The proposed Scheme under Part VII of the Financial Services and Markets Act 2000 for the Transfer of the long-term business of Hodge Life Assurance Company Limited to Omnilife Insurance Company Limited

Supplementary Report of the Chief Actuary of Omnilife Insurance Company Limited on the impact of the Scheme

1 March 2023

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1. Introduction and Purpose of the Supplementary Report

1.1 The purpose of this report (the "Supplementary Report") is to provide an update to my initial report (the "Main Report") dated 27 October 2022.

1.2 The Main Report considers the effects of the proposed insurance business transfer Scheme (the "Scheme") under Part VII of the Financial Services and Markets Act 2000 ("FSMA"), known as a "Part VII Transfer". The Scheme is intended to transfer the long-term insurance business of Hodge Life Assurance Company Limited ("HLAC") to Omnilife Insurance Company Limited ("Omnilife").

1.3 The Main report was provided to the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Independent Expert ("IE") and presented to the court at the Directions Hearing which took place on 7 November 2022. The report was also made available to the policyholders of Omnilife and HLAC.

1.4 The purpose of this Supplementary Report is to consider any matters or developments since the Main Report was produced that I consider to be material or relevant to the assessment of the Scheme. This includes

- Updated Financial Information that is available.
- Policyholder responses to the Scheme.
- Any amendments to the terms of the Scheme.

In light of these matters or developments, the Supplementary Report will serve to confirm whether my conclusions stated in the Main report remain valid and that, in my opinion it remains appropriate to proceed with the Scheme.

1.5 This Supplementary Report should be read in conjunction with the Main Report.

1.6 In preparing this Supplementary Report I have relied upon data and information provided by HLAC at or prior to the date of this Supplementary Report. I have also considered the supplementary report of the IE.

1.7 This Supplementary Report has been prepared taking into account the applicable standards as determined by the actuarial professional standards 'APS X1: Applying Standards to Actuarial Work' issued by the Institute and Faculty of Actuaries, in particular taking into account the Technical Actuarial Standards for actuarial work issued by the Financial Reporting Council, namely TAS 100: Principles for technical Actuarial Work and TAS 200: Insurance. In my opinion I have made no material departures from these standards.

1.8 This Supplementary Report has been subject to appropriate peer review in accordance with the actuarial professional standard "APS X2: Review of Actuarial Work" issued by the Institute and Faculty of Actuaries.

2. Financial Impact of the Scheme based on updated financial information

Financial Position of Omnilife as at 30 September 2022

2.1 The Main Report considered the financial position of Omnilife before and after the Scheme based on the 30 June 2022 results. The table below shows the Solvency II balance sheet of Omnilife as at 30 September 2022 together with an estimated pro-forma balance sheet had the Scheme been effective at that date. A summary of the equivalent table as at 30 June 2022, has been included for reference.

Omnilife Solvency II balance sheet 30 September 2022 £m's	Actual Pre Scheme	Pro forma Post Scheme	Impact of Scheme
Bonds / fixed interest assets	278.6	403.0	124.4
Mortgages	0.0	108.5	108.5
Cash & Net Current Assets	19.8	39.6	22.8
Total invested assets	**298.4**	**554.2**	**255.7**
Reinsurance recoverable	110.8	272.5	161.7
Deferred tax asset	2.0	7.3	5.3
Total Assets	**411.2**	**833.9**	**422.7**
Best Estimate Liabilities (BEL)	339.5	704.8	365.3
Risk Margin	6.0	11.6	5.6
TMTP	0.0	(30.2)	(30.2)
Total Liabilities	**345.5**	**686.2**	**340.7**
Own Funds	**65.7**	**147.7**	**82.0**
Solvency Capital requirement (SCR)	**22.7**	**39.2**	**16.5**
Excess Own Funds	**43.0**	**108.5**	**65.5**
Solvency Coverage	**289%**	**373%**	**84%**

