



PHOENIX LIFE LIMITED

**Proposed Scheme to transfer certain annuity policies
to ReAssure Limited**

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

9 December 2016

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 5 September 2016 ("my report"). All definitions and abbreviations used in my report apply also to this supplementary report.

In my report I concluded that no class of policyholder of Phoenix Life Limited ("Phoenix") will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should have no material adverse impact on the security of transferring policyholders and should not have any adverse impact on the security of the policyholders remaining in Phoenix.

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, I have updated the financial analysis to use financial information as at 30 June 2016 (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 7.

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 Phoenix With-Profits Committee and With-Profits Actuaries, the High Court, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in forming their own judgements about the Scheme. It is supplementary to my report and should accordingly be read alongside my report.

This supplementary report and the underlying preparation work that has been carried out is in my opinion compliant with the standards on insurance (TAS I), Transformations TAS, TAS D (Data), TAS M (Modelling) and TAS R (Reporting) issued by the Financial Reporting Council that apply to certain types of actuarial work.

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 a small number of minor amendments to the Scheme since the date of my report. These include:

- Changes to the clause dealing with future amendments to the Scheme to make it clear that the PRA and FCA will be given advance notification of any proposed amendment and that any publicity (including to policyholders) will be at the discretion of the Court;
- Confirmation of the filenames for the electronic databases setting out the transferring policies; and
- Confirmation of the value of the initial expense reserve assets to be transferred to ReAssure.

The proposed amendments have either provided additional protection for policyholders or were expected to be confirmed following the initial submission of the Scheme and are not substantive and I therefore consider that none of the changes affect any of the analysis or conclusions in my report.

2.2 Economic Conditions in 2016

The financial analysis in my report was prepared as at 31 December 2015. Investment markets have been volatile in 2016, particularly following the announcement of the result of the Brexit vote in June 2016. The following table sets out the value of some key indicators of economic conditions during 2016.

	31/12/2015	30/6/2016	30/9/2016	30/11/2016
FTSE-100	6242.3	6504.3	6899.3	6783.9
2016 change		+4.2%	+10.5%	+8.7%
Corporate Bond Spreads (basis points over gilts)				
AAA	56	51	32	41
AA	102	115	77	83
A	148	177	129	137
BBB	209	243	183	192
Property Index	1272.8	1315.6	1284.7	1294.8
2016 change		+3.4%	+0.9%	+1.7%
15 year gilt yield	2.39%	1.38%	1.24%	1.88%

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 December 2015. I also included comment on the

impact on Phoenix's financial position of events in 2016 to 5 September 2016, being the date of my report. The following summarise the key actions that have affected the financial position of Phoenix in the second half of 2016, 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.

- Reinsurance from AXA Wealth Limited ("AWL") – Pearl Life Holdings Limited ("PeLHL"), PLL's immediate parent company in the Phoenix group, acquired AXA Wealth's pensions and protection businesses on 1 November 2016. Following this, the majority of the business of AWL, which was among the AXA companies acquired by PeLHL, has been reinsured to Phoenix under two reinsurance agreements.
- TMTP – At the same time as entering into the reinsurance agreements with AWL, Phoenix received approval from the PRA for a recalculation of its TMTP to include the reinsured business.
- Capital Injection – Additionally, at the same time as entering into the reinsurance agreements, PLL received support from PeLHL. The result of this plus the reinsurance and the TMTP recalculation in respect of the reinsurance was that there was estimated to be no overall change to the solvency position of Phoenix.
- The TMTP recalculation referred to above also took into account the effect of all economic movements to 1 November 2016.
- Valuation Assumptions – Phoenix undertook a valuation of its assets and liabilities as at 30 September 2016 and is due to undertake a further valuation as at 31 December 2016. As part of these and in line with established practice, the assumptions and methodologies were reviewed and, where appropriate, the Board approved changes to these. The results of the valuation as at 30 September 2016 are covered in section 3.2.
- Future Activities – Phoenix are pursuing a number of actions in order to increase its excess capital and which it anticipates will be completed between the date of this report and the end of 2016. The Board are also considering making a release of capital to PeLHL, by way of a dividend or a loan, before the end of 2016 when these actions have been implemented. The amount of any such release will be set such that Phoenix will continue to meet its PCP capital requirements.

