PHOENIX LIFE LIMITED

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

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

11 July 2018

1. PURPOSE OF REPORT

The purpose of this report is to describe the impact of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA") on the policyholders of Phoenix Life Limited ("Phoenix"). Under this scheme (the "Scheme") the business of Abbey Life Assurance Company Limited ("Abbey Life") is to transfer to Phoenix.

This report describes how the Scheme is expected to affect the security of benefits and the reasonable benefit expectations of policyholders of Phoenix. It also sets out how the Scheme is consistent with the requirements to treat customers fairly.

This report is written for the Phoenix Board in my capacity as Chief Actuary for Phoenix. As well as the Board, this report may be used by the Independent Expert, the High Court, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and any overseas regulators and courts in forming their own judgements about the Scheme.

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 report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

2. SUMMARY

In section 3, I have provided background information on Phoenix and Abbey Life.

I have given a summary of the Scheme in section 4, highlighting its effect on the policyholders of Phoenix. The full provisions of the Scheme are set out in the Scheme document.

In sections 5 and 6, I have analysed the impact of the Scheme on the policyholders of Phoenix.

I conclude in section 7 that the Scheme will have no material adverse impact on the interests of Phoenix policyholders. In particular, in my opinion, there will be no material reduction in the security and benefit expectations of Phoenix policyholders.

3. BACKGROUND

3.1. Status

I am a Fellow of the Institute of Actuaries. I was appointed as Actuarial Function Holder of Phoenix from 30 July 2010 and I became the Chief Actuary when changes were introduced to the regulatory regime on 1 January 2016.

I am an employee of Pearl Group Management Services Limited ("PGMS"), which is a wholly owned subsidiary of Phoenix Group Holdings ("PGH"), the ultimate parent company of Phoenix. I am not a policyholder of any of the companies within the

Phoenix Group, including Phoenix and Abbey Life. I currently have a number of PGH shares and share options.

I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

3.2. History of Phoenix

Phoenix traces its history back to 1971, when it was incorporated as Lloyds Life Assurance Limited. It was subsequently renamed Royal Heritage Life Assurance Limited ("RHL"), after its acquisition by the Royal Insurance Group in 1985. RHL was renamed Royal & Sun Alliance Linked Insurances Limited in 1998 and the company's name was changed to Phoenix Life Limited in 2005.

Phoenix closed to new business in 2002, although it continued to issue policies under options on existing policies, including the acceptance of new members to existing pension arrangements and the issue of immediate annuities in respect of vesting pension policies. Phoenix has since 8 December 2017, when the business of AXA Wealth Limited ("AWL") was transferred to it, written new non-profit protection business under the SunLife brand, having reinsured all such business sold by AWL from 1 November 2016. Phoenix has recently entered the bulk purchase annuity business and wrote its first contract in March 2018.

Phoenix is a member of the Phoenix Group, which is headed by PGH. The Phoenix Group includes three active regulated UK life companies – Phoenix, Abbey Life, and Phoenix Life Assurance Limited.

Phoenix has been involved in a number of Part VII schemes since 2005 including those shown below.

Effective Date of Scheme	Long-term Insurance Business transferred to Phoenix *	Scheme referred to elsewhere in this report as
31 December 2005	Bradford Insurance Company Limited, Phoenix Assurance Limited and Swiss Life (UK) plc	
31 December 2006	Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited	
1 January 2009	Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") ^	Phoenix 2009 Scheme
1 January 2011	Phoenix & London Assurance Limited	Phoenix 2011 Scheme
1 January 2012	NPI Limited and certain long-term insurance business of National Provident Life Limited	Phoenix 2012 Scheme
8 December 2017	AWL	Phoenix 2017 Scheme

* In all cases except National Provident Life Limited, the entire business of each company was transferred to Phoenix.

^ This transfer excluded certain protection policies of SMA and SPL which were transferred to The Royal London Mutual Insurance Society Limited in December 2008 under a separate scheme.

The Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme and Phoenix 2017 Scheme set out various terms for the management of Phoenix's business, and will continue to do so irrespective of whether the Scheme goes ahead. These schemes will not be amended or modified by the Scheme.

