Hodge Life Assurance Company Limited
Omnilife Insurance Company Limited

Report by the Independent Expert on the proposed transfer the business of Hodge Life Assurance Company Limited to Omnilife Insurance Company Limited by means of a Scheme under Part VII of the Financial Services and Markets Act 2000

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For and on behalf of Hymans Robertson LLP

27 October 2022

Contents

A term in this report that is underlined indicates that it is explained in the glossary, which can be found in Appendix 1. A number of abbreviations are also used throughout this report. These are defined where they are first used and also in Appendix 2.

1. Introduction

Background

1.1. Hodge Life Assurance Company Limited ("HLAC") and Omnilife Insurance Company Limited ("Omnilife") are authorised insurance companies, both registered in England & Wales, who share the same ultimate parent company, Reinsurance Group of America, Incorporated ("RGA Inc"). HLAC and Omnilife (together, the "parties") propose to transfer HLAC's insurance business to Omnilife by means of the process set out in Part VII of the Financial Services and Markets Act 2000 ("FSMA").

1.2. This transfer will allow RGA Inc and its subsidiaries (collectively, the "RGA Group") to consolidate two closed books of predominantly annuity business into a single legal entity. This is expected to result in operational efficiencies and economies of scale, such as a simpler group structure and having to fulfil regulatory responsibilities – such as producing financial reports – for one company rather than two. The ultimate benefits are expected to be lower overall running costs, more efficient use of the management team's time, and reduced operational risk.

1.3. Under the Part VII process, the parties must make an application to a court to sanction a scheme of transfer (the "Scheme"). When both companies are registered in England & Wales the relevant court is the High Court of Justice in England & Wales (the "Court"). The application to the Court must be accompanied by a report on the terms of the transfer (the "Scheme Report"), produced by a person nominated or approved by the Prudential Regulation Authority ("PRA") for that purpose (the "Independent Expert").

Instructions

1.4. I have been instructed jointly by HLAC and Omnilife to report in the capacity of Independent Expert on the terms of the Scheme, pursuant to Section 109 of FSMA. My appointment as the Independent Expert has been approved by the PRA, them having consulted with the Financial Conduct Authority ("FCA").

1.5. The purpose of my work is to provide a comprehensive Scheme Report on the likely effects of the proposed Scheme. My duty is to the Court, and this Scheme Report is primarily for the purpose of assisting it in considering the Scheme presented to it for sanction under Section 111 of FSMA. While not the primary audience of my Scheme Report, I also expect it to be used by:

- the policyholders of HLAC and Omnilife, to assist them in understanding the likely effects of the Scheme,
- the directors and senior management of HLAC and Omnilife, to assist in the decision whether to present the Scheme to the Court,
- the PRA and the FCA, and
- the professional advisers of any of the above assisting in the development and implementation of the Scheme.

1.6. My fees for preparing the Scheme Report will be met equally by HLAC and Omnilife.

Scope of the Scheme Report

1.7. My terms of reference, which include rules on expert evidence, are set out in Appendix 3 and have been approved by the PRA and the FCA.

1.8. The Scheme Report considers the likely effects of the terms of the Scheme in general but its principal focus is to consider the expected impact of the Scheme on the policyholders of HLAC and Omnilife.

Consideration is also given to the impacts on different lines of business to ensure that the Scheme does not affect their interests inappropriately.

1.9. My terms of reference require me to assess whether the Scheme is expected to have a material adverse effect on any group of policyholders. For the particular Scheme proposed I would consider a material adverse effect to arise if any of the following is true:

- the benefits expected to be paid under a policy reduce as a result of the Scheme,
- the level of service provided to policyholders deteriorates as a result of the Scheme, and
- the security of policyholder benefits is materially reduced as a result of the Scheme.

1.10. In forming my definition of material adverse effect, I note that all of HLAC's policies, and the vast majority of Omnilife's policies, are non-profit annuity contracts where the benefits are codified in the policies' terms and conditions. Policyholders should therefore reasonably expect there to be no change to their benefits as a result of decisions taken by their insurer, including a decision to transfer business to or accept a transfer of business from another insurer.

1.11. My determination of whether the security of policyholder benefits is materially reduced as a result of the Scheme will be based primarily on the regulatory balance sheets of HLAC and Omnilife, but with consideration given to risks not captured by those balance sheets, such as risks which may emerge after the first year. In particular, my determination will consider how the level of capital held compares to the regulatory requirements, taking into account the risks to which each firm is exposed. For the purpose of these comparisons, no weight will be placed on any excess capital that may be distributed by management through the payment of dividends in line with their established capital management and dividend policies.

Status, credentials and independence

1.12. I have provided the PRA and the FCA with a statement of my suitability and my independence to fulfil the role of the Independent Expert reporting on the proposed Scheme. My peer reviewer has also provided a similar statement to the PRA and the FCA.

1.13. I am a partner of Hymans Robertson LLP ("Hymans Robertson") and a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1999. I have held the Chartered Enterprise Risk Actuary designation since 2011. I hold the Chief Actuary (Life) and With-Profits Actuary practising certificates issued by the IFoA.

1.14. In detailing my independence, the independence of those Hymans Robertson employees who have assisted me in preparing this Scheme Report, and that of my peer reviewer, the following matters were disclosed:

- None of us have provided consulting services the RGA Group, including HLAC or Omnilife, in the past five years.
- Our personal remuneration is not influenced by, or related to, the outcome of the proposed Scheme. There are no financial incentives, of which I am aware, that could act as an impediment to my independence.
- None of us, nor any of our immediate families have any policies, investments, shareholdings or other financial interests in HLAC, Omnilife or the RGA Group.
- Hymans Robertson has undertaken a very limited number of projects for HLAC, Omnilife and other members of the RGA Group over the last three years. The fees related to these services have not

amounted to more than 0.4% of Hymans Robertson's gross aggregate revenues over the period 1 April 2019 to 31 March 2022.

Other advice and opinions

1.15. Mr Stephen Grigg, who is the Chief Actuary for both HLAC and Omnilife, has prepared a separate report on the Scheme for each firm's Board. I have read these reports. I have relied on the information and analysis set out in Mr Grigg's reports, and I note their conclusions in respect of the impact of Scheme on policyholders' benefit expectations and on the future security of those benefits.

Reliances and Limitations

1.16. The Scheme Report is subject to the terms and conditions (including the reliances and limitations) of an engagement letter dated 4 May 2022.

1.17. Prior to being lodged with the Court, the Scheme Report (or drafts thereof) may also be provided to the management and advisors of HLAC and Omnilife (and other members of the RGA Group) who have a reasonable requirement to have a copy in the execution of their duties or to ensure the effective implementation of the Scheme. For this purpose, "advisor" includes the statutory auditor of each of HLAC and Omnilife, where required for the purpose of completing the audit.

1.18. The parties have provided me with all of the information that I have requested. The principal documents that I have reviewed in preparing the Scheme Report are listed in Appendix 4. I have also had access to and discussions with senior management of HLAC and Omnilife to assist me in completing my report. I have reviewed the information provided and have challenged its accuracy where, based on my experience, it did not immediately appear to be entirely clear, or where there appeared to be inconsistencies. Having considered the explanations and additional information provided by HLAC and Omnilife, I am satisfied with the reasonableness, consistency and completeness of the written and oral information provided. However, I would note that my review is not, and should not be considered to be, a full validation of the information provided. In that context, I have necessarily relied on the information provided to me.

1.19. I have considered whether any elements of the Scheme and its implementation introduce matters which are outside my professional and practical experience as an actuary working in the life insurance and financial services industry. In particular, I have considered whether there are any such aspects of the Scheme which rely on legal or tax opinions or advice and which would materially influence my assessment of the Scheme and the conclusions which I have reached. In my opinion, there are no such features present in the Scheme and I have not considered it necessary to seek expert advice on such matters.

1.20. The Scheme Report should be considered in its entirety as individual sections, if taken in isolation, could be misleading. I have also prepared a summary of the Scheme Report for inclusion in the communications to be sent to the various groups of policyholders (and, where relevant, distributed to any persons requesting a copy of such communications). Any other purported summary of the Scheme Report or part thereof must not be treated as having been approved or authorised by me.

1.21. In accordance with the legal requirements under FSMA, copies of the Scheme Report and any summary approved by me may be made available to policyholders of HLAC and Omnilife and to other interested parties. The Scheme Report will be made available for inspection by policyholders and other interested parties on the HLAC and Omnilife websites. A summary of the Scheme Report, along with other Scheme documentation and an explanatory letter, will be sent to policyholders in line with the communications strategy presented to the Court.

1.22. The Scheme Report has been prepared on an agreed basis for HLAC and Omnilife and must not be relied upon for any other purpose than that intended, namely to report to the Court on the terms of the Scheme. No liability will be accepted for use of the Scheme Report for any purpose other than for which it was intended, nor for any misunderstanding of any aspect of the Scheme Report by any user. No liability is accepted to any third parties unless it has been accepted in writing. Furthermore, no liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999. Draft versions of the Scheme Report may not be relied upon by any person for any purpose and must not be used or distributed by HLAC or Omnilife (or any other party receiving such a draft).

1.23. This report should not be interpreted as fact or likelihood or expectation of a particular financial outcome. Hymans Robertson accepts no liability of any kind for any resulting loss, whether direct or indirect, from any decisions made using the information contained in this report. Any analysis included is provided "as-is" and without warranty or guarantee of any kind.

1.24. Hymans Robertson does not provide legal services and therefore we accept no liability to HLAC, Omnilife, any other member of the RGA Group or to any other third party in respect of any opinions on legal matters. Furthermore, and noting my comments in paragraph 1.19, nothing in this report should be considered to be investment, accounting or tax advice, which are also outside of the scope of our work. The parties will therefore need to take their own advice in respect of any such matters arising out of this report. No part of this Scheme Report should be taken as a recommendation for any person to maintain, surrender, invest further or refrain from investing in policies issued by either HLAC or Omnilife.

1.25. The information in the report has been compiled by Hymans Robertson and is based upon our understanding of legislation and of events at the date of this report. I will prepare a supplementary report for the Sanctions Hearing, at which the approval of the Scheme will be considered, to confirm or otherwise update the conclusions set out in the Scheme Report in the light of any changed circumstances.

Regulatory and Professional Guidance

1.26. The Scheme Report has been prepared in line with the regulatory guidance issued by the PRA, as set out in Statement of Policy "The PRA's approach to insurance business transfers" January 2022. Its preparation is also in line with the regulations set out in Chapter 18 of the Supervision Manual of the FCA Handbook ("SUP18") and the FCA's guidance set out in Finalised Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers". Compliance with these requirements is demonstrated in Appendix 5.

1.27. The Financial Reporting Council sets out technical actuarial standards for members of the IFoA. This report is subject to and complies with the following standards:

- Technical Actuarial Standard 100: Principles for Technical Actuarial Work, and
- Technical Actuarial Standard 200: Insurance.

1.28. In addition, the IFoA sets professional standards for its members. This report has been prepared having due regard to APS X2: Review of Actuarial Work and has been subject to independent peer review.

Structure of the Scheme Report

1.29. The remainder of the Scheme Report is structured as follows:

- Section 2 sets out a summary of the Scheme Report and its conclusions.
- Section 3 provides background to HLAC.

- Section 4 provides background to Omnilife.
- Section 5 provides an outline of the Scheme.
- Section 6 discusses the expected impact of the Scheme on the financial positions of HLAC and Omnilife.
- Section 7 analyses the expected effects of the Scheme on HLAC's policyholders.
- Section 8 analyses the expected effects of the Scheme on Omnilife's policyholders.
- Section 9 analyses the expected effects of the Scheme on other stakeholders.
- Section 10 describes the communications to be made to policyholders in relation to the Scheme and my review of these communications.
- Section 11 discusses other considerations arising from the Scheme.
- Section 12 discusses the potential consequences of the Scheme not completing.
- Section 13 sets out my conclusions.
- Section 14 certifies that the Scheme Report complies with Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims.

I then include a copy of my summary report for policyholders.

The Scheme Report also has six appendices:

- Appendix 1 provides a glossary for certain terms used throughout the Scheme Report. Where a term is underlined in the Scheme Report, this indicates that it is explained in the glossary.
- Appendix 2 provides definitions of the abbreviations used throughout the Scheme Report.
- Appendix 3 sets out my terms of reference, which have been approved by the PRA in consultation with the FCA, and how the Scheme Report complies with them.
- Appendix 4 lists the principal documents I have considered and relied upon in preparing the Scheme Report.
- Appendix 5 sets out how the Scheme Report complies with the relevant regulatory rules and guidance.
- Appendix 6 describes the prudential regulatory regime for life insurers authorised in the United Kingdom ("UK").

2. Summary and conclusions

Background to the parties

2.1. Both HLAC and Omnilife are members of the RGA Group, they share a largely common management team, and they have governance structures that are essentially the same. HLAC's business consists entirely of in-payment annuities, which also accounts for the vast majority of Omnilife's business. Both parties reinsure a large portion of the risks arising from their business to other members of the RGA Group.

Outline of the Scheme

2.2. The Scheme is intended to transfer all of HLAC's policies and all of HLAC's liabilities to Omnilife. HLAC's policies comprise entirely annuities in payment. At 30 June 2022 there were 12,414 pension annuities (Best Estimate Liabilities ("BEL") of £425.5m) and 864 purchased life annuities (BEL of £19.5m).

2.3. The Scheme will also transfer the vast majority of HLAC's assets to Omnilife, with a small proportion being left in HLAC for specific purposes, such as allowing it to continue to cover its regulatory capital requirements. The Scheme will also transfer all of HLAC's reinsurance contracts and outsourcing contracts to Omnilife.

Benefit security

2.4. The parties have capital management policies that are calibrated to the same strength, with each aiming to maintain a certain level of Eligible Own Funds in excess of the SCR, this level being referred to as the "Capital Target". The capital management policies also set a "Capital Limit" which represents the lower end of the Board's risk appetite for capital. If the level of Eligible Own Funds in excess of the SCR falls below the Capital Limit a formal recovery plan must be prepared by management and presented to the Board.

2.5. Both parties met their Capital Targets at 30 June 2022, and analysis carried out by Omnilife shows that it would have continued to meet its Capital Target if the Scheme had become effective at that date. As any capital held over and above the Capital Target may be paid out of either company in the form of dividends, I consider the two firms to be of approximately equal financial strength so long as they comply with their capital management policies.

2.6. HLAC currently has regulatory approval to recognise the Transitional Measure on Technical Provisions ("TMTP") on its regulatory balance sheet, and Omnilife intends to apply for regulatory approval to use TMTP in valuing the Transferring Policies. The analysis carried out by Omnilife shows that, had the Scheme become effective at 30 June 2022, Omnilife would have met its Capital Target even if the application to use TMTP was unsuccessful.

2.7. The Transferring Assets include the beneficial interest in a portfolio of lifetime mortgages, which is a new asset class for Omnilife. Lifetime mortgages will make up a relatively small proportion of Omnilife's assets immediately after the transfer, and I am satisfied that Omnilife is well-placed to manage the risks that arise from them and that the capital held will appropriately reflect those risks. I am therefore content that transferring the beneficial interest in HLAC's existing portfolio of lifetime mortgages will not materially adversely impact the benefit security of Omnilife's existing policyholders

2.8. HLAC is somewhat more exposed to certain risks arising from climate change than is currently the case for Omnilife. In particular, its corporate bonds are more exposed to transition risk than Omnilife's, it has additional exposure to physical risk arising from its beneficial interest in a portfolio of lifetime mortgages, and it has a greater exposure to inflation, including inflation resulting from climate change. I asked Omnilife to assess the impact on its pro-forma regulatory balance sheet of a climate change scenario that

I consider to be severe. The analysis showed that, even in this severe scenario, Omnilife would have met its Capital Target at 30 June 2022 if the Scheme had become effective at that date.

2.9. As part of its business plan, Omnilife intends to write new longevity swaps with defined benefit pension schemes and to acquire further closed books of long-term insurance. I have assessed the impact of these plans on the benefit security of the Transferring Policies, including related projections of the regulatory balance sheet. The projections show that Omnilife expects the planned level of new business to result in a slight reduction in its solvency coverage ratio over the business planning period. However I do not consider this to constitute a material adverse effect on benefit security, since the projected impact is slight, and decisions made by the Board about the level of future new business and acquisitions will be governed by the capital management policy. The solvency coverage ratio is expected to increase in the absence of new business or acquisitions.

2.10. Overall, I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit security of any group of policies.

Benefit expectations

2.11. The benefits payable under the existing annuity policies are codified in the policy terms and conditions and are either specified in defined monetary amounts or, in the case of some of Omnilife's policies, are linked to inflation in a way clearly specified in the policy terms and conditions. There will therefore be no change to these benefit expectations as the insurer has no discretion over the benefits payable.

2.12. The holders of some of Omnilife's annuity policies have the option to transfer their benefits to another provider, or to receive a lump sum in lieu of their entitlement to receive regular annuity payments. I have considered the basis used to determine these transfer values and lump sums and do not expect any elements of it to change materially as a result of the Scheme.

2.13. The terms and conditions of some of Omnilife's non-annuity policies provide the firm with the ability to increase premiums or charges. However, the firm has advised me that there is no precedent for the premiums or charges having been changed in practice and that it does not intend to increase them after the implementation of the Scheme. Given that the key motivation for the Scheme is to increase efficiencies, I do not expect the firm to depart from its established practice by increasing premiums or charges on its non-annuity policies after implementation of the Scheme. While Omnilife may still retain the contractual ability to do so, this is subject to its regulatory responsibility to treat its customers fairly.

2.14. Omnilife has advised me that, as all of HLAC's policies are expected to transfer under the Scheme, it intends to use HLAC's PAYE scheme to deduct income tax from annuity payments made to the holders of Transferring Policies following the implementation of the Scheme. This continuity of PAYE scheme should mean that the Scheme will not affect the income tax deducted from the payments made to the holders of the Transferring Policies.

2.15. Overall, I am satisfied that the Scheme is not expected to have a material adverse effect on benefit expectations for any group of policyholders.

Service standards

2.16. Although ultimate responsibility and oversight for the administration of the Transferring Policies will move from HLAC to Omnilife following the implementation of the Scheme, the Scheme will also transfer to Omnilife without amendment HLAC's outsourcing contract with Equiniti Paymaster (1836) Limited ("Equiniti"). Both HLAC and Omnilife have appointed RGA UK Services Limited to monitor Equiniti's performance in relation to the outsourcing contract. I therefore do not expect the Scheme to result in any changes to the administration of the Transferring Policies. The current arrangements for administering Omnilife's existing policies will not change as a direct result of the Scheme.

HLAC's reinsurers

2.17. The analysis and conclusions set out in paragraphs 2.4 to 2.10 in respect of policyholders apply equally to reinsurers. I am therefore satisfied that I do not expect the Scheme to have a material adverse effect on HLAC's reinsurers whose contracts will be transferred to Omnilife.

Policyholder communications

2.18. I have reviewed the parties' proposed approach to notifying policyholders and other stakeholders of the Scheme and have reviewed the communication packs that will be sent to them. There are certain groups of policyholders to whom the parties do not intend to send the communication packs, which requires waivers from the requirement to otherwise do so. I support the waiver applications that the parties intend to make. I am also satisfied that the communication packs adequately describe the key features of the Scheme and are written in a language that I consider to be appropriate for the intended recipients.

3. Background to Hodge Life Assurance Company Limited

Background and history

3.1. HLAC was incorporated in the UK in 1965 under the name Home Reversions Limited, initially providing retirement lending solutions through home reversion plans, since when the company's business expanded to include lifetime mortgages and annuities. The company changed its name to Hodge Life Assurance Company Limited in 2001, and was a subsidiary of Hodge Limited until 1 July 2021, when it was purchased by RGA Americas Reinsurance Company, Ltd ("RGA Americas").

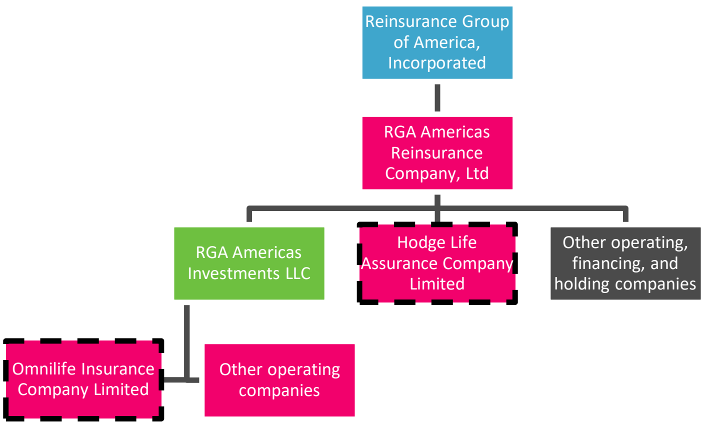
3.2. In 2000 the business model was changed such that Julian Hodge Bank Limited ("Hodge Bank") became responsible for selling all home reversion plans and lifetime mortgages marketed under the Hodge brand, but with HLAC purchasing the beneficial interest in them from Hodge Bank. HLAC subsequently ceased to acquire the beneficial interest in new home reversion plans in 2014 (other than increments on existing contracts).

3.3. In February 2021, HLAC stopped marketing new annuity business and ceased to acquire any further beneficial interest in new lifetime mortgages. HLAC wrote its last new annuity policy in July 2021 and formally closed to new business in March 2022. HLAC's business is therefore currently in run-off, and the firm has submitted an application to the PRA to remove its regulatory permissions to effect contracts of insurance. HLAC will retain its permissions to carry out contracts of insurance, in order to honour those already on its books.

Group structure

3.4. HLAC is a UK insurance company, wholly owned by RGA Americas, whose ultimate parent company in the RGA Group is RGA Inc, as summarised in Figure 1. The ultimate parent is shown in blue, operating companies are shown in pink, and financing companies are shown in green. HLAC and Omnilife are highlighted with dashed lines.

Figure 1: HLAC's position within the RGA Group



Source: HLAC Chief Actuary's report on the Scheme and Omnilife Chief Actuary's report on the Scheme. The diagram has been intentionally simplified, omitting both other subsidiaries of RGA Inc and intermediate companies between RGA Inc and RGA Americas.

