

MILLIMAN CLIENT REPORT

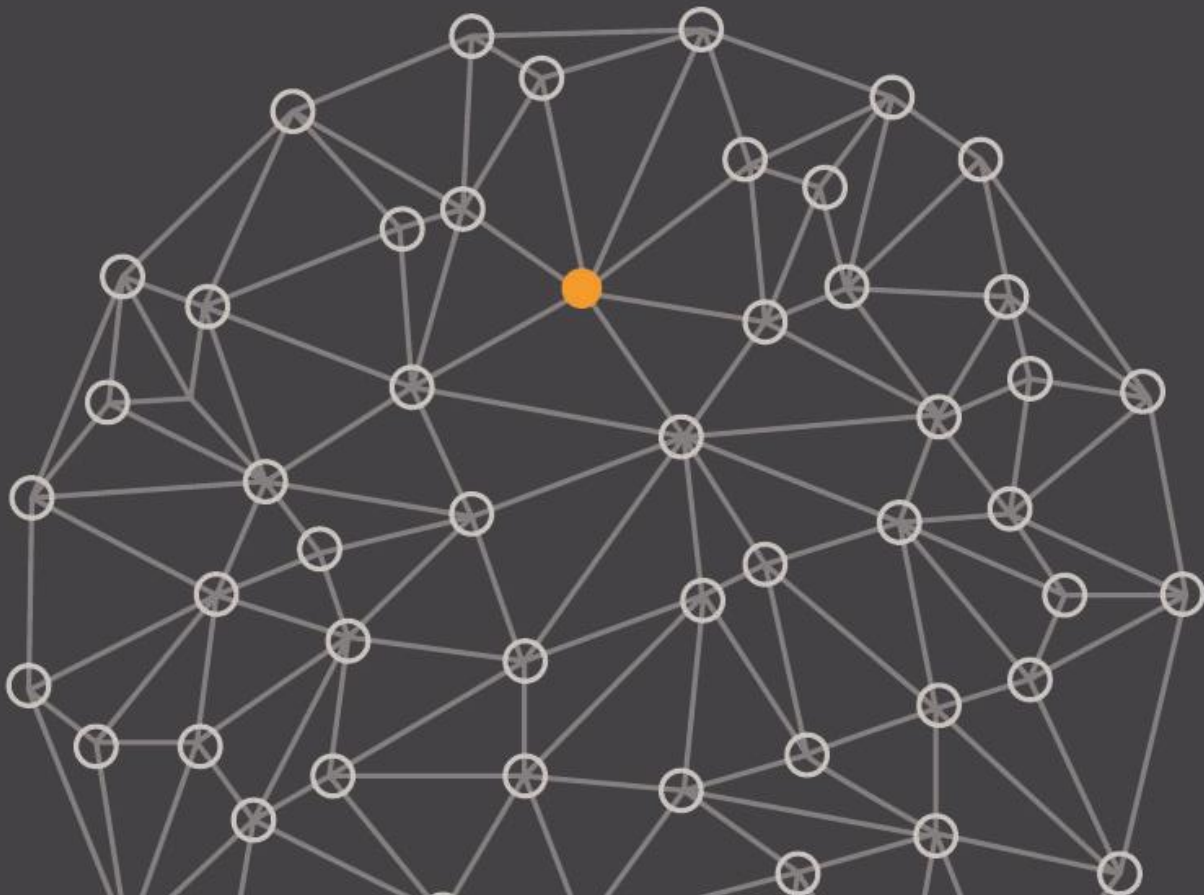
Phoenix Group Holdings Plc

Summary Report of the Independent Expert on the proposed transfer of the EEA business of ReAssure Life Limited (formerly Old Mutual Wealth Life Assurance Limited) and Phoenix Life Limited to Phoenix Life Assurance Europe DAC

Final Version

1 July 2022

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1. INTRODUCTION

INTRODUCTION

- 1.1 It is proposed to transfer particular blocks of long term insurance business of ReAssure Life Limited (“RLL”), Phoenix Life Limited (“PLL”) including all directly insured business in the Irish branch of PLL to Phoenix Life Assurance Europe DAC (“PLAE”), an Irish insurance company, by an insurance business transfer scheme (the “UK Scheme”), as defined in Section 105 of the Financial Services and Markets Act 2000 (“FSMA”). The implementations of the UK Scheme will require approval of the High Court of Justice in England and Wales (the “UK Court”).
- 1.2 Following the United Kingdom’s (“UK’s”) exit from the European Union (“EU”), the transfer of business in the Irish branch of PLL to PLAE will also require the approval of the High Court of Justice in Ireland (the “Irish Court”), as defined in the European Union (Insurance and Reinsurance) Regulations 2015. The transfer of business in the Irish branch (the “Irish Scheme”) will run parallel to the UK Scheme.
- 1.3 I refer to the UK Scheme and the Irish Scheme collectively as the “Schemes”. The transfers under the UK Scheme and the Irish Scheme are designed such that they are co-dependent, meaning that the transfers will only occur should both the UK Scheme and Irish Scheme be approved by the relevant court.
- 1.4 It is a requirement of the FSMA that an application to the UK Court for an insurance business transfer scheme must be accompanied by a report on the terms of the transfer (“the Independent Expert’s Report”) by an independent and suitably skilled person (“the Independent Expert”). Similarly, Section 13 of the Assurance Companies Act 1909 requires that an application to the Irish Court for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the transfer (the “Irish Scheme Report”) by an independent actuary (the “Independent Actuary”).
- 1.5 RLL, PLL and PLAE have together nominated me, Philip Simpson, to act as Independent Expert to the UK Court and Independent Actuary to the Irish Court.
- 1.6 This document (the “Summary Report”) sets out a summary of the Scheme together with a summary of my assessment of how the proposed transfer is likely to affect various groups of policyholders. My full assessment of the Scheme is set out in the Independent Expert’s Report (which I refer to as the “Main Report”), which is available on the RLL, PLL and PLAE websites. Please refer to the Main Report for the scope of my work and my conclusions, and the reliances, limitations and standards applying to my work. The Main Report and this summary do not provide financial or other advice to individual policyholders.
- 1.7 Shortly before the dates of the Court hearings at which an order sanctioning the relevant Scheme will be sought, I will prepare a supplementary report (the “Supplementary Report”) that will cover any relevant matters that have arisen since the date of this Summary Report and my Main Report.

