

## **Countrywide Assured plc**

Supplementary Report by the Chief Actuary of Countrywide Assured plc (“CA”)

On the proposed transfer of business

from CASLP Ltd

to Countrywide Assured plc

pursuant to Part VII of the Financial Services and Markets Act 2000

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14 December 2023

## **1. Introduction**

### **1.1. Purpose of the Supplementary Report**

The purpose of this report (the “Supplementary Report”) is to provide an update to my initial report (the “Main Report”) dated 19 July 2023.

The Main Report addressed financial implications of the proposed insurance business transfer Scheme (the “Scheme”) under Part VII of the Financial Services and Markets Act 2000 (“FSMA”) and its potential impact on both the existing CA policyholders and those transferring from CASLP Ltd (“CASLP”). The Main Report also considered the fair treatment of CA policyholders and any changes to administration and policyholder benefits affecting CA policyholders.

The Main Report was provided to the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”), the Independent Expert (“IE”) and presented to the High Court of England and Wales (the “Court”) at the Directions Hearing which took place on 26 July 2023. The report was also made available to the policyholders of CA and CASLP.

The purpose of this Supplementary Report is to consider any matters or developments since the Main Report was produced that I consider to be material or relevant to the assessment of the Scheme. This includes:

- Updated financial information that is available.
- Policyholder responses to the Scheme.
- Any amendments to the terms of the Scheme.

In respect of these matters, the Supplementary Report will confirm whether my conclusions stated in the Main Report remain valid and that, in my opinion, it remains appropriate to proceed with the Scheme.

This Supplementary Report should be read in conjunction with the Main Report.

### **1.2. Report Structure**

The report is structured as follows:

- Section 2 considers the financial impact position of CA before and after the Scheme based on updated financial information.
- Section 3 provides a summary of the responses to policyholder communications.
- Section 4 sets out other developments relevant to the assessment of the Scheme.
- Section 5 presents conclusions.

### **1.3. Compliance with Actuarial Standards**

This report is considered to comply with the following Technical Actuarial Standards (TAS) issued by the Financial Reporting Council:

- TAS 100: General Actuarial Standards v2.0.
- TAS 200: Insurance.

APS X2, issued by the Institute and Faculty of Actuaries, requires Actuaries to consider the appropriate level of review that should be applied to their work. The report has also been subject to peer review in line with the Actuarial Profession Standards documents APS L1: Duties and responsibilities of life assurance actuaries, and APS X2: Review of Actuarial Work.

## 2. Financial position of CA before and after the Scheme

### 2.1. Balance sheet showing combined position as at 30 June 2023

The Main Report considered the financial position of CA before and after the Scheme based on the 31 December 2022 results. The table below shows the Solvency II balance sheet of CA as at 30 June 2023 together with an estimated pro-forma balance sheet had the Scheme been effective at that date. A summary of the equivalent table as at 31 December 2022 has been included for reference.

Pro-forma and solo balance sheets at Q2 2023: £m				
Balance sheet item	CA	CASLP	Pro-forma combined CA& CASLP	Synergy benefit
Assets	1,776.9	2,557.2	4,334.0	-
Technical Provisions	(1,532.9)	(2,485.5)	(4,017.6)	0.7
Other liabilities	(142.2)	(9.3)	(151.4)	-
Own Funds (pre restrictions)	101.9	62.4	164.9	0.7
RFF restrictions	(0.1)	-	(0.1)	-
Foreseeable dividends	-	(10.0)	(10.0)	-
Own Funds (post restrictions)	101.8	52.4	154.9	0.7
Solvency Capital Requirement (SCR)	(69.8)	(33.8)	(102.8)	0.8
Excess assets	31.9	18.6	52.0	1.5
SCR cover %	146%	155%	151%	

Technical Provisions are broken down into £3,991.1m BEL and £26.5m Risk Margin.

