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D03: Reflections on the UK's largest ever Part VII Transfer

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1. Scene setting:
(1) Market context

- Capital efficiencies under Solvency II
  - Solvency II favours consolidation over vertical structuring
  - Groups have undertaken a significant number of portfolio transfers over the last five years
- Single vs multi-brand strategies
- Impact of Brexit
  - Groups with EEA branches set up for capital efficiency needing to rethink strategy
  - Unknown treatment of cross-border freedom of services business

1. Scene setting:
(2) Drivers for the Aviva 2017 Scheme

- Acquisition of Friends Life Group – complementary elements vs market overlap
- Capital efficiency under Solvency II – benefits outweighed costs
- Brand simplification in the context of heightened market competition
- Accelerating impact of ‘digital’
- Updating for changes in regulations
- Governance simplification

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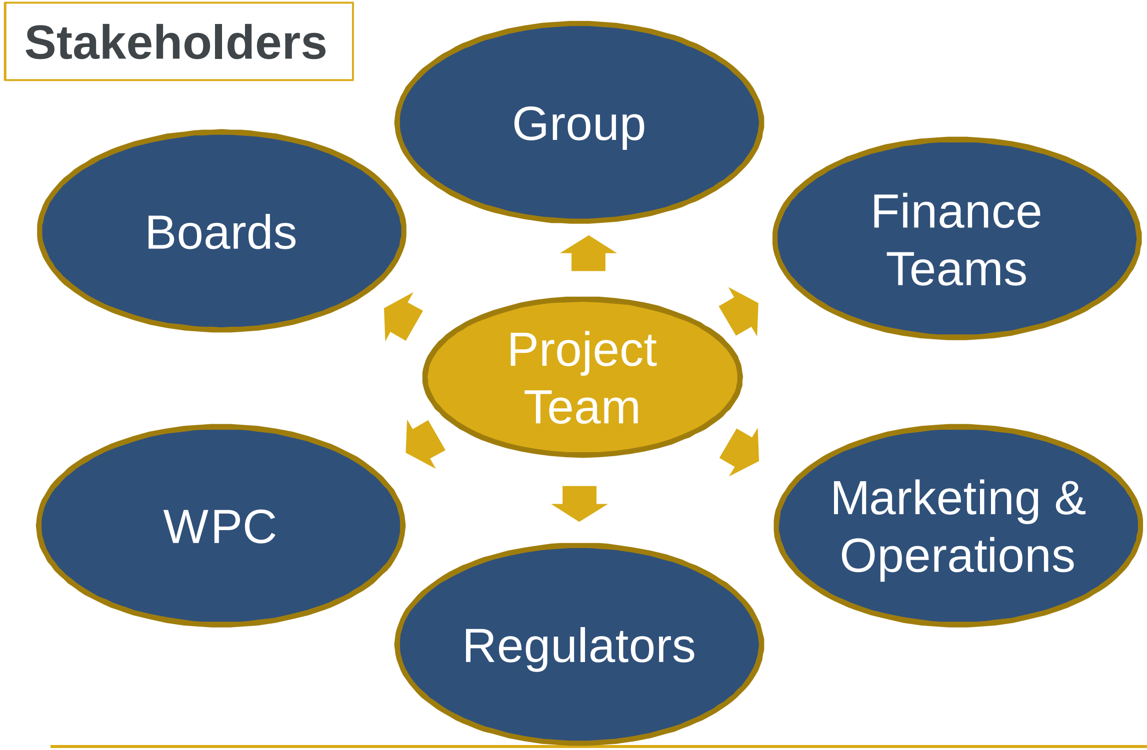
1. Scene setting:
(3) Aviva's internal governance



- Stakeholder management – early engagement
- Resourcing and conflicting priorities
- Communicate, communicate, communicate

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1. Scene setting:
(4) Key challenges

- Business as usual continues - no one stops to wait
- Aviva Annuities (UK) Scheme overlapped
- Solvency II approvals
- Reliance on unaudited numbers
- Whether to merge the Matching Adjustment portfolios
- Trade-off: Simplicity of Transfer vs simplifying the business
- Knowledge of legacy schemes
- Scale of communications exercise

