Chief Actuary Report of Scottish Equitable plc

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

Author: Leigh-Ann Plenderleith
Date issued: February 2024
Version: 08.00
Status: Final draft for Directions Hearing

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 risk transfer date of the transaction.

1.3. SE plc and Royal London are now 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 in my capacity as Chief Actuary of SE plc to review the likely impact of the proposed Transfer on the security, benefit expectations, servicing, governance, and communications of both those policyholders in scope of the proposed Transfer ("the Transferring Policyholders") and those policyholders remaining in SE plc post-Transfer ("the Remaining Policyholders").

1.5. The impact on existing policyholders within Royal London is covered in the report by the Chief 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 having been approved by the Prudential Regulation Authority ("PRA"), after consultation 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 With-Profits 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, which I consider to be a suitable date for the purposes of this report. I will provide an update on my conclusions in a Supplementary report prior to the 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 2002, and hold a Chief Actuary (Life) Practising Certificate issued by the Institute & Faculty of Actuaries. I have over 23 years of experience working in the UK life assurance industry, including 4 years working for SE plc in my current role as Chief Actuary and Financial Strategy Director.

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 do not hold any shares in Aegon or have any other financial interest in Royal London.

1.12. My role 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 impact of the Scheme on policyholder benefit expectations, and on the security of those benefits.

Reliances

1.13. In preparing this Report, I have been provided with information from Royal London on the financial position and practices of Royal London, including pro forma estimates of the solvency position of Royal London post-transfer. I have also had access to Royal London management to discuss this information. I have reviewed this information for consistency and reasonableness using my knowledge of the UK life assurance industry but have not otherwise verified this information.

1.14. I have discussed certain key aspects of the post-Transfer plans of Royal London with members of the Royal London management team. These discussions covered plans relating to the provision of ongoing administration services, and Royal London's approach to areas of discretion which will continue to apply to the Transferring Policies post-Transfer.

1.15. I have read the Report prepared by Mr Stephen Makin, the Independent Expert appointed to consider and opine on the Scheme. I have considered his comments on the likely effect of the Scheme on the various policyholders and his conclusions.

1.16. I have read the Report prepared by Mr Alan McBride, the With-Profits Actuary of SE plc. I have considered his comments on the likely effect of the Scheme on the With-Profits policyholders of SE plc and his conclusions.

1.17. 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.

1.18. 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.

1.19. 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)

1.20. 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

1.21. This report has been prepared by Leigh-Ann Plenderleith 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

1.22. 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

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

- Section 2 sets out an executive summary of the key areas covered in the report and of my conclusions;
- Section 3 sets out some background information relevant to the proposed transfer, including a summary of the Risk and Capital Management Frameworks of SE plc;
- Section 4 sets out the likely effect of the Scheme on the financial position and risk profile of SE plc;
- Section 5 sets out the likely effect of the Scheme on the Transferring Policyholders;
- Section 6 sets out the likely effect of the Scheme on the Remaining Policyholders;
- Section 7 sets out the likely effect of the Scheme on other interested parties; and
- Section 8 sets out my conclusions.

2. Executive Summary

Background

2.1. On 4 April 2023 SE plc entered into an agreement to sell its individual protection book of business to Royal London, subject to completion of a scheme made pursuant to Part VII of the Financial Services and Markets Act 2000 for the transfer of the Transferring Policies from SE plc to Royal London.

2.2. 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. The sale of the protection book is aligned to implementation of the AUK strategy to simplify its business and narrow its focus to pensions and investments, helping improve customer propositions, service capabilities and digital experience in its chosen core markets.

2.3. The Transferring Policies are similar in nature to the existing protection business of Royal London. The acquisition of the Transferring Policies therefore provides Royal London with the opportunity to enhance economies of scale on their protection business.

The Impact of the Proposed Transfer

2.4. The proposed Transfer will not result in any changes to the terms and conditions of the Transferring Policies. In addition, areas of discretion affecting the Transferring Policies will continue to be managed in a similar way by Royal London post-Transfer as they are by SE plc pre-Transfer.

2.5. Policy administration post-Transfer will continue to be outsourced to Atos, under a new agreement between Royal London and Atos. Policy service standards under the new agreement will be broadly consistent with those of the existing contract between SE plc and Atos.

2.6. The proposed Transfer is not likely to have a material impact on the solvency ratio or risk profile of SE plc. The solvency ratio of SE plc will remain in its target zone post-Transfer. Likewise, the proposed Transfer is not likely to have a material impact on the solvency ratio or risk profile of Royal London. The solvency ratio of Royal London will remain above its target level post-Transfer.

2.7. There will be no material impact on the treatment of the Transferring Policies under Consumer Duty as a result of the proposed Transfer.

Communication of the Proposed Transfer

2.8. A comprehensive communication strategy has been developed by SE plc. Transferring Policyholders will be provided with details of the Transfer by way of a direct mailing and will have the opportunity to raise any objections to SE plc and in Court. It is proposed that the Remaining Policyholders will not be sent a direct mailing. However information relating to the proposed Transfer will be published on the AUK website and notice of the Transfer will be published in three national newspapers, the international edition of the Financial Times, and in each of the London, Edinburgh, and Belfast Gazettes (which is more than is required by the relevant regulations).

Conclusions

2.9. I have considered the likely impact of the proposed Transfer on the Transferring Policyholders and the Remaining Policyholders, taking into account the information shared with me by Royal London, and as set out in the Chief Actuary and With-Profits Actuary Reports of Royal London, and in the Independent Expert Report.

2.10. Based on these considerations, I am satisfied that the proposed Transfer will have no material adverse effect on:

- The benefit security, benefit expectations, or the administration and service standards of the Transferring Policyholders; and
- The benefit security, benefit expectations, or the administration and service standards of the Remaining Policyholders.

2.11. I am also satisfied that the proposed communication strategy is appropriate and proportionate and pays due regard to the needs of both the Transferring Policyholders and the Remaining Policyholders.

3. Background to the Proposed Transfer

3.1. 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.

