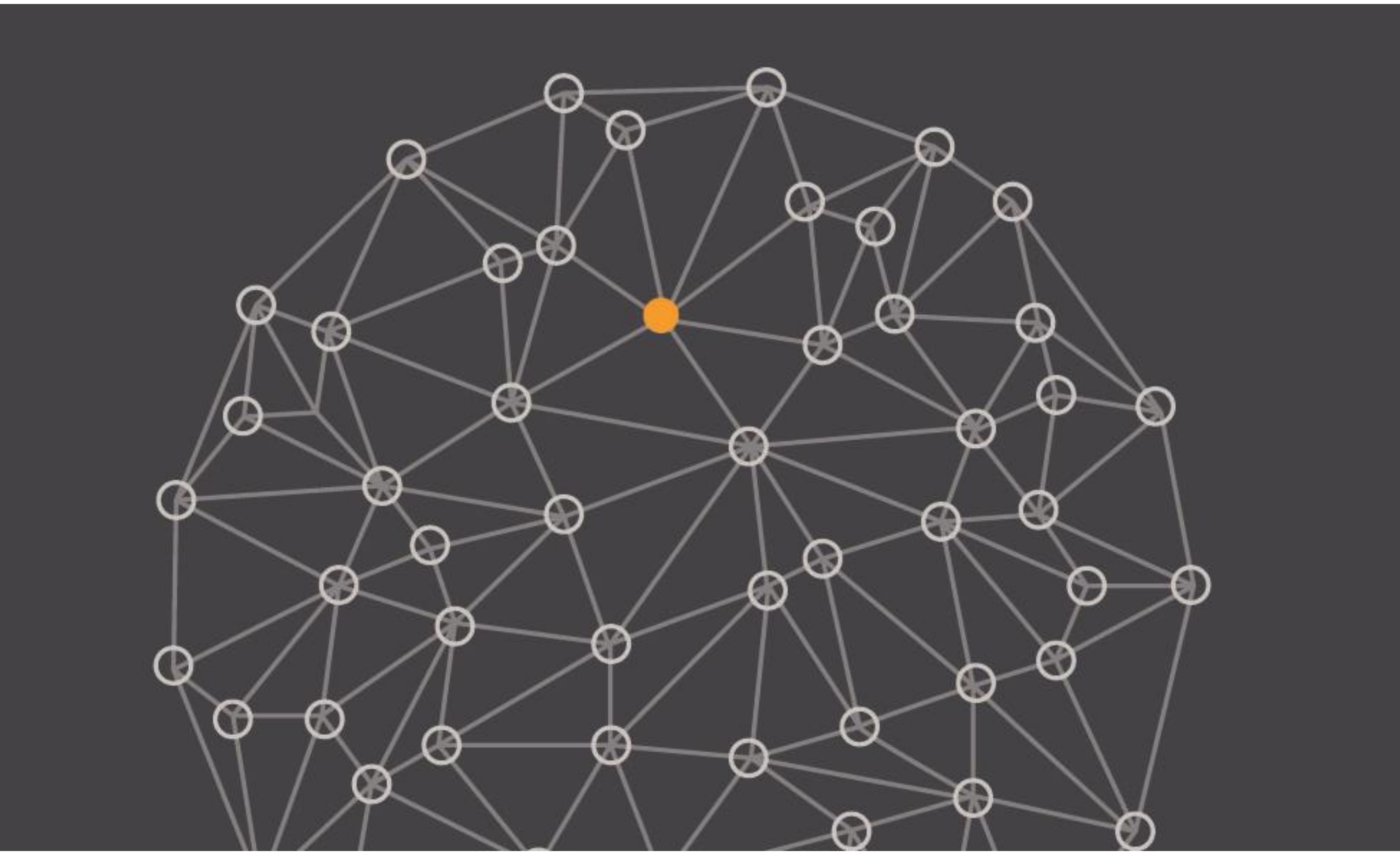
MILLIMAN CLIENT REPORT

Assurant, Inc.

Supplementary Report of the Independent Expert on the proposed transfer of business from Assurant General Insurance Limited and London General Insurance Company Limited to Assurant Europe Insurance N.V.

Derek Newton, FIA



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1. Purpose and scope

1.1 I, Derek Newton, prepared a report (the “**Report**") to the Court, dated 19 June 2020 and entitled "*Report of the Independent Expert on the proposed transfer of business from Assurant General Insurance Limited and London General Insurance Company Limited to Assurant Europe Insurance N.V.*".

1.2 The conclusions of the Report were based on financial information up to 31 December 2019 and other information available to me when I prepared the Report. Since preparing the Report, I have been provided with more recent financial and other information in respect of the Companies (the “**Additional Information**"). Details of the material elements of the Additional Information are set out in Appendix B.

1.3 In paragraphs 1.34 and 2.3 of the Report, I stated that, shortly before the Court hearing at which an order sanctioning the Scheme will be sought, I would review any relevant matters which might have arisen since the date of the Report (I further referred to such a review in paragraphs 1.13, 1.36, 1.52, 2.16, 4.75, 4.80, 5.14, 5.44, 5.57, 8.19, 8.20, 8.36, 8.61, 8.64 and 8.84 of the Report). Such relevant items would typically include:

- the extent to which the operational plans of **AGIL**, **LGI** or **AEI** have altered (relative to the position at the date of the Report);
- the latest financial statements of AGIL, LGI and AEI;
- the latest forecast financial statements of AGIL, LGI and AEI; and
- the most recently prepared figures (actual and forecast) relating to the solvency capital position of AGIL, LGI and AEI.

1.4 I also said in the Report that I would consider explicitly the following items:

- The impact of the Scheme on policyholders of AEI as at the Effective Date, should there be any: as at the date of the Report, AEI had no policyholders and was not expected to write any business prior to the Effective Date, so I would need to consider this only if that expectation had changed (see paragraph 3.65, below);
- Developments relating to the COVID-19 pandemic, in particular its effects, both current and projected into the future, upon the Companies balance sheets and solvency requirements;
- Material changes to the TWGE Risk Management Framework and Capital Management Policy, both of which were being redrafted as at the date of the Report to reflect the acquisition of TWGE by the Assurant Group;
- Any developments since the date of the Report in respect of the proposed Prudential / Rothesay transfer (which was not approved in its Court hearing in June 2019) that may be relevant to the Scheme;
- The costs of the Scheme and the allocation of those costs between the Companies;
- How the proposed communication plan has worked in practice; and
- The responses received by the Companies to their communications (and how the Companies have reacted to those responses). In particular, I said that I would consider in detail any and all objections raised to the Scheme.

1.5 This report (the "**Supplementary Report**") provides a brief summary of my review of the Additional Information and explains how, if at all and as a result of my review of the Additional Information, I have changed my conclusions from those set out in the Report. As such, the Supplementary Report should be considered supplementary to the Report and does not supersede it. Unless stated otherwise in the Supplementary Report, all analyses and conclusions as set out in the Report remain valid.

1.6 The Supplementary Report should be read in conjunction with the Report and the full terms of the Scheme. The Supplementary Report has been produced on the same basis as set out at Section 1 of the Report. In particular, it has the same scope, and is subject to the same reliances and limitations. Terms used in this Supplementary Report have the same meanings as in the Report (I have attached, in Appendix A, a list of definitions).

1.7 Reliance has been placed upon, but is not limited to, the Additional Information, as well as upon the information set out in Appendix F of the Report. My opinions depend on the accuracy and completeness of this data, information and the underlying calculations. I have discussed the Additional Information with the Companies, and have considered how it has changed from similar information provided in support of the Report. Except where stated otherwise, I have not re-reviewed the methodology and assumptions used by the Companies in their assessments of the liabilities and solvency capital of their respective firms, and I have not attempted to review in detail the calculations performed. I am unaware of any issue that might cause me to doubt the material accuracy of the Additional Information, but I give no warranty as to its accuracy. I accept no responsibility for errors or omissions arising in the preparation of the Supplementary Report, providing that this shall not absolve my liability arising from an opinion expressed recklessly or in bad faith. I note that the Companies have confirmed to me, in the Letter of Representation that is shown in Appendix C of this Supplementary Report, that, to the best of their knowledge and belief, all data and information they have provided to me is accurate and complete.

1.8 In all cases, I have requested the most recent information available. The Companies have informed me that there have been no developments since the date of the Report, other than as provided in the Additional Information, that might be relevant to the Scheme.

1.9 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I have complied with such standards, subject to the principles of proportionality and materiality.

1.10 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA, I have considered whether this Supplementary Report should be subject to Work Review. I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Supplementary Report or in the preparation of this Supplementary Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Supplementary Report should be subject to Independent Peer Review. I confirm that this Supplementary Report has been subject to Independent Peer Review prior to its publication.

1.11 This Supplementary Report has been prepared under the terms of the guidance set out in the Policy Statement and in SUP18. I have also followed the guidance contained within FG18/4.

1.12 In paragraph 6.4 of the Report, I explained that certain capital requirements are private matters between insurers and the PRA and, therefore, I was not at liberty to disclose in the Report actual figures relating to those requirements, or figures by which those amounts could be calculated. As part of my analysis, I considered the extent to which AGIL, LGI and AEI each held capital in excess of their regulatory solvency levels, and referred to the ratio of the actual capital that the entity under consideration held relative to the regulatory solvency capital requirement to be the “Capital Cover Ratio”. Purely for comparative purposes in the Report, I defined the following terms:

- “sufficiently capitalised” refers to a Capital Cover Ratio between 100% and 119%;
- “more than sufficiently capitalised” refers to a Capital Cover Ratio between 120% and 149%;
- “well-capitalised” refers to a Capital Cover Ratio between 150% and 199%; and
- “very well-capitalised” refers to a Capital Cover Ratio of 200% or more.

In this Supplementary Report, I have adopted the same terminology.

1.13 The remainder of the Supplementary Report follows, for ease of reference, a structure that is similar to that of the Report, albeit omitting background information and explanation that does not require repeating:

- **Section 2**: I provide an executive summary of the Supplementary Report.
- **Section 3**: I consider any changes in the information underlying the Report for the Companies. This is equivalent to Section 4 of the Report; I have not repeated in the Supplementary Report the background to the regulatory environment in which the Companies operate, which was described in Section 3 of the Report and which has not changed.

- **Section 4**: I consider any changes resulting from the Additional Information in my view of the likely impact of the Scheme on the Transferring Policyholders. This is equivalent to Section 6 of the Report; I have not repeated in the Supplementary Report the key provisions of the Scheme, which had appeared in Section 5 of the Report.
- **Section 5**: I consider the likely impact of the Scheme on the existing policyholders of AEI as at the Effective Date. As at the date of the Report, there were no such policyholders nor any expectation that there would be such policyholders.
- **Section 6**: I consider any changes, resulting from my review of the Additional Information, in my view of the likely impact of the Scheme on the policyholders remaining behind, post-Scheme, in either AGIL or LGI. This is equivalent to Section 7 of the Report.
- **Section 7**: I cover more general issues relating to the Scheme and the management of the Companies. This is equivalent to Section 8 of the Report.

1.14 I summarise my conclusions in Section 8.

1.15 As explained in paragraph 1.14 of the Report, the Assurant Group is applying to the Court for approval of another insurance business transfer scheme, the Assurant Life Scheme, which has the same effective date as that of the Scheme and under which the long-term insurance business of ALL and of LGL that relates to risks situated in an EEA Member State will be transferred to AEL. The Assurant Group appointed Philip Simpson, a Principal of Milliman, to act as the Independent Expert in respect of the Assurant Life Scheme. Mr Simpson has described the Assurant Life Scheme and its expected impact upon those groups of policyholders that might be affected in his report entitled *Report of the Independent Expert on the proposed transfer of life insurance business from Assurant Life Limited and London General Life Company Limited to Assurant Europe Life Insurance N.V.* and dated 19 June 2020. He has also provided a supplementary report, dated the same as this Supplementary Report. As I stated in the Report, neither the Scheme nor the Assurant Life Scheme is dependent on the approval of the other, save in respect of the LGI EEA Creditor Policies – as explained in paragraph 5.28 of the Report, should the Assurant Life Scheme not to be approved or its implementation to be delayed, the LGI EEA Creditor Policies would remain with LGI as Residual Policies, until either the Assurant Life Scheme were implemented or the Companies arranged by other means (e.g. novation) the transfer to LGL of the life insurance element of the LGI EEA Creditor Policies.

2. Executive summary

CONCLUSION

2.1 In paragraph 2.1 of the Report, I set out my conclusions in respect of the impact of the Scheme on the various groups of policyholders who might be affected. I have considered developments that have occurred since the date of the Report, including management accounts for AGIL and LGI as at 30 June 2020 and the further developments relating to the COVID-19 global pandemic. While these developments have resulted in changes to some of the metrics that I have used when formulating my views, none have created changes of sufficient magnitude that have caused me to revise my conclusions.

2.2 I have also considered the impact of the Scheme upon existing policyholders of AEI. As at the date of the Report, it was not expected that AEI would have written any business prior to the Effective Date. However, as at the date of this Supplementary Report, it is considered likely that five prospective deals that, as at the date of the Report, had been expected to go live shortly after the Effective Date will now be in place prior to the Effective Date (I explain these deals in more detail in paragraph 3.65, below). I consider that the writing of these deals ahead of the Effective Date is principally a matter of timing and does not alter my view of the impact of the Scheme on the Transferring Policyholders.

2.3 Therefore, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The benefit expectations of
  - the Transferring Policyholders under the Transferring Policies;
  - the policyholders of AGIL and LGI whose policies will not be transferred to AEI under the Scheme; and
  - the pre-Scheme policyholders of AEI;
- The security of the benefits under
  - the Transferring Policies;
  - the policies that will not be transferred to AEI under the Scheme; and
  - the pre-Scheme policies of AEI;
- The level and standards of administration and service that would apply to
  - the Transferring Policies;
  - the policies that will not be transferred to AEI under the Scheme; and
  - the pre-Scheme policies of AEI.

2.4 Aside from the inclusion of pre-Scheme policies and policyholders of AEI, these conclusions are unchanged from those set out in the Executive Summary of the Report.

APPROACH TO COMMUNICATION WITH POLICYHOLDERS

2.5 I note that the AEI policyholders, as at the date of this Supplementary Report, have all been notified of the Scheme prior to purchasing their policies. All policyholders in respect of AEI business written between the date of this Supplementary Report and the Effective Date will be similarly notified. The notification summarises briefly the rudiments of the Scheme, confirms that it will not affect the benefits provided to the AEI policyholder under the terms of the policy, and directs the policyholder to the Transfer Websites for further information.

