

Countrywide Assured plc

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

On the proposed transfer of business

from CASLP Ltd

to Countrywide Assured plc

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

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1. Introduction

1.1. Purpose of the Report

In April 2022 Chesnara plc (“Chesnara”) acquired Sanlam Life and Pensions UK Limited (“CASLP”). Chesnara intends to transfer the business of CASLP into its other UK entity, Countrywide Assured plc (“CA”).

The proposed transfer of the CASLP business to CA will be achieved by a Scheme of Transfer (“the Scheme”) under Part VII of the Financial Services and Markets Act 2000 (“FSMA”).

The purpose of this Report is to advise the CA Board on the Scheme in my capacity of Chief Actuary to CA. This Report will also be made available to the High Court of England and Wales (“the Court”), the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”), the Independent Expert (“IE”) and the policyholders of CA and CASLP.

This Report will address the financial implications of the Scheme and its potential impact on both the existing CA policyholders and those transferring from CASLP. The Report also considers the fair treatment of CA policyholders and any changes to administration and policyholder benefits affecting CA policyholders.

1.2. Report Structure

The report is structured as follows:

- Section 2 provides an Executive Summary of the report, including the main conclusions.
- Section 3 provides an overview of CA.
- Section 4 provides an overview of CASLP.
- Section 5 provides details of the proposed Transfer.
- Section 6 provides an overview of financial position of CA and CASLP before and after the Scheme.
- Section 7 provides comments and opinions on the impact of the Scheme on CA policyholders.
- Section 8 presents conclusions.

1.3. Credentials and declaration of interest

I am writing this report in my capacity as the Chief Actuary of CA.

I am a Fellow of the Institute & Faculty of Actuaries (“IFoA”), having qualified in 2014 and I hold a Chief Actuary (Life) Practicing Certificate issued by the IfoA. I have 16 years of experience in the UK life assurance industry, including 5 years working for Chesnara on the CA business. I became Chief Actuary of CA in 2019.

I am an employee of Chesnara, the holding company for CA, and under my terms of employment with Chesnara, in addition to my regular salary (and related benefits such as pension contributions) I am entitled to a bonus that depends to a certain degree on CA's financial performance and on my own individual performance.

I am not a policyholder of either of the companies involved, namely CA and CASLP.

I consider that these aspects do not represent a conflict of interests that would prevent me from assessing the impact of the Scheme on CA policyholders and I confirm that my interests in CA have not influenced me in reaching any of the conclusions in this Report.

1.4. Other advice and opinions

Stephen Makin of Hymans Robertson has been retained by Chesnara in the capacity of Independent Expert (IE) (in accordance with the provision of Section 109 of FSMA 2000) and has been approved as such by the PRA in consultation with the FCA. In finalising my report, I have read his report on the terms of the Scheme and considered its conclusions. A copy of this Chief Actuary report has also been provided to the IE.

I have also read and considered the report of the CASLP Chief Actuary assessing the impact of the Scheme on the CASLP policyholders. A copy of this Chief Actuary report has also been provided to the CASLP Chief Actuary.

In addition, I have read and considered the report of the CA With-Profits Actuary, assessing the impact of the Scheme on the CA with-profits policyholders. A copy of this Chief Actuary report has also been provided to the CA With-Profits Actuary.

1.5. Compliance with Actuarial Standards

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

- TAS 100: Principles for Technical Actuarial Work; and
- TAS 200: Insurance.

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

2. Executive Summary

2.1. Background

On 13 September 2021, Sanlam agreed to sell its UK Life and Pensions business (“SLP”) to Chesnara. This acquisition met the four assessment pillars of Chesnara’s acquisition strategy namely:

- Cash generation
- Value enhancement
- Customer outcomes
- Risk appetite

Under Chesnara the SLP business has been renamed CASLP. It is now proposed by Chesnara to transfer the CASLP business to CA by means of the Scheme.

The intended transfer date is currently intended to be 31 December 2023 (the Transfer Date) at which point, and after the Court have given its approval to the Scheme, the transferring business would legally transfer from CASLP to CA and the Scheme will become fully operative. The Transfer Date must also be approved by both companies, and subject to certain limits, the Transfer Date can be delayed by mutual agreement between the firms and they would need to reapply to the Court if the proposed Transfer Date were to be after 31 March 2024. The Scheme would take effect between the two firms for accounting purposes on the Transfer Date. This is the date at which any rights and obligations that exist between CA and CASLP are treated as becoming effective.

It should be noted that it is CASLP’s strategy to move to an outsourced operating model in order to reduce costs and it is expected that proposals for this outsourcing will be approved by the CASLP Board and contracts signed ahead of the Part VII Transfer date. As part of agreeing the contract the CASLP Board will ensure that the customer service and SLAs will be maintained. These outsourced contracts will then transfer to CA under the Part VII arrangement. This Report is therefore written on the basis that this outsourcing does occur ahead of the Transfer. It might be that CA (after the Transfer) takes on the migration risk from the in-house arrangement to the outsourcer (depending on the timing of the outsourcing operation). To reflect this change in the operating model, the CASLP balance sheet already makes an assumption within the BEL assessment that the outsourcing will occur (and expense savings generated), and this is also reflected in the expected lower expense risk that is already reflected in the CASLP balance sheet.

2.2. Rationale for transfer

A key reason for the business transfer is to rationalise two similar businesses into a single insurance company. The transfer is expected to achieve operational efficiencies and economies of scale through a simpler company structure requiring a single set of financial reports and regulatory returns. This will reduce operational risk, improve management efficiency, particularly for the key personnel fulfilling Senior Manager and Certification Regime responsibilities, and unify regulatory oversight.

The transfer would combine the businesses of Chesnara's two UK regulated insurance entities, both of which have similar operating models and a broadly common management team. The transfer to CA further strengthens its position in the UK consolidation market.

Whilst not the rationale for the transfer, other benefits are expected to be arise in respect of capital diversification and tax synergies.

From a customer perspective, their rights and obligations under the policies will be transferred without alteration. Preserving the security of contractual benefits and rights, benefit expectations and service levels is of paramount importance for both businesses.

2.3. Key conclusions and opinion

Based on the considerations set out in this report, it is my opinion that:

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

I also support the application for the waivers highlighted in this Report.

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

3. Background to CA

3.1. Introduction and company history

CA is one of the UK subsidiaries of Chesnara and its Group.

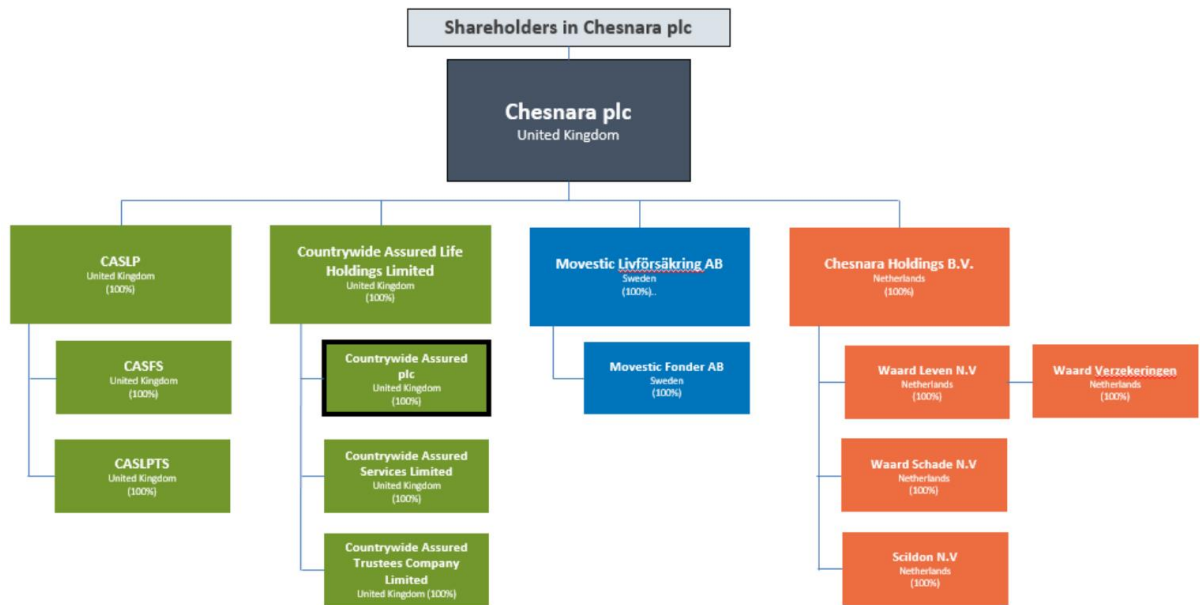
The principal activity of CA is the servicing of long-term life insurance and pensions business, which is closed to new business besides increments to existing policies.

