

Rothesay Life Plc & Monument Life Insurance DAC

Supplementary Report of the Independent Expert on the
proposed Scheme to transfer certain long-term insurance
business from Rothesay Life Plc to Monument Life Insurance
DAC

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1 Introduction

1.1 The Independent Expert

- 1.1.1 When a scheme for the transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales (the Court) for approval, it has to be accompanied by a report from an Independent Expert. The report from the Independent Expert primarily considers the likely impact of the scheme of transfer on the policyholders of the companies involved in the transfer.
- 1.1.2 I have been appointed as the Independent Expert to provide the required report on a proposed scheme (the Scheme) for the transfer of a portfolio of non-profit annuity policies (the Transferring Policies, with each individual policy among the Transferring Policies being a Transferring Policy) from Rothesay Life Plc (Rothesay) to Monument Life Insurance DAC (Monument Life)¹.
- 1.1.3 I have been appointed jointly by Rothesay and Monument Life (the Companies) with the costs of my work being split equally between the Companies. My appointment as Independent Expert was approved by the Prudential Regulation Authority (PRA) after consulting with the Financial Conduct Authority (FCA). The PRA and FCA (together the UK Regulators) are responsible for regulating insurance companies in the United Kingdom (UK).
- 1.1.4 The Scheme will be submitted to the Court at a hearing (the Sanction Hearing), expected to be on 22 July 2020, for sanction under Section 111 of Part VII of the Financial Services and Markets Act 2000 (FSMA). If approved, it is expected that the Scheme will become operative and take effect on 7 September 2020 (the Transfer Date).
- 1.1.5 I understand that the Sanction Hearing may take place remotely and, if so, that arrangements will be made to allow affected parties, including policyholders of Rothesay and Monument Life, to be heard by the Court.

1.2 Reason for the proposed transfer

- 1.2.1 Rothesay has a portfolio of policies written in the Republic of Ireland (Ireland) under the European Union (EU) "freedom of services" arrangements.
- 1.2.2 Following the UK's withdrawal from the EU, it is expected that Rothesay will be unable to lawfully service these policies from the UK over the long term (including the payment of benefits to policyholders). Rothesay will continue to be able to lawfully service these policies during the withdrawal transitional period, also known as the Implementation Period, which, under the terms of the withdrawal agreement between the UK and the EU, will last until 31 December 2020. However, Rothesay will be unable to continue to do so indefinitely after the Implementation Period unless the UK and the EU agree a long-term trading arrangement that preserves freedom of services for insurance business.
- 1.2.3 Rothesay has chosen to resolve this issue by transferring the Transferring Policies to Monument Life, an Irish-regulated insurance company, under the Scheme. A secondary benefit of the proposed transfer is that it will simplify Rothesay's operations, which will then be entirely within the UK.

¹ The transferee company was previously called Laguna Life DAC, but was renamed Monument Life Insurance DAC on 2 April 2020, in preparation for planned consolidation with other group companies.

1.2.4 In preparation for the transfer of the Transferring Policies, Rothesay has entered into a reinsurance agreement (the Reinsurance Agreement) with Monument Life's ultimate parent company, Monument Re Limited (Monument Re), which transferred the majority of the risks and rewards associated with the Transferring Policies to Monument Re. The Reinsurance Agreement will transfer to Monument Life under the Scheme. Monument Life and Monument Re will, before the Sanction Hearing, enter into a deed amending the Reinsurance Agreement with effect from the Transfer Date. I refer to the amended agreement that will be in place between Monument Life and Monument Re immediately following the proposed transfer as the Amended Reinsurance Agreement (as described in sub-section 7.6 of my Report).

1.3 Purpose of report

1.3.1 I prepared a report for the Court dated 27 March 2020 (my Main Report) in which I considered the proposed transfer and assessed its impact on three groups of policyholders:

- Transferring Policyholders: The holders of the Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
- Rothesay Non-Transferring Policyholders: The holders of existing Rothesay policies as at the Transfer Date that will not transfer to Monument Life under the Scheme (the Rothesay Non-Transferring Policies) and any other individuals who are or may become entitled to receive benefits under these policies.
- Monument Existing Policyholders: The holders of existing Monument Life policies as at the Transfer Date (the Monument Existing Policies) and any other individuals who are or may become entitled to receive benefits under these policies.

1.3.2 In my Main Report I stated that, based on the information that was available at that time, I was satisfied that the implementation of the Scheme would not have a material adverse effect on:

- the security of the benefits of the policyholders of Rothesay and Monument Life, including the Transferring Policyholders
- the reasonable expectations of the policyholders of Rothesay and Monument Life in respect of their benefit expectations, service standards, management and governance, including the Transferring Policyholders.

1.3.3 In my Main Report, I said I would provide an update on the following matters in advance of the Sanction Hearing:

- the financial position of the Companies, including the audited financial information as at 31 December 2019
- progress against the plan for the migration of policy data and administration from Rothesay to Monument Life
- Monument Life's planned transactions and staffing levels
- the development of the Covid-19 pandemic
- Monument Life's liaison with the Irish Revenue to ensure Transferring Policyholders do not suffer unintended tax consequences
- the arrangements that will apply following the transfer for eight policyholders that currently receive payments from Rothesay that include annuity payments from two third-party insurance companies.

- 1.3.4 The purpose of this report (my Supplementary Report), which has also been prepared for the Court, is to provide those updates, to re-cap the rationale for the conclusions set out in my Main Report and to confirm that my conclusions concerning the Scheme remain unchanged.
- 1.3.5 **I confirm that, having considered the information that has become available to me, the issues that have been raised by policyholders who have objected to the Scheme and the events that have occurred since the date of my Main Report, my overall conclusions concerning the Scheme given in paragraph 1.3.2 remain unchanged.**
- 1.3.6 My Main Report and Supplementary Report (my Reports) will be presented to the Court at the Sanction Hearing and the Court will consider the contents of my Reports in deciding whether to approve the Scheme.
- 1.3.7 My Supplementary Report should be read in conjunction with my Main Report and both should be read in their entirety. The terms used in my Supplementary Report have the same definitions as those in my Main Report and can be found in the Glossary of my Main Report.
- 1.3.8 Details of my appointment, my qualifications, disclosures and the reliances and limitations applying to my work are provided in my Main Report.

1.4 Professional standards

- 1.4.1 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise in accordance with Part 35 of the Civil Procedure Rules. This duty overrides any obligation to the Companies from whom I have received instructions. In my opinion, I have complied with this duty, and I confirm that I will continue to comply with this duty. A statement of my compliance with Part 35 of the Civil Procedure Rules is given in Appendix A.
- 1.4.2 The Financial Reporting Council sets out Technical Actuarial Standards (TASs) for members of the Institute and Faculty of Actuaries. My Supplementary Report, along with the work carried out to produce it, is subject to and, in my opinion, complies with the following standards:
- TAS 100: Principles for Technical Actuarial Work
 - TAS 200: Insurance.
- 1.4.3 The Institute and Faculty of Actuaries sets actuarial professional standards for its members. My Supplementary Report, along with the work carried out to produce it, is subject to and, in my opinion, complies with APS X2: Review of Actuarial Work. In particular, my Supplementary Report has been independently peer reviewed by a senior actuary who has previously acted as an Independent Expert on a number of schemes of transfer and who has not otherwise been part of the team working on this assignment. I have also considered APS L1: Duties and Responsibilities of Life Assurance Actuaries when carrying out my work.

1.5 Reliances and sources of information

- 1.5.1 In performing my review and in preparing my Supplementary Report, I have relied on the accuracy and completeness of information provided by the Companies, including information received orally, without independent verification. Any oral discussions material to my considerations have been subsequently confirmed in writing. I have reviewed the information provided for consistency and reasonableness using my knowledge of the life assurance industry in the UK and Ireland. I have also had access to, and discussions with, senior management of the Companies.

- 1.5.2 In a number of areas I have challenged the information presented to me, and/or have sought additional information and explanations to ensure that I could rely on that information. I have listed the financial information, data and written information that I have relied on for my Supplementary Report in Appendix B.
- 1.5.3 There are no documents or other items of information that I have requested and that have not been provided.

1.6 Distribution and use

- 1.6.1 My Supplementary Report has been written in accordance with English law. It is commissioned by the Companies and has been prepared primarily for the Court and for the use of the Companies and solely for the purpose of assisting in determining whether the Scheme should be permitted. Policyholders, reinsurers and any others affected by the Scheme may also place reliance on my Reports. My Reports should not be used for any other purpose.
- 1.6.2 Neither Barnett Waddingham, its partners and staff, nor I owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature, which is caused by any other party's reliance on representations in my Supplementary Report.
- 1.6.3 No liability will be accepted for the use of my Supplementary Report for which it was not intended or for the results of any misunderstandings by any user of my Supplementary Report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.6.4 My Supplementary Report should be considered in its entirety, as parts taken in isolation may be misleading. Draft versions of my Reports should not be relied upon for any purpose. A copy of the final version of my Supplementary Report may be provided to the following parties:
- the Court, to assist in determining whether the Scheme should be permitted
 - the Directors and senior management of Rothesay and its associated group companies
 - the Directors and senior management of Monument Life, Monument Re and other associated group companies
 - the UK Regulators, for the purposes of the performance of their statutory obligations under the FSMA
 - other insurance regulators who have a legitimate interest in the Scheme, including the Central Bank of Ireland (CBI) that is responsible for regulating insurance companies in Ireland
 - the professional advisers of any of the above
 - any policyholders of Rothesay or Monument Life who have previously requested a copy of my Main Report or who have objected to the Scheme
 - any other person who requests it.
- 1.6.5 A copy of the final version of my Supplementary Report will be published on the websites of the Companies. A printed copy will be provided to policyholders who previously requested a copy of my Main Report or who have raised objections to the Scheme and to any other policyholders on request. Otherwise, my Supplementary Report (or any extract of it) should not be published without my prior written consent.
- 1.6.6 The conditions set out in this sub-section are consistent with those that apply to my Main Report.

1.7 Form of my Supplementary Report

1.7.1 The remainder of my Supplementary Report is structured as follows:

- section 2 provides information on relevant developments since the date of my Main Report
- section 3 sets out the updated financial positions of the Companies as at 31 December 2019 and as at 31 March 2020, and the impact of the Scheme on their financial positions
- section 4 provides relevant information concerning the communication of the proposed transfer to policyholders, including details of any objections raised by policyholders
- section 5 contains a summary of my conclusions from my Main Report, the additional information I have considered concerning the updates provided in my Supplementary Report and whether those updates affect the conclusions of my Main Report.

1.7.2 The appendices contain:

- my certificate of compliance with Part 35 of the Civil Procedure Rules
- a list of data and information relied upon for forming my Supplementary Report conclusions.

2 Recent developments

2.1 Introduction

2.1.1 In this section I have considered the following new information since the date of my Main Report that is relevant to my considerations:

- changes to the number of in-force Transferring Policies
- the impact of the ongoing Covid-19 pandemic
- the current position on the UK's exit from the EU (Brexit)
- potential changes to prudential regulation in the UK after Brexit
- progress of the migration of data and policy administration from Rothesay to Monument Life against the migration plan
- updated analysis of the difference in lump sum cash benefits between Rothesay and Monument Life
- an update on recent and planned corporate transactions for Rothesay and Monument Life
- Monument Life's progress against its resourcing and recruitment plans.

2.1.2 I have also received confirmation from the Companies that there have been no changes to the Scheme since the version I reviewed when producing my Main Report and no changes are expected in advance of the Sanction Hearing (other than immaterial changes to add the registered addresses of the Companies and to fill in certain data items and names of supporting files).

2.1.3 The new information does not lead me to change the conclusions from my Main Report. I discuss each area below.

2.2 Transferring Policies

2.2.1 There has been a small change to the volume of in-force Transferring Policies due to deaths during the period. This does not lead me to change the conclusions from my Main Report.

2.2.2 Table 2.1 below shows updated figures for the volume of in-force Transferring Policies as at 31 December 2019. The volume is expressed in terms of both the number of Transferring Policies and the Best Estimate Liability (BEL)² of the Transferring Policies calculated by Rothesay as at 31 December 2019, with a comparison to the total volume as at 30 June 2019 (as shown in section 7.7 of my Main Report).

² The term "Best Estimate Liability" is defined in paragraph 4.3.9 of my Main Report as the best estimate, that is, neither an optimistic nor a pessimistic estimate, of the amount of money the insurance company needs to hold today to be able to pay policyholder benefits in the future on existing business.

Table 2.1: Summary of in-force Transferring Policies

	30 June 2019		31 December 2019	
	Number of in-force policies	BEL £m	Number of in-force policies	BEL £m
Annuities in payment	387	117	381	110
Deferred annuities	19	4	19	4
Total	406	121	400	114

Source: *Rothesay*

2.2.3 The number of Transferring Policies has fallen by six between 30 June 2019 and 31 December 2019. Nine of the policyholders who were included in the in-force count as at 30 June 2019 had died by 31 December 2019 and four new dependent's pensions were set up as a result. One of these dependents had then also died by 31 December 2019, bringing the number of in-force policies to 400.

2.2.4 There have been further changes in the numbers of in-force policies since 31 December 2019, but such changes do not affect my conclusions.

