

Supplementary Report of the Chief Actuary of Rothesay Life Plc on the Proposed Insurance Business Transfer Scheme Relating to the Transfer of Certain Annuity Business from Rothesay Life Plc to Monument Life Insurance DAC

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Rothesay Life is an insurance company established in the UK and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

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Section 1 Introduction

Background

1.1. The purpose of this supplementary report is to provide an update to a report titled "Report of the Chief Actuary of Rothesay Life Plc on the Proposed Insurance Business Transfer Scheme Relating to the Transfer of Certain Annuity Business from Rothesay Life Plc to Monument Life Insurance DAC" dated 30 March 2020 (the "**Original Report**"), which:

- described my understanding of the proposed insurance business transfer scheme (the "**Scheme**") as defined in section 105 of Part VII of The Financial Services and Markets Act 2000 ("**FSMA**") relating to the transfer of the in-scope long-term insurance business of Rothesay Life Plc ("**Rothesay**") to Monument Life Insurance DAC (formerly Laguna Life DAC) ("**Monument Life**"); and
- considered the implications of the proposed Scheme on the security and benefit expectations of transferring and remaining Rothesay policyholders and other beneficiaries of insurance and reinsurance policies issued by Rothesay, including the principles to treat customers fairly and to manage conflicts of interest fairly.

1.2. This supplementary report provides an update on the matters covered in the Original Report, and has been prepared for the Board of Directors of Rothesay in my capacity as the Chief Actuary of Rothesay.

1.3. While this supplementary report is addressed to the Board of Directors of Rothesay, it will also be provided to the Court, the Independent Expert, the PRA and the FCA in order to assist them with their considerations in relation to the proposed Scheme.

1.4. This supplementary report assumes the reader is familiar with the contents of my Original Report. The contents of this Supplementary Report should be read together with my Original Report, and should be considered together with the material information contained in the Independent Expert's Report and Supplementary Report.

1.5. Terms used in this Supplementary Report have the meanings given to them in my Original Report.

1.6. References to Monument Life should be taken as referring to Monument Life Insurance DAC, an insurer domiciled in Ireland. Monument Re Limited ("**Monument Re**") is Monument Life's ultimate parent and is a reinsurance entity domiciled in Bermuda. References to the Monument Group includes Monument Re and all of its subsidiaries, including Monument Life.

1.7. In this supplementary report I continue to consider the effects of the Scheme on the security and benefit expectations of both the transferring and remaining Rothesay policyholders. As per my Original Report, I present my findings based upon the two larger classes of existing Rothesay policyholders (i.e. transferring policyholders and remaining policyholders) and do not consider any further subdivision to be required.

1.8. I have considered only those effects which I believe are material. In this context I have taken into account both the possible impact and the likelihood of it occurring. Material

means that there is either a realistic possibility of an effect materialising, or that the effect, while unlikely to occur, would be large. Where the effect is highly unlikely to occur or would have negligible impact upon the security and benefit expectations of policyholders, I consider it to be immaterial. However, it is not possible to be certain about the future and therefore it is not possible to be certain about the effects of the Scheme for all policyholders.

1.9. In preparing this supplementary report, I have been in regular contact with the Independent Expert, John Hoskin FIA, of Barnett Waddingham LLP, to consider all aspects of the proposed Scheme in detail, with a view to him providing an independent report (the “**Scheme Report**”) on the likely effect of the Scheme on the policyholders of both Rothesay and Monument Life. The Prudential Regulation Authority (the “**PRA**”) has approved Mr Hoskin as the Independent Expert following consultation with the Financial Conduct Authority (the “**FCA**”). The Scheme Report is required by section 109 of FSMA as part of the procedure for gaining approval of the Scheme by the High Court of Justice of England and Wales (the “**Court**”).

1.10. This supplementary report has been prepared for only those users listed in 1.3 above. As such this supplementary report assumes familiarity with the insurance industry in the UK, including the regulatory and legal framework under which insurance companies operate. Any other readers of this supplementary report may wish to consult relevant publicly available information relating to Rothesay, including the most recent Annual Report and Accounts and Solvency and Financial Condition Report, which can be found on the Rothesay website (www.RothesayLife.com). Further information in respect of Monument Life is available at www.MonumentReGroup.com.

1.11. I note that the Head of Actuarial Function of Monument Life has produced a supplementary report which considers the impact of the Scheme on the transferring policyholders of Rothesay and on the existing policyholders of Monument Life. I have been in regular contact with the actuarial team at Monument Life and we have exchanged draft supplementary reports.

