

# **Report on the proposed business transfer from Canada Life Limited to Countrywide Assured plc**

Report of the Independent Expert

8 July 2025

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# 1 Introduction

## 1.1 Background

Canada Life Limited ("CLL") and Countrywide Assured plc ("CA") (together, the "Companies") have jointly appointed Mr Loic Bellettre ("me", "I", "my") of Ernst & Young LLP ("EY", "we", "us", "our") to act as the Independent Expert ("IE") for the proposed transfer of certain long-term insurance business (the "Scheme") from CLL to CA. The Companies are both proprietary insurance companies operating in the UK. The Scheme in question relates to a block of UK based unit-linked bonds and pension business of 16,058 policies ("Transferring Policies").

When an application is made to the High Court for an order to sanction the transfer of long-term insurance business from one insurance company to another, the application is subject to Part VII of the Financial Services and Markets Act 2000 ("FSMA") and must be approved by the Court under Section 111 of FSMA. FSMA requires the application to be accompanied by a report on the terms of a scheme ("Scheme Report") by an IE. The Scheme Report includes this report (the "Report") and any additional supplementary reports issued by me whilst assessing the Scheme.

## 1.2 Layout of this Report

My Report is structured as follows:

- Section 1 provides an introduction and provides the purpose and scope of this Report;
- Section 2 provides an executive summary of this Report, including a brief description of the Scheme, and my overall conclusion;
- Section 3 describes the role of the IE and the approach I have followed to reach my conclusions;
- Sections 4 and 5 describe the Companies involved in the Scheme;
- Section 6 provides an outline of the Scheme and the purpose of the Scheme;
- Section 7 describes the financial impact of the Scheme;
- Section 8 describes my assessment of the effect of the Scheme on the reasonable benefit expectations of the policyholders;
- Section 9 describes my assessment of the effect of the Scheme on the security of the policyholders' contractual rights;
- Section 10 describes my assessment of the effect of the Scheme on the levels of service provided to the policyholders;
- Section 11 describes my assessment of any other considerations that I have taken into account in reaching my conclusions;
- Section 12 provides an outline of the proposed policyholder communications and my views on these;
- Section 13 sets out my conclusions on the Scheme; and
- Appendices provide additional information which should be taken into account when reading this Report.

## 1.3 Independent Expert

I have been appointed by the Companies pursuant to Section 109 of FSMA as IE in connection with the Scheme.

I am a Fellow of the Institute and Faculty of Actuaries ("IFoA") and hold a Chief Actuary practising certificate issued by the IFoA. I am a Partner of EY, and I lead the EY Life Actuarial practice in the UK. I undertake a wide variety of consulting engagements for life insurance clients on topics including financial reporting, mergers and acquisitions, solvency and capital management, asset-liability management, business restructures such as through schemes, and policyholder fairness assessments. I also lead actuarial work on external audits in the role of Reviewing Actuary.

The Companies jointly appointed me as IE and will be jointly responsible for the payment of fees incurred by me in my capacity as IE for the proposed Scheme. The terms of my engagement with both Companies set out the scope of work to perform my role as IE, which is covered in more detail in Section 3. My appointment as the IE has been approved by the Prudential Regulation Authority ("PRA") in a letter dated 23 April after consultation with the Financial Conduct Authority ("FCA").

## 1.4 Independence

The team that has supported me ("my team"), the peer reviewer and I maintain independence from the Companies. My team and I, and our immediate families, do not hold any policies (including insurance policies), investments, shareholdings or any other financial interests with any of the Companies that will affect our independence. Neither I nor my team have performed any work for the Companies involved in the Scheme in the last 3 years.

EY, including other members of EY's global network of firms, has carried out and continues to carry out a number of different projects for the Companies. Partners and staff of EY have not acted for the Companies in projects that would affect my conclusions and have not been involved in developing any aspects of the Scheme.

I do not believe that any of these engagements compromise my independence, create a conflict of interest, or compromise my ability to report on the Scheme.

## 1.5 Purpose of this Report

The purpose of this Report is to review the impact and fairness of the Scheme on all policyholders affected (full details of which can be found in Section 3.1).

To the best of my knowledge, I have taken account of all material facts in assessing the impact of the Scheme. This Report contains descriptions of the Scheme and the methodology I have used during the course of my work to assess the effect of the proposed Scheme on policyholders.

I also provide my conclusions on the Scheme, together with the reasons why I have reached these conclusions.

## 1.6 Scope of this Report

As IE for the Scheme, I have considered the provisions of Part VII of FSMA and taken into account guidance issued by the PRA and FCA (see Section 1.8). Therefore, the Report considers the consequences of the Scheme for all policyholders affected, including whether the Scheme provides sufficient protection for policyholders' interests in the changed circumstances which will apply following implementation. The policyholders in scope of this report include:

- Policyholders transferring from CLL to CA;

- Existing policyholders of CA;
- Policyholders remaining with CLL.

The scope of this report also considers, where relevant, other stakeholders, such as reinsurers.

The Scheme will be submitted to the Court for sanction under Section 111 of Part VII of FSMA. This Report will be presented to the Court at an initial hearing (the "Directions Hearing") expected to take place on 15 July 2025. The Scheme is then expected to be submitted to the Court for sanction at a hearing late 2025 (the "Sanction Hearing"). To take account of updated financial information, regulatory changes and/or other circumstances nearer to the date of the Sanction Hearing, I will provide a report setting out my updated opinions in respect of the Scheme (the "Supplementary Report"). It will be made available to all policyholders, through the website of the Companies and Chesnara plc, the parent company of CA. If approved, the Scheme is expected to become effective on 7 December 2025 (the "Effective Date").

To assist policyholders in understanding the implications of the Scheme, I will produce a summary of my Report (the "Summary Report"), which will go in the policyholder communications pack discussed in Section 12. It will also be made available to all policyholders, along with the Report, through the website of the Companies and Chesnara plc, the parent company of CA.

## 1.7 Peer review process

The contents of this Report have been peer reviewed to check quality and completeness by Catherine Thorn. Catherine is a Fellow of the Institute and Faculty of Actuaries with over 30 years' experience of actuarial work in the life insurance industry and is a Partner in the EY Life Actuarial practice in the UK. For the avoidance of doubt, Catherine has not been part of my team working on this Report. The peer review process has included both a review of the methodology I have used and discussion of the key elements of my analysis.

## 1.8 Regulatory and professional guidance

To reach my conclusions, I have applied the principles set out in the Technical Actuarial Standards ("TAS") and Actuarial Profession Standards ("APS"). Specifically, in writing this Report, I have sought to:

- Exercise my judgement in a reasoned and justifiable manner;
- Describe the impact on the benefit expectations, level of service and security of rights for all classes of policyholders;
- Indicate the rationale for the proposal for the Scheme to proceed;
- Include (in summary) the most material information on which my opinion is based; and
- Describe the rationale for my opinion.

This Report complies with Technical Actuarial Standard 100 ("TAS 100") and Technical Actuarial Standard 200 ("TAS 200") as issued by the Financial Reporting Council ("FRC"), which is responsible for setting UK actuarial standards. I believe that this compliance has been achieved with no major deviations from the guidelines.

This Report complies with the applicable rules on expert evidence and with the guidance for the scheme reports set out by the PRA in its Statement of Policy, 'The Prudential Regulation Authority's approach to insurance business transfers', in the PRA Handbook and in accordance with the guidance contained in Chapter 18 of the supervision Manual in the FCA Handbook. Additionally, this Report complies with the FCA's Final Guidance "FG221: The FCA's approach to the review of Part VII insurance business transfers".

This Report has been prepared in accordance with Actuarial Profession Standard X2: Review of Actuarial Work ("APS-X2") and Actuarial Profession Standard X3: The Actuary as an Expert in Legal Proceedings ("APS-X3"), issued by the IFoA.

## 1.9 Statements of reliance and limitations

In preparing this Report, I have been provided with all information I have requested as of 24 April 2025 and have relied on the accuracy and completeness of data and information provided to me by the Companies, the key items of which are listed in Appendix 14.4. I have reviewed the information for consistency and reasonableness, using my knowledge of the UK life insurance industry, but have not otherwise verified it. Where applicable I have also relied on the audit opinion and work of the external auditors of the Companies to gain confidence in the financial information included within this Report, noting that not all the financial information used in this report is subject to external audit.

Additionally, I have had access to, and discussions with, senior management of the Companies.

My analysis of the solvency position of the Companies under Solvency UK is based on estimates of the companies' pre- and post-Scheme financial positions as at 31 December 2024. I have placed reliance on the Companies' own internal governance processes for their accuracy. A number of the processes, models and systems used to produce the financial information used in this Report are subject to audit. Therefore, I am satisfied that the financial information is in compliance with applicable rules and guidance and can be relied on for the purpose of this Report.

I note that the solvency position post-Scheme cannot be stated with certainty since this will depend, inter alia, on the economic conditions at that time. The actual solvency position post-Scheme will therefore differ from the estimated solvency position shown in this Report. Similarly, the pre-Scheme financial position on the Effective Date will differ from that shown in this Report. As a result, the estimated pre- to post-Scheme impact shown in this Report will differ from the actual impact on the Effective Date. Nevertheless, I would not expect the impact of the Scheme to vary significantly from the estimates shown.

I have also had access to other materials such as the Own Risk and Solvency Assessment ("ORSA") reports of the Companies. These are not audited but have been approved by the Board. In view of this, I believe it to be reasonable for me to rely on the information provided to me without further verification.

I will continue to keep the financial position under review in the period leading up to the Sanction Hearing and will consider the most recent information in my Supplementary Report. The Companies have been advised by their own legal advisors in relation to the Scheme. For CLL this is Pinsent Masons LLP ("PM") and for CA this is Slaughter and May ("SM"). I have reviewed the legal input provided where relevant and have considered this when forming my conclusions. PM and SM have no liability to me or EY in relation to the input provided.

This Report, and any extract or summary thereof, has been prepared for the use of the bodies or persons listed below:

- The High Court;
- The Directors and senior management of CLL;
- The Directors and senior management of CA;
- The PRA, FCA, or any other governmental departments or agencies having responsibility for the regulation of insurance companies in the UK;
- Other insurance Regulators who have a legitimate interest in the Scheme;
- The policyholders of CLL and CA;

- The legal and tax advisors of the Companies.

This Report must be considered in its entirety since individual sections, if viewed in isolation, may be misleading. Draft versions of this Report and any other interim working papers must not be relied on by any person for any purpose.

I have provided a summary of this Report for inclusion in the policyholder communications and, other than this, no summary of this Report may be made without my express consent.

This Report has been prepared by EY on an agreed basis (as set out in our engagement letter dated 24 April 2025) for CLL and CA in respect of the Scheme and must not be relied on for any other purpose. No liability will be accepted by EY, or me, for any application of this Report for a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of this Report. If other persons choose to rely in any way on the contents of this Report, they do so entirely at their own risk.

For the avoidance of doubt, this Report considers the Scheme presented to me and does not consider possible alternative schemes.

## 1.10 Tax

I have reviewed information provided to me by the Companies and taken advice, where appropriate, from EY tax specialists. On the basis of this information, I am satisfied that there should be no materially adverse tax effects on policyholders. I have discussed potential implications further in Section 11.

## 1.11 Legal jurisdiction

This Report will be governed by and construed in accordance with the laws of England and Wales and the High Court of Justice of England and Wales will have exclusive jurisdiction in connection with all disputes and differences arising out of, under, or in connection with this Report.

## 1.12 Duty to the Court

I confirm that I am aware and have complied with the requirements of Part 35 of the Civil Procedure Rules and the relevant Practice Direction and the Guidance for the Instruction of Experts in Civil Claims.

In reporting on the Scheme as the IE, I recognise that I owe a duty to the High Court of Justice of England and Wales to assist it on matters within my expertise. This duty overrides any obligation to CLL and CA. I confirm that I have complied with this duty.

## 1.13 Statement of truth

I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge, I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

## 1.14 Materiality

My report focuses on whether any policyholder (discussed in Section 2.1) could be materially adversely impacted by the Scheme.

The definition of what is "material" depends on the matter in hand, and so where there are adverse changes, I have provided context regarding their size and/or likelihood of them occurring, the relevance of the outcome to the Scheme and the impact (financial or otherwise) of the outcome to the policyholders. Unless explicitly stated, if the potential effect represents a small or very unlikely impact, I do not consider this to be material.

Further, I use the guidance provided by the Court of Appeal in 2020 following the initially refused sanction of the transfer of an £11.2 billion portfolio of annuities from The Prudential Assurance Company to Rothesay Life plc. In considering if a policyholder could be materially adversely affected by the Scheme, this guidance states that focus needs to be on adverse effects where:

- There are possibilities that cannot sensibly be ignored having regard to the nature and gravity of the feared harm in the particular case;
- They are a consequence of the scheme;
- They are material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.

## 1.15 Solvency UK

Solvency UK is the prudential solvency regime for the UK insurance industry, under which both Companies operate.

Under the regulatory regime of Solvency UK, insurers are required to hold assets that cover at least the Technical Provisions ("TPs"), in addition to further assets to cover additional capital requirements (notably the Solvency Capital Requirement ("SCR")). TPs consist of the Best Estimate Liability ("BEL") and Risk Margin ("RM"). The BEL is the amount of liability a company has to meet its policyholder obligations on a best estimate basis and the RM is an adjustment designed to represent the amount that another insurance or reinsurance undertaking would require to be paid to take on the obligations of that insurance company.

The TPs can be adjusted through a number of measures, subject to regulatory approval, that can reduce the amount of assets that the insurer is required to hold.

The SCR is an amount representing the additional capital requirements to cover a 1-in-200 year loss event. If a company's capital falls below the calculated additional capital requirements (i.e. the SCR), management actions are required to re-establish this level of capital and regulatory intervention may be triggered.

There is a Standard Formula ("SF") under Solvency UK, which companies can use to calculate SCR. Alternatively, companies can also use an Internal Model ("IM") or Partial Internal Model ("PIM"), where some components of the SCR are calculated using SF and others through an IM, to calculate the SCR amount. This allows firms to more accurately reflect the specific risks that they are exposed to as a business, should the SF not appropriately capture these risks. Regulatory approval is required for companies to adopt an IM or a PIM.

Insurance companies within the scope of Solvency UK are required to hold assets that cover at least the TPs and SCR. In practice, companies also generally hold an amount of buffer capital above regulatory requirements in line with their risk appetite. The level of this buffer capital, and the implications of breaching it, are normally set out in a firm's Capital Management Policy ("CMP").

The excess assets over TPs and other liabilities represent the Own Funds, which are the financial resources available to meet the SCR, subject to being assessed and allocated to tiers according to their eligibility for meeting the SCR.

## 2 Executive Summary

### 2.1 Overview of the transfer

I have been appointed as the Independent Expert to provide the required report on the Scheme involving the transfer of certain long-term insurance business from CLL to CA. My appointment has been approved by the PRA in consultation with the FCA.

I am a Fellow of the Institute and Faculty of Actuaries, a Partner at EY, and I lead the EY Life Actuarial practice in the UK.

I am independent of the Companies, and neither I nor any partner or member of staff at EY has acted for the Companies in developing any aspects of the Scheme.

I have considered the effect which the proposed Scheme is expected to have on different groups of policyholders in CA and CLL, and whether the position of any group is, or is likely to be, "materially adversely affected". The definition of what is "material" depends on the matter in hand, and so where there are adverse changes, I have provided context regarding their size and/or likelihood of them occurring, the relevance of the outcome to the Scheme and the impact (financial or otherwise) of the outcome to the policyholders. Unless explicitly stated, if the potential effect represents a small or very unlikely impact, I do not consider this to be material.

I have split the policyholders considered in this report into three groups:

- Policyholders transferring from CLL to CA ("Transferring Policyholders");
- Existing policyholders of CA ("Transferee Policyholders");
- Policyholders remaining with CLL ("Remaining Policyholders").

I note that these groups may not be mutually exclusive, and I am aware that there could be overlap between them.

This Report sets out my findings and will be provided in evidence at the Directions Hearing, expected to take place on 15 July 2025. I will continue to review the implications of the Scheme for policyholders, and I expect to provide a Supplementary Report for the Court shortly in advance of the Sanction Hearing.

#### 2.1.1 CLL

CLL is a life insurance company incorporated in England and Wales and is a wholly-owned subsidiary of The Canada Life Group (U.K.) Limited ("CLG").

CLL has written business in three main areas;

- Annuities
- Group protection insurance
- Unit-linked products

The Transferring Policies relate to the unit-linked book of business, which contributes 3% of total gross written premium for CLL in 2024.

There are a number of previous Court schemes which relate to the CLL business. I have considered whether these schemes have an impact in my Report, and notably, the transfer of individual protection business from CLL to CA was sanctioned in February 2025.

## 2.1.2 CA

CA is an insurance company incorporated in England and Wales and is a wholly-owned subsidiary of Chesnara plc ("Chesnara"). Chesnara is a life and pensions consolidator which grows its presence in the market through acquisition. The CA funds are primarily grown through the UK acquisitions and new business.

CA manages three funds, one non-profit fund and two ring-fenced with-profit funds, Save & Prosper pension fund ("SPP") and Save & Prosper insurance fund ("SPI"). The policyholders of SPP and SPI funds participate in a share of the profits emerging within these funds. All other business is held in the main fund, referred to as the "Non-Profit Fund". The Transferring Policies will be transferred into the Non-Profit Fund.

## 2.1.3 The Scheme

The Scheme relates to a portfolio of UK based unit-linked bonds and pensions business, with c.£1.5bn Assets Under Management ("AUM") and 16,058 policies as at 31 December 2024. AUM is the total value of assets held by CLL for each policy type. These products were fully closed to new business as of January 2024, with some remaining open to top-ups. A financial summary of the business transferring under the Scheme is shown below.

**Figure 2.1: Financial summary of the policies transferring under the Scheme as at 31 December 2024**

<b>Products</b>	<b>Policy count</b>	<b>AUM (£m)</b>
Unit-linked bond	15,081	1,463
Unit-linked pension	977	60
<b>Total</b>	<b>16,058</b>	<b>1,523</b>

Source: CLL

The book of business covered by the Scheme is not part of CLL's core business offering and therefore, the Scheme would allow CLL to focus on its core business areas, such as international products, group protection business and bulk purchase annuities. On the other hand, purchasing this book from CLL aligns with CA's strategic goals of growth through acquisition of primarily closed-book products, increasing CA's presence within the consolidation market.

The rights and obligations under the policies will be transferred without alteration. The product features under each policy will not change as a result of the Scheme. I have confirmed that the direct costs of the Scheme will be borne by the Companies. None of these costs will be passed on to policyholders.

The unit-linked products are designed to offer a range of investment options to policyholders, in exchange for a management charge (typically "Annual Management Charge"). Unit-linked policyholders have a choice of funds that they can invest in through their policy. The funds offered are currently managed by Canada Life Asset Management ("CLAM") and third-parties. Following the Scheme, the intention is for CA to enter into fund link agreements with the respective funds. This would ensure policyholders have access to the same funds as before. This has been confirmed for CLAM funds and discussions are underway to confirm with each of the third-party asset managers. Due to the on-going nature of the third-party arrangements, I will comment on this further in my Supplementary Report.

The Transferring Policies are currently administered by CLL using a primary policy administration system, Computations Life Office Administration System ("CLOAS"), where all policies are held and managed. CA outsources policy administration to SS&C Technologies ("SS&C"), a third-party administration provider. A migration is required to move Transferring Policies administration from CLOAS for CLL to SS&C for CA. The migration is required to extract policy data from CLOAS and other systems that relate to these policies, and provide the data in extract files to onboard the policies onto SS&C systems. At the time of writing, the planned migration is expected to complete by the Effective Date. I will provide an update on this in my Supplementary Report. I also discuss this migration in further detail in Section 10.

On 20 December 2024, CLL and CA entered into a Reinsurance Agreement relating to the business that would transfer under the Scheme. As a result, the majority of the insurance and economic risks have been transferred from CLL to CA ahead of the actual transfer of policies, excluding immaterial expense risk associated with policy administration. I note that, for CLL, the Reinsurance Agreement has been treated as a financial instrument for reporting and accounting purposes, rather than as a reinsurance contract, as the underlying business is not deemed to have significant insurance risk on CLL's balance sheet. This agreement took effect from 1 January 2024. The risk exposure that currently remains with CLL in relation to the transferring policies is expense risk associated with policy administration (in addition to a counterparty exposure to CA). For CA, this Reinsurance Agreement represents an inwards reinsurance arrangement, transferring the risks in respect of this business into CA. It has therefore been accounted for as a reinsurance contract.

## 2.2 Financial impact of the transfer

This section provides an overview of the estimated financial impact of the Scheme. I have not performed an independent review of the financial information provided by either CLL or CA, but note there is internal governance around these results, and I have raised queries where required to aid my understanding of the results. I am satisfied that it is reasonable for me to rely on the provided financial information in order to conclude on the Scheme. I will include more up-to-date financial information closer to the Scheme Effective Date in my Supplementary Report.

Figure 2.2 shows the breakdown of the financial impact of the Scheme on CLL as at 31 December 2024, as provided by CLL.

Under the regulatory regime of Solvency UK, insurers are required to hold assets that cover the BEL, which is the present value of expected future outgoings required to meet policyholder obligations. In addition, Solvency UK requires insurers to hold assets to cover a RM, which is an adjustment designed to represent the amount that another insurance or reinsurance undertaking would require to be paid to take on the obligations of that insurance company. Together, the BEL and RM make up the TPs.

The pre-Scheme position is the reported position at 31 December 2024 for both Companies. I note that the actual impacts and financial positions at the Effective Date will be different, but I do not expect that the relative positions of the Companies will move significantly such that my conclusions would be impacted. I am aware that the sanctioning of the transfer of onshore long-term individual protection business from CLL to CA is not reflected in the pre-Scheme position, as it was not sanctioned by the end of 2024; however, I have seen that the impact of that transfer is not material as the related reinsurance treaty had transferred the risks prior to the transfer being sanctioned in February 2025.