2.3 The impact of Covid-19

Introduction

2.3.1 My Main Report was produced at a time when the Covid-19 pandemic was spreading rapidly in many countries (including the UK and Ireland). Severe "lockdown" measures had been announced earlier that week in the UK and would shortly be announced in Ireland. I considered at that time that it was too early for me to form an opinion on how the Covid-19 pandemic would impact the Scheme.

2.3.2 Having considered information available to me at the date of my Supplementary Report, I am satisfied that the ongoing Covid-19 pandemic does not change my conclusion that the Scheme will not have a material adverse effect on:

- the security of the benefits of the policyholders of Rothesay and Monument Life, including the Transferring Policyholders
- the reasonable expectations of the policyholders of Rothesay and Monument Life in respect of their benefit expectations, service standards, management and governance, including the Transferring Policyholders.

2.3.3 I have formed this opinion taking into account, amongst other things, that as at the date of my Supplementary Report:

- there has been no material adverse impact on the operations of Rothesay, Monument Life or their key outsourcing partners as a result of Covid-19, with staff able to work productively from home and with no material issues regarding ongoing service standards
- there has been no adverse impact on progress against the policy data and administration migration plan which facilitates the transfer of the Transferring Policies from Rothesay to Monument Life

- there is nothing to indicate that, if the pandemic worsens, the operations of one of the Companies would be more adversely affected than the other
- the financial positions of both Rothesay and Monument Life have been resilient, despite the challenging economic conditions
- Monument Insurance DAC (MIDAC), one of the entities whose liabilities have transferred into Monument Life under Project Trinity (see paragraph 6.3.32 of my Main Report and paragraph 2.8.6 below), has strengthened its Technical Provisions (i.e. increased the value placed on its insurance liabilities) to allow for an expected increase in policyholder claims on its policies which provide benefits upon the policyholder becoming ill or unemployed
- both Rothesay and Monument Life have maintained adequate liquidity to ensure assets are available to pay benefits as they fall due, in accordance with their respective liquidity risk management approaches
- the Companies' stress and scenario test results, which estimate the impact of severe adverse events and combinations of events, and which I have reviewed, show that the Companies would continue to meet their regulatory capital requirements following severe adverse scenarios that might arise due to the future development of the Covid-19 pandemic.

2.3.4 The impact of Covid-19 on the financial position of the Companies and hence on the security of policyholders' benefits is considered in section 3. The impact on factors that might affect the reasonable expectations of policyholders is discussed in paragraphs 2.3.11 to 2.3.15 below.

Background

2.3.5 On 23 March 2020, the UK government announced severe restrictions on the movement of people designed to slow the spread of the virus. On 27 March 2020, the Irish government announced similar restrictions in Ireland.

2.3.6 The pandemic and the resulting measures that have been taken to slow its spread have had severe and far-reaching impacts on society and on the economy. The main economic impacts in the context of the Scheme are set out below.

- Many workers have been unable to travel to their normal place of work and many businesses have closed or suffered significantly reduced income.
- As a result, economic activity has fallen sharply since the beginning of the year and unemployment has risen markedly, both domestically and globally.
- Uncertainty over the impact of these effects, both immediately and longer-term, has led to significant reductions in the values of financial assets that depend on the viability and profitability of companies.
- Many governments across the world have announced unprecedented peacetime levels of fiscal and monetary intervention to try to mitigate the economic impacts of the virus.

2.3.7 As at the date of my Supplementary Report:

- the numbers of new Covid-19-related deaths and new cases in both the UK and Ireland have declined significantly from their peak levels and both the UK and Irish governments (along with some other governments across the world) have begun to lift some of the restrictions
- financial markets have recovered from their low point in late March 2020, while remaining significantly below prior recent levels.

- 2.3.8 The medium- to long-term implications of the pandemic on society and the economy have been the subject of much speculation and have been widely reported in the media. The duration of the pandemic and the longer-term impacts on sickness and death rates are uncertain and, while the pandemic is expected to lead to a recession (i.e. a period of economic decline over two or more successive quarter-year periods) in most affected countries, there is significant variation in views as to the potential severity and duration of the recessions and how swift any eventual recovery will be.
- 2.3.9 No one can foresee with any certainty exactly how the pandemic will progress and what the eventual impacts will be. In my analysis, I look at the impacts to date and the potential future impacts in the context of the Scheme to determine whether or not implementing the Scheme at the present time is likely to have a material adverse impact on the policyholders of Rothesay and Monument Life.
- 2.3.10 I consider operational impacts below and the financial impacts in Section 3.

Operational resilience of the Companies

- 2.3.11 Both Rothesay and Monument Life and their key outsourcing partners have implemented their business continuity plans. Both Companies have confirmed to me that, as at the date of my Supplementary Report, their contingency arrangements have prevented any material impact on their operations, including customer service standards. In particular, all Rothesay and Monument Life staff have been able to work from home and are continuing to do so. The Companies are continuing to monitor the situation as it develops, both internally and with their critical outsourcing providers.
- 2.3.12 Following the proposed transfer, the administration of the Transferring Policies will be outsourced by Monument Life to Paymaster (1836) Limited trading as Equiniti Paymaster (Equiniti). Equiniti has administered Monument Life's fixed-term annuity business since April 2019. Monument Life has shared with me its monthly oversight packs setting out the performance of Equiniti. These show that, where performance data is available, Equiniti has continued to meet agreed service standards in April 2020, the month most affected by the lockdown measures. It also met all but one agreed service standard in May 2020, the most recent month for which data was available at the time of finalising my Supplementary Report. The failed service standard in May 2020 stemmed from a delay in a response to a single policyholder and I am satisfied that this does not reflect a material deterioration in service standards overall. Performance metrics relating to how quickly Equiniti has answered policyholder calls are not available for the period over which call centre staff have been working from home (although Monument Life has confirmed that all calls were answered).
- 2.3.13 The Companies have kept me informed of the status of the data and administration migration from Rothesay to Monument Life. As at the date of my Supplementary Report, all key milestones are on track with no disruption to date in respect of Covid-19. More details on the progress of the migration are provided in sub-section 2.6 below.
- 2.3.14 There remains a risk that the number of Covid-19 cases could begin to increase again as lockdown restrictions are lifted, resulting in an increased risk of business interruption caused by staff sickness and a re-introduction of tighter restrictions on movement. However, both of the Companies have demonstrated during the period to date that they are able to work effectively under these sorts of conditions.
- 2.3.15 In such circumstances, it is possible that Rothesay and Monument Life could be affected to different extents reflecting, for example, their locations and the locations of their service providers. However, in my opinion, there is nothing to suggest that one of the Companies will be affected more severely than the other. Therefore, in the context of the Scheme, I conclude that the likelihood of disruption to service

is similar at both Rothesay and Monument Life such that implementation of the Scheme will have no material adverse effect on the reasonable expectations of Transferring Policyholders with regard to maintenance of administration and service standards.

2.4 The UK's exit from the European Union

- 2.4.1 There has been no change to the position with regard to the UK leaving the EU compared with the position as at the date of my Main Report.
- 2.4.2 The UK left the EU on 31 January 2020 with a transitional period, known as the Implementation Period, which, under the terms of the withdrawal agreement between the UK and the EU, will last until 31 December 2020. During this period the UK continues to follow nearly all EU law, in a similar way to prior to 31 January 2020, despite not being a Member State.
- 2.4.3 As stated in my Main Report, following the end of the Implementation Period, it is expected that UK insurance companies will no longer be able to sell or service business written in European Economic Area (EEA) countries under freedom of services or freedom of establishment arrangements. In the context of the Scheme, the consequence of this is that Rothesay expects to lose its ability to lawfully service the Transferring Policies, including the payment of benefits, after 31 December 2020 and after the expiry of any transitional period that may be put in place by the Irish government, unless agreement is reached between the UK and the EU as part of the long-term trading relationship which allows this to happen. This is the primary motivation for the Scheme.
- 2.4.4 A one-off extension to the Implementation Period of up to two years was possible under the terms of the withdrawal agreement between the UK and the EU, but the duration of the extension and its terms would have had to have been agreed jointly by the UK and the EU before 1 July 2020. On 12 June 2020, at the last joint committee meeting between the UK government and the EU Commission before the deadline, the UK government formally notified the EU Commission that the UK government would not be seeking an extension to the Implementation Period. There was no change to this position before the 1 July 2020 deadline and so the Implementation Period is expected to end on 31 December 2020. While an extension to the Implementation Period is still possible, this cannot happen under the current framework and would require a new free-standing agreement to be put in place between the UK and the EU. Such an agreement seems unlikely given the UK government's stance to date.
- 2.4.5 I reported in paragraphs 4.8.10 and 4.8.11 of my Main Report that the Irish government may introduce a transitional period following the end of the Implementation Period that will allow UK insurance companies to continue to operate in Ireland during that transitional period. Introduction of a transitional period is expected but this is subject to confirmation by the new Irish government, which was formed in June 2020.
- 2.4.6 Negotiations between the UK and the EU regarding the long-term trading relationship that will apply following the end of the Implementation Period are ongoing as at the date of my Supplementary Report, with both sides acknowledging that there has been limited progress to date. As at the date of my Supplementary Report, it is uncertain as to whether a long-term agreement will be reached and, if it is, what the terms of any agreement might be.

2.5 Prudential regulation in the UK after Brexit

- 2.5.1 Prudential regulation relates to the financial soundness of firms. At present both Rothesay and Monument Life are subject to the same prudential regime set out under the EU-wide Solvency II regulations.

- 2.5.2 In my Main Report, I stated that prudential regulation in the UK after the Implementation Period will depend upon the terms of any future long-term trading agreement between the UK and the EU.
- 2.5.3 I went on to state that, unless the UK and EU reach an agreement that requires the UK to continue to follow the Solvency II regulations, the UK may change some of the requirements or implement a different prudential regime at the end of the Implementation Period, and that I considered some change almost certain.
- 2.5.4 On 23 June 2020, the UK Chancellor of the Exchequer, Mr Rishi Sunak, made a written statement, which included the UK government's intention to publish a "Call for Evidence" in the autumn of 2020 to seek views on potential changes to some aspects of the UK prudential regime following the end of the Implementation Period. In the statement, Mr Sunak lists a small number of areas for potential change including the calculation of the Risk Margin and Matching Adjustment (see sub-section 4.3 of my Main Report).
- 2.5.5 While Mr Sunak's statement confirms that some changes to the UK prudential regulation are likely to be made, it remains the case that any eventual changes cannot be foreseen with certainty.
- 2.5.6 The future prudential regulatory framework that will apply in the UK is relevant to my consideration of the Scheme, as this is the regulatory framework to which the Transferring Policies will be subject if the Scheme does not go ahead. My analysis of the effects of the Scheme would, ideally, be based on a comparison between the future UK framework and the Solvency II framework that will continue to apply in Ireland, which is also under review, with some aspects likely to change.
- 2.5.7 However, I cannot foresee with any certainty how the two regimes may diverge in future. Therefore, in my opinion, it remains appropriate for me to assess the Scheme on the basis that the current Solvency II regime will remain in place in both the UK and Ireland.
- 2.5.8 Irrespective of any changes that are made in the UK, the prudential regulatory framework that will apply to the Transferring Policies immediately following implementation of the Scheme is the same as that which currently applies in the UK, which provides a high degree of protection for policyholders.

2.6 Migration progress

- 2.6.1 In my Main Report, I noted that Rothesay, Monument Life and their respective outsourcing partners had developed a plan to migrate the policy data and administration of the Transferring Policies from Rothesay to Monument Life. I went on to conclude that the plan was reasonable, comprehensive and robust. As at the date of my Main Report, work on the migration was progressing to plan but I recognised that tasks were scheduled in the future and that the Covid-19 pandemic posed a risk to the migration if personnel involved were unavailable or unable to work.
- 2.6.2 The Companies have since kept me informed on the status of the migration and have provided me with the minutes and papers for the joint Rothesay / Monument Life Programme Steering Committee for its meetings in April, May and June 2020. These showed that all key milestones to date had been met and future milestones remained on track with no disruption to date in respect of Covid-19.
- 2.6.3 In paragraph 8.3.39 of my Main Report, I noted that Monument Life intended to liaise with the Irish Revenue to ensure that Transferring Policyholders do not suffer unintended tax consequences. As at the date of my Supplementary Report, Monument Life is continuing to liaise with the Irish Revenue and its external tax advisors to ensure this outcome. The required activities are incorporated within the migration plan.