2.4 Other Developments

2.4.1 Capital Policy Review

In October 2016, following receipt of non-objection from the PRA, the Board reviewed the amount required to be held under the PCP. As a result, the PCP continues to require Phoenix to hold capital equal to 28 percent of the SCR in addition to the capital necessary to meet the SCR itself.

2.4.2 Acquisition of Abbey Life Assurance Company

In September 2016, Phoenix Life Holdings Limited, a member of the Phoenix group, entered into an agreement with Deutsche Bank to acquire Abbey Life Assurance Company ("ALAC"). Completion is conditional on the approval of the change of control of ALAC from the PRA and the FCA. Assuming the acquisition goes ahead, ALAC will be in a different part of the Phoenix group and there will be no impact on the business of Phoenix or on the Scheme.

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 transfer

My report showed the projected position of Phoenix before and after the Scheme based on the position as at 31 December 2015. The following tables and the comments in this section 3 update this analysis as at 30 June 2016, taking into account the events referred to in section 2.2 of this supplementary report and financial conditions as at 30 June 2016.

Table 1 below shows the estimated financial position of Phoenix as at 30 June 2016, as adjusted for the above factors. The estimated position as at 31 December 2015 in my report is shown for comparison.

	Phoenix as at 30 June 2016 before the effect of the Scheme			Phoenix as at 31 December 2015 before the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Alba WP Fund	78	-	78	52	-	72
Britannic IB Fund	68	(23)	37	77	(26)	42
Britannic WP Fund	315	-	178	363	(5)	202
Phoenix WP Fund	449	-	391	432	(55)	319
90% WP Fund	15	-	11	13	-	10
100% WP Fund	18	(6)	12	17	(2)	14
SM WP Fund	470	(132)	330	384	(94)	281
SPI WP Fund	190	(9)	144	169	(20)	108
SAL WP Fund	347	-	461	301	-	406
NPI WP Fund	-	-	-	-	-	-
NP Fund and Shareholders' Fund	1,465	-	1,177	1,393	-	1,100
Total	3,416	(170)	2,819	3,201	(202)	2,556
Excess of Adjusted Own Funds over SCR			£428m		£443m	
Solvency Ratio – All funds			115%		117%	
Solvency Ratio excluding unsupported WPFs			125%		128%	

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

Table 1 shows that between December 2015 and June 2016 there was a small reduction in the Excess of Adjusted Own Funds over SCR.

Table 2 below shows the estimated financial position of Phoenix as at 30 June 2016, as if the Scheme had been implemented on that date. The estimated position as at 31 December 2015 given in my report is shown for comparison.

Table 2	Phoenix as at 30 June 2016 after the effect of the Scheme			Phoenix as at 31 December 2015 after the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Alba WP Fund	94	-	84	67	-	69
Britannic IB Fund	68	(23)	37	77	(26)	42
Britannic WP Fund	315	-	178	363	(5)	202
Phoenix WP Fund	462	-	404	443	(67)	317
90% WP Fund	15	-	11	13	-	10
100% WP Fund	18	(6)	12	17	(2)	14
SM WP Fund	470	(132)	330	384	(94)	281
SPI WP Fund	190	(9)	144	169	(20)	108
SAL WP Fund	365	-	458	313	-	403
NPI WP Fund	-	-	-	-	-	-
NP Fund and Shareholders' Fund	1,465	-	1,182	1,393	-	1,100
Total	3,463	(170)	2,841	3,238	(215)	2,547
Excess of Adjusted Own Funds over SCR			£453m		£476m	
Solvency Ratio – All funds			116%		119%	
Solvency Ratio excluding unsupported WPFs			126%		130%	

Table 2 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 increase is slightly smaller than shown as at December 2015 due to the increased strength of the Alba With-Profits Fund.

3.2. Impact of events since 30 June 2016

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 2016 is shown above. The position as at 30 September 2016, taking into account events, market movements and the run-off of policies to that date, showed that the Excess of Adjusted Own Funds over SCR had increased by £20m compared to the position at 30 June 2016 due mainly due to the impact of the changes in financial conditions at the two dates.

