

Zurich Assurance Ltd

Scottish Widows Limited

Supplementary report by the Independent Expert on the 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

04 June 2019

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For and on behalf of Hymans Robertson LLP

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Glossary of terms

Terms and abbreviations used throughout the Scheme Report and this report are set out below.

Term	Definition
APS	Actuarial Profession Standard
BEL	Best Estimate Liabilities
Brexit	The UK's decision to leave the European Union.
Capita	Capita Life and Pensions Regulated Services Limited
Communication Regulations	The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001.
Corporate Pensions Business	ZAL's UK workplace pensions and savings business that is administered on the DC Platform or CS Platform.
CS Platform	One of two platforms on which the Corporate Pensions Business within Zurich UK Life is administered.
DC Platform	One of two platforms on which the Corporate Pensions Business within Zurich UK Life is administered.
EBC	Employee Benefit Consultants
Effective Date	The date on which the Scheme becomes effective, which is 1 July 2019.
Excluded Assets	All of ZAL's assets not used exclusively in the Transferred Business, together with certain other assets, such as contracts and the Excluded Policies, which ZAL and SWL have agreed should not transfer to SWL.
Excluded Business	Collective of the Excluded Policies, Excluded Assets and Excluded Liabilities.
Excluded Liabilities	Liabilities related to the Excluded Policies, the Excluded Business, the Excluded Assets, any tax attributable to any member of ZAL's group and all obligations and liabilities relating to the Transferred Business referable to the period prior to the Effective Date (including any mis-selling and mis-administration liabilities).
Excluded Policies	The Excluded Policies are those policies issued by ZAL that the parties have agreed will not transfer to SWL on the Effective Date. These are any policies that are not part of ZAL's Corporate Pensions Business, and the following classes of Corporate Pensions Business: <ul style="list-style-type: none"> • A small number of policies issued to the pension schemes based in the Channel Islands • Policies invested in the 100:0 Fund or 90:10 Fund, or whose conditions permit investment in either of those funds, • Policies invested in the Secure Managed Fund, or whose conditions permit investment in that fund; and, • One group of Stakeholder Pension Plans, all of which relate to a specific employer and are administered under ZAL's freedom of services passporting rights into Portugal. • Policies of policyholders that have opted to surrender their policies but whose surrender has not yet become effective (and is expected to do so shortly after the Effective Date)
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000
Guernsey Scheme	A scheme to be presented to the Royal Court of Guernsey to ensure the effective transfer of certain Transferred Policies who are resident in Guernsey

IFoA	Institute and Faculty of Actuaries
Island Schemes	The Guernsey Scheme and the Jersey Scheme collectively
Jersey Scheme	A scheme to be presented to the Royal Court of Jersey to ensure the effective transfer of certain Transferred Policies who are resident in Jersey
LBG	Lloyds Banking Group
ORSA	Own Risk and Solvency Assessment
PRA	Prudential Regulation Authority
Residual Assets	Any asset comprised in or relating to the Transferred Business, which the Court does not have jurisdiction to transfer or which the parties agree should not transfer or which cannot be transferred for any other reason on the Effective Date.
Scheme	The proposed Insurance Business Scheme by which part of the insurance business of ZAL will be transferred to SWL.
Scheme Report	My report on the Scheme, dated 6 February 2019.
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
Supplementary Report	This further report on the Scheme, which is supplementary to the Scheme Report
SWASL	Scottish Widows Administration Services Limited
SWL	Scottish Widows Limited
TAS	Technical Actuarial Standard
TMTF	Transitional Measure on Technical Provisions
Trading Suspension Period	The period overlapping the Effective Date during which no actions involving the application of a unit price will be carried out in relation to the Transferred Business.
Transferred Assets	The benefit of the Transferred Policies, the investment assets relating to the Transferred Policies, ZAL's rights and benefits under certain business contracts relating to the Transferred Business (including certain investment contracts and client service agreements), all records relating to the Transferred Business and any other property and rights used exclusively in the Transferred Business.
Transferred Business	Collective of the Transferred Policies, Transferred Assets and Transferred Liabilities.
Transferred Liabilities	All obligations of ZAL under each Transferred Policy and other contract which forms part of the Transferred Business to the extent they are to be performed following the Effective Date and all obligations and liabilities of ZAL that relate to the ownership of the Transferred Assets or the operation of the Transferred Business by SWL after the Effective Date
Transferred Policies	All insurance policies issued by ZAL under which any liability remains outstanding at the Effective Date, other than the Excluded Policies. The precise list of Transferred Policies will be set out on a CD-ROM to be exchanged between ZAL and SWL shortly before the Effective Date.
ZAL	Zurich Assurance Ltd
Zurich UK Life	An internal Zurich management reporting unit. It is used to collectively refer to ZAL, SIML, the part of Zurich Insurance Company Ltd that reassures ZAL business and a number of smaller legal entities.

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 Transferred 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 (the “**Jersey Scheme**” and the “**Guernsey Scheme**” respectively, and the “**Island Schemes**” collectively).
- 1.3 The application made to the Court must also 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.
- 1.4 In my Scheme Report I stated that I would prepare this further report for the Court (my “**Supplementary Report**”). The purpose of this Supplementary Report is to report on any developments since the date of the Scheme Report which might impact on the conclusions in the Scheme Report.
- 1.5 This Supplementary Report should be read in conjunction with the Scheme Report.
- 1.6 Some of the defined terms used in the Scheme Report have been used in this Supplementary Report without restating their definitions, although these are summarised in the Glossary.
- 1.7 This Supplementary Report has been prepared in line with “the Prudential Regulation Authority’s approach to insurance business transfers” April 2015 and Chapter 18 of the Supervision Manual of the FCA Handbook, “SUP18”. The Supplementary Report has also been prepared in line with the FCA guidance set out in “FG 18/4: The FCA’s approach to the review of Part VII insurance business transfers”.
- 1.8 The Financial Reporting Council (the “**FRC**”) has issued Technical Actuarial Standards (“**TAS**”) to apply to work undertaken by actuaries in the UK. The work undertaken in preparing this Supplementary Report has been subject to and complies with the following TAS:
 - TAS 100: Principles for Technical Actuarial Work
 - TAS 200: Insurance
- 1.9 Actuarial Profession Standard APS X2 issued by the Institute and Faculty of Actuaries (the “**IFoA**”) requires me to consider whether an independent peer review of my work should be undertaken. I consider that it is necessary to obtain a peer review of this Supplementary Report and this has been undertaken by my colleague, Stephen Makin FFA CERA, who has appropriate knowledge and experience to undertake this review and has not been involved in the preparation of the Scheme Report. For the avoidance of doubt, the conclusions set out in the Supplementary Report are mine, and I remain responsible for them.
- 1.10 The principal documents which I have reviewed in preparing this Supplementary Report are listed in Appendix 1. I have also had access to and discussions with senior management of ZAL and SWL to assist in its completion. 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 ZAL and SWL from my own experience of the insurance industry.
- 1.11 The reliances and limitations set out in the Scheme Report apply equally to this Supplementary Report.