2.6 I have been informed that the Transferors have written to:

- all existing Transferring Policyholders;
- all new (up to the date of this Supplementary Report) Transferring Policyholders

and that the notifications have been made available in multiple relevant languages and other formats for the visually impaired.

2.7 In circumstances where the Transferors held relevant contact details for the Transferring Policyholders, they sent them notification directly. For those Transferring Policyholders for whom the Transferors did not hold contact details, they relied upon specific insurance intermediaries and distributors to despatch the notification regarding the Scheme on their behalf (and the relevant intermediaries and distributors have confirmed to the Transferors that they have done so).

2.8 In total, as at the date of this Supplementary Report, the Transferors have contacted policyholders in respect of over 3.5 million Transferring Policies (90% of the 3.9 million Transferring Policies as at 30 June 2020 – the remaining 10% comprise mostly dealer insured policies and policies for which the Companies have no contact details). All email notifications that “bounced back” have subsequently been sent by post. As at the date of this Supplementary Report, no postal notifications had been returned as being undeliverable.

2.9 In addition to direct, written correspondence, the Companies also placed notifications in various newspapers in the UK and across Europe, as well as in international edition of the Financial Times.

2.10 The Companies have contacted all of those reinsurers of either AGIL or LGI whose contracts will be transferred by the Scheme to AEI. They have also contacted the reinsurer of AGIL (and also of ALL) whose contract it is intended will be novated to AEI rather than transferred to AEI under the Scheme.

2.11 I am satisfied that the communications effected by AGIL and LGI, as outlined above, have been in line with the communications plan that I summarised in the Report. I am also satisfied that, while there remain at least a relatively small number of policyholders whom they have tried, but been unable, to contact, they have made, and continue to make, reasonable efforts to ensure that those policyholders are informed of the Scheme.

2.12 As at the date of this Supplementary Report, 10,108 responses had been received relating to the notification process. The majority of responses have been general queries. The notifications have also elicited three complaints that are unrelated to the Scheme. However, there have been six objections, five from AGIL Transferring Policyholders in France and a sixth from an LGI Transferring Policyholder. None have proffered reasons why they objected. The objectors who were AGIL Transferring Policyholders asked for their respective policies to be cancelled, and AGIL has carried out their wishes. At the time of this Supplementary Report, LGI was communicating with the objector who is an LGI Transferring Policyholder so as to understand the basis of the objection.

2.13 No response to the notifications that has been received by the Companies by the date of this Supplementary Report has caused me to alter any of my conclusions that I set out in the Report.

3. Changes since the Report in the entities concerned in the Scheme

3.1 In this section of the Supplementary Report, I set out the elements of the background information and key metrics relating to the entities involved in the Scheme that differ from those stated in the Report as they are based on more recent information, in particular draft financial and other statements as at 30 June 2020. I note that these statements have not been audited.

3.2 The information as at 31 December 2019 that was provided in the Report was based on data that was still subject to final audit approval. The final audited numbers as at 31 December 2019 differ slightly in certain places from those set out in the Report. Therefore, I have also restated that information in this Supplementary Report and, when considering movements between 31 December 2019 and 30 June 2020, I have based those movements where appropriate on the restated information as at 31 December 2019.

3.3 Apart from the changes in the balance sheet positions as at 31 December 2019 engendered by the finalising of the year-end accounts, the Companies have also revised slightly the basis of the transfer. Previously, it was assumed that the Transferring Assets and Transferring Liabilities would match on a GAAP basis, so that there would be no GAAP gain or loss. Since the date of the Report, the Companies have determined that the transfer should be on a fair value arm's length basis. This would be fiscally neutral on a Solvency II basis but, on a GAAP basis, would necessitate AEI paying a premium to AGIL and LGI for the Transferring Business, and an additional capital injection to AEI to enable it to do this. As a result, I have restated below the pro forma (pre- and post-Scheme) balance sheets that formed Figures 5.3 – 5.8 of the Report, and the pro forma (pre- and post-Scheme) own funds and capital requirements that formed Figures 5.9 – 5.11 of the Report.

3.4 I understand that the Companies negotiated and agreed between them the fair value arm's length premium for the Transferring Business. I express no comment on its appropriateness or otherwise.

AGIL

Restatement of the pro forma balance sheets for AGIL as at 31 December 2019

3.5 Figure 3.1, below, shows simplified balance sheets for AGIL as at 31 December 2019 in two situations (all on a UK GAAP basis):

- The "Actual" column shows the actual audited balance sheet as at 31 December 2019.
- The "Post-Scheme" column shows what the balance sheet would have looked like as at 31 December 2019 had the Scheme been approved and become effective as at 31 December 2019. This would have removed all assets and liabilities that related to the AGIL Transferring Policies from the AGIL balance sheet. This assumes no Residual Policies remain within AGIL post-Scheme.

FIGURE 3.1 SIMPLIFIED UK GAAP BALANCE SHEETS FOR AGIL AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Impact of Scheme	Post-Scheme
Assets			
Investments	77.4	-7.3	70.0
Reinsurers' share of technical provisions	11.3	-4.6	6.7
Cash	5.3	10.1	15.4
Deferred acquisition costs ("DAC")	11.4	-10.9	0.4
Other assets	82.8	-19.2	63.5
Total Assets	**188.1**	**-32.0**	**156.1**
Liabilities			
Capital and reserves	83.6	11.2	94.8
Gross technical provisions	52.3	-37.4	15.0
Reinsurance share of DAC	0.4	0.0	0.4
Other liabilities	51.7	-5.9	45.9
Total Liabilities	**188.1**	**-32.0**	**156.1**

3.6 Figure 3.1, above, differs from the equivalent (Figure 5.3) in the Report as follows:

- An increase of £0.4 million in the actual value of "reinsurance share of DAC", this amount previously having been classified as "other liabilities";
- A reduction of £2.7 million in the actual value of both "other assets" and "other liabilities" due to this amount of premiums receivable being reclassified as commission payable;
- The impact of the Scheme includes AGIL receiving from AEI (as cash) a premium of £10.1 million, and the Transferring Assets have been reduced by £1.1 million.

3.7 I show the same in Figure 3.2, below, but on a Solvency II basis.

FIGURE 3.2 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR AGIL AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Impact of Scheme	Post-Scheme
Assets			
Investments	78.4	-7.3	71.1
Reinsurers' share of technical provisions	2.9	-3.4	-0.6
Cash	5.3	10.1	15.4
Deferred acquisition costs ("DAC")	0.0	0.0	0.0
Other assets	80.3	-19.2	61.0
Total Assets	**166.9**	**-19.9**	**146.9**
Liabilities			
Capital and reserves	94.9	10.1	105.0
Gross technical provisions	19.7	-24.2	-4.5
Reinsurance share of DAC	0.0	0.0	0.0
Other liabilities	52.3	-5.9	46.4
Total Liabilities	**166.9**	**-19.9**	**146.9**

3.8 Figure 3.2, above, differs from the equivalent (Figure 5.4) in the Report as follows:

- A reduction of £3.1 million in the actual year-end value of both "other assets" and "other liabilities;
- A reduction of £6.9 million in the year-end actual value of the gross technical provisions, following a re-evaluation of the contract boundaries for one of the "Added Value Accounts";
- The impact of the Scheme includes AGIL receiving from AEI (as cash) a premium of £10.1 million, and the Transferring Assets have been reduced by £1.1 million.

3.9 In Figure 3.3, below, I restate the pro forma (pre- and post-Scheme) own funds and capital requirements for AGIL as at 31 December 2019.

FIGURE 3.3 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR AGIL AS AT 31 DECEMBER 2019 (IN £M)

	Pre-Scheme		Post-Scheme	
	MCR	SCR	MCR	SCR
Eligible Own Funds to meet the solvency requirement	94.9	94.9	105.0	105.0
Solvency requirement	19.3	63.4	14.7	58.7
Surplus	75.6	31.5	90.3	46.3
Coverage	492%	150%	715%	179%

3.10 Figure 3.3, above, show higher eligible own funds, MCRs and SCRs, both pre and post Scheme, compared with those in the equivalent table (Figure 5.9) in the Report. The effect has been to increase all four Capital Cover Ratios. Pre-Scheme, AGIL would have been considered well-capitalised as at 31 December 2019, and would have remained so post-Scheme.

Pro forma balance sheets for AGIL as at 30 June 2020

3.11 In Figure 3.4, below, I replicate as at 30 June 2020 the simplified GAAP balance sheet for AGIL, shown above in Figure 3.1.

FIGURE 3.4 SIMPLIFIED UK GAAP BALANCE SHEETS FOR AGIL AS AT 30 JUNE 2020 (IN £M)

	Actual	Impact of Scheme	Post-Scheme
Assets			
Investments	86.9	2.9	89.8
Reinsurers' share of technical provisions	11.8	-10.9	0.9
Cash	8.9	7.9	16.8
Deferred acquisition costs ("DAC")	9.4	-8.9	0.4
Other assets	91.1	-25.1	66.0
Total Assets	**208.1**	**-34.2**	**173.9**
Liabilities			
Capital and reserves	94.7	11.2	105.9
Gross technical provisions	47.3	-39.6	7.7
Reinsurance share of DAC	0.5	-0.5	0.0
Other liabilities	65.6	-5.3	60.3
Total Liabilities	**208.1**	**-34.2**	**173.9**

3.12 Gross premiums written in the half-year ending 30 June 2020 totalled £150.4 million. In total, 31% of these were ceded to reinsurers, leaving net premiums written in the half-year ending 30 June 2020 at £104.2 million (which was lower than AGIL had planned, due largely to knock-on effects from the COVID-19 pandemic). The business written by AGIL in the first half of 2020 had a broadly similar profile to that written by AGIL in 2019 and as outlined in the Report.

3.13 The balance sheet as at 30 June 2020 shows higher net assets (£94.7 million) than those as at 31 December 2019 (£83.6 million), due to AGIL operating profitably in the first half of 2020 on a GAAP basis. The profits were slightly better than had been planned, with the shortfall against plan in earned premiums (resulting from lower than planned written premiums) being more than offset by shortfalls against plan in incurred claims and expenses (which, at least in part, were attributable to the COVID-19 pandemic, as discussed in paragraphs 3.15-3.18, below).

3.14 There was a similar increase over the half-year in the value of investment assets held by AGIL. The investment assets continue to comprise wholly debt securities.

3.15 In paragraphs 8.17-8.18 of the Report, I discussed guidance for insurance firms regarding product value and the COVID-19 pandemic that had been issued by the FCA and become effective from 3 June 2020. Under the guidance, insurers are expected to consider whether and how coronavirus may have materially affected the value of their insurance products. Where such material changes are identified, they are further expected to consider the appropriate action to take.

3.16 I have been provided with a summary report of the impact of coronavirus on key Assurant Europe products. This considered, for each of six insurance products (and three other programmes, e.g. legal assistance), the extent to which the pandemic was affecting (or likely to affect) the likelihood of claims, the value of the claims, the fulfilment of the claims and the timescale within which claims would be settled. It then outlined remedies (to be put) in place to rectify adverse deviations (actual or expected) from normal experience and concluded whether each product continued to provide fair value to their customers. For example, for mobile phone/gadget covers, Assurant Europe has identified that:

- Customers have spent more time at home, reducing the frequency of loss or theft of the device;
- On the other hand, they are using their device more, increasing the frequency of breakdown, and their dependency on their devices has increased, through home working, through relying on on-line orders, etc. – so claim frequency initially declined but has since increased back towards normal levels;

- Stock availability has been lower than seen historically, so that AGIL (and LGI) have been settling more claims by cash than with like-for-like replacement, which has increased average settlement costs;
- There has been no change to the length of time taken to settle claims.

Overall, Assurant Europe's conclusion for mobile phone/gadget covers is that this product continues to provide fair value to its customers.

3.17 Assurant Europe's findings for the other product types (electrical/electronic warranty, motor warranty, GAP, motor service plan and cosmetic insurance) differ to some extent from those in respect of mobile phone/gadget covers. In particular, those products relating to cars experienced a material drop in claim frequency in the early weeks of the restrictions as car usage reduced markedly in the UK. However, usage and claim frequency has since returned to close to normal levels, and AGIL's better than planned claims experience seen in the first half of 2020 is not expected to persist throughout the remainder of the year. As such, AGIL (and LGI) consider that all of these insurance products continue to provide fair value to their customers, but AGIL (and LGI) continues to monitor experience and would be prepared, for example, to provide warranty extensions if considered appropriate.

3.18 The report on the impact of coronavirus on key Assurant Europe products is dated as at May 2020. I have been informed by AGIL (and LGI) that, although no further report has been prepared, based on the ongoing monitoring to the date of this Supplementary Report it would not have changed the conclusions of the report in respect of any of the insurance products.

3.19 In Figure 3.5, below, I replicate Figure 3.4, above, but on a Solvency II basis.

FIGURE 3.5 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR AGIL AS AT 30 JUNE 2020 (IN £M)

	Actual	Impact of Scheme	Post-Scheme
Assets			
Investments	88.1	2.9	91.0
Reinsurers' share of technical provisions	5.3	-6.2	-0.9
Cash	8.9	7.9	16.8
Deferred acquisition costs ("DAC")	0.0	0.0	0.0
Other assets	88.5	-25.1	63.4
Total Assets	**190.7**	**-20.5**	**170.2**
Liabilities			
Capital and reserves	102.0	8.2	110.2
Gross technical provisions	21.9	-23.4	-1.5
Reinsurance share of DAC	0.0	0.0	0.0
Other liabilities	66.9	-5.3	61.5
Total Liabilities	**190.7**	**-20.5**	**170.2**

3.20 The balance sheet as at 30 June 2020 shows higher own funds (£102.0 million) than those as at 31 December 2019 (£94.9 million), due to AGIL operating profitably in the first half of 2020 on a Solvency II basis. As per the GAAP basis, profits on a Solvency II basis in the first half of 2020 were slightly better than had been planned, with the shortfall against plan in earned premiums (resulting from lower than planned written premiums) being more than offset by shortfalls against plan in incurred claims and expenses.

3.21 In Figure 3.6, below, I set out the technical provisions for AGIL as at 30 June 2020, on both a GAAP and a Solvency II basis.