- 2.6.4 In paragraph 8.3.52 of my Main Report, I noted that eight of the Transferring Policyholders currently receive payments from Rothesay that also include annuity payments on behalf of two third party insurance companies that are made via Rothesay. At the date of my Main Report, it was unclear whether this arrangement would continue following the implementation of the Scheme. The third party insurance companies have since confirmed that they would like to continue this arrangement and Monument Life has confirmed that it will take on Rothesay's responsibilities under this arrangement. The required activities are included within the migration plan. The relevant Transferring Policyholders will therefore continue to receive a combined annuity payment as they do currently following implementation of the Scheme.
- 2.6.5 As noted in paragraph 8.3.44 of my Main Report, the migration plan incorporates two formal governance checkpoints at which the Programme Steering Committee must make a decision on whether the transfer can proceed as planned. These checkpoints are scheduled to occur on 13 July 2020 (before the Sanction Hearing) and on 12 August 2020 (after the Sanction Hearing but before the Transfer Date). If the Companies consider at the first of these checkpoints that the migration cannot be completed successfully then the Scheme may be delayed. In the unlikely event that the migration fails the second checkpoint, after the Sanction Hearing, the migration will not proceed until the Companies are confident that it can be completed successfully. In such circumstances, the Transferring Policies would continue to be administered by Rothesay's outsourced service provider until the migration takes place and the Transferring Policyholders would be informed of the delay.
- 2.6.6 The Companies have now defined eight critical success factors for the migration, supported by 21 criteria, which must be satisfied for a positive decision to be reached at each checkpoint. These criteria, which I have reviewed, include the successful testing of all administration processes, successful testing of monthly payroll processes and a full reconciliation of the migrated data. Under each criterion, there are a number of artefacts that must be produced (for example, documented test results) and acceptance criteria for each artefact.
- 2.6.7 All success factors and criteria will be considered at both checkpoints. The checkpoint decisions will take into account progress as at the date of the checkpoint including any identified issues or barriers to successful completion, recognising that some migration activities may occur after the checkpoint dates.
- 2.6.8 In my opinion, this is a rigorous and effective framework against which to track the progress of the migration, which will provide appropriate information facilitating the associated checkpoint decisions to be made by the Programme Steering Committee. The Companies are tracking progress within this framework in the monthly Programme Steering Committee packs.
- 2.6.9 Having reviewed progress on the migration up to the date of my Supplementary Report, I am satisfied that work on the migration is progressing to plan and I have no reason to believe that the migration will not be completed successfully. My opinion is unchanged that the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders.

2.7 Lump sum cash factors

- 2.7.1 As explained in my Main Report, in certain situations, holders of Transferring Policies have an option to commute some of the contractual benefits under their policy; that is, the policyholder may choose to forgo some or all of their annuity in return for a lump sum payment.
- 2.7.2 In my Main Report, I compared the factors currently being used by Rothesay in these calculations with those expected to be used by Monument Life based on market conditions as at 31 December 2019. I

concluded that the impact of moving to Monument Life's proposed basis was expected to be beneficial for Transferring Policyholders. However, I noted that the relative level of the factors is sensitive to the relative levels of Euro- and sterling-based long-term interest rates and the assumptions made by Rothesay and Monument Life regarding future mortality rates of the policyholders.

- 2.7.3 Since 31 December 2019, both Euro- and sterling-based long-term interest rates have reduced significantly and the gap between them has narrowed. While there have been no changes to Monument Life's intended approach to the calculation of commutation factors since my Main Report, Rothesay has updated its mortality assumptions. I therefore asked the Companies to provide me with updated sample commutation factors based on their current assumptions and market conditions as at 30 April 2020 in order to assess whether my conclusions would still hold based on updated market conditions.
- 2.7.4 A comparison of these factors shows that, while the commutation factors used by both Rothesay and Monument Life have increased in response to the reduction in long-term interest rates, the relative levels as at 30 April 2020 are similar to those as at 31 December 2019.
- 2.7.5 Taking this updated information into account, I remain satisfied that the methodology and assumptions that Monument Life proposes to use to calculate commutation benefits post-Scheme are fair to Transferring Policyholders and are expected to be beneficial to Transferring Policyholders.

2.8 Corporate transactions

Rothesay

- 2.8.1 Rothesay has confirmed to me that it has carried out no acquisitions or disposals since the date of my Main Report and it has no planned acquisitions or disposals as at the date of my Supplementary Report.
- 2.8.2 In paragraphs 3.4.4 to 3.4.8 of my Main Report I discussed that, on 16 August 2019, the Court had declined to sanction a proposed scheme to transfer a large block of non-profit annuity business from The Prudential Assurance Company Limited (PAC) to Rothesay, and that PAC and Rothesay had appealed this judgement. No date has yet been set for the appeal hearing, although this is expected to be held in October 2020, after the expected Transfer Date. The position is therefore unchanged from that reported in my Main Report. My conclusions do not depend on whether or not the appeal is ultimately successful.
- 2.8.3 Rothesay has continued to write new bulk annuity policies, in line with its business model.

Monument Life

- 2.8.4 In my Main Report, I set out a number of transactions planned by Monument Life (see paragraphs 6.3.28 to 6.3.32 of my Main Report). Overall, although there have been some delays in the expected timing of certain transactions, there is no material change from the position as set out in my Main Report and therefore no impact on my conclusions. The current status of each of these planned acquisitions is set out below.
- 2.8.5 As described in paragraphs 6.3.30 – 6.3.31 of my Main Report, Monument Life acquired a portfolio of business from MetLife Europe DAC in April 2019, under Project Carp. As was expected at the outset, not all policies were able to transfer to Monument Life on the main scheme effective date. As at the date of my Main Report, approximately half of the residual assets and liabilities had been successfully transferred, with the remainder expected to transfer by the end of June 2020. Monument Life now

expects this transfer to complete during the third quarter of 2020. As at the date of my Supplementary Report, it is unclear whether this will be before or after the expected Transfer Date for the Scheme of 7 September 2020. However, the amount of the remaining business is not material to Monument Life's balance sheet or solvency position and, therefore, the exact timing of transfer of the remaining Project Carp business is not material to my considerations.

- 2.8.6 The Monument Re group of companies (Monument Re Group) intends to consolidate Monument Life and its two immediate parent companies into one entity as a direct subsidiary of Monument Re under Project Trinity. As part of this consolidation, some assets and all of the liabilities of the parent companies have been transferred into Monument Life. The Monument Re Group now intends to de-authorise and liquidate the parent companies, with Monument Life becoming a direct subsidiary of Monument Re. As at the date of my Main Report, the transfer of assets and liabilities into Monument Life was expected to complete in April 2020. There was a short delay to the process, which I understand was primarily related to the CBI seeking additional information in light of the Covid-19 pandemic, and the transfer completed on 30 June 2020.
- 2.8.7 Monument Life intends to transfer the assets and liabilities of its subsidiary company, Inora Life DAC, into Monument Life under Project Diane. As at the date of my Main Report, this was expected to complete before the end of 2020 but after the Transfer Date for the Scheme. The migration project is now underway and the expected completion date is now early 2021 and, therefore, completion remains after the Transfer Date for the Scheme.
- 2.8.8 There is one other possible transaction, which is expected to complete after the Transfer Date, referred to by Monument Life as Project Puma. I was aware that this transaction was in the pipeline when I produced my Main Report. However, at the date of my Main Report, no agreement had been signed between Monument Life and the transferring party. An agreement has now been signed and the transaction is expected to complete in late 2020, after the Transfer Date for the Scheme. The transaction is expected to improve Monument Life's solvency position.
- 2.8.9 Monument Life has confirmed to me that it has no planned acquisitions or disposals beyond those of which I was already aware when producing my Main Report.
- 2.8.10 I have not considered the impact of planned future transfers of insurance business into Monument Life that may be completed after the Transfer Date (including Project Puma). In the event of such future transfers being completed, the Transferring Policyholders will be protected by similar protections as the Monument Existing Policyholders are afforded under this transfer. In particular, the CBI's oversight of Monument Life will help protect the interests of Transferring Policyholders post-Scheme in a similar way to how the UK Regulators' oversight of Rothesay helps to protect the interests of Transferring Policyholders pre-Scheme.

2.9 Monument Life resourcing

- 2.9.1 In my Main Report, I noted that Monument Life's business is increasing and it expects to undertake a number of transactions in addition to the Scheme over the course of 2020 (as set out in sub-section 2.8 above). In anticipation of these transactions, Monument Life had developed a recruitment plan to provide appropriate capacity. At the time of my Main Report, I considered that Monument Life had made adequate progress against its recruitment plan but I concluded that I would need to understand the staffing position closer to the date of the Sanction Hearing before I could be satisfied that there would be no detrimental impact on Transferring Policyholders.

- 2.9.2 In particular, in my Main Report I noted that Monument Life had recruited an Outsourcing Manager, a senior person to oversee Monument Life's outsourcing arrangements, and I highlighted that this role was key in Monument Life's organisational design.
- 2.9.3 The Outsourcing Manager has been a major contributor to a project to enhance Monument Life's oversight and governance of its outsourcing arrangements, which completed at the end of June 2020. Completion of this project will help to ensure that service standards are maintained for the Transferring Policyholders if the Scheme is implemented. I understand that the CBI will review the outcome of the project as part of its ongoing supervision of Monument Life, which will provide additional comfort that the enhancements made are appropriate.
- 2.9.4 While the Outsourcing Manager role was key to my considerations, I also need to be confident that there are no material adverse effects on Transferring Policyholders from Monument Life having too few staff in other business areas. Monument Life has provided me with updated plan and actual headcounts by function as at June 2020. This shows that, with one exception, Monument Life has filled all planned roles. The unfilled role relates to a vacancy within part of the finance function that will not be involved in the administration or governance of the Transferring Policies. I understand that a candidate has accepted an offer for this role and is due to start mid-July 2020. I am satisfied that this single role being vacant as at the date of my Supplementary Report does not present a risk of a detrimental impact on Transferring Policyholders.
- 2.9.5 I am therefore satisfied that Monument Life is adequately resourced such that the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

3 The financial position of the Companies

3.1 Introduction

3.1.1 In my Main Report I considered the security of policyholders' benefits by looking at sources of benefit security including:

- the extent of assets held by each of the Companies in respect of their Technical Provisions (broadly the value of insurance liabilities) and Solvency Capital Requirements (SCR), (their regulatory capital requirements)
- assets held by each of the Companies in addition to their regulatory capital requirements.

3.1.2 For my Main Report, I primarily considered the financial position, or solvency position, of the Companies as at 30 June 2019. I also considered estimates of their financial positions as at 20 March 2020.

3.1.3 In my Supplementary Report I had intended to consider primarily the Companies' financial results as at 31 December 2019. The economic environment has changed materially since 31 December 2019 as a result of events connected with the Covid-19 pandemic. I have therefore also considered the position as at 31 March 2020. This was around the time of the peak in the disruption to financial markets to date caused by concerns over the implications of the Covid-19 pandemic. The financial positions of the Companies and hence the pro-forma financial impact of the Scheme as at 31 March 2020 allow for known impacts related to the Covid-19 pandemic at that date, the primary impacts being:

- a fall in asset values experienced by both Rothesay and Monument Life
- the strengthening of Technical Provisions in MIDAC, one of the entities whose liabilities have subsequently transferred into Monument Life under Project Trinity, to reflect an increase in the expected number of claims under some types of policies.

3.1.4 I consider potential longer-term financial effects of Covid-19 in sub-section 3.4 below.

3.1.5 The financial positions of the Companies are calculated in accordance with the Solvency II framework, as set out in section 4.3 of my Main Report. There have been some changes in the way each of the Companies have calculated certain elements of their regulatory capital requirements since the 30 June 2019 position that I considered in my Main Report, with material changes highlighted in sub-sections 3.2 and 3.3 below. I am content that the changes are appropriate within the Solvency II framework and they do not change my conclusions on the Scheme.

3.1.6 I explained in paragraphs 8.2.25 to 8.2.36 of my Main Report that, when comparing the benefit security offered by different insurance companies, the current solvency position should not be relied upon in isolation. It is more appropriate to consider the target level of capital resources under a firm's capital management policy. The reason for this, as set out in my Main Report, is that, while a reported solvency position in excess of target provides additional security in the short-term, subject to certain logistical and governance hurdles, current excess capital could, in principle, be transferred out of a company through dividends or the repayment of capital. The level of excess capital could also change materially through future acquisitions of business. In order to provide meaningful security to policyholders' benefits, it is necessary that capital is held within the company over the full duration of those benefits.

3.1.7 Therefore, rather than consider current excess capital in isolation, it is more instructive to compare the capital management policies of the Companies, incorporating their chosen risk appetite, in order to understand the level of excess capital that I can be more confident will be held by the Companies over

the longer term. The current excess capital can then be considered in the context of the capital management policies to verify that the Companies are meeting their target levels of excess capital.

- 3.1.8 Based on the updated information provided to me on the financial positions of the Companies, I am satisfied that both companies continue to hold capital resources at least equal to their respective targets and this is expected to remain the case following implementation of the Scheme. My conclusions in respect of the security of policyholders' benefits are therefore unaffected by this new information.

3.2 Rothesay's financial position

Position as at 31 December 2019

- 3.2.1 Table 3.1 compares the regulatory solvency position of Rothesay immediately before and immediately after the transfer (on a pro-forma basis), as at both 30 June 2019 (as shown in Table 9.1 of my Main Report) and 31 December 2019. In both cases, the transfer is assumed to have taken place at the balance sheet date. The pre-transfer position reflects the Reinsurance Agreement currently in place between Rothesay and Monument Re, which transfers the majority of the economic risks and rewards associated with the Transferring Policies to Monument Re.