The company's business is comprised of different (but now combined) life and pensions portfolios, as follows:

- 'Original CA': This represents the original life and pensions business of the company, which was previously part of the Countrywide plc estate agency group;
- Ex-City of Westminster Assurance Company Limited ('CWA'): This represents policies acquired by Chesnara from Irish Life and Permanent Group ('Irish Life') in 2005 and transferred into Countrywide Assured in 2006, originally having been acquired by Irish Life from Assurances Générales de France in 1993. This is predominantly unit-linked pensions and savings business, with a small in-payment annuity book;
- 'S&P': This represents the 'Save & Prosper' business that was transferred into CA under Part VII of FSMA during 2011 from Save & Prosper Insurance Limited (SPI) and Save & Prosper Pensions Limited (SPP). The two 'S&P' companies were purchased by Chesnara in 2010; and
- 'PL': This represents the 'Protection Life' business that was transferred into CA under Part VII of FSMA on 31 December 2014. The company was purchased on 28 November 2013 from Direct Line Insurance Group plc by Chesnara.

3.2. Chesnara group

Chesnara is a holding company that operates as a life and pensions consolidator and is listed on the London Stock Exchange, with operations in the UK, the Netherlands and Sweden. The group structure is shown in the diagram below.

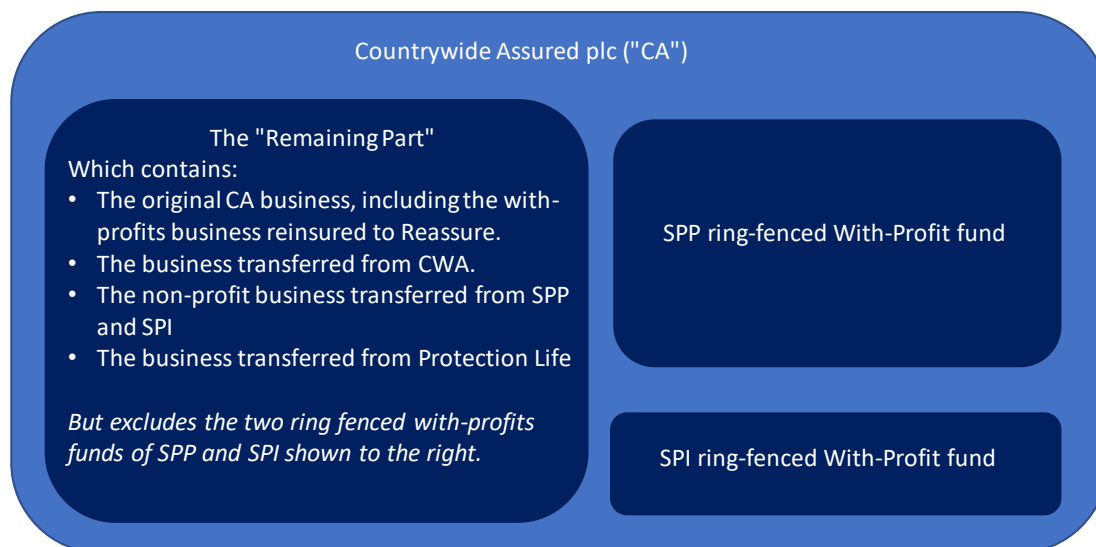


Chesnara administers approximately 1,000,000 policies and £10.6 billion of assets under management as at 31 December 2022.

In the UK, CA, CASLP and Chesnara’s primary responsibility is the efficient administration of its customers’ life and savings policies, ensuring good customer outcomes and providing a secure and compliant environment to protect policyholder interests. Chesnara also adds value by writing profitable new business in Sweden and the Netherlands and by undertaking value-adding acquisitions of either companies or portfolios. Chesnara has a proven track record of acquiring and consolidating life and pension portfolios and businesses.

3.3. Nature of CA business

The CA life insurance business consists of with-profits, unit-linked, other (legacy business described below) and health business. The structure of the different business within CA is shown in the diagram below. This describes the “Remaining Part” of CA (which can be thought of as the Non-Profit Fund), and which is effectively all of the CA business excluding the business that resides in the two ring-fenced with-profit funds (which are described later in this Report).



The table below details the Technical Provisions on a Solvency II basis.

CA: Technical Provisions (net of reinsurance) £m		
Line of Business	YE22	YE21
Life Insurance		
With-Profits	198.4	251.4
Index-linked and unit-linked	1,254.0	1,476.2
Other Life	41.5	63.6
Sub-total	1,493.8	1,791.1
Health Insurance	104.8	161.3
Total	1,598.6	1,952.5

Insurance with profit participation: Most of the with-profits business resides in the two ring-fenced with-profits funds – Save & Prosper Insurance WP and Save & Prosper Pensions WP. There are maturity guarantees on all of this business, either guaranteed minimum pensions or guaranteed minimum fund values. There is also some with-profits business in Original CA, which is 100% re-insured with ReAssure Limited (now part of the Phoenix Group).

Index-linked and unit-linked insurance: This makes up the majority of life insurance business managed by CA and encompasses products held in the Original CA, CWA and S&P books of business. Approximately two thirds of this is pensions business primarily made up of individual contracts, with some group money purchase schemes. The life business mostly consists of whole life assurance contracts and single premium bonds with a smaller number of endowment contracts.

Other life insurance: This primarily relates to the Original CA, CWA and PL books of business and mainly includes a mixture of term assurance, annuity, endowment and whole life assurance contracts. In respect of the annuity

business, during 2021 CA entered into an arrangement to reinsure the vast majority of its annuity liabilities.

Health insurance: The vast majority of health insurance business sits in the Original CA book of business and covers contracts for which the future benefits are primarily or wholly relating to health. Product types include critical illness and income protection contracts with most of these being index-linked in nature.

The table below provides a description of the reinsurance arrangements held by CA (at Q4 2022).

Reinsurer	Reinsurance Balance Sheet Impact £m	Credit Rating	Description
ReAssure	68.7	AA-	From the early days of CA reflecting the joint venture nature of the company at the time. Two main tranches: 1) 50% quota share of unit-linked business; 2) 100% reinsurance of original CA With-Profit business (i.e. not the two ring-fenced ex-S&P WP funds) into GAWPF - predominantly Unitised With-Profit with small volume of Conventional With-Profit remaining. ReAssure is responsible for bonus setting etc. CA has a legal charge over assets so that CA policyholders rank equally with ReAssure policyholders in the event of insolvency.
Monument Re	47.0	N/A	100% Quota Share "QS" reinsurance of claim payments on immediate annuities in the ex-Premium Life and ex-CWA books of business. Excludes annuities that were in suspension around treaty commencement. A funds-withheld arrangement is in place so that counterparty risk is reduced as CA hold the assets.
Swiss Re	35.5	Aa3	The largest treaty (c.£35m) covers term assurance in the ex-Protection Life book on a 90% QS arrangement. The remaining amount is made up of various smaller treaties covering smaller portfolios of protection business, generally on a QS arrangement.
Munich Re	12.2	Aa3	50% QS life cover on endowment and term assurance policies in ex-Protection Life book.
Phoenix	5.1	AA-	100% cover on selected UL endowments in ex-S&P book.
RGA	1.9	AA-	QS life cover on endowments and term assurance policies in ex-Protection Life book (% cover varies by treaty).
Friends Provident	(2.0)	Aa3	Original terms cover on selected protection products in original CA book.
Misc	2.6	AA-	Small legacy treaties that aren't split out separately due to materiality. E.g. with Hannover Re and SCOR.

The exposure to Friends Provident is negative as the expected PV of reinsurance premiums is higher than the expected PV of claim recoveries.

The table below shows a split of the CA assets (for Solvency II reporting).