BACKGROUND OF THE COMPANIES INVOLVED IN THE SCHEMES

- 1.8 Phoenix Group Holding plc (“PGH”) has a number of direct and indirect life insurance subsidiaries, including PLL, ReAssure Limited (“RAL”) and RLL. In this Summary Report, I refer to PGH and its direct and indirect subsidiaries collectively as the “Phoenix Group”.
- 1.9 PLL is domiciled and authorised in England and Wales, and is subject to the relevant requirements and guidelines of the Prudential Regulation Authority (“PRA”) and the Financial Conduct Authority (“FCA”). It also operates a branch in Ireland, where it is regulated by the Central Bank of Ireland (“CBI”) in respect of prudential supervision and conduct of business rules. The principal activity of PLL is the transaction of life assurance and pension business including with-profits, unit-linked and non-profit business.
- 1.10 RLL is domiciled and authorised in England and Wales, and is subject to the relevant requirements and guidelines of the PRA and the FCA. RLL is a direct subsidiary of ReAssure Group plc (“RGP”), which was acquired by the Phoenix Group in 2020. RLL’s principal activity is the transaction of life assurance and pension business including unit-linked and non-profit business.

- 1.11 Phoenix Life Assurance Europe DAC (“PLAE”) is domiciled in the Republic of Ireland, and an application for authorisation for it to transact long-term insurance business was submitted to the CBI in August 2021. PLAE is subject to the relevant requirements and guidelines of the CBI, and its principal activity, subject to approval of its application for authorisation, will be the transaction of life assurance and pension business that is in run-off. Following its authorisation PLAE will be closed to new business except for policies issued pursuant to guaranteed annuity options and other contractual entitlements of its business, such as annuity business in respect of vesting in-force pensions business. PLAE has also applied to the CBI for authorisation and permission to operate under the Freedom of Services regime under EU legislation in all EEA states in which it has been identified that a policyholder of the Transferred Business is currently resident.

THE STRUCTURE OF THIS SUMMARY REPORT

- 1.12 Figure 1.1 below sets out the paragraphs in this Section of this Summary Report relevant to the UK Scheme and the Irish Scheme.

FIGURE 1.1 SECTIONS OF SUMMARY REPORT RELEVANT TO THE UK SCHEME AND THE IRISH SCHEME

Section	Paragraphs	UK Scheme	Irish Scheme
1	1.1 to 1.11	✓	✓
2	2.1 to 2.9	✓	
3	3.1 to 3.9		✓
4	4.1 to 4.18	✓	✓
5	5.1 to 5.5	✓	✓
6	6.1 to 6.25	✓	
7	7.1 to 7.21	✓	
8	8.1 to 8.25		✓
9	9.1 to 9.8	✓	
10	10.1 to 10.7	✓	
11	11.1 to 11.8		✓
12	12.1 to 12.16	✓	
13	13.1 to 13.12		✓
14	14.1 to 14.18	✓	
15	15.1 to 15.17		✓
16	16.1 to 16.3	✓	
17	17.1 to 17.3		✓

2. THE PROPOSED UK SCHEME

MOTIVATION FOR THE UK SCHEME

- 2.1 In accordance with the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (“EEA Passport Rights”), prior to the UK’s withdrawal from the EU on 31 January 2020 (commonly referred to as “Brexit”), RLL and PLL were authorised to write and administer insurance business under EEA Passport Rights. Previously, and prior to Brexit, RLL was authorised to write and administer insurance business on a Freedom of Services basis in France, Germany, Norway, Spain, and Sweden; and PLL was authorised to write and administer insurance business on a freedom of establishment basis in Ireland and Freedom of Services basis in Ireland, Germany, and Iceland.