FIGURE 3.6 TECHNICAL PROVISIONS FOR AGIL AS AT 30 JUNE 2020 (IN £M)

		Gross of Reinsurance	Risk margin	Ceded	Net of Reinsurance
		GAAP basis			
AGIL	Premium Provisions	32.3		-7.5	24.7
	Claims Provisions	15.0		-4.3	10.8
	TOTAL TECHNICAL PROVISIONS	**47.3**		**-11.8**	**35.5**
	£'000	Solvency II basis			
AGIL	Premium Provisions	2.4		-1.5	1.0
	Claims Provisions	14.0		-3.8	10.2
	TOTAL TECHNICAL PROVISIONS	**16.4**	**5.4**	**-5.3**	**16.6**

3.22 On a UK GAAP basis, the gross technical provisions within AGIL as at 30 June 2020 were less than they had been as at 31 December 2019, by about 10% gross of reinsurance and by 14% net of reinsurance. AGIL has confirmed that the GAAP technical provisions as at 30 June 2020 were prepared on the same basis as at 31 December 2019 and comply with AGIL's reserving policy.

3.23 The proportion of AGIL's UK GAAP technical provisions that comprises Transferring Business has increased from that as at 31 December 2019. As at 30 June 2020, gross of reinsurance, 88% of the UK GAAP technical provisions relate to Transferring Business (71% as at 31 December 2019), and, net of reinsurance, 85% of the UK GAAP technical provisions relate to Transferring Business (80% as at 31 December 2019). I discuss the technical provisions relating to the Transferring Business in more detail in paragraphs 3.70-3.72, below.

3.24 On a Solvency II basis, the technical provisions, net of reinsurance, within AGIL as at 30 June 2020 were slightly less than they had been as at 31 December 2019. AGIL has confirmed that the Solvency II technical provisions as at 30 June 2020 were prepared on the same basis as at 31 December 2019 and comply with AGIL's reserving policy and Solvency II regulations.

3.25 In Figure 3.7, below, I show AGIL's eligible own funds and solvency requirements as at 30 June 2020, both as they actually were and as they would have been had the Scheme been effective as at that date. This shows that, relative to the equivalent figures as at 31 December 2019, AGIL's own funds have increased whereas AGIL's SCR has reduced slightly. Therefore, the Capital Cover Ratio as at 30 June 2020 has increased to a level whereby AGIL would be considered, pre-Scheme, a well-capitalised company and post-Scheme, a very well capitalised company.

FIGURE 3.7 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR AGIL AS AT 30 JUNE 2020 (IN £M)

	Pre-Scheme		Post-Scheme	
	MCR	SCR	MCR	SCR
Eligible Own Funds to meet the solvency requirement	102.0	102.0	110.2	110.2
Solvency requirement	18.0	63.3	13.0	52.0
Surplus	84.0	38.7	97.2	58.2
Coverage	568%	161%	847%	212%

AGIL's capital management

3.26 In the Report, I described AGL's Capital Management Policy, which covered the capital management of AGIL. With effect from July 2020, the capital management of AGIL is in accordance with a new document, the Assurant Europe Group Capital Management Policy. I have considered the Capital Management Policy of Assurant Europe Group relative to that of AGL.

3.27 I note that the Assurant Europe Group Capital Management Policy sets out requirements for the assessment of Own Fund items, the maintenance of a medium-term capital management plan and the use of two capital buffers, which represent margins to be held above the SCR, very similar or identical to those set out in AGL's Capital Management Policy.

Conclusion regarding AGIL's revised Capital Management Policy

3.28 I am satisfied that the change in the Capital Management Policy within which AGIL operates will not have materially altered AGIL's capital management practices. Therefore, I conclude that this change will not affect any of the conclusions that I expressed in the Report, particularly concerning the impact of the Scheme upon the various groups of policyholders.

AGIL's conduct and complaints procedures

3.29 AGIL management has informed me that, since the date of the Report, there have been no changes to AEG's policies regarding customer-facing services. Similarly, there have been no changes to the practices, processes or procedures by which AGIL applies those policies.

3.30 I note that the number of customer complaints received by AGIL in the first six months of 2020 was 12% fewer than those received during the equivalent period in 2019. However, customer complaints are significantly correlated with call and claim volumes, and these were materially reduced between March and June 2020 as an indirect result of the COVID-19 pandemic. AGIL monitors complaints received on a daily basis and has noticed no other trends. Therefore, it considers that, aside from the effects of COVID-19, the level of AGIL customer complaints has remained stable in the first half of 2020 relative to the level during the equivalent period in 2019.

Strategy, Governance, Policies and Plans relating to AGIL

3.31 I reported on the following in the Report:

- The registration and authorisation of AGIL;
- AGIL's outwards reinsurance arrangements;
- The governance arrangements for AGIL;
- The risks faced by AGIL and its risk appetite;
- The reserving policy and practise of AGIL;
- AGIL's policy servicing and administration processes; and
- AGIL's approach to the ORSA.

As at the date of this Supplementary Report, there have been no material changes to any of the above.

LGI

Restatement of the pro forma balance sheets for LGI as at 31 December 2019

3.32 Figure 3.8, below, shows simplified balance sheets for LGI as at 31 December 2019 in two situations (all on a UK GAAP basis):

- The "Actual" column shows the actual audited balance sheet as at 31 December 2019.
- The "Post-Scheme" column shows what the balance sheet would have looked like as at 31 December 2019 had the Scheme been approved and become effective as at 31 December 2019. This would have removed all assets and liabilities that related to the LGI Transferring Policies from the LGI balance sheet. At the same time (or shortly beforehand), LGI would have paid a dividend (subject to PRA approval), which would then have been paid by AEG into AEI to provide it with the planned level of capital[1]. This assumes no Residual Policies remain within LGI post-Scheme. I also show explicitly the impact of cancelling the quota share reinsurance arrangement with VSC in respect of the Transferring Business.

[1] *I have been told that the capital injection into AEI, and the dividend payment by LGI, have already taken place. This was to ensure that the DNB could issue a solvency certificate in respect of AEI prior to the Court hearing (which I have been told by AEI that it has done). However, I have also been told that, should the Scheme not proceed for any reason, the capital so injected would be superfluous and AEI would return it to AEG, which in turn would return it to LGI. Because the permanence of this intended dividend payment by LGI and capital transfer to AEI is dependent on the Scheme being implemented, I have not included the dividend payment as part of the pre-Scheme position of LGI in either Figure 3.8 or Figure 3.9.*

FIGURE 3.8 SIMPLIFIED UK GAAP BALANCE SHEETS FOR LGI AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Dividend payments	Recapture of QS	Impact of Scheme	Post-Scheme
Assets					
Investments	176.0	-37.0	13.2	-77.1	75.1
Reinsurers' share of technical provisions	48.7	0.0	-20.4	-9.9	18.3
Cash	4.5	0.0	0.2	0.0	4.7
Deferred acquisition costs ("DAC")	76.3	0.0	0.0	-29.1	47.2
Other assets	29.4	0.0	0.0	-1.4	28.0
Total Assets	**334.9**	**-37.0**	**-7.0**	**-117.5**	**173.4**
Liabilities					
Capital and reserves	91.2	-37.0	0.0	3.8	57.9
Gross technical provisions	175.8	0.0	0.0	-109.8	66.0
Reinsurance share of DAC	22.6	0.0	-7.0	-3.2	12.3
Other liabilities	45.4	0.0	0.0	-8.3	37.1
Total Liabilities	**334.9**	**-37.0**	**-7.0**	**-117.5**	**173.4**

3.33 Figure 3.8, above, differs from the equivalent (Figure 5.5) in the Report as follows:

- There has been some revaluation and reclassification of the 2019 year-end balance sheet items, which have resulted in:
  - The actual year-end value of investments increasing by £10.9 million, due to this amount of deposits with credit institutions, previously classed as “other assets”, being reclassified as “investments”;
  - The actual year-end value of cash increasing by £2.0 million – this was a correction, and resulted in an equal and opposite adjustment to “other assets”;
  - The actual year-end value of other assets reducing by £14.1 million, mostly for the reasons above;
  - The actual year-end value of reinsurance share of DAC increasing by £19.4 million, this amount previously having been classified as “other liabilities”;
  - The actual year-end value of other liabilities reducing by £24.7 million, largely due to the reclassification of reinsurance share of DAC;
  - The actual year-end value of capital and reserves increasing by £4.2 million.
- The dividend payments to be made by LGI has increased by £11.2 million (most of this will go to AEI, reflecting the additional amount that AEI will have to pay as a premium for the fair value of the Transferring Business, but £2.0 million will also go to AEL). I note that AEI will provide LGI with shares rather than cash as the fair value premium. As a result, post-Scheme, LGI will hold a small (intragroup) investment in AEI;
- The impact of the recapture of the quota share reinsurance arrangement with VSC has been reassessed. The primary effect has been to transfer the proceeds from “other assets” to “investments”, and to recognise the recapture as reducing the reinsurance share of the DAC rather than increasing the gross DAC;
- There has been some reallocation of the effects of the Scheme, with more investments and less “other assets” being transferred. The Scheme is now projected to free up £3.8 million of capital and reserves.

3.34 I show the same in Figure 3.9, below, but on a Solvency II basis.

FIGURE 3.9 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR LGI AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Dividend payment	Recapture of QS	Impact of Scheme	Post-Scheme
Assets					
Investments	177.1	-37.0	13.2	-77.1	76.3
Reinsurers' share of technical provisions	18.1	0.0	-12.9	0.3	5.5
Cash	4.5	0.0	0.2	0.0	4.7
Deferred acquisition costs ("DAC")	0.0	0.0	0.0	0.0	0.0
Other assets	5.2	0.0	0.0	0.0	5.2
Total Assets	**205.0**	**-37.0**	**0.5**	**-76.8**	**91.7**
Liabilities					
Capital and reserves	90.8	-37.0	0.5	-1.0	53.2
Gross technical provisions	100.8	0.0	0.0	-67.4	33.4
Reinsurance share of DAC	0.0	0.0	0.0	0.0	0.0
Other liabilities	13.4	0.0	0.0	-8.3	5.0
Total Liabilities	**205.0**	**-37.0**	**0.5**	**-76.8**	**91.7**

3.35 Figure 3.9, above, differs from the equivalent (Figure 5.6) in the Report as follows:

- The dividend payments to be made by LGI has increased by £11.2 million (in part this reflects the additional amount that AEI will have to pay as a premium for the fair value of the Transferring Business)
- The impact of the recapture of the quota share reinsurance arrangement with VSC has been reassessed. The primary effect has been to transfer the proceeds from "other assets" to "investments";
- There has been some reallocation of the effects of the Scheme, with more investments and less "other assets" being transferred. The Scheme is now projected to free up £3.8 million of own funds.

3.36 In Figure 3.10, below, I restate LGI's pro forma (pre- and post-Scheme) own funds and capital requirements for AGIL as at 31 December 2019.

FIGURE 3.10 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR LGI AS AT 31 DECEMBER 2019 (IN £M)

	Pre-Scheme		Post-Scheme	
	MCR	SCR	MCR	SCR
Eligible Own Funds to meet the solvency requirement	90.8	90.8	53.2	53.2
Solvency requirement	15.4	46.2	5.1	20.4
Surplus	75.4	44.5	48.1	32.9
Coverage	590%	196%	1045%	261%

3.37 Figure 3.10, above, show lower eligible own funds, post Scheme, compared with those in the equivalent table (Figure 5.10) in the Report. The effect has been to reduce the post-Scheme Capital Cover Ratios. However, post-Scheme, LGI would still have been considered very well-capitalised as at 31 December 2019.

Pro forma balance sheets for LGI as at 30 June 2020

3.38 In Figure 3.11, below, I replicate as at 30 June 2020 the simplified GAAP balance sheet for LGI, shown above in Figure 3.8.

FIGURE 3.11 SIMPLIFIED UK GAAP BALANCE SHEETS FOR LGI AS AT 30 JUNE 2020 (IN £M)

	Actual	Dividend payments	Recapture of QS	Impact of Scheme	Post-Scheme
Assets					
Investments	172.3	-37.0	12.3	-68.8	78.8
Reinsurers' share of technical provisions	45.0	0.0	-18.9	-10.3	15.9
Cash	4.9	0.0	0.2	0.0	5.1
Deferred acquisition costs ("DAC")	67.1	0.0	0.0	-35.4	31.7
Other assets	34.8	0.0	0.0	-5.9	28.9
Total Assets	**324.2**	**-37.0**	**-6.4**	**-120.4**	**160.4**
Liabilities					
Capital and reserves	90.1	-37.0	0.0	3.8	56.9
Gross technical provisions	161.4	0.0	0.0	-105.2	56.2
Reinsurance share of DAC	20.6	0.0	-6.4	-4.7	9.5
Other liabilities	52.1	0.0	0.0	-14.3	37.8
Total Liabilities	**324.2**	**-37.0**	**-6.4**	**-120.4**	**160.4**

3.39 Gross premiums written in the half-year ending 30 June 2020 totalled £27.5 million. In total, 41% of these were ceded to reinsurers, leaving net premiums written in the half-year ending 30 June 2020 at £16.1 million (which was lower than LGI had planned). The business written by LGI in the first half of 2020 had a broadly similar profile to that written by LGI in 2019 and as outlined in the Report.

3.40 The balance sheet as at 30 June 2020 shows slightly lower net assets (£90.1 million) than those as at 31 December 2019 (£91.2 million), due to LGI operating unprofitably in the first half of 2020 on a GAAP basis. The half-year result was worse than had been planned, primarily due to higher than planned incurred commissions, which more than offset lower claims costs resulting from the COVID-19 pandemic restrictions (see paragraphs 3.15-3.18 above). I have been told that the circumstances leading to this loss are not expected to recur.

3.41 There was a similar small percentage decrease over the half-year in the GAAP balance sheet in the value of investment assets held by LGI.

3.42 In Figure 3.12, below, I replicate Figure 3.11, above, but on a Solvency II basis.

FIGURE 3.12 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR LGI AS AT 30 JUNE 2020 (IN £M)

	Actual	Dividend payment	Recapture of QS	Impact of Scheme	Post-Scheme
Assets					
Investments	172.6	-37.0	12.3	-68.8	79.1
Reinsurers' share of technical provisions	17.9	0.0	-13.5	1.0	5.4
Cash	4.9	0.0	0.2	0.0	5.1
Deferred acquisition costs ("DAC")	0.0	0.0	0.0	0.0	0.0
Other assets	7.9	0.0	0.0	0.0	7.9
Total Assets	**203.4**	**-37.0**	**-1.0**	**-67.8**	**97.6**
Liabilities					
Capital and reserves	90.0	-37.0	-1.0	4.2	56.1
Gross technical provisions	104.0	0.0	0.0	-69.3	34.7
Reinsurance share of DAC	0.0	0.0	0.0	0.0	0.0
Other liabilities	9.5	0.0	0.0	-2.7	6.8
Total Liabilities	**203.4**	**-37.0**	**-1.0**	**-67.8**	**97.6**

3.43 The Solvency II balance sheet as at 30 June 2020 shows slightly lower own funds (£90.0 million) than those as at 31 December 2019 (£90.8 million), due to LGI operating just below break-even in the first half of 2020.

