



ASSURANT

*Actuarial Function Supplementary  
Report for the assessment of the Part  
VII transfer*

From London General Insurance Limited and  
Assurant General Insurance Limited into  
Assurant Europe Insurance N.V.

Effective Date: 02/11/2020

*Purpose: to update the analysis and conclusions of the  
likely impact of the proposed transfer of certain general  
insurance business from AGIL and LGI into AEI*

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# 1. Introduction

This supplementary report has been produced by the actuarial function of Assurant to inform the Boards of Assurant General Insurance Limited (**AGIL**) and London General Insurance Limited (**LGI**), of any update and new information in addition to the report issued by the actuarial function on 18 June 2020<sup>1</sup> with relation to the proposed Part VII transfer of the non-UK, non-South Africa and non-Switzerland insurance policies of AGIL and LGI (**the Transferors**) to Assurant Europe Insurance N.V. (**AEI**) in the Netherlands (the Scheme<sup>2</sup>). Subject to obtaining regulatory and court approvals, the Scheme is intended to take effect on 2 November 2020 (the Effective Date).

Derek Newton, a Principal at Milliman, has been appointed to produce a report on the terms of the Scheme in his capacity as Independent Expert pursuant to section 109(2) of the Financial Services and Markets Act 2000 (FSMA). Derek Newton has produced his Independent Expert report on 13/06/2020 and will also produce a supplementary report providing an updated assessment of the likely effects of the proposed Scheme ahead of the sanction hearing on 20 October 2020.

In the first report issued on 18/06/2020, I performed the valuation as at 31 December 2019 and projected roll forward capital positions to 30 September 2020. This was to allow evaluation of the Transfer using the booked amounts and audited<sup>3</sup> financial statements, and to give the view of capital at the nearest quarter end before the Effective Date. In doing my valuation as at 31 December 2019, I assumed the Part VII transfer happening as at 31 December 2019 and this is referred to in the first report and in the present one as the “as-if” Transfer, while the actual Part VII transfer (the Transfer) takes place on 2 November 2020. I have also constructed pro-forma financial statements from the actual financial statements as at 31 December 2019 as part of my evaluation of the “as-if” Transfer. In addition, in this supplementary report I have included the financial position as at 30 June 2020 (2Q20) and commented on the movements from YE19 to 2Q20. I have also updated the 3Q20 forecast, as the 2020 business plan is now more than half-way through in the year and there is more information available to the business which feeds through and necessitates updating the forecast of 3Q20 position.

As part of this transferring procedure and the actuarial function duties, I, William Diffey, Fellow of the Institute of Actuaries, as the Chief Actuary (SIMR20) of both AGIL and LGI, am performing an analysis of the proposed transfer under the Scheme with the aim of informing the Boards of AGIL and LGI, and with the intention that this report will also be provided to the Prudential Regulation Authority (**PRA**) and the Financial Conduct Authority (**FCA**). As such, this report is written with Part VII of FSMA in mind.

The objectives of this report are to:

- Provide any relevant additional information impacting the Transfer since the issuance of the initial report
  - o Update of business activities related to the transferring and non-transferring portfolios
  - o Update of the financials as at YE19 and 3Q20 forecast.
  - o Provide and comment on financials as at 2Q20
- Provide an update in the processes linked to the Part VII transfer, especially the processes with regards to the B2B contracts, communication to the policyholders and their feedback to date, update in the Life Part VII.

This report has been focused only to areas where there is new information or updates relevant to the Scheme and should be read together with the initial report.

The report has been written in accordance to the Technical Actuarial Standards (TAS), in particular, TAS 100 that applies to technical actuarial work, and also in accordance of the Actuarial Professional Standard APX 2 with regards to peer review.

## 2. Update in conclusions

<sup>1</sup> The report issued by the Actuarial Function on 18/06/2020 is referred to as first report or initial report throughout the present supplementary report.

<sup>2</sup> We also use the term “Transfer” to refer to the Part VII Transfer of AGIL and LGI to AEI; thus, sometimes the terms “Scheme” and “Transfer” are used interchangeably in this report.

<sup>3</sup> The audit on the YE19 results was ongoing when the initial report was written. There have been few changes from the YE19 numbers in the initial report as the audit finalized. The YE19 numbers in this supplementary report are consistent with the final audited YE19 results.

## 2.1. Recent developments

The following developments occurred within the business since the end of June 2020:

- AEI has commenced writing new business from July and, there is some pipeline business underway
- A contract with a Spanish financial institution to provide mobile phone insurance to their customers in their added value accounts benefits package has been renewed using AEI as underwriter
- An online insurance service to a major mobile phone provider and underwritten by AEI has been launched in Europe
- Contracts with a major mobile phone provider in Romania are live and written by AEI, with a scheme in the Czech Republic expected in October-November
- Intragroup Quota Share reinsurance cover to LGI has been recaptured for the European portfolio during July 2020

More details on these business developments is provided in section 3 below.

## 2.2. Conclusions

The conclusions in this supplementary report support the conclusions in the initial report that, the financial strength of the companies involved in the Transfer is sound pre and post Transfer. The detailed explanation behind these conclusions follows in the body of this report and more details are available in the initial report.

The financial strength of the companies involved in the Transfer measured in terms of ratio of Solvency II Own Funds (OF) to Solvency Capital Requirement (SCR), the SCR coverage ratio (SCR%), pre- and post-Transfer is presented in the table below.

£ (m)	Initial report (as at 16/06/2020)						Supplementary report (as at 09/09/2020)					
	AGIL	LGI	AEI	AGIL	LGI	AEI	AGIL	LGI	AEI	AGIL	LGI	AEI
	Pre-transfer (as at YE19)			Post transfer (as at YE19 + impact of Transfer)			Pre-transfer (as at YE19)			Post transfer (as at YE19 + impact of Transfer)		
Eligible Own Funds	87.9	90.8	35.1	86.8	62.0	66.8	94.9	90.8	37.4	105.0	53.2	62.3
Regulatory SCR	59.6	46.2	0.0	54.9	20.4	43.5	63.4	46.2	0.0	58.7	20.4	39.8
SCR%	148%	196%	n/a	158%	305%	154%	150%	196%	n/a	179%	261%	157%
	Pre-transfer (as at YE19) With impact of COVID-19			Post transfer (as at YE19 + impact of Transfer) With impact of COVID-19			Pre-transfer (as at YE19) With impact of COVID-19			Post transfer (as at YE19 + impact of Transfer) With impact of COVID-19		
Eligible Own Funds	83.6	83.1	35.1	83.3	58.7	64.4	90.7	83.1	37.4	100.8	45.6	62.3
Regulatory SCR	59.6	46.2	0.0	54.9	20.4	43.5	63.4	46.2	0.0	58.7	20.4	39.8
SCR%	140%	180%	n/a	152%	288%	148%	143%	180%	n/a	172%	224%	157%
	Pre-transfer (as at 2Q20) With impact of COVID-19			Post transfer (as at 2Q20 + impact of Transfer) With impact of COVID-19			Pre-transfer (as at 2Q20) With impact of COVID-19			Post transfer (as at 2Q20 + impact of Transfer) With impact of COVID-19		
Eligible Own Funds	N/A	N/A	N/A	N/A	N/A	N/A	97.4	82.3	36.2	105.3	48.5	63.3
Regulatory SCR	N/A	N/A	N/A	N/A	N/A	N/A	63.3	41.8	7.8	52.0	19.2	39.8
SCR%	N/A	N/A	N/A	N/A	N/A	N/A	154%	197%	461%	202%	252%	159%
	Pre-transfer (as at 3Q20) With impact of COVID-19			Post transfer (as at 3Q20 + impact of Transfer) With impact of COVID-19			Pre-transfer (as at 3Q20) With impact of COVID-19			Post transfer (as at 3Q20 + impact of Transfer) With impact of COVID-19		
Eligible Own Funds	90.0	82.1	30.2	87.4	53.3	65.7	97.5	82.7	34.6	106.4	48.8	60.6
Regulatory SCR	52.2	38.2	17.7	47.5	20.4	43.5	57.1	35.9	15.6	52.0	19.2	39.8
SCR%	172%	215%	170%	184%	262%	151%	171%	230%	222%	205%	254%	153%

As it can be seen in the table above, in the supplementary report parts on the right side, the Own Funds of AGIL are boosted by the transfer and that of LGI reduced. This is essentially because of the fair value at arm's length consideration paid (in Solvency II admissible funds) by AEI to AGIL, offset by further capital injections from LGI to AEI. These Own Funds movements do not impact policyholders' security as all the companies involved in the Scheme remain well capitalised above their buffers. The fair value at arm's length consideration was not explicitly

allowed for in the initial report and is now adopted explicitly in this report further down in this section and in section 4.

