

# Report of The Equitable Life Assurance Society's With-Profits Actuary on the proposed transfer of annuity business to Canada Life

## 1. Introduction

### 1.1 Purpose

The purpose of this report is to describe the impact on the with-profits policyholders of The Equitable Life Assurance Society (the "Society") of the proposed transfer of certain annuities in payment (the "Transferring Annuities") to Canada Life Limited ("CLL"). In particular it is concerned with whether the transfer is fair to with-profits policyholders and any impact on the amount and security of their benefits, both positive and negative. I have not considered the position of holders of Transferring Annuities or the Society's other non-profit policyholders, or that of CLL's policyholders in this report.

I am writing this report for the Society's Board in my capacity as With-Profits Actuary of the Society. In addition to the Society's Board, this report may be used by the Independent Expert, the High Court, the Prudential Regulation Authority, the Financial Conduct Authority and the courts and relevant regulators in Jersey and Guernsey in forming their own judgements about the Scheme.

This report should be read in conjunction with the report from the Society's Head of Actuarial Function which considers the impact of the Scheme on all of the Society's policyholders. Details of the Society, the Scheme and the work undertaken are given in that report, and are not repeated here. Terms defined in that report carry the same meaning in this report unless otherwise specified.

In preparing this report I have taken into account the requirements of the Technical Actuarial Standards issued by the Financial Reporting Council. The Technical Actuarial Standards which apply to this work are TAS R: Reporting Actuarial Information, TAS D: Data, TAS M: Modelling, the Insurance TAS and the Transformations TAS. In my opinion, there have been no departures from these Technical Actuarial Standards in performing this work.

### 1.2 Background

The Society is a mutual organisation set up and run for the benefit of its members, who are with-profits policyholders. The Society's strategy is to recreate policyholder value.

To deliver the strategy the Society has stated that it will, amongst other things:

- reduce risks leading to lower solvency capital requirements, so increasing the amount available for distribution to with-profits policyholders; and
- distribute all of the assets, after meeting obligations to non-profit and unit-linked policyholders, among with-profits policyholders as fairly and as soon as possible.

The Society's long-term business fund writes all of its with-profits, non-profit and unit-linked business. The with-profits fund is the long-term business fund which is available for the benefit of with-profits policyholders after meeting obligations to non-profits and unit-linked policyholders.

The Transferring Annuities in force on 2 March 2015, except for unit-linked annuities, were reassured to CLL on 2 March 2015 (the “Reassurance”), in advance of an application to Court for approval of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (the “Scheme”). The purpose of the Reassurance was to accelerate the transfer of the economic risk and reward in the Transferring Annuities to CLL.

The terms for the Reassurance and the Scheme were agreed with CLL following a competitive tender process. I am satisfied that this exercise was carried out to achieve the best available competitive price for the benefit of the Society’s with-profits policyholders.

### **1.3 Disclosures**

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as With-Profits Actuary for the Society on 12 December 2013.

I am employed by the Society. I am not a Director of the Society. I have an interest in two non-profit life assurance policies issued by the Society. I am not a policyholder of CLL. I do not hold any shares of CLL or Great-West Lifeco Inc.

The opinions expressed in this report have been formed without regard to my personal interests.

## **2. Impact of the Reassurance on with-profits policyholders**

### **2.1 Capital position**

Prior to the Reassurance, the longevity and credit risk associated with the Transferring Annuities required capital to be retained by the Society in its with-profits fund. The Reassurance has transferred most of these risks to CLL, and while some counterparty credit risk has been added, the deposit back arrangement has mitigated this.

The Transferring Annuities also presented a future issue for the with-profits fund as it runs-off, because the term profile of the annuities is not the same as the Society’s with-profits business. The annuities are projected to run-off more slowly than the closed with-profits book. This is described more fully in the report from the Society’s Head of Actuarial Function, where in particular it is shown that the ratio of annuity reserves to with-profits reserves more than doubles over the next twenty years.

The different term profile of the Transferring Annuities and the with-profits business means that the capital required to support the annuities could not be distributed to with-profits policyholders as they leave. This retained capital would have become increasingly large compared to the with-profits fund over time.

### **2.2 Solvency position**

As described in the report from the Society’s Head of Actuarial Function, the Reassurance is beneficial on all three of the current solvency capital measures used by the Prudential Regulation Authority to assess capital requirements, and also on the new Solvency II measure to be introduced in January 2016.