1.12 This Supplementary Report has been prepared for and may be used by:

- the Court, to assist it in considering and approving the Scheme;
- the Royal Court of Jersey and the Royal Court of Guernsey to assist them in considering the Jersey Scheme or the Guernsey Scheme, respectively;
- the directors and senior management of ZAL and SWL, to assist in the decision to present the Scheme to the Court;
- the Prudential Regulation Authority (“**PRA**”) and the Financial Conduct Authority (“**FCA**”);
- the Guernsey Financial Services Commission and the Jersey Financial Services Commission;
- the insurance regulator of any European Economic Area (“**EEA**”) country who requests a copy of the Supplementary Report; and
- the professional advisors of any of the above assisting in the development or implementation of the Scheme.

1.13 In accordance with the legal requirements under Financial Services and Markets Act 2000 (“**FSMA**”), copies of the Supplementary Report may be made available to policyholders of ZAL and SWL and to other interested parties.

1.14 Other than as set out in 1.12 and 1.13 above, the Supplementary Report should only be published after receiving my written consent.

1.15 Both ZAL and SWL have seen full versions of this report and have confirmed its factual accuracy.

2. Developments since the date of the Scheme Report

2.1 This section outlines developments over the period between the date of the Scheme Report and the date of this Supplementary Report which were not anticipated in the Scheme Report. In the Scheme Report, I noted that I anticipated further developments in a number of areas related to the Scheme and its implementation and these are addressed elsewhere in my Supplementary Report.

Changes to the Scheme

2.2 No material changes have been made to the Scheme that would affect the conclusions drawn in the Scheme Report. A number of minor changes have been made, most of which are either typographical or improve readability, but two of these minor changes are worth drawing out:

2.2.1 ZAL has completed the project to move policyholders from the DC Platform to the CS Platform (see paragraph 4.1 for more information). Text in relation to this migration is no longer required in the Scheme and has therefore been removed.

2.2.2 ZAL and SWL have agreed to extend the date by which the Scheme must become effective following sanction from the Court by one month from 1 October 2019 to 1 November 2019.

2.3 Neither of the changes mentioned in paragraphs 2.2.1 and 2.2.2 alter the conclusions in respect of the Scheme made in my Scheme Report.

2.4 As discussed in 2.2.2, SWL and ZAL have agreed to extend the date by which the Scheme must become effective following sanction from the Court. This change has been made to allow SWL and ZAL sufficient time to communicate the updated details of the transfer in the event that there is a delay to the Scheme Effective Date from 1 July 2019.

2.5 A delay to the Effective Date may be required if a major unexpected issue arises once the Trading Suspension Period has started, and if both parties believe that further testing of administration systems is required before implementing the Scheme (see paragraphs 4.16 to 4.26 for details on the current status of testing).

2.6 I understand the reasons for the extension to the date by which the Scheme must become effective following sanction from the Court, and note that it currently forms part of SWL and ZAL's contingency planning and does not represent an expectation by SWL or ZAL to change the Effective Date.

2.7 ZAL and SWL have indicated that the Effective Date will only be delayed where there is possibility of customer detriment arising if the Effective Date is not delayed. ZAL and SWL will endeavour to keep to the timelines initially communicated to policyholders, the regulators and to the Court.

2.8 ZAL and SWL have informed me that certain policyholders who have opted to surrender their policies, but whose surrenders have not yet become effective, will not be subject to the Scheme. These policies are typically part of group pension arrangements currently administered on the DC Platform, and their surrender is unrelated to Scheme. These policies will therefore be Excluded Policies under the terms of the Scheme.

2.9 ZAL and SWL have adopted this approach to minimise unnecessary disruption for these policyholders and to avoid unnecessarily transferring the records for these policies to the CS Platform, then transferring the policies to SWL under the terms of the Scheme only for the policies to then transfer to another provider shortly after the Effective Date.

- 2.10 This change will be reflected by ZAL and SWL agreeing to exclude these policies from the “Data” for the purposes of the Scheme. These policies will therefore not constitute Transferred Policies for the purposes of the Scheme.
- 2.11 As at 31 December 2018, the aggregate value of the unit funds for the Transferred Policies was £18.2billion, compared to £21.2billion at 31 December 2017. This reduction results in part from the reclassification referred to in 2.10, as well as the surrender of two large pension schemes referred to in 2.21.
- 2.12 In my Scheme Report I noted that some of the Excluded Policies formed part of ZAL’s Corporate Pensions Business. Including further policies of the same type as Excluded Policies does not therefore alter the characteristics of the Excluded Business.
- 2.13 When assessing the expected impact of the Scheme on the group of policies that have been reclassified as Excluded Policies the relevant considerations are the same as those for the other Corporate Pensions policies. Given this, the conclusions set out in my Scheme Report in relation to Excluded Policies that are Corporate Pensions Business apply equally to those policies that have been reclassified. These conclusions were that, in my opinion, the Scheme will have no material impact on the security of benefits; benefit expectations will be maintained; and service standards will remain satisfactory.
- 2.14 Because the servicing of the Excluded Policies has been incorporated into ZAL’s contract with Capita, and the terms of this arrangement maintain the current position, service standards should remain unchanged for Excluded Policies.

Changes to reinsurance arrangements

- 2.15 The Scheme Report noted that ZAL and SWL would put in place a reinsurance arrangement to provide the relevant holders of Transferred Policies with ongoing access to the small number of funds that are managed by ZAL itself rather than a third-party investment manager.
- 2.16 The Scheme Report also noted that, because in most situations it is the policyholder who bears the credit risk associated with investing in a given fund, the reinsurance arrangement would potentially expose those policyholders invested in the funds reinsured to ZAL to a new risk of default by ZAL (although the likelihood of this occurring is remote). In order to mitigate any potential adverse impact, the Scheme requires SWL to cover the relevant policyholders against the risk associated with ZAL becoming insolvent or unable to meet its obligations to SWL under the reinsurance agreement. This protection is limited to Transferred Policies with holdings as at the Effective Date.
- 2.17 Since the date of the Scheme Report, ZAL and SWL have agreed to put in place a Deed of Charge on the reinsured funds. The Deed of Charge will provide SWL with security over the assets of the reinsured funds to the value of the total reinsured amount and will ensure that SWL will rank equally with ZAL’s direct policyholders in the event of ZAL becoming insolvent. Implementing the Deed of Charge will reduce SWL’s counterparty risk. I also note that the Deed of Charge will increase the protection for holders of Transferred Policies in respect of investments made into the funds reinsured to ZAL after the Effective Date.
- 2.18 The deed of charge and the reinsurance agreement were signed by ZAL and SWL on 4 June 2019.
- 2.19 I have reviewed the final versions of both documents and can confirm that they are in line with my experience of reinsurance arrangements and deeds of charge that have been used in similar circumstances previously. I have not considered it necessary to seek legal advice in this regard, but I note that both ZAL’s and SWL’s legal teams and external legal advisors have reviewed the deed of charge and

reinsurance arrangement and they are comfortable that both legal documents achieve their intended goals.