Table 3.1: Impact on Rothesay's pro-forma regulatory solvency position

	30 June 2019		31 December 2019	
	Rothesay pre-transfer £m	Rothesay post-transfer £m	Rothesay pre-transfer £m	Rothesay post-transfer £m
Solvency II net assets	37,584	37,583	53,362	53,362
Technical Provisions (net of reinsurance)	33,519	33,514	47,249	47,247
Own Funds (A)	4,066	4,070	6,113	6,115
Solvency Capital Requirement (B)	2,310	2,304	3,038	3,032
Excess capital (=A-B)	1,756	1,766	3,075	3,083
SCR cover ratio (%) (=A/B)	176.0%	176.7%	201.2%	201.7%

Source: Rothesay

- 3.2.2 Table 3.1 shows that Rothesay's balance sheet has grown considerably from 30 June 2019 to 31 December 2019. Rothesay wrote a significant amount of new business of the type set out in sub-section 5.3 of my Main Report. While the amount of new business written is significant, the new business is similar to Rothesay's existing business and it has therefore not materially changed the risks to which Rothesay is exposed or the relative importance of these risks.
- 3.2.3 Rothesay's SCR cover ratio has increased from 30 June 2019 to 31 December 2019. This increase is primarily explained by Rothesay raising additional capital (a combination of equity and debt) and a re-

calculation of the Transitional Measure on Technical Provisions, (part of the Solvency II framework, see paragraph 4.3.18 of my Main Report), partially offset by the increase in the SCR reflecting the risks of the new business written.

- 3.2.4 The expected impact of the Scheme on Rothesay's balance sheet is not materially different between the two dates. The solvency position is expected to improve slightly following the Scheme due to the release of the counterparty risk capital currently held in respect of the reinsurance to Monument Re. Based on the position at 31 December 2019, Rothesay would continue to have capital comfortably in excess of the target range of 130% - 150% of the SCR set out in its capital management policy (as described in sub-section 5.6 of my Main Report) immediately post-Scheme, providing a high level of benefit security to its policyholders.

Position as at 31 March 2020

- 3.2.5 Rothesay's SCR cover ratio as at 31 March 2020 had reduced from that as at 31 December 2019 due to a combination of market movements, writing of further bulk annuity business and continuing to transition the premium assets received from the 2019 new business into its preferred long-term asset mix. Since 31 March 2020, Rothesay has taken actions to improve its solvency position. If those actions had already been taken, its SCR cover ratio as at 31 March 2020 would have been 204%, largely unchanged from the 202% as at 31 December 2019.

3.3 Monument Life's financial position

Position as at 31 December 2019

- 3.3.1 Table 3.2 below compares the regulatory solvency position of Monument Life immediately before and immediately after the transfer (on a pro-forma basis), as at both 30 June 2019 (as shown in Table 10.1 of my Main Report) and 31 December 2019. In both cases, the transfer is assumed to have taken place at the balance sheet date. In line with the presentation in my Main Report, I have assumed that:
- the Amended Reinsurance Agreement between Monument Life and its parent Monument Re (as defined in section 7.6 of my Main Report) is in place
 - the residual transfer from MetLife Europe DAC to Monument Life under Project Carp (as described in paragraph 2.8.5 above) has been completed
 - the transfer of liabilities into Monument Life from its two immediate parent companies under Project Trinity (as described in paragraph 2.8.6 above) has been completed.
- 3.3.2 Monument Life and Monument Re have confirmed to me that there are no changes to the key terms of the Amended Reinsurance Agreement as described in sub-section 7.6 of my Main Report. Monument Life and Monument Re will enter into a deed of amendment and restatement prior to the Sanction Hearing that will put the Amended Reinsurance Agreement in place with effect from the Transfer Date.
- 3.3.3 I have seen the legal advice provided to Monument Life, which confirms the security structure under the Amended Reinsurance Agreement will be the "funds-withheld" structure described in sub-section 7.6 of my Main Report. That legal advice also confirms that the funds-withheld structure provides Monument Life with greater protection in the event of Monument Re's insolvency compared to the existing Reinsurance Agreement in place between Rothesay and Monument Re. The change in the structure of the reinsurance is therefore beneficial to the security of Transferring Policyholders' benefits following implementation of the Scheme.

Table 3.2: Impact on Monument Life's pro-forma regulatory solvency position

	30 June 2019		31 December 2019	
	Monument Life pre-transfer €m	Monument Life post-transfer €m	Monument Life pre-transfer €m	Monument Life post-transfer €m
Solvency II net assets	99.8	116.9	96.8	113.6
Technical Provisions (net of reinsurance)	66.9	83.0	68.5	83.8
Own Funds (A)	33.0	33.9	28.3	29.8
Solvency Capital Requirement (B)	14.0	15.4	14.6	16.1
Excess capital (=A-B)	19.0	18.6	13.7	13.7
SCR cover ratio (%) (=A/B)	235.9%	220.8%	193.8%	185.4%

Source: Monument Life

- 3.3.4 Table 3.2 shows that the size of Monument Life's balance sheet has been relatively stable between 30 June 2019 and 31 December 2019, while its SCR cover ratio has reduced over the period. This reduction is explained primarily by changes to some of the assumptions used in the calculation of Technical Provisions, particularly the strengthening of expense assumptions as at 31 December 2019, and by allowing for a planned dividend payment of €1.5m.
- 3.3.5 The SCR cover ratio reduces post-transfer as a result of the additional risks taken on and the resulting increase in regulatory capital requirements.
- 3.3.6 The expected impact of the Scheme on Monument Life's balance sheet, in terms of the reduction in the SCR cover ratio is lower at 31 December 2019 (8.4% reduction) compared to 30 June 2019 (15.1% reduction). This primarily reflects the larger increase in own funds arising from the Scheme as at 31 December 2019, which is due to refinements in the calculations and an update to Monument Life's longevity assumptions between the two dates.
- 3.3.7 Monument Life's capital target is 140% of the SCR plus €5.4m. This is set out in its capital management policy (as described in sub-section 6.6 of my Main Report). As at 31 December 2019, on a pro-forma basis allowing for the transactions listed in paragraph 3.3.1, immediately following the proposed transfer under the Scheme, Monument Life's capital in excess of its target would have been €1.9m. This is lower than the equivalent amount as at 30 June 2019 of €6.9m and primarily reflects the effects of the factors mentioned in paragraph 3.3.4. However, as discussed in paragraph 3.1.6, I place limited reliance on capital above internal targets. Based on the position at 31 December 2019, Monument Life would continue to have capital in excess of its target level. This provides a high level of benefit security to its policyholders.

Position as at 31 March 2020

3.3.8 Table 3.3 compares the regulatory solvency position of Monument Life immediately before and immediately after the transfer (on a pro-forma basis), as at 31 March 2020. The calculations are based on the same assumptions as set out in paragraph 3.3.1.

Table 3.3: Impact on Monument Life's pro-forma regulatory solvency position as at 31 March 2020

	Monument Life pre-transfer €m	Monument Life post-transfer €m
Solvency II net assets	93.0	108.9
Technical Provisions (net of reinsurance)	65.0	79.8
Own Funds (A)	28.0	29.1
Solvency Capital Requirement (B)	14.3	15.6
Excess capital (=A-B)	13.7	13.5
SCR cover ratio (%) (=A/B)	195.8%	186.3%

Source: Monument Life

3.3.9 In paragraph 6.5.1 of my Main Report, I noted that Monument Life had submitted an application to its regulator, the CBI, to use the Volatility Adjustment (part of the Solvency II framework, see paragraph 4.3.18 of my Main Report) in the calculation of its Technical Provisions. This application has now been approved by the CBI and Monument Life has been granted permission to use the Volatility Adjustment for its Euro-denominated liabilities with effect from 31 March 2020. This is reflected in both the pre- and post-transfer positions in Table 3.3.

3.3.10 I considered Monument Life's potential use of the Volatility Adjustment alongside Rothesay's use of the Matching Adjustment and Transitional Measure on Technical Provisions (also part of the Solvency II framework, see paragraph 4.3.18 of my Main Report) in paragraphs 8.2.21 and 8.2.22 of my Main Report. All are integral parts of the Solvency II framework and the CBI's approval for Monument Life to use the Volatility Adjustment does not lead me to change any of my conclusions.

3.3.11 Monument Life's pro-forma solvency positions both immediately before and after the proposed transfer under the Scheme as at 31 March 2020 were similar to the positions shown as at 31 December 2019 in Table 3.2. This reflects a number of offsetting factors including:

- Monument Life not paying the planned dividend of €1.5m that had been anticipated in the position as at 31 December 2019
- the use of the Volatility Adjustment, which reduced Technical Provisions by approximately €1m
- a dividend payment received by Monument Life from a subsidiary company, Inora Life DAC, which, while not affecting net assets, reduced Monument Life's SCR

- an increase in the Technical Provisions within MIDAC, one of the companies whose liabilities have subsequently transferred into Monument Life under Project Trinity (discussed further in paragraph 3.4.7 below).

3.3.12 Based on the position as at 31 March 2020, Monument Life would have capital in excess of its target level of 140% of the SCR plus an additional €5.4m immediately following implementation of the Scheme. Capital in excess of the target level as at 31 March 2020 would have been €1.8m, very similar to the €1.9m as at 31 December 2019 stated in paragraph 3.3.7. Monument Life continuing to have capital in excess of its target provides a high level of benefit security to its policyholders.

Monument Life's exposure to Monument Re

3.3.13 I included significant discussion in paragraphs 8.2.57 to 8.2.97 of my Main Report on Monument Life's exposure to its ultimate parent company, Monument Re. Monument Life transfers a large amount of its risk to Monument Re under reinsurance arrangements and is at risk of Monument Re being unable to pay its obligations to Monument Life under those arrangements.

3.3.14 In my Main Report, I concluded that Monument Life has an appropriate framework in place to manage the additional risk exposures that arise from being part of a group of insurance companies (which do not apply to Rothesay) and, in particular, Monument Life's exposure to Monument Re, its most significant intra-group counterparty, does not result in a material risk to benefit security.

3.3.15 Given the significance of the relationship between Monument Life and Monument Re, I asked Monument Life to supply me with updated information on Monument Re so that I could reassess my opinion for my Supplementary Report.

3.3.16 I have been given Monument Re documents that set out its updated financial position as at 31 December 2019 and estimates as at 27 March 2020 and 31 May 2020. These documents include scenario projections which allow for a significant worsening of experience stemming from multiple events, including the ongoing Covid-19 pandemic. These projections demonstrate that Monument Re is expected to be able to withstand significant adverse events and still meet its internal capital targets.

3.3.17 The documents also show the potential or actual impact on Monument Re of known acquisitions of insurance business, including a material transaction, the acquisition of Bermuda-based reinsurer Greycastle, which completed on 27 May 2020. The updated financial information shows that, both before and after the Greycastle acquisition, Monument Re has capital resources significantly higher than both its regulatory capital requirement and its internal capital target.

3.3.18 In my Main Report, I concluded that the combined effect of Monument Re's regulatory capital requirement and its internal capital targets is such that there is a very low probability of Monument Re defaulting on its obligations to Monument Life. Monument Re has confirmed that its internal targets are unchanged. Taking this and the updated financial information into account, my conclusion that Monument Life's exposure to Monument Re does not lead to the Scheme having a material adverse effect on security of benefits for Transferring Policyholders is unchanged.

3.4 Impact of Covid-19

3.4.1 Since 31 December 2019, there has been considerable disruption and volatility in financial markets as a result of the Covid-19 pandemic. This has affected the values of the Companies' assets and the values of their liabilities and will, therefore, also affect the financial positions of the Companies. The initial market disruption is captured in the 31 March 2020 financial information discussed above. Since that date, market values have recovered somewhat.

- 3.4.2 There may be further market impacts on the relative values of the Companies' assets and liabilities due to, for example:
- further falls in interest rates
 - further widening of credit spreads on fixed interest assets (which reduce bond values)
 - downgrades in the credit rating of assets held reflecting the risks that proceeds from loan investments may not be received as expected due to default of the borrower
 - further falls in equity values
 - falls in property values
- 3.4.3 Given their respective portfolios of assets, each of the Companies is affected by such factors to differing extents. However, Rothesay and Monument Life both manage these risks within their risk management frameworks that I summarised in sub-sections 5.7 and 6.7 of my Main Report.
- 3.4.4 Additionally, the pandemic will have some effect on the extent of benefits payable on the policies written by the Companies, which will affect the values of their respective insurance liabilities.
- 3.4.5 These effects are expected to result in Rothesay paying lower benefit payments as Rothesay is at risk of its policyholders living longer than expected and the effects of the pandemic may result in Rothesay's policyholders dying earlier than expected.
- 3.4.6 Following the transfer of liabilities into Monument Life from its two immediate parent companies under Project Trinity, the pandemic effects are expected, overall, to lead to Monument Life paying higher benefit payments. While there will be positive impacts on some types of policy, these are currently expected to be outweighed by negative impacts on others. The policies that present the largest increased risk are those that provide benefits upon the policyholder falling sick or being made unemployed, the payment protection insurance (PPI) contracts described in paragraphs 6.3.17 to 6.3.21 of my Main Report.
- 3.4.7 The Project Trinity entity affected, MIDAC, increased the value of its Technical Provisions in anticipation of significantly higher claims under its policies compared to normal levels. This increase in Technical Provisions is incorporated in the financial information shown in Table 3.3 above. I consider the approach taken to be reasonable, and I understand that it has been discussed with the CBI.
- 3.4.8 Monument Life's exposure to actual experience on the PPI contracts being worse than currently anticipated will be mitigated by a number of factors, including its ability to increase premiums on the PPI contracts subject to a one-month notice period.
- 3.4.9 Taking into account the additional provision already made by MIDAC and Monument Life's ability to manage any further deterioration in experience, I am satisfied that Monument Life having these risks does not have a material adverse effect on the security of benefits for the Transferring Policyholders.
- 3.4.10 To date, as demonstrated by the pro-forma 31 March 2020 financial information discussed above, both of the Companies remain financially strong and are meeting their internal capital targets. Additionally, they have maintained sufficient liquid assets to pay benefits as they fall due. The Companies are monitoring their solvency positions regularly, with oversight from their respective regulators, and have provided me with estimates of their updated solvency positions as at 30 June 2020. These estimates show that, as at that date, the Companies both still have capital in excess of the target levels in their capital management policies.

