



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

**Report by the With Profits Actuary
of The Royal London Mutual Insurance Society Limited**

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1. INTRODUCTION

1.1 Purpose

The Royal London Mutual Insurance Society (“Royal London”) and Scottish Equitable plc (“Scottish Equitable”) 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 & Markets Act 2000 for the transfer of the individual protection business (the “Transferring Business”) which includes a defined block of protection policies (the “Transferring Policies”) from Scottish Equitable to Royal London (collectively, the “Transfer”). The proposed date of the Transfer is 1 July 2024 (the “Effective Date”). The Transferring Policies will be placed into the Royal London Main Fund. The RL(CIS) Fund will be unaffected by the proposed Transfer.

I have prepared this report in my capacity as With Profits Actuary of Royal London to review the likely effect of the proposed Transfer on the existing with-profits policies in the Royal London Main Fund and those unit-linked pension policies eligible for ProfitShare (the “Relevant Policies”). To do so, I have considered the likely impact on all relevant factors including their benefit security, benefit expectations, and administration and service standards. For those unit-linked policies eligible for ProfitShare, only the potential impact on their benefit expectations via ProfitShare eligibility has been considered. The Transfer will have no direct impact on any other aspect of their management.

The test applied is that there should be ‘no material adverse effect’ on the Relevant Policies and I have also paid regard to the general requirement to treat customers fairly including any requirements under the new Consumer Duty regulations due to come into force for closed books of business on 31 July 2024.

This report does not consider the likely effect of the proposed Transfer on the Transferring Policies as these do not contain any with-profits policies. These policies are considered in the Royal London Chief Actuary’s report. This report also does not consider the likely effect on Scottish Equitable policyholders remaining within Scottish Equitable following the proposed Transfer. These policies are considered in the reports of the Scottish Equitable Chief Actuary and the Scottish Equitable With Profits Actuary. A report will also be prepared by the Independent Expert covering all policy groups. In forming my own opinion, I have considered the contents of, and conclusions made, in all of these reports and my report should be read in conjunction with these reports.

This report has been prepared for the Directors of Royal London to assist them in deciding whether to proceed with the proposed Transfer. The report will also be made available to the Independent Expert, the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”) and the Court as part of the Scheme sanction application.

This report will be provided to the Court in evidence for the Directions hearing on 28 February 2024. It references financial information from the Royal London Chief Actuary’s report. I will prepare a further supplementary report for the sanctions hearing which is

expected to take place on 14 June 2024 which will comment on any significant changes that have occurred in the interim period.

1.2 Credentials and declarations of interest

I have been a Fellow of the Institute and Faculty of Actuaries since 2004 and an employee, and the With Profits Actuary, of Royal London since March 2023. Prior to this I worked for Standard Life and Phoenix Group for over 20 years and held a number of senior positions in those companies, including as the Chief Actuary of Standard Life and Finance Director of Phoenix Group's Open Division.

My role in Royal London is unaffected by the proposed Transfer. I hold a staff pension policy with Royal London which forms part of the Relevant Policies. I confirm that I have taken no account of any personal interests in reaching any of the conclusions detailed in this report.

1.3 Compliance with actuarial standards

The actuarial elements of this report fall under the definition of technical actuarial work as defined by the Financial Reporting Council, and as such is required to comply with Technical Actuarial Standards 100 (General Actuarial Standards) and 200 (Insurance). This report complies with these standards.

The report has also been subject to peer review in line with the Actuarial Profession Standards document 'APS X2: Review of Actuarial Work' by an experienced actuary within Royal London.

2. SUMMARY OF THE PROPOSED SCHEME

2.1 Background

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. It has an established track record of writing new business and of acquiring the businesses of other insurers, in both cases including protection business similar to that included under the proposed Transfer.

The estate of the Royal London Main Fund provides capital to support the business activities of Royal London, including writing new business and funding any acquisitions. In return, the estate receives profits (or incurs losses) from these business activities. The Royal London Main Fund's capital position is robust with a capital cover ratio of 212% (as at 30 June 2023).

As a mutual, Royal London is owned by its members as defined in its Articles of Association. It has no shareholders and instead aims to distribute a share of its profits each year to certain eligible policyholders through 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 the capital strength of the Royal London Main Fund. ProfitShare is allocated to eligible with-profits policies in the Royal London Main Fund and unit-linked pension policies written by Royal London since 1 July 2001.

