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PHOENIX LIFE LIMITED

Proposed Scheme to transfer the German, Icelandic and Irish business of Phoenix Life Limited to Phoenix Life Assurance Europe DAC

Report by the Chief Actuary on the impact of the Scheme on Policyholders of Phoenix Life Limited

30 June 2022

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1. INTRODUCTION

1.1. Purpose and Scope of Report

The purpose of this report is to describe the impact of a proposed scheme under Part VII of the Financial Services and Markets Act 2000 ("FSMA") and an Irish Portfolio Transfer under Section 13 of the Assurance Companies Act 1909 on the policyholders of Phoenix Life Limited ("Phoenix").

Under the UK scheme (the "UK Scheme") the German, Icelandic and Irish business of Phoenix, together with the Swedish, Norwegian and German business of ReAssure Life Limited ("RLL") will transfer to Phoenix Life Assurance Europe Designated Activity Company ("PLAE").

The direct Irish business within Phoenix sits in a third country branch ("TCB"), an application will also be made to the High Court of Ireland to transfer the direct Irish business under the Irish Portfolio Transfer legislation (the "Irish Scheme").

The UK and Irish Schemes are referred to as the "Scheme" within this report.

This report describes how the Scheme is expected to affect the security of benefits and the reasonable benefit expectations of policyholders of Phoenix, both those transferring to PLAE and those remaining in Phoenix. It also sets out how the Scheme is consistent with the requirements to treat customers fairly.

This report is written for the Phoenix Board in my capacity as Chief Actuary for Phoenix. As well as the Board, this report may be used by the Phoenix With-Profits Committee ("WPC"), the Independent Person, the High Court, the High Court of Ireland, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Central Bank of Ireland ("CBI") and any overseas regulators and courts in forming their own judgements about the Scheme.

A report on the Scheme has been prepared by Phoenix's With-Profits Actuary for the affected with-profits funds ("WPF"s), and is included in Appendix A. The With-Profits Actuary's' report assesses the impact of the Scheme from the perspective of with-profits policyholders in Phoenix's WPFs.

An Independent Person, who is a qualified actuary with experience in business transfers, has also prepared a report, which considers the Scheme and its effects on the policyholders of Phoenix and RLL.

During the preparation of this report, I have considered the content of the reports prepared by both the Independent Person and Phoenix's With-Profits Actuary and am supportive of their conclusions. There is nothing in their reports that represents a difference of substance from the views expressed in this report.

I will prepare a supplementary report ahead of the Sanctions Hearings.

Unless otherwise defined in this report, words and phrases used in this report have the same meaning attributed to them in the Scheme.

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1.2. Status

I am a Fellow of the Institute and Faculty of Actuaries. I was appointed as Actuarial Function Holder of Phoenix on 30 July 2010 and I became the Chief Actuary when changes were introduced to the regulatory regime on 1 January 2016.

I am an employee of Pearl Group Management Services Limited, which is a wholly owned subsidiary of Phoenix Group Holdings plc ("PGH"), the ultimate parent company of Phoenix. I do not directly hold any policies with the companies impacted by the Proposed Scheme, but I have benefits under a defined benefit pension scheme which the trustees of the scheme have secured through a buy-in transaction with Phoenix. I currently own a number of PGH shares and have options on further shares.

I confirm that I have not considered my personal interest in reaching any of the conclusions detailed in this report.

1.3. Technical standards

This report and the underlying preparation work that has been carried out is in my opinion compliant with the relevant Technical Actuarial Standards issued by the Financial Reporting Council that apply to certain types of actuarial work, namely TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance.

In my opinion there has been an appropriate level of review in the production of this report and that it is compliant with the requirements of Actuarial Profession Standard X2 as issued by the Institute and Faculty of Actuaries.

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2. EXECUTIVE SUMMARY AND CONCLUSION

The business that is proposed to be transferred from Phoenix to PLAE comprises:

- Business originally written in Ireland that has transferred to Phoenix via various historic Part VII Schemes and is currently within an Irish TCB. This is a mix of mainly unit-linked savings, protection, and annuities in payment within the non-profit fund, and mainly pension and protection business split across 4 of the WPFs of Phoenix; and,
- German and Icelandic non-profit protection business.

The business transferring from the WPFs will be reinsured back to Phoenix, as will the investment elements of the Irish unit-linked business.

At the same time RLL will transfer its unit-linked Swedish and Norwegian business and its German critical illness business to PLAE, and reinsure back to RLL the investment elements of its Swedish and Norwegian unit-linked business.

It is intended that the High Court of England and Wales will be asked to sanction the transfer at a hearing on 18 October 2022 and the Irish High court on 1 November 2022 (the "Sanctions Hearings"). The proposed Scheme "Effective Date" is 1 January 2023.

In my opinion as Chief Actuary, taking into account the advice and opinions set out in this report, no class of Phoenix policyholder will be materially adversely affected by the implementation of the Scheme and associated reinsurance. In particular,

- The transfer will not adversely affect, to any material extent, the interests or the security of the benefits of the transferring policyholders and the benefit expectations of transferring policyholders; and
- The security of benefits and the benefit prospects of the non-transferring non-profit and with-profits Phoenix policyholders are not materially adversely affected by the transfer.

I also believe that the Scheme is consistent with Phoenix's obligation to treat customers fairly and there should be no adverse effect on the levels of service provided to policyholders.

My opinion is based on the assumption that for the Scheme to become effective the below must be satisfied:

- Authorisation of PLAE by the CBI will have been received prior to the Sanctions Hearings;
- PLAE's capital policy will have been approved by the Board of PLAE in the form currently proposed;
- Both the High Court of England and Wales, and the High Court of Ireland will approve the respective Schemes for the Schemes to become effective;
- PLAE will be appropriately capitalised in line with the requirements set out in the Scheme, prior to the Scheme becoming effective;
- The proposed reinsurance and security arrangements that will have been entered into are substantially as described in 4.3 below; and
- PLAE enters into a Management Services Agreement ("MSA") with Standard Life Assets and Employee Services Limited ("SLAESL") (Irish Branch) .

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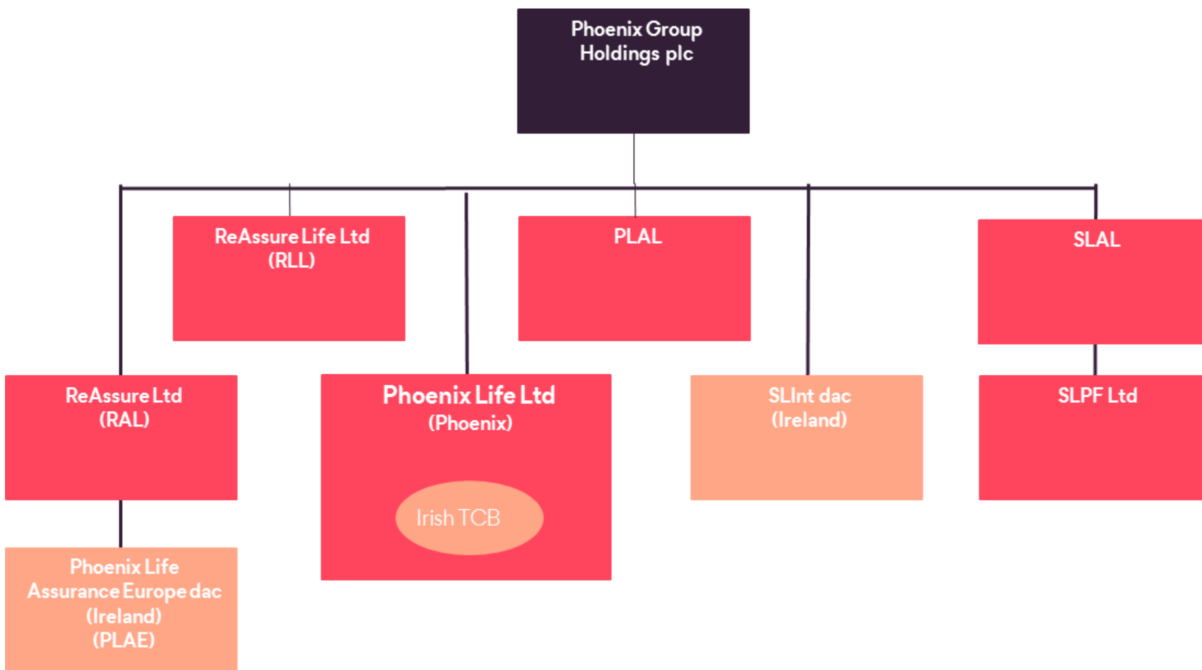
3. BACKGROUNDHistory of Phoenix

Phoenix traces its history back to 1971, when it was incorporated as Lloyds Life Assurance Limited. It was subsequently renamed Royal Heritage Life Assurance Limited ("RHL") after its acquisition by the Royal Insurance Group in 1985. RHL was renamed Royal & Sun Alliance Linked Insurances Limited in 1998 and the company's name was changed to Phoenix Life Limited in 2005.