LGI SCR is driven by insurance risk (premium and reserve risks), and exposure volumes are coming down in insurance risk since YE19. This is the main driver of LGI SCR pre-transfer movement from YE19 to 3Q20.

LGI and AGIL 2Q20 and 3Q20 post-transfer SCRs are modelled as the same, this is an approximation made in the forecasting of 3Q20 position. As volumes of LGI and AGIL insurance risk exposures reduce between 2Q20 and 3Q20; therefore, the actual 3Q20 SCRs are expected to be lower than the 2Q20 SCRs. Hence, keeping the 2Q20 SCRs for LGI and AGIL is marginally conservative in nature.

The movement in Own Funds of AEI between 2Q20 and 3Q20 is impacted by a one-off expense item. During 2019 and 2020 AEI has incurred start-up costs, including audit fees, employee salaries and other expenses. This has resulted in AEI making a loss in the P&L prior to the Part VII. These losses were taken into account in the capital injected in May 2020, where an amount of the capital was included to cover the expected expenses for 2020. Following the Part VII AEI will generate earnings and begin to make profits as set out in the business plan submitted to the DNB and reported in the AEI ORSA.

Comparing the initial report and supplementary report tables for YE19, the increase in AGIL's Own Funds and the reduction in the SCR as at YE19 is due to a longer contract boundary span as detailed below in this section and in section 4. The reduction in LGI Own Funds post-transfer is due to increased dividend<sup>4</sup> payment as detailed in section 4.2.1.

Note that in the initial report the Transfer was assessed at Year End 2019 (YE19) on a "as-if" basis<sup>5</sup> and at the end of the third quarter of 2020 (3Q20)<sup>6</sup>. In the current supplementary report, we have provided updated numbers for the YE19 and 3Q20 positions and the 2Q20 position has been provided in addition. In the presentation of the transfer to AEI as at YE19 and 2Q20, AEI does not have any business represented. However, there is 3 months' worth of business in AEI before the Transfer in the 3Q20 position with the difference in approach being largely presentational in nature.

There have been few changes impacting the financials since the issuance of the initial report:

**Arm's length transactions** - One key change in accounting approach is that the transactions (sale of portfolios from AGIL/LGI to AEI) should be at fair value and at arm's length. Therefore, it should generate a financial gain/loss for the seller/buyer. Thus, there should be a price or premium to be paid by the buying party to the selling party. This was not explicitly considered in the initial report as these discussions were ongoing at the time that report was prepared. The financials in section 4.2 of this report allow for the arm's length transaction approach, showing the fair-value price paid by AEI to AGIL and LGI to acquire the transferring businesses.

**Contract boundary on some UK schemes** - as noted in the initial Chief Actuary report, at the time of writing it, the contract boundary status of certain UK schemes within AGIL was under review in respect of their reprice clauses. Since the initial Chief Actuary report was issued, this review has completed following AGIL's year-end audit and has resulted in a reduction in technical provisions applied at Q4 2019 of approximately £7m offset by an increase in SCR of £4m approximately to allow for a 2 year period contract boundary until this business expires - this increase in contract boundary was implemented at Q1 2020. The YE19 financials have been updated accordingly in this report.

**Transferring portfolio (assets and liabilities) neutral on Solvency II basis** - In the initial report it was assumed that the transferring portfolio of liabilities and assets would be profit/loss neutral on an GAAP accounting basis. This would mean that the assets and liabilities being transferred are equal, while some profit/loss is generated on Solvency II basis as Solvency II assets/liabilities valuation are different to the GAAP assets/liabilities valuation. This was because, at the time of writing the initial report, the terms of the transfer were under negotiation between the Boards of AGL/TWGE and AEI/AEL. In this supplementary report we have adopted an alternative approach whereby the transfer is neutral on Solvency II basis and non-neutral on GAAP basis. This is to better align with the GAAP fair value at arm's length approach.

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<sup>4</sup> Throughout this report and in the initial report, when we mention dividend payment from LGI to AEI, it should be understood as LGI has declared and paid dividends to TWGE which then made capital contributions to AEI/AEL as the shareholder.

<sup>5</sup> The actual Transfer will take place on 2 November 2020. However, we have performed an assessment of the Transfer on a "as-if" basis at YE19 as this is the last date of public and audited financial results. We have also included the as-if 2Q20 position in the supplementary report.

<sup>6</sup> We have done an assessment of the financial position of the Transfer at 30 September 2020 (3Q20), as this is the last quarter before the actual Transfer.

**Accounting items** - A number of GAAP items have been amended to reflect AGL's published Solvency and Financial Condition Report (SFCR), and the finalization of the audit of the AGL SFCR which occurred after the completion of the Chief Actuary initial report on the transfer.

As a result of these changes impacting the financials (Own Funds and capital requirements), the capital injections have been adjusted (increased marginally) to maintain the level of solvency indicated in the initial report. Details of the financials are provided in section 4.

Note that the tax implication of the arm's length transaction approach has also been allowed for, more details can be found in section 6.

In conclusion, none of the changes above impact analysis or cause me to change my conclusions; the Transferring and non-Transferring policyholders of AGIL and LGI will benefit from well capitalised companies and claims payments will continue to be met within the limits of the financial capacity of the companies involved in the Scheme which is strong, as evidenced by the high solvency ratios. This conclusion is unchanged from the Chief Actuary report dated 18/06/2020.

In addition to the quantitative financial strength measure, the servicing of the policies, the overall risk management framework, including the governance and compliance is very strong for AGIL, LGI and AEI; therefore, the interests of Transferring and non-Transferring policyholders of LGI and AGIL will be looked after with the same care as before the Transfer.

## 2.3. Opinion of the Chief Actuary

The opinion I expressed in the initial report has not changed. In reaching this conclusion/opinion, I have conducted a detailed assessment of the Scheme, its likely impact on the different policyholder groups of the companies involved. I have assessed the Scheme from an actuarial point of view but also with consideration to the other non-technical, non-actuarial aspects. My conclusion is that the risk of any policyholder group of AGIL, LGI or AEI being adversely affected is immaterial.

I include an update of the narrative of my conclusions expressed in the initial report herein.

I have assessed the Transfer from an actuarial point of view but also with consideration to the other non-technical, non-actuarial aspects.

### Assessment of pre and post Transfer financial positions

I have considered the broader risk management issues in relation to the underlying businesses and risk profiles of the Transferors and the Transferee companies, including an assessment of insurance risk, market risk, credit risk and operational risks. I am satisfied that the risk management framework, including governance and compliance is of a high standard and will remain to be of same standard post-Transfer.

In particular, I have looked into the risk posed by COVID-19 on the UK and Europe economies with the disruption in some supply chains and additional volatility in the markets. At the time of writing there has been a significant hit to the UK and Europe economies, the impact has been seen in various parts of AGIL and LGI businesses through reduced sales and lower claim volumes during the lock down period. The Creditor book of LGI is the most material line of business directly exposed to economic downturn from a reserving perspective and the impact of COVID-19 on this portfolio may well continue through 2021. The full impact of this uncertainty and potential market movements may well remain to emerge in the economy, but the risk is closely monitored by management. At the time of writing, the UK and European economies have started to recover following lock down, but the economic outlook remains poor over the next few years.

My report, which is based on year end 2019 data, June 2020 end data and a roll forward to 30 September 2020, takes actual market movements from January 2020 to June 2020 into account with a projection in the near future. This allows for uncertainties related to a potential second wave of COVID-19 and a double dip recession in UK and Europe economies resulting from COVID-19. It is important to explicitly consider whether it remains appropriate and fair to continue with the proposed transfer in light of COVID-19, its forecasted impacts and the risks that it poses. It is my opinion, as a result of my assessment of the impact of COVID-19 and update based on experience to September 2020, that the risk posed by the economic impacts of COVID-19 on the Transfer is within the limits of manageable risk and it does not constitute an impediment to the Transfer.

### Consideration of Risk Management implications including reinsurance and other risk mitigation aspects

I have considered the broader risk management issues in relation to the underlying businesses and risk profiles of the Transferors and AEI, including an assessment of insurance risk, market risk, credit risk and operational risks. I am satisfied with the risk management framework, including governance and compliance which are of a high standard and will remain to be of same standard post transfer.

#### Effectiveness of the scheme and its impact on policyholders and risk profile

I believe policyholders are fairly treated in terms of the before and after positions of the scheme. These are covered in detail in sections 12.3 to 12.8 of my initial report.

## 3. Recent developments impacting the Transfer

### 3.1. Transferring business

This section of the report highlights development in the business since the initial report that have a relevance to the Transferring business

#### London General Insurance Limited (LGI)

**Quota Share reinsurance recapture for European business** - The quota share (QS) reinsurance provided by a group entity to cover LGI business needed to be recaptured, as that reinsurance arrangement will not transfer to AEI and therefore will not apply to the European business after the transfer. The recapture means that the quota share reinsurance coverage of the business denominated in Euro and in Polish Zloty ceased from 1<sup>st</sup> July 2020. A settlement amount has been agreed between LGI and the reinsurer whereby the reinsurer will pay the amount to LGI to stop providing reinsurance coverage for the relevant business. The settlement was made in bonds and these assets will be transferred to AEI together with the gross liabilities related to the transferring European business. Note that this quota share recapture was already mentioned in the initial report as an item to be completed before the Transfer and it has now been completed.

