



Supplementary Report by the With-Profits Actuary of Scottish Equitable plc

on the proposed transfer of the individual protection business
from Scottish Equitable plc to The Royal London Mutual Insurance Society Limited

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Table of Contents

1. Introduction	3
2. Impact of the Scheme on the Financial Position of SE plc	5
3. Communication to Transferring Policyholders & Other Relevant Parties	6
4. Other Relevant Developments	7
5. Conclusions	8

1. Introduction

Background

- 1.1. In my capacity as With-Profits Actuary of Scottish Equitable plc ("SE plc") I prepared a report dated February 2024 (the "Main Report"), to review the likely impact of the proposed Transfer of the individual protection business of SE plc to The Royal London Mutual Insurance Society Limited ("Royal London") under Part VII of the Financial Services and Markets Act 2000 (the "Scheme").
- 1.2. In the Main Report I considered the likely impact on the benefit security, benefit expectations, servicing, and governance of the with-profits policies remaining in SE plc post-Transfer.
- 1.3. The purpose of this report (the "Supplementary Report") is to consider whether the conclusions in the Main Report remain appropriate in light of material developments since the date of that report. As such, this Supplementary Report should be read in conjunction with the Main Report.
- 1.4. This Report should also be read in conjunction with the main and supplementary reports of Stephen Makin, the Independent Expert for the Scheme, as well as the main and supplementary reports of each of the Chief Actuary of SE plc, the Chief Actuary of Royal London, and the With-Profits Actuary of Royal London.
- 1.5. The financial analysis supporting the conclusions set out in this report is based on data available as at 31 December 2023, which I consider to be a suitable date for the purposes of this report.

Disclosures

- 1.6. I am a Fellow of the Institute & Faculty of Actuaries, having qualified in 2001, and hold a With-Profits Actuary Practising Certificate issued by the Institute & Faculty of Actuaries. I have over 27 years of experience working in the UK life assurance industry, including 9 years working for SE plc in my current role as With-Profits Actuary.
- 1.7. I am a permanent employee of AUK, parent company of SE plc.
- 1.8. I hold a group personal pension policy with SE plc, in keeping with the normal contractual pensions arrangements available to all AUK employees. As part of my variable compensation from AUK in respect of 2023 I have been granted a deferred award of 9,098 shares in Aegon Ltd (the ultimate parent company of AUK) which will vest in 2026. I hold two joint-life and critical illness term assurance policies with Royal London. I do not hold any other shares in Aegon Ltd or have any other financial interest in Royal London.
- 1.9. My role as With Profits Actuary in AUK is unaffected by the proposed transfer and I consider myself to be free from any conflict that would prevent me from fairly assessing the likely effect of the Scheme on with-profits policyholder benefit expectations, and on the security of those benefits.

Other Advice and Conclusions

- 1.10. I have read the supplementary report prepared by Mr Stephen Makin, the Independent Expert to the Scheme. I have considered his comments on the likely effect of the Scheme on the various policyholders and his conclusions.

- 1.11. I have read the supplementary report prepared by Ms Leigh-Ann Plenderleith, the Chief Actuary of SE plc. I have considered her comments on the likely effect of the Scheme on the both the transferring policyholders and those policyholders remaining in SE plc post-Transfer and her conclusions.
- 1.12. I have read the supplementary report prepared by Mr Anthony Lee, the Chief Actuary of Royal London. I have considered his comments on the likely effect of the Scheme on both the transferring policyholders and the existing policyholders of Royal London, and his conclusions.
- 1.13. I have read the supplementary report prepared by Mr Brian Peters, the With-Profits Actuary of Royal London. I have considered his comments on the likely effect of the Scheme on the With-Profits policyholders of Royal London and his conclusions.

Compliance with Technical Actuarial Standards (TAS)

- 1.14. This report constitutes technical actuarial work concerning the proposed Part VII transfer. It is therefore subject to both TAS-100 (General Actuarial Standards) and TAS-200 (Insurance). This report complies with the requirements of TAS-100 and TAS-200.

Review of Actuarial Work

- 1.15. This report has been prepared by Alan McBride and has been subject to independent peer review by an appropriately experienced actuary employed by AUK in accordance with the requirements of Actuarial Profession Standard APS-X2.

Definitions and Abbreviations

- 1.16. Defined terms used, but not defined, in this report have the same meaning as those used in the Scheme document and the report of the Independent Expert unless otherwise highlighted.

Structure of the Report

- 1.17. The remainder of this Report is structured as follows:
- Section 2 sets out the likely effect of the Scheme on the financial position of SE plc as at end December 2023;
 - Section 3 considers key points relating to the communication of the proposed Transfer;
 - Section 4 considers other developments since the date of the Main Report;
 - Section 5 sets out my conclusions.

2. Impact of the Scheme on the Financial Position of SE plc

- 2.1. There is no impact on the assets and liabilities of the WPSF as a result of the proposed Transfer. As described in the Main Report, assets in the NPSF and SHF are available to support WPSF solvency should there be insufficient assets within the WPSF to meet its liabilities. Any material impact on the solvency position, or the risk profile, of SE plc post-Transfer could lead to a deterioration in the ability of the NPSF to make available such capital support and is therefore relevant to the benefit security of with-profits policyholders.
- 2.2. The likely impact of the Transfer on the solvency position of SE plc is shown in the tables below. In the Main Report, I showed the impact as at 30 June 2023. Below I also show the updated impact as at 31 December 2023 for comparison. The impacts shown include the effect of implementing the temporary reinsurance agreement with Royal London, and the release of the remaining capital held in respect of the Transferring Policies, both of which are described in the Main Report.