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 Scottish Equitable plc under a Scheme pursuant to Section 49 of the Insurance Companies Act 1982. Upon demutualisation, Aegon Ltd (previously Aegon N.V.) took a 40% stake in Scottish Equitable, increasing this stake to 100% and taking full ownership in 1998. Aegon UK was incorporated in 1999 and set-up as a holding company for Scottish Equitable. Scottish Equitable is now a wholly owned subsidiary of Aegon UK, which is itself a wholly owned subsidiary of Aegon Ltd. Scottish Equitable is the only regulated insurance entity in Aegon UK and writes pensions and insurance business in the UK. Scottish Equitable is registered in Scotland and is regulated in the UK by the PRA and the FCA.

Following a strategic review, Scottish Equitable decided in 2022 that its UK individual protection business was no longer core to its operations and therefore decided to dispose of this block of protection policies. On 4 April 2023, Royal London entered into an agreement with Scottish Equitable (the "Framework Agreement") to acquire the Transferring Business by means of the proposed Transfer with a proposed effective date of 1 July 2024. The portfolio was also closed to new business on 4 April 2023. Following the proposed Transfer, all of the assets, liabilities, rights and obligations under the Transferring Policies will move from Scottish Equitable to Royal London and the Transferring Policies will become directly written business of Royal London.

The Transferring Policies comprise approximately 417,000 mainly life and critical illness policies (as at 30 June 2023). The portfolio is similar to Royal London's existing protection business in terms of age, composition and risk profile and increases the number of protection policies within Royal London to over 1.5 million. Therefore, from Royal London's perspective the acquisition provides an opportunity to achieve economies of scale with the existing book and to generate an attractive return for its members.

On 4 April 2023, Scottish Equitable and Royal London entered into a temporary reinsurance agreement to transfer, from Scottish Equitable to Royal London, the economic exposure arising in respect of the Transferring Policies with effect from 1 July 2022 until the Effective Date (the "Transaction Reinsurance Agreement"). In the event of the Scheme not going ahead, this arrangement will be unwound, and the economic exposure removed, putting Royal London and Scottish Equitable back in the positions they would have been in if the agreement had never been in place (with the exception of the shares of expenses incurred to date).

2.2 Outline of the Scheme and the proposed Transfer

The Scheme will result in the transfer of the Transferring Policies from Scottish Equitable to Royal London. All assets, liabilities, rights and obligations under the Transferring Policies, to the extent they are to be performed on or after the Effective Date, will transfer to Royal London. The Transaction Reinsurance Agreement will terminate and the Transferring Policies will become directly written business of Royal London.

The proposed Transfer is expected to take effect on 1 July 2024.

The Transferring Policies are to be placed into the Royal London Main Fund.

The proposed Transfer will not result in any changes to the terms and conditions of the Transferring Policies.

The holders of Transferring Policies will not become members of Royal London, consistent with Royal London's membership rules under its Articles of Association, nor will they be eligible for ProfitShare distributions.

The existing mortality and morbidity reinsurance treaties that Scottish Equitable have in place with respect to the Transferring Policies will transfer to Royal London as part of the proposed Transfer with no change in terms, other than that they will become contracts of Royal London.

The costs associated with the implementation of the Scheme will be met on a shared basis by Royal London and Scottish Equitable in accordance with terms set out in the Framework Agreement. The Transferring Policies will not bear any of these costs.

Holders of Transferring Policies, save for a small number of exceptions for which a dispensation will be sought in accordance with the Scottish Equitable communications plan, will be informed of the proposed Transfer via a direct mailing and will have the opportunity to raise any objections to the Court. An application is to be made to the Court for a waiver to omit direct mailing of Royal London's policyholders, including the holders of Relevant Policies, on the grounds that the proposed Transfer will not materially impact them, including ProfitShare payments, and the cost of doing so would be disproportionate given the limited utility. However, information on the proposed Transfer will be made available online with notification made in the national press advising of such.

Atos BPS Limited currently provide administration services for the Transferring Policies on behalf of Scottish Equitable. Following the proposed Transfer, administration services for the Transferring Policies will continue to be provided by Atos BPS Limited under a new contract entered into between Royal London and Atos BPS Limited on terms that are consistent with the existing contract in all material respects.

Scottish Equitable will provide certain transitional services which give Royal London access to the Scottish Equitable group's IT systems (which are relevant to the administration of the Transferring Policies) and to certain corporate functions ("Transitional Services") pursuant to the transitional services agreement dated 4 April 2024 (the "Transitional Services Agreement"). These Transitional Services will be provided to Royal London from the Effective Date until Royal London can administer the Transferring Policies on a standalone basis with no reliance upon Scottish Equitable, the Scottish Equitable group or the Transitional Services.

