

Rothsay Life Plc & Monument Life Insurance DAC

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

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1 Introduction

1.1 Background

- 1.1.1 An insurance company is responsible for administering the policies it has sold to policyholders and for paying benefits or claims on those policies. Sometimes, an insurance company may want to transfer some or all of the policies it has sold to another insurance company. When this happens, the insurance company receiving the policies becomes responsible for those policies. When the insurer wanting to transfer policies is authorised in the United Kingdom (UK), the transfer of business from one insurance company to another is commonly referred to as a Part VII transfer and can only happen if the insurance companies involved follow the legal process set out in Part VII of the Financial Services and Markets Act 2000 (FSMA).
- 1.1.2 The terms of the transfer, including the policies, assets and liabilities that will transfer, together with any conditions imposed, are set out in a legal document called a scheme. The transfer can only go ahead if the scheme is approved by an appropriate court.

1.2 The Independent Expert

- 1.2.1 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.
- 1.2.2 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 policies¹ (the Transferring Policies, with each individual policy among the Transferring Policies being a Transferring Policy) from Rothesay Life Plc (Rothesay) to Laguna Life DAC, which is proposed to be renamed Monument Life Insurance DAC (Monument Life)². This report (my Report) has been prepared for the Court to fulfil this requirement.
- 1.2.3 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 UK.
- 1.2.4 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 FSMA. If approved, it is expected that the Scheme will become operative and take effect on 7 September 2020 (the Transfer Date).
- 1.2.5 Given the timing of my Report and the Court approval process, I will also prepare a supplementary report (my Supplementary Report) for the Court prior to the Sanction Hearing. My Supplementary

¹ An annuity policy is an insurance contract under which, from the date it becomes payable, a regular payment is paid to a beneficiary, usually until the death of the beneficiary. This is explained further in paragraphs 5.3.2 to 5.3.7.

² At the date of this report the transferee company is called Laguna Life DAC, but is expected to be renamed Monument Life Insurance DAC on 30 March 2020, in preparation for planned consolidation with other group companies. I refer to the transferee company as "Monument Life" in this report.

Report will provide an update on my conclusions in light of any significant events subsequent to the date of my Report.

- 1.2.6 My 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 Qualifications and disclosures

- 1.3.1 I am required to set out my qualifications and disclose any relationship that I have with the Companies.
- 1.3.2 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1996, and am a Partner in the Insurance Consulting practice of Barnett Waddingham LLP (BW). I am an “approved person” for the purposes of Section 59 of the FSMA. This means that the UK Regulators have approved me to carry out certain roles within insurance companies and, at the date of my Report, I act as Chief Actuary for four UK life insurance companies. I hold a practising certificate issued by the Institute and Faculty of Actuaries allowing me to perform the Chief Actuary role subject to approval by the UK Regulators. I have been involved in a number of insurance transfers under Part VII of the FSMA in the role of adviser or as Chief Actuary to the company selling a portfolio of business.
- 1.3.3 Neither I, nor my immediate family, hold any policies with or have any financial interest in either of the Companies or their associated group companies.
- 1.3.4 BW is a consulting firm and while it has not advised Monument Life in any capacity, it has previously provided consulting services to Rothesay through a small number of assignments. I, personally, have not advised either of the Companies.
- 1.3.5 In my opinion, these previous assignments do not compromise my independence, create a conflict of interest, or compromise my ability to report on the Scheme.

1.4 Regulation, guidance and professional standards

- 1.4.1 In preparing my Report, I must comply with certain regulations, guidance and professional standards. I address these below.
- 1.4.2 My Report has been prepared in accordance with regulations and guidance set by the UK Regulators:
- the approach and expectations of the PRA, as set out in “The Prudential Regulation Authority’s approach to insurance business transfers” dated April 2015 (the PRA Statement of Policy)
 - chapter 18 of the Supervision Manual (SUP 18) contained in the FCA Handbook
 - the FCA’s Final Guidance “FG18/4: The FCA’s approach to the review of Part VII insurance business transfers” dated May 2018 (the FCA Guidance).
- 1.4.3 I have set out in Appendix A details of how these requirements have been met. The PRA, in consultation with the FCA, has approved the form of my Report.
- 1.4.4 My Report has been shared with the Companies in near-final form for their review and challenge prior to being finalised. This final version of my report has also been shared with the Companies.
- 1.4.5 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 B.

- 1.4.6 The Financial Reporting Council sets out Technical Actuarial Standards (TASs) for members of the Institute and Faculty of Actuaries. My Report and 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.
- 1.4.7 A number of the key documents listed in Appendix C have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.
- 1.4.8 The Institute and Faculty of Actuaries sets actuarial professional standards for its members. My Report and 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 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 The scope of my Report

- 1.5.1 My engagement terms have been agreed with the Companies and have been seen by the UK Regulators. They are set out in more detail in Appendix D.
- 1.5.2 My Report considers the consequences of the Scheme for the policyholders of Rothesay and Monument Life, and sets out my findings. In particular, I have had regard to the likely effect of the Scheme on the security of policyholders' benefits and on the reasonable expectations of policyholders created by past practices employed or statements made by each of the Companies. I explain what security of benefits and policyholders' reasonable expectations mean in the context of the Scheme in more detail in paragraphs 3.2.4 to 3.2.8.
- 1.5.3 I am not required to, and do not, consider the position of each policyholder, but I have reviewed the consequences for each class of policyholder. I am concerned particularly to assess whether any group of policyholders might be materially adversely affected by the Scheme. I comment in sub-section 3.4 on how I have interpreted materiality.
- 1.5.4 I am required to comment on the Scheme. I am not required to, and do not, comment on any possible alternatives to the Scheme. However, I do consider the implications if the Scheme does not go ahead.
- 1.5.5 To the best of my knowledge, I have taken account of all material facts in assessing the impact of the Scheme and in preparing my Report. My Supplementary Report will reflect any updated financial information or circumstances nearer to the date of the Sanction Hearing.
- 1.5.6 My Report can be read as a stand-alone document, although it draws on the information in the terms of the Scheme, and the reports prepared by the Chief Actuary of Rothesay and the Actuarial Director (and proposed Head of Actuarial Function) of Monument Life. I have considered each of those reports in coming to my opinions, but have not relied upon the opinions expressed in those reports.

1.6 Reliances and sources of information

- 1.6.1 In performing my review and in preparing my Report, 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 the Republic of Ireland (Ireland). I have also had access to, and discussions with, senior management of the Companies.
- 1.6.2 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 in Appendix C.
- 1.6.3 My analysis of the solvency position (financial strength) of the Companies is based on estimates of the pre- and post-Scheme financial position on a pro-forma basis as at 30 June 2019 produced by the Companies. These estimates show the solvency position on what is called the regulatory capital or Pillar 1 basis, which is described in sub-section 4.3.
- 1.6.4 Although the financial information as at 30 June 2019 is unaudited (since only the year-end financial information is subject to audit), the Companies have prepared that information using methodologies and assumptions consistent with the most recently audited information (31 December 2018) at the time the 30 June 2019 information was prepared. Where possible, the Companies have used processes already in place to report management information or have put other governance in place to ensure the estimates are reasonable. I have not checked these estimates, other than for reasonableness as stated above, or the processes and have relied on them in carrying out my analysis. My Supplementary Report will include analysis based on the audited financial information as at 31 December 2019.
- 1.6.5 My Report also makes reference to a second set of solvency calculations, known as Own Risk and Solvency Assessment (ORSA) calculations or Pillar 2 calculations (described in sub-section 4.3). These are not audited, but are produced using established processes, are checked by the Companies and are used by them in practice as an input to decision-making. They are also submitted to the relevant insurance company regulator, the PRA for Rothesay and the Central Bank of Ireland (CBI) for Monument Life, although they do not require regulatory approval. A material error in these figures would be a significant matter and so, in my opinion, it is reasonable to rely on their accuracy, subject to reasonableness checking as stated above.
- 1.6.6 The economic position at the Transfer Date cannot be predicted with certainty. Market conditions and the Companies' financial positions have changed since the 30 June 2019 positions shown in my Report. In particular:
- at the date of my Report there is considerable financial market volatility as a result of the Covid-19 pandemic that has affected, and is expected to continue to affect, the values of both assets and liabilities
 - both of the Companies continue to acquire business, and a number of transactions that are currently planned by Monument Life to occur before the Transfer Date may or may not happen before that date.
- 1.6.7 The Companies have provided me with estimates of their financial positions as at 20 March 2020, taking into account all events since 30 June 2019. The movements in the financial positions since 30 June 2019 do not change my opinions and conclusions.

- 1.6.8 The financial positions of the Companies at the Transfer Date will differ from those shown in my Report. The impact of the Scheme on the Companies' financial position and their continuing ability to satisfy regulatory solvency requirements is an important consideration for me. I will continue to keep the position under review in the period leading up to the Sanction Hearing and will provide further information in my Supplementary Report.
- 1.6.9 Some aspects of the Scheme are legal matters that fall outside my expertise. For these areas, I have determined it is appropriate for me to rely on the legal advice provided by Allen & Overy LLP and Hogan Lovells International LLP to Rothesay and Monument Life respectively and advice provided by Irish Counsel to the Companies rather than seek independent legal advice. My reasons for this are that the legal matters either are not (in my opinion) contentious or, where there is scope for interpretation, the Companies' legal advisers are in agreement and my conclusions regarding the fair treatment of policyholders are not dependent on the legal advice.
- 1.6.10 I highlight where such reliance is placed in later sections of my Report.
- 1.6.11 Detailed understanding of corporate and Irish policyholder taxation is also outside my expertise. Rothesay has obtained, and shared with me, advice from its third-party tax adviser on the tax impacts of the Scheme. In my opinion, the transferring business is not complex and I therefore consider it unnecessary to seek additional independent advice on these topics.
- 1.6.12 In a number of places, my analysis reflects current expectations regarding the timing and the process for the UK leaving the EU and the resulting impact upon cross-border financial services. These expectations are, in part, based on legal advice received by the Companies. However, the UK's exit from the EU remains subject to the finalisation of a number of ongoing legal and political processes and there is residual uncertainty over the exact outcomes.
- 1.6.13 There are no documents or other items of information that I have requested and that have not been provided.

1.7 Distribution and use

- 1.7.1 My 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.
- 1.7.2 Neither BW, 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 Report.
- 1.7.3 No liability will be accepted for the use of my Report for which it was not intended or for the results of any misunderstandings by any user of my Report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.7.4 My 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 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 and its 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 CBI
- the professional advisers of any of the above
- any other person who requests it.

1.7.5 A copy of the final version of my Report will be published on the websites of the Companies and a printed copy will be provided to policyholders on request. Otherwise, my Report (or any extract of it) should not be published without my prior written consent. A summary of my Report, written by me, will also be published on the websites of the Companies and will be sent, alongside other materials describing the Scheme, by Rothesay to the holders of Transferring Policies. No other summary of my Report may be made without my prior written consent.

1.8 Form of my Report

1.8.1 The remainder of my Report is structured as follows:

- section 2 is a summary describing the Scheme, my considerations and my conclusions
- section 3 provides information about the role of the Independent Expert and the approach I have taken in carrying out my analysis and reaching my conclusions
- section 4 compares the insurance company regulatory environment in the UK and Ireland
- sections 5 and 6 provide some relevant background information on Rothesay and Monument Life respectively
- section 7 explains the terms of the transfer under the Scheme and how it will be carried out
- sections 8, 9 and 10 cover the impact of the Scheme on the transferring Rothesay policyholders, the non-transferring Rothesay policyholders, and the existing policyholders of Monument Life respectively
- section 11 considers the impact of the Scheme on Monument Re Limited (Monument Re) as the current reinsurer of the transferring Rothesay policies and parent holding company of Monument Life.

1.8.2 The appendices contain:

- details of how my Report complies with regulatory guidance
- my certificate of compliance with Part 35 of the Civil Procedure Rules
- a list of data and information relied upon for forming my conclusions
- an extract from my engagement letter for carrying out this assignment
- a glossary of terms used throughout my Report.

2 Summary and conclusions

2.1 The Independent Expert

- 2.1.1 I have been appointed as the Independent Expert for the Scheme to transfer the Transferring Policies from Rothesay to Monument Life.
- 2.1.2 For the transfer to proceed, the Scheme must be approved by the Court at the Sanction Hearing, which is expected to be on 22 July 2020. My role as Independent Expert is to consider the likely impact of the Scheme on the policyholders of the Companies and to set out my conclusions in a report for the Court. My Reports fulfil this requirement.
- 2.1.3 I am a Fellow of the Institute and Faculty of Actuaries and I am a Partner in the Insurance Consulting practice of Barnett Waddingham LLP.

2.2 The proposed transfer

The companies involved in the transfer

- 2.2.1 Rothesay is a proprietary insurance company incorporated in the UK. As at 30 June 2019, Rothesay had in-force policies covering approximately 780,000 lives and Rothesay valued its liabilities in respect of these policies at approximately £30bn. Rothesay continues to acquire new business through acquisitions from other insurers and pension schemes. Rothesay has a number of reinsurance arrangements, which transfer some of the risks arising from its business to other insurance companies.
- 2.2.2 Monument Life is a proprietary insurance company incorporated in Ireland, which is ultimately owned by Monument Re. As at 30 June 2019, Monument Life had approximately 12,000 in-force policies and Monument Life valued its liabilities in respect of these policies at €415m (approximately £370m). Since its acquisition by Monument Re in 2017, Monument Life has followed, and continues to follow, a strategy of acquiring blocks of in-force business from other life insurance companies, either through acquisitions of companies or by means of legal transfers of business. Monument Life has a number of reinsurance arrangements, which transfer some of the risks arising from its business to other insurance companies. It currently reinsures a large portion of its business to its ultimate parent, Monument Re.

Reason for the proposed transfer

- 2.2.3 Rothesay has a portfolio of policies written in Ireland under the European Union (EU) “freedom of services” arrangements. As at 30 June 2019 there were 406 policies in-force and Rothesay valued its liabilities in respect of these policies at £121m.
- 2.2.4 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 is expected to last until 31 December 2020 (unless extended) but 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. A secondary benefit of the proposed transfer is that it will simplify Rothesay’s operations, which will then be entirely within the UK.
- 2.2.5 Rothesay has chosen to resolve this issue by transferring the Transferring Policies to Monument Life, an Irish-regulated insurance company, under the Scheme. I consider this a reasonable action.

- 2.2.6 If the Scheme is approved by the Court, the effective date of the Scheme, the Transfer Date, is expected to be 7 September 2020. With effect from the Transfer Date, holders of the Transferring Policies will become policyholders of Monument Life, and Monument Life will be responsible for the administration of the Transferring Policies and payment of all benefits falling due under them after the Transfer Date.
- 2.2.7 In preparation for the sale and transfer of the Transferring Policies, Rothesay has entered into a reinsurance agreement with Monument Re that transferred the majority of the risks and rewards associated with the Transferring Policies to Monument Re. This reinsurance agreement will transfer to Monument Life under the Scheme, and will then be amended such that Monument Life transfers 90% of most of the risks on the Transferring Policies to Monument Re. Under the proposed arrangement Monument Life will retain more risk in respect of the Transferring Policies than Rothesay currently does.

2.3 My considerations with respect to the proposed transfer

- 2.3.1 In my Report I have considered the effects of the Scheme on the following 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.
- 2.3.2 My key considerations in respect of each group of policyholders are the effects of the Scheme on:
- the security of policyholders' benefits, which is primarily dependent on the relevant insurance company's financial strength and the risks to which they are exposed
 - the reasonable expectations of policyholders in respect of their benefit expectations, service standards, management and governance.
- 2.3.3 The test I have applied in considering this Scheme is whether the position of any group is, in the round, "materially adversely affected". The word "material" is not uniquely defined and so, where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect 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, I do not consider it material.

2.4 The effect of the Scheme on the Transferring Policyholders

Summary

- 2.4.1 I am satisfied that the Scheme will have no material adverse effect on the security of the benefits and reasonable expectations of the Transferring Policyholders.
- 2.4.2 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 UK Financial Services Compensation Scheme (FSCS).

Benefit security

- 2.4.3 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.
- 2.4.4 I have 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.
- 2.4.5 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders.
- 2.4.6 I have 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 remains the case based on the most recent information available as at 20 March 2020
 - 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.

Reasonable expectations and consumer protection

2.4.7 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.

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

2.4.9 I have investigated these factors by looking separately at benefit expectations, policy administration and servicing, management and governance, and consumer protection.

Benefit expectations

2.4.10 I am satisfied that the Scheme will have no material adverse effect on the reasonable benefit expectations of Transferring Policyholders.

2.4.11 I have 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.

Policy administration and servicing

2.4.12 In my opinion, the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders.

2.4.13 I have 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 Paymaster (1836) Limited (trading as Equiniti Paymaster), 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.

2.4.14 As at the date of my Report, the migration plan is being implemented. The migration plan contains activities that have completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Transfer Date. While this is not an uncommon position in a transfer of insurance business such as this, it is important that the migration is completed successfully to ensure that the Transferring Policies can be administered appropriately following the proposed transfer. The Scheme should not proceed until the Companies are confident that the migration will be successful. This is recognised by the Companies and the Scheme will only proceed when they are both satisfied that the migration can be completed successfully.

2.4.15 At the date of my Report, work on the migration is progressing to plan and I have no reason to believe that the activities will not be completed successfully.

2.4.16 However, I do recognise that the potential consequences of the Covid-19 pandemic pose a risk to the migration if personnel involved in the migration are unavailable or unable to work. The Companies and their administration partners have implemented their business continuity plans with the intention of maintaining operations and service levels. At this stage, it is too early for me to assess whether or not the Covid-19 pandemic will have a detrimental impact on the migration.

2.4.17 I have asked the Companies to keep me informed of progress against the migration plan and I will provide an update in my Supplementary Report.

Management and governance

2.4.18 In my opinion, the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

2.4.19 I have 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.

2.4.20 In line with its commercial strategy, Monument Life's business is increasing and it expects to undertake a number of transactions over the course of 2020. In addition to the proposed transfer under the Scheme, I am aware of four other potential transactions that will involve business transferring into Monument Life. In anticipation of these transactions, Monument Life has recruited additional staff to provide appropriate capacity.

2.4.21 I have asked Monument Life to keep me informed of staff levels and potential transactions and I will consider carefully whether any developments after the date of my Report change my opinion. I will comment further on this in my Supplementary Report.

Consumer protection

2.4.22 I am satisfied 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 have 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.

Potential loss of FSCS protection

2.4.23 The UK FSCS provides compensation to eligible customers in the event of insolvency of financial services companies, including insurance companies, that are "Relevant Persons" for the purposes of the FSCS rules. An insurance company is a Relevant Person if it is authorised by the PRA to carry out business in the UK. There is no comparable compensation scheme for life insurance business in Ireland.

2.4.24 As Rothesay is a Relevant Person for the purposes of the FSCS rules, in the very unlikely event that Rothesay were to become insolvent and unable to pay policyholder benefits, Rothesay's eligible policyholders (including Transferring Policyholders) would be entitled to claim full compensation from the FSCS.

2.4.25 The Companies have each received legal advice as to whether, and in what circumstances, the Transferring Policyholders will remain protected by the FSCS following the implementation of the Scheme. That legal advice, which I have relied upon, but which is consistent with my own understanding of the relevant regulations, forms the basis of the following discussion.

2.4.26 Monument Life was also a Relevant Person for the purposes of the FSCS rules while the UK was a member of the EU and, under the terms of the withdrawal agreement between the UK and the EU (the Withdrawal Agreement), it will continue to be a Relevant Person during the Implementation Period. This means that rights of compensation from the FSCS currently exist for Monument Life's policyholders who are eligible to claim. Under the current FSCS rules, Monument Life policyholders who are eligible to claim under the FSCS (including the Transferring Policyholders after the Transfer Date) will remain eligible for FSCS protection so long as Monument Life remains a Relevant Person.

2.4.27 Monument Life has applied to enter the UK's Temporary Permissions Regime, which will begin following the end of the Implementation Period. The Temporary Permissions Regime will allow non-UK European Economic Area (EEA) insurers to continue to operate in the UK over a further transitional period of up to three years starting from the end of the Implementation Period while they seek a permanent solution. Monument Life's status as a Relevant Person for the purposes of the FSCS rules will continue while it remains in the Temporary Permissions Regime.

2.4.28 Monument Life has indicated to me that it intends to submit an application to allow it to establish what is known as a "third country branch" in the UK within the transitional period covered by the Temporary Permissions Regime. If such a third country branch were established, Monument Life would remain a Relevant Person and the Transferring Policyholders would continue to benefit from rights of compensation under the current FSCS rules. I note though that it cannot be completely assured that

Monument Life will be able to establish a third country branch in the UK as the action requires authorisation from the UK regulatory bodies.

- 2.4.29 There is a further UK transitional regime, which applies from the end of the Implementation Period to allow EEA insurers operating in the UK to run off policies that are already in force, the Financial Services Contracts Regime. This applies to a firm which does not enter the Temporary Permissions Regime or which does enter the Temporary Permissions Regime, but leaves that regime without obtaining a UK authorisation for a third country branch. If Monument Life is not successful in establishing a third country branch, it will fall within the Financial Services Contracts Regime and will be a Relevant Person for as long as it continues to do so. Transferring Policyholders would continue to benefit from FSCS cover while Monument Life is within the Financial Services Contracts Regime.
- 2.4.30 The Financial Services Contracts Regime is currently expected to apply to an insurance firm in these circumstances for 15 years from the end of the Implementation Period if the firm does not enter the Temporary Permissions Regime or for 15 years from the date on which the firm leaves the Temporary Permissions Regime without UK authorisation for a third country branch. The regulations allow the duration of the Financial Services Contracts Regime to be extended if HM Treasury, a department of the UK government, considers it necessary. After the expiry of the Financial Services Contracts Regime period, the policyholders eligible for FSCS protection transferring to Monument Life would lose that protection unless Monument Life has successfully established a third country branch in the UK.
- 2.4.31 I also note that the FSCS rules may change in the future. Such changes, which cannot be foreseen, may result in the Transferring Policyholders losing FSCS protection even if Monument Life does successfully establish a third country branch.
- 2.4.32 In summary, I expect that the Transferring Policyholders will continue to benefit from FSCS protection. Under current legislation, this protection will be available for at least 15 years from the date on which Monument Life leaves the Temporary Permissions Regime. However, the continuation of this protection beyond the Financial Services Contracts Regime period is not guaranteed as it depends upon Monument Life being successful in establishing a third country branch in the UK following the end of the Implementation Period and before the expiry of the Financial Services Contracts Regime period. It also depends upon there being no future changes to the FSCS rules that cannot be foreseen. It is therefore important that I consider the possible, but not expected, loss of FSCS protection.
- 2.4.33 In my opinion, the value of this possible lost protection to Transferring Policyholders is very small, as my analysis of the benefit security of Transferring Policyholders leads me to conclude that the likelihood of Monument Life becoming insolvent and therefore unable to pay benefits in full is very remote. In particular:
- Monument Life is required to comply with regulatory solvency requirements, which require it to hold sufficient capital to withstand an adverse event that is expected to occur only once in every 200 years.
 - Monument Life's capital management policy means that it aims to hold capital in excess of the regulatory minimum meaning that Monument Life should be able to withstand adverse experience that is more remote than a 1 in 200 year event.
 - The Monument Re group of companies is currently financially strong and is backed by a number of shareholders including three significant financial services companies. While it cannot be guaranteed, I consider it probable that, in the unlikely event that Monument Life does get into financial difficulty, Monument Re or 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. In

particular, the Monument Re Group can currently call on approximately €80m of additional capital by way of its shareholders and a loan facility.

- 2.4.34 I consider that the value lost by Transferring Policyholders from any possible loss of FSCS protection after the Financial Services Contracts Regime period 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. The potential loss of EU freedom of services rights following the end of the Implementation Period represents a material risk to the ongoing servicing and benefit payments on the Transferring Policies and so it is necessary and appropriate for Rothesay to take action. I have reviewed the alternative solutions that were considered by Rothesay to ensure continuity of service and benefit payment and I am satisfied that a transfer to an Irish insurer is an appropriate solution in light of the available options. The possible loss of FSCS protection after the Financial Services Contracts Regime period is an unavoidable risk of transferring to an Irish insurer in circumstances where that Irish insurer's future status under the FSCS rules after the Financial Services Contracts Regime period depends on it obtaining authorisation from the UK regulatory bodies and where that authorisation cannot be certain.

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

- 2.5.1 I am 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.
- 2.5.2 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.
- 2.5.3 I have formed this opinion 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.
- 2.5.4 The impact of the Scheme is so trivial to Rothesay Non-Transferring Policyholders that I include no further analysis of the impact in this summary.

2.6 The effect of the Scheme on the Monument Existing Policyholders

Summary

- 2.6.1 I am satisfied that the Scheme will have no material adverse effect on the security of the benefits and reasonable expectations of the Monument Existing Policyholders.
- 2.6.2 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

2.6.3 I am satisfied that implementation of the Scheme will have no material adverse effect on the security of benefits for the Monument Existing Policyholders.

2.6.4 I have 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.

Reasonable expectations

2.6.5 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.

2.6.6 I am satisfied that implementation of the Scheme will have no material adverse effect on the reasonable expectations of the Monument Existing Policyholders. I have formed this opinion taking into account that, if the Scheme is implemented, there will be no 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 the Monument Existing Policies
- the management and governance of the Monument Existing Policies.

2.7 Other considerations

Communication of the Scheme to policyholders

2.7.1 The regulations governing transfers of insurance business in the UK set out certain requirements for the Companies to communicate with their policyholders and other affected parties about the proposed transfer.

- 2.7.2 These communications are an important part of the protections for policyholders, as they allow policyholders to raise any concerns they may have with their insurance company and consider whether they wish to exercise their right to object to the Court. The Court will consider any such objections in making its decision.
- 2.7.3 Rothesay will send a letter and a booklet (which includes a copy of a summary of my Report) to each holder of a Transferring Policy, except in certain cases where Rothesay will seek a dispensation from the Court (for example, where Rothesay does not have the policyholder's current address and attempts to trace the policyholder have failed). I have reviewed the letters and booklet and I consider that they appropriately explain the Scheme and the impact on Transferring Policyholders.
- 2.7.4 Rothesay proposes not to write to the Rothesay Non-Transferring Policyholders and Monument Life proposes not to write to the Monument Existing Policyholders. The rationale for this is that the Scheme has little effect on these policyholders, as there will be no changes to these policyholders' terms and conditions, the way their policies are administered or how their benefits are determined. Rothesay and Monument Life will place information about the Scheme on their websites and will place advertisements in national newspapers in the UK and Ireland. I consider that this is a reasonable and proportionate way to notify these policyholders of the Scheme.

Tax

- 2.7.5 Rothesay has informed me that it has sought advice from its third-party tax adviser on the tax impacts of the Scheme. This advice confirms that there should be no impact on tax paid by any group of policyholders and, in particular, that the Scheme will not change the way in which benefits are taxed in the hands of the policyholder. As the transferring business is not complex, I consider it unnecessary to seek additional independent advice on this topic.

Cost of the Scheme

- 2.7.6 Certain costs of the transfer process, including my fees in the role of Independent Expert, will be shared equally between Rothesay and Monument Life. Other costs will be borne by the party incurring the costs. None of the costs will be borne by any group of policyholders, either directly or indirectly through an increase in policy charges or a reduction in benefits.

2.8 Conclusions

- 2.8.1 I am 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.
- 2.8.2 Based on the analysis above, and in the remainder of my Report, I am satisfied that the Scheme is equitable to all classes and generations of Rothesay and Monument Life policyholders.
- 2.8.3 The Scheme is beneficial to the Transferring Policyholders in that it gives certainty that their benefits can lawfully be paid by their insurer regardless of the outcome of negotiations concerning the UK's future relationship with the EU.

- 2.8.4 I am satisfied that the proposed communications plan is appropriate and that the policyholder communication packs that I have seen are appropriate.
- 2.8.5 I have also considered the impact of the Scheme on Monument Re as a reinsurer of the Transferring Policies. 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 conclude that the Scheme has no material adverse effect on Monument Re.
- 2.8.6 My Supplementary Report will provide an update on my conclusions in light of any significant events subsequent to the date of my Report.

3 The Independent Expert

3.1 Overview

3.1.1 Policyholders involved in UK insurance business transfers have four main layers of protection provided by the legal and regulatory system to ensure that the transfer is fair to them. These layers of protection are provided by:

- the UK Regulators as they:
 - approve the appointment of the Independent Expert and the form of the scheme report written by the Independent Expert
 - usually produce their own reports on the scheme for consideration by the Court
 - are entitled to appear in Court
 - approve the form of the notices that are published and sent to policyholders
- the Independent Expert, who produces the scheme report assessing the scheme and, usually, an updated supplementary report for the Sanction Hearing
- the obligations placed on the companies involved in the transfer to give notice of the proposed transfer to policyholders and other interested parties
- the Court.

3.1.2 Any person who considers they may be adversely affected by the scheme may make a representation to the Court. There are two Court Hearings: the Directions (or Preliminary) Hearing and the Sanction (or Final) Hearing. At the Directions Hearing, the companies involved seek Court approval to notify policyholders of the proposed transfer. The Court reviews the scheme at the Sanction Hearing taking into account the views of the regulators, the Independent Expert, various statements made by the parties to the transfer, and any objections raised by policyholders and other interested parties.

3.1.3 My role as Independent Expert, as one of the layers of protection for policyholders described above, is to assess the Scheme and to report on it to the Court. My Report, together with my Supplementary Report, are the scheme report for the Scheme.

3.1.4 I set out below my significant areas of consideration in discharging this role.

3.2 The considerations of the Independent Expert

Requirements

3.2.1 The UK Regulators have specified certain material that must be covered in the Independent Expert's scheme report. Appendix A details how I have met these requirements in my Report.

Considerations

3.2.2 In summary, I need to consider the terms of the Scheme generally and, if implemented, its likely impact on the different groups of policyholders of Rothesay and Monument Life. In particular, I need to consider the effect of the implementation of the Scheme on:

- the security of policyholders' contractual rights, including the likelihood and potential effects of insolvency of the insurer

- other matters, such as administration and governance in so far as they may affect:
 - the security of policyholders' contractual rights
 - levels of service provided to policyholders
 - the ability to meet the reasonable expectations of policyholders
- the cost and tax effects of the Scheme in so far as they may affect the security of policyholders' contractual rights or the ability to meet the reasonable expectations of policyholders.

3.2.3 Below, I explain what is meant by security of policyholders' contractual rights and reasonable expectations of policyholders before detailing some other considerations.

Security of policyholders' contractual rights

3.2.4 I need to consider the security of policyholders' contractual rights or, more simply, the security of policyholders' benefits. By this, I mean the likelihood that policyholders will receive their contractual benefits when they are due.

3.2.5 In considering and commenting upon security, I shall consider policyholders' contractual benefits and take into account the financial resources of the Companies and the risks to which they are exposed.

Reasonable expectations of policyholders

3.2.6 I also need to consider the Scheme in the context of the regulatory obligation on the Companies to treat their customers fairly and, in particular, the effect of the implementation of the Scheme on policyholders' reasonable benefit expectations.

3.2.7 This means considering the likely effect of the Scheme on any areas where either of the Companies may apply discretion in determining the amount and form of benefits payable to policyholders.

3.2.8 In addition, I need to consider the likely impact of the Scheme on applicable management, service and governance standards.

Other considerations

3.2.9 I have also considered:

- the adequacy of safeguards in the Scheme to protect the ongoing interests of different groups of policyholders
- the effect of the Scheme on reinsurance contracts (which are contracts between two insurance companies whereby one insurer pays to pass on some of its risks to another insurer)
- the adequacy of the communications made to policyholders concerning the Scheme
- any other matters required by the UK Regulators to be addressed within my Report.

3.2.10 I comment on the effects of the Scheme on the following policyholder groups and, where relevant, sub groups:

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

3.2.11 In most respects, the interests of all policyholders within each group are similar and so, mainly, I consider the effects of the Scheme at the level of each of these three groups. There are some aspects of benefit

expectations that are specific to particular products and I have considered these sub-groups where relevant in forming my conclusions.

- 3.2.12 Where appropriate, I have considered whether there are any previous schemes of transfer that created particular rights or protections for Transferring Policyholders that might be lost as a result of the Scheme.

Exclusions

- 3.2.13 I am not required to, and do not, consider the impact on new policyholders of either of the Companies entering into contracts after the implementation of the Scheme.
- 3.2.14 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 those that are already in progress as at the date of my Report). 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.
- 3.2.15 I have considered the Scheme in the form it is presented to the Court. I am not required to, and do not, consider any possible alternative schemes or arrangements.
- 3.2.16 As the Independent Expert, I was not involved in the formulation of the Scheme.

3.3 Definition of policyholder

- 3.3.1 In the context of the Scheme, where I use the terms Transferring Policyholders, Rothesay Non-Transferring Policyholders and Monument Existing Policyholders, the term "Policyholders" includes all of the following, whether or not they are policyholders as a matter of law:
- the holders of:
 - Transferring Policies
 - Rothesay Non-Transferring Policies
 - Monument Existing Policies
 - the trustees of pension schemes where an insurance contract has been bought (commonly known as a "buy-in") to cover part of the liabilities of that scheme with Rothesay or a predecessor company
 - the underlying members of these pension schemes
 - other individuals who are or may become entitled to receive benefits under the policies written by Rothesay or Monument Life including:
 - contingent beneficiaries who are entitled to receive benefits from the insurer upon the death of the policyholder
 - the former spouses of policyholders that, by way of a court-appointed divorce settlement, are entitled to a share of benefits when they become payable to the policyholder.

3.4 Framework for consideration of the Scheme

- 3.4.1 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 3.4.2 For any group of policyholders affected by the Scheme, there may be some changes for the better and some for the worse. If there are some changes for the worse, this does not necessarily mean that the Scheme is unfair or unreasonable, as they might be outweighed by other benefits, or they might be extremely small. The test I have applied in considering this Scheme is whether the position of any group is, in the round, "materially adversely affected". The word "material" is not uniquely defined and so, where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect 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, I do not consider it material.
- 3.4.3 The framework for my conclusions is a consequence of, and I believe is consistent with, the Court's consideration of prior schemes.
- 3.4.4 On 16 August 2019, the Court, presided over by Mr Justice Snowden, 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. Given the recent timing of this ruling and that the Transferring Policies are non-profit annuities, it is appropriate for me to consider how the factors that led to that scheme not being sanctioned apply in the context of this Scheme between Rothesay and Monument Life.
- 3.4.5 In his judgement, Mr Justice Snowden noted the following reasons for declining to sanction the proposed scheme:
- A number of PAC policyholders who were affected by the proposed transfer had made representations that they had chosen PAC as the provider of their annuities for a number of reasons including PAC's age and its established reputation. Mr Justice Snowden, taking into account that policyholders with an annuity in payment had no option to change the insurer, stated that it was, in his view, entirely reasonable for policyholders to have chosen PAC for those reasons. By contrast, he noted that Rothesay is a relatively new entrant without an established reputation to the same extent.
 - In Mr Justice Snowden's opinion, PAC, as part of a large insurance group with substantial accumulated resources, could be expected to have access to a greater degree of capital support from its parent company (should it be needed) than Rothesay.
 - The commercial objectives of the proposed scheme had largely, but not entirely, been achieved by the reinsurance agreement that was in place between PAC and Rothesay and so the scheme was not necessary to achieve those objectives.
- 3.4.6 However, Mr Justice Snowden also noted that the effect of his judgement should not preclude future transfers of annuities. In particular, in this regard, he made specific reference to cases where the purpose for the transfer was different and cases where there was less disparity between transferor and transferee in the characteristics that policyholders reasonably consider important when selecting their annuity provider.
- 3.4.7 My conclusions in respect of the applicability of this judgement are given in paragraphs 8.1.10 to 8.1.15.

3.4.8 It should also be noted that this judgement has been appealed by PAC and Rothesay. No date has yet been set for the appeal hearing.

4 The regulatory environment in the UK and Ireland

4.1 Introduction

4.1.1 Insurance companies in both the UK and Ireland are regulated for the protection of policyholders. Insurance company regulation can be broken down into the following areas:

- requirements in relation to the financial soundness (or solvency) of firms (known as “prudential” regulation)
- requirements in relation to the way firms manage their business and how they treat their customers (known as “conduct” regulation)
- requirements in relation to how the firm is directed and controlled by its Board (known as “corporate governance”)
- industry-level protections for consumers.

4.1.2 The Scheme involves a transfer from an insurance company regulated in the UK to an insurance company regulated in Ireland, so it is important for me to evaluate the relative levels of protection afforded to policyholders by these regimes.

4.1.3 This section provides some background information on the regulatory regimes in the UK and Ireland, and draws out the similarities and differences between them. This background is provided in the context of the Scheme. It is not intended to be a complete description.

4.1.4 In this section, I also:

- describe the regulatory arrangements where an insurer from one EEA country currently sells policies in another EEA country
- consider the potential impact on these arrangements of the UK leaving the EU
- consider the impact on UK prudential regulation of the UK leaving the EU.

4.1.5 I use the information in this section in later sections of my Report. It helps to put the background information on the Companies given in sections 5 and 6 into context and I use it in sections 8 to 10 when considering the possible impact of the Scheme on policyholders.

4.2 The regulators

Introduction

4.2.1 The remit and powers of the bodies that regulate insurance companies in the UK and Ireland are relevant to my considerations as Independent Expert. Regulators have powers to authorise insurance companies and the individuals who run them, as well as make rules and intervene directly where necessary to protect policyholders.

4.2.2 The regulators in the UK and Ireland are members of the International Association of Insurance Supervisors. This is a voluntary membership organisation of insurance regulators from more than 200 jurisdictions, which aims to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to global financial stability.

4.2.3 In my opinion, the objectives of the regulators in the UK and Ireland are similar and the way these regulators seek to achieve their objectives are also similar. More detailed information about the UK and Irish regulators is provided below.

UK regulators

4.2.4 UK insurance companies are authorised by the PRA and regulated by the PRA and FCA. The PRA is responsible for prudential regulation and the FCA is responsible for conduct regulation. Although the PRA and FCA are separate bodies, they co-ordinate their activities where appropriate. In particular, the PRA and FCA are required to co-ordinate with each other in advance of insurance business transfers under Part VII of the FSMA.

4.2.5 The PRA's primary objectives are to:

- promote the safety and soundness of the firms it regulates, seeking to minimise the adverse effects that those firms can have on the stability of the UK financial system
- contribute to ensuring that insurance policyholders are appropriately protected.

4.2.6 The PRA has a secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms.

4.2.7 The FCA's strategic objective is to ensure that relevant markets function well. It regulates all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.

4.2.8 The PRA has a Rulebook and the FCA has a Handbook. These contain rules and guidance that authorised firms are expected to adhere to. The Rulebook and Handbook are supplemented by additional publications by the UK Regulators, which may set out expectations and guidance on specific topics.

4.2.9 Both the PRA and FCA carry out ongoing supervision of the firms they regulate and both have the ability to request information from insurers or undertake investigations when they consider it appropriate to meet their objectives. They both take a risk-based approach, devoting resources to supervising individual firms or issues depending upon the likely impact of failure of a particular firm or with regard to a particular issue. More resources are deployed where the likely impact of failure is large. They both also have powers to intervene directly if a firm fails to meet requirements, with a number of remedial and disciplinary actions available to them.

Irish regulator

4.2.10 Irish insurance companies are authorised and regulated by the CBI. The CBI is responsible for both prudential regulation and conduct regulation.

4.2.11 The mission statement of the CBI states: "The Central Bank of Ireland serves the public interest by safeguarding monetary and financial stability and by working to ensure that the financial system operates in the best interests of consumers and the wider economy."

