



## **PHOENIX LIFE LIMITED**

**Proposed Scheme to transfer the business of AXA Wealth Limited  
to Phoenix Life Limited**

**Supplementary Report by the Chief Actuary on the Impact of the  
Scheme on Policyholders of Phoenix Life Limited**

8 November 2017

## **1. Purpose of Report**

This report is a supplementary report to my report entitled 'Report by the Chief Actuary on the Impact of the Scheme on Policyholders of Phoenix Life Limited' dated 13 July 2017 ("my report"). All definitions and abbreviations used in my report apply also to this supplementary report.

In my report I concluded that no class of policyholder of Phoenix Life Limited ("Phoenix") will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme should not have any material adverse impact on the security of benefits of the existing Phoenix policyholders.

In this supplementary report, I consider whether, taking into account developments since the date of my report and their potential impact on Phoenix and its policyholders, it remains appropriate to proceed with the Scheme. In considering the position, it is important to distinguish between changes that affect or would affect Phoenix policyholders in any event, irrespective of the implementation of the Scheme, and changes in the position of policyholders or a particular group of policyholders that arise or might arise as a result of the implementation of the Scheme. It is only the second type of change that is of relevance in deciding whether the conclusions reached in my report remain valid notwithstanding any changed circumstances.

As part of my consideration of the Scheme in this supplementary report, I have updated the financial analysis to use financial information as at 30 June 2017 (see section 3), taken into account events that have occurred since then and considered whether the impact of the Scheme on the security and benefits of Phoenix policyholders would be affected in light of that updated information.

My conclusions are given in section 6.

This supplementary report is written for the Phoenix Board in my capacity as Chief Actuary for Phoenix. As well as the Board, the report may be used by the Independent Expert, the High Court, the PRA, the FCA and any overseas regulators and courts in forming their own judgements about the Scheme. It is supplementary to my report and should accordingly be read alongside my report.

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS100: Principles for Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this supplementary report and that it is compliant with the requirements of Actuarial Practice Standard X2 as issued by the Institute and Faculty of Actuaries.

## **2. Developments since my report**

### **2.1 Changes to the Scheme**

Following the date of my report, AWL received notice of a proposal to transfer the entire business of Friends Life Limited and Friends Life and Pensions Limited ("FLP") to Aviva Life & Pensions UK Limited ("Aviva") by means of an insurance business transfer scheme under Part VII of FSMA (the "Aviva Scheme"). The Aviva Scheme

was approved on 13 September 2017 and became effective on 1 October 2017. As a consequence of the Aviva Scheme, a unit-linked reinsurance arrangement formerly between FLP and AWL has transferred so as to be between Aviva and AWL, and certain references to FLP in the draft Scheme (specifically, in the provisions dealing with future changes to unit-linked funds) are now to be read as applying to Aviva rather than FLP. The Scheme has therefore been amended to take account of this change, as well as to pick up a small number of typographical errors.

I am satisfied that none of the changes affect the impact of the Scheme on policyholders.

## 2.2 Economic Conditions since the end of March 2017

The financial analysis in my report was prepared as at 31 March 2017. Investment markets have been relatively stable and in broad terms gilt yields and equity and property values have increased since the end of March. The following table sets out the value of some key indicators of economic conditions during 2017.

	31/3/2017	30/6/2017	30/9/2017	31/10/2017
FTSE-100	7332.9	7312.7	7372.8	7493.08
<i>Change since 31/3/17</i>		-0.1%	0.7%	2.3%
Corporate Bond Spreads (basis points over gilts)				
AAA	39.0	38.5	35.9	33.3
AA	77.0	62.9	73.9	69.2
A	121.5	108.2	106.9	105.6
BBB	126.7	116.3	112.0	108.7
Property Index	1427.9	1462.3	1500.9	1516.44
<i>Change since 31/3/17</i>		+2.4%	5.1%	6.2%
15 year gilt yield	1.61%	1.74%	1.79%	1.79%

Phoenix's capital position is affected by the performance of its investments – particularly in corporate bonds, gilts and equities and any hedges it has taken against movements in these. The impact of these and other movements have been reflected in the analysis shown in section 3.

## 2.3 Developments affecting the financial position of Phoenix

My report showed the projected position of Phoenix before and after the Scheme based on the position as at 31 March 2017. I also included comment on the impact of events from then to 30 June 2017. The following summarise the key actions in the second half of 2017 which have affected or will affect the financial position of Phoenix and which are not included in the financial analysis shown in section 3.1. The impact of these on the financial analysis is considered in section 3.2.