3.44 In Figure 3.13, below, I set out the technical provisions for LGI as at 30 June 2020, on both a GAAP and a Solvency II basis.

FIGURE 3.13 TECHNICAL PROVISIONS FOR LGI AS AT 30 JUNE 2020 (IN £M)

		Gross of Reinsurance	Risk margin	Ceded	Net of Reinsurance
		GAAP basis			
LGI	Premium Provisions	127.1		-37.7	89.4
	Claims Provisions	34.3		-7.3	27.0
	TOTAL TECHNICAL PROVISIONS	**161.4**		**-45.0**	**116.4**
		Solvency II basis			
LGI	Premium Provisions	66.2		-10.8	55.5
	Claims Provisions	33.8		-7.2	26.6
	TOTAL TECHNICAL PROVISIONS	**100.0**	**4.0**	**-17.9**	**86.1**

3.45 On a UK GAAP basis, the gross technical provisions within LGI as at 30 June 2020 were less than they had been as at 31 December 2019, by about 8% both gross and net of reinsurance. LGI has confirmed that the GAAP technical provisions as at 30 June 2020 were prepared on the same basis as at 31 December 2019 and comply with LGI's reserving policy.

3.46 The proportion of LGI's UK GAAP technical provisions that comprises Transferring Business has increased slightly from that as at 31 December 2019. As at 30 June 2020, both gross and net of reinsurance, 68% of the UK GAAP technical provisions relate to Transferring Business (67% as at 31 December 2019). I discuss the technical provisions relating to the Transferring Business in more detail in paragraphs 3.70-3.72, below.

3.47 On a Solvency II basis, the net technical provisions within LGI as at 30 June 2020 were £3.4 million more than they had been as at 31 December 2019,. LGI has confirmed that the Solvency II technical provisions as at 30 June 2020 were prepared on the same basis as at 31 December 2019 and comply with LGI's reserving policy and Solvency II regulations.

3.48 In Figure 3.14, below, I show LGI's eligible own funds and solvency requirements as at 30 June 2020, both as they actually were and as they would have been had the Scheme been effective as at that date. This shows that, relative to the equivalent figures as at 31 December 2019, both LGI's own funds and LGI's SCR have decreased, albeit the own funds only marginally so. Therefore, the Capital Cover Ratio as at 30 June 2020 has increased to a level whereby LGI would be considered a very well-capitalised company.

FIGURE 3.14 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR LGI AS AT 30 JUNE 2020 (IN £M)

	Pre-Scheme		Post-Scheme	
	MCR	SCR	MCR	SCR
Eligible Own Funds to meet the solvency requirement	90.0	90.0	56.1	56.1
Solvency requirement	14.8	41.8	4.8	19.2
Surplus	75.1	48.1	51.3	36.9
Coverage	607%	215%	1169%	292%

LGI's risk management strategy

3.49 The AEG Risk Management Framework has been revised so that it now covers, among other entities, LGI. Therefore, the risk management strategy for LGI is now wholly consistent with that of AGIL, which I summarised in paragraphs 4.25-4.26 of the Report.

3.50 I have compared the AEG Risk Management Framework, as at 1 April 2020, with the TWGE Risk Management Framework that hitherto applied to LGI. I consider that the differences between the two frameworks are mainly cosmetic and that the implementation of the AEG Risk Management Framework within LGI will not materially alter LGI's risk management strategy.

Conclusion regarding LGI's revised Risk Management Framework

3.51 I am satisfied that the change in the Risk Management Framework within which LGI operates will not have materially altered LGI's risk management strategy. Therefore, I conclude that this change will not affect any of the conclusions that I expressed in the Report, in particularly concerning the impact of the Scheme upon the various groups of policyholders.

LGI's capital management

3.52 Since the date of the Report, the Assurant Europe Group Capital Management Policy has been adopted by LGI (as well as by AGIL, as noted in paragraphs 3.26-3.27, above). Previously, LGI's capital management policy had been as set out in the TWGE Capital Management Policy. Now, and for the foreseeable future, LGI and AGIL share a common capital management policy.

3.53 According to the TWGE Capital Management Policy, LGI's capital position used to be assessed with reference to the LGI Risk Appetite Buffer, and the TWGE Capital Management Policy setting out actions available depending on how the LGI SCR Ratio (the ratio of LGI's Own Funds to its SCR) compared to the LGI Risk Appetite Buffer. According to the Assurant Europe Group Capital Management Policy, LGI's capital position will now be assessed with reference to two buffers, the LGI Target Working Capital Ratio and the LGI Capital Buffer. This, and the consequential actions available to LGI management in the event of a breach of one of the buffer ratios, are the main differences between LGI's current capital management policy and that which I described in the Report.

Conclusion regarding LGI's revised Capital Management Policy

3.54 I am satisfied that the change in the capital management policy within which LGI operates will not have materially altered LGI's capital management processes. Therefore, I conclude that this change will not affect any of the conclusions that I expressed in the Report, particularly concerning the impact of the Scheme upon the various groups of policyholders.

LGI's conduct and complaints

3.55 As noted above, in paragraph 3.29, there have been no changes since the date of the Report to AEG's policies regarding customer facing services. Furthermore, LGI management has informed me that there have also been no changes to the practices, processes or procedures by which LGI applies those policies.

3.56 I note that the number of customer complaints received by LGI in the first six months of 2020 was 10% more than those received during the equivalent period in 2019. However, this increase represents a very small number of additional claims per month during the first half of 2020. LGI monitors complaints received on a daily basis and has noticed no particular trends that cause it concern.

Strategy, Governance, Policies and Plans relating to LGI

3.57 I reported on the following in the Report:

- The registration and authorisation of LGI;
- LGI's outwards reinsurance arrangements;
- The governance arrangements for LGI;
- The risks faced by LGI and its risk appetite;
- The reserving policy and practise of LGI;
- LGI's policy servicing and administration processes; and
- LGI's approach to the ORSA.

As at the date of this Supplementary Report, there have been no material changes to any of the above.

AEI

Restatement of the pro forma balance sheets for AEI as at 31 December 2019

3.58 Figure 3.15, below, shows what AEI's balance sheet would have looked like as at 31 December 2019, on a GAAP basis, had AEI received LGI's projected dividend payment as at that date[2], had AEI been authorised by then by the DNB to write and accept insurance business, and had the Scheme been approved and become effective as at that date.

FIGURE 3.15 SIMPLIFIED UK GAAP BALANCE SHEETS FOR AEI AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Capital injection	Impact of Scheme	Post-Scheme
Assets				
Investments	0.0	35.0	83.4	118.4
Reinsurers' share of technical provisions	0.0	0.0	14.5	14.5
Cash	37.4	0.0	-10.1	27.3
Deferred acquisition costs ("DAC")	0.0	0.0	40.0	40.0
Other assets	0.0	0.0	20.6	20.6
Total Assets	**37.4**	**35.0**	**148.5**	**220.9**
Liabilities				
Capital and reserves	37.4	35.0	-16.0	56.4
Gross technical provisions	0.0	0.0	147.1	147.1
Reinsurance share of DAC	0.0	0.0	3.2	3.2
Other liabilities	0.0	0.0	14.2	14.2
Total Liabilities	**37.4**	**35.0**	**148.5**	**220.9**

3.59 Figure 3.15, above, differs from the equivalent (Figure 5.7) in the Report as follows:

- The actual value of cash has been increased by £2.3 million;
- The capital injection (to be received from the dividend payments to be made by LGI) has increased by £9.2 million;
- AEI will pay £10.1 million in cash to AGIL as a fair value premium for the Transferring Business. There has also been some reallocation of the asset movements consequential on the Scheme, with more investments and less "other assets" being received. The overall consequence is a reduction of £16.0 million in the capital and reserves.

3.60 I show the same in Figure 3.16, below, but on a Solvency II basis.

[2] *As explained in footnote 1, above, the capital injection has already been received by AEI. However, it has been made in anticipation of the Scheme being implemented; should the Scheme not be implemented, it is intended that the capital injection would be reversed. Because the permanence of this intended capital transfer to AEI is dependent on the Scheme being implemented, I have not included the dividend payment as part of the pre-Scheme position of AEI in either Figure 3.15 or Figure 3.16.*

FIGURE 3.16 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR AEI AS AT 31 DECEMBER 2019 (IN £M)

	Actual	Capital injection	Impact of Scheme	Post-Scheme
Assets				
Investments	0.0	35.0	83.4	118.4
Reinsurers' share of technical provisions	0.0	0.0	3.1	3.1
Cash	37.4	0.0	-10.1	27.3
Deferred acquisition costs ("DAC")	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	22.8	22.8
Total Assets	**37.4**	**35.0**	**99.2**	**171.6**
Liabilities				
Capital and reserves	37.4	35.0	-10.1	62.3
Gross technical provisions	0.0	0.0	95.1	95.1
Reinsurance share of DAC	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	14.2	14.2
Total Liabilities	**37.4**	**35.0**	**99.2**	**171.6**

3.61 Figure 3.16, above, differs from the equivalent (Figure 5.8) in the Report in the same way as described in paragraph 3.60, above, save that the technical provisions being received by AEI will be £4.1 million less than had been assumed in the Report.

3.62 In Figure 3.17, below, I restate the pro forma (post-Scheme only) own funds and capital requirements for AEI, which formed Figure 5.11 of the Report.

FIGURE 3.17 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR AEI AS AT 31 DECEMBER 2019 (IN £M)

	Post-Scheme	
	MCR	SCR
Eligible Own Funds to meet the solvency requirement	62.3	62.3
Solvency requirement	9.9	39.8
Surplus	52.4	22.6
Coverage	627%	157%

3.63 As shown in Figure 3.17, above, had the Scheme been effective as at 31 December 2019, AEI would then have been well-capitalised relative to its SCR, with a Capital Cover Ratio of 157%.

Pro forma balance sheets for AEI as at 30 June 2020

3.64 In Figure 3.18 and Figure 3.19, below, I replicate as at 30 June 2020 the simplified balance sheets for AEI, shown above in Figure 3.15 and Figure 3.16.

FIGURE 3.18 SIMPLIFIED UK GAAP BALANCE SHEETS FOR AEI AS AT 30 JUNE 2020 (IN £M)

	Actual	Capital injection	Impact of Scheme	Post-Scheme
Assets				
Investments	24.2	35.0	70.1	129.3
Reinsurers' share of technical provisions	0.0	0.0	21.2	21.2
Cash	12.8	0.0	-7.9	4.9
Deferred acquisition costs ("DAC")	0.0	0.0	44.3	44.3
Other assets	0.7	0.0	31.1	31.8
Total Assets	**37.7**	**35.0**	**158.8**	**231.5**
Liabilities				
Capital and reserves	37.5	35.0	-10.8	61.7
Gross technical provisions	0.0	0.0	144.8	144.8
Reinsurance share of DAC	0.0	0.0	5.1	5.1
Other liabilities	0.2	0.0	19.6	19.9
Total Liabilities	**37.7**	**35.0**	**158.8**	**231.5**

FIGURE 3.19 SIMPLIFIED SOLVENCY II BALANCE SHEETS FOR AEI AS AT 30 JUNE 2020 (IN £M)

	Actual	Capital injection	Impact of Scheme	Post-Scheme
Assets				
Investments	24.3	35.0	70.1	129.4
Reinsurers' share of technical provisions	0.0	0.0	5.2	5.2
Cash	12.8	0.0	-7.9	4.9
Deferred acquisition costs ("DAC")	0.0	0.0	0.0	0.0
Other assets	0.5	0.0	32.8	33.3
Total Assets	**37.7**	**35.0**	**100.2**	**172.9**
Liabilities				
Capital and reserves	37.4	35.0	-8.2	64.2
Gross technical provisions	0.0	0.0	100.4	100.4
Reinsurance share of DAC	0.0	0.0	0.0	0.0
Other liabilities	0.2	0.0	8.0	8.3
Total Liabilities	**37.7**	**35.0**	**100.2**	**172.9**

3.65 As at 30 June 2020, AEI had not written any business and it did not have any policyholders or insurance liabilities. Therefore, save for some investment of cash, AEI's balance sheets as at 30 June 2020 look very similar to how they looked as at 31 December 2019. However, I have been informed that five deals, relating to four separate clients, have gone, or are expected to go, live between 1 July 2020 and the Effective Date. One of these deals relates to Motor Warranty business in Germany, three others relate to Mobile Phone/Gadget cover in Italy, Spain and Romania, respectively, and the final deal relates to Gadget/Electronics cover in five countries (Austria, France, Germany, Italy and Spain). It is expected that premiums totalling €3.7 million will have been written by AEI under these five deals by the Effective Date.

3.66 As no insurance business had been written by AEI by 30 June 2020, there is no business performance to report.

3.67 In Figure 3.20, below, I restate the pro forma (post-Scheme only) own funds and capital requirements for AEI, which formed Figure 5.11 of the Report.

FIGURE 3.20 ELIGIBLE OWN FUNDS AND SOLVENCY CAPITAL REQUIREMENTS FOR AEI AS AT 30 JUNE 2020 (IN £M)

	Post-Scheme	
	MCR	SCR
Eligible Own Funds to meet the solvency requirement	64.2	64.2
Solvency requirement	9.9	39.8
Surplus	54.3	24.4
Coverage	646%	161%

3.68 As shown in Figure 3.20, above, had the Scheme been effective as at 30 June 2020, AEI would then have been well-capitalised relative to its SCR, with a Capital Cover Ratio of 161%.

Strategy, Governance, Policies and Plans relating to AEI

3.69 I reported on the following in the Report:

- The registration and authorisation of AEI;
- AEI's proposed outwards reinsurance arrangements;
- The governance of AEI;
- The risk management strategy of AEI;
- The capital management policy of AEI;
- The conduct policy and complaints procedures of AEI;
- The administration and servicing arrangements of AEI.

As at the date of this Supplementary Report, there have been no material changes to any of the above.