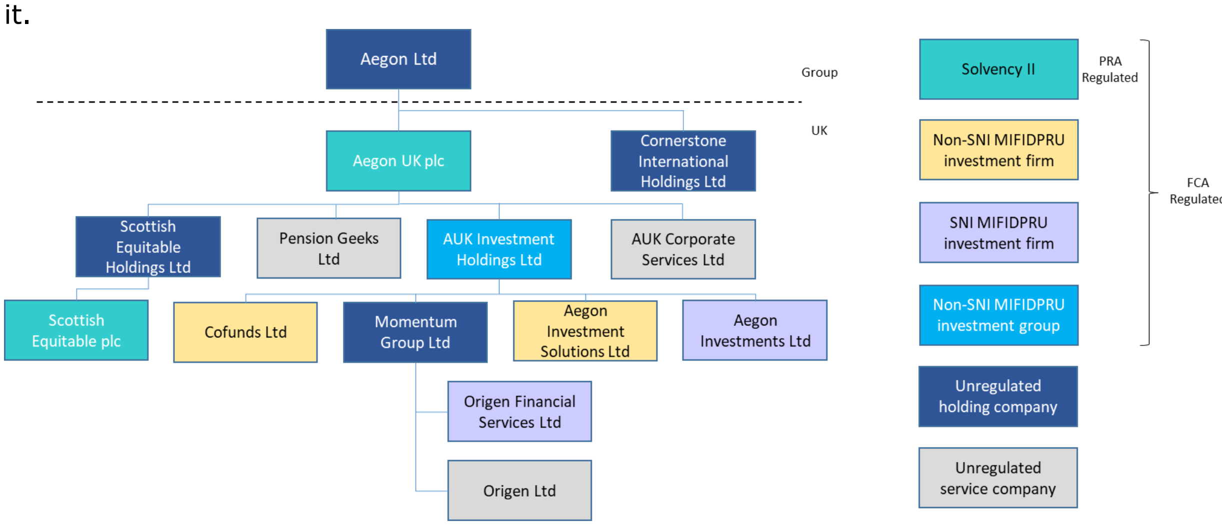
Overview of Scottish Equitable plc

3.2. 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.

3.3. 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.

3.4. 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.

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



3.6. 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.

3.7. 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.

3.8. 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.

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

3.10. 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.

3.11. 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.

3.12. 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.

3.13. At end Q2 2023 the capital coverage ratio of SE plc was 166%, within the Target Zone and above the Operating Level, each as set out in paragraph 3.54 of this report.

Overview of Royal London

3.14. 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.

3.15. 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.

3.16. 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.

3.17. 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 proposed 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).

3.18. 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.

3.19. 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.

3.20. 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.

3.21. 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

3.22. 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.

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

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

3.25. 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.

3.26. 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.

3.27. 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 have stated their intent to extend the reinsurance agreement to allow completion of the Scheme.

3.28. Should the delay in completion be due to failure of the Court to sanction the Scheme, SE plc and Royal London will agree whether to re-present the Scheme for approval. In the event the Scheme is re-presented for approval, the reinsurance agreement will be extended accordingly. In the event the Scheme is not re-presented, the Scheme will not complete, and the reinsurance agreement will be terminated as described in paragraph 3.26.

3.29. 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.

3.30. 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.

3.31. 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.

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

3.33. 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.

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

3.35. 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 3.26. 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.

Overview of the Transferring Policies

3.36. The Transferring Policies can be split into the following key product types, including both single and joint life policies:

- Life Protection (level or reducing);
- Stand-alone Critical Illness (level or reducing);
- Life Protection with Critical Illness (level or reducing);
- Income Protection;
- Family Income Benefit (which pays a monthly income for a limited period on death of the insured person);
- Critical Illness Family Income Benefit (which pays a monthly income for a limited period on the critical illness of the insured person);
- Life with Critical Illness Family Income Benefit (which pays a monthly income for a limited period on the death or earlier critical illness of the insured person);
- Life protection with tax relief; and
- Unemployment cover.

3.37. The following benefits were automatically included on individual protection business at the date of closure (although not all of the in-force business has all of these benefits): Guaranteed Insurability Options; Childrens Critical Illness Protection (with Critical Illness products); Terminal Illness Benefit; Life Replacement Option; Fracture Cover; Lump Sum Death Payment (with Income Protection only); and Joint-life Separation Option.

3.38. The following additional benefits and options are available: Waiver of Premium; Total Permanent Disability; Indexation Option; Legislation Option (on Gift Inter Vivos); Renewal Option.

3.39. SE plc's exposure to mortality and morbidity risk on its individual protection business is mitigated by external reinsurance arrangements. Reinsurance is generally on a 'quota-share' style basis under several treaties with large reinsurers, with key counterparties being Swiss Re, Pacific Life, RGA and Scor. Additional facultative reinsurance is employed on individual policies where benefits exceed quota-share limits. Existing reinsurance treaties are expected to transfer to Royal London under the terms of the Scheme.

3.40. On 4 April 2023 a new reinsurance agreement between SE plc and Royal London was put in place which transfers all of the risk on the transferring policies (net of 3rd party reinsurance) to Royal London with effect from 1 July 2022, the effective risk transfer date of the sale agreement. This agreement will terminate on completion of the Transfer as explained in paragraph 3.25.

3.41. The administration of the individual protection book has been outsourced to Atos since November 2012, with the current contract running to March 2029. The outsourcing arrangement includes provision of services relating to operations, underwriting and claims, IT, and service delivery. All core services provided under the outsourcing contract are subject to agreed service levels. Performance against these agreed services levels is tracked over time and monitored through an established joint governance framework.

3.42. Outsource risk on the book is managed via relationship management and ongoing oversight of the services being provided.

Overview of the SE plc Risk Management Framework

3.43. SE plc has a well-established Enterprise Risk Management Framework, underpinned by the 'three lines of defence' model:

- Accountability for managing risks and complying with the risk framework sits with the 1st line of defence (the business).
- The 2nd line of defence (the Risk Function) provides support to the business and independent oversight of compliance with the ERM framework.
- The 3rd line of defence (Audit) provides independent assurance over the risk management activities undertaken across the 1st and 2nd lines of defence.