**Figure 2.2: CLL Pro-forma balance sheet as at 31 December 2024**

<b>CLL (£m)</b>	<b>Pre-Scheme</b>	<b>Post-Scheme</b>	<b>Scheme not sanctioned</b>
Assets	25,633	24,080	25,616
TP	(19,507)	(17,976)	(19,507)
Other liabilities	(2,680)	(2,657)	(2,665)
<b>Own funds (pre restrictions)</b>	<b>3,447</b>	<b>3,447</b>	<b>3,444</b>
Ring-fenced Funds ("RFF") restrictions	0	0	0
Foreseeable dividends	-	-	-
<b>Own funds (post restrictions)</b>	<b>3,446</b>	<b>3,447</b>	<b>3,444</b>
SCR	2,124	2,123	2,125
Excess assets	1,322	1,323	1,319
<b>SCR coverage %</b>	<b>162%</b>	<b>162%</b>	<b>162%</b>

Source: CLL

Whereby:

- Assets are comprised of assets, participations, non-strategic investments, and reinsurance recoverables
- Technical Provisions include BEL, TMTP and RM
- Other liabilities include liabilities other than TPs, for example accounting liabilities, deferred tax and ancillary own funds. The primary component of the other liabilities are deposits from reinsurers, which account for c. £2.4bn of the total amount.
- Dividends of £545m were paid from CLL to CLG before YE and hence there are no further foreseeable dividends shown in the table above. There are no RFF restrictions as there is no with-profits business.

In the table above, in the step from pre-Scheme to post-Scheme, the assets and TPs both decrease by a value of c.£1.5bn, which aligns with the increase on the CA balance sheet shown in figure 2.3, representing the movement of the unit reserve. The Own Funds increase by £1m. This is an immaterial change for CLL. Additionally, the impact on SCR and excess assets is also of the magnitude of £1m, resulting in no change in SCR coverage ratio from the movement of pre- to post-Scheme. This is due to the Reinsurance Agreement discussed in Section 2.1.3.

The table above also shows the expected impact on CLL's balance sheet were the Scheme not to be sanctioned, and the Transferring Policyholders were to remain with CLL with the Reinsurance Agreement falling away. Comparing the pre-Scheme position with the not sanctioned position shows an immaterial impact on the balance sheet. The reduction in asset value and other liabilities are primarily driven by the release of the financial asset held in respect of the Reinsurance Agreement, and the impact of provisions being released. The release of provisions is in relation to settling the reinsurance settlement amount for the year, some transaction costs, and various provisions held for warranties.

I have reviewed these figures and believe that these movements appear reasonable given the relative size of the Scheme and associated movement on the CA balance sheet, and with considerations around materiality as defined above. As discussed in Section 1.9, I have not performed further checks to ensure the accuracy of these numbers. The table below shows the breakdown of the financial impact of the Scheme on CA as at 31 December 2024, as provided by CA.

**Figure 2.3: CA Pro-forma balance sheet as at 31 December 2024**

<b>CA (£m)</b>	<b>Pre-Scheme</b>	<b>Post-Scheme</b>	<b>Scheme not sanctioned</b>
Assets	4,280	5,804	4,272
Technical Provisions	(3,946)	(5,469)	(3,947)
Other liabilities	(158)	(158)	(158)
<b>Own funds (pre restrictions)</b>	<b>177</b>	<b>177</b>	<b>168</b>
RFF restrictions	(2)	(2)	(2)
Foreseeable dividends	(45)	(45)	(45)
<b>Own funds (post restrictions)</b>	<b>130</b>	<b>130</b>	<b>121</b>
SCR	96	96	84
Excess assets	34	35	37
<b>SCR coverage %</b>	<b>135%</b>	<b>136%</b>	<b>145%</b>

Source: CA

Whereby:

- Assets, Technical Provisions and Other liabilities are defined consistently as for CLL
- The Own Funds figure (post restrictions) is net of RFF restrictions of £2m, which is a limit applied to the ring-fenced funds (SPP and SPI) that caps the surplus capital from these funds that can be reflected as available capital on the balance sheet, and a foreseeable dividend of £45m, which has been declared but not paid as at 31 December 2024. The dividends are paid from CA to Chesnara plc.

In the table above, the assets and TPs both increase by c.£1.5bn as a result of the Scheme. This is largely due to the transfer of the unit reserve, which represents the value of the assets in the unit fund and corresponds to the movement in Figure 2.2. The movement in Own Funds, restrictions, SCR and excess assets across the pre- and post-Scheme positions are small. These movements are due to the Reinsurance Agreement relating to the Scheme. If the sanctioning of the Scheme is approved by the Court at the Sanction Hearing, the Reinsurance Agreement will terminate on the Effective Date of the Scheme. If the Scheme were to be implemented, it is expected that the SCR coverage ratio would rise by approximately 1.0%, compared with the pre-Scheme position.

If the Scheme were not sanctioned, the Reinsurance Agreement would ultimately fall away, and the expected balance sheet is represented by the 'Scheme not sanctioned' column above. The Transferring Policies would remain with CLL and would not transfer to CA. The financial impact is that the Own Funds would fall by approximately £9.4m, which reflects the financial impact of the reinsurance falling away. The SCR coverage ratio, an indication of excess assets over SCR, would increase by 9% because the lapse risk and other additional risks (equity, expense, etc.) that the Transferring Policies carry, are removed from the balance sheet. This lowers the SCR and the SCR coverage ratio increases.

Based on solvency ratios calculated as at 31 December 2024, the Transferring Policyholders would move from a company with a higher solvency ratio (162%) to a company with a lower solvency ratio (136%). A solvency ratio of 100% is equivalent to a company being able to cover a 1-in-200 year event, i.e. an extreme event, whilst continuing to meet its obligations. Both solvency ratios are well in excess of 100%. The precise relative levels of solvency ratios do not provide a complete view of relative financial strength in isolation, as both Companies could choose to pay additional dividends while still remaining within their respective risk appetites and thereby reducing their solvency ratios. Therefore, it is important to consider other factors beyond the solvency ratios themselves, such as the Company's Capital Management Policy ("CMP"). I discuss these in detail in Section 9.2.4. I do not believe there is a materially adverse impact to Transferring Policyholders' security as a result of CA's solvency ratio being lower than CLLs.

I have reviewed these impacts and believe them to be reasonable given the size of the Scheme and associated movement on the CLL balance sheet, and with consideration around materiality as defined above. I have not performed additional checks beyond this to confirm the accuracy of the figures.

The financials set out above are based on the positions for each Company at 31 December 2024. There has been significant market volatility since this date, most notably an increase in trade tariffs has impacted market movements globally. In addition to my consideration of financial information as at 31 December 2024, in forming my views on the Scheme, I have sought additional and more up-to-date information to understand the impact of the recent market volatility on both Companies. In April 2025, both Companies provided additional and more up-to-date solvency and liquidity monitoring analysis. Based on this information, I note that at the time of writing both Companies remain within their respective solvency and liquidity tolerances. The Companies have also considered the potential impact if the tariffs were to increase further, and each have concluded that such impacts are immaterial and second order in respect of their financial soundness. I am satisfied based on this information that my conclusions are not impacted by the current market volatility; however, I will continue to review the current market conditions and the impact on the Scheme before the Sanction Hearing and will comment further in my Supplementary Report.

## 2.3 Effect on policyholder benefits

When considering the impact of the Scheme on the reasonable benefit expectations of policyholders, I have considered the three policyholders categories noted in Section 2.1:

- Transferring Policyholders;
- Transferee Policyholders; and
- Remaining Policyholders.

### 2.3.1 Transferring Policyholders

The Transferring Policyholders are unit-linked policyholders. The reasonable benefit expectations are therefore expected to be dependent on the underlying unit-linked funds to which they have access and the charges associated with the funds. The Scheme is not changing the assets underlying any of the unit-linked funds, the investment strategy or any of the terms and conditions of the funds. As such, the same funds with the same charges are expected to be available to Transferring Policyholders following approval of the Scheme. As a result, I am satisfied that this does not materially adversely affect these policyholders' benefit expectations.

At the time of writing, work is in progress to set up funds for Transferring Policyholders that mirror existing CLL funds, with no planned changes to funds or charges. CA will enter into fund link agreements and investment management agreements with asset managers to manage and administer the range of funds. I expect this work to conclude closer to the Scheme Effective Date. I will therefore re-assess the status of this fund set up and the associated agreements in my Supplementary Report and consider impacts to Transferring Policyholders.

I have confirmed with CA that there will be no changes to the product features currently offered to Transferring Policyholders. CA has also confirmed that there will be no changes to any existing terms and conditions. Additionally, there are no non-contractual benefits offered to Transferring Policyholders currently and this will not change as a result of the Scheme.

Tax positions are another key consideration relating to the assessment of impact on policyholder benefits, particularly where there are carried-forward tax attributes which affect the unit prices in funds. Currently, where there is a loss arising within unit-linked funds, these are carried-forward for use against future profits and present a potential benefit for policyholders. For Transferring Policyholders, I have considered the implications of CLL's existing carried-forward tax attributes for these policyholders, and I note that the carried-forward tax attributes are expected to be replicated in CA in relation to the Scheme. The HMRC clearances and confirmations that CA and CLL expect to apply for will be finalised prior to the Effective date, and I will comment on this further in my Supplementary report.

### 2.3.2 Transferee Policyholders

For existing CA policyholders there will be no impact on any existing product features, including terms and conditions and charges. The fund link agreements that are being set up will not impact existing policyholders.

With regards to with-profits policyholders at CA, benefits also include policyholder bonuses. The Scheme does not impact the asset shares or guaranteed levels of benefit in relation to CA's with-profit policyholders. The majority of the with-profits book of business is held in ring-fenced funds, and a remaining small amount is fully reinsured with no change to that reinsurance arrangement. Therefore, there are no material impacts expected on policyholder bonuses as a result of the Scheme.

### 2.3.3 Remaining Policyholders

For existing CLL policyholders there will be no impact on any existing product features, including terms and conditions and charges.

### 2.3.4 Conclusion

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders' reasonable benefit expectations, subject to the ongoing fund set up and the associated agreements for Transferring Policyholders. I will provide an update in my Supplementary Report as the migration progresses.

## 2.4 Effect on security of benefits

### 2.4.1 Transferring Policyholders

The Companies are both UK-based, regulated insurers operating under the same Solvency UK prudential regulatory regime. The Transferring Policyholders will not be subject to a new regulator or regulatory regime as a result of the Scheme. Under Solvency UK regulation, different approaches can be used to calculate solvency requirements. I have considered the methodology used by each Company to determine the key financial metrics. I note there are differences in the Companies' measurement approaches; however, having considered them, the differences in measurement approaches do not affect my conclusions around policyholder security.

The financial impact of the Scheme on the Companies is shown in figures 2.2 and 2.3, for CLL and CA, respectively. The solvency ratio as at 31 December 2024 is 162% for CLL and 135% for CA. A solvency ratio of 100% is equivalent to a company being able to cover a 1-in-200 year event, i.e. an extreme event, whilst continuing to meet its obligations. CA's solvency ratio is lower than CLL's, however both are well in excess of 100%. Further, the precise relative levels of solvency ratios do not provide a complete view of relative financial strength in isolation, as both Companies could choose to pay additional dividends while still remaining within their respective risk appetites and thereby reducing their solvency ratios. Therefore, it is important to also consider the Company's CMP which defines the solvency ratios that the Companies aim to maintain, and any constraints on dividends or other management actions in the event that the solvency ratio falls below this level. As such, I do not believe there is a materially adverse impact to Transferring Policyholders' security as a result of CA's solvency ratio being lower than CLLs.

I have considered whether the Scheme will materially impact the nature, mix, and materiality of risks for policyholders. As a result of the Scheme, Transferring Policyholders will be exposed to a different mix of risks due to the types of business and risk appetites of both Companies. Both companies have exposure to a well-diversified range of risks and are within their respective risk appetites. In addition, I have also considered financial positions under different stress scenarios, provided by the Companies. Following my review, I note that the Companies have broadly comparable vulnerability towards wider market events, as evidenced by the SCR breakdown and stress testing, and conclude there is no material adverse impact to Transferring Policyholders' security as a result.

The Scheme will result in the Transferring Policyholders being subject to CA's CMP (referred to in Section 5.4.3), in place of CLL's CMP (referred to in Section 4.4.3). Both companies have a CMP in place which defines a target (or minimum) level of additional capital to be held above regulatory requirements and is aimed at ensuring the Companies provide a minimum level of security of policyholders' benefits. I have reviewed the CMPs and note that whilst the specifics of each Company's CMP differs, both Companies monitor and manage risks to remain within respective risk appetites. As a result, I do not believe there is a materially adverse impact to Transferring Policyholders' security in moving from the CLL CMP to the CA CMP.

## 2.4.2 Transferee Policyholders

For Transferee Policyholders in CA, I have considered the impact on policyholder security from the Scheme, compared to the scenario in which the scheme were not sanctioned.

The key consideration is whether the post-Scheme financial strength of CA will materially adversely impact CA policyholders, compared to the position if the Scheme were not sanctioned. When comparing the Scheme not sanctioned position with post-Scheme, I note the CA solvency ratio decreases from 145% to 136%. This is driven by an overall increase in SCR in the post-Scheme position. Both positions are within CMP tolerances for CA, and above the targeted solvency coverage for CA to issue dividends. This means, should the scheme not be sanctioned, CA management could issue dividends to the same level, and therefore I do not believe that the Scheme materially impacts the financial security of Transferee Policyholders.

The impact of the Scheme on the risk profile of CA is small, which is also reflected in the components of SCR. Lapse risk presents the biggest increase to risk exposure for CA arising from the Scheme, which is partly offset by a change in diversification benefits, and in proportional terms the contribution of some market risks to the SCR reduce. The increase in lapse risk is due to the unit-linked nature of the business transferring under the Scheme.

There will not be any changes to the risk management policies, governance or CMPs as a result of the Scheme.

## 2.4.3 Remaining Policyholders

For Remaining Policyholders, I have considered the impact on financial strength and risk profile of the Scheme, including if the Scheme were not sanctioned.

In considering the financial strength, I have assessed whether the solvency ratio is significantly weakened, or if there is a large drop in Own Funds across the pre-, post-Scheme and not sanctioned positions at CLL. Due to the relative size of the business transferring under the Scheme, the solvency ratio remains at 162% in all instances. Additionally, if the Scheme were not to be sanctioned, the Own Funds impact is a decrease of £3m relative to the post-Scheme position, which is a c.0.1% impact. Therefore, the Scheme does not have a material financial impact on the solvency position of CLL.

The impact on the risk profile as a result of the Scheme is small. Whilst there are some minor changes in the mix of risks, the Scheme does not result in risks becoming materially more concentrated than without the Scheme and does not materially impact the diversification CLL's risk profile.

There will not be any changes to the risk management policies, governance or CMPs as a result of the Scheme.

## 2.4.4 Conclusion

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders' benefit security.

## 2.5 Effect on level of service

### 2.5.1 Transferring Policyholders

CA is in the process of changing its existing outsourcing arrangements for its other products to outsource policy administration to SS&C, a third-party administration provider. Transferring Policies are currently administered by CLL's customer servicing team and through the CLOAS system. Following the Scheme, the Transferring Policies will be administered by SS&C. As a result, there will be a change in administration systems for Transferring Policyholders as they transfer to CA, and a migration is required to extract policy data from CLOAS and other systems that relate to these policies and provide this in

extract files in order to onboard the policies onto SS&C systems. Provided that the migration takes place on time as planned, and aligned with the Effective date, then the impact of migrating to SS&C for Transferring Policyholders is unlikely to be material. I will provide an update on this migration in my Supplementary Report.

To measure servicing standards relating to policy administration, Service Level Agreements (“SLAs”) are in place for both CLL and CA. A range of metrics are included as part of the SLAs, with thresholds against each metric to inform any remediation action required. I have reviewed and considered the SLA targets of the Companies and, whilst there are several differences, I note that they are broadly comparable across both Companies.

In terms of customer experience, Transferring Policyholders can currently call in, write, or email to access or update their policies with CLL. The CLL company website also provides general information. I have confirmed with the Companies that the level of service before and after the Scheme is expected to remain the same, and in particular that the intention of the planned migration is to offer at least the same level of service provision to Transferring Policyholders.

There are existing terms of business in place between CLL and the current distributors for the Transferring Policies. These agreements cover, amongst other things, the commission payments specifically related to the transferring business. These commission liabilities will be moved from CLL to CA by the Scheme. Separately, CA will establish new terms of business with each of the current distributors in order to facilitate the normal administration and top-ups to policies to which Transferring Policyholders currently have access. At the time of writing, these new agreements have not yet been confirmed and so I will comment on this further in my Supplementary Report.

## **2.5.2 Transferee and Remaining Policyholders**

For Transferee Policyholders and Remaining Policyholders, I have confirmed that there is no change to their administration system and no expected change to customer experience as a result of the Scheme. Therefore, their services should remain materially unchanged post-Scheme, and I am satisfied that there is no material adverse impact to service standards for Transferee Policyholders and Remaining Policyholders.

In particular, the migration of the administration system for Transferring Policyholders is not expected to have a material impact on the level of services to either the Transferee Policyholders or Remaining Policyholders. I have also confirmed with the Companies that there are no expected changes to the customer experience and SLAs in place for Transferee Policyholders or Remaining Policyholders as a result of the Scheme.

## **2.5.3 Conclusion**

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders’ level of service, subject to achieving the target state for the migration of the administration system before the Effective Date. I will provide an update in my Supplementary Report as the migration progresses.

## **2.6 Policyholder communications**

CLL will inform the Transferring Policyholders about the Scheme through direct mailing. The direct mailing will include a summary of the Scheme and a summary version of this Report to the named policyholders of the business transferring under the Scheme. Policyholders will also be able to access further technical information regarding the Scheme, including a full version of this Report, either online or a printed copy by post, free of charge. I have reviewed the proposed communication approach and discussed it with CLL and CA. I am satisfied that the approach is reasonable.

CLL and CA are seeking to waive the requirement to send notice of the Scheme to all their existing policyholders via direct mailing. This means that Transferee Policyholders and Remaining Policyholders

would not be directly contacted by CLL or CA in relation to the Scheme. I have reviewed the justification provided by the Companies in relation to waiving these requirements and I am satisfied that it is reasonable to exclude these groups from the direct mailing.

Transferee Policyholders and Remaining Policyholders will be able to access information regarding the Scheme through a number of information channels, such as public newspapers including the London, Edinburgh and Belfast Gazettes, The Times, and The Daily Mail, and the company websites, and further information will be provided upon request.

CLL will keep a detailed log of policyholder responses and communications. Policyholder communications involving objections will be provided to me, in full, and summaries of the correspondence provided to the High Court and Regulators ahead of the Sanction Hearing.

Overall, I am satisfied with the proposed communication approach. In particular, I am satisfied that it is reasonable to communicate via direct mailing to the Transferring Policyholders only and that the information in the direct mailing is suitable for informing Transferring Policyholders about the Scheme.

## 2.7 Conclusion

I have considered the Scheme and its likely effects on the Transferring Policyholders, Transferee Policyholders, and Remaining Policyholders.

I am aware of certain areas where work is still in progress, some of which are material to the Scheme, and which I will continue to keep under review in the period leading up to the Sanction Hearing. These areas include:

- The migration of policy administration from CLOAS to SS&C;
- Completion of agreements with third-party asset managers to set up fund link arrangements;
- Issuance of terms of business to, and onboarding of, relevant distributors in relation to the Transferring Policies;
- Tax implications; and
- Completion of the policyholder communications process, including consideration of any policyholder objections.

Subject to the areas of ongoing review noted above, I am satisfied that the implementation of the Scheme on the Effective Date will not result in a materially adverse effect on the reasonable benefit expectations of policyholders, the security of policyholders' contractual rights, or the level of service provided to policyholders. Additionally, I am satisfied that the Scheme is equitable to all classes and generations of policyholders – in particular, I note that I have reached the same “no material adverse effect” conclusion for each distinct policyholder group that I identified as needing separate consideration, specifically the Transferring Policyholders, Transferee Policyholders, and Remaining Policyholders.

I therefore do not believe there is a reason that the Scheme should not proceed.

## 3 Role of Independent Expert

### 3.1 Introduction

The IE is required to prepare a report on the terms of a scheme in a form approved by the PRA and subject to its guidance as set out in the PRA's Statement of Policy: "The PRA's approach to insurance business transfers" (January 2022) and in accordance with the guidance contained in the FCA Handbook – Chapter 18 of the Supervision Manual and the FCA's Final Guidance "FG221: The FCA's approach to the review of Part VII insurance business transfers". The purpose of the Report and the role of the IE is to assist the Court in deciding whether to sanction the Scheme and will be considered by the Court along with views of the Regulators, policyholders and other parties to the transfer.

As IE, I have to consider the effect of the Scheme on different groups of policyholders in CLL and CA as required by the PRA's PS1/22 and the FCA Handbook. In doing so, I distinguish between:

- Policyholders transferring from CLL to CA ("Transferring Policyholders");
- Existing policyholders of CA ("Transferee Policyholders");
- Policyholders remaining with CLL ("Remaining Policyholders").

For each group of policyholders above, I have considered different types of policies including with-profits and non-profits policies separately as part of my analysis of the impact of the Scheme on the security, service and benefit expectations of policyholders. I note that these groups may not be mutually exclusive, and I am aware that there could be overlap between them.

For the avoidance of doubt, I have not considered the possible effects on future new policyholders entering into contracts with CA and CLL after the Effective Date.

In considering the effect of the Scheme on different groups of policyholders as required by the PRA's Statement of Policy and the FCA Handbook, I have reviewed the impact of the Scheme on the following areas:

- The reasonable benefit expectations of policyholders
- The security of policyholder's benefits
- Levels of service provided to policyholders

I have assessed the impacts of these areas both in isolation and the combined overall impact in order to reach my conclusions. My approach to reviewing each of these areas is set out in the sub-Sections 3.2 to 3.4 below.

The test I have used in considering this Scheme is whether the position of any group of policyholders is "materially adversely affected". The definition of what is "material" depends on the matter in hand, and so where there are adverse changes, I have provided context regarding their size and/or likelihood of them occurring, the relevance of the outcome to the Scheme and the impact (financial or otherwise) of the outcome to the policyholders. Unless explicitly stated, if the potential effect represents a small or very unlikely impact, I do not consider this to be material.

### 3.2 Approach to reviewing policyholder benefits

As IE, I must consider the effect of the Scheme on the rights and benefits expectations of policyholders, including consideration of the proposals in the context of the FCA's consumer protection objective, specifically Principle 6 (Customers' Interests): "*a firm must pay due regard to the interests of its customers and treat them fairly*", commonly referred to as the Treating Customers Fairly ("TCF") requirements; and Principle 12: "*a firm must act to deliver good outcomes for retail customers*". I also

need to consider the FCA's "FCA Consumer Duty Rules" published July 2022, which sets clear, high standards of consumer protection and requires firms to act in a way that delivers good outcomes for retail customers.

