



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

On

**The proposed Insurance Business Transfer Scheme relating to the transfer of
business from The Royal London Mutual Insurance Society Limited to Royal
London DAC**

17 January 2019

Contents

1. INTRODUCTION AND SUMMARY	3
1.1 Purpose	3
1.2 Executive Summary	4
2 AMENDMENTS AND DEVELOPMENTS	4
2.1 Amendments to the Scheme, Reinsurance Agreements and Security Agreements	4
2.2 Amendments to the Royal Liver Instrument of Transfer	5
2.3 Changes to regulation	5
2.4 Changes to Brexit position	6
2.5 Financial impact of the proposed transfer	6
2.6 Other developments.....	8
3 IMPACT OF THE TRANSFER ON THE TRANSFERRING POLICYHOLDERS	11
3.1 Factors considered	11
3.2 Security of benefits	12
3.3 Benefits payable under participating policies.....	12
4 IMPACT OF THE TRANSFER ON NON-TRANSFERRING POLICYHOLDERS OF ROYAL LONDON	13
4.1 Factors considered	13
4.2 Security of benefits	14
4.3 Benefits payable under participating policies.....	14
5 POLICYHOLDER RESPONSE TO MAILING	14
5.1 Summary of policyholder responses	14
5.2 Expressions of dissatisfaction	15
5.3 Objections.....	16
6 CONCLUSIONS.....	17
7 COMPLIANCE WITH ACTUARIAL STANDARDS.....	17

1. INTRODUCTION AND SUMMARY

1.1 Purpose

I produced a report dated 3 October 2018 (the “**Main Report**”) for the Directors of The Royal London Mutual Insurance Society Limited (“**RLMIS**”) on the likely effect of a scheme of transfer (the “**Scheme**”) of part of the long-term business of RLMIS to Royal London Insurance Designated Activity Company (“**Royal London DAC**”) under an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000 (“**Part VII Transfer**”) on:

- (a) the holders of the RLMIS with-profits policies proposed to be transferred under the Scheme; and
- (b) the non-transferring with-profits policyholders of RLMIS at the time of transfer,

in each case with particular reference to their benefit expectations, the future security of those benefits, their contractual rights, policyholder protection, service levels, with-profits governance and the general requirement to treat customers fairly. This transfer effected by the Scheme is known as the “**Transfer**”.

The Main Report was made available to the Court for the Directions Hearing on 15 October 2018.

The purpose of this report (the “**Supplementary Report**”) is to consider:

1. Any amendments to the Scheme, Reinsurance Agreements or Security Agreements that are proposed or required.
2. Any amendments to the Royal Liver Instrument of Transfer that are proposed or required.
3. Any regulatory changes impacting the Transfer.
4. Any update on the Brexit position.
5. Any updated financial information that is available.
6. Any other developments since the production of the Main Report.
7. Any development to the arrangements referred to in the Main Report which might materially affect the holders of RLMIS transferring with-profits policies or the holders RLMIS non-transferring with-profits policies.
8. Any expressions of dissatisfaction or objections raised by policyholders.
9. Any other matter or development that I, in my capacity as the With Profits Actuary of RLMIS, consider relevant and material to my assessment.
10. Confirmation (or otherwise) that the conclusions stated in the Main Report hold good (in light of 1-9 above).

This Supplementary Report should be read in conjunction with the Scheme, the Main Report and the Chief Actuary and Independent Expert’s main and supplementary reports.

It is intended that the High Court will be asked to approve the Transfer at a hearing on 31 January 2019. This Supplementary Report and the supplementary reports of the Chief Actuary and Independent Expert will be made available to the High Court prior to this hearing.

It is proposed that the Transfer will have an effective date of 7 February 2019 (the “**Effective Date**”), except for accounting purposes where it will be assumed that the transfer took place on 1 January 2019. This will not impact policyholder benefits.

The PRA and FCA, as regulators, are entitled to express their views on the Transfer to the High Court. The proposed terms of the Scheme have been discussed with the regulators and their views have been taken into account in producing the final terms of the Scheme.

The terminology and abbreviations used in this report are the same as in the Main Report. A glossary of the terms used in this report is in the Appendix.

1.2 Executive Summary

There are no changes to the conclusions in section 5 of the Main Report, namely I am of the opinion that:

- (a) the Transfer will not adversely affect, to any material extent, the security of benefits or benefit expectations of the transferring with-profit policyholders;
- (b) the Transfer will not adversely affect, to any material extent, the security of benefits or benefit expectations of the non-transferring with-profit policyholders remaining in RLMIS;
- (c) carrying out the Transfer is not inconsistent with the requirement to treat customers fairly; and
- (d) the proposed amendments to the Instrument of Transfer will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the Instrument of Transfer, on the holders of Royal Liver policies. My certification was provided in Appendix B of the Main Report.