Omnilife Solvency II balance sheet 30 June 2022 £m's	Actual Pre Scheme	Pro forma Post Scheme	Impact of Scheme
Total Assets	**485.4**	**986.9**	**501.5**
Total Liabilities	**412.4**	**830.9**	**418.5**
Own Funds	**73.0**	**156.0**	**83.0**
Solvency Capital requirement (SCR)	**28.6**	**46.8**	**18.2**
Excess Own Funds	**44.4**	**109.2**	**64.8**
Solvency Coverage	**255%**	**333%**	**78%**

2.2 Over the period 30 June 2022 to 30 September 2022 there was an increase in the yield on fixed interest assets through both an increase in risk free rates and an increase in the corporate bond spreads. This has led to a reduction in both assets and liabilities, however due to surplus assets this has resulted in a £7.3m reduction in the Omnilife Own Funds. This has also resulted in a reduction in the SCR such that excess Own Funds have only reduced by £1.4m and the solvency coverage ratio has increased.

2.3 The pro-forma position of Omnilife post the proposed Scheme shows similar movements with an £8.3m reduction in Own Funds, together with a reduction in the SCR such that the excess Own Funds have only reduced by £0.7m.

2.4 Given the significant market movements over the period, the balance sheet of Omnilife, and in particular the excess surplus, has remained relatively stable both pre and post the proposed transfer.

2.5 Following the 30 September 2022 HLAC year-end, a dividend of £22m has been paid as anticipated in my Main Report. The figures above, both for 30 June 2022 and 30 September 2022 allow for this dividend payment.

2.6 Under the terms of the Scheme, HLAC will transfer all of its assets less an excluded amount of £7m together with all of the liabilities in respect of the transferring policies. Whilst the Scheme does allow for the possibility of some policies to be retained within HLAC, this is for exceptional circumstance and no polices are expected to be retained within HLAC. Omnilife will take on all of the liabilities in respect of the transferring policies.

2.7 Within its Own Risk and Solvency Assessment ("ORSA") Omnilife has considered the post transfer balance sheet under a number of sensitivities to both market conditions and changes to the demographic assumptions. The solvency position remains robust to all the adverse scenarios, with Omnilife continuing to cover the SCR which in itself provides protection against extreme (1 in 200 year) events.

2.8 The pro forma balance sheet assumes that Omnilife applies and receives approval to apply a TMTP on the HLAC business following the Part VII Transfer. As with the Main Report the following table shows the balance sheet with and without the TMTP. Without the TMTP in Omnilife the pro forma solvency coverage remains over 350% i.e. well capitalised.

Omnilife Solvency II balance sheet 30 September 2022 £m's	Pro forma Post Scheme	Pro forma Post Scheme Without TMTP	Impact of losing TMTP
Total invested assets	**554.2**	**554.2**	**-**
Reinsurance recoverable	272.5	291.6	19.1
Deferred tax asset	7.3	10.0	2.8
Total Assets	**833.9**	**855.8**	**21.9**
Best Estimate Liabilities (BEL)	704.8	704.8	-
Risk Margin	11.6	11.5	0.0
TMTP	(30.2)	0.0	30.2
Total Liabilities	**686.2**	**716.4**	**30.2**
Own Funds	**147.7**	**139.4**	**(8.3)**
Solvency Capital requirement (SCR)	**39.2**	**38.1**	**(1.1)**
Excess Own Funds	**108.5**	**101.3**	**(7.2)**
Solvency Coverage	**373%**	**354%**	**(19)%**

2.9 Around 70% of the TMTP is attributed to liabilities within the HLAC stop-loss treaty. The treaty has been written such that the loss of the TMTP would increase the liabilities and the deficit within the stop-loss reference fund would fall to RGA Americas as reinsurer. Omnilife would lose the current 30% share of surplus in the stop-loss reference fund plus the balance of the TMTP. The loss would be available to offset against future profits in Omnilife or the RGA UK group and this has been allowed for via an assumed increase in the deferred tax asset.