This includes considering the effect of the implementation of the Scheme on any areas where discretion needs to be exercised by management, for example in determining the charges applied to a policy and benefits granted to the policyholder, as well as consideration of the implementation of the Scheme on the management, service and governance standards of the company in question.

For non-profit policies, this involves consideration of areas where discretion is exercised, such as non-guaranteed charges or reviewable premiums, the level of benefits payable on early surrenders, investment fund mandates and choices of funds, which is specific to the unit-linked nature of the business. As the Transferring Policyholders in the Scheme are non-profit policyholders, this has been the focal point of my analysis.

For with-profits policies, benefit expectations are primarily determined by the bonus rates declared and the exercise of discretion on matters such as investment policy and surrender values. Whilst the policies being transferred are not with-profits policies, there may be impacts on other with-profits policyholders at the Companies that need to be considered.

In opining on the effect of the Scheme on policyholders' benefit expectations, I have considered what would happen in normal as well as certain stressed conditions.

For all policies, I have considered whether any product features, such as charges, will change as a result of the Scheme.

Details of my review on policyholder rights and expectations, and my associated conclusions, are set out in Section 8 of this Report.

### 3.3 Approach to reviewing policyholder security

As part of my role, I must consider the security of policyholders' benefits. In particular, the impact of the Scheme on the likelihood that policyholders will receive their guaranteed benefits when these are due.

As required under Solvency UK, companies must hold capital, the amount of which depends upon the risks that the company itself is exposed to (such as equity and property risks). If the level of capital falls below that prescribed by the regulator, insurance companies are required to undertake management actions to re-establish it. A company's need for capital in the future depends on the nature of its in-force business and the type and volume of new business that it expects to write. It also depends on the extent to which the assumptions made in valuing the business (for example, about types of assets held, future investment returns, mortality experience, persistency and expenses) are borne out in practice. The assessment of security of the Transferring Policyholders is also affected by the relative sizes of the current CLL and CA businesses and parental guarantees for those Companies where applicable.

Security for guaranteed benefits is provided by the amount by which the assets exceed the liabilities. The principal consideration regarding security is whether the Companies will have adequate capital following the transfer of business, and whether this is likely to remain the case. I have reviewed both the pre- and post-transfer solvency positions as well as the solvency position under different stress scenarios, all of which I have discussed with management.

In addition to holding the regulatory capital requirements, insurance companies will often set out a CMP that defines a target (or minimum) level of additional capital to be held above regulatory requirements and typically comments on solvency risk appetite. I have placed emphasis in my review on the strength of the solvency position against both the CMPs of the Companies in considering the level of benefit security of the policyholders. In particular, I would not consider having different solvency ratios between companies to have a materially adverse effect on the benefit security of the Transferring Policyholders provided that the CMP was adequately covered post-Scheme.

I note that the level of capital held by the Companies, and associated CMP, is not the only consideration for policyholder security. I also consider wider elements than the CMP in my assessment of benefit security, such as the approaches (including management actions) triggered in the case of breaches of the CMP and the governance around changes to it. Therefore, any changes to capital policies and solvency risk appetite as part of the Scheme have been a key aspect of my review in considering policyholders' security.

Additionally, I have considered:

- The potential impact of the Scheme on the risks that the policyholders are exposed to, and any implications this may have for policyholder security; and
- The adequacy of the safeguards in the Scheme to protect the ongoing interests of different groups of policyholders.

Details of my review of policyholder security, and my associated conclusions, are set out in Section 9.

### 3.4 Approach to reviewing policyholder service

I will also consider the effect of the Scheme on service standards. This includes the servicing of policies, such as policy administration, servicing and investment management.

To understand and conclude on the effect of the Scheme on service standards, I have had discussions with management of both Companies to understand the arrangements pre- and post-transfer. In particular, I have sought to identify where there are expected to be changes brought about by the transfer, and in these instances, how policyholders may be affected.

My conclusions on service standards are set out in Section 10 of this Report.

### 3.5 Other considerations

Further to the above, I have also considered:

- The adequacy of the communications made to policyholders concerning the Scheme;
- The transferability and adequacy of any covenants and guarantees currently held by CLL;
- The impact of the Scheme on reinsurance and other contracts;
- The views of the With-Profits Actuary at CA and the Chief Actuaries of the Companies; and
- The views of the PRA and FCA.

### 3.6 Financial information in this Report

The current regulatory solvency framework applicable to the Companies is Solvency UK.

Section 7 reviews the reported and pro forma post-Scheme (i.e. before and after Scheme, including if the Scheme were not sanctioned) Solvency UK balance sheets as at 31 December 2024 for the Companies. The pre-Scheme position is the reported position at 31 December 2024 for both Companies. I note that the actual impacts and financial positions at the Effective Date will be different, but I do not expect that the relative positions of the Companies will move significantly such that my conclusions would be impacted. This is the financial information that has been used to inform my conclusions on the effect of the Scheme on policyholders, as set out in Sections 8 to 10.

I have not performed an independent review of this financial information provided by either CLL or CA. However:

- The reported Solvency UK balance sheets as at 31 December 2024 have been reviewed and approved by Chief Actuaries and Boards in line with respective internal governance policies;
- I have considered the pro forma post-Scheme Solvency UK balance sheets as at 31 December 2024 for the Companies and compared against the pre-Scheme Solvency UK balance sheets as at the same date; and
- I carried out a review of the financial information and have raised queries where required in order to aid my understanding of the results.

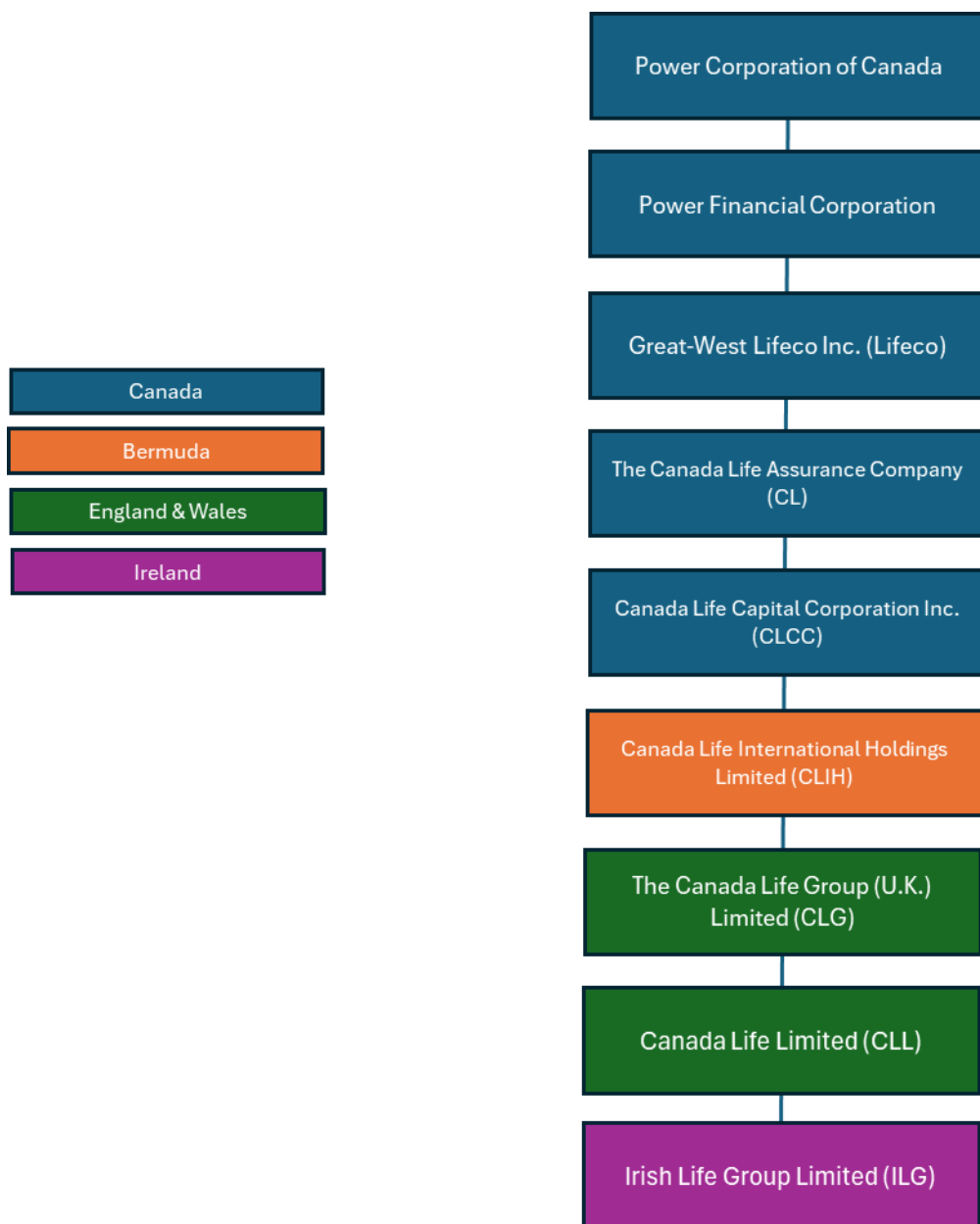
Through these respective processes, I am satisfied that it is reasonable for me to rely on the provided financial information in order to conclude on the Scheme. I note that the Supplementary Report will contain more up-to-date financial information.

## 4 Canada Life Limited

### 4.1 Background and history

CLL is a life insurance company incorporated in England and Wales and is a wholly-owned subsidiary of The Canada Life Group (U.K.) Limited ("CLG"). CLG's ultimate parent company is Great-West Lifeco ("Lifeco"), a listed member of the Financial Times Global 500 and is based in Canada. Lifeco has over 40m customers and over \$3.2trn (CAD) of assets under administration as at 31 December 2024. The structure of these companies is shown below, and details presented in subsequent paragraphs. The linear structure below reflects the entities relevant to this Part VII and does not reflect the large number of wider subsidiaries of Lifeco.

**Figure 4.1: Canada Life subsidiary structure**



Source: CLL

Canada Life was founded in 1847 by Hugh C Baker who opened the first life assurance company in Canada. In 1903, the company opened its first office in London and now provides retirement, investment and protection solutions to individuals, families and businesses.

- **Power Corporation of Canada:** is a Canadian based company that holds and manages a number of financial services companies across North America, Asia and Europe.
- **Lifeco:** Lifeco and its subsidiaries are members of the Power Corporate of Canada group of companies and is a subsidiary of Power Financial Corporation, which has 70.55% of direct and indirect ownership of Lifeco. The remaining shares are publicly held.
- **CL:** CL is a subsidiary of Lifeco and was formed in 2020 through the amalgamation of The Great-West Life Assurance Company, London Life Insurance Company and The Canada Life Assurance Company.
- **CLCC:** is one of the subsidiaries of CL.
- **CLIH:** CLIH is a subsidiary of CLCC, having The Canada Life Group (U.K.) Limited as a subsidiary.
- **CLL:** CLL has a number of subsidiaries, the most material of which is Irish Life Group Limited, as shown in Figure 4.1.

CLL writes business in three main areas;

- Life insurance
- Group protection insurance
- Unit-linked products

The Transferring Policies are in the unit-linked book of business, which contributes 3% of total gross written premium for CLL in 2024. Section 4.3 includes further details on CLL's current business.

## 4.2 Previous court schemes

There are a number of previous Court schemes which relate to the CLL business. I have considered whether these schemes have an impact in my Report:

- The transfer of onshore Long-term Individual Protection business from CLL to CA (February 2025)
- The transfer of Long-term Insurance Policies from CLL to Irish Life Assurance plc (December 2020)
- The transfer of Long-term Insurance Business from MGM Advantage Life Limited to CLL (January 2020)
- The transfer of a closed book of Life, Pensions and Protection, Unit-Linked, and Non-Linked, including ring-fenced With-Profits Business, from CLL to Scottish Friendly Assurance Society Limited (November 2019)

I note that the transfer of individual protection business from CLL to CA was sanctioned in February 2025 and therefore the full impact of this Scheme is not captured by the reported 31 December 2024 figures. However, given that the majority of the insurance and economic risks have already been transferred and this is reflected in the 31 December 2024 figures, the impact of the sanction on the year-end financials is not material, I do not expect that any of the aforementioned schemes will have an impact on the Scheme covered in this Report.

### 4.3 Overview of current CLL business

CLL is open to new business. The products held by CLL at 31 December 2024 are shown below, along with their relative Best Estimate Liability (“BEL”) to give an indication as to the relative size of each book of business. The BEL is the net expected future cashflows related to each product type.

**Figure 4.2: CLL BEL by book of business as at 31 December 2024**

<b>Business</b>	<b>Policy count</b>	<b>BEL (£m)</b>
Annuities	458,612	16,374
Unit-linked (including policies to be transferred)	19,351	2,375
Group Health	600,755	702
Group Life	2,282,784	155
Legacy	N/A	2
Individual Protection	37,667	(22)
<b>Total</b>	<b>3,399,169</b>	<b>19,585</b>

Source: CLL

The total number of transferring unit-linked policies is 16,058 as at 31 December 2024. In the case of group contracts, policy counts are number of lives covered, not number of schemes.

As at 31 December 2024, the split of gross written premiums across the three main business areas was as follows:

**Figure 4.3: CLL gross written premium by business area in 2024**

<b>Business</b>	<b>Gross premium written (£m)</b>	<b>Proportion</b>
Life insurance	2,096	73%
Group protection	699	24%
Unit-linked products	86	3%
<b>Total</b>	<b>2,880</b>	

Source: CLL

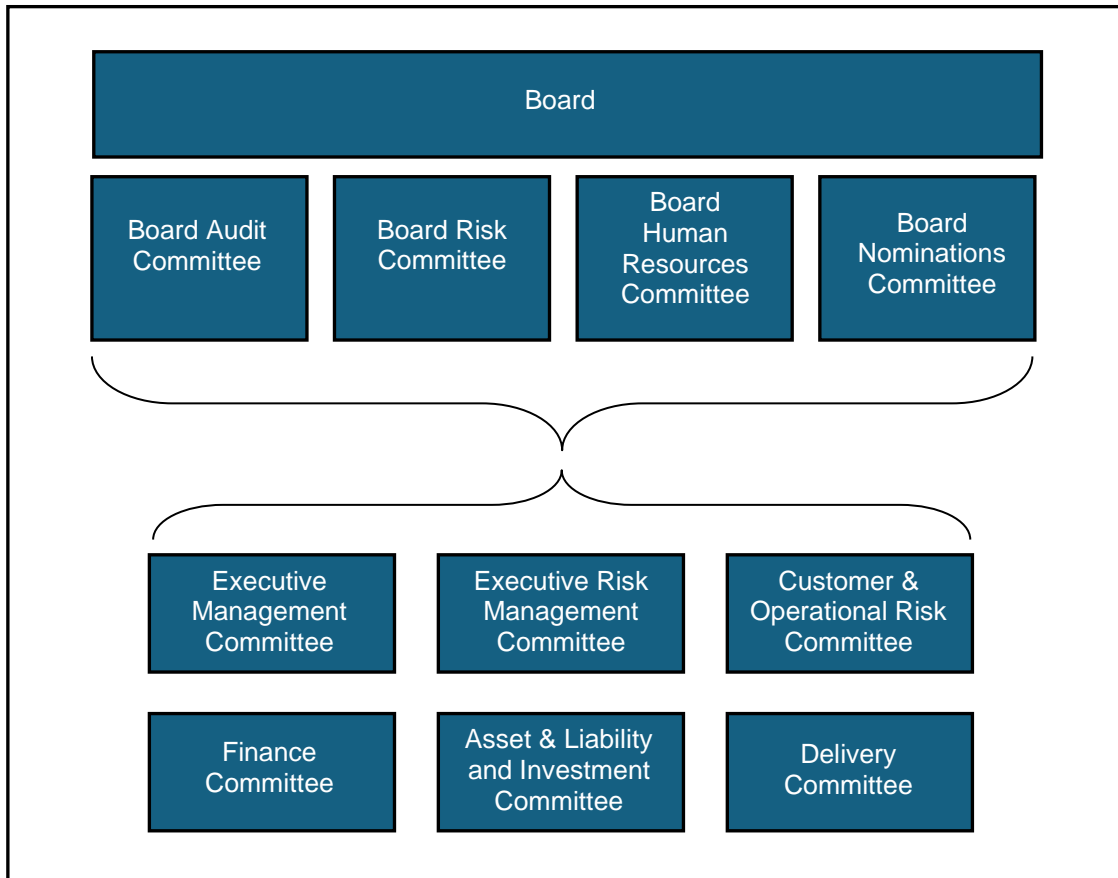
CLL has no with-profits business and therefore no With-Profits Actuary to liaise with in relation to the Scheme. The transferring unit-linked business has been closed to new business as of January 2024.

#### 4.3.1 Governance

CLL’s board of directors is responsible for setting the company strategy, approving its risk appetite, and overseeing implementation of that strategy.

The diagram below shows CLL’s current governance structure.

Figure 4.4: CLL governance structure



Source: CLL SFCR 2024

The four governance committees supporting the Board are as follows;

- Board Audit Committee – review financial reporting and disclosures as well as monitoring the effectiveness of internal controls
- Board Risk Committee – support the Board in overseeing the integration and effectiveness of CLL’s risk strategy
- Board Human Resources Committee – support the Board’s oversight of the Company’s Remuneration Operating Policy
- Board Nominations Committee – identify and nominate candidates to fill vacancies on the Board and board committees as and when they arise

### 4.3.2 Outsourcing arrangements

CLL has a limited number of outsourcing arrangements. As of 2024, the externally outsourced activities in the UK were the bulk annuity service, and policy administration services for legacy Hong Kong policies. There are no outsourcing arrangements relevant to the transferring business.

## 4.4 Financial position of CLL as at 31 December 2024

In this Section, I set out the financial position of CLL. Solvency UK is the regulatory regime in force in the UK, which both companies are subject to. Showing the financial position of CLL and CA on this basis assists comparisons between the two companies.

### 4.4.1 Technical Provisions and balance sheet

Under the regulatory regime of Solvency UK, insurers are required to hold assets that cover the BEL to meet policyholder obligations. In addition, Solvency UK requires insurers to hold assets to cover a Risk Margin ("RM"), which is an adjustment designed to represent the amount that another insurance or reinsurance undertaking would require to be paid to take on the obligations of that insurance company. Together, the BEL and RM make up the Technical Provisions ("TP"). The TP can be adjusted through a number of measures, subject to regulatory approval, that I have explained below, that reduce the amount of assets that the insurer is required to hold.

CLL has been granted approval by the PRA to use the Matching Adjustment ("MA") in respect of certain areas of its business, specifically the annuities in payment. The MA allows an increase to the discount rate used to value the BEL for illiquid liabilities, based on the credit spread of assets backing those liabilities, provided a range of conditions are met regarding both assets and liabilities. Approval to use the MA enables CLL to increase the discount rate used to value annuity liabilities and hence reduce the TP held. However, the MA does not apply to the unit-linked business and therefore, not in scope of the Scheme.

Additionally, CLL has been granted approval by the PRA to use a Volatility Adjustment ("VA") in respect of certain areas of its business, specifically the annuities in payment that are not covered by the MA. The VA allows an increase to the discount rate used to value the BEL for business to which it is applied, with the increase itself prescribed based on a reference portfolio of assets, rather than the insurer's own assets. Approval to use the VA enables CLL to use an adjusted risk-free interest rate term structure in order to calculate the BEL for those products within the scope of its application. The VA is not applied by CLL to the unit-linked business being transferred.

CLL has received approval from the PRA to use the Transitional Measure on Technical Provisions ("TMTP"), which allow CLL to reduce its TP by the Transitional Deductions. These deductions aim to provide a smooth transition from Solvency I to Solvency UK and need to be amortised over a 16-year period from 1 January 2016. TMTP is not applicable for the unit-linked business and therefore, not in scope of the Scheme.

Additionally, CLL received approval from the PRA in November 2019 to use a PIM with respect to its longevity, credit and catastrophe risks. The PIM aids CLL with its calculation of its SCR in a way that more accurately reflects the risk profile of CLL. All other risks are covered by the Standard Formula SF, which is a formulaic approach that uses a specified stress level for each risk exposure.

As of 31 December 2024, Lifeco has received a credit rating of A from Fitch Ratings with respect to senior unsecured debt. CL has received a credit rating of AA from Fitch Ratings with respect to financial strength as at the same date.

CLL's Solvency UK Technical Provisions as at 31 December 2024 are summarised in the table below.

Figure 4.5: CLL Technical Provisions as at 31 December 2024

	BEL	TMTP	Risk Margin	TP	Reinsurance Asset	TP Net of Reinsurance
<b>Remaining with CLL (£m)</b>						
Annuities	16,374	(272)	159	16,261	1,901	14,360
Group Health	702	(8)	20	714	40	674
Group Life	155		20	176	4	171
Unit-linked	845		1	846		846
Legacy	2			2		2
Individual Protection	(22)			(22)	(22)	
<b>Proposed to Transfer</b>						
Unit-linked	1,530		1	1,532		1,531
<b>Total</b>	<b>19,585</b>	<b>(280)</b>	<b>202</b>	<b>19,507</b>	<b>1,922</b>	<b>17,585</b>

Source: CLL

Whereby:

- BEL is shown before the TMTP deduction, rather than net of TMTP
- The TP is the sum of the BEL plus TMTP plus Risk Margin
- The TP Net of Reinsurance is the TP minus the Reinsurance Asset

CLL's balance sheet as at 31 December 2024 is summarised in the table below.

Figure 4.6: CLL balance sheet as at 31 December 2024

<b>CLL (£m)</b>	
<b>Balance sheet item</b>	<b>31 December 2024</b>
Assets	25,633
Technical Provisions	(19,507)
Other liabilities	(2,680)
<b>Own Funds (pre restrictions)</b>	<b>3,446</b>
RFF restrictions	0
Foreseeable dividends	-
<b>Own Funds</b>	<b>3,446</b>
SCR	2,124
Excess assets	1,322
<b>SCR cover %</b>	<b>162%</b>

Source: CLL, summarised by EY

The excess assets over TPs and other liabilities represent the Own Funds, which are the financial resources available to meet the SCR, subject to being assessed and allocated to tiers according to their eligibility for meeting the SCR.

#### 4.4.2 SCR

As at 31 December 2024, CLL's SCR is £2,124m. A breakdown of the SCR showing the most significant components is shown in the table below.