2 AMENDMENTS AND DEVELOPMENTS

2.1 Amendments to the Scheme, Reinsurance Agreements and Security Agreements

No material amendments have been made to the Scheme since the date of the Main Report.

The only material amendment to the Liver Reinsurance Agreement and the German Bond Reinsurance Agreement (together the “**Reinsurance Agreements**”) since the date of the Main Report is to reflect the changes made to when the fixed charges can be enforced. This change is outlined below. There have been no other material amendments to the Reinsurance Agreements.

The main change to the Security Agreements since the date of the Main Report is around the circumstances in which the fixed charges can be enforced. The amendment allows the fixed charges to be enforced if RLMIS fails to appoint a replacement custodian when required to do so under the collateral framework agreements.

In addition, an amendment has been made to remove the entitlement that RLMIS had to redeem the security in the event that there was an amendment to or introduction of any law, regulation, treaty or ruling which means the security is no longer necessary or valid.

The amendments to the Security Agreements have been made in response to comments that we received from the CBI.

I have reviewed the amendments to the Scheme, Reinsurance Agreements and Security Agreements and I am satisfied that the amendments made do not change the analysis or conclusions in the Main Report.

2.2 Amendments to the Royal Liver Instrument of Transfer

The proposed amendments to the Instrument of Transfer have been approved by the PRA and FCA.

No further amendments have been made to the Instrument of Transfer since the date of the Main Report.

2.3 Changes to regulation

On 22 June 2018 the CBI published Consultation Paper 122 (“CP122”) which proposed amendments to the Domestic Actuarial Regime in Ireland. This included new requirements for with-profits governance. These requirements were developed in light of the expected increase in the volume of with-profits business in Ireland post-Brexit.

The consultation period for CP122 closed on 14 September 2018 and the CBI issued a feedback statement on 27 November 2018. This introduced the new requirements for with-profits funds. These new requirements can be summarised, at a high level, as follows:

- A With-Profits Operating Principles (“**WPOP**”) document must be produced, which will be made available to all relevant policyholders. This should set out the principles around how the fund is managed and is required to cover a specified list of topics.
- The Head of Actuarial Function (“**HoAF**”) is required to report to the Board annually on the ongoing compliance with the principles in the WPOP.
- With-profits policyholders should be provided with an annual report on compliance with the principles detailed in the WPOP.

- The HoAF is to provide an opinion to the Board on the compliance of the technical provisions with the WPOP in the Actuarial Report on Technical Provisions.

These requirements are in line with Royal London's current regime and the proposed with-profits governance for Royal London DAC set out in my Main Report. The only change required as a result of this new regulation is to change the name of the PPFM Guides to call them WPOP documents. This will be done on the Effective Date. This will not impact any of the analysis or conclusions in my Main Report.

Under the Scheme, Royal London DAC is no longer required to maintain PPFM Guides if regulatory requirements are introduced that require Royal London DAC to maintain documents that the Royal London DAC Board, having considered advice from the HoAF, considers equivalent in all material respects to the content and purpose of the PPFM Guides. The Royal London DAC Board confirmed in January that they consider the WPOP documents to meet this requirement.

2.4 Changes to Brexit position

I noted in the Main Report that it was possible that the outcome of the EU exit negotiations could result in an agreement with the EU which meant that RLMIS would have been able to continue to service policies sold under EU passporting rights either for a transitional period, or until the end of the policy term. However, I considered that there was not sufficient time to wait for the results of such negotiations, and the certainty provided by the Transfer was necessary to ensure that the Transferring Business can continue to be serviced once the UK has left the EU.

The current position of the EU exit negotiations is such that there have been no developments which are in the public domain since the Main Report which change that opinion.

2.5 Financial impact of the proposed transfer

Section 2.3 of the Chief Actuary's main report provided detailed figures on the financial impacts for RLMIS and Royal London DAC. My Main Report focused on the figures that will directly affect with-profits policies, which are those showing the impact on the Royal Liver Sub-Fund and RL Main Fund. These figures were based on the provisional Pillar 1 calculations as at 31 December 2017 and assumed the Transfer took place on 1 January 2019.

Section 8 of the Chief Actuary's supplementary report provides updated detailed figures based on provisional Pillar 1 calculations as at 30 June 2018. I have provided the figures showing the impact on the Royal Liver Sub-Fund and RL Main Fund below.

These updated figures continue to show that the Transfer is expected to have a relatively small capital impact on both the RL Main Fund and the Royal Liver Sub-Fund and therefore do not affect my conclusions in the Main Report.