3.44. The risk governance framework is represented across all levels of the organisation. This ensures a coherent and integrated approach to risk management throughout the company.

3.45. Policies to cover all material risk types are in place. These policies define the standards required to ensure that risks are managed in line with expectations and tolerance, including specific risk limits where appropriate. The annual policy attestation exercise assesses compliance with risk policies and provides a measure of effectiveness of related risk management processes.

3.46. The Model Validation Policy is a key element of the group wide Model Risk Management framework which is operated to ensure that the AUK Partial Internal Model (UK and EU) remains appropriate to measure risk exposure and hence risk capital in the business. Model validation involves the assessment of each model across a range of validation tests and standards as set out in the framework. This is conducted independently of the risk measurement calibration, which is derived by the model owners, and model owner testing.

3.47. The Group ERM framework is embedded into key functional areas. Risk considerations are taken into account in decision making, including but not limited to, business planning, capital planning and liquidity management, remuneration, and pricing and product development. Performance targets for remuneration are required to be sufficiently risk adjusted.

3.48. Risk Culture encompasses the general awareness, attitudes and behaviour of employees, management, and leadership towards risk, including how risk is managed within the organisation. To realise the objectives of the ERM framework, SE plc needs good risk management systems and controls, as well as a strong risk culture.

3.49. Risk appetite is set for the business, articulating its risk objectives and limits for key risks. This is articulated in the form of a Risk Appetite (the directional and core strategic view of risk) and the Risk Tolerance (setting out clear limits which are monitored against for solvency, liquidity, continuity, balanced exposures, business performance, sustainability, and effective controls).

3.50. Risks relating to SE plc are identified through Top-Down Risk Registers ('TDRRs') which are owned by the accountable executives of each functional area and their leadership teams, with oversight by the Risk function. The TDRRs provide a clear record of the most significant risks in the business and related actions to manage and mitigate the risk exposure.

3.51. The Risk Universe is deployed consistently throughout the ERM Framework as a common language in the identification, assessment, monitoring, and reporting of risks.

3.52. The Risk Management Framework is unaffected by the proposed Transfer.

Overview of the SE plc Capital Management Framework

3.53. SE plc is subject to the Aegon NV Group Capital Management Policy ("the Group Policy"), which is built around Capital Management Zones. These zones define a ladder of management intervention to trigger appropriate and timely adjustments to local capital plans and/or appropriate and timely execution of local management actions.

3.54. The Group Policy also requires business units to specify an 'Operating Level' of solvency at which the unit plans to generate capital to support remittances. This Operating Level must be well into the Target Zone and represents the unit's 'usual' level of capitalisation. For SE plc the default Operating Level is 150%.

3.55. The Capital Management Zones are reviewed annually within the framework provided by the Group Policy. The agreed Capital Management Zones for SE plc at end December 2023 are set out in the table below.

Capital Management Zone	Ratio	Goal	Description
Operating Level	150%		The usual level of capitalisation.
Target	>135%	Target Zone for executing strategy, and generating capital and remittances.	Business as usual, deploying capital in line with business plans. Execution of management actions may be required to offset negative one-off items or to avoid dropping into the Recovery Zone.
Recovery	100%-135%	Buffer to decrease probability of breaching SCR.	Primarily set to protect the local unit from breaching 100% SCR after the impact from a 1 in 10-year scenario. Execution of management actions is required, and remittances are suspended. The aim is to return to Target Zone within 12 months. If local management actions are insufficient to achieve this aim, Aegon NV will inject capital to restore the local unit to the top of the Recovery Zone/bottom of the Target Zone subject to Executive Board approval.
Regulatory plan	<100%	Insufficient capitalisation from a regulatory perspective.	Local regulatory Recovery Plan is required, bringing capitalisation back to the required regulatory level within the specifics of the local regulatory regime.

3.56. Any dividend payments out of SE plc are subject to a number of payment criteria which must be satisfied before being considered for approval by the Board. These criteria include confirmation that the capital position of SE plc is within the Target Zone and remains so following payment of the dividend.

3.57. The Capital Management Framework and dividend payment criteria are unaffected by the proposed Transfer.

SE plc Own Risk and Solvency Assessment

3.58. SE plc's Own Risk and Solvency Assessment ('ORSA') has the primary purpose of providing a holistic, inter-connected view of the business strategy, the risks to which the business is exposed and its capital levels. The ORSA supports the Board in considering whether the strategy is affordable through consideration of the level of policyholder protection in the business. Policyholder protection is primarily driven through capital adequacy testing under normal and stress scenarios.

Capital Structure of SE plc

3.59. SE plc has a simple capital structure consisting entirely of issued share capital. At end June 2023 100% of the eligible Own Funds was Tier 1 capital. Own Funds in the WPSF in excess of the WPSF Solvency Capital Requirement are not available to absorb losses in the remainder of the legal entity or group and are therefore subject to a 'haircut'. The effect of this haircut is that the excess of WPSF Own Funds over Solvency Capital Requirement is not included in the reported surplus of SE plc.

3.60. There will be no change to the capital structure of SE plc as a result of the Scheme.

4. Effect of the Scheme on the Financial Position and Risk Profile of SE plc

4.1. The sale of the individual protection business is aligned to the implementation of the AUK strategy to simplify its business and narrow its focus to pensions and investments, helping improve customer propositions, service capabilities and digital experience in its chosen core markets.

4.2. This section contains information on the financial position of SE plc before and after the proposed Transfer. This information is useful in providing some quantitative assessment of the impact of the proposed Transfer on the benefit security of Remaining Policyholders.

4.3. It also contains information on the impact of the proposed Transfer on the overall balance of risks policyholders are exposed to before and after the proposed Transfer. This information is relevant in gaining further understanding of how policyholder security of benefits will be affected by the proposed Transfer.

Background to Solvency Assessments in the United Kingdom

4.4. The current solvency regime, Solvency II, has applied to insurance business across Europe since its implementation in 2016. Following Brexit, the UK "onshored" the existing EU Solvency II regulations and has made some changes to derive the UK version of Solvency II. It is this version of Solvency II which applies to SE plc's regulatory reporting to the PRA.