Pro-forma and solo balance sheets at Q4 2022: £m				
Balance sheet item	CA	CASLP	Pro-forma combined CA& CASLP	Synergy benefit
Assets	1,867.9	2630.0	4,497.9	-
Technical Provisions	(1,598.6)	(2,557.0)	(4,154.8)	0.8
Other liabilities	(136.8)	(13.5)	(150.3)	-
Own Funds (pre restrictions)	132.6	59.4	192.8	0.8
RFF restrictions	(0.0)	-	(0.0)	-
Foreseeable dividends	(46.0)	(10.0)	(56.0)	-
Own Funds (post restrictions)	86.6	49.4	136.8	0.8
SCR	(64.6)	(35.3)	(99.1)	0.9
Excess assets	21.9	14.1	37.8	1.7
SCR cover %	134%	140%	138%	

Technical Provisions are broken down into £4,128.2m BEL and £26.6m Risk Margin.

For CA:

- Own Funds increased by £15.2m over the first half of 2023, after allowing for a £46.0m dividend. The main drivers of this increase were an inward reinsurance of individual protection business from Canada Life (see section 4.1), economic experience arising from an increase in risk free rates and operating assumption changes, primarily in relation to the new strategic outsourcing relationship with SS&C Technologies (SS&C).
- The SCR also increased by £5.2m primarily due to the reinsurance of policies from Canada Life.
- Overall the solvency ratio increased by 12% to 146%.

For CASLP:

- Own Funds increased by £3.0m over the first half of 2023. The main drivers of this increase were positive returns on the non-linked portfolio and a number of smaller positive impacts. This was offset by the impact of worse than expected persistency experience and expense assumption changes in relation to the new strategic outsourcing relationship with SS&C Technologies (SS&C). The arrangement with SS&C has a positive Own Funds impact on the combined position.
- The SCR decreased by £1.5m primarily driven by the increase in the risk-free discount rates.
- Overall the solvency ratio increased by 15% to 155%.

The pro-forma position of CA post the proposed Scheme shows similar movements with an £18.1m increase in Own Funds and a £3.7m increase in SCR resulting in an increase in solvency ratio from 138% to 151%.

The pro-forma balance sheet assumes that CASLP has been wound up and that all assets are transferred to CA. In practice, assets covering the minimum capital requirement will be required until such time as CASLP can be deauthorised and wound up (should that be the route ultimately chosen).

The two wholly-owned subsidiaries of CASLP CASFS Ltd ("CASFS") and CASLPTS Ltd ("CASLPTS") are not covered by the Scheme.

Ultimate ownership of CASFS and CASLPTS is still being considered e.g. via transfer to Chesnara Plc or CA. This will be by means of a separate legal process to the Scheme.

The balance sheets above treat CASFS as a subsidiary of CASLP, which is a minor limitation of the analysis. Removing the value of CASFS from Own Funds (£3.6m) and SCR (c£0.8m) would slightly reduce the solvency position, but both

CASLP and the pro-forma CA post-scheme would remain within the capital management policies.

The pro-forma balance sheet also assumes that CA continues to apply the Volatility Adjustment (VA) to the same classes of business to which it is currently applied to for CA and CASLP. The VA applies as an addition to the discount rate when determining Technical Provisions and has been approved by the PRA.

The risk profiles of CA and CASLP have remained stable over the first half of 2023 and overall, the Part VII Transfer is not expected to materially change the risk profile of CA from a risk capital perspective, or in terms of the underlying risk exposure.

**3. Summary of the responses to policyholder communications**

Information packs were sent out to policyholders of CASLP in line with the communication strategy developed and the waivers granted by the Court.

Information was also made available to CA and CASLP policyholders via the websites for both businesses. This included how to request further information or object to the scheme and the expected date of the sanction hearing.

As of 8 December 2023, there have been 745 responses. The following table provides the high-level analysis of the responses received:

Part VII responses	CA	CASLP
General enquiry	0	445
Technical enquiry	0	1
Gone away	0	291
Objection	0	6
Complaint	0	2
Total	0	745

The majority of the responses have been relating to policyholders (or related third parties e.g. trustees or advisors) enquiring for further information relating to their policy. There have also been 291 letters returned as the policyholder (or related third policy) is no longer contactable via the details on the policy record.