Outsourcing

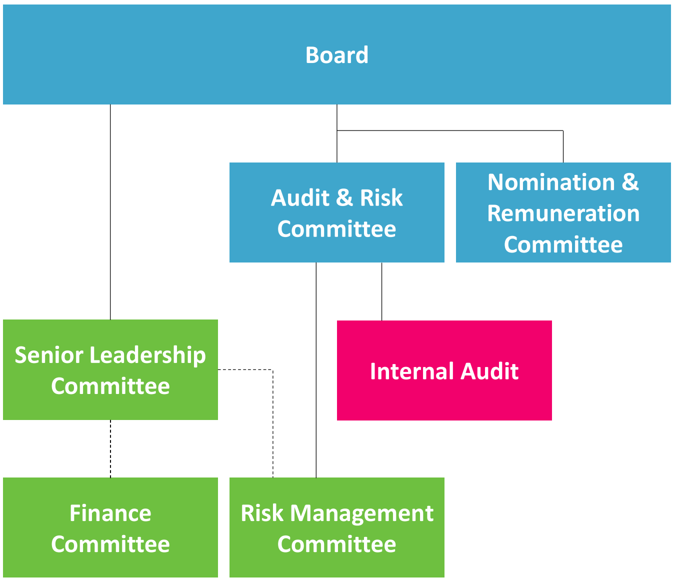
3.5. HLAC currently outsources the following functions related to managing and administering its business, although it remains ultimately responsible for those functions:

- investment management, to RGA Capital Limited and RGA Enterprise Services Company, with administration of investments in lifetime mortgages outsourced to Pure Retirement Limited ("Pure Retirement"),
- IT support, to RGA UK Services Limited and RGA Enterprise Services Company,
- the provision of non-IT corporate services (including human resources, finance, facilities, customer complaints and oversight of third-party policy administration) to RGA UK Services Limited and RGA Enterprise Services Company,
- the administration of the in-payment pension annuities and purchased life annuities, to Equiniti, and
- internal audit to the RGA Group.

Management and governance

3.6. Figure 2 illustrates HLAC's governance structure. The Board and Board committees are shown in blue, while management committees are shown in green and internal audit is shown in pink.

Figure 2: HLAC's system of governance



Source: HLAC Solvency and Financial Condition Report as of 30 September 2021

3.7. The Board comprises the Chief Executive Officer ("CEO"), Chief Finance Officer ("CFO"), one non-executive director employed by the RGA Group, and two independent non-executive directors. Both the Audit & Risk and the Nomination & Remuneration committees are made up of the three non-executive directors. The Board and the two Board committees are all chaired by independent non-executive directors.

3.8. HLAC shares a largely common management team with Omnilife. For example, the two firms have the same CEO and have shared Actuarial, Finance, and Product Governance teams. They also have a single Risk team, albeit that this team carries out work for the Chief Risk Officers ("CROs") of the two companies, who are separate individuals.

3.9. The management committees are made up of executive management, and they are responsible for both HLAC and Omnilife. The Senior Leadership Committee is chaired by the CEO and the Finance

Committee is chaired by the CFO. Since HLAC and Omnilife have separate CROs but shared management committees, the Risk Management Committee is chaired by the Head of Risk.

3.10. The Internal Audit function is outsourced to the RGA Group.

3.11. The Board and each committee have terms of reference setting out their purpose, membership, procedures, duties and responsibilities, and reporting requirements.

Business lines

3.12. HLAC's closed portfolio of legacy insurance business consists entirely of annuities, the vast majority of which relates to in-payment pension annuities. There are smaller volumes of in-payment purchased life annuities. Payments from these annuities do not increase over time and, for joint life annuities, reduction in payments might be applied on the death of the first (i.e. principal) life assured. All business was sold in the UK and is sterling denominated.

3.13. Figure 3 below shows HLAC's Solvency II BEL (gross of any reinsurance arrangements discussed below) split by line of business. It also shows the number of policies in each line of business.

Figure 3: Breakdown of HLAC's BEL

Product	BEL at 30 June 2022 (£m)	Number of policies at 30 June 2022
Pension annuities	425.5	12,414
Purchased life annuities	19.5	864
Total	445.0	13,278

Source: HLAC Chief Actuary's report on the Scheme and First Witness Statement of Deian Lewis Jones
BEL is shown gross of reinsurance
Where the holder of a pension annuity has died during a guarantee period, and HLAC is required to continue to pay the annuity until the end of the guarantee period, the liability in respect of this has been included in the BEL for pension annuities

Reinsurance

3.14. HLAC uses reinsurance arrangements to manage its exposure to longevity and market risks, with three reinsurance arrangements currently in place. These are described in Figure 4.

Figure 4: Description of HLAC's reinsurance arrangements

Reinsurer	Reinsurance arrangement	Description	Risks mitigated
Hannover Ruck SE ("Hannover Re")	Longevity swap	HLAC makes a series of fixed payments to the reinsurer based on the benefits initially expected to be paid to annuitants. The reinsurer makes a series of payments to HLAC based on the benefits actually paid to annuitants.	Longevity risk

Reinsurer	Reinsurance arrangement	Description	Risks mitigated
RGA Americas	Quota share	The reinsurer pays a specified proportion of each claim.	Market risk and longevity risk
RGA Americas	Portfolio stop loss	The values of a portfolio of assets and a portfolio of liabilities are tracked. In the event that the liabilities exceed the assets by a specified amount, any further falls in the value of the assets relative to the value of the liabilities are covered by the reinsurer. Any surplus arising in the portfolio is shared between the cedant and the reinsurer.	Market risk and longevity risk

3.15. The effect of these reinsurance arrangements on the gross BEL is shown in Figure 5 below.

Figure 5: Effect of reinsurance arrangements on the gross BEL of HLAC's annuity business at 30 June 2022

HLAC in-force business	Gross BEL (£m)	Reinsurance recoverables RGA Americas (£m)	Reinsurance recoverables Hannover Re (£m)	BEL net of reinsurance (£m)
Covered by quota share reinsurance	203.9	206.3	(2.3)	-
Covered by portfolio stop loss reinsurance	172.9	(0.9)	(2.6)	176.3
Covered by neither quota share nor portfolio stop loss reinsurance	68.2	-	(0.1)	68.4
Total	445.0	205.4	(5.1)	244.7

Source: HLAC Chief Actuary's report on the Scheme

Assets

3.16. Figure 6 shows a breakdown of HLAC's assets as at 30 June 2022.

Figure 6: HLAC's asset portfolio as at 30 June 2022

As at 30 June 2022	£m
Cash and cash equivalents	26.1
Government bonds	48.3
Corporate bonds	123.4
Beneficial interest in lifetime mortgages	130.9
Deferred tax asset	3.8
Other assets	(2.2)
Reinsurance recoverables	200.3
Total	**530.5**

Source: HLAC Chief Actuary's report on the Scheme

3.17. A lifetime mortgage is a loan secured on the borrower's home. The loan will usually not become repayable until the borrower either dies or moves into long-term care. The borrower will usually not have to make any payments until the loan is repaid, albeit with the amount owed increasing with interest over time. However, this is usually subject to a "no negative equity guarantee", which limits the amount to be repaid to the value of the property on which the loan is secured.

3.18. As discussed in paragraph 3.2, HLAC originated lifetime mortgages until 2000, at which point Hodge Bank started originating new lifetime mortgages, with HLAC purchasing the beneficial interest in them from Hodge Bank. This means that HLAC had the right to receive the proceeds of future mortgage repayments from Hodge Bank. HLAC and Hodge Bank are in the process of transferring legal (but not beneficial) ownership of their lifetime mortgages to Pure Retirement, which is also responsible for administering them. HLAC continues to own the beneficial interest in the lifetime mortgages, which represents an asset that is used to back HLAC's annuity liabilities.

3.19. Included within the "other assets" category is property held for sale which relate to home reversion plans that HLAC previously sold. The titles for the properties subject to these home reversion plans were held either by HLAC or by Hodge Bank, but in all cases the beneficial interest was owned by HLAC. However, HLAC has disposed of its beneficial interest in home reversion plans to the Welfare Dwellings Trust Limited ("Retirement Bridge"), although at 30 June 2022 (the date of the figures shown in Figure 6) it retained an interest in properties which were being marketed for sale as a result of the home reversion plan customers either having died or having moved into long-term care. All of these properties have subsequently been sold.

3.20. Although HLAC has disposed of its beneficial interest in home reversion plans to Retirement Bridge, it continues to hold the legal title to some of these properties. It is in the process of transferring the legal titles to Retirement Bridge, which requires customer consent.

Financial position

3.21. Figure 7 sets out HLAC's regulatory balance sheet as at 30 June 2022. HLAC intends to pay a dividend of £22m during the final quarter of 2022 (the precise amount will be determined once HLAC has completed its analysis of its financial position at 30 September 2022), and Figure 7 includes a pro-forma balance sheet showing what the financial position would have been had that dividend been made on 30 June 2022. Since the dividend is expected to be paid before the Effective Date, the analysis in this Scheme Report is based largely on the pro-forma balance sheet.

Figure 7: Regulatory balance sheet of HLAC as at 30 June 2022

30 June 2022 (£m)	Actual	Pro-forma post-dividend
Reinsurance recoverables	200.3	200.3
Other assets	330.2	308.2
Total Assets	530.5	508.5
Best Estimate Liabilities	(445.0)	(445.0)
Risk Margin	(7.5)	(7.5)
Transitional Measure on Technical Provisions	31.0	31.0
Technical Provisions	(421.5)	(421.5)
Own Funds	109.0	87.0
Eligible Own Funds	108.1	86.1
Solvency Capital Requirement ("SCR")	19.0	19.0
Excess of Eligible Own Funds over SCR	89.1	67.1
Solvency coverage ratio (Eligible Own Funds / SCR)	568%	453%

Source: HLAC Chief Actuary's report on the Scheme
The value of the reinsurance recoverable asset reflects the value of TMTP

Solvency II implementation

3.22. Appendix 6 describes the UK prudential regulatory regime, including the concepts of Solvency Capital Requirement ("SCR"), TMTP, the Matching Adjustment ("MA"), and the Volatility Adjustment ("VA").

3.23. HLAC calculates its SCR using the Solvency II Standard Formula. HLAC is required to assess whether the Standard Formula is appropriate for its business and it has stated in its 2021 Own Risk and Solvency Assessment ("ORSA") that the Standard Formula is considered to be appropriate and not imprudent.

3.24. HLAC's assessment of the appropriateness of the Standard Formula noted that the Standard Formula treats lifetime mortgages as unrated loans for which the borrower has posted collateral. For this asset class, and all other asset classes that are covered by the spread risk sub-module, the Standard Formula was calibrated based on historical changes in corporate bond spreads. In contrast, a key risk arising from lifetime mortgages is that no negative equity guarantees can result in repayment amounts being lower than expected, which will be influenced by factors such as changes in property prices and the mortality experience of the borrowers. However, HLAC's own assessment of the capital required in respect of these risks is not significantly different to the capital that it is required to hold under the Standard Formula spread risk sub-module.

3.25. HLAC has regulatory approval to apply the TMTP, designed to mitigate certain regulatory balance sheet changes caused by the transition to Solvency II from the previous regulatory regime. HLAC does not have regulatory approval to use either the MA or the VA.

3.26. Figure 8 shows the impact on the HLAC's solvency position that would occur had the TMTP not been applied as at 30 June 2022.

Figure 8: Impact on regulatory balance sheet of HLAC of removal of TMTP approval as at 30 June 2022

£m	Value with TMTP	Value without TMTP	Impact [difference]
Technical Provisions	(421.5)	(452.5)	(31.0)
Reinsurance recoverables	200.3	221.3	21.0
Eligible Own Funds	108.1	98.1	(10.1)
SCR	19.0	18.9	(0.1)
Excess of Eligible Own Funds over SCR	89.1	79.1	(10.0)
Solvency coverage ratio	568%	519%	(49%)

Source: HLAC management
NOTE: Some numbers in the table may not precisely reconcile with one another due to rounding

3.27. As demonstrated in Figure 8, the c.£31.0m increase in Technical Provisions at 30 June 2022 resulting from the loss of TMTP is partially offset by a c.£21.0m increase in reinsurance recoverables in the same scenario. This is because of the portfolio stop loss reinsurance with RGA Americas, which provides protection for a proportion of the assets and Technical Provisions to which TMTP is applied.

Risk profile

3.28. The most significant risks to which HLAC is exposed, as measured by the regulatory balance sheet, are spread risk, longevity risk and expense risk. This is shown in Figure 9 below, which gives the components of HLAC's SCR (before diversification effects).

Figure 9: Breakdown of HLAC's SCR (before diversification effects) as at 30 June 2022

Risk	Capital requirement (£m)	Percentage of total
Market: Spread risk	10.9	36%
Market: Interest rate risk	4.6	15%
Market: Property risk	0.1	0.3%
Market: Concentration risk	0.5	1.6%
Life: Longevity risk	5.3	17%
Life: Expense risk	6.4	21%
Counterparty default risk	1.0	3%
Operational risk	1.9	6%

Source: HLAC Chief Actuary's report on the Scheme

3.29. HLAC has advised me that it defines the risks in Figure 9 as follows:

- **Spread risk:** the risk of movements in the market prices of investments as a result of a change in the perceived or actual credit quality of the asset,
- **Interest rate risk:** the risk that a mismatch in the amount and timing of the cash flows on assets and liabilities held by the company,
- **Property risk:** the sensitivity of the values of assets to changes in the level or in the volatility of market prices of commercial or residential property,
- **Concentration risk:** the risk that credit failure of individual entities might lead to a fall in the market value of the company's credit assets due to large exposures to those individual entities,
- **Longevity risk:** arises from the annuity policies and represents the risk that annuitants live longer than expected resulting in the annuities being paid for longer and the associated cost of administering the policies for longer,
- **Expense risk:** the risk that the costs of administering the business are higher than expected or increase faster than expected due to higher inflation,
- **Counterparty default risk:** the risk that the value of an asset cannot be recovered if a counterparty defaults,
- **Operational risk:** the risk of loss arising from inadequate or failed internal processes, people, systems or from external events impacting the company's ability to operate. This risk encompasses

all functions rendered in the course of conducting business. This includes legal and regulatory risk but excludes risks arising from strategic and reputational risk.

3.30. It should be noted that the regulatory balance sheet does not capture all of the risks to which HLAC is exposed. This is partly because the Standard Formula was designed to be generally appropriate for a range of insurance companies across the European Union, rather than necessarily capturing all of the risks faced by a specific firm. Key examples arise in the context of the risks associated with lifetime mortgages, as discussed in paragraph 3.24. Another example would be the risk that changes in gilt yields, which affect the value of the gilts held by HLAC, move in a different way to the Solvency II basic risk-free rate used to determine the value of HLAC's BEL, this being based on the yield on interest rate swaps. In addition, the regulatory balance sheet does not allow for risks that are not considered to be quantifiable, a key example of which is climate change risk, discussed below.

Climate change risk

3.31. In line with other life insurers, HLAC categorises climate change risks into:

- physical risks, i.e. the risk of losses arising from acute, abrupt, disruptive events related to climate change,
- transition risks, i.e. the risk of losses arising from policy, legal, technological and market changes that are designed to mitigate climate change, and
- liability risks, i.e. the risk that customers, investors or third parties seek compensation from HLAC for losses they have suffered as a result of physical or transition risks.

3.32. Each of these has the potential to reduce asset values – for example the value of lifetime mortgages may fall if the risk of flooding to the underlying properties increases – and/or increase liability values – for example if climate change results in an increase in the rate of inflation. The Solvency II Standard Formula is intended to capture the risk of a fall in asset values or an increase in liability values but, because its calibration is based largely on past data, it does not explicitly allow for how these risks may change as a result of changes to the climate. HLAC therefore assesses its exposure to climate change risk through scenario testing.

Capital and liquidity management

3.33. HLAC's capital management policy aims to maintain a certain level of Eligible Own Funds in excess of the SCR, this level being referred to as the "Capital Target". If the level of Eligible Own Funds over and above the SCR exceeds the Capital Target then the firm would be comfortable paying out the excess as a dividend. The capital management policy also sets out a "Capital Limit" which represents the Board's risk appetite for capital. If the level of Eligible Own Funds in excess of the SCR is lower than the Capital Limit then a formal recovery plan must be prepared by management and presented to the Board.

3.34. The Capital Limit is set such that, if HLAC complied with it, it expects to be able to cover the SCR in the "key calibration scenario", a scenario in which HLAC's key market and reinsurance counterparty risks crystallise. The Capital Target is set such that, if HLAC complies with it, the probability that HLAC will exceed its Capital Limit in one year's time exceeds a specified level.

3.35. HLAC currently holds Eligible Own Funds in excess of its Capital Target, and therefore plans to pay a dividend before the Scheme becomes effective. As described in paragraph 3.21, HLAC currently expects the dividend to be £22m.

3.36. HLAC has a risk strategy statement which defines the amount and types of risk the company is willing to take in pursuing its strategic objectives. The risk strategy statement sets the firm's strategy for its risks, from which it develops risk tolerance limits, monitoring and reporting. This covers:

- insurance risks, such as longevity and persistency,
- market risks, such as bond spreads and property values,
- group risk, such as other members of the RGA Group defaulting on reinsurance contracts or outsourcing arrangements,
- operational risks,
- conduct risks, and
- strategic risks, including expenses, capital and liquidity.

3.37. For each risk to which HLAC is exposed, the risk strategy statement sets out whether the firm will:

- engage in the risk but seek to transfer it to other members of the RGA Group,
- manage the risk because it offers the potential for profits if the risk of loss or volatility is managed or mitigable,
- minimise the risk, because HLAC would ideally avoid the risk but is unable to do so, or
- avoid the risk, since HLAC does not want any exposure to it.

3.38. Since HLAC's business consists entirely of annuities, the benefits it expects to pay in each future time period are relatively predictable compared to other lines of long-term insurance. This allows HLAC to construct a portfolio of fixed income assets where the expected coupon and redemption cash flows in each future time period closely match the expected benefit outgo in that period. Matching asset and liability cash flows in this way is used to mitigate liquidity risk. HLAC also specifies a minimum proportion of its investment portfolio which must be held as highly liquid assets, including cash (and cash equivalents) and collective investments that can be traded in a sufficiently deep and liquid market.

4. Background to Omnilife Assurance Company Limited

Background and history

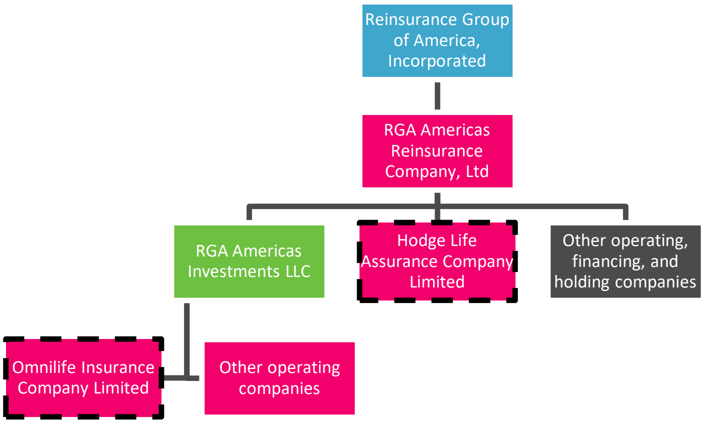
4.1. Omnilife was incorporated in the UK in 1988, with its business operations being based in Cyprus. Omnilife moved its business operations to the UK in 1994 to provide group risk insurance to groups of employees both in the UK and overseas. The business was acquired by RGA Americas in February 2019. In July 2019 the legacy book of business was closed and is now in run-off.

4.2. Omnilife's strategy is to pursue acquisition opportunities of closed book blocks of life business with a focus on annuities. On 31 December 2020 Omnilife completed the transfer of annuity business from the UK branch of Generali which is a representative office of Assicurazioni Generali S.p.A. This business now represents over 99% of the policyholder liabilities of Omnilife. Omnilife refers to the business written prior to the transfer of annuities from Generali as its "legacy business".

Group structure

4.3. Omnilife's position within the RGA Group was shown in Figure 1, which is reproduced below as Figure 10. Whereas HLAC is directly owned by RGA Americas, Omnilife is owned by RGA Americas Investments LLC ("RAIL"), which is a subsidiary of RGA Americas. RAIL is not an insurance or reinsurance company, but instead acts as an investor in US commercial mortgages.

Figure 10: Omnilife's position within the RGA Group



Source: HLAC Chief Actuary's report on the Scheme and Omnilife Chief Actuary's report on the Scheme. The diagram has been intentionally simplified, omitting both other subsidiaries of RGA Inc and intermediate companies between RGA Inc and RGA Americas.

Outsourcing

4.4. Although Omnilife retains ultimate responsibility, it currently outsources the same functions as HLAC (set out in paragraph 3.5), and to largely the same providers. The only difference is that, whereas HLAC outsources policy administration to Equiniti, Omnilife outsources it to RGA UK Services Limited. RGA UK Services Limited in turn outsources the administration of the in-payment annuities to Equiniti, but performs the servicing of the legacy business itself.

Management and governance

4.5. Omnilife's governance structure is essentially the same as that depicted in Figure 2 for HLAC. The executive committees are the same for the two companies, but the Board and Board committees are made up of largely different people.

4.6. Omnilife's Board consists of:

- the CEO, who is also the CEO of HLAC,
- two non-executive directors employed by the RGA Group, one of whom is also a non-executive director of HLAC, and
- four independent non-executive directors, none of whom have any involvement with HLAC.

4.7. Omnilife's Audit & Risk Committee and Nomination & Remuneration Committee are each chaired by one of the firm's independent non-executive directors.

4.8. The Board, each Board committee, and each executive committee all have terms of reference setting out their purpose, membership, procedures, duties and responsibilities, and reporting requirements.

4.9. As noted in paragraph 3.6, Omnilife shares a largely common management team with HLAC, with the principal difference being that the two firms have different CROs.

Business lines

4.10. The lines of business currently on Omnilife's books are predominantly in-payment and deferred annuities. The annuities are all UK business, predominantly denominated in sterling but with a small number (accounting for less than 1% of the BEL for gross in-payment annuities) paid in US dollars where the policyholder has moved abroad.

4.11. Figure 11 shows the size of the BEL as at 30 June 2022 for each of the business lines.

Figure 11: BEL as at 30 June 2022 for each of the business lines

Line of Business	BEL (£m)
UK annuities in payment	397.1
UK deferred annuities	4.6
Overseas individual deposit administration	1.5
Overseas individual term assurance and credit life	0.3
Income protection claims in payment	0.2
Total	403.7

Source: Omnilife Chief Actuary's report on the Scheme
BEL is shown gross of reinsurance recoverables

4.12. Omnilife's legacy business is in run-off and represents less than 1% of the company's gross BEL. The legacy products are:

- **Overseas deposit administration:** individual savings policies, the majority of which is US dollar denominated.
- **Overseas individual and group risk:** this includes term assurance and credit life and is denominated in sterling, euros and US dollars.
- **Income protection claims in payment:** denominated in sterling and US dollars.

Reinsurance

4.13. Omnilife uses reinsurance to manage its exposure to life underwriting and market risks, with three reinsurance arrangements currently in place to cover the annuity business:

- quota share reinsurance with RGA Americas,
- portfolio stop loss reinsurance with Assured Guaranty Overseas Limited ("AGRO"),
- portfolio stop loss reinsurance with RGA Atlantic Reinsurance company limited ("RGA ATL"), and

4.14. A separate reinsurance arrangement with General Reinsurance AG covers the overseas individual deposit admin, overseas individual term assurance, and overseas credit life policies, as well as the overseas individual income protection claims in payment.