In February 2018 Phoenix Group announced its intention to acquire Standard Life Assurance Limited. This acquisition does not directly affect Phoenix, Abbey Life or this Scheme.

3.3. The Business of Phoenix

The long-term insurance business within Phoenix is held within eleven sub-funds:

- The 100% With-Profits Fund (the "100% WPF");
- The 90% With-Profits Fund (the "90% WPF");
- The Alba With-Profits Fund (the "Alba WPF");
- The Britannic Industrial Branch Fund (the "BIB Fund");
- The Britannic With-Profits Fund (the "Britannic WPF");
- The Phoenix With-Profits Fund (the "Phoenix WPF");
- The SAL With-Profits Fund (the "SAL WPF");
- The Scottish Mutual With-Profits Fund (the "SM WPF");
- The SPI With-Profits Fund (the "SPI WPF");
- The NPI With-Profits Fund (the "NPI WPF"); and
- The Non-Profit Fund (the "NPF").

The first ten funds listed above are with-profits funds ("WPFs"). All the surplus arising in the 100% WPF and the NPI WPF is attributable to the with-profits policyholders in those funds and at least 90% of the surplus in the other with-profits funds is attributable to the with-profits policyholders in the relevant fund.

The NPF consists of the balance of the policies of Phoenix and includes business originally written by Phoenix as well as business transferred as a result of the various Part VII schemes. The policies in the NPF mainly fall into the following categories:

- Unit-linked regular and single premium life and pension policies;
- Immediate, deferred and bulk purchase annuities;
- Term assurance, critical illness and income protection policies written on both guaranteed and reviewable premium bases; and
- 'Guaranteed over fifty' whole of life policies, including the new business written under the SunLife brand.

On 29 December 2017, Phoenix entered into two reinsurance agreements with Abbey Life under which Phoenix assumed the majority of Abbey Life's risks and liabilities, excluding the with-profits funds and unit-linked funds.

The NPF is maintained for accounting and operational purposes to allow Phoenix to identify its long-term insurance business which is not allocated to its with-profits funds. Since the introduction of Solvency II, there is no legal or regulatory requirement to maintain the NPF or to separate the business allocated to the NPF from the assets and liabilities of Phoenix which are not attributable to its long-term insurance business (referred to as the "Shareholders' Fund"). For reporting purposes under Solvency II, the Shareholders' Fund is combined with the NPF.

The approximate number of policies and best estimate liabilities ("BEL"), net of reinsurance, in each sub-fund of Phoenix as at 31 December 2017 are shown in the table below.

Fund	100% WPF	90% WPF	Alba WPF	BIB Fund	Britannic WPF	Phoenix WPF	SAL WPF	SM WPF	SPI WPF	NPI WPF	NPF
Policies (000)	0	255	86	111	351	124	96	98	66	8	2,349
BEL (£m)	51	77	786	110	3,931	2,706	3,361	1,890	1,611	0	24,902

In total, Phoenix at 31 December 2017 had approximately 3.5 million policies in force with total assets in excess of £47 billion.

3.4. Phoenix Capital Policy

Under the terms of the Phoenix 2009 Scheme, Phoenix maintains a particular capital policy (the "Phoenix Capital Policy" or "PCP"). The main objective of the PCP is to ensure that the company can continue to meet the PRA's capital requirements in internally specified stress scenarios. The strength of the PCP is a function of these scenarios.

The other objective of the PCP is to govern the way in which shareholder support can be supplied to Phoenix's with-profits funds should they require it.

The scenario testing is currently based on holding sufficient capital to be able to meet regulatory capital requirements after a 1 in 10 year all risk event. This requirement is expressed as a percentage of the Solvency Capital Requirement ("SCR"), which is the amount of capital required to be held by insurance companies under Solvency II. The scenarios and percentage are reviewed from time to time to ensure that the capital policy continues to meet its objective. The percentage may thus change without affecting the strength of the PCP.