### 3.2. Non-Transferring business

This section of the report highlights development in the business since the initial report that might have a relevance to the Non-Transferring business.

#### Assurant General Insurance Limited (AGIL)

**Contract boundary review** - In the initial report it was mentioned that the TPs of a specific UK scheme contract (3-year contract that started in year 2019) have assumed a contract boundary of one year and this was under review in respect of the reprice clauses. We assumed a 1-month contract boundary, given reprice rights in individual policies. However, the review focused on the scheme of distribution which is a 3-year binder with a reprice clause and concluded that a 3-year boundary was appropriate. Since the Chief Actuary report was issued, this review has completed following AGIL's year-end audit and has resulted in a reduction in technical provision applied at Q4 2019 of approximately £7m offset by an increase in SCR of approximately £4m to allow for a 2 year contract boundary period until this business expires. This increase in contract boundary was implemented at Q1 2020.

#### London General Insurance Limited (LGI)

No significant business development in the Non-Transferring portfolio other than the expected development of the business.



## 3.3. Updates from Transferee

### Assurant Europe Insurance N.V. (AEI)

The company was authorised on 9 June 2020 as noted in the initial report. Since authorisation, AEI is fully operational and is ready to receive the transferring portfolio. However, AEI is writing new business (Front book) before the transferring portfolio (Back book) arrives and will continue to write new business thereafter. The following deals are a subset of the deals in the pipeline for AEI; some of them are already live.

- **Germany** - A new (Motor Warranty) contract between AEI and the German branch of an international car manufacturer is live since the beginning of July
- **Online shopping insurance** - A new contract between a world leader in online shopping and AEI for gadget and electronics insurance is effective since early September for Germany, Austria, France, Spain and Italy.
- **Online mobile phone insurance offering launched** - This is a new online offering for mobile phones and gadget insurance offered by Assurant to a leading mobile phone company. Launched in Italy and Romania in mid-July with more countries to follow.
- **Renewal of a major Spanish client** - A major contract has been renewed in Spain using AEI as a carrier; it is a 3-year deal with a reprice clause after 2 years with a financial institution offering mobile phone insurance to its customers as part of their added value accounts benefits package. The Actuarial Function understands that there is no unilateral exit clause, and that hence this may be treated as a 3-year contract under Solvency II as there does not appear to be a unilateral reprice clause in the contract. While this matter is still undergoing discussions internally and with external consultants, the impact of moving to a full contract boundary of 3 years has been estimated to provide an additional £3.5m of solvency support to AEI net of its SCR. For simplicity of modelling, this is not reflected in the proforma solvency statements for AEI in this report as it is a benefit to AEI.

## 4. Update in Financial Position Before and After the Transfer

### 4.1. Changes in key assumptions in forecasting the financial position

Subject to Court approval, the actual Transfer will take place on 2 November 2020. However, in the initial report the financial assessment of the “as-if” Transfer has been performed on the year end 2019 (YE19) financial position, as this is the last set of booked and audited financial statements. In addition, we have stressed the “as-if” Transfer financials with the impact of COVID-19. Further, we presented how the planned business of year 2020 is expected to impact the financials of the actual Transfer at 3Q20. The 3Q20 capital position included the forecasted impact of COVID-19.

This supplementary report provides similar information (“as-if” YE19 and 3Q20 forecast) updated as at 2Q20 and includes the position as at 2Q20 as new information.

Some of the assumptions in preparing and forecasting the financial positions have changed from the initial report, only the amounts were updated where they have changed:

**Contract boundary on some UK schemes** - as noted in the Chief Actuary report, at the time of writing, the contract boundary status of certain UK schemes within AGIL was under review in respect of their reprice clauses. We assumed a 1-month contract boundary, given reprice rights in individual policies. However, the review focused on the scheme of distribution which is a 3-year binder with reprice clause and concluded that a 3-year boundary was appropriate. Since the Chief Actuary report was issued, this review has completed following AGIL’s year-end audit and has resulted in a reduction in technical provision applied at Q4 2019 of approximately £7m offset by an increase in SCR of approximately £4m to allow for a 2 year period until this business expires. The YE19 financials have been updated accordingly.

There have been two key changes in the accounting approach of the Transfer from the initial report to the current supplementary report and some corrections in the accounts.

**Arm’s length transactions** - One key change in accounting approach is that the transactions (sale of portfolios from AGIL/LGI to AEL) should be at fair value and at arm’s length. Therefore, it should generate a financial

gain/loss for the seller/buyer. Thus, there should be a price or premium to be paid by the buying party to the selling party. This was not explicitly considered in the initial report.

**Transferring portfolio (assets and liabilities) neutral on Solvency II basis** - The other accounting change is that in the initial report it was assumed that the transferring portfolio of liabilities and assets would be profit/loss neutral on an GAAP accounting basis. This would mean that the assets and liabilities being transferred are equal, while some profit/loss is generated on Solvency II basis as Solvency II assets/liabilities valuation are different to the GAAP assets/liabilities valuation. This was because at the time of writing, the terms of the transfer were under negotiation between the Boards of AGL/TWGE and AEI/AEL. In this supplementary report we have adopted an alternative approach whereby the transfer is neutral on Solvency II basis and non-neutral on GAAP basis. This is to better align with the GAAP fair value at arm's length approach.

**Accounting items** - A number of GAAP items have been amended to reflect AGL's published Solvency and Financial Condition Report (SFCR), and the finalization of the audit of the AGL SFCR which occurred after the completion of the Chief Actuary initial report on the transfer.

## 4.2. Updated financials

In this section, the forecasted financial impact of the Scheme is presented in terms of balance sheet on GAAP and Solvency II basis pre- and post-Transfer, and also in terms of Solvency II capital requirements pre- and post-Transfer. Note that the financial assessment has been performed on the following basis:

- **Year End 2019 basis** - this is a "as-if" analysis to present the financials as if the Transfer was taking place as at year end 2019, using the numbers booked and audited as at year end 2019. However, the TPs in this supplementary report have been calculated using a longer contract boundary assumption for one major UK scheme as discussed in section 4.1 above. The TPs at various point in time in this supplementary report are all calculated/forecasted on the same contract boundary basis, using the longer contract boundary (following a review of the repricing clauses for the distribution scheme) for the specific UK scheme in question.
- **Year End 2019 basis with impact of COVID-19** - This assessment is as if the Transfer was taking place as at year end 2019 and allows for assumptions about the impact of COVID-19.
- **2Q20 basis with impact of COVID-19** - This assessment is as if the Transfer was taking place as at 30 June 2020; therefore, includes the impact of COVID-19.
- **3Q20 basis with impact of COVID-19** - This assessment is as if the Transfer was taking place as at 30 September 2020; therefore, includes the impact of COVID-19.

### 4.2.1. Year End 2019 basis

In this basis, the Transfer date is assumed to be 31 December 2019. Therefore, Before Transfer position relates to 31 Dec 2019 and After Transfer position relates to end "31 Dec 2019 + impact of Transfer (assessed as at 31 Dec 2019)". The financials and developments in this section have been updated for the items described in section 4.1. None of these changes alters the conclusions of this report.

The financials have been constructed with the following constraints:

- The post-Transfer ratio of Own Funds to SCR must not be less than 140% for AEI
- The sale of the EU portfolios of AGIL and LGI to AEI is a fair value transaction at arm's length. i.e. a fair price has been paid by AEI to AGIL and LGI, although the transfer is an intragroup transaction. Note that this was not made explicit in the initial report where the sale price was not included in the financials.
- The Transfer must be at zero profit or loss on Solvency II basis (i.e. the liabilities and assets to be transferred must be equal). Note that in the initial report the zero-profit assumption was applied on GAAP basis. However, to align with the fair value and arm's length approach on GAAP basis, we have allowed for profit/loss generation on GAAP basis.
- Other Assets balance sheet line has been used as the 'balancing item'. Note that the use of such balancing items is common practice in the preparation of financial forecasts.

There have been some changes to the audited YE19 results further to audit; therefore, the YE19 amounts in the supplementary report are different to the ones in the initial report.

