

Scottish Equitable plc and The Royal London Mutual Insurance Society Limited

**Supplementary Report by the Independent Expert on the proposed transfer of
certain business of Scottish Equitable plc to The Royal London Mutual
Insurance Society Limited by means of a Scheme under Part VII of the
Financial Services and Markets Act 2000**

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For and on behalf of Hymans Robertson LLP

31 May 2024

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A term in this report that is underlined indicates that it is explained in the glossary, which can be found in Appendix 1. A number of abbreviations are also used throughout this report. These are defined where they are first used and also in Appendix 2.

1 Introduction

Background and instructions

- 1.1. Scottish Equitable plc (“SE plc”) and The Royal London Mutual Insurance Society Limited (“Royal London”) propose to transfer a portfolio of individual protection business (“the Transferring Policies”) from SE plc to Royal London. The business will be transferred by means of the process set out in Part VII of the Financial Services and Markets Act 2000 (“FSMA”). SE plc and Royal London (together, “the parties”) are both authorised insurance companies. SE plc is registered in Scotland and Royal London is registered in England and Wales.
- 1.2. The parties’ application to The High Court of Justice in England and Wales (“the Court”) must be accompanied by a report on the terms of the transfer (the “Scheme Report”), produced by a person nominated or approved by the Prudential Regulation Authority (“PRA”) for that purpose (the “Independent Expert”). I have been instructed jointly by the parties to report in the capacity of Independent Expert on the terms of the Scheme pursuant to Section 109 of FSMA. My appointment as the Independent Expert has been approved by the PRA in consultation with the Financial Conduct Authority (“FCA”). I reported on my findings in relation to the Scheme in the Scheme Report dated 22 February 2024.
- 1.3. The conclusions drawn in the Scheme Report were as follows:
 - I was satisfied that the Scheme will not have a material adverse effect on the benefit security of any group of policies.
 - I was satisfied that the Scheme will not have a material adverse effect on the benefit expectations of any group of policyholders.
 - I did not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies.
 - I was satisfied that the Scheme is equitable to all classes and generations of SE plc’s and Royal London’s policyholders.
 - I was satisfied that the Scheme will not have a material adverse effect on SE plc’s reinsurers whose contracts will be transferred to Royal London, or on Royal London’s existing reinsurers.
 - I was also satisfied that the Scheme will not have a material adverse effect on any of the parties’ outsourced service providers, pension schemes, creditors or insurance subsidiaries.
- 1.4. The Scheme Report was submitted to the Court ahead of an initial hearing, referred to as the “Directions Hearing”, which took place on 28 February 2024. At the Directions Hearing, the Court gave the parties permission to implement their communication plans. All requested waivers from communicating with certain groups of policyholders (as discussed in paragraphs 11.9 to 11.31 and paragraph 11.39 of the Scheme Report) were granted, including holders of Remaining Policies and Existing Policies.
- 1.5. Notification packs have subsequently been issued and, having considered their contents, some policyholders have exercised their right to object to the Scheme. The Court will take these objections into account when deciding whether or not to sanction the Scheme at the second hearing, referred to as the “Sanction Hearing”.
- 1.6. I stated in the Scheme Report that I would prepare a further report for the Court (my “Supplementary Report”), the purpose of which is to report on any developments since the date of the Scheme Report so as to confirm or otherwise update the conclusions drawn in the Scheme Report in the light of any

changed circumstances. I have also considered the objections raised by policyholders as part of this assessment as at 22 May 2024.

- 1.7. This report is my Supplementary Report. Some of the defined terms used in the Scheme Report have been used in this Supplementary Report without restating their definitions, although these are included in the glossary in Appendix 1.
- 1.8. My duty is to the Court. This Supplementary Report is primarily for the purpose of assisting the Court in considering the Scheme being presented to it.
- 1.9. While not the primary audience of my Supplementary Report, I also expect it to be used by:
 - the policyholders of SE plc and Royal London, to assist them in understanding the likely effects of the Scheme,
 - the directors and senior management of SE plc and Royal London, to assist in the decision whether to present the Scheme to the Court,
 - the PRA and the FCA, and
 - the professional advisers of any of the above assisting in the development and implementation of the Scheme.

Status, credentials and independence

- 1.10. Details of my status, credentials, and independence from the parties – including in relation to those employees of Hymans Robertson LLP who have assisted me in preparing and reviewing this Supplementary Report – can be found in Section 1 of the Scheme Report. These remain unchanged as at the date of this Supplementary Report.

Other advice and opinions

- 1.11. Leigh-Ann Plenderleith, who is the Chief Actuary for SE plc; Alan McBride, who is the With-Profits Actuary for SE plc; Anthony Lee, who is the Chief Actuary for Royal London; and Brian Peters, who is the With-Profits Actuary for Royal London, each prepared separate reports on the Scheme for the relevant firm's Board. They have each subsequently prepared separate supplementary reports for the relevant firm's Board, which I have read. I have relied upon the information and analysis set out in these reports, and I note their conclusions in respect of the impact of the Scheme on policyholders' benefit expectations and on the future security of those benefits.

Reliances and Limitations

- 1.12. This Supplementary Report should be read in conjunction with the Scheme Report and must be read in its entirety.
- 1.13. The reliances and limitations set out in the Scheme Report apply equally to this Supplementary Report. Like the Scheme Report, the Supplementary Report is also subject to the terms and conditions (including the reliances and limitations) of an engagement letter among Hymans Robertson LLP, Aegon UK Corporate Services Limited and Royal London, with an effective date of 31 May 2023.

Regulatory and Professional Guidance

- 1.14. My Supplementary Report has been prepared in line with the regulatory guidance issued by the PRA, as set out in Statement of Policy "The PRA's approach to insurance business transfers" January 2022. Its preparation is also in line with the regulations set out in Chapter 18 of the Supervision Manual of the FCA

Handbook (“SUP18”) and the FCA’s guidance set out in Finalised Guidance “FG22/1: The FCA’s approach to the review of Part VII insurance business transfers”.

1.15. I am a Fellow of the Institute and Faculty of Actuaries (“IFoA”). The Financial Reporting Council sets out technical actuarial standards for members of the IFoA. This Supplementary Report is subject to and complies with the following standards:

- Technical Actuarial Standard 100: General Actuarial Standards, and
- Technical Actuarial Standard 200: Insurance.

1.16. In addition, the IFoA sets professional standards for its members. This Supplementary Report has been prepared having due regard to APS X2: Review of Actuarial Work and has been subject to independent peer review.

Structure of my Supplementary Report

1.17. The remainder of my Supplementary Report is structured as follows:

- Section 2 considers the updated financial positions of the parties.
- Section 3 provides an overview of the mailing exercise and a discussion of the communications received from policyholders.
- Section 4 discusses other relevant developments since the date of the Scheme Report.
- Section 5 contains my conclusions, having now prepared this Supplementary Report.
- Section 6 certifies that the Scheme Report complies with Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims.

My Supplementary Report also has three appendices:

- Appendix 1 provides a glossary for certain terms used throughout. Where a term is underlined, this indicates that it is explained in the glossary.
- Appendix 2 provides definitions of the abbreviations used throughout.
- Appendix 3 lists the principal documents I have considered and relied upon in preparing my Supplementary Report.

2 Updated financial positions of the parties

2.1. The Scheme Report set out the financial positions of the parties as at 31 December 2022 and 30 June 2023 and their asset portfolios as at 31 December 2022. The parties have subsequently provided me with details of their financial positions and asset portfolios as at 31 December 2023.

Assets

2.2. **Figure 1** shows a breakdown of SE plc's assets as at 31 December 2023. The breakdown as at 31 December 2022, as included in the Scheme Report, is also shown for comparison.

