

**The report of the Independent Expert on the  
Part VII transfer of the long term business of  
Pearl Assurance (Unit Funds) Limited, Pearl  
Assurance (Unit Linked Pensions) Limited  
and London Life Linked Assurances Limited  
to NPI Limited**

**Prepared by:**

**Mike Arnold FIA**

**June 2006**

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## 1 Introduction

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### 1.1 The Independent Expert

- 1.1.1 When an application is made to the Court for an order to sanction the transfer of long term insurance business from one insurance company to another, the application is subject to Part VII of the Financial Services and Markets Act 2000 (“FSMA”) and must be approved by the Court under section 111. FSMA requires the application to be accompanied by a report on the terms of the Scheme (“the Scheme”) by an independent expert.
- 1.1.2 I have been appointed by Pearl Group Services Limited (“PGSL”) as the Independent Expert in connection with the Scheme providing for the transfer of the long term business of Pearl Assurance (Unit Funds) Limited (“PAUF”), Pearl Assurance (Unit Linked Pensions) Limited (“PAULP”) and London Life Linked Assurances Limited (“LLLA”) to NPI Limited (“NPIL”) (collectively “the Companies”). The Companies are all wholly owned subsidiaries of Pearl Group Limited (“PGL”).
- 1.1.3 My appointment as the Independent Expert has been approved by the Financial Services Authority (“FSA”).
- 1.1.4 I am a Fellow of the Institute of Actuaries, having qualified in 1973.
- 1.1.5 I am a Principal of Milliman, Consultants and Actuaries, based in the UK at Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ. I have more than 30 years’ experience in the UK life insurance industry. I have also acted on a number of occasions in the statutory capacity of Independent Actuary or Independent Expert reporting on the terms of transfers of long term insurance business.

### 1.2 The scope of my report

- 1.2.1 This report has been prepared in respect of a scheme pursuant to Part VII of FSMA. The report considers the consequences of the Scheme for the policyholders affected. These are the policyholders of the Companies and National Provident Life Limited (“NPLL”), a subsidiary of the shareholder fund of Pearl Assurance plc (“PA”). NPLL reinsures a substantial part of its liabilities to NPIL.
- 1.2.2 I have compiled my report in accordance with Chapter 18 of the Supervision section of the FSA Handbook.
- 1.2.3 My report does not consider alternative schemes.

### 1.3 Conflicts of interest

- 1.3.1 I confirm that I am independent of, and have no conflicts of interest with, any of the Companies. Milliman does not hold any interests or policies in any of the Companies. I hold a deferred annuity policy with NPLL which is unaffected by the proposals. I have not previously carried out any consultancy work on behalf of the Companies.

## 1.4 Terms of reference

- 1.4.1 The terms of reference of my appointment as Independent Expert to the Scheme are set out in detail in my engagement letter dated 5 April 2006 and are attached in Appendix 1.
- 1.4.2 The Supervision Manual of the FSA Handbook sets out, in section 18, the FSA's guidance on the form of the Independent Expert's report. Among other things, this guidance requires me to consider (as given in section 18.2.36):
- The effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of insolvency of the insurers.
  - The likely effects of the Scheme on:
    - the security of policyholders' contractual rights
    - the levels of service provided to policyholders
    - the reasonable expectations of policyholders
- 1.4.3 In reporting on the Scheme in accordance with Part VII of FSMA, I owe a duty to the Court to help the Court on matters within my expertise. This duty overrides any obligation to any person from whom I have received instructions or by whom I am paid. I confirm that I understand my duty to the Court and have complied and will continue to comply with that duty.
- 1.4.4 This report should be read in conjunction with the full terms of the Scheme and the reports prepared by the Actuarial Function Holder for PAUF, PAULP and LLLA and the Actuarial Function Holder/With profits Actuary for NPIL.

## 1.5 Reliances

- 1.5.1 I have had access to and discussions with the management of the Companies to assist in the completion of this report. I have relied upon the information and data provided to me by the Companies in both written and oral form without independent verification. I have considered and I am satisfied with the reasonableness of the information I have received from my own experience in the insurance industry.
- 1.5.2 The documents and information upon which I have placed significant reliance are listed in section 3.

## 1.6 Limitations

- 1.6.1 This report, and any extract or summary thereof, has been prepared particularly for the use of the bodies or persons listed below:
- The Court;
  - The Royal Courts of Jersey and Guernsey;

- The FSA or any other governmental department or agency having responsibility for the regulation of insurance companies in the UK or any EEA state or jurisdiction in which the Companies have operated a branch or carried on business;
  - The Jersey Financial Services Commission;
  - The Guernsey Financial Services Commission;
  - The Directors of the Companies; and
  - The professional advisers of any of the above.
- 1.6.2 Neither my report, nor any extract from it, may be published without my specific written consent having been given, save that copies of this report may be made available for inspection by policyholders and copies may be provided to any person requesting the same in accordance with legal requirements.
- 1.6.3 No summary of this report may be made without my express consent. This report has been prepared within the context of the assessment of the terms of the Scheme. No liability will be taken for application of this report to a purpose for which it was not intended nor for the results of any misunderstanding by any user of any aspect of this report. In particular, no liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.6.4 I am available to assist any of the parties listed above in interpreting this report.
- 1.6.5 Nothing in this report should be interpreted as investment advice.

## **1.7 Statement of truth**

- 1.7.1 I confirm that insofar as the facts stated in my 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.

## **1.8 Jersey and Guernsey business**

- 1.8.1 All comments in my report apply equally to UK business and to Jersey and Guernsey business which requires transfer under the Jersey Scheme and Guernsey Scheme respectively. The number of such policies is expected to be immaterial.

## 2 Summary and overall conclusions

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### 2.1 Summary of the Scheme

- 2.1.1 The Effective Date of the Scheme upon which I am reporting is expected to be 1 October 2006.
- 2.1.2 Prior to the Effective Date, PGL will purchase PAUF and PAULP from PA and LLLA from London Life Holdings Limited. PGL will then donate PAUF, PAULP and LLLA to NPIL as a capital contribution, so that immediately prior to or on the Effective Date, the NPIL shareholder fund will hold PAUF, PAULP and LLLA.
- 2.1.3 On and with effect from the Effective Date, the long term business of PAUF, PAULP and LLLA will be transferred to the existing NPIL long term fund, together with all reinsurance treaties associated with the transferring business.
- 2.1.4 All other assets and liabilities of PAUF, PAULP and LLLA outside the long term funds will be transferred to the NPIL shareholder fund, with the exception of any capital required by PAUF, PAULP and LLLA to continue to meet minimum capital requirements.