Figure 4.7: CLL SCR breakdown as at 31 December 2024

<b>CLL</b>		
<b>Capital requirements</b>	<b>£m</b>	<b>% of undiversified SCR</b>
<b>Standard Formula Risks</b>		
Market	845	27%
Counterparty default	66	2%
Life underwriting	122	4%
Health underwriting	130	4%
<b>Internal Model Risks</b>		
Credit	1,012	32%
Longevity	555	17%
Catastrophe	455	14%
<b>Total Undiversified Components</b>	<b>3,184</b>	
Diversification	(1,148)	
Adjustment due to aggregation	-	
<b>Other Adjustments</b>		
Operational Risk	117	
Loss Absorbing Capacity of Deferred Tax	(28)	
<b>SCR</b>	<b>2,124<sup>1</sup></b>	

Source: CLL

<sup>1</sup> Due to rounding, individual components may not sum to the total SCR.

The largest driver of CLL's SCR is credit risk, which CLL calculates through use of its PIM. Credit risk primarily arises from holdings of corporate bonds and similar assets. It is the risk resulting from changes in credit spreads as a result of market movements or changes to credit ratings or defaults.

Market risk is the second largest driver of CLL's SCR, which CLL calculates using the SF. Market risk is the risk that as a result of market movements, CLL may be exposed to fluctuations in the income from, or value of, its assets, or the amount of its liabilities. For CLL the three largest components of market risk are equity, property and currency risk.

Through asset and liability diversification, CLL is able to reduce its aggregate SCR by £1,148m (equivalent to a diversification benefit of 36%).

In its calculation of SCR, CLL has a deduction to reflect loss absorbing capacity of deferred tax ("LACDT"). This is a feature of Solvency UK regulations and is a manner in which insurers allow for reduced expected future profits under stress, and the reduced tax that would therefore be payable on those profits.

#### 4.4.3 Solvency position

The table below shows CLL's solvency position.

**Figure 4.8: CLL solvency position as at 31 December 2024**

<b>CLL (£m)</b>	
<b>Solvency position</b>	
Own Funds	3,446
SCR	2,124
Excess assets	1,322
<b>Solvency Ratio</b>	<b>162%</b>

Source: CLL

In addition to holding the regulatory capital requirements, insurance companies will often set out a CMP that defines a target (or minimum) level of additional capital to be held above regulatory requirements. CLL has a Capital Management Operating Policy that aims to ensure that CLL has sufficient capital and reserves to meet its liabilities and regulatory solvency requirements under a range of stressed scenarios. CLL notes in its policy that it manages capital to maintain solvency at a level which enables it to carry out its business plan within its risk appetite.

CLL sets out an Enterprise Risk Management Framework which helps identify, measure, manage, monitor and report risks which might impact the execution of its business plans and the achievement of strategic objectives. Processes are in place to identify the capital implications associated with those risks.

Per CLL's latest reporting, as at 31 December 2024, the capital position for CLL is within the target limits of additional capital as prescribed by the company, having a solvency ratio of 162%.

There are Solvency UK regulatory limits for the quality of capital that can be held in the Own Funds. Capital is tiered based on its loss absorbency and permanence. Tier 1 capital is of the highest quality and is the most loss absorbent and permanent form of capital (e.g. paid-up ordinary share capital). Tier 3 is the lowest quality (e.g. subordinated debt). In 2024, CLL's capital quality was compliant with the limits prescribed by under Solvency UK.

**Figure: 4.9: CLL split of Own Funds as at 31 December 2024**

<b>Split of Own Funds (£m)</b>	<b>31 December 2024</b>
Tier 1	84%
Tier 2	16%
Tier 3	0%

*Source: CLL*

#### **4.4.4 ORSA**

Solvency UK further requires insurers to prepare an Own Risk and Solvency Assessment ("ORSA"), which is a key risk management tool covering:

- Details of the firm's risk profile, business strategy, and solvency position (on a regulatory and, if different, internal basis);
- An assessment of the firm's overall solvency needs, taking into account its specific risk profile, approved risk tolerances/appetite, and business strategy;
- Consideration of compliance with capital requirements, and consideration of the extent to which the firm's risk profile deviates significantly from assumptions underlying the SCR calculation;
- Consideration of both quantitative risks (generally covered in the SCR) and qualitative risks (often not covered directly in the SCR); and
- A forward-looking assessment of own risks, including medium and long-term projections of the firm's risk profile and solvency needs.

I have considered CLL's 2024 ORSA Report (based on figures as at 30 June 2024), which considers risks applicable to CLL, whether they are directly quantifiable, such as market risks, or only assessable qualitatively, such as reputational risks. It is also not confined to the 1-in-200 confidence interval or the one-year time horizon that is assessed in the calculation of the SCR.

#### **4.4.5 Reinsurance arrangements**

The following table displays the full exposure of CLL to internal and external reinsurance arrangements. These arrangements are used to help manage the company's risk exposure.

Figure 4.10: CLL reinsurance arrangements as at 31 December 2024

<b>CLL</b>			
<b>Reinsurer</b>	<b>Asset Value (£m)</b>	<b>Credit rating</b>	<b>Rating agency</b>
<b>Internal</b>			
The Canada Life Assurance Company, Barbados Branch	(100)	A-	Fitch
Canada Life Annuity Reinsurance (Barbados) Co.	(165)	AA	Fitch
<b>External</b>			
Resolution Re	1,771	A-	Fitch
Hannover Re UK Life Branch	572	AA-	S&P
Swiss Re	28	AA-	S&P
Munich Re	14	AA	S&P
General Reinsurance	7	AA+	S&P
Pacific Life Re	(12)	AA-	S&P
Metropolitan Tower Life Insurance	(15)	AA-	S&P
Chesnara	(15)	A	Fitch
RGA	(28)	A+	AMBest
JP Morgan Chase Funding	(51)	A1	Moody's
Royal Bank of Canada	(95)	AA-	Fitch
<b>Total reinsurance recoverables</b>	<b>1,909</b>		

Source: CLL

On 20 December 2024, CLL and CA entered into a Reinsurance Agreement relating to the business that would transfer under the Scheme. As a result, the majority of the insurance and economic risks have been transferred from CLL to CA ahead of the actual transfer of policies, excluding immaterial expense risk associated with policy administration. I note that, for CLL, the Reinsurance Agreement has been treated as a financial instrument for reporting and accounting purposes, rather than as a reinsurance contract, as the underlying business is not deemed to have significant insurance risk on CLL's balance sheet. Therefore, it is not included in the table above. There are no other reinsurance arrangements held by CLL with respect to the business transferring under the Scheme and therefore no transfer of reinsurance arrangements is required.

If the sanctioning of the Scheme is approved by the Court at the Sanction Hearing, the Reinsurance Agreement will terminate on the Effective Date of the Scheme. From this point on, all risk will be with CA.

#### 4.4.6 Asset mix

The table below shows the breakdown of CLL assets as at 31 December 2024, which includes those transferring under the Scheme. The benefits received by policyholders depend upon the performance of the underlying assets in the unit-linked book. The underlying assets relating to the Transferring Policies are being transferred from CLL along with the liabilities and I will assess the potential impact of this in Section 8 of my Report.

Figure 4.11: CLL asset breakdown

<b>CLL</b>	
<b>Asset</b>	<b>£m</b>
Fixed Income Securities	13,769
Other Loans and Mortgages	3,692
Assets held for Unit-Linked and Index-Linked funds	2,373
Reinsurance Recoverable Asset	1,922
Participations	1,857
Property	1,164
Other Investments	304
Trade Receivables	131
Cash and Cash Equivalents	120
Insurance and Intermediaries Receivable	103
Other Assets	62
Collective Investment Undertakings	57
Derivatives	41
Deposits other than Cash Equivalents	16
Listed Equities	12
Reinsurance Receivables	10
Deferred Tax Asset	-
<b>Total assets</b>	<b>25,633</b>

Source: CLL

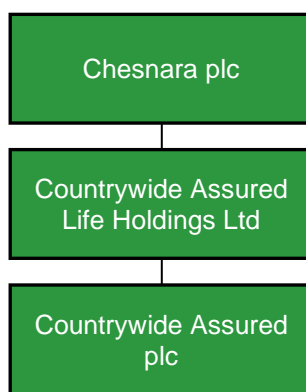
## 5 Countrywide Assured

### 5.1 Background and history

CA is an insurance company incorporated in England and Wales and is a wholly-owned subsidiary of Chesnara plc ("Chesnara"). Chesnara has approximately 1m policyholders and £11.9bn of funds under management as at 30 June 2024. Rather than selling products directly, CA's strategy is to acquire existing policies from other companies. CA provides long-term life insurance and pensions business, which is closed to new business, excluding onshore bond business and increments to existing policies.

Chesnara is an established life and pensions consolidator, with headquarters in the UK, comprised primarily of consolidation businesses in the UK, the Netherlands and Sweden. The UK group structure that is specific to the Scheme is shown below.

**Figure 5.1: Chesnara subsidiary structure**



Source: CA

CA was established in 1988 and has been owned by Chesnara plc since May 2004 (when it separated from the Countrywide Assured Group).

### 5.2 Previous court schemes

Chesnara has acquired multiple businesses since 2004 that now sit within CA. The purchases cover:

- Transfer of onshore Long-term Individual Protection business of Canada Life (2023-25);
- Purchase of Sanlam Life & Pensions ("SLP") (2021-23). Throughout this report, this book of business will also be referred to as "CASLP";
- Purchase of Direct Life Insurance Company Limited ("Ptl") (2013/14);
- Purchase of Save & Prosper ("S&P") - covering insurance and pensions business (2010/11);
- Purchase of City of Westminster Assurance Ltd ("CWA") - covering protection, endowment and savings policies, single bonds, pension plans and permanent health insurance (2005).

I note that the transfer of long-term individual protection business from Canada Life was sanctioned in February 2025 and therefore the full impact of this scheme is not captured by the reported 31 December 2024 figures. However, the 31 December 2024 financials reflects the related reinsurance agreement in place, and I note the impact of the sanction on the year-end financials is not material. I do not expect that any of the aforementioned schemes will have an impact on the Scheme covered in this Report.

### 5.3 Overview of current CA business

The majority of the CA portfolio is closed to new business. There is a limited amount of new business arising from the CASLP acquired business, which is mostly single premium business. CA's focus is to efficiently run off the acquired portfolios.

**Figure 5.2: CA BEL and policy size by business group**

<b>CA</b>		
<b>Business group</b>	<b>Policy Count</b>	<b>BEL £m</b>
Non-profit business	<b>243,667</b>	<b>3,754</b>
Ring-fenced with-profit funds		
SPP	18,842	174
SPI	1,477	9
<b>Sub-total</b>	<b>20,319</b>	<b>183</b>
<b>Total</b>	<b>263,986</b>	<b>3,937</b>

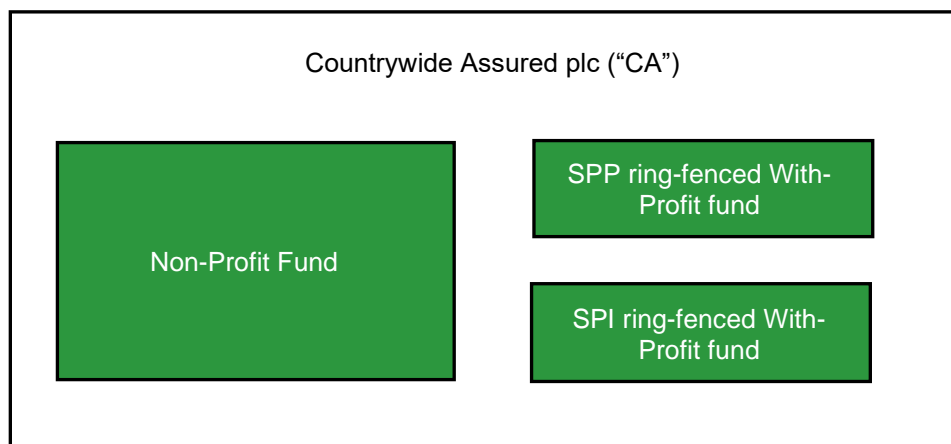
Source: CA

CA manages two ring-fenced with-profit funds, Save & Prosper pensions fund ("SPP") and Save & Prosper insurance fund ("SPI"), whereby the policyholders of these funds participate in a share of the profits emerging within these funds.

All other business is held in the main fund, referred to as the "Non-Profit Fund". This fund is where the Transferring Policies will move into. The blocks of business within the Non-Profit Fund includes the original CA fund, representing the original life and pensions business, which was previously part of the Countrywide plc estate agency group. The other blocks of business represent the various acquisitions mentioned in Section 5.2.

The fund structure is therefore as follows:

**Figure 5.3: CA fund structure**

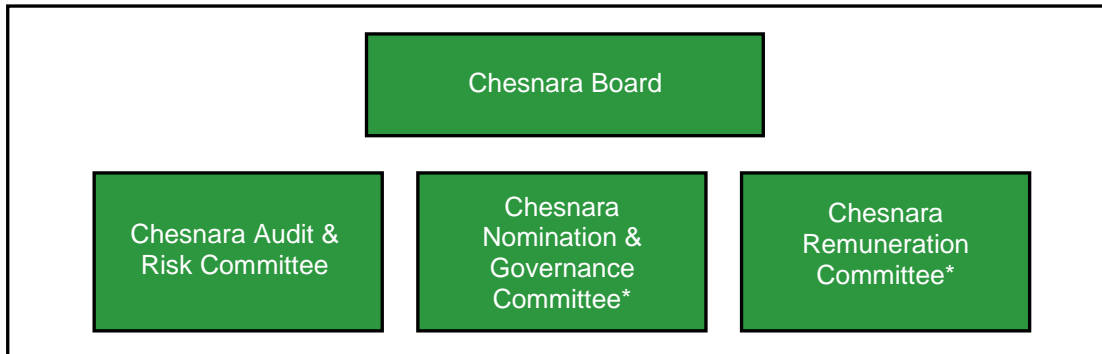


Source: CA

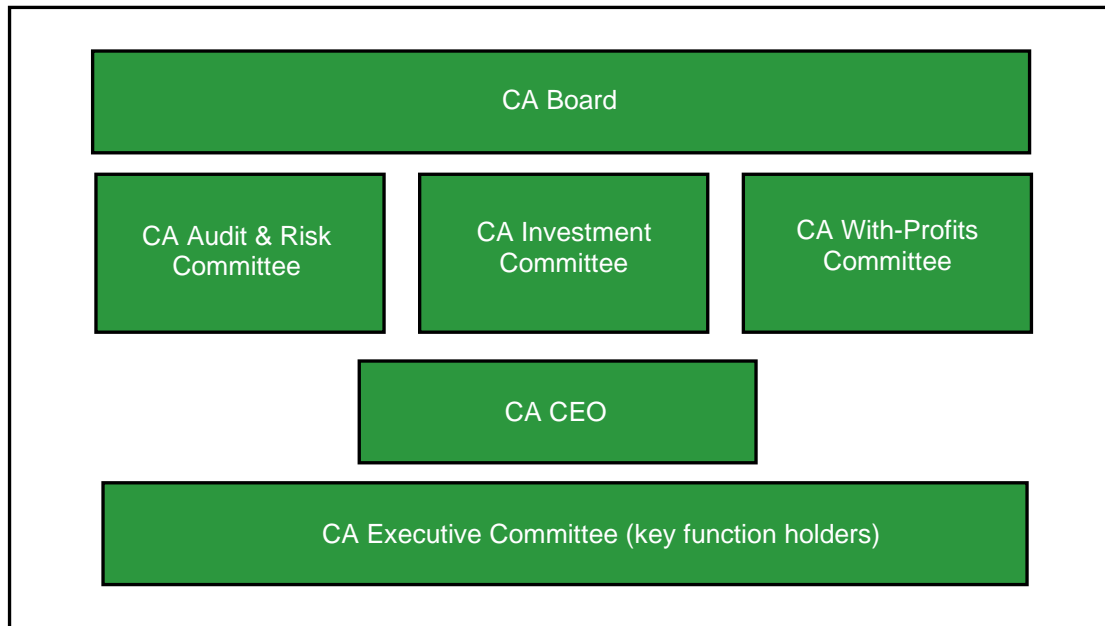
### 5.3.1 Governance

CA's governance system sits within that of Chesnara group, the structure is summarised in the below diagram.

Figure 5.4: CA governance structure



\*These committees also represent CA



Source: CA

The CA Board comprises executive and non-executive directors and is responsible for promoting the success of the business by directing and supervising its activities. The sub-committees supporting the Board are as follows:

- Audit & Risk Committee – responsible for monitoring the integrity of financial statements, reviewing risk and regulatory compliance and reviewing the company's internal control and risk management systems.
- Investment Committee – responsible for the review of the company's investment strategy and policy and to monitor and challenge investment performance.
- With-Profits Committee – responsible for ensuring that the interest and issues of with-profits policyholders are appropriately considered.

CA has an established risk management system that ensures risk management system review and development, and clear accountability and responsibilities. The risk management system encompasses reporting, processes, policies, and strategy.

### **5.3.2 Outsourcing arrangements**

CA's operating model involves the outsourcing of a number of functions and areas of the business. Some of the key arrangements are as follows:

- SS&C – responsible for policy administration
- Willis Towers Watson (WTW) – responsible for actuarial support, including the role of the With-Profits Actuary
- Schroders – responsible for asset management for the existing unit-linked, with-profit and non-profit assets, aside from those associated with the business transferred from SLP.

The outsourcing arrangements present nuances in operational risk for CA. I understand that CA management focuses on the due diligence around selection of outsourcing partners and has a number of risk mitigants in place. This includes regular monitoring, which extends to producing management information, regular financial assessments, risk management oversight, and internal audits.

## **5.4 Financial position of CA as at 31 December 2024**

In this Section, I set out the financial position of CA. Solvency UK is the regulatory regime in force in the UK, which both companies are subject to. Showing the financial position of CLL and CA on this basis assists comparisons between the two companies. The background to Solvency UK is outlined in Section 4.4.

### **5.4.1 Technical provisions and Balance sheet**

CA has been granted approval by the PRA to use a Volatility Adjustment ("VA") in respect of all of its business, excluding:

- The unit and index-linked business
- The CA conventional with-profits business (as this is 100% reinsured)
- The SPI ring-fenced with-profits fund

CA does not have regulatory permission to use the MA or TMTP mentioned in Section 4.4.1, and as such, does not use these adjustments.

To calculate the SCR, CA employs the use of the Standard Formula ("SF"), which is a formulaic approach that uses a specified stress level for each risk exposure. The SF was assessed for appropriateness in 2024 and covered by the 2024 ORSA.

As of 28 August 2024, Chesnara and CA have received a credit rating of A- from Fitch Ratings with respect to long-term issuer default rate. CA has received a credit rating of A from Fitch Ratings with respect to its financial strength as at the same date.

CA's Solvency UK Technical Provisions as at 31 December 2024 are summarised in the table below.

**Figure 5.5: CA Technical Provisions as at 31 December 2024**

<b>CA (£m)</b>	
<b>Line of business</b>	<b>31 December 2024</b>
With-profits	184
Index-linked and unit-linked	3,653
Other life	80
Accepted reinsurance	(7)
<b>Life Insurance total</b>	<b>3,909</b>
<b>Health insurance</b>	<b>36</b>
<b>Total</b>	<b>3,945</b>

Source: CA

The technical provisions are comprised of the BEL shown in figure 5.2, and a risk margin of £8.6m.

CA's balance sheet as at 31 December 2024 is summarised in the table below.

**Figure 5.6: CA balance sheet as at 31 December 2024**

<b>CA (£m)</b>	
<b>Balance sheet item</b>	<b>31 December 2024</b>
Assets	4,280
Technical Provisions	(3,945)
Other liabilities	(157)
<b>Own Funds (pre restrictions)</b>	<b>177</b>
RFF restrictions	(2)
Foreseeable dividends	(45)
<b>Own Funds (post restrictions)</b>	<b>130</b>
SCR	96
Excess assets	34
<b>SCR cover %</b>	<b>135%</b>

Source: CA

The excess of assets over TPs and other liabilities represent the Own Funds, which are the financial resources available to meet the SCR, subject to being assessed and allocated to tiers according to their eligibility for meeting the SCR.

The restrictions that apply to CA at 31 December 2024 are:

- RFF restrictions of £1.9m, which is a limit applied to the ring-fenced funds (SPP and SPI) that caps the surplus capital from these funds that can be reflected as available capital on the balance sheet; and
- A foreseeable dividend of £45m which had been declared but not paid as at 31 December 2024.

The SCR coverage ratio therefore represents the amount of capital over and above that required to meet the SCR, where 100% would signify an ability to meet the SCR of £96.3m with no excess capital remaining.

## 5.4.2 SCR

As at 31 December 2024, CA's SCR is £96.3m. A breakdown of the SCR setting out the most significant components is shown in the table below.

Figure 5.7: CA SCR breakdown as at 31 December 2024

<b>CA</b>		
<b>Capital requirements</b>	<b>£m</b>	<b>% of undiversified SCR</b>
<b>Standard Formula Risks</b>		
Market	64	50%
Life underwriting	53	42%
Health underwriting	4	3%
Counterparty default	7	6%
<b>Total Undiversified Components</b>	<b>129</b>	
Diversification	(30)	
Adjustment due to aggregation	-	
<b>Other Adjustments</b>		
Operational Risk	8	
Loss Absorbing Capacity of Deferred Tax	(9)	
<b>SCR</b>	<b>96</b>	

Source: CA

The key drivers of risk for CA are market and life underwriting risk, which is typical for a life insurance business. I note that CA has reinsurance arrangements in place to manage the exposure to mortality and morbidity risks.

Market risk accounts for 50% of the SCR. This is driven primarily by equity risk on the unit-linked books and the SPP with-profits fund.

Life underwriting risk is the second biggest component of the SCR, accounting for 42%. This is driven primarily by lapse risk mainly in the unit-linked products, which is heavily driven by the mass lapse stress required by the SF calculation. As a risk mitigant, CA has a mass lapse reinsurance arrangement in place which covers the current CA portfolio covered by this arrangement (which does not include the Transferring Policies).

These risk categories diversify with one another, through which CA is able to reduce its aggregate SCR by £30.5m, reflecting a diversification benefit of 24%.

In its calculation of SCR, CA has a deduction to reflect loss absorbing capacity of deferred tax ("LACDT"). This is a feature of Solvency UK regulations and is a manner in which insurers allow for reduced expected future profits under stress, and the reduced tax that would therefore be payable on those profits.

### 5.4.3 Solvency position

The table below shows CA's solvency position.

