

1. INTRODUCTION

The Independent Expert

- 1.1. London General Insurance Company Limited ("LGI") proposes to transfer certain parts of cover, contained within certain insurance contracts to London General Life Company Limited ("LGL"). These coverages can be thought of as policies in their own right. This proposed transfer is known as a Scheme and requires an application to the High Court for approval.
- 1.2. The application must be accompanied by a report on the terms of the Scheme by an Independent Expert. I have been appointed by LGI and LGL to fulfil this role.
- 1.3. I am an actuary and a Principal of Milliman Limited and I am based in its UK life insurance practice.
- 1.4. This is a summary of my main report on the Scheme and is subject to the same reliances and limitations as are set out in my main report. In the event of any conflict of interpretation between the summary report and my main report, the interpretation contained in my main report will prevail. A copy of my main report is available upon request to LGI or LGL.
- 1.5. My report considers the consequences of the Scheme for the policyholders of LGI and LGL.

General considerations of the independent expert

- 1.6. In assessing the impact of the Scheme, I am required to consider the terms of the Scheme generally and how the different groups of policyholders are likely to be affected.
- 1.7. In particular, I consider the effect of the Scheme on the security of policyholder benefits. This is the likelihood that policyholders will receive the benefits provided by their policies when these are due.
- 1.8. I also consider the proposals in the context of treating customers fairly and the effect on policyholders' benefit expectations.

2. A SUMMARY OF THE PROPOSED SCHEME

- 2.1. A detailed summary of the Scheme is provided in Section 4 of my main report.
- 2.2. The two companies directly involved in the Scheme are LGI and LGL. LGI is a general insurance company and is authorised to write certain types of short-term insurance contracts. LGL is a life insurance company and is authorised to write certain types of long-term insurance business.
- 2.3. Summary information about these companies, their products and risk profiles is provided in Section 3 of my main report.
- 2.4. Both LGI and LGL write 'payment protection insurance' contracts. These contracts are written to provide insurance cover for the policyholder to enable them to continue to make their repayments of a loan or other financing if and when one of the insured events occurs. These insured events include unemployment, sickness and death.
- 2.5. The life insurance cover under these contracts is written in LGL, and the unemployment cover under these contracts is written in LGI. The accident and sickness, critical illness, and hospitalisation covers under these contracts are written in LGI for short-term (written for less than 5 years) payment protection contracts and in LGL for long-term payment protection contracts (written for terms of 5 years or more and non-cancellable by the insurer)
- 2.6. As a result of a review of the policies written by LGI and LGL, it was discovered that some (non-cancellable) policies written in LGI had terms of 5 years or more and therefore should have been written in LGL. The decision has therefore been taken, with the approval of the FSA, to transfer the relevant policies from LGI to LGL. This transfer will take place by means of the Scheme.

- 2.7. The cost of the Scheme will be borne by the shareholders of LGI – no costs will be borne by policyholders.
- 2.8. There will be no change to the administration of the transferring LGI policies and LGL policies after the transfer and there will be no changes to direct debit mandates or standing orders.
- 2.9. The Scheme will have no effect on the amounts payable by policyholders.

3. THE EFFECT OF THE SCHEME ON THE TRANSFERRING LGI POLICYHOLDERS

Introduction

- 3.1. This is covered fully in Section 5 of my main report.
- 3.2. The main issues for the transferring policyholders are how the implementation of the Scheme will affect:
 - The financial strength available to provide support and security;
 - The risks to which the transferring LGI policyholders are exposed; and
 - The management and governance of the transferring LGI policies.

My conclusions for the transferring LGI policyholders

- 3.3. In Section 5 of my main report, I set out the detailed reasons why I am satisfied that:
 - After the Scheme, LGL will have sufficient financial strength to provide security of benefits for the policyholders transferring across from LGI that is comparable to the security they would have if they remained in LGI.
 - Although the Scheme will lead to a change in the risk profile and in the range of risks to which the transferring business is exposed, there will not be a material effect on the security of the benefits of the transferring policyholders.
 - The Scheme will not lead to any changes to the management of the transferring LGI policies or to the benefits received by the transferring LGI policyholders.
 - There will be no change to the administration or service standards of the transferring policies, as transferring policies will continue to be serviced from the same systems and by the same people.

4. THE EFFECT OF THE SCHEME ON THE NON-TRANSFERRING LGI POLICYHOLDERS

Introduction

- 4.1. This is covered fully in Section 6 of my main report.
- 4.2. The main issues for the non-transferring LGI policyholders are how the transfer out of this particular block of policies will affect:
 - The financial strength available to provide support and security;
 - The risks to which the LGI policyholders are exposed after the transfer out of the long-term business; and
 - The management and governance of the current LGI policies.

My conclusions for the non-transferring policyholders of LGI

- 4.3. The transferring business is a relatively small block of business in the context of LGI (less than 1%) and the effect of transferring out this block of business will not have a material effect on the remaining policies.
- 4.4. The Scheme will have no effect on the management, administration or governance of these remaining policies or on the standards of service the policyholders will receive.
- 4.5. I am therefore satisfied that the Scheme will not have a material effect on the non-transferring LGI policyholders.

5. THE EFFECT OF THE SCHEME ON THE CURRENT LGL POLICYHOLDERS

Introduction

- 5.1. This is fully covered in Section 7 of my report.
- 5.2. The main issues for the current LGL policyholders are how the transfer in of these policies from LGI will affect:
 - The financial strength available to provide support and security for the LGL policies;
 - The risks to which the LGL policyholders will be exposed after the LGI policies are transferred in; and
 - The management and governance of the current LGL policies.

My conclusions for the current policyholders of LGL

- 5.3. Although the Scheme will change the profile of risks to which the LGL business is exposed and will alter the financial strength of LGL, I am satisfied that, after the transfer, the amount of free capital in LGL will ensure that the security of the existing LGL policyholders will not be materially worse.
- 5.4. The Scheme will have no effect on the management, administration or governance of these policies or on the standards of service the policyholders will receive.
- 5.5. I am therefore satisfied that the Scheme will not have a material effect on the current LGL policyholders.

6. MY OVERALL CONCLUSIONS

- 6.1. I am therefore satisfied that the implementation of the Scheme will not have a material adverse effect on:
 - The security of benefits of the policyholders of LGI and LGL;
 - The benefit expectations of the policyholders of LGI and LGL; or
 - The service standards and governance of the LGI and LGL policies.



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