CA: Assets (Solvency II) £m		
Asset	YE22	YE21
Government bonds	110	167
Corporate bonds	28	28
Collective investments undertakings	298	364
Derivatives	0	0
Deposits (other than cash equivalents)	1	1
Assets held for index-linked and unit-linked contracts	1,396	1,683
Insurance and intermediaries receivables	2	2
Reinsurance receivables	21	23
Receivables (trade, not insurance)	3	5
Cash and cash equivalents	9	9
Other assets	0	0
Holding in related undertakings	0	0
Total	1,868	2,283

The main part of the collective investment undertakings is the WP assets, invested with Schrodgers. There is also collateral for annuity reinsurance and

(Schroder and JPM) liquidity collectives held as an alternative to cash at bank to spread risk.

3.4. CA Solvency position

Following the implementation of the Solvency II regulatory regime which came into force on 1 January 2016, CA's capital resources are managed on a Solvency II basis.

The principle that underlies the valuation methodology for Solvency II purposes is that the assets and liabilities are valued at the amount for which they could be exchanged, transferred or settled by knowledgeable and willing third parties in an arm's length transaction. The excess of the value of assets over the value of liabilities is referred to as Own Funds. The capital required under the Solvency II regime (the Solvency Capital Requirement or SCR) is a risk-based capital assessment, based on a 1-in-200 year event over a one-year time horizon. The SCR is calculated using the Solvency II Standard Formula approach.

CA also has an additional regulatory approval to apply the Volatility Adjustment, which applies as an addition to the discount rate when determining Technical Provisions. Within CA the Volatility Adjustment is applied to the non unit-linked business and excludes the SPI with-profits business.

The table below shows the CA reported Solvency II position at Q4 2022 and recent year-end positions. It should be noted that the SCR cover ratio of 134% is in line with the CA capital policy (see later section).

CA: Solvency position (figures in £m)		
	YE22	YE21
Assets	1,867.9	2,282.9
Technical Provisions	(1,598.6)	(1,952.5)
Other liabilities	(136.8)	(164.3)
Own Funds (before restrictions)	132.6	166.2
Own Funds restrictions (RFF)	(0.0)	(7.9)
Dividends	(46.0)	(27.5)
Restricted Own Funds	86.6	130.8
SCR	(64.6)	(100.4)
Excess Assets	21.9	30.5
SCR cover %	134%	130%

Note that Technical Provisions are broken down into £1,583.7m BEL and £14.9m Risk Margin.

3.5. Risk profile

The CA risk capital under the PRA prudential regime follows the Solvency II Standard Formula approach.

The table below provides a breakdown of the overall Solvency Capital Requirement (SCR) into the major risk categories.

The risk profile, at a high level, is dominated by Market and Life underwriting risk, as would be expected for an insurance business. The risk profile is well diversified and has remained relatively stable during the reporting period.

The reduction in equity risk (YE21 to YE22) is mainly driven by the combination of equity market falls alongside the reduction in symmetric adjustment which resulted in a smaller equity stress.

The expense reduction reflects lower expenses in the base position as a result of sharing fixed costs between CA and CASLP. Higher future expected interest rates have also reduced the PV of expenses, reducing the value of the stress.

Other movements, in market risk e.g. interest spread, currency, reflect the change in market values and stresses.

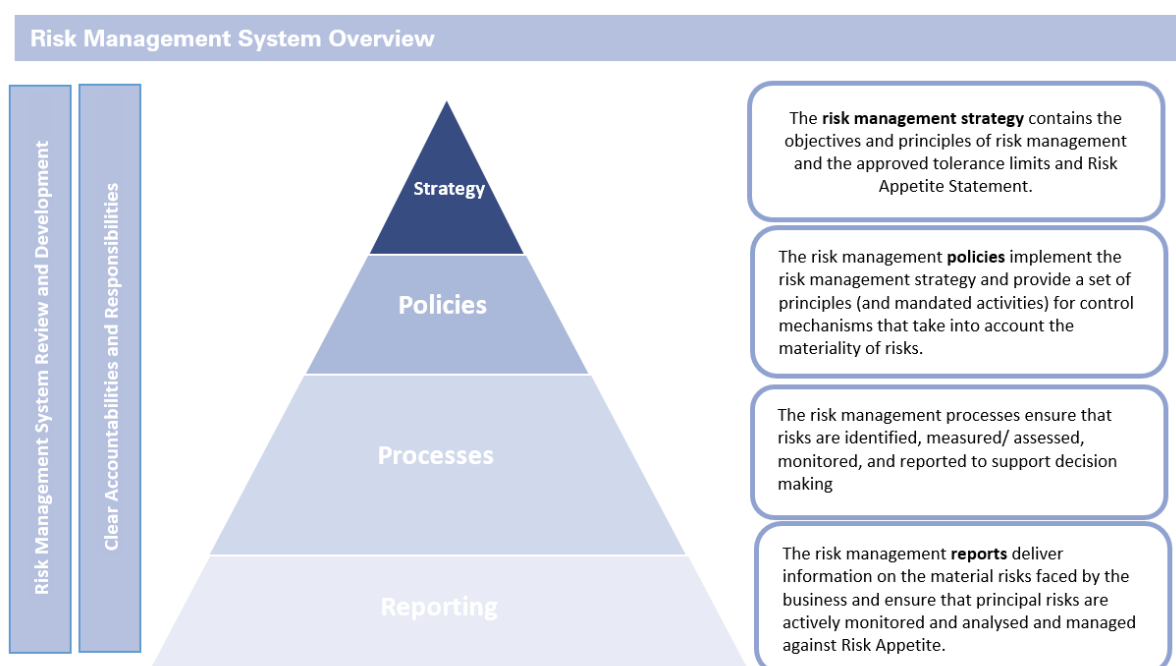
CA: Breakdown of risk capital (SCR) £m		
Risk Category	YE22	YE21
Interest	5.1	6.9
Equity	35.4	63.6
Property	2.1	2.2
Spread	8.3	13.5
Concentration	1.3	0.2
Currency	10.3	14.2
Diversification	(14.1)	(18.6)
Market Risk	48.3	82.2
Counterparty Default Risk	3.5	4.7
Mortality	3.8	4.0
Longevity	2.6	6.5
Disability	0.3	0.4
Expense	13.5	22.9
Lapse	26.2	27.9
Catastrophe	2.0	2.2
Diversification	(11.3)	(15.6)
Life Underwriting Risk	37.1	48.3
Health Underwriting Risk	5.0	6.1
Diversification	(21.4)	(29.7)
Operational Risk	2.7	3.3
Loss Absorbing Capacity of Tax	(10.5)	(14.5)
Solvency Capital Requirement (SCR)	64.6	100.4

3.6. Risk management

CA has an established risk management system, which incorporates:

- (a) Risk management strategy;
- (b) Risk management and internal control policies;
- (c) Risk management processes; and
- (d) Risk reporting.

Overall, the key components of the CA risk management framework are summarised in the diagram below.



The primary risk objective of CA's risk management system is to maintain solvency and liquidity of CA whilst delivering continuity of business services; fair customer outcomes; and a regulatory compliant service to customers and making dividend payments to Chesnara in line with expectations.

CA has a board-approved risk appetite statement and risk tolerance limit for each of the categories of risk. This is consistent with and aligned to the Chesnara group's risk appetite statements. The aim of the risk appetite statement and risk tolerances is to enable the board to articulate the amount of risk CA is willing to take and provide boundaries to when potentially too much, or too little, risk is being taken. This provides guidance to enable management to take on the "appropriate" risks, and the "appropriate" amount of risk as part of the pursuit of its strategic objectives.

3.7. Capital management policy

Central to managing the Own Funds of CA is the application of the capital management policy. The policy incorporates:

- The roles and responsibilities of the board and different levels of management in adhering to the policy;
- The reporting procedures in place with regards to adhering to the policy; and
- The key controls and processes in place to ensure adherence to the policy.

The company's capital management policy includes the following qualitative and quantitative statements regarding managing the company's Own Funds:

- **Board risk appetite:** CA aims to minimise the risk of being unable to meet its regulatory capital requirements by maintaining a capital buffer above the regulatory capital requirements. The adequacy of the capital buffer is reviewed and tested as part of the ORSA each year by running a range of stresses and scenarios.
- **Dividend paying limit:** Stated as Own Funds as a percentage of SCR, the company's dividend paying limit is 120%. This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point.
- **Management actions limit:** Stated as Own Funds as a percentage of SCR, the company's management actions limit is 110%. This is the point at which, should Own Funds fall below this level, additional management actions would be taken to restore Own Funds back above this level. In essence, this represents an internal 'ladder of intervention limit' that is set by the board.