THE TRANSFERRING POLICIES

3.70 The Transferring Policies remain as stated in the Report. However, the numbers of Transferring Policies has been updated to 30 June 2020, to approximately 1.2 million in respect of AGIL Transferring Policies and to approximately 2.7 million in respect of LGI Transferring Policies. The number of AGIL Transferring Policies as at 30 June 2020 is broadly the same as that stated in the Report. However, the number of LGI Transferring Policies has materially reduced from that stated in the Report. This is primarily due to the inclusion in the number of LGI Transferring Policies quoted in the Report of 1.4 million direct policies underlying an inwards reinsurance contract provided by LGI. As I had stated in paragraph 7.13 of the Report, no inwards reinsurance business is included within the Transferring Business, so this policy is not part of the Transferring Business and the number of policies covered by the cedant should not have been included at all in the count of Transferring Policies.

3.71 In Figure 3.21, below, I set out the technical provisions, on a UK GAAP basis, relating to the Transferring Policies as at 30 June 2020. In Figure 3.22, below, I set out the same information but on a Solvency II basis.

FIGURE 3.21 UK GAAP TECHNICAL PROVISIONS RELATING TO THE TRANSFERRING POLICIES AS AT 30 JUNE 2020 (£'000)

		Gross of Reinsurance	Ceded	Net of Reinsurance
AGIL	UPR	31,156	-7,528	23,627
	Claims Outstanding	8,475	-3,406	5,069
	TOTAL GAAP RESERVES	**39,631**	**-10,934**	**28,696**
LGI	UPR	73,301	-22,585	50,716
	Claims Outstanding	31,916	-6,554	25,362
	TOTAL GAAP RESERVES	**105,217**	**-29,139**	**76,078**
TOTAL	UPR	104,457	-30,114	74,343
	Claims Outstanding	40,391	-9,960	30,431
	TOTAL GAAP RESERVES	**144,848**	**-40,074**	**104,774**

FIGURE 3.22 SOLVENCY II TECHNICAL PROVISIONS RELATING TO THE TRANSFERRING POLICIES AS AT 30 JUNE 2020 (£'000)

		Gross of Reinsurance	Risk margin	Ceded	Net of Reinsurance
AGIL	Premium Provisions	13,047		-2,835	10,212
	Claims Provisions	9,098		-3,325	5,773
	TOTAL TECHNICAL PROVISIONS	**22,145**	**1,227**	**-6,160**	**17,212**
LGI	Premium Provisions	35,166		1,185	36,351
	Claims Provisions	31,361		-215	31,145
	TOTAL TECHNICAL PROVISIONS	**66,527**	**2,818**	**970**	**70,315**
TOTAL	Premium Provisions	48,213		-1,650	46,563
	Claims Provisions	40,459		-3,540	36,919
	TOTAL TECHNICAL PROVISIONS	**88,672**	**4,045**	**-5,190**	**87,527**

3.72 The Transferring Policies as at 30 June 2020 include 54,199 Assurant Creditor Policies, the technical provisions (on a Solvency II basis) for which amount to £29.4 million, gross of reinsurance, and £23.6 million, net of reinsurance. As at 30 June 2020, there remain 2,872 LGI EEA Creditor Policies (reduced from 3,862 as at 31 December 2019).

BREXIT

3.73 As stated in the Report, the UK formally left the EU on 31 January 2020. The UK and EU are currently in the Transition Period, during which the existing trading relationships are continuing unaltered while the future relationship between the UK and the EU is being negotiated. As at the date of the Report, it was possible that, subject to the mutual agreement of the EU and UK, the Transition Period could be extended beyond its initial termination date (31 December 2020) to either 31 December 2021 or 31 December 2022. However, there has been no such agreement and so the Transition Period will terminate on 31 December 2020, after which the UK will no longer be bound to, or enjoy the benefits of, EU trading arrangements, including those between EU states.

3.74 In June 2020, the PRA published a consultation paper ("**CP 5/20**") in which it set out its proposed approach to the publication of Solvency II technical information after the end of the Transition Period. CP 5/20 is relevant to all UK Solvency II firms and as such would be applicable to AGIL and LGI but not AEI. The proposals in CP5/20 include the following:

- The PRA's published technical information would be based on the same technical methodologies utilised in producing EIOPA's technical information as at the end of the transition period, with limited exceptions; and
- The publication of technical information on the PRA website, and, where there is a deviation in the future from EIOPA's technical methodology, a PRA publication that describes this deviation.

The proposals in CP 5/20 indicate further that it is unlikely that there will be any material change to the UK solvency capital regime in the short to medium-term.

3.75 As at the date of this Supplementary Report, it was not clear what, if any, trade agreements would be in place between the UK and the EU by the end of the Transition Period. However, it looks increasingly unlikely that there will be any extension of the existing passporting arrangements beyond 31 December 2020. I note that some, but not all, EU member states have explicitly passed regulations that allow UK insurers to run-off their existing non-UK EEA insurance liabilities for fixed periods of time, after which they will no longer be authorised to conduct such business.

Conclusion regarding Brexit developments since the date of the Report

3.76 In my view, the confirmation that the Transition Period will not be extended beyond 31 December 2020 and the continuing uncertainty regarding what trading arrangements between the UK and the EEA states will be in place by 1 January 2021, has emphasised the need for the Scheme (which is to ensure that Assurant can continue to service and administer its existing non-UK EEA business post year-end 2020). I am satisfied that the Brexit developments since the date of the Report will not affect the Scheme in any way or any of the conclusions that I expressed in the Report.

IMPACT OF THE COVID-19 PANDEMIC ON THE COMPANIES

3.77 In the Report, I included a summary of the immediate impact and possible longer-term impact of the COVID-19 pandemic upon the Companies, in particular operationally and financially. That summary was based on analyses conducted by the Companies relatively early in the lockdown period imposed by many European governments, including the UK government. As such, it was a period of considerable uncertainty.

3.78 I will not repeat in this Supplementary Report what I said in the Report about the actual and expected impact of the COVID-19 pandemic on the companies. Instead, I note the following:

- Working from home has created less disruption than had been feared, despite it continuing for longer than had been envisaged;
- Reduced new business due to reduced in-person consumer economic activity has been at least partially mitigated by increased on-line activity;
- Despite the concerns regarding higher claim rates relating to creditor/payment protection portfolios and the costs of repair or replacement claims being higher due to global supply shortages, claims in the first half of 2020 have been below expectations, particularly in the second quarter (I have discussed this, above, in paragraphs 3.15-3.18, in the context of the FCA's guidance on product value – I have been informed by AGIL and LGI that claims have since returned towards their expected levels);
- So far the Companies have not encountered any pandemic-induced liquidity issues, nor credit issues with their counterparties;
- Although asset values fell dramatically in February and March, they have since recovered substantially. The nature of the Companies' asset mix dampened the impact of the dramatic fall (and subsequent rise) in world investment markets.

3.79 While the effects so far of the COVID-19 pandemic on many insurers, including the Companies, has been less than had been feared, the return to normality is taking longer than many would have expected at the start of "lock-down". The long-term consequences of the COVID-19 pandemic remain uncertain. The concern regarding subsequent waves of (re)infections is slowing the easing of restrictions and mean that the initial, conservative stresses identified by the Companies are not yet implausible. Therefore, the Companies have not weakened the assumptions that underlay their initial stress testing for the possible impact of the COVID-19 pandemic.

3.80 Due to the uncertainty induced by the COVID-19 pandemic, I will continue to monitor developments up to the dates of the hearings at which the Court will be asked to sanction the Scheme.

4. The impact of the Scheme on the Transferring Policyholders

RESERVE STRENGTH OF AGIL AND OF LGI (PRE-SCHEME)

4.1 In the Report, I concluded that the technical provisions of both AGIL and LGI (on both a GAAP basis and a Solvency II basis) appeared reasonable as at 31 December 2019, notwithstanding the uncertainty present.

4.2 As noted in paragraphs 3.22, 3.24, 3.45 and 3.47, above, the technical provisions as at 30 June 2020 of AGIL and LGI respectively (on both a GAAP basis and a Solvency II basis) were prepared on the same basis as at 31 December 2019 and comply with the reserving policy of AGIL and LGI respectively.

4.3 I have been provided by the AEG actuaries with explanations of the movements in the technical provisions between 31 December 2019 and 30 June 2020. These have been provided at the level of key accounts. I consider them satisfactory for the purposes of this Supplementary Report. I am unaware of any other changes that would prevent me from extrapolating my conclusions regarding the technical provisions of AGIL and LGI as at 31 December 2019 to 30 June 2020. Therefore, I have now concluded that the reserves of both technical provisions of both AGIL and LGI (on both a GAAP basis and a Solvency II basis) appear reasonable as at 30 June 2020, notwithstanding the uncertainty present.

RESERVE STRENGTH OF AEI (POST-SCHEME)

4.4 I understand that there has been no change to the intention that, post the Effective Date, the reserving process (including data, assumptions, methodology and systems) for the Transferring Business will remain in its current form, and that it will continue to be executed by the same team, using the same processes, as it is currently. Although, as at the date of this Supplementary Report, the AEI Board had formally to ratify AEI's reserving policy, I understand that no change is expected in AEI's reserving policy or in the intended strength of its booked reserves from those set out in the Report.

4.5 I maintain my conclusion, as set out in the Report, that there will be no change in the strength of the reserves held post-Scheme by AEI in respect of the Transferring Business relative to the strength of the reserves held pre-Scheme by AGIL and LGI in respect of the same business.

EXCESS ASSETS OF AGIL AND OF LGI

4.6 In paragraphs 6.79 and 6.93 of the Report, I noted that I had reviewed the work undertaken in estimating capital requirements for AGIL and LGI, as documented, respectively in the AGIL report entitled *2019 Annual ORSA: Supervisory Report*, and in the LGI report entitled *Group Own Risk and Solvency Assessment Supervisory Report including London General Insurance Company Limited and London General Life Company Limited: 2019 Annual Report*. I had found the methodology and modelling techniques used by both AGIL and LGI to be in line with industry practice and generally appropriate. I further noted that the same team undertook the capital modelling work for both AGIL and LGI, that several of its members were experienced, that it was supervised by the Chief Actuary of both AGIL and LGI, and that its work was reviewed using actuarial expertise embedded within AGIL and LGI's risk function. As a result, I stated in the Report that I believed it reasonable for me to rely on the work of the AGIL and LGI modelling team, and, therefore, I had not attempted to review in detail the calculations performed by AGIL or LGI in order to estimate their SCRs.

4.7 I have since been provided with copies of the 2020 ORSA reports for AGIL (*Assurant Group Limited 2020 ORSA Report*) and LGI (*TWGE 2020 ORSA Report*). Having reviewed those ORSA reports, I believe them to have been prepared in substantially the same way as the immediately preceding ORSA reports, and by substantially the same people. I still consider the methodology and modelling techniques used by both AGIL and LGI to be in line with industry practice and generally appropriate. In my review, I have found no reason why I should not continue to rely on the work of the AGIL and LGI modelling team in estimating the SCRs for AGIL and LGI.

4.8 As explained in paragraph 3.25, above, AGIL's own funds, SCR and Capital Cover Ratio have all increased as at 30 June 2020 relative to their values as at 31 December 2019. As at 30 June 2020, AGIL was a well-capitalised company. The AGIL 2020 ORSA report, which I understand to have been based on figures as at 31 December 2019, contains projections of AGIL's own funds, SCR and Capital Cover Ratio as at each quarter end during 2020 and then as at the year-ends 2021 and 2022. The actual own funds and SCR as at 30 June 2020 (see Figure 3.7, above) were more than the projected amounts, due largely (as explained in paragraph 3.13, above), to consequences of the COVID-19 pandemic), but the actual Capital Cover Ratio was roughly 5% less than had been projected. I note that the AGIL 2020 ORSA report projects increasing Capital Cover Ratios for AGIL, with AGIL projected to become a very well-capitalised company early in 2021 (assuming that the Scheme is implemented). More recent projections, based on figures as at 30 June 2020, suggest that AGIL will become a very well-capitalised company upon implementation of the Scheme.

4.9 As explained in paragraph 3.48, above, LGI's own funds and SCR decreased as at 30 June 2020 relative to their values as at 31 December 2019, but its Capital Cover ratio increased, so that, as at 30 June 2020, LGI was a very well-capitalised company. The LGI 2020 ORSA report, which I understand to have been based on figures as at 31 December 2019, contains projections of LGI's own funds, SCR and Capital Cover Ratio as at each quarter end during 2020 and then as at the year-ends 2021 and 2022. The actual own funds and SCR as at 30 June 2020 (see Figure 3.14, above) were slightly more than the projected amounts, due largely (as explained in paragraph 3.40, above) to consequences of the COVID-19 pandemic, but the actual Capital Cover Ratio was roughly 2% less than had been projected. I note that LGI 2020 ORSA report projects increasing Capital Cover Ratios for LGI, particularly following implementation of the Scheme. Hence, LGI is projected to remain a very well-capitalised insurer for the foreseeable future. This is consistent with more recent projections, based on figures as at 30 June 2020.

4.10 The Capital Cover Ratios underlying the above analyses are on a statutory (Standard Formula) basis. The Capital Cover Ratios based on the own assessments by AGIL and LGI of their risks (to ultimate) are higher, reflecting the view of both AGIL and LGI that the Standard Formula SCR is a prudent (albeit not unreasonable) measure of the underlying riskiness of their respective businesses.

Conclusion regarding the excess assets of AGIL and LGI

4.11 I have explained above why I continue to consider that the calculations and projections of the solvency requirements and available capital for both AGIL and LGI, and hence of their excess assets, are reasonable. Overall, these lead me to conclude that:

- the policyholders of AGIL, including those who will transfer under the proposed Scheme, currently benefit from the financial strength provided by a well-capitalised insurer; and
- the policyholders of LGI, including those who will transfer under the proposed Scheme, currently benefit from the financial strength provided by a very well-capitalised insurer.

EXCESS ASSETS OF AEI

4.12 In the Report, I explained:

- How and by whom the assessment of AEI's capital requirements, both on a statutory and ORSA basis, would be conducted; and
- Why it would be reasonable for me to rely on the work of those modelling the capital needs of AEI.

There have been no changes since the date of the Report that would cause me to amend those explanations or to consider it no longer reasonable for me to rely on the work of those modelling the capital needs of AEI.