4.5. Under Solvency II, insurance liabilities are valued using best estimate assumptions, plus an additional margin to allow for uncertainty. The Best Estimate Liability ("BEL") is the present value of the future cashflows expected to emerge on the insurance business, calculated using best estimate assumptions. The Risk Margin reflects the cost of holding additional regulatory capital against non-hedgeable risks. It is calculated using the cost-of-capital method. The BEL and Risk Margin together comprise the Technical Provisions.

4.6. Subject to approval, insurers are permitted to make an adjustment to their Solvency II balance sheet designed to spread the full effect of the implementation of Solvency II gradually, from the date of implementation, over a 16-year period. This adjustment is called the Transitional Measure for Technical Provisions ("TMTP"). SE plc does not include TMTP on its Solvency II balance sheet.

4.7. Solvency II Own Funds represent the difference between the value of an insurer's assets and its Technical Provisions.

4.8. Capital requirements under Solvency II are the higher of the Solvency Capital Requirement ("SCR") and the Minimum Capital Requirement ("MCR"). The MCR represents the regulatory minimum level of capital that must be maintained by the insurer. The SCR is designed to ensure that an insurer can continue to meet its liabilities in full, even following a severe adverse scenario that might only be expected to occur once every 200 years.

4.9. The SCR can be calculated using either the Standard Formula approach, as prescribed in the Solvency II regulations, or using an Internal Model designed to reflect the insurer's specific risk profile more accurately. The use of an Internal Model to calculate capital requirements is subject to Regulatory approval. SE plc calculates its SCR using the SE plc Partial Internal Model, with certain individual risks assessed under the Standard Formula.

4.10. The Solvency II surplus is the excess of Own Funds over and above the SCR. The Solvency Ratio is the ratio of Own Funds to SCR.

Solvency II position of SE plc pre and post-Transfer

4.11. In order to assess whether or not the security of policyholder benefits is materially affected by the Scheme, it is useful to compare the solvency position of SE plc before and after the proposed Transfer.

4.12. The Solvency II surplus provides a useful indicator of the immediate impact of the Transfer on the level of security provided to policyholders.

4.13. The impact of the Transfer on the solvency position of SE plc is shown 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, as referred to in paragraph 4.14 below. The impact has been calculated as at 30 June 2023, which I consider to be a suitable date for the purpose of assessing the impact of the Scheme on policyholder security.

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

4.14. At the end of June 2023, SE plc held approximately £6m of pre-tax, pre-diversification capital in respect of the Transferring Policies, including around £3m of counterparty default risk capital. This capital will be released in full on completion of the Transfer. The impacts set out in the table above include the post-tax, post-diversification release of this capital.

4.15. The impacts set out in the table above also include an allowance for 'stranded costs' which are operating expenses not removed on sale. These are instead reallocated in the capital model from the individual protection business to other product lines.

4.16. The proposed Transfer does not result in a material movement in the overall solvency position of SE plc, with a small reduction in Solvency II Surplus of c£11m, and a small increase in the Solvency Ratio of around 0.9%. The increase in Solvency Ratio reflects the relative size of the movements in Own Funds (a reduction of c£42m) and SCR (a reduction of £31m).

4.17. The Solvency Ratio remains in the Target Zone and above the Operating Level post-Transfer.

4.18. The solvency position of SE plc is estimated to have moved since 30 June 2023 to 30 September 2023 as shown in the table below. For the avoidance of doubt, the results at end September 2023 include the post-tax, post-diversification release of the capital referred to in paragraph 4.14 above.

£m	30 June 2023	30 September 2023	Change
Own Funds	1,920	1,948	28
SCR	1,152	1,166	14
Surplus / (Deficit)	768	782	14
Solvency Ratio	167%	167%	0%

4.19. I am not aware of any events since 30 June 2023 to the date of this report that would materially alter the assessment of the impact of the proposed Transfer based on the Solvency position of SE plc as at 30 June 2023.

4.20. I will continue to monitor the solvency position and risk profile of SE plc and will provide an update in a Supplementary Report prior to the final High Court Sanctions Hearing.

Impact of the Proposed Transfer on the Risk Profile of SE plc

4.21. Prior to 4 April 2023 and the implementation of the temporary reinsurance agreement with Royal London, SE plc was exposed to the following risks on the individual protection book of business:

- Mortality risk on the proportion of business retained under the existing reinsurance arrangements;
- Morbidity risk on the proportion of business retained under the existing reinsurance arrangements;
- Reinsurer counterparty default risk;
- Expense risk on outsourced administration costs and retained shared service costs. Expense risk can relate to the level of expenses, the trend of expenses over time, and the volatility of expenses;
- Persistency risk (noting that the directional impact of policy lapses on Own Funds can vary with policy duration due to the impact of reinsurance);
- Interest rate risk;
- Operational risk, including risk associated with outsourcing of administration services.

4.22. 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.

4.23. 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.

4.24. Prior to the sale, mortality, morbidity, and reinsurer counterparty default risks were each modelled using the Standard Formula. Expense, persistency, and interest rate risks were modelled on the SE plc Partial Internal Model. As at end Q3 2022, the total SE plc NPSF SCR covered by Standard Formula model was 2.6% of the total SE plc NPSF SCR. This is estimated to reduce to c1.3% post-Transfer, with the following Standard Formula risks reducing to zero: Life disability / morbidity; Life mortality; Life catastrophe; and Health risk.

4.25. 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.

4.26. 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.

4.27. 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, as referred to in paragraph 4.14 above.

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)**

5. Effect of the Scheme on the Transferring Policyholders

5.1. In this section I cover the likely effect of the Scheme on the Transferring Policyholders. In particular, I consider whether there is likely to be a material adverse effect on the interests of these policyholders, through changes to benefit security and benefit expectations, or administration and service standards.