4.15. The effect of these reinsurance arrangement is shown in Figure 12 below.

Figure 12: Effect of reinsurance arrangements on the gross BEL of Omnilife's business at 30 June 2022

Omnilife in-force business	Gross BEL (£m)	Reinsurance asset (£m)	BEL net of reinsurance (£m)
In-payment annuities retained (including expense reserves)	55.9	-	55.9
Annuities covered by quota share reinsurance	140.2	140.2	-
Annuities covered by AGRO stop loss	123.7	(8.2)	131.9
Annuities covered by RGA ATL stop loss	77.2	(0.9)	78.1
Total in-payment annuities	397.1	131.1	266.0
Deferred annuities covered by co-insurance	4.6	4.6	-
Overseas individual deposit admin	1.5	-	1.5
Overseas individual term assurance	-	-	-
Overseas credit life	0.3	0.2	0.1
Income protection claims in payment	0.2	0.1	0.1
Total	403.7	136.0	267.8

Source: Omnilife Chief Actuary's report on the Scheme

Assets

4.16. Figure 13 shows a breakdown of Omnilife's assets as at 30 June 2022.

Figure 13: Omnilife's asset portfolio as at 30 June 2022

As at 30 June 2022	£m
Cash and deposits	24.2
Government bonds	16.1
Corporate bonds	305.3
Deferred tax asset	2.0
Other assets	1.8
Reinsurance recoverables	136.0
Total	485.4

Source: Omnilife Chief Actuary's report on the Scheme

Financial position

4.17. Figure 14 sets out Omnilife's regulatory balance sheets as at 30 June 2022.

Figure 14: Omnilife's regulatory balance sheet as at 30 June 2022

Balance sheet item	30 June 2022 (£m)
Reinsurance recoverables	136.0
Other assets	349.4
Total Assets	485.4
Best Estimate Liabilities	(403.7)
Risk Margin	(8.7)
Technical Provisions	(412.4)
Own Funds	73.0
Eligible Own Funds	73.0
SCR	28.6
Excess of Eligible Own Funds over SCR	44.4
Solvency coverage ratio	255%

Source: Omnilife Chief Actuary's report on the Scheme

Solvency II Implementation

4.18. In Figure 14 above, SCR refers to Solvency Capital Requirement which was calculated using the Solvency II Standard Formula approach. Omnilife is required to assess whether the Standard Formula is appropriate for its business and it has stated in its 2021 ORSA that the Standard Formula is considered to be appropriate.

4.19. Omnilife has regulatory approval to use the VA, an explanation of which is included in Appendix 6, when calculating the BEL for its sterling denominated annuity business. Omnilife has not sought regulatory approval to use the MA, and nor does it currently have approval to use the TMTP.

4.20. The impact on Omnilife's regulatory balance sheet of not being able to value its liabilities with a VA as at 30 June 2022 is shown in Figure 15 below.

Figure 15: Impact on regulatory balance sheet of Omnilife of removal of VA approval as at 30 June 2022

£m	Value with VA	Value without VA	Impact [difference]
Technical Provisions	(412.4)	(423.5)	(11.1)
Reinsurance asset	136.0	144.9	9.0
Eligible Own Funds	73.0	70.8	(2.1)
SCR	28.6	27.3	(1.3)
Excess of Eligible Own Funds over SCR	44.4	43.5	(0.9)
Solvency coverage ratio	255%	259%	4%

Source: Omnilife management

4.21. As demonstrated in Figure 15, the c.£11.1m increase in Technical Provisions resulting from the loss of VA is partially offset by a c.£9.0m increase in reinsurance recoverables in the same scenario.

4.22. Note that the removal of the VA is expected to result in a c.£1.3m decrease in the SCR. This is because, if the VA were to be removed, Omnilife would be less exposed to future changes in the values of assets and liabilities that are subject to portfolio stop loss reinsurance, since the change in asset and/or liabilities required to trigger a reinsurance claim would be smaller.

Risk profile

4.23. The most significant risks to which Omnilife is exposed, as measured by the regulatory balance sheet, are spread risk, interest rate risk, and longevity risk. This is shown in Figure 16 below, which gives the components of Omnilife's SCR (before diversification effects).

Figure 16: Breakdown of Omnilife's SCR (before diversification effects) as at 30 June 2022

Risk	Capital requirement (£m)	Percentage of total
Market: Spread risk	18.5	40%
Market: Interest rate risk	7.3	16%
Market: Currency risk	0.0	0%
Market: Concentration risk	3.8	8%
Life: Longevity risk	11.7	25%
Life: Expense risk	1.5	3%
Counterparty default risk	2.0	4%
Operational risk	1.8	4%

Source: Omnilife Chief Actuary's report on the Scheme

4.24. Omnilife has advised me that it defines the key risks in Figure 16 as follows:

- **Spread risk:** The credit spread is the additional yield on corporate bonds relative to risk-free rates and represents the compensation for the risk of default together with an illiquidity premium. The credit spread element of the SCR reflects the risk of a corporate bond downgrading to a lower rating (and reducing in value) or defaulting.
- **Interest rate risk:** Interest rate risk arises through any mismatch in the amount and timing of cash flows on assets and liabilities held by Omnilife.
- **Currency risk:** the risk that the value of assets falls relative to the value of liabilities owing to changes in exchange rates,
- **Concentration risk:** the risk that credit failure of individual entities might lead to a fall in the market value of the company's credit assets due to large exposures to those individual entities,
- **Longevity risk:** arises from the annuity policies and represents the risk that annuitants live for longer than expected resulting in the annuities being paid for longer and the associated cost of administering the policies for longer.
- **Expense risk:** the risk that the costs of administering the business are higher than expected or increase faster than expected due to higher inflation.
- **Counterparty default risk:** Counterparty credit risk is defined as the risk of loss due to counterparty default or failure to fulfil their obligations. This is the risk of loss or of adverse change in Omnilife's financial position, resulting from reinsurance counterparties and any debtors to which Omnilife is exposed defaulting. The main sources of counterparty risk relate to its exposure to reinsurers.
- **Operational risk:** Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events impacting Omnilife's ability to

operate. This risk encompasses all functions rendered in the course of conducting business. This includes legal and regulatory risk, but excludes risks arising from strategic and reputational risk.

4.25. As was noted for HLAC in paragraph 3.30, the regulatory balance sheet does not capture all of the risks to which a firm is exposed. Like HLAC, Omnilife is exposed to the risk that changes in gilt yields move in a different way to the Solvency II basic risk-free rate, and also to climate change risk, which is discussed below.

Climate change risk

4.26. In line with other life insurers, including HLAC, Omnilife categorises climate change risks into physical risks, transition risks, and liability risks. These concepts were described in paragraph 3.31.

4.27. Each of these has the potential to reduce asset and/or increase liability values. The Solvency II Standard Formula is intended to capture the risk of a fall in asset values or an increase in liabilities but, because its calibration is based largely on past data, it does not explicitly allow for how these risks may change as a result of changes to the climate. Omnilife therefore assesses its exposure to climate change risk through scenario testing.

Capital and liquidity management

4.28. Omnilife's capital management policy is calibrated to the same strength as HLAC's, which was described in paragraphs 3.33 and 3.34. In particular, the construction of the key calibration scenario is the same for the two firms, and the Capital Limit and Capital Target are calculated in the same way. The sizes of Omnilife's Capital Limit and Capital Target are different to HLAC's, reflecting differences in the risks to which the firms are exposed.

4.29. Omnilife's risk strategy statement is essentially the same as HLAC's, which was described in paragraphs 3.36 and 3.37. Key differences are:

- Omnilife's strategic objective is to become a consolidator of closed UK life insurance blocks, which will involve it taking on more longevity risk, as well as certain types of market risk, including the risks associated with lifetime mortgages – such as property risk and lapse risk. In contrast, HLAC is closed to new business and is in run-off.

- Omnilife has an appetite for some currency risk, which is acquires through investing some of the surplus assets (i.e. those assets not backing liabilities) in overseas securities.

4.30. Since Omnilife's policies consist predominantly of annuities, liquidity risk can be managed through the matching of asset and liability cash flows, as discussed in paragraph 3.38. Omnilife's liquidity planning includes ensuring that sufficient liquid assets are available to cover the firm's three-month liquidity need without having to sell bonds, as well as being able to meet its 12-month requirement without recourse to quota share reinsurance recoveries, but allowing for the potential of selling bonds of up to five years duration. This is monitored for each portfolio net of reinsurance as well as the total gross portfolio.

4.31. Omnilife monitors its liquidity position and reports to the Board quarterly on this. As part of its liquidity monitoring, Omnilife produces a report which includes a projection of cash flows and liquidity ratios.

4.32. Omnilife undertook to maintain a liquidity plan as part of its application to use the VA in the construction of its regulatory balance sheet. This includes assessing the firm's ability to meet its liquidity needs in a number of stress scenarios such as an increase in benefit payments in the short term owing to adverse demographic experience or to policyholders exercising options, or following a reduction in available liquidity resulting from the issuers of fixed income assets defaulting on coupon or redemption payments.

5. Outline of the Scheme

Provisions of the Scheme

5.1. The parties propose that the Scheme should become effective at 23:59 on 30 April 2023 (the "Effective Date"). The Scheme is intended to transfer to Omnilife all of HLAC's policies then in force (the "Transferring Policies"), although it does make provision for "Excluded Policies" which will not transfer. Excluded Policies would comprise the following:

- any policies that the parties agree between them should not transfer, although the parties do not expect there to be any such policies, and
- any policies held by a person on a stated sanctions list will be excluded (the "Excluded Sanctioned Policies").

5.2. The Scheme will also transfer all of HLAC's liabilities, which includes liabilities under the Transferring Policies, but also all other liabilities of the company, both actual and contingent (the "Transferring Liabilities").

5.3. The Scheme makes provision for "Residual Policies", "Residual Liabilities" and "Residual Assets", which are any policies, liabilities or assets which are intended to transfer under the Scheme but which cannot be transferred for any reason. Any Residual Policies, Residual Liabilities and Residual Assets will be retained by HLAC until the impediment to their transfer has been removed, at which point they will automatically be transferred to Omnilife. Any Residual Policies will be wholly reinsured to Omnilife until such time as they are transferred. The parties have advised me that they expect there to be no Residual Policies, Residual Liabilities or Residual Assets.

5.4. Excluded Sanctioned Policies will not be reinsured to Omnilife. Should a policyholder later be removed from the sanctions list, the relevant Excluded Sanctioned Policies automatically become Residual Policies and, assuming that there is then no other impediment to doing so, will immediately transfer to Omnilife.

5.5. The Scheme will also transfer the "Transferring Assets" to Omnilife from HLAC. The "Transferring Assets" are all of HLAC's assets at the Effective Date save for:

- any Residual Assets,
- any legal titles held by HLAC for properties that are the subject of home reversion plans (discussed in paragraph 3.20), and
- c.£7m of cash and cash equivalents which will be retained in HLAC.

5.6. The parties expect the Transferring Assets to be sufficient for Omnilife both to cover its regulatory capital requirements and to comply with its capital management policy following the implementation of the Scheme. The parties also expect that the c.£7m to be retained in HLAC will be sufficient for the purposes of:

- meeting HLAC's ongoing expenses until such time as it is wound up, including the costs of deauthorisation and wind-up, and
- covering HLAC's regulatory capital requirements until such time as it is deauthorised.

5.7. The Transferring Assets include HLAC's beneficial interest in lifetime mortgages, which is an asset class not currently held by Omnilife. HLAC expects legal ownership of all of the lifetime mortgages to have transferred to Pure Retirement before the Effective Date. Omnilife has received legal advice that holding these assets as a passive beneficial owner, with the administration carried out by Pure Retirement (the legal owner of the assets), is unlikely to be considered to be either "entering into regulated mortgage contracts" or "administering regulated mortgage contracts", these being regulated activities that Omnilife does not have permission to carry out.

5.8. With effect from the Effective Date, and subject to the terms of the Scheme, Omnilife shall become entitled to all HLAC's rights, benefits and powers in connection with the Transferring Policies.

5.9. None of the Transferring Policies will have their terms and conditions amended by the Scheme except to transfer to Omnilife any rights or duties which policy terms ascribe to HLAC.

5.10. The Scheme will transfer all of HLAC's reinsurance contracts (the "Outwards Reinsurance Agreements") to Omnilife. Their terms and conditions will not be amended except to transfer to Omnilife any rights or duties which are currently ascribed to HLAC. HLAC's portfolio stop loss reinsurance contract requires it to manage a portfolio of assets and liabilities separately from the rest of its business. This portfolio will transfer to Omnilife and Omnilife will manage it separately from its own stop loss portfolios and separately from the rest of its business.

5.11. The Scheme will transfer all of HLAC's outsourced contracts (the "Transferring Third Party Contracts") to Omnilife without amendment, except to transfer to Omnilife any rights or duties which are currently ascribed to HLAC. This will include the contract with Equiniti for the administration of the Transferring Policies. The Scheme refers to the Transferring Assets, Transferring Liabilities, Transferring Policies, Outwards Reinsurance Agreements and Transferring Third Party Contracts collectively as the "Transferring Business".

5.12. Any proceedings, claims, complaints or rights to compensation which relate to the Transferring Business in favour of or against HLAC will be continued by or against Omnilife.

5.13. The costs incurred preparing and bringing into effect the Scheme will be split equally between HLAC and Omnilife. This includes my fees, as referred to in paragraph 1.6, as well as Court fees, Counsel's fees, and all other project costs.

Planned actions following the Scheme

5.14. Once the Scheme becomes effective and once any Residual Policies and any Excluded Sanctioned Policies have been transferred to Omnilife, HLAC plans to submit an application to the PRA for deauthorisation as an insurance company. Assuming that that application succeeds, HLAC is then expected to commence the process of winding up.

5.15. Following the Scheme, Omnilife intends to continue to pursue its current business plans to become a consolidator of closed UK life insurance blocks.

5.16. While the Scheme will transfer to Omnilife HLAC's contract with Equiniti for the administration of the Transferring Policies, the administration of Omnilife's existing policies will continue to be outsourced to RGA UK Services Limited, with RGA UK Services Limited in turn outsourcing the administration of Omnilife's existing annuity policies to Equiniti. Following the implementation of the Scheme, it is intended that the contract between Equiniti and RGA UK Services Limited, which covers the administration of Omnilife's existing annuities, will be transferred to Omnilife by means of a novation.

Motivation for the Scheme

5.17. The Scheme will allow the RGA Group to consolidate two closed books of predominantly annuity business into a single legal entity. This is expected to result in operational efficiencies and economies of scale, such as a simpler group structure and having to fulfil regulatory responsibilities – such as producing financial reports – for one company rather than two. The ultimate benefits are expected to be lower overall running costs, more efficient use of the management team's time, and reduced operational risk.

Alternatives to the Scheme

5.18. The parties have advised me that they have not considered any alternatives to the Scheme as RGA Americas acquired HLAC with the express intention of transferring its business into Omnilife.

Contingency for the Scheme not proceeding

5.19. The parties have advised me that if the Scheme is not sanctioned they will continue with the status quo arrangements. HLAC and Omnilife would continue to be managed as separate operating entities within the RGA Group, and would continue to share a broadly common management team and to be managed in broadly the same way. I consider the consequences of this in Section 12.

6. Financial positions of HLAC and Omnilife on the Effective Date

Pro-forma financial positions

6.1. Figure 17 below sets out an estimate of Omnilife's regulatory balance sheet as it would have been at 30 June 2022, had the Scheme been effective at that date. It also shows, for comparison, the actual regulatory balance sheet for Omnilife at 30 June 2022, and a pro-forma balance sheet for HLAC which allows for the dividend that the firm expects to pay in the final quarter of 2022.

Figure 17: Regulatory balance sheets pre- and post-Scheme

As at 30 June 2022 (£m)	HLAC pro-forma post-dividend, pre-scheme[1]	Omnilife actual pre-scheme[2]	Omnilife pro-forma post-Scheme[2]
Total Assets	508.5	485.4	986.9
BEL	(445.0)	(403.7)	(845.8)
Risk Margin	(7.5)	(8.7)	(16.2)
TMTP	31.0	-	31.0
Total Liabilities	(421.5)	(412.4)	(830.9)
Eligible Own Funds	86.1	73.0	156.0
SCR	19.0	28.6	46.8
Excess of Eligible Own Funds over SCR	67.1	44.4	109.2
Solvency coverage ratio	453%	255%	333%

Source: (1) HLAC Chief Actuary's report on the Scheme; (2) Omnilife Chief Actuary's report on the Scheme

6.2. HLAC's financial position following the Scheme should not affect the benefit security for any policyholders, since no policyholders are expected to remain within HLAC following the implementation of the Scheme. As noted in paragraph 5.3, the Scheme makes provision for Excluded Policies and Residual Policies but, in practice, the parties do not expect there to be any. HLAC is expected to have assets of c.£7m following the Scheme, with no liabilities and a capital requirement equal to the minimum permitted by regulation, which is €3.7m (equivalent to c.£3.1m at 31 December 2021). The capital requirement will drop away entirely once the firm is deauthorised, at which point the assets can be used to meet the costs of winding up the firm, with any remaining assets being distributed to RGA Americas.

6.3. Figure 17 shows that, following the Scheme, Omnilife's BEL is expected to be c.£2.9m less than the sum of HLAC's and Omnilife's BEL prior to the Scheme. This is a result of expected expense savings in the management of the combined business, mainly associated with currently-duplicated functions and roles that will no longer be needed for HLAC, including a separate Board and Board committees; regulatory and Board reporting; a separate CRO; external audit; and tax accounting. Having reviewed the documentation of the assumptions regarding these expense reductions, I consider these to be reasonable.

6.4. Figure 17 also shows that, once the Scheme is implemented, Omnilife's SCR will be slightly lower than the sum of HLAC's and Omnilife's SCRs prior to the Scheme. This arises from increased diversification from bringing the two blocks of business together.

6.5. In the production of the regulatory balance sheets shown in Figure 17 above, the pro-forma Risk Margin for Omnilife does not include the impact of diversification effects between the Transferring Business and the business already on Omnilife's books, although it does allow for diversification within each of these blocks of business separately. This means that the pro-forma Risk Margin is slightly overstated, and therefore the pro-forma Eligible Own Funds and solvency coverage ratio are slightly understated, all else being equal.

6.6. It has also been assumed that HLAC's deferred tax asset will transfer to Omnilife, although I do not consider this to be a material assumption because the deferred tax asset was only £3.8m at 30 June 2022. Owing to its small size, loss of the deferred tax asset would not be expected to result in the failure of Omnilife to comply with its capital management policy after the Scheme.

6.7. Since the Scheme is expected to increase Omnilife's assets by more than it increases liabilities, Omnilife has taken advice on whether the this would constitute a taxable profit. The advice received is that, if the value of the Transferring Assets and Transferring Liabilities recognised on Omnilife's balance sheet immediately after the Effective Date is the same as that recognised on HLAC's balance sheet before the Effective Date, then no taxable profit arises. If the values are not the same then the taxable profit is based on the increase in value of the Transferring Assets over and above the Transferring Liabilities that results from the change in valuation bases. While I am not a tax expert, I consider this advice to be reasonable and have therefore relied on it.

6.8. While the pro-forma balance sheet does not allow for any tax which will become due to be paid as a direct result of the Scheme, I do not consider this to be a material limitation of the analysis. The parties have advised me that the differences between HLAC's and Omnilife's valuation bases for tax purposes are expected to result in liabilities reducing by c.£2m as a result of the Scheme, before the effects of reinsurance are taken into account. While this difference is expected to give rise to a taxable profit, the corporation tax becoming due on it would be a no more than c.£0.4m, and in practice it is expected to be significantly less as the Transferring Business is heavily reinsured as discussed in paragraph 3.15.

6.9. The £2.9m reduction in BEL discussed in paragraph 6.3 is also expected to constitute a taxable profit, on which the corporation tax that will become due is expected to be only c.£0.6m. I am therefore satisfied that any corporation tax which will become due to be paid as a direct result of the Scheme is not expected to be material.

Capital management policies

6.10. As described in Sections 3 and 4, specifically paragraphs 3.33, 3.34 and 4.28, the capital management policies of HLAC and Omnilife are calibrated to the same strength. After the implementation of the Scheme, Omnilife's Capital Limit and Capital Target will be recalculated to allow for the change in risk profile that arises from acquiring the Transferring Business.

6.11. Given the close alignment of the firms' existing capital management policies, and in particular the recalculation of Omnilife's Capital Limit and Capital Target, I am comfortable that the capital management policy of Omnilife will remain appropriate following the Effective Date.

6.12. Omnilife has determined the pro-forma Capital Limit as at 30 June 2022, had the Scheme become effective at that date. The pro-forma regulatory balance sheet suggests that Omnilife would have comfortably complied with its Capital Limit on 30 June 2022, had the Scheme become effective at that date.

6.13. Omnilife has not determined a pro-forma Capital Target. However, I believe it reasonable to assume that, following the Scheme, the gap between the Capital Limit and the Capital Target will be similar in size to the sum of the equivalent gaps for HLAC and Omnilife prior to the Scheme. Using this assumption, analysis of the pro-forma regulatory balance sheet shows that Omnilife would have comfortably complied with its Capital Target on 30 June 2022, had the Scheme become effective at that date.

6.14. It should be noted that, since Omnilife complied with its Capital Target on 30 June 2022 and would have continued to do so had the Scheme been implemented on that date, I do not regard the Scheme as having a material impact on Omnilife's financial strength. Figure 17 shows that the Scheme would have increased Omnilife's solvency coverage ratio if it had been implemented on 30 June 2022, but this metric takes no account of either:

- the impact of the Scheme on Omnilife's Capital Target, which will be recalculated as noted in paragraph 6.10, or
- the fact that any Eligible Own Funds in excess of the Capital Target may be paid out as dividends.

Regulatory approvals

6.15. As discussed in paragraph 4.19, Omnilife currently has regulatory approval to apply the VA in the valuation of its sterling annuity liabilities. The pro-forma regulatory balance sheet of Omnilife shown in Figure 17 assumes that this approval is retained in respect of the existing annuity business only.

6.16. I do not expect the implementation of the Scheme to affect the assets held to back Omnilife's existing business or how they are managed. In order to determine whether it continues to satisfy the regulatory requirements for using the VA, Omnilife currently needs to notionally hypothecate assets to the liabilities that are valued using it, and I would expect this approach to continue following the implementation of the Scheme. I therefore believe that it is reasonable to assume that Omnilife will retain its regulatory approval to apply the VA to its existing business.

6.17. In any case, I have been provided with the estimated impact of not retaining eligibility for the VA on the Omnilife pro-forma regulatory balance sheet as at 30 June 2022, which would be £0.9m decrease in Eligible Own Funds in excess of the SCR. I therefore do not consider this to have a material impact on Omnilife's ability to comply with its capital management policy.

6.18. As discussed in paragraph 3.25, HLAC currently has regulatory approval to recognise the TMTP on its regulatory balance sheet, which is of material size at 30 June 2022 (£31.0m). The pro-forma regulatory balance sheet of Omnilife shown in Figure 17 assumes that this approval is obtained in respect of the Transferring Business, albeit not extended to Omnilife's existing business.

6.19. Owing to the materiality of this assumption, I have been provided with an estimated impact of failure to obtain regulatory approval to apply the TMTP on the pro-forma regulatory balance sheet of Omnilife. This is shown in Figure 18 below.

