Principles and Practices of Financial Management
PRA	The Prudential Regulation Authority

R

RCP	The ReAssure Capital Policy
ReAssure SHF	The ReAssure Shareholders' Fund
RFF	Ring-fenced funds
RLL	ReAssure Life Limited
RNPF	ReAssure Non-Profit Fund
RNPF LT	ReAssure Non-Profit Fund long-term non-profit business
RPI	Retail Price Index
RTI	Real Time Information

S

SCR	Solvency Capital Requirement
SHF	Shareholders' Fund
SIMF	Senior Insurance Management Functions
SIMR	The PRA's Senior Insurance Managers Regime
SRCL	Swiss Re Capital Limited
SRL	Swiss Re Limited
SRLC	Swiss Re Life Capital Limited

T

TAS	Technical Actuarial Standards
TCF	Treating Customers Fairly
TMTP	Transitional Measure on Technical Provisions
Transfer Date	The date on which the transfer is effected (expected to be 31 December 2016)

U

UCITS	Undertakings for the Collective Investment of Transferable Securities
UWP	Unitised With-Profits

V

VA	Volatility Adjustment
VAP	Volatility adjustment portfolio

W

WLWPF	Windsor Life With-Profits Fund
WPA	With-Profits Actuary
WPC	With-Profits Committee
WPF	With-Profits Fund

Z

ZAL	Zurich Assurance Limited

APPENDIX 6 – COMPLIANCE WITH PRA POLICY STATEMENT

The table below indicates how I have complied with the provisions of the PRA Policy Statement ("The Prudential Regulation Authority's approach to insurance business transfers", dated April 2015) that pertain to the form of the Scheme Report.

PRA Policy Statement reference	Requirement	Scheme Report paragraph reference
2.30 (1)	Who appointed the Independent Expert and who is bearing the costs of that appointment	1.2, 1.3
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator.	1.17
2.30 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.15 - 1.16
2.30 (4)	Whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest	1.18
2.30 (5)	The scope of the report	1.7 - 1.14
2.30 (6)	The purpose of the scheme	6.1 - 6.4
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	6.5 - 6.28
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided	1.12 - 1.13, Appendix 3
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.12, 1.26, Appendix 3
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	1.26
2.30 (11)	His opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	 7.96 - 7.97 9.21 - 9.22 8.27, 8.40, 8.45
2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	11.40 - 11.42
2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme	1.14
2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons.	7.1 - 11.46

2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	6.6
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	Not applicable
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	7.1 - 11.46
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether he considered alternative arrangements and, if so, what	2.7 - 2.8
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should, where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders	7.1 - 11.46
2.33 (4)	The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	7.1 - 11.46
2.35 (1)	For any mutual company involved in the scheme, the report should describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders	Not applicable
2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	Not applicable
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	Not applicable
2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	8.36, 9.17 - 9.19
2.36 (2)	For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent	Not applicable

	and method of its proposed division is equitable as between different classes and generations of policyholders;	
2.36 (3)	For a scheme involving long-term insurance business, the report should describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges	8.22, 8.36, 9.17
2.36 (4)	For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm	11.43 - 11.46
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	7.1 - 9.22
2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	12.2 - 12.3
2.36 (7)	For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	11.43 - 11.46