Royal Liver Sub-Fund

£m	Royal Liver Sub-Fund Pre Transfer	Project and Ongoing Costs	Transfer from Royal Liver Sub-Fund	Reinsurance from RL DAC to Royal Liver Sub-Fund	Royal Liver Sub-Fund Post Transfer
Assets	2,240	-10	-887	877	2,220
BEL	1,693	17	-735	735	1,709
Risk Margin	46		-20	20	46
TMTF	-46		0	0	-46
Current Liabilities	96		0	0	96
Subordinated debt	0		0	0	0
Own funds	452	-26	-131	122	416
Capital requirement	184		-80	80	184
Excess capital	267	-26	-51	42	231
Own Funds (% of capital requirement)	245%				225%
Equivalent at 31 December 2017	275%				264%

Since the Main Report was produced an estate distribution has been made in the Royal Liver Sub-Fund. This was applied on 1 July 2018 as an 8.5% increase to the asset shares of eligible with-profits policies and the sums assured of eligible contingent bonus policies. The aim of the estate distribution was to bring the capital coverage back down to the target 1-in-20 level. This is in line with the requirements in the Instrument of Transfer. The above figures account for this estate distribution, hence the reduction in the pre-Transfer cover ratio since the production of the Main Report.

The above table shows a £17m increase in best estimate liabilities (“**BEL**”) from ongoing costs. This primarily reflects the capitalisation of future expense increases for non-profit business, which were assumed to be recognised year by year in my Main Report. This is covered in section 2.6. This is the main reason why the reduction in the cover ratio after the Transfer is larger than that shown in the Main Report.

RL Main Fund

£m	RL Main Fund Pre Transfer	Project and Ongoing Costs	Transfer Protection Business from RL Main Fund (inc. capital contribution)	Transfer German Businesses to German Bond Sub-Fund	Reinsurance from RL DAC to RL Main Fund	RL Main Fund Post Transfer
Assets	53,481	-3 ⁽¹⁾	-63	-114	112	53,413
BEL	48,090	7 ⁽²⁾	65	-105	105	48,162
Risk Margin	731		-7	-2	2	724
TMP	-729		0	0	0	-729
Current Liabilities	1,710		0	0		1,710
Subordinated debt	861		0	0		861
Own funds	4,540	-10	-121	-8	6	4,407
Capital requirement	2,119		-17	-5	5	2,102
Excess capital	2,421	-10	-103	-3	1	2,306
Own Funds (% of capital requirement)	214%					210%
Equivalent at 31 December 2017	223%					217%

- (1) The total project costs allocated to the RL Main Fund are c£11m, of which c£8m has already been incurred by 30 June 2018. None of the project costs had been allocated to the Royal Liver Sub-Fund as at 30 June 2018.
- (2) Currently the RL Main Fund is expected to make a profit from the expense arrangements with the Royal Liver Sub-Fund. This is explained in detail in my Main Report. This is recognised through a negative BEL. After the Transfer any profit in relation to the Liver Ireland Business will emerge in Royal London DAC. This will lead to an increase in the BEL in the RL Main Fund, which is what this £7m represents.

I have continued to review estimates of the capital position of the RL Main Fund, the Royal Liver Sub-Fund and the Other Closed Funds since 30 June 2018 and there is no indication that the financial position of RLMIS has changed materially since that date.

2.6 Other developments

Authorisation of Royal London DAC

In the Main Report I stated that Royal London DAC is expected to be authorised by the Central Bank of Ireland (“**CBI**”) by the end of 2018. I also stated that it is expected that Royal London DAC would sell new protection business following authorisation.

I can confirm that Royal London DAC has now been authorised by the CBI with effect from 1 January 2019. The initial capital injection of €40m (€1m share capital and €39m capital contribution) from RLMIS was made on 17 December 2018 and Royal London DAC became fully operational, including selling new protection business, from 7 January 2019.

Update on Tax

The Main Report stated that the conclusions on tax in sections 3.8 and 4.7 were subject to clearances being sought from the tax authorities. I can confirm that both Her Majesty's Revenue and Customs ("**HMRC**") and the Irish Revenue Commissioners ("**IRC**") have provided all the clearances requested with one exception.

The exception impacts corporation tax in the Liver Ireland Sub-Fund, and is in reference to the transfer of carried forward new basis business losses in the Liver Ireland Sub-Fund. The IRC have requested to see the submission of the first tax computation before they confirm their position. However, given that no trading profits are expected to emerge in the Liver Ireland Sub-Fund the granting of the tax clearance is not expected to be an issue.