4.2.12 Its objectives include the:

- stability of the financial system
- proper and effective regulation of financial institutions and markets, while ensuring that consumers of financial services are protected.

- 4.2.13 The CBI publishes documents that set out its expectations and guidance in specific areas, supplementing requirements set out in legislation. These include a range of codes and requirements relating to the conduct of business, competency and governance.
- 4.2.14 The CBI carries out ongoing supervision of the firms it regulates and has the ability to request information from insurers or undertake investigations when it considers it appropriate to meet its objectives. The CBI takes a risk-based approach, devoting resources to supervising individual firms or issues depending upon the likely impact of failure of a particular firm or with regard to a particular issue. It also has powers to intervene directly if a firm fails to meet requirements, with a number of remedial and disciplinary actions available to it.

4.3 Prudential regulation

Introduction

- 4.3.1 Prudential regulation relates to the financial soundness (or solvency) of firms. Financial soundness is a key consideration for me as Independent Expert, as it affects the security of policyholders' benefits.
- 4.3.2 The same regulatory solvency framework is currently applied across the UK and all EU member states, including Ireland. It is known as Solvency II and came into effect on 1 January 2016. The Solvency II regime is summarised below.

Solvency II framework

- 4.3.3 The Solvency II framework is made up of three pillars:
- Pillar 1 sets out regulatory capital requirements that firms are required to meet
 - Pillar 2 sets out requirements for corporate governance and risk and capital management
 - Pillar 3 sets out requirements for the disclosure of information to regulators and the public.
- 4.3.4 I briefly describe each of the three Pillars below.

Pillar 1

- 4.3.5 Pillar 1 focuses on quantitative aspects. It sets out details on the valuation of assets and liabilities, and on how the regulatory capital requirements should be calculated.
- 4.3.6 Simplistically, assets are items owned by the insurer that have value and amounts owed to the insurer. Liabilities are amounts the insurer owes and the value of amounts it expects to have to pay to meet benefit payments and expenses on its policies. The principle underlying the Solvency II valuation methodology is that the assets and liabilities are valued at the amount for which they could be exchanged, transferred or settled by a knowledgeable and willing third party in an arm's length transaction.
- 4.3.7 Insurance companies are required to hold assets in excess of their liabilities. The minimum amount of that excess, the regulatory capital requirement, is calculated taking into account the risks accepted by the insurance company.

Valuation of assets and liabilities

- 4.3.8 Assets held by the insurer such as cash and investments are, broadly speaking, reported at market value.

- 4.3.9 The values placed on companies' insurance liabilities are called the Technical Provisions. The Technical Provisions are usually calculated as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin:
- The BEL is intended to be a best estimate, that is, neither an optimistic nor 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 its existing business. It is usually calculated by projecting expected premium income, insurance liability outgo and relevant expense outgo over the expected lifetime of the existing policies. The projections use up to date and best estimate information. The net liability and expense outgo in each future period of the projection is then discounted using prescribed discount rates to give a present date total value, which is the BEL.
 - The Risk Margin is intended to represent the additional amount that a third party would require, in excess of the BEL, to take over responsibility for meeting the insurance liabilities in an arm's length transaction. The Solvency II regulations set out how it should be calculated but, simplistically, it is a function of the current and projected future regulatory capital requirement.
- 4.3.10 Non-insurance liabilities, such as amounts owed to service providers, are also reported, broadly speaking, at market value.
- 4.3.11 The excess of the value of assets over the value of liabilities is referred to as "Own Funds". Own Funds represent the amount of financial resources an insurance company has available to meet its regulatory capital requirements.
- Regulatory capital requirements*
- 4.3.12 The capital required under the Solvency II regime, the regulatory capital requirement, is the Solvency Capital Requirement (SCR). It is intended to ensure that, if capital equal to the SCR is held, the value of the firm's assets will exceed the value of its liabilities over a one-year time period with a probability of 99.5%.
- 4.3.13 Most firms use the Solvency II Standard Formula to calculate the SCR. The Standard Formula sets out a given approach for calculating the SCR and aims to capture the material quantifiable risks to which most insurers are exposed. Where the Standard Formula is used, both the insurance company and the prudential regulator are required to assess its appropriateness on a regular basis.
- 4.3.14 Solvency II also permits firms to use their own Internal Model to calculate the SCR. An Internal Model reflects the specific risk exposures of the firm and must be approved by the prudential regulator. Firms may also use a combination of an approved Internal Model for some risks or business lines and the Standard Formula for others. This is known as a Partial Internal Model (PIM).
- 4.3.15 In certain circumstances, such as where the regulator considers that a firm's calculation of its SCR does not adequately capture the risks to which it is exposed, the regulator may require the firm to hold additional capital (known as a capital add-on).
- 4.3.16 The SCR is underpinned by the Minimum Capital Requirement (MCR), which usually sets a lower limit on the amount of capital that an insurance company must hold. The calculation of the MCR is set out in the Solvency II regulations. The result is between 25% and 45% of the SCR although there is an overriding constraint that the MCR must be at least as large as a monetary amount set out in the Solvency II regulations. For life insurance companies the minimum amount is currently set at €3.7m.
- 4.3.17 Breaches of the SCR and MCR will result in regulatory intervention. The intervention will be more severe if the MCR is breached.

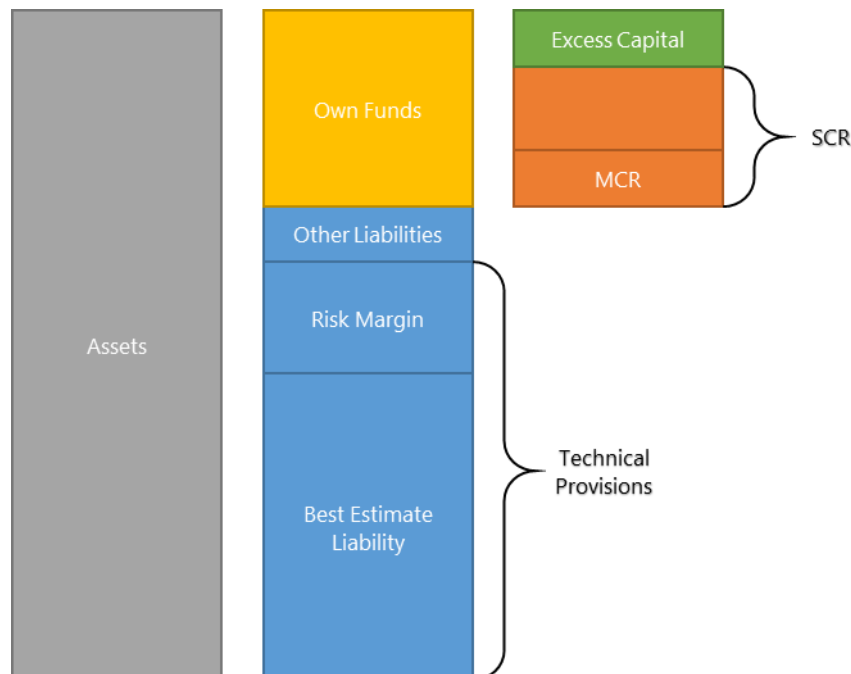
Adjustments to Technical Provisions

4.3.18 Certain methodologies that reduce Technical Provisions are available to firms in certain circumstances. In the UK and Ireland a firm must get approval from its regulator before using the methodologies. The methodologies that are relevant in the context of the Scheme are described briefly below:

- **Transitional Measure on Technical Provisions (TMTP):** The TMTP allows firms to phase in, over a 16-year period from 1 January 2016, the increase in Technical Provisions that resulted from moving from the previous solvency regime to Solvency II.
- **Matching Adjustment (MA):** The MA is an increase in the prescribed discount rates used in the calculation of the BEL. Using higher discount rates places a lower value on the BEL. A firm must be able to demonstrate that the cashflows it expects to receive on its assets closely match the claims and expense cashflows that it expects to pay. Both the assets and the liabilities must satisfy certain criteria. The exact size of the MA will depend on the specific assets held.
- **Volatility Adjustment (VA):** The VA is an increase in the discount rates used in the calculation of the BEL. The VA is based on a representative portfolio of assets for each relevant currency and, unlike the MA, does not take into account the individual firm's actual assets. Firms cannot apply the MA and the VA to the same insurance liabilities.

4.3.19 A simplified diagram showing the main components of the Solvency II balance sheet is shown in Figure 4.1 below.

Figure 4.1: Simplified Solvency II balance sheet



Pillar 2

4.3.20 Pillar 2 focuses on more qualitative requirements, particularly in relation to corporate governance, risk and capital management. It also includes the Prudent Person Principle, which requires insurance companies to consider, amongst other things, the interests of policyholders in the way they manage their assets.

Corporate Governance

4.3.21 All insurers are required to establish at least the following key functions listed below as part of their governance structures and consider whether other functions should be deemed key, taking into account the specific nature of the insurance company. The required key functions are:

- Actuarial Function: Required, among other things, to co-ordinate the calculation of Technical Provisions and to ensure the appropriateness of the data, models, methodologies and assumptions used in the calculation of Technical Provisions.
- Compliance Function: Required, among other things, to advise the insurer on compliance with the Solvency II regulations.
- Internal Audit Function: Required, among other things, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance.
- Risk Management Function: Required, among other things, to facilitate the implementation of the insurer's risk management system.

Risk and capital management

4.3.22 Risk and capital management are important considerations for me as Independent Expert. The way an insurer manages risk and the capital it chooses to hold against those risks will affect the security of policyholders' benefits. I need to be confident that the security of policyholders' benefits is not materially adversely affected by the Scheme.

4.3.23 An insurer is required to implement an effective risk management system, setting out how it identifies, measures, monitors and controls its risks. This includes maintaining a risk appetite, which quantifies the level of risk an insurer is prepared to take, and a capital policy to help manage the company in line with its risk appetite.

4.3.24 Usually, a firm will express its risk appetite in terms of a target capital level as a percentage (greater than 100%) of the SCR or other calculated capital requirement. Maintaining capital in excess of the regulatory minimum increases the probability that a firm will have sufficient assets to cover its liabilities and therefore increases the security of policyholder benefits.

4.3.25 The risk appetite and capital management policy are set by the firm's Board and are communicated to the regulator. The regulator may challenge a firm if it considers the Board-agreed appetite and policy inadequate.

4.3.26 As part of the risk management system, firms are required to carry out an Own Risk and Solvency Assessment (ORSA) at least annually. The ORSA process includes an assessment of the firm's capital needs taking into account the specific risk profile and strategy of the firm. This assessment of required capital is referred to as the ORSA capital requirement or Pillar 2 capital requirement.

Prudent Person Principle

4.3.27 In summary, the Solvency II Prudent Person Principle requires insurance companies to invest sensibly. There are some overarching requirements including that insurance companies must be able to properly identify, measure, monitor and manage the assets that they invest in. In particular, assets held to cover Technical Provisions must take into account the nature and duration of the insurance liabilities and the best interests of policyholders. The nature of the insurance liabilities means whether the liabilities are fixed in amount or, if they are variable, how they vary. The duration of the insurance liabilities essentially means when the liability is expected to be paid by the insurance company.

- 4.3.28 I need to be confident that the Companies consider the Prudent Person Principle in relation to the Scheme.

Pillar 3

- 4.3.29 Pillar 3 sets out requirements for the disclosure of information to regulators and the public. I do not consider that these requirements are particularly relevant to the Scheme and so I have not considered them in detail. However, I have reviewed the Companies' public and regulatory disclosures to help me to understand their business models and risk exposures with summary information provided in sections 5 and 6 of my Report.

4.4 Conduct regulation

Introduction

- 4.4.1 Conduct regulation refers to the rules and regulations surrounding the behaviours of companies and their staff with the aim of ensuring customers are treated fairly. It is important for me as Independent Expert to evaluate the levels of protection afforded to policyholders by the regimes in the UK and Ireland given that the Transferring Policies will transfer from a company regulated in the UK to one regulated in Ireland. In particular, I need to be sure that Transferring Policyholders are not disadvantaged.
- 4.4.2 The FCA and the CBI take a similar approach to conduct regulation and in general apply similar standards. Further details are provided below. The implications for Transferring Policyholders are set out in paragraph 8.3.62.

Conduct regulation in the UK

- 4.4.3 The FCA is responsible for the conduct regulation of insurers in the UK.

Principles for Business

- 4.4.4 The FCA Handbook includes eleven principles for business, setting out general standards of conduct that all firms regulated by the FCA are expected to follow. These are.
- Integrity: A firm must conduct its business with integrity.
 - Skill, care and diligence: A firm must conduct its business with due skill, care and diligence.
 - Management and control: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
 - Financial prudence: A firm must maintain adequate financial resources.
 - Market conduct: A firm must observe proper standards of market conduct.
 - Customers' interests: A firm must pay due regard to the interests of its customers and treat them fairly.
 - Communications with clients: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
 - Conflicts of interest: A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
 - Customers: relationships of trust: A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment.

- Clients' assets: A firm must arrange adequate protection for clients' assets when it is responsible for them.
- Relations with regulators: A firm must deal with its regulators in an open and cooperative way, and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice.

Customer outcomes

4.4.5 Firms are responsible for making sure customers are treated fairly. All firms must be able to show consistently that the fair treatment of customers is at the heart of their business model.

4.4.6 The FCA has outlined six customer outcomes that firms should strive to achieve to ensure the fair treatment of customers.

- Outcome 1: Consumers can be confident they are dealing with firms where the fair treatment of customers is central to the corporate culture.
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- Outcome 5: Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Conduct of Business Sourcebook

4.4.7 In addition to these general principles, the FCA Handbook contains specific rules in relation to conduct, known as the Conduct of Business Sourcebook (COBS). Much of COBS relates to specific types of insurance and investment business other than annuities and is not directly relevant to the Scheme. Of relevance is COBS 4 "Communicating with clients, including financial promotions". These rules require all policyholder communications to be clear, fair and not misleading.

Complaints handling

4.4.8 The FCA Handbook also contains specific rules in relation to complaints handling and resolution in the Dispute Resolution: Complaints (DISP) section. This includes the requirement to maintain a complaints procedure and minimum requirements for handling complaints, including communication with the complainant, time limits and reporting requirements.

Conduct regulation in Ireland

4.4.9 The CBI is responsible for the conduct regulation of insurers in Ireland.

Consumer Protection Code

4.4.10 The CBI's Consumer Protection Code 2012 (CPC) is binding for all firms that the CBI regulates. It contains twelve general principles that firms must follow in their dealings with customers in Ireland. These principles are customer-focused and state that a regulated firm must ensure that it:

- acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market

- acts with due skill, care and diligence in the best interests of its customers
- does not recklessly, negligently or deliberately mislead a customer as to the real or perceived advantages or disadvantages of any product or service
- has and employs effectively the resources, policies and procedures, systems and control checks, including compliance checks, and staff training that are necessary for compliance with the CPC
- seeks from its customers information relevant to the product or service requested
- makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer
- seeks to avoid conflicts of interest
- corrects errors and handles complaints speedily, efficiently and fairly
- does not exert undue pressure or undue influence on a customer
- ensures that any outsourced activity complies with the requirements of the CPC
- without prejudice to the pursuit of its legitimate commercial aims, does not, through its policies, procedures, or working practices, prevent access to basic financial services
- complies with the letter and spirit of the CPC.

4.4.11 The CPC also includes specific rules relating to complaints handling, which cover the same areas as the FCA rules that apply in the UK.

Minimum Competency Code

4.4.12 The CBI's Minimum Competency Code 2017 (MCC) sets out minimum professional standards for persons providing certain financial services, in particular when dealing with consumers. The aim is to ensure that consumers obtain a minimum acceptable level of competence from individuals acting for and on behalf of regulated firms in the provision of advice and information and associated activities in connection with retail financial products.

4.5 Corporate governance

Introduction

4.5.1 Corporate governance describes the system by which the firm is directed and controlled by its Board. This system sets out the process by which decisions are made and who is authorised to make which decisions. It affects how the Companies are currently run, and the future direction of the Companies will be set through the decisions that are made through their governance structures.

4.5.2 This is a relevant consideration for me as Independent Expert as I need to be comfortable that decisions that potentially affect policyholders will continue to be made appropriately.

4.5.3 Many aspects of the corporate governance requirements on insurers are common to the UK and Ireland. The UK and Irish regulators operate slightly different regimes to regulate individuals holding senior management positions in insurers. The main difference is that, in the UK, persons carrying out the senior management roles must have the scope of their responsibilities documented. This requirement is not currently replicated in Ireland. However, the CBI has stated its intention to introduce a similar approach and legislation is currently being drafted. Further information about the corporate governance requirements is set out below. The implications for Transferring Policyholders are set out in paragraph 8.3.54.

General governance requirements

- 4.5.4 Usually, an insurer will have a Board of Directors, which governs the company. The Board is responsible for strategy, culture, oversight of management including committees of the Board, and approval of the firm's financial statements and other disclosures.
- 4.5.5 Both the UK and Irish regulators expect the Board to contain some independent non-executive directors (individuals that do not work within the firm and do not have a particularly long association with the firm) that are able to provide independent oversight and constructive challenge.
- 4.5.6 Both the UK and Irish regulators expect insurance companies subject to Solvency II regulation to have the following Board committees:
- Audit Committee (broadly to provide oversight of financial reporting and internal controls)
 - Risk Committee (broadly to provide oversight in relation to risk management).
- 4.5.7 As noted in paragraph 4.3.21, Solvency II contains governance requirements that oblige insurers to establish, at least, the four key functions as part of their governance structures. Both the UK and Irish regulators have additional governance requirements.

Regulation of senior managers in the UK

- 4.5.8 Since December 2018, UK insurers have been subject to the Senior Managers and Certification Regime (SM&CR). This regime is operated jointly by the PRA and the FCA. The SM&CR defines a set of senior management functions (SMF), which include:
- SMF1: Chief Executive Officer
 - SMF2: Chief Financial Officer
 - SMF4: Chief Risk Officer
 - SMF5: Head of Internal Audit
 - SMF6: Head of Key Business area
 - SMF20: Chief Actuary.
- 4.5.9 Individuals undertaking these functions are subject to PRA approval (with FCA consent). The firm must ensure that all relevant staff are at all times "fit and proper" to perform their job.
- 4.5.10 Other insurance company employees who do not perform SMF roles, but who can have a significant impact on customers, the firm and/or market integrity, must be certified. Here, the firm must ensure that all relevant staff are at all times "fit and proper" to perform their job and certify annually that this is the case. The certification requirements are effective for insurers from December 2019.
- 4.5.11 The regime is intended to ensure that individuals performing SMF and certified roles have the necessary skills, experience and personal characteristics to perform their function effectively. Each SMF must have a Scope of Responsibilities, which sets out the responsibilities of their particular role. Individuals failing to meet the responsibilities for their role may be held personally accountable by the UK Regulators.

Regulation of senior managers in Ireland

- 4.5.12 The CBI has a Fitness and Probity Regime (FPR). Like the UK SM&CR, the FPR is intended to ensure that individuals performing senior roles have the necessary skills, experience and personal characteristics to perform their function effectively.

- 4.5.13 The FPR defines a set of pre-approved control functions (PCF) which include:
- PCF-8: Chief Executive Officer
 - PCF-11: Head of Finance
 - PCF-14: Chief Risk Officer
 - PCF-15: Head of Compliance
 - PCF-13: Head of Internal Audit
 - PCF-48: Head of Actuarial Function.
- 4.5.14 Individuals undertaking these functions are subject to CBI approval.
- 4.5.15 The FPR also contains a number of controlled functions, such as those with the ability to exercise a significant influence on the conduct of the affairs of a firm. Individuals in a controlled function role must meet “fitness and probity” requirements and must agree in writing to abide by the CBI’s Fitness and Probity Standards but are not subject to pre-approval by the CBI.
- 4.5.16 The CBI’s Administrative Sanctions Procedure provides for individuals to be sanctioned when they participate in wrongdoing in the management of a regulated firm.
- 4.5.17 At present, the FPR does not require the specific responsibilities of controlled function holders to be separately documented. The CBI has stated its intention to introduce a regime similar to that in the UK in the near future (known as the Senior Executive Accountability Regime, or SEAR) to enhance individual accountability. At present, the timeframe for this is unclear.

4.6 Consumer protections

Introduction

- 4.6.1 As Independent Expert, I need to be satisfied that any changes in consumer protection for Transferring Policyholders as a result of the Scheme do not give rise to a material adverse effect on the Transferring Policyholders. There are two areas of industry-level consumer protection that are important in my considerations:
- industry compensation schemes that can compensate policyholders in the event that an insurer is insolvent and unable to pay claims
 - industry dispute resolution bodies that can resolve complaints made by policyholders against insurers.
- 4.6.2 The UK has an industry compensation scheme that provides protection to annuity policyholders. Ireland does not have a compensation scheme for annuity policyholders. The dispute resolution bodies in the UK and Ireland are broadly similar. More information about these protections is given below. The implications for Transferring Policyholders are set out in sub-section 8.5 in respect of compensation schemes and paragraph 8.3.63 in respect of dispute resolution.

Industry compensation schemes

- 4.6.3 Industry compensation schemes provide consumer protection by providing policyholders with compensation when an insurer becomes insolvent and is unable to pay policyholder benefits.

The UK Financial Services Compensation Scheme

- 4.6.4 The FSCS provides compensation to private individual policyholders and small business policyholders of UK-regulated insurers in the event of the insolvency of the insurer such that the insurer is unable to pay policyholder benefits in part or in full. The FSCS covers policies written in the UK and those written in other EEA states by a UK-regulated insurer. The mechanism by which a UK-regulated insurer writes business in other EEA states is described in section 4.8 below. For certain types of insurance, which includes annuities like the Transferring Policies, the FSCS will pay 100% of any successful eligible claim, meaning eligible policyholders should receive their guaranteed benefits even if the insurance company fails. The FSCS is financed by levies on the insurers in the UK insurance industry.

The Irish Compensation Fund

- 4.6.5 The Irish Compensation Fund provides similar protection for some types of insurance in Ireland, such as car and house insurance. However, there is no comparable compensation scheme in Ireland for annuities.

Industry dispute resolution

- 4.6.6 Industry dispute resolution bodies provide consumer protection by acting as an independent arbitrator to help resolve complaints made by policyholders against insurers.

The UK Financial Ombudsman Service

- 4.6.7 The Financial Ombudsman Service (FOS) is an independent UK public body that aims to resolve disputes between individuals and UK financial services companies, including insurers, and may make compensation awards in favour of policyholders. Holders of policies that constitute business carried on in or from the UK are permitted to bring complaints to the FOS. The FOS is free for individuals. The FOS may direct UK financial services companies to pay compensation to claimants up to a limit of £350,000, depending on when the event underlying the dispute occurred, and when the complaint was referred to the FOS. FOS rulings are only legally binding if accepted by the policyholder.

The Irish Financial Services and Pensions Ombudsman

- 4.6.8 The FSPO is similar to the FOS, but based in Ireland. Complaints are permitted to be brought to the FSPO by individuals in respect of disputes on policies that constitute business of a financial services provider authorised by the CBI or validly operating in Ireland on a cross-border basis (see sub-section 4.8 below). The main differences to the FOS in the context of this Scheme are:

- the compensation limits: the FSPO may direct Irish financial services providers to pay compensation to claimants up to a maximum of €52,000 (approximately £46,000) per annum as an annuity or a maximum of €500,000 (approximately £446,000) as a lump sum
- the rulings are legally binding, although these can be appealed in the Irish High Court (in which case the policyholder could incur legal costs).

4.7 Comparison of UK and Irish regulatory environments

4.7.1 In most respects, in my opinion, the regulatory environments in the UK and Ireland are similar:

- Both countries have established institutions that regulate insurance companies (the PRA and FCA in the UK and the CBI in Ireland), with similar objectives and regulatory powers.
- Both countries currently apply the Solvency II prudential regulatory framework.
- The FCA and CBI take a similar approach to conduct regulation and apply similar standards in general.
- The CBI's rules in relation to complaint handling are similar to those that have been set by the FCA (albeit less detailed), with an equivalent time limit for responding to complaints (eight weeks under the FCA rules and 40 business days under the CBI rules) and equivalent rules relating to referral to the relevant ombudsman.
- Both countries have an independent body (the FOS in the UK and the FSPO in Ireland) to help resolve complaints made by policyholders against insurers.
- Both countries have a similar approach to corporate governance and regulation of individuals holding senior roles in insurance companies.

4.7.2 However, in my opinion, there are some differences, which are set out in the following paragraphs.

4.7.3 Although there is a high degree of overlap between the FCA's principle for business together with the FCA's consumer outcomes and the principles set out by the CBI in the CPC, there are some differences between them. In my opinion, the differences are relatively minor, mainly because the FCA principles are more specific in some areas. In particular:

- The CPC principles do not include maintaining adequate financial resources, although this is covered through prudential regulation as described in sub-section 4.3.
- The CPC principles do not explicitly require firms to ensure the suitability of their discretionary decisions, although this might be considered to be covered by the more general requirement to act in the best interests of customers.
- The CPC principles do not explicitly refer to client money, although this is not relevant in the context of the policies covered by the Scheme.
- The CPC principles do not explicitly require firms to deal openly and co-operatively with regulators, although in practice the CBI expects firms to behave in this way.

4.7.4 There is no equivalent to the FSCS for life insurance business in Ireland. I consider the consequences of this in relation to the Scheme in sub-section 8.5

4.7.5 There are some differences, which I consider are relatively minor, between the FOS in the UK and the FSPO in Ireland as set out in paragraph 4.6.8 above.

4.8 Cross-border regulation in the European Union

Introduction

- 4.8.1 Cross-border regulation refers to the regulations covering firms from one country operating in another country. This is a relevant consideration for me as Independent Expert in the context of this Scheme as it affects Rothesay's ability to service and pay benefits to the Transferring Policyholders.
- 4.8.2 Whilst the UK was a member of the EU, UK insurers could sell and administer insurance policies in other EEA member countries with minimal regulation outside of the UK. Although this remains true during the Implementation Period, it is likely to change at the end of the Implementation Period and Rothesay may become unable to lawfully pay benefits on the Transferring Policies over the longer term without taking action. This is discussed further below.

Freedom of services/establishment

- 4.8.3 Under EU regulations, firms from one EEA member country can provide goods and services in other member countries under freedom of services or freedom of establishment. This is sometimes called "passporting".
- 4.8.4 Where freedom of services is used, the firm from one member country sells cross-border into another member country. Under freedom of establishment, a firm from one member country establishes a permanent presence in another member country, typically by setting up what is called a branch operation.
- 4.8.5 In both cases the insurance company wanting to sell and administer business in another EEA member country:
- must be licenced to write and administer the relevant business in its home country
 - must apply to its home country regulator for a "passport" allowing the insurance company to provide relevant services in the chosen member country or countries
 - is authorised and regulated by its home country regulator in respect of the business sold in other member countries
 - must also follow the conduct of business rules in the other member countries.

Implications of the UK referendum on membership of the EU

- 4.8.6 On 23 June 2016, the people of the UK voted by a majority vote for the UK to leave the EU. The UK left the EU on 31 January 2020 with a transitional period, known as the Implementation Period, which is expected to last until 31 December 2020. The Implementation Period may be extended by joint agreement between the UK and the EU but the UK government has given clear indication that this will not happen. I will use the term "Brexit" to refer to the process of the UK leaving the EU.
- 4.8.7 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 EEA countries under freedom of services or freedom of establishment unless a separate agreement is reached between the UK and the EU which allows this to happen. It is currently uncertain as to whether a separate long-term agreement will be reached and, if such an agreement were to be reached, when it would come into effect.

The UK Temporary Permissions Regime

- 4.8.8 In November 2018, the UK government passed statutory instrument 2018 No. 1149 entitled 'The EEA Passport Rights (Amendment, etc., and Transitional Provisions) (EU Exit) Regulations 2018'. It provided for a three-year transitional period from the date of the UK's departure from the EU without a withdrawal deal in place for EEA firms operating in the UK before that date. The statutory instrument made it possible for HM Treasury to extend the transitional period from three years to four years at a later date. The transitional regime is known as the Temporary Permissions Regime. Following the UK's exit from the EU on 31 January 2020, the Temporary Permissions Regime was amended to run for a maximum of three years (or four years if extended by HM Treasury) from the expected end-date of the Implementation Period of 31 December 2020.

The UK Financial Services Contracts Regime

- 4.8.9 On 28 February 2019, the UK government passed statutory instrument 2019 No. 405 entitled 'The Financial Services Contracts (Transitional and Saving Provision) (EU Exit) Regulations 2019'. It provides an additional transitional period for EEA firms operating in the UK. It will allow EEA insurance companies operating in the UK a further 15 years to run off their UK business. The 15-year period commences at the end of the Implementation Period if the firm does not enter the Temporary Permissions Regime or, for a firm that enters the Temporary Permissions Regime, 15 years from the date the firm leaves the Temporary Permissions Regime. The Financial Services Contracts Regime transitional period may be extended by HM Treasury.

The Irish temporary run-off regime

- 4.8.10 In March 2019, the Irish government passed and signed into law a bill entitled 'Withdrawal of the United Kingdom from the European Union (Consequential Provisions) Act 2019'. This Act provided for the introduction of a transitional period of up to three years if the UK left the EU without a withdrawal agreement. The transitional period would have allowed UK insurance companies to continue to service their Irish business while finding a way to terminate their activities in Ireland. Possible solutions could include:

- transfer of the insurance business to a company in Ireland that is authorised and regulated by the CBI
- the complete run-off of the Irish business (if possible within the three-year transitional period).

- 4.8.11 As the UK left the EU on 31 January 2020 with the Withdrawal Agreement in place, the provisions of this Act did not come into force. It is currently unclear whether a further transitional period will be granted for UK insurers operating in Ireland under freedom of services after the end of the Implementation Period, expected to be 31 December 2020.

4.9 Prudential regulation in the UK after Brexit

- 4.9.1 Prudential regulation in the UK after the Implementation Period will depend on the terms of any future long-term trading agreement between the UK and the EU.

- 4.9.2 Unless the UK and the EU reach an agreement that includes the requirement for the UK to retain Solvency II, the UK may change some of the requirements or implement a different prudential regulatory regime after the end of the Implementation Period. The 'Solvency 2 and Insurance (amendment, etc.) (EU Exit) Regulations 2019' facilitate a continuation of solvency rules in the UK post the Implementation Period that are, subject to some exceptions relating to the treatment of some EU assets, equivalent to Solvency II requirements. The PRA will have the ability to amend UK prudential regulation post the

Implementation Period if no long-term trading arrangement is reached that requires the UK to retain Solvency II.

- 4.9.3 As at the date of my Report, the future direction of prudential regulation in the UK after Brexit is unclear, although, in my opinion, while some changes will almost certainly be made if the UK is not constrained to following the Solvency II regime, it is likely that something similar to the Solvency II regime will remain in place. In forming this view, I have taken into account the 2017 Treasury Committee report 'The Solvency II Directive and its impact on the UK Insurance Industry' in which the Chief Executive Officer of the PRA is quoted as saying that Solvency II is a sensible and good regime but that there are features that he would like to change if given a free hand.
- 4.9.4 In my analysis, I have assumed that the current Solvency II regime will remain in place in the UK. I consider this appropriate given that it is impossible to foresee with certainty future changes to prudential regulation in the UK.

5 Background information on Rothesay

5.1 Introduction

5.1.1 In this section, I set out some background information on Rothesay. In section 6, I set out similar information for Monument Life. I use this information in later sections when considering the possible impact of the Scheme on policyholders, primarily by comparing the similarities and differences between Rothesay and Monument Life.

5.1.2 The aspects I compare, and the reasons for doing so, are given below:

- Group structure: The group structure gives an indication of whether, on the basis of current information, additional financial support may be available if either of the Companies get into financial difficulty. It also highlights if there are material risks elsewhere in the group that could have an impact on the financial strength of the group.
- Business model: Under business model, I look at:
 - the types of policies that have been written by the Companies, which is important, as I need to consider the possible effects of the Scheme on different types of policies
 - the overall scale of the business so that I can consider how significant the Transferring Policies are compared to the overall size of the insurance business and consequently if this gives rise to any particular issues
 - recent and upcoming events, so that I can determine if allowance needs to be made for these in the financial information shown in my Report and whether they are important to me in forming my opinions
 - the Companies' intentions in respect of ensuring the continued ability to service contracts affected by the UK's decision to leave the EU, which is the primary motivation for the Scheme
 - the use of reinsurance, so that I can determine whether differences in approach introduce particular risks that I need to consider in forming my opinions.
- Governance structure: I need to consider whether changes to the governance structure may lead to poorer outcomes for the Transferring Policyholders. This includes considerations in respect of the fair treatment of policyholders.
- Regulatory solvency: The methods and assumptions used to calculate the solvency position of an insurer can have a material impact on the amount of capital it holds. It is therefore important for me to consider differences in approach when I compare the financial position of the Companies.
- Capital management policy: The capital management policy will set out target levels of capital, in excess of the regulatory capital requirement, which provide additional security. I need to consider whether differences between the Companies' capital management policies could have a material impact on the security of Transferring Policyholders' benefits.
- Risk management framework: The risk management framework can be thought of as the policies, processes and governance that a company has in place to monitor, manage and control risks. I need to compare the risk management frameworks of the Companies, in particular when considering security of benefits for Transferring Policyholders.
- Administration and outsourcing: An important consideration of mine is that implementation of the Scheme should lead to no material deterioration in the service standards experienced by

Transferring Policyholders. I therefore look at the approaches taken by the Companies to administering their policies.

- Material risks: The risks accepted by a company will influence its financial soundness. I therefore need to look at the risks the Companies are exposed to when considering security of benefits.

5.2 Group structure

5.2.1 Rothesay is a UK limited company authorised by the PRA and regulated by the PRA and the FCA in the UK.

5.2.2 Rothesay is a wholly-owned subsidiary of Rothesay HoldCo UK Limited (RHUK). RHUK is a UK limited company. RHUK is owned by four shareholders:

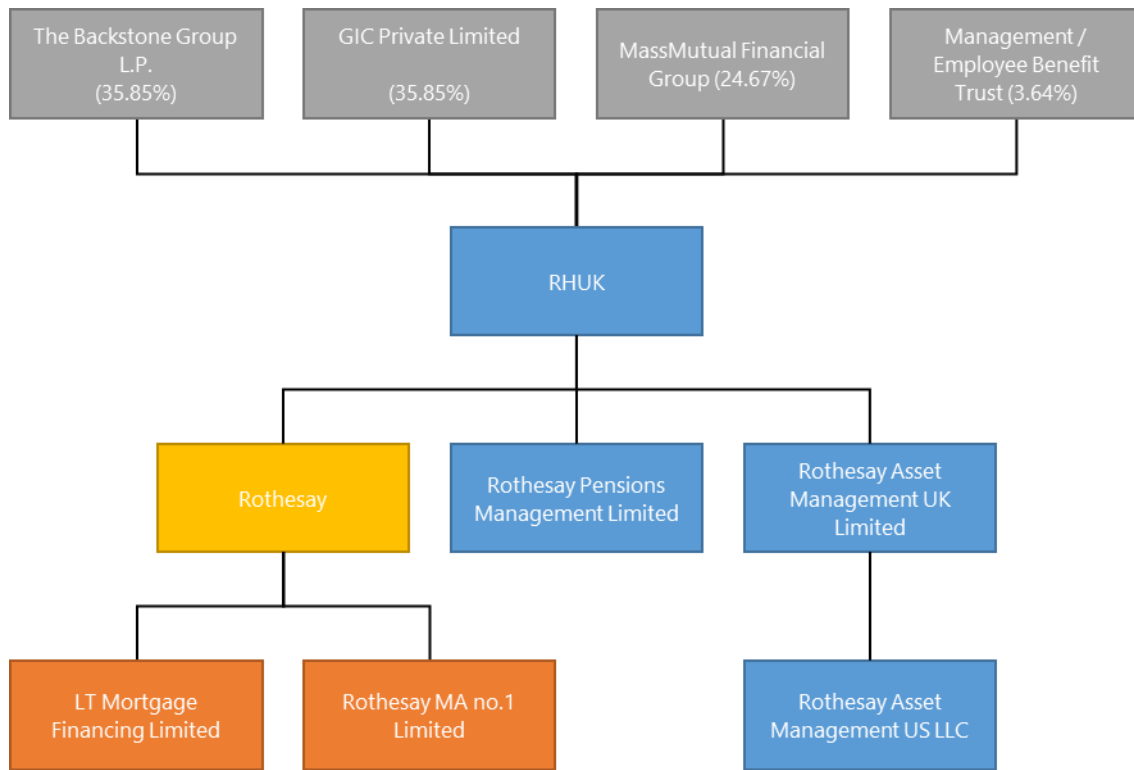
- The Blackstone Group L.P.
- GIC Private Limited
- MassMutual Financial Group
- Management, Employees and Elia Employee Benefit Trust Limited (established in 2016 to provide ownership benefits to Rothesay Group employees through employee share schemes).

5.2.3 RHUK's other subsidiaries include Rothesay Pensions Management Limited, which provides services to other companies within the Rothesay Group and employs all of the Rothesay Group's management and staff outside of the US.

5.2.4 There are a number of other active group companies, which are there to help Rothesay manage its assets in an efficient way.

5.2.5 A simplified structure chart is given in Figure 5.1 below.

Figure 5.1: Simplified Rothesay Group structure as at 30 June 2019 (active companies only)



Source: Rothesay

5.3 Rothesay's business model

Description of Rothesay's business

- 5.3.1 Rothesay's in-force business comprises of non-profit annuities, longevity insurance and inwards reinsurance.

Non-profit annuities

- 5.3.2 An annuity is a policy under which a regular payment is paid to a beneficiary, usually until the death of the beneficiary.
- 5.3.3 An annuity can be in payment or in deferment. In payment means that regular payments to the policyholder have started. When an annuity is in deferment, it is called a "deferred annuity". This means that the regular payments will start at a later date, usually the policyholder's planned retirement date.
- 5.3.4 The amount paid may be fixed or may be subject to regular increases. Increases may be based on a fixed annual percentage, or linked to an inflation index.
- 5.3.5 Some of these annuities contain additional benefits, such as spouse's or other dependant's annuities to be paid on the death of the main policyholder, and a guaranteed return on death of the main policyholder during a specified guarantee period of typically 5 to 10 years after the annuity payments start.

5.3.6 Rothesay's annuities are all "non-profit". This means that the benefits are defined when the policy is taken out and they do not depend upon the profits made by Rothesay. Apart from as set out immediately below, Rothesay has no discretion in the amount of benefits paid.

5.3.7 In certain situations, the policyholder may choose to forgo some or all of their annuity income in return for a lump sum payment. Holders of deferred annuities may also ask to move their policy to a different pension provider or have payments started earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively to reflect the change in the expected payment period. The factors to be used in these calculations and the actuarial bases underlying them are set at the discretion of Rothesay. These affect the amount of the lump sum given by Rothesay for each £ or € of annuity income forgone, the value passed across to the other pension provider or the recalculated annuity income amount. In these cases Rothesay has an obligation to ensure that policyholders are treated fairly. The factors used by Rothesay are intended to be "cost neutral". The term "cost neutral" is used in the policy terms and conditions of some of the Transferring Policies in relation to potential benefit changes but it is not defined. Rothesay interprets cost neutral as meaning it should use a basis such that the value of the changed benefits equals the value of the original benefits when calculated using best estimate assumptions.

Longevity insurance

5.3.8 The longevity insurance policies written by Rothesay are longevity swaps provided to UK defined benefit pension schemes.

5.3.9 Under these swap arrangements, pension schemes pay Rothesay a fee and a fixed amount each month based on the expected benefits the pension scheme expects to pay its members. In return, each month, Rothesay will pay the pension scheme the actual benefits payable to its members. The actual payments may be higher or lower than the expected payments.

