



**Proposed Scheme for the transfer to Scottish Widows Limited of certain
long-term insurance business of Zurich Assurance Ltd**

Supplementary Report of ZAL's

With-Profits Actuary

on the Proposed Transfer of Business

Pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

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1 Introduction

1.1 Background

- 1.1.1 This report is a supplementary report (this 'Supplementary Report') to the main With-Profits Actuary's Report entitled "Report of ZAL's With-Profits Actuary on the Proposed Transfer of Business Pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA")" dated 1 February 2019.
- 1.1.2 All definitions and abbreviations that I have used in the main With-Profits Actuary's Report also apply to this Supplementary Report. A list of the abbreviations used in the main With-Profits Actuary's Report and this report is included in Appendix A.
- 1.1.3 In the main With-Profits Actuary's Report, I concluded that, in my opinion:
- (i) The security of benefits for the With-Profits policyholders in ZAL is not materially affected as a result of the Scheme.
 - (ii) The Scheme does not result in material changes to the benefit expectations of the With-Profits policyholders. Policy terms and conditions are unchanged and there is no change to the methodology for setting policy charges. The circumstances under which policyholder benefits would be adversely affected are not materially changed as a result of the Scheme.
 - (iii) The Scheme does not result in any policy being transferred in or out of any of ZAL's With-Profits funds.
 - (iv) There are no changes to the principles or practices of financial management by which the ZAL With-Profits funds are managed, including the bonus setting methodology.
 - (v) The administration and management of ZAL's With-Profits policies and the treatment of ZAL's With-Profits policyholders are unchanged as a result of the Scheme.

It was my opinion, therefore, that ZAL's With-Profits policyholders will not be materially adversely affected by the implementation of the proposed Scheme. In particular, I believed that the Scheme will maintain the security of benefits of ZAL's With-Profits policyholders, have no material adverse effect on their reasonable benefit expectations, and will not adversely impact the fair treatment of With-Profits customers.

- 1.1.4 The purpose of this Supplementary Report is to update my conclusions taking into account any significant events and financial information available after the date of the main With-Profits Actuary's Report, and to consider whether it remains appropriate to proceed with the Scheme.

1.2 Scope

- 1.2.1 I am writing this Supplementary Report in my capacity as the With-Profits Actuary for ZAL. This Supplementary Report is addressed to the Board of Directors of ZAL, but will also be provided to the Independent Expert, ZAL's Chief Actuary, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA') in order to assist their assessments of the proposals.
- 1.2.2 This Supplementary Report places reliance on the calculations considered by the Chief Actuary in his supplementary report on the Scheme. While I have reviewed those calculations, I have not sought to reproduce them here. I have also taken into account, but not relied upon, the opinion of the Chief

Actuary, as set out in his main and supplementary Chief Actuary's Reports to the Board of ZAL on the impact of the Scheme.

- 1.2.3 Consequently, this Supplementary Report should be read in conjunction with the main Chief Actuary's Report and his supplementary report, the main With-Profits Actuary's Report, the Scheme, and the Independent Expert's Report and his supplementary report on the Scheme.

1.3 Compliance with Actuarial Standards

- 1.3.1 This Supplementary Report has been prepared in accordance with the Technical Actuarial Standards (TAS) issued by the Financial Reporting Council (FRC). These standards were described in more detail in the main With-Profits Actuary's Report.
- 1.3.2 This Supplementary Report has also been prepared in accordance with the Actuarial Professional Standard APS X2: Review of Actuarial Work. The preparation of this Supplementary Report involved an internal review by another senior actuary in the company, Matthew Brownlie FIA.

1.4 Structure of this Supplementary Report

- 1.4.1 This Supplementary Report is structured as follows:
- Section 2 outlines the developments since the main With-Profits Actuary's Report;
 - Section 0 sets out my conclusions;
 - Appendix A lists the definitions and abbreviations used in this Supplementary Report and the main With-Profits Actuary's Report.

2 Developments since the main With-Profits Actuary's Report

2.1 Changes to the Scheme

- 2.1.1 Since the date of the main With-Profits Actuary's report, Schedule 1 to the Scheme has been updated. Areas of note include the addition of details of fund manager arrangements and reinsurance arrangements that are expected to transfer under the Scheme and an extension on the existing "long-stop date". It is my opinion that this does not constitute a material change to the terms of the Scheme.

2.2 ZAL's Solvency Position

- 2.2.1 The Chief Actuary confirmed in his main report that ZAL's solvency ratio decreased from 160% to 137% between 31 December 2017 and 31 December 2018, reflecting an increase in the capital add-on covering ZAL's staff pension scheme risk from £460m to £499m and dividends of £250m paid to ZAL's parent company. This is in line with ZAL's capital management policy, which is to consider paying a dividend when ZAL's solvency ratio is above its target range. The 31 December 2018 solvency ratio is still above ZAL's target range and the conclusions expressed in the main With-Profits Actuary's Report are not affected by this updated position.
- 2.2.2 ZAL's updated solvency position after the proposed Scheme continues to show a slightly improved solvency ratio, therefore with-profits policyholders would have slightly greater security as a result of this Transfer.