Figure 1: SE plc's asset portfolio as at 31 December 2023 and 31 December 2022

	31 December 2023		31 December 2022	
	£m	%	£m	%
<u>Deferred tax asset</u>	-	-	-	-
Pension benefit surplus	-	-	-	-
Property, plant & equipment held for own use	63.5	0.1%	68.2	0.1%
Property (other than for own use)	95.5	0.1%	106.9	0.1%
Holdings in related undertakings, including participations ¹	1,039.3	1.2%	846.2	1.0%
Equities	854.9	1.0%	889.3	1.1%
Government bonds	742.3	0.8%	794.7	1.0%
Corporate bonds	658.3	0.7%	708.6	0.9%
<u>Structured notes</u>	0.0	0.0%	0.0	0.0%
<u>Collateralised securities</u>	129.2	0.1%	156.3	0.2%
<u>Collective investment undertakings</u>	12.3	0.0%	14.8	0.0%
Derivatives	29.9	0.0%	32.9	0.0%
Deposits other than cash equivalents	248.1	0.3%	242.8	0.3%
Assets held for <u>unit-linked</u> contracts	77,883.6	87.4%	70,051.1	86.0%
Loans and mortgages	-	-	0.0	0.0%
<u>Reinsurance recoverables</u>	6,463.5	7.2%	6,409.9	7.9%
Insurance and intermediaries receivables ²	38.5	0.0%	38.9	0.0%
<u>Reinsurance receivables</u>	11.5	0.0%	47.0	0.1%

	31 December 2023		31 December 2022	
	£m	%	£m	%
Receivables (trade, not insurance) ³	818.5	0.9%	993.0	1.2%
Cash and cash equivalents	61.8	0.1%	53.0	0.1%
Other assets ⁴	1.0	0.0%	1.1	0.0%
Total	89,151.8	100.0%	81,454.8	100.0%

Sources: SE plc's 2022 Solvency and Financial Condition Report ("SFCR") and SE plc

(1) Refers to the non-insurance subsidiaries (e.g. Scottish Equitable Managed Funds Ltd)

(2) Includes debtors arising out of direct insurance operations

(3) Relates to other debtors not captured elsewhere on the balance sheet

(4) Includes other assets not captured elsewhere on the balance sheet, e.g. dividends receivable

- 2.3. While the total value of SE plc's assets has increased by c.9% over 2023, the breakdown of its assets has not changed materially over that period.
- 2.4. **Figure 2** shows a breakdown of Royal London's assets as at 31 December 2023. The breakdown as at 31 December 2022, as included in the Scheme Report, is also shown for comparison.

Figure 2: Royal London's asset portfolio as at 31 December 2023 and 31 December 2022

	31 December 2023		31 December 2022	
	£m	%	£m	%
<u>Deferred tax asset</u>	4.5	0.0%	33.4	0.0%
Pension benefit surplus	177.2	0.1%	206.6	0.2%
Property, plant & equipment held for own use	-	-	-	-
Property (other than for own use)	114.1	0.1%	127.9	0.1%
Holdings in related undertakings, including participations ¹	14,264.1	11.9%	13,884.3	12.5%
Equities	5,462.9	4.6%	6,053.7	5.5%
Government bonds	3,257.4	2.7%	3,483.0	3.1%
Corporate bonds	7,094.8	5.9%	6,224.3	5.6%
<u>Structured notes</u>	50.6	0.0%	48.7	0.0%
<u>Collateralised securities</u>	257.7	0.2%	284.7	0.3%
<u>Collective investment undertakings</u>	1,243.3	1.0%	1,206.4	1.1%

	31 December 2023		31 December 2022	
	£m	%	£m	%
Derivatives	1,636.5	1.4%	1,835.2	1.7%
Deposits other than cash equivalents	232.9	0.2%	605.3	0.5%
Assets held for <u>unit-linked</u> contracts	80,157.5	66.9%	70,839.9	64.0%
Loans and mortgages	135.6	0.1%	91.6	0.1%
<u>Reinsurance</u> recoverables	3,011.6	2.5%	2,969.8	2.7%
Insurance and intermediaries receivables ²	59.1	0.0%	48.2	0.0%
<u>Reinsurance</u> receivables	167.1	0.1%	183.7	0.2%
Receivables (trade, not insurance) ³	2,196.4	1.8%	2,199.7	2.0%
Cash and cash equivalents	274.9	0.2%	431.6	0.4%
Other assets ⁴	-	-	-	-
Total	119,798.3	100.0%	110,758.2	100.0%

Sources: Royal London's 2022 SFCR and Royal London

(1) Refers to the non-insurance subsidiaries (e.g. RLAM, but not RLMIS, RLI DAC, RLMS)

(2) Includes loans secured by policies and commercial real estate loans

(3) Includes debtors arising out of direct insurance operations

(4) Includes debtors arising out of reinsurance operations

(5) Relates to other debtors not captured elsewhere on the balance sheet

- 2.5. Similar to SE plc, while the total value of Royal London's assets has increased by c.8% over 2023, the breakdown of its assets has not changed materially over that period.

Pro-forma financial positions

- 2.6. **Figure 3** sets out estimates of SE plc's and Royal London's financial positions as they would have been at 30 June 2023 and 31 December 2023, had the Scheme been effective at that date. It also shows, for comparison, the "pre-Scheme" financial positions of both parties on that same date. For the avoidance of doubt, the "pre-Scheme" financial positions are as if the parties did not enter the Framework Agreement to work together to transfer the business, i.e. there is no allowance for the consideration paid for the business, the temporary reinsurance agreement, assets transferred as part of the Scheme, or impacts on capital requirements, though an allowance is made for costs incurred for the bid process.

Figure 3: Financial position pre- and post-Scheme

(£m)	SE plc				Royal London			
	30 June 2023		31 December 2023		30 June 2023		31 December 2023	
	Pre-Scheme ¹	Post-Scheme ¹	Pre-Scheme ¹	Post-Scheme ¹	Pre-Scheme ²	Post-Scheme ²	Pre-Scheme ²	Post-Scheme ²
<u>Eligible Own Funds</u>	1,962	1,920	2,261	2,220	4,989	4,971	5,327	5,330
<u>SCR</u>	1,183	1,152	1,224	1,189	2,304	2,347	2,408	2,450
<u>Excess Own Funds</u>	779	768	1,038	1,031	2,685	2,624	2,919	2,880
<u>Solvency coverage ratio</u>	166%	167%	185%	187%	217%	212%	221%	218%

Source: (1) SE plc (2) Royal London

- 2.7. Royal London's financial position at 31 December 2023 has improved slightly from that at 30 June 2023. Profits on existing business, positive equity market returns and the reduction in the risk margin from Solvency UK reforms have increased its solvency position. These have been somewhat offset by Royal London buying-back some subordinated debt, removing some equity hedging and paying Profit Share, but overall the solvency position has improved.
- 2.8. The impact of the transfer on Royal London's solvency coverage ratio has also reduced slightly as a result of the reduction in the risk margin at 31 December 2023. As at 31 December 2023, the impact of the Scheme is expected to be immaterial and Royal London is expected to continue to comfortably comply with its capital management policy.
- 2.9. SE plc's financial position at 31 December 2023 has improved from that at 30 June 2023. The reduction in the risk margin was the primary driver of this, which was partially offset by a dividend payment and changes to assumptions for year-end reporting. The expected impact of the transfer at 31 December 2023 is broadly similar to the expected impact at 30 June 2023.

Changes to the parties' financial positions since 31 December 2023

- 2.10. Both parties have provided me with their updated regulatory balance sheets at 31 March 2024 and both continued to comply with their capital management policies at that date.
- 2.11. Since 31 December 2023, SE plc's solvency coverage ratio has increased slightly, largely as a result of market returns in excess of risk-free rates.
- 2.12. Since 31 December 2023, Royal London has removed some more equity hedging which reduced its solvency coverage ratio a little, noting that Royal London still complies with its capital management policy as discussed in paragraph 2.10.

- 2.13. Having considered the parties' regulatory balance sheets as at 31 March 2024, there remains the question of whether market movements since then might cause me to reconsider my conclusions. In that regard I would note that financial markets have remained relatively steady since 31 March 2024, with equity market movements being relatively modest over that period – for example the FTSE 100 increased by c.5% from 7952.6 at 31 March 2024 to 8370.3 at 22 May 2024. In their 2023 SFCRs, the parties considered how their solvency coverage ratios would have changed in response to various market movements, including the value of equities changing by 25%. SE plc estimated that its solvency coverage ratio would have reduced by c.6 percentage points following a 25% increase in equity values, and Royal London estimated that its solvency coverage ratio would have increased by c.4 percentage points following a 25% reduction in equity values. As the equity market movements considered by the parties are much larger than have been seen since 31 March 2024, and as they would have had only a small impact on the parties' solvency coverage ratios, I do not expect that the relatively more modest equity market movements seen since 31 March 2024 will have had a material impact on either party's solvency position or their ability to comply with their capital management policies.
- 2.14. I am therefore satisfied that nothing has changed since 31 March 2024 which would impact my conclusion on the security of policyholder benefits.

Conclusion drawn from the updated financial positions of the parties

- 2.15. For the reasons discussed in this Section 2, I remain satisfied that the Scheme is not expected to have a material adverse effect on the security of benefits for any group of policyholders.

3 Communications

Policyholder communications

Notification process

3.1. On 4 March 2024, SE plc began the process of sending notification packs to the holders of Transferring Policies, other than those covered by the waivers granted by the Court. The final mailing batch was issued on 19 April 2024. SE plc and Royal London jointly published the Legal Notice of the Scheme on 8 March 2024 in each of the London, Edinburgh and Belfast Gazettes, as well as in The Times, The Daily Mail, The Sun, and the international edition of the Financial Times. They also made the notification packs available on their websites together, with certain other materials as outlined in the Scheme Report.

Correspondence and objections from the holders of Transferring Policies

3.2. SE plc issued 389,607 notification packs to its policyholders. At 22 May 2024, the parties had received 13,403 responses from policyholders, representing 3.4% of the mailing packs issued. Of the policyholders who contacted SE plc, the vast majority were making a general enquiry, either about the Scheme or about their policy. However, as at 22 May 2024, 47 policyholders have objected to the Scheme proceeding. I discuss the themes of these objections in the following paragraphs. Some policyholders raised objections covering more than one theme, and these are counted multiple times below in line with the number of themes covered.