Inwards reinsurance

5.3.10 Rothesay may accept liabilities in relation to the non-profit annuities of another insurance company (the ceding company) by way of inwards reinsurance. This is typically done in anticipation of a Part VII transfer or equivalent non-UK processes as applicable.

5.3.11 Under these arrangements, in return for receiving a premium from the ceding company, Rothesay will pay, to the ceding company, the benefit amounts that the ceding company has to pay to its policyholders falling within the scope of the reinsurance.

5.3.12 The ceding company remains legally liable for the benefits payable to its policyholders.

Sources of Rothesay's business

5.3.13 Rothesay is actively seeking new business. It does this through:

- bulk annuity purchases from pension schemes
- transfers of business (Part VII transfers or equivalent non-UK processes as applicable) into Rothesay, (typically preceded by reinsurance of the business being transferred)
- acquisitions of other annuity providers.

Bulk annuity purchases from pension schemes

5.3.14 A bulk annuity purchase arises when the trustees of a defined benefit pension scheme enter into a buy-in or a buyout contract with an insurance company to transfer some or all of the pension scheme's liabilities to the insurer.

5.3.15 Under a buy-in contract, the pension scheme pays the insurer a lump sum. In return, the insurer becomes liable for a contractually-defined proportion of the pension scheme liabilities. The insurer will pay the pension scheme trustees an amount to cover the liabilities as they fall due, and the pension scheme trustees maintain responsibility for paying the pension scheme members. The pension scheme trustees become a policyholder of the insurer. There is no change to the status of the members of the pension scheme.

5.3.16 Under a buyout contract, the pension scheme pays the insurer a lump sum. In return, the insurer becomes liable for the benefits payable to the relevant pension scheme members. The pension scheme's members become policyholders of the insurance company. They are issued with individual insurance policies setting out the benefits that will be paid by the insurance company.

Transfer into Rothesay

5.3.17 Rothesay may purchase a portfolio of annuities from another insurer. The first stage is typically to fully reinsure the portfolio (see paragraphs 5.3.10 to 5.3.12) in advance of seeking a transfer of business to transfer the portfolio into Rothesay. The purpose of the reinsurance is to allow the economic risk and reward relating to the reinsured policies to be transferred pending a legal transfer, mitigating the economic risk arising from a delay to the transfer. A transfer may also take place without the preceding reinsurance.

Acquisition of other annuity providers.

5.3.18 An acquisition refers to one insurer purchasing another insurer in full. The purchased insurer becomes a subsidiary of the purchasing insurer. The purchasing insurer may subsequently consider undertaking a transfer of business to move the insurance liabilities from the subsidiary into the main insurance company.

Summary of Rothesay's in-force business

5.3.19 Rothesay's in-force business as at 30 June 2019 is summarised in Table 5.1 below. The table shows the number of in-force policies and the Solvency II BEL.

Table 5.1: Policy count and Solvency II BEL for Rothesay's in-force business as at 30 June 2019

	Policies¹	BEL £m
Total business	780,000	30,309

Source: Report of the Chief Actuary of Rothesay on the Scheme/Information provided by Rothesay

1 The number of policies shows the approximate number of individual lives covered where a single policy covers multiple lives under a buy-in contract or inwards reinsurance.

Recent and upcoming events

5.3.20 The nature of Rothesay's business means that a single transaction might have a material impact on Rothesay's financial position. I need to consider if there are any known events that might invalidate the analysis carried out in my Report, which uses financial information as at 30 June 2019.

5.3.21 Rothesay has provided me with details of new business sold since 30 June 2019 and its updated solvency position as at 31 December 2019 incorporating this new business. Rothesay has confirmed that, while it continues to pursue new bulk annuity business in line with its strategy, it is involved in no corporate

acquisitions or other unannounced Part VII transfers that will occur in advance of or around the Transfer Date.

- 5.3.22 Based on the information given to me by Rothesay, I am satisfied that it is appropriate for me to use the financial position of Rothesay as at 30 June 2019 to form my opinions. I will review my opinions taking into account more up-to-date financial information in my Supplementary Report.
- 5.3.23 Rothesay has informed me that, since 30 June 2019, a new subsidiary of RHUK has been established. This subsidiary company, Rothesay Life Foundation, has been set up to support Rothesay's charitable initiatives. Rothesay has also informed me that, while there have been no changes to the shareholders of RHUK since 30 June 2019, there have been minor changes in the share of ownership. These factors are not material to my considerations with regard to the Scheme.

Reinsurance

- 5.3.24 Reinsurance is the passing of risk from one insurer to another. Reinsurance does not affect an insurer's obligations to its policyholders but it may provide a source of income that can be used to meet them.
- 5.3.25 One of Rothesay's main risks is longevity risk. This means the risk of policyholders living longer than expected such that the annuities Rothesay has to pay remain in payment for longer than expected. Rothesay reinsures, or passes on to other insurers, approximately 70% of its longevity risk. This is mainly done through the use of collateralised longevity swap reinsurance contracts where the reinsurer will pay Rothesay if Rothesay has to pay policyholders more than it expects to on the reinsured business because those receiving an annuity live longer than expected.
- 5.3.26 Collateralisation reduces Rothesay's exposure to the risk of the reinsurer failing to honour its obligations. Such collateral arrangements may take a number of different forms but with each:
- the reinsurer must identify assets (the collateral) broadly equal to the value of the reinsurance contract
 - in the event of the reinsurer defaulting on its obligations, Rothesay is able to take ownership of the collateral up to a maximum of the amount owed to it by the reinsurer.
- 5.3.27 Rothesay currently has outwards reinsurance contracts with over ten insurance companies.

5.4 Governance structure

- 5.4.1 Rothesay's Board is responsible for providing oversight and direction to Rothesay's senior management team, and for ensuring that there is an appropriate risk and control framework in place. Rothesay's Board comprises of its independent Chairman, the Managing Director, the Chief Executive Officer (CEO), the Chief Finance Officer (CFO) and nine non-executive directors, six of whom are independent. Relevant Boards of the Rothesay Group of companies, together with its management, are responsible for ensuring the security of its obligations to Rothesay's policyholders, and generating and delivering sustainable shareholder value through the management of Rothesay's business.
- 5.4.2 The Rothesay Board has delegated certain matters to a number of committees. Some of these are committees of the Rothesay Board, whereas others are committees of the RHUK Board. The committees of most relevance to the Scheme are listed below:
- **Audit Committee:** This is a committee of the RHUK Board. It provides oversight of the financial reporting process, the system of internal control, the internal and external audit processes, and

Rothesay's process for monitoring compliance with laws and regulations and the regulators' business principles.

- **Board Risk Committee:** This is a committee of the Rothesay Board. It is responsible for the ongoing monitoring of all risks associated with the activities of the Rothesay Group.
- **Customer and Conduct Committee:** This is a hybrid management/Board committee, which reports into the Audit Committee. It assists the Group to ensure it delivers fair outcomes to customers, clients and other counterparties.

5.4.3 The Board delegates the day-to-day running of Rothesay to the CEO, who is supported by the Senior Management Committee. The Senior Management Committee provides the day-to-day oversight and management of the business and affairs of the Group, subject to any specific matters reserved for consideration by the Rothesay or RHUK Boards. The Committee is accountable for business standards and practices, including risk management.

5.5 Regulatory solvency

5.5.1 Rothesay is required to comply with the Solvency II regulatory capital requirements and uses a Partial Internal Model (PIM) to calculate its SCR (see sub-section 4.3). The PIM uses an approach that Rothesay has agreed with the PRA to model counterparty default and credit risks. The Solvency II Standard Formula is used for other risks. Rothesay intends to develop and seek PRA approval for a full internal model covering all risks, but this will not be implemented until after the Transfer Date.

5.5.2 Rothesay also has a capital add-on (a specified increase in its SCR), as agreed with the PRA, to reflect certain risks that are not fully captured by the PIM. The add-on as at 30 June 2019 was £37m and predominantly reflects the risk that a higher proportion of policyholders than assumed in the calculation of Rothesay's BEL have dependants, and the inflation risk associated with inflation-linked liabilities. The capital add-on is quite small in that, at 31 December 2018, it reflects approximately 0.1% of the BEL and less than 2% of the SCR.

5.5.3 Rothesay has approval from the PRA to use the TMTP and MA (see paragraph 4.3.18).

5.5.4 The amount of the TMTP as at 31 December 2018 was £733m (equivalent to 34% of Rothesay's SCR) and this will run-down to zero by 1 January 2032 in line with the Solvency II rules.

5.5.5 The impact of removing the MA as at 31 December 2018 would have been to increase Rothesay's BEL by £4.9bn (17%), although, subject to regulatory approval, this would have been largely offset by an increase in the TMTP, resulting in a net reduction in Own Funds of £0.2bn. The SCR would also have increased by around 190%.

5.5.6 I have quoted above the MA and TMTP impacts as at 31 December 2018, as these are publically available. Rothesay has provided me with the amounts as at 30 June 2019, which I have considered in my assessment of the Scheme.

5.5.7 Table 5.2 shows a simplified presentation of Rothesay's Solvency II Pillar 1 balance sheet as at 30 June 2019.

Table 5.2: Rothesay's reported regulatory solvency position as at 30 June 2019

Rothesay	30 June 2019 £m
Solvency II net assets	37,584
Technical Provisions (net of reinsurance)	33,519
Own Funds (A)	4,066
Solvency Capital Requirement (B)	2,310
Excess capital (=A-B)	1,756
SCR cover ratio (%) (=A/B)	176.0%

Source: Report of the Chief Actuary of Rothesay on the Scheme

- 5.5.8 The SCR cover as at 30 June 2019, calculated as Own Funds divided by the SCR, is 176.0%.
- 5.5.9 Rothesay's capital management policy states that Rothesay aims to operate at a level of cover within a range of 130% to 150%. This is discussed further in sub-section 5.6. Historically, Rothesay has maintained capital within or above its target range.
- 5.5.10 Rothesay has provided me with information about changes that it is proposing to make to its PIM and the expected impact on its solvency position if the changes are approved by the PRA. I have considered this information in my assessment of the consequences of the Scheme and it does not affect the conclusions in my Report.
- 5.5.11 Rothesay has also provided me with its Pillar 2 solvency calculations. I am unable to disclose the details of the Pillar 2 solvency position, as this is submitted privately to the PRA. However, I have used this information in my assessment of the risk profile, and expected future development, of Rothesay.

5.6 Capital management policy

Overview

- 5.6.1 Rothesay's capital management policy is to target an SCR cover ratio of between 130% and 150%. The policy is owned by Rothesay's Chief Finance Officer and is reviewed by the Rothesay Board at least annually. Rothesay discloses any material proposed changes to its capital management policy to the PRA.

Capital management actions

- 5.6.2 If Rothesay's solvency coverage exceeds 150%, then it considers itself to have excess capital. Rothesay considers excess capital to be available to pay a dividend to its shareholders, to repay capital, or to support further new business.
- 5.6.3 If Rothesay's solvency coverage falls below 130%, then its management would consider taking action to improve its solvency position and to reduce volatility in its solvency coverage. If Rothesay's solvency cover falls to 120% or below, it will take immediate action. These actions could include:

- changing the investment mix (that is, changing the type of assets it invests in)
- ceasing new business
- increasing the use of reinsurance and hedging of risks
- utilising a loan facility from RHUK
- raising additional capital through issuing new equity or debt
- recalculating the TMTP if appropriate, subject to approval by the PRA (to reflect a material change in risk profile or market conditions)
- reducing discretionary expenses.

5.6.4 If Rothesay's solvency coverage falls below 100%, then it will implement its recovery plan. The recovery plan sets out actions to be taken to restore solvency and is reviewed by the Rothesay Board annually.

5.7 Risk management framework

5.7.1 The Rothesay Board is responsible for the management of risk including setting risk appetite, culture, quantitative risk limits and monitoring frameworks. The Rothesay Board is assisted by the Board Risk Committee and the Risk Management Function.

5.7.2 Rothesay maintains a comprehensive risk management framework for measuring, monitoring and controlling risk. The Rothesay risk management, internal control systems and reporting procedures are also applied at a Group level, ensuring consistency in approach.

5.7.3 During 2018, Rothesay invested in growing the size and capabilities of its Risk Management Function to support the business. Several areas of the risk management framework were enhanced to strengthen Rothesay's risk management. These include liquidity risk management and the management of non-financial risks such as model risk and outsourcing risk.

5.7.4 Risk appetite is set for different types of high-level risk as follows:

- Desired risks: strategy, insurance and credit
- Tolerated risks: market
- Undesired risks: liquidity and operational.

5.7.5 Risk appetite is translated into quantitative tolerances and limits through Rothesay's Risk Limit and Stress Testing Framework.

5.7.6 Rothesay maintains a set of policy and process documents that set out the framework for managing particular risks.

5.7.7 Risks are monitored and reported on to help ensure that they remain within risk limits or that corrective action is taken. Early warning thresholds are established so that corrective action can be taken before risk limits are breached.

5.8 Administration and outsourcing

5.8.1 Rothesay uses third parties in order to take advantage of economies of scale and external expertise.

5.8.2 Rothesay maintains oversight of third parties carrying out work in line with its Third Party Oversight Policy.

5.8.3 The following key functions and activities are fully or partially outsourced:

- Risk software and some IT provisions to Goldman Sachs
- Pensions administration to Jardine Lloyd Thompson trading as Mercer (JLT), Capita Employee Benefits and Willis Towers Watson
- Middle office operational activity (settlements and collateral management) to Northern Trust.

5.9 Material risks within Rothesay

5.9.1 Rothesay considers its main risks to be:

- market and credit risks arising from its asset portfolio
- liquidity risk
- longevity risk
- counterparty default risk arising from its longevity reinsurance arrangements
- operational risk.

Market and credit risks

5.9.2 Market and credit risks relate to the change in the value of assets and the risk that proceeds from loan investments are not received as expected due to borrowers failing to make the expected payments.

5.9.3 Rothesay manages the market and credit risks on its investments by predominantly investing in low-risk assets such as government-guaranteed and other highly-rated bonds and by investing in asset classes with suitable security and/or other structural mitigation that provides protection against default. It also uses credit derivatives, which pay out in the event of a default by a specific counterparty, to reduce risk in respect of certain counterparties.

5.9.4 Rothesay further reduces its market risks through interest rate and inflation swaps contracts, to match closely with the duration and type of the insurance liabilities such that the values of assets and liabilities move broadly in line under changing market conditions.

Liquidity risk

5.9.5 Liquidity risk refers to the risk of being unable to meet claims, expenses and other cash outgoings as they fall due. Rothesay manages this risk by maintaining a forward-looking view of liquidity needs and by maintaining a liquidity buffer determined by considering liquidity needs under stressed conditions.

Longevity risk

5.9.6 Longevity risk is the risk of policyholders living longer than expected. Rothesay uses reinsurance to reduce significantly its exposure to longevity risk, with approximately 70% of the longevity risk being transferred to third party reinsurers. However, the retained longevity risk remains a material risk for Rothesay.

Reinsurance counterparty default risk

5.9.7 Reinsurance counterparty default risk is the risk that, where Rothesay has reinsurance in place, the reinsurer fails to make the payments due to Rothesay under the appropriate reinsurance agreement. Almost all of Rothesay's reinsurance arrangements are collateralised to reduce its exposure to the risk of default by the reinsurer (see paragraphs 5.3.24 to 5.3.26).

Operational risk

- 5.9.8 Operational risk is the risk of losses arising from inadequate or failed internal processes, people and systems or from external events. In particular, Rothesay recognises operational risks associated with it growing in size and regulatory and legal risk such as the uncertainty surrounding Brexit.

6 Background information on Monument Life

6.1 Introduction

- 6.1.1 In this section, I set out some background information on Monument Life. In section 5, I set out similar information for Rothesay. I use this information in later sections when considering the possible impact of the Scheme on policyholders, primarily by comparing the similarities and differences between Rothesay and Monument Life.
- 6.1.2 The aspects I compare, and the reasons for doing so, were set out in paragraph 5.1.2.
- 6.1.3 At the date of my Report, the transferee company that I refer to as Monument Life is called Laguna Life DAC. It is expected to be renamed Monument Life Insurance DAC on 30 March 2020, in preparation for planned consolidation with other group companies. I have used the term “Monument Life” in my Report, since this is expected to be the name of the company as at the dates of the Court hearings and at the Transfer Date. The change in name itself is immaterial, although the planned consolidation with other group companies (known as Project Trinity) is relevant to my considerations and is described in paragraph 6.3.32.

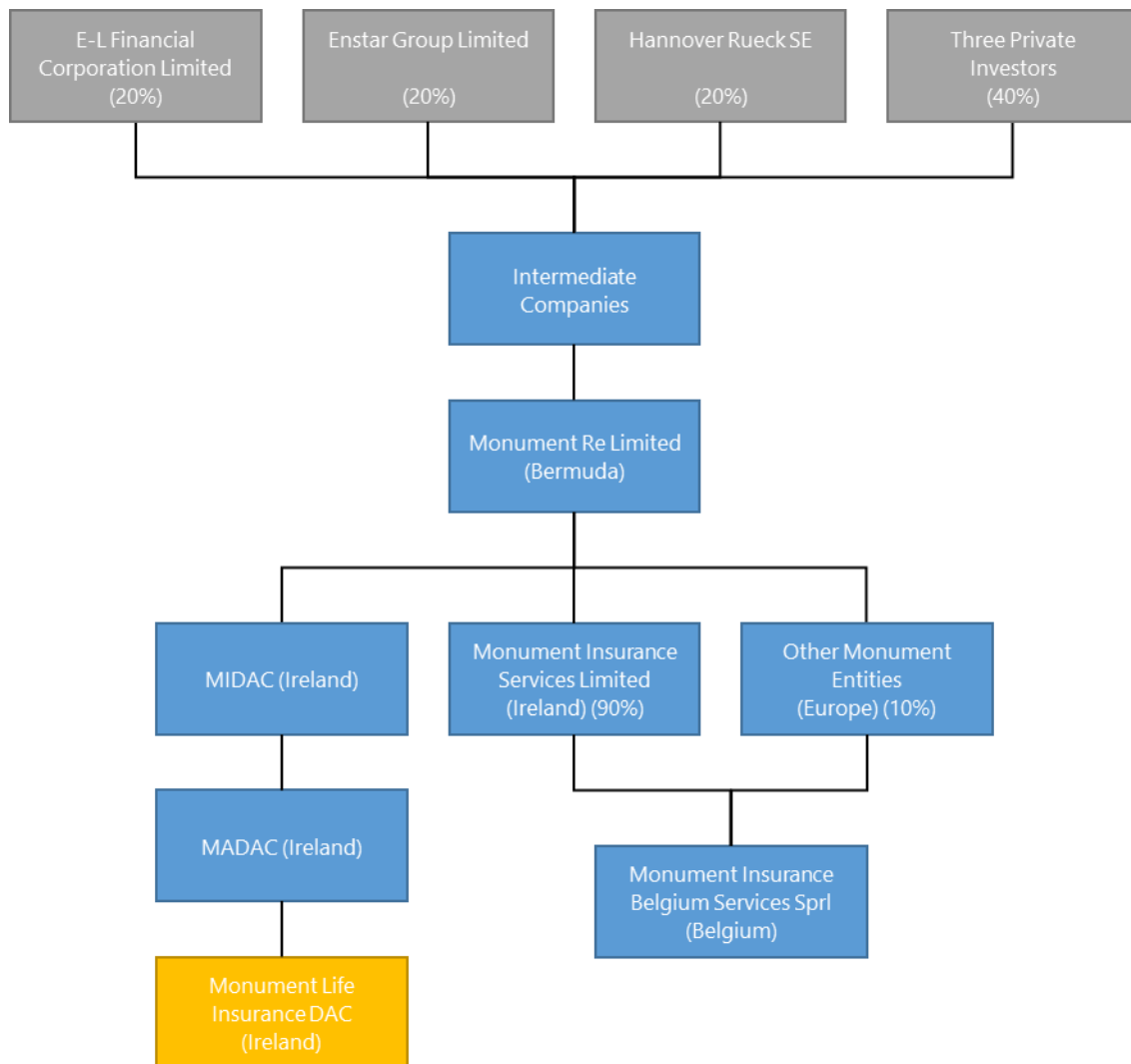
6.2 Group structure

- 6.2.1 Monument Life is a designated activity company incorporated in Ireland and regulated by the CBI. It was acquired by Monument Re in 2017.
- 6.2.2 Monument Life is a wholly-owned subsidiary of Monument Assurance DAC (MADAC), which in turn is a wholly-owned subsidiary of Monument Insurance DAC (MIDAC). MIDAC is a wholly-owned subsidiary of Monument Re. I will use the term “Monument Re Group” to denote Monument Re and its subsidiaries.
- 6.2.3 MIDAC is a non-life insurance company and MADAC is a life insurance company. They are both designated activity companies incorporated in Ireland and regulated by the CBI. A project is underway to consolidate MIDAC, MADAC and Monument Life into a single entity. Further details are given in paragraph 6.3.32.
- 6.2.4 Monument Re is a Bermuda-based private limited company. It is a Bermudian “Class E” life reinsurer and holding company for other insurers in the Monument Re Group. It is regulated by the Bermuda Monetary Authority (BMA). It is ultimately owned by the following shareholders:
- E-L Financial Corporation Limited
 - Enstar Group Limited
 - Hannover Rueck SE
 - three private investors.
- 6.2.5 Monument Re has a number of other subsidiaries:
- Monument Insurance Services Limited (MISL) is a group service company providing services to MIDAC, MADAC and Monument Life, alongside services to the wider Monument Re Group.
 - Monument Insurance Belgium Services (MIBS) is a group service company providing services to Monument Life in respect of its Belgian business.

- There are a number of other holding, service and insurance companies within the Monument Re Group, whose purpose is to underwrite and service the group's operations in the rest of Europe, excluding Ireland and the UK.

6.2.6 A simplified structure chart, showing the structure as at 30 June 2019 is presented in Figure 6.1 below.

Figure 6.1: Simplified Monument Re Group structure as at 30 June 2019



Source: Report of the Actuarial Director of Monument Life on the Scheme

6.3 Monument Life's business model

Description of Monument Life's business

6.3.1 Monument Life's in-force business comprises of:

- term assurances
- guaranteed savings contracts with possible discretionary bonus
- fixed term annuities
- unit-linked savings contracts
- variable (unit-linked) annuities
- income protection
- group protection.

6.3.2 MIDAC and MADAC business that is expected to move into Monument Life (as described in paragraph 6.2.3) comprises solely of payment protection insurance (PPI).

Term assurances

6.3.3 A term assurance is a policy under which a lump sum payment (the sum assured) is made if the policyholder dies within the term of the policy.

6.3.4 The policyholder typically pays a fixed regular premium over the term of the policy. If the policyholder stops paying the premiums then the policy will lapse and the policyholder will not receive anything.

6.3.5 The sum assured is specified when the policy is taken out and, depending upon the nature of the contract, is typically level or decreases over time.

6.3.6 Some of Monument Life's term assurances contain additional benefits and options such as the payment of the sum assured before the death of the policyholder if the policyholder becomes critically ill or the option to increase the sum assured upon certain events, such as marriage. Monument Life will charge a higher premium if such benefits and options are selected. Where options are selected after the policy has started, an additional premium will be payable. The premium rates used to calculate the additional premium are not guaranteed and can be varied by Monument Life.

Guaranteed savings contracts with possible discretionary bonus

6.3.7 Guaranteed savings contracts pay a guaranteed rate of return on a policyholder's investment. The policyholder pays a single or a regular premium. The amounts invested grow at a guaranteed rate of interest, which is set at the start of the policy. The insurer will pay the policyholder the accumulated investment amount when they decide to withdraw their investment, or upon their death.

6.3.8 The guaranteed savings contracts written by Monument Life are referred to as "Belgian First A" contracts. They are participating contracts. This means that Monument Life may pay a bonus on top of the guaranteed interest rate. The rate of bonus depends upon the investment performance of the assets backing the contracts. The guaranteed rates are high compared to current interest rates and no bonuses have been paid since 2009. The amount of regular premiums received by Monument Life on these contracts is low and, hence, Monument Life is not exposed to significant risk in respect of guarantees on future premiums.

Fixed term annuities

- 6.3.9 Under Monument Life's fixed term annuities, the policyholder pays a single premium at outset and is then paid a regular payment over the term of the policy. The policy terminates with payment of a lump sum benefit either at the end of the fixed term or on the earlier death of the policyholder. Some policies also provide a lump sum benefit on diagnosis of a terminal illness.

Unit-linked savings contracts

- 6.3.10 A unit-linked savings contract is an investment policy. The policy may have a fixed term or be open-ended. The policyholder pays a single or a regular premium. The premiums are used to purchase units in an investment fund. The value of the units will change in line with the investment performance of the assets in the investment fund. Charges are deducted from the value of units by the insurer to pay for the costs associated with administering the policy and providing any insurance cover selected such as a guaranteed payment (sum assured) on death.
- 6.3.11 The benefit payable on death is usually either the value of units allocated to the policy multiplied by a factor greater than 100%, for example 101%, or the greater of the value of units and the sum assured selected at outset. Policyholders can usually choose to withdraw some or all of their investment at any time. If they do this, the benefit they receive is based on the value of units allocated to the policy, possibly less a withdrawal charge.
- 6.3.12 Monument Life has the discretion to review and change the charges on some of its unit-linked contracts.

Variable (unit-linked) annuities

- 6.3.13 Variable annuities are unit-linked savings contracts but with various investment guarantees. The premiums paid by the policyholder are used to purchase units in an investment fund and the products give certain investment performance guarantees. The contracts are ultimately used to provide retirement income for the policyholder, at which stage some of the units attaching to the policy are sold periodically to pay the retirement income. There are guarantees on the level of retirement income that will be paid.
- 6.3.14 Monument Life has the discretion to refuse to accept future premiums on the variable annuities or to increase the charge for the guarantees if the cost of providing the guarantees becomes economically unviable for Monument Life.

Income protection

- 6.3.15 An income protection policy pays the policyholder a regular payment if they are unable to work due to illness or injury. The policyholder needs to be off work for a certain period of time before the policy pays out. This period of time is defined in the policy terms.

Group protection

- 6.3.16 Monument Life has some group protection business. This refers to business where the policies were sold to employers for the benefit of their employees instead of to individual policyholders. The policies may pay out benefits on death, disability or sickness of the people covered under the group scheme.

PPI contracts

- 6.3.17 PPI contracts make repayments for a financial product, usually a loan repayment or credit card balance on behalf of the policyholder under certain circumstances. The conditions upon which payments will be made are defined in the policy terms. These typically include if the policyholder becomes involuntarily unemployed, or cannot work due to accident, illness or disability, or death.

- 6.3.18 The policyholder pays for this policy via a regular premium. The policyholder can stop paying premiums and cancel their cover at any time.
- 6.3.19 MIDAC and MADAC insure a single portfolio of business that is expected to be transferred into Monument Life before the Transfer Date. The policies are split between MIDAC and MADAC based on the type of insurance cover provided and the term of the PPI contract/underlying loan. All life insurance cover, (where a benefit payment is made upon death), and illness and disability cover with a term over five years is written in MADAC otherwise it is written in MIDAC.
- 6.3.20 MIDAC and MADAC have discretion to increase premiums on existing policies for this business.
- 6.3.21 As has been widely reported in the UK media, there has been significant mis-selling of PPI in the UK, leading to compensation payments to customers and fines being imposed by the FCA. The Monument Re Group is not expected to have any liability in respect of any such compensation or fines as a full mis-selling indemnity was agreed with the seller as part of the acquisition of MIDAC and MADAC by the Monument Re Group. Monument Life has obtained advice from Irish Counsel, which validates the efficacy of this indemnity. Additionally, the MIDAC and MADAC business is a closed book of policies written in the UK and the UK industry deadline of 29 August 2019 for PPI policyholders to claim mis-selling compensation, which was set by the FCA, has now passed.

Sources of Monument Life's business

- 6.3.22 Monument Life is actively seeking new business. It does this through:
- transfers of business (a Part VII transfer or equivalent non-UK process as applicable) into Monument Life, typically preceded by reinsurance of the business being transferred
 - acquisitions of insurance companies by the Monument Re Group followed by a transfer of the business into Monument Life.

Transfer into Monument Life

- 6.3.23 Monument Life may purchase a portfolio of business from another insurer. The first stage is typically to fully reinsure the portfolio to Monument Re in advance of seeking a transfer of business (such as that proposed under the Scheme) to transfer the portfolio into Monument Life. The purpose of the reinsurance is to crystallise the financial impact of the acquisition ahead of the actual transfer taking place. A transfer may also take place without the preceding reinsurance.

Acquisition by the Monument Re Group followed by transfer into Monument Life

- 6.3.24 An acquisition refers to one insurer purchasing another insurer in full. The purchased insurer becomes a subsidiary of the purchasing insurer. In this case, the purchased insurer may be a wholly-owned subsidiary of Monument Life, or sit elsewhere in the Monument Re Group. Monument Re and/or Monument Life will then consider transferring the insurance liabilities from the subsidiary into Monument Life. Typically a transfer would improve capital efficiency, that is, reduce the total minimum regulatory capital for the Monument Re Group as a whole.

Summary of Monument Life's in-force business

6.3.25 Monument Life's in-force business as at 30 June 2019 is summarised in Table 6.1 below. The table shows the number of in-force policies and the Solvency II BEL.

Table 6.1: Policy count and Solvency II BEL for Monument Life's in-force business as at 30 June 2019

	Policies	BEL €m
Term assurance, income protection and group protection	2,925	4
Belgian First A	1,801	111
Fixed term annuities	2,301	123
Unit-linked savings contracts	4,106	78
Variable annuities	1,350	99
Total	12,483	415

Source: Report of the Actuarial Director of Monument Life on the Scheme

Recent and upcoming events

6.3.26 The nature of Monument Life's business means that a single transaction might have a material impact on Monument Life's financial position. I need to consider if there are any known events that might invalidate the analysis carried out in my Report, which uses financial information as at 30 June 2019.

6.3.27 Monument Life has provided me with details of new transactions since 30 June 2019 together with further transactions that it expects to execute in 2020. The transactions relevant to my considerations, which are those expected to complete prior to the Transfer Date, are detailed below. For transactions that may be undertaken by Monument Life after the Transfer Date, I rely on the legislative and regulatory processes for those transactions to consider the interests of affected policyholders.

Project Diane

6.3.28 In September 2019, Monument Life acquired Inora Life DAC (Inora). Inora is now a wholly-owned subsidiary of Monument Life.

6.3.29 The intention is to transfer the business of Inora into Monument Life, subject to the appropriate legal process, and wind up Inora in the second half of 2020, after the Scheme has taken effect. This transfer is referred to as Project Diane by Monument Life.

Project Carp

6.3.30 Project Carp is the name given by Monument Life to its acquisition of a portfolio of business from MetLife Europe DAC under a transfer of business in April 2019. It was expected at the outset of this acquisition that not all policies would be able to transfer on the main scheme effective date. A residual asset and liability clause was included in this scheme, allowing the Court order sanctioning the scheme to effect the transfer of some policies after the main scheme effective date.

6.3.31 As at the date of my Report more than half of the residual assets and liabilities have been successfully transferred to Monument Life with the rest expected to transfer during the first half of 2020, before the Transfer Date of this Scheme.

Project Trinity

6.3.32 Project Trinity is the consolidation of MIDAC, MADAC and Monument Life into one entity. As part of this consolidation, some assets and all insurance liabilities of MIDAC and MADAC are expected to be transferred into Monument Life. This project is expected to complete in April 2020, before the Transfer Date of this Scheme.

Summary of business for recent and future transfers

6.3.33 Table 6.2 shows the development of the figures in Table 6.1 allowing for the number of in-force policies and the BEL for business that is expected to be added to Monument Life's balance sheet between 30 June 2019 and the Transfer Date. The figures are all shown as at 30 June 2019.

Table 6.2: Number of policies and Solvency II BEL associated with planned future transfers expected to occur on or before the Transfer Date

	Existing in-force	+ Carp residual	+ Trinity	+ Rothesay	= In-force after transactions
Number of policies					
Protection	2,925	-	-	-	2,925
Belgian First A	1,801	-	-	-	1,801
Fixed term annuities	2,301	-	-	-	2,301
Unit-linked savings contracts	4,106	101	-	-	4,207
Variable annuities	1,350	-	-	-	1,350
PPI	-	-	239,500	-	239,500
Life annuities	-	-	-	406	406
Total	12,483	101	239,500	406	252,490
BEL €m					
Protection	4	-	-	-	4
Belgian First A	111	-	-	-	111
Fixed term annuities	123	-	-	-	123
Unit-linked savings contracts	78	136	-	-	214
Variable annuities	99	-	-	-	99
PPI	-	-	7	-	7
Life annuities	-	-	-	150	150
Total	415	136	7	150	708

Source: Report of the Actuarial Director of Monument Life on the Scheme

Servicing business following the UK's exit from the EU

- 6.3.34 Some of Monument Life's policies were written in the UK. Monument Life has applied to enter the PRA's Temporary Permissions Regime, to allow it to continue to service its UK business after the Implementation Period under the Withdrawal Agreement now that the UK has left the EU (see paragraph 4.8.8). In these circumstances, Monument Life will have a period of up to three years from 31 December 2020 to implement a long-term solution for servicing the affected policies such as setting up a UK branch or subsidiary subject to UK regulation. Monument Life has indicated to me that it intends to submit an application to allow it to establish a third-country branch in the UK during the period of the Temporary Permissions Regime, but that branch cannot be established until after the end of the Implementation Period.
- 6.3.35 If Monument Life is unsuccessful in obtaining authorisation for a third-country branch in the UK, it will enter the Financial Services Contracts Regime, as described in paragraph 4.8.9. Under current legislation, this will allow Monument Life to continue servicing its existing UK business for a period of 15 years from the date of it leaving the Temporary Permissions Regime. The 15-year period may be extended by HM Treasury.

Reinsurance

- 6.3.36 Reinsurance is the passing of risk from one insurer to another. Reinsurance does not affect an insurer's obligations to its policyholders but it may provide a source of income that can be used to meet them.
- 6.3.37 Monument Life reinsures a significant proportion of its risk. It currently intends to reinsure 90% of its economic, expense and demographic risks (for example, longevity risk) on new acquisitions. However, I have been informed by Monument Life that over time, as Monument Life's balance sheet grows, it might be expected to retain additional risks within its balance sheet.
- 6.3.38 Monument Life currently has outwards reinsurance contracts with four companies.
- 6.3.39 Monument Life currently has a significant amount of reinsurance with its ultimate parent, Monument Re. To mitigate against the risk of Monument Re failing, the reinsurance arrangements are structured on a "funds withheld" basis, a form of collateralisation. This means that assets backing the reinsurance liabilities are held in an account, the funds withheld account. Monument Life retains legal ownership of the assets in the funds withheld account. Monument Life reflects the cost of the reinsurance (the reinsurance premium) as a liability on its balance sheet. If Monument Re defaults on its obligations, assets in the funds withheld account can be used for the benefit of Monument Life. Monument Life monitors the value of assets in the account and a mechanism is in place for Monument Re to add additional funds to the account if the value of assets in the account does not meet the required level.

6.4 Governance structure

- 6.4.1 Monument Life's Board is responsible for the effective, prudent and ethical oversight of Monument Life. Monument Life's Board comprises of its Chairman, the CEO, two independent non-executive directors, and three non-executive directors that have executive roles in other companies within the Monument Re Group. The Board's responsibilities include establishing and overseeing:
- the business strategy
 - the amount and type of capital that is adequate to cover the risks of the business
 - the strategy for the on-going management of material risks.

6.4.2 The Monument Life Board has delegated certain matters to a number of Board and management committees. The committees of most relevance to the Scheme are listed below:

- **Audit Committee:** This committee reviews accounting policies, financial reports and internal controls. It monitors the internal and external audit functions and oversees compliance with regulatory and financial reporting requirements.
- **Risk Committee:** This committee advises the Board on risk appetite and tolerances, oversees the risk management function and advises the Board on matters related to capital management.
- **Reinsurance Committee:** This committee reviews new intra-group reinsurance arrangements from the perspective of any potential conflicts of interest to which they may give rise.
- **Unit-Linked Management Committee:** This committee oversees the operation of Monument Life's unit-linked funds, and ensures that each fund is invested in a way that meets its investment objectives.

6.4.3 The Board delegates the day-to-day running of Monument Life to the CEO, who is supported by the Executive Committee. The Executive Committee, comprising the CEO and his direct reports, manages the delivery of business objectives.

6.5 Regulatory solvency

6.5.1 Monument Life is required to comply with the Solvency II regulatory capital requirements. Monument Life uses the Standard Formula to calculate its SCR (see sub-section 4.3). Monument Life does not use any transitional measures, it does not use the MA, and does not have any capital add-ons. In December 2019, Monument Life submitted an application to the CBI to use the VA for its euro-denominated business (see paragraph 4.3.18) and a decision is expected later in 2020. The impact of the VA on Monument Life's regulatory solvency position, if its use is approved, is small in current market conditions. It could have a more significant beneficial impact on Monument Life's solvency position under different market conditions.

6.5.2 Table 6.3 shows a simplified presentation of Monument Life's Pillar 1 balance sheet as at 30 June 2019. I have presented three sets of figures:

- i Monument Life's reported regulatory solvency position as at 30 June 2019.
- ii As i, but with an adjustment to reflect the acquisition of Inora Life as a subsidiary (i.e. the initial stage of Project Diane) and the completion of the residual element of Project Carp. Despite these acquisitions taking place after 30 June 2019, the figures are still presented as at 30 June 2019.
- iii As ii, but with an additional adjustment to reflect the completion of Project Trinity. Despite the completion date being in the future, the figures are still presented as at 30 June 2019.

Table 6.3: Monument Life's regulatory solvency position as at 30 June 2019 under three scenarios

Monument Life	30 June 2019 (i) €m	30 June 2019 (ii) €m	30 June 2019 (iii) €m
Solvency II net assets	73.4	92.3	99.8
Technical Provisions (net of reinsurance)	45.7	59.3	66.9
Own Funds (A)	27.6	33.0	33.0
Solvency Capital Requirement (B)	5.3	8.7	14.0
Surplus (=A-B)	22.4	24.3	19.0
SCR cover ratio (%) (=A/B)	525.0%	378.9%	235.9%

Source: Report of the Actuarial Director of Monument Life on the Scheme/Information provided by Monument Life

- 6.5.3 The SCR cover ratios as at 30 June 2019, calculated as Own Funds divided by SCR, under each scenario shown are 525.0%, 378.9% and 235.9% respectively.
- 6.5.4 Monument Life's capital management policy states that Monument Life aims to target an SCR cover ratio of 140% plus additional capital to provide some protection against the risk of Monument Re defaulting on its reinsurance obligations. This is discussed further in sub-section 6.6. Historically, since its acquisition by the Monument Re Group, Monument Life has maintained capital above its target level.
- 6.5.5 Monument Life's use of the VA is expected to be beneficial to Monument Life's financial condition, and increase its SCR cover ratio. However, as this beneficial impact is not guaranteed, because it depends upon regulatory approval, I have ignored it in my analysis. The size of the benefit would be small in current market conditions.
- 6.5.6 Monument Life has also provided me with its Pillar 2 solvency calculations. I am unable to disclose the details of the Pillar 2 solvency position, as this is submitted privately to the CBI. However, I have used this information in my assessment of the risk profile, and expected future development, of Monument Life.