**Figure 5.8: CA solvency position as at 31 December 2024**

<b>CA</b>	
<b>Solvency position (£m)</b>	
Restricted Own Funds	130
Net SCR	96
Excess	34
<b>Solvency Ratio</b>	<b>135%</b>

Source: CA, summarised by EY

In addition to holding the regulatory capital requirements, insurance companies will often set out a CMP that defines a target (or minimum) level of additional capital to be held above regulatory requirements. CA's CMP covers its objectives, including risk appetite statements and tolerances, roles and responsibilities of the board and the different lines, reporting procedures and key processes and controls. CA notes that the board is responsible for the overall approval and application of the CMP.

CA has a table of risk tolerance limits that can be used to assess the solvency ratio using Red, Amber and Green ("RAG") limits to trigger various management actions if the solvency ratio falls below prescribed levels. The solvency ratio of 135% is above the green threshold and therefore within its target levels of additional capital.

In 2024, CA's capital quality was compliant with the limits prescribed by under Solvency UK.

**Figure 5.9: CA split of Own Funds as at 31 December 2024**

<b>Split of Own Funds (£m)</b>	<b>31 December 2024</b>
Tier 1	100%
Tier 2	0%
Tier 3	0%

Source: CA

### 5.4.4 ORSA

Solvency UK further requires insurers to prepare an Own Risk and Solvency Assessment ("ORSA"), which is a key risk management tool covering:

- Details of the firm's risk profile, business strategy, and solvency position (on a regulatory and, if different, internal basis);
- An assessment of the firm's overall solvency needs, taking into account its specific risk profile, approved risk tolerances/appetite, and business strategy;
- Consideration of compliance with capital requirements, and consideration of the extent to which the firm's risk profile deviates significantly from assumptions underlying the SF SCR calculation (to assess the ongoing appropriateness of using the SF to calculate the SCR);
- Consideration of both quantitative risks (generally covered in the SCR) and qualitative risks (often not covered directly in the SCR); and
- A forward-looking assessment of own risks, including medium and long-term projections of the firm's risk profile and solvency needs.

I have considered CA's 2024 ORSA Report (based on figures as at 30 June 2024), which considers all risks applicable to CA, whether they are directly quantifiable, such as market risks, or only assessable qualitatively, such as reputational risks. It is also not confined to the 1-in-200 confidence interval or the one-year time horizon that is assessed in the calculation of the SCR.

#### 5.4.5 Reinsurance arrangements

The following table summarises the exposure of CA to external reinsurance arrangements. As noted in Section 5.4.2, CA has a number of reinsurance arrangements in place to mitigate some of its exposure to mortality, morbidity, and lapse risk. The different reinsurers reflect the acquisitive nature of CA resulting in inheriting different portfolios with different reinsurance arrangements in place. These arrangements are used to help manage the company's risk exposure. The credit ratings in the third column are all supplied by S&P Global Ratings.

Figure 5.10: CA reinsurance arrangements as at 31 December 2024

<b>CA</b>		
<b>Reinsurer</b>	<b>Exposure (£m)</b>	<b>Credit rating</b>
Phoenix Group (ReAssure)	72	AA-
Monument Re	39	Not rated
Swiss Re	30	AA-
Munich Re	9	AA-
Phoenix	6	AA-
RGA	1	AA-
Friends Provident	(1)	AA-
Misc.	2	AA-
<b>Total reinsurance recoverables</b>	<b>158</b>	

Source: CA

On 20 December 2024, CLL and CA entered into a Reinsurance Agreement relating to the business that would transfer under the Scheme. As a result, the majority of the insurance and economic risks have been transferred from CLL to CA ahead of the actual transfer of policies, excluding immaterial expense risk associated with policy administration. For CA, this Reinsurance Agreement represents an inwards reinsurance arrangement, transferring the risks in respect of this business into CA. It has been accounted for as a reinsurance contract. The reinsurance arrangements shown in Figure 5.10 are outwards reinsurance arrangements, i.e. where risk is transferred out of CA, and therefore does not include this Reinsurance Agreement.

If the sanctioning of the Scheme is approved by the Court at the Sanction Hearing, the Reinsurance Agreement will terminate on the Effective Date of the Scheme. From this point on, all risk will be with CA.

### 5.4.6 Asset mix

The table below shows the breakdown of CA assets as at 31 December 2024.

Figure 5.11: Breakdown of CA assets as at 31 December 2024

<b>CA</b>	
<b>Asset</b>	<b>£m</b>
Holdings in related undertakings, including participations	2
Government bonds	125
Corporate bonds	93
Collective investments undertakings	224
Assets held for index-linked and unit-linked contracts	3,783
Insurance and intermediaries receivables	15
Reinsurance receivables	19
Receivables (trade, not insurance)	6
Cash and cash equivalents	11
<b>Total assets</b>	<b>4,280</b>

Source: CA

## 6 The Scheme

### 6.1 Background and purpose of the Scheme

The purchase of CLL's UK unit-linked portfolio of bonds and pensions by CA was announced publicly on 23 December 2024, subject to Part VII court proceedings.

For CA, the transfer represents a continuation of its strategy of acquiring portfolios of closed life insurance policies and providing additional scale to the UK business of over 260k customers (over 1 million globally). CA has extensive experience with acquisitions and has successfully completed five Part VII transfers from 2006 to present.

For CLL, the transfer enables the company to focus on its core markets and growth in other strategic areas, including in the international bond market and its bulk annuity business.

The Companies considered alternative arrangements to the Scheme but concluded that the Scheme is the most appropriate option to align with both Companies' strategic objectives. For CA, the Scheme is able to provide additional scale to the UK operations and demonstrate the ability to undertake portfolio transactions that could be leveraged for future acquisitions. For CLL, an alternative considered was running off the book but sale to an experienced run-off provider was deemed to provide the optimum balance of outcomes for customers and advisers. For the avoidance of doubt, I am not required to consider alternative arrangements and have only considered the Scheme covered in this Report.

Any policies which are part of the closed UK unit-linked portfolios but that are not being transferred under this Part VII are excluded from the Scheme. These policies are referred to as "Residual Policies", and include the policies, associated assets and liabilities. CLL has confirmed that for this Scheme there are no Residual Policies.

### 6.2 Description of the Scheme

The Scheme relates to a portfolio of UK based unit-linked bonds and pensions business, with c.£1.5bn AUM and 16,058 policies, from CLL to CA. A financial summary of the Scheme is shown below. AUM is the total value of assets held by CLL for each policy type.

**Figure 6.1: Financial summary of the policies subject to the Scheme as at 31 December 2024**

	<b>Policy count</b>	<b>AUM (£m)</b>
Unit-linked bond	15,081	1,463
Unit-linked pension	977	60
<b>Total</b>	<b>16,058</b>	<b>1,523</b>

Source: CLL

The table below shows the breakdown of CLL's products included in the Scheme. All products are now closed to new business, though top-ups are available for the Select Account, Flexible Investment Bond, Total Access Bond, and Trustee Investment Plan.

**Figure 6.2: Breakdown of products as at 31 December 2024**

	<b>Policy count</b>	<b>AUM (£m)</b>
Select Account	6,398	926
Flexible Investment Bond	7,163	476
Select Investment Bond	1,434	57
Total Access Bond	86	5
<b>Total bonds</b>	<b>15,081</b>	<b>1,463</b>
Flexible Drawdown Plan	844	43
Trustee Investment Plan	133	17
<b>Total pensions</b>	<b>977</b>	<b>60</b>
<b>Total</b>	<b>16,058</b>	<b>1,523</b>

Source: CLL

Included within the Transferring Policies are the Flexible Drawdown Plan (“FDP”) policies (shown in Figure 6.2). Each of these policies is written on the terms of a CLL product called ‘CanRetire Flexible Drawdown Plan’ (“CanRetire”) and provides the individual with pension and lump sum benefits. I understand that the intention is to transfer the underlying FDP policies to CA as part of the Transferring Policies, however, CanRetire cannot be transferred as it includes members outside of the Transferring Policies. Therefore, the FDP policyholders will have their membership transferred from CanRetire to the CA Personal Pension Scheme.

The key difference between the FDP policies that are transferring, and other Transferring Policies is the legal mechanism by which they are transferring. As a result of the transfer, there are no changes to terms and conditions for FDP policies and there are no changes to the substance of FDP policies (e.g. product features). As such, my conclusions made throughout this Report in respect of the impact of the Scheme on Transferring Policyholders apply equally to FDP policies.

### 6.2.1 Product features

The rights and obligations under the policies will be transferred without alteration. The product features under each policy will not change as a result of the Scheme.

### 6.2.2 Investment holdings

Unit-linked policyholders have a choice of funds that they can invest in through their policy. The funds offered are currently managed by Canada Life Asset Management (“CLAM”) and third-parties. The current breakdown of fund management is shown below.

**Figure 6.3: Breakdown of fund management as at 31 December 2024**

<b>Funds Dec 24 (£m)</b>	<b>UK bonds</b>	<b>UK pensions</b>	<b>Total</b>	<b>Proportion</b>
CLAM	732	50	782	51%
Third party	731	10	742	49%
	<b>1,463</b>	<b>60</b>	<b>1,523</b>	

Source: CLL

The unit-linked products are designed to offer a range of investment options to policyholders, in exchange for a management charge (typically “Annual Management Charge”). Depending on the nature of the product, there may be a range of withdrawal options and loyalty benefits. For the products relating to the Scheme, the Annual Management Charge ranges from 0.3% to 0.6% of funds for bonds, and 0.2% to 0.7% for pensions, depending on specific products and investment sizes.

If the Scheme were implemented, the intention is for CA to enter into fund link agreements with the respective funds. This would ensure policyholders have access to the same funds as before. This has been confirmed for CLAM funds and discussions are underway to confirm with each of the third-party asset managers. For the multi-asset CLL funds managed by CLAM that have Transferring Policies, it is expected that CA will enter into an investment management agreement with CLAM for a minimum duration of 5 years from the Effective Date. The Framework Agreement ensures that CLAM funds will receive equal prominence to other funds, and CA will not actively disinvest from these funds. Due to the on-going nature of the third-party arrangements, I will comment on this further in my Supplementary Report.

There is a fund link agreement between CLL and Coutts & Co (“Coutts Contract”), providing access to a fund for policyholders. This agreement will be transferred under the Scheme unchanged, following CLL notifying Coutts subject to Court approval of the Scheme. This differs from the approach required for provision of the other fund options as those relate to investments of both Transferring Policyholders and Remaining Policyholders. Because the other agreements cannot simply be transferred, CA will set up new arrangements with these third-party asset managers, these are the fund agreements explained above. In relation to the Coutts Contract, I will keep the Coutts contract and progress around the transfer under review, including notification to Coutts, and will comment on this in my Supplementary Report.

Under this arrangement, the Scheme does not impact policyholders’ fund choices or charges. Over time, through the course of normal business, there may be changes to funds offered or the use of different asset managers, but this could happen regardless of the Scheme. I also note both Companies have similarities in governance around fund choices, and hence this does not affect my conclusions.

I have discussed this in more detail in Section 8.

### **6.2.3 Administration**

Transferring Policies are currently administered by CLL using a primary policy administration system, Computations Life Office Administration System (“CLOAS”), where all policies are held and managed. This is an inhouse administration system, which is shared with other parts of Canada Life’s UK business and is not in scope of the proposed transfer.

CA outsources policy administration to SS&C, a third-party administration provider. A migration is required to move Transferring Policyholders administration from CLOAS for CLL to SS&C for CA. The migration is required to extract policy data from CLOAS and other systems that relate to these policies and provide the data in extract files to onboard the policies onto SS&C systems.

At the time of writing, the planned migration is expected to complete by the Effective Date. I will provide an update on this in my Supplementary Report. I also discuss this migration in further detail in Section 10.

### **6.2.4 Reinsurance Agreement**

On 20 December 2024, CLL and CA entered into a Reinsurance Agreement relating to the business that would transfer under the Scheme. As a result, the majority of the insurance and economic risks have been transferred from CLL to CA ahead of the actual transfer of policies, excluding immaterial expense risk associated with policy administration. I note that, for CLL, the Reinsurance Agreement has been treated as a financial instrument for reporting and accounting purposes, rather than as a reinsurance contract, as the underlying business is not deemed to have significant insurance risk on CLL’s balance sheet. This agreement took effect from 1 January 2024. The risk exposure that currently remains with CLL in relation to the transferring policies is expense risk associated with policy administration (in addition to a counterparty exposure to CA). For CA, this Reinsurance Agreement represents an inwards reinsurance arrangement, transferring the risks in respect of this business into CA. It has therefore been accounted for as a reinsurance contract.

The Reinsurance Agreement will be terminated on the Effective Date of the Scheme. If the Scheme is sanctioned, the policies will be transferred to CA. From this point on, all risk will be with CA. Should it

become clear that the Scheme will not be sanctioned, the Reinsurance Agreement will still terminate but I note that this may not be with immediate effect. In this case, the Transferring Policies will remain with CLL and therefore I have provided conclusions that have considered the effect of the Reinsurance Agreement being terminated in this circumstance.

There are no other reinsurance arrangements held by CLL with respect to the business transferring under the Scheme and therefore no transfer of reinsurance arrangements is required.

### **6.2.5 Future amendments to the Scheme**

The Scheme may be modified before the Effective Date, with consent from CLL and CA, and subject to consideration from the Court. Any material modification, addition, condition, or provision to the Scheme may only be made with the consent of the PRA and FCA.

The Scheme may be modified after the Effective Date subject to CA applying to the Court for consent, notifying Regulators and CLL, with an accompanying certificate from an independent actuary, stating the proposed amendment will not materially adversely affect the security or reasonable expectations of policyholders.

Following the sanction of the Scheme, CA can make amendments without the need to obtain consent from the Court if: changes are minor and / or technical amendments, necessary to comply with the applicable law and regulation, necessary to reflect any changes in generally accepted actuarial principles or required to protect the rights and reasonable expectations of transferring policies. CA will need to notify the PRA, FCA, and CLL of such modifications.

### **6.2.6 Costs of the Scheme**

I have confirmed that the direct costs of the Scheme will be borne by the Companies. None of these costs will be passed directly on to policyholders.

### **6.2.7 Previous court schemes**

There are a number of previous Schemes in place at CA, these are detailed in Section 5.2. I have had confirmation from CA that none of the past court schemes will be affected by this Scheme, and they will continue to run as before.

## **6.3 Timeline**

The Effective Date of the Scheme is expected to be 7 December 2025. On this date, if the Scheme is approved, the insurance assets, liabilities, rights, benefits, powers and obligations in respect of the CLL unit-linked portfolio will be transferred to CA.

Prior to the Effective Date of the Scheme, and for the Scheme to proceed, the following needs to occur:

1. The Directions Hearing will take place on 15 July 2025. For the hearing, my Report, along with those of the Chief Actuaries and With-Profit Actuary, will be submitted.
2. Provided the Court has no objections, policyholder communications will be distributed by way of direct mail. The approach to policyholder communications is reviewed in more detail in Section 12.
3. I will review any objections raised by policyholders or others, along with any other changes to the companies or economic environment and write a Supplementary Report for the Court.
4. The Sanction Hearing will take place late 2025. At the hearing, the Court will consider all submitted information in order to conclude on the Scheme.

5. If the Scheme is approved, it will be effective on 7 December 2025 (the Effective Date).

## 7 Financial impact

### 7.1 Introduction

In this Section of the Report, I show the expected financial impact of the Scheme on both Companies' balance sheets. At the time of writing, the actual financial impact is unknown and so the purpose of this Section is to show an estimate of what the financial impact could be on both the Companies if applied at 31 December 2024, in order to inform my considerations and conclusions in terms of policyholder impact. I acknowledge that the actual impacts and financial positions at the Effective Date will be different, but I do not expect that the relative positions of the Companies will move significantly such that my conclusions would be impacted. I note that since 31 December 2024, there has been significant market volatility and I discuss this in Section 7.4. I will review updated financial impacts closer to the Effective Date and comment on these in my Supplementary Report.

The pre-Scheme position is the reported position at 31 December 2024 for both Companies. I am aware that the sanctioning of the transfer of onshore long-term individual protection business from CLL to CA is not reflected in the pre-Scheme position, as it was not sanctioned by the end of 2024; however I have seen that the impact of that transfer is not material as the related reinsurance treaty had transferred the risks prior to the sanctioned transfer. The pre-Scheme position also includes the Reinsurance Agreement in place between the companies that covers the Transferring Policies. If the Scheme were not to be sanctioned, the Reinsurance Agreement would be recaptured and so the tables below provide this position in addition to the post-Scheme position.

I have not reviewed the numbers for accuracy, but I have considered the financials of the Scheme in order to make an assessment on the impact on policyholders. There are potential impacts on the security of policyholder benefits at both Companies if either company were to experience material negative financial impacts as a result of the transfer. The key comparison here for each company is between the post-Scheme position and the position were the Scheme not to be sanctioned. These potential impacts are discussed in depth in Section 9.

### 7.2 Financial impact on CLL

The table below shows the breakdown of the financial impact on CLL as at 31 December 2024, as provided by CLL. The three columns show, respectively:

- The pre-Scheme position, with the inclusion of the Reinsurance Agreement in place following a commercial agreement to transfer exposure in advance of the Scheme (“pre-Scheme”). This is the reported FY24 positions for both Companies;
- The post-Scheme position that is expected if the Scheme were to be sanctioned; note that in this position, the Reinsurance Agreement falls away as it is no longer needed as the risk has been transferred (“post-Scheme”);
- The balance sheet position if the Scheme were not sanctioned and the Reinsurance Agreement were to fall away as the risk returns to CLL (“Scheme not sanctioned”).

Figure 7.1: CLL Pro-forma balance sheet as at 31 December 2024

CLL (£m)	Pre-Scheme	Post-Scheme	Scheme not sanctioned
Assets	25,633	24,080	25,616
TP	(19,507)	(17,976)	(19,507)
Other liabilities	(2,680)	(2,657)	(2,665)
<b>Own funds (pre restrictions)</b>	<b>3,446</b>	<b>3,447</b>	<b>3,444</b>
RFF restrictions	0	0	0
Foreseeable dividends	-	-	-
<b>Own funds (post restrictions)</b>	<b>3,446</b>	<b>3,447</b>	<b>3,444</b>
SCR	2,124	2,123	2,125
Excess assets	1,322	1,323	1,319
<b>SCR coverage %</b>	<b>162%</b>	<b>162%</b>	<b>162%</b>

Source: CLL

Whereby:

- Assets are comprised of assets, participations, non-strategic investments, and reinsurance recoverables
- Technical Provisions include BEL, TMTP and RM
- Other liabilities include liabilities other than TPs, for example accounting liabilities, deferred tax and ancillary own funds. The primary component of the other liabilities are deposits from reinsurers, which account for c. £2.4bn of the total amount.
- Dividends of £545m were paid from CLL to CLG before YE and hence there are no further foreseeable dividends shown in the table above. There are no RFF restrictions as there is no with-profits business.

The above figures have been calculated using a PIM and SF. TMTP, MA and VA have also been applied where appropriate. For details, please refer to Section 4.4.1.

In the table above, in the step from pre-Scheme to post-Scheme, the assets and TPs both decrease by a value of c.£1.5bn, which aligns with an equal increase on the CA balance sheet shown in figure 7.3, representing the movement of the unit reserve. There is a small reduction of £23m in other liabilities, the majority of this reflecting the release of provisions held in respect of the Reinsurance Agreement, offset by a movement in assets. This results in a total Own Funds increase of £1m. This is an immaterial change for CLL. Additionally, the impact on SCR and excess assets is also of the magnitude of £1m, resulting in no change in SCR coverage ratio from the movement of pre- to post-Scheme. This is due to the Reinsurance Agreement discussed in Section 6.2.4, whereby the majority of the insurance and economic risk exposure was transferred from CLL to CA ahead of the Scheme.

The table above also shows the expected impact on CLL's balance sheet were the Scheme not to be sanctioned, and the policyholders were to remain with CLL with the Reinsurance Agreement falling away. Comparing the pre-Scheme position (which is the position at the time of writing) with the not sanctioned position shows an immaterial impact on the balance sheet. The reduction in asset value is primarily driven by the release of the financial asset held in respect of the Reinsurance Agreement, and the impact of provisions being released. The release of provisions is in relation to settling the reinsurance settlement amount for the year, some transaction costs, and various provisions held for warranties. There is a £3m movement in Own Funds and no impact to the SCR coverage ratio. The SCR coverage ratio remains in excess of the CLL Risk Appetite in all three positions.

I have reviewed these figures and believe that these movements appear reasonable given the relative size of the Scheme and associated movement on the CA balance sheet, and with consideration of their materiality as defined in Section 1.14, but as discussed in Section 3.6, I have not performed further checks to ensure the accuracy of these numbers.

## 7.2.1 SCR

To assess the impact on the security of policyholders' contractual rights, it is important to consider the impact on the risk profile of CLL (including the nature and mix of risks) as a result of the Scheme. Considering the breakdown of the SCR into its component risks is a helpful way of illustrating the risk profile.

The table below shows the breakdown of SCR aligned with the same three positions shown in figure 7.1 - the pre-Scheme, post-Scheme and Scheme not sanctioned positions.

**Figure 7.2: CLL Scheme impact on SCR**

<b>Risk category (£m)</b>	<b>Pre-Scheme</b>	<b>Post-Scheme</b>	<b>Scheme not sanctioned</b>
Interest	95	95	95
Equity	354	354	354
Property	296	296	296
Spread	1,012	1,012	1,012
Concentration	195	195	195
Currency	309	309	309
<b>Market</b>	<b>2,260</b>	<b>2,260</b>	<b>2,260</b>
<b>Counterparty default</b>	<b>66</b>	<b>66</b>	<b>66</b>
Mortality	69	69	70
Longevity	555	555	555
Disability	-	-	-
Expense	63	59	63
Lapse	19	19	29
Catastrophe	455	455	455
<b>Life underwriting</b>	<b>1,160</b>	<b>1,156</b>	<b>1,165</b>
<b>Health underwriting</b>	<b>130</b>	<b>130</b>	<b>130</b>
Diversification*	(1,580)	(1,578)	(1,585)
Operational	117	117	117
LACDT	(28)	(28)	(28)
<b>SCR</b>	<b>2,124</b>	<b>2,123</b>	<b>2,125</b>

Source: CLL

\*The values for market risk and life underwriting risk represent the undiversified figures. The diversification figure therefore represents total diversification across all risks.