Disclosures and reliances

1.12. These remain as per my Original Report. In summary:

- I do not believe that there are any actual or potential conflicts of interest, other than noting that I am an employee of Rothesay and hold some shares issued by the Rothesay Group
- In forming my conclusions, I have relied upon work carried out by other Rothesay employees or provided by Monument Life and the Monument Group and which I have challenged or investigated personally where material. I have challenged where appropriate but I have not independently reviewed the accuracy of the information provided
- I have made a reasonable effort to assess potential outcomes, however there are inevitable uncertainties that remain
- The opinions and conclusions set out in this supplementary report are my own.

1.13. This supplementary report and the work underlying it have been subject to peer review by Andrew Stoker FIA and this supplementary report reflects the feedback received.

Compliance with Technical Actuarial Standards

1.14. The Financial Reporting Council (the “**FRC**”) sets technical standards for the members of the UK actuarial profession. This supplementary report, when read with my Original Report, is subject to and complies with these standards.

1.15. A full description of compliance with relevant actuarial standards is given in Section 6.

Section 2 Executive summary

The key points to update my Original Report are as follows:

Financial Positions

2.1. My Original Report considered the respective financial positions of Monument Life and Rothesay as at 30 June 2019. I have considered updated financial information as at 31 December 2019 as well as several dates in the first half of 2020 and my original conclusions as set out in my Original Report remain unchanged.

2.2. Monument Life's solvency position in relative terms remains similar to Rothesay's, albeit that Monument Life is a much smaller company. Both companies' solvency is above their target solvency range, and the target solvency ranges as set out in their respective capital management policies provide for similar degrees of policyholder protection

Migration of administration

2.3. Following the effective date of the Scheme, Monument Life will be responsible for the administration of the policies.

2.4. The plans for the migration are on track and there has been a successful dry run with further dry runs planned. I am comfortable that the migration will be successful and in particular that there will be no adverse impact for policyholders. There are appropriate contingency plans in place.

Impact of COVID-19

2.5. My Original Report was prepared as the impact of COVID-19 was starting to emerge. Since then markets have recovered some of their losses and lockdown restrictions are easing both in the UK and the Republic of Ireland.

2.6. I have considered the respective financial position of the Rothesay and Monument Life at a number of dates, including 31 December 2019, 31 March 2020 and selected dates in April and May 2020, in order to ensure that the market impacts are reflected as far as possible. This has not changed my conclusions.

2.7. I have also been conscious of the potential impact on the transfer of the administration and on the service levels, given that people are currently largely working from home. Both Rothesay and Monument Life (and their respective outsourced third-party administrators) have continued to operate well in this environment, and I am confident that the migration can proceed with minimal impact, and that the administration standards offered at Monument Life will be the same standard as currently provided.

2.8. The communications associated with the transfer, including mailings to the transferring policyholders, went ahead as planned and were not impacted by COVID-19.

2.9. I understand that the Sanction Hearing is likely to be held remotely i.e. via video and telephone. Rothesay intend to keep policyholders informed of the logistics and arrangements via their website, which I believe is appropriate.

Consideration of objections received

2.10. Rothesay wrote to all transferring policyholders as contemplated in my Original Report, and publicised the Scheme widely including by making materials available on the Rothesay website.

2.11. As at the date of this supplementary report, Rothesay has received 6 objections to the Scheme, comprising less than 2% of the in-scope transferring population. These objections are discussed in Section 5. I confirm I have read and considered each objection received and the related responses, and that they have not changed the conclusions of my Original Report.

Impact of the Scheme on transferring policyholders

2.12. From consideration of the updated financial positions I remain satisfied that there is no material adverse impact on transferring policyholders, in particular that there is no material reduction in the security of their benefits.

2.13. Given that the purpose of the Scheme is to remove any uncertainty around benefits being paid lawfully after the implementation period following the UK's exit from the EU, I believe the Scheme is a material benefit for the transferring policyholders.

Impact of the Scheme on Rothesay

2.14. For all non-transferring policyholders there is no impact on their benefits as the terms of their policies are not changing, or on the security of benefits as the financial impact of the Scheme on Rothesay is small and positive, and the administration of their benefits will not change.