4.13 I have been provided with pro forma balance sheets as at 30 June 2020, based on actual data as at 30 June 2020 (see Figure 3.16 and Figure 3.17, above), and as at 30 September 2020 (i.e. a month prior to the Effective Date), based on expected movements during the third quarter of 2020. These indicate that, had the Scheme been effective on 30 June 2020, the post Scheme Capital Cover Ratio would have been 161%; whereas, were it to occur on 30 September 2020, then the Capital Cover Ratio would be slightly less (about 6%) than that as at 30 June 2020. However, in both cases, AEI would still be, post Scheme, a well-capitalised insurer.

4.14 The business plan for Assurant Europe indicates that its overall Capital Cover Ratio is expected to increase over time. As AEI will comprise by far the largest unit within Assurant Europe, I would expect the Capital Cover Ratios of AEI and of Assurant Europe to be closely correlated and, as such and subject to the business plan being fulfilled, I would expect AEI to remain a well-capitalised insurer for at least the duration of the business planning period.

Conclusion regarding the excess assets of AEI

4.15 My conclusion that I set out in the Report, that, post-Scheme, the Transferring Policyholders will be policyholders of a company that is expected to be well-capitalised as at the Effective Date, remains unchanged.

RELATIVE FINANCIAL STRENGTH ENJOYED BY TRANSFERRING POLICYHOLDERS PRE- AND POST-SCHEME

4.16 I note that capital at the level of 100% of the SCR is expected to be sufficient for an insurer to withstand all but extreme events, no more frequent than 1 in 200, over a one-year time horizon (i.e. a likelihood of failure of 0.5%). It is not possible to quantify the likelihood precisely but the probability of the failure of an insurer holding capital in excess 150% of the SCR (i.e. a well-capitalised insurer) would be very remote; the probability of the failure of an insurer holding capital in excess 200% of the SCR (i.e. a very well-capitalised insurer) would be remoter still.

4.17 I have concluded, above, that the AGIL Transferring Policyholders currently benefit from the financial strength provided their well-capitalised insurer, and the LGI Transferring Policyholders currently benefit from the financial strength provided by their very well-capitalised insurer. I have also concluded that, if and when the Scheme is implemented, the Transferring Policyholders will become policyholders of an insurance company (AEI) that is projected to be, post-Scheme, well-capitalised as at the Effective Date. Relative to the solvency capital requirements of the respective entities, the AGIL Transferring Policyholders will see little change in the financial strength afforded to them but LGI Transferring Policyholders will see a small decline in the financial strength afforded to them, i.e. they will be adversely impacted. However, the Capital Cover Ratio of AEI, post the Effective Date, indicates that the likelihood of the Transferring Policyholders not receiving the benefits to which they are entitled remains very small. Therefore, I do not consider this decline in the financial strength to be material.

4.18 The Companies have provided me with pro forma balance sheets within which COVID-19 pandemic stress assumptions (as described in paragraph 3.78-3.79, above) have been applied. These indicate that the pandemic will have a detrimental effect on the Capital Cover Ratios of all of the Companies, both pre and post Scheme. However, the impact is greatest for LGI, for AGIL the effect is small, and for AEI it is negligible. Moreover, these projections indicate that, post-Scheme, allowing for the stress assumptions:

- As at 31 December 2019, AGIL would have remained well-capitalised (Capital Cover Ratio 172%), LGI would have remained very well-capitalised (Capital Cover Ratio 224%), and AEI would have remained well-capitalised (Capital Cover Ratio 157%);
- As at 30 June 2020, AGIL and LGI would both have remained very well-capitalised (Capital Cover Ratios 202% and 252% respectively), and AEI would have remained well-capitalised (Capital Cover Ratio 159%); and
- As at 30 September 2020, AGIL and LGI would both have remained very well-capitalised, and AEI would have remained well-capitalised.

In other words, the stress tests indicate that the COVID-19 pandemic is unlikely to have a material impact upon the financial strength of any of the Companies.

4.19 I note that the Companies' respective capital policies specify certain Working Capital Targets and the Capital Buffers and that those Working Capital Targets and the Capital Buffers for AEI are equal to those for AGIL and higher than those for LGI. This gives me additional comfort that, irrespective of the further shocks inflicted by the COVID-19 pandemic, the capital of AEI will be managed in such a way that the lowest level that it would be allowed to reach is at least as high as the lowest level that Transferring Policyholders would have expected from their insurers pre-Scheme.

4.20 While the long-term impact of the COVID-19 pandemic remains uncertain, I conclude that it does not increase the likelihood that the Transferring Policyholders would be materially disadvantaged by the Scheme.

Conclusion regarding the relative financial strength enjoyed by Transferring Policyholders pre- and post-Scheme

4.21 As I concluded in the Report, while the Transferring Policyholders will be moving to an insurer with a lower post-Scheme Capital Cover ratio than those, pre-Scheme, of their current insurers, which would indicate a decline in the financial security of the benefits to which they are entitled, I consider that they will not be adversely affected to a material degree by the Scheme as the likelihoods of AGIL or LGI, pre-Scheme, or AEI, post-Scheme, becoming insolvent are remote.

CHANGES IN RISK EXPOSURES

4.22 I discussed in the Report the changes in the risks to which the Transferring Policyholders were the Scheme to be implemented. Almost nothing has occurred since the date of the Report that would cause me to revise what I write in the Report. However, I note the following:

- In their respective 2020 ORSAs, the Working Capital Targets and the Capital Buffers for AGIL and for LGI have all been increased. For AGIL, Working Capital Target and the Capital Buffer are now the same as those for AEI (those for LGI remain less).
- As explained in paragraphs 3.73-3.74, above, it is now clear that the Brexit Transition Period will expire on 31 December 2020 and it appears increasingly likely that, should the Transferring Policyholders remain within AGIL or LGI, it will be impossible for AGIL and LGI both to service their policies and to comply with the prevailing regulations.

Conclusion regarding changes in risk exposures

4.23 I remain satisfied that the Scheme will not result in changes in the risk exposures currently experienced by the Transferring Policyholders that will adversely affect the Transferring Policyholders to a material degree.

OTHER MATTERS

4.24 I also reported on the following issues in the Report, in so far as they might affect the Transferring Policyholders:

- Policy servicing
- Policy terms and conditions
- What would happen in the event of insolvency
- Compensation and complaints
- Impact were the Assurant Life Scheme to be delayed beyond the Effective Date.

As at the date of this Supplementary Report, I am unaware of any changes that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in Section 6 of the Report.

CONCLUSION FOR THE TRANSFERRING POLICYHOLDERS

4.25 I remain satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The benefits that the Transferring Policyholders could reasonably expect to receive; or
- The standards of administration, service, management and governance that apply to the Transferring Policies.

5. The impact of the Scheme on the existing holders of AEI policies

5.1 As explained in paragraph 3.65, above, although AEI had written no business by 30 June 2020, it now expects by the Effective Date to have started to write business in respect of five different programmes. Therefore, as at the Effective Date, there will be existing holders of AEI policies and it is appropriate for me to consider the impact of the Scheme upon them.

5.2 I understand that the business (to be) written by AEI prior to the Effective Date is consistent with that which it had planned to write.

5.3 I note that all new AEI policyholders prior to the Effective Date have received (or will receive, prior to their purchase of the product) notification of the intended Scheme, along with reassurance that the Scheme will not change any aspect of their policies, their premiums or the services provided by AEI. Additional information about the Scheme is provided as part of the policy documents and all new AEI policyholders are invited to read more about the proposed Scheme on the Transfer Websites.

5.4 I conclude that all AEI policyholders as at the Effective Date would have been aware of the proposed Scheme as at the time that they purchased their policies. I see no reason why the benefits that the existing AEI policyholders could reasonably expect to receive might be affected by the Scheme. I also see no reason why the Scheme might affect the standards of administration, service, management and governance that apply to the existing AEI policyholders.

5.5 As regards the security of benefits under the existing AEI policies, even before the £35 million capital injection that was made in September 2020, AEI has been sufficiently capitalised to ensure good coverage of the solvency requirements in respect of the small amounts of business expected to be written prior to the Effective Date. The (projected) pro forma balance sheet as at 30 September 2020 indicates a Capital Cover Ratio consistent with AEI then being a very well-capitalised insurer. Post-Scheme, there will be a significant fall in the Capital Cover Ratio, such that AEI is then considered a well-capitalised insurer. However, I note the following:

- The pre-Scheme strength of AEI’s Capital Cover Ratio is temporary and a facet of little business by then having been written. Even were the Scheme not to take place, the Capital Cover Ratio would be eroded over time as further new business is written, increasing the SCR;
- As policyholders of a well-capitalised insurer, the policy benefits of the existing AEI policyholders will well protected. The likelihood of AEI becoming insolvent post-Scheme is remote;
- Implementation of the Scheme will mean that AEI becomes a larger, more diversified insurer (although this should be reflected in the SCR).

Conclusion

5.6 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the existing AEI policies;
- The benefits that the existing AEI policyholders could reasonably expect to receive; or
- The standards of administration, service, management and governance that apply to the existing AEI policies.

6. The impact of the Scheme on the holders of AGIL and LGI policies that are not being transferred under the Scheme

FINANCIAL STRENGTH OF AGIL AND LGI, PRE AND POST-SCHEME

6.1 In Section 4, above, I have established that:

- the policyholders of AGIL currently benefit from the financial strength provided by a well-capitalised insurer; and
- the policyholders of LGI currently benefit from the financial strength provided by a well-capitalised company, which is expected to become a very well capitalised insurer as at the Effective Date.

6.2 As shown in Figure 3.7 and Figure 3.14, above, had the Scheme been effective as at 30 June 2020 (and had LGI also made the proposed dividend payments, to be used mostly as a capital injection into AEI) , post-Scheme both AGIL and LGI would have been considered very well-capitalised insurers. I note that, based on pro forma balance sheets as at 30 September 2020, post-Scheme (and post dividend payment by LGI) both LGI and AGIL are expected to be very well-capitalised.

6.3 As such, the position of non-transferring LGI policyholders, pre and post-Scheme, is largely unaltered from that set out in the Report, whereas the non-transferring AGIL policyholders benefit from their insurer being slightly stronger (in terms of Capital Cover Ratios), both pre and post-Schemes, than had been set out in the Report.

Conclusion regarding the financial strength of AGIL and LGI, pre and post-Scheme

6.4 I conclude that the security of benefits for those policyholders who are not transferring is likely to be enhanced by the Scheme and will not be materially adversely affected.

COMPLAINTS AND COMPENSATION

6.5 In paragraph 3.51 of the Report, I noted that AEI had applied to be a registered member of KiFiD but that the process of registration had yet to be completed. I understand that the process has now concluded and that AEI has been a register member of KiFiD with effect from 21 August 2020.

6.6 I explained, in paragraphs 6.127-6.135 of the Report, that, post-Scheme, the Transferring Policyholders will be eligible to bring to KiFiD, and not to the FOS, complaints relating to post-Effective Date acts or omissions on the part of AEI. In circumstances where AGIL or LGI currently refer policyholders to the FOS (or to the competent dispute resolution agency within the relevant territory of the policyholder), AEI would refer those policyholders to KiFiD (or to the competent dispute resolution agency within the relevant territory of the policyholder). I further explained that, in my view, the services provided by the FOS and KiFiD are broadly similar. I concluded that, given the similarities in the services provided by the FOS and KiFiD, and the continued access to local ombudsman services, I was satisfied that the Scheme would not have a material adverse effect on the rights of the Transferring Policyholders in relation to their access to the services of a financial ombudsman. That remains my opinion.

6.7 I also explained, in paragraphs 6.124-6.126 of the Report, that it was likely that, post-Scheme, the Transferring Policyholders will no longer be eligible (in the event that AEI fails to satisfy their contractual rights) for compensation under the FSCS and that there is no alternative compensation scheme that, post-Scheme, they would be eligible to access. While noting that this would be an adverse effect of the Scheme for the Transferring Policyholders, I also noted that:

6.7.1 The expected level of capital within AEI, post-Scheme, relative to its solvency capital requirements is such that I consider the likelihood that AEI fails to meet its contractual obligations to the Transferring Policyholders to be remote; and

6.7.2 The purpose of the Scheme is to enable, post-Brexit, the continued servicing of the Transferring whereby the Transferring Policyholders will receive the benefits to which they are entitled – should the Scheme not be implemented it is likely that, at least in some EEA member states, such continued servicing and payment of benefits would be deemed unlawful. The loss of FSCS protection is a consequence of avoiding such an outcome.

6.8 In summary, I concluded that, post-Brexit, the Transferring Policyholders would be disadvantaged were the Scheme to be implemented through the loss of access to the FSCS but that they would also be disadvantaged were the Scheme not to be implemented by the AGIL and LGI no longer being able, lawfully, to service their policies or pay their benefits, in at least some EEA member states. On balance, in respect of these points, I believe that the Transferring Policyholders are relatively less disadvantaged by the Scheme being implemented than they would be were the Scheme not to be implemented. This was my view as summarised in the Report and it remains my view.

OTHER MATTERS

6.9 I also reported on the following issues in the Report, in so far as they might affect holders of AGIL and LGI policies that are not being transferred under the Scheme:

- Policy servicing
- Policy terms and conditions
- What would happen in the event of insolvency
- Impact were the Assurant Life Scheme to be delayed beyond the Effective Date.

As at the date of this Supplementary Report, I am unaware of any changes that would be sufficiently material to cause me to amend my analysis of any of the above issues, or to change the conclusions on each that I set out in in Section 7 of the Report.

CONCLUSION FOR THE POLICYHOLDERS OF AGIL AND LGI NOT TRANSFERRING UNDER THE SCHEME

6.10 I remain satisfied that the security of the contractual rights or the standards of policy servicing currently enjoyed by policyholders of AGIL and LGI whose policies will remain with their current insurer post-Scheme will not be adversely affected to a material degree by the Scheme.

7. Other considerations

COVID-19 BUSINESS INTERRUPTION INSURANCE TEST CASE

7.1 The COVID-19 pandemic and the restrictions introduced by the UK Government, intended to temper the spread of the virus within the UK, had led to a very significant increase in the incidence of claims being made against business interruption covers. While many claims have been accepted and paid (or refuted without controversy) many others have been the subject of disputes regarding the meaning of policy wording in the specific circumstances of the pandemic. To help resolve this, the FCA brought a test case to the High Court in which 21 lead sample wordings from eight insurers were reviewed at a hearing in July 2020. On 15 September 2020, the High Court released its verdicts on each of the sample wordings.