This means that, in the normal course of events, CA would not pay a dividend should the payment of the dividend take the CA Own Funds to below 120% of its SCR. Should Own Funds fall below 110% of SCR, additional management actions will be taken. It should be noted though that in extremis, subject to continuing to cover 100% of SCR, the above limits could be waived if it became necessary to support another insurance company in the Chesnara group, if it was unable to cover its SCR, and no other funds within the group were available to provide this support. In line with documented management action protocols, in this situation, management actions to improve the solvency position would be considered.

It should be noted that whilst CA has its own capital policy, and the CA Board has its own governance arrangements, the capital policy and risk management approach is aligned to those at Chesnara group.

The table below shows the split of Own Funds by structure.

CA: Analysis of Own Funds : £m		
	YE22	YE21
Tier 1		
Ordinary share capital	40.0	40.0
Total ordinary share capital	40.0	40.0
Reconciliation reserve before deductions	92.6	126.2
Assets less liabilities	132.6	166.2
Foreseeable dividends	(46.0)	(27.5)
Restricted Own Funds in ring fenced funds	0.0	(7.9)
Total Tier 1 Own Funds	86.6	130.8
SCR	64.6	100.4
Ratio of eligible Own Funds to SCR	134%	130%

3.8. With-profits funds and management

The CA with-profits business consists of three separate blocks.

- The largest is the SPP business, which accounts for almost all of the with-profits business, and has assets of £198m. This business resides in the SPP ring-fenced fund.
- The SPI business has assets of £12m, and resides in a separate ring-fenced fund.
- The small book of CA with-profits business that is reinsured to ReAssure, amounts to £32m and is not under a ring-fenced arrangement within CA, and resides in the remaining part of CA. This business is 100% reinsured in to the relevant Reassure ring-fenced fund (which is the Guardian Assurance With Profit Fund).

For the SPP and SPI with-profits business assets are maintained in three distinct parts, or sub-funds, these being (a) Policyholder asset shares, (b) Guarantee Fund, and (c) Shareholder Fund.

Each of the SPP and SPI sub-funds has a distinct investment strategy reflecting the different interests and risks. Policyholder asset shares and the Guarantee Fund, together, represent those assets which belong 100% to policyholders. The Shareholders' sub-fund represents the accumulation of charges, less costs, and shareholder capital, and provides security to ensure guarantee benefits can be met, and, to the extent it is not required to meet guarantees, it belongs 100% to Shareholders. The purpose and operation of these three parts of the with-profits funds is explained below.

Policyholder Asset Shares

Policies provide a guarantee of a minimum benefit payable on death or retirement, where the guarantee is the amount of premiums paid, accumulated with an investment growth rate, the annual rate of which depends on the type of policy and commencement date. In addition, the fund provides the possibility of a bonus depending on the performance of the underlying investments of the

policyholder asset share sub-fund and some smoothing of the fluctuations in the value of the underlying investments.

This is managed by maintaining the accumulated amounts of policy premiums, less charges, in a sub-fund run along similar lines to a unit linked fund. This is priced weekly to provide an unsmoothed asset share. A smoothed asset share is also calculated.

Guarantee Fund

CA can charge against the asset shares a guarantee charge of up to 1.5% p.a. This is reviewed at least annually and any such guarantee charge is taken via a charge in the regular pricing, and the amounts so taken are credited to the Guarantee Fund. To the extent that the Guarantee Fund is deemed surplus to the need to meet guarantees, the surplus will be transferred to the Policyholder Asset Shares.

Shareholder Fund

In addition to the guarantee charge described above, policies are subject to an annual management charge, charged against the asset shares, and risk charges where appropriate for the policy.

In addition to the accumulation of these charges less costs, shareholders have provided capital in the SPP and SPI sub-funds. This provides security to ensure the excess of any guaranteed benefits above asset shares and the Guarantee Fund can be met. Subject to ensuring the fund can meet the policy guarantees, shareholders are entitled to 100% of the shareholder funds in each sub-fund. Due to the structure of the fund there is no inherited estate.

The operation of the with-profits funds is different from a traditional 90:10 with-profit funds and as such CA has a waiver from the requirements contained in the FCA Rules which facilitates an orderly and timely release of surplus capital from its shareholder funds.

Under Solvency II rules, CA does not need to hold assets to meet the SCR of each fund within the relevant fund. The CA capital management policy does however aim to provide an appropriate level of coverage from within each fund, and this is allowed to vary in line with the overall CA risk appetite.

4. Background information on CASLP

4.1. Introduction and company history

CASLP is one of the UK subsidiaries of Chesnara and its Group.

CASLP was established in 1970 under the name of Old Broad Street Securities Assurance Ltd. Its name was changed to Merchant Investors Assurance Company Ltd in 1974. In 1987 it became a subsidiary of the MI Group, at which stage Allianz had a 50% shareholding. Allianz took a majority controlling interest in 1990. In 1992 it transferred its entire sales force to Citibank Life and was effectively closed to new business.

In December 2003, CASLP was acquired by Sanlam Netherlands Holding BV (now Sanlam Investment Holdings Limited (SIH)), a wholly owned subsidiary of Sanlam Ltd, and its name was changed to Sanlam Life & Pensions UK Ltd in April 2011.

CASLP operated within a vertically integrated structure distributing unit linked life and pension business through its restricted adviser business, Sanlam Wealth Planning. Sanlam Life & Pensions UK Ltd also distributed unit linked business via third-party advisor firms, including access to the company's onshore bond on several third-party wrap platforms.

The vertically integrated Sanlam structure incorporated Sanlam Investments UK Limited ("Sanlam Investments") and Sanlam Private Wealth that provided funds and model portfolio investment solutions for the Sanlam Life & Pensions proposition. The proposition also included access to a large number (via mirror funds and wrap platforms) of third-party fund manager funds.

In April 2022, Sanlam Life & Pensions UK Ltd was acquired by Chesnara and its name was changed to CASLP Ltd. At this point, the company was substantially closed to new business, pending a review towards the end of 2023 on whether to stay open to a few selected products. Sanlam Investments continues to manage a substantial proportion of the unit linked and non-linked assets of the company.

CASLP owns 100% of the shares in CASFS Ltd ("CASFS") and CASLPTS Ltd ("CASLPTS").

- CASFS: The principal activity of CASFS is the provision of administration and client money handling services to CASLP. It also acts as the scheme administrator of the Sanlam Personal Retirement Scheme, a personal retirement scheme established under a trust deed in 1988. CASFS is the ISA Manager / Administrator and GIA Plan Administrator and hence is also responsible for administering these products.

- CASLPTS: This company acts as trustee to certain of the pension schemes provided by CASLP. This includes being the custodian for certain assets of the current portfolio of trust based self-invested personal pensions.

4.2. Group Structure

The CASLP business forms part of Chesnara and is reflected in the Group Structure chart presented in section 3.

4.3. Nature of CASLP business

CASLP is specialist provider of insurance and long-term savings, with key products of unit-linked pensions and SIPPs, the more contemporary products having been aimed primarily at affluent and high net worth private clients in the UK.

At 31 December 2022 it had c£2.6bn of assets, with 66,600 policies.

The nature of the business in-force is mainly unit-linked business, covering pensions, bonds, savings and protection business, with a portfolio of £47m of annuities in-force (31 December 2022).

Approximately £1bn of the unit linked funds and £70m of the non-linked portfolio (including the assets matching the annuity liabilities) are managed by Sanlam Investments under an existing Investment Management Agreement (IMA). CASLP also offer c.70 mirror (of third-party) funds available with AuA of c.£140m.

The other unit linked assets are managed by external fund managers, predominantly accessed via third party platforms.

The table below shows the split of technical provisions.

CASLP: Technical Provisions (net of reinsurance) £m		
Line of Business	YE22	YE21
Life Insurance		
Index-linked and unit-linked	2,508.0	2,860.1
Other Life	49.0	70.5
Total	2,557.0	2,930.6

CASLP's reinsurance arrangements are noted in the table below (at Q4 2022).