Scottish Equitable process payments in respect of the Transferring Policies using a bank account provided by Barclays. The contract for the operation of this bank account will transfer to Royal London as part of the proposed Transfer.

The Transferring Policies have access to “Policy Plus” – a range of support services to help with claims and bereavement. These services are provided under contract with three outsource partners - Health Assured (for health and wellbeing services including counselling), Red Arc (providing second medical opinions) and FPSG (where businesses need help with the replacement of a key person). The contracts to provide these services will be novated to Royal London outside the operation of the Scheme but as part of the proposed Transfer.

As part of the application for court approval of the proposed Part VII transfer, Stephen Makin of Hymans Robertson LLP has been jointly appointed by Royal London and Scottish Equitable to act as Independent Expert. His report will accompany my report, that of the Royal London Chief Actuary and those of the Scottish Equitable Chief Actuary and Scottish Equitable With Profits Actuary in the documents submitted to the Court.

The PRA has been engaged ahead of the Part VII transfer going to the Court. The PRA has approved the appointment of the Independent Expert, in consultation with the FCA, and there are no outstanding concerns following engagement. The FCA has also been consulted throughout the Part VII process with no outstanding concerns identified.

3. THE LIKELY EFFECT OF THE PROPOSED TRANSFER ON THE RELEVANT POLICIES

The following factors have been considered in determining the likely effect of the proposed Transfer on the Relevant Policies:

- Benefit security
- Benefit expectations
- Administration and service standards
- Policyholder communications
- Cost of the proposed Transfer and expenses
- Governance
- Taxation

3.1 Benefit security

The proposed Transfer will result in additional risks and capital requirements being introduced to the Royal London Main Fund, which, depending on how material these are, could potentially compromise the ability to meet the payment of benefits on the Relevant Policies. In practice, the likely impact of the proposed Transfer on the capital position of the Royal London Main Fund is modest. From the Royal London Chief Actuary’s report, the reduction in cover ratio was 4.7%, as at 30 June 2023. The resulting cover ratio, 212%, remains within Royal London’s defined ‘acceptable range’ and significantly above the level

at which remedial management actions may need to be considered. I also note that the risk profile of the business being added is consistent with that of the existing protection book already successfully managed by Royal London and has an insignificant impact on the overall risk profile of the Royal London Main Fund.

The RL(CIS) Fund is unaffected by the proposed Transfer. For completeness, I note that in very extreme circumstances, e.g. if the Royal London Main Fund became unable to meet its Solvency Capital Requirements, the RL(CIS) Fund could be required to support it. However, its scheme of transfer places no obligation on it to do so and, in any event, the modest impacts noted above mean that this scenario is highly unlikely to arise as a consequence of the proposed Transfer.

I am therefore satisfied that the proposed Transfer will have no material adverse effect on the benefit security of the Relevant Policies.

3.2 Benefit expectations

The proposed Transfer does not include any with-profits policies. In relation to the Relevant Policies, i.e. the existing with-profits policies in the Royal London Main Fund and those unit-linked pension policies eligible for ProfitShare, it will not result in any change in the terms and conditions of these policies, nor in their management including in relation to investment strategy, bonus methodology and allocation (including the continuation of payouts on with-profits policies consistent with asset share), surrender bases, smoothing policy or the determination of any policy charges or expense allocations.

Though not part of benefit expectations, for completeness I note that the Relevant Policies are eligible to receive ProfitShare payments should the performance of Royal London's overall business support it. The award of ProfitShare in any given year is not guaranteed and is at the discretion of Royal London's Board. It takes into account a number of factors including the ongoing profitability of the business, the capital strength of the Royal London Main Fund and the sustainability of ProfitShare when projected into the future.

The proposed Transfer represents an investment by the estate of the Royal London Main Fund that is expected to generate a positive return. As a result, the acquisition is not expected to be loss making or adverse to the interests of existing with-profits policyholders and therefore meets the requirements of COBS 20.2.28.

In the immediate term, there will be some initial capital strain from the acquisition. However, as noted above, this is modest at 4.7% and the capital position remains within the acceptable range. As such, it is not expected to have any material adverse impact on the existing with-profits policyholders.

I am therefore satisfied that the proposed Transfer will have no material adverse effect on the benefit expectations of the holders of Relevant Policies.