7.2 The verdicts are binding only on the eight insurers that took part in the proceedings, but are expected to be largely followed by other insurers that wrote UK business interruption covers. Moreover, they are expected to be followed in respect of wordings similar to the sample wordings.

7.3 I note that no entity within the Assurant Group took part in the proceedings. Moreover, AGIL, LGI and AEI do not write, and have never written, business interruption covers. Therefore, this test case has no direct implications for any of the Companies or for the Scheme.

OPERATIONAL PLANS AND CHANGES IN ASSETS AND LIABILITIES UP TO THE EFFECTIVE DATE

7.4 As noted earlier, in preparing this Supplementary Report, I have seen draft balance sheet data for AGIL and LGI as at 30 June 2020, on both a GAAP basis and a Solvency II basis. I have also seen pro forma balance sheets, which have been based on those draft balance sheets as at 30 June 2020, but illustrate what would have been the impact of the Scheme had it taken place as at 30 June 2020. Further, I have also seen pro forma balance sheets for AEI, as if the Scheme had taken place as at 30 June 2020. I have not shown the data or pro forma balance sheets in this Supplementary Report, as the information therein has not been made public.

7.5 I expect that the current activities of both AGIL and LGI have continued, and will continue, between 30 June 2020 and the Effective Date. Both AGIL and LGI have continued, and will continue until the Effective Date, to write new business, and have continued, and will continue until the Effective Date, to settle claims and reassess reserves in the light of experience.

7.6 As noted in paragraph 3.65, above, AEI started writing business after 30 June 2020 and is expected to have written gross premiums totalling €3.7 million, under five separate deals, by the Effective Date. This is in line with AEI's business plan; that the business has been, or is expected to be, written ahead of, instead of after, the Effective Date is simply a matter of timing and, as such, should be considered normal business. It makes no overall difference to the expected financial health of AEI.

7.7 I do not consider that any material additional risk to any group of affected policyholders will emerge as a result of the continuation of normal business.

7.8 As noted above, in both AGIL and LGI there have been some deviations in experience from that planned during the first half of 2020, and some of that was caused (indirectly) by the COVID-19 pandemic. However, the deviations were not very significant and have not resulted in material changes to the operational plans.

7.9 As set out in paragraphs 3.77-3.80, above, the effect to date of the COVID-19 pandemic upon AGIL and LGI, has been less than had been feared. I have concluded that, as at the date of this Supplementary Report, it has not affected any of the entities sufficiently so as to alter materially their respective financial strength (or prospective financial strength). However, the ultimate outcome remains very uncertain.

7.10 I believe that it is unlikely that any events occurring between 30 June 2020 and the Effective Date would affect any conclusion that I have reached based on my review as at 30 June 2020.

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

7.11 I have been informed that the Transferors have written to:

- All existing Transferring Policyholders;

- All new (up to the date of this Supplementary Report[3]) Transferring Policyholders.

7.12 I understand that the Court granted the waivers outlined in paragraph 5.52 of the Report. Therefore, the Companies have not directly notified any:

- Transferring Policyholder for whom AGIL, LGI or the relevant distributors/intermediaries hold no valid contact details;
- Transferring Policyholder whose contract has expired and for whom there is no on-going period of cover and no known current claims exposure; and
- Policyholder of AGIL and LGI who is not a Transferring Policyholder.

7.13 I have been told by the Transferors that the notifications were translated into the following languages: Dutch, French, German, Hungarian, Italian, Polish (in the case of existing business only), Romanian and Spanish.

7.14 I note that the Companies have provided notification packs in large type, in braille and in audio format for those who have so requested them.

7.15 In circumstances where the Transferors held relevant contact details for the Transferring Policyholders, they sent them notification directly. This covered 606,000 AGIL Transferring Policies and 261,000 LGI Transferring Policies. There were a further circa 2 million LGI policyholders who had taken out their policies during July 2020 for whom Amazon held encrypted email addresses and whom LGI therefore notified directly, using an Amazon email server. For those Transferring Policyholders for whom the Transferors did not hold contact details, they relied upon specific insurance intermediaries and distributors to despatch the notification regarding the Scheme on their behalf. I have been informed by the Transferors that the relevant insurance intermediaries and distributors have confirmed that they have despatched and delivered the notifications.

7.16 The Transferors engaged a bulk mailing house to effect the direct notifications. I have been told that it liaised with the mailing house on a daily basis until completion of the mailings to ensure that all steps were completed and mailings delivered as per the schedule, and to ensure that any potential issues were dealt with immediately.

7.17 The Transferors have held weekly meetings with the Relationship Managers for Amazon, Vodafone and the German independent broker insurance business, and with other relevant parties, to discuss requirements and to ensure completion of the mailings. They have received regular updates from each party, confirming volumes of notifications sent and bounce backs received.

7.18 There are approximately 60,000 LGI Transferring Policies that relate to business sold through the affiliated retail stores in Spain of two Assurant clients. Neither LGI nor either of these Assurant clients has policyholder contact information in respect of these Transferring Policies. Instead, proof of cover is demonstrated by the purchase receipt, which policyholders have to produce when making a claim. I have been told that these two Assurant clients have both confirmed that they have notified each of their affiliated retail stores in Spain about the Scheme and have instructed them that, up to and including the Effective Date, they should inform anyone who contacted them to make a claim under one of these 60,000 Transferring Policies about the Scheme and should explain where further information about the Scheme can be obtained.

7.19 In total, as at the date of this Supplementary Report, the Transferors have attempted to contact policyholders in respect of over 3.5 million Transferring Policies (90% of the 3.9 million Transferring Policies as at 30 June 2020 – the remaining 10% comprise mostly dealer insured policies and policies for which the Companies have no contact details). I have been told that email notifications that failed through “soft bounces” were resent twice more before reverting to post (in case the contact details were correct but there was a temporary blockage, for example the policyholder’s inbox was full). Email notifications that failed through ‘”hard bounces” (for example an incorrect email address) were resent via post immediately. As at the date of this Supplementary Report, no postal notifications had been returned as being undeliverable.

[3] *I understand that the Companies intend to continue to provide notification letters to all new Transferring Policyholders up to the Effective Date.*

7.20 The Companies have contacted all of those reinsurers of either AGIL or LGI whose contracts will be transferred by the Scheme to AEI. They have also contacted the reinsurer of AGIL (and also of ALL) whose contract it is intended will be novated to AEI rather than transferred to AEI under the Scheme. I have been told that one reinsurance contract that is intended to be transferred to AEI by the Scheme was incorrectly omitted from the list of such contracts previously filed with the Court. I understand that this omission has since been corrected and the reinsurer in question has been contacted accordingly.

7.21 The Transferors have been monitoring all responses received to their notifications, in particular any queries or objections raised by policyholders or other interested parties, and how they (the Transferors) have replied to such responses.

7.22 In addition to direct, written correspondence, the Companies have also arranged indirect notification via advertisements and notices in:

- the London, Edinburgh and Belfast Gazettes;
- in both the UK and international editions of the Financial Times;
- in The Times and Daily Mail newspapers;
- in three national newspapers in Ireland;
- in two national newspapers in Belgium; and
- in one national newspaper in each of Austria, France, Germany, Hungary, Italy, the Netherlands, Poland, Romania, Spain and Sweden.

7.23 The letters, notices and advertisements have referred all queries to a postal address, a telephone number, and a website address, through any of which readers can lodge queries about the Scheme, and all of which will respond promptly (within standard UK working hours) to any such queries. There is a page dedicated to the Scheme on the Transfer Websites in which all relevant documentation can be found, and which also explains how those with questions or concerns regarding the Scheme can raise them.

7.24 As at 30 June 2020, there were no holders of AEI policies and so no AEI policyholders to inform about the Scheme. However, since then, AEI has written some policies. As explained in paragraph 5.3, above, all AEI policyholders[4] received, prior to their purchase of the product, notification of the intended Scheme. Additional information about the Scheme is provided as part of the policy documents and all new AEI policyholders are invited to read more about the proposed Scheme on the Transfer Websites.

Conclusion regarding the communications with stakeholders

7.25 I consider that the communications effected by the Companies, as outlined above, have been in line with the communications plan that I summarised in the Report.

Responses

7.26 As at 2 October 2020, 10,108 responses to the above notifications had been received. These responses have all been logged by date and time, as applicable, together with replies. Copies of all correspondence have been retained.

7.27 I set out in Figure 7.1, below, the breakdown of the queries received by in respect of the Scheme.

[4] *For AEI policies written between the date of this Supplementary Report and the Effective Date, the policyholders will receive this notification, prior to their purchase of the product.*

FIGURE 7.1 BREAKDOWN OF THE QUERIES RECEIVED IN RESPECT OF THE SCHEME AS AT 2 OCTOBER 2020

Query Type	Number of Queries
Document Request	7
General Enquiry	10,091
Technical Enquiry	1
Objections	6
Expressions of dissatisfaction	0
Complaints	3
Other	0
TOTAL	**10,108**

7.28 Most have been classified as general enquiries and consist of questions such as why has the policyholder received the material or what is the policyholder expected to do with the material. One query was more involved and was thus classified as a "technical query".

7.29 The three complaints were in respect of LGI policyholders and are unrelated to the Scheme. One concerned faulty parts relating to a repair; another a delay in the repairer attending; and the third related to a claim that had been declined as it was not covered by the terms and conditions.

7.30 As at the date of this Supplementary Report, six objections to the Scheme have been recorded. Five of these related to French AGIL Transferring Policyholders who did not want their respective policies (one policyholder had two policies) to be transferred and instead asked for them to be cancelled. These policies have been duly cancelled by AGIL.

7.31 A sixth objection has been received, this time from an LGI policyholder. The policyholder had contacted LGI to say that he or she has an insurance policy but is not satisfied with the proposed transfer, which he or she intends to oppose, subject to LGI explaining how that should be done. At the time of this Supplementary Report, LGI was communicating with this policyholder in order to provide the policyholder with the information requested and also in order to understand the basis of the objection.

THE RECENT JUDGMENT ON THE PRUDENTIAL/ROTHESAY SCHEME

7.32 In the Report, I discussed the proposed Part VII Transfer of a portfolio of annuities from Prudential to Rothesay that had failed get Court approval in June 2019 and the possible ramifications for the Scheme of the judgement in respect of the Prudential/Rothesay Scheme. While noting that I am not an expert in either matters relating to life assurance or legal matters, I concluded that only a few of the factors that influenced the judgment on the Prudential/Rothesay Scheme are relevant to the Scheme and, in my view, none applies to the Scheme to the same extent as to the Prudential/Rothesay Scheme.

7.33 I also noted that Prudential and Rothesay may be appealing the decision and that, if it had taken place by the time of the Sanction Hearing, I would address any raised by the appeal in this Supplementary Report. Initially, the appeal was expected to be heard by the Court of Appeal in the spring or summer of 2020 but I understand that, due to the COVID-19 pandemic, the hearing has been delayed. It is now likely to be to be held in late autumn 2020, although, as at the date of this Supplementary Report, no date had been set.

7.34 Therefore, I have no further information relating to the judgment in the Prudential/Rothesay Scheme to consider. I remain satisfied that the conclusions in the Report are unaffected by the judgment in the Prudential/Rothesay Scheme.

TAX

7.35 As discussed in the Report, the Scheme will create no change in the tax liability of any policyholders, whether transferring or not.

7.36 The Scheme transfers to AEI from AGIL and LGI existing insurance liabilities at fair value arising from business already written, together with suitable supporting investment assets of the same value. Therefore, there will be an accounting gain in both AGIL and LGI as a result of this transfer. This differs from the conclusion I reached in the Report, when it had been intended to structure the transfer so that it was fiscally neutral on a GAAP basis.

7.37 The transfer of business from AGIL to AEI will be treated as a disposal for tax purposes. Based on the latest valuation of the AGIL Transferring Business, the corporate income tax liability that will arise in AGIL is estimated to be roughly £1 million. A tax liability of this magnitude would not materially affect AGIL's post-Scheme Capital Cover Ratio or its status as a well-capitalised insurer. For Dutch tax purposes, a corresponding deferred tax asset of roughly £1 million will arise in AEI. I have been told by the Companies that the Dutch tax authorities have confirmed 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.

7.38 I understand that 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, I have been told by LGI that there should be no taxable gain arising for UK corporate income tax purposes, as LGI filed a branch exemption election with effect from 1 January 2019.

7.39 Therefore, I maintain the overall conclusion regarding the tax implications of the Scheme that I set out in the Report, that no material tax issues or liabilities associated with the Scheme that will affect either the Transferring Policyholders or those remaining within LGI or AGIL.

COSTS

7.40 I have been told by AEG that the total cost of the Scheme and of the Assurant Life Scheme will be approximately £3 million and that this cost will be met wholly by Assurant. Thus, the costs of the Scheme will not be met by any policyholders of AGIL, LGI or AEI. Nor will they be met by any or all of AGIL, LGI and AEI and, therefore, they will not affect the solvency cover in any of the Companies.

OTHER

7.41 In the Report, I also reported on the following features:

- Those assets being transferred to AEI under the Scheme and those assets remaining in AGIL and LGI;
- The likely effects of the Scheme upon reinsurers of the Transferring Business;
- The legal jurisdiction of the Transferring Policies;
- The change in regulation for the Transferring Policyholders; and
- What would happen were the Scheme not to proceed.

7.42 As at the date of this Supplementary Report, nothing has occurred since the date of the Report that has caused me to modify in any way:

- my summary of the above features; or
- the conclusions, if any, that I have drawn regarding the effect of those features upon the Scheme or on the various groups of policyholder potentially affected by the Scheme.

8. Conclusions

CONFIRMATION OF OPINION

8.1 I have further considered the effect of the proposed Scheme on the policyholders of AGIL, LGI and AEI in the light of the Additional Information made available to me since the date of the Report. In summary, in my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The benefit expectations of the Transferring Policyholders under the Transferring Policies;
- The security of the benefits under the Transferring Policies;
- The level and standards of administration and service that would apply to the Transferring Policies;
- The benefit expectations of the policyholders of AGIL and LGI whose policies will not be transferred to AEI under the Scheme;
- The security of the benefits of the policyholders of AGIL and LGI whose policies will not be transferred to AEI under the Scheme;
- The level and standards of administration and service that would apply to the policies of AGIL and LGI that will not be transferred to AEI under the Scheme.

As such, I confirm that my overall opinion and conclusions as set out in Section 9 of the Report are unchanged.

8.2 In reaching this opinion, I have complied in all material respects with the principles set out in paragraph 9.2 of the Report.

