

MILLIMAN REPORT

The Part VII Transfer of a portfolio of long-term insurance business from Canada Life Limited to Countrywide Assured plc

The Summary Report of the Independent Expert

19 June 2024

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THE BACKGROUND TO THE SCHEME AND PURPOSE OF THIS REPORT

- 1.1 It is proposed to transfer certain long-term insurance business (the “**Transferred Business**”) from Canada Life Limited (“**CLL**”) to Countrywide Assured plc (“**CA**”), comprising c.42,000 (as at 31 December 2023) individual non-profit term assurance policies (the “**Transferred Policies**”).
- 1.2 CLL and CA (together, the “**Companies**”) are proprietary insurance companies operating in the UK.
- 1.3 Under UK law, a transfer of long-term insurance business must be carried out in accordance with Part VII of the Financial Services and Markets Act 2000 (“**FSMA**”)¹ and an application must be made to the High Court of Justice, Business and Property Courts of England and Wales, the Companies List or, in Scotland, to the Court of Session (collectively, the “**Court**”) for approval under Section 111 of the FSMA. Such transfers of insurance business are referred to in this report as “**Part VII Transfers**”.
- 1.4 I refer to the proposed Scheme providing for the transfer to CA of certain long-term insurance business of CLL as “**the Scheme**” or “**this Scheme**”.
- 1.5 Under Section 109 of the FSMA the application to the Court for approval of the Scheme must be accompanied by a report (the “**Scheme Report**”) by an Independent Expert on the terms of the proposed transfer Scheme. The Scheme Report consists of my main report (the “**Main Report**”) and any subsequent Supplementary Reports issued by me covering the Scheme.
- 1.6 The Main Report is produced for the Court in London to assist in its deliberations in respect of the Scheme. The purpose of this report (the “**Summary Report**”) is to provide a summary of my conclusions in the Main Report. A copy of the Main Report as well as this Summary Report will be made available to policyholders via the websites of CLL, CA and Chesnara (the parent company of CA) and policyholders may also request copies from CLL and CA. The Summary Report will also be included in the communications packs that will be sent to the appropriate policyholders.

SUMMARY OF THE INDEPENDENT EXPERT’S MAIN REPORT

Introduction and the role of the Independent Expert

- 1.7 CLL is a proprietary life insurance company incorporated in England. CLL is a wholly owned subsidiary of The Canada Life Group (U.K.) Limited (“**CLG**”) (incorporated in England and Wales). CLG is a subsidiary of Canada Life International Holdings Limited which itself is a subsidiary of The Canada Life Assurance Company, a leading Canadian insurer with interests in life insurance, health insurance, investment, retirement savings and reinsurance business, primarily in Canada, the US and Europe. The Canada Life Assurance Company is a subsidiary of Great-West Lifeco Inc.
- 1.8 CA is a proprietary insurance company registered in England & Wales. CA is a wholly owned subsidiary of an insurance group, Chesnara plc, a UK-listed holding company.
- 1.9 Both CLL and CA are authorised under the terms of FSMA to undertake long-term insurance business in Classes I, II, III, IV, VI and VII, set out in Part II of Schedule 1 to the Regulated Activities Order 2001.
- 1.10 Until November 2022, CLL wrote individual protection business in the UK. CLL closed this book to new business in November 2022. The Scheme provides for the proposed transfer of the remaining policies in this closed book of individual protection business from CLL to CA, other than a single policy which will be retained by CLL; it has been excluded because the policyholder is based in Guernsey² (the “**Guernsey Policy**”).
- 1.11 I have been appointed by CLL and CA to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert on the terms of the Scheme. It is my role as the Independent Expert to consider the effects of the Scheme on policyholders, including on their reasonable benefit expectations and their security of benefits, and on the standards of service, administration, management and governance applicable. I have been approved to carry out the role of Independent Expert by the PRA in consultation with the FCA.

¹ A notable exception to this in the case of Friendly Societies. Friendly Societies can write long-term insurance business in the UK, but any transfers of such business will be carried out in accordance with the Friendly Societies Act 1982.

² To transfer this policy in the manner proposed for the other policies would require approval from the Royal Court of Guernsey, and the costs of doing so would be disproportionate.