In addition to the tax clearances, the following issues have been raised with the tax authorities:

- a. Attribution of profits to a UK permanent establishment. This issue arises because the Chief Executive Officer of Royal London DAC will work in the UK for the Irish business for a proportion of his time. In addition the same issue arises to a much lesser extent with the Chairman of Royal London DAC. The amount of additional tax payable in relation to these issues is expected to be immaterial.
- b. Transfer pricing ("**TP**"). The service company, Royal London Management Services ("**RLMS**"), which is a subsidiary of RLMIS and also has an Irish Branch, will provide services to Royal London DAC in respect of the Transferring Business. No TP adjustment is expected in respect regulated activity performed by the Ireland based staff in the Irish Branch of RLMS because they are expected to be seconded to Royal London DAC. The recharge of UK based services, and any non-regulated activity performed by the Ireland based staff in the Irish Branch of RLMS are expected to result in an uplift of 5-8% for TP.

The TP adjustment will be paid by the Royal London DAC Open Fund to RLMS. It will not lead to any material differences in the amount of tax paid. The main impact is that some of the expense profits will be recognised within RLMS as opposed to the Royal London DAC Open Fund. Since RLMS and Royal London DAC are both subsidiaries of RLMIS, any profits arising in RLMS or the Royal London DAC Open Fund will ultimately fall to the eligible policyholders of RLMIS. Note that none of the TP adjustment will be allocated to the Liver Ireland Sub-Fund, even if the TP adjustment arises from activity associated with the Liver Ireland Business. The TP adjustment will therefore not materially impact the benefits of holders of Transferring Policies or Non-Transferring Policies.

Costs and Expenses

There have been no changes to the expected project costs since the Main Report was produced. Following review there has been some minor movements in the proposed allocation between the Royal Liver Sub-Fund and the RL Main Fund. This has resulted in a £0.7m swing in the allocation of the project costs. After rounding,

these movements do not impact the c£10m allocation to the Royal Liver Sub-Fund and c£11m allocated to RL Main Fund referenced in the Main Report.

There have been no changes to the expected additional ongoing expenses that will be allocated to the Royal Liver Sub-Fund of €2.0m per year since the Main Report was produced.

A review of the modelling of these ongoing expenses has indicated that, rather than being charged to the estate of the Royal Liver Sub-Fund as they are incurred, which is what was assumed in the Main Report, the majority of these cost should be recognised by an increase to the value of the BEL at the Effective Date.

This is largely because the majority of the business in terms of volumes, which is how expenses are allocated between different policy types, is non-profit business. For non-profit business, the Royal Liver Sub-Fund is required to hold reserves in respect of the expected future expenses. These reserves will increase at the Effective Date to reflect the expected additional ongoing expenses in the future.

We expect this to increase BEL in the Royal Liver Sub-Fund by c£17m. This will cause a reduction in the cover ratio as shown in the financial information in section 2.5. The potential impact of this on holders of Transferring Policies and Non-Transferring Policies is covered in sections 3.3 and 4.3 respectively.

The costs and expense proposals have been reviewed by the Independent Expert and Royal London's Internal Audit Team who are both satisfied that the approach we have taken is appropriate.

Communication of Royal Liver PPFM Changes

In the Main Report I stated that Royal London intended to seek a waiver from the guidance in COBS 20.4.2R which requires policyholders to be notified of any changes to the PPFM principles at least 3 months in advance. This is in relation to changes to the principles of the Royal Liver PPFM. This waiver has not been granted. This means that RLMIS will breach the rules set out in COBS 20.4.2.

The proposed changes to the Royal Liver PPFM are required as a result of the Transfer. There is a fixed deadline for us to complete the Transfer ahead of Brexit. This fixed deadline has been the driving factor around why we have not been able to give the full 3 months' notice to all impacted policyholders.

The changes to the Royal Liver PPFM impact the holders of Non-Transferring Liver Policies. Note that the Liver Ireland Policies will no longer be directly subject to the Royal Liver PPFM after the Transfer meaning the guidance does not apply to them directly. We have sent out around 200,000 mailing packs to holders of Non-transferring Liver Policies. These packs contain notification of the changes to the Royal Liver PPFM. About 75% of these will have been received with the required 3 months' notice. The remaining 25% (c50,000) will have received at least 11 weeks' notice, which is about 2 and a half months.

The policyholder booklet, which contains the notification of the changes to the Royal Liver PPFM, was provided on our website from 22 October 2018, meaning a summary of the amendments was available to all policyholders 3 months in advance.

Given that all policyholders have received at least 2 and a half months notice and had access to the amendments on the website 3 months in advance I am satisfied that there is no material adverse affect on policyholders as a result of the reduced notice period.