DUTY TO THE COURT

8.3 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court and have complied with that duty and that I am aware of and have complied with the requirements of Part 35 of the Civil Procedure Rules, of Practice Direction 35 which supplements Part 35 of the of the Civil Procedure Rules, and of the Guidance for the Instruction of Experts in Civil Claims 2014.

STATEMENT OF TRUTH

8.4 I confirm that, insofar as the facts stated in this Supplementary Report are within my own knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

Derek Newton / 9 October 2020

Fellow of the Institute and Faculty of Actuaries

Appendix A Definitions

TERM	DEFINITION
Additional Information	Financial and other information in respect of the Scheme and the Companies that was provided to me subsequent to the date of the Report.
AEG	Assurant Europe Group, a group of indirect subsidiaries of Assurant, Inc.
AEI	Assurant Europe Insurance N.V.
AEL	Assurant Europe Life Insurance N.V.
AES	Assurant Europe Services B.V.
AGIL	Assurant General Insurance Limited.
AGL	Assurant Group Limited.
ALL	Assurant Life Limited.
Assurant	Assurant, Inc.
Assurant Creditor Policies	Policies written by AGIL or LGI that cover one or more of the following insurance risks: death, disability, sickness and unemployment.
Assurant Europe	Collectively, AEI, AEL and AES.
Assurant Group	The group of companies comprising Assurant and its direct and indirect subsidiaries (including AGIL, LGI and AEI).
Assurant Life Scheme	A Part VII transfer that is intended to run parallel to the Scheme, whereby the long-term insurance business of ALL and of LGL that relates to risks situated in an EEA Member State will be transferred to AEL.
Available Capital	Capital available to meet solvency capital requirements.
Brexit	"Brexit" refers to the exit of the UK from the European Union on 31 January 2020, following the referendum on continuing membership held in the UK in June 2016. As at the time of drafting this Report, the future relationship between the UK and the EU, including the regulatory environment for insurers operating across UK/EEA borders, was being negotiated. Until the completion of the transition period (currently scheduled to finish on 31 December 2020) the regulatory environment for insurers remains unaltered from its pre-Brexit state.
Capital Cover Ratio	The ratio of Available Capital to Required Capital. This is a measure of the capital strength of the insurer – the higher the ratio, the stronger the company.
Companies	The collective term for AGIL, LGI and AEI.
Court	The High Court of Justice of England and Wales.
DNB	The Dutch Central Bank (De Nederlandsche Bank).
EEA	The European Economic Area ("EEA") was established by the EEA Agreement on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
Effective Date	The date on and from which the Scheme shall become effective, which is expected to be 2 November 2020 (at 22.59 GMT).

EIOPA	The European Insurance and Occupational Pensions Authority ("EIOPA") was established in consequence of the reforms to the structure of supervision of the financial sector in the European Union, with the goals of: better protecting consumers and rebuilding trust in the financial system; ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions; greater harmonisation and coherent application of rules for financial institutions & markets across the European Union; strengthening oversight of cross-border groups; and promoting coordinated European Union supervisory responses.
EU	European Union.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FG18/4	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.
FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
GAAP	Generally accepted accounting principles ("GAAP") form the standard framework of guidelines for financial accounting used in any given jurisdiction.
GMT	Greenwich Mean Time.
IBNR reserves	These are reserves in respect of claims that relate to claim events that have occurred before the valuation date but which were still to be reported to the insurer as at that date. For the purposes of this Report they also include reserves in respect of any perceived shortfall between the projected ultimate costs and the case estimates for claims already notified.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
IFRS	International Financial Reporting Standards ("IFRS") form a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
Independent Expert	The Independent Expert prepares the Scheme Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the likely effects on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves.
LGI	London General Insurance Company Limited.
LGI EEA Creditor Policies	Those Creditor Policies that were written by LGI, that are linked to policies within LGL (i.e. co-issued by LGI and LGL) and that are included within the Transferring Business.
LGL	London General Life Company Limited.
MCR	The Solvency II Minimum Capital Requirement ("MCR") is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is less risk sensitive than the SCR calculation and is calibrated to a confidence level of 85% over one year (compared to 99.5% for the SCR).
Milliman	Milliman LLP, a member of the Milliman Group.
The Milliman Group	The group of entities whose ultimate parent is Milliman, Inc.

ORSA	The Own Risk Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and ancillary own funds (e.g. additional premiums from members), which require regulatory approval.
Part VII transfer	A transfer of insurance business between one company and another pursuant to Part VII of FSMA.
The Policy Statement	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority's approach to insurance business transfers, issued in April 2015.
PRA	The Prudential Regulation Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
Prudential	Prudential Assurance Company Limited.
Prudential/Rothesay Scheme	A proposed Part VII transfer of a portfolio of annuities from Prudential to Rothesay. The Court declined to sanction the Scheme on 16 August 2019.
Required Capital	The amount of capital an insurer must hold in order to meet its regulatory capital requirements (for example the SCR).
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on). If reinsurance is termed as being "inwards" then the reinsurer in question has accepted risk from an(other) (re)insurer; if reinsurance is termed as being "outwards" then the (re)insurer in question has passed risk to a(nother) reinsurer.
Report	References to the "Report" refer to this report, which is the Scheme Report relating to the Scheme.
Residual Policy	A contract of insurance (if any) written or assumed by AGIL or LGI under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferring Business but which, for any reason, is not transferred by order of the Court on the Effective Date pursuant to the Scheme.
Rothesay	Rothesay Life Limited.
Scheme	In the context of this Report, the proposal that the transferring business of AGIL and of LGI be transferred to AEI as a Part VII transfer.
Scheme Report	A report on the terms of a Part VII transfer, to be prepared by an independent person. The Scheme Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
SCR	The Solvency Capital Requirement ("SCR") under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading time-frame with a likelihood of 99.5%.
Solvency II	The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.
SUP18	Section 18 of the FCA Supervision Manual.
Supplementary Report	This report that I have prepared in advance of the Court hearing to sanction the Scheme, which covers any relevant matters that might have arisen since the date of the Report.

Technical Provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk.
Transfer Websites	www.assurant.co.uk, www.thewarrantygroup.eu and https://assurantnederland.nl, on which key documents relating to the Scheme will be made available free of charge.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is AEI.
Transferor	The entity from which business is being transferred – in the case of the Scheme, there are two Transferors: AGIL and LGI.
Transferring Assets	The assets of AGIL and of LGI that are included within the Transferring Business. Those that relate specifically to AGIL are referred to as AGIL Transferring Assets; those that relate specifically to LGI are referred to as LGI Transferring Assets.
Transferring Business	The business of AGIL and of LGI that is to be transferred to AEI under the Scheme.
Transferring Policies	The policies of AGIL and LGI that are included within the Transferring Business. Those that relate specifically to AGIL are referred to as AGIL Transferring Policies; those that relate specifically to LGI are referred to as LGI Transferring Policies.
Transferring Policyholders	The policyholders of the Transferring Business.
Transition Period	The period between the date on which the UK formally left the EU (31 January 2020) and 31 December 2020, during which period the existing trading relationships will continue unaltered and the future relationship between the UK and the EU will be negotiated.
TWGE	The Warranty Group Europe, the parent company of LGI, LGL, AEI, AEL and AES.
VSC	Virginia Surety Company, Inc.
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.

Appendix B Key sources of Additional Information

B.1 In writing this Supplementary Report, I relied upon the accuracy of certain Additional Information provided by AGIL, LGI and AEI. These included, but were not limited to, the following:

Background

- Half-year GAAP profit & loss accounts and GAAP balance sheets as at 30 June 2020, for AGIL, for LGI and for AEI
- Solvency II balance sheets. Including the SCR figures, as at 30 June 2020, for AGIL, for LGI and for AEI
- Split of the GAAP technical provisions as at 30 June 2020, between premium and claim provisions, gross, ceded and net of reinsurance, and between non-UK EEA business (i.e. Transferring Business) and other business (i.e. business that is not transferring under the Scheme), as at 30 June 2020, for AGIL and for LGI
- The amounts of premium written and ceded by AGIL and by LGI in the first half of 2020, split by country and by business type
- Information on the gross premiums expected to be written by AEI between 1 July 2020 and the Effective Date, split by client, product line and territory.
- Powerpoint slides entitled *Review of the impact of coronavirus on key Assurant products* (dated May 2020)

Scheme and Restructuring

- Second Witness Statement by Claude Kwasi Sarfo-Agyare (draft dated 7 October 2020)
- Second Witness Statement by Ingo Martijn Alexander Soesman (draft dated 7 October 2020)
- Communications Witness Statement by Richard Stuart Weddell (draft dated 7 October 2020)
- FCA Response Logs
  - to 31.07.20
  - 01.08.20-14.08.20
  - 15.08.20-28.08.20
  - 29.08.20-11.09.20
  - 12.09.20-25.09.20
  - 26.09.20-02.10.20

Reserving

- AEG Reserving Policy (AEI/AEL), v.0.31, dated August 2020

Risks and Solvency Capital

- Assurant Group Limited 2020 ORSA Report (undated)
- TWGE 2020 ORSA Report (undated)
- Assurant Europe Group Risk Management Framework, dated 1 April 2020
- Assurant Europe Group Capital Management Policy, dated July 2020
- Q4 2019 GAAP and Solvency II balance sheets as well as pro forma balance sheets post transfer provided by the Actuarial team at Assurant, dated 19 August 2020

B.2 Information relating to the items listed above was also gathered during discussions with Assurant Group staff members.

Appendix C Letter of Representation

ASSURANT

Emerald Buildings
Westmere Drive
Crewe
Cheshire
CW1 6UN

assurant.co.uk

__Strictly Private and Confidential (Delivered via e-mail)__

Derek Newton
Milliman LLP
11 Old Jewry
London
EC2R 8DU

9 October 2020

Dear Mr Newton,

Letter of Representation - Part VII transfer of business from Assurant General Insurance Limited and London General Insurance Company Limited to Assurant Europe Insurance N.V.

1. Introduction

We refer to the proposed transfer of the business of Assurant General Insurance Limited ("AGIL") and London General Insurance Company Limited ("LGI") to Assurant Europe Insurance N.V. ("AEI") by an insurance business transfer scheme ("the Scheme"), as defined in Section 105 of the Financial Services and Markets Act 2000 ("FSMA"). Claude Kwasi Sarfo-Agyare is Director / Chief Financial Officer, Europe and has been authorised by AGIL and LGI to provide the representations set out in this letter, on behalf of each and both of AGIL and LGI. Similarly, Ingo Martijn Alexander Soesman is Managing Director / CEO, Netherlands and has been authorised by AEI to provide the representations set out in this letter on behalf of AEI.

2. Data Accuracy Statement

We hereby affirm that the data and information provided by AGIL, LGI and AEI to Derek Newton of Milliman LLP (acting as the Independent Expert to the Scheme) were prepared by AGIL, LGI and AEI (as appropriate) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in:

- the description of the business and practices of AGIL, LGI and AEI (including details of specific contracts and claims), or
- in any statements attributed to AGIL, LGI and/or AEI (and/or the wider Assurant Group)

in the Independent Expert's Report dated 19 June 2020 and the Independent Expert's Supplementary Report dated 9 October 2020 (together the "Reports") on the proposed Scheme.

3.2 We have disclosed all the information that, in our opinion, is relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the proposed Scheme.

3.3 We confirm that the Reports accurately and fairly reflect our understanding of the proposed Scheme and the facts relied upon in the Reports are true and accurate to the best of our knowledge and belief.

3.4 We will keep the Independent Expert apprised, up to the date of the Court hearing to sanction the Scheme, of all matters and issues that, in our opinion, might be relevant to the Independent Expert in opining on the proposed Scheme.

3.5 Prior to the submission to the Court of the final Court (and supporting) documents relating to the Scheme, we hereby undertake to provide to the Independent Expert full details of:

- any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents, and
- any differences between the data and information underlying such draft and final documents.

3.6 In particular, the facts stated below are true and accurate to the best of our knowledge and belief:

- The financial position as stated in the balance sheets of AGIL, LGI and AEI as at 31 December 2019 and 30 June 2020, as summarised in the Reports, give a true and fair view of the affairs of AGIL, LGI and AEI respectively;
- The Technical Provisions of the business of AGIL and LGI to be transferred under the Scheme, stated as at both 31 December 2019 and 30 June 2020, provide a true and fair view in accordance with appropriate actuarial standards as at those dates;
- Other financial projections relating to AGIL, LGI and AEI that have been provided by us, which the Independent Expert has used to prepare the Reports, have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions;
- The management of the business affected by the Scheme will remain substantially unchanged following implementation of the Scheme.

3.7 We confirm that the capital assessments as at 30 June 2020 that have been provided by us continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.

3.8 We confirm that there are currently no plans pursuant to the Scheme to change materially:

- the reserving basis/approach and strength of reserves carried/booked by AGIL and LGI;
- the reserving basis/approach and strength of reserves to be carried/booked by AEI that relate to the Transferring Policies from the basis/approach and strength that applied when those reserves were carried by AGIL and LGI; and/or
- the capital basis/approach and capital strength adopted by AGIL, LGI or AEI.

3.9 We confirm that there is currently no other information concerning the business written, the claims procedures and the processing situation in any of AGIL, LGI and AEI that, in our view, might have a material impact on the Independent Expert's assessment of the proposed Scheme and which has not been disclosed to the Independent Expert.

3.10 We confirm that the proposed Scheme is not expected to have tax implications that would affect any existing or transferring policyholders of AGIL, of LGI or of AEI.

3.11 To the best of our knowledge and belief, there have been no material changes since 31 December 2019 to the operational plans of any of AGIL, LGI and AEI that, in our opinion, might have a material impact on the Scheme and that have not been communicated to the Independent Expert.

3.12 We confirm that the actual and expected (by us) impact of the COVID-19 pandemic upon AGIL, LGI and AEI has been appropriately represented in paragraphs 4.121-4.126 and 8.7-8.20 of the Independent Expert's Report dated 19 June 2020 and Section 3 of the Independent Expert's Supplementary Report dated 9 October 2020.

3.13 We confirm that, in our opinion, there have been no events between 30 June 2020 and the date of this letter that would have a material impact on the Scheme.

Yours sincerely,

Claude Kwasi Sarfo-Agyare	Ingo Martijn Alexander Soesman
Director / Chief Financial Officer, Europe	Managing Director / CEO, Netherlands
For and on behalf of Assurant General Insurance Limited and London General Insurance Company Limited	***For and on behalf of Assurant Europe Insurance N.V.***