- 3.4.11 However, while both Rothesay and Monument Life are currently meeting their internal capital targets, I cannot ignore the fact that the immediate economic outlook is uncertain.
- 3.4.12 In section 2.3 I referred to the economic shock caused by the pandemic. If transmission of the virus continues to decline and is brought under control then many economists predict a relatively rapid recovery from the initial economic shock. This view is reflected in the Bank of England's Monetary Policy Report for May 2020, which predicts a severe decline in UK economic activity over the second quarter of 2020 but with recovery to the pre-Covid-19 level in the second half of 2021. However, there is a risk of a longer or deeper recession, or a recovery that is interrupted by further shocks, if the number of Covid-19 cases begins to increase again, necessitating the re-introduction of restrictive measures to slow its spread.
- 3.4.13 Both Rothesay and Monument Life have estimated the impact of a number of adverse scenarios on their solvency positions. These estimates show that both of the Companies can withstand extreme adverse experience.
- 3.4.14 While I cannot disclose this information publicly, I have considered the potential impacts.
- 3.4.15 In some circumstances, these extreme scenarios result in Monument Life being unable to meet the target level of capital set out in its capital management policy. However, in all scenarios, its capital is expected to remain above the regulatory requirement of the SCR.
- 3.4.16 In such circumstances, which I stress are extreme, Monument Life has a number of actions available to it to restore its capital position, including seeking a capital injection from its parent. While I cannot guarantee that such an injection would be forthcoming, information shared with me demonstrates that, with its current level of capital, Monument Re is expected to be able to withstand similarly extreme scenarios and continue to hold capital above its target levels such that it is likely it would have resources to provide support to Monument Life.
- 3.4.17 Under these extreme scenarios, even if Monument Life is unable to restore its capital position to meet its target level, it should be able to pay policyholder benefits in full, as holding capital above the level of its SCR will provide a buffer against further adverse experience. Ultimately, if Monument Life does suffer adverse experience, which is more severe than that assumed in the extreme scenarios such that it is no longer able to meet its SCR, it should be able to transfer its liabilities to another insurance company within its available resources and without any reduction in policyholder benefits. In my opinion, it is very unlikely that this potential outcome will occur as a result of the Covid-19 pandemic.
- 3.4.18 Taking into account the definition of materiality I set out in paragraph 3.4.2 of my Main Report, I am satisfied that, if possible extreme outcomes associated with the Covid-19 pandemic do occur post-Scheme, there would be very limited impact on the ability of Monument Life to pay policyholder benefits as they fall due. I would expect benefits to be paid in full. Therefore, I conclude that the risks associated with the ongoing Covid-19 pandemic do not affect my conclusions that implementation of the Scheme will have no material adverse effect on the security of benefits of the Transferring Policyholders or the Monument Existing Policyholders.

4 Policyholder communications

4.1 Introduction

- 4.1.1 In this section, I set out relevant information concerning the communication of the proposed transfer to policyholders and their responses. I have relied upon information concerning communications to policyholders and their responses that has been provided to me by the Companies. This information has also been, or will be, included in the Companies' witness statements to the Court, so I believe it is reasonable for me to rely on its accuracy.
- 4.1.2 Based on the information presented to me by the Companies, I am satisfied that the communications plan has been carried out as intended, with the communications pack distributed to relevant policyholders in good time ahead of the Sanction Hearing.
- 4.1.3 I have considered the issues and objections raised by policyholders in their correspondence to date and have reviewed the responses provided by the Companies. My conclusions on the Scheme currently remain unchanged. In the event that any further objections to the Scheme are received by either of the Companies after the date of my Supplementary Report but prior to the Sanction Hearing, I will review the further objections and associated correspondence and provide the Court with my views on the further objections in a separate document.

4.2 Communications to policyholders

- 4.2.1 The Companies' intended approach to communicating with their policyholders was set out in section 7.10 of my Main Report. The Companies have confirmed to me that they have now communicated with their policyholders in accordance with this plan.
- 4.2.2 Of the 397 Transferring Policies that were in-force as at 31 March 2020, two policies were excluded from the mailing as Rothesay did not have the policyholders' current addresses and a further two policies were excluded as Rothesay had received notification of these policyholders' deaths and there was no dependent's benefit under either policy. As a result, 393 communication packs were issued.
- 4.2.3 In paragraphs 7.10.13 and 8.4.3 of my Main Report, I commented on Rothesay's attempts to trace the two policyholders for whom it does not have a current address. Attempts to trace these two policyholders have continued since the date of my Main Report, but were not successful. I am satisfied that Rothesay has taken all reasonable measures to trace these policyholders.
- 4.2.4 None of the communication packs that were issued were returned to Rothesay as undeliverable. All but one of the policyholders included in the mailing resides in Ireland or in the UK. The remaining policyholder lives in Australia and Rothesay contacted that policyholder by email and obtained confirmation that the policyholder had received the communications pack. Rothesay has also contacted a sample of other policyholders to confirm that they have received the packs.
- 4.2.5 Rothesay Non-Transferring Policyholders and Monument Existing Policyholders were not notified of the Scheme directly, in line with the dispensations sought, which were granted by the Court at the Directions Hearing.

4.3 Objections raised by Rothesay policyholders

Overview

- 4.3.1 Policyholders (and other interested parties) are entitled to object to a proposed Part VII transfer if they believe that they will be adversely affected. The Court will take these objections into account in reaching its decision at the Sanction Hearing.
- 4.3.2 As at the date of my Supplementary Report, Rothesay has informed me that it has received communications from six policyholders that it has classified as objections to the transfer, all of which were from holders of Transferring Policies.
- 4.3.3 I have seen the letters sent to Rothesay by these policyholders. I have also reviewed the responses provided by Rothesay and I consider that they appropriately address the material issues raised.
- 4.3.4 The issues raised by the objections were:
- the timing of the transfer in relation to the Covid-19 pandemic
 - the timing of the transfer in relation to uncertainty over Brexit
 - the potential loss of protection under the UK Financial Services Compensation Scheme (FSCS) following the transfer
 - the relatively smaller size and lower profile of Monument Life in comparison to Rothesay
 - the size of the liabilities being transferred in comparison to the capitalisation of Monument Life
 - the size of the liabilities being transferred in comparison to the amount of capital support available to Monument Re
 - differences in insurance company regulation between the UK and Ireland
 - the ability of the CBI to provide regulatory oversight, given that Monument Life's parent company (Monument Re) is domiciled in Bermuda
 - whether a precedent had been set by the Court in declining to sanction the proposed scheme between PAC and Rothesay.
- 4.3.5 One policyholder also asked whether they could transfer their annuity to an Irish provider of their choice, which is being treated as one of the six objections, although this policyholder did not raise any specific issues in relation to the proposed transfer Scheme itself. The policyholder is currently in receipt of an annuity under the policy and an individual transfer is not possible.
- 4.3.6 All policyholders who have been classified as having objected to the Scheme will be sent a copy of my Supplementary Report.
- 4.3.7 I provide my views on the issues raised in the paragraphs below.

Impact of Covid-19

- 4.3.8 Five policyholders raised concerns around the timing of the proposed transfer in relation to the impact of the Covid-19 pandemic. Three of the policyholders were also concerned that I was unable to provide a more definitive assessment of the impact of Covid-19 in my Main Report.
- 4.3.9 My Main Report was dated 27 March 2020, which was only four days after the UK lockdown period had come into effect. The Irish government announced later on 27 March 2020 that similar restrictions

would apply in Ireland with effect from midnight that night. The situation was evolving rapidly and it was not possible to carry out a full assessment in the time available before it was necessary for me to submit my Main Report to the Court. However, I was aware at that time that I would have an opportunity to provide a fuller assessment in my Supplementary Report before the Sanction Hearing, so I did not consider it necessary or appropriate to give an opinion based on incomplete facts at that time.

- 4.3.10 One of these policyholders felt that my definition of what constituted a “material adverse effect”, as set out in paragraph 3.4.2 of my Main Report, is too restrictive to encompass consideration of the likely effects of Covid-19. I consider that a potential effect is not material if it is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact. This definition was not intended to exclude consideration of potential effects of any kind and I believe it is a reasonable framework within which to evaluate the potential effects of Covid-19. I also believe it is consistent with the way the Court has considered previous schemes.
- 4.3.11 I set out my analysis of the impact of Covid-19 in sub-sections 2.3 and 3.4 of my Supplementary Report.
- 4.3.12 I have concluded that both of the Companies’ operations have been resilient since the onset of the Covid-19 pandemic and that migration of the data and policy administration remains on track. Therefore, in my opinion, the ongoing Covid-19 pandemic does not introduce an unacceptable level of risk to the successful completion of the transfer and it does not lead me to change my conclusion that the Scheme will have no material adverse effect on the reasonable expectations of policyholders in respect of their benefit expectations, service standards and governance.
- 4.3.13 I have also considered the financial impact of the Covid-19 pandemic on both of the Companies. As at 30 June 2020, the most up to date information at the date of my Supplementary Report and subsequent to the significant financial market disruption experienced in March 2020, both of the Companies continue to hold capital in excess of their respective solvency targets. This means that both Companies will be able to withstand further adverse experience and still meet policyholder liabilities and their regulatory capital requirements as discussed in sub-section 3.4.
- 4.3.14 One policyholder highlighted a potential legal risk to insurance companies arising from Covid-19, citing recent cases where insurers’ claims that their policies do not cover events arising from pandemics have been challenged in the courts in a number of countries. This legal risk is not applicable to Monument Life. As noted in paragraphs 3.4.6 to 3.4.9, Monument Life (and previously MIDAC prior to the transfer of its liabilities to Monument Life under Project Trinity) has been paying Covid-19-related claims under its PPI policies.
- 4.3.15 Having considered information available to me at the date of my Supplementary Report, I am satisfied that the ongoing Covid-19 pandemic does not change my conclusion that the Scheme will not have a material adverse effect on:
- the security of the benefits of the policyholders of Rothesay and Monument Life, including the Transferring Policyholders
 - the reasonable expectations of the policyholders of Rothesay and Monument Life in respect of their benefit expectations, service standards, management and governance, including the Transferring Policyholders.
- 4.3.16 Given the importance of ensuring that the Transferring Policyholders are able to receive their benefits in the context of Brexit, which I discuss below, I believe it would not be in the interests of Transferring Policyholders for the transfer to be deferred on account of the current Covid-19 pandemic or, indeed, any other consideration.

Uncertainty over Brexit

- 4.3.17 The main purpose of the Scheme is allow the lawful payment of benefits on the Transferring Policies, regardless of the outcome of Brexit negotiations.
- 4.3.18 One policyholder questioned the timing of the transfer and asked the Court to defer making a decision on the proposed transfer until later in 2020. In particular, the policyholder made reference to the following possibilities that would allow Rothesay to continue to lawfully service the Transferring Policies beyond 31 December 2020:
- The Implementation Period may be extended beyond 31 December 2020 in light of the Covid-19 pandemic.
 - The Irish government may introduce a transitional period that will allow UK insurance companies to continue servicing their Irish policies for a period of time following the end of the Implementation Period.
- 4.3.19 As discussed in paragraph 2.4.4, the 1 July 2020 deadline for an extension to the Implementation Period has now expired and the UK government and the EU Commission have agreed that there will be no extension. The Implementation Period is therefore expected to end on 31 December 2020.
- 4.3.20 In paragraphs 4.8.10 and 4.8.11 of my Main Report, I discussed the transitional arrangements that the Irish government put in place in anticipation of the UK leaving the EU without a withdrawal agreement. These arrangements were set out in an Irish law act entitled 'Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019' (the 2019 Act). Under the 2019 Act, if the UK had left the EU without a withdrawal agreement, UK insurance firms operating in Ireland would have been able to continue to service their Irish business for up to three years from the date of withdrawal while finding a way to terminate their activities in Ireland. As the UK left the EU on 31 January 2020 with a withdrawal agreement in place, the provisions of the 2019 Act providing for that temporary run-off regime for UK insurance firms were not necessary and did not come into force.
- 4.3.21 As at the date of my Main Report, a new Irish government was in the process of being formed and consequently there had been no confirmation of whether the 2019 Act would be amended, or whether a new act would be introduced, to provide for the anticipated transitional arrangements following the end of the Implementation Period. The new Irish government was formed in June 2020 but, as at the date of my Supplementary Report, has yet to confirm transitional arrangements following the end of the Implementation Period.
- 4.3.22 As discussed in paragraph 4.8.7 of my Main Report, an alternative outcome that may permit Rothesay to continue to service the Transferring Policies is for a long-term trading relationship to be reached between the UK and the EU that preserves freedom of services for insurance business. Negotiations between the UK and the EU in respect of the long-term trading relationship are ongoing.
- 4.3.23 Each of the possibilities, the introduction of transitional arrangements in Ireland or a long-term trading relationship between the UK and EU that preserves freedom of services for insurance business, if introduced, will allow Rothesay to continue to legally service the Transferring Policies either for a limited or longer time after 31 December 2020. While I consider confirmation of Irish transitional measures to be more likely than a long-term trading relationship that preserves freedom of services for insurance business, neither of the possibilities are certain as at the date of my Supplementary Report. Furthermore, the one that I consider more likely will only provide a relatively short extension of up to three years if it follows the form of the 2019 Act.