There have been six objections raised:

- One policyholder did not want to transfer as they were worried that the value of the policy would fall as a result. They were also concerned about the involvement of the Court in the process and about online reviews of Countrywide Assured. A call back to further discuss their concerns was

arranged in addition to an explanatory letter being provided, however the policyholder (age 68) has decided to cash-in the policy.

- One policyholder did not want to transfer as they were concerned by the use of the terminology in the Independent Expert's report: "I do not expect the transfer to significantly reduce the security of benefits for policyholders...". An explanatory letter has been issued to the policyholder.
- One policyholder has objected on the basis of online reviews regarding customer service and the potential for this to result in a negative experience post transfer. An explanatory letter has been issued to the policyholder.
- One policyholder has objected on the basis that they felt the timelines for the PVII process were insufficient to make a decision between receipt of the communications and the court hearing date. A follow-up call was undertaken and the policyholder gave feedback that when you don't work in the industry, customers may want more time to digest the information.
- Two joint policyholders have objected on the basis that they believe they have been misled as they have stated that their policy is not on track to deliver its intended sum, despite continuing to make monthly contributions, and that they consider the Scheme to be a means for CASLP to disguise its mistakes.
- One policyholder has notified CASLP that they wish to attend the Sanction Hearing to object to the Scheme. The policyholder has indicated that they consider a regulator-led thematic review and judicial review of the regulator should be undertaken before the transfer can proceed. The context to this is that the policyholder has a reviewable whole of life policy where the sum assured has reduced over time. This has been the subject of previous complaints by this policyholder in 2015 and 2020 neither of which were upheld or referred to the Financial Ombudsman Service.

In relation to the first objection, Court approval is required as part of the process to effect the Scheme. This was set out in the communications material and noting that this takes into consideration any potential impact on policyholders. In addition, as noted in my main report, the Scheme will not result in changes to policy terms and conditions or changes to how the policies are serviced. In particular, CASLP's policies would continue to be administered by the same people and on the same systems after the transfer as was the case before it, thus ensuring retention of administration staff knowledge and continuity of service.

In relation to the second objection, the language used is consistent with the regulatory expectation that policyholders should not be "materially adversely affected" by a proposed transfer, which remains the case, as noted in my main report.

The third objection relates to the potential for a deterioration in service standards post-transfer. As described in respect of the first objection, the Scheme will not result in changes to policy terms of how policies are serviced.

In relation to the fourth objection, the policyholder would have received their communication pack no later than the 18th August which is a significantly longer period ahead of the final court date than the expectations set out by the FCA. Furthermore, the follow-up call with the policyholder did not indicate any objection to the substance of scheme other than the timescales.

Regarding the fifth objection, I understand that a complaint has previously been received in relation to this matter and was time-barred by the Financial Ombudsman Service. However, the Scheme transfers all the obligations of CASLP to CA, including any potential mis-selling liabilities, and therefore does not present a means for complaints to be avoided or disguised.

Similarly to the previous objection, I note that the Scheme transfers all of the obligations of CASLP to CA and hence there is no impact on benefit expectations as a result of the Scheme in relation to the sixth objection. Likewise, the transfer of CASLP to CA is not considered to have any impact on the ability for any future regulatory or judicial reviews to proceed, should these be undertaken. The policyholder is entitled to attend the Sanction Hearing where the Independent Expert will provide views on any objections raised in person for consideration by the Court.

In addition to the objections, two complaints have been received. One was from an advisor firm who had complained that we had notified some policyholders (clients) prior to notifying the advisor firm. This resulted in some clients contacting the firm without the firm being aware of the Scheme. This feedback will be taken into consideration in future communication plans.

A further complaint was received from a policyholder relating to a reduction in their fund value over the year with the policyholder concerned that this was connected to the acquisition of CASLP by Chesnara plc. It has been explained to the policyholder that movements in fund value are driven by market movements and not connected to the acquisition.

In light of the considerations above, the customer responses and objections have not altered my view of the Scheme and my conclusions are set out in section 5.

#### **4. Other developments relevant to the assessment of the Scheme**

##### **4.1. Reinsurance of UK protection business from Canada Life to CA**

It was announced on 16th May 2023 that Chesnara has agreed to acquire Canada Life UK's onshore individual protection line of business, which covers c47,000 life insurance and critical illness policies.