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1. Scene setting:
(5) Lessons learned

- Due diligence needs to be thorough
- Alignment of organisation
- Communicate, communicate, communicate
- “Begin with the end in mind”, particularly with:
    - Degree of simplification sought
    - The approach to the financial analysis, including Solvency II approvals
    - Mailing approach and the data required
    - Training of call centre staff and customer experience of the communication
- Keep an eye on external developments

Discussion

- What is your experience of the Solvency II approvals process and how it affects the Part VII process and timing?

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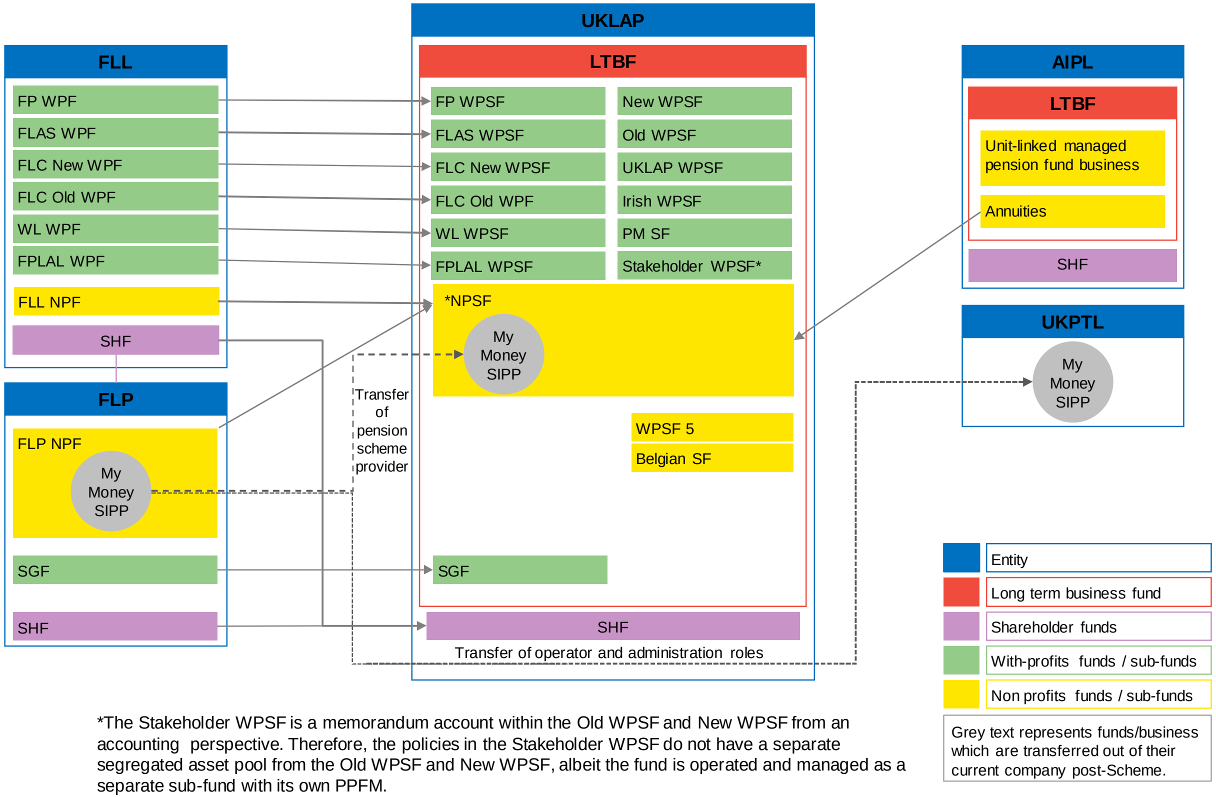
2. Scope of Scheme:
(1) Scheme structure

2017 Scheme Overview



*The Stakeholder WPSF is a memorandum account within the Old WPSF and New WPSF from an accounting perspective. Therefore, the policies in the Stakeholder WPSF do not have a separate segregated asset pool from the Old WPSF and New WPSF, albeit the fund is operated and managed as a separate sub-fund with its own PPFM.