2.15. The transferring policies make up a very small proportion of Rothesay's overall liabilities and Rothesay has already entered into a reinsurance transaction with Monument Re (as described in my Original Report) which replicates the economics of the transfer, therefore there is negligible net financial impact for Rothesay, other than a small benefit from removing the counterparty risk in respect of Monument Re.

2.16. The Scheme also removes any legal risks associated with servicing these policies after the UK's exit from the EU, therefore there is a benefit to Rothesay (and by extension its policyholders) from the Scheme proceeding.

Opinion of the Chief Actuary

2.17. I have considered the updated information, communications from policyholders (including every objection received) and the draft supplementary reports from both the IE and Monument Life's Head of Actuarial Function.

2.18. My conclusions remain as per my Original Report, namely that:

- the purpose of the Scheme is to remove the risk that the benefits due to the transferring policyholders may be interrupted as a result of the UK leaving the EU and in my opinion the Scheme achieves that aim;

- the security of the transferring policyholders is not likely to be adversely affected as a result of the proposed transfer;
- the reasonable benefit expectations of the transferring policyholders are not likely to be adversely affected as a result of the proposed transfer;
- the administrative arrangements applicable to the transferring policyholders are not likely to be adversely affected as a result of the proposed transfer;
- the security of the remaining policyholders of Rothesay is not likely to be adversely affected as a result of the proposed transfer;
- the reasonable benefit expectations of the remaining policyholders of Rothesay are not likely to be adversely affected as a result of the proposed transfer;
- the administrative arrangements applicable to the remaining policyholders of Rothesay are not likely to be adversely affected as a result of the proposed transfer;
- there are no features of the proposed Scheme that appear to me to breach either of the principles to treat customers fairly or to manage conflicts of interest fairly; and
- there are no features of the proposed Scheme that appear to me likely to prejudice Court approval of the Scheme.

Section 3 Background to the Scheme

Overview of Scheme

3.1. The in-scope transferring policies comprise a block of around 400 in-force policies which were originally written using cross-border 'passporting' permissions by a UK insurer, MetLife Assurance Ltd (MAL). MAL was subsequently bought by Rothesay and the policies transferred to Rothesay. With a small number of exceptions the policyholders are domiciled in the Republic of Ireland.

3.2. The business rationale for the Scheme is to transfer the policies which were written under passporting to an insurance company with the necessary licences and permissions within the EU, such that the policyholders can have certainty that their payments will continue to be able to be made lawfully once the implementation period following the UK's exit from the EU expires (expected to be 31 December 2020).

3.3. Under the Scheme, Rothesay will transfer all insurance liabilities associated with the transferring policies to Monument Life, with the exception of a number of excluded liabilities, for example it will remain Rothesay's liability in the unlikely event that there are costs associated with mis-selling of these policies.

3.4. More details are available in my Original Report.

3.5. The intended effective date of the transfer is 7 September 2020.

3.6. It is anticipated that the administration of the transferring policies will be performed by Monument Life using a third-party administrator of its choice, namely Equiniti, from the effective date of the Scheme. Rothesay and Monument Life have agreed to jointly manage this transfer process to ensure that there are no adverse impacts on policyholders.

3.7. The proposed Scheme will not make or result in any changes to terms of the transferring policies or the remaining Rothesay policies.

Updates since my Original Report

3.8. There have been no material changes to the Scheme that I considered at the time of my Original Report.

3.9. The communications plan which was provided to the Court as part of the Directions Hearing in April was put into effect.

3.10. I noted in my Original Report that Monument Life had a number of other portfolio transfers that were in progress and expected to finalise around the same time as this transfer. There have been some changes to the timing and details of those transfers but they do not materially change my assessment. In line with my Original Report I will consider the financial position on a *pro forma* basis, i.e. assuming that those changes have already happened.

Summary of the transferring business

3.11. A summary of the transferring business is set out below (as at 31 December 2019) together with a summary of the remaining policies to provide context:

Table 3.1 Key statistics relating to the transferring policies with a comparison to the remaining policies of Rothesay (31 December 2019)

	Number of in-force policies	Liability value
Transferring policies	400	£114m
Remaining Rothesay business *	820,000	£47,249m
Transferring business as a proportion of Rothesay	<0.1%	0.25%

** Note that this reflects the number of individuals where Rothesay has accepted the risks of paying their annuities, regardless of whether this is direct, via a buy-in contract or inwards reinsurance. Liability value is based on Solvency II technical provisions and is shown net of reinsurance.*

3.12. Since my Original Report the portfolio to be transferred has reduced slightly in size due to deaths within the original portfolio. There have been no other changes to the portfolio. The liability value has changed primarily due to changes in market conditions. The size of the remaining Rothesay business has increased as a result of new business written.