#### AGIL 4Q19 (no COVID-19)

GAAP balance sheet (£m)	Before Transfer	Impact of Transfer	Sale of Portfolio to AEI	After Transfer
<b>Assets:</b>				
Cash	5.3	0.0	10.1	15.4
Investments	77.4	(7.3)	0.0	70.0
DAC	11.4	(10.9)	0.0	0.4
Ceded technical provisions	11.3	(4.6)	0.0	6.7
Other assets	82.8	(19.2)	0.0	63.5
<b>Total assets</b>	<b>188.1</b>	<b>(42.1)</b>	<b>10.1</b>	<b>156.1</b>
<b>Liabilities:</b>				
Gross tech provisions (excl risk margin)	52.3	(37.4)	0.0	15.0
Risk margin	0.0	0.0	0.0	0.0
RI DAC	0.4	0.0	0.0	0.4
Other liabilities	51.7	(5.9)	0.0	45.9
<b>Total liabilities</b>	<b>104.5</b>	<b>(43.2)</b>	<b>0.0</b>	<b>61.3</b>
Excess of assets over liabilities	83.6	1.1	10.1	94.8

#### AGIL 4Q19 (no COVID-19)

Solvency II balance sheet (£m)	Before Transfer	Impact of Transfer	Sale of Portfolio to AEI	After Transfer
<b>Assets:</b>				
Cash	5.3	0.0	10.1	15.4
Investments	78.4	(7.3)	0.0	71.1
DAC	0.0	0.0	0.0	0.0
Ceded technical provisions	2.9	(3.4)	0.0	(0.6)
Other assets	80.3	(19.2)	0.0	61.0
<b>Total assets</b>	<b>166.9</b>	<b>(30.0)</b>	<b>10.1</b>	<b>146.9</b>
<b>Liabilities:</b>				
Gross tech provisions (excl risk margin)	15.4	(20.3)	0.0	(4.9)
Risk margin	4.3	(3.9)	0.0	0.4
RI DAC	0.0	0.0	0.0	0.0
Other liabilities	52.3	(5.9)	0.0	46.4
<b>Total liabilities</b>	<b>72.0</b>	<b>(30.0)</b>	<b>0.0</b>	<b>42.0</b>
Excess of assets over liabilities	94.9	0.0	10.1	105.0

#### AGIL 4Q19 (no COVID-19)

SII Capital (£m)	Before Transfer	After Transfer
Eligible Own Funds	94.9	105.0
Solvency Capital Requirement (SCR)	63.4	58.7
SCR %	150%	179%

- The sale of the EU portfolio of AGIL to AEI has been valued at £10.1m, which is the expected price to be paid by AEI to AGIL, valued at fair value in an arm's length approach that takes into consideration goodwill and any other intangibles. Note that this was not made explicit in the initial report.
- The revised contract boundary assumption on a major UK scheme, whereby a longer contract boundary has been assumed, and more future premium has been accounted for, has resulted in negative premium provision and negative total TPs in AGIL remaining non-Transferring UK business. The scheme in question is profitable with loss ratios well below 100% and, as more future profit is allowed for in the TPs with longer contract boundary span, the Premium Provision becomes negative and makes the total TPs negative, as seen in the Solvency II balance sheet above. This is in line with common Solvency II treatment and is offset by the increase in the SCR referred to in section 4.1. As noted in the original Chief Actuary report, the reprice clauses that led to a review of the contract boundary assumptions were under review at the time that the report was written, with the expected overall impact noted in that report to be less than £5m. Note that the YE19 movement in OF and SCR from the initial report to the current supplementary report is mainly due to the contract boundary assumption as discussed in this section.
- The negative TPs in AGIL are driven by the combination of specific features of AGIL's portfolio:
  - AGIL's portfolio has a mixture of Mobile Phone insurance policies with monthly terms and Creditor policies with yearly terms.
  - The monthly contracts, most of which stay in the UK after the Transfer, have very low claims Provisions (mobile phone claims have short tail risk with very low IBNR) and large future premium income, hence the low level of TPs net of future premium income (allowing for contract boundary). However, the SCR is relatively large due to the high earned premium volume measure as used in the Standard Formula calculation.
  - When the contract boundary span is increased (as it has been the case for a major UK scheme that has a low loss ratio), it allows for more future profit in the TPs. The future premium income becomes higher and the Premium provision becomes more negative and drives the total TPs down. Significantly negative Premium Provision is due to longer contract boundary span on profitable portfolio, combined with low Claims Provisions makes the total TPs negative.
- In the initial report the matching was on the GAAP basis. This change was made to align with the fair valuation at arm's length on GAAP basis.
- Most of the liabilities of AGIL will be transferred to AEI. On Solvency II basis, the same amounts of assets will be transferred, making a nil profit transaction. However, on a GAAP basis, the transaction has generated a profit of £1.1m for AGIL, and on Solvency II basis, Own Funds have increased from £94.9m to £105.0m while the SCR has decreased from £63.4m to £58.7m, making the SCR ratio improve from 150% to 179% (this reduction in SCR excludes ~£3m for materiality from elimination of past premium for EU-27

business from the AGIL SCR in line with Solvency II Article 116 of the Delegated Acts). The SCR ratio was 148% pre-Transfer and 158% post Transfer in the initial report.

#### LGI 4Q19 (no COVID-19)

GAAP balance sheet (£m)	Before Transfer	Recapture of QS	Impact of Transfer	Sale of Portfolio to AEI	Funding to AEL	Dividend to AEI	After Transfer
<b>Assets:</b>							
Cash	4.5	0.2	0.0	0.0	0.0	0.0	4.7
Investments	176.0	13.2	(76.1)	(1.0)	(2.0)	(35.0)	75.1
DAC	76.3	0.0	(29.1)	0.0	0.0	0.0	47.2
Ceded technical provisions	48.7	(20.4)	(9.9)	0.0	0.0	0.0	18.3
Other assets	29.4	0.0	(1.4)	0.0	0.0	0.0	28.0
<b>Total assets</b>	<b>334.9</b>	<b>(7.0)</b>	<b>(116.5)</b>	<b>(1.0)</b>	<b>(2.0)</b>	<b>(35.0)</b>	<b>173.4</b>
<b>Liabilities:</b>							
Gross tech provisions (excl risk margin)	175.8	0.0	(109.8)	0.0	0.0	0.0	66.0
Risk margin	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RI DAC	22.6	(7.0)	(3.2)	0.0	0.0	0.0	12.3
Other liabilities	45.4	0.0	(8.3)	0.0	0.0	0.0	37.1
<b>Total liabilities</b>	<b>243.8</b>	<b>(7.0)</b>	<b>(121.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>115.4</b>
Excess of assets over liabilities	91.2	0.0	4.8	(1.0)	(2.0)	(35.0)	57.9

#### LGI 4Q19 (no COVID-19)

Capital (£m)	Before Transfer	After Transfer
Eligible Own Funds	90.8	53.2
Solvency Capital Requirement (SCR)	46.2	20.4
SCR %	196%	261%

#### LGI 4Q19 (no COVID-19)

Solvency II balance sheet (£m)	Before Transfer	Recapture of QS	Impact of Transfer	Sale of Portfolio to AEI	Funding to AEL	Dividend to AEI	After Transfer
<b>Assets:</b>							
Cash	4.5	0.2	0.0	0.0	0.0	0.0	4.7
Investments	177.1	13.2	(76.1)	(1.0)	(2.0)	(35.0)	76.3
DAC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceded technical provisions	18.1	(12.9)	0.3	0.0	0.0	0.0	5.5
Other assets	5.2	0.0	0.0	0.0	0.0	0.0	5.2
<b>Total assets</b>	<b>205.0</b>	<b>0.5</b>	<b>(75.8)</b>	<b>(1.0)</b>	<b>(2.0)</b>	<b>(35.0)</b>	<b>91.7</b>
<b>Liabilities:</b>							
Gross tech provisions (excl risk margin)	96.1	0.0	(64.2)	0.0	0.0	0.0	31.9
Risk margin	4.7	0.0	(3.2)	0.0	0.0	0.0	1.6
RI DAC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.4	0.0	(8.3)	0.0	0.0	0.0	5.0
<b>Total liabilities</b>	<b>114.2</b>	<b>0.0</b>	<b>(75.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>38.5</b>
Excess of assets over liabilities	90.8	0.5	0.0	(1.0)	(2.0)	(35.0)	53.2