The policies are expected to transfer to CA in 2024, pending approval from the Court for a Part VII transfer, but in the interim period the exposure has already transferred to CA under a reinsurance agreement which has taken effect from 31st December 2022.

The transfer of the Canada Life protection portfolio remains separate from this Scheme and the two Schemes are capable of approval independently of one another.

The table below shows the impact on the pro-forma balance sheet of CA and CASLP if the Canada Life transfer is approved and also in the event that the Scheme is not approved and the reinsurance is unwound:

Pro-forma combined CA & CASLP and Canada Life (CL) balance sheets at Q2 2023: £m			
Balance sheet item	CA&CASLP CL reinsured	CA&CASLP &CL sanctioned	CA&CASLP & CL not sanctioned
Assets	4,334.0	4,334.0	4,340.9
Technical Provisions	(4,017.6)	(4,017.6)	(4,032.1)
Other liabilities	(151.4)	(151.4)	(151.4)
Own Funds (pre restrictions)	164.9	165.0	157.4
RFF restrictions	(0.1)	(0.1)	(0.1)
Foreseeable dividends	(10.0)	(10.0)	(10.0)
Own Funds (post restrictions)	154.9	154.9	147.3
SCR	(102.8)	(102.8)	(97.9)
Excess assets	52.0	52.1	49.4
SCR cover %	151%	151%	150%

The pro-forma balance sheet assuming the Canada Life Scheme is sanctioned is very similar to the pro-forma balance sheet of CA and CASLP because the economic effects of the Canada Life portfolio have been reinsured to CA.

In the event the Canada Life scheme is not sanctioned then the reinsurance would be unwound resulting in a decrease in Own Funds and SCR.

#### 4.2. Market movements and changes to the balance sheet since 30 June 2023

As at 29 November 2023, short-duration (5-year) risk-free rates have decreased by 0.96% but decreased by less at longer durations e.g. by 0.12% at 15-years, relative to the position at 30 June 2023.

Gilt yields have followed a similar overall pattern decreasing by 0.74% at the short duration but rising 0.04% at 15-years.

The volatility adjustment has seen a slight increase since June going from 0.29% to 0.34% as at the end of October.

The FTSE 100 index has reduced by 1.4% as at 29 November compared to end-June.

The equity symmetric adjustment which determines the level of the equity stress used to calculate capital requirements has decreased from -0.39% at the end of June to -4.35% at the end of October. This reduces the level of equity risk capital required.

Future inflation expectations have reduced slightly from 3.7% to 3.5% in the mid-term.

The interest rates at the bank of England have increased from 5.00% at end of June to 5.25% as at 29 November.

For CA, it is estimated that solvency will have increased from the level as at the end of June, primarily due to the run-off of the business.

For CASLP, the solvency is increased from the level as at the end of June, primarily due to the returns on the surplus assets.

Therefore, as at the time of writing, the financial position presented in section 2.1 (as at 30 June 2023) has not materially changed in a way that would impact the assessment of the Scheme. Furthermore, the regulatory balance sheets calculated as at the 30 September 2023 confirm that both CA and CASLP remain with their capital management policies.

#### **4.3. FCA Consumer Duty**

The Consumer Duty came into effect on 31 July 2023 for products open to new business. For closed business, the requirements apply from July 2024 (which applies to the majority of CA and CASLP business).

The Consumer Duty is intended to strengthen consumer protection by ensuring that firms act to deliver good outcomes for customers.

Both CA and CASLP are undertaking programmes to assess the Consumer Duty and implement any changes to processes and procedures that might be necessary. CASLP has completed a comprehensive review of the regulatory expectations for the products that remain open for new business in line with the required timelines set out above. This included a review of communication to ensure understanding, fair value assessments and available customer support. No material changes were required. Work continues on the closed products.

Canada Life UK's onshore individual protection line of business is a closed book and, as such, the Consumer Duty requirements apply from July 2024. Canada Life is progressing with its Consumer Duty programme, and it is not expected that the Transfer would have any impact on the application of either firms' implementation of the Consumer Duty.