- 2.2 Following the UK's withdrawal from the EU and the subsequent end of the transition period on 31 December 2020, UK insurance companies are no longer permitted to use EEA Passport Rights to write and administer insurance business in the EEA. All of the relevant host regulators (i.e. those in Ireland, Germany, Sweden, Norway or Iceland) have confirmed that provided a portfolio transfer was initiated prior to the UK's withdrawal from the EU, they would allow the finalisation of such transfers from the UK to insurers in the EU, in line with the European Insurance and Occupational Pensions Authority ("EIOPA") Recommendation 5¹.
- 2.3 The PRA has confirmed that the UK Scheme is considered an initiated portfolio transfer and notified the relevant EEA regulators accordingly. As a result, under the relevant legislation, the UK Scheme must be sanctioned before 31 December 2022. Whilst the UK Scheme must be sanctioned before 31 December 2022, the Phoenix Group has obtained legal advice which concludes that under the relevant legislation there is no provision as to when the UK Scheme must become effective. In order to clarify this position further, on 15 June 2022 the Phoenix Group made a preliminary application to the UK Court to seek its position on this matter. The preliminary hearing confirmed that, without prejudice to any objections relating to potential adverse effects associated with the proposed Effective Date (which will be considered at the UK Sanction Hearing as usual), there is nothing that prohibits the UK Scheme from having an Effective Date after 31 December 2022. As a result of this legal advice and the outcome of the preliminary application, the proposed Effective Date of the UK Scheme is 1 January 2023, which I understand has been chosen by the Phoenix Group for operational efficiency reasons. I understand that the Phoenix Group has notified the relevant EEA regulators of the outcome of the preliminary application and of the proposed Effective Date.
- 2.4 RLL and PLL are undertaking the proposed Schemes to enable their EEA policyholders to continue to be administered by an EU insurer in a single EEA based entity, and to ensure consistency and continuity of administration in the event of future legislative and regulatory divergence between the EU and UK.

SUMMARY OF THE UK SCHEME

- 2.5 There are two tranches of business to be transferred (the "Transferred Business") under the proposed UK Scheme:
- The first tranche (the "RLL Transferred Business") consists of certain unit-linked saving, investment and protection products, and critical illness policies, all of which were underwritten by RLL for policyholders resident in Germany, Norway or Sweden at inception of the relevant policy.
 - The second tranche (the "PLL Transferred Business") consists of non-profit, including accelerated critical illness and term assurance policies, with-profits, annuities, unit-linked savings, and income protection policies. These policies were sold in Ireland (see paragraph 3.5 below), Iceland or Germany.
- 2.6 The proposed UK Scheme, if approved, would transfer all of the assets and liabilities associated with the Transferred Business, with the exception of any Residual Policies², from RLL and PLL to PLAE on the Effective Date (i.e. the date on and from which the UK Scheme becomes effective), which is expected to be 1 January 2023.
- 2.7 Figure 2.1 below sets out the number of policies and total best estimate liabilities ("BEL") associated with the Transferred Business as at 31 December 2021. Please note that the BEL associated with the RLL Transferred Business is quoted net of the Intra-Group Reinsurance Agreement ("IGR"), which is a reinsurance agreement between RLL and RAL which reinsures the risks of RLL to RAL (with the exception of operational risks and some counterparty default risks).

¹ On the 19 December 2019 EIOPA, published 'Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union', which stated that regulators should allow the finalisation of portfolio transfers from the UK to insurers within the EU, provided that they were initiated prior to the UK's withdrawal from the EU ("EIOPA Recommendation 5").

² Residual Policies are those within the Transferred Business that cannot be transferred to PLAE on the Effective Date. As and when all consents, permissions or other requirements have been obtained they would be transferred to PLAE. There are not expected to be any Residual Policies.

FIGURE 2.1 POLICY COUNT AND BEL ASSOCIATED WITH THE TRANSFERRED BUSINESS

31 December 2021	Policy Count	BEL (£m)
RLL Transferred Business	7,161	154*
PLL Transferred Business	21,611	754

* Net of the IGR with RAL.

Source: Provided by RLL and PLL

- 2.8 The UK Scheme is expected to be presented to the UK Court for a Directions Hearing³ on 11 July 2022 and for a Sanction Hearing⁴ on 18 October 2022.
- 2.9 The transfers under the UK Scheme and the Irish Scheme are designed such that they are co-dependent, meaning that the transfers will only occur should both the UK Scheme and Irish Scheme be approved by the relevant court. The proposed Schemes are identical in the terms that relate to the transfer of the Transferred Business to, and the operation of the Transferred Business in, PLAE.

3. THE PROPOSED IRISH SCHEME

MOTIVATION FOR THE IRISH SCHEME

- 3.1 In accordance with the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001, prior to Brexit PLL was authorised to write and administer insurance business under EEA Passport Rights on a freedom of establishment basis in Ireland via an Irish branch and Freedom of Services basis in Ireland, Germany, and Iceland.
- 3.2 Following the UK's withdrawal from the EU and the subsequent end of the transition period on 31 December 2020, UK insurance companies are no longer permitted to use EEA Passport Rights to write and administer insurance business in the EEA. The CBI has confirmed that provided a portfolio transfer was initiated prior to the UK's withdrawal from the EU, it would allow the finalisation of such transfers from the UK to insurers in the EU, in line with EIOPA Recommendation 5⁵.
- 3.3 It would be lawful for PLL to continue to administer business written in Ireland through its Irish branch. However, PLL does not wish to rely on a third country branch to run this business because:
- This could constrain the flexibility of benefits and range of services that policyholders can be provided with;
 - A third-country branch cannot use EEA Passport Rights to administer business in other EEA member states, and therefore there is no guarantee that PLL would be able to continue to provide benefits under, or administer, policies through its Irish branch for policyholders that are not resident in Ireland, including those who move to reside in other EEA member states; and
 - Options to transfer such business in an EEA jurisdiction may be more limited in future.
- 3.4 Therefore, PLL is undertaking the proposed Irish Scheme to provide certainty, as well as consistency and continuity, that its EEA policyholders will continue to be administered and receive benefits under their policies in the event of future legislative and regulatory divergence between the EU and UK.