- 2.20 I note that if the deed of charge is ineffective then the position for policyholders invested in the reinsured funds as at the Effective Date will be as described in the Scheme Report. For ease of reference, in my Scheme Report, I noted that SWL has agreed to cover those policyholders with investments in the relevant funds at the Effective Date against the risk associated with ZAL failing to pay out under the reinsurance arrangement with SWL. The deed of charge therefore serves to reduce SWL's counterparty default risk exposure to ZAL, rather than provide direct protection to holders of Transferred Policies insured in the reinsured funds as at the Effective Date.

Developments affecting ZAL

- 2.21 ZAL's Corporate Pension Business has been subject to routine transactions over the period since the disposal agreement was signed and it has received further premiums and paid out claims. In this regard, since the completion of my Scheme Report, two large pension arrangements have been surrendered and have transferred (or are in the process of transferring) from ZAL to other providers. The surrender of these arrangements is unrelated to the implementation of the Scheme. The surrendered business represents roughly £2 billion of assets.
- 2.22 The surrender of these two arrangements represents a material change to the volume of business being transferred by the Scheme. As noted in the Scheme Report, the nature of the Transferred Business is such that it does not have a material impact on the financial position of SWL (as represented by its solvency coverage ratio) and will not affect SWL materially.
- 2.23 The surrender of the two arrangements did not reduce the consideration paid by SWL to ZAL in respect of the Transferred Business.
- 2.24 The effect of the smaller amount of business being transferred by the Scheme has been reflected in the numbers shown in Section 3.

Developments affecting SWL

- 2.25 SWL has informed me of work exploring options to reduce its exposure to reinsured fund links. As part of this exercise, SWL is considering potential ways to reduce its exposure to funds reinsured to and managed by one of ZAL's current investment managers. One potential option would be to invest in equivalent funds managed by the same manager, subject to FCA regulation. SWL has also stated that any implementation costs would be borne by it, rather than by policyholders.
- 2.26 The potential change to the fund link arrangements does not result directly from the implementation of the Scheme – the same option would be available to ZAL if it retained the business. In my opinion, under the revised fund link arrangements, customer outcomes are unlikely to change because the substance of the arrangements will not change, only the legal mechanism by which they are established and maintained. The arrangements will also continue to be subject to FCA regulation. I also note that the affected funds are tax-exempt funds, which means that no tax charge will crystallise upon reorganisation.
- 2.27 SWL anticipates that any change will occur after the Effective Date. SWL is still in the early stages of planning, but has informed me that before any action is taken, it will demonstrate that there is no customer detriment. SWL has well-established procedures relating to the governance of switches designed to ensure fair treatment for investors. However, whilst I anticipate that the revised arrangements are unlikely to change customer outcomes, I note that any change to the fund link arrangements after the Effective Date will be a matter for SWL's Independent Governance Committee to consider.

The UK's decision to leave the European Union

- 2.28 At the time this report was finalised, there is still significant uncertainty concerning the UK's decision to leave the European Union ("**Brexit**"). Given political developments in the UK in the time since I finalised my Scheme Report, Brexit has added an additional dynamic to the implementation of the scheme – specifically concerning the potential for the date of the UK's departure to coincide with the date of the Trading Suspension Period.
- 2.29 In the event that the UK's departure date is set for the weekend of the Trading Suspension Period and there are not transitional arrangements for the UK's departure in place, there is a possibility that there could be significant market volatility. In this instance, it may be desirable for policyholders to have access to their funds in order to effect trades.
- 2.30 SWL and ZAL have tested their ability to implement the systems transition (my analysis on the systems transition can be found in paragraphs 4.16 to 4.35). However, the testing undertaken in conjunction with third parties has not considered any additional demands which may be placed on SWL, ZAL or third parties from implementing any wider changes which may be required on Brexit occurring over the same weekend. For example, where third parties need to implement Brexit changes (which are unrelated to this Scheme) and they are therefore unable to deal with the increased change demand. As a result, there is some uncertainty as to the ability to complete transition timeously to avoid extension of the Trading Suspension Period if Brexit occurs on or around the same time.
- 2.31 Given the significant uncertainty around the final Brexit departure date, I propose to update the Court in a "**Supplementary Note**" that I will finalise on 7 June ahead of the Sanctions Hearing. In my Supplementary Note, I will set out my conclusions in respect of Brexit if this is still a consideration for ZAL and SWL.

ZAL and SWL have investigated contingencies available to them should the departure date coincide with the date of the Trading Suspension Period. I will comment on contingencies available and those put in place if required in my Supplementary Note.

3. Updated Financial Positions of the Companies

- 3.1 The analysis contained in the Scheme Report was based on the financial positions of ZAL and SWL as at 31 December 2017 and 30 June 2018. This section provides updated financial positions of ZAL and SWL as at 31 December 2018.

Financial position of ZAL following the transfer

- 3.2 Table 3.1 sets out an estimate of ZAL's financial position in a pro-forma regulatory balance sheet as it would have been at 31 December 2018, if the Scheme had become effective at that date. The estimated position is compared to the actual position at that date.

Table 3.1: ZAL Solvency II Balance Sheet pre- and post-Scheme (£million)

As at 31 December 2018	Actual	Pro-forma (if Scheme implemented)
Value of assets (A)	48,134	29,951
Best estimate liabilities (B)	(45,199)	(27,016)
Risk Margin (C)	(378)	(379)
Transitional Measure on Technical Provisions (D)	-	-
Total Technical Provisions (E) [(B)+(C)+(D)]	(45,577)	(27,395)
Other liabilities (F)	(789)	(789)
Excess of assets over liabilities (G) [(A)+(E)+(F)]	1,767	1,767
Foreseeable dividends (H)		
Restrictions relating to ring-fenced funds and Matching Adjustment portfolios (I)	(125)	(125)
Subordinated debt counting towards own funds (J)	-	-
Total own funds (K) [(G)+(H)+(I)+(J)]	1,642	1,642
SCR (L)	1,202	1,173
Excess of own funds over SCR [(K)-(L)]	440	469
Solvency coverage ratio [(K)/(L)]	137%	140%

Source: ZAL Calculations

- 3.3 Table 3.1 shows that ZAL's solvency coverage ratio would have increased by 3 percentage points to 140% had the Scheme become effective as at 31 December 2018. If the Scheme had become effective on 31 December 2017, it would have increased ZAL's solvency coverage ratio by 8 percentage points from 160% to 168%.
- 3.4 As discussed in paragraph 2.21, two large schemes have surrendered since I prepared the Scheme Report. Combined with adverse stock market movements which have also reduced the value of the assets comprised within the Transferred Business, the anticipated impact of the Scheme on ZAL's solvency coverage ratio has reduced.
- 3.5 Since 31 December 2017, ZAL's solvency coverage ratio has reduced from 160% to 137%. The primary reasons for the reduction in ZAL's solvency coverage ratio are that ZAL paid a dividend of £250 million to its parent company, and that the PRA increased the capital add-on in respect of ZAL's off-balance sheet pension scheme liability by £39 million from £460 million to £499 million. The dividend payment was set in line with ZAL's dividend policy. ZAL continues to satisfy its capital management policy.