Current position regarding Canada Life Limited

- 1.12 CLL focuses on two areas of insurance business, namely life insurance and health insurance. The life insurance book constitutes the majority of CLL's business and comprises annuities, group life insurance and individual life insurance.
- 1.13 CLL is subject to Solvency UK. CLL has approval from the PRA to calculate its Solvency II capital requirements using a Partial Internal Model in respect of longevity, credit and catastrophe risks; CLL employ the Standard Formula for all other risks. CLL also has various commonly used approvals from the PRA in relation to the application of Solvency UK, including the use of the Volatility Adjustment.

Current position regarding Countrywide Assured plc

- 1.14 Chesnara is a UK-listed holding company with a primary focus on consolidation in the life insurance and pensions market. CA is a wholly owned subsidiary of Chesnara and is the UK company into which Chesnara consolidates its acquisitions in the UK.
- 1.15 CA is also subject to Solvency UK. CA employs the Standard Formula for all risks to calculate its Solvency II capital requirements. CA has approval from the PRA in relation to the application of the Volatility Adjustment under Solvency UK.

The Scheme

- 1.16 The proposed Scheme will transfer a closed book of approximately 42,000 (as at 31 December 2023) conventional life insurance policies from CLL to CA on the date the Scheme takes effect (the "**Effective Date**"). The Scheme does not include any amendment to the contractual benefits, rights or options of the policies.
- 1.17 The Effective Date of the Scheme will be determined upon the sanction of the Scheme by the High Court. The Effective Date will be no earlier than 23 February 2025. CA's operational readiness plan includes contingencies against unforeseen delays to ensure the Scheme is ready to become operational as of the preferred Effective Date of 23 February 2025. In the event that the migration needs to be deferred to after that date, the Scheme provides for the Effective Date to be deferred up to and including 22 May 2025 without further Court approval upon agreement between CLL and CA. The Effective Date of the Scheme will not be able to be deferred beyond 22 May 2025 without additional approval from the Court.
- 1.18 The policies included in the Scheme are individual life assurance protection policies, some of which were sold with an additional critical illness benefit. The policies include both single and joint life policies and the benefits payable on occurrence of a covered event are one of three bases: level term, level term with an inflation-linked option, or decreasing term.
- 1.19 Transferring this business under the Scheme will allow CLL to focus its resource and investment on other business areas, including its group protection business. The Scheme also aligns with CA's strategic aims of continuing to acquire life and pensions business, further strengthening the position of CA and the Chesnara Group within the UK consolidation market and supporting the company in achieving additional economies of scale as it spreads fixed costs over a greater number of policies.
- 1.20 CLL currently holds two external reinsurance treaties with third parties (that are not CA) in respect of the policies to be transferred. Since 16 May 2023, CLL has ceded to CA via a separate reinsurance agreement (the "**Reinsurance Agreement**") the part of the liabilities under these policies that is not externally reassured, meaning that the majority of CLL's economic interests of this business has effectively already been transferred to CA. The Reinsurance Agreement between CLL and CA does not cover the single Guernsey Policy. Further details of the reinsurance arrangements related to the policies to be transferred are covered in Section 4 of the Main Report.
- 1.21 The current third-party reinsurance arrangements in place in respect of the business being transferred (the "**Transferred Business**") are expected to be transferred to CA as part of the Scheme. These are known as the "**Transferred Reinsurances**".

Financial impact of the Scheme

- 1.22 I have considered the financial impact of the Scheme, which forms a key part of my considerations, primarily in relation to the impact on the security of benefits for policyholders.

- 1.23 Figure 1.1, below, shows the pro forma post-Scheme financial position of CA measured on the Solvency UK basis. The CA pre-Scheme position also makes allowance for the existing reinsurance arrangement between CLL and CA covering the policies being transferred by the Scheme (the “**Transferred Policies**”), which would no longer be effective in the post-Scheme position.
- 1.24 The balance sheets also show the position if the Scheme were not to be sanctioned for any reason. If the Scheme were not sanctioned it is assumed that the Reinsurance Agreement between CLL and CA would be unwound and CA would no longer have any exposure to the business proposed for transfer under the Scheme.

