With-Profits Actuary Report 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

Background

1.1. On 4 April 2023, Scottish Equitable plc ("SE plc") and The Royal London Mutual Insurance Society Limited ("Royal London") entered into an agreement for the sale and transfer of a defined block of policies, comprising the individual protection business of SE plc ("the Transferring Policies"), from SE plc to Royal London.

1.2. A new reinsurance arrangement has been put in place to transfer the risks arising on the Transferring Policies from SE plc to Royal London with effect from 1 July 2022, which is the effective date of risk transfer of the transaction.

1.3. SE plc and Royal London are making an application to the High Court of Justice of England and Wales ("the Court") for the sanction of a scheme ("the Scheme") made pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA") for the transfer of the Transferring Business from SE plc to Royal London ("the Transfer").

1.4. I have prepared this report for the Board of SE plc in my capacity as With-Profits Actuary of SE plc to review the likely effect of the proposed Transfer on the security, benefit expectations, servicing, and governance of the with-profits policies remaining in SE plc post-Transfer. This report, and the Chief Actuary Report of SE plc, have been shared with the Board of Scottish Equitable Policyholders Trust Ltd (SEPT) which has certain oversight responsibilities for the With-Profits Sub-fund (WPSF) placed upon it under the 1993 Scottish Equitable Life Assurance Society (SELAS) Scheme and performs the role of with-profits committee for SE plc.

1.5. The impact on existing policyholders within Royal London is covered in the reports by the Chief Actuary and With-Profits Actuary of Royal London and is not considered further here.

1.6. Stephen Makin of Hymans Robertson LLP has been jointly appointed by Aegon UK ("AUK") and Royal London as the Independent Expert for the Scheme, his appointment being approved by the Prudential Regulation Authority ("PRA"), having consulted with the Financial Conduct Authority ("FCA").

1.7. This Report should be read in conjunction with Independent Expert Report on the Scheme, as well as the Scheme document itself, the Chief Actuary Report of SE plc, and the Chief Actuary and With-Profits Actuary Reports of Royal London.

1.8. The financial analysis supporting the conclusions set out in this report is based on data available as at 30 June 2023. I will provide an update on my conclusions in a Supplementary report prior to the final Sanctions Hearing, commenting on any material developments over the period.

Disclosures

1.9. 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.

1.10. I am a permanent employee of AUK, parent company of SE plc.

1.11. I hold a group personal pension policy with SE plc, in keeping with the normal contractual pensions arrangements available to all AUK employees. I hold two joint-life and critical illness term assurance policies with Royal London. I do not hold any shares in Aegon or have any other financial interest in Royal London.

1.12. 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.

Reliances

1.13. I have read the 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.

1.14. I have read the 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.

1.15. I have read the 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.

1.16. I have read the 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.

1.17. In coming to my conclusions, I have relied upon the accuracy of the information as set out in the reports noted above.

Compliance with Technical Actuarial Standards (TAS)

1.18. 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

1.19. 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

1.20. 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

1.21. The remainder of this Report is structured as follows:

- Section 2 sets out some background information relevant to the proposed transfer;
- Section 3 sets out the likely effect of the Scheme on the with-profits policyholders of SE plc and my conclusions;

2. Background to the Proposed Transfer

2.1. This section provides a summary of the background information relevant to the proposed Transfer, including a brief overview of both SE plc and Royal London. It provides context for the discussion of the likely effect of the proposed Transfer contained in later sections.