Security of Policyholder Benefits

5.2. Following the implementation of the proposed Transfer, the obligation to meet benefit payments on the Transferring Policies will pass from SE plc to Royal London. The security of policyholder benefits could be materially affected if Royal London's ability to meet these benefit obligations as they fall due is materially lower than that of SE plc.

5.3. Having discussed the proposed Transfer with the Chief Actuary of Royal London, I understand that the transferring block of business will remain closed to new business and that the Transferring Policies will be placed into the Royal London Main Fund on implementation of the proposed Transfer. I further understand that the Transferring Policies represent a relatively small block of business compared to the Main Fund as a whole, and that the impact of the proposed Transfer on the solvency ratio and risk profile of the fund is modest.

5.4. There will be no changes to the Royal London capital management policy as a result of the proposed Transfer. As set out in the Chief Actuary Report of Royal London, the solvency ratio is expected to remain above the Royal London target range post-Transfer.

5.5. Mortality and morbidity risk on the Transferring Policies is substantially reinsured to third parties, serving to mitigate exposure due to deteriorating claims experience, or volatility in future claims experience. Each of the existing reinsurance arrangements applying to the Transferring Policies are expected to transfer from SE plc to Royal London under the Scheme. As set out in the Chief Actuary Report of Royal London, the risk profile of the Transferring Policies is similar to that of the existing protection policies of Royal London and the proposed Transfer is expected to have a minimal impact on the overall risk profile.

5.6. Taking each of the points above into consideration, I am satisfied that the likely effect of the proposed Transfer on the solvency position of Royal London is minimal, and that Royal London will be able to meet benefit obligations on the Transferring Policies with a high degree of certainty. I am therefore satisfied that the proposed Transfer will have no material adverse effect on the benefit security of the Transferring Policies.

5.7. Royal London has also confirmed to me that the level of protection currently provided to Transferring Policies through the Financial Services Compensation Scheme ("FSCS") will continue post-Transfer. This protection is relevant in the unlikely event of a future insolvency of Royal London.

Policyholder Benefit Expectations

5.8. Policyholder benefits under the Transferring Policies are defined by way of the sum assured payable on different claim events (e.g. death, disability, or illness). Under the terms of the proposed Transfer, there will be no changes to the benefits, or the terms and conditions, of the Transferring Policies. In particular, there will be no changes to the sums assured or to the claim events on which the sums assured are payable.

5.9. Any change in policyholder benefit expectation can therefore only arise through areas of discretion in the claims and pricing processes, should Royal London choose to apply materially different practices to those of SE plc. I have considered below the key areas where I expect discretion to continue to be applied to the Transferring Policies post-Transfer.

5.10. A change in claims underwriting standards could affect the likelihood of a claim being accepted or declined. Claims underwriting practices extend to the issues arising on a finding of a misrepresentation by the policyholder i.e. whether a reduced claim is paid or there is no claim payment at all, and whether premiums are refunded in circumstances where a claim is refused in full. There is already a large degree of consistency in the claim definitions and underwriting standards applied by different firms in the life insurance sector. This reflects the fact that reinsurance for all firms is generally provided by a relatively small number of well-known and well-established reinsurers, driving consistency industry-wide in overall claims underwriting processes and practices. During the transaction due diligence phase, Royal London reviewed the claims underwriting practices and processes adopted in SE plc, including the documented claims philosophy and the reinsurer audits of historic claims. Royal London has advised me that this process did not identify any material differences in the claims philosophy and claims evidencing requirements between SE plc and Royal London. Royal London has also advised me that it intends to monitor claim payout ratios and claim patterns post-Transfer to identify any changes post-Transfer and to remediate as necessary. I am therefore satisfied that the claims underwriting standards applied by Royal London post-Transfer are likely to be materially unchanged from those applied by SE plc pre-Transfer, and that there will be no material adverse effect on Transferring Policyholders as a result.

5.11. There are a number of areas where the application of discretion in the overall pricing approach adopted by Royal London post-Transfer compared to that adopted by SE plc pre-Transfer could affect policyholder outcomes:

- **Renewal Options**. The Transferring Policies include 667 policies (at end June 2023) with a contractual right to renew at either the 5-year or the 10-year policy anniversary, with no further underwriting being required. The policy is re-priced at the point of renewal to reflect the increase in policyholder age, and premiums are therefore generally expected to increase as a result. The policyholder has the right to accept or decline the terms offered at the point of renewal. The pricing basis used on renewal is not specified in the policy terms and conditions, however renewal options have historically been priced on the new business pricing basis applicable at the point of renewal. The renewal option will remain unchanged post-Transfer i.e. Royal London will continue to offer the option to renew and will price this option on a basis that is consistent with SE plc's current approach.

- **Reviewable Premiums**. Some Transferring Policyholders have elected to have reviewable premiums on their policy. Where this is the case, premiums are reviewed on the fifth policy anniversary, and every five years thereafter, taking into account changes in relevant pricing factors. The factors which can be taken into account are set out in the policy terms and conditions, and do not extend to any change in personal circumstances of the policyholder. The level of premium payable on review will not result in a higher level of profit than that expected at the point of sale. On review, the premiums payable under the policy can increase, decrease, or stay the same. Where the review results in an increase in premiums, the policyholder can choose to pay the higher premium for the same level of benefit; maintain the current premium in return for a lower level of benefit; or cancel the benefit. At end June 2023 11,234 of the Transferring Policies had reviewable premiums. The reviewable premium option will remain unchanged post-Transfer, and Royal London will continue to calculate reviewable premiums when the proposed Transfer takes effect in a similar way to the way in which they were calculated pre-Transfer.
- **Benefit commutation**. Some Family Income Benefit policies provide for a level of income payable to beneficiaries on the death or serious illness of the life assured. Commutation of this income stream into a lump sum is an option often requested by beneficiaries. Payment of the lump sum is not contractual and is at SE plc's discretion, although any such requests are commonly granted. Any changes in the basis used to commute the income benefit into a lump sum, or the application of discretion to grant payment of the lump sum in place of the income stream, could affect the benefit expectations of Transferring Policyholders with these policies. Royal London has confirmed it will continue to accommodate requests to commute benefits post-Transfer and will continue to price such commutations in a similar way to the way in which they were priced pre-Transfer.
- **Guaranteed Insurability Option**. A Guaranteed Insurability Option (GIO) applies to most Transferring Policies. The GIO allows policyholders to increase the level of benefit under existing policies following any of a number of life-changing events, without further medical underwriting. Life-changing events are listed in the relevant policy terms and conditions. Should the policyholder elect to increase existing benefits under the GIO, the policy is re-priced such that the premium payable is the same as the premium a new policyholder would be expected to pay for the same level of benefit. Any changes in the pricing basis over time could therefore affect the level of premium payable by the policyholder on application of the GIO. Royal London has confirmed it will continue to offer GIO, in line with the terms and conditions of Transferring Policies, and that it will continue to price this option when the proposed Transfer takes effect in a similar way to the way in which it was priced pre-Transfer.
- **Change in smoker status**. SE plc underwriting processes allow for a change in policyholder smoker status during the term of the policy, from smoker to non-smoker, where a policyholder has not smoked for a period of at least 12 months. Royal London has confirmed that it will continue to offer this option to policyholders post-Transfer.