As noted in section 2.3, a number of other events and actions have occurred since the end of September or are planned to take place before the end of 2016. Taking into account those, market movements and the run-off of policies since then, Phoenix met the regulatory capital requirements and the more onerous ones of the PCP at the time of writing this supplementary report and is expected to do so at the end of 2016.

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.

3.3. ReAssure

The figures and statements in this section 3.3 have been prepared and supplied by the Chief Actuary of ReAssure. I have not reviewed or checked these statements or the calculations.

Table 3 below shows the estimated financial position of ReAssure on a pro-forma basis as at 30 June 2016 as if the Scheme had been implemented at that date with values as at 31 December 2015 shown in brackets.

Table 3	ReAssure as at 30 June 2016 after the implementation of the Scheme	
	Available Own Funds	Adjusted SCR
	£m	£m
National Mutual WPF	47 (35)	47 (35)
Windsor Life WPF	23 (23)	13 (12)
Non Profit Fund	1,899 (2,164)	1,369 (1,308)
Total	1,969 (2,222)	1,429 (1,356)
Excess of Adjusted Own Funds over SCR	£540m (£866m)	
Solvency ratio	138% (164%)	

The change since the year end reflects the payment of a dividend of £336m paid in June 2016 and the impact of market conditions

The figures shown in Table 3 rely on the existing Solvency II approvals of ReAssure, and are not reliant upon any reapplications to vary ReAssure's use of the matching adjustment or Solvency II transitional measures.

ReAssure maintains a capital policy under which it holds capital in excess of that required by regulation. The Chief Actuary of ReAssure has stated that following implementation of the Scheme, it is expected that ReAssure will continue to meet the higher levels required by its capital policy.

The impact on ReAssure shown above just allows for the implementation of the Scheme. On the same date, ReAssure plans to implement the RLL Scheme.

Table 4 below shows the financial position of ReAssure and its solvency ratio as at 30 June 2016 as if the Scheme and the RLL Scheme had been implemented at that date with values as at 31 December 2015 shown in brackets.

Table 4	ReAssure as at 30 June 2016 after the implementation of the Scheme and the RLL Scheme	
	Available Own Funds	Adjusted SCR
	£m	£m
National Mutual WPF	47 (35)	47 (35)
Windsor Life WPF	23 (23)	13 (12)
Guardian Assurance WPF	227 (223)	145 (137)
Non Profit Fund	3,419 (3,848)	2,412 (2,347)
Total	3,716 (4,129)	2,616 (2,531)
Excess of Adjusted Own Funds over SCR	£1,100m (£1,598m)	
Solvency ratio	142% (163%)	

The main changes with Table 4 are the same as with Table 3. In addition, it allows for certain management actions undertaken in RLL during the first half of 2016.

The Chief Actuary of ReAssure has also stated that following implementation of the Scheme and the RLL Scheme, it is expected that ReAssure will continue to meet the higher levels required by its capital policy.

In producing the figures shown in Table 4, the Chief Actuary of ReAssure has taken into account the approval by the PRA of ReAssure's reapplications for matching adjustment, TMTP and volatility adjustment made on 30 June 2016. I understand that PRA will provide written confirmation of this approval prior to the hearing.

The Chief Actuary of ReAssure has also confirmed that ReAssure met the regulatory capital requirements and the more onerous ones of its own capital policy as at 31 October 2016 and continued to do so at the date of this supplementary report taking into account market movements and other events since that the end of October.

4. Effect of the Scheme on transferring Phoenix policyholders

4.1. Policyholder Security

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

- The approach that ReAssure uses to calculate its technical provisions and SCR, whilst different from Phoenix, will not lead to a material adverse effect on the security of benefits.
- ReAssure has its own capital policy, which requires it to hold amounts in excess of the PRA's minimum capital requirements.
- There are some differences between how ReAssure's capital policy operates relative to the PCP, but these will not have a material effect on the security of benefits.

From the analysis shown in section 3 of this supplementary report I note that:

- Phoenix currently meets its regulatory capital requirements.
- After the Scheme is implemented, based on the information in the supplementary report by the Chief Actuary of ReAssure, ReAssure on a pro-forma basis will be able to meet its regulatory capital requirements and the higher requirements of its capital policy.