Figure 18: Estimated impact of loss of TMTP on pro-forma regulatory balance sheet of Omnilife

As at 30 June 2022 (£m)	Omnilife (pro-forma post-Scheme) with TMTP	Omnilife (pro-forma post-Scheme) without TMTP	Difference
Total invested assets	644.7	644.7	-
Reinsurance recoverables	336.3	357.3	21.0
Deferred tax asset	5.8	5.8	-
Total assets	986.9	1,007.9	21.0
Best Estimate Liabilities	(845.8)	(845.8)	-
Risk Margin	(16.2)	(16.2)	-
TMTP	31.0	-	(31.0)
Total Liabilities	(830.9)	(862.0)	(31.0)
Eligible Own Funds	156.0	145.9	(10.1)
SCR	46.8	46.7	(0.1)
Excess of Eligible Own Funds over SCR	109.2	99.2	(10.0)
Solvency coverage ratio	333%	312%	(21%)

Source: Omnilife Chief Actuary's report on the Scheme

6.20. It can be seen from Figure 18 that the loss of TMTP would be partially offset by a c.£21m increase in reinsurance recoverables. This is because a portion of liabilities to which the TMTP applies is covered by the portfolio stop loss reinsurance with RGA Americas. Payments under the portfolio stop loss arrangements are triggered based on the values of specified portfolios of assets and liabilities, meaning that an increase in liabilities resulting from the loss of TMTP increases the value of reinsurance recoverables.

6.21. It can be seen that Omnilife would still be expected to comfortably comply with its regulatory capital requirements with a solvency coverage ratio of 312% in this scenario. Omnilife's analysis also suggests that, even without TMTP, it would have complied with its Capital Target on 30 June 2022 had the Scheme become effective at that date.

6.22. It should be noted that portfolio stop loss reinsurance arrangement limits the amount that RGA Americas is required to pay each quarter. If Omnilife was unsuccessful in its TMTP application then, based on the figures shown in Figure 18, it would expect to receive payments of c.£21m from RGA Americas over the course of the following year. These payments would increase the value of the invested assets, with a corresponding reduction in the value of reinsurance recoverables. Unlike the quota share arrangements, expected future payments from the portfolio stop loss reinsurance are not collateralised. This means that if Omnilife was unsuccessful with its TMTP application it would have increased counterparty exposure to RGA Americas until the c.£21m had been fully received.

6.23. The balance sheets shown in Figures 17 and 18 assume that Omnilife will continue to calculate its SCR using the Standard Formula. I am satisfied that the Standard Formula will continue to remain appropriate for this purpose. I have reached this conclusion because:

- the Transferring Policies consist entirely of annuities which have broadly the same characteristics as the annuities that comprise the vast majority of Omnilife's existing policies, and
- with the exception of the beneficial interest in a portfolio of lifetime mortgages, the assets transferred by the Scheme do not introduce any new asset classes onto Omnilife's balance sheet.

6.24. For the avoidance of doubt, I do not consider that the acquisition of lifetime mortgages will render the Standard Formula inappropriate for Omnilife. As discussed in paragraph 3.24, HLAC concluded that the lifetime mortgages do not undermine the appropriateness of the Standard Formula for its business. This conclusion was based on its own assessment of the capital required in respect of the risks posed by lifetime mortgages being not significantly different to the capital that it is required to hold under the Standard Formula. I consider that the risk posed to Omnilife by the lifetime mortgages following the Scheme will be relatively smaller than the risk they currently pose to HLAC, since lifetime mortgages will constitute a smaller proportion of Omnilife's total assets. Given that holding lifetime mortgages has not rendered the Standard Formula inappropriate for HLAC, I do not expect it to do so for Omnilife following the implementation of the Scheme.

Risk profiles

6.25. Figure 19 below shows the extent to which different risks contribute to the SCR as at 30 June 2022, of both HLAC and Omnilife before the implementation of the Scheme compared to the Omnilife's pro-forma SCR after the implementation of the Scheme. No SCR is shown for HLAC post-Scheme as this will simply be the minimum capital requirement which has no risk breakdown.

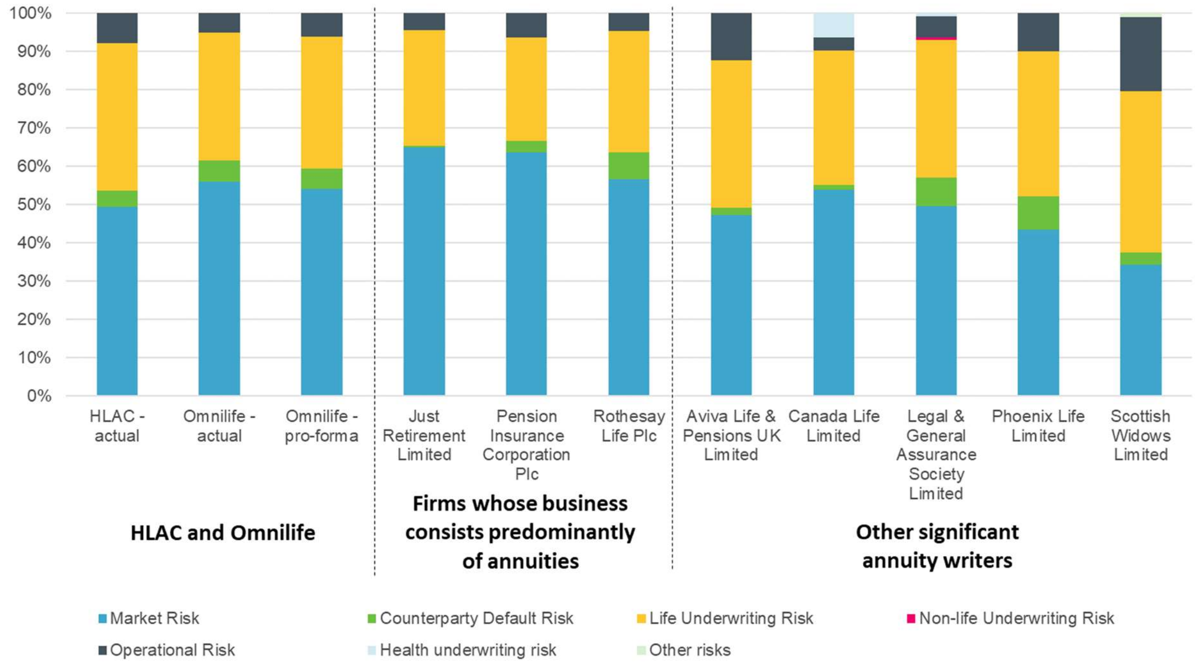
Figure 19: Breakdown of HLAC and Omnilife's SCRs including the impact of the Scheme as at 30 June 2022

Risk	HLAC actual pre-Scheme	Omnilife actual pre-Scheme	Omnilife pro-forma post-Scheme	Difference between pro-forma and Omnilife actual	Difference between pro-forma and HLAC actual
Market risk	49%	56%	54%	(2%)	5%
Life underwriting risk	39%	34%	34%	-	(5%)
Counterparty default risk	4%	6%	5%	-	1%
Operational risk	8%	5%	6%	1%	(2%)

Source: HLAC Chief Actuary's report on the Scheme and Omnilife Chief Actuary's report on the Scheme

6.26. Figure 19 suggests that the Scheme is not expected to materially change Omnilife's risk profile. For reference, Figure 20 compares HLAC's risk profile, Omnilife's actual risk profile and Omnilife's pro-forma risk profile with those of other life insurers with significant annuity books. This shows that HLAC's and Omnilife's current risk profiles are consistent with those seen elsewhere in the industry, as is Omnilife's pro-forma risk profile. I therefore do not consider any changes to the mix of risks influencing the benefit security for any group of policyholders to constitute a material adverse effect.

Figure 20: Breakdown of HLAC and Omnilife's SCRs, compared to other insurers with significant annuity books as at 30 June 2022



Source: HLAC Chief Actuary's report on the Scheme, Omnilife Chief Actuary's report on the Scheme, and various other insurers' Solvency and Financial Condition Reports as at 31 December 2021.

Quality of capital

6.27. The quality of Own Funds held by HLAC and Omnilife is also relevant to the security of policyholder benefits. Figure 21 below sets out an estimate of how Omnilife's Own Funds would have been categorised at 30 June 2022, had the Scheme been effective at that date. It also shows, for comparison, the actual breakdown of Own Funds for both HLAC and Omnilife before implementation of the Scheme at 30 June 2022.

Figure 21: Eligible Own Funds pre- and post-Scheme

As at 30 June 2022 (£m)	HLAC pro-forma post-dividend, pre-scheme[1]	Omnilife actual pre-scheme[2]	Omnilife pro-forma post-Scheme[2]
Tier 1 - unrestricted	83.2 (96.6%)	71.0 (97.3%)	150.2 (96.2%)
Tier 1 - restricted	-	-	-
Tier 2	-	-	-
Tier 3	2.9 (3.4%)	2.0 (2.7%)	5.8 (3.7%)
Total Eligible Own Funds	86.1	73.0	156.0

Source: (1) HLAC Chief Actuary's report on the Scheme, adjusted for planned dividend; (2) Omnilife Chief Actuary's report on the Scheme

6.28. It can be seen that the composition of Eligible Own Funds is very similar for HLAC and Omnilife and, consequently, that the Scheme is not expected to have a material impact on the quality of Omnilife's Own Funds. Specifically, 96.2% of Eligible Own Funds would have been made up of Tier 1 unrestricted assets had the Scheme been implemented 30 June 2022, which is materially unchanged from both companies' position prior to implementation of the Scheme.

Market movements since 30 June 2022

6.29. The analysis shown in this section is based on data and market conditions as at 30 June 2022. Since this date there have been significant movements in financial markets, particularly in relation to the yield on fixed interest assets. For example, according to the Bank of England, the 10-year UK government liability spot rate increased from 2.29% on 30 June 2022 to 4.10% on 30 September 2022.

6.30. To consider the impact of these market movements, I asked the parties to provide me with estimates of their regulatory balance sheets as at 30 September 2022. These estimates showed that the impact of market movements was beneficial for both firms, in the sense that the level of Eligible Own Funds held over and above the Capital Target increased between 30 June and 30 September.

6.31. Sections 7 and 8 discuss how conclusions about policyholder benefit security can be drawn from the regulatory balance sheets, but the key point is that I place no weight on Eligible Own Funds over and above the Capital Target, a principle that I set out in paragraph 1.11. I therefore consider that, while the recent movements in financial markets may have affected the parties' ability to pay dividends to their parents, they have not affected policyholder benefit security. Given this, I am content to base my analysis on the regulatory balance sheets as at 30 June 2022.

6.32. The market volatility meant that the value of some derivative instruments changed rapidly, particularly those based on interest rates, resulting in significant collateral calls. These collateral calls caused liquidity strains for some financial institutions, but this was not the case for either HLAC or Omnilife since neither currently holds any derivatives.

7. Impact of the Scheme on the Transferring Policies

7.1. In this section I consider the potential impacts of the Scheme on Transferring Policies, specifically with reference to benefit security, benefit expectations, service standards, and the expected impacts on changes to governance and management arising from Transferring Policies moving from HLAC to Omnilife.

Benefit security

7.2. The effect of the Scheme on the security of benefits for Transferring Policies can be assessed by considering the relative financial strength of the provider of the benefits. I do this by considering the differences between the capital management policies of the two firms, whether Omnilife is expected to continue to comply with its capital management policy following the implementation of the Scheme, the risks to which the Transferring Policies are exposed, and the quality of capital held by the provider in respect of the risks.

Capital management policy

7.3. As discussed in Section 3, the capital management policies of HLAC and Omnilife are calibrated to the same strength and, in particular, any capital held over and above the Capital Target may be paid out of either company in the form of dividends. I would therefore consider the two companies to be of approximately equal financial strength at a point in time so long as they both complied with their capital management policies.

7.4. In relying on the protection afforded by the parties' capital management policies, I have considered the regulatory guidance that firms should not make changes to capital management policies solely to facilitate the payment of dividends or other business plans. Supervisory Statement SS4/18 "Financial management and planning by insurers" states that:

"*The PRA expects any significant change to an insurer's risk appetite only to be made by the board following an overall discussion on the risks and capital requirements of the business. Most insurers review their strategy and business plans on an annual basis, in the context of the insurer's risk profile, a process which inherently includes reviewing the risk appetite, and a review may also be appropriate following some major external event. The PRA does not however expect the risk appetite to be changed solely to justify, or regularise, particular actions, such as the assumption of a new risk, a change in investment policy, or a dividend payment.*"

It should be noted that, when the PRA refers to "risk appetite" in the Supervisory Statement SS4/18, I take this to include the capital management policy, since the same Supervisory Statement says that "*The insurer's risk appetite statement is expected to include the risk appetite for the levels of capital that are to be maintained in reasonably foreseeable market conditions.*"

7.5. While Omnilife's pro-forma solvency coverage ratio is expected to be lower than HLAC's current ratio (as discussed in Section 6), the key point is that Omnilife is expected to comply with its capital management policy following the implementation of the Scheme. The fact that Omnilife's pro-forma solvency coverage ratio is expected to be lower than HLAC's is partly a reflection of the risks to which each firm is exposed and which are allowed for in their capital management, and partly a reflection of the fact that HLAC currently holds Eligible Own Funds in excess of its Capital Target which it has yet to pay out as a dividend (as discussed in paragraph 3.35). I therefore do not consider Omnilife's pro-forma solvency coverage ratio being lower than HLAC's current ratio to represent a material adverse effect for Transferring Policies.

7.6. As well as considering Omnilife's pro-forma solvency position immediately after the implementation of the Scheme, I have also considered how the position is expected to evolve over time. Projections provided by the firm show that, in the absence of further acquisitions, Omnilife's solvency coverage ratio is expected to improve fairly steadily over calendar years 2022 to 2026, since the Risk Margin and the SCR are expected to be released as the business runs off. If the firm acquires blocks of business in line with its planned strategy then this might result in a slight reduction in the solvency coverage ratio over the period, but I do not consider this to constitute a material adverse effect on benefit security, since the projected impact is slight, and decisions about acquisitions will be governed by the firm's capital management policy

7.7. Omnilife has advised me that it has discussed its intention to make an application for the use of TMTP with the PRA, and that the regulator has not yet raised any fundamental objections. I understand that the PRA has told Omnilife that, subject to its application being satisfactory, it would grant ahead of the Effective Date approval to use TMTP, subject to the Scheme being sanctioned by the Court and implemented on the Effective Date. I will provide an update on this matter in my supplementary report, although as noted in paragraph 6.21 Omnilife expected to be able cover its Capital Target (on 30 June 2022 had the Scheme become effective at that date) even without TMTP.

7.8. I also note that PRA is not opposed in principle to firms applying to use TMTP in respect of policies transferred to them where those policies were originally written before the inception of Solvency II. Supervisory Statement SS17/15 "Solvency II: transitional measures on risk-free interest rates and technical provisions" states that:

"*Where the business transferred is material and should the transferee firm seek to benefit from TMTP relief in respect of the transferred business, the PRA's view is that an application to recalculate the value of the TMTP would be reasonable where the business transferred was written on or before 31 December 2015.*"

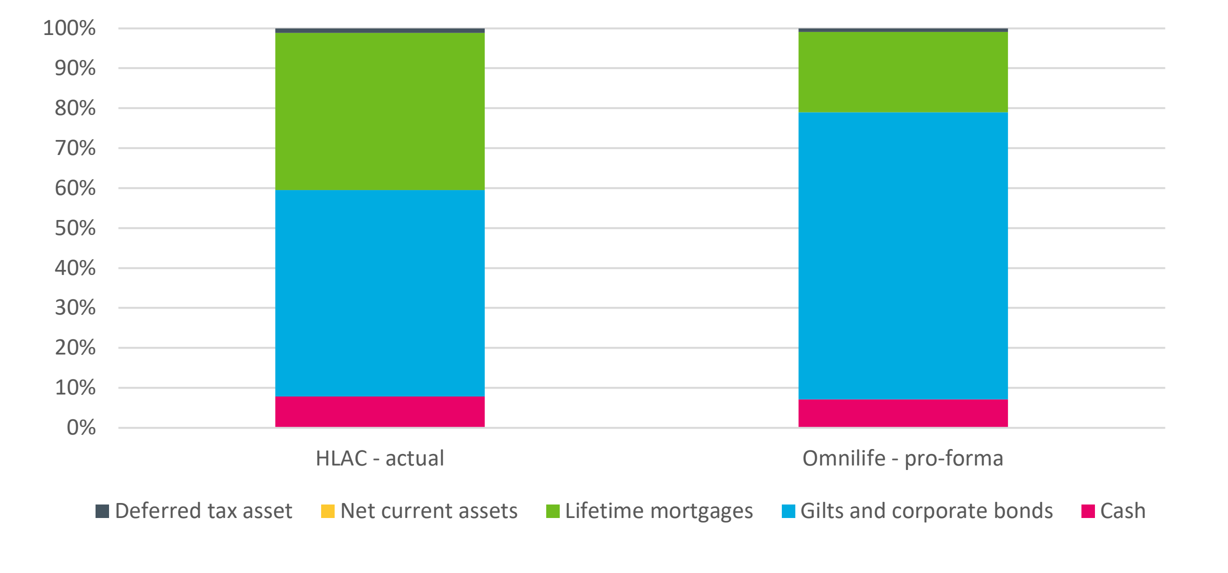
Balance of risks

7.9. In Section 6, the risk profiles for HLAC and Omnilife, as reflected in their respective SCRs, were analysed before and after the implementation of the Scheme. To assess the significance of the changes in risks to which existing HLAC policyholders are exposed, the relevant comparison is of the risk profile of HLAC before the implementation of the Scheme to that of Omnilife after its implementation. As noted in paragraph 6.26, HLAC's current risk profiles and Omnilife's expected risk profile following the implementation of the Scheme are both consistent with those seen elsewhere in the industry. I therefore do not consider any changes to the mix of risks influencing the benefit security for the Transferring Policies to constitute a material adverse effect.

7.10. Indeed, I have compared the risk strategy statements for HLAC and Omnilife and concluded that these are essentially the same, as discussed in paragraph 4.29. The key differences between the statements are that Omnilife may acquire further blocks of annuity business in the future (the implications of which are considered in paragraphs 7.18 to 7.22 below) and that, unlike HLAC, Omnilife has an appetite for some currency risk. I note that it is not unusual for annuity providers to have some exposure to currency risk, and that Omnilife's risk strategy statement states that the firm "*seeks to keep these non*-[sterling] *excess assets at a low level, and subject to being able to cover its Solvency Capital Requirement under a currency stress scenario.*" I therefore do not consider that exposing the Transferring Policies to currency risk constitutes a material adverse effect on their benefit security.

7.11. Omnilife has provided me with a breakdown of the assets that would have been held following the implementation of the Scheme, if this had occurred on 30 June 2022. The pro-forma asset allocation does not contain any asset classes other than those currently held by HLAC, as shown in Figure 22.

Figure 22: Asset allocation for HLAC prior to Scheme and pro-forma asset allocation for Omnilife



As at 30 June 2022
Source: HLAC Chief Actuary's report on the Scheme
Assets shown exclude reinsurance recoverables

7.12. While the acquisition by Omnilife from HLAC of the beneficial interest in the portfolio of lifetime mortgages will introduce a new market risk exposure for Omnilife, I note that the Transferring Policies are already exposed to this risk. Indeed, that exposure will be diluted as a result of the Scheme as the beneficial interest in lifetime mortgages will represent a smaller part of the larger pool of assets in Omnilife after the Scheme.

7.13. Due to the transfer to Omnilife under the Scheme of HLAC's reinsurance contracts with RGA Americas, the absolute exposure of Omnilife to the default of RGA Americas is expected to significantly increase, and to be significantly larger than HLAC's exposure to RGA Americas prior to the Scheme. However, like HLAC, Omnilife determines its capital management policy with reference to the amount of capital required for it to be able to restore coverage of its SCR within the timelines required for undertakings in difficulty in the event of a reinsurer failure. Given that Omnilife is expected to comply with its capital management policy following implementation of the Scheme – which will allow for its increased exposure to RGA Americas – I do not consider the increased exposure to represent a material reduction in the security of benefits for Transferring Policies.

7.14. I have considered the climate-related risks to which HLAC and Omnilife are exposed and consider that Scheme will not expose the Transferring Policies to any new types of climate-related risks. To assess this, I devised a set of climate change scenarios which I consider to be severe and asked HLAC and Omnilife to quantify how their regulatory balance sheets would change in these scenarios. The results of this exercise suggest that Omnilife may be somewhat less exposed to climate change risk than HLAC, meaning that the transfer to Omnilife may be expected to result in a dilution of climate change risk for the Transferring Policies.

Quality of capital

7.15. As discussed in paragraph 6.27, the quality of Omnilife's Own Funds following the Scheme is expected to be very similar to the quality of HLAC's Own Funds prior to the Scheme, each consisting primarily of Tier 1 Unrestricted Own Funds, with a small proportion of Tier 3 in relation to deferred tax assets. I do not consider any small differences to constitute a material adverse effect to the benefit security of the Transferring Policies.

Liquidity risk

7.16. I have examined the management information that HLAC and Omnilife produce in relation to the monitoring of liquidity and consider this to be essentially the same for the two firms. Since Omnilife has regulatory approval to the use the VA, it is also required to maintain a liquidity plan which considers the risks that could increase its liquidity requirements and/or reduce its available liquidity. I therefore do not expect the Scheme to materially increase the extent to which the Transferring Policies are exposed to liquidity risk.

Omnilife's position within the RGA Group

7.17. Omnilife's immediate parent is RAIL whereas HLAC's is RGA Americas. I have considered whether this means that the transfer of policies from HLAC to Omnilife may have a material adverse effect on the benefit security for the Transferring Policies. I have not identified any reasons why this may be the case.

Omnilife's business plans

7.18. Omnilife has no plans to market new insurance contracts to policyholders but, unlike HLAC which is fully closed to new business, Omnilife has a strategic objective to become a consolidator of closed UK life insurance books. This should be expected to increase Omnilife's exposure to market and longevity risks, as well as the risk of mis-pricing the acquisitions.

7.19. Operational and expense risks may also arise if Omnilife is insufficiently prepared for an acquisition. In this regard, I have considered Omnilife's analysis of its current capabilities and its plans for increasing its capabilities in preparation for future acquisitions. I consider Omnilife's plans, including the proposed timescales for when it might be able to enter into future transactions, to be generally appropriate.

7.20. Omnilife has provided me with projections for how its balance sheet is expected to evolve over the period 31 December 2021 to 31 December 2026, both with and without the planned level of new acquisitions. These suggest that writing new business might result in a slight reduction in the solvency coverage ratio over the period whereas, in the absence of new business, the solvency coverage ratio is expected to increase. However I do not consider this to constitute a material adverse effect on benefit security, since the projected impact is slight, and decisions about acquisitions will be governed by the capital management policy.