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2. Scope of scheme:
(2) Size of business*

Entities	Line of business	No. of policyholders	Amount of net reserves (£'000)
Friends Life Limited (FLL) (excluding FLP)	Non-linked business - with-profits	274,064	3,501,399
	Non-linked business - non-profits	2,873,923	12,727,925
	Accumulating with-profits business	336,715	7,933,715
	Unit linked business	1,754,099	26,879,462
	Index linked business	94,122	1,251,453
Total FLL		**5,332,923**	**52,293,954**
Friends Life and Pensions Limited (FLP)	Non-linked business - non-profits	590,000	2,726,442
	Accumulating with-profits business	6,000	2,000
	Unit linked business	1,648,000	16,786,631
	Index linked business	29,000	32,438
Total FLP		**2,273,000**	**19,547,511**
Aviva Life & Pensions UK Limited (UKLAP) (excluding UKA)	Non-linked business - with-profits	357,808	8,395,723
	Non-linked business - non-profits	4,675,939	11,612,543
	Accumulating with-profits business	696,052	17,347,317
	Unit linked business	2,628,466	48,308,347
	Index linked business	29,663	1,415,708
Total UKLAP		**8,387,928**	**87,079,638**
Aviva Annuity UK Limited (UKA)	Non-linked business - non-profits	814,730	18,787,467
	Index linked business	44,657	3,919,204
Total UKA		**859,387**	**22,706,671**
Overall Total		**16,853,238**	**181,627,774**

*Based on the Year-end 2015 Solvency I results

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2. Scope of scheme:
(3) Lessons learned

- Understand all the regulatory approvals required
  - Not just Solvency II
  - Appropriate permissions (including EEA, Jersey & Guernsey) to write the right type of business
  - HMRC
- What kind of segmentation of the policies needed
  - Different messages to different groups of customer: more complex vs more segments
  - Policyholders with multiple policies
  - My Money SIPP customers

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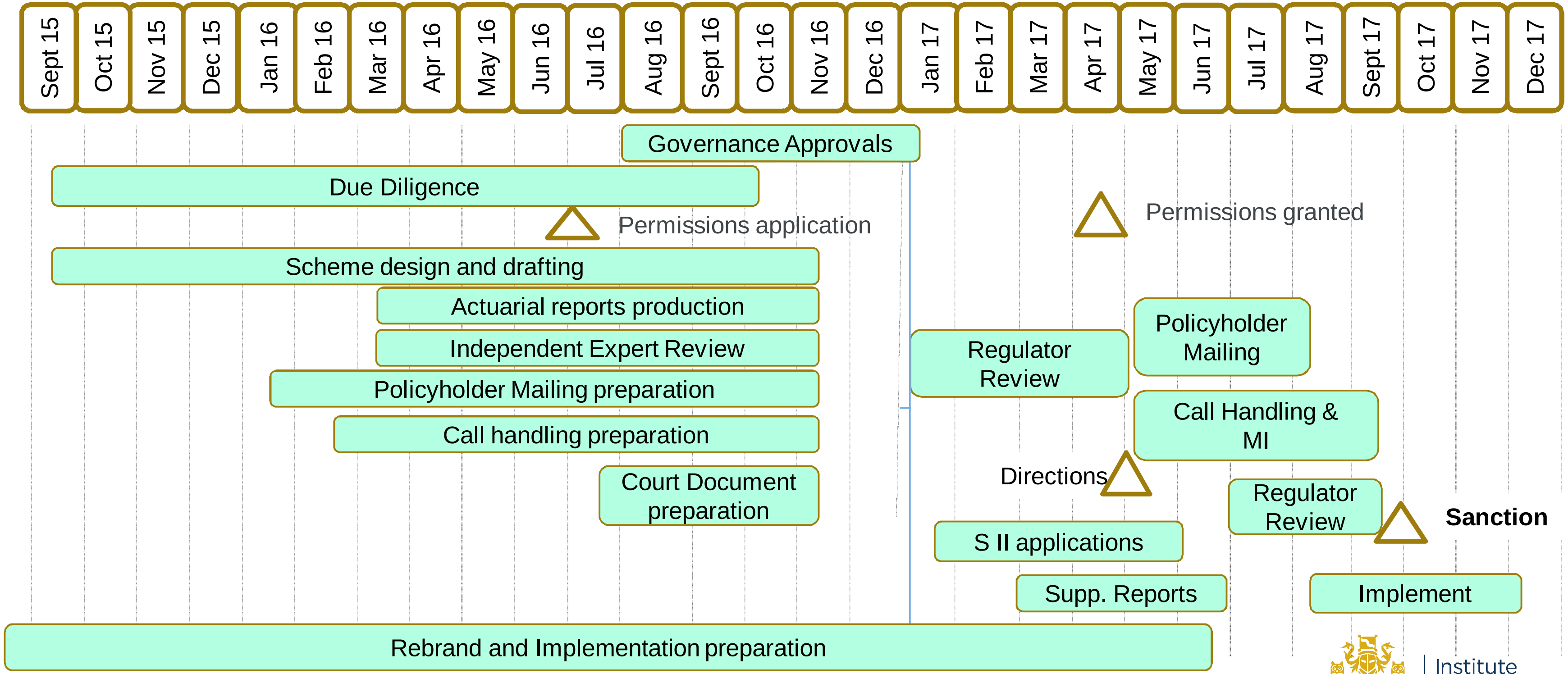
3. Managing the project over 24 months: (1) Timeline



