

**Countrywide Assured plc**

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

On the proposed transfer of business from Canda Life Ltd (“CLL”) to CA pursuant to Part VII of the Financial Services and Markets Act 2000

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## **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 June 2024.

The Main Report was prepared for the Board of Directors of CA which considered the 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 CLL.

The Main Report also considered the fair treatment of CA policyholders and any changes to administration and policyholder benefits affecting CA policyholders.

A copy of 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 28 June 2024. The report was also made available to the policyholders of CA and CLL.

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; and
- 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. Terms used in this report but not defined have the same meaning as set out in the glossary of the Main Report. In preparing this report I have read and considered CLL’s draft report by the Chief Actuary, the draft report of the With Profits Actuary for CA and a draft of the Independent Expert’s supplementary 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; and
- 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; and
- TAS 200: Insurance,

and has been prepared in accordance with relevant actuarial professional standards. In particular, APS X2: Review of Actuarial Work, issued by the Institute and Faculty of Actuaries, requires Actuaries to consider the appropriate level of review that should be applied to their work and this report has been subject to peer review in accordance with APS X2.

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

The Main Report considered the financial position of CA before and after the Scheme based on the 31 December 2023 results. This section provides an update based on the balance sheet data as at 30 June 2024. In addition, consideration has been given to estimated movements in the solvency position subsequent to 30 June 2024.

### 2.1. Balance sheet showing combined position as at 30 June 2024

The table below shows a summary of the Solvency UK balance sheet of CA as at 30 June 2024 together with an estimated pro-forma balance sheet had the Scheme been effective at that date. The equivalent information as at 31 December 2023 has been included for reference.

CA solvency positions (£m)	31 December 2023		30 June 2024		
	Reported	Post-scheme	Reported	Post-scheme	Scheme not sanctioned
Own Funds	146.5	146.6	159.9	159.9	148.7
Solvency Capital Requirement	(101.4)	(101.4)	(95.9)	(95.9)	(93.4)
Excess Assets	45.1	45.2	64.0	64.1	55.3
SCR cover %	145%	145%	167%	167%	159%

The SCR cover ratio of CA as at 30 June 2024 was 167% compared to 145% as at 31 December 2023. The increase was mainly caused by positive market movements resulting in an increase in Own Funds and a reduction in Solvency Capital Requirements.

The table above also shows the estimated impact on CA were the Scheme not to be sanctioned. In this scenario, the Reinsurance Agreement between CA and CLL would be terminated resulting in a decrease in Own Funds as the negative liabilities associated with the Transferred Business would be removed from the CA balance sheet. For the same reason, there would be a small reduction in Solvency Capital Requirements and overall a reduction in the SCR cover ratio relative to if the Scheme had gone ahead. The solvency position of CA would remain within the Board's risk appetite in the scenario of the Scheme not being sanctioned.

As at 30<sup>th</sup> June 2024 there are 39,374 policies subject to transfer under the Scheme compared to c237k for CA in total excluding the Transferred Business.

The risk profile of CA has remained stable over the first half of 2024 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.

## **2.2. Impacts to the balance sheet since 30 June 2024**

The main changes impacting the CA's solvency ratio since 30 June 2024 to 30 September are:

- the transfer of the CASFS, previously a wholly-owned subsidiary of CASLP Ltd ("CASLP"), to CA in July. Chesnara owns CASLP, the insurance business of which was transferred to CA in December 2023 in accordance with PVII of the FSMA. CASFS provides administration of certain non-insurance products which are not covered by the Scheme, as well as routing client money to CASLP. The transfer of CASFS results in a small increase in solvency as the Own Funds associated with the holding in CASFS exceed the capital required to be held; and
- a small increase in solvency primarily due to the run-off of the existing business and writing of new onshore bond business.

In November 2024, the CA Board approved a proposal to put in place a second mass lapse reinsurance agreement to cover the Transferred Business and the CASLP business, effective from 31 December 2024. As set out in the Main Report, CA has an existing mass lapse reinsurance agreement with Swiss Re covering other blocks of business.

The new mass lapse reinsurance agreement reduces CA's exposure to mass lapse risk and is provided by Hannover Re (Bermuda) Ltd who have an A+ rating from AM Best and from Standard & Poor's a rating of AA-.

The financial impact of the new arrangement is estimated to be a c15% increase in SCR cover ratio, assessed as though the treaty were effective as at 30 June 2024.

In recent months and over January 2025 in particular, there has been a relatively higher level of volatility in the UK bond market, with returns on longer term gilts reaching their highest levels for decades. Notwithstanding the current high level of the return on these gilts, it is noted that it is not uncommon for there to be short-term fluctuations in the financial markets.