³ A Directions Hearing is a short hearing at which the UK Court or Irish Court makes procedural orders with regard to a proposed transfer of insurance business, in particular in relation to communications with policyholders.

⁴ A Sanction Hearing is the hearing at which the UK Court or Irish Court hears the application to sanction a proposed transfer of insurance business.

⁵ On the 19 December 2019 EIOPA, published 'Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union', which stated that regulators should allow the finalisation of portfolio transfers from the UK to insurers within the EU, provided that they were initiated prior to the UK's withdrawal from the EU ("EIOPA Recommendation 5").

SUMMARY OF THE IRISH SCHEME

- 3.5 The proposed Irish Scheme transfers only a subset of the PLL Transferred Business to PLAE. It transfers all of the directly insured policies of PLL’s third country branch operation in Ireland (the “Irish PLL Transferred Business”); this includes non-profit, with-profits, annuities, unit-linked savings, and income protection policies. These were all sold in Ireland either via Irish branches of PLL’s predecessor entities (which were later acquired by PLL) or via cross-border passporting. For the avoidance of doubt, the Irish PLL Transferred Business is contained within the PLL Transferred Business described in paragraph 2.6 above and is captured by both the Irish Scheme and the UK Scheme.
- 3.6 The proposed Irish Scheme, if approved, would transfer all of the assets and liabilities associated with the Irish PLL Transferred Business, with the exception of any Irish PLL Residual Policies⁶, from PLL to PLAE on the Effective Date (i.e. the date on and from which the Irish Scheme becomes effective), which is expected to be 1 January 2023.
- 3.7 Figure 3.1 below sets out the number of policies and total best estimate liabilities associated with the Irish PLL Transferred Business as at 31 December 2021.

FIGURE 3.1 POLICY COUNT AND BEL ASSOCIATED WITH THE IRISH PLL TRANSFERRED BUSINESS

31 December 2021	Policy Count	BEL (£m)
Irish PLL Transferred Business	19,974	754

Source: Provided by PLL. Within rounding, the BEL for the Irish PLL Transferred Business is equal to the BEL for all of the PLL Transferred Business.

- 3.8 The Irish Scheme is expected to be presented to the Irish Court for a Directions Hearing⁷ on 18 July 2022. The date of the Irish Sanction Hearing will be confirmed at the Irish Directions Hearing⁸, however the date of the Irish Sanction Hearing is expected to be 1 November 2022.
- 3.9 The transfers under the UK Scheme and the Irish Scheme are designed such that they are co-dependent, meaning that the transfers will only occur should both the UK Scheme and Irish Scheme be approved by the relevant court. The proposed Schemes are identical in the terms that relate to the transfer of the Transferred Business to, and the operation of the Transferred Business in, PLAE.

4. THE UNIT-LINKED REINSURANCE AGREEMENTS, WITH-PROFITS REINSURANCE AGREEMENTS AND SECURITY ARRANGEMENTS ASSOCIATED WITH THE SCHEMES

- 4.1 RLL and PLL would enter into reinsurance agreements with PLAE in respect of the Transferred Business on the Effective Date (the “Unit-Linked Reinsurance Agreements” and the “With-Profits Reinsurance Agreements”). This section applies equally to the UK Scheme and the Irish Scheme.

UNIT-LINKED REINSURANCE AGREEMENTS

- 4.2 RLL and PLL maintain internal linked funds for the purposes of calculating benefits payable under their unit-linked policies (i.e. the “RLL Linked Funds” and “PLL Linked Funds”, respectively, together the “Linked Funds”). In order for the Transferred Policyholders to continue to have access to the same Linked Funds following the Effective Date, PLAE would establish identical funds (the “RLL New Linked Funds” and “PLL New Linked Funds”, together the “New Linked Funds”) to those relevant Linked Funds available to the Transferred Policyholders immediately before the Effective Date. The relevant assets and liabilities relating to the relevant Linked Funds of RLL and PLL would transfer to the RLL New Linked Funds and PLL New Linked Funds, respectively, under the UK Scheme⁹.

⁶Irish PLL Residual Policies are those within the Irish PLL Transferred Business that cannot be transferred to PLAE on the Effective Date. As and when all consents, permissions or other requirements have been obtained they would be transferred to PLAE. There are not expected to be any Irish PLL Residual Policies.

⁷A Directions Hearing is a short hearing at which the UK Court or Irish Court makes procedural orders with regard to a proposed transfer of insurance business, in particular in relation to communications with policyholders.

⁸A Sanction Hearing is the hearing at which the UK Court or Irish Court hears the application to sanction a proposed transfer of insurance business.

⁹The Irish Scheme does not involve RLL, and so does not transfer any assets and liabilities of Linked Funds of RLL.