5.12. In each case highlighted in paragraph 5.11 above, I have set out my understanding of the way in which discretion will be applied post-Transfer. In forming this understanding, I have relied on information in the Chief Actuary Report of Royal London; on information confirmed to me in writing by the management team at Royal London; and on the evidence provided by Royal London to the Independent Expert and summarized in his report. Based on this understanding, I am satisfied that the application of discretion to the Transferring Policies will not result in any material adverse effect on Transferring Policyholders.

5.13. Pricing bases are commercially sensitive and private to individual firms. Pricing bases will change over time as each firm's own view of key economic and demographic factors changes. It is inevitable that the pricing bases applied by Royal London post-Transfer will differ from the bases that would have been applied by SE plc had the transfer not taken place. However I have no reason to believe that any such difference would necessarily result in policyholder detriment, and I am satisfied, based on the evidence provided to me, that there will not be a material adverse effect on Transferring Policyholders from the pricing approach adopted by Royal London post-Transfer.

Taxation

5.14. The Transferring Policies consists of business written pre-1 January 2013, which is taxed on a BLAGAB basis, and post-1 January 2013, which is taxed on the basis of trading profits at the corporation tax rate.

5.15. There is a small block of c4,000 policies included in scope of the Transfer which are life cover protection policies sold under the rules of the Scottish Equitable Personal Pension Scheme, and which therefore benefit from tax relief at source on the life policy premiums (the "Life Protection with Tax Relief" or "LPTR" policies). The value of the tax relief over the remaining run-off of these LPTR policies is estimated to be £2m.

5.16. The Scheme provides for continuity with respect to the tax relief at source position. The Court will be asked to grant an ancillary order that provides continuity of this benefit. Royal London has informed HMRC of the Scheme and of the intention to continue to claim tax relief on the LPTR policies post-Transfer in line with the proposed provisions of the order and the Scheme. I understand from Royal London that HMRC has not raised any objection to this. Royal London has confirmed to me that, should HMRC reject its claim for the relevant tax relief on the LTPR policies post-Transfer, Royal London will self-fund the cost of tax relief on the LTPR policies in order to ensure there is no material adverse effect on policyholders.

5.17. I do not expect any impacts from taxation on non-LTPR Transferring Policies.

5.18. I am therefore comfortable that there is no material adverse effect on any Transferring Policyholder from the impacts of taxation due to the proposed Transfer.

Administration and Service Standards

5.19. Administration services on the Transferring Policies are currently provided by Atos under an outsourced service agreement with SE plc which has been in place since 2012. This agreement extends to 2029 but will terminate on completion of the proposed Transfer as described in paragraph 3.28.

5.20. All core services provided under the agreement are subject to agreed service levels. Performance against agreed services levels is tracked over time and monitored through an established joint governance framework.

5.21. Royal London have put in place a new contract with Atos which will take effect from the date of the Transfer, under which Atos will continue to provide administration services on the Transferring Policies. Royal London has confirmed that the scope of the services to be provided by Atos and the target service levels, as defined in the agreement between Atos and Royal London, will immediately following the proposed Transfer be equivalent to those in place under the current agreement between Atos and SE plc in all material respects.

5.22. Under the proposed terms of the agreement the target answer times for incoming phone calls and the acceptable proportion of policyholders who abandon their call before it is answered will change:

- Time to answer. Pre-transfer there is a target for ATOS to answer around 80% of calls within 20 seconds (for claims) or 45 seconds (for general servicing). Post-transfer, Royal London intend to increase this to 150 seconds across both claims and servicing.
- Call abandonment. Pre-transfer, ATOS are required to target a maximum call abandonment rate of 2% (servicing), 2.5% (agency) or 4.5% (claims). Post-transfer, Royal London intend to set a single target rate of 6% across all servicing and claims.

5.23. I have considered the proposed changes to both the target answer time and the acceptable abandonment rate, and do not consider these likely to have a material adverse effect on Transferring Policyholders. In reaching this view, I have considered Royal London's proposals against industry benchmarks, as well as the targets Royal London have in place for existing customers.

5.24. There are no other changes proposed to pre-Transfer target service levels.

5.25. 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. In the event that the financial position of Atos SE deteriorates in such a way as to impact the ability of Atos to administer and service the Transferring Policies, either before or after the proposed Transfer, SE plc and Royal London each have contingency plans in place to ensure continuity of servicing is maintained. I therefore do not expect there to be a material adverse effect on servicing standards for the Transferring Policies as a result of the proposed Transfer, provided that the contingency plans of SE plc and Royal London are appropriate. I will continue to monitor the situation and will provide an update in my supplementary report to the sanctions hearing, including any relevant comments on the merits of the respective contingency plans of SE plc and Royal London.

5.26. Additional support services are provided to Transferring Policyholders through SE plc's 'Policy Plus'. These services include second medical opinions, health and well-being support, and key-person replacement. Policy Plus contracts will be novated to Royal London to ensure services continue to be available to Transferring Policyholders post-Transfer.