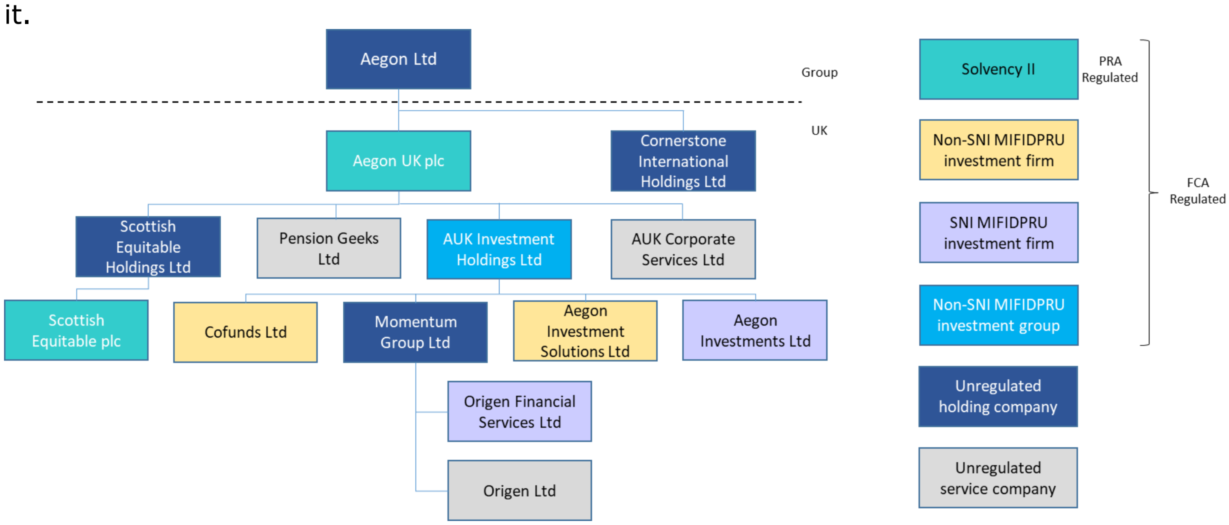
Overview of Scottish Equitable plc

2.2. Scottish Equitable originated in 1831 with the formation of the Scottish Equitable Life Assurance Society (SELAS). Scottish Equitable plc was incorporated on 14 May 1993. SELAS demutualised on 31 December 1993, its assets and liabilities being transferred into SE plc under the Scheme pursuant to Section 49 of the Insurance Companies Act 1982.

2.3. Upon demutualisation, Aegon Ltd (previously Aegon N.V.) took a 40% stake in SE plc, increasing this stake to 100% and taking full ownership in 1998. Aegon UK ("AUK") was incorporated in 1999 and set-up as a holding company for SE plc at the same point as acquiring the life assurance business of Guardian Royal Exchange ("Guardian") from Sun Life and Provincial Holdings. AUK sold Guardian in 2011.

2.4. SE plc is now a wholly owned subsidiary of AUK, part of the Aegon Group. SE plc is the only regulated insurance entity in the AUK Group and writes pensions and insurance business in the UK. SE plc is registered in Scotland and is regulated in the UK by the PRA and the FCA.

2.5. The diagram below shows the overall AUK corporate structure and SE plc's place within it.



2.6. The business of SE plc consists of unit-linked individual and group pension policies sold mainly through Workplace and Retail intermediary sales channels; individual protection policies providing cover against death, critical illness and sickness; a small book of group protection claims-in-payment policies; traditional with-profits policies; unit-linked whole of life policies; and conventional pension annuity policies in payment.

2.7. SE plc consists of a long-term fund comprising a Non-Profit Sub-Fund (NPSF), a With-Profits Sub-Fund (WPSF), and a Shareholder fund ("SHF"):

- the WPSF comprises conventional with-profits policies, the investment element of unitised with-profits policies, and is liable to meet the cost of certain annuity guarantees attaching to NPSF unit-linked policies;
- the NPSF comprises all other insurance policies (including unit-linked business, individual protection policies, group protection claims-in-payment, and post-demutualisation annuities);
- profits (and losses) on assets and liabilities notionally allocated to the WPSF are for the benefit of with-profits policyholders;
- profits (and losses) on assets and liabilities notionally allocated to the NPSF are for the benefit of the shareholder;
- assets in the NPSF and SHF are available to support the solvency of the WPSF should there be insufficient assets within the WPSF to meet its liabilities.