7.21. Finally, I note that future transfers of insurance business into Omnilife would be subject to the safeguards set out in Part VII of FSMA. These safeguards include the requirement for an Independent Expert to opine on whether the transfer is expected to have a material adverse effect on any group of policyholders which, if Omnilife were to acquire a further block of business after this Scheme was implemented, would include the policyholders transferred by this Scheme. Acquisitions of the economic interest in portfolios of insurance business can also be achieved by way of reinsurance. While I understand that this is not part of Omnilife's current strategy, and that it is instead focused on acquisitions that involve the transfer of insurance policies, any such reinsurance transactions would need to comply with Omnilife's capital management policy and would also be subject to regulatory oversight.

7.22. Given these considerations, I am satisfied that Omnilife's business plans are not expected to give rise to any risks that would have a material adverse effect on benefit security the Transferring Policies.

Benefit expectations

7.23. As discussed in Section 3, the Transferring Policies consist entirely of in-payment annuities. In the case of these annuities, the benefits payable are codified in the policy terms and conditions and are specified in defined monetary terms and therefore do not permit any discretion from the insurer on these amounts.

7.24. The terms and conditions for the Transferring Policies do not provide the policyholders with any options, although HLAC may exercise discretion in certain cases, such as for any requests to make a lump sum payment in lieu of a reversionary spouse's annuity following the death of a policyholder. These requests are considered on a case-by-case basis. Given that HLAC and Omnilife share a largely common management team, I expect that, following the implementation of the Scheme, Omnilife will exercise its discretion in the same way that HLAC currently does.

7.25. Omnilife has advised me that it intends to use HLAC's Pay As You Earn ("PAYE") scheme to deduct income tax from annuity payments made to the holders of Transferring Policies following the implementation of the Scheme. Omnilife expects to be able to do this since HLAC will no longer have any policyholders of its own following the implementation of the Scheme. The continued use of HLAC's PAYE scheme is intended to avoid the risk that a change in PAYE scheme results in some policyholders' tax codes changing unexpectedly, resulting in the affected policyholders needing to liaise with HMRC in order to verify that their new tax code is correct.

7.26. In the event that there are any Residual Policies, HLAC plans to establish a new PAYE scheme to cater for payments to be made to the holders of these policies until such time as they transfer to Omnilife. However, the parties do not expect there to be any Residual Policies. A new PAYE scheme will not be required for Excluded Sanctioned Policies, since HLAC is prohibited from making any payments to the holders of such policies.

Service standards

7.27. Although ultimate responsibility and oversight for the administration of the Transferring Policies will be migrated from HLAC to Omnilife following the implementation of the Scheme, the Scheme will also transfer to Omnilife without amendment HLAC's outsourcing contract with Equiniti. Both HLAC and Omnilife have appointed RGA UK Services Limited to monitor Equiniti's compliance with the terms of the outsourcing contract. I therefore do not expect the Scheme to result in any changes to the administration of the Transferring Policies.

Governance and management

7.28. As noted in paragraph 4.5, Omnilife's governance structure is essentially the same as HLAC's. The executive committees are the same for the two companies, but they have different Board and Board committees.

7.29. I have reviewed the terms of reference of the two Boards and their committees. There are no differences in the terms of reference for the firms' Boards, and no material differences in the terms of reference for the firms' Board committees.

7.30. For completeness, I note that the terms of reference for HLAC's Audit & Risk Committee are more detailed than those for Omnilife's, but I do not consider that they actually require HLAC's Audit & Risk Committee to do any more than Omnilife's and nor do I consider there to be any practical difference in the activities carried out by the parties' Audit & Risk Committees.

7.31. As noted in paragraph 4.9, Omnilife shares a largely common management team with HLAC, with the only difference being that the two firms have different CROs. Given that the responsibilities of a CRO are prescribed in regulation I do not expect the change in CRO to have a material adverse effect on the Transferring Policies.

Eligibility for the Financial Services Compensation Scheme and the Financial Ombudsman Service

7.32. The Transferring Policies are comprised entirely of annuities sold in the UK. My understanding is that they are therefore currently protected by the Financial Services Compensation Scheme ("FSCS") should HLAC suffer an insolvency event. I also understand that the holders of the Transferring Policies would be covered for the full amount of their annuities, without limit.

7.33. Like HLAC, Omnilife is also an insurer authorised by the PRA. My understanding is that the transfer of a long-term insurance policy from HLAC to Omnilife will therefore not affect that contract's eligibility for FSCS compensation. The level of compensation received will also be unaffected, including for any holders of Transferring Policies also hold other contracts of insurance with Omnilife, since there is currently no limit to the level of compensation that may be received in respect of long-term insurance contracts.

7.34. Since the Transferring Policies were sold in the UK, their holders are currently able to bring complaints against HLAC to the Financial Ombudsman Service ("FOS"). Following the implementation of the Scheme, the holders of the Transferring Policies will be able to bring complaints against Omnilife to the FOS. I note that any complaints made to FOS by holders of the Transferring Policies that are outstanding at the Effective Date will be transferred to Omnilife and handled and settled by Omnilife under the terms of the Scheme.

8. Impact of the Scheme on Omnilife's Existing Policies

8.1. In this section I consider the potential impacts of the Scheme on Omnilife's existing policyholders, specifically with reference to benefit security, benefit expectations, service standards, and the expected impacts on changes to governance and management, following the implementation of the proposed Scheme.

Benefit security

8.2. Consistent with my approach in Section 7 in relation to the Transferring Policies, I assess the effect of the Scheme on the security of benefits for Omnilife's existing policyholders by considering its impact on Omnilife's financial strength. Specifically, I consider whether Omnilife is expected to comply with its capital management policy following the implementation of the Scheme, the risks to which the firm is exposed, and the quality of capital held.

Capital management policy

8.3. Omnilife's capital management policy will not change as a result of the Scheme. Analysis of Omnilife's pro-forma balance shows that the level of Eligible Own Funds that would have been held on 30 June 2022 had the Scheme become effective on that date would have been sufficient to comply with the firm's Capital Target. I am therefore content that the Scheme will not lead to a material adverse effect on the benefit security of Omnilife's existing policyholders.

8.4. For the avoidance of doubt, and mirroring my comments in paragraph 7.3, I do not consider the increase in solvency coverage ratio that is expected to occur as a result of the Scheme to represent a particular benefit to Omnilife's existing policyholders because:

- it is driven in part by the fact that the capital management policy requires a greater solvency coverage ratio following the implementation of the Scheme than at present, reflecting the risks to which Omnilife is exposed, and
- capital held over and above the amount required by the capital management policy could be paid away as dividends should the firm choose.

8.5. As discussed in paragraph 7.6, as well as considering the expected impact of the Scheme on Omnilife's solvency position at the Effective Date, I have also considered how the position is expected to evolve following the Effective Date. I do not expect the solvency position to change in the future in a way that I would consider to constitute a material adverse effect.

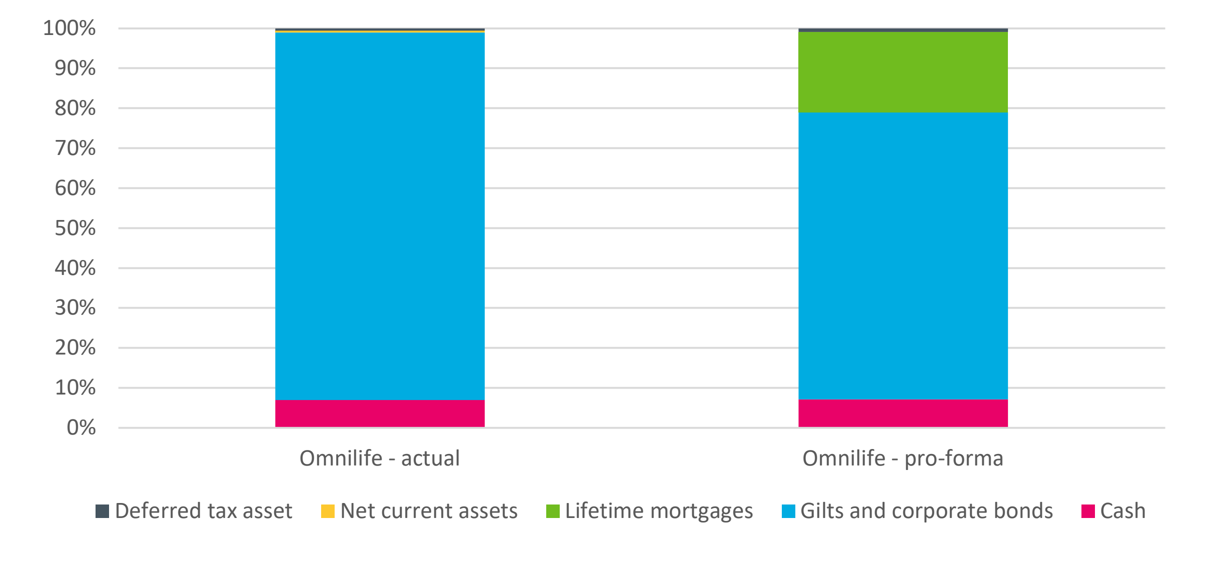
8.6. As discussed in paragraph 6.21, Omnilife would have complied with its Capital Target on 30 June 2022 had the Scheme become effective at that date even if it were unable to apply TMTP to the Transferring Policies.

Balance of risks

8.7. The risk profiles for HLAC and Omnilife, as reflected in their respective SCRs, were analysed in Section 6, before and after the implementation of the Scheme. To assess the significance of the changes in risks to which existing Omnilife policyholders are exposed, the relevant comparison is of the risk profile of Omnilife before the implementation of the Scheme to that of Omnilife after its implementation. As noted in paragraph 6.26, Omnilife's current risk profile and that following the implementation of the Scheme are both consistent with those seen elsewhere in the industry. I therefore do not consider any changes to the mix of risks influencing the benefit security for the Transferring Policies to constitute a material adverse effect.

8.8. Omnilife has provided me with a breakdown of the assets that would have been held following the implementation of the Scheme, if this had occurred on 30 June 2022. Figure 23 shows how this compares to the assets currently held by Omnilife.

Figure 23: Asset allocation for HLAC prior to Scheme and pro-forma asset allocation for Omnilife



As at 30 June 2022
Source: Omnilife Chief Actuary's report on the Scheme
Assets shown exclude reinsurance recoverables

8.9. Figure 23 shows that the main change to the assets held by Omnilife as a result of the Scheme arises from it acquiring the beneficial interest in the portfolio of lifetime mortgages, which is a new asset class for Omnilife. However, I am content that this will not materially adversely impact the benefit security of Omnilife's existing policyholders, for the following reasons:

(i) The lifetime mortgages will make up a relatively modest (c.13%) proportion of Omnilife's assets after implementation of the Scheme.

(ii) Omnilife will hold capital against the additional risk as discussed in paragraphs 6.10 to 6.12, the level of which I am content is appropriate given my view as discussed in paragraph 6.24 that the Standard Formula will remain appropriate. (The acquisition of the beneficial interest in these assets will also act to bring some additional diversification of risks to Omnilife.)

(iii) As mentioned in paragraph 6.10, Omnilife's key calibration scenario will be recalculated after the implementation of the Scheme to allow for the change in risk profile arising from it.

(iv) Omnilife's management team will be well-equipped to manage the risks of these assets given the current team also manages HLAC and its current exposure to them.

8.10. Omnilife already has an appetite to hold lifetime mortgages, as set out in its risk strategy statement. Omnilife currently accepts lifetime mortgages as part of the collateral posted by its reinsurers and, given the wording of its risk strategy statement, it is not inconceivable that the firm could choose to invest in lifetime mortgages even if the Scheme is not implemented.

8.11. I have compared Omnilife's risk strategy statement to HLAC's and note that HLAC does not have an appetite for any risks beyond those that Omnilife has an appetite for, as set out in paragraph 4.29. I therefore do not expect Omnilife's risk strategy to change as a result of the Scheme.

Climate change risk

8.12. As noted in paragraph 7.14, HLAC is somewhat more exposed to certain risks arising from climate change than Omnilife. The Scheme is therefore expected to increase Omnilife's exposure to climate change risk. In order to assess the extent of this, I devised a set of climate change scenarios that I consider to be severe and asked Omnilife to quantify their impacts on its pro-forma balance sheet. The results suggested that, provided that Omnilife's Eligible Own Funds were sufficient to cover the Capital Target following the implementation of the Scheme, then the firm would still be expected to be able to cover its SCR even in those severe scenarios.

8.13. Accordingly, while the Scheme is expected to increase Omnilife's exposure to climate change risk, I do not consider this to represent a material adverse effect for Omnilife's existing policyholders.

Quality of capital

8.14. As discussed in paragraph 6.27, the quality of Omnilife's Own Funds is not expected to change materially as a result of the Scheme and will continue to consist primarily of Tier 1 Unrestricted Own Funds, with a small proportion of Tier 3 in relation to deferred tax assets. I do not consider any small differences to constitute a material adverse effect to the benefit security of Omnilife's existing policies.

Liquidity risk

8.15. Neither Omnilife's liquidity plan nor the management information that it produces to monitor its liquidity position will change as a result of the Scheme. I have considered liquidity position of the Transferring Business and note that its available liquidity significantly exceeds its liquidity requirements. I therefore expect Omnilife to continue to comply with its liquidity plan following the implementation of the Scheme and, accordingly, do not expect the Scheme to materially increase the extent to which Omnilife's existing policies are exposed to liquidity risk.

Benefit expectations

8.16. The benefits payable under Omnilife's existing annuity policies are codified in the policy terms and conditions and are either specified in defined monetary amounts or are linked to inflation in a way clearly specified in the policy terms and conditions. There will therefore be no change to the benefit expectations as the insurer has no discretion over the benefits payable.

8.17. Omnilife has advised me that the only option afforded to policyholders by the terms and conditions of its existing annuity policies is one to transfer the value of a deferred annuity policy to another provider at the date of retirement. Omnilife has discretion over the basis used to determine the transfer value, subject to its regulatory duty to treat customers fairly. In addition, Omnilife may exercise discretion in certain cases such as for requests to pay a lump sum at retirement date in lieu of an annuity or to pay a lump sum in lieu of the contractual benefits due following the death of a policyholder. There is no contractual obligation to make these payments, which are considered on a case-by-case basis. Given the continuity of governance arrangements and its management team, I am satisfied that the Scheme is not expected to affect how Omnilife will exercise these aspects of discretion.

8.18. The terms and conditions of some of Omnilife's legacy policies provide the firm with the ability to increase premiums or charges. However, the firm has advised me that there is no precedent for the premiums or charges having been changed in practice and that it does not intend to increase them after the implementation of the Scheme. Given that the key motivation for the Scheme is to increase efficiencies, I do not expect it to depart from its established practice by increasing premiums or charges on its legacy policies after implementation of the Scheme. While Omnilife may still retain the contractual ability to do so, this is subject to its regulatory responsibility to treat its customers fairly.

Service standards

8.19. As described in paragraph 4.5, the administration for Omnilife's existing policies is outsourced to RGA UK Services Limited. For the existing annuity policies, administration is in turn outsourced by RGA UK Services Limited to Equiniti.

8.20. Neither of these arrangements will change as a direct result of the Scheme. However, Omnilife and RGA UK Services Limited have advised me that, following the Scheme, they intend to ask Equiniti to novate the contract for the administration of Omnilife's existing annuity policies from RGA UK Services Limited to Omnilife. I am advised by the parties that there will be no deterioration to the services and service standards provided under the novated contract.

8.21. I am therefore content that there will be no material adverse effect on service standards for Omnilife's existing policies, both the existing non-annuity policies, for which there will be no change, and the existing annuity policies, for which the planned subsequent novation is expected to have no practical impact.

Governance and management

8.22. Omnilife has confirmed that it does not intend to make any changes to its management or governance structures as a result of the Scheme. Omnilife has also confirmed that it does not intend to make any changes to the terms of reference of its governance committees.

8.23. I am content that Omnilife's management and governance structures will continue to be appropriate following the Scheme, since the Transferring Business is very similar in nature to Omnilife's existing business.

9. Other stakeholders

HLAC's reinsurers

9.1. As noted in paragraph 5.10, the Scheme will transfer all of HLAC's reinsurance contracts to Omnilife. Reinsurers may be exposed to the risk of default by cedants, for example if the present value of fixed payments made by a cedant under a longevity swap exceeded the expected present value of the variable payments made by the reinsurer. At present, HLAC's reinsurers are exposed to the risk of HLAC defaulting but, following the implementation of the Scheme, they will be exposed to the risk of Omnilife defaulting.

9.2. In order to manage this risk, reinsurers will typically set limits on their exposures to cedants, in which regard I note that Omnilife does not currently have any reinsurance arrangements with Hannover Re. The transfer to Omnilife of HLAC's longevity swap with Hannover Re will therefore not lead to Hannover Re breaching counterparty exposure limits for Omnilife.

9.3. As noted in paragraph 4.13, RGA Americas already has a reinsurance arrangement in place with Omnilife, and so the transfer to Omnilife of HLAC's reinsurance contracts with RGA Americas will increase RGA Americas' exposure to Omnilife. However, given the motivations for the Scheme, it is reasonable to believe that the RGA Group has taken RGA Americas' interests into account when deciding to transfer HLAC's business to Omnilife.

9.4. In any case, the analyses set out in Section 7 in relation to financial strength, capital management policies, risk profile, and governance arrangements also apply equally to HLAC's current reinsurers when transferred to Omnilife's, i.e. including Hannover Re and RGA Americas. I am therefore satisfied that the Scheme is not expected to have a material adverse effect on HLAC's reinsurers.

Omnilife's reinsurers

9.5. The analyses set out in section 8 in relation to financial strength, capital management policies, risk profile, and governance arrangements applies not only to Omnilife's existing policyholders but also to Omnilife's current reinsurers. I am therefore satisfied that the Scheme is not expected to have a material adverse effect on Omnilife's reinsurers.

Lifetime mortgage borrowers

9.6. As discussed in paragraph 3.18, HLAC continues to hold the beneficial interest in a portfolio of lifetime mortgages, but it does not expect to have any contractual relationship with the borrowers by the Effective Date. In addition, the respective obligations of the lender and the borrowers are set out in the mortgage terms and conditions, and these are unaffected by the Scheme. I am therefore satisfied that the Scheme is not expected to have any impact on lifetime mortgage borrowers.

Home reversion customers

9.7. As discussed in paragraph 3.19, HLAC previously provided home reversion plans, although it has since sold to Retirement Bridge its interest in these arrangements. HLAC continues to hold the title to some properties, even though the beneficial interest now belongs to Retirement Bridge. HLAC has advised me that, in these cases, the administration of the contract is the responsibility of Retirement Bridge alone – for example all customer contact is with Retirement Bridge, and Retirement Bridge will manage the sale of each property once the customer dies. The legal titles are in the process of being transferred to Retirement Bridge, subject to customer consent. Given that the customers have, for all practical purposes, no relationship with HLAC, and given that the property titles will not be transferred to HLAC by the Scheme, I am satisfied that the Scheme is not expected to have any impact on the home reversion plan customers.

10. Policyholder communications

10.1. HLAC and Omnilife have set out their plans regarding notifying policyholders and other stakeholders (including its reinsurers, outsourced service providers, and other partners, including Pure Retirement and Retirement Bridge) of the proposed transfer.

Structure and content of communications

10.2. The parties intend to take a consistent approach to communicating with policyholders and other stakeholders. Direct notifications to policyholders and other stakeholders will be in the form of a "communication pack" containing:

- a letter from the Chairman of HLAC or Omnilife (as appropriate) summarising the proposals and the legal process for transferring insurance policies, and advising how policyholders and suppliers can make contact or obtain further information should they wish to,
- a "customer" or "supplier" guide (as appropriate) which provides further details on the proposals including a summary of the Scheme, a "question and answer" document, and a notice (the "Legal Notice") stating that the application for the Scheme has been made in the appropriate form, and
- a summary of my Scheme report.

10.3. I have reviewed the communication packs that will be sent to policyholders and other stakeholders. I consider them to be generally consistent with the information I would expect policyholders and other stakeholders to receive in connection with the proposed Scheme. I also believe that the language used is appropriate for their intended recipients. I am therefore comfortable with the content of the communication packs.

Wider publication

10.4. HLAC and Omnilife have jointly developed a proposal which sets out how the parties intend to meet the wider notification requirements of FSMA. In particular, the parties will:

- publish the Legal Notice in each of the London, Edinburgh and Belfast Gazettes, as well as in two national newspapers, this notice having first been approved by the PRA in consultation with the FCA, and
- publish the following items on their websites and make them available on request:
  - the relevant communication packs,
  - a statement setting out the terms of the Scheme
  - my report and a summary of my report, and
  - their Chief Actuaries' reports.

Policyholder support

10.5. The communications strategy also identifies a number of ways in which policyholders and suppliers can receive support in relation to the proposed Scheme. Specifically, further information or support in answering questions will be available from various sources, namely:

- on written request to the postal addresses detailed in the Legal Notice.

- from telephone numbers and email addresses which will be included in the communication pack, to allow policyholders and stakeholders to contact a trained call team who will deal with requests in relation to the transfer, and
- on the websites of both HLAC and Omnilife.

Policyholder queries

10.6. The communication strategy also outlines plans for dealing with communications received, setting out target service levels, and detailing plans for monitoring the management information relating to communications.

10.7. The information sent to policyholders, and responses or objections received, will be tracked by the parties. This information will be shared with the PRA, with the FCA, and with me, on a twice-weekly basis, and there is a mechanism by which I will be able to directly review the correspondence received should I consider that to be appropriate. I will review and comment on the key areas of feedback received from policyholders in my supplementary report.

Waivers sought

10.8. The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (the "Communication Regulations") set out notification requirements (the "Notification Requirements") in relation to the transfer of insurance business. Under the Communication Regulations, an insurer may seek sanction from the High Court pursuant to Regulation 4(2) for waivers in respect of some of the Notification Requirements, and this is common practice for firms undertaking a transfer of insurance business.

10.9. Precedent has been established in the courts for firms seeking waivers from the High Court. Precedent dictates several factors (the "Aviva Factors") that would be relevant to an application for waivers. The Aviva Factors are:

- the impossibility of contacting policyholders,
- the practicality of contacting policyholders,
- the utility of contacting policyholders,
- the availability of other information channels through which notice of the application can be made available,
- the proportionality of strict compliance,
- the impact of collateral commercial concerns, and
- the object of the transfer itself and its likely impact on policyholders.

10.10. HLAC and Omnilife plan to seek waivers, or otherwise not make direct notification of the proposed Scheme, in the following situations:

- to "gone-away" policyholders, i.e. those for whom HLAC or Omnilife does not hold the policyholder's up-to-date address, identified because post has been returned to sender,
- to policyholders who have in place attorneys with a power of attorney arrangement where the attorney's address has specifically been notified,

- where a policyholder has died, and death benefits are due under the terms of policy, but it is not clear to whom those benefits are due,
- to named second lives on joint policies which will include named dependants entitled to an annuity when the main policyholder dies,
- to beneficial owners of policies, i.e. where a policy has been issued to nominees or trustees on behalf of others,
- to minors, i.e. where the policyholder is under the age of 18,
- to policyholders for whom trustees-in-bankruptcy, receivers or administrative receivers have been appointed,
- to the beneficiaries of some pension sharing orders, for whom the parties do not have contact details, and
- to a very small number of claimants under group risk business.

