

IN THE HIGH COURT OF JUSTICE

No. 7101 of 2013

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF  
ROYAL LONDON (CIS) LIMITED

-and-

IN THE MATTER OF  
CIS GENERAL INSURANCE LIMITED

-and-

IN THE MATTER OF  
PART VII OF THE FINANCIAL SERVICES AND MARKETS ACT 2000

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SUMMARY OF THE SCHEMES AND THE REPORT

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## **TRANSFER OF GENERAL INSURANCE BUSINESS OF ROYAL LONDON (CIS) LIMITED TO CIS GENERAL INSURANCE LIMITED**

### **1. INTRODUCTION**

Royal London (CIS) Limited and CIS General Insurance Limited are proposing an insurance business transfer scheme (the “**Scheme**”). This document sets out a summary of the effect of the Scheme and a summary of a report prepared by an independent expert (the “**Report**”) on the Scheme.

This document is a summary and explains the main points of the Scheme and the Report but full details can be found in the full versions of these documents which are available at [www.co-operativeinsurance.co.uk/transfer](http://www.co-operativeinsurance.co.uk/transfer)

### **2. BACKGROUND**

2.1 Co-operative Insurance Society Limited (“**CIS**”) was founded in 1867. As a composite insurer, CIS wrote both long-term insurance (“**Long-Term**”) policies, e.g. life assurance and pensions, and general insurance (“**GI**”) policies, e.g. home and motor. It also reinsured some of its GI business with other insurers (“**Outwards Reinsurance**”) and wrote some reinsurance covering other insurers’ GI business (“**Inwards Reinsurance**”).

2.2 CIS ceased to write new GI business on 15 July 2006 and since that date all the new GI business of the Co-operative Group has been written by CIS General Insurance Limited (“**CISGIL**”). At that time, although CIS remained the insurer of all the GI business it had written up to then, it agreed that CISGIL would take on various responsibilities, including the day-to-day management, in respect of the business. (The Long-Term business of CIS was not affected by this arrangement.)

2.3 In July 2013, CIS’s name was changed to Royal London (CIS) Limited (“**RLCIS**”), and it ceased to be part of the Co-operative Group, when it was sold to The Royal London Mutual Insurance Society Limited (“**Royal London**”).

2.4 RLCIS and CISGIL are both regulated by the Prudential Regulation Authority (“**PRA**”) and the Financial Conduct Authority (“**FCA**”).

2.5 Although the GI policies written by CIS (now RLCIS) expired at least 6 years ago, there are still some liabilities and potential liabilities attached to them. For example, there are about 100 policies under which claims are currently being dealt with. There are also some reinsurance contracts that remain open.

2.6 The Scheme is intended to transfer to CISGIL all of the GI business ever done by CIS (now RLCIS) meaning:

2.6.1 all the GI policies it wrote,

2.6.2 all the Outwards Reinsurance relating to them, and

2.6.3 all the GI Inwards Reinsurance it wrote.

- 2.7 The Scheme cannot go ahead unless it is approved by the High Court of Justice in England (the "**Court**") and an application has been made to the Court for that purpose. In addition, an application is being made to the Royal Court of Jersey for approval of a parallel scheme (the "**Jersey Scheme**") to transfer all RLCIS's Jersey GI business.
- 2.8 Derek Newton, a principal of Milliman LLP, a Fellow of the Institute and Faculty of Actuaries, has been appointed as an independent expert (the "**Independent Expert**") to provide a report (the "**Report**") on the effects of the Scheme on the policyholders of RLCIS and CISGIL. Mr Newton's appointment has been approved by the PRA.
- 2.9 Copies of the full Report, the full Scheme, the full Jersey Scheme and this document will be made available free of charge online at [www.co-operativeinsurance.co.uk/transfer](http://www.co-operativeinsurance.co.uk/transfer), or may be requested by telephoning 0845 603 4032 or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester, M60 0AL, until the date on which the Scheme is presented before the Court currently expected to be on 17 March 2014, and the Jersey Court currently expected to be on 19 March 2014.