2.8. The WPSF has effectively been in run-off since 2002 when the fund closed to new business with investment guarantees. New investments into New Generation With-Profits (NGWP) (ring-fenced sub-funds within the WPSF with no investment guarantees) continued to be permitted until 2013 when the WPSF was fully closed to all new business. Some unit-linked pensions and whole of life policies invest either partly or entirely in the WPSF and thereby participate in the profits and losses of the WPSF. This is known as 'unitised with-profits' business.

2.9. SE plc currently writes significant volumes of new unit-linked, individual and group pensions business through intermediary channels.

2.10. The individual protection book was closed to new business on 4 April 2023 following the agreement to sell this book to Royal London. A small number of policies in the new business pipeline have completed beyond this date.

2.11. The decision to sell the individual protection book followed a strategic review carried out during 2022, through which it was determined that the book was non-core to the AUK business and was competing with core parts of the business for constrained investment spend.

2.12. The individual protection book comprises around 417,000 policies at end June 2023, out of a total policy count for SE plc of around 3,946,000 policies.

2.13. At end Q2 2023 the capital coverage ratio of SE plc was 166%, within the Target Zone and above the Operating Level.

Overview of Royal London

2.14. Royal London is a mutual insurance company that is the parent entity of the Royal London Group and was established in the UK in 1861 as a friendly society. It was incorporated as a company limited by guarantee in 1908 and is governed by its own Memorandum and Articles of Association. It is registered in England and Wales and is authorised by the PRA and regulated in the UK by the PRA and FCA.

2.15. Royal London has grown in recent years as a result of writing new business, which is predominantly pensions and protection business sold through independent financial advisers. In addition, since 2000 the company has an established track record of successfully acquiring, and transferring, the long-term business of a number of life companies, notably:

- In 2000, the United Assurance Group comprising Refuge assurance plc, United Friendly Insurance plc, United Friendly Life Assurance Limited, Refuge Investments Limited and Canterbury Life Assurance Company Limited;
- In 2001, the Scottish Life Assurance Company;

- In 2008, the business of Phoenix Life Assurance Limited, certain protection business of Scottish Mutual Assurance Limited and Scottish Provident Limited;
- In 2011, Royal Liver Assurance Limited;
- In 2013, Co-operative Banking Group's life and asset management businesses;
- In 2020, the Police Mutual Assurance Society.

2.16. As at 30 June 2023, Royal London had £153bn of assets under administration, 8.6 million policies in force and £99.8bn of Technical Provisions. This includes a broad range of policy types, including around 1.1m intermediated protection policies similar in nature to the Transferring Policies.

2.17. Royal London consists of the Royal London Main Fund and one other closed, ring-fenced, with-profits fund – the Royal London (CIS) Fund. The Royal London Main Fund has two major subsidiary investments – 'Royal London Asset Management' and Royal London's Irish business, 'Royal London Insurance DAC' – neither of which are impacted by the Transfer. The Royal London Main Fund is the largest fund within Royal London, and all new policies issued by Royal London are written into it (other than some small volumes of increments or options on existing Royal London (CIS) Fund policies).

2.18. The inherited estate of the Royal London Main Fund provides capital to support the business activities of Royal London, including the writing of new business and the funding of any acquisitions. In return, the estate receives profits (or incurs losses) from these business activities. The Royal London Main Fund has a capital coverage ratio of 212% (as at 30 June 2023). This is in excess of the defined target range for the ratio, meaning the capital position is robust .

2.19. As a mutual, Royal London is owned by its members as defined in its Articles of Association. It has no shareholders and instead distributes a share of its profits each year to certain eligible policyholders under a scheme known as 'ProfitShare'. The award of ProfitShare in any given year is not guaranteed and is at the discretion of Royal London's Board, taking into account the ongoing profitability of the business and capital strength of the Royal London Main Fund. ProfitShare is allocated predominantly to with-profits policies in the Royal London Main Fund and unit-linked pension policies written by Royal London since 2001.