2.3 Benefit Expectations of With-Profits Policyholders

- 2.3.1 Below I provide an update to my analysis of the likely impact of the proposed Scheme on the benefit expectations of the With-Profits policyholders of ZAL.

2.3.2 90:10 Fund Expense Allocation – Group Pension

As noted in the main With-Profits Actuary's Report, analysis of the likely impact of the Scheme suggests that the Scheme will result in a small reduction in the allocated unit costs for with-profits policyholders, but this cannot be determined with certainty until after the Effective Date. This being the case, ZAL has committed to ensuring that the unit cost allocation as regards these with-profits policies does not increase as a result of the Scheme.

- 2.3.3 I therefore continue to conclude that With-Profits group pension business will not be materially adversely impacted by the Scheme

2.3.4 90:10 Fund Expense Allocation – Future Vesting Annuities

As noted in the main With-Profits Actuary's Report, the 90:10 With-Profits fund bears the cost of certain guaranteed annuities. The cost to the 90:10 With-Profits fund, though, is not guaranteed and is dependent on actuarial assumptions at the time of purchase. My opinion remains that any impact of the Scheme on this cost to the 90:10 With-Profits fund will not be material.

With-Profits policies, with the option to convert to an annuity plan without guaranteed rates, can purchase an annuity from ZAL or other providers at prevailing market rates at the time of vesting. Therefore, since these policyholders' expectation is to have the option to purchase an annuity at

whatever rates are prevalent at the time, the Scheme has no material adverse impact on the benefit expectation of these policyholders.

2.3.5 My conclusion therefore remains that the impact of the Scheme on the cost of future vesting annuities is within the scope of normal business activity, and has no material adverse impact on With-Profits policyholders' benefit expectations.

2.3.6 100:0 Fund transfers from DCP Fund

I noted in the main With-Profits Actuary's Report, that transfers of 1% of the surplus arising in respect of the DCP Fund between financial year 2005 and 2024 are made into the 100:0 Fund, subject to a maximum of initially £1m, increasing each year with the UK Retail Prices Index inflation as published by the Office for National Statistics. This transfer is defined on the Solvency I Regulatory Return basis.

2.3.7 The Chief Actuary confirmed in his supplementary report that no surplus arose in the DCP Fund in 2018.

2.3.8 The Chief Actuary also confirmed in his supplementary report that, on current best estimate assumptions as at 31 December 2018, no transfers from the DCP Fund into the 100:0 With-Profits Fund are expected to arise for any year from 2019 to 2024, and that this will not change as a consequence of the Scheme.

2.3.9 The Chief Actuary also noted that, should a surplus arise, then as a result of the Scheme, that surplus may be larger than it otherwise would have been in the absence of the Scheme.

2.3.10 Consequently, it remains my view that the Scheme has no material adverse impact on 100:0 with-profits policyholders.

Conclusion

2.3.11 I therefore conclude that there will be no material changes to the reasonable benefit expectations of existing ZAL 90:10 with-profits policies or ZAL 100:0 with-profits policies as a consequence of the Scheme.

2.4 Policyholder Communications

2.4.1 I noted in the main With-Profits Actuary's Report that with-profits policyholders are sent an annual customer mailing between March 2019 and March 2020, which will comment upon the Scheme and its impact on the fund. I also noted that ZAL will also comment upon the Scheme and its impact on the fund when ZAL publishes the 2019 report telling policyholders whether it has complied with its obligations in the Practices and Principles of the Financial Management.

2.4.2 There have been no changes to these communication plans described above. ZAL has started informing customers in their annual bonus mailing and will continue to do so during the year until all customers have been informed.

2.4.3 From enquiries I have made, I am informed that, as of 25 May, there have been no queries on the proposed transfer received by the dedicated Part VII contact centre from With-Profits policyholders.

2.5 Other Developments

2.5.1 As discussed in the main Chief Actuary's Report, Remaining Policies will be serviced by Capita Life and Pensions Regulated Services Limited ('Capita') on behalf of ZAL.



This will be implemented through an extension to the existing administration contract between ZAL and Capita, which already covers the administration of approximately 1.4m policies. This arrangement will include Capita implementing the same administration processes that are currently used. This will ensure that the service standards provided to Remaining Policies and governance structures are not materially adversely affected.

In addition, ZAL and SWASL have agreed that the current administration team within SWASL will continue to support Capita for a period of 3 months after the transfer, to ensure a smooth handover between SWASL and Capita and to help ensure that Remaining Policyholders are not adversely affected by the change in administration.

- 2.5.2 Given the new arrangement with Capita, I conclude that the service standards for With-Profits policyholders are not materially adversely impacted by the Scheme.