Phoenix is a member of the Phoenix Group, which is headed by Phoenix Group Holdings plc. The Phoenix Group includes six active regulated UK life companies – Phoenix, Phoenix Life Assurance Limited ("PLAL"), ReAssure Limited ("RAL"), RLL, Standard Life Assurance Limited ("SLAL") and Standard Life Pension Funds Limited ("SLPF"), and two Irish regulated companies PLAE and Standard Life International DAC ("SLIntl") as shown in the simplified group structure diagram.

Diagram 1



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Phoenix has been involved in a number of Part VII schemes since 2005 including the schemes transferring business to Phoenix as shown below.

Table 1

Effective Date of Scheme		Long-term Insurance Business transferred to Phoenix *
31 December 2005	The Phoenix 2005 Scheme	Bradford Insurance Company Limited, Phoenix Assurance Limited and Swiss Life (UK) plc
31 December 2006	The Phoenix 2006 Scheme	Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited ("BULA"), Century Life plc and Phoenix Life & Pensions Limited
1 January 2009	The Phoenix 2009 Scheme	Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") ^
1 January 2011	The Phoenix 2011 Scheme	Phoenix & London Assurance Limited
1 January 2012	The Phoenix 2012 Scheme	NPI Limited and certain long-term insurance business of National Provident Life Limited
8 December 2017	The Phoenix 2017 Scheme	AXA Wealth Limited
31 December 2018	The Phoenix 2018 Scheme	Abbey Life Assurance Company Limited

* In all cases except in relation to National Provident Life Limited, the entire business of each company was transferred to Phoenix.

^ This transfer excluded certain protection policies of SMA and SPL which were transferred to The Royal London Mutual Insurance Society Limited in December 2008 under a separate scheme.

The Phoenix 2005 Scheme, and 2009 Scheme and the later Schemes set out various terms for the ongoing management of Phoenix's business.

3.2. Structure and Business of Phoenix today

The long-term insurance business within Phoenix is held within eleven sub-funds:

- The 100% With-Profits Fund (the "100% WPF");
- The 90% With-Profits Fund (the "90% WPF");
- The Alba With-Profits Fund (the "Alba WPF");
- The Britannic Industrial Branch Fund (the "BIB Fund");
- The Britannic With-Profits Fund (the "Britannic WPF");
- The Phoenix With-Profits Fund (the "Phoenix WPF");
- The SAL With-Profits Fund (the "SAL WPF");
- The Scottish Mutual With-Profits Fund (the "SM WPF");
- The SPI With-Profits Fund (the "SPI WPF");
- The NPI With-Profits Fund (the "NPI WPF"); and
- The Non-Profit Fund (the "NPF").

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The first ten funds listed above are WPFs and all are closed to new business and are in run-off. The NPF is maintained for accounting and operational purposes to allow Phoenix to identify its long-term insurance business which is not allocated to its WPFs. Since the introduction of Solvency II, there is no legal or regulatory requirement to maintain the NPF or to separate the business allocated to the NPF from the assets and liabilities of Phoenix which are not attributable to its long-term insurance business (referred to as the "Shareholders' Fund"). For reporting purposes under Solvency II, the Shareholders' Fund is combined with the NPF.

The business to be transferred under the Scheme is contained within the following funds:

- The **Alba WPF** comprises the business that was transferred from Alba Life to Phoenix in 2006. This includes business originally written by Britannia Life Limited, FS Assurance, Crusader Insurance and the Life Association of Scotland. The fund closed to new business in 1999. The business is mainly traditional with-profits life and corporate pension business. There is also some unitised with-profits business as well as non-profit deferred (some with guarantees) and immediate annuities.

- The **Phoenix WPF** comprises the business originally written by Royal Life Insurance Limited (subsequently renamed Royal & Sun Alliance Life and Pensions Limited) and transferred into Phoenix in 2006. The fund closed to new business in 2002. The business comprises mainly unitised with-profits pensions, non-profit deferred annuities, with-profits traditional endowments and traditional pension policies (most of which have guaranteed annuity options).

- The **90% WPF** comprises business transferred from Swiss Life (UK), including business written by Pioneer Mutual, and from BULA, including business written by Allianz Cornhill Insurance. The business mainly consists of conventional life with-profits, non-profit business and investment elements of unitised with-profits policies sitting in the NPF. There is a mix of Ordinary and Industrial branch business.

- The **SPI WPF** which comprises the business transferred to it from SPL in 2009. SPL contained an Irish branch where business was sold pre demutualisation in 2000. The operation of this fund contains certain special policyholder protections, which are included in the Phoenix 2009 Scheme. The fund consists mainly of traditional with-profits deferred annuities, endowments and unitised with-profits benefits under policies written in the NPF.

- The **NPF** holds a mix of annuity, conventional non-profit business as well as unit-linked. The fund for reporting purposes is split into a Matching Adjustment ("MA") and non-MA fund, where annuities in payment are in the MA fund. New annuities on vesting pensions from the WPFs are mainly set up in the NPF.

The approximate number of policies and best estimate liabilities ("BEL"), net of external reinsurance, in each sub-fund of Phoenix as at 31 December 2021 are shown in the table below.

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Table 2

Fund	Alba WPF	90% WPF	Phoenix WPF	SPI WPF	Other WPFs	NPF
Policies (000)	68	205	91	42	499	2,800
Net BEL (£m)	528	71	2,086	1,148	7,965	39,948

In total, Phoenix at 31 December 2021 had approximately 3.7 million policies in-force with total net BEL of £52 billion (with gross BEL of £61 billion).

3.3. Phoenix's Capital Policy ("PCP")

Under the terms of the Phoenix 2009 Scheme, Phoenix maintains a particular capital policy. The main objective of the policy is to ensure that the company can continue to meet the PRA's capital requirements in internally specified stress scenarios. The strength of the policy is a function of these scenarios.

The other objective of the policy is to govern the way in which shareholder support can be supplied to Phoenix's WPFs should they require it.

The current PCP takes account of the requirements as set out in the 2009 Scheme supplemented by additional measures that the Phoenix Board have set to help ensure the resilience of Phoenix's solvency position to different conditions.

The scenario testing is currently based on holding sufficient capital to be able to meet regulatory capital requirements after the more onerous of a 1 in 10 year event calibrated across all risks, or a shorter term event calibrated to a 1 in 20 level but only in respect of market risks.

This requirement is expressed as a percentage of the Solvency Capital Requirement ("SCR"), which is the amount of capital required to be held by insurance companies under Solvency II. The scenarios and percentage are reviewed from time to time to ensure that the capital policy continues to meet its objective. The percentage may thus change without affecting the strength of the capital policy.

As at the date of this report, the PCP requires Phoenix to hold capital equal to 37 percent of the SCR in addition to the capital necessary to meet the SCR itself. For those WPFs which are unsupported the additional capital is met by any surplus in the fund and allowance is made for management actions permitted within the PPFM. A supported fund would require support from the Shareholder via excess assets in the NPF to cover some of its capital requirement.

In addition, the PCP tests that:

- the capital held by Phoenix to meet two quality-based metrics covering;
    - following the more onerous of a 1-in-10 year all risk scenario or a 1 in 20 market risk scenario, the ability to maintain Matching Adjustment compliance in the stress conditions tested within the SCR; and
    - following a 1-in-200 year stress event, that the nature and quality of Phoenix's assets would enable it to meet its liabilities as they fall due.

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- Phoenix holds sufficient assets that can be made available to the WPFs should they require support in the above scenarios.

As at the date of this report, no further capital was required in order to meet these additional tests.

If at any point there is a small deficit relative to the requirement under the capital policy, then no action is required to be taken other than that no capital can be released (for example through the payment of dividends). However, larger deficits would require consideration of corrective action.

Any assets held in excess of the amount of assets required to satisfy the PCP may be distributed and hence little reliance can be placed on this excess when assessing the security for policyholders.

3.4. Phoenix Business to be transferred

3.4.1. Irish business in the TCB

In January 2021, the CBI approved an application from Phoenix to hold all of its Irish business in a TCB.