**2.3.1 Valuation Assumptions** – Phoenix undertook a valuation of its assets and liabilities as at 30 September 2017 and is due to undertake a further valuation as at 31 December 2017. As part of these, and in line with established practice, the assumptions and methodologies were reviewed and, where appropriate, the Board approved changes to these. In addition, Phoenix

undertook a review of its material stress assumptions and as a result, a number of changes were approved by the Board in October 2017.

- 2.3.2 **Purchase of an Equity Release Portfolio** – In July 2017, Phoenix acquired a portfolio of equity release mortgages for a price of c£600m, which led to an increase in the solvency position of Phoenix.
- 2.3.3 **Review of CMP** – In August 2017, the Phoenix Board reviewed the amount required to be held under the PCP. As a result, the Phoenix Board increased the amount of capital held under the PCP and it now requires Phoenix to hold capital equal to 31 percent of the SCR (previously 28 percent) in addition to the capital necessary to meet the SCR itself.
- 2.3.4 **Applications to PRA** – Phoenix has made applications to the PRA in respect of:
- **TMTP** – Phoenix has applied to undertake a recalculation of its TMTP as at 31 December 2017.
  - **Major Model Change** – Phoenix submitted a Major Model Change application on 31 October 2017. The main impact of this will be to add a stress on the assumption made for late retirements.
  - **Matching Adjustment** – Phoenix plans to apply shortly to the PRA to make changes to its Matching Adjustment application, which if approved, will lead to a small increase in the solvency position of Phoenix.
- 2.3.5 **Reinsurance from Abbey Life Assurance Limited (“ALAC”) and Related Actions** – At its meeting on 8 November 2017, the Board of Phoenix approved in principle the reinsurance to Phoenix of the majority of the business of ALAC with effect from 31 December 2017 (the "Reinsurance"). Additionally, at 31 December 2017, Phoenix will receive additional support from PeLHL. The result of the Reinsurance, the TMTP recalculation in respect of the Reinsurance and the capital injection is that there is expected to be a reduction to the solvency position of Phoenix.

### 3. Review of financial analysis

I have reviewed the contents of section 5 of my report and an update is given below.

#### 3.1. Position of Phoenix before and after the transfer

My report showed the projected position of Phoenix before and after the Scheme based on the position as at 31 March 2017. The following tables and the comments in this section 3 update this analysis as at 30 June 2017, taking into account the economic conditions as referred to in section 2.2 of this supplementary report and financial conditions as at 30 June 2017.

Table 1 below shows the financial position of Phoenix as at 30 June 2017. The estimated position as at 31 March 2017 in my report is shown for comparison.

Table 1	Phoenix as at 30 June 2017 before the effect of the Scheme			Phoenix as at 31 March 2017 before the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Unsupported WPFs	1,338	72	974	1,357	79	987
Supported WPFs	361	-	386	446	-	401
NP Fund and Shareholders' Fund	1,450	-	1,163	1,515	-	1,261
<b>Total</b>	<b>3,149</b>	<b>72</b>	<b>2,522</b>	<b>3,318</b>	<b>79</b>	<b>2,648</b>
<b>Excess of Adjusted Own Funds over SCR</b>			<b>£555m</b>		<b>£591m</b>	
<b>Solvency Ratio – All funds</b>			<b>125%</b>		<b>125%</b>	
<b>Solvency Ratio excluding unsupported WPFs</b>			<b>136%</b>		<b>136%</b>	

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

Table 1 shows that between 31 March 2017 and 30 June 2017 there was a reduction of £36m in the Excess of Adjusted Own Funds over SCR, but no change to the solvency ratios.

Table 2 below shows the estimated financial position of Phoenix as at 30 June 2017, as if the Scheme had been implemented on that date. The estimated position as at 31 March 2017 given in my report is shown for comparison.

Table 2	Phoenix as at 30 June 2017 after the effect of the Scheme			Phoenix as at 31 March 2017 after the effect of the Scheme		
	Own Funds	RFF Restrict'n	SCR	Own Funds	RFF Restrict'n	SCR
	£m	£m	£m	£m	£m	£m
Unsupported WPFs	1,338	72	974	1,357	79	987
Supported WPFs	361	-	386	446	-	401
NP Fund and Shareholders' Fund	1,494	-	1,172	1,559	-	1,271
<b>Total</b>	<b>3,193</b>	<b>72</b>	<b>2,532</b>	<b>3,362</b>	<b>79</b>	<b>2,658</b>
<b>Excess of Adjusted Own Funds over SCR</b>			<b>£589m</b>		<b>£624m</b>	
<b>Solvency Ratio – All funds</b>			<b>126%</b>		<b>126%</b>	
<b>Solvency Ratio excluding unsupported WPFs</b>			<b>138%</b>		<b>137%</b>	

Table 2 shows that implementation of the Scheme will lead to an increase in the Excess of the Adjusted Own Funds over the SCR. This is for the reasons given in section 5.1 of my report. The size of the increase is the same as was shown as at 31 March 2017. It is possible that the impact of the Scheme may be higher but this will not be known until discussions with HMRC about tax clearances are complete.

