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# Supplemental Report to the Report of the Independent Actuary

**Supplemental Report of the Independent Actuary on  
the proposed Scheme to transfer certain insurance  
business of MetLife Europe dac to Laguna Life dac**

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## 1 INTRODUCTION

### Purpose of this report

- 1.1 I have previously prepared a report (the "**Independent Actuary's Report**") dated 15 November 2018 on the terms of the proposed transfer of a run-off portfolio of insurance policies from MetLife Europe dac ("**MetLife Europe**") to Laguna Life dac ("**Laguna**") (together "**the Companies**") pursuant to an insurance business scheme of transfer under Section 13 of the Assurance Companies Act 1909 (the "**1909 Act**").
- 1.2 The Independent Actuary's Report summarises the terms of the proposed transfer and sets out my conclusions on its likely effects on both the security of benefits and the fair treatment and reasonable benefit expectations of the Companies' policyholders.
- 1.3 This Report (the "**Supplemental Report**") provides an update on my conclusions as set out in the Independent Actuary's Report in the light of further information now available to me.
- 1.4 I understand that a copy of the Supplemental Report will be made available to the Court and will also be made available on both the MetLife Europe website ([www.metlife.eu](http://www.metlife.eu)) and the Laguna website ([www.lagunalifedac.com](http://www.lagunalifedac.com)).

### Reliances and limitations

- 1.5 The statements in the Independent Actuary's Report regarding qualifications and disclosures; the parties for whom my report has been prepared; reliances and limitations; and, professional guidance, also apply to this Supplemental Report, except that this Supplemental Report is based on the information available to me at, or prior to, 5 February 2019, and takes no account of developments after that date.
- 1.6 All abbreviations and technical terms used in this report have the same meaning as in the Independent Actuary's Report unless otherwise indicated.
- 1.7 This Supplemental Report should be read in conjunction with the Independent Actuary's Report, as reading this report in isolation may be misleading. Both reports must be considered in their entirety as individual sections, if considered in isolation, may be misleading.
- 1.8 The Supplemental Report should also be read in conjunction with the other documents that pertain to the proposed Scheme.
- 1.9 In preparing the Supplemental Report, I have had access to certain documentary evidence provided by MetLife Europe and Laguna, the principal elements of which I list in the Appendix to this report. In addition, I have had access to, and discussions with, the senior management of both MetLife Europe and Laguna. I have relied on the accuracy of the information which has been provided to me in written or electronic form or verbally. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without independent verification. There are no documents or other information that I have requested and that have not been provided.
- 1.10 Neither the Supplemental Report, nor any extract from it, may be published without my specific written consent having first been given, save that copies of the Supplemental Report may be made available on the Companies' respective websites, and copies may be provided to any person requesting the same in accordance with legal requirements. In the event such consent is provided, the Supplemental Report must be provided in its entirety. In addition, a summary of this report may not be made without my written consent and, in particular, a summary of this report may not be distributed to policyholders without my prior approval.
- 1.11 The Supplemental Report has been prepared within the context of the assessment of the terms of the proposed Scheme and specifically and solely for the purposes of Section 13 of the 1909 Act. No liability will be accepted by Milliman, or me, for any application of the Supplemental Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the Supplemental Report (or any summary thereof).

## 2 ANALYSIS AND CONCLUSIONS

### Approach

- 2.1 I have sought and received additional information from the Companies in order to consider if any event or change in circumstances has occurred that would cause me to alter the conclusions expressed in the Independent Actuary's Report.
- 2.2 The information I have requested has been selected based on my knowledge of developments in the insurance industry and from the wider economic environment, which I consider likely to have a direct or indirect impact on the Companies.
- 2.3 In particular, I have considered developments in the following areas:
- The Directions Hearing and subsequent order of the Court;
  - any changes in the Companies' business;
  - current issues in the life insurance industry, including changes to the regulatory or legal environments; and,
  - relevant communications received from policyholders relating to the proposed Scheme.
- 2.4 Having received such additional information, I have then considered what impact, if any, this would have on the opinions I expressed in the Independent Actuary's Report.
- 2.5 The main pieces of additional information received are listed in the Appendix.