Reinsurer	Reinsurance Balance Sheet Impact £m	Credit Rating	Description
Munich Re	(2.8)	Aa3	Risk premium reinsurance for mortality risk

The exposure to Munich Re is negative as the expected PV of reinsurance premiums is higher than the expected PV of claim recoveries.

It should also be noted that CASLP holds an insurance contract with Allianz (from when it acquired the Merchant Investors business from Allianz) to recover certain

claims (and administration costs) that might arise from customer complaints. At YE22 the provision for this insurance contract was c.£4.8m and the recoverable was c.£4.3m. The provision for this is reflected in 'Other liabilities' in the table in the following section, while the recovery is in the table below under 'Receivables (trade, not insurance)'.

The table below shows the split of assets. As shown the majority of assets are those backing unit-linked business.

CASLP: Assets (Solvency II) £m		
Asset	YE22	YE21
Government bonds	21	14
Corporate bonds	46	71
Collective investments undertakings	38	0
Derivatives	0	0
Deposits (other than cash equivalents)	0	0
Assets held for index-linked and unit-linked contracts	2,509	2,905
Insurance and intermediaries receivables	0	0
Reinsurance receivables	(0)	0
Receivables (trade, not insurance)	7	25
Cash and cash equivalents	5	7
Other assets	1	1
Holding in related undertakings	3	3
Total	2,630	3,026

4.4. CASLP Solvency position

CASLP manages its capital resources on a Solvency II basis and the Solvency II Standard Formula approach is used to determine its SCR.

CASLP also has an additional regulatory approval to apply the Volatility Adjustment, which applies as an addition to the discount rate when determining Technical Provisions for the conventional annuities.

The table below shows the CASLP reported Solvency II position at YE 2022 and YE 2021. It should be noted that the best estimate expense assumptions within the Q4 2022 figures are under the assumption that the Part VII Transfer will take place.

CASLP: Solvency position (figures in £m)		
	YE22	YE21
Assets	2,630.0	3,025.6
Technical Provisions	(2,557.0)	(2,930.6)
Other liabilities	(13.5)	(43.9)
Own Funds (before restrictions)	59.4	51.1
Dividends	(10.0)	-
Restricted Own Funds	49.4	51.1
SCR	(35.3)	(41.3)
Excess Assets	14.1	9.7
SCR cover %	140%	124%

Note that Technical Provisions are broken down into £2,544.5m BEL and £12.5m Risk Margin.

Other liabilities consist of provisions other than Technical Provisions (e.g. Allianz mis-selling provision, unit pricing error provision), deferred tax liabilities, debts owed to credit institutions and payables (trade not insurance).

4.5. Risk profile

The table below provides a breakdown of the overall Solvency Capital Requirement (SCR) into the major risk categories.

The risk profile, at a high level, is dominated by Market and Life underwriting risk, as would be expected for an insurance business. The risk profile is well diversified and has remained relatively stable over the periods shown in the table.

CASLP: Breakdown of risk capital (SCR) £m		
Risk Category	YE22	YE21
Interest	2.0	0.7
Equity	8.0	11.5
Property	0.4	0.4
Spread	6.0	9.2
Concentration	-	-
Currency	5.4	7.2
Diversification	(5.7)	(6.2)
Market Risk	16.0	22.7
Counterparty Default Risk	1.4	2.0
Mortality	1.0	1.0
Longevity	4.2	6.8
Disability	0.1	0.1
Expense	7.0	7.0
Lapse	19.5	19.6
Catastrophe	0.1	0.1
Diversification	(6.5)	(8.0)
Life Underwriting Risk	25.3	26.6
Health Underwriting Risk	-	-
Diversification	(9.1)	(11.6)
Operational Risk	2.5	3.1
Loss Absorbing Capacity of Tax	(0.8)	(1.5)
Solvency Capital Requirement (SCR)	35.3	41.3

4.6. Risk management

CASLP as a separate entity in the Chesnara group has its own risk management policies and framework, and the CASLP Board provides the governance arrangement. Following Chesnara's acquisition of CASLP there has been ongoing activity within CASLP and Chesnara to align, where appropriate, the CASLP systems of governance, risk management and business processes. This will occur ahead of the Scheme, and as such the risk management policies would align with Chesnara Group at the time of the Transfer. Hence, for the purposes of this Report it can be considered that CASLP follows the same risk management approach as CA, being that applied by Chesnara (as commented in Section 3).

4.7. Capital management policy

As described in the risk management section above, the CASLP capital management policy mirrors that applying to CA (as commented in Section 3).

5. Proposed transfer of business

5.1. Rationale for the Scheme

Following the Chesnara acquisition of CASLP in April 2022, the transfer of business from CASLP into CA is expected by Chesnara to achieve the following objectives for CA and hence Chesnara.

- To rationalise two similar businesses into a single insurance company.
- To achieve operational efficiencies and economies of scale through a simpler company structure requiring a single set of financial reports and regulatory returns. This will reduce operational risk, improve management efficiency, particularly for the key personnel fulfilling Senior Manager and Certification Regime responsibilities, and unify regulatory oversight.
- To strengthen the CA position as a consolidator in the UK insurance market.

It is therefore proposed to transfer the CASLP business to CA by way of an insurance business transfer scheme under Part VII of, and Schedule 12 to, the FSMA.

In addition, as a consequence of the Scheme there are expected to be some taxation benefits (which relate to the treatment of company tax) and capital diversification benefits.

From a customer perspective, their rights and obligations under the policies will be transferred without alteration. Preserving the security of contractual benefits and rights, benefit expectations and service levels is of paramount importance for both businesses.

5.2. Transfer Date

The intended legal effective date of the Scheme is 31 December 2023, although CA and CASLP can agree to defer the transfer up to 31 March 2024 without further approval from the Court.

5.3. Fund structure of CA

The Transfer will not impact on CA's existing fund structure for managing its long-term business. All of the long-term business of CASLP will transfer into CA's Remaining Part.

5.4. Business transferring

The portfolio of business to be transferred (the Transferring Business) is defined in the Scheme. It represents all of the business in CASLP, which consists predominantly of unit-linked business.

It should be noted that the Scheme is not intended to include the two CASLP subsidiary business CASFS and CASLPTS, which are mentioned in Section 4. These businesses will become subsidiary businesses of CA via a separate legal mechanism.

All assets of CASLP will be transferred to CA, except those required to cover the regulatory minimum capital (the MCR) which will be maintained within CASLP until such time as CASLP is deregulated.

A summary of the transferring business, in terms of policy numbers and BEL, is provided in the table below.

CASLP policy numbers and BEL : Q4 2022				
Business Group	Policies	Gross BEL £m	Reinsured BEL £m	Net BEL £m
Unit-linked life	16,335	904.0	3.2	907.1
Unit-linked pensions	42,612	1,590.4	0.0	1,590.4
Non-linked non-annuity	1,312	0.8	(0.4)	0.4
Annuity	6,369	46.6	-	46.6
Total	66,628	2,541.8	2.8	2,544.5

The tables below provide a summary of the existing CA business (pre Transfer), and the combined CA business (post Transfer).

CA policy numbers and BEL : Q4 2022				
Business Group	Policies	Gross BEL £m	Reinsured BEL £m	Net BEL £m
Remaining Part				
Unit-linked life	24,529	355.1	(6.6)	348.5
Unit-linked pensions	70,840	1,033.7	(34.8)	999.0
Non-linked non-annuity	75,972	80.8	(50.2)	30.6
Annuity	7,280	56.0	(47.1)	8.9
CA with-profits	212	32.6	(32.4)	0.2
Sub-total Remaining Part	178,833	1,558.1	(171.0)	1,387.1
Ring-fenced with-profit funds				
SPP with-profits	21,510	186.8	-	186.8
SPI with-profits	1,646	9.8	-	9.8
Sub-total RFFs	23,156	196.6	-	196.6
Total	201,989	1,754.7	(171.0)	1,583.7

The CA breakdown by legacy business is:

CA policy numbers and BEL : Q4 2022		
Business Group	Policies	BEL £m
Remaining Part		
CA policy numbers and BEL : Q4 2022	20,522	345.7
ex-CWA	31,052	571.5
ex-S&P	55,410	586.6
ex-PtL	71,849	54.3
Reinsurance asset		(171.0)
Sub-total Remaining Part	178,833	1,387.1
Ring-fenced with-profit funds		
SPP	21,510	186.8
SPI	1,646	9.8
Sub-total RFFs	23,156	196.6
Total	201,989	1,583.7

CA (post Transfer) policy numbers and BEL : Q4 2022		
Business Group	Policies	BEL £m
CA (pre Transfer)	201,989	1,583.7
CASLP	66,628	2,544.5
Total	268,617	4,128.2

5.5. Excluded policies, Residual assets and liabilities

The Scheme contains provisions to deal with Excluded policies, which are policies that on the Transfer Date will not be transferred from CASLP to CA. Similarly there could be residual assets or liabilities that are not able to be transferred. In practice, it is not expected that there will be any Excluded policies, or residual assets or liabilities.