- The fair value of the sale of the EU portfolio of LGI to AEI has been estimated at negative £1m (a loss), valued at fair value in an arm's length approach that takes into consideration goodwill and any other intangibles. Note that this was not made explicit in the initial report.
- Note that because the fair value of the business was calculated as per the transfer in November 2020 and this value was subsequently incorporated in a YE 2019 position this has mechanically resulted in a negative fair value impact at YE19. This is however merely a consequence of how the tables were built up. In effect that impact is pro-forma artefact.
- The fair-value of the sale of LGI's EU portfolio was calculated by looking at the future cashflows of the business as a whole, i.e. both the Back book transferred with the Part VII, and the Front book of new business; and it is negative at YE19 due to the pro-forma calculation as explained in the bullet point above. The fair-value of the sale of LGI's EU portfolio is positive at 2Q20 and 3Q20<sup>7</sup>.
- In the initial report the transferring portfolio was neutral on GAAP basis. However, in the supplementary report the new view is to make the Transferring portfolio profit neutral on Solvency II basis.
- Most of the liabilities of LGI will be transferred to AEI. On Solvency II basis, the same amounts of assets will be transferred, making a nil profit transaction (on Solvency II basis). However, on GAAP basis, the transaction has generated a profit of £4.8m for LGI, and Solvency II Own Funds have decreased from £90.8m to £53.2m after a dividend payment of £35m<sup>8</sup> to TWGE which then makes a capital injection into AEI and £2m into AEL, while the SCR has decreased from £46.2m to £20.4m, making the SCR ratio improve from 196% to 261% (this reduction includes -£19m from elimination of past premium for EU-27 business from the LGI SCR in line with Solvency II Article 116). This was 196% pre-transfer and 307% post-Transfer in the initial report.
- Note that the financials in the table above assume that the dividends payments from LGI to TWGE for AEI and AEL funding take place on the day of the Transfer. However, these dividends have been paid in September 2020 (after the numbers in the table were calculated), before the Transfer, and the LGI Before Transfer SCR% is likely to be lower than the 196% in the table above (the Before Transfer SCR% will drop to ~130% as dividends of £37m (£35m to TWGE to fund AEI and £2m to fund AEL) have been paid by LGI in September 2020). However, this drop in SCR% is a temporary effect until the Transfer takes place and is reversible if Court approval of the Transfer is not forthcoming. The Before Transfer SCR% of AEI will be increased to offset the temporary drop in the LGI Before Transfer SCR%.
- Note that LGI does not pay dividends directly to AEI or AEL, instead, LGI will declare and pay dividends to TWGE which will then make capital contributions to AEI/AEL as the shareholder. The LGI dividend to TWGE

<sup>7</sup> 2Q20 and 3Q20 balance sheets are not shown in this report for parsimony, as the YE19 position is the anchor point, as audited financials

<sup>8</sup> Note that the dividend payment from LGI has increased when compared to the initial report. The main difference is the funding of the purchase of AGIL and LGI in a transaction at arm's length whereby AEI pays a price/premium for buying the transferring portfolios. This wasn't explicitly considered in the initial report. AEI is mainly funded by dividend from LGI to TWGE which then makes capital injection to AEI.

will be partly in specie (transfer of bonds) and partly in cash. The TWGE contribution to AEI will be partly in kind (transfer of the bonds received from LGI) and partly in cash and will be recorded as share premium on already-issued shares. The TWGE contribution to AEL will be fully in cash and, again, will be recorded as share premium on already-issued shares.

#### AEI 4Q19 (no COVID-19)

	Before Transfer	Impact of Transfer	Purchase of Business from AGIL and LGI	PVII Sh Cap Inj	After Transfer
<b>GAAP balance sheet (£m)</b>					
<b>Assets:</b>					
Cash	37.4	0.0	(10.1)	0.0	27.3
Investments	0.0	83.4	0.0	35.0	118.4
DAC	0.0	40.0	0.0	0.0	40.0
Ceded technical provisions	0.0	14.5	0.0	0.0	14.5
Other assets	0.0	20.6	0.0	0.0	20.6
<b>Total assets</b>	<b>37.4</b>	<b>158.6</b>	<b>(10.1)</b>	<b>35.0</b>	<b>220.9</b>
<b>Liabilities:</b>					
Gross tech provisions (excl risk margin)	0.0	147.1	0.0	0.0	147.1
Risk margin	0.0	0.0	0.0	0.0	0.0
RI DAC	0.0	3.2	0.0	0.0	3.2
Other liabilities	0.0	14.2	0.0	0.0	14.2
<b>Total liabilities</b>	<b>0.0</b>	<b>164.5</b>	<b>0.0</b>	<b>0.0</b>	<b>164.5</b>
Excess of assets over liabilities	37.4	(5.9)	(10.1)	35.0	56.4

#### AEI 4Q19 (no COVID-19)

	Before Transfer	Impact of Transfer		Purchase of Business from AGIL and LGI	PVII Sh Cap Inj	After Transfer
		Methodology Adjustment	Back Book Portfolio			
<b>Solvency II balance sheet (£m)</b>						
<b>Assets:</b>						
Cash	37.4	0.0	0.0	(10.1)	0.0	27.3
Investments	0.0	0.0	83.4	0.0	35.0	118.4
DAC	0.0	0.0	0.0	0.0	0.0	0.0
Ceded technical provisions	0.0	0.0	3.1	0.0	0.0	3.1
Other assets	0.0	3.5	19.2	0.0	0.0	22.8
<b>Total assets</b>	<b>37.4</b>	<b>3.5</b>	<b>105.8</b>	<b>(10.1)</b>	<b>35.0</b>	<b>171.6</b>
<b>Liabilities:</b>						
Gross tech provisions (excl risk margin)	0.0	3.5	84.5	0.0	0.0	88.1
Risk margin	0.0	0.0	7.0	0.0	0.0	7.0
RI DAC	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	14.2	0.0	0.0	14.2
<b>Total liabilities</b>	<b>0.0</b>	<b>3.5</b>	<b>105.8</b>	<b>0.0</b>	<b>0.0</b>	<b>109.3</b>
Excess of assets over liabilities	37.4	0.0	0.0	(10.1)	35.0	62.3

#### AEI 4Q19 (no COVID-19)

	Before Transfer	After Transfer
<b>Capital (£m)</b>		
Eligible Own Funds	37.4	62.3
Solvency Capital Requirement (SCR)	0.0	39.8
SCR %	n/a	157%

- AEI will pay the fair-value price of acquiring the LGI's EU-27 business from LGI by issuing shares (contribution in kind) rather than cash or investment assets while AEI pays AGIL cash to acquire AGIL's EU-27 portfolio. Thus, the purchase of AGIL impacts the Solvency II Own Funds of AEI while the purchase of LGI sale has no impact over and above the GAAP impact.
- Note that because the fair value of the business from LGI was negative at YE19, no shares are issued to LGI, but AEI posts an increase in shareholders' equity fund in UK GAAP (the shareholder's equity account is not shown in the tables above).
- The methodological adjustment amount of £3.5m is lower than YE19 amount of ~£7m in the initial report and this is driven by the amounts of past due premium accounted for in the TPs of LGI at 2Q20 compared to YE19. Note that the methodological adjustment aims at taking away the past due premium that was accounted for in the TPs of LGI and account them in Other assets to align with AGIL's TP presentation in the balance sheet, where no past due premium is accounted for in the TPs.
- Note that there is a cash injection of £37.4m before the Transfer accounted for as cash in the balance sheet and a second cash injection of £35.0m immediately after the Transfer which is accounted for in the Investment<sup>9</sup> line of the balance sheet in the table above. The second capital injection is provided by LGI dividend payment to TWGE which then makes a capital injection to AEI while the first capital came from an existing funding provided by the parent company and LGI in prior years dividend payments as explained in the initial report.
- AEI SCR ratio is 157% post Transfer. It was 154% in the initial report. Before the Transfer AEI did not have any liability (on the "As if" basis), hence no SCR.
- The financials in the table above assume that the dividend payment of £35m from LGI to TWGE to fund AEI in column "PVII Sh Cap Inj" takes place on the day of the Transfer. However, practically, the dividend has been paid in September, well before the Transfer, and the "Before Transfer" financials shown in the tables above are expected to be higher. Note, that such a pre-payment would be reversible if Court approval is not forthcoming.

#### Conclusion

As it can be seen in the table below, the capitalisation of AGIL, LGI and AEI, pre and post Transfer is strong, all ratios are above 100% and above their individual target buffers.

<sup>9</sup> The plan is to use the £35.0m to buy investment assets

4Q 19 No COVID-19			4Q 19 No COVID-19			4Q 19 No COVID-19		
AGIL	Before Transfer	After Transfer	LGI	Before Transfer	After Transfer	AEI	Before Transfer	After Transfer
SCR %	150%	179%	SCR %	196%	261%	SCR %	n/a	157%
target	135%	135%	target	125%	125%	target	140%	140%

In conclusion, the Transferring and non-Transferring policyholders of AGIL and LGI will benefit from well capitalised companies.

## 4.2.2. Year End 2019 with impact of COVID-19

In this section we use the assessment done in the section above and apply the impact of COVID-19, estimated as at YE19.<sup>10</sup>

The qualitative reasoning explaining how COVID-19 impacts the business of AGIL and LGI presented in the initial report has not changed. Please refer to the initial report for details of how COVID-19 impacts AGIL and LGI businesses.