3.13. While the portfolio comprised around 400 policies at the end of 2019, by the time of the mailing this had reduced further to 397 policies as a result of deaths of annuitants.

Impact if the Scheme were to not go ahead

3.14. The rationale for the Scheme is to transfer the policies to an insurer based in the Republic of Ireland, to remove any legal risk for Rothesay and any risk that benefits to affected policyholders might be interrupted, as a result of passporting rights ending following the UK's exit from the EU.

3.15. If the Scheme were not to be sanctioned then Rothesay would consider the reasons for that and attempt to correct any issues with the Scheme, and attempt a similar revised scheme. The impact upon the portfolio which it is intended to transfer to Monument is uncertain, and may depend upon the outcome of the on-going political process between the EU and UK to establish a new trading relationship and any additional transitional period that the Irish government may implement. Rothesay would endeavour to reduce or avoid any adverse impact if possible.

3.16. There would be no material immediate impact upon Rothesay's non-transferring policyholders were the Scheme to not go ahead. If ultimately the Scheme was to not proceed and the reinsurance also terminated such that the full economic risks were recaptured and hence represented on Rothesay's balance sheet, the impact would be less than 1% change in SCR coverage ratio.

Section 4 Impact on transferring and remaining policyholders

Solvency II capital position of Rothesay

4.1. In my Original Report I set out the Solvency II position of Rothesay before and after the proposed transfer as if it had been effective on 30 June 2019. Below I repeat the analysis based upon 31 December 2019.

Table 4.1: Solvency II Pillar 1 financial position at 31 December 2019 before and after the proposed transfer (£m)

Rothesay Life Plc (£m)	Actual pre transfer	Pro-forma post transfer	Impact of Scheme
Net Assets	53,362	53,362	-0.4
Technical Provisions	47,249	47,247	-2
Own Funds	6,113	6,115	+2
Solvency Capital Requirement	3,038	3,032	-6
Surplus	3,075	3,083	+8
SCR cover (%)	201.2%	201.7%	+0.5 pts

4.2. As was the case previously, there is a slight improvement in solvency as a result of the Scheme. This is because the policies in question are reinsured to Monument Re and the transaction was fully funded at the point of sale, with assets transferred to Monument Re, so there is only a very minor improvement due to the release of £6m of reinsurance counterparty SCR and £2m of associated Risk Margin held in respect of Rothesay's exposure to Monument Re prior to the transfer (net of tax).

4.3. Compared to the financial position at June 2019, Rothesay's balance sheet has increased in size (net assets now £53.4bn from £37.6bn) and there has been an improvement in the SCR cover % (now 201.9% pre-transfer, from 176.0%). This is due to new business written in the second half of the year, the associated premium income, together with a capital raise of both equity and debt.

4.4. As noted in my Original Report there are no impacts of the Scheme to consider at the RHUK level beyond those considered at the Rothesay Life level.

4.5. In summary, it remains the case that the proposed transfer will have no material impact on the Solvency II capital position of Rothesay.

4.6. Given the very small positive impact, I conclude there is no change to the financial security of benefits for the remaining (i.e. non-transferring) Rothesay policyholders.

Financial Position of Monument Life

4.7. The Solvency II position of Monument Life before and after the proposed transfer (as if it had been effective on 31 December 2019) is set out below in table 4.2.

4.8. As was the case with my Original Report this presentation considers a pro forma position as if a number of known business activities had taken place at that date, then allows for the proposed transfer. This is a sensible presentation as it allows the impact of those activities to be considered given that they have either already completed (but after 31 December 2019) or are expected to complete in 2020. The expected timing of some of these activities has changed but the effects are materially the same. More details are available in the Supplementary Report of the Head of Actuarial Function of Monument Life.

4.9. This pro forma position also allows for the fact that a planned dividend of €1.5m which was allowed for in the actual Q4 position below was not actually paid.