Given the size of the business transferring under the Scheme, relative to the size of CLL, there is a minimal impact on CLL's risk profile across the pre-Scheme, post-Scheme and Scheme not sanctioned positions. In terms of market risk, there are small impacts to the risk categories across the three positions, but these impacts are not large enough to change the rounded figures shown above. The operational risk does not change because it will run off during the first 12 months after transfer, not immediately. This is why in the post-Scheme position, on day zero, the operational risk value does not change and is the same across all three scenarios shown above.

The pre- to post-Scheme position is similar as the majority of the risks in relation to the business transferring under the Scheme have already been transferred to CA through the Reinsurance Agreement. There is a £1m impact on SCR which is primarily driven by a decrease in expense risk, offset by the associated reduced diversification benefit.

When comparing the post-Scheme position with the position if the Scheme were not sanctioned, the risk profiles are still similar, with the total SCR differing by £2m. The key driver of the movement is the change to lapse risk associated with the unit-linked business transferring under the Scheme. The CA risk profile in figure 7.3 shows a corresponding increase in lapse risk as this risk is transferred.

### 7.3 Financial impact on CA

The table below shows the breakdown of the financial impact on CA as at 31 December 2024, as provided by CA. The three columns show, respectively:

- The pre-Scheme position, with the inclusion of the Reinsurance Agreement in place following a commercial agreement to transfer exposure in advance of the Scheme (“pre-Scheme”);
- The post-Scheme position that is expected if the Scheme were to be sanctioned; note that in this position, the Reinsurance Agreement falls away as it is no longer needed as the risk has been transferred (“post-Scheme”);
- The balance sheet position if the Scheme were not sanctioned and the Reinsurance Agreement were to fall away as the risk returns to CLL (“Scheme not sanctioned”).

**Figure 7.3: CA Pro-forma balance sheet**

<b>CA (£m)</b>	<b>Pre-Scheme</b>	<b>Post-Scheme</b>	<b>Scheme not sanctioned</b>
Assets	4,280	5,804	4,272
Technical Provisions	(3,946)	(5,469)	(3,947)
Other liabilities	(158)	(158)	(158)
<b>Own funds (pre restrictions)</b>	<b>177</b>	<b>177</b>	<b>168</b>
RFF restrictions	(2)	(2)	(2)
Foreseeable dividends	(45)	(45)	(45)
<b>Own funds (post restrictions)</b>	<b>130</b>	<b>130</b>	<b>121</b>
SCR	96	96	84
Excess assets	34	35	37
<b>SCR coverage %</b>	<b>135%</b>	<b>136%</b>	<b>145%</b>

Source: CA

Whereby:

- Assets, Technical Provisions and Other liabilities are defined consistency as for CLL
- The Own Funds figure (post restrictions) is net of RFF restrictions of £2m , which is a limit applied to the ring-fenced funds (SPP and SPI) that caps the surplus capital from these funds that can be reflected as available capital on the balance sheet, and a foreseeable dividend of £45m, which has been declared but not paid as at 31 December 2024. The dividends are paid from CA to Chesnara plc.

The above figures have been calculated using the SF. VA has been applied to the relevant products discussed in Section 5.4.1 (i.e. not to the transferred business), using the PRA published risk free curve.

In the table above, the assets and TPs both increase by c.£1.5bn as a result of the Scheme. This is largely due to the transfer of the unit reserve, which represents the value of the assets in the unit fund and aligns with the asset figures shown in the tables in Section 6.2.2.

Aside from this movement, there is very little change to the Own Funds, restrictions, SCR and excess assets across the pre- and post-Scheme positions. This is due to the Reinsurance Agreement discussed in Section 6.2.4, whereby the majority of the insurance and economic risks were transferred from CLL to CA ahead of the Scheme.

If the Scheme were not sanctioned, this Reinsurance Agreement would fall away, and the expected balance sheet is represented by the 'Scheme not sanctioned' column in figure 7.3. The policyholders would remain with CLL and would not transfer to CA. The financial impact of this is that the Own Funds would fall by approximately £9.4m, which reflects the financial impact of the reinsurance falling away. The actual impact would also depend on the financial position at the time, and there will be a balancing payment between the companies, which could be positive or negative, if the Scheme were not sanctioned. The termination amount is intended to reverse all payments made under the reinsurance agreement, with CA retaining the economic exposure from 1 January 2024 until the termination date. The SCR coverage ratio, an indication of excess assets over SCR, would increase by 9% because the additional lapse risk and other additional risks (equity, expense etc.) that the transferred policies carry, are removed from the balance sheet. This lowers the SCR and the SCR coverage ratio increases.

If the Scheme were to be implemented, it is expected that the SCR coverage ratio would rise by approximately 1%, compared with the pre-Scheme position. The pre- to post-Scheme SCR coverage ratio movement is minimal due to the Reinsurance Agreement already in place. This new SCR coverage ratio remains in excess of the CA Board Risk Appetite.

I have reviewed these impacts and believe them to be reasonable given the size of the Scheme and associated movement on the CLL balance sheet, and with consideration to materiality as defined in Section 1.14. I have not performed additional checks beyond this to confirm the accuracy of the figures.

### **7.3.1 SCR**

To assess the impact on the security of policyholders' contractual rights, it is important to consider the impact on the risk profile of CA (including the nature and mix of risks) as a result of the Scheme. Considering the breakdown of the SCR into its component risks is a helpful way of illustrating the risk profile.

The table below shows the breakdown of SCR aligned with the same three positions shown in figure 7.3 - the pre-Scheme, post-Scheme and Scheme not sanctioned positions, consistent with Section 7.2.1.

Figure 7.4: CA Scheme impact on SCR

Risk category (£m)	Pre-Scheme	Post-Scheme	Scheme not sanctioned
Interest	12	12	10
Equity	45	45	42
Property	2	2	2
Spread	13	13	13
Concentration	1	1	1
Currency	14	14	14
<b>Market</b>	<b>87</b>	<b>87</b>	<b>81</b>
<b>Counterparty default</b>	<b>7</b>	<b>6</b>	<b>6</b>
Mortality	6	6	6
Longevity	5	5	5
Disability	1	1	1
Expense	21	21	18
Lapse	36	36	26
Catastrophe	3	3	3
<b>Life underwriting</b>	<b>71</b>	<b>71</b>	<b>57</b>
<b>Health underwriting</b>	<b>4</b>	<b>4</b>	<b>4</b>
Diversification*	(71)	(70)	(62)
Operational	8	8	6
LACDT	(9)	(9)	(8)
<b>SCR</b>	<b>96</b>	<b>96</b>	<b>84</b>

Source: CA

\*The values for market risk and life underwriting risk represent the undiversified figures. The diversification figure therefore represents total diversification across all risks.

Due to the Reinsurance Agreement, there is a small impact on the SCR of £0.5m that is primarily driven by a decrease in counterparty default risk as the Reinsurance Agreement falls away. The pre- to post-Scheme position is otherwise very similar because the majority of the risks have already been transferred to CA. The rounded SCR figure is unchanged. My conclusions in relation to this change and possible impact for policyholders have been set out in Section 9.

The expense risk component of the SCR is unchanged pre- to post-Scheme as CA has made the decision to update the expense basis in its solvency valuation to reflect its expectation that the Scheme will go ahead. Therefore, the expense reserves and expense SCR already reflect the expected cost of managing the Transferring Business despite the fact the expense risk is not covered by the Reinsurance Agreement. If the Scheme were not sanctioned, the Reinsurance Agreement would ultimately fall away, and the expense risk would remain with CLL and would not transfer to CA. CA's expense SCR, in this instance, wouldn't reflect any costs beyond the termination of the reinsurance.

Comparing the post-Scheme position with if the Scheme were not sanctioned, there is an increase in life underwriting risk, which is being driven by lapse risk. This is because of the nature of the unit-linked products within the Scheme, which are more exposed to lapse risk. The Scheme also results in higher levels of market risk and operational risk. A key driver of the increase in market risk is a higher level of equity risk, which is another typical risk associated with unit-linked products. Some of these movements have been offset by diversification benefits.

The SCR falls from £96m to £84m if the Scheme were not sanctioned. This represents a fall in capital requirements of £12m.

## 7.4 Considerations around recent market volatility

The financials in this Report are based on the positions for each Company at 31 December 2024. There has been significant market volatility since this date, most notably an increase in trade tariffs has impacted market movements globally.

In addition to my consideration of financial information as at 31 December 2024, in forming my views on the Scheme, I have sought additional and more up-to-date information to understand the impact of the recent market volatility on both Companies. In April 2025, both Companies provided additional and more up-to-date solvency and liquidity monitoring analysis. Based on this information, I note that at the time of writing, both Companies remain within their respective solvency and liquidity tolerances.

The Companies have also considered the potential impact if the tariffs were to increase further, and each have concluded that such impacts are immaterial and second order in respect of their financial soundness. Further details of my assessment in relation to stress and scenario testing and policyholder security is in Section 9.

I am satisfied based on this information that my conclusions are not impacted by the current market volatility; however, I will continue to review the current market conditions and the impact on the Scheme before the Sanction Hearing and will comment further in my Supplementary Report.

## 8 Effect on policyholder benefits

### 8.1 Introduction

In this Section, I consider the impact of the Scheme on the reasonable benefit expectations of policyholders; that is, the benefits they are expecting to receive from their policies. As outlined in Section 3.1, my review considers policyholders in three categories:

- Policyholders transferring from CLL to CA ("Transferring Policyholders");
- Existing policyholders of CA ("Transferee Policyholders");
- Policyholders remaining with CLL ("Remaining Policyholders").

I note that these groups may not be mutually exclusive, and I am aware that there could be overlap between them.

### 8.2 Transferring Policyholders

#### 8.2.1 Unit-linked funds

The Transferring Policyholders are unit-linked policyholders. The reasonable benefit expectations are therefore expected to be dependent on the underlying unit-linked funds to which they have access and the charges associated with the funds. Therefore, I have considered whether policyholders have access to the same funds as before, as well as the charges and fees levied to policyholders. I have not considered investment returns because, provided the funds are the same as pre-Scheme, the investment returns should not be impacted by the Scheme.

As explained in Section 6.2.2, the Scheme is not changing the assets underlying any of the unit-linked bonds or pension funds, the investment strategy or any of the terms and conditions of the funds. This includes charges applied. As such, the same funds with the same charges are expected to be available to policyholders following the Scheme. As a result, I am satisfied that this does not materially adversely affect these policyholders' benefit expectations.

With respect to CA setting up new fund link agreements, I am aware that an agreement has already been confirmed for CLAM funds, which constitutes c.50% of the current assets, as shown in figure 6.3. No changes are expected to policyholder benefits as a result of this arrangement. With respect to the third-party asset managers which constitute the remaining c.50% of the current assets shown in figure 6.3, there are c.20 asset managers where new equivalent fund link agreements will need to be established by CA. At the time of writing, setting up these funds is in progress and the fund link agreements are not yet in place, however the intention of the Companies is that this is done in a way where there are no changes to funds or charges. I expect this work to conclude closer to the Scheme Effective Date. I will therefore re-assess the status of this fund set up and the associated agreements in my Supplementary Report and consider impacts to Transferring Policyholders.

There is a fund link agreement between CLL and Coutts & Co ("Coutts Contract"), providing access to a fund for policyholders. This agreement will be transferred under the Scheme unchanged, following CLL notifying Coutts and subject to Court approval of the Scheme. This differs from the approach required for provision of the other fund options as those relate to investments of both Transferring Policyholders and Remaining Policyholders. Because the other agreements cannot simply be transferred, CA will set up new arrangements with these third-party asset managers - these are the fund link agreements explained above. I will keep the progress of the Coutts Contract under review, including notification to Coutts, and will comment on this in my Supplementary Report.

For Transferring Policyholders, CLL's unit-linked property funds are currently invested in a fund which is in wind-up. The date of closure and transfer process is currently to be confirmed. I will comment on this further in my Supplementary report.

I note that over time, through the course of normal business, there may be changes to funds offered or the use of different asset managers, but this could happen regardless of the Scheme. I also note both Companies have similarities in governance around fund choices and hence does not affect my conclusions.

### **8.2.2 Product features**

I have confirmed with CA that there will be no changes to the product features currently offered to Transferring Policyholders. This includes any persistency (or loyalty) bonuses that are applicable on some of the products. CA has also confirmed that there will be no changes to any existing terms and conditions. Therefore, I am satisfied that there is no material adverse impact on benefit expectations arising from product features, terms, or conditions in respect of the Scheme.

### **8.2.3 Policyholder taxation**

Tax positions are another key consideration relating to the assessment of impact on policyholder benefits, particularly where there are carried-forward tax attributes which affect the unit prices in funds. Currently, where there is a loss arising within unit-linked funds, these are carried-forward for use against future profits and present a potential benefit for policyholders. For Transferring Policyholders, I have considered the implications of CLL's existing carried-forward tax attributes for these policyholders and the outcome post-Scheme. My assessment is detailed in Section 11.2, along with tax considerations relating to policyholder security.

### **8.2.4 Non-contractual benefits**

I have confirmed with CLL that there are currently no non-contractual benefits offered to Transferring Policyholders. This will not change as a result of the Scheme.

## **8.3 Transferee Policyholders**

The Transferee Policyholders are unit-linked, non-profit and with-profits policyholders.

For existing CA policyholders there will be no impact on any existing product features, including terms and conditions and charges. The new funds that are being set up will not impact existing policyholders.

The majority of the with-profits portfolio of business is held in two ring-fenced funds (SPP and SPI). A small amount of with-profits business sits in the Non-Profit Fund and is fully reinsured to an external reinsurer. In general, for with-profits policyholders there is a potential to impact benefits beyond the impacts mentioned in the paragraph above because these policyholders share in the profits of their with-profits funds via policyholder bonuses. However, the Scheme does not impact the asset shares or guaranteed levels of benefit in relation to CA's with-profit policyholders and there will be no change to the reinsurance arrangements relating to this with-profits business as a result of the Scheme. Therefore, there are no material impacts expected on policyholder bonuses as a result of the Scheme.

Additionally, I have reviewed the draft report from the With-Profits Actuary at CA, who concludes that with-profits policyholders of CA will not be materially adversely affected by the Scheme.

## **8.4 Remaining Policyholders**

Remaining Policyholders are unit-linked and non-profit policyholders. There are no with-profit policyholders. For Remaining Policyholders there will be no impact on any existing product features, including terms and conditions and charges.

For Remaining Policyholders' that have unit-linked products, there could be an impact if their choice of funds or charges associated with funds changed as a result of the Scheme. CLL has confirmed to me that funds available to Remaining Policyholders, and their associated charges, will not change as a result of the Scheme.

## 8.5 Conclusion

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders' reasonable benefit expectations, subject to completion of tax considerations. Tax considerations for Transferring Policyholders are addressed in Section 11.2

## 9 Effect on security of benefits

### 9.1 Introduction

In this Section, I consider the impact of the Scheme on the security of the policyholders' contractual rights, including consideration of the financial strength of the Companies.

### 9.2 Transferring Policyholders

#### 9.2.1 Methodology

In this Section, I consider the methodology used by each Company to calculate the SCR and TPs, which are key financial metrics. These components are used to determine the Solvency Ratio, and the SCR in particular considers risks that the businesses are exposed to. The SCR and Solvency Ratio are calculated to ensure there is sufficient capital held if an extreme event were to occur.

The Companies are both UK-based, regulated insurers operating under the same Solvency UK prudential regulatory regime. The Transferring Policies will not be subject to a new regulator or regulatory regime as a result of the Scheme. The Companies are both required to have suitable governance in place to ensure they are financially sound, which includes governance structures (Sections 4.3.1 and 5.3.1) and CMPs (Section 9.2.4).

In my review of financials, I note there are differences in the Companies' measurement approaches and have considered the impact of this on policyholder security. Based on my assessment (detailed below), the differences in measurement approaches do not affect my conclusions around policyholder security.

As both Companies operate under the same regulatory regime with the same Regulators, they are broadly similar from a regulatory perspective. As such, their measurement approaches are similar, but there are a few exceptions summarised below.

**Figure 9.1: Summary of methodology differences between CLL and CA**

<b>Company</b>	<b>SCR model</b>	<b>VA</b>	<b>TMTP</b>
CLL	SF and PIM	Yes, but not for transferring business	Yes
CA	SF	Yes, but not for the transferring business	No

*Source: CLL and CA, summarised by EY*

The potential overall impact of differences in measurement approaches on the Solvency UK TPs will depend on a wide range of factors, such as the respective risk profiles of the Companies and evolving market conditions. As CA does not utilise the TMTP in the calculation of TPs for the transferring business, the TPs calculated for the transferred business may be higher for CA than CLL. This does not mean there is an increased risk to policyholder security.

Whilst there are differences in the SCR model used by CLL and CA, both Companies use approaches approved by the PRA.

I do not believe that these differences in methodology cause a material adverse impact on the security of benefits for Transferring Policyholders. Rather, I believe that any impact on policyholder security would be more likely to arise either from the financial strength or from the risk profile of the Companies, which I discuss in the following sub-Sections.

## 9.2.2 Financial strength

The financial impact of the Scheme on the Companies is discussed in Section 7, with key impacts shown in figures 7.1 and 7.3, for CLL and CA, respectively.

For Transferring Policyholders, the key consideration on policyholder security is whether they are moving to a company with a weaker financial position and therefore reducing the security of policyholder benefits. When evaluating financial strength, I start by considering the solvency ratios of the companies.

The solvency ratio as at 31 December 2024 is 162% for CLL and 135% for CA. A solvency ratio of 100% is equivalent to a company being able to cover a 1-in-200 year event, i.e. an extreme event, whilst continuing to meet its obligations. CA's solvency ratio is lower than CLL's, however both are well in excess of 100%. Further, the precise relative levels of solvency ratios do not provide a complete view of relative financial strength in isolation, as both Companies could choose to pay additional dividends while still remaining within their respective risk appetites and thereby reducing their solvency ratios. Therefore, it is important to also consider the Company's CMPs, which define the solvency ratios that the Companies aim to maintain, and any constraints on dividends or other management actions in the event that the solvency ratio falls below this level. As such, I do not believe there is a materially adverse impact to Transferring Policyholders' security as a result of CA's solvency ratio being lower than CLLs. I discuss the two CMPs further in Section 9.2.4.

The existence of any parental support for the Companies is a further factor affecting their financial strength. Due to the structures of CLL and CA, both Companies have the support of their respective parent companies as needed – for example, if required, these parent companies could make capital injections into the Companies. The credit ratings of both parent companies are stated in Section 4.4.1 and 5.4.1. CLL is a subsidiary of a Canadian parent (CLG), whereas CA is a subsidiary of a relatively smaller UK headquartered group, Chesnara. Whilst CLL and CA have differences in the relative size and locations of their parent companies, both Companies are subject to similar parental guarantees and both parent companies could support the capital positions of the Companies if needed.

Another factor to consider when assessing the financial strength of a company is the wider asset mix held to support liabilities and capital, beyond what is held in the unit-linked fund that was discussed in Section 8.2.1. The respective asset mixes of the two companies have been displayed in figures 4.11 and 5.11 for CLL and CA, respectively. Both Companies hold diversified portfolios, with differences in these portfolios reflecting differences in size and business mix of the Companies.

I have considered the financial strength for both Companies, and I am satisfied that the relative financial positions of the Companies do not present a risk of material adverse impact on Transferring Policyholders as a result of the Scheme.

## 9.2.3 Risk Profile

I have considered whether the Scheme will materially impact the nature, mix, and materiality of risks for policyholders. In doing so, I have reviewed the risk profiles of the Companies and considered the most material risks, including whether the Transferring Policyholders are exposed to a more concentrated range of risks (i.e. moving from a company exposed to a balanced and well-diversified range of risks, to one exposed to a smaller number of material risks). As part of this, I consider both Companies' SCRs and their stress and scenario testing to assess each Company's exposure to risks.

The SCR breakdown for both companies is shown below, to provide an indication of the risks that CLL and CA are exposed to. This reflects the relative risk profiles of each company and is a consideration for policyholder security.

Figure 9.2: Approximate comparison of risk profiles of CLL and CA as at 31 December 2024 shown as a % of undiversified SCR

Risk category	CLL (scheme not sanctioned)	CA (post-scheme)	Difference
Interest	3%	7%	4%
Equity	9%	26%	17%
Property	8%	1%	(7%)
Spread	27%	7%	(20%)
Concentration	5%	1%	(4%)
Currency	8%	8%	-
<b>Market</b>	<b>60%</b>	<b>50%</b>	<b>(10%)</b>
<b>Counterparty default</b>	<b>2%</b>	<b>3%</b>	<b>1%</b>
Mortality	2%	3%	1%
Longevity	15%	3%	(12%)
Disability	0%	0%	-
Expense	2%	12%	10%
Lapse	1%	21%	20%
Catastrophe	12%	1%	(11%)
<b>Life underwriting</b>	<b>31%</b>	<b>41%</b>	<b>10%</b>
<b>Health underwriting</b>	<b>3%</b>	<b>2%</b>	<b>(1%)</b>
<b>Operational</b>	<b>3%</b>	<b>4%</b>	<b>(1%)</b>

Source: CLL and CA, summarised by EY

As a result of the Scheme, Transferring Policyholders will be exposed to a different mix of risks due to the types of business and risk appetites of both Companies. Both companies have exposure to a well-diversified range of risks and are within their respective risk appetites. Risk appetites relate to the amount and type of risk the Companies are willing to accept or pursue to achieve their objectives.

For Transferring Policyholders, relative exposure to life underwriting risk (through lapse and expenses) increases, offset by a decrease in market risk (spread and property). Transferring Policyholders will be more exposed to the risks that are material for CA's business. This includes equity, lapse, and expense risks arising from CA's proportionately larger unit-linked portfolio.

On the other hand, Transferring Policyholders will be less exposed to risks that are material to CLL's business but not CA's business. CLL's exposure to spread and longevity risks arises from the relatively higher exposure to annuity business, which is longer term in nature. CA does not have as much exposure to annuity business, and therefore, Transferring Policyholders will have lower risk exposure in these areas. Additionally, CLL has more exposure to catastrophe risk because it has a large portfolio of group life and health business.

These changes in risk exposure are driven by the different business mix of both Companies. The Scheme does not result in material changes in overall concentration of risks for the Companies.

Another angle to consider in addition to SCR risks is the stress and scenario testing performed by each Company. Stress and scenario testing ("SST") is used to determine the financial impact of different risk scenarios materialising. In assessing impact on policyholder security, SST helps to inform the potential for material financial implications if a market or other event occurred. Each company has provided SST information relevant to their underlying risk profiles, which I have reviewed and considered how the Companies' financial positions are impacted by different scenarios (e.g. a fall in equity markets). Whilst the SST information provided does not cover every possible risk scenario, the most plausible scenarios

in an extreme event are considered. Following my review of stresses and scenarios, I note that the Companies have broadly comparable vulnerability towards wider market events. Given the size of the business transferring under the Scheme, I do not believe further SST testing is required.