### 2.2 Conclusions

- 2.2.1 I have considered the effects of the Scheme on all the different groups of policyholders that could potentially be affected by this Scheme. In summary, these are:
- the transferring policyholders from PAUF, PAULP and LLLA;
  - any policyholders from PAUF, PAULP and LLLA not transferring to NPIL; and
  - the existing NPIL policyholders.

For each of these groups of policyholders, I have considered the effect of the Scheme on:

- the security of policyholder benefits; and
  - the fair treatment of policyholders.
- 2.2.2 In conclusion, I am satisfied that for each of these groups of policyholders, the implementation of the Scheme will not materially affect the security of their benefits nor will it materially affect their fair treatment.
- 2.2.3 I have also considered the security of the liability to NPIL for reinsurance ceded by it to NPIL. The considerations are similar to those regarding the security of policyholder benefits.

### 3 Information considered

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3.1 In preparing this report, the principal documents I have been provided with are:

- The Scheme document as annexed to the Claim Form presented to the Court
- Board report on the proposed transfer by the Actuarial Function Holder for PAUF, PAULP and LLLA
- Board report on the proposed transfer by the Actuarial Function Holder for NPIL
- Relevant extracts from the Decision Notice issued by the FSA dated 8 April 2005
- Proposed capital restructuring before the transfer
- Projected capital position of NPIL after implementation of the Scheme
- Individual Capital Assessment for the Life Companies within HHG Life Services as at 30 June 2004
- Individual Capital Guidance for the Life Companies
- Annual FSA Insurance returns for years ended 31 December 2003, 2004 and 2005 for the Companies
- Report & Accounts for years ended 31 December 2003, 2004 and 2005 for the Companies
- Appointed Actuary's or Actuarial Function Holder's report for the years ended 31 December 2003, 2004 and 2005 for the Companies
- Financial condition reports for NPIL by Andrew Walton dated 28 October 2004 and Paul Turnbull dated 8 December 2005
- Principles and practices of financial management for NPIL and 'A guide to how we manage our with profits fund'
- Reinsurance agreements between PA and each of PAUF, PAULP and NPIL
- Reinsurance agreement between London Life Limited and LLLA
- Reinsurance agreements between NPLL and NPIL
- Investment management agreements between the Companies and Henderson Global Investors Limited
- Management service agreements
- Items of correspondence with the Regulators
- Sample policy documentation

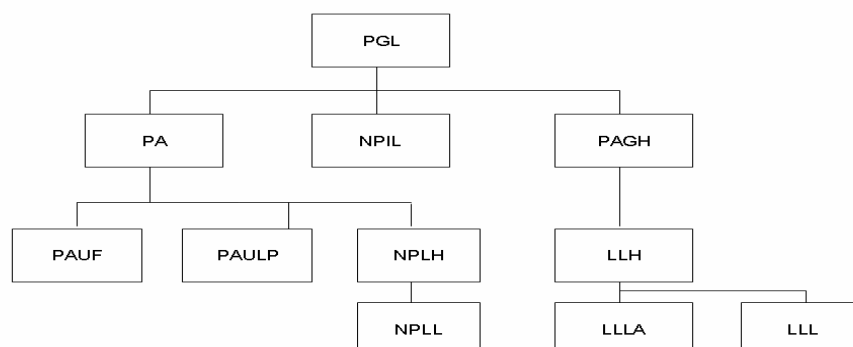
## 4 Background

### 4.1 Pearl Group Limited

- 4.1.1 PGL is a private company formed by Sun Capital Partners and TDR Capital in 2004 for the purpose of acquiring Life Services, the UK life insurance business of HHG plc, which consists of Pearl, NPI and London Life.
- 4.1.2 HHG's Life Services division was formed in December 2003, following a demerger from AMP Limited.
- 4.1.3 NPLL and NPIL were formed by AMP Limited in 1999.
- 4.1.4 AMP Limited was formed in 1997 as the holding company for all the businesses of the former Australian Mutual Provident Society. The Australian Mutual Provident Society merged with the London Life Association in 1989 and acquired PA in 1990.
- 4.1.5 Henderson Global Investors ("HGI") is the current investment manager for the Pearl Group companies. HGI was acquired by AMP Limited in 1998 and it is intended that HGI will continue to be the investment manager for all the Companies.
- 4.1.6 The table below shows the relative sizes (mathematical reserves net of reinsurance) of each of the Companies at the 2004 and 2005 year ends.

Company	2004	2005
	£'000s	£'000s
PAUF	366,345	334,707
PAULP	376,826	423,185
LLLA	161,798	168,692
NPIL	3,448,132	3,653,355

- 4.1.7 The diagram below shows a simplified structure of the relevant parts of PGL prior to the reorganisation which is intended to pre-date the Scheme (2.1.2).



- PGL has insurance subsidiaries PA and NPIL, and non-insurance subsidiary Pearl Assurance Group Holdings Limited (“PAGH”)
- The shareholder fund of PA holds insurance subsidiaries PAUF and PAULP and a non-insurance subsidiary NP Life Holdings (“NPLH”), which in turn has an insurance subsidiary NP Life Limited (“NPLL”)
- PAGH has a non-insurance subsidiary London Life Holdings Limited (“LLH”), which in turn has insurance subsidiaries LLLA and London Life Limited (“LLL”)

## 4.2 Pearl Assurance (Unit Funds) Limited

### Introduction to PAUF

- 4.2.1 PAUF was formed in 1971 as a wholly owned subsidiary of the shareholder fund of PA (originally formed in 1864 under the name of The Pearl Life Assurance Loan & Investment Company Limited), which in turn is a subsidiary of PGL.
- 4.2.2 PAUF is authorised to write long term insurance business in classes I, II, III, IV, VI and VII. However, no business is written in classes II, VI and VII. There is also no with profits business.
- 4.2.3 The company closed to new business in 1995, with the exception of minor increases to existing policies and variations to existing business, including reinsurance acceptances.
- 4.2.4 PAUF currently has one long term fund and a shareholder fund. The shareholders are entitled to all of the surplus emerging from the business.

### Nature of business written

- 4.2.5 PAUF has issued only unit linked whole of life and endowment policies. Some of the whole of life policies have an attaching non-linked temporary assurance benefit which is reinsured to PA.
- 4.2.6 The table below shows the relative sizes of the liabilities (mathematical reserves net of reinsurance) as at the 2004 and 2005 year ends.

