

# Proposed Scheme for the transfer to Scottish Widows Limited of certain long-term insurance business of Zurich Assurance Ltd under Part VII of the Financial Services and Markets Act 2000

## 1 Introduction

- 1.1 Zurich Assurance Ltd (“**ZAL**”) and Scottish Widows Limited (“**SWL**”) have made an application to the High Court of Justice in England and Wales (the “**Court**”) for approval of a scheme of transfer pursuant to Part VII of the Financial Services and Markets Act 2000 (the “**Scheme**”) in order to effect the transfer – from ZAL to SWL – of a block of insurance business which SWL has agreed to acquire.
- 1.2 In addition, in order to ensure the effective transfer of certain policies held by policyholders who are resident in Jersey and Guernsey, ZAL and SWL are also proposing to implement separate schemes to be presented to the Royal Court of Jersey and the Royal Court of Guernsey.
- 1.3 The application made to the Court must include a report by an Independent Expert on the terms of the transfer. As the approved Independent Expert, I reported on my findings in relation to the Scheme in my Scheme Report, dated 6 February 2019 and my Supplementary Report, dated 4 June 2019.
- 1.4 The Supplementary Report stated that I would prepare this note providing an update on the following matters, which were still evolving at the date of the Supplementary Report:
  - the UK’s potential exit from the European Union, and any implications for the Scheme (see paragraphs 2.28 to 2.31 of the Supplementary Report); and
  - the outcome of the third and final “dress rehearsal” of the implementation of SWL’s administration systems (see paragraphs 4.16 to 4.26 of the Supplementary Report).
- 1.5 I also provide an update on policyholder feedback received by SWL and ZAL in response to their communications with policyholders in respect of the Scheme.
- 1.6 This note should be read in conjunction with the Scheme Report and the Supplementary Report.
- 1.7 The work undertaken in preparing this note, in conjunction with the Supplementary Report, has been subject to and complies with the following Technical Actuarial Standards (“**TAS**”):
  - TAS 100: Principles for Technical Actuarial Work
  - TAS 200: Insurance
- 1.8 This note has been subject to and complies with Actuarial Profession Standard APS X2 issued by the Institute and Faculty of Actuaries. An independent peer review of this note has been carried out.
- 1.9 When preparing this note I have relied upon a summary of the outcomes from the third dress rehearsal provided by SWL. I have also held discussions with the management of SWL in relation to this. I have relied upon the accuracy of the written and oral communications and have not independently verified them. I am satisfied with the reasonableness and consistency of the information and explanations provided by SWL from my own experience of the insurance industry.
- 1.10 The reliances and limitations set out in the Scheme Report apply equally to this note.

1.11 This note has been prepared for and may be used by the same parties as the Supplementary Report. It should not be released to any other parties without my prior written consent.

## **2 The UK's exit from the European Union (paragraphs 2.28 to 2.31 of the Supplementary Report)**

2.1 The Supplementary Report noted that, in the event that the UK left the European Union ("EU") on or around the same date that the Scheme became effective, there could potentially be significant market volatility during the period in which policyholders will not have access to their funds in order to effect trades. The Supplementary Report noted that, at the date it was issued, there was significant uncertainty around the date of the UK's exit from the EU.

2.2 The Scheme is expected to take effect on 1 July 2019, with the Trading Suspension Period straddling this date. Since I finalised my Supplementary Report, there have been no changes of note in the political situation in the UK, and as such there is no reason to believe that the likelihood of the UK leaving the EU before 31 October 2019 has increased since I finalised my Supplementary Report.

2.3 However, should political events evolve rapidly such that the date on which the UK leaves the EU is brought forward and ultimately coincides with the date of the Trading Suspension Period, I believe that the resulting risk is manageable. For example, as noted in paragraph 2.2.2 of my Supplementary Report, SWL and ZAL can, if necessary, delay the Effective Date to any date up to 1 November 2019.

2.4 Given this, I do not consider the UK's currently-planned exit from the EU, and risks around that, to alter the conclusions drawn in my Supplementary Report in respect of the Scheme.

## **3 Implementation of administration systems (paragraphs 4.16 to 4.26 of the Supplementary Report)**

3.1 The Supplementary Report noted that SWL was carrying out a third and final dress rehearsal of the implementation of administration systems that will be needed to effect the transfer of business. This dress rehearsal was in progress at the date of the Supplementary Report.

3.2 The third dress rehearsal completed on 5 June 2019. By this date, SWL had successfully completed all of the steps required to allow the Trading Suspension Period to be lifted within the planned timeframe.

3.3 I note that SWL's user acceptance testing is expected to be substantially complete by 7 June 2019. User acceptance testing involves the actual business users of the administration software testing functionality using real world scenarios to make sure that it can handle the required tasks according to specifications. SWL intends to carry out a further round of testing in the week commencing 10 June 2019 in order to ensure that the issues identified by the user acceptance testing have been addressed. Based on the information presented to me, I am satisfied that the remaining testing is on track ahead of the implementation of the Scheme.

3.4 The Supplementary Report stated that I was satisfied with the progress that had been made and SWL's assessment of the contingencies in place to ensure the delivery of all systems at the Effective Date. Given the outcome of the third dress rehearsal, I am satisfied that this remains the case.

## **4 Communication with policyholders**

4.1 In my Supplementary Report I provided a summary of policyholder feedback received by SWL and ZAL in response to their communications with policyholders in respect of the Scheme. Since this date, I have been provided with an update on the progress of communications.

4.2 As at 5 June 2019, SWL and ZAL had received 4,024 responses from policyholders. Of these responses, 28 had lodged an objection and 40 had lodged an expression of dissatisfaction. A total of 9,249 packs had been returned at this date, which represented c. 2% of all packs mailed to policyholders.

4.3 No new themes or issues have been identified in the policyholder feedback, and the numbers of customers lodging objections or expressions of dissatisfaction have not changed significantly. Therefore, the additional responses and customer interaction give me no cause for concern, and do not alter my conclusions in respect of communications that I provided in my Supplementary Report.

## 5 Conclusion

5.1 Having considered the developments described in this note, I am satisfied that the conclusions drawn in the Supplementary Report remain valid.

Prepared by:



JL McKenzie FFA

7 June 2019

For and on behalf of Hymans Robertson LLP