Therefore, my opinion remains unchanged that the level of security in ReAssure should be satisfactory based on the information in the supplementary report by the Chief Actuary of ReAssure and nothing I have seen leads me to conclude that the level of security for transferring Phoenix policyholders will be materially weaker after the Scheme is implemented.

4.2. Policyholder Benefits

In my report, I noted that the Scheme would have no impact on the benefits of transferring Phoenix policyholders. None of the developments since my report have affected the conclusions drawn by me in my report and, therefore, my opinion remains that the benefits of the transferring Phoenix policies will not be affected by the implementation of the Scheme.

4.3. The impact of the RLL Scheme

In my report, I noted that the RLL Scheme is running to a similar timetable as this Scheme and if sanctioned by the Court, it is expected to be implemented immediately after the Scheme. As noted in section 3 of this supplementary report, ReAssure has received approvals from PRA for its applications in respect of TMTP and volatility adjustment and following implementation of the Scheme and the RLL Scheme, it is expected that ReAssure will continue to meet the higher levels required by its capital policy .

Given this and noting that the RLL Scheme will have no impact on the terms and conditions of the transferring policies nor on the administration of those policies, the potential implementation of the RLL Scheme does not affect my conclusion on the impact of the Scheme on transferring policyholders.

5. Effect of the Scheme on non-transferring Phoenix policyholders

5.1. Policyholder Security

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

- Phoenix currently meets its PRA capital requirements.
- The financial position of Phoenix and PLHL will be improved following implementation of the Scheme.
- This will increase the surplus in Phoenix, albeit that 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 non-transferring 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 non-transferring policyholders after the Scheme is implemented should at worst be the same as the level of capital support currently available.

5.2. Policyholder Benefits

In my report, I noted that the Scheme would have no impact on the benefits of non-transferring Phoenix policyholders. None of the developments since my report have affected the conclusions drawn by me in my report and, therefore, my opinion remains that the benefits of the non-transferring Phoenix policyholders will not be affected by the implementation of the Scheme.

6. Other Matters

6.1. Policyholder Communications

I have reviewed the Scheme guides prepared for transferring and non-transferring Phoenix policyholders and the related materials sent to transferring policyholders and made available on the 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.

664 phone calls and letters have been received by Phoenix as at 7 December 2016. An analysis of the calls and letters indicated that approximately 73% were related to the transfer.

As at 7 December 2016, 16 objections have been received to the transfer. These have all come from transferring policyholders. The objections relate to a variety of concerns, including that policyholders do not want their policies to be transferred to another company and/or have concerns about the process being followed, or have concerns about whether there will be changes to terms and conditions. I have reviewed the objections received from Phoenix policyholders together with Phoenix's responses to those objections. I also 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 Court.

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

7. Conclusion

My view is that the changes in the economic conditions and the other matters mentioned 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 will not have any material adverse impact on the security of benefits of transferring policyholders and should not have any adverse impact on the security of benefits of non-transferring policyholders. For both groups, I believe that the Scheme is consistent with Phoenix's obligation to treat its customers fairly.



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Chief Actuary
9 December 2016

APPENDIX – Opinion on behalf of the With Profits Actuaries

Introduction

This report is supplementary to the initial report dated 5 September 2016 entitled “Proposed Scheme to Transfer Long-Term Insurance Business - Report on behalf of the With Profits Actuaries” and should accordingly be read alongside that report.

The Board for Actuarial Standards has published Technical Actuarial Standards (“TAS”) that apply to certain types of actuarial work. This report and the work underlying it is intended to be compliant with the Insurance TAS, the Transformations TAS and the following generic TASS: TAS R (Reporting) and TAS D (Data).

Considerations and Opinion

We note that no objections have been received from with-profits policyholders in response to the publicity for the Scheme.

We have considered the supplementary report produced by the Chief Actuary and support its conclusions.

In our opinion, for the reasons set out in our initial report and the supplementary report, we remain satisfied that implementation of the Scheme is consistent with the fair treatment of Phoenix’s with-profits policyholders.



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