CA invests in gilts and other similar fixed interest investments that are expected to broadly match its contractual liabilities, such that when interest rates rise or fall the movements in the assets and liabilities broadly offset. Hence the current levels of volatility are expected to have a limited impact on CA's balance sheet.

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

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

Information was also made available to CA and CLL 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 31 December 2024, CLL have confirmed that there have been 1,090 responses from CLL policyholders.

The majority of the responses have been relating to policyholders (or related third parties e.g. trustees) enquiring for further information relating to their policy or seeking confirmation that the terms and conditions won't change as a result of the Scheme. There have also been 1,188 letters returned as the policyholder is no longer contactable via the details on the policy record. Of these 860 have been located and the PVII information pack reissued, there are an additional 22 Transferred Policyholders whose updated address details have been received however the letters have not yet been sent, and 75 correspond to out-of-force policies. The remaining 157 represents customers that CLL has not been able to contact. CLL has attempted to contact all customers with returned mail at least once, which has been led by CLL's Customer Tracing Team.

There have been 19 objections raised by policyholders in respect of the proposed transfer:

- 17 policyholders have objected based on their negative perceptions of CA, 3 of whom also expressed concerns about the security of their benefits. The remainder were primarily concerned about maintaining the level of service following the transfer.
- 2 policyholders have objected about the Part VII legal process in relation to them not giving their permission to transfer. The permission of policyholders is not required for the transfer in accordance with Part VII of the Financial Services and Markets Act 2000. The decision of whether to sanction the Scheme lies with the Court, taking into consideration the views the Independent Expert and the impact on policyholders. One of these policyholders has indicated that they wish to attend Sanctions Hearing as is permitted.
- Furthermore, one of the aforementioned objections is additionally classified as a complaint as the customer has requested the policy to be cancelled and for a refund of premiums. This has not been upheld by CLL who have explained that whilst the policy can be cancelled, the premiums cannot be refunded.

There have been no responses and no objections from CA policyholders.

In relation to concerns about the security of benefits, it remains the case based on the latest financial information set out earlier in this report that CA has Own Funds which exceed the Solvency Capital Requirements and, as set out in the

Main Report, maintains a capital buffer over the level of the regulatory capital requirements.

In relation to concerns about service levels, as noted in the Main Report, the Scheme will not result in changes to policy terms and conditions. There is ongoing work to migrate the Transferred Business to CA's outsourced administration platform with SS&C and this is expected to be completed shortly ahead of the Scheme implementation. The migration plan also includes contingency options as described in the Main Report.

The migration remains on track for delivery and there is no expected impact on overall levels of customer service as a result of the transfer.

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 of this report.

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

##### **4.1. Solvency II reforms: Solvency UK**

As set out in the Main Report, the Government commenced certain reforms in December 2023 to the existing Solvency II regime (which is primarily derived from EU legislation), to tailor this to the UK insurance market.

Further reforms are expected to come into effect at the end of 2024 as set out in CP5/24 ("Review of Solvency II: Restatement of assimilated law").

These changes are expected to have an immaterial impact for CA, in part due to the measures applying to features of the regulatory regime that CA does not apply e.g. Transitional Measures on Technical Provisions. I understand from CLL's draft report by the Chief Actuary that the reforms are anticipated to only have a small impact for CLL.

##### **4.2. FCA Consumer Duty**

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

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

The Transferred Business is a closed book and, as such, the Consumer Duty requirements also applied from July 2024.

CA and CLL continue to work together to ensure that all communications and processes continue to comply with the Consumer Duty following migration to SS&C.

#### **4.3. Administration arrangements**

As noted in the Main Report, the administration of the Transferred Business is currently undertaken by in-house by CLL and there is ongoing work to migrate the Transferred Business to CA's outsourced administration platform with SS&C.

This work is scheduled to complete shortly ahead of the Scheme implementation and the project remains on-track to deliver in February 2025. In particular, the build and test activity is continues following the analysis phase and the operational readiness plan is being further developed to cover all activities that will need to be completed leading up to the Effective Date.

#### **4.4. Amendments to the scheme**

There have been no material amendments to the Scheme.

A minor amendment has been made to exclude three policies (in respect of two policyholders) for which claims had been made prior to 1 January 2023. Further details are provided in the witness statement of Jackie Ronson.

#### **4.5. Second transfer from CLL to CA**

On 23 December 2024, a second agreement with CLL was announced to acquire a closed portfolio of unit linked bonds and legacy pension business with approximately 17,000 policies and total assets under management of c£1.5 billion as at 31 December 2023. The policies are expected to transfer from CLL to CA in accordance with Part VII of the Financial Services and Markets Act 2000.

In the interim period, the portfolio has been reinsured from CLL to CA, effective from 31 December 2023, resulting in a small initial decrease to the SCR cover ratio of CA.



## 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 FFA

Chief Actuary

Countrywide Assured plc

24 January 2025