The Irish business in scope was transferred to Phoenix via various Part VII schemes, and originated from a number of legacy companies. There are around 80 products and the majority were written before the introduction of Passporting rights and were sold via a local Irish branch. The business is mainly denominated in euros, but there are a few policies denominated in GBP.

The approximate number of direct policies and BEL net of reinsurance, as at 31 December 2021 are shown in the table below.

Table 3

Direct Irish business in the Third Country Branch of Phoenix						
Fund	Alba WPF	90% WPF	Phoenix WPF	SPI WPF	Non-Profit Fund	TOTAL
Policies	852	1,996	1,136	6,876	9,114	19,974
Net BEL (£m)	17	1.3	43	258	435	754
Net BEL as % of the Phoenix fund	3%	2%	2%	22%	1%	1%

In total, the transferring Irish business at 31 December 2021 had 19,974 policies and £754 m net BEL.

It should be noted that there is a requirement to deposit claims with the National Treasury Management Agency ("NTMA") in respect of policies where a payment is due to a customer but over a specified time frame customer contact is not possible or customer response has not been obtained (in accordance with the Unclaimed Life Assurance Policies Act

2003). In April 2022 in respect of the 90% WPF a large proportion of the policies shown in the above table were subject to this process. Any obligations will transfer to PLAE and are discussed further in section 4.2.2

The business being transferred consists of the following business in each fund:

Table 4

Fund	Originally sold by	Consisting of
Alba WPF	Life Association of Scotland Crusader Insurance plc	Traditional with-profits life and corporate pension business. Includes Deposit Admin business, non-profit deferred and some immediate annuities.
90% WPF	Pioneer Mutual	A mix of with-profit and non-profit Industrial Branch policies with low sums assured. The policies are traditional endowments and whole life policies.
Phoenix WPF	Royal Life	A mix of with-profit whole of life, life and pension endowments, non-profit endowments, deferred and immediate annuities.
SPI WPF	Scottish Provident	Conventional with-profits whole of life, endowments and deferred annuities, and the unitised with-profits benefits under policies written in the NPF.
NPF	Unit linked - Scottish Provident Annuities - set up from maturing policies in all funds.	Mainly annuities in payment, and unit-linked (mainly life) business. There is also some term assurance and protection business. The unit-linked business is ex Scottish Provident

There are small amounts of external reinsurance in connection with some of the business written in the NPF and the SPI WPF.

Phoenix treats reinsured in business risks from Utmost and Irish Life as being connected to the TCB. This business will not transfer to PLAE and will remain a contract of, and with Phoenix.

3.4.2. German and Icelandic Business

The German and Icelandic business was originally written by Swiss Life (UK) Limited and transferred to Phoenix as a result of the Phoenix 2005 Scheme. It sits in the NPF.

The German business is a single life premium paying, accelerated critical illness product sold between 2001 and 2004 which has a reviewable premium and is denominated in Euros.

The Icelandic business is premium paying and is a mix of accelerated critical illness product, critical illness, and term assurance sold between 2002 and 2005. This business is denominated in GBP.

There is external reinsurance in place for both the German and Icelandic business.

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There are 333 German policies in scope of transfer with a net BEL of -£0.4m and 1,304 Icelandic policies in scope of transfer with a net BEL of £0.3m.

3.5. The RLL business to be transferred

Under the Scheme the non-profit Norwegian, Swedish and German business of RLL, comprising around 7,000 policies as at 31 December 2021, will transfer to PLAE.

Table 5

Transferring RLL business	Policies	BEL (£m)
Swedish	4,924	137
Norwegian	1,236	16
German	1,001	0
Total	**7,161**	**154**

RLL sold unit-linked endowment, protection and investment bond business in Sweden (1988-2007), critical illness business in Germany (1999-2014), both through the Freedom of Services regulations in those countries; and unit-linked business through a Norwegian Branch (1997-2007). These are all closed to new business apart from contractual rights to increase or renew existing policies. Certain of this business is externally reinsured. Further details regarding the RLL transferring business and the impact of the Scheme on RLL policyholders are set out in the RLL Chief Actuary's report.

3.6. PLAE

3.6.1. Background

PLAE, is a new company within the Phoenix Group of companies that has been set up in Ireland to accept the transferring EU business of Phoenix and RLL. It is a direct subsidiary of RAL and is regulated by the CBI. An application for authorisation was submitted to the Central Bank of Ireland ("CBI") in August 2021.

It is expected that the authorisation of PLAE will be confirmed prior to the Sanctions Hearings. PLAE will be subject to the relevant requirements and guidelines of the CBI, and its principal activity will be the transaction of life assurance and pension business which is in run-off.

Following the transfer, PLAE will only hold the business transferred to it by the Scheme and does not have any existing policyholders. PLAE will have a non-profit fund, holding at least the required minimum capital before the transfer.

PLAE will directly employ a small number of individuals in Ireland who will hold responsibilities for certain Pre-approved Controlled Functions ("PCF roles").

In addition, PLAE will have an intra-group management service agreement ("MSA"). The MSA relating to the transferring Phoenix business, will be with the Irish Branch of Standard Life Assets and Employee Services Limited ("SLAESL"). SLAESL

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is a Phoenix Group company and is party to a shared service agreement with other Phoenix service companies, primarily Phoenix Group Management Services Limited ("PGMS"). Staff will be employed by SLAESL and dedicated to support the management and operations of PLAE. Through its relationship with SLAESL, PLAE will receive services through intra-group service agreements from other internal and external service companies to provide resources and other infrastructure to support its operations.

PLAE will be responsible for the oversight, control and direction of all its outsourced activities.

Transferring policyholders are not expected to notice any change in the standard or manner of administration. However, there may be some practicalities to address (e.g. those who are currently serviced from the UK, which includes those serviced by Diligenta, will have new Customer Call Centre contact details in Ireland).

Monitoring and Oversight

A monitoring framework will be put in place enabling PLAE to control and monitor the performance of the services provided by SLAESL directly and through other internal and external service providers. The MSAs will outline the key activities which will be subject to the key performance indicators and metrics that are in place in respect of monitoring these outsourced activities.

PLAE's MSA with SLAESL is expected to contain provisions such that the service standards provided by PLAE will not be materially different to those provided by Phoenix prior to the transfer. I will comment on any material changes to the draft form of the PLAE MSA in my supplementary report.

3.6.2. Irish regulation

The current regulatory solvency framework for the European Economic Area ("EEA") insurance and reinsurance industry (from 1 January 2016 onwards) is known as Solvency II and all but the smallest EEA insurance companies are required to adhere to the Solvency II regime.

The CBI carries out the prudential regulation and supervision in Ireland of banks, building societies, credit unions, insurance intermediaries and investment firms.

The CBI also regulates the conduct of all financial services firms in Ireland in relation to consumer protection and conduct of business.

As with the FCA in the UK, although there may be circumstances in which the CBI retains a role, in general conduct of business responsibility for the policies administered under the EU's Passporting regime lies with the host state supervisors.

The CBI and the PRA are aligned in their approach to prudential supervision in terms of:

- adherence to the Solvency II regime;
- adherence to the appropriate risk appetite statements; and
- the standards of governance required.

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Unlike in the UK, those firms in Ireland with with-profits business are not required to appoint an actuary (or actuaries) to perform a 'with-profits actuary function'. However, the CBI has issued the Domestic Actuarial Regime and Related Governance Requirements under Solvency II which, amongst other things, does set out some additional responsibilities of the Head of Actuarial Function ("HoAF") for insurance undertakings which have with-profits business. There is also no requirement in Ireland for firms with with-profits business to appoint a WPC.

I note that there is a potential for UK and EU Solvency II rules to diverge. On 28 April 2022, HM Treasury and the PRA published consultation papers on proposed reforms to the UK Solvency II regime which include reducing the Risk Margin and amending the eligibility for and calibration of the Matching Adjustment. The ultimate outcome of this consultation process is uncertain but both consultations make clear that the safeguarding of policyholder protection is an important priority.. I will provide an update to this in my supplementary report.

In Ireland, the CBI has implemented a Fitness and Probity Regime ("F&P Regime") for Irish insurers which defines a set of Pre-Approval Controlled Functions ("PCFs").

The CBI is responsible for conduct-of-business regulation of regulated firms, including insurers, in Ireland. Within its Consumer Protection Code 2012 ("CPC") the CBI aims to ensure a consistent level of protection for customers regardless of the financial services provider they choose. The provisions of the CPC are binding on regulated entities and must be complied with when providing financial services.