We have applied stresses to the TPs and investment assets of AGIL and LGI to allow for the financial impact of COVID-19. The impact of COVID-19 on the liabilities is assumed to be an uplift to the Technical Provision of 3% for LGI and 2% for AGIL. The impact of COVID-19 on the assets is assumed to be a reduction of asset values by 5% for AGIL's short term assets and 3% for LGI's assets which have a longer term.

These stresses have not changed from the initial report. Note that the actual observation in movements in claims indicates that the 2% and 3% stresses applied to AGIL and LGI TPs reflect medium term uncertainty regarding the outlook for investment conditions and the possibility of a double dip recession potentially linked to a double dip resurgence of COVID-19 in various EU economies - although in a purely mathematical sense these stresses could be viewed as conservative, they reflect the uncertainties described. In the first half of 2020 no significantly adverse claims activity has been observed (compared to previous years). In fact, there has been a reduction in claims frequency on some portfolios (e.g. AGIL Mobile phones) with a minor increase in claims severity, inferring an overall reduction in total incurred claims. AGIL claims have very short IBNR and even if we allow for more IBNR in 2020 than usual, we are still in low claims environment. However, as noted we decided to keep the COVID-19 stresses as in the initial report; this allows for the uncertain nature of the economic outlook in the UK and Europe - and in particular to allow for any second wave and double dip economic impact in UK and Europe.

The Solvency II financials stressed with the impact of COVID-19 are presented below. In these financials, the impact of COVID-19 in the TPs and Assets is allowed for in the Before Scheme, Impact of Scheme and After Scheme.

4Q 19 With COVID-19			4Q 19 With COVID-19			4Q 19 With COVID-19		
AGIL	Before Transfer	After Transfer	LGI	Before Transfer	After Transfer	AEI	Before Transfer	After Transfer
SCR %	143%	172%	SCR %	180%	224%	SCR %	n/a	157%
target	135%	135%	target	125%	125%	target	140%	140%

- The SCR ratio of AGIL is expected to move from 143% pre-transfer to 172% post-Transfer. It was 140% pre-transfer and 152% post-Transfer in the initial report.
- The SCR ratio of LGI has moved from 180% pre-transfer to 224% post-Transfer. It was 180% pre-transfer and 269% post-Transfer in the initial report.
- The SCR ratio of AEI at YE19 with COVID-19 remains at 157%, the same as at YE19 without COVID-19 because the additional cost of COVID-19 has been borne by AGIL and LGI, not AEI. AGIL and LGI transfer to AEI the assets needed to cover for the increase in the liabilities due to COVID-19 for the Transferring portfolio, thus ring-fencing AEI from the financial impact of COVID-19 on the Transferring portfolio, during

<sup>10</sup> COVID-19 was not yet an issue at YE19. However, we have done a "as-if" assessment of COVID-19 on the "as-if" YE19 Transfer at YE19 to assess the impact that disease might have on the Scheme.

the Transfer. This demonstrate that the current planned level of capitalisation of AGIL, LGI and AEI is enough to absorb the impact of COVID-19 and there will still be a large buffer left above the target 140% SCR ratio for AEI.

### Conclusion

When the impact of COVID-19 is allowed for, the SCR ratios of LGI, AGIL and AEI remain high, above the capital buffers for each of these companies before and after the Transfer. The SCR ratio of AEI post Scheme is 157% which is the same as without COVID-19 impact as the transferors absorb the impact of COVID-19; thus, protecting the transferring portfolio from the impact of COVID-19. As a conclusion, we can say that the “as-if” Transfer is fully resilient to COVID-19 risk as the companies remain above their capital buffers.

## 4.2.3. 2Q20 position (with COVID-19)

The Transfer has been assessed on an “as-if” basis as at 2Q20 using the actual half-year results and the solvency ratios of the transferors and the transferee, pre- and post-transfer are as follows in the table below. Note that the 2Q20 view includes the impact of COVID-19.

2Q 20 With COVID-19			2Q 20 With COVID-19			2Q 20 With COVID-19		
	Before Transfer	After Transfer		Before Transfer	After Transfer		Before Transfer	After Transfer
AGIL			LGI			AEI		
SCR %	154%	202%	SCR %	197%	252%	SCR %	461%	159%
target	135%	135%	target	125%	125%	target	140%	140%

### Conclusion

The solvency ratio of AEI pre-transfer of 461% is very high because at 2Q20, AEI has received the initial cash capital and has not yet started writing business. However, the forecasted liabilities (premium risk calculated on business plan) have been used to calculate the SCR. The solvency ratio of AEI post-transfer is 159%, which is well above the target of 140%. The solvency ratios of the transferring and non-transferring portfolios remain very high at 2Q20.

## 4.2.4. 3Q20 position (with COVID-19)

The roll forward of capital position of AGIL, LGI and AEI to 3Q20, on before and after Transfer basis can be found in the tables below. This roll-forward to 3Q20 allows for the planned business of year 2020 and includes the impact of COVID-19 (with a 3Q20 view). The roll forward assumes that AGIL will write some business according to the plan of 2020 while LGI does not write new business in 2020.

3Q 20 With COVID-19			3Q 20 With COVID-19			3Q 20 With COVID-19		
	Before Transfer	After Transfer		Before Transfer	After Transfer		Before Transfer	After Transfer
AGIL			LGI			AEI		
SCR %	171%	205%	SCR %	230%	254%	SCR %	222%	153%
target	135%	135%	target	125%	125%	target	140%	140%

At 3Q20, the AEI SCR ratio is projected to be 222% before the Part VII Transfer and 153% post Transfer. It was 151% post transfer in the initial report. Note that the SCR ratio of 222% before Transfer was only based on Front book assets and capital of £35.1m and forecasted three months of new business written by AEI. Therefore, the Before Transfer position is not representative of AEI portfolio going forward, as it was a transitional state of the business, with only a small proportion of liabilities with a large asset cover. The post-Transfer SCR% of 153% is well above the target 140%.

### Conclusion

The Transferring and non-Transferring policyholders of AGIL and LGI benefit from strong capitalisation pre- and post-Transfer.

## 5. Latest position - as at date of supplementary report

### 5.1. Liabilities to be transferred as at 4Q19 (update)

The updated TPs as at YE19 allowing for a longer contract boundary on a major UK scheme as discussed in section 4.1 are presented below.

Gross TPs £000s

AGIL	Before Scheme			After Scheme		
	UK	EU	Total	UK	EU	Total
Claims Provision	6,609	7,689	14,298	6,609	0	6,609
Premium Provision	(11,481)	12,607	1,126	(11,481)	0	(11,481)
Total	(4,872)	20,296	15,424	(4,872)	0	(4,872)

LGI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	1,805	18	142	29,036	31,001	1,805	18	142	0	1,965
Premium Provision	29,275	382	233	35,214	65,104	29,275	382	233	0	29,890
Total	31,080	401	375	64,249	96,105	31,080	401	375	0	31,855

AEI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	0	0	0	0	0	0	0	0	36,725	36,725
Premium Provision	0	0	0	0	0	0	0	0	47,821	47,821
Total	0	0	0	0	0	0	0	0	84,546	84,546

Note that the gross TPs of AEI post Scheme in the table above is £84.5m and it does not include the methodological adjustment of £3.5m as presented in the balance sheet of AEI in section 4.2.1.

Ceded RI TPs £000s

AGIL	Before Scheme			After Scheme		
	UK	EU	Total	UK	EU	Total
Claims Provision	695	2,656	3,351	695	0	695
Premium Provision	(1,263)	787	(476)	(1,263)	0	(1,263)
Total	(567)	3,443	2,875	(567)	0	(567)

LGI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	576	0	0	85	661	576	0	0	0	576
Premium Provision	4,952	0	(7)	(396)	4,550	4,952	0	(7)	0	4,945
Total	5,528	0	(7)	(311)	5,211	5,528	0	(7)	0	5,521

AEI	Before Scheme				After Scheme			
	UK	Switzerland	EU	Total	UK	Switzerland	EU	Total
Claims Provision	0	0	0	0	0	0	2,741	2,741
Premium Provision	0	0	0	0	0	0	391	391
Total	0	0	0	0	0	0	3,132	3,132

LGI recaptured the quota share in July 2020 for non-UK business. This is reflected in the ceded TPs where the quota share only applies to UK liabilities in the Ceded TP tables above.



## 5.2. Liabilities to be transferred as at 2Q20

The actual Technical Provisions (excluding risk margin) on Solvency II basis as at 2Q20 are summarised below for the Transferors (AGIL and LGI) and transferee (AEI) entities. Note that the TPs summarised below are the best estimates, and, in their derivation, the actuarial reserving teams have included some allowance for COVID-19. However, these best estimates have not been stressed further for COVID-19 impact, i.e. the additional TPs uplift of 3% for LGI and 2% for AGIL to allow for COVID-19 stresses are not included in the TPs presented below.