The PCP currently requires Phoenix to hold capital equal to 31 percent of the SCR in addition to the capital necessary to meet the SCR itself. For those WPFs which are unsupported the additional capital is met by any surplus in the fund and allowance is made for management actions permitted within the PPFM. For supported WPFs, which were the Alba WPF and the SAL WPF as at 31 March 2018, the additional capital is met by the NPF and Shareholders' Fund.

If at any point there is a small deficit relative to the PCP, then no action is required to be taken other than that no capital can be released (for example through the payment of dividends). However, larger deficits would require consideration of corrective action.

Under the terms of the PCP, Phoenix ensures that it holds sufficient assets that can be made available to the WPFs should they require support in the stress scenario. In addition, although not part of the PCP, Phoenix maintains a liquidity policy to ensure that it has sufficient liquid assets to meet policyholder claims, collateral requirements and any dividend payments.

3.5. Abbey Life

Abbey Life is also a member of the Phoenix Group having been acquired from Deutsche Bank AG Group ("Deutsche Bank") on 30 December 2016.

Abbey Life was founded in 1961 and directly wrote retail life business until 2000 when it was substantially closed to new business. Most of Abbey Life's business was sold through its own direct salesforce and appointed representatives, but the company also accepted business via independent advisers. In 1997 Abbey Life received the business of Ambassador Life Assurance Company Limited and of Hill Samuel Life Assurance Limited under two insurance business transfer schemes pursuant to Part I of Schedule 2C of the Insurance Companies Act 1982. A small number of corporate transactions were written in recent years, the last of these in 2016.

All of the long-term business of Abbey Life is held within its long-term fund which includes two small with-profits funds (the "ALAC WP Funds"). The business in Abbey Life consists of:

- Annuity business;
- Unit-linked life and pension business;
- A small amount of traditional life and pension business, both with-profits and non-profit; and
- Corporate Transactions, which consist of four arrangements with corporate pension schemes operating in a similar way to a longevity swap and a bespoke reinsurance arrangement in respect of life protection business.

As at 31 December 2017, Abbey Life had approximately 720,000 policies in-force. The BEL, net of reinsurance, were £7,292m.

Following the reinsurance with Phoenix referred to in section 3.3, Abbey Life retains the following:

- The two with-profits funds, including their assets and liabilities;
- Unit holdings in the unit-linked funds;
- Assets in the long-term fund and shareholders' fund and the market and credit risks associated with them;
- The relationships with all policyholders;
- The relationships with its external reinsurers;
- The liability for any fines imposed by the FCA, although Abbey Life benefits from an agreement with its parent company, Phoenix Life Holdings Limited ("PLHL"), in respect of any money PLHL receives under indemnity protection provided by Deutsche Bank, which covers any liability resulting from FCA investigations following their thematic reviews of long-standing customers and annuity sales practice in the period prior to the date on which Abbey Life was acquired by Phoenix Group; and
- A small amount of ongoing operational risk.

The Board of Abbey Life set a capital management policy (the "ACMP") in October 2017 under which it seeks to hold sufficient additional capital to be able to meet regulatory capital requirements after a 1 in 10 year all risk event, consistent with the approach adopted under the PCP as described in section 3.4. As a result of this, the Board set an amount of 30% SCR as the amount to be held under the ACMP.

4. THE PROPOSED SCHEME

4.1. Background to the Scheme

The main objective of the Scheme is to transfer the business of Abbey Life to Phoenix. This will enable Phoenix Group to make more efficient use of its capital. It

will also result in the reduction of costs and operational efficiency as the current reinsurance arrangements between Abbey Life and Phoenix will cease and there will be one less regulated life company in the group.

4.2. Summary of the Scheme

4.2.1 The Transfer

Under the Scheme, the long-term insurance business of Abbey Life (the "Business") will transfer to Phoenix at the Transfer Date, which is expected to be 31 December 2018.

The with-profits business within Abbey Life will be converted to non-profit with guaranteed future bonuses under the terms of the Scheme and all assets and liabilities of the ALAC WP Funds will be transferred to the NPF.