2.10 Without the TMTP the stop-loss would no longer be in surplus and as a result the longevity and spread SCR would reduce marginally as would the risk margin. Overall, it is estimated that there would be a c£8.3m reduction in Own Funds and a c£7.2m reduction in excess Own Funds.

2.11 The deficit under the stop loss treaty would be c£15.3m and under the terms of the treaty the maximum quarterly payment by RGA Americas is £6m. It would therefore take 9 months for the deficit to be covered and during this time Omnilife would have an increased counterparty exposure to RGA Americas.

Risk Profile

2.12 The following table shows the risk profile of Omnilife pre and post transfer as shown by the undiversified SCR components as at 30 September 2022.

Risk Profile – SCR Components 30 September 2022	Omnilife Pre Scheme Value £m's	Omnilife Pre Scheme Proportion	Omnilife Post Scheme Value £m's	Omnilife Post Scheme Proportion	Change
Life: Longevity risk	8.1	21%	12.2	18%	(3%)
Life: Expense risk	1.4	4%	6.5	10%	6%
Market: Spread risk	13.7	36%	23.2	35%	(1%)
Market: Interest rate risk	9.0	23%	15.4	23%	-
Market: Other risks	2.8	7%	3.3	5%	(2%)
Counterparty default risk	2.0	5%	3.0	4%	(1%)
Operational risk	1.5	4%	3.1	5%	1%

2.13 As in the Main Report, there are some changes in the Omnilife risk profile post the proposed Part VII, however these changes are not material.

3. Other developments relevant to the assessment of the Scheme

Market movements and changes to the balance sheet since 30 September 2022

3.1 The analysis shown in the previous section is based on data and market conditions as at 30 September 2022. At 30 September 2022 there was considerable market turmoil in part due to the political uncertainty in the UK. Since this date there has been some reduction in the yield on fixed interest assets. For example, the 10-year UK risk free spot rate used to discount liabilities has reduced by 65bps from 4.36% on 30 September 2022 to 3.71% on 31 December 2022.

3.2 For the 31 December 2022 year-end valuation Omnilife have made some changes to the expense and mortality assumptions. The expected net impact of these changes is a £2.8m increase in the best estimate liabilities.

3.3 Omnilife have agreed to settle an historic legal claim at a cost of £0.4m. This is expected to be settled in the first quarter of 2023, however a provision of £0.4m has been established for the year-end accounts.

3.4 For Omnilife the draft regulatory balance sheets as at 31 December 2022 indicates that there has been a £0.3m increase in Own Funds over the quarter whilst the SCR has also increased by £2.5m leading to a £2.2m reduction in excess Own Funds.

3.5 The pro forma post scheme position in 2.1 and the draft Omnilife results for 31 December 2022 indicated in 3.4, do not include any allowance for the Omnilife tax position for the current financial year. With the annual accounting loss of c£25m there is a probable tax credit c£5m that is not taken credit for in the pro forma results.

3.6 For HLAC the draft regulatory balance sheets as at 31 December 2022 indicates that there has been a £0.4m increase in the Own Funds (on a post dividend basis) over the quarter whilst the SCR has reduced by £0.8m leading to a £1.2m increase in excess Own Funds.

3.7 The PRA have invited applications for the recalculation of the TMTP as at 31 December 2022. The impact of a recalculation for HLAC is below the internal threshold for triggering a recalculation and therefore HLAC do not intend to perform a recalculation as at 31 December 2022.

Potential changes to the UK prudential regulatory regime

3.8 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.

3.9 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."

3.10 In November 2022 both the PRA and HM Treasury published feedback from the discussion paper and consultation paper issued in April 2022. Whilst the changes have yet to be finalised and the implementation timelines are also uncertain, the potential changes are expected to be beneficial to Omnilife. In particular the HM Treasury feedback refers to a potential 65% reduction in the risk margin for long term life insurance business. This probable reduction in the risk margin for Omnilife from the Solvency II reforms is c£7.5m post transfer which is equivalent to an additional 19% solvency coverage.