- 4.3 If the Schemes were to be implemented, the investment element of the unit-linked Transferred Business would be immediately reinsured back to RLL and PLL under the RLL Unit-Linked Reinsurance Agreement and PLL Unit-Linked Reinsurance Agreement respectively, so RLL's and PLL's obligations to transfer the associated unit-linked assets to PLAE would be offset against PLAE's obligations to pay reinsurance premiums of equal amounts to RLL and PLL. The RLL Unit-Linked Reinsurance Agreement and PLL Unit-Linked Reinsurance Agreement are referred to collectively as the "Unit-Linked Reinsurance Agreements".
- 4.4 The Unit-Linked Reinsurance Agreements have the effect that the unit-linked Transferred Policyholders will be invested in exactly the same funds after the Effective Date as immediately prior to the Effective Date.
- 4.5 PLAE would have floating charges over all of the available assets held by each of RLL and PLL (that is, all assets except those over which RLL or PLL is unable to grant security) in order to minimise its counterparty exposure resulting from the Unit-Linked Reinsurance Agreements (and the With-Profits Reinsurance Agreements). I refer to these floating charges as the "RLL Floating Charge" and the "PLL Floating Charge", or collectively the "Floating Charges". For the avoidance of doubt, the PLL Floating Charge is a single charge which covers the PLL Unit-Linked Reinsurance Agreement and the With-Profits Reinsurance Agreements. As the processes for terminating the RLL Unit-Linked Reinsurance Agreement and the PLL Unit-Linked Reinsurance Agreement are not as complex, and therefore not as time consuming, as those associated with the With-Profits Reinsurance Agreements (which are described below), I am satisfied there is not a need for PLAE to also have fixed charges in respect of the Unit-Linked Reinsurance Agreements.
- 4.6 The Floating Charges each contain a provision which limits the recoverability to which PLAE is entitled to that of an unsecured insurance debt, therefore having the effect that PLAE would rank equally with the Non-transferring Policyholders (and other policyholders¹⁰) of RLL or PLL in the event of insolvency of RLL or PLL. The Floating Charges also contain a provision which ensures that the RLL Floating Charge and PLL Floating Charge will rank equally with (and not below) any existing or future floating charges granted by RLL or PLL respectively.
- 4.7 The Unit-Linked Reinsurance Agreements detail the circumstances in which the agreements can be terminated and the terms which must be followed upon termination, including the determination of a termination amount that PLL or RLL as applicable would be required to pay PLAE and the process to follow should PLAE dispute the calculation of the termination amount.
- 4.8 While the above description outlines the current expectations at the time of writing this Summary Report, the terms of the Unit-Linked Reinsurance Agreements and the associated Floating Charges are in final draft form and are expected to be finalised in advance of the UK Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Schemes, in my Supplementary Report. The Schemes contain a clause which requires that the Unit-Linked Reinsurance Agreements and the associated Floating Charges have been entered into prior to the Effective Date of the Schemes.

WITH-PROFITS REINSURANCE AGREEMENTS

- 4.9 PLL maintains a range of with-profits funds (the "PLL WPFs"). In order for the Irish PLL Transferred Policyholders to continue to have access to the same with-profits funds after the Effective Date, the Schemes require that PLAE establish four with-profits funds (the "New With-Profits Funds") in respect of each of the PLL WPFs in which the Irish PLL Transferred Business is currently allocated. Under the Schemes, assets and liabilities relating to Irish PLL Transferred Business in the PLL WPFs would transfer to the respective New With-Profit Funds of PLAE.
- 4.10 If the Schemes were to be implemented, the liabilities associated with the Transferred Business allocated to the PLL WPFs would be immediately reinsured back to PLL under the With-Profits Reinsurance Agreements, so PLL's obligation to transfer the associated with-profits assets to PLAE would be offset against PLAE's obligation to pay reinsurance premiums of an equal amount to PLL.
- 4.11 The With-Profits Reinsurance Agreements have the effect that the Irish PLL Transferred Policyholders currently allocated to the PLL WPFs would continue to have benefits payable calculated by reference to the performance and financial position of the same PLL WPF after the Effective Date as prior to the Effective Date, although they would be holders of policies with PLAE rather than PLL. It also prevents the need to split the PLL WPFs between PLL and PLAE.

¹⁰ This includes any new business written by RLL or PLL and any new policies that arise in relation to existing policies.

- 4.12 PLAE would have a mixture of fixed and floating charges (the “WP Fixed Charges” and the “PLL Floating Charge” respectively) over the assets of PLL in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements, which would minimise its counterparty exposure arising from the With-Profits Reinsurance Agreements. For the avoidance of doubt, the PLL Floating Charge is a single charge which covers the PLL Unit-Linked Reinsurance Agreement and the With-Profits Reinsurance Agreements. The overall result of the WP Fixed Charges and the PLL Floating Charge is that in the event that PLL became insolvent, PLAE would rank equally to the PLL Non-transferring Policyholders (and other PLL policyholders¹¹) except in the extreme event where the PLL Non-transferring Policyholders (and other PLL policyholders) receive less than 65% of their BEL. The WP Fixed Charges contain a provision which prohibits PLL from granting any future security over the assets associated with the WP Fixed Charges, and the PLL Floating Charge contains a provision which ensures that the PLL Floating Charge will rank equally with (and not below) any existing or future floating charges granted by PLL.
- 4.13 The With-Profits Reinsurance Agreements detail the circumstances in which the agreements can be terminated and the terms which must be followed upon termination, including determination of a termination amount that PLL would be required to pay PLAE and the process to follow should PLAE dispute the calculation of the termination amount.
- 4.14 While the above description outlines the current expectations at the time of writing this Summary Report, the terms of the With-Profits Reinsurance Agreements and the associated WP Fixed Charges and PLL Floating Charge are in final draft form and are expected to be finalised in advance of the UK Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Schemes, in my Supplementary Report. The Schemes contain a clause which requires that the With-Profits Reinsurance Agreements and the associated WP Fixed Charges and PLL Floating Charge have been entered into prior to the Effective Date of the Schemes.