3.3. I have split my discussion into six broad themes, being those relating to:

- benefit expectations,
- service standards,
- negative perception or experience of Royal London,
- the strategic rationale for and consequences of the Scheme,
- existing administration or customer service issues, and
- the Part VII process.

There were also objections where no reasons were provided by the policyholders, which I also discuss.

Objections relating to benefit expectations (referenced in 11 objections)

3.4. Six objections were raised on the theme of benefit expectations changing as a result of the proposed transfer. This was discussed in detail in paragraphs 7.28 through 7.37 of the Scheme Report, across the following areas of consideration:

- the terms and conditions of the Transferring Policies, which will not change as a result of the Scheme, other than changing references from SE plc to Royal London,
- the application of discretion, where Royal London will continue to apply discretion to the Transferring Policies using principles consistent with SE plc's approach, and
- the taxation treatment of the Transferring Policies, including that of the c.4,000 Life Protection with Tax Relief ("LPTR") policies, which is expected to remain unchanged.

None of these six objections received raise issues that were not addressed in the Scheme Report. I am therefore satisfied that they do not give me cause to change my conclusions in respect of the Scheme.

- 3.5. Four policyholders who already have policies with Royal London raised concerns about having multiple policies with Royal London after the transfer.
- One holder of a Transferring Policy objected to the Scheme on the grounds that they already had a protection policy with Royal London and were concerned that in having multiple policies following the transfer this might adversely affect the benefits payable on their policies. A response was provided by SE plc to the policyholder reassuring them that the terms and conditions of their policies would remain unchanged, that the proposed transfer would not impact on the benefits payable on any of their policies, and that any claim under any of these policies would continue to be assessed in the same way as it would have been prior to the proposed transfer.
 - A further holder of a Transferring Policy objected to the Scheme on the grounds that they already hold a pension policy with Royal London and were concerned that, in having multiple policies with Royal London following the transfer, this might adversely affect their level of potential cover under the Financial Services Compensation Scheme (“FSCS”). This is not the case. As I noted in paragraph 7.57 of the Scheme Report: (i) the transfer of a long-term insurance policy from SE plc to Royal London will not affect that contract’s eligibility for FSCS compensation, and (ii) the level of compensation received will also be unaffected, including for any holders of Transferring Policies who also hold other contracts of insurance with Royal London.
 - Another two holders of Transferring Policies objected to the Scheme on the grounds that they already hold a policy with Royal London and one specifically stated that they would prefer to spread their policies across different providers. Responses were provided to these policyholders explaining that holding multiple policies with Royal London will not impact the benefits payable to them, that I have concluded that the Scheme is not expected to have a material adverse effect on the benefits payable to policyholders, and that the Scheme will not impact their contract’s eligibility for FSCS protection.

None of these objections give me cause to change my conclusions in respect of the Scheme.

- 3.6. One holder of a Transferring Policy objected to the proposed transfer as they could not increase their protection cover with SE plc. Because the policyholder does not have the contractual right to increase their cover, the only route available to the policyholder to increase their cover level with SE plc would be to effect a new contract of insurance. The policyholder is unable to do this as SE plc has closed to new individual protection business, which it was entitled to do regardless of any intention to dispose of the Transferring Policies. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.

Objections relating to service standards (referenced in four objections)

- 3.7. Four objections were received on the theme that service standards might change as a result of the proposed transfer. The issue of service standards for Transferring Policies was discussed in detail in paragraphs 7.38 through 7.49 of the Scheme Report.
- 3.8. Atos currently provides administration services for the Transferring Policies on behalf of SE plc. From the Transfer Date, Atos will continue to provide policy administration under a new contract with Royal London. As discussed on paragraph 7.39 of the Scheme Report, these agreements are materially aligned, with the targets being unchanged except for two areas – relating to the target time to answer policyholder calls and the acceptable proportion of policyholders who abandon their call before it is answered – where the targets will increase slightly in Royal London’s contract with Atos.
- 3.9. One of the objections received specifically expressed dissatisfaction at the increase in call handling targets at Royal London, although it did not raise any new issues not already considered in the Scheme

Report. The impact on policyholders of this reduction in call handling service levels is an area of judgement but, for the reasons discussed in paragraph 7.41 of the Scheme Report, I do not expect there to be a material adverse effect on the standards of service received by the holders of Transferring Policies. This continues to be my view.

3.10. None of the other objections received raise issues that were not addressed in the Scheme Report.

3.11. I am therefore satisfied that these objections do not give me cause to change my conclusions in respect of the Scheme.

Objections relating to negative perception or experience of Royal London (referenced in 20 objections)

3.12. Eight holders of Transferring Policies expressed concern about their policies transferring to Royal London given reviews that they have read of the company.

3.13. Twelve holders of Transferring Policies expressed concern about their policies transferring to Royal London given their past experience as a customer.

3.14. In respect of paragraph 3.12, it is beyond my scope to comment on the various reviews that policyholders may have read. In respect of paragraph 3.13, it is also beyond my scope to comment on the various issues that that policyholders may historically have had with Royal London. However, in respect both of these, my opinion is that the most important considerations in connection with the proposed transfer relate to whether the Scheme is likely to have a material adverse effect on benefit expectations, benefit security, or levels of service. In that regard, I would note that I concluded in the Scheme Report that

- I am satisfied that the Scheme will not have a material adverse effect on the benefit expectations or security of benefits for the Transferring Policies, which continues to be my view, and
- as discussed in paragraph 3.9 above, I do not expect there to be a material adverse effect on the standards of service received by the holders of Transferring Policies, which also continues to be my view.

3.15. I am therefore satisfied that these objections do not give me cause to change my conclusions in respect of the Scheme.

Objections relating to the strategic rationale for and consequences of the Scheme (referenced in three objections)

3.16. Two holders of Transferring Policies objected to the proposed transfer on the basis of its strategic rationale.

- (i) One policyholder noted that: (a) they believed the transfer was not in their best interests, and (b) it was being done solely for the financial gain of SE plc.
- (ii) The other objecting policyholder: (a) noted that they had been quite happy with the service provided by SE plc and questioned whether it was really to the company's advantage to simplify its business by disposing of its protection book, and (b) asked what would happen to the proceeds of the sale, specifically whether this would be distributed to policyholders.

3.17. In respect of part (a) of the objection outlined in paragraph 3.16(i), the Scheme does not have to be in the best interests of any policyholder, rather the threshold test is that it is not likely to have a material adverse effect on policyholders. I discussed this in detail throughout the Scheme Report. In respect of part (b) of the objection outlined in paragraph 3.16(i), and in respect of the objection outlined in paragraph 3.16(ii), I note that it is entirely valid for insurance business transfers to be carried out for commercial reasons,

there being many historical examples of this, and that the Court will approve such transfers only if it is satisfied that there is no material adverse effect on policyholders. For completeness, I note that in respect of part (b) of the objection outlined in paragraph 3.16(ii), SE plc explained to the policyholder that as a proprietary company it is owned by its shareholders and so any proceeds from the sale would accrue for the benefit of its shareholders. Neither of these objections give me cause to change my conclusions in respect of the Scheme.

- 3.18. One holder of a Transferring Policy objected to the proposed transfer, noting that SE plc's sale of the book and withdrawal from the individual protection market would reduce the number of participants and therefore the competitiveness of the UK market. In that regard, I note that SE plc was entitled to make the decision to close to new individual protection business, regardless of whether it proposed to transfer its individual protection business to another party. Any impacts of that decision on market competitiveness are therefore not relevant to my assessment of the Scheme and this objection does not give me cause to change my conclusions in respect of the Scheme.