Figure 1.1: CA pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023

£ million	Pre-Scheme CA	Pro forma post-Scheme CA	If Scheme not Sanctioned
Assets (A)	4,453.0	4,453.0	4,456.8
Best Estimate Liability (“BEL”) (B)	4,113.1	4,113.1	4,126.6
Risk Margin (C)	12.0	12.0	11.2
Technical Provisions (D = B + C)	4,125.1	4,125.1	4,137.8
Other liabilities (E)	145.9	145.9	145.9
Own Funds (before restrictions) (F = A – D – E)	182.0	182.1	173.1
RFF Restriction (G)	0.5	0.5	0.5
Dividends (H)	35.0	35.0	35.0
Restricted Own Funds (I = F – G – H)	146.5	146.6	137.6
SCR (J)	101.4	101.4	97.9
Excess Own Funds (K = I – J)	45.1	45.2	39.7
Solvency Ratio (L = I / J)	145%	145%	141%

Source: Report by the Chief Actuary of CA on the Transfer.

- 1.25 The table above shows that, as a result of the Scheme, the Own Funds, the Ring-Fenced Fund Restriction (“**RFF Restriction**”), SCR and hence the Excess Own Funds of CA are largely unchanged post-Scheme as a result of the Transferred Business moving to CA. This is as a result of the Transferred Policies already being reinsured to CA and therefore being present in the pre-Scheme CA position as inwards reinsurance. The result is a minimal change (c.0.1%, not shown above in Figure 1.1 due to rounding) to the Solvency Ratio relative to the pre-Scheme position.
- 1.26 If the Scheme were not to be sanctioned for any reason, the Reinsurance Agreement would be terminated, and the holders of the Transferred Policies would remain policyholders of CLL. In this scenario CA would see a decrease to the level of its Own Funds of c.£9 million and of its SCR of c.£3.5 million. This would result in an overall decrease in the Solvency Ratio of c.4 percentage points and therefore I am also satisfied that, if the Scheme were not to proceed, there would be no significant additional financial risk to CA.
- 1.27 Figure 1.2, below, shows the pre-Scheme and pro forma, post-Scheme financial position of CLL. The figures are shown on a Solvency UK basis as at 31 December 2023. The balance sheets also show the position if the Scheme were not to be sanctioned for any reason.

Figure 1.2 CLL pre- and pro forma post-Scheme Solvency UK balance sheet as at 31 December 2023

£ million	Pre-Scheme CLL	Pro forma post-Scheme CLL	If Scheme not Sanctioned
Own Funds (A)	3,567	3,567	3,588
SCR (B)	2,204	2,204	2,206
Excess Own Funds (C = A – B)	1,363	1,363	1,382
Solvency Ratio (D = A / B)	162%	162%	163%

Source: Report by the Chief Actuary of CLL on the Transfer.

- 1.28 The movement between the pre- and post-Scheme financial positions of CLL reflects the transfer of the residual risk associated to the Transferred Business and the Reinsurance Agreement between CLL and CA falling away. The impact on the CLL Solvency Ratio is less than 1 percentage point.
- 1.29 Consequently, I am satisfied that there is no significant financial risk to CLL nor CA as a result of the Scheme.
- 1.30 I have also considered CA's ability to withstand adverse stress and scenario circumstances, and whether the Scheme will have any material impact on this aspect.
- 1.31 In my opinion the stress and scenario testing combined with the qualitative analysis carried out by CA as part of its Own Risk and Solvency Assessment ("**ORSA**") process sufficiently covers the risks to which CA is exposed and show that CA maintains a strong Solvency Ratio across a number of adverse scenarios. Consequently, it is my opinion that under a different market or business environment than as at 31 December 2023 it is likely that the Scheme would still be able to proceed without a significant financial impact on CA.
- 1.32 If the Scheme were not to be sanctioned for any reason, the existing reinsurance arrangement between CLL and CA would be terminated, and the policies that are included in the Scheme would remain with CLL. In this scenario CLL would see an increase to the level of its Own Funds of c.£20 million and to its SCR of c.£2 million. This would result in an overall increase in the Solvency Ratio of c.1 percentage point and therefore I am also satisfied that if the Scheme were not to proceed there would be no significant additional financial risk to CLL.
- 1.33 I will consider the financial impact of the Scheme as at 30 June 2024 in my Supplementary Report.