If there are any Excluded Policies, then these will be retained by CASLP as appropriate and it is intended that CASLP will enter into a reinsurance arrangement, the effect of which will be to reinsure the liabilities in respect of the Excluded Policies from CASLP to CA on original terms and all amounts which become payable by CASLP in respect of the Excluded Policies will be reimbursed by CA.

Policy administration of Excluded Policies will be the same as before the Transfer Date.

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

5.6. Administration and Reinsurance arrangements

Administrative and investment management agreements will be transferred to CA under the terms of the Scheme. There will be no changes to the terms or service level agreements with CASLP outsourcing partners, except for any name changes that are required.

It should be noted that ahead of the Transfer CASLP would intend to enter into outsourced arrangements to undertake certain administration and operational functions. Post Transfer, if there are any residual administration or operational arrangements that could subsequently be outsourced, then these will be initiated by CA (subject to such arrangements being overseen by appropriate governance arrangements and reflecting the arrangements that had been in place, and considering any customer issues). There is no expectation that on the date of Transfer that there would be any immediate changes to the administration arrangements of CASLP policies.

Reinsurance arrangements and other contracts maintained by CASLP with third parties on the Transfer Date will be transferred to CA under the terms of the Scheme. This includes the reinsurance arrangement with Munich Re, the insurance contract that CASLP holds with Allianz and contracts with other counterparties such as outsourcing companies, custodians, investment managers, professional services firms and banks.

5.7. Management of unit-linked business

Unit-linked funds will be created within CA's Remaining Part that have the same investment objectives as the CASLP unit-linked funds so there will be no changes from the CASLP policyholders perspective.

All assets and liabilities of the CASLP unit-linked funds will be transferred to the corresponding CA unit-linked funds created to replace them, on the transfer date. The new series of funds will operate in exactly the same way and offer the same rights as the original funds, which includes any switching rights. The same value and number of units will be in place on the Transfer Date.

As is currently the case with the CASLP Board, if the CA Board consider it impracticable or not in the best interests of policyholders to maintain any linked fund after the Transfer Date, it will be allowed to merge, divide or close any linked fund or to change its investment objectives subject to the proposed action not being precluded under the terms of any policy attached to the fund. The CA Board will be required to take the advice of the CA Chief Actuary prior to implementing any re-organisation of the linked funds and to take into consideration the interests of policyholders, which would include consideration of fairness to policyholders and reasonable expectations. For example, the provisions allow for CA to provide policies with a switch (within the first 12 months after any such change, and without charge) to an alternative CA linked fund (of

the policyholder choice), or if any group of policyholders was considered to be financially disadvantaged then CA would make appropriate adjustments to treat policyholders fairly.

5.8. Alterations to the Scheme

The Scheme permits amendments to be made to its terms after the Transfer Date to the extent that there is express provision to do so in the Scheme or if CA applies to the Court to amend the Scheme.

In the latter case, CA must notify the UK regulatory authorities of its intention to make an application to Court and the application itself must be accompanied by a certificate from an independent expert to the effect that, in his opinion, the amendment will not have a materially adverse effect on the interests of CA policyholders or the holders of Transferred Policies, or the Excluded Policies, including in respect of the security or reasonable benefit expectations of or level of service provided to such policyholders.

5.9. Costs of the Transfer

The following costs will be met by Chesnara:

- the costs and expenses incurred by the IE;
- any costs and expenses in relation to the appointment and advice of Counsel in respect of the Scheme;
- any Court fees;
- any fees of any Regulatory Authority incurred;
- any advertisements placed in respect of the Scheme; and
- the costs of notifying Transferring Policyholders

5.10. Governance

After the Transfer Date, the Governance arrangements for the oversight are expected to continue in line with existing arrangements. The CASLP transferring policies will be subject to the same Chesnara governance arrangements as had applied pre-Transfer, and there will be no change to the existing CA policies. It should be noted that there will be no impact on the existing arrangements for the with-profits business of CA.

The linked pricing procedures and monitoring arrangements that exist for CASLP will continue to apply, unaltered after the Transfer Date.

5.11. Communication of the transfer to policyholders

Regulatory requirements

Requirements for communications with policyholders are set out in regulations made under the FSMA. The regulations require that a notice is sent to every policyholder of both CA and CASLP informing them of the proposed transfer.

The regulations also require that a notice stating that an application to Court has been made for an order sanctioning the proposed transfer must be published in (i) the London, Edinburgh and Belfast Gazettes; and (ii) two national newspapers in the UK.

CA and CASLP have each developed a Communications Strategy setting out how they will communicate with policyholders in relation to the proposed transfer in accordance with the regulations.

In respect of the mailing to transferring policyholders, CASLP intends to take account of the statutory definition, regulatory guidance and market practice in determining which individuals are considered “policyholders” in this context. Subject to the waivers set out below, CASLP intends to send each transferring policyholder a communications pack, consisting of a covering letter specific to their circumstances together with a scheme summary signposting the website for further detail, a summary of the Independent Expert’s report, the date of the proposed final hearing and information on how to object (should they wish to do so).

This mailing is planned to take place in following the Directions Hearing (which is scheduled for 26 July 2023). In addition, paper copies of the full Scheme document and full Independent Expert’s report will be provided without charge upon request and will be available on both the CA and CASLP websites.

It is proposed to carry out a programme of newspaper advertising within the UK that exceeds the legal requirements set out in the regulations. Notice of the application will be published as required in the London, Edinburgh and Belfast Gazettes.

CASLP will also publish notice of the application in at least two national UK newspapers.

Dispensations and waivers being sought

CA intends to seek a waiver from writing to its existing policyholders. This is on the grounds that the Transfer is not expected to have any impact on these policyholders (as described in the various actuarial reports, including this Report, the CA WPA report, the CASLP Chief Actuary report, and the IE report).

CASLP intends to seek a number of dispensations from the Court to waive the obligation in the regulations to write to all policyholders. These are set out below.

- *“Gone-aways”*: “Gone-aways” are policyholders for whom CASLP does not have current addresses. These policyholders will already have been through CASLP’s standard goneaway tracing process at the time they were reported as gone-away and then generally every three years thereafter. In response to FG 16/8 – “Fair Treatment of Long-standing Customers in the Life Insurance Sector”, Sanlam Life & Pensions (SLP) progressed a program of work to locate their Gone Away customers. The project to screen and trace the identified customer base was conducted in partnership with a specialist tracing firm, Equiniti (EQ). CASLP re-engaged with EQ in July 2022 to perform gone away tracing on the entire SLP book (not just those flagged as gone away). This is to adhere to FG16/8, but also to screen the entire book in preparedness for the Part VII activity. Other tracing efforts will be made including such sources as Experian, Google searches and BT directory enquiries. Any policyholders for whom CASLP has been unable to obtain contact details following all of these processes will be excluded from the mailing. Goneaways represent c.24% of transferring customers as at December 2022.
- *Minors*: CASLP intends to seek a dispensation where the policyholder is under the age of 18 whereby the communication will be sent to the policyholder’s legal guardian(s).
- *Power of Attorney*: CASLP intends to seek a dispensation for policyholders who have in place attorneys with a power of attorney whereby the communication will be sent to the nominated attorney.
- *Multiple policyholders*: CASLP intends to seek a dispensation in respect of multiple policyholders on the basis that, where multiple policyholders live at the same address, they will be sent a single communication addressed to both policyholders.
- *Unknown policyholders*: CASLP intends to seek a dispensation to cover certain situations where individuals have become policyholders without CASLP having been notified (e.g. contingent annuitants where written on an “any spouse” basis).
- *Beneficiaries and Dependents*: CASLP intends to seek a dispensation in respect of policies where a dependent or beneficiary would have a right in the event of the death of the main policyholder
- *Non-transferring policyholders*: The expectation is that there will not be any policyholders who are not transferred.