Objections relating to existing administration or customer service issues (referenced in five objections)

- 3.19. One trustee of a Transferring Policy initially objected to the Scheme on the grounds that their surname had been spelled incorrectly by SE plc in their correspondence and was concerned that, if not corrected prior to the transfer, Royal London might refuse to make the correction saying that SE plc should have done so. The trustee noted that if the misspelling was corrected prior to transfer they would then have no objection to the transfer proceeding. While noting that Royal London confirmed that it would not have any issues in updating the details of a trustee record following the proposed transfer, that being a standard element of policy administration, the misspelling has already been corrected by SE plc in advance of the transfer, and so this objection has effectively been removed, albeit it remains in the statistics discussed here.
- 3.20. Another holder of a Transferring Policy objected to the Scheme as they believe that their policy was mis-sold, and that a change of name and address was not actioned correctly when requested. In respect of the latter point, the change of name and address has now been actioned by SE plc, although I would note more generally that responsibility for any routine servicing issues will pass to Royal London under the Scheme. In respect of the former point on mis-selling, it is not for me to comment on whether or not the policy was mis-sold, but rather I note in paragraphs 7.58 and 7.59 of the Scheme Report that the eligibility of the holders of Transferring Policies to make representations to the Financial Ombudsman Service ("FOS") in the UK will be unchanged as a result of the transfer. In that regard, I note that SE plc is currently taking this Transferring Policy through its internal complaints process, and this will pass to Royal London if unresolved by the Transfer Date.
- 3.21. A third holder of a Transferring Policy discussed under this theme, objected to the Scheme as they have been struggling to communicate with SE plc and expressed a wish to cancel their policy and look for another rather than transfer. The nature of previous difficulties in communicating is unclear, but I note that there has been an open channel of communication between SE plc and the policyholder in respect of the objection and request to cancel their policy, including SE plc recommending that the policyholder consult a financial adviser, and directing them to the Money Helper website to assist with this, as they could be without cover for a period.
- 3.22. A fourth holder of a Transferring Policy objected to the Scheme as they have a live claim with SE plc which was refused on medical grounds, albeit with a further review date scheduled for 8 June 2024. The policyholder objected stating that they believe the claim was refused to maximise the value of the book for sale to Royal London, which SE plc has confirmed to the policyholder is not the case. It is not for me to comment on the specifics of this claim, except to note that: (i) as discussed earlier in this paragraph, the

claim is scheduled to be reviewed ahead of the Sanction Hearing; (ii) the ability of the policyholder to pursue the claim and, as discussed in paragraph 7.30 of the Scheme Report, the claims underwriting standards applying to it will be materially unaffected by the Scheme; and (iii) similar to the discussion in paragraph 3.20, the ability of the policyholder to make representations to FOS is similarly unaffected by the Scheme.

- 3.23. The fifth holder of a Transferring Policy objected to the Scheme as the policy had a premium loading due to the holder's hazardous job when the policy commenced which SE plc did not remove when the policyholder changed job. SE plc confirmed that it was wrong to refuse to remove the loading, which has since been processed. The policyholder's objection to the Scheme has therefore been removed, but it remains in the statistics discussed here.
- 3.24. I am satisfied that none of these objections give me cause to change my conclusions in respect of the Scheme.

Objections relating to the Part VII process (referenced in 23 objections)

- 3.25. One holder of a Transferring Policy objected to the proposed transfer as the communication materials did not highlight sufficiently prominently that customer service standards would be reduced for call handling. The policyholder was therefore untrusting of the proposals. I noted in paragraph 11.2 of the Scheme Report that I had reviewed the content of the notification packs that were sent to the holders of Transferring Policies, and that I considered it to convey the information I would expect. Noting that the ordering and prominence of information included is a matter of judgement, I remain satisfied with the content of the communications. For the complaint in hand, the communications were effective in that the policyholder has clearly been informed that customer service standards would be reduced for call handling, and indeed the same applies to the objection discussed in paragraph 3.9. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.
- 3.26. Three holders of Transferring Policies objected to the proposed transfer on the basis that they felt they should have been informed about it at an earlier stage. SE plc completed the distribution of notification packs on 19 April 2024. With the Sanction Hearing expected to take place 14 June 2024, the time available for policyholders to consider the information and raise any objections is therefore aligned with the usual regulatory expectation of at least six to eight weeks. Noting also that policyholders can continue to raise objections all the way to the Sanction Hearing, I am satisfied that policyholders have had sufficient time to consider the Scheme and to raise any objections they might have. These objections therefore do not give me cause to change my conclusions in respect of the Scheme.
- 3.27. Fourteen holders of Transferring Policies objected to the ability to transfer their policy under the Scheme without their express permission, or that no opt out facility was provided. As the proposed transfer is being carried out in accordance with all applicable laws (specifically Part VII of FSMA and related regulations) which permit an insurance company to transfer all or part of its business to another insurance company without seeking the consent of each policyholder whose policy is proposed to be transferred, or without providing for individual policyholders to opt out, provided that the transfer is sanctioned by an appropriate court, these objections do not give me cause to change my conclusions in respect of the Scheme.
- 3.28. One holder of a Transferring Policy objected to the proposed transfer stating that they believed the Part VII hearing should take place in Scotland and was concerned that the laws are different in Scotland and England. In respect of the first point, SE plc advised the policyholder that both the High Court of England and Wales and the Court of Session in Scotland would have valid jurisdiction for the proposed transfer, which is in line with my understanding based on previous examples of the High Court of England and Wales sanctioning Part VII Schemes involving Scottish firms. The parties simply elected for the

former option, as is their right. In respect of the latter point, SE plc have advised that the policyholder took out their policy in England and it is therefore currently governed by the law of England and Wales. SE plc stated in its response to the policyholder that as the terms and conditions of the Transferring Policies, including its governing law, will not change as a result of the Scheme, the law of England and Wales will continue to apply after the transfer where it applied before. While I am not a legal expert, I consider SE plc's response to be reasonable. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.

- 3.29. Similarly, another holder of a Transferring Policy was concerned that their policy would be governed by the laws of England and Wales after the transfer, it currently being governed under Scottish law. As discussed in paragraph 3.28 above, the policy's governing law will not change as a result of the Scheme and Scottish law will continue to apply after the transfer where it applied before. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.
- 3.30. One holder of a Transferring Policy objected to the proposed transfer because they bought the policy from a Scottish firm and would like the policy to remain with a Scottish firm. Noting that, as discussed in paragraphs 3.28 and 3.29, the law governing the policy will not change as a result of the Scheme, I do not consider that moving from a Scottish firm to an English firm will cause a material adverse effect for Transferring Policies, and indeed SE plc, which operates across the UK, could change its registered address to be based in England, regardless of the Scheme. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.
- 3.31. One holder of a Transferring Policy objected to the proposed transfer on the grounds that their policy is due to expire in September 2024, very shortly after the scheduled effective date of the proposed Transfer Date of 1 July 2024. They therefore saw little point in it being transferred only for Royal London to take on the policy for such a short period. SE plc responded to the policyholder explaining that the transfer would be fully effective from the Transfer Date, and that it would apply to all Transferring Policies at that point, including theirs. Reassurance was provided that no action was required on the policyholder's part in relation to the transfer and that there would be no changes to their benefits as a result of the Transfer. This objection does not give me cause to change my conclusions in respect of the Scheme.
- 3.32. One holder of a Transferring Policy objected to the proposed transfer because they believed that they would have to change their will to update references from SE plc to Royal London, and that there would be some legal cost incurred in making such a change. SE plc's response to the policyholder outlined that it should not be necessary to make any such changes, as references to SE plc would be read as Royal London as a result of the Court order sanctioning the Scheme. It also noted that the policyholder may like to store the transfer paperwork alongside their will. While I am not a legal expert, I consider SE plc's response to be reasonable, and in particular I note that, as discussed in paragraph 3.4, the terms and conditions of the Transferring Policies will not change as a result of the Scheme, other than references from SE plc being read as Royal London. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.

Objections where no reason was provided (two objections)

- 3.33. Two holders of Transferring Policies objected to the proposed transfer but, despite attempts to seek further clarification, did not provide a specific reason for their objection. As no specific reasons were given, I have no grounds to change my conclusions in respect of the Scheme.

Correspondence and objections from the holders of Remaining Policies

- 3.34. SE plc has confirmed that it has received no objections from the holders of Remaining Policies at 22 May 2024.

Correspondence and objections from the holders of Existing Policies

3.35. Royal London has confirmed that it has received no objections from the holders of Existing Policies at 22 May 2024.

Conclusion from policyholder objections

3.36. As discussed throughout paragraphs 3.3 to 3.35, none of the objections received from policyholders cause me to reconsider the conclusions in the Scheme Report.

Call centre service standards

3.37. I note that during the week commencing 25 March 2024, SE plc's Part VII call centre experienced some servicing issues, where the call abandonment rate was c.11% and the average waiting time was c.160 seconds. While the Part VII call centre doesn't have its own target service levels, SE plc's general servicing targets are to answer c.80% of calls within 45 seconds and have a call abandonment rate of no more than 2%.

3.38. The potential area for concern here is that policyholders were unable to access the information they required, ask clarifying questions, or raise objections. However, SE plc took a number of steps to address this, including:

- redirecting additional resource to the call centre team during peak times,
- temporarily postponing a planned increase to the daily mailing rate,
- introducing an automated message noting that phone lines were busy and highlighting other means of obtaining information about the Scheme, and
- opening phonedlines on the Easter bank holidays.

3.39. There was a material immediate improvement in service levels, and in the week commencing 1 April 2024 the call abandonment rate was below 3% and the average waiting time was c.45 seconds, broadly in line with SE plc's general servicing targets. Given the considerable amount of time available to policyholders who experienced service issues during the week commencing 25 March 2024 to re-contact the call centre with queries or objections, given that call centre service standards have remained broadly in line with SE plc's general servicing targets since then, and given the other channels (such as email) available to affected policyholders to ask for information or to object to the transfer, I am satisfied that the servicing issues experienced in the week commencing 25 March 2024 are not a cause for concern.