3.6.3. PLAE capital policy

Although subject to approval by the PLAE Board, PLAE will follow the structure and principles that underpin the risk appetite framework that applies to Phoenix (see section 3.3), but will set its own capital policy (the "PLAE CP"). The main objective of the PLAE CP is to ensure that the company can meet the Solvency II capital requirements under internally specified stress scenarios. The strength of the PLAE CP is a function of these scenarios.

The scenario testing is based on holding sufficient capital to be able to meet regulatory capital requirements after the more onerous of a 1 in 10 year all risk event, and a 1 in 20 year market stress event. This requirement is expressed as a percentage of the SCR. The scenarios and the percentage will be reviewed from time to time to ensure that the capital policy continues to meet its objective. The percentage may thus change without affecting the strength of the PLAE CP.

The initial assessment of the PLAE CP requires PLAE to hold capital equal to 50% of the SCR in addition to the capital necessary to meet the SCR itself. The policy will be reviewed at least annually, it is expected that the Board of PLAE will approve the PLAE CP before the Sanctions Hearing.

If at any point there is a small deficit relative to the PLAE CP then no action is required to be taken other than that no capital can be released (for example through the payment of dividends). However larger deficits would require consideration of corrective action.

PLAE will calculate its capital requirements on a Standard Formula basis. The capital requirements of the business transferring from Phoenix will move from an Internal Model basis to a Standard Formula basis within PLAE.

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3.6.4. PLAE funding

RAL is contributing the balance of funding required to capitalise PLAE in a two-stage process. The initial injection has been made to cover the Minimum Capital Requirement required for authorisation, and any short term obligations of PLAE, and the remaining amount of share capital required to meet the capitalisation requirement of PLAE will be made after the Sanctions Hearing but prior to the Effective Date of the Schemes. The Boards of Phoenix and RLL will determine and agree the amount of assets that PLAE will be required to hold, taking account of the transferring assets and liabilities[1] under the Schemes. This is a requirement of the Schemes before the transfers can take effect. This is scheduled to take place in October 2022.

After the full funding has taken place, the Board of PLAE will confirm that PLAE has sufficient assets to satisfy the Capitalisation Requirement, which is a condition to the Effective Date of the Schemes occurring. This confirmation is expected to take place by November 2022 prior to the planned Effective Date of 1 January 2023.

The UK Sanctions Order includes a direct undertaking to be given by RAL to the English Court, where RAL will undertake to provide sufficient assets to PLAE so that the capitalisation requirement is met.

3.6.5. Administration

The administration of policies transferring from Phoenix is mainly outsourced to Diligenta Limited ("Diligenta") and SS&C International Managed Services Limited ("SS&C"). The Phoenix Group will relocate regulated activity, including servicing activity, from the UK to Ireland to ensure that the transfer does not give rise to UK licensing requirements for PLAE. There are not expected to be any material changes to the operations for those customers whose policy is administered in Ireland by SS&C, the other transferring customers will be informed of any changes, including to Customer Contact Centres, prior to the transfer. I will provide an update on any relevant developments in the proposed administration arrangements for PLAE in my supplementary report.

[1] These will include the finalised expense liabilities of PLAE, incorporating any changes that may be needed as a result of the review referred to in 3.6.5.

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4. THE PROPOSED SCHEME

4.1. Background to the Scheme

The main objective of the Scheme is to transfer the Irish, German and Icelandic business of Phoenix and the German, Norwegian and Swedish business of RLL to an EEA-based insurance company following the end of the transitional period relating to the UK's exit from the EU on 31 December 2020.

Prior to 31 December 2020, Phoenix was authorised to write and administer insurance business through the Phoenix branch in Ireland and its predecessors, and on a Freedom of Services basis in Germany and Iceland in accordance with the Passporting Regulations (or predecessor legislation) as well as any other EEA State.

In light of the uncertain regulatory position as a result of the UK's departure from the EU, Phoenix applied to the CBI for authorisation of an Irish TCB of Phoenix. The TCB was authorised in January 2021 and holds the direct Irish business of Phoenix as an interim response to the changes.

Post Brexit, the EEA Passporting Rights for UK-based financial institutions ended. Consequently, the servicing of EEA policies is only permitted in limited circumstances and for a limited time albeit it would be possible to continue servicing the Irish business in the TCB.

In order to safeguard future customer stability and the ability to continue to provide the range of benefits that customers could seek to exercise on their policies, in compliance with applicable law in the relevant EEA jurisdiction, the EU business of Phoenix will transfer into PLAE as set out in the Scheme. Whilst in the short term, the UK and the EU continue to have similar rules around the management of insurance business, the UK Exit from the EU means that there may be future divergence or regime changes on a regulatory and legislative level in the future which may bring the delivery of the benefits under, or the administration of the transferring EEA-based policies into question. By transferring the business to PLAE, transferring customers will be administered by an EU insurer in a single EEA-based entity and it will ensure consistency and provide greater certainty over the continuity of servicing in the event of future legislative and regulatory divergence between the UK and the EU.

The reasoning relating to policies in the TCB differs slightly because Phoenix can comply with the terms of policies of Irish resident policyholders holding policies allocated to its Irish TCB in line with applicable law and regulation, for so long as those policyholders remain resident in Ireland. The proposed transfer means that the ability to provide benefits that could be exercised under these policies will also apply if those policyholders use their right to freedom of movement to move to another EEA state.

Phoenix will, in addition to the UK Scheme, utilise the Irish portfolio transfer mechanism provided for under the Solvency II Regulations (Ireland) in order to transfer the Phoenix (TCB) Policies to PLAE under the laws of the Republic of Ireland. For this reason, the Irish Scheme and the UK Scheme are intended to be inter-conditional in terms of their taking effect.

For the Scheme to become effective, both the UK and the Irish Scheme must be approved by their respective High Courts.

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4.2. Summary of the Scheme

4.2.1 The General Provisions of the Scheme

The Scheme provides for the transfer of the Irish, German and Icelandic business in Phoenix, as well as the German, Swedish and Norwegian business in RLL to PLAE as at the Effective Date, which is expected to be 1 January 2023. The transfer of the business is under Part VII of FSMA in England and Wales and for the Irish business, an Irish Portfolio Transfer under Section 13 of the 1909 Assurance Companies Act. The implementation of each of the UK and Irish Schemes are dependent, amongst other things, on both Schemes being sanctioned by the respective Courts in England and Wales and Ireland, for the transfer of the business to take place.

Under the Scheme, the following new 100:0 ring fenced WPFs will be established in PLAE as separate with-profits sub-funds within the PLAE Long-Term Fund:

- the PLAE Alba With-Profits Fund;
- the PLAE 90% With-Profits Fund;
- the PLAE Phoenix With-Profits Fund; and,
- the PLAE SPI With-Profits Fund.

The transferring Phoenix policies, and corresponding transferring assets and liabilities currently allocated to the existing WPFs in Phoenix will be allocated to the relevant successor WPF in PLAE, while the transferring policies in the Phoenix Non-Profit Fund and the transferring RLL policies (together with any related assets and liabilities) will be transferred to the PLAE Non-Profit Fund.

Phoenix will pay across 108% of Solvency II BEL to PLAE on the Effective Date in relation to the transferring annuities from the Phoenix NPF. This amount has been determined as an arms-length transaction price and the percentage will be validated prior to the transfer.

On the Effective Date the business in the new PLAE WPFs will be 100% reinsured back to their respective Phoenix WPFs under a series of quota share arrangements. The initial reinsurance premiums will be offset against the assets transferring under the Scheme, thus no net payments will be made from the Phoenix WPFs will be made. Further details of the reinsurance are provided in section 4.3.

The investment element of unit-linked liabilities from the unit-linked business in the PLAE NPF will also be 100% reinsured back to Phoenix and similarly the unit-linked liabilities on the transferred RLL business will be 100% reinsured back to RLL. Similar to the WPFs arrangement, the initial reinsurance premium will be offset against the investment element of transferred unit-linked business which is to be transferred under the Scheme.

4.2.2 Particular Features of the Scheme

Preservation of benefits for with-profits policyholders

A key objective of the Scheme design is to allow transferring Phoenix with-profit policies to receive benefits calculated by reference to the WPF of Phoenix to which they were allocated prior to the transfer. Whilst the with-profit reinsurance described

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below is in place, the Scheme requires PLAE to set benefits as least as high as they would have been had that policy remained in Phoenix.

Existing reinsurance

All but one of Phoenix's external reinsurance treaties associated with the transferring business will transfer across to PLAE. (An external reinsurance relating to 6 high value policies in the Phoenix SPI WPF will be converted into a retrocession.)