6.6 Capital management policy

Overview

- 6.6.1 Monument Life's capital management policy is to target an SCR cover ratio of 140%. Monument Life also holds additional capital to provide some protection against the risk of Monument Re defaulting on its reinsurance obligations. The additional amount is calculated such that, under certain conditions, Monument Life could recapture (terminate) the reinsurance with Monument Re and would be able to cover its MCR before taking management actions and its SCR once certain management actions are taken. The amount of this additional capital is currently €5.4m and will be reviewed regularly as part of Monument Life's regular ORSA process. The policy is owned by Monument Life's Finance Director. The Finance Director is responsible for reviewing the policy at least annually. Changes to the policy must be approved by the Board.

Capital management actions

- 6.6.2 If Monument Life has capital in excess of the capital held against the risk of Monument Re defaulting plus 150% of its SCR, then it considers itself to have excess capital. Monument Life considers excess capital to be available to pay a dividend to its shareholders, to repay capital or to support further new business. The policy states that, when determining whether to pay a dividend, the Board will also consider Monument Life's projected capital position, any regulatory notification requirements, projected profits, liquidity profile, taxation, and investor/parent appetite and obligations to repay other stakeholders.
- 6.6.3 Monument Life will undertake enhanced monitoring and take actions to improve its SCR cover over a twelve-month period if, after allowing for the capital held against the risk of Monument Re defaulting, remaining capital falls below 140% of the SCR. Monument Life will take more urgent management actions, over a six-month period, if its capital is less than the capital held against the risk of Monument Re defaulting plus 130% of the SCR. These actions may include:
- additional external reinsurance of demographic risks (for example, longevity risks)
 - reducing risk in the investment portfolio (other than unit-linked and variable annuity assets)
 - seeking a capital contribution from its parent
 - ceasing non-essential project spend.
- 6.6.4 If Monument Life's solvency coverage falls below 105%, then it will implement its recovery plan. The recovery plan, which has been approved by the Monument Life Board, sets out actions to be taken to restore solvency. Monument Life will update its recovery plan periodically.

6.7 Risk management framework

- 6.7.1 The Monument Life Board is responsible for the management of risk, including setting Monument Life's risk appetite. The Monument Life Board is assisted by the Risk Committee and the Risk Management Function.
- 6.7.2 Monument Life maintains a comprehensive risk management framework. Monument Life's Board is accountable for the effective implementation of the risk management framework.
- 6.7.3 During 2019, the Risk Management Function has developed its approach to managing the reinsurance counterparty default risk with Monument Re and has taken steps to roll out an improved risk event recording and monitoring system in 2020.
- 6.7.4 Risk appetite is set for different types of high-level risk as follows:
- Seek: long term liquidity risk
 - Accept: Investment, pooled property, basis, insurance, operational, and strategic risks
 - Avoid: short term liquidity, counterparty, interest rate, equity, property, currency and group risks.
- 6.7.5 Risk appetite is translated into quantitative limits.
- 6.7.6 Monument Life maintains a set of policy and process documents that set out the framework for managing particular risks.

- 6.7.7 Risks are monitored and reported on to help ensure that they remain within risk limits or that corrective action is taken. Early warning thresholds are established so that corrective action can be taken before risk limits are breached.

6.8 Administration and outsourcing

- 6.8.1 Outsourcing is a material component of Monument Life's business model.
- 6.8.2 Monument Life maintains oversight of third parties carrying out outsourced work in line with its Outsourcing Service Provider Framework and Outsourcing Policy. Monument Life has also established an Outsourcing Committee to oversee outsourcing risk.
- 6.8.3 Monument Life outsources its IT infrastructure and maintenance to IBM.
- 6.8.4 Monument Life outsources all of its policy administration to the following providers:
- MISL, the group service company described in paragraph 6.2.5
 - Paymaster (1836) Limited trading as Equiniti Paymaster (Equiniti)
 - Irish Progressive Services International
 - Crawford and Company
 - Norsk Forsikring.
- 6.8.5 Administration of the Transferring Policies will be outsourced to Equiniti. Monument Life is looking to consolidate its outsourced operations, with Equiniti being a preferred long-term provider.

6.9 Material risks within Monument Life

- 6.9.1 Monument Life considers its main risks to be:
- market and credit risk on its asset portfolio
 - liquidity risk
 - counterparty risk
 - expense risk
 - mortality and longevity risk
 - operational risk.
- Market and credit risk*
- 6.9.2 Market and credit risks relate to the change in the value of assets and the risk that proceeds from loan investments are not received as expected due to borrowers failing to make the expected payments.
- 6.9.3 Monument Life manages this risk by investing in assets that closely match its insurance liabilities by nature and term so that the change in the value of assets and the change in the value of liabilities in changing market conditions are broadly similar.
- 6.9.4 Monument Life also reduces credit risk by investing in government bonds and a well-diversified portfolio of corporate bonds.

Liquidity risk

- 6.9.5 Liquidity risk refers to the risk of being unable to meet claims, expenses and other cash outgoings as they fall due. Monument Life manages this risk by maintaining a forward-looking view of liquidity needs and by maintaining a liquidity buffer determined by considering liquidity needs under stressed conditions.

Counterparty risk

- 6.9.6 Counterparty risk is the risk that Monument Life does not receive payments due to it because the entity meant to make the payment fails to do so. This mainly arises from the risk of Monument Life's reinsurance counterparties defaulting. Monument Life manages this risk by ensuring adequate collateral arrangements are in place where the reinsurance is significant. In addition, where reinsurers external to the Monument Re group are used, Monument Life typically selects those that have high quality credit ratings.

Expense risk

- 6.9.7 Expense risk is the risk that the costs of administering policies are higher than expected. Expense risk can arise if Monument Life's in-force portfolio runs-off faster than it can acquire new portfolios of business due to the fixed overhead costs of the business being shared among a smaller number of in-force policies.

Mortality and longevity risk

- 6.9.8 Mortality risk is the risk of policyholders dying earlier than expected. Longevity risk is the risk of policyholders living longer than expected. Monument Life mitigates these risks by use of reinsurance.

Operational risk

- 6.9.9 Operational risk is the risk of losses arising from inadequate or failed internal processes, people and systems or from external events. In particular, Monument Life recognises operational risks associated with it growing in size and legal risk such as the uncertainty surrounding Brexit. Monument Life also recognises the risks associated with using a number of third party outsourcers to provide services. Monument Life has an Outsourcing Committee to oversee outsourcing risk and to monitor outsourced providers against its Outsourcing Policy.

Project Trinity

- 6.9.10 If Project Trinity is approved (see paragraph 6.3.32), Monument Life will also have significant exposure to non-life underwriting risk arising from PPI business (see paragraph 6.3.17 to 6.3.21).

7 Proposed transfer of business

7.1 Introduction

- 7.1.1 In this section, I set out information about the Scheme and the intended approach to notify policyholders about it. This forms the basis for my analysis of the impacts of the Scheme in the remaining sections of my Report. My conclusions are given in those sections.

7.2 Background

- 7.2.1 Rothesay has a portfolio of annuity policies written in Ireland under EU freedom of services arrangements (see sub-section 4.8).
- 7.2.2 As part of its preparations for the UK leaving the EU, Rothesay identified that the UK's exit from the EU is likely to prevent it from lawfully making payments under these policies at some time in the future. In order to ensure that payments for the affected policies can continue to be lawfully paid, Rothesay decided to pursue a transfer of these policies to an insurance company within the EEA. A secondary benefit of the proposed transfer is that it will simplify Rothesay's operations, which will then be entirely within the UK.
- 7.2.3 It is now proposed to transfer these policies from Rothesay to Monument Life by way of an insurance business transfer scheme under Part VII of the FSMA.
- 7.2.4 From Monument Life's perspective, the transfer is consistent with its business strategy of acquiring portfolios of business from other insurers.

7.3 Business Transfer Agreement

- 7.3.1 The agreement to seek a transfer of the business is formalised in the Business Transfer Agreement (BTA), which was signed on behalf of Rothesay, Monument Life and Monument Re on 26 March 2019. The BTA commits all parties to use reasonable endeavours to complete the transfer as soon as practicable and within two years of the date of the agreement.
- 7.3.2 If the transfer is not completed within two years of the date of the agreement then the agreement will be extended by a further year (unless the failure to complete the transfer is due to one of the parties to the agreement breaching specified obligations relating to the transfer). If the transfer has still not been completed at that point then either party can terminate the agreement. If the agreement is terminated, Rothesay will assess what actions it can take in order to ensure that it can continue to lawfully pay benefits to Transferring Policyholders.

7.4 Reinsurance Agreement

- 7.4.1 On 26 March 2019, Rothesay and Monument Re entered into an agreement (the Reinsurance Agreement) to reinsure longevity and asset risk in respect of the Transferring Policies from Rothesay to Monument Re with effect from 1 January 2019. The Reinsurance Agreement was subsequently amended by a deed of amendment entered into between Rothesay and Monument Re dated 20 August 2019. The amendment is not material to the Scheme as it pertains only to a minor detail within an appendix setting out requirements to ensure that assets posted by Monument Re as collateral will be eligible to be included by Rothesay in its calculation of the Matching Adjustment (see paragraph 4.3.18).

- 7.4.2 The purpose of the Reinsurance Agreement is to transfer most of the economic risks and rewards associated with the Transferring Policies to Monument Re with effect from 1 January 2019, pending completion of the Part VII transfer. Rothesay remains responsible for paying policyholder benefits and for policy administration until the transfer takes place.
- 7.4.3 Under the Reinsurance Agreement, Rothesay paid a premium to Monument Re. In exchange, Monument Re makes payments to Rothesay equal to the actual benefit payments arising on the Transferring Policies plus a defined allowance for expenses.
- 7.4.4 Monument Re's liability to Rothesay under the Reinsurance Agreement is fully collateralised. This means that assets expected to be sufficient to meet the liabilities on the reinsured policies are held in a security arrangement, a collateral account, with an independent custodian. The value of assets required to be held in the collateral account is reassessed at least monthly. The assets in the collateral account are owned by Monument Re but, if Monument Re defaults on its commitments under the reinsurance, Rothesay is legally able to take assets from the collateral account to make good its losses (or to take the full amount in the collateral account if this is insufficient to make good its losses). The operation of the collateral account and the custodian oversight is set out in separate legal documents, the Security Deed and Custody Agreement. This includes restrictions on the assets that can be held in the collateral account, including permitted investments and concentration limits by sector and counterparty.
- 7.4.5 If the Scheme is not implemented and the BTA is terminated then Rothesay has a right to terminate the Reinsurance Agreement. Other limited termination provisions also exist to allow either Rothesay or Monument Re to terminate the Reinsurance Agreement in certain circumstances (for example, in the event of default, insolvency or loss of authorisation of the other party). The termination amount (the amount paid back to Rothesay) would be determined using an agreed approach, which is dependent upon the exact cause of termination. If the Reinsurance Agreement is not terminated then it may remain in force for the remaining duration of the reinsured liabilities.

7.5 Summary of the Scheme

- 7.5.1 The Scheme is expected to be presented to the Court for a Directions Hearing on 6 April 2020 and for a Sanction Hearing on 22 July 2020.
- 7.5.2 If the Scheme is approved by the Court it will be implemented on the Transfer Date (expected to be 7 September 2020) and, on that date, the Transferring Policies will transfer to Monument Life.
- 7.5.3 On the Transfer Date:
- holders of Transferring Policies will become policyholders of Monument Life
 - Monument Life will become responsible for the payment of all contractual liabilities falling due after the Transfer Date in respect of the Transferring Policies
 - Rothesay's interests in the Reinsurance Agreement and the associated Security Deed and Custody Agreement will transfer to Monument Life.
- 7.5.4 For the avoidance of doubt, no investments will be transferred from Rothesay to Monument Life on the Transfer Date; the transferred interest in the Reinsurance Agreement is the asset that backs the liabilities in relation to the Transferring Policies.
- 7.5.5 The Scheme specifically excludes the transfer of any liabilities arising from mis-selling of policies or breaches of the contract terms that occur prior to the Transfer Date. Any such liabilities will remain with Rothesay.

- 7.5.6 To the extent that liabilities do transfer to Monument Life, the Scheme makes provision for Monument Life to comply with the relevant provisions of DISP (part of the FCA Handbook concerning complaints handling and resolution procedures by firms in relation to their policyholders) in respect of the Transferring Policies, to the extent that these provisions applied to the Transferring Policies prior to the Transfer Date.
- 7.5.7 The Scheme makes no changes to the terms and conditions of the Transferring Policies and imposes no particular requirements upon Monument Life in respect of the Transferring Policies or otherwise. Monument Life will therefore be bound by the terms of the Transferring Policies and will have to comply with these.
- 7.5.8 The Scheme makes provision for any Transferring Policies that may need to be excluded from the initial transfer (Excluded Policies) for any reason, either by agreement of the Companies or as determined by the Court. Under the terms of the BTA, the Companies are required to use reasonable endeavours to transfer these policies separately as soon as reasonably practicable after the Transfer Date, but with no overall time limit. As at the date of my Report there are not expected to be any Excluded Policies.

7.6 Amended Reinsurance Agreement

- 7.6.1 Monument Life and Monument Re have notified me of their intention to amend the Reinsurance Agreement and related security documents immediately following the Transfer Date.
- 7.6.2 In summary, the terms of the amended reinsurance agreement (the Amended Reinsurance Agreement) and related security documents are for:
- the proportion reinsured to reduce from 100% to 90% such that Monument Life will retain 10% of the liabilities arising on the Transferring Policies
 - the reinsurance to be extended to cover expense risk
 - the collateral structure to be amended to bring it in line with existing reinsurance arrangements between Monument Life and Monument Re.
- 7.6.3 The Amended Reinsurance Agreement and related security documents will be on what is known as a “funds withheld” basis. When the changes are made, Monument Re will pass to Monument Life assets equal to the value of the Technical Provisions of the Transferring Policies. The reinsurance premium that Monument Life then needs to pay for the amended reinsurance will not actually be paid to Monument Re. Instead, the reinsurance premium will be “withheld”. Monument Life will owe Monument Re the premium but will keep ownership of the assets.
- 7.6.4 The assets representing the reinsurance premium will be held in an account, the funds withheld account, with an independent custodian in Monument Life’s name. Monument Re has control of the investment management of the assets in the funds withheld account, subject to certain restrictions. These restrictions are similar to those that apply under the Reinsurance Agreement, but modified slightly to reflect Monument Life’s investment strategy.
- 7.6.5 Amounts will be removed from the funds withheld account to meet Monument Re’s obligations under the reinsurance, but Monument Re is also obliged to add assets to the funds withheld account such that, under changing conditions, the account holds sufficient assets to:
- meet Monument Re’s expected liabilities under the reinsurance

- limit, on a basis defined in the Amended Reinsurance Agreement, the counterparty risk capital that Monument Life needs to hold against Monument Re under the Solvency II Standard Formula.

7.6.6 In practice, the condition set out in the second bullet above typically has no impact on the amount of assets in the funds withheld account.

7.6.7 The funds-withheld structure in respect of the Amended Reinsurance Agreement provides Monument Life with security against Monument Re defaulting on its obligations.

7.7 Description of the Transferring Policies

7.7.1 The Transferring Policies are defined in the Scheme and originate from five Irish pension schemes (the Buyout Pension Schemes), which secured bulk buyouts (see paragraph 5.3.16) with MetLife Assurance Limited (MetLife Assurance) between 2010 and 2013:

- The Clondalkin Group Executive Pension Scheme
- The Fujitsu Services (Ireland) Pension Plan
- The Scottish Legal Life Pension Scheme – Rol section
- Element Six Contributory Pension Plan
- The Georgia Pacific Ireland Retirement Benefits Scheme.

7.7.2 The policies arising from the Scottish Legal Life Pension Scheme – Rol section are written under English law. The policies arising from the other pension schemes are written under Irish law. The Scheme will have no impact on the governing law of the policies. English law governed policies will continue to be English law governed, and Irish law governed policies will continue to be Irish law governed.

7.7.3 The exact benefits payable vary by Buyout Pension Scheme and policy. All policies provide for an annuity (a periodic payment) to be paid once the policyholder reaches a specified retirement age, with the annuity continuing until the policyholder's subsequent death. Variations are whether:

- there is a guarantee period such that, if the policyholder dies before the end of the guarantee period, the annuity is paid to the end of the guarantee period
- there are any increases in the annuity over time and, if so, how the increases are determined (usually either fixed percentage increases or in line with an inflation index)
- benefits are also payable to dependants of policyholders upon the death of the policyholder either before or after the specified retirement age.

7.7.4 Rothesay acquired MetLife Assurance in 2014 and all the liabilities of MetLife Assurance, including policies issued upon buyout by the Buyout Pension Schemes, were transferred to Rothesay under a Part VII transfer in 2015. Rothesay's lawyers have advised that the terms of the previous scheme which transferred the policies from MetLife Assurance to Rothesay place no restrictions on the current Scheme to transfer the policies from Rothesay to Monument Life. I have reviewed the previous scheme. My interpretation is consistent with the advice given to Rothesay by their lawyers and for the reasons set out in paragraph 1.6.9, I have relied upon this advice.

7.7.5 The Transferring Policies include all policies that arose from the buyouts by the Buyout Pension Schemes, including those where the policy has been terminated following the death of the policyholder and where no further payments are expected. Thus any residual liability that may arise under these policies (other than in respect of mis-selling or breaches of contractual terms) will be a liability of Monument Life. A residual liability may arise, for example, in the case of a previously-unidentified

dependant who is entitled to benefits under the policy. The purpose of including the terminated policies is to ensure that any residual liabilities can lawfully be paid to the appropriate beneficiaries following the UK leaving the EU.

- 7.7.6 As at 30 June 2019, the Transferring Policies consisted of 492 annuity policies, of which 406 were in force (that is, had not been terminated). All benefit payments are denominated in euros.
- 7.7.7 The majority of the in-force policies are annuities in payment, that is, policyholders are currently receiving benefits. A small number of policies arising from the Scottish Legal Life Pension Scheme – Rol section are currently deferred annuities where benefits will become payable in the future.
- 7.7.8 A summary of the in-force Transferring Policies as at 30 June 2019 is given in Table 7.1 below. This shows the number of in-force policies and the BEL as calculated by Rothesay as at 30 June 2019.

Table 7.1: Summary of in-force Transferring Policies as at 30 June 2019

	Number of in-force policies	BEL £m
Annuities in payment	387	117
Deferred annuities	19	4
Total	406	121

Source: Report of the Chief Actuary of Rothesay on the Scheme

- 7.7.9 Comparing Table 7.1 with Table 5.1 in sub-section 5.3, it can be seen that the Transferring Policies represent only a very small part of Rothesay's total business. They account for less than 0.1% by policy count and 0.4% by liability amount.
- 7.7.10 Comparing Table 7.1 with Table 6.1 and Table 6.2 in sub-section 6.3, it can be seen that the Transferring Policies are more material to Monument Life. Using the BEL for the Transferring Policies calculated by Monument Life of €150m as shown in Table 6.2 and ignoring all reinsurance arrangements, the Transferring Policies would increase Monument Life's:
- policy count by 3% based on its in-force business as at 30 June 2019 or 0.2% if all of the transactions planned to occur before the Transfer Date happen
 - BEL by 36% based on its in-force business as at 30 June 2019 or 27% if all of the transactions planned to occur before the Transfer Date happen.

7.8 Governance of the Transferring Policies

- 7.8.1 Monument Life does not intend to make any changes to its governance structure as a result of the Scheme. The governance structure of Monument Life will therefore remain as set out in sub-section 6.4.

7.9 Administration and servicing

- 7.9.1 The Transferring Policies are currently administered on behalf of Rothesay by JLT. Following the transfer, they will be administered on behalf of Monument Life by Equiniti.

- 7.9.2 Under the BTA, Monument Life is required to use reasonable endeavours to ensure that the standard of service provided to Transferring Policyholders is at least as good as the standard provided by Rothesay in the twelve months prior to the transfer and at least as good as the standard provided to Monument Life's other policyholders. I consider this further in paragraphs 8.3.48 to 8.3.53.
- 7.9.3 In certain situations, holders of Transferring Policies have the option to commute some of the contractual benefits under the policy; that is, the policyholder may choose to forgo some or all of their annuity income in return for a lump sum payment. Holders of Transferring Policies that have not commenced benefit payment (the deferred annuities) may also ask to move their policy to a different pension provider or take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively. The actuarial bases used in these calculations is at the discretion of the insurer. Monument Life has agreed under the BTA that the calculation methodology will not differ in any material respect from that used by Rothesay prior to the transfer, except as may be required to comply with applicable law. I consider this further in paragraphs 8.3.19 to 8.3.35.

7.10 Communications to policyholders

Regulatory requirements

- 7.10.1 The requirements for communications with policyholders in respect of a Part VII transfer are set out in regulations made under the FSMA. These requirements are an important part of the protections for policyholders (see sub-section 3.1).
- 7.10.2 The regulations require that a notice is sent to every policyholder of both the transferor (Rothesay) and transferee (Monument Life) companies informing them of the proposed transfer. The definition of policyholder has a wide scope under the FSMA. In addition, the FCA gives a wide definition of policyholder in the FCA Guidance, which includes not only the legal owner of the policy but also any other potential beneficiaries (see sub-section 3.3).
- 7.10.3 The regulations also require that a notice stating that an application to Court has been made for an order sanctioning the proposed transfer must be published in:
- the London, Edinburgh and Belfast Gazettes
 - two national newspapers in the UK
 - two national newspapers in any other EEA state in which the policies were written.

Communications plan

- 7.10.4 The Companies have jointly developed a communications plan setting out how they will communicate with policyholders in relation to the proposed transfer, in accordance with the regulations. This is summarised in the following paragraphs and I provide my opinion on it in respect of different groups of policyholders in sub-sections 8.4, 9.4 and 10.4.
- 7.10.5 Notices of the transfer will be placed in:
- the London, Edinburgh and Belfast Gazettes
 - the Irish State Gazette (Iris Oifigiúil)
 - print and online (where available) versions of:
 - The Irish Times

- The Irish Sun
- The Financial Times and the Financial Times (International Edition)
- The Sun
- The Daily Telegraph.

7.10.6 Information about the transfer will be available on both the Rothesay website and the Monument Re Group website (which Monument Life shares), together with the full Scheme document, my Report and (when available) my Supplementary Report. The Rothesay website will also include the policyholder communications pack that it intends to send to Transferring Policyholders (discussed in paragraph 7.10.7 below). Paper copies of the full documents will be provided to policyholders by Rothesay and Monument Life upon request.

7.10.7 Rothesay intends only to communicate directly with Transferring Policyholders that do not fall within the scope of the dispensations set out in paragraph 7.10.13 below. Each of these policyholders will receive a communications pack, consisting of:

- a covering letter (which will be different according to whether the annuity is in payment or in deferment)
- a booklet containing details of the transfer, a summary of my Report, the date of the proposed Sanction Hearing and information on how to object to the Scheme (should they wish to do so).

7.10.8 All but three of the Transferring Policyholders with known addresses reside in Ireland. Two live in the UK and the other lives in Australia. As at the date of my Report, Rothesay does not have the current address for two policyholders and is taking actions to try to trace them.

7.10.9 The mailing is planned to take place over a two-week period starting within five business days of the Directions Hearing. The Companies will monitor and assess the potential impacts of the Covid-19 pandemic on the proposed mailing. If constraints in connection with the pandemic prevent this timetable being met then the mailing will take place as soon as reasonably practicable after the Directions Hearing. Rothesay have confirmed to me that they will send the communications pack for the policyholder resident in Australia in the first batch to allow for the longer delivery time. This should mean that all policyholders who receive a communications pack will have at least two months to consider the transfer ahead of the Sanction Hearing. The regulatory requirement is for six weeks' notice to be given.

Dispensations

7.10.10 The Companies intend to apply for a number of dispensations from the regulatory requirement to write to all policyholders. The dispensation requests are summarised in the following paragraphs and I provide my opinion on them in respect of different groups of policyholders in sub-sections 8.4, 9.4 and 10.4.

7.10.11 Rothesay intends to seek a dispensation from the Court to waive the requirement to write to the Rothesay Non-Transferring Policyholders. The reasons for this are:

- The Transferring Policies represent only a very small proportion of Rothesay's business.
- The Scheme has no material impact on the Rothesay Non-Transferring Policyholders.
- Rothesay believes the Rothesay Non-Transferring Policyholders would find it confusing to receive a mailing informing them of something that did not appear to affect them. Rothesay Non-

Transferring Policyholders may then be less likely to engage with future communications that do have an effect on them or require positive action.

- Rothesay believes that such a large mailing would inevitably generate a substantial volume of queries, placing a strain on customer services and risking a deterioration in service standards.

7.10.12 In view of the points above, Rothesay considers that the costs of the mailing would be disproportionate to the benefit to Rothesay Non-Transferring Policyholders and that notifying these policyholders via Rothesay's website and newspaper advertisements is a reasonable and proportionate approach.

7.10.13 Rothesay intends to seek a number of dispensations from the Court to waive the obligation to write to certain categories of Transferring Policyholder. These are set out below.

- "Gone-aways": "Gone-aways" are policyholders for whom Rothesay does not have a current address. I have been told by Rothesay that there were initially five such policyholders among holders of Transferring Policies as at 30 June 2019, all with deferred annuities. In preparation for the mailing, Rothesay initiated a tracing exercise using a third-party tracing agency and successfully located three policyholders. Attempts to locate the other two policyholders are ongoing as at the date of my Report. It is possible that Rothesay will discover further gone-aways during the course of the mailing if some policyholder packs are "returned to sender" and it will also attempt to trace these policyholders using the same method. Rothesay considers that there are no further reasonable measures it can take to locate these policyholders and therefore it proposes to exclude any remaining untraced policyholders from the mailing.
- Powers of attorney: Where a power of attorney is recorded in relation to a Transferring Policy, Rothesay will follow its normal business practice and send the communication to the relevant attorney instead of the policyholder. I have been told by Rothesay that there are no such policyholders at the date of my Report.
- Assignees: Where an assignment is recorded in relation to a Transferring Policy, and the assignee's details appear in the name and address fields of Rothesay's computerised records, Rothesay will follow its normal business practice and send the communication to the assignee rather than the policyholder. I have been told by Rothesay that there are no such policyholders at the date of my Report. Rothesay will not attempt to identify whether there may be other assignees that are not recorded in its computerised records, as it considers it would be impractical to search through its manual records.
- Trustees in bankruptcy, receivers and administrative receivers: Where Rothesay's records show that a holder of a Transferring Policy has been declared bankrupt and the details of the trustee in bankruptcy, receiver or administrator are recorded in its computerised records, Rothesay will write to the trustee, receiver or administrator rather than the policyholder. I have been told by Rothesay that there are no such policyholders at the date of my Report. Rothesay will not attempt to identify whether there may be other trustees in bankruptcy, receivers or administrative receivers that are not recorded in its computerised records, as it considers it would be impractical to search through its manual records.
- Pension sharing orders: A court may order that, when the benefits of a pension policy come into payment, some or all of the benefits are paid to the policyholder's former spouse. Former spouses who have the benefit of a pension sharing order fall within the definition of a policyholder as described in paragraph 7.10.2, since they are entitled to benefits payable under the policy. Where Rothesay has details of a pension sharing order on its policy records Rothesay will write to the former spouse. However, there may be cases where Rothesay is not aware of a pension sharing

order having been granted and so it is seeking a waiver from the requirement to write to former spouses in such cases.

- **Deceased:** Where deaths have been notified to Rothesay and benefits have not yet been settled or remain payable, Rothesay will write to the executors and personal representatives at the address of the deceased policyholder. In other cases, where benefits have been settled and no benefits remain payable, Rothesay proposes not to write to deceased policyholders. For the avoidance of doubt, Rothesay will write to any spouse or other dependant of the deceased policyholder who is receiving benefits from the policy.
- **Contingent annuitants:** Contingent annuitants are individuals not currently in receipt of benefits under a policy, but who may become beneficiaries in the future following the death of the policyholder (for example, a spouse or other dependant). Rothesay proposes not to write to contingent annuitants unless they are named as a joint policy owner in Rothesay's computerised records. The address of any contingent annuitant would ordinarily only be established by Rothesay upon the death of the policyholder although, in the majority of cases, the address of the contingent annuitant will be the same as that of the policyholder.
- **Beneficiaries of policies written in trust:** Where policies are written in trust, the legal owners of the policy are the trustees. Rothesay has no contractual relationship with the beneficiaries and so would only write to the trustees. Rothesay has confirmed to me that there are no policies written in trust within the Transferring Policies.
- **Accidental omissions:** Some Transferring Policyholders may not receive a communication pack due to accidental omission or events outside of Rothesay's control. Rothesay will remedy any such failure in advance of the Sanction Hearing wherever possible.

7.10.14 The communications pack asks policyholders to share the pack with any other person who has an interest in the policy. Therefore, in some of the cases listed in paragraph 7.10.13, for example in the case of contingent beneficiaries, Rothesay expects those with an interest in a Transferring Policy will be made aware of the Scheme even if they are not the holder of the Transferring Policy.

7.10.15 Rothesay intends to seek a dispensation from the requirement to advertise in two national newspapers in every EEA state where policies may have been written, other than the UK and Ireland. Although there are currently no policyholders known to be residing in EEA states other than the UK and Ireland (there is one policyholder known to be resident outside the EEA), Rothesay is unable to verify with certainty that this was the case when the policies were issued.

7.10.16 Monument Life intends to seek a dispensation from the requirement to write to its existing policyholders on the grounds that the Transferring Policies will represent a small proportion of Monument Life's business measured by numbers of policies and the Scheme has no material adverse effect on Monument Existing Policyholders. Monument Life therefore considers that:

- such a large mailing could generate a substantial volume of queries, placing a strain on customer services and risking a deterioration in service standards
- notifying Monument Existing Policyholders via the Monument Re Group website and newspaper advertisements is a reasonable and proportionate approach.

7.11 Cost of the transfer

7.11.1 The BTA provides that regulatory fees, the costs of the Independent Expert, the costs of Counsel appointed by either or both of Rothesay and Monument Life in respect of the Part VII transfer, Court

fees and the costs of advertisements in respect of the Scheme will be borne equally by Rothesay and Monument Life.

- 7.11.2 All other costs will be borne by the party incurring the costs, including the cost of notifying policyholders.

8 Implications for Transferring Policyholders

8.1 Introduction

- 8.1.1 In this section, I focus on the impact of the Scheme on Transferring Policyholders.
- 8.1.2 I am satisfied that the Scheme will have no material adverse effect on Transferring Policyholders.
- 8.1.3 To arrive at my conclusions, I have considered the following:
- 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
 - whether the proposed approach to communicating with the Transferring Policyholders in relation to the Scheme is fair
 - implications related to the UK's decision to leave the EU and, in particular, that the Scheme may, in some circumstances, result in eligible Transferring Policyholders losing the protection of the FSCS (see sub-section 4.6).
- 8.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 8.2 to 8.5 below.
- 8.1.5 In most respects, the interests of all Transferring Policyholders are similar and so, mainly, I consider the Transferring Policyholders as a group. There are some specific considerations relating to benefit expectations that are relevant only to the holders of deferred annuity policies and I comment on these in paragraphs 8.3.19 to 8.3.35 below.

Treatment of the Reinsurance Agreement

- 8.1.6 As described in sub-section 7.4, the majority of the economic risks and rewards of the Transferring Policies were transferred to Monument Re with effect from 1 January 2019 under the Reinsurance Agreement. In the event that the Scheme is not implemented, the Reinsurance Agreement could remain in-force or it could be terminated by Rothesay following the termination of the BTA. I am required by the FCA Guidance to consider the potential impact of the Scheme relative to the status quo (i.e. the position with the Reinsurance Agreement in place) and also relative to the position that the Scheme does not go ahead and the Reinsurance Agreement is terminated.
- 8.1.7 The exact terms under which the Reinsurance Agreement can be terminated, if the BTA is terminated due to failure to implement the Scheme, are set out in the Reinsurance Agreement and depend upon the circumstances of the Scheme not being implemented. If the Reinsurance Agreement is terminated, in all such circumstances compared to the status quo, it has:
- no material impact on Rothesay's financial position (less than a 1% change in SCR cover ratio)
 - no material impact on Rothesay's risk profile (the risks of the Transferring Policies are aligned with those of the Rothesay business in general)
 - no impact on how any of the Rothesay policies are administered.
- 8.1.8 In summary, the position of Rothesay in a scenario in which the Scheme does not go ahead is similar regardless of whether the Reinsurance Agreement is terminated or not. I therefore consider it appropriate to form my opinions on the Scheme by considering the financial impact of the Scheme only

relative to the alternative scenario in which the Scheme does not go ahead and the Reinsurance Agreement remains in place. My opinions will not change if the financial information is prepared on one or more of the possible bases under which the Reinsurance Agreement may be terminated.

- 8.1.9 If the Scheme does go ahead, Monument Life and Monument Re intend to replace the Reinsurance Agreement with the Amended Reinsurance Agreement, a new contractual agreement between Monument Life and Monument Re, as described in sub-section 7.6, which is expected to be entered into shortly after the Transfer Date. Although the Amended Reinsurance Agreement is not part of the Scheme and Monument Life and Monument Re are not obliged to put it in place, in my analysis of the effects of the Scheme I have assumed that this amendment will be made, as it is the stated intention of both parties and is in line with the existing reinsurance treaties between Monument Life and Monument Re. However, after considering the differences between the Reinsurance Agreement and the Amended Reinsurance Agreement and discussing these differences with Monument Life, I am satisfied that my conclusions would not be different if the Reinsurance Agreement were to remain in place without amendment.

Implications of ruling on PAC transfer to Rothesay

- 8.1.10 It is appropriate for me to also consider whether the factors that led Mr Justice Snowden to decline to sanction a proposed scheme to transfer a block of non-profit annuities from PAC to Rothesay (see paragraphs 3.4.4 and 3.4.5) apply to the Scheme, which also proposes to transfer a block of non-profit annuities.
- 8.1.11 In my opinion, these factors do not apply in the same way to this Scheme. Furthermore, in my opinion, the specifics of the Scheme are such that they are aligned with Mr Justice Snowden's comments on when the Court might sanction a scheme to transfer a block of non-profit annuities (see paragraph 3.4.6). I discuss this further below.
- 8.1.12 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.
- 8.1.13 In my opinion, these considerations do not apply to the Scheme. In particular:
- Transferring Policyholders did not choose to be policyholders of Rothesay because of Rothesay's history and reputation. As explained in sub-section 7.7, the Transferring Policyholders were originally members of the Buyout Pension Schemes, which they joined as a result of their employment. The Transferring Policyholders became policyholders of MetLife Assurance when the Buyout Pension Schemes were bought out by MetLife Assurance between 2010 and 2013 and subsequently became policyholders of Rothesay in 2015 under a Part VII transfer following Rothesay's acquisition of MetLife Assurance in 2014.
 - 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, while there is an

insurance group structure above Monument Life, 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 was necessary.

- Mr Justice Snowden stated that PAC's reasons for selecting the policyholders to transfer to Rothesay were entirely driven by a need to release regulatory capital and that PAC had achieved that commercial objective by the reinsurance agreement between PAC and Rothesay. Rothesay has initiated the Scheme 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. 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.

8.1.14 As noted in paragraph 3.4.6, Mr Justice Snowden explicitly stated that his judgement would not necessarily preclude a future transfer of annuities between different companies for a different purpose. As discussed in the paragraphs above, there are some important differences between the proposed transfer from PAC to Rothesay and the Scheme.

8.1.15 I therefore see no reason why Mr Justice Snowden's decision on the proposed scheme from PAC to Rothesay should prevent the Scheme being approved.

8.1.16 My analysis of this issue in the paragraphs above has been reviewed by the Companies' legal advisors, who concur with my conclusions. I do not feel it is necessary to obtain independent legal advice on this subject, as I feel the rationale set out by Mr Justice Snowden is sufficiently clear for me to form my own view. In any case, it is for the Court to apply its discretion concerning the sanction of the Scheme and to determine the pertinence of Mr Justice Snowden's judgement.

8.2 Benefit security

Summary

8.2.1 It is important that Transferring Policyholders' benefits 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 of future benefits and expenses it needs to pay is greater than expected.

8.2.2 I have investigated the security of Transferring Policyholders' benefits by comparing the sources of security and the profile of risks to which the Transferring Policyholders will be exposed pre- and post-Scheme.

8.2.3 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders.

8.2.4 I have formed this opinion taking into account that:

- the level of security offered by Monument Life holding its regulatory capital requirement is similar to that offered by Rothesay holding its regulatory capital requirement
- Monument Life's capital management policy is similar to that of Rothesay

- the capital management policies provide security, in addition to the regulatory capital requirements, such that the probability of either company being unable to meet its obligations to its policyholders is remote
- as at 30 June 2019 both Rothesay and Monument Life held capital in excess of the target levels required by their capital management policies, and this remains the case based on the most recent information available as at 20 March 2020
- the regulatory requirement for the Monument Life Board to contain independent non-executive directors and the ongoing regulatory oversight by the CBI provides assurance that Monument Life's capital management policy will not be unduly weakened in the future
- although the absolute amount of excess capital (capital above the regulatory capital requirement) in Monument Life is lower compared to that in Rothesay under their respective capital management policies, 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
- while Transferring Policyholders will be exposed to different types of risk, the risks will predominantly be reflected in the capital requirements of Monument Life with those capital requirements offering a similar level of protection to the capital requirements of Rothesay
- 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
- costs associated with the Scheme will be met by Monument Life and Rothesay and these costs will not be significant in relation to the respective company's financial resources.

8.2.5 I explain my reasoning by expanding upon these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

8.2.6 All policyholders of Rothesay, including the Transferring Policyholders, currently rely on the available resources of Rothesay for the security of their benefits. These resources primarily comprise of the:

- assets backing the Technical Provisions and SCR of Rothesay (see sub-section 4.3)
- assets held by Rothesay in addition to its regulatory capital requirements.

8.2.7 Rothesay has entered into a number of reinsurance arrangements with various parties (reinsurers), including Monument Re. Rothesay receives payments from the reinsurers, which then form part of Rothesay's resources available to pay Rothesay's policyholders' benefits. The ability of the reinsurers to fulfil their obligations under these arrangements will affect the financial strength of Rothesay and, therefore, security of benefits for the Transferring Policies will also be provided indirectly by the assets of the reinsurers. As described in paragraph 5.3.25, most of Rothesay's reinsurance, including that under the Reinsurance Agreement with Monument Re, is collateralised. The collateral arrangements

contribute to Rothesay's financial strength and therefore to the benefit security of Transferring Policyholders.

8.2.8 If the Scheme is implemented then benefit security for Transferring Policyholders will instead primarily be provided by the:

- assets backing the Technical Provisions and SCR of Monument Life
- assets held by Monument Life in addition to its regulatory capital requirements.

8.2.9 Similar to Rothesay, as described in paragraph 8.2.7 above, Monument Life has entered into a number of reinsurance arrangements with various parties. Security for the benefits of the Transferring Policies post-Scheme will therefore also be provided indirectly by the assets of Monument Life's reinsurance counterparties. As described in paragraph 6.3.39, Monument Life's most significant existing reinsurance arrangements are structured on a "funds withheld" basis such that Monument Life retains ownership of the assets backing the reinsured liabilities, which also contributes to Monument Life's financial strength and the benefit security of its policyholders. Following implementation of the Scheme, the reinsurance with Monument Re under the Amended Reinsurance Agreement will also be on a "funds withheld" basis.

8.2.10 To compare benefit security for Transferring Policyholders before and after the Scheme, I need to consider the methodologies used by the Companies to calculate their respective Technical Provisions and SCRs, the capital the Companies intend to hold in addition to their respective regulatory capital requirements and the profile of risks faced by each of the Companies.