- 4.3.24 The benefits under the Transferring Policies are payable for the remaining lifetime of the beneficiaries, which is expected to be much longer than three years. This is why a long-term solution is required, as provided by the Scheme.
- 4.3.25 Having considered the point raised by the policyholder, in my opinion, there is no appropriate reason to delay implementation of the Scheme. There is a very real risk that Rothesay will be unable to lawfully service the Transferring Policies at some stage in the future. To defer taking action simply adds additional uncertainty to the process. In my opinion, it is important for Transferring Policyholders that the transfer is completed as soon as practicable to ensure that there is no interruption to the payment of benefits under their policies and to provide certainty for all parties.

Potential loss of FSCS protection

- 4.3.26 As noted in my Main Report, the FSCS will compensate eligible annuity policyholders if a UK-regulated insurer is unable to pay policyholder benefits due to insolvency. There is no similar compensation scheme for annuity policies in Ireland. Three policyholders raised concerns in relation to the potential loss of protection under the FSCS following the transfer.
- 4.3.27 One of these policyholders felt there was some ambiguity as to whether the Financial Services and Pensions Ombudsman (FSPO) in Ireland would provide compensation in the event of insolvency of an Irish insurer and has been seeking clarification of this point from the CBI. The FSPO does not provide compensation of this kind. As described in paragraph 4.6.8 of my Main Report, the FSPO aims to resolve disputes between individuals and financial services providers and can award compensation if it upholds a complaint made by an individual against a provider. It is not an industry compensation scheme comparable to the FSCS.
- 4.3.28 In paragraphs 2.4.23 to 2.4.34 and 8.5.3 to 8.5.25 of my Main Report, I explained that I expect the Transferring Policyholders will continue to enjoy the protection of the FSCS if the Scheme is implemented. My expectations are unchanged.
- 4.3.29 However, this position depends upon the outcome of actions that can only be taken after the end of the Implementation Period and on there being no future changes to the FSCS rules.
- 4.3.30 Monument Life intends to establish a third-country branch operation in the UK. It has stated this intention to me and to the Court. If Monument Life establishes a third-country branch operation in the UK, Transferring Policyholders will continue to benefit from FSCS protection indefinitely under current FSCS rules. In the event that Monument Life is not able to establish a branch in the UK, FSCS protection will continue to apply during the period of the UK's Brexit transitional arrangements, for at least 15 years from the end of the Implementation Period under current UK law.
- 4.3.31 The risk is therefore that Monument Life is unable to establish a third country branch in the UK and it becomes insolvent and unable to pay benefits some time after the transitional period (minimum 15 years) has expired, resulting in Transferring Policyholders suffering a loss that they may not have suffered if the transfer had not gone ahead.
- 4.3.32 One policyholder highlighted that, in my Main Report, I said the expected continuation of FSCS protection is also dependent upon there being no future changes to the FSCS rules. While this is correct, I cannot foresee what changes may happen in the future. It is also possible, as mentioned in paragraph 8.5.24 of my Main Report, that changes may, in future, be made to implement something similar to the UK FSCS for annuities in all EEA member countries, although I place no reliance on this possibility.

- 4.3.33 To reiterate, I expect FSCS protection for the Transferring Policyholders will continue indefinitely following implementation of the Scheme, but I recognise that FSCS protection may be lost in the future if Monument Life is unable to establish a third-country branch in the UK or if there are changes to the FSCS rules.
- 4.3.34 However, in my Main Report I concluded that the value of this possible lost protection is very small as my analysis of the benefit security of Transferring Policyholders led me to conclude that the likelihood of Monument Life becoming insolvent and therefore unable to pay benefits in full is very remote. In addition, I considered that this small value is outweighed by the benefit of having certainty that the insurer responsible for paying benefits to policyholders is lawfully able to do so regardless of the outcome of negotiations concerning the longer-term trading relationship between the UK and the EU.
- 4.3.35 The facts have not changed since the date of my Main Report and I have therefore not changed my conclusions in respect of the potential loss of FSCS protection.
- 4.3.36 The analysis outlined above demonstrates that, under current UK law, there will be automatic preservation of FSCS eligibility for the Transferring Policyholders for at least fifteen years following the end of Implementation Period and that Monument Life will need to take action to extend eligibility beyond this period. The analysis assumes that ongoing negotiations between the UK and the EU regarding the long-term trading relationship that will apply following the end of the Implementation Period will not result in an agreement that automatically preserves long-term access to the FSCS for Monument Life's eligible policyholders, including the Transferring Policyholders post-transfer. This assumption is appropriate for me to use in forming my opinion on this matter as it reflects a cautious outcome of the ongoing negotiations given, at the time of writing, there is no indication that such a long-term agreement will be reached.

Monument Life's size and profile

- 4.3.37 Three policyholders were concerned that Monument Life is much smaller than Rothesay. One of these policyholders referred to Rothesay as being "well-established" while referring to Monument Life as being "recently formed" and the other two policyholders noted that there are larger and better-known insurers operating in Ireland. One other policyholder also queried why a more well-established financial institution was not selected for the transfer.
- 4.3.38 In my view, the size of a company and its profile, in terms of how well-known it is or how long it has been operating for, do not significantly affect the security of policyholders' benefits or their reasonable expectations. Both Rothesay and Monument Life have relatively short histories. Rothesay was formed in 2006, while Monument Life was formed in 2000, under its previous name, Laguna Life DAC. A long-established or well-known brand is not a guarantee of financial security or a guarantee that policyholders' reasonable expectations will be met.
- 4.3.39 In paragraph 8.2.33 of my Main Report, I noted that it is the size of a company's excess capital relative to the size of the risks to which it is exposed that determines the level of security for policyholders' benefits. Rothesay and Monument Life have similar capital management policies, which aim to ensure they can withstand extreme events and still meet their liabilities to policyholders. I do not consider the smaller absolute size of Monument Life's balance sheet and its level of surplus regulatory capital to be detrimental to Transferring Policyholders.
- 4.3.40 One policyholder was concerned that Monument Life is simply a "brass plate" company, with no assets or staff in Ireland. Following the transfers under Project Trinity (see paragraph 2.8.6), Monument Life has ownership of over €500m of assets held in Ireland. The Monument Re Group entity, Monument

Insurance Services Limited, that provides staff to support its Irish operations (Monument Life and its two immediate parent companies, whose liabilities have transferred into Monument Life under Project Trinity) currently employs approximately 70 staff at its office in Dublin. This type of group service company arrangement is common within the financial services industry.

- 4.3.41 In respect of other insurers in Ireland that could have been selected, my role is limited to providing my opinions on the Scheme and I am not required to comment on any possible alternative schemes that could have been proposed. Monument Life was selected by Rothesay through a competitive tender process from a number of insurers operating in Ireland, but I am not aware of the other companies who were considered or the particulars of their proposals. In my opinion, Monument Life is a suitable company to accept the Transferring Policies due to its financial strength, its ability to administer the business and its ability to execute the transaction within the required timeframe.

Adequacy of capital

- 4.3.42 One policyholder raised a concern regarding the size of the liabilities to be transferred from Rothesay to Monument Life compared to the capitalisation of Monument Life and suggested that Monument Life's capital would be insufficient to cover the transferred liabilities.
- 4.3.43 This is incorrect. It is important to recognise that the Scheme provides for the transfer of both liabilities and assets. In addition to the transfer of the liabilities in respect of the Transferring Policies, the Scheme also provides for the transfer to Monument Life of Rothesay's interests, as the reinsured party, in the Reinsurance Agreement. The Reinsurance Agreement is an asset to the reinsured party, which has a similar value to the transferring liabilities. The Reinsurance Agreement is described in sub-section 7.4 of my Main Report.
- 4.3.44 When considering capital adequacy, it is also important to compare assets and liabilities on a consistent basis. By this, I mean that we must consider assets and liabilities either both gross of reinsurance or both net of reinsurance. The net of reinsurance amounts are lower than the gross amounts. Most of the financial information included in my Reports is shown net of reinsurance, although I have also given the gross value of the transferring liabilities. It is inappropriate to compare the gross of reinsurance value of the transferring liabilities to the net of reinsurance value of assets in determining whether assets exceed liabilities.
- 4.3.45 Following the proposed transfer, Monument Life's assets will continue to exceed its liabilities. This is a requirement under the Solvency II framework. The excess of assets over liabilities, called Own Funds, must be at least as large as the SCR. Failing to cover the SCR will result in regulatory intervention.
- 4.3.46 As shown in Table 3.3 of sub-section 3.3, if the proposed transfer had happened on 31 March 2020, Monument Life would have had Own Funds of €29.1m compared to an SCR of €15.6m.
- 4.3.47 Another policyholder raised a concern that the gross value of the liabilities to be transferred to Monument Life (which was £121m as at 30 June 2019) is larger than the capital support of €80m that Monument Re is able to call upon from its shareholders and a loan facility.
- 4.3.48 The comparison made by the policyholder is incomplete when considering security of the Transferring Policyholders' benefits as it does not take account of the capital currently held within Monument Life and Monument Re in excess of the value of their respective insurance liabilities. It is the additional capital currently held within each of Monument Life and Monument Re (by way of the reinsurance of some of Monument Life's risks) in excess of their respective liabilities that will provide security of benefits for the Transferring Policyholders.

4.3.49 I considered the benefit security for the Transferring Policyholders in sub-section 8.2 of my Main Report and concluded that the probability of Monument Life being unable to meet its obligations to policyholders is remote such that the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders. I updated my analysis to reflect the financial position of the Companies as at 31 December 2019 and 31 March 2020 in section 3 of my Supplementary Report and this did not lead me to change my conclusions.

4.3.50 The additional capital support of €80m, which I mentioned in paragraph 8.5.17 of my Main Report, merely provides some additional comfort that the likelihood of Monument Life being unable to pay benefits to policyholders is remote. In the very unlikely event that its own assets become insufficient to cover its liabilities, I consider it probable that Monument Re and its shareholders would support it in order to protect the value of their investment and given the reputational risk associated with failure of an investment. Monument Re would be able to call upon this additional capital support as well its own capital resources to provide support to Monument Life if required.

Differences in regulation between the UK and Ireland

4.3.51 Regulation can be split between:

- prudential regulation, as described in sub-section 4.3 of my Main Report, which relates to the financial soundness of firms; and
- conduct regulation, as described in sub-section 4.4 of my Main Report, which relates to the way firms behave and how they treat their customers.

4.3.52 In the UK, the PRA is responsible for prudential regulation and the FCA is responsible for conduct regulation. In Ireland, the CBI is responsible for both prudential and conduct regulation.

4.3.53 One policyholder asserted that there are fundamental differences between regulation by the FCA in the UK and by the CBI in Ireland under the CBI's Consumer Protection Code (CPC). The policyholder cites, in particular, certain differences between the FCA's conduct regulation and the CBI's CPC that I had identified in my comparison of the two regimes and listed in paragraph 4.7.3 of my Main Report:

- i the CPC principles do not include a requirement to maintain adequate financial resources
- ii the CPC principles do not explicitly require firms to ensure the suitability of their discretionary decisions
- iii the CPC principles do not explicitly require firms to deal openly and co-operatively with regulators.

4.3.54 In my Main Report, I commented that item i of paragraph 4.3.53 is addressed through the CBI's prudential regulation and that item ii might be considered to be covered by the more general requirement under the CPC to act in the best interests of customers. I also stated that, while the CPC does not explicitly require firms to deal openly and co-operatively with regulators that, in practice, the CBI expects firms to behave in this way.

4.3.55 I concluded in paragraph 8.3.62 of my Main Report that, in my opinion, the requirements in respect of conduct regulation in the UK and Ireland are comparable, offering a similar level of protection to the Transferring Policyholders. I still hold this opinion.

4.3.56 The policyholder was particularly concerned that the standard of regulation in Ireland could lead to a greater risk of insolvency, citing previous bank and insurance company insolvencies in Ireland. It is important here to distinguish between conduct regulation, which was the subject of the comparison referred to by the policyholder (as per paragraph 4.3.53), and prudential regulation which relates to the

financial soundness of firms. While I accept that poor conduct by a firm or by an individual within a firm may influence the financial soundness of the firm, it is prudential rather than conduct regulation that is primarily aimed at protecting policyholders from the risk of the insurer becoming insolvent.

- 4.3.57 As I noted in paragraph 4.3.2 of my Main Report, the same Solvency II regulatory framework is currently applied in both the UK and Ireland, thereby providing policyholders with equivalent protections in both countries.
- 4.3.58 For completeness, in addressing the policyholder's concerns, I note that the Irish insurance company insolvencies to which the policyholder refers happened prior to the introduction of the Solvency II regulatory regime and, under the preceding regime, there were insolvencies of similar UK-regulated firms.
- 4.3.59 I remain satisfied that the difference in regulatory environments between the UK and Ireland does not represent a material adverse effect on the Transferring Policyholders.