10.11. Notwithstanding HLAC and Omnilife's intention to contact all policyholders, other than where waivers are sought, it is inevitable that some policyholders will not be able to be contacted, for example where policyholders have changed address but have not informed the parties. In this case, the parties' procedures for re-establishing contact with gone-away policyholders would commence, and the communication pack would be sent to any policyholders with whom contact is re-established.

10.12. I have considered the Notification Requirements and the Aviva Factors when assessing the proposed communication plan and the waivers being sought. I discuss below each waiver being sought.

Gone-away policyholders

10.13. There is a relatively small number of policies for which the parties do not have up-to-date contact details for the policyholders. As at 31 July 2022, HLAC had 134 such policies (c.1% of its total policies) and Omnilife had 174 (c.4% of its total policies). The parties have advised me that they intend to use a third party tracing agent to attempt to find up-to-date contact details for as many of these policies as possible. The same third-party tracing agent will also be used to attempt to find up-to-date contact details for any new gone-away policyholders that are identified through the communication packs being returned to sender.

10.14. Where up-to-date contact details are found, the communication pack will be issued (or re-issued) to the policyholder, but the parties intend to seek a waiver from notifying any policyholders for whom up-to-date contact details cannot be found. I support this application on the grounds that I consider it to be impossible to notify any policyholders where the specialist tracing agent cannot find their contact details. I also note that the Scheme will be publicised on the parties' websites and in the press.

Attorneys

10.15. Where the policyholder has a power of attorney agreement in place, and an attorney's contact details have been provided, the parties propose to mail the attorney rather than the policyholder. Where attorney details are not held, the communication pack will be sent to the policyholder.

10.16. I consider this approach to be appropriate as I believe that it is reasonable to assume that if an attorney has chosen not to provide their contact details then both they and the policyholder are satisfied that it is not necessary for the attorney to receive information directly, on any matter. On the other hand, where an attorney's contact details have been provided, it is appropriate for that attorney to receive information directly, on all matters, including the proposed Scheme. In this latter case, the parties are seeking a waiver from notifying the policyholder, which I support on the grounds that the utility of additionally contacting these policyholders is likely to be limited.

Deceased policyholders

10.17. Where a policyholder has died and either (i) death benefits are due to the policyholder's estate but these have yet to be paid, or (ii) a dependant's annuity will commence being paid but this has yet to be set up, the parties will send the communication packs to the executors or the dependants (respectively). Where death benefits are due to the estate but the parties do not have contact details for the executors, they will seek a waiver from the requirement to notify them. Where a dependant's annuity is due to be set up but the parties do not have contact details for the dependant, they will seek a waiver from the requirement to notify them, and will instead notify the executor if they have the executor's contact details.

10.18. An alternative to seeking this waiver would be for the parties to contact the families of the deceased policyholders in order to attempt to find contact details for the executors or the beneficiaries of dependants' annuities. The waiver is sought on the grounds that receiving a communication pack could cause the deceased policyholders' families undue distress. As the benefits payable under these policies will not be affected by the Scheme, and taking into account the parties' wishes to avoid causing the deceased policyholders' families undue distress, I support these proposals.

Named second lives on joint policies

10.19. Other than as noted in paragraph 10.17, the parties propose that all holders of joint life policies will be notified by a single communication addressed and sent to the first-named policyholder. This aligns with the parties' ordinary means of communicating with joint policyholders. The first named policyholder will be asked to forward the communication pack to any second named joint policyholder. The parties will pay the cost where requested to do so.

10.20. I consider this to be an appropriate and proportionate proposal.

Beneficial owners

10.21. Omnilife has issued policies to trustees who took out policies on behalf of others, for example where a trustee did so on behalf of a settlor of a trust, such others being the beneficial owners of the policies. Omnilife holds contact details for the trustees, who are the legal owners of those policies, but it does not hold the contact details for all beneficial owners. Omnilife therefore intends to send the communication pack to all such trustees, asking them to forward the communication pack to the beneficial owners, and it will pay the cost where requested to do so. Omnilife does not intend to send the communication pack to the beneficial owners.

10.22. As Omnilife does not hold contact details of all beneficial owners, and as it is requesting the legal owners to contact the beneficiaries (at Omnilife's expense if requested), I consider this to be an appropriate and proportionate approach.

Minors

10.23. Where the policyholder is under the age of 18, the communication pack will be sent to the policyholder's legal guardian(s) who will be asked to share the pack with the policyholder if they consider the policyholder to be of an appropriate age and competence to understand the pack's contents. This aligns with the parties' ordinary means of communicating with such policyholders.

10.24. As the utility of sending the pack to such policyholders is likely to be low until they are of an appropriate age and competence to understand its contents, I consider this to be an appropriate approach.

Trustees-in-bankruptcy, receivers and administrative receivers

10.25. Where the records show that a policyholder has been declared bankrupt, the communication pack will instead be sent to the trustee in bankruptcy, receiver or administrative receiver (as appropriate) where such contact details are held. Such policyholders will not be contacted directly.

10.26. The utility of sending the pack to bankrupt policyholder is likely to be low, in addition to which the communication pack will instruct the recipient (in this case trustees-in-bankruptcy, receivers or administrative receivers) to share its contents with all persons who may have an interest in the policy. I am therefore supportive of the proposed approach.

Pension sharing orders

10.27. Where part of the benefits due under a policy are to be paid to the policyholder's former spouse (or other named recipient) under the terms of a pension sharing order, the parties intend to send the communication pack to both the policyholder and the former spouse.(or other named recipient of the pension sharing order). The exceptions to this are where the parties do not hold contact details for the former spouse (or other named recipient). The parties intend to seek a waiver from the requirement to notify these recipients. The parties expect contact details to be available for most former spouses (or other named recipients of the pension sharing orders), other than those associated with certain older Omnilife policies.

10.28. Given that the benefits paid to the former spouses or other named recipients will not change as a result of the Scheme, I consider that it would be disproportionate for the parties to attempt to find contact details for them in order to be able to send them the communication pack. Noting also that the Scheme will be publicised on the parties' websites and in the press, and that the communication pack asks the recipient to share its contents with all persons who may have an interest in the policy, I support the waiver application.

Group risk business

10.29. Omnilife is currently paying benefits to three claimants under the terms of group income protection policies. These policies were typically sold to employers to provide income protection insurance for their employees.

10.30. Similarly, Omnilife previously sold life insurance policies where a single contract covered a group of people. These policies were typically sold to employers to provide life insurance for their employees. The last such policy has now expired, and so Omnilife does not hold any BEL in respect of this line of business. There is, however, one outstanding death claim which Omnilife has yet to settle.

10.31. Omnilife intends to send the communication pack to the organisations that are the legal owners of the group risk policies, but proposes to seek a waiver from notifying either the income protection claimants referred to in paragraph 10.29 or the executor of the estate of the deceased person referred to in paragraph 10.30.

10.32. Omnilife does not hold contact details for the income protection claimants or the executor, and so it is requesting that the legal owners contact the income protection claimants and the executor (at Omnilife's expense where requested). I consider this to be an appropriate and proportionate approach and therefore support the waiver application.

Other stakeholders

10.33. As discussed in paragraph 10.1, HLAC and Omnilife also intend to notify other interested stakeholders, including its reinsurers, outsourced service providers, and other partners, including Pure Retirement and Retirement Bridge. I consider this to be appropriate.

10.34. As discussed in paragraph 3.18, lifetime mortgages previously sold by Hodge Bank and, in a small number of cases, by HLAC are now administered by Pure Retirement, and are expected to be legally owned by Pure Retirement by the Effective Date. HLAC will then hold only the beneficial interest in these contracts which is not impacted by the Scheme. Beyond advising Pure Retirement of the proposals, neither HLAC nor Pure Retirement plan to notify the underlying lifetime mortgage borrowers. I consider this to be appropriate.

10.35. As discussed in paragraph 9.7, HLAC previously sold home reversion plans and the beneficial interest in these is now owned by Retirement Bridge. Retirement Bridge is responsible for administering the home reversion plans in which it owns the beneficial interest. Beyond advising Retirement Bridge of the proposals, neither HLAC nor Retirement Bridge plan to notify the underlying home reversion plan borrowers. I consider this to be appropriate, too.

10.36. For the avoidance of doubt, I do not consider that the intention not to notify the underlying lifetime mortgage and home reversion plan borrowers requires a waiver.

Conclusion

10.37. For the proposed communications plan, I am comfortable with the approach for both Transferring Policyholders as well as Omnilife's existing policyholders. Furthermore, I am comfortable with the wider communication strategy, including the waivers being sought and the support to be offered to policyholders and other interested stakeholders.

11. Other considerations arising from the Scheme

Potential changes to the UK prudential regulatory regime

11.1. The Solvency II regulatory regime came into effect in the European Union in 2016, and its provisions were later incorporated into UK law in preparation for the UK's decision to withdraw from the European Union. In October 2020, HM Treasury ("HMT") announced a review of Solvency II, noting that, since it had been developed to apply across the European Union, there were certain areas of it that could better reflect the particular structures, products and business models of the UK insurance sector.

11.2. HMT's stated objectives of the review are:

- "to spur a vibrant, innovative, and internationally competitive insurance sector,"
- "to protect policyholders and ensure the safety and soundness of firms," and
- "to support insurance firms to provide long-term capital to underpin growth, including investment in infrastructure, venture capital and growth equity, and other long-term productive assets, as well as investment consistent with the Government's climate change objectives."

11.3. Figure 28 shows the progress of the review so far.

Figure 28: Key milestones in HMT's review of Solvency II

Date	Development
October 2020	HMT published call for evidence on the major areas of the review
July 2021	HMT published its response to the call for evidence. It stated that the Government had asked the PRA to model different options to better understand which combination of reforms would best meet the Government's objectives and what the aggregate impact would be.
July 2021	The PRA announced a quantitative impact study that was intended to assist its analysis of potential reform options.
April 2022	HMT published a consultation in which it stated that in some areas of reform the way forward seemed clear. The consultation sought evidence on the likely impact of those reforms to help determine the precise form that they needed to take.
April 2022	The PRA published a discussion paper on the detail of particular reforms.

11.4. Although changes to the regulatory regime have yet to be finalised, the consultation published by HMT in April 2022 set out that the proposed reforms are:

(i) "a substantial reduction in the Risk Margin of around 60-70% for long-term life insurers,"

(ii) "a reassessment of…the calculation of the Matching Adjustment,"

(iii) "the introduction of a significant increase in flexibility to allow more investment in long-term assets," and

(iv) "a major reduction in the EU-driven regulations which make up the current reporting and administrative burden."

Proposed reforms to the Risk Margin

11.5. If HMT and the PRA proceed with the proposed reforms, then point (i) would be expected to decrease the size of the Risk Margins that are held on the regulatory balance sheets of HLAC and Omnilife, and so would increase the Eligible Own Funds for both firms. The Capital Limits and Capital Targets for the two firms are expressed in terms of the amount of Eligible Own Funds that must be held over and above the SCR, and so, all else being equal, any reduction in the Risk Margin would be expected to increase the amount of Eligible Own Funds in excess of the Capital Target.

11.6. Both firms currently comply with their capital management policies, and Omnilife is expected to continue to comply following the implementation of the Scheme. The proposed reforms to the Risk Margin would be expected to make it more likely that each firm will comply with its capital management policy immediately before the Effective Date, and that Omnilife will continue to comply after the Effective Date, all else being equal. I therefore do not expect the proposed reforms to the Risk Margin to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

Proposed reforms to the Matching Adjustment

11.7. Point (ii) refers to the way in which the MA is calculated, while point (iii) refers to the assets that insurers are permitted to use to back annuity liabilities that are valued using the MA. Neither HLAC nor Omnilife has regulatory approval to the use the MA, and neither currently has any plans to apply for it. I therefore do not expect the proposed reforms to the MA to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

Proposed reforms to regulatory reporting

11.8. If HMT and the PRA proceed with the proposed reforms, then point (iv) might be expected to reduce the administrative burdens on HLAC and Omnilife, which might reduce their expenses. All else being equal, this would be expected to make it more likely that each firm will comply with its capital management policy immediately before the Effective Date, and that Omnilife will continue to comply after the Effective Date. I therefore do not expect the proposed reforms to the regulatory reporting to affect my conclusion that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

Tax

11.9. The parties have confirmed that they do not expect the Scheme to result in any changes to the taxation treatment of the Transferring Policies.

Future operation of the Scheme

11.10. If the Scheme is sanctioned by the Court the parties will be legally obliged to implement it, and their directors will be responsible for ensuring that this happens.

11.11. The provisions of the Scheme deal largely with the transfer of the Transferring Business, rather than placing requirements on how Omnilife manages its business (including the Transferring Business) after the Effective Date. I consider this to be appropriate, since the business of both parties currently consists entirely of conventional non-profit long-term insurance policies.

11.12. The Scheme provides that the parties may amend it in order to correct a manifest error or to make an amendment which is considered to be "minor or technical". The PRA and FCA have the right to object to any such amendment, and the parties must give them 28 days' notice. Other types of amendment to the

Scheme can be made only through an application to the Court. The PRA and FCA must be given at least six weeks' notice, and would have the right to be heard by the Court. Such an application would need to be accompanied by a report from me or another independent actuary certifying that the proposed amendment was not expected to materially adversely affect either the holders of the Transferring Policies or Omnilife's policyholders, as well as reports from the Chief Actuaries of HLAC and Omnilife to the same effect.

11.13. Overall, I am satisfied that the Scheme contains sufficient safeguards to ensure that it operates as intended.

War in Ukraine

11.14. The parties have advised me that, in response to sanctions being imposed on Russia following its invasion of Ukraine, they have reviewed their asset portfolios to determine whether they have any exposures to either Russia or Ukraine. The reviews confirmed that the asset portfolios do not contain any direct exposures to either Russia or Ukraine, such as securities issued by the Russian government or companies domiciled in Russia. The asset portfolios do contain minor indirect exposures, such as securities issued by multinational companies with operations in Russia, but the issuers have advised that they are in the process of ceasing these operations.

11.15. HLAC has advised me that none of its policyholders are currently subject to sanctions but, as set out in paragraph 5.4, in the event that they are sanctioned prior to the Effective Date they would be classed as Excluded Sanctioned Policies and would not be transferred to Omnilife until the sanctions had been removed. None of the holders of the Transferring Policies are resident in either Russia or Ukraine.

11.16. I am therefore satisfied that the war in Ukraine does not give rise to any issues that would make it inappropriate for the Scheme to proceed.

COVID-19 pandemic

11.17. The parties were able to continue their business without any significant interruption during the periods of significant COVID-19-related restrictions in 2020 and 2021. I would expect the same procedures to be applied should similar restrictions be imposed in the future, and indeed the parties have continued to adopt hybrid working practices since the last restrictions were lifted, meaning that staff are able to work from home if required at short notice. I am therefore satisfied that the parties have appropriate contingency plans to be able to continue to operate their business in the event of disruption being caused should new restrictions be imposed in response to the ongoing COVID-19 pandemic.

11.18. The parties have supplied me with their contingency plans for the unexpected or prolonged absence of a key function holder, including absences due to contracting COVID-19. I consider these to be appropriate and in line with my understanding of usual industry practice.

12. Consequences of the Scheme not completing

12.1. As part of my assessment of the Scheme, I have considered the consequences of it not completing as planned. If this were to happen then, as noted in paragraph 5.19, the status quo would persist, with HLAC and Omnilife remaining as separate operating subsidiaries within the RGA Group. HLAC will remain closed to new business, while Omnilife will continue to pursue new transactional opportunities.

12.2. In constructing its regulatory balance sheet, HLAC's allowance for future expenses is less than those currently being incurred. However, at 30 September 2021, HLAC held an additional expense reserve of five years' worth of the difference between the valuation allowance and the expenses currently being incurred, which is assumed to run down over that five-year period. This means that, all else being equal, there will be a strain on HLAC's balance sheet if it has not transferred its business or otherwise become more efficient by the end of the five-year period.

12.3. Like HLAC, Omnilife's allowance for future expenses is less than those currently being incurred. Omnilife therefore holds an additional expense reserve, of three years' worth of the difference from the given valuation date. If the Scheme does not complete then Omnilife will need to achieve even more acquisitions in order to achieve the scale necessary to eliminate the overrun.

13. Summary of conclusions

13.1. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit security of any group of policies.

13.2. I am satisfied that the Scheme is not expected to have a material adverse effect on the benefit expectations of any group of policyholders.

13.3. I do not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies.

13.4. I am therefore satisfied that the Scheme is equitable to all classes and generations of HLAC's and Omnilife's policyholders.

13.5. I am also satisfied that I do not expect the Scheme to have a material adverse effect on HLAC's reinsurers whose contracts will be transferred to Omnilife.

14. Certificate of compliance

14.1. I understand that my duty in preparing the Scheme 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 fees. I have complied with this duty.

14.2. I am aware of the requirements applicable to experts as set out in Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims. I understand my duty to the Court.

14.3. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed represent my true and complete professional opinions on the matters to which they refer.

Stephen Makin

Stephen Makin FFA CERA
Independent Expert

For and on behalf of Hymans Robertson LLP

27 October 2022

Summary report for policyholders

Introduction

1. Hodge Life Assurance Company Limited, which I refer to as Hodge Life, and Omnilife Insurance Company Limited, which I refer to as Omnilife, are both part of the same group of companies which is ultimately owned by Reinsurance Group of America Incorporated. Hodge Life and Omnlife share a largely common management team.
2. Hodge Life and Omnilife wish to transfer all of the insurance policies sold by Hodge Life to Omnilife. To do this, they must make an application to the High Court of Justice in England & Wales. The application must include a report by an Independent Expert on the terms of the transfer. I have been instructed jointly by Hodge Life and Omnilife to fulfil this role, and my appointment has been approved by the UK's insurance regulators. I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1999, and a partner of Hymans Robertson LLP, an actuarial consultancy firm.
3. This is my report for the policyholders of Hodge Life and Omnilife. It is a summary of my full report to the court, which is available on both firms' websites or from either firm on request. That report sets out the detailed scope of my work, the standards applying to it, and the information I have used in preparing it. Nothing in either report is or should be viewed as being investment, accounting, legal or tax advice, including to Hodge Life or Omnilife or their policyholders.
4. The main focus of my work is to consider whether the proposed transfer is expected to affect the benefits paid to any group of policyholders, or to significantly reduce either the security of those benefits or the standards of services provided to policyholders. I have considered the expected impact of the proposed transfer on both Hodge Life's current policyholders whose policies will be transferred to Omnilife, and Omnilife's existing policyholders.

The impact of the transfer on benefits expected to be paid to policyholders

Policyholders transferring from Hodge Life to Omnilife

5. I do not expect the transfer to result in a reduction in the benefits paid to any of Hodge Life's current policyholders whose policies are to be transferred to Omnilife. The terms and conditions of Hodge Life's policies do not permit any discretion from the insurer on the benefits paid to policyholders, and these conditions will not be amended by the transfer except to refer to Omnilife rather than Hodge Life.

Omnilife's existing policyholders

6. I do not expect the transfer to result in a reduction in the benefits paid to any of Omnilife's existing policyholders. For the vast majority of these policies, the terms and conditions do not permit any discretion from the insurer on the benefits paid to policyholders. For a small proportion of the policies, the terms and conditions do provide Omnilife with the ability to increase premiums or charges, but there is no precedent for this being used in practice and, as I expect the transfer to make Omnilife relatively cheaper to run, I do not expect it to result in an increase in premiums or charges.
7. Some of Omnilife's existing policies may provide the policyholder with certain options, for example the option to transfer a pension to another provider. I have considered the terms on which these options are offered, and do not expect there to be any changes as a result of the transfer.

The security of policyholder benefits

Policyholders transferring from Hodge Life to Omnilife

8. I do not expect the transfer to significantly reduce the security of benefits for policyholders transferring from Hodge Life to Omnilife.
9. Both Hodge Life and Omnilife maintain internal policies which ultimately govern the financial resources that are retained within each firm rather than being paid to shareholders in the form of dividends. These policies require Hodge Life and Omnilife to hold financial resources beyond those required by the regulations. The policies are essentially the same for both companies, so I regard both as having the same financial strength provided that they comply with their policies. Omnilife currently holds a level of financial resources that complies with its

policy, and I am satisfied that the level of financial resources that it expects to have following the transfer will also comply with its policy.

10. I have also considered how Omnilife's financial position is expected to change in the years following the transfer, taking into account the company's business plans which include taking on further contracts of insurance. I am satisfied that the company's financial position is not expected to materially worsen over that business planning period.

Omnilife's existing policyholders

11. I do not expect the transfer to significantly reduce the security of benefits for Omnilife's existing policyholders.

12. Omnilife has confirmed that the transfer will not result in any changes to its internal policy which governs the level of financial resources that it holds. As noted in paragraph 9, I am satisfied that the level of financial resources that Omnilife expects to hold following the transfer will comply with its policy.

13. The transfer will involve Omnilife taking on a new class of assets from Hodge Life which it has not directly owned before. However, these assets will make up a relatively small proportion of Omnilife's total assets and, noting that broadly the same team is currently responsible for managing Hodge Life, Omnilife's management team is well-placed to manage the risks arising from them. I am also satisfied that the level of financial resources that Omnilife will be required to hold following the transfer appropriately reflects the risks that it will be exposed to.

14. I note that Hodge Life is somewhat more exposed to certain risks arising from climate change than is currently the case for Omnilife, meaning that the transfer will increase Omnilife's exposure to climate-related risks. I asked Omnilife to analyse how its financial position would deteriorate in a particular climate change scenario that I regard as being severe. This showed that its financial resources would continue to exceed the amount needed to comply with regulatory requirements.

Service standards

Policyholders transferring from Hodge Life to Omnilife

15. The administration of Hodge Life's policies is currently carried out on Hodge Life's behalf by Equiniti Paymaster (1836) Limited, which I refer to as Equiniti. The outsourced contract will transfer from Hodge Life to Omnilife at the same time as the policies are transferred, meaning that Equiniti will continue to provide the same services after the transfer. I therefore do not expect there to be a reduction in the standard of service received by Hodge Life's current policyholders as a result of the transfer to Omnilife.

Omnilife's existing policyholders

16. The administration arrangements for Omnilife's existing policies will be unaffected by the transfer of additional policies from Hodge Life. I therefore do not expect the transfer to result in a reduction in the standard of service received by Omnilife's existing policyholders.

Conclusion

17. Based on the information provided to me by Hodge Life and Omnilife, I conclude that the proposed transfer is not expected to affect the benefits expected to be paid to any group of policyholders, or to significantly reduce the security of those benefits, or the standards of service received by policyholders.

18. Before the final hearing at which the court will decide whether or not the transfer may proceed, I will prepare a supplementary report discussing any significant developments that have occurred since my full report was finalised, commenting on whether these cause me to revise my conclusions.