- 3.6 I have considered the contribution that each of the risks to which ZAL is exposed makes to the firm's SCR as at 31 December 2018. Based on this, I am satisfied that ZAL's risk profile has not changed materially between 31 December 2017 and 31 December 2018.
- 3.7 ZAL has made no changes to its capital management policy since the date of the Scheme Report. Based on the information provided, I am satisfied that ZAL complied with its capital management policy on 31 December 2018 and would have continued to comply with it if the Scheme had become effective on that date.

Financial position of SWL following the transfer

- 3.8 In my Scheme Report, I noted that SWL was reorganising its insurance business written in the EU and that this would be effected by means of a Part VII transfer to a subsidiary company in the EU (the "Brexit Scheme"). The Brexit Scheme became effective on 29 March 2019. The "actual" and "pro-forma" figures reported in Table 3.2 below as at 31 December 2018 therefore take into account the expenses of setting up and running the new subsidiary. The residual financial impact of the Brexit Scheme is not material.
- 3.9 Table 3.2 also sets out SWL's estimate of its Solvency II pro-forma balance sheet at 31 December 2018, if the Scheme had been effective at that date. The estimated position is compared to the actual position at that date.

Table 3.2: SWL Solvency II Balance Sheet pre- and post- Scheme (£million)

As at 31 December 2018	Actual	Pro-forma (if Scheme implemented)
Value of assets (A)	119,948	138,114
Best estimate liabilities (B)	(105,579)	(123,733)
Risk Margin (C)	(1,920)	(1,931)
Transitional Measure on Technical Provisions (D)	1,587	1,587
Total Technical Provisions (E) [(B)+(C)+(D)]	(105,913)	(124,078)
Other liabilities (F)	(6,610)	(6,610)
Excess of assets over liabilities (G) [(A)+(E)+(F)]	7,425	7,426
Foreseeable dividends (H)	(300)	(300)
Restrictions relating to ring-fenced funds and Matching Adjustment portfolios (I)	(836)	(836)
Subordinated debt counting towards own funds (J)	1,656	1,656
Total own funds (K) [(G)+(H)+(I)+(J)]	7,946	7,946
SCR (L)	5,488	5,570
Excess of own funds over SCR [(K)-(L)]	2,458	2,376
Solvency coverage ratio [(K)/(L)]	145%	143%

Source: SWL Calculations

- 3.10 Table 3.2 shows that SWL's solvency coverage ratio would have decreased by 2 percentage points had the Scheme become effective as at 31 December 2018. In my Scheme Report, I reported that, had the Scheme become effective on 31 December 2017, it would have decreased SWL's solvency coverage ratio by 3 percentage points.
- 3.11 Since 31 December 2017, SWL's solvency coverage ratio has increased by 5 percentage points. The increase in the solvency coverage ratio arises largely from capital initiatives undertaken by SWL, the

effect of which have been partially offset by the estimated impact of SWL's Brexit Scheme and dividends paid to its parent company over 2018.

- 3.12 I have considered the contribution that each of risks to which SWL is exposed makes to the firm's SCR as at 31 December 2018. Based on this, I am satisfied that SWL's risk profile has not changed materially between 31 December 2017 and 31 December 2018.
- 3.13 SWL has made no changes to its capital management policy since the date of the Scheme Report. Based on the information provided, I am satisfied that SWL complied with its capital management policy on 31 December 2018 and would have continued to comply with it if the Scheme had become effective on that date.

Analysis of the updated financial positions

- 3.14 The conclusions drawn in the Scheme Report relating to the benefit security of the Transferred Policies, the Excluded Policies and SWL's existing business relied on an expectation that ZAL and SWL would comply with their respective capital management policies immediately before the implementation of the Scheme and would continue to comply with these policies after the implementation of the Scheme. This expectation was formed after considering the financial positions of the firms as at 31 December 2017 and 30 June 2018. Having considered the updated financial position of each company as at 31 December 2018, my expectation remains unchanged.
- 3.15 My conclusions in relation to benefit security also relied on analysis of the risk profile of each company, and how this was expected to change as a result of the Scheme. The updated financial information shows that neither company has seen a significant change in its risk profile between 31 December 2017 and 31 December 2018 and that the impact of implementing the Scheme on the companies' risk profiles is expected to be similar to that outlined in the Scheme Report. This does not therefore give me cause to revise the conclusions of the Scheme Report.
- 3.16 In summary, I have considered the updated financial positions of ZAL and SWL and am satisfied that the conclusions set out in the Scheme Report relating to the benefit security of the Transferred Policies, the Excluded Policies and SWL's existing policies remain valid.

4. Administration considerations

Transfer of policies from the DC Platform to the CS Platform

- 4.1 My Scheme Report noted that ZAL was in the process of migrating policies from the DC Platform to the CS Platform and that this project was expected to complete by 1 July 2019 (“**Project Woodstock**”).
- 4.2 Since the date of the Scheme Report, ZAL has entered into client service agreements with all schemes that remained on the DC Platform (where applicable) and customer records have been created on the CS Platform with any ongoing contributions now directed to the CS Platform.
- 4.3 There is some activity outstanding to transfer policyholder assets from the DC Platform to the CS Platform. These assets (“accrued assets”) relate to contributions made before the new customer record was created on the CS Platform. This activity is planned for before the Effective Date, with the final set of these assets expected to transfer in June 2019.
- 4.4 Project Woodstock formed part of ZAL’s “business-as-usual” processes but was implemented in conjunction with SWASL which provided the administration. ZAL provided me with an overview of its processes for migrating pension schemes from the DC Platform to the CS Platform. I reviewed these processes and am satisfied that the likelihood of the accrued assets migration being delayed beyond the agreed migration dates as a result of a technical issue is remote.
- 4.5 The conclusions in my Scheme Report were based on the assumption that the migration from the DC Platform to the CS Platform under Project Woodstock would be complete before the Effective Date. However, to the extent that any accrued assets have not migrated to the CS Platform by the Effective Date, SWL and ZAL have made arrangements for them to continue to be administered from the DC Platform until the migration can be completed. I am therefore satisfied that the conclusions in the Scheme Report remain valid.