Currently the Phoenix NPF internally reinsures to the SPI WPF the with-profits investment element of hybrid policies and the risk arising from guarantees on this business, and the Guaranteed Annuity Option ("GAO") risk on transferring ex-Scottish Provident unit-linked policies. The Scheme replicates this in PLAE.

Unit-linked funds

The Scheme provides for PLAE to establish unit-linked funds that mirror those within Phoenix. The policies that invest in the unit-linked funds will receive the same number and classes of units in the unit-linked funds of PLAE as they held in the unit-linked funds of Phoenix prior to the Effective Date. The Scheme does not make any change to the terms and conditions of the unit-linked Policies and will not change the arrangements with third parties relating to the investment, management and pricing of unit-linked funds or the associated costs.

The 2009 Scheme contains a provision whereby a threshold before wind-up of £5 million (increasing with RPI) would be applied, this provision will not be replicated in the Scheme. The purpose of the threshold is to allow funds to be wound up when they are too small to be managed efficiently and, in the context of the reinsurance with Phoenix, would not be appropriate to be applied to PLAE's funds in isolation. Instead, the Scheme will allow the PLAE Board to decide to make future changes to close, wind-up, amalgamate or modify unit-linked funds, subject to actuarial (or other appropriate senior manager) advice to the Board that the terms would be equitable to transferring policyholders and provided that whilst the reinsurance is in place, this reflects actions within the Phoenix funds and that PLAE consults with and has regard to the views of Phoenix.

Residual policies

Should it not be possible for technical reasons to transfer any policy or group of policies at the time the Scheme is implemented then such policies will be reassured to PLAE. In effect, this arrangement will ensure that any residual policies will be treated for all practical purposes in the same way as if they had been transferred to PLAE at the Effective Date until it is possible for them to be transferred.

Termination of the with-profits reinsurance

On termination of a with-profits reinsurance agreement due to the closure of the relevant WPF in Phoenix, the with-profits policies within the relevant PLAE WPF will be converted to non-profit policies with guaranteed increases in benefits or to unit-linked policies in line with the approach taken by Phoenix on closure of the corresponding WPF. The business will be moved to the PLAE NPF and the PLAE WPF will cease to exist.

For termination of a with-profits reinsurance agreement in any other circumstance it will be for the Board of PLAE to decide whether to run the PLAE WPF as a stand-alone WPF, or to look to convert the with-profit policies as above. The

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Scheme provides for the Board of PLAE to apply a set of principles which conform with the principles for the management of the Phoenix WPFs which set out the basis on which the PLAE WPF is to be maintained.

Annuity benefits in the PLAE WPFs

Guaranteed rate annuities from vesting pensions from the PLAE WPFs will ordinarily be written by PLAE into its NPF on its own terms. As the cost of these options is met by the WPF, whilst the WPF reinsurance is in place, the Phoenix Board (having regard to the advice of the Phoenix With-Profits Committee and the Phoenix With-Profits Actuary) can recommend that PLAE (and on such recommendation PLAE shall) provide these annuities within the PLAE WPF if the NPF annuity rate is deemed unfair. Any annuity written into a PLAE WPF would automatically be reinsured back to the WPF of Phoenix that bears the cost.

For vesting pensions from the SPI WPF, where there is no guarantee, if the policyholder choses to accept an annuity with PLAE, the annuity would be provided from the PLAE NPF using an annuity rate determined by the PLAE Board, but with the approval of the Phoenix With-Profits Actuary.

General provisions

Certain suspended annuity business in the WPFs of Phoenix will transfer to PLAE. These are likely to be cases where the death of the annuitant has been notified but not verified. If these policies are reinstated, then Phoenix will pay to PLAE any overdue annuity payments. Likewise if any Irish policy which has had its benefit paid by Phoenix to the NTMA is reinstated, PLAE will be liable to pay customer claims, but will be able to recover any customer benefit deposited with the NTMA, and Phoenix will pay to PLAE any additional benefit due under that policy, as if it had never been paid out to the NTMA but had transferred under the Scheme as an inforce policy. Likewise any reinstatement of a policy in line with its terms and conditions and in line with current practise.

The NPFs of RLL and Phoenix will meet the costs associated with the Scheme.

The Scheme becoming effective is contingent on:

- PLAE being authorised by the CBI;
- The approval of the High Court of England and Wales (in relation to the transfer of certain EEA-based business of Phoenix and RLL to PLAE), and the approval of the Irish High Court (in relation to the transfer of the direct business of Phoenix's TCB to PLAE); and,
- The Capitalisation Requirement being satisfied. The Scheme requires that PLAE must have Excess Own Funds at least equal to the anticipated PLAE CP on the Effective Date, taking account of the assets that will transfer in under the Scheme and subsequent reinsurance. The amount will be agreed by the Phoenix and RLL Board, and the PLAE Board will confirm that PLAE has sufficient assets to satisfy the Capitalisation requirement.

If the conditions are not met by 1 January 2023 (the Effective Date), or Phoenix, RLL and PLAE agree that the Effective Date should be deferred for any reason, then there is a buffer period which allows the Effective Date to be postponed to 1 April 2023 at the latest. The Courts' approvals of the Scheme will be valid up until that point.

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4.2.3 Prior Schemes

The Scheme is an additional Scheme, and the Phoenix 2005 Scheme, the Phoenix 2009 and later Phoenix Schemes as listed in table 1 will continue in force irrespective of whether this Scheme goes ahead.

4.3 The proposed reinsurance

PLAE will be responsible for the transferred policies, but as a condition of the Scheme PLAE will reinsure back to Phoenix the investment element of Irish unit-linked policies in the PLAE NPF, and it will enter into a 100% quota share reinsurance in relation to each of the four WPFs of PLAE so that all the risks on transferring business from those funds transfers back to Phoenix.

The unit-linked reinsurance will ensure that those customers can access the same funds as they do now, and the WPF reinsurance will ensure that transferring policyholders will continue to receive benefits based on the returns within the Phoenix WPFs following the transfer.

PLAE will have counterparty exposure to Phoenix and RLL and to mitigate the risk to PLAE caused by this, security will be provided to PLAE via floating and fixed charge for Phoenix and by a floating charge for RLL, as outlined below.

Table 6

Treaty	Reinsured BEL at YE 21 (£m)	Security	What is reinsured from PLAE
Phoenix NPF Unit-Linked	32	Floating charge	Investment element of Irish unit-linked business in NPF
Phoenix Alba WPF	17	Fixed and Floating Charge	All business in PLAE Alba WPF. Mix of Irish wp and np business.
Phoenix SPI WPF	258	Fixed and Floating Charge	All business in PLAE SPI WPF. Mix of Irish wp and np business.
Phoenix Phoenix WPF	43	Fixed and Floating Charge	All business in PLAE Phoenix WPF. Mix of Irish wp and np business.
Phoenix 90% WPF	1.3	Floating charge	All business in PLAE 90% WPF. Mix of Irish wp and np business.
RLL Unit-Linked	*154*	*Floating charge*	*Investment element of Swedish and Norwegian unit-linked business in NPF*

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Fixed charge

Each fixed charge deed will provide a fixed charge in favour of PLAE as cedant over sufficient assets of the relevant Phoenix WPFs to enable 65% of the reinsured BEL to be met. The fixed charges mean that in the event that termination of the relevant reinsurance agreement occurs, PLAE can take control of sufficient assets to meet the majority of the reinsured liabilities and have a source of liquidity to meet short term claims even if Phoenix was insolvent.

The assets subject to the fixed charges will be taken from the assets of the relevant WPF of Phoenix and will be allocated to a separate ring fenced collateral account at the custodian. The assets will continue to be managed by Phoenix to the relevant investment benchmarks and will be available to meet claims arising under the reinsured contracts. No fixed charge is being put in place for the PLAE 90% WPF as it is not considered proportionate given the size of the reinsured liabilities.

Floating charge

Phoenix will grant a floating charge to PLAE, which is not restricted to any specified pool of assets but attaches to all available assets. The floating charge will cover the total obligations of the reinsurer to PLAE on an insolvency of the reinsurer and ensures that PLAE ranks at an equal priority with unsecured insurance creditors of the reinsurer in that insolvency. The with-profits floating charges over Phoenix would take account of any amounts already recovered by PLAE from the fixed charges of Phoenix.

The floating charge contains provisions which restrict the amount recoverable by PLAE to that of unsecured insurance debts of the reinsurer to ensure fairness with the non-transferring policyholders. So, in practice the amount cannot exceed the amount that transferring policyholders would have been paid if they had not transferred.