Additional gone-away policyholders

3.40. As part of the communication process, SE plc identified an additional 1,008 policyholders for which it held an incorrect address, and it is now trying to identify the correct address for as many of these policyholders as possible. Ultimately, this will not be possible for all policyholders, meaning that more will become classified as gone-away. As noted in paragraph 11.18 of the Scheme report, prior to this mailing, SE plc's gone-away population was small, at c.0.6%. It was inevitable that some more gone-away policyholders would be identified as part of the policyholder communication process. However, as new gone-away policyholders will only be a proportion of the 1,008 policyholders identified as having an incorrect address (i.e. at most another c.0.3%), the new gone-away population is still expected to be very small. This underlines the value of SE plc's gone-away tracing exercise referred to in paragraph 11.18 of the Scheme Report.

Royal London's website

3.41. Royal London included on the home page of its website a short-cut link to the landing page which contained information on the Scheme. Between 8 March 2024 and 22 March 2024 the home page short-

cut was removed in error, albeit that the transfer landing page itself remained live throughout this period and accessible through a dropdown menu on Royal London's home page. Noting that the transfer landing page remained accessible from Royal London's home page through the dropdown menu, and that volumes of enquiries from its policyholders have been very low throughout the whole notification period, I do not consider that the short-cut link not being present on the home page for a short period of time materially affected policyholders' ability to obtain information about the Scheme, to make enquiries about it, or to object to it.

Other stakeholder communications

- 3.42. Formal notification of the proposed transfer was issued by SE plc on 5 April 2024 to its reinsurers whose contracts are in scope of the proposed transfer. As discussed in paragraphs 10.6 and 10.13 of the Scheme Report, these reinsurers had already been informed of the proposed transfer by Royal London as they are also reinsurance counterparties of Royal London.
- 3.43. SE plc has also issued a letter to each of the independent financial advisers who provided advice to the holders of Transferring Policies, to inform them of the proposed transfer. These letters confirm the transfer of ongoing obligations relating to the payment of commission and recovery of commission clawback from SE plc to Royal London.

4 Other developments since the date of the Scheme Report

Changes to the scheme

4.1. For the avoidance of doubt, there have been no material changes to the Scheme since the Scheme Report dated 22 February 2024, albeit some minor drafting changes have been made.

Policy administration

Contingency plans

4.2. As discussed in paragraph 6.63 of the Scheme Report, on 5 February 2024, Atos SE, the parent company of Atos, announced that it was in formal discussions with its lending banks to agree a plan to refinance its debts. SE plc and Royal London have monitored the financial position of Atos SE and there have been no material changes to this. There have also been no changes to the ability of Atos to administer and service the Transferring Policies and relevant Remaining Policies. On 9 April 2024, Atos SE announced that it had agreed an interim financing plan with its lenders, which is sufficient to meet outgoings until July 2024. A longer-term refinancing plan is expected to be agreed by July.

4.3. In my Scheme report I stated that I would review the relative merits of the following contingency plans:

- SE plc's plan for Transferring Policies,
- Royal London's plan Transferring Policies, and
- SE plc's contingency plan for Remaining Policies.

4.4. I have shared my detailed review of these plans with the parties, with the PRA, and with the FCA, but in outline my review considered:

- whether the plans covered the key areas that I would expect to see in a contingency plan,
- key differences between the contingency plans,
- an external assessment, undertaken by another consultancy firm, of Royal London's contingency plan for Transferring Policies, and
- updates on Atos's financial position, which is relevant as it sets the context in which the plans should be considered.

4.5. The key areas that I would expect to see in a contingency plan include:

- identification of back-up suppliers (be they internal or external) who could alternatively provide the services,
- having a realistic understanding of the timings, resources and costs associated with implementing a contingency plan, and
- having clearly-defined contract exit terms, which support the expected timings and costs noted immediately above.

4.6. The three contingency plans cover all of the above areas referred to in paragraph 4.5. Overall I am satisfied with the quality and content of all three plans, and I consider them to be capable of being implemented by the parties if required. However, I did make a few minor observations on how the contingency plans could be improved, in which regard I note that:

- SE plc does not propose to update its plan for Transferring Policies as it is unlikely that the plan will be required given the imminent Transfer Date, as discussed further in paragraph 4.8 below,
- SE plc intends to reflect my comments on its plan for Remaining Policies during its next business-as-usual review of that plan, and
- Royal London addressed my comments in a further version of its contingency plan.

I am comfortable with the parties' approaches to addressing my comments, noting that I was satisfied that the plans were appropriate even if no updates were made.

- 4.7. In my opinion the structure and level of detail included in Royal London's plan is slightly stronger than SE plc's plan for Transferring Policies. For example, it covers in more detail than SE plc's plan areas such as contractual exit terms, timelines and costs for exit strategies, and governance processes. I therefore consider that the Transferring Policies are not exposed to additional risks from Atos failing in transferring from SE plc to Royal London.
- 4.8. Additionally, on 5 April 2024, Atos SE made a £50m capital injection to Atos through the allotment of 50 million new shares for £1 each. The requisite forms confirming the capital injection were filed with Companies House on 25 April 2024. Atos SE expects this to be sufficient to ensure Atos continues to be able to operate until well beyond the Transfer Date. In my view, this materially reduces the risk of Atos failing financially and operationally both in the run up to and in the period shortly after the Transfer Date. Although I consider SE plc's plan for the Transferring Policies to be appropriate, the likelihood that it will ever need to be used – assuming that the Transfer Date remains unchanged – has been significantly reduced by the capital injection.

Group policy administration

- 4.9. As discussed in paragraph 8.27 of the Scheme Report, the administration of a small book of group protection policies was previously included in the scope of SE plc's outsourced administration agreement with Atos that covers Transferring Policies. This agreement will be terminated as part of the Scheme, so SE plc has incorporated the administration of these policies into the scope of another existing contract that it has with Atos. The contractual terms and service standards for the administration of these policies are unchanged and I am therefore satisfied that there is no material adverse effect on the service standards for these Remaining Policies as a result of the Scheme. Additionally I note that, as discussed in paragraphs 4.2 to 4.8, I have reviewed SE plc's contingency plan for the administration of Remaining Policies with Atos and I am satisfied that the plan is appropriate. I therefore consider that the Remaining Policies are not exposed to additional risks from Atos failing as a result of the Scheme.

Royal London's entry into the Bulk Purchase Annuity Market

- 4.10. On 8 March 2023, Royal London announced that it was entering the UK bulk purchase annuity (BPA) market and had already completed two BPA deals with its own defined benefit pension schemes, the Royal Liver pension scheme and the Royal London Group pension scheme ("RLGPS") in November 2023 and January 2024 respectively.
- 4.11. Entry into the UK BPA market was part of Royal London's business plans. As discussed in paragraph 7.24 of the Scheme Report any future new business is expected to increase capital generation within Royal London and any decisions about potential acquisitions will be subject to Royal London's risk appetite framework and capital management policy.
- 4.12. As the Royal Liver pension scheme deal was completed before 31 December 2023, this is already included in Royal London's pro-forma financial position in Figure 3. The RLGPS deal was completed after 31 December 2023. Royal London has provided me with details of its financial position as at 31 March

2024, which includes the effect of the RLGPS deal, and Royal London still complies with its capital management policy.

Tax

- 4.13. Historically, SE plc has been able to claim tax relief from HM Revenue & Customs (“HMRC”) on the premiums paid on LPTR policies. Royal London has engaged with HMRC to inform them of the Scheme and its intention to continue to claim tax relief of the LPTR policies. Royal London has also informed HMRC that it will be seeking an ancillary order from the Court to the effect that from the Transfer Date the LPTR policies can be treated for tax purposes as continuing to meet the criteria necessary to constitute “protected policies” that qualify for such tax relief under paragraph 5 of Schedule 18 of the Finance Act 2007.
- 4.14. Royal London received confirmation via email on 6 February 2024 from HMRC that it is supportive of the ancillary order being sought and that should the Court sanction the Part VII transfer, HMRC believes that the LPTR policies would not lose their protected status and tax relief would continue to be available on premiums paid.
- 4.15. Regardless, and as discussed in the Scheme Report, Royal London had already committed to meet on the policyholders’ behalf the costs of lost tax relief on premiums should HMRC not allow Royal London to continue to receive tax relief on the LPTR policies. As discussed in paragraph 7.34 of the Scheme Report, the value of the tax relief over the remaining run-off of the LPTR policies is immaterial in the context of Royal London’s overall business. I am therefore satisfied that should Royal London be unable to claim tax relief, meeting the costs of the lost tax relief on premiums will not materially impact Royal London’s financial position. My conclusion is therefore unchanged in that I remain satisfied that the benefit expectations of holders of transferring LPTR policies will not be materially adversely affected by the Scheme.

Solvency UK developments and impact on the parties

- 4.16. In Section 12 of the Scheme Report, I discussed the proposed changes to the UK prudential regulatory regime. Since 22 February 2024 the PRA has provided detail on a number of developments in the regime. Figure 5 outlines the developments since the date of the Scheme Report.