Management of Excluded Policies that are Corporate Pensions Business

- 4.6 In my Scheme Report, I noted that ZAL expected to enter into an outsourced arrangement with Capita to administer those Excluded Policies that are Corporate Pensions Business.
- 4.7 ZAL already had a contract in place with Capita for the administration of life insurance business. A work order to extend the scope of this contract to cover the administration of the Excluded Policies that are Corporate Pensions Business was agreed by ZAL and Capita on 18 April 2019.
- 4.8 ZAL, SWASL (which currently administers this business on ZAL’s behalf) and Capita have instigated a handover programme to ensure that the business can be effectively administered by the Effective Date. I have reviewed the handover arrangements and am satisfied that the handover programme remains on track as at the date of the Supplementary Report.
- 4.9 As a contingency, ZAL has entered into an agreement with SWASL under which SWASL will continue to administer the Excluded Policies that are not Corporate Pensions Business in the event that the handover to Capita is not complete by the Effective Date. Under the terms of this agreement, ZAL could continue to outsource administration to SWASL until 30 September 2019, if this became necessary and SWASL will also provide ad hoc support, if required.
- 4.10 The service levels that ZAL has agreed with Capita are the same as those that currently apply to SWASL (and are also consistent with those previously maintained by ZAL). ZAL’s governance of the outsourcing arrangements will be unchanged by the transition from SWASL to Capita.

- 4.11 Therefore, my conclusions in respect of the service standards of the Excluded Policies that are Corporate Pensions Business have not changed from my Scheme Report, namely that, in my opinion, the service standards for the Excluded Policies that are Corporate Pensions Business will remain satisfactory after the Effective Date.

Management of linked funds

- 4.12 In my Scheme Report, I stated that SWL will apply its own control and oversight process to the Transferred Business after the Effective Date (paragraph 6.29 of my Scheme Report). However, at that time the approach to unit pricing controls was still subject to ongoing design and review. I was therefore unable to draw a final conclusion on the appropriateness of the unit pricing controls.
- 4.13 The final design of the management of linked funds has now been completed. SWL has previously stated that its preference was to adopt its own policy in the absence of a specific ZAL policy or practice or where the practices were materially the same. Where ZAL's policies or practices differed from SWL's then ZAL's were to be adopted. In the event, with one exception that I describe below, this approach has been implemented and policies to be adopted have been fully documented.
- 4.14 One change from the draft position presented to me ahead of completing the Scheme Report relates to SWL's proposed approach to treating withholding tax (i.e. tax deducted at source which may otherwise be deductible and offset against a future tax bill). SWL has now decided to adopt its policy instead of ZAL's policy. The nature of the change relates to the timing of making adjustments for this tax rather than a matter of principle. I believe that in this particular element of managing pricing, better control will be achieved by there being a single procedure applying to all of the SWL business. I am comfortable that this change in approach will not have a material adverse effect on Transferred Policyholders.
- 4.15 Given this, I have concluded that the unit pricing controls that SWL intends to apply to the transferred business will be materially the same as those applied by ZAL, with the exception of the treatment of withholding tax where I believe that the adoption of SWL's existing procedures will achieve better control than the continuation of ZAL's procedures. It is therefore my opinion that the unit pricing controls should maintain the interests of holders of the Transferred Policies after the Effective Date.

Implementation of administration systems

- 4.16 I noted in the Scheme Report that SWL proposed to manage all of the Transferred Policies on the CS Platform (and that ZAL had also been in the process of transferring the administration of its Corporate Pensions Business to this platform). However, SWL had concluded that to achieve the most effective implementation of the CS Platform, it was necessary to embed the operation of the CS Platform more fully within its wider systems and processes. This is a significant exercise and its implementation is critical to the successful administration of the Transferred Business. I noted that I would report further on progress in preparing for its implementation.
- 4.17 SWL conducted preparatory testing of the CS Platform, focussing on those areas that were subject to development or change. Areas subject to testing have included the new investment administration functionality and the new split banking and cash flow model.
- 4.18 In addition to the testing, SWL planned three "dress-rehearsals" of the implementation of the CS Platform and the related systems, which simulate the end-to-end cutover processes required to effect the transfer of data, investment links and other system connections over the Trading Suspension Period. Similarly, SWL also undertook various "dry runs", which tested components of the activities required to effect the transfer over the Trading Suspension Period.

- 4.19 The purpose of these dress-rehearsals and dry runs was to identify challenges to achieving the timeline which is to apply over the weekend immediately prior to the Effective Date and to test the interaction of the functionality of the various system developments to ensure a successful implementation.
- 4.20 The first dress rehearsal was carried out between 26 March 2019 and 3 April 2019
- 4.21 The first dress rehearsal was largely successful with data transfers and system uploads being achieved within acceptable timeframes and production testing not identifying any major problems. Useful lessons were learned and were taken into the planning for the second and third dress-rehearsals and final implementation.
- 4.22 The first dress rehearsal provided good insights into what the critical times are for major workstreams being implemented and when a point of no return would be reached (i.e., the last point at which SWL could abort the migration and revert to current systems). This work also gave useful insights into the monitoring which will be required to identify the likelihood of the Trading Suspension Period being extended.
- 4.23 The second dress-rehearsal took place between 23 April 2019 and 2 May 2019 and involved an increased scope compared to the first dress-rehearsal. Whilst this dress-rehearsal addressed those issues and learnings from the first dress-rehearsal, issues were identified in the later parts of the processing requirements which were being implemented for the first time. Specifically, issues were identified with the processing of orders to purchase units and to cancel units. SWL conducted analysis to establish the root cause of the issues and conducted a dry run to ensure that the issues were addressed. This dry-run also demonstrated the likely timescale required to implement this part of the process.
- 4.24 The third and final dress-rehearsal began on 28 May 2019 and is expected to run until 5 June 2019. Because this dress rehearsal is expected to finish after I have finalised this Supplementary Report, I will prepare a Supplementary Note for the Court on 7 June 2019 setting out the results and my conclusions in respect of the third dress-rehearsal.
- 4.25 In reviewing its plan, and assessing its confidence to deliver the migration in time for the proposed Trading Suspension Period, SWL identified delays in the implementation of system development, user acceptance testing and fixing bugs. These have reduced the contingency built into the original delivery plan. In order to maintain confidence in the timeline, SWL has implemented weekly “proof-points” to ensure that all necessary fixes have completed ahead of the final dress-rehearsal.
- 4.26 At present I am satisfied with the progress that has been made and SWL’s assessment of the contingencies in place to ensure the delivery of all systems at the Effective Date. However, I have stressed to SWL the importance that no further delays occur. As noted above, I will update the Court in relation to my conclusions on the implementation of the administration systems following completion of the final dress-rehearsal in my Supplementary Note.