### 3. **SUMMARY OF THE SCHEME**

The following is a summary of the main points of the Scheme. It does not explain every aspect of the Scheme. Full details can be obtained only from the full Scheme document which can be found at [www.co-operativeinsurance.co.uk/transfer](http://www.co-operativeinsurance.co.uk/transfer)

- 3.1 The transfer of RLCIS's general insurance business will happen only if the Court gives approval. In that case, the transfer will become effective on (the "Effective Date") which is planned to be 31 March 2014.
- 3.2 If the Court imposes any change to the proposed Scheme, the Scheme will not take effect unless RLCIS and CISGIL consent.

#### **The Effect of the Scheme**

- 3.3 As stated above, the Scheme is intended to transfer all of the GI business ever written by CIS (now RLCIS), and all reinsurance that relates to it, to CISGIL. The effect would be that CISGIL replaces RLCIS as the insurer or reinsurer in all that GI business, and would also become entitled to the benefit of any reinsurance that RLCIS holds in respect of it.
- 3.4 This means that, from the Effective Date, all the rights and obligations arising from RLCIS's GI business will automatically transfer to CISGIL and will no longer rest with RLCIS. In particular, CISGIL will be responsible for paying all claims and meeting all the other obligations which were previously RLCIS's in relation to its GI business.

#### **Exceptions**

- 3.5 Despite the intention explained in 3.3 above, there may be a small number of exceptions to the effect of the Scheme. These would be Excluded Policies or Residual Assets, as described in more detail in the full version of the Scheme.

## **Continuity of Proceedings**

- 3.6 From the Effective Date, any proceedings which are pending by or against RLCIS in connection with the business transferred by the Scheme shall be continued by or against CISGIL, and CISGIL shall be entitled to all defences, claims, counterclaims and rights of set-off that would have been available to RLCIS. RLCIS shall have no liability under any such proceedings (whether current or past).
- 3.7 From the Effective Date, any judgement, settlement, order or award under existing or past proceedings obtained by or against RLCIS in relation to the business transferred by the Scheme shall be enforceable by or against CISGIL in place of RLCIS.

## **Costs and Expenses**

- 3.8 All costs and expenses relating to the preparation of the Scheme and the Court processes will be borne by CISGIL. No such costs will be borne by policyholders.

## **4. SUMMARY OF THE JERSEY SCHEME**

- 4.1 The Jersey Scheme mirrors the Scheme, but it relates to the transfer of just the general insurance and reinsurance business written by RLCIS in circumstances that required RLCIS to be authorised under Jersey law ("RLCIS's Jersey Business") rather than to all of the general insurance and reinsurance business written by RLCIS.

The Jersey Scheme is conditional on the Scheme being effective.

## **5. SUMMARY OF THE REPORT**

### **About the Report**

- 5.1 Part VII of the Financial Services and Markets Act 2000 requires that, in transfers such as that proposed by the Scheme, an Independent Expert provides a report so that the Court may properly assess the potential impact of the Scheme on all affected policyholders, including the security of their policies and the levels of service that policyholders could expect to receive after the transfer. Similarly, the Insurance Business (Jersey) Law 1996 requires that, in transfers such as that proposed by the Jersey Scheme, an Independent Actuary provides a report so that the Jersey Court may properly assess the potential impact of the Scheme on all affected policyholders.
- 5.2 Section 5 of this document provides a summary of the Report prepared by Mr Newton to meet the above requirements.
- 5.3 This summary is subject to the same limitations on its use as those set out in the Report. The Report contains the reasoning behind Mr Newton's conclusions, some of the detail of which has been omitted from this summary. The Report also includes further information regarding RLCIS, CISGIL and CBG which has not been included within this summary. While Mr Newton is satisfied that this summary provides an appropriate synopsis of the Report, reliance on the summary alone could be misleading. Copies of the full Report and any updated Report can be obtained at [www.co-operativeinsurance.co.uk/transfer](http://www.co-operativeinsurance.co.uk/transfer) or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester, M60 0AL.