2.20. Today, Royal London have a number of specialist businesses that together form the Royal London Group, the largest mutual life, pensions and investment group in the UK. Royal London champion the value of impartial advice, with a significant proportion of its business being distributed via financial advisers in the UK and brokers in Ireland. In addition, Royal London Asset Management, as one of the UK's largest asset managers, provides the capability to support Royal London's position as a value-for-money solutions provider.

2.21. In the UK, Royal London provides a range of pension and protection products to customers and employers, and individual protection options including life cover, critical illness cover and income protection.

Summary of the Scheme and Transfer

2.22. With effect from 4 April 2023, SE plc entered into an agreement to sell its individual protection book of business to Royal London ("the Framework Agreement"). A temporary reinsurance agreement has been put in place under which the risks and liabilities on the book are fully reinsured to Royal London with effect from 1 July 2022, pending completion of the sale and Transfer.

2.23. Under the Framework Agreement, SE plc and Royal London have agreed that each party will use reasonable endeavours to effect the transfer of the individual protection policies to Royal London pursuant to a scheme under Part VII of FSMA.

2.24. The target date for completion of the Transfer under the Scheme is 1 July 2024.

2.25. The Scheme will permanently transfer out of SE plc all liabilities and risks associated with the policies being transferred such that these become liabilities and risks of Royal London. The Transfer will also result in the termination of the temporary reinsurance agreement between SE plc and Royal London.

2.26. In the event that the Scheme does not complete, the temporary reinsurance agreement will be terminated and unwound, with the effect that the financial position of both SE plc and Royal London will be restored to a position as if the sale agreement had not been put in place, other than through the impact of project costs that have been incurred. In this event, the Transferring Policies will remain policies of SE plc.

2.27. In the event that the Scheme is delayed, and that the delay is not due to barriers to completion that SE plc and Royal London consider to be significant, both parties intend to extend the reinsurance agreement to allow completion of the Scheme.

2.28. The administration of the individual protection book has been outsourced to Atos since November 2012, with the current contract running to March 2029. Pending completion of the Transfer, SE plc will continue to administer the Transferring Policies under this outsourcing agreement. On completion of the Transfer, administration services on the Transferring Policies will continue to be provided by Atos, under a new contract between Royal London and Atos. A tripartite agreement has now been put in place, which means the new contract between Royal London and Atos will take effect on completion of the proposed Transfer, at which point the existing contract between SE plc and Atos will terminate. SE plc will continue to provide access to existing IT systems under contract.

2.29. The policies in scope of the Transfer comprise those individual protection policies written in SE plc. The book comprises both 'live' policies and a number of policies which are claims-in-payment.

2.30. There are 23 policyholders currently resident in Guernsey, of which 4 were resident in Guernsey on their policy start date. SE plc and Royal London intend to transfer these 4 policies by way of novation with policyholder consent and will inform the Guernsey Financial Services Commission of the novation. All 4 policyholders have now been contacted by SE plc and have confirmed verbally that they have no objection to the proposed Transfer or the proposed novation of their policies. SE plc intends to write to these policyholders following the Directions Hearing to seek written confirmation of their consent to the novation.

2.31. There are no other policies within the individual protection book that have been excluded from the scope of the Transfer.

2.32. SE plc has a small number of group protection claims-in-payment policies. For the avoidance of doubt, these policies are out of scope of the Transfer.

2.33. The Scheme will not result in any changes to the terms and conditions of either the Transferring Policies or the Remaining Policies.

2.34. Neither SE plc nor Royal London have considered any alternatives should the Scheme not be sanctioned by the Court. In this event, the reinsurance agreement between SE plc and Royal London will be terminated, and the transaction will be fully unwound as described in paragraph 2.26. That is, all policies in the scope of the Transfer will remain in SE plc and the liabilities and risks associated with the reinsurance of the policies will be fully recaptured by SE plc.

Other Relevant Background Information

2.35. Additional governance protection for the WPSF is provided by SEPT. SEPT was established under the SELAS scheme of demutualisation and at that point was provided with a range of powers related to the governance of SE plc and the WPSF in particular.