2.3. Financial Impact at end June 2023:

£m	SE plc pre-Transfer	SE plc post-Transfer	Impact
Own Funds	1,962	1,920	(42)
SCR	1,183	1,152	(31)
Surplus / (Deficit)	779	768	(11)
Solvency Ratio	166%	167%	1%

2.4. Financial Impact at end December 2023:

£m	SE plc pre-Transfer	SE plc post-Transfer	Impact
Own Funds	2,261	2,220	(42)
SCR	1,224	1,189	(35)
Surplus / (Deficit)	1,038	1,031	(6)
Solvency Ratio	185%	187%	2%

- 2.5. The updated analysis at end December 2023 shows that the proposed Transfer does not result in a material movement in the overall solvency position of SE plc at end December 2023, with a small reduction in Solvency II Surplus of c£6m, and a small increase in the Solvency Ratio of around 2%. The increase in Solvency Ratio reflects the relative size of the movements in Own Funds (a reduction of c£42m) and SCR (a reduction of £35m).
- 2.6. Having considered the issues set out above, I am satisfied that the conclusions of the Main Report remain appropriate. In particular, I am satisfied that the proposed Transfer will have no material adverse effect on the benefit security of the with-profits policyholders remaining in SE plc post-Transfer.

3. Communication to Transferring Policyholders & Other Relevant Parties

- 3.1. In this section I cover the key points relating to the communication of the proposed Transfer to Transferring Policyholders and to other interested parties. The communication exercise has been carried out in accordance with the Court Order issued subsequent to the Directions Hearing on 28 February 2024, which included a waiver from the requirement to mail non-transferring Policyholders.

Overview

- 3.2. Information and key documents relating to the proposed Transfer were published on the websites of Aegon UK and Royal London shortly after the Directions Hearing.
- 3.3. The Legal Notice regarding the proposed Transfer was published on 8 March 2024 in each of 3 national newspapers (the Times, The Daily Mail and The Sun), the international edition of The Financial Times, and the London, Edinburgh and Belfast Gazettes.
- 3.4. The mailing of the Transfer Guide to Transferring Policyholders was completed over the period of the agreed mailing window of 4 March 2024 to 26 April 2024. Both Scottish Equitable and Royal London put in place ring-fenced resource to deal exclusively with all inbound enquiries received in response to the policyholder mailing during the period from the start of the mailing window until the effective date of the proposed Transfer. Regular management information tracking the progress of the mailing itself, and all policyholder responses, has been provided to the FCA, the PRA, and the Independent Expert. This management information included details of all policyholder objections to the proposed Transfer.
- 3.5. Formal notification of the proposed Transfer was issued on 5 April 2024 to each of the reinsurers of Scottish Equitable whose contracts of reinsurance are in scope of the proposed Transfer.
- 3.6. Scottish Equitable has also issued a letter to each of the Independent Financial Advisers who provided advice to Transferring Policyholders 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 Scottish Equitable plc to Royal London.
- 3.7. As of 22 May 2024, a total of 47 objections and 5 expressions of dissatisfaction have been raised in relation to the Scheme by Transferring Policyholders. A summary of these is provided in the Supplementary Report of the SE plc Chief Actuary.
- 3.8. I have considered the objections raised by policyholders, and the responses provided in response to them. I am satisfied that none of the objections cause me to reconsider the conclusions set out in the Main Report.

4. Other Relevant Developments

Outsourcing of Administration Arrangements

- 4.1. Administration services on the Transferring Policies are currently provided by Atos under an outsourced service agreement with SE plc. Royal London have put in place a new contract with Atos which will take effect from the date of the Transfer, under which Atos will continue to provide administration services on the Transferring Policies.
- 4.2. As set out in the Main Report, Atos SE, the parent company of Atos, announced on 5 February 2024 that it was in formal discussions with its lending banks with a view to agreeing a plan to refinance its financial debts. While the outsourcing agreements applying to the with-profits policies and the Transferring Policies are both with Atos, they are separate agreements. As such, while the administration of the with-profits policies could be impacted by an adverse development in Atos's financial situation, I concluded in the Main Report that it is unaffected by the proposed Transfer.
- 4.3. Since the date of the Main Report, the financial position of Atos SE and Atos BPS Limited has continued to be closely monitored by both Scottish Equitable and Royal London. Discussions between Atos SE and its lending banks are ongoing. On 9 April, Atos SE announced that it had reached an agreement in principle with its lenders to provide interim financing sufficient to meet outgoings through to July 2024 at which point a long-term refinancing plan is expected to be agreed. In addition, on 5 April, Atos SE made a £50m capital injection to Atos BPS Limited which is expected to ensure its operations remain funded until well beyond the Effective Date of the proposed Transfer. As at the date of this Supplementary Report, I am not aware of any reports or announcements suggesting that the financial position of Atos SE and its subsidiaries has deteriorated to such an extent as to impact the ability of Atos BPS Limited to administer and service the Transferring Policies.
- 4.4. Given the points set out above, I remain satisfied that there will not be any material adverse effect on the servicing standards of the with-profits policies remaining in SE plc post-Transfer as a result of the proposed Transfer. The situation will continue to be closely monitored in the lead up to the Sanction Hearing and the effective date of the Transfer.

5. Conclusions

- 5.1. Taking into account each of the points in this report, I am satisfied that the conclusions set out in the Main Report remain valid. In particular, I am satisfied that there will be no material adverse effect from the proposed Transfer on the benefit security, the benefit expectations, the administration and governance standards applying to the with-profits policyholders remaining in SE plc post-transfer.

Alan McBride

SE plc With-Profits Actuary

May 2024