## Purpose of the Schemes

- 5.4 The primary purpose of the Schemes is to rationalise the general insurance and reinsurance business of RLCIS and CISGIL into a single entity. This will result in a reduction in the complexity of regulatory compliance (compared to that anticipated with the current structure). It will also result in RLCIS changing from being a composite insurer into purely a life assurer (other than in respect of Excluded Policies).
- 5.5 The economic liability in respect of RLCIS's general insurance and reinsurance business has been carried by CISGIL since January 2006, in accordance with an agreement between RLCIS and CISGIL, which was amended and restated on 31 July 2013 (the "**Indemnity Agreement**"). Under the Indemnity Agreement, CISGIL has agreed to continue to indemnify RLCIS for all payments, net of reinsurance recoveries, arising under RLCIS's general insurance and reinsurance business. CISGIL's obligations under the Indemnity Agreement are guaranteed by CBG. Under the same agreement, RLCIS has agreed to pay to CISGIL all non-reinsurance recoveries. The run-off of the business is currently handled by CISGIL. It is intended that the Indemnity Agreement remains in place after the Effective Date
- 5.6 In March 2013 CBG announced that it intended to sell CISGIL. As at the date of this summary there has been no further announcement regarding the possibility of such sale.

## Who will be affected by the Schemes?

- 5.7 Members of the following policyholder groups might be affected by the proposed Schemes:
- Holders of Transferring Policies (the "**Transferring Policyholders**"), including those policyholders of RLCIS Jersey Business (the "**Transferring Jersey Policyholders**");
  - CISGIL policyholders;
  - Holders of life policies within RLCIS (the "**Life Policyholders**"); and
  - Holders of Excluded Policies (the "**Excluded Policyholders**")
- 5.8 Mr Newton has assessed the change in circumstances, security and levels of service of each group of policyholders separately.

## Is there an impact on security of the Transferring Policyholders?

- 5.9 After making his review, Mr Newton has concluded that the security of the Transferring Policyholders, including the Transferring Jersey Policyholders, will be reduced by the Schemes, but not to a material degree. This is explained in paragraphs 5.10 - 5.12 below.
- 5.10 Although the Transferring Policyholders, including the Transferring Jersey Policyholders, have no direct contractual relation with CISGIL, in practice under the Indemnity Agreement CISGIL is currently meeting the claims relating to the

Transferring Policyholders, including the Transferring Jersey Policyholders, and that will remain the case after the Effective Date. The security of the Transferring Policyholders, including the Transferring Jersey Policyholders, is currently, and indirectly, partially reliant upon the financial strength of CISGIL; after the transfer it will be wholly reliant. Mr Newton has considered whether this would affect the security of the Transferring Policyholders.

- 5.11 In the event of CISGIL becoming insolvent prior to the Effective Date and in accordance with the applicable law, payments due to RLCIS under the Indemnity Agreement to meet the claims of the Transferring Policyholders, including the Transferring Jersey Policyholders, would rank behind those of CISGIL policyholders. However, were CISGIL unable to meet fully payments due to RLCIS under the Indemnity Agreement to meet the claims of the Transferring Policyholders, including the Transferring Jersey Policyholders, then CBG would be obliged to meet the shortfall under a guarantee of CISGIL's obligation. After the Effective Date, Transferring Policyholders, including the Transferring Jersey Policyholders, would rank alongside existing CISGIL policyholders in the event of the insolvency of CISGIL, with equal access to the remaining assets of CISGIL, but with no recourse to CBG to the extent that CISGIL's assets were insufficient to meet all remaining claims of the Transferring Policyholders, including the Transferring Jersey Policyholders. In this respect, the Transferring Policyholders, including the Transferring Jersey Policyholders, would be disadvantaged by the Schemes.
- 5.12 Mr Newton has reviewed the current financial strength of CISGIL. He has concluded that likelihood of both CISGIL becoming insolvent and in such an event the Transferring Policyholders being materially disadvantaged is small.