2.36. SEPT also performs the role of with-profits committee for SE plc as defined in the FCA Conduct of Business Rules, which gives it further powers and duties in respect of the management of SE plc's with-profits business.

2.37. SEPT has reviewed this report and has not objected to any of the conclusions.

2.38. Other background information relevant to the proposed Transfer is set out in the report by the Chief Actuary of SE plc. This includes a description of the policies being transferred, and the Capital Management Policy and Risk Management Framework applying in SE plc, and a description of the impact of the proposed Transfer on both the financial position and risk profile of SE plc.

3. Likely effect of the Scheme on the With-Profits Policyholders of SE plc

3.1. In this section I cover the likely effect of the Scheme on the with-profits policyholders of SE plc. In particular I consider whether there is likely to be a material adverse effect on the interests of these policyholders post-Transfer, through changes to benefit security and benefit expectations, or administration and service standards.

Background

3.2. The Transferring Policies comprise the entire individual protection book of SE plc, which have been written exclusively in the NPSF. None of the policies in the WPSF are in scope of the proposed Transfer and all will remain policies of SE plc post-Transfer.

3.3. The proposed Transfer will not result in any changes to the terms and conditions of the with-profits policies of SE plc. The way in which SE plc manages it's with-profits business is set out in the document 'Principles and Practices of the financial management of with-profits business' (the "PPFM") and is unaffected by the proposed Transfer.

3.4. The SELAS Scheme of demutualisation sets out certain requirements for the management of the NPSF and WPSF and the interaction between them. The terms of the SELAS scheme and the application of it are unaffected by the proposed Transfer.

Security of With-Profits Policyholder Benefits

3.5. There is no impact on the assets and liabilities of the WPSF as a result of the proposed Transfer.

3.6. 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.

3.7. The impact of the Transfer on the Solvency II position of SE plc as at 30 June 2023 is set out in the table below. The impact shown includes both the impact of implementing the temporary reinsurance agreement with Royal London and the release of capital anticipated on completion of the proposed Transfer. The Transfer leads to a small decrease in surplus and a small increase in the solvency ratio. Neither movement is material, and the solvency ratio of SE plc remains in the Target zone post-Transfer.

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

3.8. SE plc risk exposures on the individual protection book relating to mortality, morbidity, reinsurer counterparty default, persistency, and interest rates are all transferred to Royal London under the temporary reinsurance agreement and will be permanently removed from SE plc post-Transfer.

3.9. Post-Transfer, SE plc will be exposed to expense level and trend risk on 'stranded' overhead costs reallocated from the Transferring Policies to other products in SE plc. These generally relate to a proportion of shared service costs which are not removed from the business following the sale transaction. Expense risk relating to the outsourced administration costs will be removed on termination of the existing outsourcing contract with Atos.

3.10. The combined impact of the changes in risk exposures of SE plc post-Transfer is a £31m reduction in post-diversification, post-tax SCR, calculated at end June 2023. This impact is net of the loss of diversification benefit as a result of risk exposures being removed through sale and Transfer.

3.11. Individual risk exposures, and the overall balanced risk exposure, of SE plc were within appetite at end Q1 2023 and remained within appetite at end Q2 2023 after allowing for the impact of the sale and Transfer.

3.12. The table below shows the breakdown of the total undiversified, pre-tax SE plc SCR by risk type at end June 2023, pre and post transfer. The impact includes both the impact of implementing the temporary reinsurance agreement with Royal London and the release of capital anticipated on completion of the proposed Transfer.

SE plc SCR June 2023 (£m)	Pre-Transfer	Post-Transfer	Impact of Transfer
Market risk	1,625	1,617	(8)
Life underwriting risk	2,052	1,981	(71)
Health underwriting risk	7	1	(7)
Counterparty default risk	71	68	(3)
Operational risk	294	294	0
Total	**4,050**	**3,961**	**(89)**

3.13. The application of the Capital Management Policy of SE plc, and the Risk Management Framework are each unaffected by the proposed Transfer, and the proposed Transfer will not lead to any changes in the formal governance arrangements applying to SE plc.