Table 4.2: Solvency II financial position at 31 December 2019 before and after the proposed transfer

Monument Life Insurance DAC (€m)	Actual Q4 position	Pro-forma Q4 position pre-transfer	Pro-forma Q4 position post-transfer	Impact of Scheme
Eligible Own Funds	28.2	28.3	29.8	+1.5
SCR	10.0	14.6	16.1	+1.5
Surplus over SCR	18.2	13.7	13.7	nil
SCR cover (%)	282%	194%	185%	-9 ppts

4.10. As the policies in question are fully reinsured to Monument Re and this reinsurance will continue after the Scheme effective date but with Monument Life as cedant, there is little change in the solvency position of Monument Life due to the Scheme. As discussed in my Original Report the reinsurance will change from reinsuring 100% of the risk to 90% of the risk, therefore Monument Life will have an increase in the risk associated with the new policies once the Scheme takes effect. It will also have additional counterparty risk, mitigated by the use of a funds withheld structure (which is a form of collateralisation).

Therefore, as a result of the Scheme there is a small increase in both Own Funds and SCR and a small reduction in SCR coverage ratio.

4.11. The impact of the Scheme is similar to that set out in my Original Report. The financial position of Monument Life is also similar to that considered in my Original Report. Therefore, this updated analysis has not led me to change any of the conclusions of that report.

4.12. As noted earlier I have been conscious of the potential impact of COVID-19 on Monument Life's financial position. One of the projects underway is to transfer a block of assets and liabilities from Monuments Life's immediate parent companies into Monument Life, with the ultimate aim of liquidating the parent companies, thus simplifying the structure. This transfer has now taken place, although the full corporate restructure will take place later. Some of this business covers sickness and unemployment and therefore is likely to be adversely impact by COVID-19. I understand that the reserves have been increased to allow for this, and that there are actions which can be taken to mitigate the impact, including increasing future premiums. Therefore I do not anticipate that this will materially adversely impact Monument Life's financial position in a way which would alter the conclusions I reached in my Original Report. I note that the Head of Actuarial Function of Monument Life has reached the same conclusion in his supplementary report.

4.13. I have also considered the impact on COVID-19 on Monument Re, Monument Life's ultimate parent and reinsurer, and have concluded that there is there no material impact that would impact my conclusions.

4.14. My Original Report included a projection of the possible evolution of the solvency position of Monument Life over its business plan. While this projection has not been updated, I have been advised by the actuarial team of Monument Life that an updated projection would produce a very similar future pattern, that is a solvency position which is stable and gradually increasing over time.

Impact on security of benefits applicable to transferring policyholders

4.15. In the analysis below I consider the position of Monument Life. As I did in my Original Report, I will also consider the financial position of Monument Re, given that the companies are closely linked and Monument Re is both reinsurer to and parent of Monument Life.

4.16. As noted above the capital impact to Monument Life upon the Scheme coming into effect would have been small, and Monument Life would have continued to have capital in excess of their regulatory requirements and more than their upper target as set out in their capital management policy.

4.17. The risk profile of Monument Life remains as described in my Original Report.

4.18. As at 31 December 2019 the respective regulatory balance sheets were:

Table 4.4 Comparison of pro-forma balance sheets at 31 December 2019

	Rothesay (pre-transfer) £m	Monument Life (post-transfer) €m
Own Funds	6,113	29.8
Solvency Capital Requirement	3,038	16.1
Surplus	3,075	13.7
SCR cover (%)	201.2%	185%

The numbers shown for Monument Life are pro-forma as if the Scheme had proceeded and also that a number of other planned activities had been completed as at 31 December 2019.

4.19. In my Original Report the respective SCR coverages were 176% (Rothesay pre transfer) and 226% (Monument Life post transfer).

4.20. Both Rothesay and Monument Life continue to operate above their respective upper target for solvency coverage. For both firms this means they are able to take actions to optimise their position according to their business plans, for example to write new business, to change their asset mix or to pay dividends. Therefore, while the positions have changed since my Original Report, it remains my conclusion that Monument Life are appropriately capitalised and there is no deterioration in security of policyholder benefits in moving to Monument Life from Rothesay.

4.21. I have considered the position of Monument Re. As discussed in my Original Report, Monument Re currently reinsures 100% of the portfolio from Rothesay, and following the scheme they will continue to reinsure 90% of the portfolio from Monument Life. They remain well capitalised and their financial position has not changed in any way which would impact my conclusions.

4.22. I remain comfortable that there should be no material reduction in the security of the transferring policyholders as a result of the Scheme.

Impact on policyholder benefits

4.23. As described in my Original Report, there are no changes to the terms and conditions of the policies which are proposed to transfer. In the majority of cases the policies are annuities in payment and the benefits to be paid are fully defined, either a fixed annuity for life or escalating by reference to an external index.