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3. Managing the project over 24 months: (2) Challenges

- Personnel changes
- Resource capacity for financial modelling
- Resource capacity at the Regulators
- Shifting regulatory requirements
- Landing agreement with stakeholders
- Significant re-planning as a result

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3. Managing the project over 24 months: (3) Lessons learned

- Core team of dedicated resources
- Different skill sets needed at different stages
- Managing the project boundaries
- Maintaining continuing engagement of stakeholders

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4. Regulatory engagement

(1) Scheme sponsor’s perspective

- Engagement “with” vs “by” the Regulator
- Standard Formula vs Partial Internal Model approval process
- Approval process for Transitionals; methodology challenges
- Challenges on Volatility Adjustment
- Future regulatory changes vs grandfathering of Scheme requirements

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4. Regulatory engagement
(2) Independent Expert’s perspective

- Working with twin Regulators
- Resource constraints, particular from the Regulatory legal teams
- Focus meetings on key concerns
- Regulatory requirement to submit a “final draft report subject only to regulatory review”
- Regulatory access to same data as IE
- Ongoing deadline concerns
- Consultation Paper
- Regulatory reliance on IE Report

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Discussion

- What changes could the Regulators make to simplify the Part VII process?

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5. Assessing the impact on policyholders' benefit expectations

- Consolidation of prior schemes into one
- Simplification of prior schemes:
  - Changes to with-profits governance requirements brought in since earlier schemes
  - Modifications required by Solvency II
  - Harmonisation of so-called "sunset clauses"
  - Materially adverse vs adverse ("in the round")
- Prior scheme PFM to PPFM
  - Process to demonstrate p/h not materially adversely affected
  - Future proofing – principles vs stated methodology

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6. Assessing the impact on policyholders' benefit security

- Solvency I vs Solvency II
- Bridging and roll forwards
- Position pre- and post-transitionals
- Customer understanding
  - Solvency II balance sheet cannot be used to support the benefits of with-profits funds
  - Understanding Solvency II balance sheet non-existent
- Solvency Risk Appetite: Management ownership vs PRA approvals