Technical Provisions and SCR

8.2.11 Both Rothesay and Monument Life are subject to the Solvency II regulatory capital requirements. Under Solvency II, an insurer needs to hold assets against its insurance liabilities of an amount at least as great as the Technical Provisions (see paragraph 4.3.9). It must then hold additional assets equal to the SCR, (see paragraphs 4.3.12 to 4.3.17), which can be thought of as a "buffer" against adverse experience that may lead to the Technical Provisions being insufficient. The PRA and CBI, the regulators of Rothesay and Monument Life respectively, are able to take actions to protect policyholders if an insurance company does not have sufficient assets to cover its SCR.

8.2.12 Rothesay and Monument Life currently use different approaches to calculate their Technical Provisions and SCRs. The approaches taken are set out in sub-sections 5.5 and 6.5 for Rothesay and Monument Life respectively. As the approach taken can have a significant effect on the calculated amounts, I need to assess the approaches taken by the Companies so that I can judge whether the two bases provide a similar level of protection.

Best estimate assumptions

8.2.13 The calculation of the BEL, which is the main element of the Technical Provisions, relies on assumptions about future uncertain events. Setting these assumptions involves a degree of judgement and it might be expected that Rothesay and Monument Life will exercise that judgement differently. This applies to the assumptions used to value the whole of the Companies' business. However, in particular, I would have concerns if the BEL on the Transferring Policies calculated by Monument Life was significantly lower than that calculated by Rothesay after taking into account valid differences in approach.

8.2.14 I have reviewed the assumptions used by both Rothesay and Monument Life to calculate the BEL for their in-force business as at 31 December 2018, which were subject to external audit. I am satisfied that the approaches taken by both firms were reasonable. Both Rothesay and Monument Life have informed me that the assumptions used at 30 June 2019 are consistent with those at 31 December 2018.

- 8.2.15 I have also reviewed the assumptions used by Monument Life to calculate the BEL on the Transferring Policies and the resulting amount of the BEL. I consider that these are also reasonable.
- 8.2.16 Overall, I am content that differences in the assumptions used by Rothesay and Monument Life to calculate their BEL are reasonable and will not have a material adverse effect on the security of Transferring Policyholders' benefits. It should be noted that the assumptions used by both firms are subject to annual external audit and, therefore, I am confident that BEL assumptions used in future will remain appropriate.

SCR approach

- 8.2.17 As discussed in sub-section 5.5, Rothesay uses its PRA-approved PIM in the calculation of the SCR in respect of credit and counterparty risks. This reduces Rothesay's SCR compared to the Solvency II Standard Formula approach. I place reliance on the PRA's approval that Rothesay's use of a PIM more accurately reflects the risks to which it is exposed.
- 8.2.18 Rothesay uses the Standard Formula in respect of other risks, including longevity risk. It has agreed a relatively small capital add-on with the PRA (less than 2% of the total SCR) to reflect certain risks that are not captured by the Standard Formula (see paragraph 5.5.2).
- 8.2.19 Monument Life uses the Standard Formula for all risks. I am content that this is appropriate for the Transferring Policies as they are relatively standard annuity contracts without any particularly unusual features. The main risks for annuity business are the beneficiaries living longer than expected (longevity risk) and risks arising from the assets (market and credit risks, see sub-section 5.9). The Standard Formula capital requirement for longevity risk is generally considered to be weak for annuity business at younger ages but prudent for older aged annuity policyholders. The average age of the Transferring Policyholders weighted by annuity amount is approximately 76. Given this, I consider the Standard Formula makes appropriate allowance for longevity risk on the Transferring Policies. In forming my opinion, I have taken into account that the capital add-on applied to Rothesay's SCR will not be reflected in Monument Life's SCR in respect of the Transferring Policies. I consider the add-on, if it were to be applied on a proportional basis, to be insignificant to Monument Life's overall SCR. The assets that Monument Life intends to hold to meet liabilities in respect of the Transferring Policies are broadly aligned with the assets assumed in the calibration of the relevant Standard Formula calculations. I therefore consider the Standard Formula asset stresses to be appropriate for the Transferring Policies, and the Standard Formula to be appropriate overall.
- 8.2.20 It is important to consider the overall position and not just the appropriateness of the Standard Formula on the Transferring Policies, as it is the overall position that provides security for all policyholders. As part of its ORSA process, Monument Life has concluded that its use of the Standard Formula is appropriate given the risks of its business. This assessment considers the risks currently borne by Monument Life together with those that will be borne by Monument Life if the transactions set out in paragraphs 6.3.30 to 6.3.32 proceed as planned. I have reviewed the Monument Life assessment and I consider it appropriate.

Adjustments to Technical Provisions

- 8.2.21 Rothesay uses the MA and TMTP (see paragraph 4.3.18). Both of these reduce Rothesay's Technical Provisions (see sub-section 5.5), although, if the MA were not used the impact on Rothesay's total Technical Provisions would, subject to regulatory approval, be offset to an extent by an increase in the TMTP. The MA also reduces Rothesay's SCR. Monument Life has applied to the CBI for approval to use the VA (see paragraphs 4.3.18 and 6.5.1). If this is approved, the impact will not be large in current

market conditions. The impact as at 30 June 2019 is a reduction in Monument Life's technical provisions (net of reinsurance) of approximately €0.2m, which results in an increase in own funds of less than 1%.

- 8.2.22 Rothesay's use of the MA and TMTP may suggest that Monument Life's Technical Provisions are stronger, as they are not adjusted downwards. However, I am satisfied that Rothesay's use of the MA in the calculation of its Technical Provisions is compliant with the Solvency II regulations, with the MA intended to more accurately reflect the risks to which it is exposed, taking into account the nature of its liabilities and its investment strategy. The MA is not appropriate for Monument Life at present given the nature of its liabilities. The TMTP is an approved transitional measure which will run-off over time, so any potential additional strength in Monument Life's Technical Provisions relative to Rothesay's will not persist.

Overall conclusion on Technical Provisions and SCR

- 8.2.23 Taking the above into account, I am satisfied that the differences in calculation approaches and Solvency II approvals between the Companies will not have a material adverse effect on the security of benefits for the Transferring Policyholders.
- 8.2.24 Overall, although there are some differences in approach, both Companies' approaches are required to comply with the Solvency II regulations for firms to calculate the SCR such that, if no capital in excess of the SCR is held, the value of the firm's assets will exceed the value of its liabilities over a one-year time period with a probability of 99.5%.

Comparison of capital management policies

- 8.2.25 As discussed in paragraph 4.3.24, firms will generally aim to hold capital in excess of the regulatory capital requirement. Any excess above the regulatory minimum increases the probability that the insurer will be able to cover its Technical Provisions over a one-year time horizon to above 99.5% (or conversely reduces the probability it will be unable to cover its Technical Provisions to a level below 0.5%) and, therefore, provides added security.
- 8.2.26 Subject to certain logistical and governance hurdles, current excess capital could, in principle, be transferred out of either 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.
- 8.2.27 Therefore, rather than consider current excess capital, 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.
- 8.2.28 Both Rothesay and Monument Life have capital management policies and risk appetite statements that have been approved by their respective Boards (see sub-sections 5.6 and 6.6). These articulate target levels of excess capital under the Solvency II regulatory regime and triggers to take management actions if the actual capital level falls below these points.
- 8.2.29 I have been informed that neither Rothesay nor Monument Life has current plans to change its capital management policy, either as a result of the Scheme or any other factors.
- 8.2.30 Although expressed differently, the current Monument Life and Rothesay capital management policies are reasonably similar in that Monument Life effectively targets solvency cover of between 140% and 150% of the SCR and Rothesay targets solvency cover of between 130% to 150% of the SCR. Upon a

deterioration, Monument Life is required to take action to restore its position if cover falls below 140% whereas Rothesay considers a solvency coverage level of between 120% and 130% to be an “amber zone” requiring action over time with immediate action required at a lower level of 120%. As described in paragraph 6.6.1, Monument Life also holds an additional amount of capital, currently €5.4m against the risk of Monument Re defaulting on its reinsurance obligations to Monument Life. This risk is discussed further in paragraphs 8.2.63 to 8.2.96.

- 8.2.31 The Companies’ similar capital targets suggest that the capital management policies provide similar levels of protection for policyholders, with Monument Life’s policy suggesting perhaps a higher level of protection given its narrower target range and the additional capital it holds against the risk of a Monument Re default. However, this similarity in capital targets does not necessarily mean that the capital management policies offer the same protection as the Companies face different risks, Monument Life’s exposure to Monument Re being a good example of this, and calculate their SCRs using different approaches. Holding a similar level of target capital does not mean that Rothesay and Monument Life can both withstand the same extreme events.
- 8.2.32 What can be said is that both Rothesay and Monument Life aim to ensure that they can withstand extreme events and still meet their liabilities to policyholders.
- 8.2.33 Clearly Monument Life’s capital management policy is expected to result in a lower absolute level of excess capital being held compared to Rothesay by virtue of Monument Life’s smaller size. 150% of Monument Life’s SCR is considerably smaller than 150% of Rothesay’s SCR. However, it is the size of the excess capital relative to the size of the risks that determines the level of security for policyholders’ benefits. The SCR reflects the size and nature of the risks to which the company is exposed. I do not consider the lower absolute level of excess capital in Monument Life as being detrimental to Transferring Policyholders.
- 8.2.34 Rothesay and Monument Life have each identified a range of management actions that could be taken to improve their solvency position if their excess capital were to fall below the minimum target level set out in their capital management policies (see paragraphs 5.6.3 and 6.6.3.). The main options open to both Rothesay and Monument Life are similar. Monument Life expands on the management actions it could take in its Recovery and Resolution Plan, which considers the steps required to implement the management actions, any associated risks and how they would be mitigated, any external dependencies and an overall assessment of the credibility of the action. I have reviewed Monument Life’s assessments, by considering the Monument Life business, the nature of the actions proposed and my view of the feasibility of the management actions based on my knowledge of the insurance market. I am satisfied that Monument Life has a range of credible management actions that it could take if necessary to restore its solvency position.
- 8.2.35 Changes to either of the Companies’ capital management policies would require approval of the relevant Board and would be subject to regulatory scrutiny. I therefore take some assurance that independent representation on the Monument Life Board, which is a CBI requirement for all insurance companies, together with the regulatory oversight provided by the CBI should ensure that Monument Life’s capital management policy continues to provide appropriate benefit security for Transferring Policyholders in future. In my opinion, these governance and regulatory protections are similar to those that apply to Rothesay.
- 8.2.36 Overall, I am satisfied that, if the Scheme is implemented, the change for the Transferring Policyholders to be covered by the Monument Life capital management policy rather than the Rothesay capital management policy will not lead to a material adverse effect on their security of benefits. As discussed

in paragraph 8.2.31, it is difficult to make a direct comparison of the strength of Monument Life's capital management policy compared to Rothesay's. However, in my opinion, the policies are similar and I am satisfied that the Monument Life capital management policy means that the possibility of Monument Life becoming unable to meet its obligations to policyholders as they fall due is remote.

Comparison of solvency position

- 8.2.37 I need to look at the expected impact of the Scheme on Monument Life's financial position, to assess whether Monument Life will remain financially strong and will continue to meet its capital management policy.
- 8.2.38 Table 8.1 below compares the regulatory solvency position of Rothesay immediately before the transfer to that of Monument Life immediately after the transfer (on a pro-forma basis), assuming that the transfer took place on 30 June 2019. The estimated financial position of Monument Life is shown with the Amended Reinsurance Agreement assumed to be in place immediately after the transfer (see sub-section 7.6). As noted in paragraph 8.1.9, my conclusions would be unchanged if I assumed that the Reinsurance Agreement remained in place without amendment.
- 8.2.39 I show two positions for Monument Life. The first shows the position allowing for the acquisition of Inora Life which has now happened (see paragraph 6.3.28). Although this acquisition took place after 30 June 2019, it is appropriate to include the impact of the acquisition in my analysis. It also includes the impact of the residual element of Project Carp completing, as expected, in advance of the Transfer Date (see paragraph 6.3.31). The second shows the post-Scheme position on the assumption that Project Trinity also concludes as expected in advance of the Transfer Date (see paragraph 6.3.32). The potential impact of the VA is not included. As set out in paragraph 6.5.5, the VA is expected to have a beneficial impact on Monument Life's solvency position but approval cannot be guaranteed. My conclusions and opinions are not dependent on whether or not Monument Life obtains permission to apply the VA.

Table 8.1: Comparison of regulatory solvency position as at 30 June 2019 (Monument Life on a pro-forma basis)

	Rothesay pre-transfer £m	Monument Life post-transfer pre-Trinity €m	Monument Life post-transfer post-Trinity €m
Solvency II net assets	37,584	109	117
Technical Provisions (net of reinsurance)	33,519	75	83
Own funds (A)	4,066	34	34
Solvency Capital Requirement (B)	2,310	10	15
Excess capital (A-B)	1,756	23	19
SCR cover ratio (A/B)	176.0%	322.9%	220.8%

Sources: Report of the Chief Actuary of Rothesay on the Scheme and Monument Life Actuarial Function analysis

- 8.2.40 A direct comparison of the pre-Scheme Rothesay position to the post-Scheme Monument Life position provides only short-term assurance over benefit security as excess capital over each company's capital management policy target may not persist (see paragraph 8.2.26). Table 8.1 does show that the Transferring Policyholders will move from one financially strong company to another financially strong company and, importantly, Monument Life is expected to meet its capital management policy target post-Scheme. This is true whether or not the Trinity transaction is completed and my conclusions and opinions are not dependent on whether or not the Trinity transaction is completed.
- 8.2.41 I have been provided with financial projections showing the expected path of the Monument Life SCR cover ratio in subsequent years, to 2023, allowing for planned acquisitions and a level of dividend. The projections show that the SCR cover ratio is expected to remain strong and higher than the level required under the Monument Life capital management policy.
- 8.2.42 In addition, I have reviewed the stress testing results shown in Monument Life's ORSA, which indicate that it can withstand a range of extreme adverse scenarios. I have reviewed the selected scenarios and I consider that they cover the material risks faced by Monument Life and are therefore appropriate.
- 8.2.43 Overall, I am satisfied that Monument Life is in a strong financial position and will remain so if the Scheme is implemented, such that the security provided by Monument Life's financial position compared to that provided by Rothesay's will not materially disadvantage the Transferring Policyholders.
- 8.2.44 At the date of my Report, there is considerable financial market volatility as a result of the Covid-19 pandemic. This has affected both the value of assets and the value of liabilities and will, therefore, also affect the financial positions of the Companies. Additionally, the eventual outcome of the pandemic in terms of the number of deaths due the Covid-19 virus, which may affect the Companies' respective insurance liabilities, is unknown at the date of my Report. 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 20 March 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. This information does not lead me to change my conclusions.
- 8.2.45 In my Supplementary Report, I will consider the impact of the Scheme on Monument Life's financial position as at 31 December 2019 and will take into account events subsequent to 31 December 2019, including the development of the Covid-19 pandemic.

Comparison of risk profile

- 8.2.46 If the Scheme becomes effective, the holders of Transferring Policies will become policyholders of Monument Life. Monument Life has a different profile of risks from Rothesay, as it has written different business and holds different assets.
- 8.2.47 Rothesay has written only non-profit annuity business including longevity swaps and inwards reinsurance (see paragraphs 5.3.1 to 5.3.12). The dominant risks within Rothesay's business are longevity risk and asset risks (see sub-section 5.9). It also has exposures to counterparty risk from reinsurance and derivative counterparties, operational risk and expense risk. While Rothesay is expected to continue to grow, at present it plans to write only business similar to its existing business. The types of risks to which it is exposed are not expected to change materially, although the relative sizes of particular risks may change.

- 8.2.48 In contrast, Monument Life has a number of different product lines (see paragraphs 6.3.1 to 6.3.16). While it has some exposure to most of the risks faced by Rothesay, the balance of those risks and the potential impacts of those risks occurring are different. Monument Life also has exposure to additional risks, including life underwriting risks such as mortality risk (the risk of policyholders dying earlier than expected). The proposed transfer will increase the range of risks to which the Transferring Policies are exposed, but these risks are more balanced and diversified. Monument Life is not currently exposed to material longevity risk. The proposed transfer will increase exposure to longevity and some other risks, such as market risks and operational risk. Monument Life's risk profile is likely to continue to evolve through future acquisitions.
- 8.2.49 If Project Trinity is approved (see paragraph 6.3.32), Monument Life will also have significant exposure to non-life underwriting risk arising from PPI business (see paragraph 6.3.17 to 6.3.21). However, this is a closed book of business running off at a rate of around 15-20% per annum. Furthermore, exposure to this risk could be quickly eliminated if Monument Life chose to stop accepting monthly renewals of the business. Significant capital will be held against this risk as part of Monument Life's SCR, providing protection for policyholders.
- 8.2.50 Implementation of the Scheme will result in a change to the risk exposures of the Transferring Policies but the SCRs of the Companies will reflect the differences in their risk exposures. The regulatory requirements in relation to the calibration of the SCR means that Transferring Policyholders will have a similar level of security of their benefits both pre- and post-Scheme.

Liquidity

- 8.2.51 Liquidity risk is the risk that a company, while solvent, is unable to generate sufficient cash to meet benefit payments as they fall due.
- 8.2.52 Both Rothesay and Monument Life have defined liquidity risk appetites, which have been approved by their respective Boards, setting out the minimum requirements for liquidity along with policies for managing liquidity risks. I have reviewed the policies of both Rothesay and Monument Life and I am satisfied that the policies are broadly comparable in content and strength.
- 8.2.53 Monument Life manages its investments in line with the Prudent Person Principle (see paragraph 4.3.26). It does this by splitting its liabilities into a number of defined blocks of business and managing assets backing each block of business separately. The assets are selected taking into account the nature and duration of the relevant liabilities. Post-Scheme, the assets backing the Technical Provisions for Transferring Policies will be managed as a separate portfolio within Monument Life and will consist predominantly of fixed interest assets of appropriate term. I consider this investment strategy to be appropriate for the Transferring Policies in accordance with the Prudent Person Principle.
- 8.2.54 Monument Life manages liquidity risk by considering liquidity requirements separately for each of the different blocks of business and, therefore, following implementation of the Scheme, Monument Life will manage liquidity risk in respect of the Transferring Policies separately. Taking the strength of Monument Life's liquidity risk management framework into account, I am satisfied that Monument Life's liquidity risk management will provide comparable protection to that of Rothesay's and, in particular, sufficient protection to be confident that benefits on the Transferring Policies can be paid as they fall due.

Risk management

- 8.2.55 Both Rothesay and Monument Life have comprehensive risk management frameworks in place, (see sub-sections 5.7 and 6.7), that are intended to meet the Solvency II requirements in respect of risk management (see paragraphs 4.3.22 to 4.3.26). This provides assurance that any differences in risk profile to which the Transferring Policyholders would be exposed would be suitably managed.
- 8.2.56 I have reviewed the Rothesay and Monument Life risk management frameworks and a selection of the policies of each company setting out the approach to the management of particular risks. Based on this review I am satisfied that Monument Life's risk management framework is appropriate and comparable to that of Rothesay.

Group risk

Management of group risk

- 8.2.57 Rothesay is the only insurance company in the group of companies owned by RHUK. In contrast, Monument Life is part of a group of insurance companies with a more complex group structure and significant intra-group arrangements, which can expose Monument Life to additional sources of risk. This is known as "group risk". Group risk can cover a number of aspects such as problems within one group company negatively affecting other group companies (contagion risk) or an unwanted accumulation of a particular risk across the group as a whole.
- 8.2.58 As part of its risk management framework, the Monument Re Group maintains a Group Risk Policy setting out its approach to the management of group risk. This requires the group structure to be documented and a log of material intra-group transactions to be maintained. It also requires group risks to be identified, monitored, measured, managed and reported in line with the overall risk management framework. Additionally, the policy requires a diligent approach to new intra-group transactions with mitigation of conflicts of interest. I have reviewed this policy and I consider it provides an appropriate framework for the management of group risk within the Monument Re Group.
- 8.2.59 The Monument Re Group also maintains an Intra-Group Reinsurance Framework, which governs the use of reinsurance between members of the Monument Re Group. The Framework recognises that such intra-group reinsurance arrangements can be a source of group risk and sets out general principles for management of such risks, including the form of the reinsurance, security arrangements and the provision of solvency information from the reinsurer to the cedant. I have reviewed these principles, which are reflected in Monument Life's capital management policy and the terms of reinsurance between Monument Life and Monument Re. I consider they are reasonable principles to follow and that it is appropriate to take these into account for the purposes of my assessment of Monument Life's exposure to group risk and the potential implications for the Transferring Policyholders.
- 8.2.60 In my opinion the framework that is in place to manage group risks is appropriate for Monument Life and the exposure to group risk does not give rise to any material adverse effect on the Transferring Policyholders. In forming this opinion, I have considered Monument Life's exposure to Monument Re which is discussed further below.
- 8.2.61 Monument Life's most significant group risk is its exposure to Monument Re. This exposure, which stems from the business Monument Life reinsures to Monument Re, will be increased if the Scheme is implemented. If Monument Re were unable to meet its obligations to Monument Life under the reinsurance arrangements, the impact on Monument Life's financial position would be material. Rothesay is also exposed to the risk of its reinsurance counterparties defaulting on their obligations. However, Rothesay's reinsurance is spread more widely with a range of reinsurers. The impact on

Rothsay's financial position of the failure of any single one of Rothsay's reinsurance counterparties, while potentially material, is unlikely to be as significant as the impact Monument Re's failure would have on Monument Life's financial position.

8.2.62 It is therefore appropriate for me to consider if Monument Life's exposure to Monument Re will have any material adverse effect on the Transferring Policyholders. In the following discussion, I consider Monument Life's exposure to Monument Re in more detail, the probability of Monument Re defaulting and the potential consequences for the Transferring Policyholders if Monument Re were to default following implementation of the Scheme.

Monument Life's exposure to Monument Re

8.2.63 As noted in sub-section 6.3, Monument Life reinsures a significant proportion of its business to Monument Re, thereby transferring a significant proportion of its risks. This risk transfer is reflected in Monument Life's solvency calculations. In particular, the reinsurance reduces Monument Life's SCR and also reduces the Risk Margin, part of the Technical Provisions, which is related to the SCR.

8.2.64 The reinsurance results in Monument Life having significant counterparty risk exposure to Monument Re.

8.2.65 If Monument Re were to default on its obligations and Monument Life consequently terminated the reinsurance, the risks would revert to Monument Life and Monument Life's regulatory capital requirements, its SCR, and its Technical Provisions would increase. This would have a material impact on the financial position of Monument Life and it would not be able to cover the increased SCR without taking management actions.

8.2.66 Monument Life manages this risk by:

- the structure of the reinsurance arrangements
- active monitoring of Monument Re's solvency position and risk profile
- holding additional capital against Monument Re defaulting as part of its capital management policy.

8.2.67 All reinsurance between Monument Life and Monument Re is currently on a "funds withheld" basis. This essentially means that the cost of the reinsurance (the reinsurance premium) is not actually paid by Monument Life. Instead, it remains a liability on Monument Life's balance sheet and assets covering the premium are held in an account, the funds withheld account, with an independent custodian. The assets in the funds withheld account remain the legal property of Monument Life. Monument Life and Monument Re have assured me that a similar basis will be used under the Amended Reinsurance Agreement.

8.2.68 In normal circumstances, the amount held in the funds withheld account is reassessed quarterly, with amounts being released to Monument Re as the reinsured liabilities run off. Monument Re is also required to transfer assets into the funds withheld account, as required by the reinsurance agreements, such that the funds withheld account normally contains sufficient assets to cover the BEL of the reinsured liabilities. There are restrictions on the type of assets that can be transferred into the funds withheld account to ensure the assets are of an appropriate type and quality.

8.2.69 The terms of the reinsurance arrangements allow Monument Life to terminate the reinsurance in a number of circumstances including if Monument Re defaults on its obligations or if Monument Re is unable to meet its regulatory capital requirements for a period of six months. Upon termination in such circumstances, Monument Life is entitled to receive a termination payment expressed as a percentage

of the BEL. For example, this is 105% if the termination is due to Monument Re defaulting and 100% if Monument Re fails to meet its regulatory capital requirement. If Monument Re is unable to pay the termination payment, as a minimum, Monument Life has recourse to the assets held in the funds withheld account.

- 8.2.70 Monument Life monitors its exposure to Monument Re through quarterly financial condition reports provided by Monument Re to the Monument Life Head of Actuarial Function. These reports provide a forward-looking assessment of Monument Re's financial position. Monument Re also shares its 'reverse stress test' results, which set out the circumstances that could lead Monument Re to fail, with Monument Life. This reporting is supplemented by both regular and ad-hoc meetings between the Chief Risk Officers of Monument Life and Monument Re, which facilitate greater understanding of the risks of Monument Re and how they are being managed. Monument Life is also party to regular meetings where Monument Re discusses potential new business opportunities, giving Monument Life insight into the evolving risk profile of Monument Re. I consider this monitoring to be appropriate to allow Monument Life to identify and manage risks arising from its exposure to Monument Re.
- 8.2.71 This monitoring allows Monument Life to assess Monument Re's ongoing solvency position and, hence, Monument Re's ongoing ability to meet its obligations to Monument Life under the reinsurance arrangements. Monument Life is able to terminate the reinsurance agreements at any time, but if it were to do so, the termination payment would be only 97% of the BEL on the reinsured liabilities. The monitoring will allow Monument Life to consider the ongoing robustness of the reinsurance arrangements and take any actions it considers appropriate.
- 8.2.72 As part of its capital management policy, Monument Life recognises the potential need to terminate the intra-group reinsurances and the consequences if such action were to be taken. As described in paragraph 6.6.1, Monument Life holds additional capital specifically in respect of its reinsurance exposure to Monument Re. This additional capital is intended to be sufficient to allow it to terminate the reinsurance with Monument Re and still be able to cover its MCR (before any management actions are taken) and the SCR (after certain management actions are taken). I have reviewed the capital management actions that Monument Life has identified and, in my opinion, they are reasonable. At present Monument Life holds additional capital of €5.4m.
- 8.2.73 In my opinion, the structure of the reinsurance arrangements, the monitoring of Monument Re's financial condition and the additional capital Monument Life holds against the risk of Monument Re defaulting on its obligations are appropriate ways for Monument Life to manage its reinsurance exposure to Monument Re. However, I must also consider the probability of Monument Re defaulting and the consequences on Monument Life and the Transferring Policyholders if Monument Re were to default. I discuss these below.

Probability of Monument Re defaulting

- 8.2.74 In my opinion, the probability of Monument Re defaulting on its obligations is very small. In the following paragraphs I explain how I have reached this conclusion.
- 8.2.75 The probability of Monument Re defaulting will depend upon:
- the adequacy of its regulatory capital requirement
 - its target capital levels in excess of its regulatory capital requirement.
- 8.2.76 Monument Re is subject to a different prudential regulatory regime from Rothesay and Monument Life. While it would be ideal to be able to say that the prudential regime for Monument Re results in Monument Re holding capital totally equivalent to that which it would hold under Solvency II, this is

not the case. However, each of Monument Re's, Rothesay's and Monument Life's internal capital targets mean that all three firms should be able to withstand similar levels of extreme events, but not necessarily the same extreme events, before being unable to meet their obligations. I am satisfied that this does not lead to a material adverse effect on the security of benefits for Transferring Policyholders.

- 8.2.77 Monument Re is regulated by the Bermuda Monetary Authority (BMA) and is subject to the Bermudian solvency regime. Although there are differences in the details, the Bermudian solvency regime has many similarities with Solvency II as it applies in the UK and Ireland, being based on an economic valuation of assets and liabilities, a risk-based capital requirement and the overall "three-pillars" structure (see paragraph 4.3.3). The EU has recognised the Bermudian solvency regime as "equivalent" to Solvency II, which means it is considered to provide a similar level of protection to policyholders when considered as a whole. It does not necessarily mean, however, that the Bermudian regime will result in the same regulatory capital requirement as Solvency II for a given portfolio of insurance business.
- 8.2.78 Monument Re's capital management and dividend policy is to target capital equal to 150% of its regulatory capital requirement.
- 8.2.79 In my opinion, the Bermudian regulatory capital requirement will not necessarily capture all risks to the same extent as the Solvency II SCR. For some risks, the Bermudian regime may lead to greater capital requirements and for others it may lead to lower capital requirements compared to Solvency II. In particular, the Bermudian regulatory capital requirement in respect of longevity and credit risk on the assets backing the reinsurance liabilities in respect of the Transferring Policies will be lower than the equivalent Solvency II Standard Formula calculation. This implies that Monument Re targeting 150% of its regulatory capital requirement may not be as strong as if the capital assessment were under the Solvency II regime.
- 8.2.80 However, Monument Re's capital management and dividend policy requires that consideration also be given to liquidity requirements. The outcome is that Monument Re holds significant additional capital. This is necessary as it needs to ensure that it can meet its obligations, including any requirements to add assets to the funds withheld account (see paragraph 7.6.3), under stressed conditions. This provides significant additional protection against adverse experience.
- 8.2.81 For example, modelling carried out by Monument Re at my request indicates that the combined credit and liquidity capital Monument Re expects to hold in respect of the Transferring Policies would be sufficient to withstand greater than 140% of the Solvency II Standard Formula credit stress given the current asset mix and greater than 160% of the Solvency II Standard Formula credit stress using the proposed longer term asset mix. I am therefore content that an appropriate level of capital, broadly comparable to the amount that might be held if Monument Re were subject to Solvency II regulations, will be held against asset risks.
- 8.2.82 Furthermore, overall, I am satisfied that the combined effect of the Bermudian regulatory capital requirement and Monument Re's capital and dividend policy is such that there is a very low probability of Monument Re defaulting on its obligations to Monument Life.
- 8.2.83 Additionally, Monument Re currently has a facility to obtain additional capital from its shareholders if it fails to meet its capital targets, reducing the probability of default even further.

Consequences of Monument Re defaulting

- 8.2.84 As set out above, I consider the risk of Monument Re defaulting on its obligations is very low. Nevertheless, in this section I consider the impact on Monument Life and its policyholders if a default

were to occur. In the unlikely event that Monument Re were to default, Monument Life has some protection from the impact. As a result of this protection and Monument Life's approach to managing the risks, in my opinion, the potential default of Monument Re does not present a material risk to the benefits payable to Transferring Policyholders.

- 8.2.85 The protection is provided by the structure of the reinsurance arrangements, which as described above, results in assets approximating to the BEL of the reinsured liabilities being held in an account, the funds withheld account. In a default situation, Monument Life would be able to claim a termination payment from Monument Re equal to 105% of the BEL (see paragraph 8.2.69). However, upon default, it is possible that Monument Re will not have sufficient assets to pay the termination payment and so any excess of the termination payment over the value of assets in the funds withheld account cannot be relied upon.
- 8.2.86 If the reinsurance is terminated, Monument Life's total BEL remains unchanged but its Risk Margin (part of the Technical Provisions) and SCR will increase. Monument Life's capital management policy is intended to provide sufficient capital for Monument Life to be able to meet the increase in Technical Provisions and its MCR (which is lower than the SCR, see paragraph 4.3.16) immediately following termination of the reinsurance. Monument Life has identified a number of management actions it could then take over a period of time in order to meet its SCR. This means that, while Monument Life would be subject to additional scrutiny from the CBI until it restores its balance sheet, it would expect to pay policyholder benefits in full.
- 8.2.87 However, Monument Life's assessment of the capital it requires to meet its MCR following termination of the reinsurance assumes that there is no deficit in the funds withheld account at the time of a Monument Re default and that Monument Life is holding capital of 150% of its SCR before the assessment is carried out.
- 8.2.88 In reality, the circumstances giving rise to a default by Monument Re may also affect Monument Life's available capital. Furthermore, it is possible that, at the time of default, the value of assets in the funds withheld account may be lower than the BEL of the reinsured risks. Combined, this means that Monument Life may not be able to meet its MCR following termination of the reinsurance or its SCR following the implementation of management actions and I must consider the implications of this.
- 8.2.89 The funds withheld account is rebalanced quarterly. As discussed in paragraphs 8.2.80 and 8.2.81 Monument Re holds significant capital against potential liquidity calls and is therefore expected to be able to meet any increased requirements to post assets to the funds withheld account under both normal and extreme circumstances. Taking these factors into account alongside the monitoring carried out by Monument Life, I consider that in all reasonably foreseeable circumstances there should be no significant shortfall to the BEL in the funds withheld account at the time of default.
- 8.2.90 Whether or not, and the extent to which, Monument Life's own capital is eroded at the time of a Monument Re default depends upon the circumstances of the default.
- 8.2.91 As long as Monument Life is able to cover its Technical Provisions following the termination of the reinsurance, even if it is unable to take action to improve the balance sheet once the reinsurance is terminated, it should be able to transfer its business to another insurance company. This is the aim of the Solvency II regime, where the Technical Provisions are intended to be the amount required to transfer the liabilities to a third-party. This would secure policyholder benefits in full.
- 8.2.92 If Monument Life is unable to cover its Technical Provisions benefits for all of its policyholders would need to be reduced such that Monument Life would then have sufficient assets to be able to transfer

the reduced benefits to a third party. I must emphasise that for this situation to arise, the series of events would need to be very extreme.

8.2.93 To illustrate the potential extent of any shortfall against Technical Provisions and therefore the potential shortfall in policyholder benefits, I have considered a hypothetical but extreme example where all of Monument Life's capital has been eroded. I assume:

- Immediately before a default by Monument Re:
 - Monument Life holds no capital in excess of its net of reinsurance Technical Provisions
 - the funds withheld account is equal to the BEL on the reinsured liabilities.
- Upon Monument Re defaulting (assumed to be by it failing to pay a requirement to increase the funds withheld account by €1m within the agreed timeframe) Monument Life terminates the reinsurance agreements with Monument Re.
- This leads to an increase in Monument Life's Risk Margin as Monument Life takes the previously-reinsured risks back onto its balance sheet.
- Monument Re does not have assets to meet the termination payment, so Monument Life has only the assets in the funds withheld account available to meet the BEL on the reinsured liabilities.

8.2.94 In this example, to be able to cover its Technical Provisions and potentially transfer the business to another insurer following termination of the reinsurance, Monument Life needs capital of €1m (the shortfall in the funds withheld account) plus the increase in the Risk Margin but it has none.

8.2.95 Based on calculations as at 30 June 2019 carried out by Monument Life, I estimate that in this example, there would be a 2% shortfall against the Technical Provisions, suggesting that policyholder benefits may need to be reduced by approximately 2%. I consider this to be a small impact in a very extreme and remote scenario. The Transferring Policyholders might also experience a similar outcome if Monument Life retained the full risk from outset or if the proposed transfer does not go ahead and Rothesay experiences similarly extreme adverse events. I note that in such circumstances, the Transferring Policyholders may be entitled to compensation under any applicable industry compensation scheme such that they would still receive their full benefits. However, I place no reliance on this possibility for the purposes of my assessment. Applicable industry compensation schemes are discussed further in sub-section 8.5.

8.2.96 For the reasons set out above, in my opinion, a Monument Re default is very unlikely to occur and, if it were to happen, the impact on the Transferring Policyholders is likely to be small. Taking this, and the considerations set out in paragraph 3.4.2 into account, I conclude that Monument Life's exposure to Monument Re does not lead to a material adverse effect on security of benefits for Transferring Policyholders.

Bermuda loss of Solvency II equivalence

8.2.97 For completeness, I have considered the potential impact of the Bermudian solvency regime losing its Solvency II equivalence status for firms like Monument Re. While I consider this very unlikely, if it were to happen, Monument Life would not be able to fully recognise its reinsurance with Monument Re on its Solvency II balance sheet. However, while this would impact Monument Life's reported solvency position, it would not affect its ability to pay policyholder benefits; the Bermudian solvency regime losing Solvency II equivalence does not affect Monument Re's ability to meet its obligations to Monument Life. I therefore conclude that the Bermudian solvency regime losing its Solvency II equivalence will not have a material adverse effect on the security of benefits for Transferring Policyholders.

8.3 Reasonable expectations and consumer protection of Transferring Policyholders

Summary

8.3.1 The Transferring Policies are non-profit annuities and therefore, in my opinion, Transferring Policyholders' reasonable expectations in respect of their policies 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.

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

8.3.3 I have investigated these factors by looking separately at benefit expectations, policy administration and servicing, management and governance, and consumer protection.

Benefit expectations

8.3.4 I am satisfied that the Scheme will have no material adverse effect on the reasonable benefit expectations of Transferring Policyholders.

8.3.5 I have formed this opinion taking into account that:

- the majority of benefits are contractually defined and are not discretionary
- where discretion is applied:
 - as required under the terms of the BTA, 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 Monument Life's methodology will be subject to Monument Life's internal governance, and its requirement to meet the CBI's 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 Policyholder benefits are taxed in the hands of the policyholder.

Policy administration and servicing

8.3.6 In my opinion, the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders.

8.3.7 I have 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
- the chosen administrator is 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.

8.3.8 As at the date of my Report, the migration plan is being implemented. The migration plan contains activities that have completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Transfer Date. While this is not an uncommon position in a transfer of insurance business such as this, it is important that the migration is completed successfully to ensure that the Transferring Policies can be administered appropriately following the proposed transfer. The Scheme should not proceed until the Companies are confident that the migration will be successful. This is recognised by the Companies and the Scheme will only proceed when they are both satisfied that the migration can be completed successfully.

8.3.9 At the date of my Report, work on the migration is progressing to plan and I have no reason to believe that the activities will not be completed successfully.

8.3.10 I have asked the Companies to keep me informed of progress against the migration plan and I will provide an update in my Supplementary Report.

Management and governance

8.3.11 In my opinion, the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

8.3.12 I have 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.

8.3.13 In line with its commercial strategy, Monument Life's business is increasing and it expects to undertake a number of transactions, including the proposed transfer under the Scheme, over the course of 2020. These include Project Carp (see paragraphs 6.3.30 - 6.3.31) and Project Trinity (see paragraph 6.3.32), which are expected to complete before the Transfer Date and Project Diane (see paragraphs 6.3.28 - 6.3.29), which is expected to complete after the Transfer Date. There is one other possible transaction of which I am aware that may also complete after the Transfer Date. In anticipation of these transactions, Monument Life has recruited additional staff to provide appropriate capacity.

8.3.14 I have asked Monument Life to keep me informed of staff levels and potential transactions and I will consider carefully whether any developments after the date of my Report change my opinion. I will comment further on this in my Supplementary Report.

Consumer protection

8.3.15 I am satisfied that the Scheme will have no material adverse effect on Transferring Policyholders with respect to consumer protection and the ability to escalate complaints to an independent body.

8.3.16 I have 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 FCA's conduct regulations
- 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 FSPO in Ireland.

8.3.17 I explain my reasoning for each of the opinions given in paragraphs 8.3.4 to 8.3.15 above by discussing each aspect in more detail below.

Benefit expectations

Guaranteed benefits

8.3.18 No changes will be made to the terms and conditions of any of the Transferring Policies as a result of the Scheme. Guaranteed benefit amounts and payment dates will be unchanged.

Discretionary changes to benefits

8.3.19 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 income in return for a lump sum payment. This option is only available to holders of deferred annuities, of which there were 19 as at 30 June 2019. Holders of deferred annuities may also ask to move their policy to a different pension provider (a "transfer out") or to take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively.

8.3.20 The factors to be used in these calculations and the actuarial bases underlying them are currently set at the discretion of Rothesay, but are intended to be "cost neutral". This is set out in the policy terms and conditions. Rothesay has interpreted cost neutral to mean that it should not profit from the benefit changes. The factors and underlying bases are not guaranteed and will change, for example, as interest rates change or as Rothesay's best estimate longevity assumptions change. Transferring Policyholders will, therefore, not have any expectation as to the factors that should be used in the calculation other than that they should be cost neutral.