PPFM Guides

As stated in the Main Report, Royal London DAC has produced and will maintain from the Effective Date PPFM Guides for the Liver Ireland Sub-Fund and the German Bond Sub-Fund. Since the Main Report was produced some minor amendments have been made to the proposed German Bond PPFM Guide. These amendments were for clarity only and were not material changes. This is in addition to the change of name from PPFM Guides to WPOP documents described in section 2.3.

I am satisfied that the PPFM Guides, now renamed as WPOPs, remain appropriate.

3 IMPACT OF THE TRANSFER ON THE TRANSFERRING POLICYHOLDERS

3.1 Factors considered

In the Main Report I considered the likely impact of the Transfer on the policyholders of RLMIS transferring to Royal London DAC against the headings of:

- (a) Security of benefits.
- (b) Benefits payable under participating policies.
- (c) Application of discretionary management actions.
- (d) Expenses.
- (e) Service standards/standards of administration.
- (f) Investment strategy.
- (g) Tax.
- (h) Membership rights.
- (i) Policyholder communications.
- (j) Governance.

When doing so, I considered and took into account more generally the requirement to treat customers fairly.

Section 2 sets out the amendments and developments since the production of the Main Report. There have been no material changes that impact the conclusions stated in the Main Report in respect of any of the above elements. Therefore the conclusions in section 3 of the Main Report continue to hold.

I have however reassessed the security of benefits and the benefits payable under participating policies in light of the updated financial data as described below.

3.2 Security of benefits

In the Main Report I concluded that I was satisfied that there is no material adverse effect on the security of benefits for RL Ireland Protection Policies because Royal London DAC will be well capitalised when the Transfer takes effect. The updated financial data provided in section 8 of the Chief Actuary's supplementary report supports this conclusion.

My conclusions in the Main Report on the security of benefits for the holders of Ireland Liver Policies and German Bond Policies focused on the protections provided by the Scheme, Instrument of Transfer and the Security Agreements associated with the Reinsurance Agreements. There have been no material amendments to these documents that impact these conclusions. In addition the updated financial data does not materially impact the security of benefits for holders of Ireland Liver Policies and German Bond Policies.

Holders of Transferring Policies that are currently covered by the UK Financial Services Compensation Scheme ("FSCS") will lose this protection as a result of the Transfer. In my Main Report I concluded that while the loss of FSCS coverage is unwelcome, it is an inevitable consequence of Brexit given the Irish regulatory regime does not have an equivalent. Bearing that in mind I concluded that I was satisfied that policyholders will not experience any material loss in the security of their benefits as a result of the Transfer. There have been no developments since the production of my Main Report that alter this conclusion.

3.3 Benefits payable under participating policies

Ireland Liver Policies

The Main Report explains that while the Liver Reinsurance Agreement is in place any Estate distributions will be based on the capital position of the Royal Liver Sub-Fund and shared equitably between the eligible Non-transferring Liver Policies and eligible Ireland Liver Policies. It explains that any reduction in cover ratio as a result of the Transfer may have a negative second order impact on with-profit policyholders, both in respect of Ireland Liver Policies and Non-transferring Liver Policies, through the estate distributions added to their policies.

The Main Report concluded that the expected reduction in cover ratio is not a material reduction. The updated financial data in section 2.5 shows an expected reduction in cover ratio of 20%. Although this is higher than the 11% reduction in cover ratio shown in the Main Report, I am satisfied that my conclusions in the Main Report continue to hold in light of the updated financial information. Note that the main reason for the reduction in the cover ratio is because of the capitalisation of future expenses in the BEL, which were assumed to be recognised year by year in the Main Report. This is explained in section 2.6.

In the Main Report, I assessed the impact of the reduction in cover ratio on potential estate distributions against the current run off plan. I have updated this assessment to account for the updated financial figures. This suggests that the Transfer will cause an initial reduction in estate distributions applied to eligible policyholders' asset share

(and the sums assured of eligible contingent bonus policies) of c5% in total over a 2 year period. Following this, the expected estate distributions will remain broadly unchanged from the current run-off plan.

Estate distributions have not been applied regularly for policies in the Royal Liver Sub-Fund in recent years. This means policyholders' expectations have not been set at a certain level and I am satisfied that payouts can continue to meet their reasonable expectations after the Effective Date.

Although there may be a small reduction in the estate distribution portion of policyholder benefits from the Transfer it is important to note that the status quo is not an option. I continue to be satisfied that the proposal, particularly with the Liver Reinsurance Arrangement in place, minimises the effect on policyholder benefits.