6. Financial position of CA before and after the Scheme

6.1. Background

This section of the report considers the expected financial impact on CA following the transfer of business from CASLP. The financial position is assessed using the Solvency II balance sheet.

6.2. Balance sheet showing combined position

The table below shows the financial positions of CA and CASLP on solo bases, and the expected combined position (on the basis that the Scheme had taken place at Q4 2022).

The expected synergy benefit arises due to operational synergies (albeit already within the CASLP and CA expense bases) and diversification within the SCR which also benefits the Risk Margin.

Pro-forma and solo balance sheets at Q4 2022 : €m				
Balance sheet item	CA	SLP	Pro-forma combined CA & SLP	Synergy benefit
No allowance for 2022 dividend				
Assets	1,867.9	2,630.0	4,497.9	-
Technical Provisions	(1,598.6)	(2,557.0)	(4,154.8)	0.8
Other liabilities	(136.8)	(13.5)	(150.3)	-
Own Funds (pre restrictions)	132.6	59.4	192.8	0.8
RFF restrictions	(0.0)	-	(0.0)	-
Foreseeable dividends	-	-	-	-
Own Funds (post restrictions)	132.6	59.4	192.8	0.8
SCR	(64.6)	(35.3)	(99.1)	0.9
Excess assets	67.9	24.1	93.7	1.7
SCR cover %	205%	168%	195%	
Allowing for 2022 dividend				
Assets	1,867.9	2,630.0	4,497.9	-
Technical Provisions	(1,598.6)	(2,557.0)	(4,154.8)	0.8
Other liabilities	(136.8)	(13.5)	(150.3)	-
Own Funds (pre restrictions)	132.6	59.4	192.8	0.8
RFF restrictions	(0.0)	-	-	0.0
Foreseeable dividends	(46.0)	(10.0)	(56.0)	-
Own Funds (post restrictions)	86.6	49.4	136.8	0.8
SCR	(64.6)	(35.3)	(99.1)	0.9
Excess assets	21.9	14.1	37.8	1.7
SCR cover %	134%	140%	138%	

Note that pro-forma combined Technical Provisions are broken down into £4,128.2m BEL and £26.6m Risk Margin.

The pro-forma balance above allows for the impact of diversification within the SCR and Risk Margin.

Both firms currently use the Solvency II Standard Formula approach to assessing the SCR, and it is expected that this is likely to remain appropriate for CA following the transfer of CASLP.

The table shows that following the transfer the combined CA business will have a healthy solvency ratio of 138% of its SCR. The position is slightly increased from the CA pre-transfer ratio of 134%, which reflects that CASLP has a higher ratio of 140% (which already reflects expected Part VII cost synergies), and this acts to enhance the SCR% coverage slightly post-transfer.

The estimated impact of the removal of the VA on the pro-forma post-Scheme SII Balance Sheet is shown in the following table.

	CA	CASLP	Combined
Own funds	(1.9)	(1.2)	(3.0)
SCR	2.0	0.1	2.1
Surplus	(3.9)	(1.2)	(5.1)
Solvency ratio	(7.0%)	(4.0%)	(6.0%)

6.3. Pro-forma capital requirements

The table below shows the capital requirements and overall SCR positions of CA and CASLP on solo bases, and the expected combined position (on the basis that the Scheme had taken place at Q4 2022).

In addition, within its Own Risk and Solvency Assessment (“ORSA”) CA has considered the post transfer balance sheet under a number of sensitivities to both market conditions and changes to demographic assumptions. The solvency position remains robust to a range of adverse scenarios, with CA continuing to cover the SCR.

Pro-forma and solo SCR assessment at Q4 2022 : €m				
Balance sheet item	CA	SLP	Pro-forma combined CA& SLP	Synergy benefit
Interest	5.1	2.0	7.1	-
Equity	35.4	8.0	43.1	(0.3)
Property	2.1	0.4	2.5	-
Spread	8.3	6.0	14.3	-
Concentration	1.3	-	1.1	(0.2)
Currency	10.3	5.4	15.7	-
Diversification	(14.1)	(5.7)	(19.9)	(0.0)
Market Risk	48.3	16.0	63.8	(0.5)
Counterparty Default Risk	3.5	1.4	5.0	0.1
Mortality	3.8	1.0	4.9	-
Longevity	2.6	4.2	6.7	-
Disability	0.3	0.1	0.4	-
Expense	13.5	7.0	20.4	-
Lapse	26.2	19.5	45.7	-
Catastrophe	2.0	0.1	2.1	-
Diversification	(11.3)	(6.5)	(18.0)	(0.2)
Life Underwriting Risk	37.1	25.3	62.2	(0.2)
Health Underwriting Risk	5.0	-	5.0	-
Diversification	(21.4)	(9.1)	(30.7)	(0.2)
Operational Risk	2.7	2.5	5.2	-
Loss Absorbing Capacity of Tax	(10.5)	(0.8)	(11.3)	-
Solvency Capital Requirement (SCR)	64.6	35.3	99.1	(0.9)

6.4. With-Profits business

The transfer of the CASLP business into CA will not impact on the financial operation or capital management policy relating to the CA with-profits business.

- The with-profits business reinsured to ReAssure will be unaffected by the Transfer.
- There will be no impact on the balance sheets of the ring-fenced SPP and SPI funds.

6.5. Market movements since Q4 2022

Risk-free rates (RFRs) have increased in the very short term (i.e. 1 year) with an increase from 4.46% in December 2022 to 4.55% in March 2023. On average, over the first 20 years March rates are 0.2% lower than December.

Gilt returns (10-year) have followed a similar pattern. Since December 2022 (3.73%) the rates decreased in January (3.41%), increased in February (3.78%)

and decreased again in March (3.48%). The March rates remain below those at year-end until they converge at around the 30-year point.

The volatility adjustment has seen a slight decrease since December, with a decrease in January and slight recovery in February, going from 0.29% down to 0.25% before increasing back to 0.28%. In March this has increased again to 0.31%.

The FTSE 100 index has seen steady growth from December 22 to end February (to 7,876 from 7,513). Many equities saw a large dip in the middle of March but have since started to increase. At the time of writing (25 April), the FTSE 100 had increased to 7,912.

A similar situation has happened with the symmetric adjustment as, while there is an overall increase from Dec to Feb (-2.9% to -0.4%), there has since been a decrease to -0.97% at the end of March.

Inflation has seen an increase since December, from 3.23% to 3.65% in March, at the short end but there is a period of around 12 years in the mid-term (from year 11) where rates in December were higher than March. Inflation is predicted to decrease throughout the year.

The fundamental spread has seen relatively little change since YE22.

Overall inflation has stagnated, only changing from 10.5% in December to 10.1% in March. The target is 2%.

The interest rates at the bank of England have increased from 3.5% at end of December to 4.25% at end of March. This reflects the sharp increases seen in 2022 and is one of the sharpest 3 month increases seen in recent years.

For CA, we estimate that solvency over Q1 will increase by 7% to 141% (from the Q4 2022 position of 134%), primarily due to the run-off of the business. The WP funds' cover ratios are estimated to be fairly stable and remain in healthy positions with SPP rising from 81% to 82% and SPI falling from 102% to 101%.

For CASLP, we estimate that the solvency over Q1 will reduce by 6% to 134% (from the Q4 2022 position of 140%), primarily due to the expense basis being updated to reflect the expected to be final administration OSP commercial terms. It should be noted that this change is also reflected in the CA solvency estimate but is a benefit.

7. Impact of the Scheme on CA policyholders

This section focuses on the impact of the Scheme on the existing CA policyholders.

In particular, I consider the impact of the Scheme on:

- the security of the benefits of the CA policyholders;
- the reasonable benefit expectations of the CA policyholders;
- the wider responsibility to treat customer fairly, under the FCA's Principle 6, including the new FCA Consumer Duty, and
- policy administration in respect of CA policies.