8.3.21 Monument Life has agreed under the BTA that the calculation methodology will not differ in any material respect from that used by Rothesay prior to the transfer, except as may be required to comply with applicable law. Monument Life will, like Rothesay, aim to set a basis that is cost neutral. However, this does not preclude changes to the assumptions within the calculation methodology that influence the amount of benefit that will be paid, such as those reflecting the future life expectancy of the policyholders or market conditions.

8.3.22 There is some judgement required as to how these factors are set and subsequently updated. It is therefore possible that Rothesay and Monument Life would exercise that judgement differently. If the

Scheme is implemented, changes in the Monument Life calculation bases could lead to differences (either higher or lower) in the commuted value of benefits or in the early/late retirement annuity amounts compared with the benefits that would have been received if the Transferring Policies had remained with Rothesay.

- 8.3.23 However, both companies are bound by regulatory requirements to treat customers fairly (see sub-section 4.4).
- 8.3.24 I have discussed with Monument Life the approach it will take to implement the required calculations and update them in future taking into account the need to treat customers fairly and meet the policy terms and conditions that the benefit changes should be cost neutral. The general approach is that Monument Life will:
- adopt Rothesay's methodology but use its own best estimate assumptions
 - provide a six-month transition period following the Transfer Date during which calculations will be carried out using both the Rothesay assumptions and the Monument Life assumptions, and then use whichever is the more generous to the Transferring Policyholder
 - rely on the Audit Committee and Board sign-off of future changes to other best estimate assumptions to ensure the assumptions remain appropriate.
- 8.3.25 In the following paragraphs, I consider the basis that Monument Life will use for each of the discretionary benefits: lump sum cash, transfer out, early retirement and late retirement.
- 8.3.26 I asked Monument Life to provide me with sample calculations of lump sum cash commutation factors at different policyholder age and sex combinations. These show that the impact of moving to Monument Life's proposed basis is expected to be beneficial for Transferring Policyholders. This beneficial impact arises primarily from Monument Life using different investment return assumptions for discounting the value of benefit payments. In particular:
- Monument Life will use Euro-based risk-free interest rates together with a positive adjustment equal to the Solvency II Euro volatility adjustment to reflect the expected return on assets in excess of the risk-free rate.
 - Rothesay uses sterling-based risk-free interest rates together with a positive adjustment based on its own estimates to reflect the expected return on assets in excess of the risk-free rate.
- 8.3.27 The beneficial impact arises because, as at the date the calculations were performed, 31 December 2019, Euro interest rates were lower than sterling interest rates and the volatility adjustment was relatively small compared to Rothesay's own interest rate adjustment. Using lower interest rates places a higher cash value on the annuity exchanged for the lump sum.
- 8.3.28 I understand that Rothesay uses sterling-based interest rates for the lump sum cash calculations for practical purposes given most of its business is denominated in sterling but use of Euro-based interest rates is appropriate as the Euro is the currency for all benefits payable on the Transferring Policies.
- 8.3.29 Monument Life also intends to use its own best estimate mortality assumptions as at the calculation date in the calculations. Based on Monument Life's current best estimate mortality assumptions relative to those of Rothesay, the impact of this is a small positive effect for most of the deferred Transferring Policyholders but a small negative effect for others. I consider this reasonable given the degree of judgement exercised in setting the assumptions. It is also small in comparison to the positive impact derived from Monument Life's intended change to the investment return assumptions and the combined impact is currently beneficial for all deferred Transferring Policyholders.

- 8.3.30 It should be noted that the expected beneficial impact of Monument Life's intended basis may not persist as it depends upon the relative levels of Euro- and sterling-based long-term interest rates and of the Euro volatility adjustment compared to Rothesay's own adjustment to reflect its expected return on assets. I also requested sensitivities based on market conditions at different dates from 1 January 2018 and these indicate that the lump sum cash values would have been materially higher using Monument Life's intended basis at any time since 1 January 2018. I cannot foresee how the relative levels of Euro and sterling long-term interest rates will move in the future or how the Euro volatility adjustment will move compared to Rothesay's own adjustment. However, a significant movement (in excess of 1% per annum) in the relative level of Euro and sterling long-term interest rates from the position as at 31 December 2019 would be required to eliminate the positive impact from Monument Life's intended approach. Although, as at the date of my Report, the difference between Euro and sterling long-term interest rates has reduced compared to the difference at 31 December 2019, the impact of moving to Monument Life's proposed basis would still be beneficial to relevant Transferring Policyholders. Furthermore, Monument Life's approach is consistent with the policy terms and conditions that a cost neutral approach should be taken and, in my opinion, it is fair to the Transferring Policyholders.
- 8.3.31 Both Rothesay and Monument Life will regularly review other assumptions underlying their commutation bases and may make changes over time to reflect changing views. Any changes made by either Rothesay or Monument Life may alter the impacts on benefits discussed above. However, if the Scheme is implemented, I have no reason to believe that Monument Life will apply assumptions in the future that systematically advantage or disadvantage policyholders relative to those that will be applied by Rothesay if the proposed transfer does not proceed. I place reliance on Monument Life's governance arrangements to ensure the basis remains appropriate post-Scheme.
- 8.3.32 Rothesay currently uses Euro-based interest rates in its calculations of transfer out and early retirement benefit values and, therefore, these benefits will not be impacted by the intended change in the currency of interest rates used for lump sum cash calculations discussed above. However, they will still be impacted by the intended change to use the volatility adjustment to reflect the expected return on assets in excess of the risk-free rate.
- 8.3.33 Transfer out and early retirement benefit values take into account the value of any spouse's benefit. For operational reasons, Rothesay currently includes a proportion of the spouse's benefit in all cases based on the average proportion of policyholders who are married, rather than using the actual marital status of the policyholder. Monument Life considered changing the approach to take into account the marital status of the policyholder. As mentioned in paragraph 8.3.24, Monument Life will use its own best estimate assumptions, which differ from Rothesay's. Coupled with changes to the assumed best-estimate mortality bases used for these calculations, the proposed change to how spouse's benefits would be calculated would have led to what I consider to be potentially significant reductions in the transfer value benefits for unmarried policyholders. I asked Monument Life to reconsider the approach and it has agreed to treat all policyholders as married in transfer value and early retirement calculations. Monument Life has provided me with some sample calculations on this basis across a range of policyholder age and sex combinations. These show that the Monument Life approach is now expected to result in higher transfer value or early retirement benefits compared to those that would currently be paid to Transferring Policyholders by Rothesay.
- 8.3.34 Rothesay's current approach for late retirement benefits is to apply a percentage increase to the original benefit amount for each year that retirement is delayed. Monument Life intends to adopt the same approach and will initially use the same annual percentage increase as Rothesay. This means that there will be no immediate change in the level of late retirement benefits paid post-Scheme. Monument Life

will review the rate of increase used for late retirement benefit calculations from time to time to ensure it remains in line with the principle of cost-neutrality. Any changes would be subject to review by the Monument Life Audit Committee and approval of the Monument Life Board.

- 8.3.35 Overall I consider Monument Life's approach to determining discretionary benefits to be fair to the Transferring Policyholders and I am satisfied that there will be no material adverse effect on the benefit expectations of Transferring Policyholders.

Policyholder taxation

- 8.3.36 Any changes to tax payable by Transferring Policyholders as a result of the Scheme could affect their benefit expectations net of tax. Rothesay has obtained advice from its third-party tax advisor that the Scheme will not change the way in which Transferring Policyholder benefits are taxed in the hands of the policyholder on the basis that:

- the majority of Transferring Policyholders are resident in Ireland, their benefits are already being taxed through the Irish tax system and this will continue if the Scheme is implemented
- for the three holders of Transferring Policies who currently do not reside in the Republic of Ireland (two in the UK and one in Australia) benefits are paid gross of tax, the policyholder is responsible for paying tax locally and this will continue if the Scheme is implemented.

- 8.3.37 The amount of tax payable by policyholders depends upon their personal circumstances and the amount of benefit paid. Where Monument Life determines discretionary benefits for holders of deferred policies that differ from those that might have been calculated by Rothesay, the amount of tax payable by those policyholders will reflect the level of benefit in excess of any amount that might be received by the policyholder tax-free in accordance with the appropriate legislation. This is a consequence of the discretionary practice discussed in paragraphs 8.3.19 to 8.3.35 rather than a tax impact of the Scheme.

- 8.3.38 For the reasons set out in paragraph 1.6.11, I consider it unnecessary to seek additional independent advice in assessing the tax impacts of the Scheme on the Transferring Policyholders.

- 8.3.39 Monument Life has assured me that it will liaise with the Irish Revenue as part of its migration planning (discussed further in paragraphs 8.3.40 to 8.3.43 below) to ensure Transferring Policyholders do not suffer unintended tax consequences. I will provide an update on this in my Supplementary Report.

Administration and servicing

Migration

- 8.3.40 If the Scheme is implemented, Monument Life will be responsible for the administration of the Transferring Policies from the Transfer Date. Monument Life has chosen to outsource the administration of the Transferring Policies to Equiniti.

- 8.3.41 Both Rothesay and Monument Life have experience in carrying out transfers of insurance liabilities, as acquiring such liabilities is a core part of the business model for both companies. Equiniti also has substantial experience in carrying out migrations of administration on behalf of other clients.

- 8.3.42 The Companies, working with their respective administration partners, have jointly developed a plan for the migration of the administration, which includes arrangements for the transfer of data, mapping and loading of data onto Equiniti's systems, parallel running and other testing. I have reviewed this plan and I consider it to be appropriate to facilitate a controlled migration of the administration.

- 8.3.43 As at the date of my Report, work on the migration is being implemented. The migration plan contains activities that have completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Transfer Date. While this is not an uncommon position in a transfer of insurance business such as this, it is important that the migration is completed successfully to ensure that the Transferring Policies can be administered appropriately following the proposed transfer.
- 8.3.44 The Companies will review progress regularly and the migration plan includes formal governance checkpoints both before the Sanction Hearing and between the Sanction Hearing and the Transfer Date. If the Companies consider at either of these checkpoints that the migration cannot be completed successfully then the Scheme will not proceed until the Companies are confident that the migration can be completed successfully. In particular, the Companies will not implement the Scheme on the Transfer Date unless they are confident that payments due on the Transferring Policies will be paid on time.
- 8.3.45 As at the date of my Report, work on the migration is progressing to plan and I have no reason to believe that the migration will not be completed successfully.
- 8.3.46 However, I do recognise that the potential consequences of the Covid-19 pandemic pose a risk to the migration if personnel involved in the migration are unavailable or unable to work. The Companies and their administration partners have implemented their business continuity plans with the intention of maintaining operations and service levels. At this stage, it is too early for me to assess whether or not the Covid-19 pandemic will have a detrimental impact on the migration.
- 8.3.47 I have asked the Companies to keep me informed of progress against the migration plan and I will provide an update in my Supplementary Report.
- Standards of service*
- 8.3.48 Under the BTA, Monument Life is required to use reasonable endeavours to ensure that the standard of service provided to Transferring Policyholders is at least as good as the standard provided by Rothesay in the twelve months prior to the transfer and at least as good as the standard provided to its other policyholders.
- 8.3.49 Equiniti is an established provider of outsourced administration services including annuity administration. Equiniti has administered Monument Life's fixed-term annuity business since April 2019. Monument Life monitors Equiniti's performance against agreed service standards through a monthly oversight report. I have seen the monthly oversight reports for the period April 2019 to November 2019 and they show that Equiniti has generally met or exceeded the target service levels in respect of customer service standards, with no regulatory breaches to report. There is one monthly exception in respect of death processing in October 2019 in which 11 out of 14 cases (79%) were completed in the planned timeframe relative to a target of 80%. Given the small number of cases, I note that the service standard target would have been exceeded if just one of the three delayed cases had been completed on time. Overall, I am satisfied that this does not raise concerns over Equiniti's ability to perform annuity processing to the required standard.
- 8.3.50 I have also discussed Equiniti's market standing with colleagues within BW who are experts in pensions administration. They have raised no concerns over Monument Life's choice of service provider and consider Equiniti to have a good market reputation with sound administration platforms. This gives me additional comfort that Equiniti has the ability to perform annuity processing to the required standard.
- 8.3.51 In most respects, the agreement between Monument Life and Equiniti for the administration of the Transferring Policies has been designed to ensure that they will be administered in the same way as

they are currently being administered by JLT on behalf of Rothesay. However, Monument Life and Rothesay have assessed the proposed administration model against the current approach and have identified certain differences. Other than the obvious differences relating to branding of communications and contact details, the main differences that will affect policyholders are as follows:

- Rothesay offers its policyholders online access to policy information such as payslips and P60s (although with effect from the start of 2019, the Irish Revenue only allows Irish taxpayers to access their P60s from the Irish Revenue website). This facility will not be offered to Transferring Policyholders by Monument Life following the transfer, which represents a reduction in the service offering to customers. I asked Rothesay for more information about the current online offering and the extent of usage by customers. Rothesay have confirmed that the online offering is relatively limited, providing only information and no transactional functionality. It was accessed by only 30 of the Transferring Policyholders in the year to October 2019. In view of the limited online capability currently being offered and its low usage, I do not consider that the loss of this capability constitutes a material adverse effect.
- Equiniti's Service Level Agreement (SLA) for processing relating to deaths is to complete processing within five business days of notification, whereas the corresponding JLT SLA is two business days. The impact of this is that it will take slightly longer for annuity payments to be stopped, the condolence pack to be issued, any payment due on death to be made and any applicable dependant's benefits to be set up. I challenged Monument Life on why an SLA of five days is acceptable. It informed me that five days is considered a market standard for death processing, that Equiniti applies this standard to its other clients and that Equiniti has not received complaints in relation to these processing times. It also informed me that the processing time is generally a small part of the overall time taken to resolve death cases, with longer delays generally arising from the delay in initial notification to the insurance company and the time taken to provide appropriate documentation. I accept these points, which are broadly consistent with my views and those of my colleagues within BW who are experts in pensions administration.
- Documents sent to policyholders by post will arrive one day later due to these being issued from Equiniti's office in the UK rather than from an office in Ireland.
- There are some areas where the differences in SLAs are beneficial to policyholders. Equiniti has a stronger SLA for the time taken to answer helpline calls and certain other policyholder requests.

8.3.52 At present, eight of the Transferring Policyholders receive payments from Rothesay that include the annuity payment due from Rothesay together with annuity amounts that are paid to the relevant policyholder by two third party insurance companies via Rothesay. These arrangements were put in place before Rothesay acquired the Transferring Policies and allow the eight affected policyholders to receive a single annuity payment from multiple sources. Rothesay simply collects the relevant annuity payments from the third party insurers and passes them on to the relevant policyholders. Rothesay has no liability in respect of the third party insurer annuity payments. Rothesay is currently liaising with the two third party insurers to determine if they would like to continue this administrative arrangement post implementation of the Scheme, with the process and interactions with the third party insurers transferring from Rothesay to Monument Life. It is unclear at the time of writing whether or not the arrangement will continue if the Scheme is implemented. If it does continue, the eight affected policyholders will see no change. If it does not continue, it means that policyholders will receive multiple payments rather than a single payment. The overall amount received by affected policyholders will not change. I will provide an update in my Supplementary Report.

8.3.53 Overall, I am satisfied that the changes discussed in paragraph 8.3.51 and the potential change discussed in paragraph 8.3.52 do not constitute a material adverse effect on Transferring Policyholders.

Management and governance

- 8.3.54 The governance structures of Rothesay and Monument Life are broadly comparable (see sub-sections 5.4 and 6.4). In particular, both of the Companies' Boards contain a mixture of executives, non-executives and independent non-executives, helping to ensure they are balanced and able to provide appropriate oversight and challenge. Both companies are subject to the governance requirements of Solvency II and those imposed by their respective regulators. The specific local UK and Irish regulatory requirements on governance are summarised in sub-section 4.5. In my opinion, having considered the requirements of both governance regimes, they are likely to lead to broadly similar outcomes.
- 8.3.55 Monument Life is planning to undertake a number of transactions in 2020. I have challenged Monument Life to provide information demonstrating that it has the capacity to undertake these transactions without a detrimental impact on policyholders. Putting this another way, I need to be confident that Monument Life has sufficient personnel to undertake all of the planned transactions and still exercise an appropriate level of governance in respect of the Transferring Policies and its business in general.
- 8.3.56 Monument Life has identified the staffing levels it considers necessary to manage its business appropriately taking into account known intended transactions and the desire to build capacity for possible future transactions and it has shared its resource plans with me. The resource plans have been subject to rigorous internal challenge and sign off within Monument Life. It is difficult for me to be certain that the proposed staffing levels are appropriate, as this would require me to possess significant detailed knowledge of the Monument Life business and operations that I do not have. However, I consider the proposed staffing levels reasonable taking into account the level of outsourcing used by Monument Life and my knowledge of the insurance industry.
- 8.3.57 Monument Life has recently strengthened a number of internal functions with the recruitment of additional personnel in accordance with its plan. In particular, it has appointed experienced personnel in the roles of Outsourcing Manager (having responsibility for the oversight of Monument Life's outsourced relationships) and Operations Manager (having responsibility for the efficient running of internal systems and processes) that are key roles in Monument Life's organisational design.
- 8.3.58 At the time of writing, taking into account the timetable of planned transactions, I consider that Monument Life has made adequate progress to date against its recruitment plan. However, I will need to understand the staffing position closer to the date of the Sanction Hearing before I can be satisfied that there will be no detrimental impact on Transferring Policyholders.
- 8.3.59 I will provide an update on this in my Supplementary Report.

Consumer protection

- 8.3.60 Since Rothesay currently administers the Transferring Policies in Ireland under EU freedom of services arrangements, it is currently required to comply with the Irish conduct of business requirements in respect of these policies. However, the Transferring Policies are also protected by Rothesay being required to comply with UK conduct of business requirements in respect of its business more generally. If the Scheme is implemented, the Transferring Policyholders who reside outside of the UK will no longer have the protection offered by the UK conduct regulations but they will remain protected by the Irish regulations. If the Scheme is implemented, the Transferring Policyholders who reside in the UK, of which there are two as at the date of my Report, will be protected by the Irish conduct regulations and, so long as Monument Life remains authorised in the UK, will also remain protected by the UK regulations.

- 8.3.61 The regulations covering conduct of business and consumer protection with regards to dispute resolution are similar between the UK and Ireland to the extent they are relevant for the Transferring Policies.
- 8.3.62 Both the FCA in the UK and the CBI in Ireland have introduced rules that require insurance companies to take account of customers in the actions they take. In particular, both the CBI's CPC and the FCA's principles for business require firms to consider customers' interests and to treat customers fairly. In my opinion, having considered the requirements of both conduct of business regimes (as summarised in sub-section 4.4 and compared in sub-section 4.7), the requirements in the UK and Ireland are comparable, with the Irish regulations offering a similar level of protection to the Transferring Policyholders. I conclude that the loss of the protection given by the UK conduct regulation is not a cause for concern and does not materially disadvantage the Transferring Policyholders.
- 8.3.63 The FCA and CBI have both set rules that the firms they supervise must follow when dealing with complaints from policyholders. These rules are set out in DISP for the FCA and the CPC for the CBI (see paragraphs 4.4.8 and 4.4.11 respectively). Rothesay currently adheres to both the FCA and CBI rules in respect of the Transferring Policies. Following the transfer, Monument Life is obliged to apply the CBI rules on complaints handling and dispute resolution. As explained in paragraph 7.5.6, Monument Life has agreed, in respect of the liabilities that will transfer to it under the Scheme, that it will also comply with the relevant UK regulations set out in DISP, to the extent that the provisions of DISP applied to the Transferring Policies prior to the Transfer Date.
- 8.3.64 If a complaint is not dealt with to the satisfaction of the policyholder, holders of Transferring Policies are currently entitled to refer complaints against Rothesay to the FOS in the UK or to the FSPO in Ireland (see paragraphs 4.6.7 and 4.6.8). Following the transfer, holders of Transferring Policies will, in respect of the liabilities that transfer to Monument Life, have referral rights to the FSPO in Ireland. By virtue of Monument Life's agreement to comply with the relevant provisions of DISP in relation to Transferring Policies, to the extent these provisions applied prior to the Transfer Date, holders of Transferring Policies who make a complaint to Monument Life will also, amongst other things, be informed of the existence of the FOS. Additionally, where the FOS makes a decision in relation to liabilities that are transferred to Monument Life, such agreement will mean that Monument Life will also comply with that decision, although there is no guarantee in a given situation that the FOS will agree to adjudicate.
- 8.3.65 I consider that this position results in no detriment to Transferring Policyholders because:
- Monument Life will comply with the CBI's complaints handling and resolution requirements as set out in the CPC
 - Monument Life will also comply with the FCA's complaints handling and resolution requirements set out in DISP in respect of the liabilities that will transfer to it under the Scheme, to the extent that the DISP requirements applied prior to the Transfer Date
 - the level of policyholder protection provided by the FSPO and the FOS is similar
 - the maximum amount of compensation that the FSPO can award is higher than the maximum that applies to the FOS
 - the FSPO can award compensation in the form of an annuity, which the FOS cannot.

Following implementation of the Scheme, the holders of Transferring Policies would therefore, in respect of the liabilities transferring to Monument Life, remain protected by both the UK and Irish regulations concerning complaints handling and resolution and have access to the ombudsman service that provides the stronger protections.

8.4 Communication of the Scheme

8.4.1 Rothesay's plan for communicating with Transferring Policyholders is set out in sub-section 7.10.

8.4.2 I am satisfied that the proposed communications plan in respect of the Transferring Policyholders is appropriate. I have challenged Rothesay on a number of aspects of the strategy, including the appropriateness of the selected newspapers and the prominence of the newspaper advertisements and web pages and received satisfactory responses.

8.4.3 Having taken into account Rothesay's reasons for seeking dispensations from the regulatory requirements in respect of notifying certain Transferring Policyholders (as described in paragraph 7.10.13), I am satisfied that the planned dispensations, which are typical for transfers such as this, are appropriate. In particular:

- All holders of Transferring Policies, apart from the two for which Rothesay currently has no address, should be sent the Transferring Policyholder communication. Given the relatively small number of policies, the risk of accidental omissions is low, but in any case arrangements are in place to rectify any such omissions if they are discovered in advance of the Sanction Hearing.
- I am satisfied that Rothesay is taking all reasonable measures to trace holders of Transferring Policies for which it has no current address. These measures include using a detailed search, a family tree search and the highest level of search available, a premium trace, which takes a number of months and is expected to complete in April 2020.
- I am satisfied that it is reasonable for Rothesay not to seek to identify any contingent beneficiaries in advance of the transfer, other than those named as a joint policyholder on Rothesay's computerised records, since in most cases these individuals will be in contact with the holder of the Transferring Policy.
- I challenged Rothesay on what measures had been taken to check for pension sharing orders in respect of the deferred annuity policies. In my opinion, a former spouse entitled to share benefits under a pension sharing order is less likely to be in contact with the holder of the Transferring Policy compared to a contingent beneficiary such as a current spouse. Therefore, appropriate efforts should be made to identify pension sharing orders. I was informed that the paper records had been checked and there was no record of a pension sharing order having been applied to any of the Transferring Policies. I am satisfied that Rothesay has taken all reasonable measures to identify pension sharing orders.
- The Transferring Policyholder communications pack will be available on the Rothesay website for other interested parties, such as attorneys, assignees, trustees in bankruptcy, receivers and administrative receivers who are not recorded in Rothesay's computerised records. I am satisfied that it would be impractical and disproportionate for Rothesay to search through its manual records to identify any such cases.
- I consider that there is no value in writing to deceased policyholders where no benefits remain payable.

8.4.4 I have reviewed the booklet and letters that will be sent to Transferring Policyholders and I am satisfied that they adequately explain the Scheme and its impact on Transferring Policyholders. I am also satisfied that the documents clearly state where Transferring Policyholders can obtain additional information or raise objections to the Scheme. I challenged Rothesay on some aspects of the content of the letters

and booklet and Rothesay either made changes to reflect my feedback or provided justifications that I considered to be acceptable.

- 8.4.5 I asked Rothesay to confirm whether it was aware of any Transferring Policyholders that require communications in a different format (for example Braille, large print or other languages). Rothesay confirmed it was not aware of any Transferring Policyholders with such needs. Rothesay also confirmed that if, prior to the Sanction Hearing, it becomes aware of any Transferring Policyholders with such needs, it will make the communications available in the required format.

8.5 Impact of the UK leaving the EU

- 8.5.1 The UK left the EU on 31 January 2020. As at the date of my Report, the transition period known as the Implementation Period is expected to continue to 31 December 2020 (unless extended) and the longer-term relationship between the UK and the EU is not certain. A range of outcomes remains possible. These outcomes have different implications for Rothesay's ongoing ability to lawfully service the Transferring Policies, including the payment of benefits:

- If no long-term trading arrangement which preserves freedom of services for insurance business is reached, then Rothesay will lose its rights to carry out business in Ireland under freedom of services provisions following the end of the Implementation Period (or any further transitional period that may be granted through Irish legislation). Once any transitional period has expired, Rothesay would not lawfully be able to continue to service (and pay benefits on) the Transferring Policies if no action is taken.
- If a long-term trading arrangement is reached, then the situation is unclear and will depend upon the exact terms of the agreement. It is currently uncertain as to whether a separate long-term agreement will be reached and, if such an agreement were to be reached, when it would come into effect.

- 8.5.2 Although different outcomes are possible, there is clearly a material risk that Rothesay will not lawfully be able to pay benefits on the Transferring Policies if no action is taken. Removing this risk by way of the Scheme represents a benefit to Transferring Policyholders.

The Financial Services Compensation Scheme

- 8.5.3 The FSCS is a "fund of last resort" that compensates eligible customers in the event of the insolvency of a "Relevant Person". In this context, a Relevant Person is a financial services firm, including an insurer, authorised by the PRA or FCA. Eligible customers include private customers (i.e. those that are not businesses) holding policies written in the UK or another EEA country by a UK insurer. Rothesay's analysis shows that all holders of Transferring Policies are currently eligible customers.
- 8.5.4 For annuity contracts like the Transferring Policies, the FSCS will currently pay 100% of an eligible claim. This means that, if an insurer within the scope of the FSCS were to become insolvent, any annuity benefits payable to its policyholders who are eligible customers should be paid by the FSCS to the extent that the benefits cannot be paid from the assets of the insolvent insurer. There is no comparable compensation scheme for life insurance business, including annuity contracts, in Ireland.
- 8.5.5 If the Scheme does not go ahead, the holders of Transferring Policies will remain policyholders of Rothesay. As Rothesay is a Relevant Person for the purposes of the FSCS rules, in the very unlikely event that Rothesay were to become insolvent and unable to pay policyholder benefits, Rothesay's policyholders would be entitled to claim full compensation from the FSCS. The PRA and FCA set the rules and scope of FSCS protection. Information published by the PRA states that existing FSCS

protection for insurance policies issued prior to the end of the transition period (the Implementation Period) would be maintained as long as the insurer remains a Relevant Person. Therefore, as all Transferring Policies were issued prior to the end of the Implementation Period and Rothesay expects to remain a Relevant Person, if the Scheme is not implemented, holders of Transferring Policies will remain eligible for FSCS protection.

- 8.5.6 The Companies have each received legal advice as to whether, and in what circumstances, the Transferring Policyholders will remain protected by the FSCS following the implementation of the Scheme. That legal advice, which I have relied upon, but which is consistent with my own understanding of the relevant regulations, forms the basis of the following discussion.
- 8.5.7 If the Scheme is implemented, holders of Transferring Policies will become policyholders of Monument Life. Under the current FSCS rules, Transferring Policyholders will remain eligible for FSCS protection so long as Monument Life remains a Relevant Person at the time it becomes insolvent and unable to pay benefits.
- 8.5.8 I consider the expected continuation of FSCS protection for Transferring Policyholders following the proposed transfer by considering separately, the Implementation Period, the transitional period provided by the Temporary Permissions Regime and the period following the Temporary Permissions Regime.

Implementation Period

- 8.5.9 Monument Life was a Relevant Person for the purposes of the FSCS rules while the UK was a member of the EU and, under the terms of the Withdrawal Agreement between the UK and the EU, it will continue to be a Relevant Person during the Implementation Period. This means that, if the Scheme goes ahead and if Monument Life becomes insolvent and unable to pay benefits before the end of the Implementation Period, Monument Life's policyholders who are eligible to claim under the FSCS (including the Transferring Policyholders after the Transfer Date) will be protected by the FSCS.

Temporary Permissions Regime transitional period

- 8.5.10 Monument Life has applied to enter the UK's Temporary Permissions Regime following the end of the Implementation Period. Monument Life will remain a Relevant Person for the duration of the transitional period provided under the Temporary Permissions Regime, which is expected to be up to three years from 31 December 2020 or until the date it exits the Temporary Permissions Regime, if earlier. This means that, if the Scheme goes ahead and Monument Life becomes insolvent and unable to pay benefits before the end of the Temporary Permissions Regime transitional period or earlier date of exit from the Temporary Permissions Regime, Monument Life's policyholders who are eligible to claim under the FSCS (including the Transferring Policyholders after the Transfer Date) will be protected by the FSCS.

Following the Temporary Permissions Regime transitional period

- 8.5.11 Monument Life has indicated to me that it intends to submit an application to allow it to establish a third country branch in the UK within the transitional period covered by the Temporary Permissions Regime. If such a third country branch were established, Monument Life would remain a Relevant Person.
- 8.5.12 This means that, if the Scheme goes ahead, Monument Life establishes a third country branch in the UK and becomes insolvent and unable to pay benefits after the third country branch has been established, Monument Life's policyholders who are eligible to claim under the FSCS (including the Transferring Policyholders) will be protected by the FSCS.

- 8.5.13 If Monument Life is not successful in establishing a third country branch, it will fall within the Financial Services Contracts Regime, as described in paragraph 4.8.9, and will be a Relevant Person for as long as it continues to do so. Monument Life's policyholders who are eligible to claim under the FSCS (including the Transferring Policyholders after the Transfer Date) would continue to benefit from FSCS cover while Monument Life is within the Financial Services Contracts Regime. The Financial Services Contracts Regime is currently expected to apply to an insurance firm in these circumstances for 15 years from the end of the Implementation Period if the firm does not enter the Temporary Permissions Regime or for 15 years from the date on which the firm leaves the Temporary Permissions Regime without UK authorisation for a third country branch. The regulations allow the duration of the Financial Services Contracts Regime to be extended if HM Treasury considers it necessary. After the expiry of the Financial Services Contracts Regime period, the Monument Life policyholders eligible for FSCS protection (including the Transferring Policyholders after the Transfer Date) would lose that protection unless Monument Life has successfully established a third country branch in the UK.
- 8.5.14 In summary, absent of any changes to the current FSCS rules, the Transferring Policyholders are expected to remain protected under the FSCS. However, while this is certain over the duration of the Implementation Period and the Temporary Permissions Regime and Financial Services Contracts Regime transitional periods, it is not certain longer-term. Longer-term protection is contingent on Monument Life making a successful application to establish a third country branch in the UK. If Monument Life is not successful in establishing a third country branch, the Transferring Policyholders would lose FSCS protection following the expiry of the Financial Services Contracts Regime transitional period.
- 8.5.15 Continuing FSCS protection for the Transferring Policyholders is also contingent on there being no changes to the current FSCS rules that impact the above analysis. Any such changes to the rules cannot be foreseen.
- 8.5.16 I have to consider the possible, but not expected, loss of the FSCS protection in the context of the Scheme.
- 8.5.17 The FSCS protection covers policyholders in an insolvency event. I am satisfied that, post-Scheme, the probability of Monument Life becoming insolvent is small. In particular:
- Monument Life is required to comply with Solvency II solvency requirements. These are intended to ensure that Monument Life holds sufficient capital to withstand losses with a 99.5% probability over a one-year time period. This can also be thought of as holding sufficient capital to withstand an adverse event that is expected to occur only once in every 200 years.
 - Monument Life's capital management policy means that it aims to hold capital in excess of the Solvency II regulatory minimum. The additional capital held means that Monument Life should be able to withstand adverse experience that is more remote than a 1 in 200 year event.
 - Monument Life is part of the Monument Re Group of companies. The Monument Re Group is currently financially strong and is backed by a number of shareholders including three significant financial services companies (see paragraph 6.2.4). While it cannot be guaranteed, I consider it probable that, in the unlikely event that Monument Life does get into financial difficulty, Monument Re or 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. In particular, the Monument Re Group can currently call on approximately €80m of additional capital by way of its shareholders and a loan facility.
- 8.5.18 For these reasons, in my opinion, the likelihood of insolvency is very remote and, therefore, I consider that the possible loss of FSCS protection is of low value to the Transferring Policyholders.

- 8.5.19 The primary purpose of the Scheme is to ensure the continued servicing (payment of benefits) of the Transferring Policies after Brexit regardless of the outcome of the negotiations concerning the longer-term trading relationship between the UK and the EU. As discussed in paragraphs 8.5.1 and 8.5.2, although Brexit negotiations are ongoing, there is a significant risk that Rothesay will not lawfully be able to continue to pay Transferring Policyholders indefinitely unless it takes action. In my opinion, having certainty with regards to servicing over the longer term is important.
- 8.5.20 The Scheme is the chosen method for ensuring Transferring Policyholder benefits can lawfully be paid over the medium to longer term regardless of the outcome of the negotiations concerning the longer-term trading relationship between the UK and the EU. Given the Scheme may result in the eligible Transferring Policyholders losing FSCS protection after the Financial Services Contract Regime transitional period, I asked Rothesay to explain its approach compared to alternatives that might have been considered.
- 8.5.21 Rothesay explained that:
- it considered branch or subsidiary structures but that these were not progressed as such structures do not fit in with Rothesay's operating model and the establishment of such structures would not be proportionate
 - the small number of Transferring Policies meant that the Transferring Policies were unlikely to be attractive to an insurer outside of Ireland, noting that some other EEA countries do have "fund of last resort" schemes similar to the FSCS for annuities
 - it makes sense from an operational and customer experience perspective for the Irish policies to be administered by an Irish firm in terms of common language, understanding of the policy terms and benefit structures, understanding of conduct regulations, understanding of Irish law (under which the majority of the Transferring Policies are written) and liaison with the local tax authority.
- 8.5.22 I am satisfied that Rothesay's chosen approach is reasonable.
- 8.5.23 Taking the above into account, my opinion is that the value lost by Transferring Policyholders from any possible loss of FSCS protection after the Financial Services Contracts Regime period is outweighed by the benefit of having certainty that their benefits can lawfully be paid by their insurer over the long term, regardless of the outcome of the negotiations concerning the UK leaving the EU. Taking these two things together, I therefore consider that there is no material adverse effect on Transferring Policyholders. I also consider the advantages associated with a transfer to an Irish insurer (as set out in the final bullet of paragraph 8.5.21) to be important. The possible loss of FSCS protection after the Financial Services Contracts Regime period is an unavoidable risk of transferring to an Irish insurer in circumstances where that Irish insurer's status under the FSCS rules after the Financial Service Contracts Regime period depends on it obtaining authorisation from the UK regulatory bodies at a later date and where that authorisation cannot be certain.
- 8.5.24 Although I place no reliance on it in forming my opinion, there is no certainty that the FSCS will remain in place in its current form or at all. Additionally, and again, I place no reliance on it in forming my opinion, the European Insurance and Occupational Pensions Authority (EIOPA) has issued a consultation calling for a harmonised approach to insurance guarantee schemes that might lead to the establishment of something similar to the UK FSCS for annuities in all EEA member countries.
- 8.5.25 Therefore, while I have appropriately considered that the possible loss of FSCS protection for the Transferring Policies (following the end of the Financial Services Contracts Regime period) could persist

over their run-off, there is a possibility that any possible loss will be reduced or removed at some time in the future.

9 Implications for Rothesay Non-Transferring Policyholders

9.1 Introduction

- 9.1.1 In this section, I focus on the impact of the Scheme on the Rothesay Non-Transferring Policyholders.
- 9.1.2 I am satisfied that the Scheme will have no material adverse effect on the Rothesay Non-Transferring Policyholders.
- 9.1.3 To arrive at my conclusion, I have considered the following:
- the impact of the Scheme on the security of the benefits of the Rothesay Non-Transferring Policyholders
 - the impact of the Scheme on the reasonable expectations of the Rothesay Non-Transferring Policyholders, including benefit expectations, service standards, management and governance
 - whether the proposed approach to communicating with the Rothesay Non-Transferring Policyholders in relation to the Scheme is fair.
- 9.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 9.2 to 9.4 below.
- 9.1.5 In most respects, the interests of all Rothesay Non-Transferring Policyholders are similar and so, mainly, I consider the Rothesay Non-Transferring Policyholders as a group. There are some specific considerations relating to benefit expectations that are relevant only to the holders of deferred annuity policies and I comment on these in paragraph 9.3.7 below.

Treatment of the Reinsurance Agreement

- 9.1.6 In the event that the Scheme is not implemented, the Reinsurance Agreement between Rothesay and Monument Re (see sub-section 7.4) could remain in-force or it could be terminated by Rothesay following the termination of the BTA. I do not explicitly consider the possible termination of the Reinsurance Agreement in the remainder of this section as, relative to the current position, termination of the Reinsurance Agreement has:
- no material impact on Rothesay's financial position (impact is less than a 1% change in SCR cover ratio)
 - no material impact on Rothesay's risk profile (the risks of the Transferring Policies are aligned with those of the Rothesay business in general and much smaller in magnitude)
 - no impact on how Rothesay's policies are administered.

9.2 Benefit security

Summary

- 9.2.1 I have investigated the security of Rothesay Non-Transferring Policyholders' benefits by comparing the sources of security and the profile of risks to which the Rothesay Non-Transferring Policyholders will be exposed pre- and post-Scheme.

9.2.2 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Rothesay Non-Transferring Policyholders.

9.2.3 I have formed this opinion taking into account that:

- there will be no changes to the way Rothesay calculates its regulatory solvency position as a result of the Scheme
- there will be no changes to Rothesay's capital management policy as a result of the Scheme
- the impact of the Scheme on Rothesay's solvency position is not material
- the impact of the Scheme on Rothesay's risk profile is not material
- there will be no change to Rothesay's liquidity policy as a result of the Scheme
- costs associated with the Scheme will be partly met by Rothesay and these costs will not be significant in relation to its financial resources.

9.2.4 I explain my reasoning by expanding upon these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

9.2.5 The Rothesay Non-Transferring Policyholders currently rely on the available resources of Rothesay for the security of their benefits. Those resources primarily comprise of the:

- assets backing the Technical Provisions and SCR of Rothesay (see sub-section 4.3)
- assets held by Rothesay in addition to its regulatory capital requirements.

9.2.6 As described in paragraph 8.2.7, the financial strength of Rothesay's reinsurance counterparties and the reinsurance collateral arrangements in place also contribute indirectly to the security of the benefits of Rothesay's policyholders, including the Rothesay Non-Transferring Policyholders.

9.2.7 Following the implementation of the Scheme, the Rothesay Non-Transferring Policyholders will continue to rely on the elements described above for security of their benefits, albeit that they will exclude:

- assets currently held in respect of the Transferring Policies
- Monument Re as a reinsurance counterparty.

9.2.8 The remaining assets (and, indirectly, the remaining reinsurance counterparties) will provide security for just the Rothesay Non-Transferring Policyholders.

Technical Provisions and SCR

9.2.9 Rothesay's approach to calculating its Technical Provisions and SCR is set out in sub-section 5.5. Rothesay's approach does not depend on the outcome of the Scheme.