Gross TPs as at Q22020 £000s

AGIL	Before Scheme			After Scheme		
	UK	EU	Total	UK	EU	Total
Claims Provision	4,927	9,098	14,025	4,927	0	4,927
Premium Provision	(10,638)	13,047	2,409	(10,638)	0	(10,638)
Total	(5,712)	22,145	16,433	(5,712)	0	(5,712)

LGI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	2,315	32	63	31,361	33,772	2,315	32	63	0	2,411
Premium Provision	30,511	265	279	35,166	66,220	30,511	265	279	0	31,054
Total	32,826	297	342	66,527	99,992	32,826	297	342	0	33,465

AEI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	0	0	0	0	0	0	0	0	40,459	40,459
Premium Provision	0	0	0	0	0	0	0	0	48,213	48,213
Total	0	0	0	0	0	0	0	0	88,672	88,672

Ceded RI TPs £000s

AGIL	Before Scheme			After Scheme		
	UK	EU	Total	UK	EU	Total
Claims Provision	496	3,325	3,821	496	0	496
Premium Provision	(1,382)	2,835	1,453	(1,382)	0	(1,382)
Total	(886)	6,160	5,273	(886)	0	(886)

LGI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	721	0	0	215	936	721	0	0	0	721
Premium Provision	4,673	0	(6)	(1,186)	16,981	4,673	0	(6)	0	4,667
Total	5,394	0	(6)	(970)	17,918	5,394	0	(6)	0	5,388

AEI	Before Scheme					After Scheme				
	UK	Switzerland	South Africa	EU	Total	UK	Switzerland	South Africa	EU	Total
Claims Provision	0	0	0	0	0	0	0	0	3,540	3,540
Premium Provision	0	0	0	0	0	0	0	0	1,649	1,649
Total	0	0	0	0	0	0	0	0	5,190	5,190

The negative Premium Provision of AGIL's UK portfolio is driven by the increased contract boundary span on a major UK scheme and by the relatively low loss ratios on some UK schemes.

LGI recaptured the quota share in July 2020 for non-UK business. This is reflected in the ceded TPs where the quota share only applies to UK liabilities in the Ceded TP tables above.

## 5.3. Reinsurance

Current key reinsurance relationships

- Intra Group - Quota Share Reinsurance

The Quota Share intragroup reinsurance treaty has been recaptured for the EU policies during July 2020. The reinsurer has paid LGI £12.5m on 1 July 2020 to stop providing the 20% quota share reinsurance to the EU (transferring) policies. However, the Quota Share is still in place for the Non-EU (Non-Transferring) policies of LGI. The £12.5m has been paid to LGI by the reinsurer mainly in bonds and some cash.

- Reinsurance with Individual Clients

All client specific reinsurance arrangements are currently under review in a process to novate and transfer the reinsurance arrangement to AEI. The novation process is going according to plan. Notifications have been sent to each individual reinsurer and initial feedback is positive. There is no single objection to date. The process of novation is almost completed and is expected to be fully completed well before the Transfer date. Note that even if the novation process is not fully completed before the Transfer there will not be any delay on the Transfer, the novation process will continue after the Transfer. The policyholders transfer process is not dependent on novation of reinsurance contracts.

## 5.4. Assets to be transferred

As with the initial report, at this stage, only the monetary value of the assets to be transferred to AEI is forecasted. However, at present the view is for AGIL the Transfer should be of mainly assets held by Aberdeen Asset Management and for LGI, it will be bonds held by Blackrock.

AGIL and LGI maintain an asset and liability management whereby the duration of assets and the duration of liabilities are matched, and this will be taken into consideration when moving assets and liabilities during the Transfer so that the assets and liabilities of AEI post-Transfer are matched in duration. AGIL has short term liabilities and assets while the liabilities of LGI are of a relatively longer term, so are the assets. The investment strategy of AEI post-Transfer will be broadly in line with that of AGIL and LGI before the Transfer, as it will be following the same Assurant Group investment philosophy. After the Transfer there will remain indemnities under the Scheme between the companies (where needed) as well.

## 5.5. Capital position

### YE 19

For the “as-if” Transfer as at YE19 (without the impact of COVID-19), the capital position is as follows:

£m	Pre-Transfer (as at 4Q19)			Post-Transfer (as at 4Q19 + impact of Transfer)		
	AGIL	LGI	AEI	AGIL	LGI	AEI
Eligible Own Funds	94.9	90.8	37.4	105.0	53.2	62.3
Regulatory SCR	63.4	46.2	0.0	58.7	20.4	39.8
SCR%	150%	196%	n/a	179%	261%	157%
Risk Appetite buffer target	135%	125%	140%	135%	125%	140%
Surplus (over the target buffer)	9.3	33.0	37.4	25.7	27.8	6.7

It can be seen from the table above that all legal entities involved in the Transfer are well capitalised and remain strongly capitalised after the Transfer.

## 2Q20

For the “as-if” Transfer as at 2Q20 (with the impact of COVID-19), the capital position is as follows:

£m	Pre-Transfer (as at 2Q20)			Post-Transfer (as at 2Q20 + impact of Transfer)		
	AGIL	LGI	AEI	AGIL	LGI	AEI
Eligible Own Funds	97.4	82.3	36.2	105.3	48.5	63.3
Regulatory SCR	63.3	41.8	7.8	52.0	19.2	39.8
SCR%	154%	197%	461%	202%	252%	159%
Risk Appetite buffer target	135%	125%	140%	135%	125%	140%
Surplus (over the target buffer)	11.9	30.0	25.2	35.0	24.5	7.6

It can be seen from the table above that all legal entities involved in the Transfer are well capitalised and remain strongly capitalised after the Transfer.

## Roll forward to 3Q20

We have rolled forward the financial assessment of the Transfer to the end of 3Q20 to present the view of capital to the last quarter end before the actual Transfer.

At 3Q20, before and after the Transfer, the SCR, risk appetite buffer and economic view of capital are as follows:

£m	Pre-Transfer (as at 3Q20)			Post-Transfer (as at 3Q20 + impact of Transfer)		
	AGIL	LGI	AEI	AGIL	LGI	AEI
Eligible Own Funds	97.5	82.7	34.6	106.4	48.8	60.6
Regulatory SCR	57.1	35.9	15.6	52.0	19.2	39.8
SCR%	171%	230%	222%	205%	254%	153%
Risk Appetite buffer target	135%	125%	140%	135%	125%	140%
Surplus (over the target buffer)	20.5	37.8	12.7	36.2	24.8	5.0

The updated forecasted financials of 3Q20 take into account the revision of the business plan of 2020 and also incorporate our assumptions with regards to the impact of COVID-19. In the revised business plan, business volumes planned to be written in year 2020 have been updated and some business that was planned to be written in AGIL and LGI before the Transfer have now been planned to be renewed directly into AEI post transfer.

The solvency position of all the companies involved in the Scheme, pre- and post-Transfer forecasted at end 3Q20 remains very good.

## 6. Tax impact

As the Transfer is now assessed from a fair value at arm’s length approach, this impacts the corporation tax position as explained below, which is a change from the tax position in the initial report.

### Policyholder tax

There should be no changes to policyholder taxation. IPT is due and payable based on where the risk is located. For the type of risks insured by AGIL and LGI, this is deemed to be the country of residence of the policyholder. It therefore makes no difference whether the insurance company is in the UK or in the Netherlands and whether written via a branch or FOS. For example, if the policyholder is Spanish, Spanish IPT is payable now by AGIL/LGI and will be payable in the future by AEI.

### Corporation tax

The transfer of business from AGIL to AEI will be treated as a disposal for tax purposes. Based on the latest fair-value valuation of the AGIL EEA business at arm’s length, the corporate income tax liability that will arise in AGIL is estimated to be circa £1m. For Dutch tax purposes, a corresponding deferred tax asset of circa £1m will arise in AEI. Confirmation has been received from the Dutch tax authorities that the transfer should be treated as a Transfer of a Going Concern for Dutch VAT purposes, such that the consideration paid will be outside the scope of VAT.

The transfer of business from LGI to AEI will be treated as a tax facilitated merger. As such no material corporate income tax liabilities are expected to arise in LGI, as there should be no gain or loss for fiscal purposes for LGI or AEI. In addition, there should be no taxable gain arising for UK corporate income tax purposes, as LGI filed a branch exemption election effective 1 January 2019.

## **7. Effect of the Scheme on Policyholders and Risk Profile**

### **7.1. Financial security and risk profile of policyholders**

There is no material change from the initial report as the solvency position of the legal entities remains strong after the transfer as discussed in section 2.

### **7.2. Policy terms and conditions**

There is no material change in policy terms and conditions since the initial report. In particular, the COVID-19 pandemic has not led to material changes in policy T&Cs which would affect the transfer.