#### **4.4. Administration arrangements**

As noted in my main report, ahead of the Transfer to CA, CASLP would intend to enter into outsourced arrangements to undertake certain administration and operational functions.

On 22<sup>nd</sup> May 2023, Chesnara (the parent company of CASLP) announced a long-term strategic partnership with SS&C, in line with the intention above.

As a result of the partnership, a number of CASLP's employees have transferred to SS&C where they continue to deliver customer service to the CASLP policyholders.

#### **4.5. HM Revenue & Customs (HMRC) tax clearance**

CA and CASLP have sought statutory clearance from HMRC. This application for clearance has involved providing information in connection with the rationale for the Part VII process alongside information in support of how we believe the legislation applies to the proposed transaction. This is a routine component of the PVII process and one that CA has undertaken previously for past PVII transfers.

At the time of writing, HMRC have requested further particulars in order to determine the application for clearance.

For completeness, tax advice has been sought in the event that clearance is not granted. In such an event, the tax position of CASLP would be ringfenced from CA following the PVII transfer. This would not have any impact on policyholder outcomes nor materially impact the financial strength of the companies, given the tax impacts arising from the PVII relate to the timing of payments rather than a material change in the absolute value of payments.

#### **4.6. Amendments to the scheme and Excluded policies**

There have been no material amendments to the scheme.

As set out in the Main Report, the Scheme contains provisions to deal with Excluded policies, which are policies that on the Transfer Date will not be transferred from CASLP to CA. Similarly there could be residual assets or liabilities that are not able to be transferred on the Transfer Date.

In the Main Report I noted that there was not expected to be any excluded policies. At the time of writing, this expectation remains the same, however, for completeness, I set out below how any excluded policies would be dealt with.

If there are any Excluded Policies, then these will be retained by CASLP as appropriate and CASLP will enter into a reinsurance arrangement, the effect of which will be to reinsure the liabilities in respect of the Excluded Policies (save in respect of any policy where the policyholder appears on a sanctions list) from

CASLP to CA on original terms and all amounts which become payable by CASLP in respect of the Excluded Policies will be reimbursed by CA.

Policy administration of Excluded Policies will be the same as before the Transfer Date and therefore I do not anticipate any adverse impact on any policyholders who are required to be excluded.

If there are any Excluded policies, residual assets or liabilities, once any obstacle which has prevented the transfer of assets and liabilities on the Effective Date of the Scheme has been removed the Excluded policies, residual assets and liabilities will (subject to the initial Court approval) be transferred to CA at that time and the relevant reinsurance will be cancelled.

#### **4.7. Mass lapse reinsurance**

CA is considering putting in place a reinsurance arrangement in respect of lapse risk.

Mass lapse reinsurance would improve the financial resilience of CA through transferring a pre-defined part of the mass lapse risk for more extreme events to a third party reinsurer.

This arrangement is separate from this Scheme and capable of being implemented independently.

## 5. Conclusions

Based on the considerations set out in this Report, it is my opinion that the conclusions set out in Section 9 of the Main Report are still valid. In particular:

- The proposed Scheme will not have an adverse impact on the security of benefits of the existing CA policyholders.
- I do not expect the reasonable benefit expectations of CA's policyholders to be adversely affected by the Scheme. It should be noted that this includes the CA with-profit policyholders, as the operation of the ring-fenced arrangements for the two with-profit funds and their associated PPFM will be unaffected, as will the reinsurance arrangements for the with-profits business reinsured to Reassure.
- There will be no change to the administration of existing CA policies as a result of the Scheme, and therefore no reason to expect that the service standards for the existing CA policyholders will be adversely affected by the Scheme.
- There are no features of the Scheme that I would expect to prejudice the Court approval of the Scheme.

Based on these considerations, my advice to the Board is therefore that there is no reason why the Scheme should not proceed.

Rob Goodwin

Chief Actuary

Countrywide Assured plc

14 December 2023

## Glossary of defined terms and abbreviations

Abbreviation	Description
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
IE	Independent Expert
Own Funds	The capital resources, calculated in line with the principles of market consistency, available to meet losses that could arise in the future
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
SCR	Solvency Capital Requirement
VA	Volatility Adjustment