Trading Suspension Period

- 4.27 In my Scheme Report I noted that I had asked SWL and ZAL to continue to seek to shorten the Trading Suspension Period. SWL and ZAL have since undertaken additional analysis to consider whether the length of the Trading Suspension Period can be shortened. The additional analysis has shown that it is not possible to further shorten the Trading Suspension Period. I have considered the analysis undertaken and agree that it would be inappropriate to consider a shorter period than currently planned.
- 4.28 As noted in above, certain critical timings have been identified in assessing the points of no return for the migration process. As part of the production of this assessment, ZAL and SWL have also considered whether a failure of any relevant step would have an impact on customers and what actions could be

implemented to mitigate this impact. I have considered the actions proposed and believe that these are appropriate and will minimise customer detriment.

- 4.29 I have summarised the potential issues, actions available to address these, and potential associated impact on customers below.

Table 4.1 – Cutover issues, actions to address and customer impact

Ref	Issue	Action	Expected customer impact
1	The computer code / scripts required to operate funds post-cutover does not deploy correctly.	Revert back to pre-migration code and repeat the release process.	Trading Suspension Period extension may be required.
2	The migration of assets at State Street does not complete as intended.	Repeat migration process.	Trading Suspension Period extension may be required. May be able to use stale and/or proxy prices for a short period.
3	Corporate Investment Plan product data migration unsuccessful.	Repeat migration process for affected products.	Lift Trading Suspension Period for unaffected products. May require an extension for those that are affected.
4	Third-party administrator set-up unsuccessful.	Repeat process.	Do not anticipate an impact on Trading Suspension Period timelines.
5	Factsheets and website hyperlinks do not function.	Repeat process	Anticipate minimal customer impact from failure of this stage.
6	The application programming interface required for feeds into MI / reporting does not function.	Repeat data extract process	No impact on customers.
7	External funds do not migrate as expected.	Liaise with affected fund managers to effect transfer. SWL will use shareholder funds to allow customers to buy / sell units.	No customer impact.
8	Reconciliations undertaken on migrated funds do not balance.	Resolve issues and repeat reconciliations.	Reconciliation issues will be addressed post-implementation. No customer impact.

- 4.30 One of the actions available to SWL is to extend the Trading Suspension Period. This is only likely to happen if SWL is unable to accurately place and complete policyholder trades into the unit-linked funds and/or produce unit prices by the scheduled resumption of trading. I have reviewed the circumstances which could lead to this happening and also how SWL plans to monitor and respond to them if they occur. Inevitably, should an extension be required to the Trading Suspension Period, customers will not have a great deal of notice of such an extension. However, the proposed continuous monitoring noted in 4.25 above should highlight at an early stage of migration if there are developing issues that will increase the likelihood of it being required. SWL has developed a contingency communication plan to notify customers and their advisers of an extension. I believe that communication plan will be appropriate in these circumstances.

- 4.31 Plans are also in place to use SWL's standard stale or proxy pricing methods as an alternative to extending Trading Suspension Period. "Stale" pricing means allowing policyholders to buy or sell units using the most up-to-date price that is available, even if this is out of date. "Proxy" pricing means allowing policyholders to buy or sell units in a fund at a price that has been estimated by considering how the prices of similar funds have changed since the last date at which up-to-date prices for the fund in question were available.
- 4.32 If, following the Trading Suspension Period, the trading process is working, but for some reason live pricing cannot be produced for any funds then SWL may trigger stale pricing and/or proxy pricing for these funds.
- 4.33 Triggering stale pricing or proxy pricing is an established practice; there are rules and practices in place for when each would be triggered. These methods are intended to provide for the fair treatment of investors in the relevant funds. If the circumstances warranted the use of these alternative methods rather than an extension to the Trading Suspension Period, then these alternatives would be considered by SWL.
- 4.34 In my opinion, the stale pricing and proxy pricing options available are reasonable to be implemented and will result in fair treatment for policyholders. I have no preference for which is used but expect the chosen method to be the appropriate one given the circumstances of the relevant fund.
- 4.35 I consider that my conclusions in respect of the Trading Suspension Period from my Scheme Report continue to apply.

5. Policyholder notification

Communication in relation to the Trading Suspension Period

- 5.1 I have considered ZAL and SWL's communications in relation to the Trading Suspension Period.
- 5.2 ZAL and SWL notified policyholders of the Trading Suspension Period in the initial Notification Pack sent to policyholders. This has given policyholders sufficient time to make arrangements and to plan ahead for the Trading Suspension Period.
- 5.3 From April 2019, ZAL and SWL have been engaging directly with EBCs and employers to remind them of the Trading Suspension Period. From May 2019, ZAL and SWL have been using Annual Benefit Statement inserts to raise policyholder awareness of the Trading Suspension Period.
- 5.4 In addition, ZAL and SWL have planned a further round of communications between April and June that is specifically aimed at reminding policyholders, trustees, payroll administrators (in respect of contributing employers), employee benefit consultants and employers of the Trading Suspension Period.
- 5.5 During the April to June communications, SWL and ZAL will:
- 5.5.1 Remind affected parties of the Trading Suspension Period,
 - 5.5.2 Inform the affected parties when critical services are expected to resume,
 - 5.5.3 Ensure that appropriate numbers of staff are available to answer queries, including client-facing managers, and
 - 5.5.4 Use "pop-ups" on websites to inform users of the Trading Suspension Period.
- 5.6 In my opinion, through the initial Notification Pack, and through the proposed April to June communication activities, policyholders will have been sufficiently informed of the Trading Suspension Period.

Implementation of communication plans

- 5.7 The notification requirements set out in FSMA, and the waivers granted by the Court in respect of some of these requirements, are as set out in my initial Scheme Report. Based on information provided to me by ZAL and SWL, I am satisfied that the notification requirements have been complied with by SWL and ZAL.
- 5.8 To implement the communication plan in line with the notification requirements, Capita Life and Pensions Regulated Services Limited has been contracted to assist with various aspects, including:
- 5.8.1 Providing the contact centre,
 - 5.8.2 Providing training to the call handlers at the contact centre; and,
 - 5.8.3 Managing the response handling process.
- 5.9 ZAL has implemented a "triage" system to allocate the policyholder query and, where necessary, an escalation system to allow Capita to raise queries that it could not handle with the information given to it. Representatives from ZAL and SWL met on a daily basis to review escalated queries and agree responses. ZAL has also implemented a quality assurance program to ensure that call handlers at the contact centre are handling calls correctly and appropriately.
- 5.10 The approach outlined in the previous paragraphs reflects market practice for handling communications in a Part VII transfer.

- 5.11 I am satisfied that the ZAL and SWL's implementation of the communication plan is appropriate and effective. In my opinion, policyholders have had sufficient time to make representations to the Court and to lodge expressions of dissatisfaction and objections.

Communications returns

- 5.12 From the management information provided to me on ZAL and SWL's communications, as at 25 May 2019 the total number of returned notification packs is 8,778. This accounts for an overall return rate of c.2% of policyholder notification packs that had been dispatched by 25 May 2019.
- 5.13 The overall return rate is in line with my expectations and gives me no cause for concern.
- 5.14 Any returned packs are assigned a "gone-away" status identifier. The packs are then incinerated to reduce the security and privacy risks.
- 5.15 Once assigned the gone-away status, ZAL and SWL process customers through their usual gone-away procedures where subsequent correspondence is suppressed, and a customer tracing solution is used to attempt to obtain a new customer address. Where a new address is identified, ZAL and SWL have re-sent a notification pack to the customer.
- 5.16 In my opinion, the procedures in place for handling returned packs and re-communicating with the policyholders are appropriate.