German Bond Policies

The Main Report concluded that the benefits for the German Bond Policies should be broadly unaltered by the proposed Transfer. This conclusion continues to hold.

German Bond Policies will continue to be eligible for ProfitShare after the Transfer. The updated financial data in section 2.5 supports the conclusion that the Transfer will not have a material affect on the capital position of the RL Main Fund and its ability to maintain ProfitShare at appropriate levels.

4 IMPACT OF THE TRANSFER ON NON-TRANSFERRING POLICYHOLDERS OF ROYAL LONDON

4.1 Factors considered

In the Main Report I considered the impact of the Transfer on the non-transferring policyholders of RLMIS, i.e. the policyholders of RLMIS immediately after the Effective Date, against the headings of:

- (a) Security of benefits.
- (b) Benefits payable under participating policies.
- (c) Expenses.
- (d) Service standards/standards of administration.
- (e) Investment strategy.
- (f) Tax.
- (g) Membership rights.
- (h) Policyholder communications.
- (i) Governance.

Section 2 sets out the amendments and developments since the production of the Main Report. There have been no material changes that impact the conclusions stated in the Main Report in respect of any of the above elements. Therefore the conclusions in section 4 of the Main Report continue to hold.

I have however reassessed the security of benefits and the benefits payable under participating policies in light of the updated financial data as described below. This focusses on the subsets of non-transferring policyholders that will be impacted by the Transfer, as described in the Main Report.

4.2 Security of benefits

The Main Report concluded that:

1. The expected reduction in the capital cover ratio of the Royal Liver Sub-Fund would not materially affect the solvency of the Fund or the security of benefits for Non-transferring Liver Policies.
2. The impact on the capital position of the RL Main Fund shows that the Transfer will not have a material affect on the security of the RL Main Fund.

When considering the updated financial data provided in section 2.5, both of these conclusions continue to hold.

4.3 Benefits payable under participating policies

Non-transferring Liver Policies

The Main Report explained that the impact on the benefits of the holders of Non-transferring Liver Policies will be very similar to the impact on holders of Ireland Liver Policies. Any reduction in cover ratio as a result of the Transfer may have a negative second order impact on non-transferring Liver with-profit policyholders, through the estate distributions added to their policies. I explain the expected impact of the Transfer on estate distributions in section 3.3. This will also apply to Non-Transferring Liver Policies.

I am satisfied that the conclusions in the Main Report continue to hold and that holders of Non-transferring Liver Policies will not be materially adversely affected by the Transfer.

Non-transferring RL Main Fund Policies

In the Main Report I concluded that I expect that Royal London will be able to maintain the appropriate levels of ProfitShare after the Effective Date and there will be no material adverse affect on the benefits for holders of Non-transferring RL Main Fund Policies.

When considering the updated financial data provided in section 2.5, this conclusion continues to hold.

5 POLICYHOLDER RESPONSE TO MAILING

5.1 Summary of policyholder responses

In the Main Report I stated that Royal London had produced tailored mailings for each group of Transferring Policies, i.e. the RL Ireland Protection business, Ireland Liver business and the German Bond business and the Non-Transferring Liver Policies. This included a letter, in which the key points for each group were prominent, and a policyholder booklet. Royal London has now mailed each group, in

line with the provisions of the Directions Hearing. In total 614,848 policyholder packs have been issued.

Supplementing the written communications, information has been posted on the royallondon.com, royallondon.ie and royallondongroup.de websites and legal notices published in a variety of UK, Ireland and German newspapers. A copy of this report is also expected to be made available on the aforementioned websites prior to the High Court hearing scheduled to take place on 31 January 2019.

Dedicated call teams have been set up to handle policyholder responses about the Transfer. There are separate call teams in Wilmslow, Dublin and the Isle of Man in accordance with where the relevant business is currently administered.

In total, as at 16 January 2019, 27,496 responses from policyholders have been received. The majority of these calls, around 95%, have been in relation to business as usual activities such as requests for basic information about the policy, bereavement claims and changes of address.

Of the calls relating to the Transfer, the most common questions have been in relation to basic information about the Transfer, for example “what is it all about”, “why have you written to me” and “how will I be impacted”. After this, the most common queries have been in relation to the change in the security of policyholder benefits and the loss of FSCS protection. Where policyholders have raised concerns about the change in security of their benefits or the loss of FSCS protection an expression of dissatisfaction or objection has been recorded. The meaning of these terms is explained further in section 5.2 and 5.3.

Section 5.2 covers any expressions of dissatisfaction and objections raised by policyholders.