	2004		2005	
	No. of policyholders	Mathematical reserves	No. of policyholders	Mathematical reserves
		£000s		£000s
Whole of life	21,182	140,312	18,157	125,236
Endowment	46,300	214,970	33,581	199,028
Reinsurance accepted	1	11,063	1	10,443
Total	67,483	366,345	51,739	334,707

- 4.2.7 All business was written in the UK, Jersey, Guernsey and the Isle of Man. There are a small number of policyholders resident in EEA and non-EEA countries.

## **Reinsurance**

- 4.2.8 Outward reinsurance

There is one outward reinsurance treaty in place with PA. This treaty is open to new business (increments to existing business only) and covers the term assurance benefits attaching to the whole of life policies.

- 4.2.9 Inwards reinsurance

PAUF accepts reinsurance in respect of linked benefits from PA. The treaty is open to new business. PA is not writing any new business in the category reinsured but existing policyholders may switch from unitised with profits funds to linked funds, thus giving rise to 'new business' under the treaty.

## **Service agreements**

- 4.2.10 PAUF has service agreements with:

- PGSL in respect of the administration of all business
- HGI which provides investment management services in respect of all business

## **4.3 Pearl Assurance (Unit Linked Pensions) Limited**

### **Introduction to PAULP**

- 4.3.1 PAULP was formed in 1973 as a wholly owned subsidiary of the shareholder fund of PA.

- 4.3.2 PAULP currently has one long term fund and is authorised to write long term insurance business in classes I, II, III, IV, VI and VII. However, no business is written in classes II, VI and VII. There is also no with profits business.

The company closed to new business in 2001, with the exception of:

- annuities in payment arising from vesting deferred pension contracts;
- new stakeholder policies which may be accepted under the existing stakeholder scheme; and
- minor increases to existing policies.

- 4.3.3 PAULP currently has one long term fund and a shareholder fund. The shareholders are entitled to all of the surplus emerging from the business.

## Nature of business written

4.3.4 PAULP has issued only pension deferred and immediate annuity policies (arising from the vesting of deferred annuity contracts). The deferred annuity policies are all unit linked policies.

4.3.5 Some of the deferred annuity policies contain an annuity rate guarantee which is reinsured with PA.

4.3.6 When a deferred annuity contract matures, there are 3 options:

- an annuity is secured with an external provider chosen by PAULP;
- an annuity is secured from another life assurance company; or
- an annuity is secured with PAULP, which is then reinsured to PA.

Policyholders with an annuity rate guarantee would be expected to opt to exercise the guarantee, in which case the annuity will be secured with PAULP and reinsured to PA.

4.3.7 The table below shows the relative sizes of the liabilities (mathematical reserves net of reinsurance) as at the 2004 and 2005 year ends.

	2004		2005	
	No. of policyholders	Mathematical reserves £,000s	No. of policyholders	Mathematical reserves £,000s
Deferred annuities	73,095	376,826	70,034	423,185
Total	73,095	376,826	70,034	423,185

4.3.8 All business was written in the UK. There are a small number of policyholders resident in EEA and non-EEA countries.

## Reinsurance

4.3.9 Outward reinsurance

There is reinsurance with PA which covers the annuity rate guarantees and the immediate annuities in PAULP arising from the vesting of the deferred annuities.

4.3.10 Inwards reinsurance

There is no inwards reinsurance.

## Service agreements

4.3.11 PAULP has service agreements with:

- PGSL in respect of the administration of all business

- HGI which provides investment management services in respect of all business

**4.4 London Life Linked Assurances Limited**

**Introduction to LLLA**

- 4.4.1 LLLA was formed in 1978 as a wholly owned subsidiary of LLL’s mutual predecessor, the London Life Association (originally formed in 1806).
- 4.4.2 LLLA is a wholly owned subsidiary of LLH, which in turn is wholly owned by PAGH, a wholly owned subsidiary of PGL.
- 4.4.3 LLLA is authorised to write long term insurance business in classes I, II, III, IV, VI and VII. However, no business is written in classes II, VI and VII. There is also no with profits business.
- 4.4.4 The company closed to new business in 1995, with the exception of minor increases to existing policies and variations to existing business, including reinsurance acceptances.
- 4.4.5 LLLA currently has one long term fund and a shareholder fund. The shareholders are entitled to all of the surplus emerging from the business.

**Nature of business written**

- 4.4.6 LLLA has issued only unit linked whole of life policies (single and regular premium). Some of these policies have an attaching guaranteed minimum death benefit which is reinsured to LLL.
- 4.4.7 The company accepts reinsurance in respect of linked benefits from LLL.
- 4.4.8 The table below shows the relative sizes of the liabilities (mathematical reserves net of reinsurance) as at the 2004 and 2005 year ends.

	2004		2005	
	No. of policyholders	Mathematical reserves	No. of policyholders	Mathematical reserves
		£000s		£000s
Whole of life	8,126	161,798	7,340	168,692
Total	8,126	161,798	7,340	168,692

- 4.4.9 All business was written in the UK. There are a small number of policyholders resident in EEA and non-EEA countries.

## Reinsurance

### 4.4.10 Outward reinsurance

There is a reinsurance treaty with LLL which covers the guaranteed minimum death benefit attaching to some whole of life policies. The treaty is open to new business but there is currently no sum at risk under this arrangement (as the value of units exceeds the guaranteed minimum death benefit for all policies).

### 4.4.11 Inwards reinsurance

The company accepts reinsurance in respect of linked benefits from LLL. Part of the treaty is open to new business. LLL is not writing any new business in the category reinsured but existing policyholders may switch from unitised with profits funds to linked funds, thus giving rise to 'new business' under the treaty.

## Service agreements

### 4.4.12 LLLA has service agreements with:

- PGSL in respect of the administration of all business
- HGI which provides investment management services in respect of all business

## 4.5 NPI Limited

### Introduction to NPIL

4.5.1 NPIL was first authorised to write life assurance business in 1999, as part of the arrangements made by AMP to accept the prospective new business expected from acquiring the sales operation of National Provident Institution mutual life assurance company.

4.5.2 NPIL is authorised to write long term insurance business in classes I, III and IV.

4.5.3 No new direct business is being written apart from increases to existing policies and minor variations to existing business. The company has an agreement to accept new reinsurance from NPLL for both immediate and deferred annuity business.

4.5.4 NPIL currently has one long term business fund and a shareholder fund. The shareholders are entitled to all of the surplus emerging from the business.

### Nature of business written

4.5.5 The long term business fund includes unitised with profits, non-profit and unit linked life and pensions business.

4.5.6 The unitised with profits business consists primarily of life assurance bonds and pension deferred annuity contracts, including some reinsurance accepted from NPLL. The investment element of all this business is ceded to PA.