Policyholder Communications

3.11 In accordance with the communications strategy for the Scheme, information packs were sent out to all the primary policyholders of both HLAC and Omnilife, except where waivers were requested. The information packs included a letter, customer guide, a questions and answer document and the summary IE report. These included how to request further information or object to the scheme together with the expected date of the sanctions hearing.

3.12 As of 24 February 2023 there have been 297 responses, with 193 from HLAC customers and 104 from Omnilife customers. The following table provides the high-level analysis of the responses received.

Part VII Reponses Response Category	HLAC	Omnilife	Total
Part VII Related			
Objection	4	1	5
Complaint	5	1	6
Information / Document Request	43	36	79
Technical Query	4	0	4
Total Part VII Related	**56**	**38**	**94**
Business As Usual (BAU)			
Complaint	3	2	5
Query	105	32	137
Information Request	24	24	48
Gone away	2	2	4
Other	3	6	9
Total BAU Related	**137**	**66**	**203**
Total	**193**	**104**	**297**

3.13 The majority of the customer responses have been BAU related including change of address, power of attorney, death notifications and requests for policy information. The Part VII related responses have mainly been requests for further information or copies of the reports not included in the general mailing.

3.14 There have been 5 objections raised although these are associated with 3 customers. The nature of the complaints is as follows:

- One HLAC customer did not want his policy to transfer on the basis that he wanted to cash-in the policy. This was raised on 3 separate occasions and has been noted as 3 objections. The customer has been informed that there is no option to cash-in the policy under the terms and conditions because it is an annuity policy.

- One HLAC customer objected on the basis that the solvency coverage of Omnilife post the transfer was lower than the current HLAC position. On the relative financial strength of the two companies, I agree with the IE who states "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 dividend. I would therefore consider the two companies to be of approximate equal financial strength at a point in time so long as they both complied with their capital management policies."

- One Omnilife customer objected on the basis that the lifetime mortgages that will be transferred are high risk / lower quality assets. The HLAC LTM portfolio has an average Loan to Value ("LTV") ratio of 37% and the cost of the NNEG (no negative equity guarantee) was c£2.4m or c2% of the loan values as at 30 September 2022. The LTMs are collateralised loans with a relatively low LTV and hence low cost of guarantee and as such I would not consider these to be high risk. The capital requirement and risk appetite are calibrated to withstand certain stress events, and therefore reflect the risk and quality of the assets.

3.15 The customer responses and objections have not altered my view of the Scheme and I continue to hold the view that the benefit expectations of the existing Omnilife customers will not be adversely affected by the Scheme.

Policy Administration

3.16 I noted in my Main Report that the administration of the HLAC policies and the Omnilife annuities is performed by Equiniti and this would continue to be the case post the Part VII.

3.17 Since my Main Report the administration of the legacy Omnilife business and the oversight of Equiniti (on behalf of both HLAC and Omnilife) have ceased to be outsourced to RGA UK Services. Whilst the staff, as with the rest of the management team, are employed by RGA UK Services Limited they have transitioned to become part of the direct team and report to the Omnilife Chief Operating Officer.

3.18 This is not expected to result in any changes to the standards of any policyholders in the short term. This change is intended to enhance the control and governance around policy administration.

Amendments to the Scheme

3.19 There have been no material amendments to the Scheme.

4. Conclusions

4.1 In light of the considerations set out in this report, it is my opinion that the conclusions set out in Section 7.1 of the Main Report are still valid, namely that:

- The Scheme will not have an adverse impact on the security of benefits of the existing Omnilife policyholders.
- I do not expect the reasonable benefit expectations of Omnilife's policyholders to be adversely affected by the Scheme.
- There is no reason to expect that the service standards for the existing Omnilife policyholders will be adversely affected by the Scheme.
- There are no features of the Scheme that appear to me likely to prejudice Court approval of the Scheme.