The assets and liabilities of the shareholders' fund of Abbey Life will transfer to the Shareholders' Fund of Phoenix and the remaining assets and liabilities of the Abbey Life long-term fund will transfer to the NPF. On the Transfer Date of the Scheme, sufficient assets will be left in Abbey Life to meet its regulatory capital requirements after the transfer. These assets will be transferred to Phoenix once the PRA has de-authorised Abbey Life.

Under the Scheme, Phoenix will become party at the Transfer Date to all external third party reinsurance treaties in relation to the business transferring to it to which Abbey Life is party, and these treaties will continue to operate in the same way as they did before the Transfer Date.

The reassurance agreements between Abbey Life and Phoenix will collapse on implementation of the Scheme as the business to which they relate will all be within the NPF.

It is proposed that the transfer of any business which may have been written by Abbey Life (or any predecessor firms) in Jersey and Guernsey or to policyholders resident in Guernsey will be effected following the approval of separate schemes in Jersey and Guernsey. These schemes will provide for the transfer of policies on the same terms as the Scheme and are expected to have the same transfer date as the Scheme.

Should it not be possible for technical reasons to transfer any policy or group of policies at the time the Scheme is implemented then such policies will be subject to an excluded policies reassurance arrangement. In effect, this arrangement will ensure that any excluded policies will be treated for all practical purposes in the same way as if they had been transferred to Phoenix.

4.2.2 Impact on Existing Phoenix Policies

Policies within the long-term fund of Phoenix will not be transferred as a result of the Scheme and no changes are being proposed to the terms and conditions of policies currently within Phoenix under the Scheme.

All the current with-profit funds in Phoenix will continue to operate as discrete funds for the purposes of calculating policyholder benefits. No business will transfer to the with-profits funds.

Following the Scheme, new annuities written in respect of vesting Abbey Life pension policies will be written in the NPF.

Costs associated with the Scheme will be met by the Shareholders' Fund of Phoenix.

5. FINANCIAL POSITION BEFORE AND AFTER THE TRANSFER

5.1. Impact of the Scheme on Phoenix

As part of the considerations as to whether the benefit security of policyholders in Phoenix will be affected by the Scheme, it is helpful to compare the solvency position of Phoenix before and after the Scheme. Brief details of the current prudential regulatory regime are given in the Appendix.

The Scheme is expected to improve the capital position of Phoenix for the reasons given below.

Own Funds – Own Funds will increase by the amount that the assets being transferred from Abbey Life exceed the liabilities of this business. There will also be a small increase in the Risk Margin, which will reduce Own Funds.

SCR – The SCR will increase as a result of the business being transferred. However, it should be noted that due to the greater diversification available in Phoenix, the increase is less than the SCR held by Abbey Life for the same business.

Ring Fenced Fund ("RFF") Restriction – This is unaffected as no business is transferring to Phoenix's WPFs.

Approvals –

- Internal Model – because the majority of the risks are already reinsured to Phoenix and Abbey Life's other risks are similar to those already in Phoenix, the Scheme does not lead to a major model change, which would require the approval of the PRA.
- Transitional Measures on Technical Provisions ("TMTP") – again, because the majority of the risks associated with the Business are already reinsured, the impact of the transfer does not trigger a recalculation of the TMTP.
- Matching Adjustment ("MA") – the business which will be allocated to the MA portfolio after the transfer is already reinsured there so the Scheme has no impact on the matching adjustment approvals.
- Volatility Adjustment ("VA") – Phoenix has not applied for a VA, so this is not applicable.

The PCP requires Phoenix to retain capital in excess of the amounts required to satisfy the regulatory capital requirements. This means that policyholders are and will continue to be afforded greater security than required under the PRA's rules. However, any assets held in excess of the amount of assets required to satisfy the PCP may be distributed and hence little reliance can be placed on this excess when assessing the security for policyholders.

Because most of the risks associated with the Business were reinsured to Phoenix by the two reinsurance arrangements, implementation of the Scheme will have little

impact on the results of the processes undertaken as part of the Own Risk and Solvency Assessment ("ORSA").