### Developments since the completion of the Independent Actuary's Report

- 2.6 In the following paragraphs, based on the information provided to me by the Companies, I provide a summary of what I consider to be the key developments during the period since the Independent Actuary's Report was issued.

### COURT HEARINGS AND DIRECTIONS

- 2.7 On 26 November 2018 the Companies petitioned the Court seeking the sanction by the Court of the proposed Scheme. The proposed Scheme, as set out in that petition, was unchanged from that summarised in the Independent Actuary's Report and there have been no subsequent changes to the proposed Scheme.
- 2.8 On 28 November 2018 the Court directed that the communications plan, as set out in the petition, be put into effect as proposed and ordered that the petition be served on the Central Bank.
- 2.9 The Court set the next hearing date for 12 February 2019 and directed that anyone intending to appear at that hearing and/or object to the Scheme must inform the Companies' solicitors in writing no later than 5 February 2019 and provide their reasons for doing so.

### UPDATES ON THE COMPANIES' CIRCUMSTANCES

- 2.10 I have been provided with updates on both Companies' circumstances – principally by way of updated ORSA reports (both of which date from December 2018).
- 2.11 Each company's ownership, strategy, risk profile and capital management policy remain either entirely or substantially unchanged from the position as set out in the Independent Actuary's Report. Neither company has engaged in any further acquisitions or disposals of business lines in the period since completion of the Independent Actuary's Report, and both companies have traded broadly in line with expectations (see below for information on the Companies' updated solvency positions).
- 2.12 In the Independent Actuary's Report, I noted that the Laguna Board had undertaken to establish a Unit-Linked Investment Committee that would provide appropriate governance and oversight of the operation of Laguna's unit-linked policies and funds, thereby playing an important role in ensuring that its unit-linked policyholders will be treated fairly. The terms of reference for that committee were agreed by the Laguna Board at a meeting in December 2018 and the first meeting of the committee is scheduled to take place next month. I have reviewed the terms of reference and am satisfied that they are in accordance with the principles previously agreed by the Laguna Board and set out in the Independent Actuary's Report.

- 2.13 Within the wider Monument Group, the main activity in the period in question has been the announcement on 21 December 2018 that, subject to regulatory approval, Monument Re had acquired a Guernsey-based life insurer, Nordben Life and Pension Insurance Co Limited.

#### THE TRANSFERRING POLICIES

- 2.14 I have been provided with an updated summary of the Transferring Policies as at 30 September 2018. The information shows that the number and size of the policies in question has moved broadly in line with expectations, considering that the block in question is in run-off.

#### THE COMPANIES' SOLVENCY POSITIONS

- 2.15 At 30 September 2018, the solvency coverage ratio reported by MetLife Europe to the Central Bank was 180%, with an excess of eligible own funds over the relevant regulatory capital requirement of €585 million. This represented a substantial increase on the 148% coverage ratio, and €393 million of excess own funds, reported at 31 December 2017. It was also somewhat higher than the projected position for 31 December 2018 (161% coverage ratio and €503 million of excess own funds) that had been set out in the ORSA report from December 2017.
- 2.16 At 30 September 2018, the solvency coverage ratio reported by Laguna to the Central Bank was 722%, with an excess of eligible own funds over the relevant regulatory capital requirement of €25.2 million. This represented a very substantial increase on the 171% coverage ratio, and €2.6 million of excess own funds, reported at 31 December 2017. It was also somewhat higher than, but broadly in line with, the projected position for 31 December 2018 (680% coverage ratio and €21.9 million of excess own funds) that had been set out in the plan that the Laguna Board had submitted to the Central Bank in connection with its application for authorisation to transact Class III and Class IV business.
- 2.17 As both Companies' updated solvency positions are somewhat better than envisaged in the Independent Actuary's Report, and as the quantum of the Transferring Policies is less than was the case as at 31 December 2017, the impact of the proposed Scheme on their respective solvency positions will, all other things being equal, be smaller than envisaged in the Independent Actuary's Report, and the post-transfer solvency positions will be somewhat better than originally envisaged.