Figure 5: Key developments in the Solvency UK reform

Date	Development
28 February 2024	The PRA published Policy Statement (PS) 2/24 – Review of Solvency II: Adapting to the UK insurance market, in response to Consultation Paper (CP) 12/23 - Review of Solvency II: Adapting to the UK insurance market (the content of which is discussed in paragraphs 12.8 to 12.11 of the Scheme Report).
29 February 2024	The PRA published PS 3/24 - Review of Solvency II: Reporting and disclosure phase 2 near-final in response to CP 12/23 and CP 14/22 - Review of Solvency II: Reporting phase 2.
15 April 2024	The PRA published Solvency II review – Matching adjustment reform implementation considerations for 30 June 2024.
22 April 2024	The PRA published CP 5/24 – Review of Solvency II: Restatement of assimilated law.

4.17. The most material changes from CP 12/23 outlined in PS 2/24 were:

- Changes to the disclosure and setting of the level of capital firms are required to hold in addition to the Solvency Capital Requirement (“SCR”) where there are risks that the SCR does not cover or adequately capture.
- Allowing insurance groups up to six months after an acquisition to create a plan for integrating Internal Models and two years following this to implement the plan.

4.18. PS 3/24 provided finalised rules on the PRA’s proposals to simplify reporting and disclosure requirements. Changes were not material and largely related to proposals to simplify reporting templates.

4.19. Royal London has advised that although some work will be required to implement these changes, it does not expect the changes to have any significant impact on its financial position or compliance with its capital management policy. SE plc has also advised that it does not expect these changes to have a material impact on the solvency position of SE plc. I am therefore satisfied that these changes do not affect my assessment of the Scheme.

4.20. Firms made a number of clarification requests in response to CP 19/23 – Review of Solvency II: Reform of the Matching Adjustment (the content of which was discussed in paragraph 12.11 of the Scheme Report). The PRA responded to these clarification requests in “Solvency II review – Matching adjustment reform implementation considerations for 30 June 2024”, for example confirming that firms do not need to reapply for the Matching Adjustment (“MA”) if they have existing approval, and that the MA appropriateness attestation requirement will not come into force until 31 December 2024.

4.21. CP 5/24 outlines how the UK government will practically repeal the retained European Solvency II regulations and replace them with Solvency UK regulations. It represents the final PRA consultation needed to implement the conclusions of the UK Solvency II review and to finalise PRA rules and other policy materials that will replace Solvency II assimilated law. It proposes the restatement into PRA policy material of those parts of the Solvency II regime which have not already been subject to consultation as part of the UK Solvency II review. It sets out how the PRA proposes to restate these Solvency II requirements from assimilated law into the PRA Rulebook and other policy materials, such as Supervisory Statements or Statements of Policy.

4.22. While CP 5/24 largely focuses on the restatement of assimilated law without changing the original policy intention, the PRA has identified a small number of areas where it considers that policy changes may nevertheless be warranted. In particular, the PRA highlights the following two areas of policy change among those covered:

- the PRA proposes a new time-limited transitional rule in the Own Funds Part of the PRA Rulebook which would permit firms to continue to treat legacy paid-in preference shares issued prior to 18 January 2015 as being not relevant, for a period of 25 years, when assessing certain aspects of the quality of their Own Funds. While the additional flexibility afforded by the proposed transitional arrangement should generally be helpful to firms, it does not apply to SE plc as it has not issued such shares, and it is irrelevant to Royal London as a mutual insurer.
- the PRA proposes that, when restating amounts denominated in EUR into the UK framework, those amounts will be restated into GBP using the same conversion rate confirmed for similar purposes in PS 2/24. While the additional certainty afforded by the proposal should generally be helpful to affected firms, by removing potential impacts from changes in exchange rates, it applies only to firms

which use the Standard Formula to determine their SCR for certain, specified non-life underwriting risks, market risks, and counterparty default risks, which is not the case for either party.

- 4.23. The PRA has also identified some areas of inconsistency in assimilated law (e.g. inconsistent or incorrect cross-references or missing definitions), which it proposes to correct as part of this consultation.
- 4.24. While the proposals contained in CP 5/24 may change following industry feedback, which is open until 22 July 2024, I am of the view that the impacts on the parties are likely to be very small given their largely procedural nature. The parties have conducted a high-level review of the impact of CP 5/24 and have reached the same conclusion.
- 4.25. Finally, I note that a further policy statement on the Matching Adjustment reforms is currently due to be published by the PRA in early June. If there is anything significant in this policy statement which would materially change my views on the Scheme, for example if it is expected to materially affect the financial position of either party, I will provide my views on it in an addendum to this report.

Political sanctions

- 4.26. As stated in paragraph 12.27 of the Scheme Report, the UK's Sanctions and Anti-Money Laundering Act 2018 creates the UK's regime for financial, trade, immigration, aircraft, and shipping sanctions, while the Export Controls Act 2002 creates the UK's export control regime. The parties are required to comply with these regimes.

Sanctioned policies

- 4.27. SE plc has continued to monitor whether any of the holders of Transferring Policies are subject to any political sanctions. A third-party screening tool is used to monitor this, which compares SE plc's client records against lists of sanctioned individuals, politically exposed persons, and their relatives and close associates, as well as other high-risk customers. Criteria such as name, date of birth and location are used to identify potential matches, and match alerts are received by SE plc on a daily basis. SE plc is required to comply with UK political sanctions, as outlined by HM Treasury. However, UK, European and US sanctions lists are monitored, which is broader than the list of sanctions that SE plc is required to monitor. As at 22 May 2024 no holders of Transferring Policies were subject to UK political sanctions. While this is largely a legal matter, and it is not within my scope to provide assurance on this process, I am satisfied that this process is reasonable.
- 4.28. As discussed in paragraph 12.30 of the Scheme Report, a holder of one of the Transferring Policies is the subject of a Turkish political sanction, which requires a freeze on assets in Turkey. The relevant transferring policy is unaffected by the Turkish sanction. The policyholder in question is a UK resident, is not subject to any UK sanctions, and no licence from the Office of Financial Sanctions Implementation is required for SE plc to continue to manage the policy. Both parties' internal legal teams and SE plc's external legal advisers have considered the situation and facts surrounding this policyholder and all are content that the transfer of this policy raises no legal concerns. I have had access to the parties' internal analyses and, while noting that I am not a legal expert, I consider these analyses to be reasonable. I therefore continue to have no cause for concern in relation to this policy transferring under the Scheme.

Transferring assets

- 4.29. As discussed in paragraph 7.12 of the Scheme Report, the only assets transferring as part of the Scheme are reinsurance assets and some net current assets, which consist of payments due from reinsurers and claims due to policyholders. In particular, the Scheme does not involve the transfer of assets domiciled in Russia or Belarus, i.e. which may fall into scope of the Russia (Sanctions) (EU Exit) Regulations 2019 or the Republic of Belarus (Sanctions) (EU Exit) Regulations 2019. There has been no change to this since the Scheme Report.

4.30. I am therefore satisfied that the Scheme should not create any cause for concern in relation to UK political sanctions.

Consumer Duty

4.31. In paragraphs 12.22 to 12.26 of the Scheme Report, I discussed how each of the parties had established Consumer Duty governance programmes to consider and implement the Duty's requirements, reporting to the parties' respective Boards. In those paragraphs of the Scheme Report, I discussed my review of the parties' Consumer Duty programmes and the work that each had carried out to review the other's programme. Each party concluded that the other's interpretation of the Duty was aligned with its own, such that the treatment of the Transferring Policies under Consumer Duty would not change materially as a result of the Scheme. A joint working group, which included representatives from each party, was also established to discuss matters relating to the Duty.

4.32. In July 2022, SE plc carried out a comprehensive review of its individual protection proposition, which did not identify any material concerns in relation to the Duty. A "fair value assessment", which looks at product benefits and whether the corresponding premiums and charges are commensurate, was completed and published in 2022. In 2023, SE plc carried out and published its most recent fair value assessment of its business, which concluded that the individual protection business provided customers with fair value. Royal London reviewed SE plc's proposition review and fair value assessment to consider whether SE plc's review covered the areas it expected, and in sufficient detail. Royal London's review concluded that there were no material concerns. I am comfortable with the approach taken by Royal London.

4.33. In paragraphs 7.38 to 7.42 of the Scheme Report, I discussed the likely impact of the Scheme on service standards applying to the Transferring Policies. For the reasons set out there, and noting that the target service levels will increase (i.e. worsen) in two specific areas (the target time to answer policyholder calls and the acceptable proportion of policyholders who abandon their call before it is answered), I concluded that I did not expect there to be a material adverse effect on service standards for Transferring Policies as a result of the Scheme. This continues to be my view.