5.2. Basis of calculation of the solvency position of Phoenix before and after the Scheme

I have shown in the tables in sections 5.3 and 5.4 the expected impact of the Scheme on Phoenix as if the Scheme had been implemented on 31 March 2018, but taking into account a dividend payment from Abbey Life, which was declared in June 2018. The SCR is calculated using Phoenix Group's amended Internal Model as approved by the PRA in March 2018. I have commented in section 5.5 how events since 31 March 2018 are likely to have changed the figures and the conclusions that can be drawn from them.

In the tables in sections 5.3 and 5.4:

- TMTP (which is part of Own Funds) – TMTP is as recalculated at 31 December 2017. The need for a further recalculation of TMTP has not been triggered since then.
- Own Funds – these have been calculated as at 31 March 2018 using consistent methods and processes and subject to the same internal controls as the calculations done as at 31 December 2017, which were, with the exception of the TMTP, subject to review by Phoenix's external auditors.
- SCR – this is as calculated according to Phoenix's Internal Model, which has been approved by the PRA.
- Solvency Ratio – this is calculated on two bases, one including all funds and the other including unsupported WPFs only to the extent that transfers from those funds will accrue to shareholders. By excluding policyholder benefits and risks in unsupported WPFs, the latter gives an indication of the strength of the company.

5.3. Phoenix before the Transfer

Table 1 below shows the financial position of Phoenix and its solvency ratio as at 31 March 2018.

Table 1	Phoenix as at 31 March 2018 before the effect of the Scheme		
	Own Funds £m	RFF Restriction £m	SCR £m
Unsupported WPFs	1,402	170	950
Supported WPFs	338	-	291
NPF and Shareholders' Fund	2,201	-	1,661
Total	**3,941**	**170**	**2,902**
Excess of Adjusted Own Funds over SCR	**£869m**		
Solvency Ratio – All funds	**130%**		
Solvency Ratio excluding unsupported WPFs	**145%**		

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

As stated in section 3.4, the level of capital implied by the PCP is higher than that required by the PRA's requirements outlined above. As at 31 March 2018, Phoenix met the higher levels implied by the PCP.

5.4. Phoenix after the Transfer

Table 2 shows pro-forma figures for Phoenix as if the Scheme had been implemented, again as at 31 March 2018 for ease of comparison.

Table 2	Phoenix as at 31 March 2018 after the effect of the Scheme		
	Own Funds £m	RFF Restriction £m	SCR £m
Unsupported WPFs	1,402	170	950
Supported WPFs	338	-	291
NPF and Shareholders' Fund	2,486	-	1,676
Total	**4,226**	**170**	**2,917**
Excess of Adjusted Own Funds over SCR	**£1,139m**		
Solvency Ratio – All Funds	**139%**		
Solvency Ratio excluding unsupported WPFs	**158%**		

Largely because the adjusted assets of Abbey Life being transferred exceed the liabilities being transferred by over £250m, the implementation of the Scheme will lead to an increase in the excess of the adjusted Own Funds over the SCR. However, for the reasons given in section 5.1, little reliance or benefit can be placed on this in terms of improving the security of policyholders.

Based on analysis of the position of Phoenix after implementation of the Scheme, Phoenix would have met the higher levels implied by the PCP on 31 March 2018.

5.5. Events since 31 March 2018

Since 31 March 2018, there have been a number of actions that have affected the financial position of Phoenix. The most significant of these to 30 June 2018 are as follows:

- Management Actions and Product Management Initiatives – The Board of Phoenix have approved two significant actions. One will lead to lower fees being paid for administration expenses on part of its business and the other will improve policyholder benefits by the implementation of caps on certain ongoing and exit charges. These changes are estimated to increase the excess of adjusted own funds by c£35m.
- Valuation Assumptions – Phoenix will undertake a further valuation as at 30 June 2018. As part of this and in line with established practice, the assumptions and methodologies have been reviewed and, where appropriate, the Board has approved changes to these, reflecting particularly: a reduction to the assumption for investment expenses as a result of lower fees to be paid to the providers of these services; and improvements to modelling.
  These changes are estimated to increase the excess of adjusted own funds by c£100m.

Overall taking into account the above, other actions taken, market conditions and the expected run-off of business since 31 March 2018, Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP as at 30 June 2018.