#### OBJECTIONS AND COMPLAINTS

- 2.18 In accordance with the directions of the Court, a copy of the petition together with supporting documentation (including the Independent Actuary's Report) has been made available on the Companies' websites and for inspection at the Companies' offices.
- 2.19 In addition, the Companies' plans to communicate with the holders of the Transferring Policies (as summarised in the Independent Actuary's Report) were approved by the Court and have been put into effect.
- 2.20 I have been informed that four transferring policyholders have written to complain about the proposed Scheme and have been provided with copies of the correspondence between those policyholders and MetLife Europe. Having reviewed the correspondence, I am satisfied that there is nothing in the complaints which would lead me to reconsider my views on the proposed Scheme, as set out in the Independent Actuary's Report.

#### REGULATORY AND OTHER MATTERS

- 2.21 At present, as noted in the Independent Actuary's Report, Laguna only holds an authorisation to write Class I (i.e. non-linked) business. In order to accept the Transferring Policies, Laguna requires an extension to the classes of business for which it is authorised to include Class III (i.e. unit-linked) business and Class IV (i.e. permanent health) business.
- 2.22 Laguna has applied to the Central Bank for such an extension and is awaiting a response. I note that the proposed Scheme includes a requirement to obtain the non-objection of the Central Bank and that a copy of the petition has been served on the Central Bank. Accordingly, it is my understanding that the proposed Scheme cannot proceed unless and until the Central Bank approves Laguna's application for such an extension. At the date of writing this Supplemental Report, the Central Bank's approval had not yet been forthcoming.
- 2.23 I am not aware of any new regulatory, or other similar, matters impacting on either of the Companies in the period since the completion of the Independent Actuary's Report.

## Conclusion

- 2.24 Having taken account of the updated information as set out in this Supplemental Report, I believe there is no reason for me to amend or qualify any of the conclusions set out in the Independent Actuary's Report.
- 2.25 For reference, my conclusions in the Independent Actuary's Report were that I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:
- the security of benefits under the policies of MetLife Europe and Laguna;
  - the reasonable expectations of the policyholders of MetLife Europe and Laguna with respect to their benefits; and
  - the standards of administration, service, management and governance that apply to the MetLife Europe and Laguna policies.
- 2.26 As noted above, I believe that it is a precondition of the proposed Scheme that the Central Bank grant an extension to the classes of business for which Laguna is authorised, in order to allow it to transact Class III and Class IV business. I understand that, at the date of writing this Supplemental Report, such an extension had not yet been granted. I see this as a procedural matter which, although a precondition of the proposed Scheme being allowed to proceed, has no bearing on my conclusions on the proposed Scheme, as set out in the Independent Actuary's Report and restated above.



**Michael Culligan**  
Fellow of the Society of Actuaries in Ireland

5 February 2019

### 3 APPENDIX – LIST OF PRINCIPAL ADDITIONAL DATA SOURCES

3.1 In carrying out my work and producing this report, reliance has been placed upon documents and information provided to me. All items have been provided directly to me by either MetLife Europe or Laguna unless otherwise noted.

3.2 In addition to those listed in the Independent Actuary's Report, these included, but were not limited to, the following:

#### **MetLife Europe**

- Solvency II balance sheet and SCR as at 30 September 2018, as included in the quarterly reporting pack submitted to the Central Bank
- ORSA Report dated 5 December 2018
- Updated details on the Transferring Policies as at 30 September 2018

#### **Laguna**

- Solvency II balance sheet and SCR as at 30 September 2018, as included in the quarterly reporting pack submitted to the Central Bank
- ORSA Report dated 17 December 2018
- Terms of Reference for the Unit-Linked Investment Committee dated 17 December 2018
- Capital Management & Dividend Policy dated September 2018
- Update on status of application to the Central Bank for an extension of authorisation to include Class III and Class IV

#### **Other**

- Court Order dated 28 November 2018, following the Directions Hearing on 26 November 2018
- Details of complaints and objections received
- Draft of Third Affidavit of Nicolas Hayter (draft dated 4 February 2019)