TERMINATION OF THE WITH-PROFITS REINSURANCE AGREEMENTS AND ON-GOING MANAGEMENT OF THE NEW WITH-PROFITS FUNDS

- 4.15 If, under the provisions of the “2009 Scheme” (the scheme that transferred the business from the SPI Fund of Scottish Provident Limited on 6 February 2009), PLL is no longer required to maintain any of the PLL WPFs to which the With-Profits Reinsurance Agreements apply, then the Schemes require PLAE to cease to maintain the relevant New With-Profits Fund. The UK Scheme requires the “Closure Uplift” (an increase in the benefit entitlement of a with-profits PLL Transferred Policy) to be determined by the PLAE Board such that it is no less than the amount determined by the PLL Board for these policies as if they were policies in the relevant PLL WPF.
- 4.16 If a With-Profits Reinsurance Agreement is terminated for any other reason, the PLAE Board may choose either to close the relevant New With-Profits Fund and transfer policyholders allocated to this fund to the PLAE Non-Profit Fund (“PLAE NPF”), or to maintain the relevant New With-Profits Fund without the benefit of the With-Profits Reinsurance Agreement.
- 4.17 In the event that a With-Profits Reinsurance Agreement is terminated for any reason other than PLL no longer being required to maintain the corresponding PLL WPF under the provisions of the 2009 Scheme, then:
- If the PLAE Board chooses to maintain the relevant New With-Profits Fund then the termination amount due from PLL to PLAE would be allocated to the New With-Profits Fund and the Schemes specify the governance and management arrangements that PLAE would be required to establish in respect of the relevant New With-Profits Fund. In addition, PLAE must obtain a certificate from an independent actuary stating that in their opinion the proposed changes do not materially adversely affect the reasonable expectations of policyholders, and must consult with and obtain prior approval of the CBI.

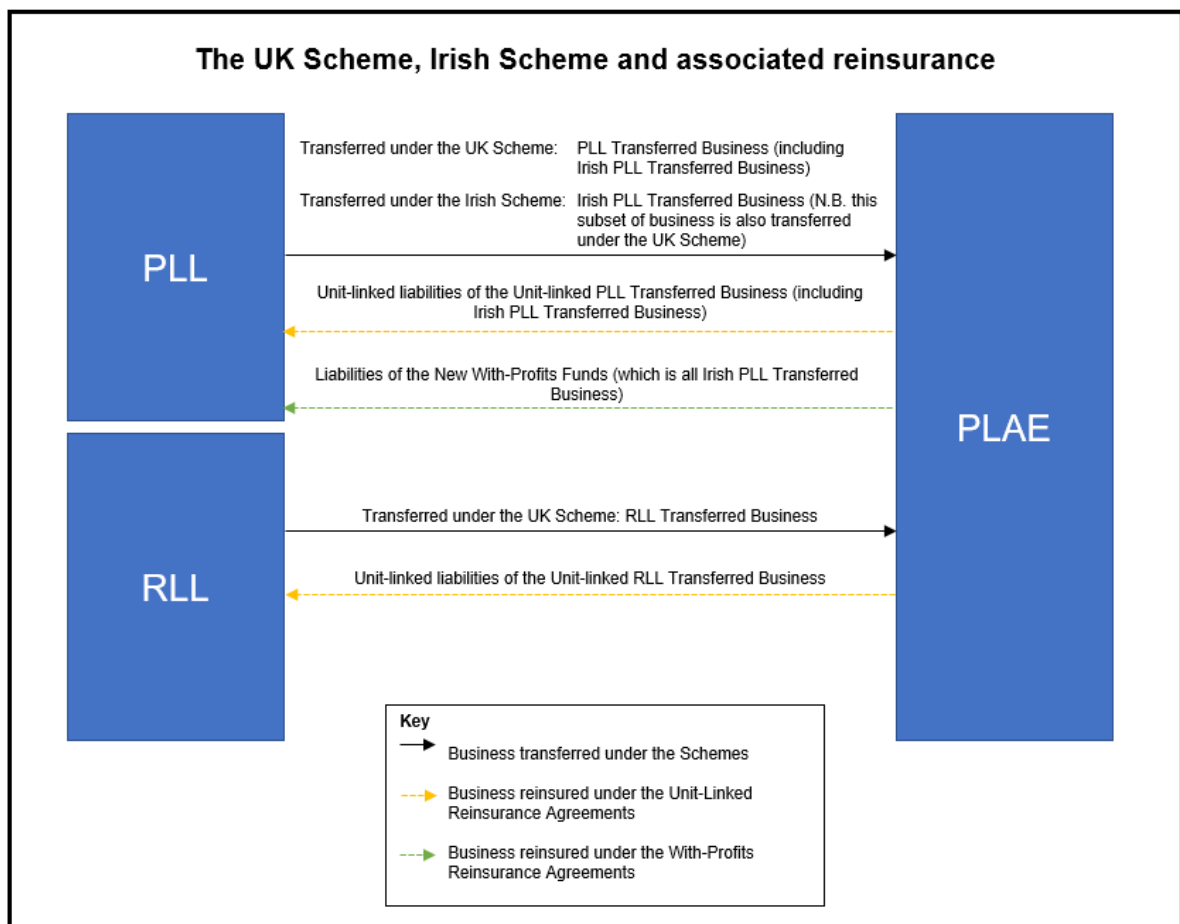
¹¹ This includes any new business written by PLL and any new policies that arise in relation to existing policies.