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

On 2 July 2018 the PRA published a consultation paper, *CP13/18 Solvency II: Equity release mortgages,* which sets out PRA's expectations regarding the valuation of equity release mortgages and in particular the treatment of the "no negative equity guarantee" which is a common feature of those assets. The consultation will close on 30 September 2018 and the proposed implementation date is 31 December 2018. If the rules are implemented in line with the consultation paper, then it is currently expected that they will lead to a reduction in the solvency position of Phoenix, but that Phoenix will continue to meet its regulatory capital requirements and the more onerous requirements of the PCP both before and after the Scheme is implemented.

In my supplementary report, I will provide financial information as at 30 June 2018 and comment on relevant events affecting the solvency position, including developments in the consultation process referred to above, from then to the date of that report.

6. EFFECT OF THE SCHEME ON PHOENIX POLICIES

6.1. Security of Benefits

Currently the security of benefits for all policies in Phoenix is provided by:

- Phoenix meeting its regulatory capital requirements;
- PGH meeting the minimum group capital requirements;
- Phoenix meeting the additional capital requirements required by the PCP; and
- the strength of the PCP and protections built into it, including the internally specified stress scenarios that are tested and the process by which these scenarios can be changed.

The majority of the risks associated with the Business have already been reinsured to Phoenix, so the transfer has limited impact on the risks in Phoenix. The risks that Phoenix will take on as a result of the Scheme are those that Abbey Life currently retains as noted in section 3.5.

Phoenix has already taken on policy redress and certain other risks associated with the impact of the FCA's thematic reviews into the treatment of long-standing customers and into the practice of non-advised annuity sales on Abbey Life. The Scheme will also mean that Phoenix will become responsible for paying any fines levied by the FCA on Abbey Life in respect of these reviews. However, I note that Phoenix will be protected by arrangements linked to the indemnities that Deutsche Bank have provided and that this means that Phoenix is assuming little extra risk for this.

In the financial analysis shown in section 5.4, the overall increase in risk increases Phoenix's SCR post diversification by £15m (equivalent to 0.5% of the total SCR or 0.9% of the SCR of the NPF and supported WPFs) and there will be a consequential

small increase in the amount held under the PCP as this is expressed as a percentage of SCR.

Overall, as was shown in section 5, the financial position of Phoenix will be improved following implementation of the Scheme. Whilst this will increase the surplus in excess of the PCP, little reliance or benefit can be placed on this in terms of improving the security of policyholders for the reasons given in section 5.1.

I therefore consider that the level of capital support that will be available to provide security for benefits in Phoenix after implementation of the Scheme should at worst be the same as the level of capital support available to provide security for benefits currently.

6.2. Benefit Expectations of Policies

No changes are being proposed under the Scheme to the terms and conditions of existing Phoenix policies. No changes will be made to the way the existing funds of Phoenix are managed and implementation of the Scheme will not impact the way tax is charged to the unit-linked funds of Phoenix now or to the with-profits funds. On this basis, I consider that there will be no reduction in the benefit expectations of current Phoenix policyholders as a result of the Scheme.

6.3. With-Profit Policies in the WPFs

The conclusions from sections 6.1 and 6.2 apply equally to policies in the with-profits funds.

The With Profits Actuaries of Phoenix have confirmed that they agree with my opinion with regard to with-profits policies.

6.4. Quality of Administration

The terms upon which administration services are currently provided to Phoenix by its two outsourcers, PGMS and Pearl Group Services Limited, will continue to apply in respect of the existing business in Phoenix following the Scheme. Separate arrangements will apply to the transferring business. Therefore, there is no reason to expect the quality of administration or the level of service provided to Phoenix policyholders to deteriorate as a consequence of the Scheme.

6.5. Brexit Contingency Planning

Abbey Life has not sold retail business in Europe using passporting or set up branches in any EU country. In line with Phoenix, it has a number of retail policyholders who bought their policy whilst living in the UK, but who are now resident in the EU. This does not bring new situations to Phoenix's contingency planning for Brexit. Therefore, implementation of the Scheme will not change Phoenix's planning in this area.