### 3.2. Impact of events since 30 June 2017

Under Solvency II, Phoenix calculates and reports its solvency position and other key financial metrics to the PRA on a quarterly basis. The position as at 30 June 2017 is shown above. The valuation as at 30 September 2017 has not been finalised, but the provisional position, taking into account the events referred to in section 2.3.1, 2.3.2 and 2.3.3, market movements and the run-off of policies to that date, shows

that the Excess of Adjusted Own Funds over SCR had increased compared to the position at 30 June 2017 and that Phoenix met the more onerous requirements of the PCP.

As noted in section 2.3, a number of other events and actions have occurred since the end of September or are planned to take place before the end of 2017. Taking into account those, market movements and the run-off of policies since then, Phoenix met its regulatory capital requirements and the more onerous requirements of the PCP at the date of this supplementary report and is expected to do so at the end of 2017.

Whilst these events have affected the overall level of solvency of Phoenix, they have not had a material effect on the impact of the Scheme, which continues to be that implementation of the Scheme will increase the excess of adjusted own funds over SCR and hence improve the solvency position of Phoenix.

#### **4. Effect of the Scheme on Phoenix policyholders**

##### **4.1. Policyholder Security**

The key points in my report with regard to the effect of the Scheme on the security of Phoenix policyholders were:

- Phoenix currently meets its PRA capital requirements.
- The financial position of Phoenix will be improved following implementation of the Scheme.
- Whilst implementation of the Scheme will increase the surplus in Phoenix, little reliance or benefit can be placed on any surplus over that required by the PCP in terms of improving the security of policyholders.
- I considered the level of capital support that will be available to provide security of benefits for Phoenix policyholders to be at worst the same as that available currently.

From the analysis shown in section 3 of this supplementary report I note that Phoenix currently meets its regulatory capital requirements and the more onerous requirements of the PCP and after the Scheme is implemented, it will on a pro-forma basis continue to meet these requirements.

Therefore, my opinion remains unchanged that the level of capital support that will be available to provide security for benefits for Phoenix's policyholders after the Scheme is implemented should be the same or better than the level of capital support currently available.

##### **4.2. Policyholder Benefits**

In my report, I noted that the Scheme would have no impact on the benefits of Phoenix policyholders. None of the developments since my report have affected the conclusions drawn by me in my report and, therefore, my opinion remains that the benefits of the Phoenix policyholders will not be affected by the implementation of the Scheme. The With Profits Actuaries of Phoenix have confirmed that they agree with my opinion with regard to holders of with-profits policies.

## **5. Other Matters**

### **5.1. Policyholder Communications**

I have reviewed the Scheme guide prepared for Phoenix policyholders and the related materials made available on the website. I am satisfied that the information regarding the proposals as contained therein adequately bring the proposals to the attention of policyholders and that it is not necessary to bring the observations made in this supplementary report to the attention of policyholders.

9550 phone calls and letters have been received by the call centres as at 3 November 2017 of which 31 were from Phoenix policyholders.

As at 3 November 2017, 36 objections have been received to the transfer. All of these have come from AWL policyholders. The objections relate to a variety of concerns, including that policyholders do not want their policies to be transferred to another company and/or have concerns about the process being followed, or have concerns about whether there will be changes to terms and conditions. I note that all objections have been replied to and have been passed to the regulators and to the Independent Expert for their information, and will also be passed to the Court.

None of the concerns raised in those objections affects the conclusions in my report and this supplementary report.

## **6. Conclusion**

My view is that the changes in the economic conditions and the other matters mentioned in this supplementary report have not affected the conclusions that I reached in my report. Therefore my opinion remains that no class of Phoenix policyholder will be materially adversely affected by the implementation of the Scheme and, in particular, that the Scheme will not have any adverse impact on the security of benefits of policyholders. I believe that the Scheme is consistent with Phoenix's obligation to treat its customers fairly.



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Chief Actuary  
8 November 2017