Ability of the CBI to apply regulatory oversight

- 4.3.60 One policyholder was concerned that the assets backing the Transferring Policies had already been transferred to Monument Re, a company based in Bermuda, and that the CBI would be unable to apply appropriate regulatory control or oversight of the Bermudian company.
- 4.3.61 I understand this transfer of assets to refer to the Reinsurance Agreement as described in sub-section 7.4 of my Main Report. Under this agreement, most of the economic risks and rewards of the Transferring Policies have been transferred to Monument Re along with an appropriate value of assets. However, Rothesay Life retains responsibility for paying benefits to policyholders. Following the transfer, Monument Life will take over Rothesay's rights and obligations under the Reinsurance Agreement and Monument Life will have ultimate responsibility for paying benefits to policyholders.
- 4.3.62 Monument Life is required to maintain sufficient assets to cover the value of its liabilities and its regulatory capital requirements and this is overseen by the CBI in its role as the regulator of Irish insurance companies. Following implementation of the Scheme, the CBI's oversight will automatically extend to the Transferring Policies. The CBI can intervene if it considers that Monument Life is failing to hold sufficient capital.
- 4.3.63 I acknowledge that Monument Life has a significant exposure to Monument Re by virtue of its reinsurance arrangements, which will include the Amended Reinsurance Agreement (see sub-section 7.6 of my Main Report) that will apply to the Transferring Policies post-Scheme. In paragraphs 8.2.57 – 8.2.97 of my Main Report I analysed the risks to Monument Life arising from its exposure to Monument Re. My conclusion was that these risks did not lead to a material adverse effect on the security of benefits for Transferring Policyholders due to:
- the financial strength of Monument Re and hence the very low risk of Monument Re defaulting on its obligations under these reinsurance arrangements
 - the structure of the reinsurance arrangements, under which the assets are not actually transferred to Monument Re, but are held in an account with an independent custodian and remain the legal property of Monument Life, such that they can be used to make good any losses that may arise if Monument Re were to default
 - the active monitoring of Monument Re's solvency position and risk profile carried out by Monument Life

- the additional capital that Monument Life holds against the risk of default by Monument Re.

4.3.64 While it is correct that the CBI has no regulatory control over Monument Re, the appropriate management of Monument Life's exposure to Monument Re is within the remit of the CBI's regulatory oversight of Monument Life.

4.3.65 For completeness, as mentioned in my Main Report, Monument Re is regulated by the Bermuda Monetary Authority (BMA) and is subject to the Bermudian Solvency Regime, which has been recognised by the EU as providing a similar level of protection to policyholders as Solvency II. The BMA establishes "supervisory colleges" for all Bermudian-registered insurers that operate within an international group structure. The term supervisory college refers to cooperation arrangements and agreements for the sharing of information between the supervisory bodies of companies within an international insurance group, thereby facilitating discussion between those bodies of supervisory issues and concerns relevant to the group. The primary purpose of a supervisory college is to enhance the effectiveness and efficiency of the supervision of groups and their associated solo entities.

4.3.66 The BMA has established a supervisory college for the Monument Re Group, of which the CBI is a member. Through its membership of this supervisory college, the CBI will have some oversight of Monument Re and will have the opportunity to fully understand the risks of the group and to influence supervisory activities in relation to the group.

4.3.67 In conclusion, I am satisfied that the CBI having no direct regulatory control of Monument Re does not give rise to a material adverse effect on the Transferring Policyholders. Monument Life will be responsible for paying the benefits of Transferring Policyholders. I am satisfied that the CBI's membership of the BMA-led supervisory college for the Monument Re Group and its regulatory oversight of Monument Life's regulatory capital position, governance and risk management provide sufficient regulatory safeguards for the Transferring Policyholders.

The PAC-Rothesay judgement

4.3.68 One policyholder contended that there are strong similarities between the Scheme and the proposed scheme to transfer a block of non-profit annuities from PAC to Rothesay, which the Court declined to sanction on 19 August 2019. The policyholder concluded that the judgement by Mr Justice Snowden in that case established an important precedent that is relevant to the proposed transfer under the Scheme.

4.3.69 I considered the applicability of Mr Justice Snowden's judgement to the Scheme in paragraphs 8.1.10 to 8.1.16 of my Main Report. In particular, I noted that the primary reasons given by Mr Justice Snowden for declining to sanction the proposed PAC to Rothesay scheme were that:

- a number of affected policyholders who objected to the proposed scheme had chosen PAC as an annuity provider based on a number of factors such as PAC's age and reputation
- in his opinion, PAC was expected to have a greater degree of capital support from its parent company (should it be needed) than Rothesay
- the commercial objectives of the proposed transfer had largely, but not wholly, been achieved by a reinsurance agreement in place between PAC and Rothesay.

4.3.70 In paragraph 8.1.13 of my Main Report, I concluded that the considerations set out in paragraph 4.3.69 above do not apply to the Scheme. In particular:

- The Transferring Policies did not choose to be policyholders of Rothesay. The Transferring Policyholders became policyholders of MetLife Assurance Limited when their pension schemes

were bought out between 2010 and 2013 and subsequently became policyholders of Rothesay in 2015 under a Part VII transfer.

- In my opinion, it is more appropriate to consider the capital within the respective companies and their capital management policies, given that the parent companies of Rothesay and Monument Life have given no binding commitments that can be relied upon. In addition, in my opinion, Rothesay and Monument Re are similar in terms of their ability to access capital from their ultimate shareholders, in the unlikely event that this is necessary.
- In contrast to the proposed PAC-Rothesay transfer, the Scheme has been initiated by Rothesay not for its own commercial reasons but to ensure that the Transferring Policies can lawfully be serviced over the long term now that the UK has left the EU, which is to the benefit of Transferring Policyholders. Also in contrast to the proposed PAC-Rothesay transfer, the Reinsurance Agreement in place between Rothesay and Monument Re does not achieve this objective, as Rothesay remains the insurer with the obligation to service the Transferring Policies and pay Transferring Policyholders' benefits.

4.3.71 I also stated, in paragraph 3.4.6 of my Main Report, that Mr Justice Snowden had noted that the effect of his judgement should not preclude future transfers of annuities. I therefore concluded in paragraph 8.1.15 of my Main Report that I could see no reason why Mr Justice Snowden's decision on the proposed scheme from PAC to Rothesay should prevent the Scheme being approved.

4.3.72 The policyholder states that the trustees of the Element Six Contributory Pension Plan (one of five Irish pension schemes that secured bulk buyouts with MetLife Assurance Limited that now comprise the Transferring Policies) chose MetLife Assurance Limited on the basis of its financial assets, its size and the fact that, as a UK-regulated company, its policyholders would be protected by the FSCS. In this respect, the policyholder argues, the situation of the Transferring Policyholders is similar to that of the affected PAC policyholders, who had chosen PAC for reasons including its financial resources and size. I have seen no evidence of the criteria used by the trustees to select MetLife Assurance Limited, although I have no reason to doubt what the policyholder says.

4.3.73 While I accept this similarity in terms of the original decision taken by the trustees of the Element Six Contributory Pension Plan, as highlighted above, in my opinion, there are some key differences.

4.3.74 I have also considered the specific concerns raised in relation to Monument Life's financial strength, its size and the potential loss of FSCS protection, which, I repeat, I consider is unlikely, separately within this sub-section.

4.3.75 I am still of the view that the two schemes are sufficiently different in terms of their objectives and the companies involved that Mr Justice Snowden's judgement should not prevent the Scheme being approved.

4.4 Objections raised by Monument Life policyholders

4.4.1 As at the date of my Supplementary Report, Monument Life informs me that it has not received any objections from its policyholders in relation to the Scheme.

5 Conclusions

5.1 Summary

5.1.1 I have considered information that has become available and events that have occurred subsequent to the date of my Main Report. I have also considered the issues raised by policyholders who have objected to the Scheme.

5.1.2 The additional information and events, including issues raised by policyholders, have not led me to change my conclusions regarding the likely effects of the Scheme. I remain satisfied that the implementation of the Scheme will not have a material adverse effect on:

- the security of the benefits of the policyholders of Rothesay and Monument Life, including the Transferring Policyholders
- the reasonable expectations of the policyholders of Rothesay and Monument Life in respect of their benefit expectations, service standards, management and governance, including the Transferring Policyholders.

5.1.3 In the remainder of this section, I consider the effects of the Scheme using the same groupings of policyholders I used for my Main Report:

- Transferring Policyholders
- Rothesay Non-Transferring Policyholders
- Monument Existing Policyholders.

5.1.4 I also consider the effects of the Scheme on Monument Re as a reinsurer of the Transferring Policies.

5.2 The effect of the Scheme on the Transferring Policyholders

Summary

5.2.1 I remain satisfied that the Scheme will have no material adverse effect on the security of the benefits and reasonable expectations of the Transferring Policyholders.

5.2.2 To arrive at my conclusion, I have considered:

- the impact of the Scheme on the security of the benefits of the Transferring Policyholders
- the impact of the Scheme on the reasonable expectations of the Transferring Policyholders, including benefit expectations, service standards, management and governance
- implications related to the UK's decision to leave the EU and, in particular, that the Scheme may, in certain limited circumstances, result in eligible Transferring Policyholders losing the protection of the FSCS at some point in the future.

Benefit security

5.2.3 As stated in my Main Report, it is important that the benefits under the Transferring Policies are paid as they fall due. The continuing ability of an insurer to pay benefits depends upon it holding:

- sufficient assets to pay the expected amount of future benefits and expenses as they fall due
- additional assets in case the actual amount it needs to pay is greater than expected.

5.2.4 For my Main Report I investigated the security of the benefits under the Transferring Policies by comparing the sources of security and the profile of risks to which the Transferring Policyholders will be exposed pre- and post-Scheme.

5.2.5 I concluded in my Main Report that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders. I formed this opinion taking into account, amongst other things, that:

- both Rothesay and Monument Life are subject to the same regulatory solvency regime, meaning that the minimum amount of capital (assets in excess of their liabilities) that they must hold offers a similar level of security
- both Rothesay and Monument Life have similar targets in respect of excess capital (capital above the regulatory minimum capital requirement) such that the probability of either company being unable to meet its obligations to its policyholders, including the Transferring Policyholders, is remote
- as at 30 June 2019 both Rothesay and Monument Life held capital in excess of these target levels, and this remained the case as at 20 March 2020, the most up to date information available as at the date of my Main Report
- although the absolute amount of excess capital in Monument Life is lower compared to that in Rothesay under their respective capital targets, this is not detrimental to benefit security as the absolute amounts reflect the size of the respective risks
- the range of management actions identified by Monument Life as being available to restore its capital position if it breaches its capital targets are, in my opinion, credible and comparable to those identified by Rothesay in similar circumstances, which I also consider to be credible
- Monument Life's risk management framework and, in particular, its liquidity risk management approach which aims to ensure that assets are available to pay benefits as they fall due, is appropriate and comparable to that of Rothesay
- Monument Life has an appropriate framework in place to manage the additional risk exposures that arise from being part of a group of insurance companies (which do not apply to Rothesay) and, in particular, Monument Life's exposure to Monument Re, its most significant intra-group counterparty, does not result in a material risk to benefit security.

5.2.6 Having taken into account the information that has become available and events that have occurred subsequent to the date of my Main Report, my conclusion remains unchanged. In particular:

- the CBI's approval for Monument Life to apply the Solvency II Volatility Adjustment with effect from 31 March 2020 is an integral part of the Solvency II framework and does not alter my conclusion that the minimum amount of capital Monument Life must hold offers a similar level of security to the minimum amount of capital that Rothesay must hold (see paragraphs 3.3.8 to 3.3.10)
- as at 31 December 2019 and 31 March 2020, both Rothesay and Monument Life held capital in excess of their target levels and this remained the case at 30 June 2020, the most up to date information available at the date of my Supplementary Report (see section 3)
- both of the Companies have demonstrated to me that they can withstand significant adverse financial impacts that might stem from the ongoing Covid-19 pandemic while still meeting their regulatory capital requirements (see sub-section 3.4)
- Monument Re remains financially strong such that Monument Life's exposure to Monument Re does not result in a material risk to benefit security (see paragraphs 3.3.13 to 3.3.18).

5.2.7 There have been no other changes to the factors listed in paragraph 5.2.5 above since the date of my Main Report.

Reasonable expectations and consumer protections

5.2.8 As stated in my Main Report, in my opinion, Transferring Policyholders' reasonable expectations are that:

- they receive their benefits as guaranteed under the policy, on the dates specified
- to the extent that benefits are discretionary, that such discretion is exercised fairly
- the administration, management and governance of the policies are in line with the contractual terms under the policy
- the standards of service received are at least as good as those they currently receive.

5.2.9 Transferring Policyholders may also expect an appropriate degree of consumer protection with regard to their fair treatment and the ability to escalate complaints to an independent body where they feel that they have been treated unfairly.

5.2.10 For my Main Report I investigated these factors by looking separately at benefit expectations, policy administration and servicing, management and governance, and consumer protection.