4.24. For a small number of policies yet to come into payment they may have some options, for example to take a lump sum in lieu of some annuity when it comes into payment or to take a transfer value. The terms offered are not guaranteed, as they rely on a firm's assessment of the value of the pension being given up, which will take into account factors including how long they expect policyholders to live on average. Immediately following the Scheme, Monument Life will apply their basis, and they will exercise their discretion to update that basis in a similar way and taking into account the same factors as Rothesay would have. For the first 6 months after the transfer Monument Life will also compare their factor to the one Rothesay would have used and apply whichever one is the most generous.

4.25. In my Original Report I described the analysis that showed based upon analysis using past market conditions, the transfer would have been a benefit to policyholders, i.e. the basis that Monument Life would have applied would have been more generous. That analysis has been repeated and this is still true.

Impact of COVID-19

4.26. Since 31 December 2019 there have been material market movements primarily as a result of COVID-19. Therefore, it is appropriate to consider updating the analysis above to consider later reporting dates.

4.27. I have also discussed the potential longer-term impact of COVID-19 on Monument Life with their actuarial team and this has not altered my conclusions.

4.28. The analyses set out earlier for 31 December 2019 in Tables 4.2 and 4.4 have been carried out again for 31 March 2020.

Table 4.5: Solvency II financial position at 31 March 2020 before and after the proposed transfer

Monument Life Insurance DAC (€m)	Actual Q1 position	Pro-forma Q1 position pre-transfer	Pro-forma Q1 position post-transfer	Impact of Scheme
Eligible Own Funds	27.9	28.0	29.1	+1.1
SCR	8.8	14.3	15.6	+1.3
Surplus over SCR	19.1	13.7	13.5	-0.2
SCR cover (%)	317%	196%	186%	-10 ppts

Table 4.6 Comparison of pro-forma balance sheets at 31 March 2020

	Rothesay (pre-transfer) £m	Monument Life (post-transfer) €m
Own Funds	6,810	29.1
Solvency Capital Requirement	3,723	15.6
Surplus	3,087	13.5
SCR cover (%)	183%	186%

Note that the Rothesay position is the actual reported March position. On a pro forma basis allowing for some management actions which took place in early April the SCR cover would have been 204%.

4.29. This shows that the impact of the Scheme on Monument Life is similar when using the end March conditions. It also shows that the Monument Life solvency position (both actual and pro forma) are above their target level and were not materially impacted as a result of the market conditions in March.

4.30. I have also discussed with the actuarial team of Monument Life the position since the end of March 2020, which includes updated financial positions taking into account market conditions as they were through the worst of the crisis, up to as close as practical to the date of this supplementary report. I can confirm that this has not caused me to change my conclusions, and that Monument Life continued to operate in excess of their upper solvency target throughout.

4.31. The respective financial positions of Rothesay and Monument Life will of course change between now and the effective date of the Scheme, due to management actions, including writing of any new business, as well as changes in market conditions. I do not anticipate that this would change my conclusions.

Impact on administration applicable to transferring policyholders

4.32. I noted in my Original Report that there are no significant administrative changes that will adversely affect transferring policyholders as a result of the proposed Scheme. Given that this is a portfolio of annuities, the majority of which are in payment, administration is relatively simple. Before the transfer, administration is carried out by Mercer on behalf of Rothesay. After the transfer, administration will be carried out by Equiniti on behalf of Monument Life. Equiniti are experienced administrators.

4.33. I continue to be of the opinion that this would not have any material impact on the administration arrangements for the transferring policyholders. I have discussed with the Rothesay administration team the terms and service standards of both Mercer and Equiniti and believe the standards to be equivalent, and in both cases to meet the expectations of policyholders.

4.34. I have also discussed the arrangements for the transfer of records between administrators. There are detailed plans in place that allow for the impact of COVID-19 to ensure that the transfer is as smooth as it can be for policyholders, including contingency plans to deal with any issues that may arise. There is appropriate oversight and governance in place. I have received regular updates on progress and I am comfortable that the plans are progressing well and I have no concerns about the migration, and no reason to believe that there will be any adverse impact upon the transferring policyholders.

Summary

4.35. The updated analysis has not changed my view of the impact of the Scheme on the transferring policyholders. I remain of the view that there is no material adverse impact on the benefits due to the transferring policyholders, the security of those benefits, and no impact due to the change of administration provider.