Stephen Makin

Stephen Makin FFA CERA
Independent Expert
For and on behalf of Hymans Robertson LLP
27 October 2022

Appendix 1: Glossary

Term	Definition
Annuitant	A person entitled to receive benefits or payments from an annuity.
Annuity	A contract of insurance under which an insurer pays a regular income, usually until the death of the insured.
Aviva Factors	A number of factors which precedent dictates to be relevant to an application for waivers from the Notification Requirements.
Best Estimate Liabilities	In Solvency II, the best-estimate valuation of liabilities refers to the discounted value (i.e. in today's terms) of expected future obligations that an insurer expects to have to pay. The cash flows underlying the valuation are "best-estimate" in the sense of being "expected". They may therefore be considered to be neither pessimistic nor optimistic. Further information is given in Appendix 6.
Capital Limit	Both HLAC and Omnilife have capital management policies in place which require a formal recovery plan to be prepared by management and presented to the Board if the level of Eligible Own Funds in excess of the SCR is lower than the Capital Limit.
Capital Target	The level of Eligible Own Funds in excess of the SCR that each of HLAC and Omnilife aims to maintain, according to their capital management policies. If the level of Eligible Own Funds over and above the SCR exceeds the Capital Target then the firm may pay the excess as a dividend to shareholders.
Credit life	A type of life insurance policy typically taken out by a borrower under retail credit arrangement, designed to pay off the borrower's outstanding debts under that arrangement if the borrower dies before the end of the financing term.
Deferred annuity	A contract of insurance under which the insurer pays a regular income starting at a specified future date. Once payments start being made, they usually continue until the death of the insured.
Deposit administration	A contract under which retirement contributions made by an employer are retained in a fund held by the insurer to be applied toward the purchase of annuities as employees reach retirement.
Diversification	The reduction in risk (and therefore capital requirements) that results from an expectation that adverse outcomes from one risk can be offset by more favourable outcomes from others. This arises from not all risks being expected to occur at the same time.
Effective Date	Effective Date means the time and date on which the Scheme will take effect, which is expected to be 23:59 GMT on 30 April 2023.
Eligible Own Funds	Own Funds that an insurer is permitted to use to cover its SCR. The regulations categorise various Own Funds items into tiers according to their loss absorbency, degree of subordination, and term. The regulations also specify limits on the amount of Own Funds in each tier that may be used to cover the SCR. Further information is given in Appendix 6.

Term	Definition
Excluded Policies	This term is defined fully in the Scheme, but in essence it means any of HLAC's policies that the parties agree between them should not transfer to Omnilife (although the parties do not expect there to be any such policies) or which are classed as Excluded Sanctioned Policies.
Excluded Sanctioned Policies	This term is defined fully in the Scheme, but in essence it means any of HLAC's policies that is held by a policyholder on a sanctions list at the Effective Date.
Gone-away policyholders	Those policyholders for whom HLAC or Omnilife does not hold an up-to-date address, identified because post has been returned to sender.
Group risk	A type of life or health insurance in which a single contract covers a group of people. Typically, the policy owner is an employer and the policy covers the employees.
Home reversion plan	A contract under which the provider purchases part of the customer's property, but the customer is permitted to continue to live in the property until a specified event occurs, usually either the death of the customer or the customer moving into long-term care.
Income protection	A type of insurance policy that protects against loss of income arising from illness or injury that prevents the policyholder from working.
Joint life annuity	An annuity that pays an income for the life of the insured and which, following the death of the insured, pays an income for life to a surviving dependant.
Key calibration scenario	Omnilife and HLAC set their Capital Limits such that, if the firm in question complies with its Capital Limit, it expects to be able to cover the SCR in the key calibration scenario. In the key calibration scenario, HLAC's key market and reinsurance counterparty risks crystallise.
Legacy business	The business written by Omnilife prior to the transfer of annuities from Generali. The legacy business comprises group risk business together with individual savings and term assurance policies.
Lifetime mortgage	A loan secured on the borrower's home which does not need to be repaid until a specified event occurs, such as the death of the borrower or the borrower moving into long-term residential care. The borrower is normally provided with a no negative equity guarantee.
Longevity swap	A reinsurance structure where the cedant makes a series of fixed payments to the reinsurer based on the benefits initially expected to be paid to annuitants. The reinsurer makes a series of payments to the cedant based on the actual benefits paid to annuitants.
Matching Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The value of the Matching Adjustment is derived from the spread on the assets held by the insurer to back the relevant business. Further information is given in Appendix 6.

Term	Definition
No negative equity guarantee	A provision of lifetime mortgages under which the maximum amount that is required to be repaid following either the death of the borrower or them moving into long-term residential care is the value of the property on which the loan is secured.
Notification Requirements	The notification requirements set out in the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001.
Outwards Reinsurance Agreements	This term is defined fully in the Scheme, but in essence it means all of HLAC's reinsurance contracts that are in force at the Effective Date.
Own Funds	The total of: • the excess of assets over liabilities – according to the regulatory balance sheet – less the amount of own shares held by the insurer, and • subordinated liabilities Further information is given in Appendix 6.
Own Risk and Solvency Assessment	A process that insurers are required by regulation to carry out on a regular basis to identify and assess the risks to which they are exposed, and the capital required to support their risk profiles, approved risk tolerance limits and their business strategies.
Pension annuity	An annuity purchased out of the proceeds of a pension scheme.
Portfolio stop loss	A reinsurance contract under which the values of a portfolio of assets and a portfolio of liabilities are tracked. In the event that the liabilities exceed the assets by a specified amount, any further falls in the value of the assets relative to the value of the liabilities are covered by the reinsurer.
Purchased life annuity	An annuity that was not purchased from the proceeds of a pension scheme.
Quota share reinsurance	A type of reinsurance contract under which the reinsurer is entitled to receive a specified proportion of all premiums received by the cedant from a portfolio of insurance contracts, in exchange for the reinsurer paying the same proportion of all claims incurred on the portfolio.
Regulatory balance sheet	A balance sheet showing assets and liabilities recognised and valued in accordance with the Solvency II regulations.
Reinsurance	Insurance protection taken out by an insurer to limit its exposure to losses on its direct insurance contracts.
Residual Assets	This term is defined fully in the Scheme, but in essence it means any assets which are intended to transfer under the Scheme but which cannot be transferred for any reason.
Residual Liabilities	This term is defined fully in the Scheme, but in essence it means any liabilities which are intended to transfer under the Scheme but which cannot be transferred for any reason.

Term	Definition
Residual Policies	This term is defined fully in the Scheme, but in essence it means any policies which are intended to transfer under the Scheme but which cannot be transferred for any reason.
Restricted Tier 1 Own Funds	The second highest quality of the four categories of Own Funds. Further information is given in Appendix 6.
Risk Margin	This is an addition to the Solvency II best-estimate liabilities. Its calculation is prescribed by the Solvency II rules, and it is intended to represent the amount in excess of the best-estimate liabilities that would have to be paid to another insurer in order for it to agree to take on the underlying insurance obligations. Further information is given in Appendix 6.
Run-off	The process of managing the contracts of insurance that are already on an insurer's books after it takes the decision to close the product line to new business.
Solvency II	The name given to the regulatory regime that UK insurers are required to comply with. The regime is currently identical to that with which insurers in the EU are required to comply, the legislation having been written into UK law after Brexit. Solvency II imposes quantitative requirements on insurers, for example relating to how assets and liabilities are measured, and how much capital insurers are required to hold. Solvency II imposes qualitative requirements, for example relating to governance and risk management processes and controls. Solvency II also places disclosure requirements on insurer, relating to what and to whom insurers must report on their financial health.
Solvency Capital Requirement	Under Solvency II, insurers are required to hold a Solvency Capital Requirement. The Solvency Capital Requirement is specific to each insurer and is calculated based on the risks that each insurer faces. It aims to ensure that an insurer holds enough Own Funds to withstand certain stress events. Further information is given in Appendix 6.
Solvency coverage ratio	This is a measure of financial strength of an insurer, calculated as the value of its Eligible Own Funds divided by its Solvency Capital Requirement.
Standard Formula	A prescribed approach to calculating the Solvency Capital Requirement which insurers must use unless they have regulatory approval to use their own internal model. Further information is given in Appendix 6.
Technical Provisions	Liabilities held on the regulatory balance sheet in respect of future benefit payments under contracts of insurance and the expenses of administering those contracts. Usually calculated as the sum of the Best Estimate Liabilities and the Risk Margin. Further information is given in Appendix 6.
Term assurance	A type of life insurance policy that provides cover, usually against death but sometimes also being diagnosed with certain critical illnesses, for a specified period of time.
Tier 2 Own Funds	The third highest quality of the four categories of Own Funds. Further information is given in Appendix 6.

Term	Definition
Tier 3 Own Funds	The lowest quality of the four categories of Own Funds, which typically comprises deferred tax assets. Further information is given in Appendix 6.
Transferring Assets	This term is fully defined in the Scheme, but in essence it means all of HLAC's assets at the Effective Date save for any Residual Assets, any legal titles held by HLAC for properties that are the subject of home reversion plans, and c.£7m of cash and cash equivalents which will be retained in HLAC.
Transferring Business	This term is fully defined in the Scheme, but in essence it means the Transferring Assets, Transferring Liabilities, Transferring Policies, Outwards Reinsurance Agreements, and Transferring Third Party Contracts collectively.
Transferring Liabilities	This term is fully defined in the Scheme, but in essence it means all of HLAC's liabilities, which includes liabilities under the Transferring Policies, but also all other liabilities of the company, both actual and contingent.
Transferring Policies	This term is fully defined in the Scheme, but in essence it means all of HLAC's policies in force at the Effective Date.
Transferring Third Party Contracts	This term is fully defined in the Scheme, but in essence it means all of HLAC's outsourced contracts in force at the Effective Date.
Transitional Measure on Technical Provisions	A deduction from the Technical Provisions for insurance contracts written before Solvency II came into effect, based on the difference between the Technical Provisions calculated in accordance with Solvency II and those calculated in accordance with the previous regulatory regime. Further information is given in Appendix 6.
Unrestricted Tier 1 Own Funds	The highest quality of the four categories of Own Funds. Further information is given in Appendix 6.
Volatility Adjustment	When determining the BEL, the standard approach is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields. Insurers may apply for regulatory approval to add a Volatility Adjustment to the basic risk-free rate. Further information is given in Appendix 6.

Appendix 2: Abbreviations

Abbreviation	Definition
AGRO	Assured Guaranty Overseas Limited
BEL	Best Estimate Liabilities
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRO	Chief Risk Officer
Communication Regulations	The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001
Court	The High Court of Justice in England and Wales
Equiniti	Equiniti Paymaster (1836) Limited
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
Hannover Re	Hannover Ruck SE
HLAC	Hodge Life Assurance Company Limited
HMRC	HM Revenue and Customs
HMT	HM Treasury
Hodge Bank	Julian Hodge Bank Limited
Hymans Robertson	Hymans Robertson LLP
IFoA	Institute and Faculty of Actuaries
Independent Expert	The person responsible for preparing the Scheme Report in accordance with Section 109(2) of FSMA
MA	Matching Adjustment
Omnilife	Omnilife Insurance Company Limited
ORSA	Own Risk and Solvency Assessment
PAYE	Pay As You Earn

Abbreviation	Definition
PRA	Prudential Regulation Authority
Pure Retirement	Pure Retirement Limited
RAIL	RGA Americas Investments LLC
Retirement Bridge	Welfare Dwellings Trust Limited
RGA ATL	RGA Atlantic Reinsurance Company Limited
RGA Group	Reinsurance Group of America Incorporated and its subsidiaries
RGA Inc	Reinsurance Group of America, Incorporated
RGA Americas	RGA Americas Reinsurance Company, Ltd
Scheme	The proposed scheme of transfer, the terms of which I have been instructed to report on in the capacity of Independent Expert
Scheme Report	The report on the terms of the Scheme required under section 109(1) of FSMA
SCR	Solvency Capital Requirement
SPV	Special purpose vehicle
SUP18	Chapter 18 of the Supervision Manual of the FCA Handbook
TMTP	Transitional Measure on Technical Provisions
UK	United Kingdom
VA	Volatility Adjustment

Appendix 3: Compliance with terms of reference

Material adverse effect

Requirement	Section of the Scheme Report
I will assess the expected impact of the Scheme on each of the following groups: • HLAC's policyholders, noting that all will be transferred to Omnilife as part of the Scheme,	Section 7
• Omnilife's existing policyholders,	Section 8
• Any of HLAC's reinsurers whose contracts of reinsurance will be transferred to Omnilife as part of the Scheme,	Paragraphs 9.1 to 9.4
• Omnilife's reinsurers, and	Paragraph 9.5
• Any other interested parties.	Interests of lifetime mortgage borrowers and home reversion customers discussed in paragraphs 9.6 and 9.7.
As part of this assessment, I will consider whether the Scheme is expected to have a similar impact on all policyholders/reinsurers within each of these groups, or whether there are any sub-groups – for example, different groups or different generations of policyholders – for which the Scheme is expected to have a greater impact. In particular, I will assess whether the Scheme is expected to have a material adverse effect on any group of policyholders or reinsurers.	It was noted that the Scheme could have different impacts on the benefit expectations of Omnilife's existing annuity policies and those of Omnilife's legacy policies. The benefit expectations of those groups of policies were considered separately from each other – in paragraphs 8.16 and 8.17, and paragraph 8.18 respectively.
The Scheme report will set out my definition of "material adverse" effect. This definition will encompass both the impact of the Scheme on benefit security and its impact on benefit expectations.	Paragraphs 1.9 to 1.11

Benefit security

Requirement	Section of the Scheme Report
As part of the assessment of the expected impact of the Scheme on policyholder benefit security, I will consider the current financial positions of HLAC and Omnilife – as measured by their Solvency II Pillar 1 balance sheets – and how these are expected to change following the implementation of the Scheme.	Paragraphs 6.1 to 6.8
I will also compare the capital management policies (or equivalent) of the two parties and consider whether any differences have implications for the benefit security of the transferring policyholders. I will consider the management actions – for example the payment of dividends – that may be taken following the implementation of the Scheme, according to the capital management policies, and the implications for different groups of interested parties.	Paragraphs 6.10 to 6.13, 7.3 to 7.8, and 8.3 to 8.6
If appropriate, I will consider the financial strengths of the parties on other bases, such as those used for Own Risk and Solvency Assessments ("ORSAs"). This might be relevant if, for example, the capital management policies refer to bases other than Solvency II Pillar 1.	Omnilife does not use any bases other than the Solvency II Pillar 1 basis. HLAC does use a separate basis for its ORSA, but does not provide any insight into the impact of the Scheme, since HLAC is not expected to have any policyholders following the implementation of the Scheme.
As part of assessing the impact of the Scheme on the Solvency II Pillar 1 balance sheets, I will consider its potential impact on Omnilife's Solvency II approvals. In particular, Omnilife does not currently have approval to apply the Transitional Measure on Technical Provisions ("**TMTP**") whereas HLAC does. I understand that Omnilife intends to apply for approval to use TMTP in its valuation of the transferring business, and I will consider the implications of the approval not being in place by the effective date.	Paragraphs 6.18 to 6.22, 7.7 and 7.8, and 8.6.
Omnilife has permission to apply the Volatility Adjustment ("**VA**") in its valuation of certain liabilities, and it intends to apply for approval to extend the use of the VA to the transferring policies, or a subset of them. I will assess the potential implications of it not being in place by the effective date.	Paragraphs 6.15 to 6.17
Omnilife currently uses the Solvency II Standard Formula to calculate its Pillar 1 capital requirements. I will consider Omnilife's assessment of whether and why the Standard Formula will continue to remain appropriate following the implementation of the Scheme.	Paragraphs 6.23 and 6.24

Requirement	Section of the Scheme Report
I will consider the impact of the Scheme on the risks faced by different groups of interested parties. For these purposes I will consider the capital held against different risks under Solvency II Pillar 1, as well as the parties' assessments of the risks faced in their ORSAs. This assessment will consider any risks not captured by the Solvency II Pillar 1 capital requirements, such as those which may emerge after the first year, a particular example of which is climate change risk.	Paragraphs 6.25 and 6.26, 7.9 to 7.14, and 8.7 to 8.13
When assessing the expected financial positions and risk profiles of the parties before and after the implementation of the Scheme, I will consider the implications of any changes in investment strategy that result from the implementation of the Scheme. I will also consider Omnilife's ability to manage any assets transferred as part of the Scheme and to identify, measure, manage, monitor and mitigate any risks posed by these assets.	Paragraphs 7.11 and 7.12, and 8.8 to 8.10

Benefit expectations

Requirement	Section of the Scheme Report
I will consider the impact of any changes to policy terms and conditions needed to allow the Scheme to be effected.	Paragraphs 7.23 and 8.16
I will consider whether HLAC and/or Omnilife have discretion over the benefits paid under certain policies. If this is true for the transferring contracts then I will consider whether Omnilife would be expected to exercise this discretion in a different way how HLAC has exercised it in the past. If it applied to Omnilife's existing policies then I will consider whether the transfer is expected to impact the way in which Omnilife exercises this discretion. Particular examples might include reviewable premiums or charges, or non-contractual options that are currently offered to policyholders.	Paragraphs 7.24 and 8.17 and 8.18
I will consider any tax consequences of the Scheme insofar as they affect transferring policyholders.	Paragraphs 7.25 and 7.26

Service standards

Requirement	Section of the Scheme Report
I will consider how the transferring business will be administered following the implementation of the Scheme, and whether this is expected to affect the standard of service experienced by policyholders.	Paragraphs 7.27 and 8.19 to 8.21

Communications to policyholders

Requirement	Section of the Scheme Report
I will consider the accuracy, completeness and transparency of the communications that will be sent to policyholders advising them of parties' intention to implement the Scheme. This will include consideration of whether the communications provide sufficient clear and accurate information in relation to policyholders' rights under the Scheme, such as the right to object to the Scheme and have that objection heard by the Court.	Paragraphs 10.2 and 10.3
I will consider and opine on any applications made by the parties of waive the requirement to send communications to particular groups of policyholders.	Paragraphs 10.8 to 10.26
I will consider the parties' plans in relation to wider notification of the Scheme including press advertisements.	Paragraph 10.4
I will prepare a summary of my report for inclusion in the communications to be sent to policyholders.	Included at the end of the Scheme Report

Governance

Requirement	Section of the Scheme Report
I will compare HLAC's governance arrangements, Omnilife's current governance arrangements, and how Omnilife's governance arrangements are expected to change as a result of the implementation of the Scheme. I will then assess any implications for particular groups of policyholders.	Paragraphs 7.28 to 7.31, and 8.22 and 8.23

Consequences of not implementing the Scheme

Requirement	Section of the Scheme Report
I will consider the likely effects on policyholders if the Scheme is not implemented. I will also determine whether the parties have considered any alternatives to implementing the Scheme and, if so, why these were not proceeded with.	Section 12

Appendix 4: Documents considered

The principal documents reviewed in preparing the Scheme Report were:

- advanced draft of the Scheme,
- HLAC Chief Actuary's report on the Scheme,
- Omnilife Chief Actuary's report on the Scheme,
- communications strategy for the Scheme,
- communication packs to be sent to HLAC's and Omnilife's policyholders,
- legal advice received in relation to the Scheme,
- First Witness Statement of Deian Lewis Jones,
- HLAC's Solvency and Financial Condition Report as at 30 September 2021,
- Omnilife's Solvency and Financial Condition Report as at 31 December 2021,
- HLAC's Own Risk and Solvency Assessments as at 30 June 2020, 30 September 2020 and 30 September 2021,
- Omnilife's Own Risk and Solvency Assessment as at 30 September 2021,
- HLAC's capital management policy,
- Omnilife's capital management policy,
- risk policy and risk strategy documents that cover both parties,
- HLAC's investment management policy,
- Omnilife's investment management policy,
- sample policy terms and conditions,
- HLAC's reinsurance contracts,
- Omnilife's reinsurance contracts,
- terms of reference for HLAC's management and governance committees,
- terms of reference for Omnilife's management and governance committees,
- documents from both parties containing responses to my questions.

Appendix 5: Compliance with regulatory rules and guidance

FCA Handbook (Supervision chapter)

Rule	Requirement from SUP 18.2	Section of the Scheme Report
18.2.31	A scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the appropriate regulator.	Appendix 3 sets out my terms of reference, which have been approved by the PRA in consultation with the FCA.
18.2.31A	When the appropriate regulator has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect from that regulator.	Information only, no requirements
18.2.32	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators.	I have contacted the PRA and FCA and they did not draw any such matters to my attention.
18.2.33	The scheme report should comply with the applicable rules on expert evidence and contain the following information: (1) who appointed the independent expert and who is bearing the costs of that appointment;	1.4, 1.6
	(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;	1.4
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	1.12, 1.13
	(4) whether the independent expert has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	1.14
	(5) the scope of the report;	1.7 to 1.11
	(6) the purpose of the scheme;	1.1
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	Section 5

Rule	Requirement from SUP 18.2	Section of the Scheme Report
	(8) what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;	1.18, Appendix 4
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and	1.18 and 1.19
	(b) the judgment of others;	The parties have provided me with the legal and tax advice that they have received.
	(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	1.18 and 1.19
	(11) his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders;	Section 7
	(b) policyholders of the transferor whose contracts will not be transferred; and	There are no such policyholders
	(c) policyholders of the transferee;	Section 8
	(11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	9.1 to 9.4
	(12) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme; and	n/a
	(13) for each opinion that the independent expert expresses in the report, an outline of his reasons.	Accompanying each conclusion.
18.2.34	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	Throughout

Rule	Requirement from SUP 18.2	Section of the Scheme Report
18.2.35	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	3.14 and 5.10
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	n/a
18.2.36	The independent expert's opinion of the likely effects of the scheme on policyholders should: (1) include a comparison of the likely effects if it is or is not implemented;	Sections 7 and 8. Section 12 discusses the consequences of the Scheme not completing
	(2) state whether he considered alternative arrangements and, if so, what;	5.18
	(3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and	As required in Sections 7 and 8
	(4) include his views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	7.2 to 7.22 8.2 to 8.15
	(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect: (i) the security of policyholders' contractual rights;	7.2 to 7.22 8.2 to 8.15
	(ii) levels of service provided to policyholders; or	7.27 8.19 to 8.21
	(iii) for long-term insurance business, the reasonable expectations of policyholders; and	7.23 to 7.26 8.16 to 8.18
	(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	6.7, 7.25, 11.9
18.2.37	The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.	No requirements, only clarification.