3 Conclusion

- 3.1.1 The updated financial positions and other matters described in this Supplementary Report have not affected the conclusions I have set out in the main With-Profits Actuary's report.
- 3.1.2 Therefore, my opinion remains that:
- (i) The security of benefits for the with-profits policyholders in ZAL is not materially affected as a result of the Scheme.
 - (ii) The Scheme does not result in a materially adverse effect on the reasonable benefit expectations of the with-profits policyholders. Policy terms and conditions are unchanged and there is no change to the methodology for setting policy charges. The circumstances under which policyholder benefits would be adversely affected are not materially changed as a result of the Scheme.
 - (iii) The Scheme does not result in any policy being transferred in or out of any ZAL with-profits funds.
 - (iv) There are no changes to the principles or practices of financial management by which the ZAL with-profits funds are managed, including the bonus setting methodology.
 - (v) The administration and management of policies and treatment of ZAL's with-profits policyholders are unchanged as a result of the Scheme.
- 3.1.3 It is my opinion, therefore, that ZAL's with-profits policyholders will not be materially adversely affected by the implementation of the proposed Scheme. In particular, I believe that the Scheme will not materially affect the security of benefits of ZAL's With-Profits policyholders, have no materially adverse impact on their reasonable benefit expectations, and will not adversely impact on the ability for them to be treated fairly.

Martin Godwin, FIA
With-Profits Actuary
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Appendix A: Terms and definitions

Terms used in this Report and the Main With-Profits Actuary's Report

Chief Actuary	The actuary appointed from time to time to perform the duties set out in the Actuaries Section of the PRA Rulebook and SUP 4.3.13 of the FCA Handbook.
Contract Based Policies	Policies where ZAL has a contract with the underlying members of the associated pension scheme. This comprises policies from the Zurich Group Personal Pension Plan
Excluded Policies	As defined in section 2.2 of the main With-Profits Actuary's report
FCA	Financial Conduct Authority, the regulator of the financial services industry in the UK responsible for conduct of financial services firms including the fairness of financial services contracts.
FSMA	The Financial Services and Markets Act 2000 (as amended).
FSCS	The Financial Services Compensation Scheme
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA.
Investment Only Policies	Policies where ZAL has a contract to administer only the investments underlying the associated pension scheme. This comprises policies from the Zurich Corporate Investment Plan and Zurich Group Investment Only.
Non-Profit Policyholders	Individuals or entities holding one or more policies that are not With-Profits
Policy or Policyholder	have the meanings set out in Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361);
PRA	Prudential Regulation Authority, the regulator of the financial services industry in the UK responsible for the safety and soundness of firms and securing an appropriate degree of protection for policyholders.
Remaining Policies or Remaining Policyholders	As defined in section 2.2 of the main With-Profits Actuary's report
Scheme	The insurance business transfer scheme that is the subject of this report.
SFCR	The Solvency and Financial Condition Report is an annual, publicly available, report summarising the Solvency and Financial position of the

	company. This is published in accordance with Articles 51, 53, 54 and 256 of Directive 2009/138/EC of the European Parliament and of the Council.
Solvency II	A capital adequacy regime for the European Union insurance industry covering both capital requirements and risk management standards applicable from the 1 January 2016.
Stakeholder Policies	Policies where ZAL has a contract with the underlying member and that contract satisfies specific government requirements, for example limits on charges. This comprises policies from the Zurich Group Stakeholder Plan.
Transferring Policies or Transferring Policyholders	As defined in section 1.1 of the main With-Profits Actuary's report
Trust Based Policies	Policies where ZAL has a contract with the trustees of the associated pension scheme. This comprises policies from the Zurich Occupational Money Purchase Plan, Zurich Group Transfer Plan and Zurich AVC Plan.
TUPE Arrangement	An arrangement enabling employees to move to a new employer under the Transfer of Undertakings (Protection of Employment) Regulations.
With-Profits	Any business of an insurer that may affect the amount or value of the assets comprising a With-Profits fund as set out in the Glossary section of the FCA Handbook.
With-Profits Actuary, or WPA	The actuary appointed to perform the With-Profits Actuary function and the duties set out in the Actuaries Section of the PRA Rulebook and SUP 4.3.16A of the FCA Handbook.

Company Abbreviations Referred to in this Report and the Main With-Profits Actuary's Report

ESLAC	Eagle Star Life Assurance Company Limited
Capita	Capita Life and Pensions Regulated Services Limited
LBG	Lloyds Banking Group Ltd
SIML	Sterling ISA Managers Ltd
SWASL	Scottish Widows Administration Services Ltd
SWG	Scottish Widows Group Ltd
SWL	Scottish Widows Ltd



ZAL	Zurich Assurance Ltd
Zurich Group or ZIG	Collectively the companies and subsidiaries of the ultimate holding company Zurich Insurance Group Ltd ('ZIG')