As at 16 January 2019 29,442 policyholder packs had been returned. The bulk of these, over 95%, are in relation to Non-Transferring policies. We are in the process of trying to trace the holders of these policies through our business as usual ‘goneaways’ process but the timescales mean this will not be completed ahead of the High Court Hearing on 31 January 2019. We are not taking any further action in relation to holders of Transferring Policies as all those that have been returned are based in Ireland where suitable tracing options are not available.

5.2 Expressions of dissatisfaction

An "expression of dissatisfaction" refers to a statement from a policyholder indicating that the relevant policyholder is not happy with or is not satisfied with the Scheme proceeding but which falls short of an objection to the Scheme on the terms described in section 5.3.

The call handling team have received training on how to identify expressions of dissatisfaction and objections. If there is any uncertainty around classification then call recordings have been provided to senior actuarial, legal and communication representatives from the project team to agree on the correct classification. I am satisfied that this process has operated to ensure appropriate classification of policyholder responses.

As at 16 January 2019 we had received 9 expressions of dissatisfaction about the Transfer, of which 8 have now been resolved to the policyholder's satisfaction and 1 remains open. The expressions of dissatisfaction have covered the following topics:

- Change to security of benefits, including the loss of FSCS protection (5)
- The potential impact on payouts (2)
- Concerns about policyholder options and the fact that they are not able to opt-out of the Transfer (2)

The responses provided to policyholders have been produced by experienced members of the project team which includes legal and actuarial representatives. I have reviewed the correspondence with policyholders and I am satisfied that the expressions of dissatisfaction have been handled appropriately and accurately.

5.3 Objections

For this purpose an "objection" refers to a statement indicating that a policyholder objects to the Scheme proceeding. It is not necessary for a policyholder to use the word "objection" in order for their statement to be classified as an objection. Any clear statement having the effect of an objection is classified as such. The process followed for classifying objections is described in section 5.2. I am satisfied this is appropriate.

As at 16 January 2019 we had received 7 objections to the Transfer which can be broken down as 4 from holders of German Bond Policies, one from a holder of a Liver Ireland Policy and 2 from holders of Post-2011 Protection Policies.

We have received the most objections from holders of the German Bond Policies despite it being the smallest block of business. This is not wholly unexpected as these are large, investment policies that are losing FSCS protection. The largest block of business is the Liver Ireland Business, but this is largely made up of small life policies. In addition only around 12% of this population currently benefits from FSCS protection.

The objections we have received as at 16 January 2019 have related to:

- How the Scheme is financed (1)
- Security of benefits (1)
- FSCS coverage (3)
- No reason given (2)

As with the expressions of dissatisfaction, the responses provided to policyholders have been produced by experienced members of the project team which includes legal and actuarial representatives. I have reviewed the correspondence with policyholders and I am satisfied that the objections have been handled appropriately and accurately.

I am satisfied that having considered the expressions of dissatisfaction and objections my conclusions remain valid.

6 CONCLUSIONS

In summary, I am of the opinion that:

- (a) the Transfer will not adversely affect, to any material extent, the security of benefits or benefit expectations of the transferring with-profit policyholders; and
- (b) the Transfer will not adversely affect, to any material extent, the security of benefits or benefit expectations of the non-transferring with-profit policyholders remaining in RLMIS; and
- (c) carrying out the Transfer is not inconsistent with the requirement to treat customers fairly; and
- (d) the proposed amendments to the Instrument of Transfer will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the Instrument of Transfer, on the holders of Royal Liver policies. My certification was provided in Appendix B of the Main Report. This certification remains valid.

This is the same as my conclusions in the Main Report.

7 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 (Principles for Technical Actuarial Work) and 200 (Insurance). This report complies with those standards.

This Supplementary Report, together with the Main Report forms an aggregate report under the relevant FRC definition.

The report has also been subject to peer review in line with the Actuarial Profession Standards document APS X2: Review of Actuarial Work.