6.6. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly with respect of the current policyholders in Phoenix. This is because the capital support that will be available to provide security for benefits of the policies held by these policyholders should be at least as much as the level of capital support currently available to provide security for benefits and because there will be no changes to benefits for other policies as a consequence of the Scheme.

6.7. Notification to Policyholders

Phoenix policyholders are not transferring and are not materially affected by the Scheme as has been demonstrated above. There will be no changes to the terms and conditions of policies, the operation of Phoenix or the PCP as a result of the Scheme.

The major risks associated with the transferring business have already been reinsured to Phoenix.

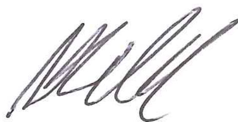
Therefore, I am happy that no notifications in respect of the Scheme need be sent to Phoenix policyholders.

6.8. Conclusions on Phoenix Policyholders

For the reasons set out above, I consider that the Scheme will not materially adversely change the position of current policyholders of Phoenix.

7. CONCLUSION

In my opinion as Chief Actuary, taking into account the advice and opinions set out above, no class of Phoenix policyholder will be materially adversely affected by the implementation of the Scheme. In particular, I believe that the Scheme should not have any adverse impact on the security of benefits or benefit expectations of the existing policyholders in Phoenix. I also believe that the Scheme is consistent with Phoenix's obligation to treat customers fairly and there should be no adverse effect on the levels of service provided to policyholders.



A D Rendell
Fellow of the Institute of Actuaries
11 July 2018

Appendix – Summary of certain aspects of the current prudential regulatory regime

The prudential regulatory regime in place in the UK in respect of life insurers such as Abbey Life and Phoenix is known as Solvency II and was implemented from 1 January 2016. Requirements are commonly split into three pillars.

Pillar 1 covers the financial requirements and is designed to ensure that a company is adequately capitalised to deliver policyholder protection by ensuring the SCR is set such that a company can withstand a 1 in 200 year event and still have sufficient assets to cover its technical provisions.

Companies calculate their capital resources (known as “Own Funds”) with technical provisions calculated on a best estimate basis with an additional margin for risk.

The SCR, which is the additional capital that companies must hold, can be set by using the standard formula or a company’s own internal model, provided this model has been approved by the PRA.

In addition, insurance companies can make applications to the PRA for the following reliefs or adjustments, which will be taken into account in determining its Own Funds and technical provisions:

- TMTP – these are aimed at providing a smooth transition between the previous prudential capital regime (Solvency I) and Solvency II. Companies gain relief on the amount of technical provisions that must be held by applying TMTP and this relief is run off over 16 years from implementation of Solvency II.
- MA – these provisions give companies relief for holding certain long-term assets which match the cash flows of a designated portfolio of life or annuity insurance and reinsurance obligations. It does so by allowing an adjustment to the discount rate at which the company is required to value the cash flows of its (re)insurance obligations in order to determine the amount of the technical provisions it is required to hold to cover them.
- VA – this is designed to protect companies from the impact of volatility on their solvency position by allowing an addition, which is provided by the regulator and which may vary from time to time, to be made to the discount rate used to calculate liabilities.

With-profits funds are known as ring-fenced funds for the purposes of Solvency II due to the participation of with-profits policyholders in the surplus arising. This means that the assets and liabilities of these funds must be separately identified, separate calculations of the solvency position of each ring-fenced fund must be undertaken and restrictions on the use of capital allocated to each ring-fenced fund must be recognised in the company's overall solvency calculations (this is known as the “RFF Restriction”). This means to the extent that the surplus in a with-profits fund that requires no shareholder support is improved, this has no impact on the overall solvency position of the company.

Pillar 2 imposes minimum standards of risk management and governance on companies. There is a requirement for permanent internal audit and actuarial functions. Insurers must also regularly undertake forward-looking assessments of risks, solvency needs and adequacy of capital resources, called the ORSA, and senior management must demonstrate that the ORSA informs business planning, management actions and risk mitigation.

Pillar 3 aims for greater levels of transparency for regulators and the public including through a submission by companies of a private annual report to regulators, and a public solvency and financial condition report.