Even after taking into account both the associated costs and the future profits that could have been expected to emerge over time from the Transferring Annuities, I

consider that the with-profits fund benefits from the Reassurance. The release of capital and early realisation of expected future profits allows all current with-profits policyholders to benefit, not just those remaining in the fund for longer.

The accuracy of the policy data on which the Reassurance has been established has been reviewed in a data audit period. Data corrections identified have altered both the Society's own assessment of the liabilities as well as being appropriately reflected in the reassurance premium. These corrections therefore do not alter the opinions expressed in this report that were formed before such errors were identified.

### **2.3 Security of benefits and policyholder benefit expectations**

The improved solvency position increases the security of with-profits policyholder benefits. At the same time, the improvements to the Society's capital position improve the benefit expectations of with-profits policyholders, by enabling earlier distribution of capital to with-profits policyholders in line with the Society's strategy.

The Reassurance contributed to the Board decision to increase the Capital Distribution Amount on 1 April 2015 to 35% of Policy Values on 31 December 2014, an enhancement to the benefits available to the majority of with-profits policyholders (further details on the Society's use of Policy Values and approach to capital distribution is set out in its Principles and Practices of Financial Management). While all with-profits policyholders receive the higher level of capital distribution, those for whom the guaranteed value of their policy exceeds their Policy Value plus Capital Distribution Amount will not benefit from higher payouts if they make a claim at a time when guarantees apply.

### **2.4 Future expense impact**

As detailed in the report from the Society's Head of Actuarial Function, there is no material adverse impact to expected future expenses to be borne by with-profits policyholders as a result of the Reassurance.

### **2.5 Fairness**

Enabling earlier distribution of capital and the early release of expected future profits from the Transferring Annuities improves the fairness between different generations of with-profits policyholders. All current with-profits policyholders are able to benefit from the reduction in risk as a result of these changes, instead of this capital and future profits being distributed only to those who remain in the with-profits fund for longer while remaining exposed to these risks.

The Reassurance had no impact on the way with-profits policies are managed and was consistent with (and required no changes to) the Principles contained in the Society's Principles and Practices of Financial Management.

### **3. Impact of the Scheme on with-profits policyholders**

#### **3.1 Security of benefits**

The Reassurance has been designed to leave the Society with minimal risk associated with the Transferring Annuities, but the Scheme removes this risk entirely, to the benefit of with-profits policyholders.

The Scheme also removes the risk of the Reassurance ceasing without the Transferring Annuities moving to CLL. Such a cessation would lead to a reversal of the improvement in security of with-profits policyholder benefits identified in section 2.

#### **3.2 Policyholder benefit expectations**

Without the Scheme, the Reassurance could cease without the Transferring Annuities moving to CLL. In this event, those improvements in policyholder benefit expectations and intergenerational fairness identified in section 2 would be reversed, and a reduction in Capital Distribution Amount may result.

The Scheme therefore improves the benefit expectations of all with-profits policyholders, while also improving fairness between different generations of policyholders.

#### **3.3 Governance and administration**

The Scheme will have no impact on either the governance arrangements for the with-profits policies or the way they are managed. The Scheme is consistent with (and no changes will be required to) the Principles contained in the Society's Principles and Practices of Financial Management.

#### **3.4 Costs of the scheme**

As described in the Head of Actuarial Function's report, the Society and CLL will each bear their own costs of implementing the scheme and will share joint costs equally. I consider this division of costs, and the impact it will have on the Society's with-profits policyholders, to be fair and reasonable.

### **4. Communication**

The Head of Actuarial Function's report outlines plans for giving notice of the Scheme to the Society's policyholders, both by publishing notices in various newspapers and gazettes and by writing to policyholders on an individual basis. In particular I note the intention when writing to those policyholders who are not holders of Transferring Annuities to direct them to view the guide to the scheme on the Society's website, or request a copy from the Society, instead of issuing the document to all such members. I regard these proposals as providing transparent and appropriate notice of the Scheme to with-profits policyholders.

## 5. Conclusion

In my opinion, both the Reassurance and the Scheme are beneficial to the Society's with-profits policyholders and in line with the Society's strategy. I consider the proposed Scheme to be fair to with-profits policyholders.

Louise Eldred, FIA  
With-Profits Actuary  
The Equitable Life Assurance Society

5 October 2015