Section 5 Analysis of objections

Background

5.1. As part of the process, transferring or non-transferring policyholders are able to object to the transfer, setting out reasons why they would be adversely impacted, which will be taken into account by the Court when it decides whether to sanction the Scheme.

5.2. 393 packs with details of the proposed transfer were mailed to transferring policyholders. This comprised the 397 in-force policyholders as at 31 March 2020, less two where despite repeated tracing attempts we held no address, and a further two where a death had been notified to us but had not yet been confirmed. Rothesay followed up via other communication methods with a sample of policyholders to confirm that packs had been received and no packs were returned to Rothesay as a gone-away.

5.3. As at the date of this supplementary report, 6 objections have been received, as well as 18 other queries. All of the objections were made by transferring policyholders. No non-transferring Rothesay or Monument Life policyholders have objected to the Scheme.

5.4. I have read all of the objections received and the responses provided by Rothesay and have taken them into account when considering my updated opinions on the Scheme. Below I summarise the main grounds of the objections received. Note that a single objection may cover one or more of the grounds below. I am satisfied with the responses that have been provided to policyholders.

A concern over financial regulation in Ireland including the potential loss of FSCS protection

5.5. The Financial Services Compensation Scheme (“**FSCS**”) is a fund of last resort which protects policyholders from loss if their provider is unable to pay their benefits. As noted in my Original Report, it is expected that FSCS protection will be retained due to Monument Life’s continued activity in the UK but that this cannot be guaranteed as it ultimately depends on Monument Life’s application for an authorised third-country branch in the UK being approved by the UK regulators. Some policyholders were concerned that this was a material adverse effect as they felt the existence of the FSCS provides a safety net protecting their important annuity income and that there is no equivalent in place in Ireland.

5.6. I understand these concerns. However, in my opinion it is highly unlikely that the FSCS protection will be needed (given the financial strength of Monument Life and the security provided by the regulatory regime in Ireland), and that in any event it is likely to be retained based upon Monument’s plans to seek authorisation for a third-country branch in the UK. Therefore, I do not consider this to constitute a material adverse impact.

5.7. One policyholder expressed concerns over the wider regulatory regime in Ireland, considering it weaker than the UK regime. As discussed in my original report both firms are subject to the same prudential regime, namely Solvency II, and I noted that (with the exception of FSCS) the conduct and consumer protection rules were similar. As such I do not consider that being subject to the Irish regime rather than the UK regime constitutes a material adverse impact for policyholders.

Concerns over Monument Life's financial strength

5.8. Several policyholders objected based upon their view that moving to Monument Life reduced the security of their benefits. This was based upon the size of Monument Life relative to Rothesay, or the fact that it was an unknown entity. Some policyholders expressed a preference to be transferred to a more well-known insurer.

5.9. As noted in Section 4 of this supplementary report, although Monument Life is smaller than Rothesay it is relatively well capitalised, comparable to Rothesay and with a similar capital management policy. I do not consider size or profile to be a reliable indicator of the financial strength of a company. As per my earlier analysis, I consider that there is no material reduction in the security of benefits as a result of the proposed transfer. I note that the Independent Expert has also reached the same conclusion in his supplementary report.

Concerns over the timing of the transfer

5.10. Several policyholders raised objections that the timing of the transfer was inappropriate given the uncertainty raised by the on-going COVID-19 pandemic. One considered that it was likely that an additional transitional period would be implemented by the Irish government and therefore that Rothesay could continue to pay benefits for up to three years, and that in light of the COVID-19 pandemic, the UK and the EU may agree a further extension to the implementation period.

5.11. Rothesay considers it is important to conclude the transfer before the end of 2020 when the Brexit implementation period expires and it is anticipated that passporting rights will end and UK insurers will no longer have direct access to the EU market. I agree that it is important to conclude the process as soon as possible and therefore provide certainty for all parties, in particular the transferring policyholders. It now appears that the implementation period will not be extended, and while it is possible that the Irish government may introduce a transitional period allowing UK insurers to continue to service their existing Irish business for a period, I do not believe it would be prudent to rely upon the outcome of any particular political process, noting that any such measures would be temporary and unlikely to cover the full potential duration of these annuities (i.e. 40 years or more).

5.12. I considered the potential impact of COVID-19 on Monument Life earlier in this supplementary report, and concluded that my original opinions remained valid.