Overall, having considered the Companies' risk profiles and SST information, I am satisfied that differences in exposures to risks do not present material concerns to the security of policyholder benefits. I have discussed this further in Section 9.2.5.

#### **9.2.4 Capital Management Policies**

The Scheme will result in the Transferring Policyholders being subject to CA's CMP (referred to in Section 5.4.3), in place of CLL's CMP (referred to in Section 4.4.3). Both companies have a CMP in place, which are aimed at ensuring the Companies provide a minimum level of security of policyholders' benefits. My main considerations are whether the Companies have very different risk appetites when it comes to solvency coverage, and whether the Companies conduct themselves differently when in breach of these risk appetites.

I have reviewed the CMPs and note that both Companies monitor and manage risks to remain within respective risk appetites. Solvency coverage is a key metric to monitoring risk – both companies target a coverage ratio over 100%. Management actions and triggers are defined at different coverage ratios, e.g. with restrictions to dividends triggered at certain levels. Whilst the specific thresholds and management actions used by the Companies are different, the approaches are materially similar in aiming to ensure that there is a limited risk of breaching the regulatory solvency requirements.

It is not unexpected that the specific target solvency ratios are different, and this can be due to a multitude of reasons, including:

- Different mixes of business. Some business types carry a higher level of risk and are more capital intensive than others. CLL sells different business to that acquired by CA and therefore I would not expect the risk exposures from the businesses to be the same.
- Writing new business can require a higher level of capital than maintaining portfolios of closed business. CA has a greater proportion of closed business compared with CLL.
- Measurement differences can also drive different target solvency ratios. I consider this in Section 9.2.1.

It is also expected that management actions would differ across the Companies, due to differences in risk exposures, strategies, and appetites. I have considered CLL and CA's management actions in light of their respective risks.

Both Companies have triggers and management actions corresponding to their risk appetite. I am satisfied that moving from CLL to CA's CMP would not have a materially adverse effect on the security of the benefits of the Transferring Policyholders and consider the governance of the CMPs to be materially similar across the Companies.

#### **9.2.5 Other considerations**

There are other factors to be considered when assessing the security of policyholder benefits, including the relative sizes of each company, Financial Services Compensation Scheme ("FSCS") protection, broader issues that could potentially impact Transferring Policyholders, and considerations around with-profits funds.

The Transferring Policyholders are currently part of a larger insurance entity than the one they would be transferring to. The size of the assets and liabilities for CLL are considerably larger than CA, reflecting that CLL is a larger company compared with CA. However, when assessing policyholder security, the key implications are a result of the financial strength and risk profiles of the companies, which I have already assessed in Section 9.2.2 and 9.2.3. I do not consider the relative size differences of the

Companies to have a material impact on the security of policyholder benefits, in light of these other factors.

In addition to the relative size of each company, other considerations relating to policyholder security include open regulatory issues, or issues relating to conduct or customer remediation which are not provisioned for. These are important to consider in the context of policyholder benefit security as consequences and / or outcomes of such issues could present additional risks that may impact the financial soundness of the Companies and therefore the security of policyholder benefits. CA and CLL have both confirmed that there are no major open regulatory issues relating to their operations and confirmed there are no material open conduct or customer remediation issues which are not provisioned for and reflected in the Companies' financial results.

Transferring Policyholders currently have access to the FSCS and the Financial Ombudsman Service ("FOS"). This will not change as a result of the Scheme and there will be no changes to access for Transferring Policyholders.

As CA has two ring-fenced with-profits funds, an additional consideration for the Transferring Policyholders is the circumstances under which the non-profit funds may be required to support with-profits funds. I have confirmed with CA that the size of the WP funds are small relative to the NP fund, and therefore any material impact on Transferring Policyholder security is highly unlikely.

### 9.3 Transferee Policyholders

For Transferee Policyholders in CA, I consider the impact on policyholder security from the Scheme, compared to the scenario where the scheme were not sanctioned. I note the Scheme does not alter the methodologies applied for existing CA policyholders and focus my review on financial strength and risk profile. The CMP, risk management policies, and governance structures will not be altered as a result of the Scheme.

#### 9.3.1 Financial Strength

For Transferee Policyholders, the key consideration is whether the post-Scheme financial strength of CA will materially adversely impact CA policyholders, compared to the position if the Scheme were not sanctioned.

The CA solvency ratio post-Scheme is 136%, or 145% if the scheme were not sanctioned. This is driven by an overall decrease in SCR, as outlined in Section 7.3. Both positions are within CMP tolerances for CA, and above the targeted solvency coverage for CA to issue dividends. This means, should the scheme not be sanctioned, CA management could issue dividends to the same level, and therefore I do not believe that the Scheme materially impacts the financial security of Transferee Policyholders.

#### 9.3.2 Risk Profile

The impact of the Scheme on the risk profile is shown in figure 7.4. Comparing post-Scheme to the position where the scheme is not sanctioned, the Transferee policyholders will have small changes to risk profile, shown below.

**Figure 9.3: Approximate comparison of risk profiles of CA at post-Scheme and Scheme not sanctioned positions as at 31 December 2024 shown as a % of undiversified SCR**

<b>Risk category</b>	<b>CA (post-Scheme)</b>	<b>CA (Scheme not sanctioned)</b>	<b>Difference</b>
Interest	7%	6%	(1%)
Equity	26%	27%	1%
Property	1%	1%	-
Spread	7%	8%	1%
Concentration	1%	1%	-
Currency	8%	9%	1%
<b>Market</b>	<b>50%</b>	<b>53%</b>	<b>3%</b>
<b>Counterparty default</b>	<b>3%</b>	<b>4%</b>	<b>1%</b>
Mortality	3%	4%	1%
Longevity	3%	3%	-
Disability	0%	0%	-
Expense	12%	11%	(1%)
Lapse	21%	17%	(4%)
Catastrophe	1%	2%	1%
<b>Life underwriting</b>	<b>41%</b>	<b>37%</b>	<b>(4%)</b>
<b>Health underwriting</b>	<b>2%</b>	<b>2%</b>	<b>-</b>
<b>Operational</b>	<b>4%</b>	<b>4%</b>	<b>-</b>

Source: CA, summarised by EY

The changes are small, with the most material increase due to the Scheme reflected on lapse risk, with a c.5% increase, offset by small reductions across the market risks. This is due to the unit-linked nature of the business transferring under the Scheme. There are no new risk categories that Transferee Policyholders are exposed to as a result of the Scheme.

Therefore, although the magnitude of some of the risks has changed from the Scheme, this does not cause the risk profile to become more materially concentrated in one area post-Scheme.

## 9.4 Remaining Policyholders

For Remaining Policyholders, I have considered the impact on financial strength and risk profile of the Scheme for the CLL policyholders, including if the Scheme were not sanctioned.

In considering the financial strength, I have assessed whether the solvency ratio is significantly weakened, or if there is a large drop in Own Funds across the pre-, post-Scheme and not sanctioned positions at CLL. Due to the relative size of the business transferring under the Scheme, the solvency ratio remains at 162% in all instances (shown in figure 7.1). Additionally, if the Scheme were not to be sanctioned, the Own Funds impact is a decrease of £3m relative to the post-Scheme position, which is a c.1% impact. Therefore, the Scheme does not have a material financial impact on the solvency position of CLL.

The impact on the risk profile as a result of the Scheme is small (shown in figure 7.2). Whilst there are some minor changes in the mix of risks, the Scheme does not result in risks becoming materially more concentrated than without the Scheme and does not materially impact the diversification CLL's risk profile.

There will not be any changes to the risk management policies, governance or CMPs as a result of the Scheme.

Therefore, I am satisfied that there is no material impact to the security of policyholder benefits for those remaining at CLL.

## 9.5 Conclusion

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders' benefit security.

## 10 Effect on level of service

### 10.1 Introduction

In this Section I consider the impact of the Scheme on the level of service provided to policyholders. I have considered the quality of policy administration and management, as well as the service arrangements for policyholders.

### 10.2 Transferring Policyholders

#### 10.2.1 Administration

CA is in the process of changing its existing outsourcing arrangements for its other products to outsource policy administration to SS&C, a third-party administration provider. Transferring Policies are currently administered by CLL's customer servicing team and through the CLOAS system. Following the Scheme the Transferring Policies will be administered by SS&C. As a result, there will be a change in administration systems for Transferring Policyholders as they transfer to CA, and, as discussed in Section 6.2.3, a migration is required to extract policy data from CLOAS and other systems that relate to these policies and provide this in extract files in order to onboard the policies onto SS&C systems.

To measure servicing standards relating to policy administration, Service Level Agreements ("SLAs") are in place for both CLL and CA. A range of metrics are included as part of the SLAs, with thresholds against each metric to inform any remediation action required. The SLA for CLL is applied to the CLL customer servicing team, whereas the SLA for CA is part of the outsourcing agreement with the third-party administration provider SS&C to ensure there is a minimum level of service provided to policyholders. I have reviewed and considered the SLA targets of the Companies and, whilst there are of course several differences, I note that they are broadly comparable across both Companies. For Transferring Policyholders who will migrate to SS&C, there is a governance model in place between CA and SS&C to monitor service, including service issue log meetings and monthly service reviews, to ensure levels of service to Transferring Policyholders are maintained.

I have confirmed with the Companies that the level of service before and after the Scheme is expected to remain the same, and in particular that the intention of the planned migration is to offer a comparable level of service provision to Transferring Policyholders. I also note CLL's Head of Customer Service (Wealth) has confirmed their view that the expected service provided for CLL's customers should not be compromised when the business transfers, which applies to Transferring Policyholders as well as Remaining Policyholders. At the time of writing, the planned migration is expected to complete by the Effective Date. I will provide an update on this in my Supplementary Report as detailed administration solution design is finalised.

I note that CA already uses SS&C systems for other products, including for the long-term Individual Protection business that transferred from CLL to CA in February 2025 (see Section 4.2). The systems migration for the long-term Individual Protection business scheme operated to similar timelines as planned for this Scheme. CA also confirmed that a number of the same individuals will be working on the systems migration for this Scheme as for the previous scheme's systems migration, to allow leveraging of knowledge and experience.

Provided that the migration takes place on time as planned, and aligned with the Effective date, then the impact of migrating to SS&C for Transferring Policyholders is unlikely to be material. CA already has a contract with SS&C for a number of its other products and has comparable level of service offered to CLL policyholders, which I expand on below.

## 10.2.2 Customer experience

Transferring Policyholders can currently call in, write, or email to access or update their policies with CLL. The CLL company website also provides general information. CA has confirmed that it is planning to offer a comparable level of service provision as currently provided.

There are existing terms of business in place between CLL and the current distributors for the Transferring Policies. These agreements cover, amongst other things, the commission payments specifically related to the transferring business. These commission liabilities will be moved from CLL to CA by the Scheme. Separately, CA will establish new terms of business with each of the current distributors in order to facilitate the normal administration and top-ups to policies to which Transferring Policyholders currently have access. At the time of writing, these new agreements have not yet been confirmed and so I will comment on this further in my Supplementary Report.

Therefore, for Transferring Policyholders, I am satisfied that the customer experience will not be materially adversely impacted as a result of the Scheme, subject to the establishment of the new terms of business.

## 10.3 Transferee and Remaining Policyholders

For Transferee Policyholders and Remaining Policyholders, I have confirmed that there is no change to their policy administration system and no expected change to customer experience as a result of the Scheme. Therefore, their services should remain materially unchanged post-Scheme, and I am satisfied that there is no material adverse impact to service standards for Transferee Policyholders and Remaining Policyholders.

In particular, the migration of the administration system for Transferring Policies is not expected to have a material impact on the level of services to either the Transferee Policyholders or Remaining Policyholders. I have also confirmed with the Companies that there are no expected changes to the customer experience and SLAs in place for Transferee Policyholders or Remaining Policyholders as a result of the Scheme.

## 10.4 Conclusion

Following my review, I am satisfied that the Scheme will not have a materially adverse impact on policyholders' level of service, subject to achieving the target state for the migration of the administration before the Effective Date. I will provide an update in my Supplementary Report as the migration progresses.

# 11 Other considerations

## 11.1 Introduction

In this Section, I examine various considerations that have not been fully discussed in earlier parts of this Report but could still influence the Scheme and its effects on policyholders. This includes:

- Taxation;
- Articles and Memorandum of Association;
- Authorisations, permissions and waivers;
- Geopolitical risks;
- Effect of the Scheme on reinsurers;
- Consumer Duty; and
- Other regulatory matters.

## 11.2 Taxation

In this sub-Section, I consider the effect of the Scheme on the tax borne by policyholders, and whether policyholders might be materially adversely affected by any changes in tax charged.

In considering the tax implications of the Scheme, I have reviewed information provided to me by the Companies and have discussed the policyholder implications with both respective tax teams. I have also taken advice, where appropriate, from EY tax specialists. As part of my review, I have considered the list of tax clearances and confirmations that CLL and CA intends to apply for prior to the Scheme to satisfy myself that they are appropriate and complete. Policyholder tax risks may arise where the Scheme causes a tax crystallisation event to policyholders or where the Scheme gives rise to tax consequences which create a reduction in the value of benefits to policyholders.

Additionally, I have considered the impact of taxation on the security of benefits for policyholders.

### **11.2.1 Risk of the Scheme causing a tax crystallisation event to policyholders**

The Scheme is not expected to cause any tax crystallisation events as the policies are merely transferring between UK entities with no changes to the terms and conditions of those policies. The Scheme is not expected to impact the UK tax status of either the life insurance policies (bonds) or pension policies being transferred and CA intends to seek confirmation from HM Revenue and Customs (“HMRC”) on this point as part of the clearances and confirmations described above. I will elaborate further and provide an update in my Supplementary Report following confirmation from HMRC.

I have considered the potential impact of the transfer on non-UK policyholders, based on the analysis performed by the Companies on the potential impact of the Scheme in a number of jurisdictions where policyholders are known to reside.

### **11.2.2 Risk of the Scheme giving rise to tax consequences which create a reduction in the value of policyholders’ benefits**

The Scheme preserves the way in which tax is attributed to the unit funds. Fund level tax attributes will be unchanged upon transfer and fund level tax assumptions are not expected to be impacted by the Scheme. Changes in the way tax is accounted for in the calculation of unit prices or in the way in which income, expenses and chargeable gains are commercially allocated to tax categories have the potential

to impact policyholder taxation. CLL and CA have confirmed to me that the current unit pricing, commercial allocation and asset pooling methodologies employed by CLL will continue unchanged within CA for the Transferring Policyholders. As a result, there will be no changes in policyholder benefits arising from tax attributes of the funds.

I have also considered the risk that the Scheme will result in overseas transactional taxes, and confirmed the majority of assets are UK based collectives and as such withholding tax (“WHT”) amounts and therefore outstanding WHT recoverables are minimal.

### **11.2.3 Tax conclusions**

Given the considerations I set out in Sections 11.2.1 and 11.2.2, I conclude there is no material adverse impacts to policyholder groups from a tax treatment perspective, subject to receiving additional clearances before the Effective Date.

CLL established a Policyholder Tax Loss Provision in the Solvency UK balance sheet. This provision relates to CLL funding for policyholder benefits when the unit-linked fund is making a taxable profit. CA has calculated the Policyholder Tax Loss Provision for the business due to be transferred and has estimated a materially similar sized provision. I am satisfied that the security of benefits for policyholders is not materially impacted by taxation, as the level of Policyholder Tax Loss Provision set up in the Solvency UK balance sheet of CA following the Scheme will be materially similar to that currently in CLL.

## **11.3 Articles and Memorandum of Association**

The Articles of Association are rules that govern how a company operates. The Memorandum of Association is a document that confirms the intention of the company's founders to form the company.

I have reviewed the Articles and Memorandums of Association for CLL and CA and in reviewing these, I have considered any potential obstacles to the Scheme. I have not identified any items that I believe could cause an issue for implementation of the Scheme.

I have also compared the Articles of Association for CLL relative to those of CA. I am satisfied that any differences between the Companies' Articles of Association do not represent a material concern for policyholders transferring under the Scheme.

## **11.4 Authorisations, permissions and waivers**

I have confirmed with the Companies that CA will have all the necessary authorisations, permissions and waivers to operate the business due to be transferred from CLL under the Scheme.

## **11.5 Geopolitical risks**

When considering the geopolitical risks in relation to the implementation of the Scheme, I have discussed with management of CLL and CA regarding the current global and regional socio-political environment and its potential impact on the Companies. Recent and ongoing events have been evaluated for their possible implications on the stability and operations of the Companies. I note that neither future geopolitical developments nor the precise impact of geopolitical events on all groups of policyholders can be predicted. Nevertheless, I am not aware of expected or plausible events that management have considered which could cause the Scheme to have a materially adverse effect on policyholders.

I have considered how the Companies, through their fund managers, check their portfolios for sanctioned assets, including the frequency and granularity of such checks. Fund managers operate under UK regulation and operate strict vetting processes to ensure compliance with UK, UN and US sanction regimes. CLL has confirmed there are no sanctioned assets being transferred under the Scheme. The direct responsibility for reviewing the funds with respect to sanctioned assets remains with the fund managers for the unit-linked funds and this will not change as a result of the Scheme. Further,

CA will set up fund link agreements with the existing CLL fund managers such that there will be continuity of managers and therefore, continuity of compliance processes. Additionally, at the time of writing, no Transferring Policyholders have been flagged as sanctions targets or Politically Exposed Persons.

I will provide an update in my Supplementary Report on any developments in this area, together with any impact on my conclusions.

## 11.6 Effect of the Scheme on reinsurers

CLL and CA have a range of reinsurance arrangements in place – see Section 4.4.5 and 5.4.5 for a summary of the key counterparties. These arrangements will not be impacted by the Scheme.

The Reinsurance Agreement between CA and CLL, with respect to the transferring business, will terminate on the Effective Date of the Scheme, as the policies are transferred to CA.

## 11.7 Consumer Duty

Consumer Duty is an FCA regulation that states that all financial services firms, including the Companies, “must act to deliver good outcomes for retail customers”. The regulation places responsibility for preventing harm to consumers clearly on firms and provides an expectation of higher standards of care than previous industry standards. The final guidance surrounding Consumer Duty was published in 2022 with the full rules being implemented for all products/services from 31 July 2024.

Both Companies have Consumer Duty frameworks in place to ensure the standards of care and protections for customers in line with Consumer Duty. Ahead of the Scheme, CLL has reviewed the products relating to the Scheme to ensure it met the standards required by the 31 July 2024 deadline.

For Transferee and Remaining Policyholders there will be no changes to the Consumer Duty frameworks applied. For Transferring Policyholders, they will move from CLL’s Consumer Duty framework to CA’s framework, with no exclusions. I have discussed this move with CA and do not expect any material adverse impacts for policyholders as a result.

## 11.8 Other regulatory matters

I have considered whether there are other regulatory matters that may impact either Company to such an extent that certain policyholders could be materially adversely impacted by the Scheme. As part of this, the Companies have provided me with an update on any material ongoing regulatory, compliance, or legal matters. As a result, I note that:

- I am not aware of any current or anticipated regulatory or compliance issues that may have a materially adverse impact on policyholders of CLL and CA; and
- I am not aware of any material litigation claims or material contingent liabilities from litigation claims against CLL and CA.

I am not aware of any other regulatory matters which may have a bearing on the Scheme.

I will review if there are any further regulatory matters which arise after the publication of this Report and consider these matters in my Supplementary Report.

# 12 Policyholder communications

## 12.1 Introduction

As part of the Scheme, Companies must adhere to regulatory requirements to ensure that all policyholders are adequately informed about changes that may affect their policies. FSMA requires that all policyholder communication in relation to the Scheme must be sent to every policyholder involved. However, firms may apply for waivers from the Court to not communicate with specific policyholder groups who will not experience any material changes and/or impacts as a result of the Scheme. The proposed communications strategy for the Scheme has been designed to cater to the different categories of policyholders affected, which aligns with the policyholder groupings used in the assessment of benefits, security, and service per Sections 8, 9, and 10:

- Policyholders transferring from CLL to CA ("Transferring Policyholders");
- Existing policyholders of CA ("Transferee Policyholders");
- Policyholders remaining with CLL ("Remaining Policyholders").

## 12.2 Policyholder groups

### 12.2.1 Transferring Policyholders

CLL will inform the Transferring Policyholders about the Scheme through direct mailing.

The direct mailing will include a summary of the Scheme and a summary version of this Report to the named policyholders of the business transferring under the Scheme. Policyholders will also be able to access further technical information regarding the Scheme, including a full version of this Report, either online or a printed copy by post, free of charge. I have reviewed the proposed communication approach for Transferring Policyholders and discussed it with CLL and CA. I am satisfied that the approach is reasonable.

There are some exclusions to the list of Transferring Policyholders that CLL plan to communicate with. These groups include:

- Gone-aways (see Section 12.2.4);
- Personal representative or executors of deceased policyholders;
- Trustees in bankruptcy where the legal policy title has passed to such individuals;
- Beneficiaries of a policy that is held in a trust (see Section 12.2.5);
- Any contingent beneficiaries;
- Persons other than the legal policyholder who are due to be paid some or all of the policy benefits pursuant to a court order.

CLL will submit an additional waiver to the court requesting approval not to send notification the above excluded groups, as, with the exception of gone-aways, they are not the legal owners of the policies or the normal recipients of policyholder communications to date. For further detail on gone-aways see Section 12.2.4. I am satisfied that it is reasonable to exclude these groups from the direct mailing, and I note that any of these individuals could still access my Report and further information on the Scheme online.

## **12.2.2 Transferee Policyholders**

CA is seeking to waive the requirement to send notice of the Scheme to its existing policyholders via direct mailing. This means that Transferee Policyholders would not be contacted by CA in relation to the Scheme.

I have reviewed the justification provided by CA in relation to waiving these requirements. CA has submitted a similar waiver for a number of its prior schemes referenced in Section 5.2. A key justification is that CA believes there is no material adverse effect on Transferee Policyholders, which is in line with my conclusions in Section 13. The other reasons provided relate to the relative size of the business transferring under the Scheme, which represents approximately 6% of in-force policies. Additionally, CA does not believe the cost of directly mailing all policyholders is proportionate to the deemed benefit to Transferee Policyholders.