4.34. Since the date of my Scheme Report, work has continued between the parties to ensure the treatment of the Transferring Policies will comply with Consumer Duty, in particular:

- SE plc has conducted a review of all regular documentation issued to holders of Transferring Policies to ensure it complies with its interpretation of Consumer Duty,
- Royal London has reviewed SE plc's communication principles and standards to ensure these are aligned with its own, and
- Royal London has reviewed a sample of the key customer communications and is satisfied that these materially align to its interpretation of Consumer Duty. Royal London identified a small number of improvements and priority items will be addressed ahead of the Duty's deadline on 31 July 2024.

Royal London also intends to conduct a wholesale review of all communication documents over the remainder of 2024 as part of a broader rebranding exercise.

4.35. I am therefore satisfied that the conclusions from my Scheme Report remain unchanged, and I do not expect any Consumer Duty considerations to give any cause for concern or mean that it is inappropriate for the Scheme to proceed.

Guernsey policyholders

4.36. As discussed in paragraph 1.5 of the Scheme Report, there are holders of four Transferring Policies who were resident in Guernsey at the time they took out their policies and as such their policies cannot be transferred under the Scheme. The parties have written to these policyholders to request their permission to novate their policies to Royal London. The parties have now received consent from all of these policyholders to novate their policies.

5 Conclusions

- 5.1. Based on the analysis set out in this Supplementary Report, I am content that all of the conclusions set out in the Scheme Report remain valid. These conclusions are restated below.
- 5.2. I am satisfied that the Scheme will not have a material adverse effect on the benefit security of any group of policies.
- 5.3. I am satisfied that the Scheme will not have a material adverse effect on the benefit expectations of any group of policyholders.
- 5.4. I do not expect the Scheme to result in any changes to the standards of service for, or the management and governance of, any group of policies.
- 5.5. I am therefore satisfied that the Scheme is equitable to all classes and generations of SE plc's and Royal London's policyholders.
- 5.6. I am satisfied that the Scheme will not have a material adverse effect on SE plc's reinsurers whose contracts will be transferred to Royal London, or on Royal London's existing reinsurers.
- 5.7. I am also satisfied that the Scheme will not have a material adverse effect on any of the parties' outsourced service providers, pension schemes, creditors, or insurance subsidiaries.

6 Certificate of compliance

- 6.1. I understand that my duty in preparing the Scheme Report is to help the Court on all matters within my expertise and that this duty overrides any obligation I have to those instructing me and/or paying my fees. I have complied with this duty.
- 6.2. I am aware of the requirements applicable to experts as set out in Part 35 of the Civil Procedure Rules, Practice Direction 35, and the related Guidance for the instruction of experts in civil claims. I understand my duty to the Court.
- 6.3. I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 6.4. I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



Stephen Makin FFA CERA
Independent Expert

For and on behalf of Hymans Robertson LLP

31 May 2024

Appendix 1: Glossary

Term	Definition
Annuity	A contract of insurance under which an insurer pays a regular income, usually until the death of the insured.
Attestation requirement	An expected requirement from the <u>Solvency II</u> reforms (see Section 12 of the Scheme Report and Section 4 of the Supplementary Report) where specified individuals at firms (nominated senior managers with formal regulatory responsibilities) will be required to attest to the PRA whether or not the level of <u>MA</u> taken credit for appropriately reflects the risks retained from the firm's <u>MA</u> eligible assets.
Best Estimate Liabilities	In <u>Solvency II</u> , the best-estimate valuation of liabilities refers to the discounted value (i.e. in today's terms) of expected future obligations that an insurer expects to have to pay. The cash flows underlying the valuation are "best-estimate" in the sense of being "expected". They may therefore be considered to be neither pessimistic nor optimistic. Further information is given in Appendix 6 of the Scheme Report.
Bonus	In the context of a <u>with-profits</u> policy, this is an addition to the policy's value, which may be declared throughout a policy's term, as a <u>regular bonus</u> , or the point of claim, as a <u>final bonus</u> . Once declared, bonuses become part of the policy's guaranteed benefits.
Collateralised securities	Securities (including bonds, shares or options) which are secured against assets.
Collective investment undertakings	Funds managed by professional managers which invest in a range of underlying assets. Individual investors buy (or are allocated) shares (or units) in the fund, with their money being pooled together with that of other investors, and spread over all of the assets held in the fund.
Deferred tax asset	Items on a company's balance sheet that may be used for tax relief purposes in the future.
Defined benefit	In the context of an employer sponsored pension plan, this refers to the situation where benefits are calculated using a formula considering length of service, accrual rate and salary history. The employer is responsible for investment and the risks of the plan.
Eligible Own Funds	<u>Own Funds</u> that an insurer is permitted to use to cover its <u>SCR</u> . The regulations categorise various <u>Own Funds</u> items into tiers according to their loss absorbency, degree of subordination, and term. The regulations also specify limits on the amount of <u>Own Funds</u> in each tier that may be used to cover the <u>SCR</u> . Further information is given in Appendix 6 of the Scheme Report.
Excess Own Funds	An insurer's <u>Eligible Own Funds</u> less its <u>SCR</u>

Term	Definition
Existing Policies	Policies insured by Royal London that were already written (or transferred to) Royal London prior to the <u>Transfer Date</u> .
Final bonus	A bonus which is added to a <u>with-profits</u> policy value at the point of claim.
Gone-away	Refers to those policyholders for whom SE plc does not hold an up-to-date address.
Internal Model	Internal Models are developed by insurers to calculate their <u>SCR</u> , in line with the <u>Solvency II</u> requirements. Subject to regulatory approval, Internal Models may be used instead of the <u>Standard Formula</u> , with the intention of better-capturing certain risks to which a given insurer is exposed.
Life Protection with Tax Relief	These are insurance policies which pay out on the death of the insured life. They were sold alongside pension policies, and policyholders benefit from tax relief on the premiums paid.
Matching Adjustment	<p>When determining the <u>BEL</u>, the standard approach is to discount future liability cash flows using the “basic risk-free rate”, which is a prescribed discount rate based on swap yields.</p> <p>For certain lines of business, a Matching Adjustment may be added to the basic risk-free rate when the insurer has regulatory approval to do so. The value of the Matching Adjustment is derived from the <u>spread</u> on the assets held by the insurer to back the relevant business. Further information is given in Appendix 6 of the Scheme Report.</p>
Own Funds	<p>The total of:</p> <ul style="list-style-type: none"> the excess of assets over liabilities, according to the <u>regulatory balance sheet</u>, less the amount of own shares held by the insurer, and <u>subordinated liabilities</u> <p>Further information is given in Appendix 6 of the Scheme Report.</p>
Protection	Insurance designed to provide cover for the policyholder and their loved ones in the event of an insured person’s death or illness.
Regular bonus	This is bonus which is declared regularly throughout a <u>with-profits</u> policy’s term, often annually. Once declared, the regular bonus becomes part of the <u>with-profits</u> policy’s guaranteed benefits.
Regulatory balance sheet	A balance sheet showing assets and liabilities recognised and valued in accordance with the <u>Solvency II</u> regulations.
Reinsurance	Insurance protection taken out by an insurer to manage its exposure to risks on its balance sheet, usually those arising from direct insurance contracts.
Reinsurance asset	A term used interchangeably with <u>reinsurance BEL</u> . It represents the benefit that an insurer is able to recognise on the asset side of its <u>Solvency II</u> balance sheet as a result of having <u>reinsurance</u> arrangements in place on its insurance business.

Term	Definition
Reinsurer	The entity providing <u>reinsurance</u> .
Remaining Policies	SE plc's policies that are not <u>Transferring Policies</u> , and which will continue to be insured by SE plc following implementation of the Scheme.
Residual Assets	This term is defined fully in the Scheme, but in essence it means any assets which are intended to transfer under the Scheme but which cannot be transferred on the <u>Transfer Date</u> for any reason.
Residual Policies	This term is defined fully in the Scheme, but in essence it means any policies which are intended to transfer under the Scheme but which cannot be transferred on the <u>Transfer Date</u> for any reason.
Residual Policies Reinsurance Arrangement	The reinsurance agreement to be implemented in respect of any <u>Residual Policies</u> such that Royal London reinsures and administers these policies achieving the same economic effect as if they had been transferred.
Risk appetite framework	A framework used by an insurers within which its makes decisions and takes actions to manage its risk profile.
Risk margin	This is an addition to the <u>Solvency II best-estimate liabilities</u> . Its calculation is prescribed by the <u>Solvency II</u> rules, and it is intended to represent the amount in excess of the <u>best-estimate liabilities</u> that would have to be paid to another insurer in order for it to agree to take on the underlying insurance obligations. Further information is given in Appendix 6 of the Scheme Report.
Sanctioned Policies	Those <u>Transferring Policies</u> that may become politically sanctioned prior to the <u>Transfer Date</u> which would therefore neither transfer to Royal London on the <u>Transfer Date</u> nor be included within the <u>Residual Policies Reinsurance Arrangement</u> .
Solvency II	<p>The name given to the regulatory regime in the UK. The regime is very similar to that with which insurers in the EU are required to comply, the EU legislation having initially been written directly into UK law after Brexit. There have been subsequent changes in the UK, as described in Section 12 and Appendix 6 of the Scheme Report, and Section 4 of the Supplementary Report, with further changes being consulted upon.</p> <p>Solvency II imposes quantitative requirements on insurers, for example relating to how assets and liabilities are measured, and how much capital insurers are required to hold.</p> <p>Solvency II imposes qualitative requirements, for example relating to governance and risk management processes and controls.</p> <p>Solvency II also places disclosure requirements on insurers, relating to what and to whom insurers must report on their financial health.</p>