- If the PLAE Board chooses to close the relevant New With-Profits Fund, the assets and liabilities of the fund will be transferred to the PLAE NPF. Having regard to the advice of the Head of Actuarial Function (“HoAF”), PLAE will determine the relevant Closure Uplift to be applied, and whether converting the relevant with-profits PLL Transferred Policies to non-profit or unit-linked (or a combination of the two across different policies) is in the best interests of the relevant policyholders. In addition, PLAE must obtain a certificate from an independent actuary stating that in their opinion the proposed changes do not materially adversely affect the reasonable expectations of policyholders, and must consult with and obtain prior approval of the CBI. The Schemes also set out additional requirements that PLAE must adhere to when closing the relevant New With-Profits Fund.

STRUCTURE AFTER THE IMPLEMENTATION OF THE UK SCHEME, IRISH SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS AND WITH-PROFITS REINSURANCE AGREEMENTS

4.18 The following diagram summarises the structure of PLL, RLL and PLAE after the implementation of the proposed UK Scheme, Irish Scheme, Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements. Please note that the IGR arrangement between RLL and RAL (see paragraph 2.7) is not included within this diagram.

FIGURE 4.1 SUMMARY STRUCTURE AFTER THE UK SCHEME, IRISH SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS AND WITH-PROFITS REINSURANCE AGREEMENTS



5. MY CONSIDERATIONS WITH RESPECT TO THE PROPOSED SCHEMES

5.1 The key points to consider in respect of each group of policyholders affected by the proposed Schemes are the likely change (if any) to the following as a result of the implementation of the proposed Schemes:

- The security of policyholder benefits. This is derived from the financial strength available to provide security for the benefits under the applicable capital management policy and includes the strength provided by the reinsurance agreements and by the support from the Phoenix Group. It is also derived from any protection conferred by the UK's Financial Services Compensation Scheme ("FSCS") where applicable;
- The profile of risks to which the policies are exposed;
- The oversight provided by the regulatory regime that will apply to the policies;
- The reasonable expectations of policyholders in respect of their benefits; and
- The services provided to policyholders, including the likely effects of the Schemes on the standards of administration, service, management and governance applied to each group of policies.

5.2 I consider the likely impact of the Schemes on the following groups of policyholders:

- The impact of the UK Scheme on the PLL Transferred Policyholders; (including the Irish PLL Transferred Policyholders);
- The impact of the UK Scheme on the RLL Transferred Policyholders;
- The impact of the Irish Scheme on the Irish PLL Transferred Policyholders;
- The impact of the UK Scheme on the policyholders who would remain within PLL after the transfer has taken place (the "PLL Non-transferring Policyholders");
- The impact of the UK Scheme on the policyholders who would remain within RLL after the transfer has taken place (the "RLL Non-transferring Policyholders"); and
- The impact of the Irish Scheme on the PLL Non-transferring Policyholders, the German PLL Transferred Policyholders and the Icelandic PLL Transferred Policyholders¹².

5.3 Prior to the implementation of the Schemes PLAE will not have any policyholders.

PLL, RLL AND PLAE BALANCE SHEETS

5.4 Summarised pre-Schemes and pro-forma post-Schemes Solvency II Pillar 1 balance sheets for PLL and RLL as at 31 December 2021 are set out in Figures 5.1 and 5.2 below. The pro-forma post-Schemes balance sheets reflect the financial position of PLL, RLL and PLAE assuming the UK Scheme and the Irish Scheme had taken effect as at 31 December 2021.

FIGURE 5.1 SUMMARISED PRE-SCHEME SOLVENCY II PILLAR 1 BALANCE SHEETS AS AT 31 DECEMBER 2021

£m	PLL Pre-Schemes	RLL Pre-Schemes	PLAE Pre-Schemes
Own Funds	4,309	233	n/a
SCR	2,656	37	n/a
Excess assets after SCR	1,653	196	n/a
Solvency cover ratio	162%	636%	n/a

Source: Phoenix Group's 31 December 2021 Solvency and Financial Condition Report

¹² The transfer to PLAE of the German PLL Transferred Policies and the Icelandic PLL Transferred Policies would be effected by the UK Scheme; they are not transferred by the Irish Scheme. When considering the Irish Scheme, I therefore consider holders of those policies in addition to the PLL Non-transferring Policyholders (who will also not be transferred by the Irish Scheme). This is a technical point of detail relating to my role as Independent Actuary to the Irish Court. As the Irish Scheme will only be implemented with the UK Scheme, and vice versa, it has no practical implications.