3.14. Taking each of the points above into consideration, I am satisfied that the proposed Transfer will not lead to any material impact on the benefit security of the with-profits policyholders of SE plc.

With-Profits Policyholder Benefit Expectations

3.15. The factors affecting the benefits payable under the with-profits policies of SE plc are set out in detail in the PPFM. These factors include investment returns; expense deductions; contractual charges; capital contribution enhancements; the effect of smoothing of investment returns and guarantees; deductions for guarantee costs or the use of capital; tax; distributions from the estate (the surplus of assets in the WPSF over the best estimate liabilities of the WPSF); and potentially, in adverse circumstances, the effect of management actions to protect the solvency of the fund.

3.16. The proposed Transfer will have no impact on the investment strategy, expense methodology, pricing approach, bonus methodology, risk tolerance framework, estate distribution strategy or the Run-off Plan of the WPSF, and the factors noted above will therefore be unaffected. As such, I am satisfied that that the proposed Transfer will not result in any material adverse effect on the benefit expectations of the with-profits policyholders of SE plc.

Taxation

3.17. There are no tax implications of the proposed Transfer for the with-profits policyholders of SE plc.

Administration and Service Standards

3.18. The administration of the with-profits business is provided by Atos under an outsourcing agreement which has been in place since 2019. This arrangement includes a partnership with Sapiens to migrate the book onto the Sapiens' administration platform, and the provision of other enhanced services to customers, such as portals and auto-enrolment tools.

3.19. On 5 February 2024 Atos SE, the parent company of Atos, announced that it was in formal discussions with its lending banks with a view to agreeing a plan to refinance its financial debts. These discussions are ongoing, and the outcome is not known at this stage. 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, it is unaffected by the proposed Transfer. I therefore do not expect there to be an adverse impact from the proposed Transfer on the administration arrangements applying to the with-profits policies. I will continue to monitor the situation and will provide an update in my supplementary report to the sanctions hearing.

3.20. The provision of shared services falling outside the outsourcing agreement will continue unaffected by the proposed Transfer.

3.21. I am therefore satisfied that the proposed Transfer will not result in any material adverse effect on the administration and service standards experience by the with-profits policyholders.

Policyholder Communications

3.22. A detailed communication plan covering the proposed Transfer has been produced, the implementation of which will ensure policyholders are adequately informed of the nature and likely effect of the Scheme.

3.23. An application is to be made to the Court for a waiver from the requirement to undertake a direct mailing to the remaining policyholders of SE plc, including the with-profits policyholders, principally on the grounds that they will not be materially adversely affected by the Scheme.

3.24. As described above, the proposed Transfer will have no material adverse effect on the with-profits policyholders of SE plc, whether through the security of benefits, benefit expectations, or administration and service levels. I am therefore satisfied that the application for a waiver from the requirement to communicate with remaining policyholders of SE plc, including the with-profits policyholders, is reasonable and proportionate.

Conclusions

3.25. Based on the analysis undertaken and summarised above, I consider that the with-profits policyholders of SE plc are not materially adversely affected by the Scheme. In presenting this conclusion I note in particular:

- There is no direct impact on the assets or liabilities of the WPSF as a result of the proposed Transfer.
- SE plc's solvency position and risk profile will be materially unchanged following the proposed Transfer, and hence its ability to provide financial support to the WPSF, if required, is unaffected.
- The existing SE plc Capital Management Framework, Risk Management Framework and dividend payment criteria will not be changed as a result of the Scheme. In addition, formal governance arrangements applying in SE plc are unaffected by the proposed Transfer. This provides me with additional comfort that the security of with-profits policyholder benefits will not be materially adversely affected by the proposed Transfer.
- With-profits policyholder benefit expectations are unaffected by the proposed Transfer.
- Administration arrangements and service standards for the with-profits policies are unaffected by the proposed Transfer.

Alan McBride

SE plc With-Profits Actuary

February 2024