#### **Is there an impact on security of the CISGIL policyholders?**

- 5.13 After making his review, Mr Newton has concluded that the security of the CISGIL policyholders will be reduced by the Schemes but not to a material degree. This is explained in paragraphs 5.14 - 5.15 below.
- 5.14 As explained above, after the Effective Date, in the event of the insolvency of CISGIL, the Transferring Policyholders, including the Transferring Jersey Policyholders, that become direct policyholders of CISGIL will rank as creditors alongside the CISGIL policyholders, whereas in such circumstances prior to the Effective Date the liabilities of the Transferring Policyholders, including the Transferring Jersey Policyholders, via the Indemnity Agreement, would rank behind the CISGIL policyholders. As such, the CISGIL policyholders will be slightly disadvantaged as a result of the Schemes.
- 5.15 The gross discounted liabilities to be transferred to CISGIL were, as at 31 December 2012, less than 9% of CISGIL's equivalent gross discounted liabilities. (This percentage continues to reduce as the claims relating to the Transferring Policyholders, including the Transferring Jersey Policyholders, run-off. Therefore, the relative dilution of the security of the CISGIL policyholders is not material and is also reducing.

#### **Is there an impact on security of the Life Policyholders?**

5.16 After making his review, Mr Newton has concluded that the Schemes will have no negative impact upon security of the Life Policyholders. The security of the life assurance policyholders within RLCIS is predominantly tied in to the financial strength of the long-term fund. The long-term fund will not be affected by the Schemes. In addition, from time to time the long-term fund can call upon excess assets, if any, from within the shareholders' funds. Immediately following implementation of the Schemes, the capital requirements of the other than long-term business will reduce as capital will no longer be required within RLCIS in respect of the Transferring Business. This will therefore increase the excess assets within the shareholders' funds.

**Is there an impact on security of the Excluded Policyholders?**

5.17 The Excluded Policyholders (if any) will remain covered by the Indemnity Agreement post the Effective Date. In this respect the situation of the Excluded Policyholders would be nearly identical to that prior to the Effective Date. In the event of the insolvency of CISGIL post the Effective Date, the liabilities relating to the Excluded Policyholders and as covered under the Indemnity Agreement would rank behind the claims of a larger group of policyholders within CISGIL than pre the Effective Date, due to the inclusion after the Effective Date of the Transferring Policies, including the Transferring Jersey Policyholders. However, in the event that the Excluded Policyholders claims are not met by CISGIL via the Indemnity Agreement, the Excluded Policyholders would benefit from CBG's guarantee of CISGIL's obligations under the Indemnity Agreement.

**Mr Newton has concluded that the Schemes do not impact to any materially adverse extent the security of those policyholders whom he has identified that might be affected. He believes that no other policyholders will be affected by the Schemes.**

**Will the Schemes affect levels of service?**

5.18 There will be no change to the administration of claims and policies as a result of the proposed Schemes and the service standards will continue following the implementation of the Schemes.

**Mr Newton has concluded that no group of policyholders affected by the Schemes will suffer any reduction in service standards as a result of the Schemes.**

**Conclusion**

5.19 Mr Newton has confirmed that he has been provided with access to all material facts of which he is aware that he considers relevant in order to assess the proposals under the Schemes. He has had discussions with senior members of staff at Co-operative Banking Group that have helped him to evaluate the potential impact of the proposals on all policyholders under the Schemes.

5.20 In Mr Newton's opinion, provided the proposed Schemes operates as intended, and Mr Newton has no grounds for believing it will not do so:

- The security of benefits of policyholders of RLCIS and CISGIL will not be materially adversely affected by the implementation of the Schemes on the Effective Date; and
- The Schemes will not have an impact on service standards (operated in accordance with TCF criteria) experienced by the policyholders of RLCIS and CISGIL.

### **Update Report**

5.21 Mr Newton's analysis has been based upon the material supplied to him, including balance sheets and other information, based on accounting positions as at 31 December 2012. He has also taken into account updated financial information which has been made available, although he has noted that this updated information has not been audited. Since the proposed Effective Date for the Schemes is 31 March 2014, he will revisit the analysis closer to the time to confirm that there have been no material changes to the arrangements that he has reviewed that would affect his overall opinion. He will then prepare and issue an update report to be made available to the Court prior to the Final Court Hearing and to the Jersey Court prior to the Final Jersey Court Hearing. Copies of the updated Report can be obtained at [www.co-operativeinsurance.co.uk/transfer](http://www.co-operativeinsurance.co.uk/transfer) or by writing to Transfer Team, Royal London (CIS) Limited, 2nd Floor, Miller Street, Manchester, M60 0AL.