The effect of the Scheme on the reasonable benefit expectations of policyholders

- 1.34 I have considered the impact of the Scheme on the reasonable benefit expectations of all types and all groups of policyholders of the Companies, including holders of policies of either of the Companies that are not included in the Scheme.
- 1.35 The benefit amounts of the policies transferred will not be altered under the Scheme and will therefore remain at the same level post-Scheme as they would be under CLL, had the Scheme not occurred.
- 1.36 Similarly, it is expected that any contractual options and rights as specified in the relevant terms and conditions will also be unaltered. The administration of the policies transferred will be carried out by a third-party administrator, SS&C Technologies ("**SS&C**"). I note that CA is currently investigating the administration of SS&C to ensure that, post-Scheme, it has the functionality to replicate all contractual options and rights that apply currently under CLL. This analysis is due to complete in July 2024 at which point any missing functionality that has been identified will be included in the planned developments of SS&C's administration systems I will comment further on the outcome of this investigation in my Supplementary Report and in particular highlight if there are any contractual options or rights that would be transmuted as a result.
- 1.37 The holders of the Transferred Policies (the "**Transferred Policyholders**") currently benefit from additional non-contractual services. These benefits are serviced by third parties and include the Canada Life App (a mobile phone application offering discounts on everyday purchases) as well as a number of support services. CA will enter contracts with these third parties in order to continue offering these additional benefits to the Transferred Policyholders post-Scheme.
- 1.38 The terms and conditions, including any defined benefit amounts, of the policies of the Companies that are not included in the Scheme will not be altered as a result of the Scheme, nor does the Scheme have any adverse impact on the management of the business that could affect benefits that are variable in amount, such as unit-linked or with-profits business. In particular, CLL does not have any with-profits business, and the With-Profits Actuary ("**WPA**") of CA has concluded that there will be no changes to the benefit expectations of the existing with-profits policyholders of CA as a result of the Scheme. Based on the evidence I have reviewed I agree with the conclusion of the WPA of CA.
- 1.39 I am therefore satisfied that the Scheme will not have a material adverse impact on the reasonable benefit expectations of any type or any group of policyholders.
- 1.40 I am also satisfied that for both of the Companies, the Scheme is equitable to all classes and generations of the policyholders.

The effect of the Scheme on the security of the benefits for policyholders

- 1.41 I have considered and analysed the impact of the Scheme on the security of benefits of all groups of policyholders of the Companies.
- 1.42 In my opinion, owing to the fact that the Scheme will not alter the policy terms and conditions, day-to-day management nor application of Solvency UK in respect of the policies of CLL or CA, and the fact that the Scheme has little impact on the solvency position of the Companies, there is no material adverse impact on such policyholders in relation to the security of their benefits as a result of the implementation of the Scheme.
- 1.43 The Transferred Policies will become part of CA. In my assessment of whether the security of the benefits of the Transferred Policyholders will remain adequate as a result of the Scheme, as well as comparable to the security of their benefits prior to the implementation of the Scheme, I have considered the following:
- The calculation of the Solvency UK Technical Provisions and SCR of the Companies;
 - The solvency position of the Companies, allowing for the impact of the Scheme;
 - The results of stress and scenario testing of those solvency positions;
 - The capital management policies (“**CMPs**”) applicable for the Companies;
 - The capital support in place for the Companies, as a result of their corresponding Group structure;
 - The differences in risk profile between the Companies;
 - Any other key differences between the Companies, including any differences in size, investment strategy and liquidity policies;
 - The impact of the Scheme on the reinsurance arrangements in place for the Companies, including the Reinsurance Agreement; and
 - Other considerations as a result of the Scheme, including the additional capital retained amounts being held, and the position should it become necessary to implement a Recovery and Resolution Plan.
- 1.44 In my opinion, there is no material adverse impact on the security of benefits of the Transferred Policyholders as a result of the implementation of the Scheme. My reasoning for reaching this conclusion is as follows:
- Both companies will continue to be subject to Solvency UK regulation post-Scheme.
 - Differences in the calculations of the Solvency UK BEL, Technical Provisions and SCR in respect of the Transferred Business will not adversely affect, and may very marginally increase, the security of the benefits of those policies.
 - The post-Scheme Solvency Ratio for both CLL and CA will remain above their respective target Solvency Ratios as set out in the capital policies.
 - In particular, the liabilities associated to the Transferred Policies (the “**Transferred Liabilities**”) have already been reinsured to CA which is in compliance with its regulatory capital requirement as well as its CMP and so the implementation of the Scheme introduces limited additional risk to CA’s ability to meet its liabilities as they fall due in the future.
 - I am satisfied that the stress and scenario testing performed by CA, combined with its qualitative analysis carried out as part of its ORSA process, sufficiently covers the risks to which CA is exposed.
 - The management of the Transferred Policyholders will move from being subject to the CLL CMP to being subject to the CA CMP. I note that CA’s target Solvency Ratio is lower than that of CLL’s, which may appear to be a lowering of the security of the Transferred Policyholder’s benefits. However, for reasons I set out in Section 9 of the Main Report, I do not consider this comparison to be of direct relevance in considering the overall security of the benefits of the Transferred Policyholders. The reasons for this include:
 - CLL and CA are distinct entities that have set their Solvency Ratios in respect of their own mix and volumes of business, and therefore their target Solvency Ratios are not directly comparable; and
 - The Transferred Business represent a very small portion of the businesses of each insurer, and therefore each Company’s target Solvency Ratios is more heavily influenced by the rest of its insurance business.