Rule	Requirement from SUP 18.2	Section of the Scheme Report
18.2.38	For any mutual company involved in the scheme, the report should: (1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	n/a – neither party is a mutual company
18.2.39	For a scheme involving long-term insurance business, the report should: (1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	n/a
	(2) if any such rights will be diluted by the scheme, how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	n/a
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	7.24 and 8.17
	(b) the levels of any discretionary charges;	8.18
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	n/a
	(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	Section 13
	(6) state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders; and	Section 13
	(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	11.10 to 11.11

Rule	Requirement from SUP 18.2	Section of the Scheme Report
18.2.40	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run.	n/a
18.2.41	A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either: (1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or (2) otherwise, he is unable to report on this aspect in the time available.	n/a

Source: https://www.handbook.fca.org.uk/handbook/SUP/18/?view=chapter

Statement of Policy: The PRA's approach to insurance business transfers

Paragraph	Requirement from PS1/22	Section of the Scheme Report
2.27	Under section 109 of FSMA, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the PRA (following consultation with the FCA).	Appendix 3 sets out my terms of reference, which have been approved by the PRA in consultation with the FCA.
2.27A	The PRA's assessment of whether to approve the form of the scheme report considers if the report is in an appropriate form to be submitted to the court to assist its assessment of the scheme. The PRA expects to take into consideration whether the report: (1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and (2) incorporates appropriate reasoning.	
2.27B	The PRA would generally expect a scheme report to contain at least the information specified in 2.30 and 2.32–2.33 below before it would be able to consider approving the form of the report.	
2.28	When the PRA has approved the form of a scheme report, the scheme promoter(s) may expect to receive written confirmation to that effect.	Information only, no requirements
2.29	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form their own opinion on such issues, which may differ from the opinion of the regulators.	I have contacted the PRA and FCA and they did not draw any such matters to my attention.
2.30	The scheme report should comply with the applicable rules on expert evidence and contain the following information: (1) who appointed the independent expert and who is bearing the costs of that appointment;	1.4, 1.6
	(2) confirmation that the independent expert has been approved or nominated by the PRA;	1.4
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.12, 1.13
	(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	1.14

Paragraph	Requirement from PS1/22	Section of the Scheme Report
	(5) the scope of the report;	1.7 to 1.11
	(6) the purpose of the scheme;	1.1
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	Section 5
	(8) what documents, reports and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	1.18, Appendix 4
	(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	Sections 3 and 4
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and	1.18 and 1.19
	(b) the judgement of others;	The parties have provided me with the legal and tax advice that they have received.
	(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	1.18 and 1.19
	(11) Their opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders;	Section 7
	(b) policyholders of the transferor whose contracts will not be transferred; and	There are no such policyholders
	(c) policyholders of the transferee;	Section 8
	(d) any other relevant policyholder groupings within the above that the independent expert has identified.	n/a
	(12) Their opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	9.1 to 9.4
	(12A) their definition of ‘material adverse’ effect;	1.9 to 1.11

Paragraph	Requirement from PS1/22	Section of the Scheme Report
	(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme; and	n/a
	(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Accompanying each conclusion.
	(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	n/a
2.31	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	Throughout
2.31A	The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	1.18 and 1.19
2.32	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	3.14 and 5.10
	(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	n/a
2.33	The independent expert's opinion of the likely effects of the scheme on policyholders should: (1) include a comparison of the likely effects if it is or is not implemented;	Sections 7 and 8. Section 12 discusses the consequences of the Scheme not completing
	(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	5.18
	(2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	As required in sections 7, 8 and 9

Paragraph	Requirement from PS1/22	Section of the Scheme Report
	(3) include their views on: (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing;	7.2 to 7.22 8.2 to 8.15 In particular, 8.12 and 8.13
	(aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the event there is a material deterioration of their balance sheets;	7.9 to 7.14 8.7 to 8.11
	(aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	7.2 to 7.22 8.2 to 8.15 In particular, 7.18 to 7.22, and 8.12 and 8.13
	(aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	6.23 and 6.24
	(b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights;	7.2 to 7.22 8.2 to 8.15
	(ii) levels of service provided to policyholders; or	7.27 8.19 to 8.21
	(iii) for long-term insurance business, the reasonable expectations of policyholders; and	7.23 to 7.26 8.16 to 8.18
	(c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and	6.7, 7.25, 11.9

Paragraph	Requirement from PS1/22	Section of the Scheme Report
	(d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.	7.9 to 7.14 8.7 to 8.11
2.34	The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.	No requirements, only clarification.
2.35	For any mutual company involved in the scheme, the report should: (1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without	n/a – neither party is a mutual company
2.36	For a scheme involving long-term insurance business, the report should: (1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	n/a
	(2) if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	n/a
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	7.24 and 8.17
	(b) the levels of any discretionary charges;	8.18
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm;	n/a
	(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	Section 13

Paragraph	Requirement from PS1/22	Section of the Scheme Report
	(6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and	Section 13
	(7) state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented.	Section 13
2.37	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level.	n/a
2.38	A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless: (1) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or (2) they are unable to report on this aspect in the time available. Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	n/a
2.39	The PRA expects the independent expert to provide a supplementary report for the final court hearing. Any supplementary reports will form part of the scheme report required to be produced under section 109 of FSMA and must also comply with 2.30-2.37.	I have undertaken to provide this in 1.25

Paragraph	Requirement from PS1/22	Section of the Scheme Report
2.40	The purpose of the supplementary report is for the independent expert to provide an update on any relevant new information or events that have occurred since the date of the scheme report and to provide an opinion on whether they have affected the transfer. Matters that should be considered include, but are not limited to: (1) the most recent audited and unaudited available financial information in respect of the transferor and transferee, which the PRA would expect to have been internally validated; (2) any recent economic, financial or regulatory developments; and (3) any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report.	I have undertaken to provide this in 1.25
2.40A	In circumstances where there has been a duration between the directions hearing and the final court hearing of six months or more, it may be appropriate for the independent expert to produce an updated scheme report rather than a supplementary report. The PRA would assess this report as set out in 2.27A.	n/a

Source: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-insurance-business-transfers

Finalised Guidance FG22/1: The FCA's approach to the review of Part VII insurance business transfers

Paragraph	Guidance from FG22/1	Section of the Scheme Report
6.1	The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants' position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions.	Information only, no requirements
6.2	The IE report should be easy to read and understandable by all its users and for the IE to pay attention to the following: • Technical terms and acronyms should be defined on first use.	Throughout
	• There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 2
	• The business to be transferred should be described early in the report.	1.1
	• The detail given should be proportionate to the issues being discussed and the materiality of the transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	Throughout
	• IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Throughout
6.3	IE reports should consider and compare: • reasonable benefit expectations, including impact of charges	7.23 to 7.26 8.16 to 8.18
	• type and level of service.	7.27 8.19 to 8.21
	• management, administration and governance arrangements	7.28 to 7.31 8.22 to 8.23
	• where the scheme includes Employers' Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements	n/a
	• where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process	n/a
6.4	We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.	Sections 6 to 9
	The level of reliance on the Applicants assessments and assertions	
6.6	IE should demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point.	Throughout. See, for example, 8.12 and 8.13

Paragraph	Guidance from FG22/1	Section of the Scheme Report
6.7	We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position.	Throughout
6.8	Where conclusions are supported solely or largely by statements like 'I have discussed with the firm's management, and they tell me that…' followed by 'I have no reason to doubt what they have told me…' In these circumstances: • Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the scheme's impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants' analysis of the material and subsequent assertions. • If there are concerns about matters that fall outside the IE's sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert.	The parties have provided me with the legal and tax advice that they have received.
6.9	We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to: • review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate • challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	Section 6
6.10	We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis.	Additional information has been requested when necessary
	Balanced judgements and sufficient reasoning	
6.11	IEs will sometimes state that they are satisfied by referencing certain features of the scheme … In these circumstances we will expect to see both the evidence and the IE's reasoning that led to their conclusion.	Throughout

Paragraph	Guidance from FG22/1	Section of the Scheme Report
6.12	We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following: • Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree. • We accept that it is not the IE's role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to challenge the Applicants to be confident that their report's conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will affect all Policyholder groups.	Throughout
6.13	When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	Confirmed
6.14	Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary.	n/a
	Sufficient regard to relevant considerations affecting Policyholders	
6.15	We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the: • current and proposed future position of each Policyholder group • potential effects of the transfer on each of the different Policyholder groups • potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	Sections 7 and 8
6.16	To support this, we will expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.	Sections 7 and 8
6.17	We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants.	7.27 8.19 to 8.21
6.18	Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures.	n/a
6.19	IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer.	n/a

Paragraph	Guidance from FG22/1	Section of the Scheme Report
6.20	The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.	n/a
6.21	When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material.	n/a
6.22	We will expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example, we will expect to see this analysis where: • some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure • some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer	n/a
6.23	When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	n/a
6.24	As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer	n/a
6.25	In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE's opinion that a change due to the Part VII transfer will not materially and negatively affect a group of Policyholders.	Throughout
	Commercially sensitive or confidential information	
6.26	Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. Examples include: • where 'whistle-blower' information relevant to the scheme received is forwarded to the IE by the firm • where we are aware of enforcement action in progress with one of the Applicants	Additional information may be provided to the regulators as required
6.27	In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure. Please note that this is at the Court's discretion.	

Paragraph	Guidance from FG22/1	Section of the Scheme Report
	The level of reliance on the work of other experts	
6.28	For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	The parties have provided me with the legal and tax advice that they have received.
6.29	We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	Confirmed
6.30	The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice, and we discuss our expectations in further detail below.	1.19
6.31	We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice	
6.32	The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is	These factors have been taken into consideration when reaching the conclusion in 1.19
6.33	In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following: • The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely. • How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks.	
6.34	Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point	n/a

Paragraph	Guidance from FG22/1	Section of the Scheme Report
6.35	Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.	n/a
	Ambiguous language or a lack of clarity	
6.42	At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge	1.16 – 1.25
6.43	Some examples we have seen and challenged IEs on include: • Where a conclusion in the report is that the IE 'takes comfort' from certain matters, as opposed to 'being satisfied' having taken various matters into account. • Where the conclusion is uncertain. For example, 'I am satisfied that there is no material adverse effect. However...' but it is unclear how the qualification affects or undermines the conclusion. • Where the conclusions are caveated, we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat. • It is also important that the caveat does not undermine the report or the IE's ability to be satisfied on the relevant point. For example, the conclusion may be caveated by 'on the basis of information provided to me'. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification.	n/a
6.44	In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly: • That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. • How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact.	n/a

Paragraph	Guidance from FG22/1	Section of the Scheme Report
	Demonstrating challenge	
6.45	To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account the IE's disclaimers. We consider that Applicants can make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.	The parties have reviewed drafts of the Scheme Report
6.46	To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters.	Engagement through regular meetings and sharing drafts
6.47	The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate.	Confirmed
	Technical actuarial guidance	
6.48	We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.	1.26 – 1.28
6.49	The revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically applies to technical actuarial work to support Part VII transfers.	1.26 – 1.28
6.50	It is important to note paragraph 5 of TAS 100 states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	1.26 – 1.28
6.51	Qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work	1.26 – 1.28
	Review of the communications strategy	
7.3	We expect IEs to include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. We also expect to see evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential effect on Policyholders and how this is addressed.	10.3

Source: https://www.fca.org.uk/publications/finalised-guidance/fg22-1-fcas-approach-review-part-vii-insurance-business-transfers

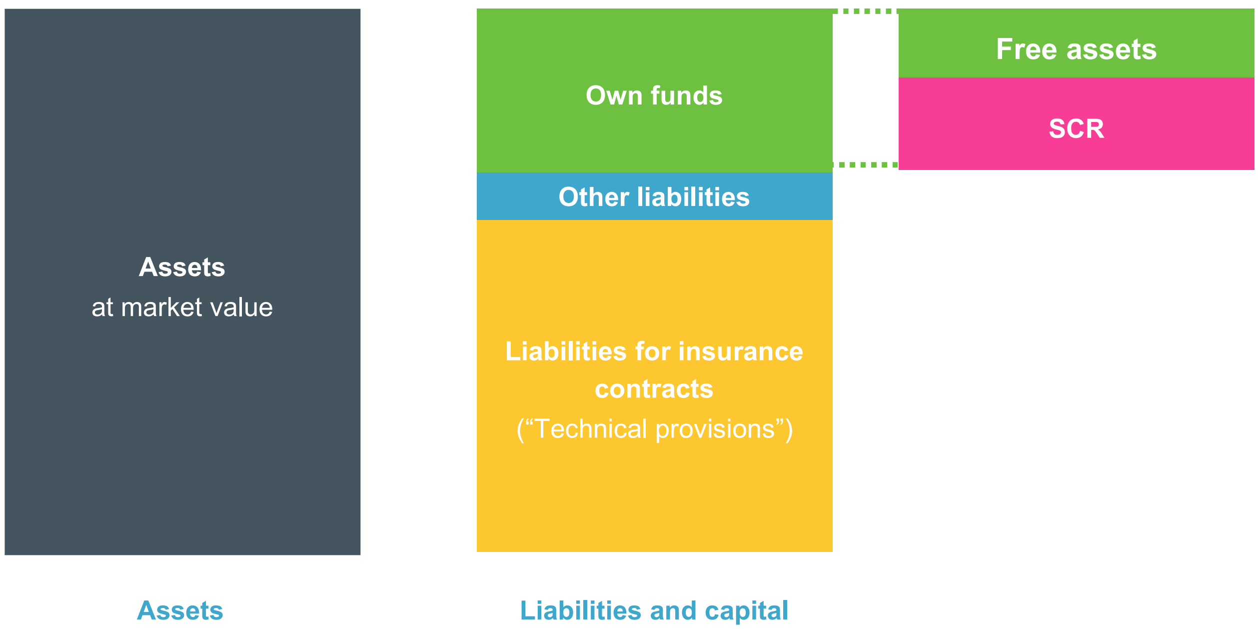
Appendix 6: UK prudential regulatory regime

A6.1. In this Appendix, we explain in general simplified terms some of the key elements of the current solvency regime for UK-based insurance companies, which is termed "Solvency II". The regime is currently identical to that with which insurers in the European Union are required to comply, the legislation having been written into UK law after Brexit.

A6.2. An insurer is required to hold assets the value of which exceeds the value of its liabilities, where both assets and liabilities are valued in accordance with the regulations. The regulatory value of assets is generally based on market values while the regulatory value of liabilities is generally assessed on a best estimate market-consistent basis.

A6.3. In addition to holding assets sufficient assets to cover the value of its liabilities, an insurer must maintain a certain amount of excess assets over and above the value of its liabilities. This works by first calculating the amount of "Own Funds" an insurer has, broadly defined as the value of its assets less the total value of its liabilities. This is then compared to the amount of own funds that the insurer is required to have, referred to as the "Solvency Capital Requirement" ("SCR").

Figure A6.1 Illustrative insurance company balance sheet



Balance sheet liability

A6.4. Life insurers are required to establish reserves for future benefit payments and expenses, referred to as "Technical Provisions". Technical Provisions are intended to represent the amount that the insurer would need to pay to immediately discharge its obligations by transferring the business to another insurer in an arm's length transaction. Since the price of such a transaction is not readily observable in the financial markets, a theoretical transfer value is determined, equal to a Best Estimate Liability plus a component called the "Risk Margin". The basic tenet of the balance sheet presentation is that it is market consistent: assets are valued at the values achievable in the market and the Technical Provisions are derived using inputs from financial markets.

Best estimate liability

A6.5. The Best Estimate Liability ("BEL") is calculated by projecting future cash flows using assumptions that are neither optimistic nor pessimistic. The discount rate that is used to place a present value on these cash flows is equal to the risk-free interest rate, with the basic risk-free rate being based on swap yields.

Risk Margin

A6.6. The Risk Margin is the amount added to the BEL to bring the Technical Provisions up to the theoretical transfer value. It is calculated based on the idea that, as well as the expected cost of paying the benefits and expenses, the hypothetical insurer taking on the business would also incur the cost of holding capital against those risks that it cannot hedge. The Risk Margin is the present value, using the basic risk-free curve, of the cost, mandated by Solvency II at 6% pa, associated with holding this capital.

A6.7. "Non-hedgeable" risks primarily relate to insurance risks such as mortality, longevity, persistency and expenses. In practice of course, insurers can take steps to hedge their exposure to these risks by, for example, using reinsurance. The regulations are based on the assumption that the markets for transferring these risk are not sufficiently deep, liquid and/or transparent for the risks to be classed as "hedgeable". (For the avoidance of doubt, the phrases "hedgeable risks" and "non-hedeagble risks" are not used in the regulations. I used them here only to aid my explanation.)

Adjustments permitted to the basic approach for calculating Technical Provisions

A6.8. Insurers can apply to the PRA for permission to use a number of adjustments which are allowed under Solvency II, the purpose typically being to ensure a more stable balance sheet position or to smooth in the implementation of Solvency II. The main adjustments include a "Matching Adjustment" and a "Volatility Adjustment", both of which are adjustments to the risk-free rate used to value certain classes of business, and the Transitional Measure on Technical provisions ("TMTP").

Matching Adjustment

A6.9. As described above, the standard approach when determining the BEL is to discount future liability cash flows using the so-called "basic risk-free rate", this being a prescribed discount rate based on swap yields.

A6.10. For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The quantum of the Matching Adjustment is derived from the spread on the assets held by the insurer to back the relevant business.

A6.11. The Matching Adjustment is typically used in the valuation of annuities in payment and deferred annuities.

A6.12. Insurers must meet a number of requirements in order to receive regulatory approval to apply the Matching Adjustment.

Volatility Adjustment

A6.13. For lines of business where the Matching Adjustment is not incorporated in the liability discount rate, insurers may apply for regulatory approval to incorporate a Volatility Adjustment in the discount rate instead.

A6.14. Like the Matching Adjustment, the Volatility Adjustment is an addition to the basic risk-free rate, although the magnitude of this addition is generally lower for Volatility Adjustment than for the Matching Adjustment.

A6.15. The requirements for obtaining regulatory approval to use the Volatility Adjustment are generally less onerous than the requirements relating to the Matching Adjustment.

A6.16. The Volatility Adjustment is most commonly used in the valuation of annuities in payment and deferred annuities (other than those for which the Matching Adjustment is used); certain with-profits liabilities including guarantees, and protection business.

Transitional Measure on Technical Provisions

A6.17. Insurers may apply for regulatory approval to use the TMTP in the valuation of business written before Solvency II came into force.

A6.18. TMTP is a deduction from the Solvency II Technical Provisions. The size of this deduction was initially calculated when Solvency II came into force on 1 January 2016. At this date, the maximum value of the deduction was equal to the difference between the Solvency II Technical Provisions and the Technical Provisions calculated in accordance with the previous regulatory regime.

A6.19. The size of the deduction was capped so the total “financial resources requirement” under Solvency II, after TMTP had been taken into account, was no lower than the equivalent measure under the previous regulatory regime. The “financial resources requirement” is generally taken to mean the sum of the Technical Provisions, other liabilities and capital requirements.

A6.20. Having established the size of the TMTP on 1 January 2016, insurers are required to linearly reduce its value over the 16-year period from 1 January 2016 to 1 January 2032.

A6.21. In addition to this gradual reduction, insurers may also apply for regulatory approval to recalculate the value of TMTP to reflect changes in their business, in the financial markets, or other operating conditions. These recalculations generally occur every two years from the start of Solvency II, or following a material change in a firm’s risk profile.

Own Funds

A6.22. Own Funds are broadly defined as assets less liabilities, although subordinated debt may also count as Own Funds if it meets certain requirements.

A6.23. Solvency II ranks Own Funds according to quality based on three properties:

- Loss absorbency: higher quality Own Funds (such as share capital) can absorb losses while the insurer is still a going concern.
- Subordination: the more subordinated the Own Funds, the higher its quality.
- Term: longer-dated obligations are higher quality than shorter dated ones.

A6.24. Based on these properties, the regulations rank Own Funds into four “tiers” as shown in Figure A6.2 below.

Figure A6.2 Tiering of Own Funds

Tier	Typical examples
"Unrestricted" Tier 1 (highest quality)	Share capital, retained earnings
"Restricted" Tier 1	Perpetual subordinated debt that meets certain criteria, including the ability to absorb losses while the insurer is still a going concern (e.g. by being written down if the firm suffers a stress event)
Tier 2	Dated subordinated debt
Tier 3	Deferred tax assets. Insurers are permitted to include deferred tax assets on their regulatory balance sheets. This increases the excess of assets over liabilities and thus increases Own Funds. However, these Own Funds are considered only to be of Tier 3 quality.

A6.25. There are limits around how much Restricted Tier 1, Tier 2 and Tier 3 own funds may be counted when determining an insurer's solvency. Own Funds that satisfy these limits are referred to as "Eligible Own Funds". The limits are:

- the total amount of Tier 2 and Tier 3 Own Funds can be no more than half of the amount of the SCR,
- the total amount of Tier 3 Own Funds can be no more than 15% of the amount of the SCR, and
- No more than 20% of the total Tier 1 Own Funds can be made up of Restricted Tier 1 items (any Restricted Tier 1 Own Funds above this amount are re-categorised as Tier 2).

Solvency Capital Requirement

A6.26. The regulations require an insurer to maintain a level of capital in excess of its technical provisions, this being referred to as the "Solvency Capital Requirement" ("SCR"). It is calculated by determining the amount by which the insurer's Own Funds could fall over the course of one year such that the probability that the fall in Own Funds exceeds the SCR is 0.5%. The SCR is sometimes described as the amount by which Own Funds would fall following a "1-in-200 one-year event".

Standard Formula

A6.27. The SCR may be determined using either a standard model (referred to in Solvency II as the "Standard Formula") or the firm's own internal model.

A6.28. The Standard Formula sets out prescribed stresses to each of the main risk categories which impact either the BEL or the value of the assets. Each prescribed stress represents a 1-in-200 one-year event but, since it is unlikely that all of the stresses will occur to this extent at the same time, a process (called "diversification") is applied to produce a lower capital requirement than the amount arrived at by simply adding up the individual capital components.

A6.29. Since the Standard Formula is intended to be generally appropriate, if firms consider that it does not adequately reflect the nature of the risks to which they are exposed in the context of the controls that they operate, then they may develop an internal model to provide a better fit. The insurer must apply to the PRA for approval to use an internal model. The regulations impose tests and standards on a firm's internal model and the PRA must consider whether these have been met before granting approval. The internal model is not simply about the risk calibration and the capital calculation, but a wider-ranging model of risk governance and management.

Minimum Capital Requirement

A6.30. As well as the SCR, the regulations also require an insurer to maintain a Minimum Capital Requirement ("MCR") which is typically lower than the SCR. The MCR is calculated as the sum of various components, each of which is a percentage of a particular metric relating to the firm in question such as Technical Provisions, written premiums and administration expenses incurred. This amount is then subject to a floor of 25% of the SCR and a cap of 45% of the SCR, all the while subject to an absolute minimum value of €3.7m (equivalent to c.£3.1m at 31 December 2021).

Regulatory intervention

A6.31. If an insurer's Eligible Own Funds fall below the value of its SCR then it must submit a recovery plan to the PRA within two months which sets out the measures that the insurer intends to take to restore compliance with the SCR within a period of six months.

A6.32. If an insurer's Eligible Own Funds fall below the value of its MCR then it must submit a short-term finance scheme to the PRA within one month which must restore compliance with the MCR within a period of three months. If the PRA regards the finance scheme as being "manifestly inadequate", or if it subsequently transpires that the finance scheme fails to restore compliance with the MCR within the three-month period, then the PRA will withdraw authorisation to carry on insurance business.