There is a possibility that transferring with-profits policies could receive more than direct policies of Phoenix under this arrangement, but this would require Phoenix to become insolvent and only be able to meet less than 65% of its aggregate policy liabilities. This is an extremely remote possibility.

The initial premium under the four WPF reinsurance agreements will net off against the assets that transfer under the Scheme. A "Day One Fee" of £10m will be paid by the NPF of Phoenix to cover the costs of ongoing management of non-reinsured risks accepted as a result of the transfer.

Governance and Oversight of the reinsurance

The reinsurance agreements provide that PLAE will set up a Finance Technical Committee with specific with-profits experience, to provide oversight to the PLAE WPFs and the level of benefits received by customers. The PLAE Board will be entitled to make representations to the With-Profits Actuary of Phoenix, the Phoenix WPC, and in certain circumstances the Phoenix Board and the CEO of Phoenix on matters affecting the reinsured policies. The Finance Technical Committee will be provided with relevant Phoenix WPC papers to allow consideration to matters relating to the reinsured policies before each Phoenix WPC meeting.

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A Reinsurance Business Committee will be established with representatives from PLAE, Phoenix and RLL who will monitor management of the reinsurance agreements (including unit-linked). This will include oversight of significant claims and acceptability of pricing of any new business and it will provide a mechanism through which PLAE can raise issues with the operation of the new reinsurance arrangements.

Termination of the reinsurance

There are no intentions to terminate the reinsurance arrangements described above, however I have considered the protections that will be in place to ensure that transferring and non-transferring policyholders are duly considered in the event of termination of the reinsurance arrangements between Phoenix and PLAE.

Under the reinsurance treaties, termination can occur in various situations including:

- as a result of an agreement between both parties;
- Failure of either firm to fulfil its obligations under the treaty;
- Phoenix Solvency falls below 105% SCR;
- Phoenix insolvency; and
- For the WPF reinsurance agreements also on the downgrading of Phoenix's credit rating below a certain level.

The Phoenix 90% WPF reinsurance agreement has an additional clause that provides PLAE with the option to terminate the Phoenix 90% WPF reinsurance agreement in the event that the other three WPF reinsurance agreements have terminated.

On default termination an immediate termination amount payment is triggered. Upon non-default termination of any of the reinsurance arrangements, the treaties are structured such that PLAE will receive a proportion of the assets within 3 days to ensure that it can continue to service policyholders. PLAE will then receive the fair value of the assets associated to these policies at a later date allowing time for the exact termination amounts to be calculated in accordance with the treaties.

The Scheme recognises that in the event that a WPF reinsurance agreement is terminated, prior to the termination amount being paid in full, the process to determine the various interests of the policyholders of the WPF of Phoenix would need to be considered and the fund would need to be split. This is covered in more detail by the With-Profits Actuary in his report.

5. FINANCIAL ANALYSIS

As part of the considerations as to whether the benefit security of policyholders remaining in Phoenix will be affected by the Scheme, it is helpful to compare the solvency position of Phoenix before and after the Scheme. A similar comparison of the solvency position of Phoenix before the Scheme and PLAE after the Scheme is helpful in respect of the transferring policyholders.

5.1. Impact of the Scheme on Phoenix

A comparison of the solvency position of Phoenix before the Scheme and after the Scheme where the details of the basis for these calculations is given in section 5.2 and the tables in sections 5.3 and 5.4 show the expected impact of the Scheme on Phoenix as if the Scheme had been implemented on 31 December 2021.

I have commented in section 5.5 how events since 31 December 2021 are likely to have changed the figures and the conclusions that can be drawn from them.

5.2. Basis of calculation of the solvency position of Phoenix before and after the Scheme

The following tables are based on balance sheets as at 31 December 2021 which have been approved by the board and subject to external audit.

In the tables in sections 5.3 and 5.4:

- Transitional Measures on Technical Provisions ("TMTP") – is as recalculated at 31 December 2021.
- Own Funds – these have been calculated as at 31 December 2021.
- SCR – this is as calculated according to Phoenix's Internal Model, taking into account certain changes to the internal model which were approved by the PRA in September 2021 following an application to do so by Phoenix.
- Solvency Ratio – this is calculated on two bases, one including all funds and the other including unsupported WPFs only to the extent that transfers from those funds will accrue to shareholders. By excluding policyholder benefits and risks in unsupported WPFs, the latter gives an indication of the strength of the company. At 31 December 2021 none of the WPFs of Phoenix are supported.

In addition, in section 5.4:

- Internal Model – Phoenix's internal model will be unaffected by the Scheme and no changes will be required to it.
- No recalculation would be triggered by the transfer as it would not represent a material change in Phoenix's risk profile.
- Matching Adjustment ("MA") – Whilst some of the transferring business forms part of the matching adjustment portfolio, implementation of the Scheme will not impact the nature of Phoenix's matching adjustment approvals.

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5.3. Position before the Transfer

Table 7 shows the financial position of Phoenix and its solvency ratio as at 31 December 2021.

Table 7

	Phoenix as at 31 December 2021 before the effect of the Scheme and reinsurance		
	Own Funds £m	**Ring-Fenced Fund Restriction** £m	**SCR** £m
90% WPF	12	-4	6
Alba WPF	118	-11	101
Phoenix WPF	463	-198	210
SPI WPF	139	-15	104
Other WPFs	974	-191	535
NPF and Shareholders' Fund	3,023	0	1,701
Total	**4,728**	**-419**	**2,656**
Excess of Adjusted Own Funds over SCR	**£1,653**		
Solvency Ratio – All funds	**162%**		
Solvency Ratio excluding unsupported WPFs	***197%**		

Note – The numbers in the table above and elsewhere in this section may not add up due to rounding.

As stated in section 3.3, the level of capital implied by the PCP is higher than that required by the PRA's requirements. As at 31 December 2021, Phoenix met the higher levels implied by the PCP.

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5.4. Position after the Transfer

Table 8 shows pro-forma figures as if the Scheme had been implemented as at 31 December 2021 for ease of comparison.

Table 8

	Phoenix as at 31 December 2021 after the effect of the Scheme and reinsurance		
	Own Funds £m	Ring-Fenced Fund Restriction £m	SCR £m
90% WPF	12	-4	6
Alba WPF	118	-11	101
Phoenix WPF	463	-198	210
SPI WPF	139	-15	104
Other WPFs	974	-191	535
NPF and Shareholders' Fund	3,011	0	1,659
Total	**4,715**	**-419**	**2,614**
Excess of Adjusted Own Funds over SCR	**£1,682**		
Solvency Ratio – All funds	**164%**		
Solvency Ratio excluding unsupported WPFs	**201%**		

The Scheme is expected to reduce the Own Funds due to the Day One Fee of £10m and an annuity pricing adjustment of £32 m. This reduction is offset by a decrease in the risk margin. The Excess of Adjusted Own Funds over SCR has increased because the reduction in Own Funds is more than offset by the reduction in the SCR due to the transfer of the annuity business.

Overall, the pro-forma presentation shows that after the implementation of the Scheme, the reported solvency position of Phoenix will lead to an increase in adjusted Own Funds over the SCR.

Based on analysis of the position of Phoenix after implementation of the Scheme, Phoenix would have met the higher levels implied by the PCP on 31 December 2021.

5.5. Events since 31 December 2021

The nature and financial condition of Phoenix has continued to evolve since 31 December 2021, reflecting external economic conditions and Phoenix's own internal strategy including its activity in the bulk purchase annuity market.

These developments do not lead me to change my view on the impact of the Scheme on either transferring or non-transferring policyholders. I will provide a further update on the financial position of Phoenix in my supplementary report.

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5.6. PLAE

The figures and statements in section 5.6 have been provided by the applicants on behalf of PLAE and reviewed and approved by the proposed PLAE HoAF and I have relied upon his assessment.

Table 9 below shows the pro forma financial position of PLAE and its solvency ratio as at 31 December 2021 as if the Scheme had been implemented at that date. The figures below include the impact of the transferring RLL business, and assume that a share capital injection from RAL is made prior to the Effective Date to cover the PLAE CP and thus the capitalisation requirement.

Table 9

PLAE as at 31 December 2021 after the implementation of the Scheme and reinsurance		
£m	**Available Own Funds**	**SCR**
PLAE 90% WPF	0	0
PLAE Alba WPF	0	0
PLAE Phoenix WPF	0	0
PLAE SPI WPF	0	0
Non Profit Fund	99	66
Total	**99**	**66**
Excess of Own Funds over SCR	**33**	
Solvency ratio	**150%**	

The PLAE WPFs show zero Own Funds because the liabilities are exactly matched by reinsurance recoverables; and the best estimate liability for counterparty default is included in the PLAE NPF. Similarly all of the risks of the PLAE WPFs are reinsured back to Phoenix; or are included in the PLAE NPF.