5.27. Taking each of the points above into consideration and having reviewed the proposed changes in target service levels, I am satisfied that the proposed Transfer will not result in any material adverse effect on the administration and service standards for the Transferring Policies.

Governance

5.28. Following a review of Royal London's interpretation of Consumer Duty and its plans for application of this to the transferring policies, the SE plc Consumer Duty Project Lead has confirmed that Royal London's interpretation of the Consumer duty is in line with SE plc's and that, in his opinion, the treatment of Transferring Policyholders under Consumer Duty will not change materially as a result of the proposed Transfer. On this basis, I am comfortable that the treatment of Transferring Policyholders under Consumer Duty will not change materially as a result of the proposed Transfer.

5.29. Based on the information provided by Royal London to the Independent Expert, and as summarised in his report, I am satisfied that SE plc and Royal London have materially similar governance structures in place. In particular, both operate similar Board committees, and both have in place an Internal Audit Function, an Actuarial Function, a Risk Management Function, and a Compliance Function, as prescribed under the Solvency II Framework. I am therefore satisfied that the proposed Transfer is not likely to have a material adverse effect on the governance of the Transferring Policies.

Policyholder Communications

5.30. A detailed communication strategy, and a plan to deliver it, have been produced. The communications package includes a direct mailing to all Transferring Policyholders, with a small number of exceptions, comprising a policyholder letter and explanatory booklet (known as the Transfer guide). The communications package also includes press adverts to be published in three national newspapers, the international edition of the Financial Times, and in each of the London, Edinburgh and Belfast Gazettes; specific content to be hosted on the Aegon UK website; a detailed Q&A document; and a summary of the Report of the Independent Expert.

5.31. SE plc has carried out a policyholder tracing exercise with Experian in advance of the planned mailing to validate existing address details, and to try and obtain up to date address details for each policyholder who may have changed address without informing SE plc. Policyholders with business addresses were excluded from the tracing exercise, as Experian are unable to validate or trace business addresses.

5.32. Approximately 433,000 customer records were sent to Experian, of which 76,316 were found to have a forward address flag, indicating a potential change of address. Experian were asked to perform a 'SuperTrace' on these 76,316 records, the results of which showed:

- 17,072 policyholders for whom the current address held on record is the best match for that policyholder.

- 56,045 policyholders who have changed address, and for whom new address details meeting SE plc's reliability criteria have been supplied. These updated address details will be used for the purposes of the Part VII mailing.
- 3,199 policyholders who may have changed address, and for whom potential new address details have been provided. SE plc intends to write to each of these policyholders to verify the new address. Where it is unable to verify the new address, the Part VII mailing will be sent to the current address held on record.

5.33. The address details of the vast majority of the remaining policies were found to be of good quality. Around 1,400 policies had address details which were found to be of poorer quality, but for which further use of Experian services would be unlikely to provide more reliable details. There remain 2,485 known gone-away policyholders to whom the Part VII mailing will not be issued. This represents c0.6% of the Transferring Policyholder population.

5.34. Taking the points above into account, I am comfortable that SE plc has made reasonable efforts to improve the quality of the address information it holds on record and note that the tracing exercise should lead to a significant improvement in the effectiveness of the policyholder Part VII mailing exercise.

5.35. An application is being made to the Court for a waiver from the requirement to undertake a direct mailing to all SE plc policyholders. Approval of the waiver application will mean that a small proportion of the Transferring Policyholders and all of the Remaining Policyholders will not be sent a direct mailing from SE plc about the proposed Transfer. I have reviewed the rationale for the waiver application, as set out in the Communication Strategy of SE plc on the proposed Transfer and am comfortable that it is appropriate and proportionate and will not materially disadvantage any Transferring Policyholder.

5.36. I have reviewed the overall communications strategy, including each item in the communications package, and note the review of these carried out by both the Independent Expert and the Regulators. I am comfortable that the overall communication strategy is appropriate, that the individual documents themselves are clear and consistent and have been drafted taking into account the guidance set out in FG 22/1 and are consistent with the principles pertaining to the fair treatment of customers and the Consumer Duty.

6. Effect of the Scheme on the Remaining Policyholders

6.1. In this section I cover the likely effect of the Scheme on the Remaining 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

6.2. The Transferring Policies comprise the entire individual protection book of SE plc, which have been written exclusively in the NPSF. The remaining policies of SE plc comprise unit-linked individual and group pension policies and investment bonds; a small book of group protection claims-in-payment (126 policies at end 2022); traditional with-profits policies; unit-linked whole of life policies; and conventional pension annuity policies in payment.

6.3. The proposed Transfer will not result in any change to the terms and conditions of any remaining policies and does not affect any of the policies in the WPSF. The SELAS Scheme of demutualisation sets out certain requirements for the management of the NPSF and WPSF and the interaction between them. The SELAS scheme and the application of it are unaffected by the Transfer.

Security of Policyholder Benefits

6.4. Section 4 of this report sets out the impact of the proposed Transfer on the Solvency II position of SE plc. 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.

6.5. Section 4 of this report also sets out the likely impact of the proposed Transfer on the risk profile of SE plc. The proposed Transfer leads to a reduction in the overall risk exposure of the remaining policies of SE plc with the removal of certain risks relating to the Transferring Policies, and a change in the nature of the exposure to residual expense risk. The impact of these changes has been assessed using the SE plc Partial Internal Model. The proposed Transfer does not lead to a material loss of diversification benefits and therefore does not lead to a material increase in the Solvency Capital Requirement on the remaining policies.

6.6. The application of the Capital Management Framework of SE plc, the Risk Management Framework, and the dividend payment criteria are each unaffected by the proposed Transfer.

6.7. The proposed Transfer will not lead to any changes in the formal governance arrangements applying to SE plc.

6.8. Taking each of the points above into consideration, I am satisfied that the proposed Transfer will not lead to any material adverse effect on SE plc’s ability to meet its liabilities as they fall due, and therefore that there will be no material adverse effect on the benefit security of Remaining Policyholders.