- I am satisfied that both Companies have adequate governance around the oversight and implementation of their risk appetite framework and have an established list of appropriate management actions to consider in various scenarios of the risk appetites being breached.
- The Transferred Policyholders will be exposed to CA's risk profile instead of that of CLL as a result of the Scheme. Given the SCR of CA reflects its risk profile, and the capital buffer CA holds above its SCR, I do not consider the change in the Transferred Policyholder's risk exposures to have a material adverse impact on the security of their benefits.
- There are additionally no changes expected to the external reinsurance arrangements relating to the Transferred Business, which will be transferred from CLL to CA as part of the Scheme (as the Transferred Reinsurances). This statement does not apply to the Reinsurance Agreement currently in place between CLL and CA in respect of the Transferred Business, which will cease upon the Effective Date.

The effect of the Scheme on the standards of service, administration, management and governance applicable to the policies

- 1.45 I have considered the impact of the Scheme on the standards of service, administration, management and governance applicable for all policyholders of the Companies. I have considered both:
- The temporary impact of the Scheme on the customer service provided to the policyholders, due to expected increased activity in relation to the transfer; and
 - The impact of the Scheme on the administration and servicing arrangements in place.
- 1.46 CLL has established a ring-fenced team to handle the anticipated temporary increase in demand on customer service as a result of customers contacting it about the Scheme. Given CLL's previous experience in handling schemes such as the one covered by this Summary Report and their planned approach to this Scheme, I am satisfied that they are well-placed to maintain and manage a ring-fenced team with appropriate staffing levels, experience and knowledge of the Scheme and business-as-usual type queries triggered by the communications while also maintaining adequate service standards for non-Transferred Policies.
- 1.47 A change in administration arrangements is planned outside of the terms of the Scheme. CLL currently carries out the administration of all its policies in-house, including those to be transferred as part of the Scheme. The administration of the Transferred Policies is expected to transfer to SS&C, a specialist third-party administration provider, in February 2025, shortly ahead of the Scheme implementation. SS&C does not currently administer any policies for CA, but CA also intend on migrating the administration of other blocks of policies to SS&C in due course. The migration of the Transferred Policies is not contingent on any other block being migrated.
- 1.48 Both of the Companies have therefore engaged in formulating a migration plan that would involve the migration of the Transferred Policies to SS&C's systems in advance of the Effective Date to help ensure that, as of the Effective Date, the administration of the Transferred Business is ready to be carried out entirely on SS&C's platform and independently of the CLL administration system. The administration of the Transferred Policies will then be performed by SS&C from the Effective Date onwards. The Companies will monitor the operational readiness of SS&C to complete the migration of the administration of the Transferred Policies as part of this migration plan.
- 1.49 This migration plan includes a contingency that, if SS&C were not ready to administer the policies within the planned time frame, the Effective Date could be delayed until up to and including 22 May 2025, as described in paragraph 1.17, during which time CLL would continue to administer the policies until the delayed Effective Date. In the event that the Effective Date of the Scheme had to be delayed beyond 22 May 2025 due to the migration to SS&C's systems not being ready on or before this date, CLL and CA would consider options for how to proceed. I note that these options have not yet been finalised or formally agreed upon given that the migration plan is currently progressing in line with the planned time frames.
- 1.50 I will provide an update on the status of the migration plan in my Supplementary Report. In the event that a delay of the Effective Date beyond 23 February 2025 (whether until before or after 22 May 2025) has become a realistic possibility, I will consider the appropriateness of any further policyholder communications and the contingency planning that may become necessary.
- 1.51 If the Scheme were not to proceed for any reason, then the administration of the Transferred Policies would remain in-house with CLL.
- 1.52 The implementation of the Scheme will therefore have an impact on:

- The system on which the data for the Transferred Policies are stored and administered;
- The processes by which the Transferred Policies are serviced; and
- The staff who are carrying out the servicing of the Transferred Policies.

1.53 CA monitors service standards as part of its ongoing risk management processes through the terms and service-level agreements (“**SLAs**”) entered into with CA’s outsourced providers. Following the expected migration of the Transferred Policies and some of CA’s existing policies to SS&C, service standards with SS&C will be assessed through regular touchpoints as part of a process for identifying any issues and developing a plan to address any issues. This process will help ensure that service level standards remain within CA’s risk tolerance levels. I note that the SLAs of CLL and CA are broadly comparable.

1.54 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the standards of service, administration, management and governance applicable to policyholders of the Companies. This conclusion applies both to the period when the Scheme communication process is underway (i.e. from the time of the policyholder mailings through to the Effective Date), and to the period following the Effective Date.

1.55 I will provide an update in my Supplementary Report with regard to the operational readiness of the Companies for the transfer.

My other considerations arising from the Scheme

1.56 I have considered a number of other additional aspects not covered above, that may have a bearing on the impact of the Scheme and the policyholders of the Companies. These aspects include:

- The future operation of the Scheme;
- The effect of the Scheme on the other companies in the Canada Life Group not directly affected by the Scheme;
- The effect of the Scheme on the other companies in the Chesnara Group not directly affected by the Scheme;
- The effect of the Scheme on the reinsurers of CLL and CA;
- The consequences of the Scheme on taxation issues;
- The Solvency UK review being undertaken by HM Treasury and the PRA;
- Access to the Financial Services Compensation Scheme and the Financial Ombudsman Service;
- FCA Consumer Duty Rules;
- Emerging risks & volatility;
- Operational readiness for the Scheme;
- The effects of the Scheme not proceeding; and
- Other regulatory matters.

1.57 I have concluded that these matters do not have any material impact on my conclusions in respect of the Scheme.

The approach to communications with policyholders

1.58 I have considered the proposed communications strategy and the letters and documentation to be issued to the various groups of policyholders of the Companies. I have also considered the dispensations being sought by the CLL in relation to communications to policyholders not included in the Scheme and certain classes of its policyholders included in the Scheme, as well as dispensations sought by CA in relation to communications to its existing policyholders.

1.59 I have considered the structure and content for the direct communication with the Transferred Policyholders, as well as the further distribution of information in respect of the Scheme, including this Report. I have also considered the adequacy of the support for vulnerable customers and how communication arrangements have been adapted to their specific needs.

1.60 Overall, I am satisfied that the proposed approaches to the communications with policyholders, including the application for dispensations, and including the approach to vulnerable customers, are reasonable and that the communications themselves are clear, fair and not misleading.

My conclusions

1.61 I have considered and analysed the effects and the impact of the Scheme on all of the policyholders of CLL and CA, including the Transferred Policies, as set out in the sections of the Main Report.

1.62 In my opinion, the implementation of the Scheme will not have any material adverse effect on any of the following:

- The reasonable benefit expectations of the policyholders of CLL and CA.
- The security of the benefits of the policyholders of CLL and CA.
- The levels of administration, customer service, management and governance that apply to the policyholders of CLL and CA.