PLAE will maintain a capital policy (the PLAE CP), under which it will hold capital in excess of that required by regulation. The HoAF of PLAE has stated that following implementation of the Scheme, it is expected that PLAE will meet the higher levels required by its capital policy.

6. EFFECT OF THE SCHEME ON TRANSFERRING PHOENIX POLICIES

6.1. Security of Benefits

Following the implementation of the Scheme, security for the benefits of policies that transfer to PLAE and are not subject to reinsurance will be provided by PLAE.

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The conditions to the scheme require that PLAE will be fully capitalised immediately after the transfer, and the report of the PLAE HoAF comments that PLAE is projected to remain so over the five-year planning horizon. This takes account of a commitment that PLAE will receive a second capital injection from RAL its parent company prior to the Effective Date of £138m which has been stress tested and no further injections are planned. PLAE will calculate its capital requirements (SCR and PLAE CP) to take account of the risks it will have and I have relied upon the PLAE HoAF's assessment of these requirements.

The security of benefits in PLAE will be provided by:

- The Solvency II requirements, which include a buffer over the policy liabilities and which are intended to ensure that the company can cover its technical provisions even after a 1 in 200 year event;
- PLAE's own capital policy, which provides an additional buffer over the Solvency II requirements, together with governance around how this operates and when changes can be made to it;
- The level of oversight provided by the regulatory regime that will apply to the transferred Phoenix policies; and
- The strength of PLAE's reinsurance agreements and associated security.

There are some differences in the way that Phoenix and PLAE calculate their Solvency II technical provisions and SCR:

- Phoenix has a matching adjustment and TMTP, whereas PLAE has not applied for these measures;
- Phoenix uses an internal model for the calculation of its SCR; PLAE will use the Standard Formula.

The Solvency II rules are intended to ensure that both Internal Model and Standard Formula will provide financial strength and security for the relevant policies such that under each a company can survive severe events with at least a 99.5% probability of remaining solvent over a one-year time horizon.

Therefore, whilst PLAE will follow a different approach to Phoenix, their approach is in line with Solvency II requirements and their technical provisions and SCR will not lead to a material adverse effect on the security of benefits under the transferring policies.

PLAE's CP will be reviewed by the PLAE Board on an annual basis.

The business that is reinsured back to Phoenix

The primary purpose of these reinsurances is to ensure the best achievable outcome for transferring policyholders. The alternative for the business in the WPFs of Phoenix would involve splitting policyholder funds between Phoenix and PLAE, which would be complex, time consuming and has the potential to change benefits as conversion to non-profit would need to be considered due to the size of the transferring with-profits liabilities. The reinsurance looks to preserve the existing treatment of transferring policyholders and their reasonable benefit expectations and security is provided to protect PLAE's solvency and hence the security of benefits.

I have reviewed the draft reinsurance and security agreements between PLAE and Phoenix. The associated security arrangements are constructed in such a way as to provide dedicated collateral for the liabilities covered and to provide a floating charge over the assets of Phoenix to ensure that PLAE's reinsured policyholders rank pari passu with the direct policies of Phoenix in the event of a winding up.

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As a result of the reinsurance, the only risks arising from the business in PLAE WPFs are operational risk and counterparty default risk, the counterparty being Phoenix. These risks are mitigated by the collateral arrangements and PLAE CP. PLAE will hold sufficient capital to cover the SCR for these risks plus the additional capital as required by the PLAE CP.

There has been extensive consideration given to the event of termination of the reinsurance arrangements. Having considered these, I am satisfied that suitable controls are embedded in the reinsurance arrangements such that, in the event of a termination of reinsurance, the security and benefit expectations of the transferring and non-transferring policyholders will be suitably protected.

Risk of RLL default to transferring customers

Following the transfer to PLAE, transferring policyholders will remain subject to the risk of default by Phoenix, but will also become at risk of default by RLL due to the reinsurance of £154m of unit liability from PLAE to RLL. PLAE will hold sufficient capital to cover the SCR for these risks plus the additional capital as required by the PLAE CP. I also note that RLL will provide a similar floating charge over its assets to ensure that PLAE will rank equally to its other policyholders in being able to meet its reinsured obligations to its policyholders. In my opinion I believe this to be an appropriate measure.

Regulation

Following the transfer there would be a change in the regulator responsible for prudential supervision from the PRA to the CBI for customers moving to PLAE. The solvency framework for insurers in Ireland and the UK is Solvency II. Both the EU and UK post-Brexit Solvency II regimes are under review and may change in the future. On 28 April 2022, HM Treasury and the PRA published consultation papers on proposed reforms to the UK Solvency II regime which include reducing the Risk Margin and amending the eligibility for and calibration of the Matching Adjustment. The ultimate outcome of this consultation process is uncertain but both consultations make clear that the safeguarding of policyholder protection is an important priority. Notwithstanding that differences in regulatory regime may arise, I am satisfied that they should not have a material adverse effect on the transferring policyholders.

Financial Services Compensation Scheme (FSCS) and Ombudsman

The FSCS provides protection to eligible policyholders, amongst other things, in respect of insurance policies issued by a relevant authorised insurer in the event of the failure of that firm. That is the FSCS provides protection to contracts written by a UK based insurance firm or by a EEA firm Passporting into the UK that, if their firm were to fail (and the policyholder satisfies the eligibility criteria), their contracts are protected and they will receive 100% of their claim.

Certain Phoenix policyholders who are currently covered by the FSCS and whose policy will transfer to PLAE, will lose that cover after the transfer as there is no equivalent scheme in Ireland. Given the very low likelihood that a transferring policyholder would require such a compensation scheme I consider that there is no material detriment to those customers who will lose this. PLAE will have a capital coverage target consistent with Phoenix's which provides it with capital to withstand an event significantly stronger than a 1-in-200 year event.

Certain policyholders have the right to make a complaint to the Financial Services Ombudsman (FOS). Following the transfer they will only be able to make a complaint to the FOS about something that occurred before the Effective Date, otherwise they will need to direct their complaint to the Financial Services and Pensions Ombudsman Service (FSPO) in Ireland. For Irish transferring policyholders the current process is to direct customers to the FSPO. For transferring

policyholders that are not based in Ireland, such policyholders will continue to have the option of referring their complaint to the appropriate regulatory authority or ombudsman in their home state, which we expect to be more helpful for these policyholders. The home state regulator or ombudsman will ultimately refer the complaint to the FSPO in Ireland.

Conclusion

Having considered the impact of the transaction, I am satisfied that the level of capital support that will be available to provide security for the reinsured benefits in Phoenix after implementation of the Scheme taking account of the PLAE CP is appropriate. The PLAE CP will ensure that the liabilities of PLAE are appropriately capitalised taking account of the risk profile of PLAE. This includes the impact of the transfer of the RLL business, which will be mainly reinsured back to RLL.

I am satisfied there will be no material adverse effect on any transferring policyholders in their rights to make complaints to the relevant ombudsman or with the loss of FSCS coverage.

6.2. Benefit Expectations of transferring Policies

With-Profits business

Whilst the reinsurance remains in force, the with-profits policies in PLAE WPFs should receive at least as much as they would have received had their policy remained in Phoenix. They will also continue to have their benefits determined by reference to the estate of the relevant WPF of Phoenix. No change will be made to any options or guarantees on transferring policies.

Although some of the assets in the WPFs will be held in collateral accounts, the reinsurance arrangement enables the fund to be managed on the same basis as it is currently managed.

Expenses charged by the management services company to PLAE in respect of with-profits business will mirror those which Phoenix would have been charged.

The Phoenix With-Profits Actuary has considered the impact on these with-profits policyholders in his report in Appendix A, and is satisfied that the Scheme will not materially adversely affect the interests and reasonable expectations of the affected Phoenix with-profits customers and the protections afforded to these customers.

Vesting pensions

At the moment the four WPFs of Phoenix with Irish business secure their vesting guaranteed annuities by making a payment to the Phoenix NPF whereas, after the Scheme, this arrangement will be with the PLAE NPF.

PLAE will have its own underwriting and pricing policy for the annuity business it writes. This will reflect the prevailing solvency regime under which PLAE will operate in Ireland, and local annuity experience in Ireland.

The WPFs will retain the alternative options they currently have, namely to secure annuities externally to Phoenix or to retain the annuities and pay them from the relevant PLAE WPF's. In the unlikely event the PLAE WPFs retain the annuities at the behest of Phoenix; they would automatically come under the reinsurance agreement.