Policyholder Benefit Expectations

6.9. The cost of the proposed Transfer and the associated expenses incurred by SE plc will be borne in full by the shareholders of Aegon UK. There will be no impact on policy pricing as a result of these expenses, and therefore no impact on the benefit expectations of Remaining Policyholders.

6.10. Policyholder benefits under unit-linked policies are determined by the charging structure on the policy, the choice of unit-linked funds in which the policy is invested, and the investment performance of those funds. The proposed Transfer will have no impact on any of these factors, and unit-linked policyholder benefit expectations are therefore unaffected by the proposed Transfer. The level of benefits payable on policies in the WPSF depends on a number of factors, including price, investment performance, and bonus distribution through reversionary and terminal bonus rates. The investment strategy of the WPSF, the methodology used in setting bonus rates, and pricing of WPSF policies are entirely unaffected by the proposed Transfer, and therefore WPSF policyholder benefit expectations are also unaffected.

6.11. The level of benefits payable on group protection claims-in-payment policies and pensions annuity policies is defined, and benefit expectations of the respective Remaining Policyholders is unaffected by the proposed Transfer.

6.12. I am therefore satisfied that the proposed Transfer will result in no material adverse effect on the benefit expectations of any Remaining Policyholders.

Taxation

6.13. There are no tax implications of the proposed Transfer for the Remaining Policyholders.

Administration and Service Standards

6.14. Administration services on the Transferring Policies are provided by way of an outsourced administration agreement with Atos. The group protection claims-in-payment policies are administered under the same outsourced agreement.

6.15. The administration of an older block of unit-linked pensions and investment bonds (the "traditional business") is also provided by Atos but is subject to a separate 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.

6.16. The remaining business of SE plc is administered in-house.

6.17. SE plc intends to serve notice to terminate the outsourcing agreement with Atos covering the Transferring Policies and the group protection policies once a new contract between Atos and Royal London has been put in place. Responsibility for servicing the Transferring Policies will pass to Royal London. An alternative administration solution will be required for the group protection claims-in-payment policies. SE plc intends to negotiate an amendment to the traditional business outsourcing agreement with Atos to bring the group protection policies into scope. Through this process SE plc will seek to ensure that the service levels in place for group protection policies are maintained. Should SE plc be unable to negotiate such an arrangement with Atos, it will effectively recapture the administration of these policies itself. I will consider this point further in my Supplementary Report by which time I expect this matter to have concluded.

6.18. There are no other impacts from proposed Transfer on the administration arrangements currently applying to any other remaining policies. The traditional business outsourcing arrangement is unaffected (subject to the negotiation point on group protection set out above) and will remain in place. The administration of all other remaining policies will continue to be carried out in-house by SE plc.

6.19. The provision of shared services falling outside any outsourcing arrangements will continue unaffected by the proposed Transfer.

6.20. 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 Remaining Policyholders.

Policyholder Communications

6.21. 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.

6.22. An application is being made to the Court for a waiver from the requirement to undertake a direct mailing to the Remaining Policyholders. The rationale for this waiver is set out in the Communication Strategy of SE plc on the proposed Transfer.

6.23. As described above, the proposed Transfer will have no material impact on any remaining policyholder 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 is reasonable and proportionate.

Conclusions

6.24. Based on the analysis undertaken and summarised above, I consider that the Remaining Policyholders of SE plc will not be materially adversely affected by the proposed Transfer. In presenting this conclusion I note in particular:

- That the analyses and results discussed in this section demonstrate that SE plc's solvency position will be materially unchanged following the proposed Transfer, and hence its ability to meet all future liabilities as they fall due is unaffected.
- The existing SE 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 policyholder benefits will remain secure post-Transfer.

- Policyholder benefit expectations are unaffected by the proposed Transfer.
- Administration arrangements for the remaining policies are unaffected by the proposed Transfer, with the exception of the group protection claims-in payment policies. I am comfortable that the alternative administration arrangement being considered for this book is appropriate given the relevant expertise already resides within Atos. I am also comfortable that services levels on this book will be maintained in the event that a backup plan is required, not least given the size of the book in question.

6.25. Further commentary on the solvency assessments and risk profile considerations that have been discussed in this Section are contained in the Independent Expert's report. Further commentary on the assessment of the impact on the WPSF and its policyholders is contained in the With Profits Actuary Report of SE plc.

7. Effect of the Scheme on Other Interested Parties

AUK Staff Retirement and Death Benefit Scheme

7.1. The AUK Staff Retirement and Death Benefit Scheme (the “DB Scheme”) is a defined benefit pension scheme of AUK plc. The DB Scheme closed to new members in 2003 and subsequently closed to all future benefit accrual in 2013. At end Q2 2023, the DB Scheme had a small deficit on the Trustee funding basis.

7.2. As the Principal Employer, AUK plc is liable for the cost of funding deficit reduction contributions to the DB Scheme. However, SE plc is the principle holding of AUK and therefore the main source of funds to allow AUK to meet its funding obligations to the DB Scheme.

7.3. Any material weakening of the financial strength of SE plc post-Transfer could therefore result in a weakening of the employer covenant, and in extreme, AUK being unable pay future contributions to the Scheme. However, having reviewed the impact of the Scheme on the financial position of SE plc, I am satisfied that the Scheme will not result in any adverse impact on the benefit security or benefit expectations of members of the DB Scheme.

8. Conclusions

8.1. I have considered the likely impact of the proposed Transfer on the Transferring Policyholders and the Remaining Policyholders, taking into account the information shared with me by Royal London, and as set out in the Chief Actuary and With-Profits Actuary Reports of Royal London, and in the Independent Expert Report.

8.2. Based on these considerations, I am satisfied that the proposed Transfer will have no material adverse effect on:

- The benefit security, benefit expectations, or the administration and service standards of the Transferring Policyholders; and
- The benefit security, benefit expectations, or the administration and service standards of the Remaining Policyholders.

8.3. I am also satisfied that the proposed communication strategy is appropriate and proportionate and pays due regard to the needs of both the Transferring Policyholders and the Remaining Policyholders.

Leigh-Ann Plenderleith

AUK Chief Actuary

February 2024