7.1. Risks

As discussed in Sections 4 and 5, the risks to which each of CA and CASLP are currently exposed are broadly similar.

In terms of Solvency II Standard Formula risk capital, and risks:

- CASLP carries a slightly higher proportion of credit risk due to the assets in the non-linked investment portfolio, which are typically invested on a buy and hold basis to achieve the (notional) matching adjustment, and therefore aim for higher yields by having higher proportions invested in lower graded bonds. There is no credit for this in the regulatory balance sheet but CASLP hopes to realise the cash benefits from the illiquidity premium.
- CASLP carries a higher proportion of longevity risk from its annuity book of business which does not have annuity reinsurance (unlike CA). CASLP has less protection business and therefore has lower mortality risk.
- In terms of other market risks, CASLP has a slightly higher exposure to currency risk and slightly lower exposure to equity risk.

CA and CASLP are currently subject to similar operational arrangements, having a central oversight management team and an aligned governance approach, but noting that there are separate Chief Actuaries. CA has certain outsourced administrative arrangements, and it is expected that CASLP's operations will also be largely outsourced by the time of the Transfer. As referred earlier, the strategy is to outsource the administration for CASLP (ahead of the Transfer date), which will align the CA and CASLP operating models. As also referred earlier, this operating model change is planned regardless of the Part VII. However, the challenges of expense management and operational risks are similar.

The larger part of each comp'ny's business is unit-linked, and the main risks are investment related and are borne by policyholders. The risks related to this type of business which could influence security are similar in nature and scale in each of the companies.

Each of CA and CASLP are subject to risks that arise from being part of a group of companies. After the Transfer Date, a simpler UK corporate structure will apply which could suggest a reduced likelihood of the impact of Group risks. In practice there might not be much difference in the way that such Group risks may arise, as they include Chesnara business outside the UK. Hence, Group risk

remains but as it already exists for both entities it is not expected to create any new issues for security or benefit expectations beyond those that currently exist.

Likewise both firms are currently exposed to outsourcing risks, CA's exposure is greater due to its existing outsourcing arrangements. The CASLP business, by virtue of having a greater level of in-house operations, will have less exposure to outsourcing risk, but more exposure to the issues of operating an in-house team for a diminishing book of business. However, in due course, and ahead of the Transfer it is expected that certain administration and operations of CASLP will be outsourced. This is expected to result in CASLP having a similar outsourcing risk profile to CA. It should be noted that the CASLP outsourcing is not a feature or consequence of the Scheme and reflects CASLP strategy to adopt such a business model going forward (as is undertaken by CA).

Overall, the Part VII Transfer is not expected to materially change the risk profile of CA from a risk capital perspective, or in terms of the underlying risk exposure.

7.2. Industry financial reporting developments : IFRS17

Both CA and CASLP are progressing with their implementation of the new financial reporting requirements under IFRS17.

This reporting standard will require figures to be published initially for the CA 30 June 2023 accounting period. Whilst this will require changes to the presentation of the accounting results, including the profit and loss account and balance sheet, it is not expected to have any impact on the Solvency II position of CA (post Transfer). Therefore it is not expected to have any impact on the security of benefits for policyholders.

7.3. FCA Consumer Duty

In recent years the FCA has been consulting and publishing its intended rules, for its new Principle 12, the Consumer Duty, which will come into effect from 31 July 2023. However, it is noted that for closed legacy business, the requirements apply from July 2024 (which applies to the majority of CA and CASLP business).

The FCA has stated that it expects that this duty sets a higher and clearer standard to existing principles by requiring firms to ensure their products and services are fit for purpose and offer fair value, and to help consumers make effective choices or act in their interests.

The Consumer Duty will focus on outcomes which relate to products and services, price and value, consumer understanding and consumer support.

Both CA and CASLP are undertaking programmes to assess the Consumer Duty and implement any changes to processes and procedures that might be necessary. Therefore it is not expected that the Transfer would have any impact

on the application of either firms' implementation of the Consumer Duty, or the position post-Transfer.

7.4. Security of Benefits

The Scheme is expected to have a small reduction in the solvency cover ratio for CA. However, this is expected to be a timing issue, as once dividends are declared the ratio of the combined business would be expected to be no lower than 120% (in line with the Chesnara capital policy and in line with how CA has been run on a solo basis prior to the Scheme). This ratio is expected to build up throughout each subsequent calendar year, until dividends are taken in line with the capital management policy.

The board approved capital management policy has a "dividend paying limit" of 120%; that is a dividend cannot be proposed that takes the post dividend solvency ratio below 120%.

In practice both the CA and CASLP businesses, in their solo form, are subsidiaries of Chesnara, and therefore can utilise capital support from Chesnara if such situations arose. The combination of the businesses under the Scheme does not change this position, whereby the combined business remains a subsidiary of Chesnara.

The operation of the SPP and SPI with-profits funds within CASLP will not be affected by the Scheme and will remain ring-fenced. Therefore, the policyholder with-profits funds within these sub-funds remain protected via their ring-fenced arrangements. Furthermore, for the CA with-profits business that is reinsured to ReAssure, the reinsurance arrangement is unaffected.

In addition, the approach to risk management and capital policy of the CASLP business will be the same as was applied to both businesses prior to the Scheme coming into effect. Hence, in this respect there will be no change to the expected security of the approach in managing the with-profits business.

It is also worth noting that as CA is a UK-regulated company, policyholders' protections and rights as provided by the Financial Services Compensation Scheme are unaffected by the transfer.

Overall, in my view, the security of the existing CA policyholders is not adversely affected by the Scheme.

7.5. Policyholder benefit expectations

For existing CA policies there will be no change to any contractual terms of under the Scheme.

For CA non-profit policies, the benefits payable are set out in policy terms and conditions.

For CA unit-linked policies, the operation of policy terms will not change, and the operation of policy features, such as charges, will continue and will be unaffected by any Scheme terms.

For CA with-profits business, the benefits under such policies have discretionary features, as determined by the relevant operations of the with-profits funds, and the PPFMs. There will be no change to any of the terms or the PPFMs. Furthermore, the ring-fenced operation of the with-profits funds will continue and will be unaffected by the Scheme.

7.6. Administration and reinsurance arrangements

There is to be no change to the administration and reinsurance arrangements for the existing CA policyholders as part of the Scheme.

As indicated earlier in the Report, ahead of the Transfer the CASLP strategy is to move to an outsourced operating model, which will effectively align its business model to be similar to that of CA. Under the Transfer the outsourced arrangements in CASLP will novate to CA, and there will be no change in administrative arrangements.

7.7. Communication to Policyholders

I have considered the terms of the draft Circular and consider that it fairly presents the terms of the Scheme.

7.8. Costs

The costs of preparing the Scheme and presenting it to policyholders and to the Court will be met from shareholder resources and will not directly impact the benefits of policyholders.

7.9. Tax

It is not expected that there will be any adverse tax consequences for policyholders as a result of implementing the Scheme.

7.10. Treating Customers Fairly

I have considered whether the approach adopted in developing the Scheme has been in line with the requirement to “treat customers fairly” (FCA Principle 6) and the “Consumer Duty” (the new FCA Principle 12). In particular, whilst the Scheme will financially achieve benefits for shareholders, I have considered how the following have been addressed:

- The security of policyholder benefits.
- The reasonable benefit expectations of policyholders (including how tax and expenses may be applied).
- The service and administration standard.

- The information needs of policyholders in respect of the Scheme.

I have considered these items in the contexts of the effects of the Scheme in preparing the Scheme Report. In my opinion, both CA and CASLP have given due regard to the need to treat all policyholders fairly in developing the Scheme.

8. Conclusions

Based on the considerations set out in this Report, it is my opinion that:

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

I also support the application for the waivers highlighted in this Report.

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

Rob Goodwin

Chief Actuary

Countrywide Assured plc

9 May 2023

Glossary of defined terms and abbreviations

Abbreviation	Description
AuA	Assets under administration
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
IE	Independent Expert
IFoA	Institute and Faculty of Actuaries
MCR	Minimum Capital Requirement
ORSA	Own Risk & Solvency Assessment
Own Funds	The capital resources, calculated in line with the principles of market consistency, available to meet losses that could arise in the future
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
SCR	Solvency Capital Requirement
VA	Volatility Adjustment
WPA	With-Profits Actuary