- 4.5.7 Most of the non-profit business is unit linked life and pensions business, with the majority being reinsurance accepted from NPLL.
- 4.5.8 The non-linked non-profit business comprises mainly annuities in payment (some of which are index linked). Most of this business is reinsurance accepted from NPLL. There are also some temporary assurance contracts.
- 4.5.9 The table below shows the relative sizes of the liabilities as at the 2004 and 2005 year end.

	2004		2005	
	No. of policyholders	Mathematical reserves	No. of policyholders	Mathematical reserves
		£000s		£000s
Conventional non-profit	8,900	484,054	9,082	586,330
Accumulating with profit	23,400	13,927	20,363	9,428
Unit linked	49,938	2,927,611	49,106	3,031,064
Index linked	183	22,540	188	26,533
Total	82,421	3,448,132	78,739	3,653,355

### **Reinsurance**

#### 4.5.10 Outward reinsurance

NPIL reinsures the life unitised with profits business on an original terms basis to PA, whilst only the investment element of the pensions unitised with profits business is reinsured to PA.

There is also a reinsurance treaty with Swiss Re Life and Health which covers term assurances and waiver of premium benefits over NPIL's retention limit.

#### 4.5.11 Inwards reinsurance

Reinsurance is accepted from NPLL covering unit linked life and pensions business, unitised with profits life and pensions business and annuities in payment.

### **Service agreements**

#### 4.5.12 NPIL has service agreements with:

- PGSL in respect of the administration of all business
- HGI which provides investment management services in respect of all business

## 4.6 The current regulatory regime

- 4.6.1 The FSA introduced a risk based capital framework through the Integrated Prudential Sourcebook with effect from 31 December 2004. Under the regulatory regime companies must assess solvency under two regimes called Pillar I and Pillar II.
- 4.6.2 Pillar I is closely aligned to the statutory or regulatory measure of solvency of the old regulatory regime where companies calculate their assets at broadly market value and their liabilities with allowance for prudence. In addition, companies must hold further amounts of capital to cover themselves against adverse deviations in future experience and one off shocks to investment performance – called the capital resources requirement (“CRR”).
- 4.6.3 The capital that must be held under Pillar II is the Individual Capital Assessment (“ICA”) and is the company’s own assessment of its capital requirements. A company is not required to publish its Pillar II capital requirement but must be able to show the results of its ICA to the FSA on request. Pillar II is intended to provide a more realistic and complete view of the risks to which the company is exposed and to provide a framework within which the company should be managed in the future. There is little in the way of prescription within the FSA rules regarding the calculations of the ICA and industry practice is still developing.
- 4.6.4 The ICA is submitted privately to the FSA, who will review the information submitted and may, if thought appropriate, issue Individual Capital Guidance (“ICG”) requiring a greater amount of capital to be held. The ICG is also not publicly disclosed.
- 4.6.5 In my report I consider the effects of the transfer on the Pillar I and Pillar II capital position when I consider the security of policyholder benefits in section 9.

## **5 Proposals prior to the implementation of the Scheme and purpose of the Scheme**

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### **5.1 Capital restructuring**

5.1.1 Between 31 December 2005 and the Effective Date of the proposed Scheme, the following is expected to take place:

- LLH repays £9 million of a loan to PGL using LLLA shares;
- PGL contributes LLLA to NPIL;
- PGL acquires PAUF and PAULP from PA for £86 million and assumes the inter-company loans; and
- PGL contributes PAUF and PAULP and the responsibility for repaying the loans to NPIL.

5.1.2 So immediately prior to or on the Effective Date, the NPIL shareholder fund will hold PAUF, PAULP and LLLA.

### **5.2 Purpose of the proposed Scheme**

5.2.1 The reasons for the proposed Scheme include:

- the ability to rationalise unit funds in the future, leading to savings in investment costs;
- the transferring policyholders may in time have access to a wider range of unit linked funds than would otherwise have been available; and
- savings in administration costs, especially those arising from financial reporting.

## **6 Summary of the Scheme**

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### **6.1 Transfer of business**

6.1.1 On and with effect from the Effective Date of the Scheme:

- the whole of the long term business of PAUF will be transferred to NPIL;
- the whole of the long term business of PAULP will be transferred to NPIL; and
- the whole of the long term business of LLLA will be transferred to NPIL.

6.1.2 All transferring policies will be allocated to the existing NPIL long term fund.

6.1.3 All other assets and liabilities of PAUF, PAULP and LLLA outside the long term business fund will be transferred to the NPIL shareholder fund, subject to PAUF, PAULP and LLLA meeting their regulatory requirements.

### **6.2 Rights and obligations**

6.2.1 With effect from the Effective Date of the Scheme:

- in substitution of their rights against PAUF, PAULP and LLLA (as applicable), holders of transferred policies will be entitled to the same rights against NPIL as they had against PAUF, PAULP and LLLA respectively prior to the Effective Date.
- NPIL will have the same rights, benefits and powers in respect of transferred policies as those available to PAUF, PAULP and LLLA prior to the Effective Date;

6.2.2 Premiums in respect of transferred policies will, after the Effective Date, be payable to NPIL.

### **6.3 Unit linked funds**

6.3.1 On and with effect from the Effective Date, new internal linked funds will be established in NPIL corresponding to those internal linked funds in PAUF, PAULP and LLLA. Each of the internal linked funds maintained by NPIL prior to the Effective Date will continue to be so maintained.

6.3.2 Unit linked policies in PAUF, PAULP and LLLA immediately prior to the Effective Date shall become linked to the corresponding new internal linked fund(s) of NPIL and will be allocated the same number and classes of units which were allocated in PAUF, PAULP and LLLA immediately prior to the Effective Date.

6.3.3 Transferred unit linked policies will not be permitted to switch to or between the full range of internal linked funds existing in NPIL immediately after transfer, but will be restricted to only those funds to which they had access immediately prior to the Effective Date.

6.3.4 Similarly, existing unit linked policies in NPIL will not be permitted to switch to or between the corresponding new internal linked funds in NPIL created as a direct result of the transfer of business in accordance with the Scheme.

6.3.5 After the Effective Date, NPIL will be able to:

- amalgamate or divide any of the internal linked funds or parts of the internal linked funds; or
- modify or enlarge the investment objectives of any of its internal linked funds to permit investment in assets which are reasonably similar to, or provide reasonably similar investment exposure to, those already held or permitted to be held in that internal linked fund.

provided that:

- it is consistent with FSMA and applicable FSA rules; and
- the NPIL Board, having regard to the advice of the NPIL Actuarial Function Holder, considers it equitable.