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7. Reporting

- Length of Scheme and IE Report in the context of considerable simplification
- Multiple versions of the Summary Report
- Enormous complexity of the considerations on policyholder benefit expectations
- Complexity of the consideration on policyholder benefit considerations given the impact of the introduction under Solvency II of the risk margin and transitionals

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8. Policyholder communications
(1) Considerations

- Magnitude of the mailing exercise and call centre handling
- Detailed paper summary report vs signposting to website
- FCA’s changing views: prior transfers should not be seen as precedents
- How can customers relate to the mailing – different customers want the information in different ways
- How have customers responded to the mailing within a context of mistrust of Financial Services, Regulators and experts
- Policyholders can and will turn up in Court

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8. Policyholder communications
(2) Summary of policyholder responses

Response rate: 1.5% / Objection rate: 0.004%

- Previous poor experience including General Insurance
- Did not get a say on the acquisition / did not like change
- Contagion risk: mis-understanding of Financial Services Compensation Scheme
- Did not feel that investment returns met their expectations
- Customer preference for guarantees
- No perceived benefit for policyholders from the Scheme
- Independence of an IE from a professional services firm
- Overwhelming majority of objections did not relate to the Scheme

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What did policyholders object to?

- Non-profit policyholders were concerned about their benefits and the costs of their policies.

"The promise I was given in 2012 was that my policy, plus any subsequent policies, would all benefit from a special, lower AMC of just 0.19% per annum. That promise appears now to be in jeopardy just five years later "

"I am concerned that my premiums will increase arbitrarily under policy reviews"

"I object on the basis that the funds I am invested in in my pension will be withdrawn and the available pool of funds to invest in will diminish"

What did policyholders object to?

- With Profits policyholders were also concerned about their benefits and the costs of their policies.

"Following a bonus rate review on 12 March 2017, we are unable to declare any regular bonus this year'. This struck me as surprising given the extraordinarily benign investment climate over the last year"

"I can find no statement that my terminal bonuses will not be affected"

"So now I am being asked if I want hundreds of thousands of pounds being transferred to a Fund that carries the Label of SUB. Sorry but No thank you."

"Does that mean that they can change the fund to non-profit at any time?"

What did policyholders object to?

No Material Impact!

“There is no definition that I can find of what the independent expert defines as ‘materially’. I object to anything that would reduce my level of benefits in any way regardless of whether the independent expert considers it material.”

“"No adverse effect" would give me a little more confidence. If it is possible that there will be an adverse effect then I object to the proposed transfer.”

What did policyholders object to?

No benefit to me!

"If there is no certified benefit to the policyholders of Friends Life I can see no advantage to the transfer. "

"I object because there appears to be no discernible benefit to be gained by me or my wife as policyholders"

"I see the benefit therefore of the change for the company, but I see no benefit for the customer - in fact there is greater overall risk. It will also create more costs as you re-brand. For this change, there has to be a benefit for the customer - they seem to be totally lost in your thinking here. Very one sided and typical large financial services company thinking."

"What I want is a guarantee that is equivalent Aviva policies have a better charging structure, my policy will benefit from the same best available fees "

What did policyholders object to?

Too much change!

"When this policy started it was with Colonial Mutual and this will be I think this might be the fourth or fifth change of name or different providers"

"I bought it from National Mutual Australasia who passed it to Axa who passed it to Friends Life. Why would another transfer help me?"

"My policy was with Sunlife then changed to Friends Life and now to Aviva , surely my contracts have changed each time. If I miss a payment you will cancel my Policy I'm not sure who my Direct Debit is being paid to."

"insurance companies taking over each other, which is causing confusion because it makes it difficult to identify the company that you originally took the policies out with, which causes confusion with being able to manage affairs"

Discussion

- How to improve the process from the policyholder perspective?

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“In the round”

1. Clear vision of what the Scheme is seeking to achieve
2. Earlier and continuous engagement with all stakeholders
3. Challenge of landing agreement of the various stakeholders to all aspects of the Scheme
4. Challenge of communicating it all to customers
5. Preparing assiduously with Counsel to fully briefed to respond to potential objections in Court

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