Term	Definition
Solvency Capital Requirement	Under <u>Solvency II</u> , insurers are required to hold a Solvency Capital Requirement. The Solvency Capital Requirement is specific to each insurer and is calculated based on the risks that each insurer faces. It aims to ensure that an insurer holds enough <u>Own Funds</u> to withstand certain stress events. Further information is given in Appendix 6 of the Scheme Report.
Solvency coverage ratio	This is a measure of financial strength of an insurer, calculated as the value of its <u>Eligible Own Funds</u> divided by its <u>Solvency Capital Requirement</u> .
Spread	The difference between two prices, rates, or yields. For example credit spread refers to the difference in yield between two debt instruments with the same maturity and different credit qualities.
Standard Formula	A prescribed approach to calculating the <u>Solvency Capital Requirement</u> which insurers must use unless they have regulatory approval to use their own internal model. Further information is given in Appendix 6 of the Scheme Report.
Structured notes	Hybrid securities that combine the features of multiple financial products into one. They combine elements of traditional bonds with stocks or derivatives.
Subordinated debt	A debt owed to an unsecured creditor that in the event of a liquidation can only be paid after the claims of secured creditors have been met.
Subordinated liabilities	A term used interchangeably with <u>subordinated debt</u> .
Transfer Date	The date on which the Scheme will take effect, which is expected to be 1 July 2024.
Transferring Assets	This term is fully defined in the Scheme, but in essence it means all of SE plc's assets relating to the <u>Transferring Policies</u> , including the <u>reinsurance agreements on the Transferring Policies</u> , at the <u>Transfer Date</u> , excluding any <u>Residual Assets</u> and assets relating to <u>Residual Policies</u> .
Transferring Policies	This term is fully defined in the Scheme, but in essence it means all of SE plc's policies in scope of the transfer that remain in force at the <u>Transfer Date</u> , other than <u>Residual Policies</u> .
Unit-linked	A type of insurance product where the policy value is linked to the value of the units held in underlying assets or investment funds.
With-profits	Insurance products which give policyholders the right to participate in certain profits of the insurance company, usually applied as <u>bonuses</u> . Other common features include guarantees and the smoothing of investment returns.

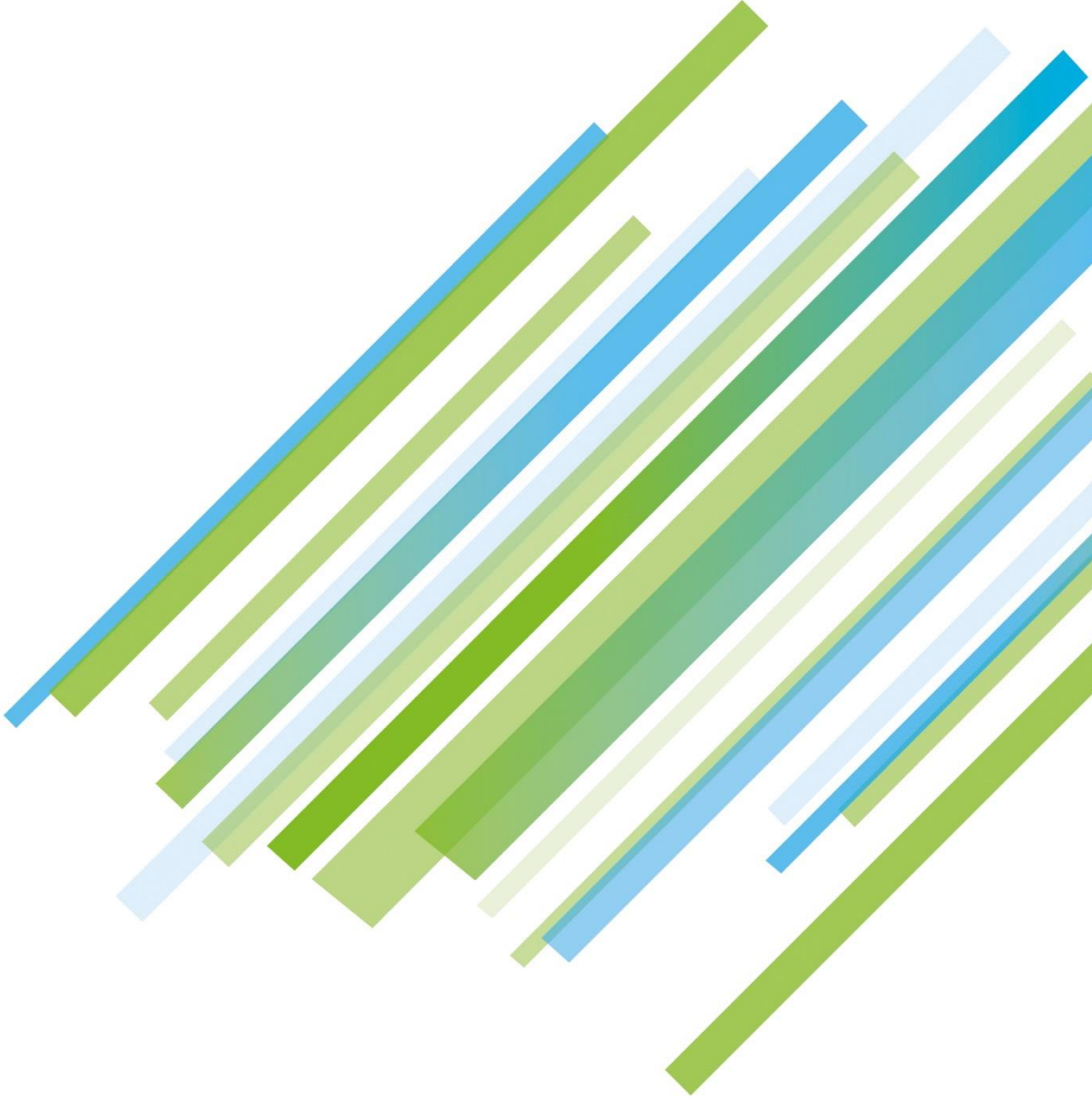
Appendix 2: Abbreviations

Abbreviation	Definition
Atos	Atos BPS Limited
BEL	<u>Best Estimate Liabilities</u>
Court	The High Court of Justice in England and Wales
FCA	Financial Conduct Authority
Framework Agreement	The agreement entered into on 4 April 2023 by the parties under which SE plc agreed to transfer its individual <u>protection</u> book of business to Royal London
FSCS	Financial Services Compensation Scheme
FOS	Financial Ombudsman Service
FSMA	Financial Services and Markets Act 2000
HMRC	HM Revenue & Customs
Hymans Robertson	Hymans Robertson LLP
IFoA	Institute and Faculty of Actuaries
Independent Expert	The person responsible for preparing the Scheme Report in accordance with Section 109(2) of FSMA
LPTR	<u>Life Protection with Tax Relief</u>
MA	<u>Matching Adjustment</u>
PRA	Prudential Regulation Authority
RLGPS	Royal London Group Pension Scheme
RLI DAC	Royal London Insurance designated Activity Company
Royal London	The Royal London Mutual Insurance Society Limited
Scheme	The proposed scheme of transfer, the terms of which I have been instructed to report on in the capacity of Independent Expert
Scheme Report	The report on the terms of the Scheme required under section 109(1) of FSMA
SCR	<u>Solvency Capital Requirement</u>
SFCR	<u>Solvency and Financial Condition Report as detailed in the PRA Rulebook: Solvency II Firms: Reporting 3 to 6</u>
SE plc	Scottish Equitable plc
UK	United Kingdom

Appendix 3: Documents considered

The principal documents reviewed in preparing this Supplementary Report were:

- The Scheme,
- SE plc's Chief Actuary's supplementary report on the Scheme,
- SE plc's With-Profits' Actuary's supplementary report on the Scheme,
- Royal London's Chief Actuary's supplementary report on the Scheme,
- Royal London's With-Profits' Actuary's supplementary report on the Scheme,
- the third Witness Statement of Daniel Cazeaux,
- the third Witness Statement of James Ewing,
- the first Witness Statement of Brian Christie,
- details of correspondence and objections received from policyholders,
- SE plc's contingency plan for the administration of Transferring Policies,
- Royal London's contingency plan for the administration of Transferring Policies, and
- SE plc's contingency plan for the administration of Remaining Policies.



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