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Unit-linked business

For the Irish unit-linked business, following the transfer there will be no change to the funds they can invest in, or charges that they pay, and any guarantees that they have on their policy will continue. Any policy that can currently switch into (or out of) with-profits investment will be able to do so following the transfer.

After the transfer PLAE will be responsible for the application of discretion relating to charges. There is no expectation that there will be any change to the way in which discretion is applied following the transfer.

I am satisfied that the provisions regarding closure or amalgamation of unit linked funds are reasonable and do not materially impact the benefit expectations of policyholders relative to the existing provisions in Phoenix.

Irish non-profit business including annuities

There will be no change to the terms and conditions of Irish non-profit business transferring to PLAE, this includes annuities in payment. Any guarantees or options on these policies will not be affected by the transfer.

German and Icelandic non-profit business

No changes are being proposed under the Scheme to the terms and conditions of the transferring non-profit German and Icelandic Phoenix policies. There will be no change to the process of calculating reviewable premiums or charges.

Conclusion

Taking account of the report by the With-Profits Actuary, I consider that there will be no reduction in the reasonable benefit expectations of transferring non-profit and with-profits Phoenix policyholders as a result of the Scheme.

6.3. PLAE operational readiness

At the time of writing, PLAE does not have any policyholders or existing processes in place. The Phoenix Group has planned the requirements to achieve operational readiness and establish appropriate management services agreements, I have been informed by the project team that the work is underway and I will provide an update in my supplementary report.

6.4. Quality of Administration

Following the implementation of the transfer, the movement of servicing and administration on certain of the transferring policies out of the UK should mean that policies will continue to be administered in materially the same way utilising the existing administration and IT infrastructure. Therefore there is no reason to expect the quality of administration or the level of service provided to transferring Phoenix policyholders to reduce as a consequence of the Scheme. I will provide an update in my supplementary report.

6.5. Tax

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There is not expected to be any change to the tax status of transferring policyholders, and clearances and confirmations are being sought from the Irish tax authorities where considered necessary.

In the unlikely event that any transferring policyholders suffer detrimental changes to their tax status as a result of administering the changes required by the transfer, PLAE will make ex-gratia payments to compensate those affected. I will provide an update in my supplementary report.

6.6. Governance

Having reviewed the intended governance structure of PLAE as outlined in the PLAE HoAF report, I am satisfied that there will be no material adverse effect on the levels and standards of management and governance that would apply to transferring policies.

6.7. New business

PLAE is closed to new business other than for the vesting of annuities in the NPF and the provision of options and guarantees on existing NPF policies. The PLAE WPFs will be able to issue contractually allowed increments on existing policies, options under existing policies and new policies arising under Group Schemes. Any such new business in the PLAE WPFs will be automatically reinsured to Phoenix under the relevant with-profits reinsurance arrangement.

6.8. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly with respect to the transferring policyholders of Phoenix. This is because the capital support that will be available to provide security for benefits of the policies held by these policyholders should be calculated consistently with the level of capital support currently available to provide security for benefits, and because there will be no material changes to benefits for these policies as a consequence of the Scheme.

6.9. Notification to transferring Policyholders

I have reviewed the mailing pack prepared for transferring policyholders, which includes a Scheme Guide, a leaflet for with-profits policyholders, a question and answer leaflet and the related materials to be made available on the Phoenix websites. I am satisfied that the information regarding the proposals as contained therein adequately describes the proposals for transferring policyholders.

6.10. Conclusions on transferring Phoenix Policyholders

For the reasons set out above, I consider that the Scheme and associated reinsurance and security, will not materially adversely impact the fair treatment, rights and expected benefits of transferring policyholders of Phoenix. The effect of the proposed transfer on with-profits policyholders is also considered by the Phoenix With-Profits Actuary, as set out in Appendix A. I have read his report and am in agreement with its conclusions.

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7. EFFECT OF THE SCHEME ON NON-TRANSFERRING PHOENIX POLICIES

7.1. Security of Benefits

The policies in Phoenix that are not transferring under the Scheme will remain in the same funds as now and no changes are being proposed to their terms and conditions under the Scheme and there will be no change to the PCP. Overall the risks within the NPF will reduce slightly following implementation due to the transfer of the annuities, but there will be no material change for the WPFs due to the reinsurance.

Overall, as was shown in tables 7 and 8 in section 5, there is a small change to the financial position of Phoenix following implementation of the Scheme. Whilst this will increase the surplus in excess of the PCP, little reliance or benefit can be placed on this in terms of improving the security of policyholders for the reasons given in section 3.3.

I therefore consider that the level of capital support that will be available to provide security for benefits in Phoenix after implementation of the Scheme should at least be the same as the level of capital support available to provide security for benefits currently.

Were Phoenix to become insolvent, then the reinsurance would terminate and the security as provided to PLAE would crystalise. At that point PLAE would receive the 65% of BEL or the amount held in the collateral account if higher, provided for under the fixed charge, that could be applied in paying benefits to transferred customers of PLAE, and would rank equally with Phoenix through the floating charge. There is a remote possibility that the collateral account at the point of insolvency provides transferring Phoenix customers, via the WPF reinsurances, with more than the non-transferring customers of Phoenix. The collateral accounts are to be rebalanced regularly, and the possibility of Phoenix becoming insolvent is remote, so I am satisfied that this would have no material adverse effect on holders of non-transferring policies.

7.2. Benefit Expectations of non-transferring Policies

No changes are being proposed under the Scheme to the terms and conditions of existing Phoenix policies. No changes will be made to the way the existing policies of Phoenix are managed and implementation of the Scheme will not impact the way tax is charged to the unit-linked funds of Phoenix now or to the WPFs.

Appendix A contains a report from the With Profits Actuary of Phoenix. The key conclusions of that report are:

"In my opinion as With-Profits Actuary of the Alba WPF, the 90% WPF, the Phoenix WPF and the SPI WPF, the Scheme will not materially adversely affect the interests and reasonable expectations of the affected Phoenix with-profits customers and the protections afforded to these customers. In particular, I believe that the Scheme should have no material adverse impact on the security of customers' benefits and that the Scheme is consistent with treating customers fairly."

On this basis, I consider that there will be no reduction in the reasonable benefit expectations of current Phoenix policyholders as a result of the Scheme.

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7.3. Expenses

There will be no material change to the expenses charged to policies, or to the WPFs and NPF of Phoenix due to the Scheme.

7.4. Quality of Administration

The terms upon which administration services are currently provided to Phoenix by its outsourcers will continue to apply in respect of the non-transferring business in Phoenix following the Scheme. Therefore, there is no reason to expect the quality of administration or the level of service provided to non-transferring Phoenix policyholders to deteriorate as a consequence of the Scheme.

7.5. Treating Customers Fairly

I believe that the contents of the Scheme are consistent with the requirements to treat customers fairly with respect to the non-transferring policyholders in Phoenix. This is because the capital support that will be available to provide security for benefits of the policies held by these policyholders should be at least as much as the level of capital support currently available to provide security for benefits, and because there will be no changes to benefits or benefit expectations for these.

7.6. Notification to Policyholders

Policyholders who are not transferring are not materially affected by the Scheme as has been demonstrated above. There will be no changes to the terms and conditions of policies, the operation of Phoenix or the PCP as a result of the Scheme.

The number of policies being transferred out of Phoenix is small (approximately 1%) relative to the existing size of Phoenix and the reinsurance which is a condition of the Scheme means that there is no material change to the risk profile of Phoenix.

Therefore, I am satisfied that no notifications in respect of the Scheme need be sent to non-transferring Phoenix policyholders.

7.7. Conclusions on non-transferring Phoenix Policyholders

For the reasons set out above, and taking account of the opinion of the Phoenix With-Profits Actuary, I consider that the Scheme will not materially adversely change the position of current policyholders of Phoenix.

8. If the Scheme is delayed

If either the UK Scheme or the Irish Scheme were not sanctioned, then the transfer of the business can not be effected. The consequences would depend on the reasons for refusing to sanction either Scheme. If the issues leading to refusal could be remedied easily and quickly, RLL and Phoenix would seek to schedule a revised hearing to address the concerns

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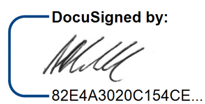
raised before the end of 2022. If the grounds for refusal could not be remedied, RLL and Phoenix would need to implement contingency plans for the business in scope to transfer.



A D Rendell
Fellow of the Institute and Faculty of Actuaries
30 June 2022

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Appendix A – Report by the Phoenix With-Profits Actuary