Potential extension to the Trading Suspension Period

- 5.17 If there are delays to the activities required to effect the transfer over the Trading Suspension Period, then SWL may require an extension to the Trading Suspension Period.
- 5.18 In the event that an extension to the Trading Suspension Period is required, it is unlikely that the parties will know before the Monday morning (1 July 2019) of the Trading Suspension Period, as they will need to complete back-testing and completion testing, which are due to occur at the end of the existing Trading Suspension Period.
- 5.19 Therefore, if required, any communication programme would need to be instigated on the Monday or Tuesday of the Trading Suspension Period. SWL will have to act quickly to give maximum exposure to affected parties. SWL has established a process of using Employee Benefit Consultants ("EBCs") and other direct contacts with the trustees or administrators in order to achieve this. SWL will also use widespread notification techniques, such as press and advertisements.
- 5.20 It is not feasible to expect the communication programme to notify all affected parties individually given the timescale, but, in my opinion, the proposed approach will minimise potential policyholder detriment. In this regard, I note that the most material transactions arise from processing payroll by employers and the proposed programme aims to reach them as quickly as possible.

6. Policyholder feedback

- 6.1 Feedback has been received from policyholders (including members, trustees and employers) via the telephone helpline, email, letter or routine servicing visits. I have monitored the feedback received on a weekly basis.
- 6.2 I have been provided with a summary of the responses received from policyholders regarding the Scheme as at 25 May 2019. By this date, 3,639 responses had been registered.
- 6.3 The majority of the responses has fallen into the category of business as usual servicing not related to the Scheme or have been simple queries related to the Scheme process (“Why have you sent me this information?” or “Do I need to do anything?”) and do not warrant further discussion by me in the Supplementary Report.
- 6.4 I have taken the view that, by and large, the same themes have been recorded whether or not the customer wished it to be taken as an objection or expression of dissatisfaction and that I should consider them together to determine if any issues have been raised that I have addressed in the Scheme Report.
- 6.5 These comments are reflective of the specific feedback from those who have raised an expression of dissatisfaction with, or objection, to the Scheme. The number of respondents raising an expression of dissatisfaction or objection with SWL and ZAL are 36 and 26 respectively, as at 25 May 2019.
- 6.6 I have considered the points carefully to determine whether they raise any substantive matters that I had not considered in the Scheme Report and have concluded they do not. Having reviewed the commentary and the relevant objections, the themes can be characterised as follows:

Table 6.1 – Policyholder communication summary

Reference	Issue raised	Brief commentary on the issue raised	Count	
			Objection	Expression of dissatisfaction
6.6.1	Irritation with the amount or nature of communications received in recent years regarding the Scheme and future management of the business.	<p>ZAL and SWL were very aware of the need to communicate information about the Scheme and the associated activity appropriately. ZAL and SWL have endeavoured to balance the need to engage properly with their clients on matters arising from changes to the underlying form of pension provision, the sale of the Corporate Pensions Business to LBG and the need to apply the Trading Suspension Period – while complying with applicable regulatory requirements (including the requirement to give policyholders notice of the Scheme).</p> <p>ZAL and SWL have tailored the communication programme with the aim of keeping it as focused as possible for each type of policyholder and keeping communications to a minimum. I consider that the steps which ZAL and SWL have taken to give notice of the Scheme and matters such as the Trading Suspension Period to be reasonable and appropriate.</p> <p>Inevitably, the information requirements of different policyholders will vary, and some customers may prefer to receive more or less information than others. However, I do not consider that irritation with the number of communications received comprises a substantive objection to the Scheme proceeding.</p>	1	12
6.6.2	The number of changes to pension provider that respondents felt they had had in recent years, and that individual decisions made in relation to those provider changes were possibly over-ridden by the Scheme which does not cater for individual choice.	<p>There have been significant changes to the vehicles available for pension provision in recent years, and this has resulted in many pension arrangements changing structure or provider. This has been sponsored under employment arrangements rather than transfers under insurance business schemes (i.e. the changes have not been initiated by ZAL). Some individuals have identified that they did not move existing accumulated funds to a new provider because they were happy with the existing arrangement with ZAL, but now would have no choice in the matter. In effect, the Scheme will maintain the current arrangement since policy terms will not change, the policy will remain invested in the same assets (managed by the same investment manager).</p>	4	8

Reference	Issue raised	Brief commentary on the issue raised	Count	
			Objection	Expression of dissatisfaction
6.6.3	Dis-satisfaction with SWL's investment performance and service standards (related to other SWL products held by the individuals) or concern that the SWL brand was not familiar to policyholders.	As noted in 6.6.2, the assets underpinning the Transferred Business will be unchanged on implementing the Scheme and will be managed by the same investment managers. As a result, there is no reason to believe that investment performance would deteriorate simply due to the business having been transferred to SWL. Similarly, administration will be provided by the same business unit that administered the business in ZAL and they will use the system which ZAL had been developing.	6	4
6.6.4	The Trading Suspension Period would be adverse for policyholders as they could not take advantage of market movements during this period.	It is correct that policyholders will not be able to take advantage of any market events that may occur in the Trading Suspension Period. I considered this in some detail in the Scheme Report and concluded that the complexity of the implementation of the CS Platform and the related process changes was such that having the Trading Suspension Period was the best way to achieve and effect an efficient cutover and to ensure the fair treatment of the holders of Transferred Policies. This will reduce the risk of the cutover not completing successfully which would result in unplanned disruption to the management of the unit funds.	0	3
6.6.5	The lack of an option under the Part VII process for customers to opt out.	This is a consequence of the process set out in FSMA, which does not require insurers to provide policyholders with an option to opt-out of the transfer.	2	2
6.6.6	Objection to changes to policy terms and conditions or a perception that the Scheme will result in a change to the nature of the Transferred Policies or will result in changes to investments and/or charges.	The Scheme will not alter the generality of the policy terms and conditions but will make some minor changes to certain Transferred Policies to ensure that SWL can effectively manage these policies following the Effective Date. I am satisfied that none of these changes will alter policyholders' rights and obligations. As noted above, the assets underpinning the Transferred Business will be unchanged on implementing the Scheme and will be managed by the same investment managers. As a result, there is no reason to believe that investment performance would deteriorate, or the range of investment funds would change simply due to the business having been transferred. I have also concluded that charges on the Transferred Business are not expected to increase solely due to the Scheme being implemented and the rationale for this is set out in the Scheme Report.	3	5