9.2.10 In particular, the Scheme will not require any changes to Rothesay's PIM and will not affect its eligibility to apply the MA. The Transferring Policies are eligible for the TMTP adjustment as they were written before the start of the Solvency II regime. The Scheme will not affect the ability of Rothesay to apply this adjustment to Technical Provisions for the rest of its eligible business after the transfer. A recalculation of the adjustment is not required as a result of the Scheme, but the impact of any recalculation purely to reflect the Scheme would, in any case, be small.

Capital management policy

- 9.2.11 Rothesay's capital management policy is described in sub-section 5.6. No changes will be made to Rothesay's capital management policy as a result of the Scheme.

Comparison of solvency position

- 9.2.12 Table 9.1 compares the regulatory solvency position of Rothesay immediately before the transfer and immediately after the transfer (on a pro-forma basis), assuming that the transfer took place on 30 June 2019.
- 9.2.13 This shows that Rothesay's solvency position is expected to improve slightly as a result of the transfer, primarily as a result of eliminating the counterparty risk capital and associated Risk Margin currently held in respect of the reinsurance to Monument Re.

Table 9.1: Impact on Rothesay's pro-forma regulatory solvency position as at 30 June 2019

	Rothesay pre-transfer £m	Rothesay post-transfer £m	Impact of Scheme £m
Solvency II net assets	37,584	37,583	(1)
Technical Provisions (net of reinsurance)	33,519	33,514	5
Own Funds (A)	4,066	4,070	4
Solvency Capital Requirement (B)	2,310	2,304	(6)
Excess capital (=A-B)	1,756	1,766	10
SCR cover ratio (%) (=A/B)	176.0%	176.7%	0.6%

Source: Report of the Chief Actuary of Rothesay on the Scheme

- 9.2.14 Based on the position at 30 June 2019, Rothesay would continue to have capital in excess of the level required by its capital management policy immediately post-Scheme, providing a high level of benefit security to its policyholders.
- 9.2.15 Since 30 June 2019, Rothesay has raised additional capital and has written a significant amount of new business. This does not affect my conclusions on the Scheme; the impact of the Scheme on Rothesay's financial position will still be very small.
- 9.2.16 If the Scheme is not implemented, Rothesay will most likely incur additional costs associated with pursuing an alternative to the Scheme. All other things being equal, this will reduce Rothesay's SCR cover ratio.
- 9.2.17 In my Supplementary Report, I will consider the impact of the Scheme on Rothesay's financial position as at 31 December 2019.

Risk profile

- 9.2.18 Rothesay has already transferred longevity and market (asset) risks arising from the Transferring Policies to Monument Re under the Reinsurance Agreement. If the Scheme is implemented, there will be a

further small reduction in risk for Rothesay arising from the transfer of expense and operational risks to Monument Life and the elimination of the counterparty risk exposure to Monument Re arising from the Reinsurance Agreement itself.

Liquidity

- 9.2.19 No changes will be made to Rothesay's liquidity policy as a result of the Scheme. Given that the Transferring Policies represent a very small proportion of the Rothesay business, implementation of the Scheme will have no material effect on Rothesay's ability to meet policyholder benefit payments as they fall due.

9.3 Reasonable expectations and consumer protection of Rothesay Non-Transferring Policyholders

Summary

- 9.3.1 As described in sub-section 5.3, all of Rothesay's policies are non-profit annuities, longevity swaps or inwards reinsurance. In my opinion, Rothesay Non-Transferring Policyholders' reasonable expectations in respect of their policies 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 policies
 - the standards of service received are at least as good as those they currently receive.
- 9.3.2 There will be no changes in consumer protection for Rothesay Non-Transferring Policyholders and, therefore, I do not comment on consumer protection further in this section.
- 9.3.3 I have investigated each of the factors set out in paragraph 9.3.1 and I am satisfied that implementation of the Scheme will have no material adverse effect on the reasonable expectations of the Rothesay Non-Transferring Policyholders.
- 9.3.4 I have formed this opinion taking into account that there will be no changes, as a result of the Scheme, to:
- any policy terms and conditions
 - the way benefit amounts are calculated and paid
 - administration, service standards, management or governance.
- 9.3.5 I explain my reasoning for this opinion in paragraphs 9.3.6 to 9.3.8 below.

Benefit expectations

- 9.3.6 No changes will be made to the terms and conditions of any of Rothesay's policies as a result of the Scheme. In particular, guaranteed benefit amounts and payment dates will be unchanged. Certain Rothesay Non-Transferring Policies have collateral or security arrangements in place. These arrangements will not be changed as a result of the Scheme.
- 9.3.7 In certain situations, Rothesay Non-Transferring Policyholders may choose to forgo some or all of their annuity income in return for a lump sum payment. Holders of deferred annuities may also request to

move their policy to another pension provider or to take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively. No changes are proposed to the bases Rothesay uses to calculate the amounts payable in these cases as a result of the Scheme.

Administration, servicing, management and governance

9.3.8 The implementation of the Scheme will not lead to any changes to:

- administration and servicing arrangements for Rothesay Non-Transferring Policies
- the management and governance of Rothesay Non-Transferring Policies.

9.4 Communication of the Scheme

9.4.1 Rothesay's plan for communicating with Rothesay Non-Transferring Policyholders is set out in sub-section 7.10.

9.4.2 I support the intended approach of seeking dispensation from the Court to waive the requirement to notify the Rothesay Non-Transferring Policyholders directly.

9.4.3 I have formed this opinion by taking into account:

- my conclusions from the preceding sub-sections that the Scheme will have no material adverse effect on the Rothesay Non-Transferring Policyholders
- my agreement with Rothesay's assessment, as set out in paragraph 7.10.12, that the cost of writing to Rothesay Non-Transferring Policyholders would be disproportionate to any benefit they might gain from the communication and that the notices on the Rothesay website and national newspapers are a reasonable and proportionate way of notifying these policyholders.

9.4.4 Rothesay Non-Transferring Policyholders may still become aware of the Scheme through newspaper advertisements and Rothesay's website and they will have an opportunity to raise concerns or object to the transfer if they feel they are adversely affected. The newspaper advertisements and the information that will be presented on the Rothesay website make clear that policyholders have this right and explains how to go about raising concerns or objections.

10 Implications for Monument Existing Policyholders

10.1 Introduction

- 10.1.1 In this section, I focus on the impact of the Scheme on the Monument Existing Policyholders.
- 10.1.2 I am satisfied that the Scheme will have no material adverse effect on the Monument Existing Policyholders.
- 10.1.3 To arrive at my conclusion, I have considered the following:
- the impact of the Scheme on the security of the benefits of the Monument Existing Policyholders
 - the impact of the Scheme on the reasonable expectations of the Monument Existing Policyholders, including benefit expectations, service standards, management and governance
 - whether the proposed approach to communicating with Monument Existing Policyholders in relation to the Scheme is fair.
- 10.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 10.2 to 10.4 below.
- 10.1.5 In most respects, the interests of all Monument Existing Policyholders are similar and so, mainly, I consider the Monument Existing Policyholders as a group. There are some aspects of benefit expectations that are specific to particular products and I comment on these in paragraphs 10.3.13 to 10.3.26 below.

Treatment of the Reinsurance Agreement

- 10.1.6 In the event that the Scheme is not implemented, the Reinsurance Agreement between Rothesay and Monument Re (see sub-section 7.4) could remain in-force or it could be terminated by Rothesay following termination of the BTA.
- 10.1.7 Monument Life is not a party to the Reinsurance Agreement. Therefore, whether or not the Reinsurance Agreement is terminated if the Scheme is not implemented has no impact on my analysis.

10.2 Benefit Security

Summary

- 10.2.1 I have investigated the security of Monument Existing Policyholders' benefits by comparing the sources of security and the profile of risks to which the Monument Existing Policyholders will be exposed pre- and post-Scheme.
- 10.2.2 I am satisfied that the implementation of the Scheme will have no material adverse effect on the security of benefits provided to the Monument Existing Policyholders.
- 10.2.3 I have formed this opinion taking into account that:
- there will be no changes to the approach to calculating the Technical Provisions in respect of Monument Existing Policies as a result of the Scheme
 - the intended approach for calculating the Technical Provisions on the Transferring Policies is reasonable

- the risks associated with the Transferring Policies will be appropriately captured by Monument Life's SCR such that the protection provided by the SCR should not be materially different before and after the Scheme
- there will be no changes to Monument Life's capital management policy as a direct result of the Scheme
- while the Scheme results in a decrease in Monument Life's SCR cover, the SCR cover ratio remains strong and is significantly greater than Monument Life's target
- Monument Life's exposure to longevity risk will increase and the weighting of risks overall will change post-Scheme but much of the risk associated with the Transferring Policies will be reinsured to Monument Re
- although the Scheme will increase Monument Life's exposure to Monument Re, the additional risk to Monument Existing Policyholders in terms of security of benefits is not material
- the Monument Life liquidity policy is appropriate for managing its liquidity risk and the Scheme will lead to no changes to the liquidity portfolios in respect of Monument Life's existing business or the way those portfolios are managed
- costs associated with the Scheme will be partly met by Monument Life and these costs will not be significant in relation to its financial resources.

10.2.4 I explain my reasoning by expanding on these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

10.2.5 The Monument Existing Policyholders currently achieve security for their benefits primarily from the:

- assets backing the Technical Provisions and SCR of Monument Life (see sub-section 4.3)
- assets held by Monument Life in addition to its regulatory capital requirements.

10.2.6 As described in paragraph 8.2.9, the financial strength of Monument Life's reinsurance counterparties and the reinsurance security arrangements in place also contribute indirectly to the security of the benefits of the Monument Existing Policyholders.

10.2.7 Following the implementation of the Scheme, the security of the benefits of the Monument Existing Policyholders will continue to be provided by the elements discussed above, albeit that they will include assets held in respect of the Transferring Policies and greater exposure to Monument Re as a reinsurance counterparty. Following implementation of the Scheme, these elements will provide security for both Monument Existing Policyholders and Transferring Policyholders.

Technical Provisions and SCR

10.2.8 Monument Life's approach to calculating its Technical Provisions and SCR is set out in sub-section 6.5. Monument Life's approach for the Monument Existing Policies does not depend on the outcome of the Scheme.

10.2.9 The Scheme introduces a new type of policy into the Monument Life portfolio. I have reviewed the methodology and assumptions that will be used to calculate the BEL on the Transferring Policies. In my opinion, these are reasonable and produce what can be considered a best estimate of the liability in respect of the Transferring Policies.

10.2.10 The SCR in respect of the Transferring Policies will be calculated using the Solvency II Standard Formula. As discussed in paragraph 8.2.19, I am satisfied that the use of the Standard Formula is appropriate for the Transferring Policies.

10.2.11 The resulting overall Technical Provisions and SCR will therefore lead to a similar level of benefit security both before and after the transfer, with the SCR intended to be sufficient to cover any losses that might arise over a one-year time period with a probability of 99.5%.

Capital management policy

10.2.12 Monument Life's capital management policy is described in sub-section 6.6. No changes will be made to Monument Life's capital management policy as a direct result of the Scheme.

Comparison of solvency position

10.2.13 Table 10.1 below compares the regulatory solvency position of Monument Life immediately before the Scheme and immediately after the Scheme (on a pro-forma basis), assuming that the Scheme was effective on 30 June 2019. The pre-transfer position shown allows for:

- the acquisition of Inora Life which has now happened (see paragraph 6.3.28)
- the residual element of Project Carp, the majority of which has happened and the remainder is expected in advance of the Transfer Date (see paragraph 6.3.31)
- Project Trinity, which is expected to be completed in advance of the Transfer Date (see paragraph 6.3.32).

10.2.14 In the analysis, I assume that Project Trinity completes, even though it might not happen, as it will reduce Monument Life's SCR cover ratio. Therefore, Table 10.1 shows a more cautious position with regards to the resulting SCR cover ratio compared to if Project Trinity was excluded. The post-transfer position also allows for the Amended Reinsurance Agreement (see sub-section 7.6).

10.2.15 The impact of the VA is not included for the reasons set out in paragraph 6.5.5.

Table 10.1: Impact on Monument Life's pro-forma regulatory solvency position as at 30 June 2019

	Monument Life pre-transfer €m	Monument Life post-transfer €m	Impact of Scheme €m
Solvency II net assets	99.8	116.9	17.1
Technical Provisions (net of reinsurance)	66.9	83.0	16.1
Own funds (A)	33.0	33.9	1.0
Solvency Capital Requirement (B)	14.0	15.4	1.4
Excess capital (A-B)	19.0	18.6	-0.4
SCR cover ratio (A/B)	235.9%	220.8%	-15.0%

Source: Monument Life Actuarial Function analysis

10.2.16 Table 10.1 shows that Monument Life's solvency cover is expected to reduce as a result of the transfer. This is explained as follows:

- Own Funds increase by €1.0m, due to the difference between:
 - the net amount Monument Life will receive from Monument Re when the Reinsurance Agreement is replaced by the Amended Reinsurance Agreement (primarily due to the reduction in the reinsured proportion from 100% to 90%); and
 - the Technical Provisions held in respect of Monument Life's 10% retained share of the liabilities on the Transferring Policies.
- The SCR increases by €1.4m due to the increased risk now retained within Monument Life as a result of its 10% retained share of the liabilities in respect of the Transferring Policies.
- The increase in the SCR more than offsets the increase in own funds, leading to a decrease in the SCR cover ratio.

10.2.17 The SCR cover ratio immediately post-Scheme is still significantly in excess of Monument Life's capital management policy target, which is effectively between 140% and 150%. For the reasons discussed in paragraph 8.2.26, I place limited reliance on capital in excess of target levels as this may be distributed to the shareholder or used to support the acquisition of additional business such that the cover ratio may be reduced in future.

10.2.18 In my Supplementary Report, I will consider the impact of the Scheme on Monument Life's financial position as at 31 December 2019.

Risk profile

10.2.19 If the Scheme is implemented, then Monument Life's risk profile will change. In particular:

- Monument Life is not currently exposed to any material longevity risk (the risk of policyholders living longer than expected). The Transferring Policies will significantly increase Monument Life's exposure to longevity risk.

- The Transferring Policies will also increase Monument Life's exposure to other risks it is already exposed to such as market risks and operational risks.

- 10.2.20 The risks arising from the Transferring Policies will result in Monument Life having a more diverse profile of retained risks. This will be reflected in the capital requirements of Monument Life. I am satisfied that the use of the Standard Formula is appropriate for the Transferring Policies (see paragraph 8.2.19) and consequently that those capital requirements will offer a similar level of protection to that if the Scheme is not implemented.
- 10.2.21 The additional risks arising from the Transferring Policies will be managed within Monument Life's risk management framework (see sub-section 6.7). The primary mechanism for managing the longevity risk is the reinsurance that will be in place with Monument Re post-Scheme. Under the expected terms of the Amended Reinsurance Agreement, Monument Life will retain only 10% of the longevity risk associated with the Transferring Policies. The retained longevity risk accounts for a relatively modest proportion of less than 10% of Monument Life's overall risk as measured by its SCR.
- 10.2.22 The impact of the other additional risks to Monument Life will also be mitigated by the Amended Reinsurance Agreement with Monument Re, under which 90% of most risks will be borne by Monument Re.
- 10.2.23 In summary, I am satisfied that the additional risks to which Monument Life will be exposed if the Scheme is implemented will not lead to a material adverse effect on Monument Existing Policyholders.

Monument Life's exposure to Monument Re

- 10.2.24 Monument Life and, therefore, the Monument Existing Policyholders are currently exposed to the risk of Monument Re defaulting on its obligations under reinsurance arrangements in place. This risk is managed by Monument Life as described in paragraphs 8.2.66 to 8.2.72.
- 10.2.25 If the Scheme goes ahead, the Transferring Policies will continue to be reinsured to Monument Re, but with the cedent changing from Rothesay to Monument Life. This will increase Monument Life's exposure to Monument Re. There will be no changes to the way the exposure is managed by Monument Life.
- 10.2.26 Monument Re will hold appropriate levels of capital against its liabilities in respect of the Transferring Policies (see paragraphs 8.2.77 to 8.2.82). Given this, and the fact that Monument Re already carries the risk on the Transferring Policies, in my opinion, the proposed transfer will not materially affect the probability of Monument Re defaulting on its obligations to Monument Life. As discussed in paragraphs 8.2.74 to 8.2.83, I consider the probability of a default by Monument Re to be very low.
- 10.2.27 If the Scheme goes ahead, Monument Life will continue to hold capital under its capital management policy with the intention of being able, following a default by Monument Re and subsequent termination of the reinsurance agreements, to meet its MCR immediately and its SCR after taking certain management actions. This is unchanged.
- 10.2.28 As discussed in paragraphs 8.2.88 to 8.2.92, there are potential circumstances in which Monument Life's capital management policy may not provide sufficient capital for Monument Life to cover its MCR in the event of a Monument Re default and subsequent termination of the reinsurance. These are extreme circumstances.
- 10.2.29 As long as Monument Life is able to cover its Technical Provisions following a default by Monument Re and termination of the reinsurance, even if it is unable to take action to improve the balance sheet once

the reinsurance is terminated, it should be able to transfer its business to another insurance company. This is the aim of the Solvency II regime, where the Technical Provisions are intended to be the amount required to transfer the liabilities to a third-party. This would secure policyholder benefits in full.

- 10.2.30 If Monument Life is unable to cover its Technical Provisions following a default by Monument Re and termination of the reinsurance, policyholder benefits for all of its policyholders would need to be reduced such that Monument Life would have sufficient assets to be able to transfer the reduced benefits to a third party. While such a situation could occur regardless of whether or not the Scheme goes ahead, the potential impact on the Monument Existing Policyholders is slightly larger post the proposed transfer. However, in my opinion, the potential impact is small.
- 10.2.31 In paragraphs 8.2.93 to 8.2.95, I gave a hypothetical and extreme example which suggested, in the circumstances of the example, policyholder benefits might be reduced by approximately 2% following a default by Monument Re and termination of the reinsurance arrangements. In the same circumstances, if the Scheme did not go ahead, the result is a reduction in policyholder benefits of approximately 1.6%. Therefore, implementation of the Scheme would result in a very slightly lower benefit (0.4%) being paid to Monument Existing Policyholders in this extreme example.
- 10.2.32 I conclude, taking into account the very low probability of Monument Re defaulting, the very small potential impact on Monument Existing Policyholders if Monument Re were to default and the considerations on materiality set out in paragraph 3.4.2 that, if the Scheme goes ahead, the increase in exposure to Monument Re has no material adverse effect on the Monument Existing Policyholders.

Liquidity

- 10.2.33 I have reviewed Monument Life's liquidity policy and consider it appropriate to give me necessary assurance that the Scheme will have no material adverse effect on Monument Life's ability to meet its liabilities to policyholders as they fall due.
- 10.2.34 As discussed in paragraph 8.2.53, Monument Life manages its investments in line with the Prudent Person Principle (see paragraph 4.3.27) by holding separate portfolios of assets to back different blocks of business. After implementation of the Scheme, the assets backing the Transferring Policies will be in a separate portfolio.
- 10.2.35 There will be no changes to the existing portfolios or the way liquidity risk on those existing portfolios is managed as a result of the Scheme. Therefore, there should be no impact on Monument Existing Policyholders.

10.3 Reasonable expectations and consumer protection of Monument Existing Policyholders

Summary

- 10.3.1 As set out in sub-section 6.3, Monument Life's existing business comprises:
- term assurances
 - guaranteed savings contracts with possible discretionary bonus
 - fixed term annuities
 - unit-linked savings contracts

- variable (unit-linked) annuities
- income protection
- group protection.

10.3.2 If the consolidation transactions set out in paragraphs 6.3.32 take place as planned, Monument Life will also have short-term accident, sickness and unemployment cover policies by the Transfer Date.

10.3.3 The precise nature of policyholders' reasonable expectations varies by product type, but in general, in my opinion, Monument Existing Policyholders' reasonable expectations are that:

- to the extent that benefits are guaranteed, 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.

10.3.4 There will be no changes in consumer protection for Monument Existing Policyholders and, therefore, I do not comment on consumer protection further in this section.

10.3.5 I have investigated each of the factors set out in paragraph 10.3.3 and I am satisfied that the implementation of the Scheme will have no material adverse effect on the reasonable expectations of Monument Existing Policyholders.

10.3.6 I have formed this opinion taking into account that there will be no changes, as a result of the Scheme, 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 Monument Existing Policies
- the management and governance of Monument Existing Policies.

10.3.7 I explain my reasoning for this opinion in paragraphs 10.3.8 to 10.3.29 below.

Benefit expectations

10.3.8 No changes will be made to the terms and conditions of any Monument Existing Policies as a result of the Scheme. A small number of Monument Existing Policies have collateral or security arrangements in place. These will also remain unchanged immediately following the Scheme.

10.3.9 The majority of benefits payable under existing Monument Life policies are defined at outset, either in monetary terms or by reference to an external data source that Monument Life has no influence over. The way these benefits are calculated or paid will not change as a result of the Scheme.

10.3.10 For some policies, Monument Life has discretion over the exact benefits or the level of charges applied to policies. It is appropriate for me to consider whether implementation of the Scheme may have a

material adverse effect on Monument Existing Policyholders through Monument Life's exercise of discretion.

10.3.11 Monument Life has informed me that it will make no changes to discretionary practices as a result of the Scheme. Any changes that may be made subsequently will need to comply with Monument Life's responsibility to treat customers fairly under the CBI's conduct regulation.

10.3.12 I separately consider the likely impact of the Scheme on discretionary benefits, discretionary charges and other areas where discretion can be applied.

Discretionary benefits for the Monument Life Belgian "First A" contracts

10.3.13 The Monument Life Belgian "First A" contracts are savings contracts. These have a guaranteed rate of return. There is also the possibility that additional bonus payments may be paid. Any bonus payment is purely at the discretion of Monument Life.

10.3.14 No bonuses have been declared since 2009 and Monument Life's projections indicate that bonuses are unlikely to be supportable in the future. Monument Life has informed me that:

- its assessment of whether a bonus should be paid on this business considers the investment return on the portfolio of assets used to back the Technical Provisions on the First A contracts relative to the guaranteed rates of return
- it will make no changes to the approach used to assess any bonus as a result of the Scheme.

10.3.15 I am satisfied that the Scheme will have no material adverse effect on the discretionary benefits of the First A policyholders.

10.3.16 I have formed this opinion taking into account that the Scheme will:

- have no direct impact on the Technical Provisions of the First A policies
- have no direct impact on the assets used to back the First A Technical Provisions (which Monument Life separately identifies)
- result in no change in the way discretion is applied.

Discretionary benefits for unit-linked and variable annuity contracts

10.3.17 Monument Life's unit-linked and variable annuity contracts were described in sub-section 6.3.

10.3.18 The benefits payable under unit-linked and variable annuity contracts are dependent upon the value of investments allocated to such contracts. There is some discretion in the methodologies and assumptions used to value those investments. No changes will be made to the discretionary methodologies and assumptions as a result of the Scheme.

10.3.19 No other existing Monument Life policies include discretionary benefits or discretionary approaches to determine benefit payments.

Discretionary charges

10.3.20 Monument Life has the ability to increase charges on its unit-linked contracts and the guarantee charges on its variable annuity contracts. It also has the ability to review the premium rates that will apply when policyholders exercise Guaranteed Insurability Options or options to increase the sum assured on certain term assurances. If Project Trinity completes as planned, Monument Life will also have some discretion to change the premium rates used for the PPI contracts. These products were described in sub-section 6.3.

10.3.21 Monument Life has informed me that there will be no changes to charges or premium rates upon implementation of the Scheme. Furthermore, Monument Life has informed me that the Scheme will have no impact on:

- the way Monument Life carries out charge and premium rate reviews
- governance of the charge and premium rate review processes.

10.3.22 Following implementation of the Scheme, Monument Life will review charges and premium rates in the normal course of business. Any proposed changes will follow Monument Life's internal governance procedures and will need to be justified taking into account Monument Life's need to treat customers fairly.

10.3.23 Taking the above into account, I am satisfied that the Scheme will have no material adverse effect on the charges and premium rates of the Monument Existing Policyholders.

Other areas of discretion

10.3.24 Monument Life has the ability to stop accepting future premiums on its variable annuity contracts if the guarantees that would attach to these premiums become prohibitively expensive. If Project Trinity completes as planned it will also be able to stop accepting renewal premiums on the PPI policies.

10.3.25 Monument Life has informed me that the Scheme will have no impact on the way Monument Life exercises its discretion in this area. I am therefore satisfied that the Scheme will have no material adverse effect on the expectations of variable annuity or potential future PPI policyholders in respect of future premiums.

10.3.26 Monument Life has discretion over the investment fund links it offers to unit-linked and variable annuity policyholders. Monument Life has informed me that there will be no changes to the investment options available to Monument Existing Policyholders as a result of the Scheme. I am therefore satisfied that the Scheme will have no material adverse effect on the expectations of unit-linked or variable annuity policyholders in respect of investment options.

Administration, servicing, management and governance

10.3.27 The implementation of the Scheme will not lead to any changes to:

- administration and servicing arrangements for Monument Existing Policies
- the management and governance of Monument Existing Policies.

10.3.28 Furthermore, the intention to outsource the administration of the Transferring Policies to Equiniti and the small number of Transferring Policies mean the Scheme should result in no material impact on:

- service levels on existing business lines
- management and governance oversight of existing business.

10.3.29 I am therefore satisfied that the Scheme will have no material adverse effect on the administration, service standards, management or governance of Monument Existing Policies.

10.4 Communication of the Scheme

10.4.1 The plan for communication of the Scheme is set out in sub-section 7.10. I support the intended approach of seeking dispensation from the Court to waive the requirement to notify the Monument Existing Policyholders directly.

10.4.2 I have formed this opinion by taking into account:

- my conclusions from the preceding sub-sections that the Scheme will have no material adverse effect on the Monument Existing Policyholders
- my agreement with Monument Life's assessment as set out in paragraph 7.10.16 that the notices on the Monument Re Group website and national newspapers are a reasonable and proportionate way of notifying these policyholders.

10.4.3 Monument Existing Policyholders may still become aware of the Scheme through newspaper advertisements and the Monument Re Group website and they will have an opportunity to raise concerns or object to the transfer if they feel they are adversely affected. The newspaper advertisements and the information that will be presented on the Monument Re Group website make clear that policyholders have this right and explains how to go about raising concerns or objections.

11 Impact of the Scheme on Monument Re

11.1 Introduction

- 11.1.1 This section focuses on the impact of the Scheme on Monument Re.
- 11.1.2 As noted in sub-section 7.4, the majority of the risk under the Transferring Policies is currently reinsured from Rothesay to Monument Re under the Reinsurance Agreement. If the Scheme is implemented, the Transferring Policies will be reinsured from Monument Life to Monument Re under the Amended Reinsurance Agreement. If the Scheme is not implemented then Rothesay has the option to terminate the Reinsurance Agreement and recapture the liabilities, having terminated the BTA.
- 11.1.3 Monument Re is therefore an important stakeholder in the transaction, not only as a parent of Monument Life but also as a reinsurer of the Transferring Policies.
- 11.1.4 SUP 18 of the FCA Handbook requires that my Report should include my opinion on the likely effects of the Scheme on any reinsurer whose contracts are to be transferred by the Scheme. Guidance contained within SUP 18 indicates that the level of detail that my Report should include depends on the complexity of the Scheme, the materiality of the Scheme to the reinsurer and the circumstances.
- 11.1.5 For the Scheme under consideration, Monument Re is a connected party that was willingly involved in agreeing to the terms of the BTA including the intention to transfer the Transferring Policies from Rothesay to Monument Life. Given this, and in view of the guidance in SUP 18, my analysis is limited to consideration of the high-level financial impact of the Scheme on Monument Re and changes in the relationship between Monument Re and the ceding insurance company.

11.2 Impact on financial position

- 11.2.1 Implementation of the Scheme will not have a material impact on Monument Re's financial position.
- 11.2.2 At present Monument Re is exposed to 100% of the longevity and asset risks on the Transferring Policies. If the Scheme is implemented, under the Amended Reinsurance Agreement, it will be directly exposed to 90% of the longevity, asset and expense risks on the Transferring Policies. However, Monument Re must consider its solvency position on a consolidated group basis; that is, it needs to consider the risks accepted by the group of companies as a whole including both its direct risks and those retained by Monument Life post-Scheme on the Transferring Policies.
- 11.2.3 Overall, Monument Re's consolidated solvency position will be broadly similar before and after the Scheme. Immediately following implementation of the Scheme, Monument Re will continue to have capital in excess of the level required by its capital management and dividend policy, providing a high level of benefit security to its reinsurance counterparties, including Monument Life.
- 11.2.4 If the Scheme is not implemented and Rothesay maintains the Reinsurance Agreement, Monument Re's current financial position is unchanged.
- 11.2.5 If the Scheme is not implemented and Rothesay terminates the Reinsurance Agreement, Monument Re will need to pass assets back to Rothesay but will no longer have liabilities in respect of the Transferring Policies and will no longer need to hold capital against the currently reinsured risks. Overall, this will not materially impact Monument Re's solvency position.

11.3 Relationship between Monument Life and Monument Re

- 11.3.1 Monument Life is a subsidiary company of Monument Re. As such, transfer of the Reinsurance Agreement from Rothesay to Monument Life, and the subsequent change to the Amended Reinsurance Agreement, should be beneficial to Monument Re in terms of efficient interaction with Monument Life and the sharing of information.

11.4 Conclusion

- 11.4.1 Monument Re is a willing party to the Scheme. If the Scheme is implemented, the financial impact on Monument Re will not be material and there should be some benefit from the close relationship between Monument Life and Monument Re.
- 11.4.2 Based on this, I conclude that the Scheme has no material adverse effect on Monument Re.

Appendix A Regulatory compliance cross reference

A.1 Overview

- A.1.1 The requirements in respect of my Report are set out in the PRA Statement of Policy, SUP 18.2, and the FCA Guidance.
- A.1.2 In the remainder of this Appendix, I have set out these requirements and provided a cross-reference to evidence how I have complied with these within my Report.

A.2 PRA Statement of Policy and SUP 18.2

Details of the requirement set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
2.30: The scheme report should comply with the applicable rules on expert evidence and contain the following information:	SUP 18.2.33G	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	SUP 18.2.33G (1)	Paragraph 1.2.2
(2) confirmation that the independent expert has been approved or nominated by the PRA;	SUP 18.2.33G (2)	Paragraph 1.2.3
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	SUP 18.2.33G (3)	Sub-section 1.3
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	SUP 18.2.33G (4)	Sub-section 1.3
(5) the scope of the report;	SUP 18.2.33G (5)	Sub-section 1.5
(6) the purpose of the scheme;	SUP 18.2.33G (6)	Sub-section 7.2
(7) a summary of the terms of the scheme in so far as they are relevant to the report;	SUP 18.2.33G (7)	Sub-section 7.5
(8) what documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	SUP 18.2.33G (8)	Sub-section 1.6 and Appendix C
(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	SUP 18.2.33G (9)	Sub-section 1.6

Details of the requirement set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	SUP 18.2.33G (10)	Sub-section 1.6
(11) Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee;	SUP 18.2.33G (11)	Sections 8, 9 and 10 respectively
(12) Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	SUP 18.2.33G (11A)	Section 11
(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme; and	SUP 18.2.33G (12)	Paragraph 1.5.5
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	SUP 18.2.33G (13)	Throughout my Report
2.31: The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	SUP 18.2.34G	List of who can place reliance on my Report in paragraph 1.7.1 Level of detail considered throughout.
2.32: The summary of the terms of the scheme should include:	SUP 18.2.35G	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	SUP 18.2.35G (1)	Sub-section 7.4
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	SUP 18.2.35G (2)	Sub-section 7.6 for transferred business Not applicable for remaining business

Details of the requirement set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
2.33: The independent expert's opinion of the likely effects of the scheme on policyholders should:	SUP 18.2.36G	
(1) include a comparison of the likely effects if it is or is not implemented;	SUP 18.2.36G (1)	Sections 8, 9 and 10
(2) state whether they considered alternative arrangements and, if so, what;	SUP 18.2.36G (2)	Paragraph 1.5.4 Paragraphs 8.5.20 to 8.5.23
(3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences they consider may be material to the policyholders; and	SUP 18.2.36G (3)	Sections 8, 9 and 10
(4) include their views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and (c) the cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	SUP 18.2.36G (4)	Sections 8, 9 and 10
2.34: The independent expert is not expected to comment on the likely effects on new policyholders, that is, (those whose contracts are entered into after the effective date of the transfer).	SUP 18.2.37G	Stated in paragraph 3.2.13

Details of the requirement set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
<p>2.35: For any mutual company involved in the scheme, the report should:</p> <ul style="list-style-type: none"> (1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without. 	SUP 18.2.38G	Not applicable for this Scheme
2.36: For a scheme involving long-term insurance business, the report should:	SUP 18.2.39G	
(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	SUP 18.2.39G (1)	Paragraphs 10.3.13 - 10.3.16
(2) if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	SUP 18.2.39G (2)	Not applicable for this Scheme
<p>(3) describe the likely effect of the scheme on the approach used to determine:</p> <ul style="list-style-type: none"> (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges; 	SUP 18.2.39G (3)	Paragraphs 8.3.19 - 8.3.35 Paragraph 9.3.7 Paragraphs 10.3.13 - 10.3.26
(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	SUP 18.2.39G (4)	Paragraphs 8.3.19 - 8.3.35 Paragraph 9.3.7 Paragraphs 10.3.13 - 10.3.26

Details of the requirement set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	SUP 18.2.39G (5)	Sub-sections 8.3, 9.3 and 10.3
(6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and	SUP 18.2.39G (6)	Sub-section 2.8
(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	SUP 18.2.39G (7)	Limited safeguards are required Examples are 8.3.21 and 8.3.48
2.37: Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run.	SUP 18.2.40G	Paragraphs 6.3.26 - 6.3.33 Paragraphs 8.3.54 - 8.3.59
2.38: A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless: <ul style="list-style-type: none"> (1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or (2) he is unable to report on this aspect in the time available. Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions against its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	SUP 18.2.41G	Not applicable for this Scheme

A.3 FCA Final Guidance

Details of the requirement	Reference in this Report
6.1: The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been sufficiently detailed analysis and challenge of the Applicants' position, to allow us to be satisfied that it would be appropriate for the Court to rely on the conclusions.	
6.2: We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. As such, we expect the report to be easily readable and understandable by all its users and for the IE to pay attention to the following:	
<ul style="list-style-type: none"> • Technical terms and acronyms should be defined on first use. 	Throughout, and Appendix E
<ul style="list-style-type: none"> • There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions. 	Section 2
<ul style="list-style-type: none"> • The business to be transferred should be described early in the report. 	Sub-section 2.2 and sub-section 7.7
<ul style="list-style-type: none"> • The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. 	Throughout my Report
<ul style="list-style-type: none"> • IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. 	Throughout my Report
6.3: We often find that IE reports lack detailed analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we often find that IE reports lack sufficient consideration and comparison of: <ul style="list-style-type: none"> • reasonable benefit expectations, including impact of charges • type and level of service, including claims handling • management, administration and governance arrangements 	Sections 8, 9 and 10
6.4: We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.	Analysis in sections 8, 9 and 10

Details of the requirement	Reference in this Report
<p>6.5: This Chapter sets out our expectations and gives some specific examples of the things we will consider when reviewing the IE's report. These include:</p> <ul style="list-style-type: none"> • the level of reliance on the Applicants' assessments and assertions • sufficient comparative regulatory framework analysis • balanced judgements and sufficient reasoning • sufficient regard to relevant considerations affecting Policyholders • commercially sensitive or confidential information • the level of reliance placed on the work of other experts • examples of over-reliance on the work of other experts • ambiguous language or a lack of clarity • demonstrating challenge • technical actuarial guidance 	
The level of reliance on the Applicants' assessments and assertions	
<p>6.6: IEs will sometimes rely on Applicants' assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of those assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a particular point.</p>	<p>Throughout my Report. For example, reference to request for additional analysis in paragraphs 8.2.81, 8.3.30, 8.3.51 and 8.5.20.</p>
<p>6.7: We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants' assertions without sufficient challenge or asking for supporting detail or evidence.</p>	<p>Analysis, predominantly in section 8. For example, see paragraphs 8.2.81, 8.3.32, 8.3.51, 8.4.2 - 8.4.4 and 8.5.20.</p>
<p>6.8: An example would be where conclusions are supported solely or largely by statements such as 'I have discussed with the firm's management and they tell me that...' followed by 'I have no reason to doubt what they have told me...'. In such cases we would challenge the IE on whether they have come to their own conclusions on the matters concerned. In these circumstances:</p>	
<ul style="list-style-type: none"> • Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the Scheme's impact, we would ask the IE to review relevant 	<p>Throughout my Report</p>

Details of the requirement	Reference in this Report
underlying material. We would not expect them to just rely on the Applicants' analysis of the material and subsequent assertions.	Examples include Monument Life exposure to Monument Re (starting at paragraph 8.2.63), Monument Life's proposed commutation basis (starting at paragraph 8.3.19) and Monument Life's resourcing (starting at paragraph 8.3.54).
<ul style="list-style-type: none"> • If there are concerns about matters that fall outside the IE's sphere of expertise, such as legal issues, we would expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we would expect the IE to ensure the Applicants had obtained appropriate advice from a suitably qualified independent subject matter expert. We give further information below about the IE obtaining and relying on their own independent advice (6.33 onwards). 	Sub-section 1.6
6.9: We would also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, we will expect the IE to:	
<ul style="list-style-type: none"> • review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate 	Paragraph 1.6.4
<ul style="list-style-type: none"> • challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete 	Included in correspondence with Rothesay and Monument Life
6.10: We would also expect the IE to challenge Applicants where the documents provided contain an insufficient level of detail or analysis. Specific examples would include: <ul style="list-style-type: none"> • Applicants' assertions that service levels will be maintained to at least the pre-transfer standard. In this case, we would expect the IE to include not only details of 	Sub-section 8.3

Details of the requirement	Reference in this Report
<p>the Applicant's plans and any gap analyses produced, but also include their view of their adequacy.</p> <ul style="list-style-type: none"> • Where there are concerns that a change in governance arrangements in the Transferee may lead to poorer customer outcomes. Applicants' analysis is often carried out at a high level. So it does not always include reviewing and comparing any of the Transferor's governance arrangements that produce good customer outcomes with the Transferee's governance arrangements. An example of these governance arrangements would be any committees with conduct responsibilities. • Consideration of the potential post-transfer strain on resources which could affect the service standards provided to the Transferee's existing customers and/or control over conduct of business risk. We would expect to see a review of relevant management information indicators and related contingency planning. 	
<p>Sufficient comparative regulatory framework analysis</p>	
<p>6.11: The regulatory framework may be different for the Transferor and Transferee. In these cases, we will want to see that the IE has carried out sufficient analysis of the differences including, where appropriate, taking independent advice.</p>	<p>Section 4 and paragraphs 8.3.60 - 8.3.65</p>
<p>6.12: In particular, with cross-border transfers we often see insufficiently detailed analysis of regulatory protections post-transfer. This can include:</p> <ul style="list-style-type: none"> • The extent to which existing regulatory requirements and protections continue. This includes whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme. Our expectation is that Applicants aim to preserve Financial Ombudsman Service, whether under the Compulsory or Voluntary jurisdictions, as far as it is possible to do to avoid any loss of protections. In the context of EU withdrawal we would expect this at least until the point of policy renewal. Some firms are able to continue to service contracts from UK branches to preserve continuity. • The comparative regulatory requirements and conduct protections across any relevant jurisdictions, compared to the UK. This includes but is not limited to complaints or compensation bodies. • Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential actions or provisions to mitigate this. • Post EU Withdrawal, non-UK EEA customers may be subject to the local conduct of business rules regime, which may not include FOS or FSCS issues. In these cases, we are likely to accept firms taking proportionate approaches to compare regimes. For example a high level analysis may be appropriate, selecting key UK protections for consumers that are not harmonized in the EEA, and that could be relevant to servicing contracts. This could be accompanied by an explanation that a full gap analysis has not been carried out, but that policyholders can contact the Applicants if they are concerned. Some firms are able to continue to service contracts from UK branches to preserve continuity of regime at least until renewal. 	<p>Section 4 and paragraphs 8.3.60 - 8.3.65 and 8.5.3 - 8.5.25</p>

Details of the requirement	Reference in this Report
6.13: In these instances, we would expect to see a statement describing the two regimes. We would also expect to see a considered comparison, highlighting points of significant difference that could adversely affect Policyholders. It is for the IE to use their judgement to decide on the level of detail to be included but it needs to be sufficient for the Court to be in a position to be satisfied.	Section 4 and paragraphs 8.3.60 - 8.3.63
6.14: The IE's analysis may be inconclusive or may highlight potential conduct risks due to differences in the regulatory framework. In such cases we expect to see sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	Sub-section 8.5
Balanced judgements and sufficient reasoning	
6.15: IEs will sometimes state that they are satisfied by referencing certain features of the Scheme, but will not adequately explain how those features have led to their satisfaction. In these circumstances we would expect to see both the evidence and the IE's reasoning that led to their conclusion.	Sections 8, 9 and 10
6.16: We have also seen many examples of Schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement, but lacks certainty. In these instances, we expect IEs to consider the following:	
<ul style="list-style-type: none"> Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree. 	Not applicable
<ul style="list-style-type: none"> We accept that it is not the IE's role to suggest a different Scheme, or propose changes to a Scheme. However, we believe that they should be able to challenge the Applicants so that IE's can gain the necessary level of confidence that their report's conclusions are robust. Applicants and IEs should be aware that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups. 	Paragraphs 8.5.20 - 8.5.22
6.17: When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	Paragraph C.1.3
6.18: Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we would expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See paragraphs 7.31-7.34 for further information on the Supplementary Report.	Paragraph 1.6.6 Will be covered in Supplementary Report.