4.2 I have reviewed the Scheme (version 11 dated 09/02/2023) and recommend the adoption of the Scheme by the Board.

Stephen Grigg FIA
Chief Actuary, Omnilife Insurance Company Limited
1 March 2023

Appendix A: Glossary of Terms

AGRO	Assured Guaranty Re Overseas Limited – a wholly owned subsidiary of Assured Guaranty Re Limited
ARC	Audit and Risk Committee
BEL	Best Estimate Liabilities – Solvency II value of liabilities determined using best estimate assumptions
Court	His Majesty's High Court of Justice in England and Wales – responsible for sanctioning a Part VII transfer
Effective Date	The date on which the **Scheme** will take effect, which is expected to be 30 April 2023. Any change to the date of the Transfer will be announced on the HLAC and Omnilife websites.
Equiniti	Equiniti Paymaster (1836) Limited
FCA	The Financial Conduct Authority – which is the UK regulatory body which oversees the way financial firms conduct business and protects customers.
FSMA	Financial Services and Markets Act 2000 – the statute that, amongst other matters, provides the statutory basis for insurance business transfers
HLAC	Hodge Life Assurance Company Limited – the company that is transferring its business
IE	Independent Expert – Stephen Makin FFA CERA who is a partner of Hymans Robertson LLP and a Fellow of the Institute and Faculty of Actuaries ("IFoA"), having qualified in 1999. Stephen Makin has been appointed, with the approval of the **PRA**, in consultation with the **FCA**, to independently consider the effect of the **Scheme** on **policyholders**.
IFRS	International Financial Reporting Standards
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.
LTMs	Lifetime Mortgages
LTV	Loan to value, the ratio of the Lifetime Mortgage loan to the value of the property it is secured against.
Omnilife	Omnilife Insurance Company Limited – the company receiving the transferring business
ORSA	Own Risk and Solvency Assessment
Part VII Transfer	An insurance business transfer pursuant to Part VII of the FSMA
Policyholder(s)	The person(s) who is/are the legal owner(s) of the policy(ies), including any person(s) to whom, under the policy(ies), a sum is due, a periodic payment is payable, or any other benefit is to be provided.
PRA	The Prudential Regulation Authority, which is responsible for overseeing the safety and soundness of **HLAC** and **Omnilife** as insurers in the UK.
Pure Retirement	Pure Retirement Limited
Residual	Residual Policies, liabilities or assets are policies, liabilities or assets which are intended to transfer under the **Scheme** but which cannot be transferred at the Effective Date for any reason.

RGA	Refers to the whole of the Reinsurance Group of America
RGA Americas	RGA Americas Reinsurance Company Limited – incorporated in Bermuda, the parent of HLAC and owner of Omnilife's parent.
RGA Atlantic	RGA Atlantic Reinsurance Company Limited
RGA Inc	Reinsurance Group of America, Incorporated – the ultimate parent of both **HLAC** and **Omnilife**.
Scheme	The legal document under which the proposed **Part VII Transfer** will take effect, in its original form or with any modifications, additions or conditions which may be approved or imposed.
SCR	Solvency Capital Requirement – the regulatory capital requirement.
TMTP	Transitional Measure on Technical Provisions – a long term guarantee measure introduced by Solvency II. For business in force at the inception of Solvency II (1st January 2016) credit can be taken for the difference between the previous solvency regime and Solvency II. The TMTP is run-off over a sixteen year period.
Transferring Business	The Scheme refers to the Transferring Assets, Transferring Liabilities, Transferring Policies, Outward Reinsurance Agreements and Transferring Third Party Contracts collectively as the "Transferring Business".
Transferring Policyholders	Policyholders who hold one or more of the policies included in the **Transferring Business**.
VA	Volatility Adjustment – a long-term guarantee measure introduced by Solvency II which allows insurers to take some credit for the illiquidity premium present in assets used to back long-term liabilities. It acts to reduce the **BEL**.