## 6.4 Jersey business

6.4.1 Jersey policies currently in PAUF will be transferred to NPIL if the Jersey Scheme is approved by the Royal Court of Jersey and has become operative.

There is only one LLLA Jersey policyholder. The company is seeking to transfer this policy by novation.

6.4.2 If the Jersey Scheme is not approved by the Royal Court of Jersey then the policies covered by the Jersey Scheme will not be transferred and instead will become Excluded Policies under the Scheme.

## 6.5 Guernsey business

6.5.1 Guernsey policies currently in PAUF and LLLA will be transferred to NPIL if the Guernsey Scheme is approved by the Royal Court of Guernsey and has become operative.

6.5.2 If the Guernsey Scheme is not approved by the Royal Court of Guernsey then the policies covered by the Guernsey Scheme will not be transferred and instead will become Excluded Policies under the Scheme.

## 6.6 Excluded Policies

6.6.1 The Scheme includes provision for policies that are excluded from the transfer under the Scheme. These would include overseas policies in relation to which the relevant EEA regulator has raised an objection, Guernsey policies pending approval of the Guernsey Scheme by the Guernsey Court, Jersey policies pending approval of the Jersey Scheme by the Jersey Court, or any other policies over which the English Court has no jurisdiction.

- 6.6.2 These policies will be reinsured in their entirety by PAUF, PAULP or LLLA as appropriate into NPIL on terms that effectively ensure that such policies are treated in the same way as if they had been transferred policies until such time as they are transferred. There are expected to be few, if any, such policies.
- 6.6.3 With effect from the Effective Date, NPIL will be responsible for all aspects of the administration of Excluded Policies.

## **6.7 Service agreements**

- 6.7.1 If and when the Scheme is implemented, it is intended that the following will take place (but not as part of the Scheme):
- The current service agreements that PAUF, PAULP and LLLA have in place with PGSL will be novated to NPIL.
  - The investment management agreements that PAUF, PAULP and LLLA have with HGI, including unit pricing agreements with BNP Paribas, will similarly be transferred to NPIL.

## **6.8 Costs and expenses**

- 6.8.1 PAUF, PAULP, LLLA and NPIL shall bear all legal and other professional costs in relation to the preparation and carrying into effect of the proposed Scheme in such proportions as agreed between them. The costs will be allocated to the shareholder funds.

## **6.9 The Effective Date**

- 6.9.1 The Effective Date is expected to be 1 October 2006.

## 7 Financial position before and after implementation of the Scheme

### 7.1 The financial position of the Companies before the Scheme is implemented

7.1.1 The table below shows the Pillar I (regulatory solvency) financial position of PAUF, PAULP and LLLA as at the 2004 and 2005 year ends prior to the implementation of the Scheme.

£000s		PAUF		PAULP		LLLA	
		2004	2005	2004	2005	2004	2005
Assets	Long term fund	393,982	372,481	403,133	435,480	165,855	173,305
	Shareholder fund	19,021	36,023	32,166	43,817	10,045	6,024
	<b>Total</b>	<b>413,003</b>	<b>408,504</b>	<b>435,299</b>	<b>479,297</b>	<b>175,900</b>	<b>179,329</b>
Liabilities	Unit linked	366,345	334,707	376,826	423,185	161,798	168,692
	Other	22,562	38,027	18,262	12,933	4,408	4,367
	<b>Total</b>	<b>388,907</b>	<b>372,734</b>	<b>395,088</b>	<b>436,118</b>	<b>166,206</b>	<b>173,059</b>
Available assets		24,096	35,770	40,211	43,179	9,694	6,270
<b>CRR</b>		<b>3,003</b>	<b>2,873</b>	<b>5,129</b>	<b>5,572</b>	<b>2,223</b>	<b>2,030</b>
<b>Free assets</b>		<b>21,093</b>	<b>32,897</b>	<b>35,082</b>	<b>37,607</b>	<b>7,471</b>	<b>4,240</b>

7.1.2 The table above shows that PAUF, PAULP and LLLA have free assets (available assets in excess of the CRR) of approximately £33 million, £38 million and £4 million respectively at 31 December 2005.

7.1.3 The Pillar I position for each company is more onerous than the Pillar II position after diversification benefits and the value of in-force business have been taken into account in the Pillar II calculations.

### 7.2 The financial position of NPIL before the Scheme is implemented

7.2.1 The table below shows the financial position of NPIL prior to the implementation of the Scheme as at the 2004 and 2005 year ends.

£000s		NPIL	
		2004	2005
Assets	Long term fund	3,808,505	3,917,473
	Shareholder fund	6,338	84,969
	<b>Total</b>	<b>3,814,843</b>	<b>4,002,442</b>
Liabilities	CNP	484,054	586,330
	UWP	13,927	9,428
	Unit linked	2,927,611	3,031,064
	Index linked	22,540	26,533
	Sub-total	3,448,132	3,653,355
	Other liabilities	266,657	240,374
	<b>Total</b>	<b>3,714,789</b>	<b>3,893,729</b>
Available assets		100,054	108,713
<b>CRR</b>		<b>45,032</b>	<b>50,776</b>
<b>Free assets</b>		<b>55,022</b>	<b>57,937</b>

7.2.2 The table above shows that NPIL has approximately £58 million of free assets at 31 December 2005.

7.2.3 The Pillar I position for NPIL is more onerous than the Pillar II position after diversification benefits and the value of in-force business have been taken into account in the Pillar II calculations.

### 7.3 The financial position of NPIL after the Scheme is implemented

7.3.1 The table below shows the financial position of NPIL as at 31 December 2005 on the Pillar I basis, on the assumption that the Scheme had already been implemented.

7.3.2 The changes which have taken place since 31 December 2005 are:

- A £1 million dividend was paid by LLLA in March 2006;
- A £9 million dividend was paid by PAUF in April 2006; and
- NPIL lent PGL £30 million (of which £16 million is inadmissible) in March 2006.

7.3.3 The changes which are expected to occur as a consequence of the Scheme are:

- On the transfer of companies to NPIL, the loans amounting to £62 million made to PA by PAUF and PAULP and transferred to NPIL prior to the Effective Date would cancel out, leading to an overall decrease in admissible assets of £29.3 million; and

- A deferred tax liability of £11.5 million in PAUF would no longer be required due to the existence of a tax asset in NPIL.