Details of the requirement	Reference in this Report
Sufficient regard to relevant considerations affecting Policyholders	
<p>6.19: We would expect to see IE consideration of all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the:</p> <ul style="list-style-type: none"> • current and proposed future position of each Policyholder group • potential effects of the transfer on each of the different Policyholder groups • potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated. 	Sections 8, 9 and 10
<p>6.20: To support this, we would expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.</p>	Paragraphs 3.2.10 - 3.2.11
<p>6.21: We would also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we would expect the IE to include:</p> <ul style="list-style-type: none"> • Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we would expect to see a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations. • Also, we would not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process. 	Paragraphs 8.3.48 - 8.3.53
<p>6.22: IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:</p> <ul style="list-style-type: none"> • Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. • If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the Scheme as if the reinsurance was not in place. 	Sub-sections 8.1, 9.1, and 10.1
<p>6.23: The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we would want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.</p>	Not applicable

Details of the requirement	Reference in this Report
<p>6.24: When a loss is expected for a particular subgroup of Policyholders, we would expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.</p>	<p>Paragraphs 8.5.20 - 8.5.22</p>
<p>6.25: We would expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where:</p> <ul style="list-style-type: none"> • some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure • some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer 	<p>Paragraphs 8.5.20 - 8.5.22</p>
<p>6.26: When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.</p>	<p>Not applicable</p>
<p>6.27: As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer:</p> <ul style="list-style-type: none"> • The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee's capital position (meeting relevant requirements), and the short term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we would not be satisfied with this view without further evidence. For example, some evidence and analysis of why the size and complexity of a particular firm may make a default, before the time that policyholders have to claim on policies, extremely unlikely. 	<p>Sub-section 8.5</p>
<p>6.28: In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially negatively affect a group of Policyholders.</p>	<p>Sections 8, 9 and 10</p>
<p>Commercially sensitive or confidential information</p>	
<p>6.29: Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, particularly as this information will not be publicly available. Examples include:</p> <ul style="list-style-type: none"> • where 'whistle-blower' information relevant to the Scheme is received and forwarded to the IE • where we are aware of enforcement action in progress with one of the Applicants 	<p>Paragraphs: 1.6.5, 5.5.11 and 6.5.6 (ORSA or Pillar 2 calculations) 5.5.6 (MA and TMTP impacts at 30 June 2019)</p>

Details of the requirement	Reference in this Report
	5.5.11 (Pillar 2 Solvency calculations) 8.2.41 (SCR projections)
6.30: In these situations we expect to see the analysis and the information relied upon. It is also possible that the Court may wish to see that information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure.	Appendix C I do not consider it necessary to provide a separate document
The level of reliance on the work of other experts	
6.31: For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we would still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	Sub-section 1.6
6.32: We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	Paragraphs 1.6.9 - 1.6.10
6.33: The IE may refer to factors that are outside their sphere of expertise and relies on advice received by the Applicants. In these cases, the IE should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice and we discuss our expectations in further detail below.	Paragraphs 1.6.9 - 1.6.11
6.34: We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.36 below for a non-exhaustive list of factors which the IE should consider.	Paragraphs 1.6.9 - 1.6.10
6.35: The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely	Paragraphs 1.6.9 - 1.6.10

Details of the requirement	Reference in this Report
state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is.	
<p>6.36: In deciding whether to get independent legal advice, we would expect the IE to consider, amongst other things, the following:</p> <ul style="list-style-type: none"> • The significance of the issue and the degree of potential adverse impacts on Policyholders if the position turns out to be different from what the legal advice considers likely. • How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether the Applicants have obtained an adequate level of advice, depending on the issue's significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	Paragraphs 1.6.9 - 1.6.10
6.37: Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. For example, the IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. They should also consider where risks are identified but there are no suggestions about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations would allow the IE to consider the worst case scenario of these impacts.	Paragraphs 1.6.9 - 1.6.10
6.38: Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.	Not applicable
Examples of over-reliance on the work of other experts	
6.39: Further to these points, we give some specific examples below where we have challenged the IE around potential over-reliance.	
6.40: Often an Applicant will get a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-EEA jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court would adopt the approach set out in the advice. In that case, we expect the IE not to use such advice as the sole basis of their conclusion that there are no materially adverse effects. We would expect	Not applicable

Details of the requirement	Reference in this Report
the IE to consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court. The legal advice itself should address this and suggest ways of mitigating this risk.	
6.41: The IE may be uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.	Not applicable
<p>6.42: The position may be different depending on whether the Transferor remains authorised/in existence. So:</p> <ul style="list-style-type: none"> • If the Transferor's authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the Scheme is not formally recognised in another jurisdiction, the Courts of that jurisdiction would still act to prevent the Transferee from denying that it is liable. This may well be correct but we still expect the IE to assess any material possibility, and any mitigations if it is not. • Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We would still expect an IE to examine what possible material adverse impact this could have on policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the Scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements. 	Not applicable
6.43: Our concern here is that the likelihood of an adverse impact should be low enough for consumers not to be adversely affected. We would expect the IE to take a view on that and seek the appropriate reassurances/ensure mitigations are in place.	Not applicable
6.44: In summary, in most cases we will seek to review copies of relevant significant legal advice obtained, with appropriate arrangements to maintain any legal professional privilege. We will expect that advice to also cover what happens if the relevant court does not take the position of the advice and what mitigations can be used if that happens. It is important that all significant material an IE relies on when evaluating a Scheme and reaching their conclusions should, wherever reasonably possible, be available for review by the Court and interested parties. Where material is commercially sensitive there are mechanisms that allow the Court and IE to review without detailed disclosure to all other interested parties.	

Details of the requirement	Reference in this Report
Ambiguous language or a lack of clarity	
6.45: At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.	Sub-section 1.6
6.46: Some examples we have seen and challenged IEs on include: <ul style="list-style-type: none"> • Where a conclusion in the report is that the IE 'takes comfort' from certain matters, as opposed to 'being satisfied' having taken various matters into account. • Where the conclusion is uncertain. For example, 'I am satisfied that there is no material adverse effect. However...' but it is unclear how the qualification affects or undermines the conclusion. • Where the conclusions are caveated we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat. • It is also important that the caveat does not undermine the report or the IE's ability to be satisfied on the relevant point. For example, the conclusion may be caveated by 'on the basis of information provided to me'. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification. 	
6.47: In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly: <ul style="list-style-type: none"> • That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. • How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact. 	Not applicable
Demonstrating challenge	
6.48: To ensure the IE report is complete and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, particularly where they believe the IE has not fully addressed issues. Applicants have an interest in ensuring that the Court, regulators and Policyholders are able to rely on the IE report, taking into account the IE's disclaimers. On this basis, we consider that Applicants are able to make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.	Paragraph 1.4.4

Details of the requirement	Reference in this Report
6.49: To ensure effective two-way challenge we would expect the IE to engage with FCA or PRA- approved persons of sufficient seniority at the Applicant firm. This could be senior actuaries, including possibly the Chief Actuary, the CFO, Senior Underwriters and so on.	Paragraph 1.6.1
Technical actuarial guidance	
6.50: We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council ¹¹ , particularly those for compiling actuarial reports.	Paragraph 1.4.6
6.51: IEs should be particularly aware that the revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.	Paragraph 1.4.6
6.52: We draw specific attention to paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also draw specific attention to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	Paragraph 1.4.6 and throughout my Report
6.53: Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body, as applicable and current at the time when the work is performed.	Paragraph 1.4.8

Appendix B Statement of compliance

- B.1.1 I understand that my duty in preparing my Report 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.
- B.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.
- B.1.3 I confirm that I have made clear which facts and matters referred to in my report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.



John Hoskin

27 March 2020

Fellow of the Institute and Faculty of Actuaries

Appendix C Data and reliances

C.1 Overview

- C.1.1 In performing my review and in preparing my Report, 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.
- C.1.2 In a number of areas have I challenged the information presented to me, and/or have sought additional information and explanations to ensure that I could rely on that information.
- C.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.

C.2 Data received

- C.2.1 I have listed the financial information, data and written information that I have relied upon below. 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:

- Reports from the Chief Actuary of Rothesay and the Actuarial Director of Monument Life on the Scheme
- Business Transfer Agreement between Rothesay, Monument Life and Monument Re
- Scheme document
- Scheme covering the Part VII transfer from MetLife Assurance into Rothesay
- Information about the Transferring Policies, including sample policy documents and literature for the Transferring Policies
- Confirmation that there has been no known mis-selling and that there are no known historic breach liabilities in relation to the Transferring Policies
- Confirmation that there are no known Excluded Policies as at 30 June 2019
- Rothesay and Monument Life Witness Statements
- Communications plan, including letters and booklet to be sent to Transferring Policyholders and Rothesay and Monument Re website content

Company background, reports and financial statements:

- Rothesay and Monument Life Solvency and Financial Condition Report for 2018
- Monument Re Financial Condition Report for 2018
- Articles of Association of Rothesay Life Plc, and Constitution of Monument Life Insurance DAC
- Rothesay, Monument Life and Monument Re report and accounts for 2018
- Rothesay and Monument Life ORSA for 2018 and Monument Life ORSA for 2019
- Monument Life's additional ad-hoc ORSAs carried out in June 2019 and September 2019

- Monument Re Group Solvency Self-Assessment for 2018
- Rothesay and Monument Life's methodology and assumptions papers for year-end 2018
- Rothesay and Monument Life's Actuarial Function reports for year-end 2018
- Rothesay and Monument Life's quarterly Quantitative Reporting Template submission for 31 March 2019 and 30 June 2019
- Rothesay and Monument Life's Regular Supervisory Report for 2018
- Updated solvency ratios for Rothesay and Monument Life as at 20 March 2020

Risk management information and policies:

- Rothesay, Monument Life and Monument Re's risk management framework and risk policies, including documents covering:
 - capital management and dividend policies
 - liquidity policy
- Rothesay and Monument Life's risk appetite statements
- Rothesay and Monument Life's recovery and resolution plans

Regulatory correspondence and reviews:

- Summary of Rothesay's relevant regulatory correspondence with the PRA
- Monument Life's regulatory correspondence log and relevant regulatory correspondence with the CBI

Policy administration related:

- Details on Rothesay's current arrangement for administering the Transferring Policies and the Service Level Agreements used
- Summary of Rothesay's complaints statistics for 2018
- Evidence of Monument Life's existing oversight of the provider that it intends to use to administer the Transferring Policies
- Summary of policyholder complaints that Monument Life has received from January 2019 - August 2019
- Migration and Implementation Plan developed by Rothesay and Monument Life, covering the transfer of administration
- Business Study Document setting out Monument Life proposed administration model in comparison to that of Rothesay, identifying differences and assessing the impact on Transferring Policyholders
- Details of the methodology and assumptions that Rothesay uses, and that Monument Life intends to use, to calculate commutation factors, transfer values, and early/late retirement factors together with sample calculations

Legal and tax advice:

- Legal advice that Rothesay has received, that the previous Scheme covering the Part VII from MetLife Assurance into Rothesay does not place any restrictions on the current proposed Scheme
- Legal advice that Rothesay has received, that no other schemes that Rothesay has partaken in, places any restrictions on the current proposed Scheme
- Legal advice that Monument Life has received, that no prior Schemes place any restrictions on its ability to accept the Transferring Policies under the current proposed Scheme

- Legal advice that Rothesay and Monument Life have received on the implications of the Scheme for FSCS protection of the Transferring Policies
- Legal advice that Monument Life has received in respect of the PPI mis-selling indemnity.
- Tax advice from Rothesay's third-party tax advisors stating that there will be no additional tax charges for the Transferring Policyholders as a result of the Scheme

Reinsurance:

- Reinsurance agreement between Rothesay and Monument Re
- Security Deed between Monument Re and Rothesay
- Custody Agreement between Monument Re, Rothesay and the Bank of New York Mellon, London Branch
- Heads of terms for reinsurance agreement between Monument Life and Monument Re after the Scheme, with follow-up draft reinsurance agreement between Monument Life and Monument Re (following amendments to the one between Rothesay and Monument Re)
- A summary of Rothesay's exposure to its reinsurance counterparties
- A summary of Monument Life's exposure to its reinsurance counterparties

Other:

- Assessments of the financial impact of the Scheme on Rothesay, Monument Life and Monument Re
- Details of the assumptions Rothesay and Monument Life are using to calculate the technical provisions for the Transferring Policies
- The results of calculations indicating the extent of capital that Monument Re expects to hold post implementation of the Scheme against credit risk and for liquidity purposes under its capital management and dividend policy in respect of the Transferring Policies
- Impacts of the MA and TMTP on Rothesay's financial position as at 30 June 2019
- Monument Life VA application, including the expected financial impact as at 30 June 2019
- 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 decision to sanction this Scheme
- Details of all of Monument Life's planned acquisitions and transfers over the time horizon of this Scheme including estimated financial impact
- Monument Life Scheme of Operations, setting out its operational and resourcing plans allowing for upcoming acquisitions
- Update on Monument Life's resourcing levels against plans
- Terms of Reference for Rothesay and Monument Life Board Committees

Appendix D Extract from letter of engagement

D.1.1 This section contains an extract from the letter of engagement between Barnett Waddingham and the Companies.

Introduction

Barnett Waddingham LLP ('BW' or 'we') has been appointed to provide an Independent Expert in connection with the transfer of a portfolio of business (the 'Sale Portfolio') of Rothesay Life Plc ('Rothesay') to Laguna Life DAC ('Laguna') (together, 'the Companies' or 'you').

BW is a limited liability partnership incorporated in England and Wales. A limited liability partnership is a body corporate which has "members". The services provided hereunder by BW's members and employees are given (or done) by those persons on BW's behalf and not in their individual capacities and no such person assumes any personal responsibility for the advice or other work provided hereunder.

Rothesay is an insurance company authorised and regulated by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

Laguna is an insurance company authorised and regulated by the Central Bank of Ireland ('CBI'). Laguna is part of the Monument Re Limited group of companies.

The Sale Portfolio comprises of approximately 400 annuity policies. These are all shareholder-backed non-profit annuity policies, including both annuities in payment and a small number of annuities in deferment. Records indicate that underlying policyholders reside in Ireland and that all payments are in euros.

The transfer of the Sale Portfolio will be conducted pursuant to Part VII of the Financial Services and Markets Act 2000 (the 'Scheme') and will be completed following an order sanctioning the transfer granted by the High Court of England and Wales (the 'Court').

I, John Hoskin, will fulfil the role of Independent Expert. I am pleased to have the opportunity to set out the terms on which we would provide services to you.

Please note that I will owe a duty to the Court that will override BW's duty to each of the Companies.

Purpose and scope of engagement

The purpose of this engagement is to fulfil the role of the Independent Expert in relation to the Scheme.

We will:

- Prepare the Scheme Report, containing detailed results of our work and our opinion.
- Prepare a Summary Report for inclusion with policyholder communications.
- Prepare a Supplementary Report in relation to events occurring, any policyholder objections and matters arising following the Scheme and Summary reports.
- Attend Court hearings and give evidence to the Court as appropriate.

Our Approach

In order to fulfil the Independent Expert role, I will undertake the following high-level steps, many of which will run concurrently:

- Initial meetings to:
 - discuss intentions with senior management from both Companies and your advisers
 - agree the project management framework and timetable.
- Review policy terms and conditions, and other policyholder disclosures.
- Review reports on the financial position of both entities involved in the transfer, including the Own Risk and Solvency Assessment ('ORSA') reports.
- Review the draft Scheme and associated documentation and any previous schemes, in particular considering the impact on all stakeholders affected and the terms of relevant existing schemes.
- If necessary, clarify information and/or the intended approach with relevant parties, including the intended approach with regards to continuing administration.
- Engage with UK and Irish supervisors to:
 - offer an early conversation on key points identified in relation to the Scheme.
 - work in-line with the agreed timetable, taking on board any feedback that the supervisors provide.
- Identify any actual or potential issues.
- Discuss and resolve such issues with relevant parties including legal teams, which may require amendment to the Scheme.
- Review drafts of policyholder communications concerning the proposed Scheme and any communication waivers requested.
- Review reports on the Scheme prepared by the Chief Actuary/Head of Actuarial Function of both Companies.
- Understand and comment on the impact of any use of Solvency II long-term guarantee package or transitional measures.
- Consider any potential ramifications resulting from the UK leaving the European Union ('Brexit').
- Draft the Scheme Report and subsequently finalise, incorporating feedback on the draft as appropriate.
- Draft and subsequently finalise a Summary Report for inclusion with policyholder communications.
- Draft and subsequently finalise a 'Supplementary Report', including responding to any relevant queries raised by policyholders.
- Attend Court hearings and give evidence to the Court as required.

A key output will be the Scheme Report. The Scheme report will:

- Be prepared in accordance with the form approved by the PRA pursuant to section 109(3) of FSMA 2000 and will comply with all lawful requirements of the PRA and FCA and in particular those requirements set out in:
 - the PRA Statement of Policy, The Prudential Regulation Authority's approach to insurance business transfers
 - the FCA Final Guidance, The FCA's approach to the review of Part VII insurance business transfers
 - Chapter 18 of the Supervision Manual ('SUP 18') contained in the FCA Handbook.

- Be drafted giving due consideration to all material facts and taking proper care to ensure that it will in its final form accurately represent the Independent Expert's honestly held opinion on relevant matters that fall within his area of expertise.
- Consider the consequences of the Scheme in general and, in particular, for those policyholders likely to be affected by the implementation of the Scheme. This will be done by considering the different groups of policyholders of Rothesay and Laguna separately and will include, but will not be limited to:
 - policyholders' benefit expectations and the security of policyholders' contractual rights including the applicability, or otherwise, of any government-backed guarantee schemes
 - the risks that policyholders are exposed to
 - administration service levels
 - governance arrangements.
- Address the way in which the Companies have conducted their long-term business, taking account of the particular circumstances of the business being transferred. This will include, but will not be limited to:
 - reserving, capital and security
 - the Companies' respective reinsurance arrangements
 - any service, or other, agreements with intra-group companies
 - the existing and proposed arrangements relating to financial management and administration
 - the terms of any previous Schemes of transfer that concern the policyholders of the Companies.

The above lists are not intended to be exhaustive. I will analyse, review, and include any additional aspects, which may be identified during the completion of the project and which are considered relevant.

If required, at the request of the Companies, I would be happy to attend board meetings to present the draft Scheme Report and Supplementary Report.

Appendix E Glossary

Term	Explanation
Actuarial Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibilities primarily relating to the calculation of the Technical Provisions.
Amended Reinsurance Agreement	The agreement between Monument Life and Monument Re that is expected to be in place after the Transfer Date to transfer some of the risks arising on the Transferring Policies from Monument Life to Monument Re. It amends the Reinsurance Agreement between Rothesay and Monument Re that is currently in place.
Annuity	An insurance contract under which, from the date it becomes payable, a regular payment is paid to a beneficiary, usually until the death of the beneficiary.
Approved person	A person who has been approved by the UK Regulators to carry out one or more of a number of specific roles in an insurance company.
Assignee	A person who has been given (assigned) the right to receive the benefits of an insurance policy (usually as security for a loan).
Audit Committee	A committee of a company's Board of Directors with delegated responsibility to provide oversight of financial reporting and internal controls.
BEL	The Best Estimate Liability, part of the Technical Provisions under the Solvency II regulatory regime. The amount of money an insurer expects it will need to hold today in order to pay policyholder benefits in the future on its existing business.
Bermuda	The Islands of Bermuda, a British island territory in the North Atlantic.
BMA	The Bermuda Monetary Authority, the regulator of insurance companies in Bermuda.
Board of Directors	The individuals appointed by the companies' owners, with ultimate responsibility for the running of the company.
Brexit	The process of the UK leaving the EU.
BTA	The Business Transfer Agreement, an agreement between Rothesay, Monument Life and Monument Re under which the parties agree to pursue a Part VII Transfer of the Transferring Policies from Rothesay to Monument Life.

Term	Explanation
Bulk annuity	An insurance policy or policies purchased by the trustees of a defined benefit pension scheme to transfer some or all of its liabilities to the insurer. A bulk annuity may be a buy-in or a buyout.
Buy-in	A type of bulk annuity under which the pension scheme pays a lump sum to an insurer and the insurer pays to the pension scheme a defined proportion of the pension scheme benefits as they fall due. The pension scheme trustees are the policyholder and retain responsibility for paying the individual scheme members.
Buyout	A type of bulk annuity under which the pension scheme pays a lump sum to an insurer and the insurer issues individual annuity policies to each of the pension scheme members in scope of the buyout. The insurer then pays the benefits directly to the pension scheme members.
the Buyout Pension Schemes	Five Irish pension schemes that secured bulk buyouts with MetLife Assurance between 2010 and 2013. The individual annuity policies issued to the pension scheme members under these buyouts are the Transferring Policies.
BW	Barnett Waddingham LLP, a firm of actuaries and consultants.
Capital add-on	An additional component of the SCR imposed on a firm by the its supervisor under the Solvency II regulatory regime following its supervisory review process if it considers that its calculated SCR is inadequate or if it considers that the firm deviates materially from the governance requirements.
Capital management policy	A policy set by a firm's Board, setting out the target level of its capital (excess of assets and liabilities) and how it manages its capital position.
CBI	The Central Bank of Ireland, the regulator of insurance companies in Ireland.
CEO	Chief Executive Officer, the most senior executive in a company with ultimate responsibility for the day-to-day management of the company.
CF	A Controlled Function under the CBI's Fitness and Probity Regime.
CFO	Chief Financial Officer, a company executive with responsibility for managing the company's finances.
Chief Actuary	The person approved by the PRA in the UK with responsibility for the Actuarial Function under the Solvency II regulatory regime.
COBS	Conduct of Business Sourcebook, a part of the FCA Handbook setting out rules in relation to conduct regulation.

Term	Explanation
Collateral	A means of providing security under a contract whereby one party designates certain assets as collateral and the other party is entitled to take possession of the collateral assets to recover money owed to it in the event of default by the party posting the collateral.
The Companies	Rothesay and Monument Life.
Compliance Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to advise the firm on compliance with the Solvency II regulations.
Conduct regulation	Regulation of insurance companies relating to the way firms manage their business and how they treat their customers.
Contingent annuitants	Individuals who may become entitled to receive benefits under an annuity policy following the death of the policyholder (for example, a spouse or other dependant).
Contingent beneficiaries	Individuals who may become entitled to receive benefits under an insurance policy following the death of the policyholder (for example, a spouse or other dependant).
Corporate governance	The system by which a firm is directed and controlled by its Board, setting out the process by which decisions are made and who is authorised to make which decisions.
Counterparty default risk	The risk of losses arising when the other party to an agreement does not fulfil its obligations under that agreement.
The Court	The High Court of Justice of England and Wales, the court that will decide whether to approve the Scheme.
CPC	The CBI's Consumer Protection Code 2012, which sets out principles that firms regulated by the CBI must follow in their dealings with customers.
Credit risk	The risk of losses arising from a borrower failing to make the required payments on a loan or other debt.
Custody Agreement	The agreement between Monument Re, Rothesay and The Bank of New York Mellon under which the Bank of New York Mellon will act as custodian in respect of the collateral arrangements under the Reinsurance Agreement.
Deferred annuity	An annuity policy under which the benefits will start at a date in the future, usually the policyholder's retirement date.
Defined benefit pension scheme	A type of pension plan funded by an employer to provide retirement benefits to its employees, where the benefits are determined by a defined formula (such as percentage of the employee's final salary).

Term	Explanation
Directions Hearing	The Court Hearing at which the Court first considers the Scheme and decides whether to allow the companies to notify their policyholders of the proposed Part VII Transfer. Also known as the Preliminary Hearing.
DISP	Dispute Resolution: Complaints, a part of the FCA Handbook containing rules in relation to complaints handling and resolution.
EEA	The European Economic Area, consisting of the members of the European Union plus Iceland, Liechtenstein and Norway.
EIOPA	The European Insurance and Occupational Pensions Authority, an EU financial regulatory institution.
Equiniti	Paymaster (1836) Limited, trading as Equiniti Paymaster, a company providing outsourced administration services.
EU	The European Union.
Excluded Policies	Any policies which, for technical reasons, may need to be excluded from the initial transfer under the Scheme. The Scheme makes provision for these to be transferred later where possible.
Expense risk	The risk of losses arising from the costs of administering policies being higher than expected.
FCA	The Financial Conduct Authority, the conduct regulator of insurance companies in the UK.
FCA Guidance	"FG18/4: The FCA's approach to the review of Part VII insurance business transfers" dated May 2018, a document setting out the FCA's approach and expectations in respect of Part VII transfers.
FCA Handbook	The FCA's book of rules and guidance.
Fellow of the Institute and Faculty of Actuaries	A person who has qualified as an actuary by completing the examinations and other requirements of the Institute and Faculty of Actuaries.
Financial Services Contracts Regime	An arrangement that will allow EEA insurers currently operating in the UK under freedom of services to continue servicing insurance policies sold in the UK for at least 15 years following the end of the Implementation Period while they make alternative arrangements. For an insurance firm that enters the Temporary Permissions Regime, the 15-year period of the Financial Services Contracts Regime will begin when that firm leaves the Temporary Permissions Regime, otherwise the 15 year period will begin at the end of the Implementation Period.
First A	A type of long-term guaranteed savings contract written by Monument Life.

Term	Explanation
FOS	The Financial Ombudsman Service, an independent UK public body that aims to resolve disputes between individuals and UK financial services companies.
FPR	The CBI's Fitness and Probity Regime, which defines certain control functions that are subject to CBI approval.
Freedom of establishment	The right of a firm in an EEA member country to establish a permanent presence in another member country.
Freedom of services	The right of a firm in an EEA member country to provide services to customers in another member country.
FSCS	The Financial Services Compensation Scheme, an industry-wide compensation scheme that pays compensations to eligible policyholders of insolvent UK insurance companies.
FSMA	The Financial Services and Markets Act 2000.
FSPO	The Financial Services and Pensions Ombudsman, an independent Irish public body that aims to resolve disputes between individuals and Irish financial services companies.
Funds withheld	A means of providing collateral for the cedant under a reinsurance arrangement, whereby the premiums payable to the reinsurer are not paid. The cedant still owes the premium but keeps ownership of the assets, which are held in an account with an independent custodian.
Funds withheld account	An account with an independent custodian used to hold assets by the cedant, and representing collateral in favour of the cedant, under a reinsurance agreement structured on a funds withheld basis
Gone-away	A policyholder for whom their insurance company does not have their current address (since correspondence sent to them has been returned saying that the policyholder has "gone away").
Group protection	A type of insurance contract sold to an employer for the benefit of their employees. The policy may pay out benefits on death, disability or sickness of the people covered under the policy.
Group risk	The risk of losses arising from relationships between entities in the same group of companies.
Guaranteed Insurability Options	An option that gives a policyholder a right to increase their insurance cover or take out a new policy without further underwriting being required.
Head of Actuarial Function	The person approved by the CBI in Ireland with responsibility for the Actuarial Function under the Solvency II regulatory regime.

Term	Explanation
Implementation Period	The transitional period following the UK's exit from the EU, expected to end on 31 December 2020.
Income protection	A type of insurance contract that provides benefits to the policyholder if they are unable to work due to illness or injury.
Independent Expert	The person appointed to produce the scheme report for the Court as part of a Part VII Transfer.
Inora Life	Inora Life Limited, an insurance company acquired by Monument Life in 2019.
International Association of Insurance Supervisors	A voluntary membership organisation of insurance supervisors and regulators.
Internal Audit Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to evaluate the adequacy and effectiveness of the insurer's internal control system.
Internal Model	A method of calculating the SCR under the Solvency II regulatory regime based on the specific risk characteristics of the firm.
Inwards reinsurance	Reinsurance under which a particular insurer is taking on risks and liabilities from another insurer.
Ireland	The Republic of Ireland.
JLT	Jardine Lloyd Thompson, a company providing outsourced administration services.
Laguna Life DAC	The name used by Monument Life prior to 30 March 2020.
Liquidity risk	The risk that a company is unable to generate sufficient cash to make required payments as they fall due.
Longevity insurance	Insurance policies under which defined benefit pension schemes can protect themselves against the risk of their pensioners living longer than expected.
Longevity risk	The risk of losses arising for an insurance company or pension scheme when policyholders or members live longer than expected.
Longevity swap	A type of longevity insurance under which a company pays to the reinsurer a fee and a fixed amount each month based on the expected benefit payments on a portfolio of lives and receives back from the reinsurer the actual benefit payments.
MA	An increase to the discount rate that may be used in the calculation of the BEL under the Solvency II regulatory regime if certain conditions are met.

Term	Explanation
MADAC	Monument Assurance DAC, a company in the Monument Re Group and Monument Life's immediate parent.
Market risk	The risk of losses arising due to changes in the value of assets held or changes in macro-market variables such as interest rates, inflation or exchange rates.
MCR	The Minimum Capital Requirement, a minimum underpin to the SCR under the Solvency II regulatory regime.
MetLife Assurance	MetLife Assurance Limited, the insurance company that originally issued the Transferring Policies, which was acquired by Rothesay in 2014.
MetLife Europe	An insurance company that transferred certain policies to Monument Life in April 2019 under Project Carp.
MIBS	Monument Insurance Belgium Services, a company in the Monument Re Group that provides services to Monument Life in respect of its Belgian business.
MIDAC	Monument Insurance DAC, a company in the Monument Re Group and the parent company of MADAC.
MISL	Monument Insurance Services Limited, a company in the Monument Re Group that provides services to Monument Life and other companies in the Monument Re Group.
Monument Life	Monument Life Insurance DAC, the transferee in this Scheme.
Monument Existing Policies	The existing Monument Life policies as at the Transfer Date.
Monument Existing Policyholders	The holders of the Monument Existing Policies and any other individuals who are or may become entitled to receive benefits under these policies.
Monument Re	Monument Re Limited, a reinsurance company based in Bermuda and Monument Life's ultimate parent.
Monument Re Group	The group of companies consisting of Monument Re and its subsidiaries, including Monument Life.
Mortality risk	The risk of losses arising for an insurance company when policyholders die earlier than expected.
Non-profit annuities	Annuity policies under which the benefits are fully defined at outset and are not subsequently increased to reflect participation in the profits of the insurer.
Operational risk	The risk of losses arising from inadequate or failed internal processes, people and systems or from external events.

Term	Explanation
ORSA	Own Risk and Solvency Assessment, a process that firms are required to carry out under the Solvency II regulatory regime to assess the firm's capital needs taking into account the specific risk profile and strategy of the firm.
Outwards reinsurance	Reinsurance under which a particular insurer is transferring risks and liabilities to another insurer.
Own Funds	The excess of the value of assets over the value of liabilities under the Solvency II regulatory regime.
Part VII transfer	A transfer of insurance business from one insurer to another under Part VII of the FSMA.
Passporting	A process by which a company from one EEA member country can provide goods and services in other member countries.
PCF	A Pre-approved Controlled Function under the CBI's Fitness and Probity Regime.
Pension sharing order	An order by a court setting out how much of a policyholder's pension should be paid to the former spouse.
Pillar 1	The quantitative aspects of the Solvency II regulatory regime, including rules relating to the valuation of assets and liabilities and minimum capital requirements.
Pillar 2	The qualitative aspects of the Solvency II regulatory regime, including rules relating to corporate governance, risk and capital management.
Pillar 3	The requirements for the disclosure of information to regulators and the public under the Solvency II regulatory regime.
PIM	Partial Internal Model, a method of calculating the SCR under the Solvency II regulatory regime that uses the Standard Formula for some parts of the calculation and an Internal Model for others.
Policyholder	A person holding an insurance policy or a person who is or may become entitled to receive benefits under the policy.
Power of Attorney	A legal document that allows a person (the attorney) to make decisions for another person or act on that person's behalf if they are no longer able or willing to make their own decisions.
PPI	Payment Protection Insurance, a type of insurance contract that will meet the payments due on a financial product (usually a loan or credit card) on behalf of the policyholder under certain circumstances.

Term	Explanation
PRA	The Prudential Regulation Authority, the prudential regulator of insurance companies in the UK.
PRA Rulebook	The PRA's book of rules and guidance.
PRA Statement of Policy	"The Prudential Regulation Authority's approach to insurance business transfers" dated April 2015, a document setting out the PRA's approach and expectations in respect of Part VII transfers.
Project Carp	The name used by Monument Life to refer to the project to transfer certain business from MetLife Europe to Monument Life in April 2019.
Project Diane	The name used by Monument Life to refer to the project to transfer the business of Inora Life to Monument Life in the second half of 2020.
Project Trinity	The name used by Monument Life to refer to the project to amalgamate Monument Life, MIDAC and MADAC into one company.
Prudent Person Principle	A requirement of the Solvency II regulatory regime, which states that insurers may only invest in assets whose risks they can properly identify, measure, monitor, manage and control.
Prudential regulation	Regulation of insurance companies relating to financial soundness.
Regulatory capital requirement	The minimum level of capital that an insurer needs to hold in accordance with applicable prudential regulation. For an insurer subject to the Solvency II regime, this is the greater of the SCR and the MCR.
Reinsurance	An agreement between two insurers under which the first company (the cedant) pays a premium to the second (the reinsurer) and in exchange receives payments determined by the benefit payments on a certain block of the cedant's policies. The cedant retains legal responsibility to pay the benefits on its policies.
Reinsurance Agreement	The agreement between Monument Re and Rothesay to reinsure longevity and asset risk in respect of the Transferring Policies from Rothesay to Monument Re with effect from 1 January 2019.
Relevant Persons	Financial services firms, including insurance companies, whose customers or policyholders are potentially eligible to claim under the UK FSCS.
Report	This report.
Reports	This report and my Supplementary Report.
RHUK	Rothesay HoldCo UK Limited, the parent company of Rothesay.

Term	Explanation
Risk appetite	The level of risk that an organisation is prepared to accept in pursuit of its objectives.
Risk Committee	A committee of a company's Board of Directors with delegated responsibility to provide oversight in relation to risk management.
Risk Management Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to facilitate the implementation of the firm's risk management system.
Risk Margin	Part of the Technical Provisions under the Solvency II regulatory regime. The additional amount that a third party would require, in excess of the BEL, to take over responsibility for meeting a firm's insurance liabilities in an arm's-length transaction.
Rothesay	Rothesay Life Plc, the transferor in this Scheme.
Rothesay Group	A group of companies consisting of RHUK and its subsidiaries, including Rothesay.
Rothesay Non-Transferring Policies	The existing Rothesay policies as at the Transfer Date that will not transfer to Monument Life under the Scheme.
Rothesay Non-Transferring Policyholders	The holders of the Rothesay Non-Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
Sanction Hearing	A Court Hearing, at which the Court will decide whether to approve the Scheme.
Scheme	The legal document that, subject to the approval of the Court, gives effect to the transfer of the Transferring Policies from Rothesay to Monument Life.
Scheme report	The report produced by the Independent Expert for the Court assessing the Scheme.
SCR	The Solvency Capital Requirement, the excess of assets over liabilities that a firm is required to hold under the Solvency II regulatory regime.
SCR cover ratio	The Own Funds divided by the SCR.
SEAR	The CBI's Senior Executive Accountability Regime, a forthcoming change to regulation in Ireland designed to enhance individual accountability.
Security Deed	The agreement between Monument Re and Rothesay setting out the operation of the collateral structure under the Reinsurance Agreement.

Term	Explanation
SM&CR	The UK Regulators' Senior Managers and Certification Regime, which defines a set of Senior Management Functions that are subject to PRA approval (with FCA consent).
SMF	A Senior Management Function within SM&CR.
Solvency II	The regulatory solvency framework that applies to insurers within the European Union.
Standard Formula	A method of calculating the SCR under the Solvency II regulatory regime based on a defined calculation approach set out in the rules.
SUP 18	Chapter 18 of the Supervision Manual within the FCA Handbook, setting out requirements in respect of Part VII transfers.
Supplementary Report	A later report I will prepare for the Court for consideration at the Sanction Hearing, updating the analysis in this report in light of any significant events subsequent to the date of my Report.
TAS	Technical Actuarial Standards, requirements set by the FRC that apply to actuarial work within their scope.
Technical Provisions	The amount of assets that a firm is required to hold against its liabilities under the Solvency II regulatory regime, equal to the sum of the BEL and the Risk Margin.
Temporary Permissions Regime	An arrangement that will allow EEA insurers currently operating in the UK under freedom of services to continue operating for up to three years after the Implementation Period while they make alternative arrangements.
Term assurances	An insurance contract under which a lump sum payment is made if the policyholder dies within the term of the policy.
The Institute and Faculty of Actuaries	The UK-based chartered professional body which represents and regulates actuaries that are members of that body.
TMTTP	The Transitional Measure on Technical Provisions, an adjustment to Technical Provisions under the Solvency II regulatory regime that has the effect of phasing in the increase in Technical Provisions that resulted from moving from the previous regulatory solvency regime to Solvency II over a period of 16 years from 1 January 2016.
Transfer Date	The date when the Scheme, if approved, will become operate and take effect, expected to be 7 September 2020.
Transferring Policies	The policies that will transfer from Rothesay to Monument Life under the Scheme.

Term	Explanation
Transferring Policyholders	The holders of the Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
UK	The United Kingdom of Great Britain and Northern Ireland.
UK Regulators	The PRA and the FCA.
Unit-linked	A type of insurance contract under which premiums are used to purchase units in an investment fund, which will change in value in line with the investment performance of assets in the investment fund.
VA	An increase to the discount rate that may be used in the calculation of the BEL under the Solvency II regulatory regime.
Variable annuities	A type of unit-linked insurance contract used to provide retirement income for the policyholder with investment guarantees.
Withdrawal Agreement	The agreement between the UK and the EU, which sets out terms for the withdrawal of the UK from the EU.