Brian J Murray FFA
With Profits Actuary of Royal London
17 January 2019

APPENDIX: GLOSSARY

Term	Description
BEL	Best Estimate Liabilities, the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information
Brexit	The term used to describe the UK's exit from the EU, expected to be on 29 March 2019, following the EU referendum vote on 23 June 2016
Central Bank of Ireland	Ireland's Central Bank and Financial Services Regulator
Chief Actuary	The Chief Actuary function (SIMF20) for an insurance undertaking is defined as having responsibility for the actuarial function, the Solvency II key function as set out in Article 48 of the Solvency II Directive. Shaun Cooper is the Chief Actuary for RLMIS. He has produced a main report and a supplementary report on the Transfer
COBS	The FCA's conduct of business regulations
Directions Hearing	A short court hearing at which the High Court makes procedural orders with regard to the Transfer, in particular in relation to communications with policyholders. The Directions Hearing for this Transfer took place on 15 October 2018
Effective Date	00.01 (GMT) on 7 February 2019, except for accounting purposes where it will be assumed that the Transfer took place on 1 January 2019
EU	European Union
FCA	Financial Conduct Authority, the conduct regulator for financial services firms and financial markets in the United Kingdom
FRC	Financial Reporting Council
FSCS	The UK Financial Services Compensation Scheme
German Bond Business	Business written in Germany by RLMIS
German Bond Reinsurance Agreement	A reinsurance agreement whereby the German Bond Business will post-Transfer be 100% reinsured back to the RL Main Fund
German Bond Sub-Fund	A ring fenced closed fund of Royal London DAC into which the German Bond Business is to be transferred,
Her Majesty's Revenue and Customs	The UK's tax, payments and customs authority
High Court	The High Court of Justice of England and Wales

Independent Expert	It is a requirement that when a Scheme is submitted to the High Court for approval, it is accompanied by a report from an independent expert. The independent expert for this Scheme is Tim Roff, a Partner in Grant Thornton UK LLP, who has produced a main report and a supplementary report on the Transfer.
Instrument of Transfer	The Instrument of Transfer pursuant to section 86 of the Friendly Societies Act 1992 under which the life and pensions business and related assets and liabilities of the Royal Liver Assurance Limited business were transferred into the Royal Liver Sub-Fund
IRC	Irish Revenue Commissioners
Ireland Liver Business	Business originally written in Ireland by: a. Royal Liver Assurance Limited, Caledonian Life and Irish Life Assurance plc, subsequently transferred to RLMIS on 1 July 2011 by way of a scheme of transfer under Section 86 of the Friendly Societies Act 1992; and b. GRE Life Ireland Limited, a subsidiary of Royal Liver Assurance Limited which became a subsidiary of RLMIS on the transfer described in a. above, subsequently transferred to RLMIS on 1 July 2012 by way of a scheme of transfer under the Assurance Act 1909 and European Communities (Life Assurance) Framework Regulations 1994.
Liver Ireland Sub-Fund	A ring fenced fund of Royal London DAC into which the Ireland Liver Business is to be transferred
Liver Reinsurance Agreement	A reinsurance agreement whereby the Ireland Liver Business will post-Transfer be 100% reinsured back to the Royal Liver Sub-Fund
Main Report	My report dated 3 October 2018 for the Board of RLMIS considering the likely impact of the Scheme transferring part of the long-term business of RLMIS to Royal London DAC
Non-transferring Liver Sub-Fund Business	The business of the Royal Liver Sub-Fund which is not transferring under the Scheme
Other Closed Funds	The closed funds of RLMIS other than the Royal Liver Sub-Fund, namely the RL (CIS) Fund, PLAL Fund, Scottish Life Fund, Refuge Assurance Industrial Branch Sub-Fund, United Friendly Ordinary Branch Sub-Fund and the United Friendly Industrial Branch Sub-Fund
Part VII Transfer	An insurance business transfer under Part VII of the Financial Services and Markets Act 2000
PPFM	Principles and Practices of Financial Management document
PRA	Prudential Regulation Authority, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the United Kingdom
ProfitShare	An allocation of part of the operating profits of RLMIS by means of a discretionary enhancement to asset shares and unit fund values of eligible policies

Reinsurance Agreements	The Liver Reinsurance Agreement and the German Bond Reinsurance Agreement.
RL Ireland Protection Business	Protection business written in Ireland by RLMIS through its local branch since 1 July 2011
RL Main Fund	The Royal London IB & OB Sub fund, the fund of RLMIS into which new business is written
RLMIS	The Royal London Mutual Insurance Society Limited
RLMS	Royal London Management Services, a service company that is a wholly owned subsidiary of RLMIS
Royal Liver Business	Ireland Liver Business and Non-transferring Liver Sub-Fund Business
Royal Liver Sub-Fund	A ring fenced closed fund of RLMIS to which the Royal Liver Business is allocated.
Royal London DAC	Royal London Insurance Designated Activity Company
Royal London DAC Open Fund	A fund of Royal London DAC into which new business is written and the RL Ireland Protection Business is to be transferred
Scheme	A scheme of transfer of part of the long-term business of RLMIS to Royal London DAC
Security Agreements	Fixed and Floating charges supported by collateral framework agreements as established by RLMIS and Royal London DAC
Solvency II	Solvency II sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure. Solvency II came into force on 1 January 2016
Supplementary Report	This report
Transfer	The transfer of part of the long-term business of RLMIS to Royal London DAC
VAT	Value added tax