£m		NPIL
		Post transfer
Assets	Long term fund	4,898.8
	Shareholder fund	170.8
	<b>Total</b>	<b>5,069.6</b>
Liabilities	CNP	586.3
	UWP	9.4
	Unit linked	3,957.6
	Index linked	26.5
	Sub-total	4,579.9
	Other liabilities	295.7
	<b>Total</b>	<b>4,875.7</b>
<b>Available assets</b>		<b>194.0</b>
Dividends paid		(10.0)
New loan from NPIL to PGL (admissibility restriction)		(16.0)
Transfers and cancellation of loans		(29.3)
Tax adjustment		11.5
<b>Revised capital resources</b>		<b>150.2</b>
<b>CRR</b>		<b>60.3</b>
<b>Free assets</b>		<b>89.9</b>

- 7.3.4 As the table shows, the capital resources of NPIL as at the 2005 year end, after the implementation of the Scheme, would have exceeded the Pillar I capital requirement by approximately £90 million.
- 7.3.5 I expect that the Pillar I position of NPIL after the Scheme has been implemented will continue to be more onerous than the Pillar II position after diversification benefits and the value of in-force business have been taken into account in the Pillar II calculations.

## 8 General considerations of the Independent Expert

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- 8.1 I have compiled my report in accordance with Chapter 18 of the Supervision Manual of the FSA Handbook.
- 8.2 Under FSMA, the concept of treating customers fairly should be applied. In order to ensure customers are treated fairly in the future, it is necessary to establish the ways in which customers have been treated in the past. From the policyholders' perspective, the successful implementation of the Scheme must require that their security of benefits and fair treatment are not materially affected.
- 8.3 I need to consider how the different groups of policyholders are likely to be affected by the Scheme and, in particular:
- the effect of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer.
  - the likely effects of the Scheme on the fair treatment of policyholders.
- 8.4 I consider the effect of the Scheme on the security of policyholder benefits in section 9 and the effects of the Scheme on the ability to treat customers fairly in section 10.
- 8.5 For policies which involve discretionary as well as guaranteed benefits, such as bonuses on with profits policies, surrender values and any discretionary charges on unit linked business, I must also consider the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits and the effect of the Scheme on the level of benefits payable.

## **9 Security of policyholder benefits**

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### **9.1 Introduction**

9.1.1 In the Supervision Manual of the FSA Handbook, Chapter 18 sets out guidance for transfers of insurance business. Section 18.2 sets out guidance for insurance business transfers within the UK and includes guidance on the groups of policyholders the Independent Expert must consider in his report on such a transfer. Accordingly, the different groups of policyholders I need to consider are:

- the transferring policyholders of PAUF, PAULP and LLLA;
- the policyholders of PAUF, PAULP and LLLA remaining in their respective companies post transfer;
- the existing policyholders in NPIL; and
- NPLL whose business is partly reinsured into NPIL.

9.1.2 After giving some background around the general considerations affecting the security of policyholder benefits, I consider each of these groups of policyholders in sections 9.9 to 9.11.

### **9.2 Factors affecting security of policyholder benefits**

9.2.1 In considering and commenting upon policyholder security I need to consider policyholders' guaranteed benefits. The amount by which the long term fund assets exceed the long term fund liabilities (including the mathematical reserves) provides security for guaranteed benefits. Security is also provided by the margins for prudence in the assumptions used to calculate the long term business fund liabilities. Policyholder security is also affected by:

- the nature and volume of future new business;
- the potential volatility in future economic, mortality, sickness, expense and persistency experience;
- support from the parent company;
- future capital payments out of, or capital injections into, the long term fund; and
- reinsurance arrangements.

9.2.2 The risks from potential volatility of future experience are considered below when I consider, in sections 9.9 to 9.11, the effects of implementing the Scheme on the different groups of policyholders outlined above.

9.2.3 The effects on the security of policyholder benefits from new business, parent support, capital transfers to and from the fund and reinsurance are more generic issues that will

affect all the policyholders in NPIL after implementation of the Scheme and I consider these in sections 9.3 to 9.6.

- 9.2.4 I have been provided with a projection of the capital position for NPIL after implementation of the Scheme. The projection demonstrates NPIL's ability to cover its capital requirement for the foreseeable future.

### **9.3 New business**

- 9.3.1 The transferring funds, PAUF, PAULP and LLLA, are closed to new business. The NPIL fund is also closed to new business. All funds accept incremental business and NPIL will continue to accept such business after the Scheme is implemented. There is therefore no material security risk arising from new business.

### **9.4 Support from NPIL's parent**

- 9.4.1 All the Companies are subsidiaries of PGL and will continue to receive support from PGL after the Scheme is implemented.
- 9.4.2 In particular, the FSA issued a Decision Notice effective from 8 April 2005. The Decision Notice requires each of the Companies to hold a minimum level of capital until 31 December 2008 of 125% of the CRR on a Pillar I basis and the higher of the ICA and ICG increased by an additional margin (as determined by the directors of the relevant company) on a Pillar II basis to ensure the sensible management of the company's life insurance business and to allow it to meet the FSA's requirements for adequate capital.
- 9.4.3 The Actuarial Function Holder of NPIL has stated that he would have regard to future profits in advising the Board on capital requirements after 2008. These are expected to be material. In the event that these profits were affected by reinsurance (or securitisation) after the Effective Date, then regulatory supervision would permit a further review of capital requirements.

### **9.5 Reinsurance**

- 9.5.1 Existing reinsurance treaties for PAUF, PAULP and LLLA will be, wherever possible, transferred by a Court order to NPIL. Where the Court does not have this power, NPIL will seek consent from the reinsurers to replace PAUF, PAULP or LLLA (as applicable) with NPIL.

### **9.6 Fund structure**

- 9.6.1 The main purpose of the long term fund structure of an insurance company is to determine bonuses and the distribution of profit. If an insurance company's assets no longer exceed its liabilities and the company was declared insolvent, then the fund structure of that company would cease to operate. It would then be the case that the company's assets would be available to pay the claims of preferential creditors and then

meet guaranteed liabilities of policyholders, with direct policyholders taking priority over reinsurance accepted.

9.6.2 There will continue to be one long term business fund in NPIL after the transfer. To the extent that with profits business is written, it is reinsured to PA. I have not considered this further given that PA holds significant amounts of with profits business. The liabilities under such business allow for an element of discretionary benefits which means that guaranteed benefits are comfortably covered.