Requesting a transfer to another provider

5.13. One policyholder requested their annuity be transferred to a provider of their choice. This is not an option that is available to annuitants.

Summary

5.14. I have considered the content of the objections received. These have all been provided to the Court, to the Independent Expert and to the regulators. I do not consider that any of the concerns expressed provide valid reasons to change my opinions as set out earlier. I note that the Independent Expert has reached the same conclusion.

Section 6 Compliance with actuarial standards

6.1. The Financial Reporting Council (“**FRC**”) sets Technical Actuarial Standards (“**TASs**”) for members of the UK actuarial profession.

6.2. The TASs relevant to this work are:

- TAS 100: Principles for Technical Actuarial Work
- TAS 200: Insurance

6.3. I have considered the extent to which TAS 300: Pensions applies, and I have concluded that although the insurance policies in scope of the Scheme cover benefits originally provided by pension schemes (i.e. through buy-out policies), the Scheme and the associated reinsurance are solely in relation to insurance arrangements, and hence TAS 300 does not apply.

6.4. I have also taken into account guidance issued by the Institute and Faculty of Actuaries (“**IFoA**”) in relation to the TASs.

6.5. It is my assessment that this supplementary report together with my Original Report, and the underlying work, complies with the relevant TASs.

6.6. The IFoA issues Actuarial Professional Standards (“**APSs**”) which members must comply with. I have considered the requirements of APS X1: Applying Standards to Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries and applied them to the extent relevant.

6.7. This supplementary report has been prepared in accordance with the Actuarial Professional Standard APS X2: Review of Actuarial Work. The drafting of this supplementary report included an internal review by another actuary in the company, Andrew Stoker FIA, and I have taken his feedback into account when producing this supplementary report. This supplementary report has also been reviewed by both internal and external legal counsel. The Scheme is subject to independent review by the Independent Expert which provides a further review of the conclusions of this supplementary report. I am satisfied that in the context of the Scheme and the purpose of this supplementary report that this is sufficient peer review.

Simon Johnson, FIA

Chief Actuary, Rothesay Life Plc

7 July 2020

Glossary of terms used

Chief Actuary	The actuary appointed by Rothesay to carry out the duties set out in the Actuaries section of the PRA rulebook
Court	The High Court of Justice of England and Wales
Excluded Liabilities	Liabilities associated with the transferring policies but which will not transfer from Rothesay to Monument Life under the Scheme, e.g. tax liabilities, misselling and historic breach liabilities.
FRC	Financial Reporting Council
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services & Markets Act 2000
Group	Rothesay HoldCo UK Limited and its subsidiaries
Head of Actuarial Function	The actuary appointed by Monument Life to carry out duties of the PCF-48 role, as set out in the CBI's regulations and guidelines
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA
Monument Life	Monument Life Insurance DAC (named Laguna Life DAC until 2 April 2020).
MAL or RAL	Rothesay Assurance Limited (formerly MetLife Assurance Limited)
Monument Re	Monument Re Limited, the parent company of Monument Life
Original Report	My report considering the impact of the Scheme on Rothesay's policyholders, which this Supplementary Report updates.
ORSA	Own Risk and Solvency Assessment. An internal assessment a company makes of its own risk profile and hence the capital needed to allow for those risks
Own Funds	A company's assets minus its liabilities, assessed on a Solvency II basis
PIM or Partial Internal Model	Partial Internal Model, a type of internal model which may be used to calculate a company's SCR, subject to regulatory approval. Some of the risks are modelled using a bespoke internal calculation, with the remaining risks using the Standard Formula approach
PRA	Prudential Regulation Authority
RHUK	Rothesay HoldCo UK Limited, the parent company of Rothesay

Rothesay	Rothesay Life Plc
Scheme	The proposed insurance business transfer scheme relating to the transfer of a defined block of business from Rothesay to Monument Life
Scheme Report	The report by an Independent Expert required as part of the procedure for gaining approval of the Scheme by the Court
SCR	Solvency Capital Requirement under Solvency II
Standard Formula	A defined method for calculating a company's SCR, using techniques and calibrations intended to be applicable for the majority of insurance companies
Supplementary Report	This report, being an update to my Original Report, produced before the secondary Court hearing reflecting any material changes that have occurred in the businesses
Surplus	The excess of a firm's Own Funds over its SCR
Technical Provisions	Solvency II base liability calculated as a sum of the Best Estimate Liability plus Risk Margin net of any transitional provisions
