



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

**Supplementary Report of 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 UK 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 purpose of this report (the “Supplementary Report”) is to provide an update to my initial report (the “Main Report”) dated 22 February 2024 which reviewed 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”). In particular, this report considers whether the conclusions in the Main Report remain appropriate in light of developments since the date of that report, including:

- Updated financial information
- Policyholder responses to the Scheme
- Other relevant developments

The Main Report was provided to the Prudential Regulation Authority (“PRA”), the Financial Conduct Authority (“FCA”), the Independent Expert (“IE”) and presented to the Court at the Directions Hearing which took place on 28 February 2024. The Main Report was also made available to policyholders via the Royal London website.

This Supplementary Report should be read in conjunction with the Main Report and with the main and supplementary reports prepared by the IE, the With Profits Actuary of Scottish Equitable and the Chief Actuaries of Royal London and Scottish Equitable. In forming my own opinion, I have considered the contents of, and conclusions made, in all of these reports.

As was the case with the Main Report, this Supplementary Report has been prepared for the Directors of Royal London to assist them in deciding whether to continue with the Transfer. The report will also be made available to the IE, PRA and FCA. This report will be provided to the Court in evidence for the sanction hearing for the Scheme on 14 June 2024 (the “Sanction Hearing”). It includes financial information dated as at 31 December 2023 (unless otherwise specified). This report will also be made available to policyholders via the Royal London website.

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 would be 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.

1.4 Structure of this report

This report is structured as follows:

- Section 2 considers the financial impact of the Scheme based on updated financial information.
- Section 3 considers policyholder responses to the Scheme.
- Section 4 provides an update on other relevant developments.
- Section 5 sets out my conclusions.

2. UPDATED FINANCIAL INFORMATION

The conclusions in my Main Report were based on financial data as at 30 June 2023. The Supplementary Report of the Royal London Chief Actuary provides updated financial data as at 31 December 2023 and notes that the capital position of the Royal London Main Fund has improved slightly over the period. In addition, the estimated impact of the Transfer on the capital position has reduced slightly. Overall, the post-Transfer cover ratio has improved from 212% to 218% - a robust position that remains comfortably above the lower bound of Royal London's defined 'acceptable range' of 165%. This remains the case after allowing for the estimated impact of further developments since 31 December 2023 which are expected to reduce the expected post-Transfer cover ratio to 209%.

It remains the case that, given the strength of the post-Transfer capital position, the ability to continue paying ProfitShare distributions at current levels is not expected to be affected, noting that ProfitShare is discretionary and so does not form part of policyholders' benefit expectations.

It continues to be the case that the Transfer is expected to generate a positive return to the estate of the Royal London Main Fund and is therefore not expected to be loss making or adverse to the interests of existing with-profits policyholders consistent with the requirements of COBS 20.2.28.

Overall, I remain satisfied that the proposed Transfer will have no material adverse effect on the benefit security or benefit expectations of the Relevant Policies.

3. POLICYHOLDER RESPONSES TO THE SCHEME

Shortly following the Directions Hearing on 28 February 2024, Scottish Equitable sent communication packs to the holders of the Transferring Policies in accordance with the order granted by the Court. Royal London and Scottish Equitable jointly published notices of the Scheme in each of the London, Edinburgh and Belfast Gazettes, as well as in three national newspapers in the UK (The Times, The Daily Mail and The Sun) and in the international edition of the Financial Times. Information relating to the Transfer was also made available on the websites of Royal London and Scottish Equitable. Both parties established dedicated telephone support lines with trained staff to respond to any queries that their respective policyholders had in relation to the Scheme.

I have considered all objections received by policyholders in relation to the Scheme up to a cut-off date, to allow for finalisation of this report, of 22 May 2024. Any objections received after this date will be reported separately to the Court sanctions hearing on 14 June 2024.

As at this cut-off date of this Supplementary Report, no objections have been raised by existing policyholders of Royal London in relation to the Scheme.

As at this cut-off date of this Supplementary Report, 47 holders of Transferring Policies had raised objections in relation to the Scheme, all via Scottish Equitable. A summary and analysis of the objections is provided in the Supplementary Report of the Royal London Chief Actuary.

I have considered the objections raised by policyholders and the responses provided in each case. I am satisfied that none of the objections cause me to reconsider the conclusions reached in my Main Report, as set out in Section 5.

4. OTHER RELEVANT DEVELOPMENTS

4.1 Administrative arrangements

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.

My Main Report noted that, 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. The Main Report also noted that it was 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. It was further noted that 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 are designed to ensure that 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. On that basis, I was satisfied that there was not expected to be any material adverse effect on the servicing standards of the Relevant Policies as a result of the proposed Transfer.

Since the Main Report was produced, Royal London has been monitoring further announcements and media reports regarding the financial position of Atos SE and Atos BPS Limited. 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. In summary, 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.

Royal London's contingency plan has been reviewed and further developed to ensure it is appropriate: scenario planning has been expanded based on further input from those people across Royal London who would be involved in its execution; roles and responsibilities of individuals have been more clearly defined; Atos BPS Limited's IT architecture has been mapped out in detail and plans developed for each application under the scenarios; and all third parties to Atos BPS Limited whose support would be required to implement the contingency plan have been identified. The plan has also been subject to detailed review by the Independent Expert. Overall, I am satisfied that the contingency plan is robust and appropriate should the position with Atos BPS Limited develop adversely.

On this basis, 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. The situation will continue to be closely monitored in the lead up to the Transfer.

5. CONCLUSIONS

Based on the considerations set out in this report, it is my view that the conclusions set out in my Main Report remain valid. In particular:

- 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 communications approach was appropriate, proportionate and paid due regard to the information needs of policyholders and the requirement to treat them fairly.



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