**9.7 The Pillar I capital position**

9.7.1 The table below shows the Pillar I capital position pre and post transfer.

£m	Pre transfer				Post transfer
	PAUF	PAULP	LLLA	NPIL	NPIL
<b>Assets</b>	408.5	479.3	179.3	4,002.4	<b>5,069.6</b>
<b>Liabilities</b>	372.7	436.1	173.1	3,893.7	<b>4,875.6</b>
<b>CRR</b>	2.9	5.6	2.0	50.8	<b>60.3</b>
<b>Pillar I free assets</b>	32.9	37.6	4.2	57.9	<b>133.7</b>
<b>Post year end adjustments</b>					<b>(43.8)</b>
<b>Pillar I free assets after adjustments</b>					<b>89.9</b>
<b>Pillar I free assets as % of assets</b>	8%	8%	2%	1%	<b>2%</b>

9.7.2 In a Part VII transfer, I am not required to ensure that the capital position of the receiving company, post transfer, is as least as strong as the capital position of the transferor company. Rather, I need to be satisfied that the capital position of the receiving company, post transfer, is adequate to provide protection for the security of benefits of the transferring policyholders. In considering the capital position before and after the transfer, it should be noted that:

- the Companies form part of the same group of companies pre and post transfer;
- capital can be moved between or removed from the Companies by the parent company subject to the Decision Notice; and

- actions taken since the 2005 year end show that PGL actively manage their capital position. I consider that limited reliance can be placed on the current well capitalised position of the Companies.

I am satisfied that the capital position of NPIL post transfer is adequate to provide protection for the security of benefits of the transferring policyholders.

### **9.8 The Pillar II capital position**

- 9.8.1 The ICA and ICG indicate that a major risk for the Companies is and will continue to be insurance risk (mainly longevity risk in NPIL). Economic risks are of a similar size and exist in all the Companies, reflecting their exposure to stock market volatility which affects the management charges.
- 9.8.2 The sum of the ICA requirements for each of the individual Companies after diversification is not significantly different from the CRR, although resources available to meet this include the value of the in-force business. I would not expect the position to change after implementation of the Scheme.
- 9.8.3 For each of the individual Companies, the Pillar II position is less onerous than the Pillar I position. I expect this to continue to be the case after the Scheme is implemented.

### **9.9 The policies remaining in PAUF, PAULP and LLLA**

- 9.9.1 The policies, if any, that remain in the PAUF, PAULP and LLLA funds will be reinsured into the NPIL fund under the Excluded Policies reinsurance treaty. There will be a requirement to hold regulatory capital whilst such business subsists. Whilst such capital will be large by comparison with the remaining liabilities, it is expected to be insignificant in relation to the assets and liabilities of PAUF, PAULP and LLLA to be transferred under the Scheme.

### **9.10 The NPIL policyholders after implementation of the Scheme (including transferring policyholders)**

- 9.10.1 There is no loss of possible support from PGL. PGL is currently the ultimate owner of the Companies and will continue to be the ultimate owner of the Companies after the Scheme is implemented. The business is subject to the same Decision Notice as in section 9.4.2.
- 9.10.2 Following the transfer, NPIL will have a risk profile which is more diversified than before the transfer takes place. After the transfer, NPIL will contain an increased amount of unit linked business. NPIL will bear additional risk due to this change so I need to consider the impact of the Scheme on the security of the existing policyholders of NPIL.
- 9.10.3 The business transferring from PAULP contains a guarantee that the benefits arising at maturity will be increased if necessary to meet commitments arising from the fact that

“best practice” rules may not have been adhered to on sale. An additional reserve is held to cover this commitment. There is an agreement with PA under which that company meets approximately half of the liability.

- 9.10.4 Immediate annuities written in PAULP arising from vested deferred annuity contracts are reinsured to PA. This increases the credit risk that would arise if PA were unable to meet its commitments. NPIL already had significant exposure to PA prior to the transfer though reinsurance.
- 9.10.5 Some of the linked business being transferred from each of the Companies was written with either fixed charges or limits on the extent to which charges can be increased. These limits would continue to apply after transfer, so if future experience were to be sufficiently adverse that charges were unable to cover expenses then the support for this business would be required from the shareholder fund.
- 9.10.6 I consider that the capital position, post transfer, is adequate to provide security of benefits for the policyholders in NPIL.

### **9.11 NPLL**

- 9.11.1 On insolvency or wind-up, directly sold business ranks above reinsured business so the introduction of transferred PAUF, PAULP and LLLA business (part of which will be treated as directly written business in NPIL) will affect the security of NPLL whose policies are in part reinsured into NPIL.
- 9.11.2 As discussed above, I consider the capital position of NPIL, post transfer, to be adequate. Any breach of security would, however, affect NPLL disproportionately.
- 9.11.3 The ICA requirement for NPIL is a good measure of the extent to which NPLL’s security could be at risk. This capital represents less than 3% of NPIL’s liability to NPLL, so even if extreme events were to impact NPIL, the effect on NPLL would be relatively small.

### **9.12 Overall conclusion on the security of policyholder benefits**

- 9.12.1 I conclude that the security of the benefits of the existing NPIL policyholders (including NPLL), the transferring policyholders from PAUF, PAULP and LLLA and the non-transferring PAUF, PAULP and LLLA policyholders will not be materially affected by implementation of the Scheme.

## 10 Treating customers fairly

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### 10.1 Introduction

- 10.1.1 Where there exist non-guaranteed or discretionary elements to the benefits such as reviewable premiums and non-guaranteed charges on unit linked policies, I must consider the likely effects of the Scheme on the benefits relative to the expectations of policyholders.
- 10.1.2 In this section I consider the existing NPIL policyholders and those transferring from PAUF, PAULP and LLLA.

### 10.2 Unit linked policyholders

#### Introduction

- 10.2.1 The unit linked policies of PAUF, PAULP and LLLA transferring under the Scheme will be allocated to the NPIL long term business fund, which will also contain the existing unit linked policyholders of NPIL.
- 10.2.2 Unit linked funds will be created in the NPIL long term business fund which are equivalent to those in PAUF, PAULP and LLLA as at the Effective Date. NPIL unit linked policies will continue to be linked to the same internal funds as held on the Effective Date.
- 10.2.3 Policyholders will therefore not see any immediate difference in the value of their unit holdings as a result of the Scheme.

#### Investment management

- 10.2.4 The investment management agreements for PAUF, PAULP and LLLA existing at the Effective Date will be transferred to NPIL under the Scheme. There will therefore be no immediate change in investment policy for any parts of the business.

#### Merging of linked funds

- 10.2.5 The Scheme allows for the unit linked funds to be merged and for reasonable changes in investment objectives to be made in due course. Any such decision would be subject to approval by the NPIL Board after receiving advice from the NPIL Actuarial Function Holder to ensure that the proposal is in line with policyholder expectations and permitted by the relevant policy terms and conditions and supporting documentation. NPIL will inform the policyholders concerned in writing.
- 10.2.6 Any merger of funds will need to reflect the then current position regarding fund charges and capital gains tax. This may result in different series of units existing in the same unit fund and with additional unit allocations to ensure fair tax treatment.

