

## **PHOENIX LIFE LIMITED**

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

Supplementary Report by the Chief Actuary on the Impact of the  
Scheme on Policyholders of Phoenix Life Limited

20 November 2018

## **1. Purpose of Report**

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

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

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

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

My conclusions are given in section 6.

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

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

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

## **2. Developments since my report**

### **2.1 Changes to the Scheme**

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

## 2.2 Economic Conditions since the end of March 2018

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

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

Phoenix's capital position is affected by the performance of its investments – particularly in corporate bonds, gilts and equities and any hedges it has taken against movements in these. The impact of these and other movements have been reflected in the analysis shown in section 3.

## 2.3 Developments affecting the financial position of Phoenix

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

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

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



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

## 2.4 Other Developments

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

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

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

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

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

## 3. Review of financial analysis

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

### 3.1. Position of Phoenix before and after the transfer

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

Table 2 below shows the financial position of Phoenix as at 30 June 2018. The estimated position as at 31 March 2018 in my report is shown for comparison.

Table 2	Phoenix as at 30 June 2018 before the effect of the Scheme			Phoenix as at 31 March 2018 before the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Unsupported WPFs	1,945	366	1,197	1,402	170	950
Supported WPFs	-	-	-	338	-	291
NP Fund and Shareholders' Fund	2,374	-	1,775	2,201	-	1,661
<b>Total</b>	<b>4,319</b>	<b>366</b>	<b>2,971</b>	<b>3,941</b>	<b>170</b>	<b>2,902</b>
			<b>Total</b>		<b>Total</b>	
<b>Excess of Adjusted Own Funds over SCR</b>			<b>£982m</b>		<b>£869m</b>	
<b>Solvency Ratio – All funds</b>			<b>133%</b>		<b>130%</b>	
<b>Solvency Ratio excluding unsupported WPFs</b>			<b>155%</b>		<b>145%</b>	

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

Table 2 shows that between 31 March 2018 and 30 June 2018 there was an increase in the Excess of Adjusted Own Funds over SCR. Note that as at 30 June 2018, the Alba WPF and the SAL WPF were no longer reliant on shareholder support to cover their SCR and are now shown with the other unsupported funds.

Table 3 below shows the estimated financial position of Phoenix as at 30 June 2018, as if the Scheme had been implemented on that date. The estimated position as at 31 March 2018 as if the Scheme had been implemented on that date given in my report is shown for comparison.

Table 3	Phoenix as at 30 June 2018 after the effect of the Scheme			Phoenix as at 31 March 2018 after the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Unsupported WPFs	1,945	366	1,197	1,402	170	950
Supported WPFs	-	-	-	338	-	291
NP Fund and Shareholders' Fund	2,654	-	1,791	2,486	-	1,676
<b>Total</b>	<b>4,599</b>	<b>366</b>	<b>2,987</b>	<b>4,226</b>	<b>170</b>	<b>2,917</b>
			<b>Total</b>		<b>Total</b>	
<b>Excess of Adjusted Own Funds over SCR</b>			<b>£1,246m</b>		<b>£1,139m</b>	
<b>Solvency Ratio – All funds</b>			<b>142%</b>		<b>139%</b>	
<b>Solvency Ratio excluding unsupported WPFs</b>			<b>170%</b>		<b>158%</b>	

Comparing Tables 2 and 3 shows that implementation of the Scheme will lead to an increase in the Excess of the Adjusted Own Funds over the SCR. This is for the reasons given in section 5.1 of my report. The size of the increase is similar to that shown as at 31 March 2018.

However, as noted in section 2.3.3, both Phoenix and Abbey Life made dividend payments in November 2018. The following table shows the position before and after implementation of the Scheme on a pro-forma basis as at 30 June 2018 allowing for the payment of those dividends:



<b>Table 4</b>	<b>Phoenix as at 30 June 2018 before the effect of the Scheme</b>	<b>Phoenix as at 30 June 2018 after the effect of the Scheme</b>
<b>Excess of Adjusted Own Funds over SCR</b>	<b>£902m</b>	<b>£966m</b>
<b>Solvency Ratio – All funds</b>	<b>130%</b>	<b>132%</b>
<b>Solvency Ratio excluding unsupported WPFs</b>	<b>151%</b>	<b>154%</b>

Table 4 show that implementation of the Scheme continues to lead to an increase in the Excess of the Adjusted Own Funds over the SCR, albeit the payment of the dividend by Abbey Life has reduced the size of the increase.

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

### **3.2. Impact of events since 30 June 2018**

Under Solvency II, Phoenix calculates and reports its solvency position and other key financial metrics to the PRA on a quarterly basis. The position as at 30 June 2018 is shown above. The valuation as at 30 September 2018 has not been finalised, but the provisional position, taking into account the events referred to in section 2.3, market movements and the run-off of policies to that date, shows that the Excess of Adjusted Own Funds over SCR was slightly higher than the position as at 30 June 2018 as shown in Table 4 and that Phoenix continued to meet the more onerous requirements of the PCP.

As noted in section 2.3, a number of other events and actions have occurred since the end of September or are expected to take place before the end of 2018. Taking into account those, market movements, new business written and the run-off of in-force policies since then, Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP at the date of this supplementary report and is expected to do so at the end of 2018.

Implementation of the Scheme will improve the liquidity position of Phoenix, albeit by less than would have been the case had Abbey Life not declared its latest dividend.

Whilst these events have affected the overall level of solvency of Phoenix, they have not had a material effect on the impact of the Scheme, which continues to be that implementation of the Scheme will increase the excess of adjusted own funds over SCR and hence improve the solvency position of Phoenix.

## **4. Effect of the Scheme on Phoenix policyholders**

### **4.1. Policyholder Security**

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

- Phoenix currently meets its PRA capital requirements and the additional requirements of the PCP.
- The financial position of Phoenix will be improved following implementation of the Scheme.

- Whilst implementation of the Scheme will increase the surplus in Phoenix, little reliance or benefit can be placed on any surplus over that required by the PCP in terms of improving the security of policyholders.
- I considered the level of capital support that will be available to provide security of benefits for Phoenix policyholders to be at worst the same as that available currently.

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

Therefore, my opinion remains unchanged that the level of capital support that will be available to provide security for benefits for Phoenix's policyholders after the Scheme is implemented should at worst be the same as the level of capital support currently available to provide security for benefits.

#### **4.2. Policyholder Benefits**

In my report, I noted that the Scheme would have no impact on the benefits of Phoenix policyholders. The terms of the Scheme have not been changed and none of the developments since my report have affected the conclusions drawn by me in my report. Therefore, my opinion remains that the benefits of the Phoenix policyholders will not be affected by the implementation of the Scheme.

The With Profits Actuaries of Phoenix have confirmed that they agree with my opinion as set out in sections 4.1 and 4.2 with regard to holders of with-profits policies.

### **5. Other Matters**

#### **5.1. Policyholder Communications**

I have reviewed the Scheme guide prepared for Phoenix policyholders and the related materials made available on its website. I am satisfied that the information regarding the proposals as contained therein adequately bring the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this supplementary report to the attention of policyholders.

10,853 phone calls and letters have been received as at 16 November 2018, none of which were from Phoenix policyholders.

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

None of the concerns raised in those objections affects the conclusions in my report and this supplementary report.

## 6. Conclusion

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



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Fellow of the Institute of Actuaries  
Chief Actuary  
20 November 2018



## APPENDIX – Glossary

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