Transferee Policyholders will be able to access information regarding the Scheme through a number of information channels, such as public newspapers including the London, Edinburgh and Belfast Gazettes and The Times and The Daily Mail, and further information will be provided upon request. They will also be able to access reports online via the CA / Chesnara website in relation to the Scheme, including this Report.

I am satisfied that the request to waive the direct mailing requirement is reasonable for Transferee Policyholders.

## **12.2.3 Remaining Policyholders**

CLL is seeking to waive the requirement to send notice of the Scheme to all policyholders, via direct mailing and instead only communicate with Transferring Policyholders. This means that Remaining Policyholders will not be contacted by CLL in relation to the Scheme.

Remaining Policyholders still have the opportunity to be made aware of the scheme through the newspapers and Scheme website, as well as further information available on request. They will also be able to access reports online in relation to the Scheme, including this Report.

I have reviewed the justification provided by CLL in relation to waiving these requirements. A key justification is that CLL believe there is no material adverse effect on Transferee Policyholders, which is in line with my conclusions in Section 13. Other justification includes the fact that the size of the business transferring under Scheme is relatively small in comparison to the non-transferring business. It also outlines that the expected benefit of notifying Remaining Policyholders is outweighed by the estimated costs which are considered disproportionate by CLL.

I am satisfied that the request to waive the direct mailing requirement is reasonable for Remaining Policyholders.

## **12.2.4 Gone-aways**

Gone-aways occur when Policyholders cannot be contacted, and no valid address is held on the register at a company. As at 18 March 2025, CLL has identified 233 gone-away Transferring Policyholders. CLL has taken steps to contact these policyholders by reviewing records and verifying whether other addresses were held. Checks were also completed using TraceIQ, which is a product that checks policyholder address and death records.

I am satisfied that appropriate measures are in place to attempt to contact all policyholders, including potential gone-aways, in relation to the Scheme.

### 12.2.5 Trustees

In some cases, policies are written by a trust with a principal trustee identified for each. Policyholder communications will be directed to the principal trustee, which is consistent with all policy correspondence to date. The covering letter will encourage the principal trustee to share the information with other parties who may have an interest in the contents.

I am satisfied that this approach is reasonable.

### 12.2.6 Vulnerable policyholders

Vulnerable policyholders are those policyholders who, due to their personal circumstances, are especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care. Vulnerable policyholders have been considered as a separate category by CLL when drafting policyholder communications, to ensure their needs are met. The first batch of communications will be sent to vulnerable customers to allow the most time to digest the information and respond. The contents within the direct mail discussed in Section 12.3 will be available in alternative formats upon request for these customers, including in large print, braille, or audio. CLL also employs the use of Relay UK, which is a website and app that allows those with speech or hearing impairments to contact CLL and will aid the communication between the parties. Further, the Call Centre team are trained in identifying and supporting the needs of vulnerable customers.

## 12.3 Methods and contents of communications

CLL will communicate with the Transferring Policyholders through direct mailing to be sent in July after the Directions Hearing. The direct mailing will be deployed over 5 working days. It is proposed that the direct mailing will be brief and will signpost the availability of additional information online. The mailing will include:

- A policyholder letter which will contain information on:
  - An overview of the proposed transfer
  - Protection in place for policyholders
  - How the transfer will happen
  - Next steps, including a link to a bespoke landing page where all documents relating to the Scheme will be available, including this Report and the Customer Guide
- A detailed guide to the Scheme (the “Customer Guide”) which will contain:
  - A number of FAQs covering the end-to-end process of the Scheme, including the role of the IE
  - Details of how interested parties can raise concerns or objections in respect of the Scheme, and/or attend the Sanction Hearing
  - A summary of the terms of the Scheme and a summary of this Report (my “Summary Report”)
  - Sources where Transferring Policyholders can find additional information in relation to the Scheme
  - A copy of the legal notice to the Court

Further to the mailing pack, there will be public communication on the CLL, CA and Chesnara websites, as well as secure Legal notices in printed press (3 local gazettes and 2 national papers). The Scheme website will also contain the direct mailing information, the IE Report, the Summary Report, and further key documents.

There will also be a dedicated Scheme call-handling centre (“Call Centre”), the details of which will be provided in the direct mailing, to answer queries raised by policyholders in relation to the Scheme. The Call Centre team will be trained to deal with queries, concerns and objections.

CLL has planned policyholder communications such that they are in accordance with regulatory guidance, including the FCA Consumer Duty.

## 12.4 Policyholder responses

CLL will keep a detailed log of any policyholder responses and communications. Objections from policyholders within this correspondence will be provided to me in full, as well as to the High Court and Regulators ahead of the Sanction Hearing.

The policyholder letter explains that, if an individual has no queries or concerns, they do not need to take any further action. If an individual wishes to raise a concern or make an objection they can contact CLL by phone, by email, or by post. Additionally, the Customer Guide explains that policyholders can attend the Sanction Hearing in person or by Counsel and present an objection.

Any policyholder who feels they will be adversely affected by the Scheme may put their objections or representations to the Companies and/or the Court. I will consider these objections or representations in reaching my view on the Scheme. I will report as appropriate on the issues raised in my Supplementary Report, including any impacts on my conclusions.

## 12.5 Conclusion

Overall, I am satisfied with the proposed communication approach. In particular, I am satisfied that it is reasonable to communicate via direct mailing to the Transferring Policyholders only and that the information in the direct mailing is suitable for informing Transferring Policyholders about the Scheme.

## 13 Conclusions

I have considered the Scheme and its likely effects on the Transferring Policyholders, Transferee Policyholders, and Remaining Policyholders.

In reaching the conclusions set out below, I have sought to:

- Exercise my judgement in a reasoned and justifiable manner;
- Describe and assess the impact on all classes and generations of policyholders (for detail on the sub-groups considered, please see Section 3);
- Indicate how the Scheme might lead to any changes for different classes of policyholders;
- Describe the rationale for my opinion.

I have considered the impact on each of the following as a result of the Scheme:

- Reasonable benefit expectations of policyholders;
- The security of policyholders' contractual rights;
- Levels of service provided to policyholders.

The conclusions in this Report are based on analysis of data as at 31 December 2024. I note that there have been economic and market changes since this date until the time of writing but I do not consider any changes since 31 December 2024 to materially impact my conclusions. However, I will keep the market environment under review and re-assess my conclusions when writing my Supplementary Report.

I am aware of certain areas where work is still in progress, some of which are material to the Scheme, and which I will continue to keep under review in the period leading up to the Sanction Hearing. These areas include:

- The migration of policy administration from CLOAS to SS&C;
- Completion of agreements with third-party asset managers to set up fund link arrangements;
- Issuance of terms of business to, and onboarding of, relevant distributors in relation to the Transferring Policies;
- Tax implications; and
- Completion of the policyholder communications process, including consideration of any policyholder objections.

I will provide an update on these areas, and any impact on my opinion, in my Supplementary Report. However, I do not anticipate any material issues with these areas.

I note that the Chief Actuaries of the Companies, and the With-Profits Actuary at CA, have also written reports on the impact of the Scheme. I have reviewed these reports and do not consider these to impact any of the conclusions set out in this Report.

Subject to the areas of ongoing review noted above, I believe that the implementation of the Scheme on the Effective Date will not lead to a materially adverse effect on the reasonable benefit expectations of policyholders, the security of policyholders' contractual rights, or the level of service provided to policyholders. Additionally, I am satisfied that the Scheme is equitable to all classes and generations of

policyholders – in particular, I note that I have reached the same “no material adverse effect” conclusion for each distinct policyholder group that I identified as needing separate consideration, specifically the Transferring Policyholders, Transferee Policyholders, and Remaining Policyholders. I therefore do not believe there is a reason that the Scheme should not proceed.

I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge, I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

8 July 2025

A handwritten signature in black ink that reads "Loic Bellettre". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Loic Bellettre

Fellow of the Institute and Faculty of Actuaries

Partner  
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## 14 Appendices

### 14.1 Glossary of terms used in this report

APS	Actuarial Profession Standards
AUM	Assets Under Management
BEL	Best Estimate Liabilities
CA	Countrywide Assured PLC
CAD	Canadian Dollars
Chief Actuary	The Chief Actuary function (SMF20) is the function of having responsibility for the actuarial function specified in PRA Rulebook.
CLAM	Canada Life Asset Management
CLCC	Canada Life Capital Corporation Inc.
CLG	The Canada Life Group (U.K.) Limited
CLIH	Canada Life International Holdings Limited
CLL	Canada Life Limited
CLOAS	Computations Life Office Administration System - the primary inhouse policy administration system for the transferred policies in CLL.
CMP	Capital Management Policy
Companies	The collective term used in this Report for Canada Life Limited and Country Wide Assured plc
Consumer Duty	A FCA set of rules for financial services firms that sets standards for consumer protection
Customer Guide	A policyholder guide to understanding the Scheme, including summary reports, explanations and FAQs
Directions Hearing	The initial hearing at the Court relating to the consideration of the Scheme and allowing it to proceed to the Sanction Hearing
Effective Date	The date on which the Scheme is expected to be implemented
Excess Assets	Excess of Own Funds over SCR
EY	Ernst & Young LLP
FAQ	Frequently Asked Question
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000

Gone-aways	Policies where the company do not hold a valid address for the policyholder and attempts to contact the policyholder have been unsuccessful
HMRC	HM Revenue & Customs
IE	Independent Expert, the individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA (having consulted the FCA) pursuant to Section 109 of FSMA
IFoA	Institute and Faculty of Actuaries
LACDT	Loss absorbing capacity of deferred tax
Lifeco	Great-West Lifeco
MA	Matching Adjustment
Non-Profit Fund	CA's main fund that the Scheme will move into, separate from the ring-fenced with-profits funds
ORSA	Own Risk and Self Assessment
Other Liabilities	Liabilities under SUK other than technical provisions
Own Funds	Amount of capital that is eligible to cover the regulatory capital requirements
Part VII Transfer	A court-sanctioned legal transfer of some or all of the policies of one company to another. It is governed by Part VII of the Financial Services and Markets Act 2000 (FSMA) with supplementary guidance set out in the FCA Handbook and the PRA's Statement of Policy
PIM	Partial Internal Model
PM	Pinsent Masons LLP, legal advisors of CLL in relation to the Scheme
post-Scheme	The post-Scheme position that is expected if the Scheme were to be sanctioned, the Reinsurance Agreement falls away as it is no longer needed as the risk has been transferred
PRA	Prudential Regulation Authority
PRA's Statement of Policy	"The PRA's approach to insurance business transfers" dated January 2022
pre-Scheme	The pre-Scheme position, with the inclusion of the Reinsurance Agreement in place following a commercial agreement to transfer exposure in advance of the Scheme
RAG	Risk tolerance limits that can be used to assess the solvency ratio using Red, Amber and Green ("RAG") limits to trigger various management actions if the solvency ratio falls below prescribed levels.
Regulators	PRA and FCA
Reinsurance Agreement	A reinsurance agreement entered by CLL and CA on 20 December 2024 covering the Scheme, whereby the majority of the insurance and economic risks have been transferred from CLL to CA ahead of the actual transfer of policies

Remaining Policyholders	Policyholders remaining with CLL post-Scheme
Report	This report
Residual Policies	Any CLL policies which are part of the closed UK unit-linked portfolios but that are not being transferred under this Part VII are excluded from the Scheme
RFF	Ring-Fenced Funds
RM	Risk Margin
Sanction Hearing	The hearing at the Court at which the final decision whether or not to approve the Scheme is made
Scheme	The proposed transfer of certain long-term insurance business
Scheme not sanctioned	The balance sheet position if the Scheme were not sanctioned and the Reinsurance Agreement were to fall away as the risk returns to CLL
Scheme Report	A report on the terms of a scheme
SCR	Solvency Capital Requirement
SF	Standard Formula
SM	Slaughter and May Limited, legal advisors of CA in relation to the Scheme
Solvency II	Solvency II is the previous insurance regulatory regime that has been replaced by Solvency UK in the UK from December 2024
Solvency UK	Solvency UK is the new UK-wide insurance regulatory regime implemented in full since December 2024
SPI	Save & Prosper Insurance Limited - one of the ring-fenced with-profits funds operated by CA
SPP	Save & Prosper Pensions Limited - one of the ring-fenced with-profits funds operated by CA
SS&C	SS&C Technologies - a specialist third-party administration provider for CA
Standard Formula	Under Solvency UK, insurance companies can opt to calculate SCR on Standard Formula basis, under which, the SCR is calculated in a formulaic way using a specified stress level for each risk exposure
SUK	Solvency UK
Summary Report	The summarised version of this Report
Supplementary Report	A further report required by paragraph 2.39 of the PRA Statement of Policy on PRA's approach to insurance business transfers (January 2022) to be prepared prior to the final Court hearing in order to provide an update for the Court on the Independent Expert's conclusions in the light of any significant events subsequent to the date of the finalisation of this Report
Surplus capital	Excess of Own Funds over SCR
TAS	Technical Actuarial Standards

TAS 100	Technical Actuarial Standard 100: Principles for Technical Actuarial Work
TAS 200	Technical Actuarial Standard 200: Insurance
TCF	Treating Customers Fairly: One of the FCA's consumer protection objective, specifically Principle 6 (Customers' Interests): a firm must pay due regard to the interests of its customers and treat them fairly.
TP	Technical Provisions
Transferee Policyholders	Existing policyholders of CA
Transferring Policyholders	Policyholders transferring from CLL to CA
Transitional Deductions or TMTP	Transitional Measure on Technical Provisions. Introduced by Solvency II (the regulation prior to Solvency UK), these transitional measures spread the impact on Technical Provisions of the transition for insurance companies from Solvency I to Solvency II over 16 years. This approach still applies in Solvency UK. Insurers must apply to the regulator for approval to use TMTP, which is a particular type of Transitional Deduction.
Transitional Measures on Technical Provisions	See description for Transitional Deductions.
Unit-linked funds	Funds where the assets are kept separately within a company and the value of these funds determine the value of the benefits for these policies
VA	Volatility Adjustment
Volatility Adjustment	An increase to the discount rate that can be used under SUK to reduce the value of the BEL
With-Profits Actuary	The With-Profits Actuary function (SMF20a) is the function of having responsibility for advising the governing body of a firm transacting with-profits insurance business on the exercise of discretion affecting part or all of that business as described in PRA Rulebook.
YE24	Year-end for calendar year 2024

## 14.2 Cross reference of the PRA Statement of Policy on the PRA's approach to insurance business transfers (January 2022)

Reference	Detail	IE Report reference
2.30	The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information:	1.3
	(1) who appointed the independent expert and who is bearing the costs of that appointment;	1.3
	(2) confirmation that the independent expert has been approved or nominated by the PRA;	1.3
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.3
	(4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	1.4
	(5) the scope of the report;	1.6
	(6) the purpose of the scheme;	6.1
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	6
	(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	0
	(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	n/a
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	1.9
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	1.9	
(11) their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	8 to 11	

	(12)their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;	11.6
	(12A)their definition of 'material adverse' effect;	3.1
	(13)what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme;	1.9
	(14)for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	2, 8, 9, 10, 11, 12, 13
	(15)an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	4.2, 5.2, 6.2.7
2.32	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	6.2.4
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	6.2.4
2.33	The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should: (1) include a comparison of the likely effects if it is or is not implemented;	6, 7, 9
	(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	1.9
	(3) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	8, 9, 10
	(4) include the independent expert's views on: (5) (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing ;	9

	(aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;	9
	(aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	9
	(aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	9
	(b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights,	9
	(ii) levels of service provided to policyholders,	10
	(iii) for long-term insurance business, the reasonable expectations of policyholders;	8
	(c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and	11.2
	(d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.	9
2.34	The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer	-
2.35	For any mutual company involved in the scheme, the report should: (1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between	Not applicable as no mutual company is involved in the Scheme.

	members with voting rights and those without.	
2.36	For a scheme involving long-term insurance business, the report should: (1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	Not applicable to Transferring Policyholders
	(2) if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	Not applicable to Transferring Policyholders
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges	Not applicable to Transferring Policyholders
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm;	Not applicable to Transferring Policyholders
	(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	8
	(6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and	13
	(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	4, 5, 9

### 14.3 Cross reference of the FCA Handbook on the SUP 18.2 Insurance business transfers

Reference	Detail	IE Report reference
18.2.33	The scheme report should comply with the applicable rules on expert evidence and contain the following information:	1.3
	(1) who appointed the independent expert and who is bearing the costs of that appointment;	1.3
	(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;	1.3
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	1.3
	(4) whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	1.4
	(5) the scope of the report;	1.6
	(6) the purpose of the scheme;	6.1
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	6
	(8) what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;	1.9
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others;	1.9
	(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	1.9
	(11) his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee;	8 to 11
(11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	11.6	
(12) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to	1.9	

	policyholders' consideration of the scheme; and	
	(13) for each opinion that the independent expert expresses in the report, an outline of his reasons.	2, 8, 9, 10, 11, 12, 13
18.2.34	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	1.6
18.2.35	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	6.2.4
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	6.2.4
18.2.36	The independent expert's opinion of the likely effects of the scheme on policyholders should:	7
	(1) include a comparison of the likely effects if it is or is not implemented;	
	(2) state whether he considered alternative arrangements and, if so, what;	1.09
	(3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and	8, 9, 10
	(4) include his views on:	9
	(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	
	(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:	9
	(i) the security of policyholders' contractual rights;	
	(ii) levels of service provided to policyholders; or	10
	(iii) for long-term insurance business, the reasonable expectations of policyholders; and	8
	(c) the cost and tax effects of the scheme, in so far as they may	11

	affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	
18.2.37	The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.	3.1
18.2.38	For any mutual company involved in the scheme, the report should: <ul style="list-style-type: none"> <li>(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;</li> <li>(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and</li> <li>(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.</li> </ul>	Not applicable as no mutual company is involved in the Scheme.
18.2.39	For a scheme involving long-term insurance business, the report should: <ul style="list-style-type: none"> <li>(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;</li> </ul>	Not applicable
	<ul style="list-style-type: none"> <li>(2) if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;</li> </ul>	Not applicable
	<ul style="list-style-type: none"> <li>(3) describe the likely effect of the scheme on the approach used to determine: <ul style="list-style-type: none"> <li>(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and</li> <li>(b) the levels of any discretionary charges;</li> </ul> </li> </ul>	Not applicable
	<ul style="list-style-type: none"> <li>(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;</li> </ul>	Not applicable
	<ul style="list-style-type: none"> <li>(5) include the independent expert's overall assessment of the likely effects of the</li> </ul>	8

	scheme on the reasonable expectations of long-term insurance business policyholders;	
	(6) state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders; and	13
	(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	4, 5, 9
18.2.40	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run.	Not applicable as the Scheme does not involve chain of events or corporate restructuring.
18.2.41	A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either: (1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or (2) otherwise, he is unable to report on this aspect in the time available.	Not applicable

## 14.4 Key information considered

### Background Information

Project timeline

Company structure charts

Memorandum and articles of association

Rationale for the transfer

### Company & Product Information

Background documentation on the closed onshore Pensions and Bonds portfolios of CLL, including size of portfolio, premiums and number of policyholders, etc. Including changes made to these portfolios historically.

Background information on the existing Countrywide Assured plc business

Previous relevant IE reports

Details of existing court schemes affecting Canada Life Limited or Countrywide Assured plc

Details of internal and external reinsurance treaties affecting Canada Life Limited and Countrywide Assured plc business, including materiality and business affected

### Scheme Information

Overview of planned Scheme, including key features and key issues / risks associated with it

Documentation of progress made to date for the terms of the Scheme

Details of servicing arrangements at Canada Life Limited and Countrywide Assured plc to determine differences in arrangements

Communications strategy and communications pack for the Scheme

Legal documentation / instrument of transfer

### Financial Information

Breakdown of SCR - Entity and fund level (where applicable)

Breakdown of Balance Sheet, including BEL, Risk Margin, TMTP & Assets - Entity and fund level (where applicable) at 31 December 2024

Overview of basis of calculation for numbers provided

CMPs for both Companies

ORSA reports

Details of management actions which can be taken in times of stress and expected impacts of these

Results of sensitivity and scenario analyses

Financial impact of the Scheme on both Companies' balance sheets and solvency positions

Financial / solvency monitoring information in respect of recent market movements

Investment strategy and asset allocation, and any changes required post-Transfer

# Addendum to 'Report on the proposed business transfer from Canada Life Limited to Countrywide Assured plc'

## CLL unit pricing error

As the Independent Expert for the proposed transfer of certain long-term insurance business (the "Scheme") from Canada Life Limited ("CLL") to Countrywide Assured plc ("CA"), I have written a report (the "Report") covering the potential implications to policyholders as a result of implementation of the Scheme. Following the drafting of this Report, I was made aware of a regulatory notification submitted by CLL highlighting an error in its investment accounting system. Therefore, I am writing this addendum to provide an overview of the error, the work I have performed to understand this error, and my determination of any impact on the conclusions set out in my Report.

The error in CLL's investment accounting system, which has been present since November 2021, has resulted in a failure in the tax computations for Unit Linked Life Funds with exposure to certain fixed interest assets. The result of this error is that the unit price, and consequently the value of all policies with exposure to those funds, is overstated. At the time of writing, CLL has identified 66 impacted funds that are in a gain position and therefore impacted by this issue. The loss absorbed by the shareholder to date is estimated to be c.£1.8m, of which c.£1.2m is estimated to impact funds relating to policies transferring under the Scheme.

Following notification of this pricing issue in July 2025, I have engaged in discussions with CLL management to understand the extent of the error and potential implications. CLL's investigations are ongoing to understand the extent of any policyholder detriment, and CLL management has confirmed that, to the extent there is a detrimental impact on any policyholders, they will be remediated for the error. The impacts noted above are in relation to shareholder losses and CLL believes that the impact on policyholders is likely to be much lower.

I understand that, following conclusion of the ongoing investigations, CLL will remediate any policyholders who have been impacted by this error. Policyholder remediation will not be impacted by the Scheme – CLL management has confirmed to me that any policyholders transferring from CLL to CA who are in scope of remediation will be treated the same as policyholders remaining with CLL who are in scope of remediation. CLL management has also confirmed to me that this will be the case regardless of whether any remediation is concluded prior to the Scheme taking effect, and I understand that liability in respect of any remediation activity will be retained by CLL as an Excluded Liability pursuant under the Scheme.

Therefore, and based on the information available at this point, I am satisfied that the conclusions formed in my Report are not changed. I will continue to engage with CLL management to understand how the ongoing investigations proceed and will comment further in my Supplementary Report.

9 July 2025



Loic Bellettre

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