I understand that there is no intention to use this power in the immediate future, but it is likely that such mergers will be made in due course.

## **Policy options**

10.2.7 Some of the unit linked policies allow for options to be granted and for premiums to be reviewed. The Scheme does not specifically deal with the terms to be offered on premium reviews, but I understand that NPIL intends for any reviews to be conducted in line with previous practice.

## **Discretionary charges**

10.2.8 A difference in treatment of the discretionary elements of unit linked policies could impact on the policyholder benefits and these include:

- the level of annual management charge;
- the level of deductions for risk benefits;
- the level of policy fees; and
- unit pricing.

10.2.9 The level of annual management charge on some of the policies is at the discretion of the company. Charges are reviewed periodically and in practice there have been no changes for the past several years. I understand that the assessment of such charges in the future will be based on the expense experience of the relevant block of business only.

10.2.10 Some PAUF policies have rider benefits where the charges deducted for risk benefits are currently set at the company's discretion. The charges for these benefits are periodically reviewed in light of experience and recent reviews have not led to a change in the level of charges applied. For the foreseeable future, the future monitoring of experience after the Effective Date will be based on the same block of business as before the transfer.

10.2.11 PAUF, PAULP and NPIL have some policies with variable policy fees. There is no intention to change the practice used to determine these policy fees.

10.2.12 The proposed Scheme will not result in any change in the approach used to determine unit prices. The allowance for capital gains tax in the unit pricing for PAUF, LLLA and NPIL will continue to reflect the circumstances of each individual fund.

10.2.13 There is no intention to change the current approach for determining any of the discretionary elements mentioned above nor the approach used to determine unit prices.

## **10.3 Unitised with profits business**

10.3.1 After the Scheme is implemented, NPIL will continue to manage its with profits business in accordance with its Principles and Practices of Financial Management.

10.3.2 The reinsurance arrangements currently in place will continue after the Effective Date and the Scheme is not expected to have any effect for the unitised with profits business.

## **10.4 Non-profit, non-linked business**

10.4.1 Policyholders of non-profit, non-linked business have largely guaranteed benefits and so will not be affected by the Scheme, provided there are adequate financial resources.

## **10.5 Service levels**

10.5.1 PAUF, PAULP, LLLA and NPIL each have service agreements with PGSL.

10.5.2 PGSL outsources most of the servicing of the Companies to Diligenta. The service agreement came into effect on 1 April 2006.

10.5.3 It is my understanding that the level and quality of administration service will be no different after implementation of the Scheme.

## **10.6 Conclusion**

10.6.1 I believe that the implementation of the Scheme will not materially affect the fair treatment of existing NPIL policyholders and transferring PAUF, PAULP and LLLA policyholders.

## **11 Other considerations**

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### **11.1 Scheme costs**

11.1.1 Each of the Companies will meet their portion of the costs. No costs will be charged to the policyholders.

### **11.2 New business**

11.2.1 The NPIL fund is closed to new business except for contractual increases and top-ups to existing policies.

### **11.3 Tax**

11.3.1 As a consequence of the transfer, there is likely to be a timing benefit arising to shareholders from the use of tax losses carried forward in NPIL earlier than would otherwise have been the case.

## 12 Conclusion

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In summary, in my opinion:

- The security of the benefits of the existing NPIL policyholders (including NPLL), the transferring PAUF, PAULP and LLLA policyholders, and any non-transferring PAUF, PAULP and LLLA policyholders will not be materially affected by the implementation of the Scheme; and
- The fair treatment and reasonable benefit expectations of the existing NPIL policyholders, the transferring PAUF, PAULP and LLLA policyholders and any non-transferring PAUF, PAULP and LLLA policyholders will not be materially affected by the Scheme.



Mike Arnold

6 June 2006

Fellow of the Institute of Actuaries

## Appendix 1 – Terms of reference

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### Schedule 1

#### General requirements

1. It is the Independent Expert's duty to help on the matters within his expertise. This duty is paramount and overrides any obligation to the person from whom he has received instructions or by whom he is paid.
2. Evidence presented to the Court should be, and should be seen to be, the independent product of the Independent Expert uninfluenced by the exigencies of the instruction or Court proceedings.
3. The Independent Expert should provide independent assistance to the Court where appropriate, by way of objective unbiased opinion in relation to matters within his expertise. He should never assume the role of an advocate.
4. The Independent Expert should not omit to consider material facts within his knowledge which could detract from his concluded opinion.
5. The Independent Expert should make it clear when a particular question or issue falls outside his expertise.
6. If the Independent Expert's opinion is not properly researched because he considers that insufficient data is available, then this must be stated with an indication that the opinion is no more than a provisional one.
7. In a case where the Independent Expert who has prepared a report could not assert that the report contained the truth, the whole truth and nothing but the truth without some qualification, that qualification should be stated in the report.
8. If the Independent Expert changes his view on a material matter having read another expert's report or for any other reason, such change of view should be communicated in writing (through legal representatives) without delay, and when appropriate to the Court (and the Companies).

## Schedule 2

### Scope of the work of the Independent Expert in relation to the Scheme

The Report is to consider the terms of the Scheme generally and the effect which the Scheme will have on the holders of long term policies of each Company.

Milliman's and the Mike Arnold's review and Report will address generally the way in which the Companies have conducted their long term business but taking into account the particular circumstances of each class of business to be transferred. It will deal inter alia with the following aspects of each company:

- Memorandum, and the Articles of Association, at least insofar as these affect the rights, expectations and interests of policyholders;
- the terms of the policies issued by each Company;
- promotional or marketing materials (including those documents issued under the Financial Services and Markets Act 2000 and previous compliance regimes) which would influence the reasonable expectations of policyholders;
- the existing and proposed internal working arrangements relating to the financial management of the long term business fund, including the operational and administrative arrangements which will apply to the policies to be transferred under the terms of the insurance scheme;
- the terms and conditions expected to be imposed by the Scheme to be presented to the Court, including the views expressed by the governing body or management of each company.

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered to be relevant.

Milliman and Mike Arnold shall not be directly involved in the formulation of the proposed transfer although Milliman and Mike Arnold should expect to give guidance during the evolution of the detailed proposals on those issues which concern the Independent Expert, or which Milliman or Mike Arnold consider unsatisfactory.