### **7.3. Policy and claims administration**

There is no material change in policy terms and conditions since the initial report. In particular, the COVID-19 pandemic has not led to material changes in policy and claims administration which would affect the transfer. All the legal entities have successfully placed policy and claim handlers in a work from home environment with a phased return to office planned over the next few months. The transfer is not expected to lead to change in policy and claims processing.

### **7.4. Communication strategy**

All the relevant policyholders have been informed and so far, there are five LGI policyholders in France that decided to cancel their policies instead of consenting to the transfer (and these cancellations have occurred). This is viewed as an objection to the scheme for these policyholders. There is another LGI policyholder in France that filed an objection without cancelling his/her policy. In total so far, there are six objections out of the thousands of policyholders affected by the Scheme and in our opinion, this is a good position in favour of the Scheme.

### **7.5. Benefits expectation**

There is no change to report from the initial report. In particular, the COVID-19 pandemic has not led to a change in the financial compensation schemes available. Nor have continuing negotiations between the UK and EU regarding the UK's future relationship with the EU led to any specific change in the outlook for the future of passporting in financial services/freedom of services.

### **7.6. Treating customers fairly**

There is no change to report from the initial report in respect of Treating Customers fairly. In particular, it should be noted that all the Boards of AGIL and LGI are of the view that the products offered by Assurant continue to provide value for money in the light of the COVID-19 pandemic and that the value of the product offered to consumers in Assurant's various motor and mobile phones continue to be of value to consumers through COVID-19 (the Board of AEI concurs with this view). For example, in the case of mobile phone covers, the shift to an online economy has highlighted value to customers. In the case of motor insurance, motor warranty and GAP claims have increased to normal levels at the time of writing as, for example, car dealership networks recommence trading following lock-down in various countries. Creditor insurance providing sickness and unemployment insurance typically experiences higher claims during a pandemic providing a source of value to consumers. The Board of the legal entities will continue to review the value for money of their products through the COVID-19 pandemic. I continue to believe that the Transfer will have no significant impact on the treatment of Transferring and non-Transferring policyholders of AGIL and LGI.

## 7.7. Consumer protection schemes

As noted in section 7.5, there have been no specific material changes to these to note in this report.

## 8. Business strategy

At the time of writing, the legal entities covered in this report are preparing and updating their business plans for 2021 and beyond. These business strategies reflect likely future sales for the legal entities in their respective commercial markets. I am not aware of any planned changes that would adversely change the opinions that I provided in the initial report.

## 9. New Governance Framework

There has been no change to the governance structures described in the initial report since that report was written. It should be noted that the governance structures described in that report for AEI and AEL are fully operational following the authorisation of these legal entities in June 2020.

## 10. Other considerations

### 10.1. Update in B2B contracts novation process

The B2B contracts novation process is well underway, and no objection has been registered so far at the time of writing this supplementary report.

## 11. Limitations

- The non-analytical assessment of the Scheme is based on business, regulatory and general economic views, some of which are facts, and some are based on our understanding and perceptions. However, we have used various expertise, internal and external to support us, thus reducing the risk of making the wrong assumptions.
- The analytical assessment of the Scheme has been data driven and based on factual financial results of YE19. However, some assumptions have been made in order to perform the analysis and these assumptions have some inherent limitations. We note some of the key limitations of the analytical assessment as follows, in a non-exhaustive list:
  - o The actual Transfer will take place on 2 November 2020 while the financial analysis of the Scheme has been done on a “as-if” basis as at YE19 and 2Q20. Some valuations were initially done as at 3Q20 and their values as at YE19 and 2Q20 were estimated by making some judgment.
  - o The impact of COVID-19 has been assessed based on what we know about the disease up to end September 2020, this might not be enough to fully capture the true impact of the disease. As more information becomes available with time, more detailed analysis can be performed to refine the impact of COVID-19.
  - o We have done an assessment of the capital position of the Transfer as at 3Q20 by taking the planned business of 2020 into account, including our perception of the evolution of the impact of COVID-19 to 3Q20. This forecast is based on our expectation of how business will evolve. The actual evolution of the business might be different.

Our work was done by experienced members of the Actuarial Function and underwent various levels of peer reviews internally from other departments and this contributes to the mitigation of the limitations.

The key limitations mentioned above are not an exhaustive list, and they are part of the types of regular and well understood limitations inherent to an actuarial analysis of the nature of a Part VII Transfer. These limitations do not constitute individually or in aggregate an impediment to the assessment of the Scheme and to the conclusions reached in this report.

## 12. Conclusion

After the Transfer, on as-if YE19 without COVID-19 basis, the SCR ratio of AEI is expected to be 157%, which is a good capitalisation level allowing for full coverage of AEI's capital buffer. Therefore, the financial security of the Transferring policyholders of AGIL and LGI into AEI will be very good.

After the Transfer, the SCR ratio of AGIL is expected to be 179% and that of LGI is expected to be 261%. Therefore, the financial security of the non-Transferring policyholders remaining in AGIL and LGI is still very good.

As stated in the initial report, the benefit expectation, policy terms and conditions and the servicing and administration of claims for the Transferring policyholders and non-transferring policyholders of AGIL and LGI are expected to remain as strong after the Transfer. The non-transferring policyholders of AGIL and LGI will continue to benefit from the FSCS in the UK while the Transferred policyholders of AGIL and LGI into AEI will not benefit for similar compensation scheme as the equivalent of the UK FSCS does not exist in the Netherlands. However, as this is only relevant in the event of insolvency of AEI, the risk is not significant as AEI is well capitalised with a solvency ratio post-Transfer of 153% at 3Q20 (with COVID-19), well above the target 140%. AEI has a solid risk management framework and strong governance.

In my opinion as the Chief Actuary, taking into account the impact of the Scheme on the solvency position of AGIL and LGI pre and post-Transfer, and the solvency position of AEI post-Transfer as well as other considerations set out throughout this report, the implementation of the Scheme has no material adverse effects for the policyholders of AGIL and LGI. In particular, I believe that the Scheme will at least maintain the security of benefits of all AGIL and LGI policyholders, whether transferring or non-transferring, and ensure that they continue to be treated fairly.

## Glossary

- AEI: Assurant Europe Insurance N.V., the proposed non-life transferee established in Netherlands, part of the Assurant Inc. group
- AGIL: Assurant General Insurance Limited, one of the non-life transferors' companies within the group (Assurant Inc.)
- LGI: London General Insurance Limited, one of the non-life transferors' companies within the group (Assurant Inc.)
- AEL: Assurant Europe Life Insurance N.V., the proposed non-life transferee established in Netherlands, part of the Assurant Inc. group
- ALL: Assurant Life Limited, one of the life transferors' companies within the group (Assurant Inc.)
- TWGE: The Warranty Group Europe, a group within Assurant group
- LGL: London General Life Company Limited, one of the life transferors' companies within the group (Assurant Inc.)
- TAS: Technical Actuarial Standards are UK norms to promote high quality actuarial practice and the integrity, competence and transparency of the actuarial profession, to the benefit of all those who rely on actuarial advice.
- FRC: Financial Reporting Council is responsible to set and maintain the TAS, and oversight the regulation of actuaries by the Faculty of Actuaries (IFoA)
- FCA: The Financial Conduct Authority is the conduct regulator for nearly 60,000 financial services firms and financial markets in the UK and the prudential supervisor for 49,000 firms, setting specific standards for 19,000 firms.

- PRA: The Prudential Regulation Authority is the prudential regulator in UK of around 1,500 banks, building societies, credit unions, insurers and major investment firms. As a prudential regulator, it has a general objective to promote the safety and soundness of the firms it regulates.
- FSCS: Set-up by parliament and funded by the financial services industry in UK, FSCS is a completely independent and free service which protects customers funds when financial firms fail.
- DNB: De Nederlandsche Bank is the independent central bank, supervisory authority and resolution authority of Netherlands committed to a stable financial system: stable prices, solid financial institutions and properly functioning payment transfers.
- Solvency II: It is the regulatory framework applied to all EU insurance and reinsurance companies with gross premium income exceeding €5 million or gross technical provisions in excess of €25 million. It became operative from 1 January 2016.

The key objectives of Solvency II are to increase the level of harmonisation of solvency regulation across Europe, to protect policyholders, to introduce Europe-wide capital requirements that are more sensitive (than the previous minimum Solvency I requirements) to the levels of risk being undertaken, and to provide appropriate incentives for good risk management.

- MCR: Minimum Capital Requirement is the capital requirement instituted by Solvency II. The MCR has a floor of 25% and a cap of 45% of the SCR, and There is an absolute minimum capital requirement (aMCR) of €3.7m for life insurance companies (this floor is different for reinsurers and non-life insurers). The MCR is the ultimate point of supervisory intervention, below which the company would lose its authorisation.
- TP: Technical Provisions represent the amount that an insurer requires to fulfil its insurance obligations and settle all expected commitments to policyholders and other beneficiaries arising over the lifetime of the insurer's portfolio of insurance contracts.