3.3 Administration and service standards

Following the proposed Transfer, the administration of the Transferring Policies will continue to be carried out by Atos BPS Limited. There is therefore no direct impact on Royal London's existing customer servicing areas. Similarly, the Transitional Services provided by Scottish Equitable following the proposed Transfer, such as IT provision, will ensure there is no direct impact on those equivalent services currently offered to the Relevant Policies.

I am therefore satisfied that the proposed Transfer will have no material adverse effect on the administration and servicing standards experienced by the holders of Relevant Policies.

On 5 February 2024, the parent company of Atos BPS Limited, Atos SE, 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. It is possible that the financial position of Atos SE, and therefore potentially also Atos BPS Limited, could deteriorate in such a way as to impact the ability of Atos BPS Limited to administer and service the Transferring Policies either before or following the proposed Transfer. None of Royal London's existing policies, including the Relevant Policies, are serviced by Atos BPS Limited and so there would be no direct impact on these policies under such a scenario. To the extent that there is any indirect impact relating to diversion of management attention this is mitigated by Scottish Equitable and Royal London each having contingency plans in place to cater for such an eventuality, which ensure continuity of servicing for the Transferring Policies is maintained. These plans also include provision for existing Atos BPS Limited staff to be transferred to Royal London should it become necessary in order to maintain servicing of the Transferring Policies, which mitigates the potential for strain on Royal London's own administration staff. Therefore, on the basis of these current contingency plans, I remain satisfied that there is not expected to be any material adverse effect on the servicing standards of the Relevant Policies as a result of the proposed Transfer. This is the case provided that the contingency plans of Scottish Equitable and Royal London are appropriate. I will continue to monitor the situation and review the plans and will provide an update in my supplementary report to the sanctions hearing. Call centre scripts and website FAQs have been updated to support customers who may have queries relating to the situation.

3.4 Policyholder communications

A detailed communications plan has been jointly agreed between Scottish Equitable and Royal London which aims to ensure that affected policyholders are adequately informed of the proposed Transfer.

An application is being made to the Court for a waiver to omit direct mailing of Royal London's policyholders, including the holders of Relevant Policies, on the grounds that the proposed Transfer is likely to have little to no relevance to, or impact on, them. The Transfer is not expected to materially affect the Relevant Policies as there will be no

changes to their terms and conditions and no material adverse impact on their benefit expectations, ProfitShare, benefit security or service standards. Therefore, Royal London considers there to be limited utility in notifying holders of Relevant Policies and the cost of doing so, estimated to be £4.9m to complete a mailing to approximately 8.6m policyholders, would be disproportionate. However, information on the Transfer will be made available online with notification made in the national press advising of such.

I am satisfied that the proposed communications approach is appropriate, proportionate and pays due regard to the information needs of the holders of Relevant Policies and the requirement to treat them fairly.

3.5 Cost of the proposed Transfer and expenses

The costs associated with the implementation of the Scheme and the proposed Transfer will be met on a shared basis by Royal London and Scottish Equitable in accordance with the terms set out in the Framework Agreement. I have reviewed the expected costs and believe them to be reasonable and consistent with similar acquisitions of this scale.

Royal London's share will be met from the estate of the Royal London Main Fund. The expected amounts have been allowed for within the acquisition pricing such that members, including the holders of Relevant Policies, are expected to achieve an acceptable return from the investment. The expected costs are also reflected in the financial impacts of the proposed Transfer quoted in this report.

I am therefore satisfied that the expected costs of the proposed Transfer are reasonable and have been appropriately taken account of in the relevant calculations and will not lead to a material adverse effect on the Relevant Policies.

3.6 Governance

The proposed Transfer does not include any with-profits policies and so there is no change required to the governance of the with-profits funds in Royal London and therefore no impact on the Relevant Policies.

3.7 Taxation

The proposed Transfer is not expected to have any impact on the tax position of the Relevant Policies.

4. CONCLUSIONS

I have considered the likely effect of the proposed Transfer on the Relevant Policies. It is my opinion that:

- The proposed Transfer will have no material adverse effect on the benefit security of the Relevant Policies.
- The proposed Transfer will have no material adverse effect on the benefit expectations of the holders of Relevant Policies.
- The proposed Transfer will have no material adverse effect on the Relevant Policies in relation to administration and servicing standards, governance or tax.
- The costs of the proposed Transfer will have no material adverse effect on the Relevant Policies.
- The proposed communications approach is appropriate, proportionate and pays due regard to the information needs of policyholders and the requirement to treat them fairly.

A handwritten signature in black ink that reads "Brian Peters". The signature is written in a cursive style with a long horizontal stroke at the end.

Brian Peters
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22 February 2024