Benefit expectations

5.2.11 I concluded in my Main Report that the Scheme will have no material adverse effect on the reasonable benefit expectations of Transferring Policyholders. I formed this opinion taking into account that:

- the majority of benefits are contractually defined and are not discretionary
- where discretion is applied:
 - the methodology used by Monument Life will be consistent with that currently used by Rothesay
 - the methodology and assumptions that Monument Life proposes to use to calculate discretionary benefits post-Scheme are, in my opinion, fair to Transferring Policyholders and are expected to be beneficial to Transferring Policyholders
 - any changes to the methodology will be subject to Monument Life's internal governance, and its requirement to meet the CBI's customer-focussed conduct rules, which are, in my opinion, comparable to Rothesay's internal governance and its requirement to meet applicable regulatory conduct rules
- Rothesay has received advice from its third-party tax advisor that the Scheme will not change the way in which Transferring Policyholders' benefits are taxed in the hands of the policyholder.

5.2.12 Having taken into account information and events subsequent to the date of my Main Report, my conclusion remains unchanged. In particular, an updated comparison of lump-sum cash factors based on market conditions as at 30 April 2020 (see sub-section 2.7) does not lead me to change my conclusions in respect of discretionary benefits.

5.2.13 There have been no other changes that affect the factors listed in paragraph 5.2.11 above since the date of my Main Report.

Policy administration and servicing

5.2.14 I concluded in my Main Report that the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders. I formed this opinion taking into account that:

- Rothesay, Monument Life and their respective outsourcing partners have developed, and shared with me, a policy data and administration migration plan to facilitate the transfer of the Transferring Policies from Rothesay to Monument Life
- I consider the migration plan (which may be amended to reflect changing circumstances) to be reasonable, comprehensive and robust
- the Companies will only proceed with the Scheme if they are confident, in advance of the Transfer Date, that the policy data and administration migration will be successful
- the proposed service standards are, in my opinion, not materially different from those that are currently applied by Rothesay
- Monument Life has chosen to outsource administration of the Transferring Business to Equiniti, an established provider of such services which has:
 - a strong market reputation
 - demonstrated its ability to work to appropriate service standards on Monument Life's existing business.

5.2.15 Having taken into account information and events subsequent to the date of my Main Report, my conclusion remains unchanged. In particular:

- both of the Companies and their outsourced service providers have successfully implemented contingency working arrangements following the Covid-19 pandemic "lockdown", and operations have been resilient throughout the disruptions (see sub-section 2.3)
- as at the date of my Supplementary Report, implementation of the migration remains on track with no disruption to date caused by the implications of the ongoing Covid-19 pandemic (see sub-section 2.6)

5.2.16 There have been no other changes that affect the factors listed in paragraph 5.2.14 above since the date of my Main Report.

Management and governance

5.2.17 I concluded in my Main Report that the Scheme will have no material adverse effect on the management and governance of the Transferring Policies. I formed this opinion taking into account that:

- Monument Life's governance structure is comparable to that of Rothesay's and is appropriate
- Monument Life has recruited additional staff to provide capacity for it to oversee the acquisitions and proposed transfers of insurance business planned over the short term.

5.2.18 Having taken into account information and events subsequent to the date of my Main Report, my conclusion remains unchanged. In particular:

- there have been no material changes to Monument Life's planned acquisitions and insurance business transfers since my Main Report (see sub-section 2.8)
- Monument Life has completed a project which strengthens its oversight and governance of its outsourcing arrangements (see sub-section 2.9)

- Monument Life's has filled all but one role in its recruitment plan and this role has no impact on the Transferring Policies (see sub-section 2.9).

5.2.19 There have been no other changes that affect the factors listed in paragraph 5.2.17 above since my Main Report.

Consumer protection

5.2.20 I concluded in my Main Report that the Scheme will have no material adverse effect on Transferring Policyholders with respect to consumer protection and the escalation of complaints to an independent body. I formed this opinion taking into account that the Transferring Policyholders will be:

- protected by the CBI's conduct regulations which, in my opinion, offer a similar level of protection to the conduct regulations in the UK
- protected by Monument Life's undertaking that it will comply with the UK regulations in respect of complaints handling and resolution, insofar as these requirements applied to the Transferring Policies prior to the Transfer Date
- able to escalate complaints to the Financial Services and Pensions Ombudsman (FSPO) in Ireland.

5.2.21 There have been no changes that affect these factors since the date of my Main Report and so my conclusion remains unchanged.

Potential loss of FSCS protection

5.2.22 In my Main Report I stated my expectation is that Transferring Policyholders will continue to benefit from FSCS protection indefinitely following the implementation of the Scheme, although this cannot be guaranteed as it depends on Monument Life establishing a third-country branch in the UK and on there being no changes to the FSCS rules.

5.2.23 In my Main Report I also concluded that the value of the possible loss of FSCS protection is very small, as my analysis of the benefit security of Transferring Policyholders led me to conclude that the likelihood of Monument Life becoming insolvent and therefore unable to pay benefits in full is very remote. In addition, I also concluded that the value lost by Transferring Policyholders from the possible loss of FSCS protection in the future is outweighed by the benefit of having certainty that the insurer responsible for paying benefits to policyholders is lawfully able to do so regardless of the outcome of negotiations concerning the longer-term trading relationship between the UK and the EU.

5.2.24 I have carefully considered the concerns expressed by the three policyholders who have objected to the Scheme citing the potential loss of FSCS protection (see paragraphs 4.3.26 to 4.3.36). However, my analysis of this issue and the legal position on which it is based have not changed since the date of my Main Report. My conclusions therefore remain unchanged.

5.3 The effect of the Scheme on the Rothesay Non-Transferring Policyholders

5.3.1 I remain satisfied that the Scheme will have no material adverse effect on the security of the benefits and reasonable expectations of the Rothesay Non-Transferring Policyholders.

5.3.2 To arrive at my conclusion, I have considered the impact of the Scheme on the:

- security of the benefits of the Rothesay Non-Transferring Policyholders

- reasonable expectations of the Rothesay Non-Transferring Policyholders, including benefit expectations, service standards, management and governance.

5.3.3 I formed this opinion in my Main Report taking into account, amongst other things, that:

- the Transferring Policies represent a very small proportion of Rothesay's business such that the impact of the Scheme on Rothesay's financial position is not material
- the Scheme will not result in any changes to the benefits that the Rothesay Non-Transferring Policyholders will receive under their policies
- there will be no changes to Rothesay's administration, management or governance arrangements as a result of the Scheme.

5.3.4 There have been no changes that affect these factors since the date of my Main Report and so my conclusion remains unchanged.

5.3.5 The impact of the Scheme is so trivial to Rothesay Non-Transferring Policyholders that I include no further analysis of the impact in my Supplementary Report.

5.4 The effect of the Scheme on the Monument Existing Policyholders

Summary

5.4.1 I remain satisfied that the Scheme will have no material adverse effect on the security of the benefits and reasonable expectations of the Monument Existing Policyholders.

5.4.2 To arrive at my conclusion, I have considered the impact of the Scheme on the:

- security of the benefits of the Monument Existing Policyholders
- reasonable expectations of the Monument Existing Policyholders, including benefit expectations, service standards, management and governance.

Benefit security

5.4.3 I concluded in my Main Report that implementation of the Scheme will have no material adverse effect on the security of benefits for the Monument Existing Policyholders.

5.4.4 I formed this opinion taking into account, amongst other things, that:

- the Scheme will have only a modest impact on Monument Life's financial position and Monument Life will remain financially strong immediately following the Scheme
- although the Transferring Policies bring additional risk to Monument Life:
 - much of the additional risk introduced will be reinsured to Monument Re
 - the additional risk to Monument Existing Policyholders' security of benefits from the increase in Monument Life's exposure to Monument Re is not material
 - the revised risk profile will be appropriately reflected in Monument Life's regulatory capital requirement.

5.4.5 Having taken into account information and events subsequent to the date of my Main report, my conclusion remains unchanged. In particular, updated financial analysis as at 31 December 2019 and 31 March 2020 (see sub-section 3.3) confirm that the Scheme will have only a modest impact on

Monument Life's financial position and Monument Life will remain financially strong immediately following the Scheme.

5.4.6 There have been no other changes that affect these factors since the date of my Main Report.

Reasonable expectations

5.4.7 As stated in my Main Report, in my opinion, the reasonable expectations of the Monument Existing Policyholders are principally that:

- they receive their benefits as guaranteed under the policy on the dates specified
- to the extent that benefits or charges are discretionary, that such discretion is exercised fairly
- where different investment options are offered on savings contracts, that the investment options remain available or are changed only for good reason
- the administration, management and governance of the policies are in line with the contractual terms under the policy
- the standards of service received are at least as good as those they currently receive.

5.4.8 I concluded in my Main Report that implementation of the Scheme will have no material adverse effect on the reasonable expectations of the Monument Existing Policyholders. I formed this opinion taking into account that, if the Scheme is implemented, it will not result in any changes to:

- any policy terms and conditions
- the discretion exercised by Monument Life
- investment options available to the Monument Existing Policyholders
- the administration and servicing arrangements for policies held by Monument Existing Policyholders
- the management and governance of the policies held by Monument Existing Policyholders.

5.4.9 There have been no changes that affect these factors since the date of my Main Report and so my conclusion remains unchanged.

5.5 The effect of the Scheme on Monument Re

5.5.1 I remain satisfied that the Scheme will have no material adverse effect on Monument Re as a reinsurer of the Transferring Policyholders.

5.5.2 In my Main Report, I considered that, if the Scheme is implemented, the financial impact on Monument Re will not be material and there should be some benefit to Monument Re from the close relationship between Monument Life and Monument Re. Based on this, I concluded that the Scheme has no material adverse effect on Monument Re.

5.5.3 There have been no material changes that affect these factors since the date of my Main Report and so my conclusion remains unchanged.

Appendix A Statement of compliance

- A.1.1 I understand that my duty in preparing my Reports is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and/or paying my fee. I confirm that I have complied with this duty.
- A.1.2 I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, the Practice Direction and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 paragraph 10 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the Court.
- A.1.3 I confirm that I have made clear which facts and matters referred to in my Reports are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.



John Hoskin

8 July 2020

Fellow of the Institute and Faculty of Actuaries

Appendix B Data and reliances

B.1 Overview

- B.1.1 In performing my review and in preparing my Reports, I have relied on the accuracy and completeness of information provided by the Companies, including information received orally, without independent verification. I have reviewed the information provided for consistency and reasonableness using my knowledge of the life assurance industry in the UK and Ireland.
- B.1.2 In a number of areas I have challenged the information presented to me, and/or have sought additional information and explanations to ensure that I could rely on that information.
- B.1.3 I have checked that the documents that I have relied upon and have formed judgements on, are the most up-to-date available.

B.2 Data received

- B.2.1 In addition to the information that was provided to me for my Main Report (as listed in Appendix C of that report) I have listed the additional financial information, data and written information that I have relied upon in my Supplementary Report below.
- B.2.2 Some of this information is company confidential and is not publically available. In addition to the listed items, I have relied on discussions (both orally and electronically) with Rothesay, Monument Life, and Monument Re management and staff, primarily to gain additional understanding on certain topics. Any oral discussions material to my considerations have been subsequently confirmed in writing.

Scheme and scheme-related documents:

- Supplementary Reports from the Chief Actuary of Rothesay and the Head of Actuarial Function of Monument Life on the Scheme
- Confirmation that there have been no changes to the Scheme and that none are expected (other than immaterial changes to add the registered addresses of the Companies and to fill in certain data items and names of supporting files)

Financial information and reports

- Rothesay and Monument Life Solvency and Financial Condition Reports for 2019
- Rothesay and Monument Life Own Risk and Solvency Assessments for 2019
- Monument Re Group Solvency Self-Assessment for 2019
- Assessments of the financial impact of the Scheme on Rothesay and Monument Life as at 31 December 2019
- Assessment of the financial impact of the Scheme on Monument Life as at 31 March 2020
- Estimated solvency position of Rothesay and Monument Life as at 30 June 2020, including an assessment of the financial impact of the Scheme on Monument Life as at that date
- Estimated solvency position of Monument Re as at 27 March 2020 and 31 May 2020

Policyholder communications:

- Confirmation of the number of mailings and the numbers excluded from the mailings
- Copies of the legal notices placed in newspapers

- Statistics on policyholder responses to the mailing
- Letters sent by policyholders expressing objections to the Scheme and Rothesay's responses

Other:

- Minutes and papers from the joint Rothesay / Monument Life Programme Steering Committee meetings in April, May and June 2020
- Sample calculations of commutation benefits on both the current Rothesay basis and the proposed Monument Life basis as at 30 April 2020
- Confirmation that Rothesay does not have any plans to acquire any other companies or to carry out any other unannounced Part VII transfers before the Transfer Date
- Update on Monument Life's planned acquisitions and transfers that may complete before the Transfer Date, including estimated financial impact
- Update on Monument Life's resourcing levels against its plans
- Progress on Monument Life's project to enhance its oversight and governance of outsourced activities
- Operational impact of Covid-19 on both Rothesay and Monument Life
- Oversight packs showing operational performance of Equiniti on Monument Life existing business
- Legal advice provided to Monument Life in respect of the security arrangements under the Amended Reinsurance Agreement