Reference	Issue raised	Brief commentary on the issue raised	Count	
			Objection	Expression of dissatisfaction
6.6.7	Concern that the Scheme may reduce the protection provided by the Financial Services Compensation Scheme ("FSCS"), particularly for policyholders who have other financial products provided by SWL or Lloyds Banking Group.	Based on current FSCS rules, all protections afforded to the Transferred Business under the terms of the FSCS prior to the Effective Date will continue to apply after the Effective Date, unaffected by other products that a policyholder may have been issued by SWL or any other member of Lloyds Banking Group.	2	0
6.6.8	Previous negative experiences in relation to transfers of pensions business and/or a perception that transfers have a negative impact on policyholders.	Transfers of insurance business are subject to the protections set out in Part VII of the FSMA. In my Scheme Report I concluded that, in my opinion, the Scheme will not have a material adverse impact on the security of the benefits of the Transferred Policies; the Scheme will not have any impact on the benefit expectations of the Transferred Policies; and the standard of servicing of the Transferred Policies will be maintained after the Scheme has been implemented.	5	1

A total of three policyholders objecting to the transfer provided no reason for lodging their objection.

- 6.7 Where contact from a customer was identified as an expression of dissatisfaction or as an objection, I have reviewed the feedback from the customer and the response provided to customers by ZAL and SWL.
- 6.8 In the responses, ZAL and SWL have provided customers with information to address their concern. Each response acknowledges the policyholder's complaint. Where appropriate, the responses provide information to address the policyholder's concern in line with my commentary in paragraph 6.6.
- 6.9 In some cases, assistance provided has included referring the customer to a more appropriate channel, for example, to assist with a "business-as-usual" query (for example to process a change of name), or to help the customer transfer their funds to another provider in advance of the Effective Date.
- 6.10 In all of the responses that I have reviewed, the customer has been informed that their expression of dissatisfaction or objection will be lodged with the Court.

- 6.11 Where customers have subsequently withdrawn their objection, ZAL and SWL have kept records of the issue raised and intend to share this information with the Court. However, one customer that withdrew their objection has requested that their details not be shared, and therefore the details of their withdrawn objection will not be shared with the Court.
- 6.12 SWL and ZAL have provided to me management information on the policyholder communications to date (25 May 2019). The management information shows that, from the date that first communication was received, it has taken ZAL and SWL no more than 5 working days to respond to a customer's query.
- 6.13 From my review of the responses and the management information on the policyholder communications, I consider the responses to be appropriate to the matters raised, including the assistance provided to policyholders wishing to take other actions.
- 6.14 I have also reviewed a sample of those cases that were not recorded as Expressions of Dissatisfaction or Objection to ensure that no other issues were raised which may have required my further consideration in respect of the conclusions set out in the Scheme Report.

7. Conclusions

7.1 Based on the analysis set out in this Supplementary Report, I am content that all of the conclusions set out in the Scheme Report remain valid. These conclusions are re-stated below.

Transferred Policies

7.2 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of the Transferred Policies.

7.3 In my opinion, the Scheme will not have any impact on the benefit expectations of the Transferred Policies.

7.4 In my opinion, the standard of servicing of the Transferred Policies will be maintained after the Scheme has been implemented.

7.5 I have concluded that the Trading Suspension Period proposal is appropriate and consistent with the fair treatment of the holders of the Transferred Policies.

Excluded Policies – Corporate Pensions Business

7.6 I conclude that the implementation of the Scheme will have no impact on security of benefits of the Excluded Policies that are Corporate Pensions Business.

7.7 In my opinion, benefit expectations of the Excluded Policies that are Corporate Pensions Business will be maintained on the implementation of the Scheme.

7.8 In my opinion, the service standards for the Excluded Policies that are Corporate Pensions Business will remain satisfactory.

Excluded Policies – non-Corporate Pensions Business

7.9 I conclude that the implementation of the Scheme will have no impact on security of the benefits of Excluded Policies that are not Corporate Pensions Business.

7.10 In my opinion, on the implementation of the Scheme there will be no impact on benefit expectations of the participants in the 90:10 Fund.

7.11 In my opinion, benefit expectations of the Excluded Policies that are not Corporate Pension Business in the 100:0 Fund, the DCP Fund and the NP Fund will be maintained on the implementation of the Scheme.

7.12 In my opinion, the service standards for Excluded Policies that are not Corporate Pensions Business will not be impacted by the implementation of the Scheme.

SWL's Existing Policyholders

7.13 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of SWL's existing policyholders.

7.14 In my opinion, the Scheme will not have a material adverse impact on the benefit expectations of SWL's existing policyholders.

7.15 In my opinion, the servicing and administration of SWL's existing policies will not be affected by the Scheme.

Equity between policyholders

7.16 I am satisfied that the Scheme is equitable between the Transferred Policies and the Excluded Policies (both Excluded Policies that are Corporate Pensions Business and Excluded Policies that are non-Corporate Pensions business). I arrive at this conclusion because none of these groups stand to lose or gain materially over each other.

Policyholders subject to the Island Schemes

7.17 In my opinion, the security of policyholders' benefits will be maintained following the implementation of the Island Schemes. It is also my opinion that the benefit expectations and service standards of policyholders will be maintained following the implementation of the Island Schemes.

Other stakeholders

7.18 The contractual arrangements with other third parties providing services to ZAL will be maintained either because they relate to the business retained by ZAL or they transfer to SWL under the terms of the Scheme.

8. Certificate of Compliance

- 8.1 I confirm that I am aware of the requirements applicable to experts as set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the instruction of Experts in Civil Claims.
- 8.2 I understand that my duty in preparing the Supplementary Report is to help the Court on all matters within my expertise and that this duty overrides any obligation I have to those instructing me and / or paying my fee. I confirm I have complied with this duty and with the requirements referred to in 8.1 above.
- 8.3 I confirm that opinions I have expressed represent my true and complete professional opinions on the matters to which they refer. I confirm that I have made clear which facts and matter referred to in the Supplementary Report are within my own knowledge and which are not.



J L McKenzie

04 June 2019

Fellow of the Institute and Faculty of Actuaries

Appendix 1 – Principal Documents Reviewed

The principal documents reviewed in preparing the Supplementary Report were:

Document
SWL Chief Actuary Supplementary Report
ZAL Chief Actuary Supplementary Report
ZAL With-Profit Actuary Supplementary Report
SWL Solvency and Financial Condition Report (as at 31/12/18)
ZAL Solvency and Financial Condition Report (as at 31/12/18)
Final Deed of Charge agreement
Final reinsurance arrangement
Summary of communications received
Communications with customers lodging an Objection or an Expression of Dissatisfaction
Weekly Communication Status MI
Witness statement of Michael Harris (SWL)
Witness statement of Gino Corsini (SWL)
Witness statement of Tabitha Chivers (ZAL)
ZAL SCR breakdown
SWL SCR breakdown
Trading suspension period length analysis
Weekly administration system implementation updates