FIGURE 5.2 SUMMARISED PRO-FORMA POST-SCHEME SOLVENCY II PILLAR 1 BALANCE SHEETS AS AT 31 DECEMBER 2021

£m	PLL Post-Schemes	RLL Post-Schemes	PLAE Post-Schemes
Own Funds	4,296	235	99
SCR	2,614	36	66
Excess assets after SCR	1,682	199	33
Solvency cover ratio	164%	661%	150%

Source: PLL Chief Actuary Report and RLL Chief Actuary Report

- 5.5 Please note that the solvency cover ratio of RLL is high as a result of the IGR between RLL and RAL, which significantly reduces RLL's SCR (the denominator used in the calculation of the ratio).

6. THE IMPACT OF THE UK SCHEME ON THE PLL TRANSFERRED POLICYHOLDERS

- 6.1 In this section I consider the likely effects on the PLL Transferred Policyholders of the implementation of the proposed UK Scheme.

THE EFFECT OF THE UK SCHEME ON THE SECURITY OF BENEFITS UNDER THE PLL TRANSFERRED POLICIES

- 6.2 I have considered the effect of the proposed UK Scheme on the security of benefits under the PLL Transferred Policies.

- 6.3 In summary, I have concluded that if the proposed UK Scheme were to be implemented:

- Both PLL and PLAE have capital management policies that follow the principles that underpin the Phoenix Group Life Companies Risk Appetite Framework ("Life Companies RAF") and so calibrate their minimum capital buffer in the same way;
- The management responses required following a breach of the minimum capital buffer are materially the same for PLL and PLAE;
- The governance arrangements in respect of any changes to the respective capital management policies are broadly equivalent between PLL and PLAE;
- Reliance on the financial strength of PLAE rather than PLL would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies;
- The PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies;
- As a result of the PLL Floating Charge and WP Fixed Charges, PLAE would rank at least equally to PLL Non-transferring Policyholders in the event of PLL insolvency;
- There would be no changes to the existing reinsurance arrangements used in respect of the PLL Transferred Business, other than that the arrangements would be transferred to PLAE (aside from one existing reinsurance contract in respect of the business in the Irish PLL Transferred Business which, given this business is to be reinsured back to PLL under the With-Profits Reinsurance Agreements, will not be transferred to PLAE but will instead be converted to a retrocession agreement¹³ for PLL);
- Both PLL and PLAE are members of the Phoenix Group, with PGH being the ultimate parent of both. It is therefore unlikely that the proposed UK Scheme would change PGH's willingness or ability to support the PLL Transferred Business; and
- The policyholder ranking upon wind-up of an Irish insurer is at least as favourable as the policyholder ranking upon wind-up of a UK insurer.

¹³ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

- 6.4 Some of the PLL Transferred Policies are covered under the FSCS, the UK's statutory 'fund of last resort'. There is no equivalent Irish compensation scheme for the types of policies held by the PLL Transferred Policyholders. Therefore it is likely that if the proposed UK Scheme were to be implemented, the eligible PLL Transferred Policyholders would no longer have access to a scheme offering protection in the event of insurer insolvency. However, I note that:
- The purpose of the proposed UK Scheme is to effect the transfer of the PLL Transferred Business to PLAE in order to provide certainty, as well as consistency and continuity, of the provision of administration and benefits following Brexit and the end of the transition period, and the loss of FSCS protection is an unavoidable consequence of this; and
 - Given that PLAE will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of default or insolvency of PLAE to be remote.
- 6.5 In addition, I understand that PLL has conducted internal analysis and believes that approximately half of PLL Transferred Policyholders are not currently covered by the FSCS; for such policyholders, the implementation of the UK Scheme would therefore not result in any changes to their compensation scheme eligibility.
- 6.6 Overall, I am satisfied that if the proposed UK Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the PLL Transferred Policies.

THE EFFECT OF THE UK SCHEME ON THE PROFILE OF RISKS TO WHICH THE PLL TRANSFERRED POLICIES ARE EXPOSED

- 6.7 If the proposed UK Scheme were to be implemented, the risk profiles of PLL and PLAE would differ considerably. Market risk, spread risk, longevity risk and other underwriting risks are the most significant components of PLL's risk profile; should the UK Scheme be implemented the largest risks to which PLAE would be exposed are longevity, spread and counterparty default risk. However, the risks to which PLAE will be exposed are typical of insurance entities, and the minimum capital it will be required to hold will reflect its risk profile.
- 6.8 I am satisfied that any change in risk profile exposure of PLL Transferred Policies as a result of the implementation of the proposed UK Scheme would not have a material adverse effect on the PLL Transferred Policies as:
- The longevity basis used by PLAE is specific to the annuities of the PLL Transferred Business and reflects the profile of these policyholders;
 - The spread risk is predominantly due to the corporate bond asset portfolio held to back the annuity business of the PLL Transferred Business;
 - The counterparty default risk is mainly as a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements and the risks associated with these agreements are mitigated by the corresponding Floating Charges and WP Fixed Charges; and
 - The With-Profits Reinsurance Agreements contain termination provisions which can be triggered if PLL is assigned a credit rating which is credit quality step 4 or below, in accordance with Solvency II standards (as they apply in the EU).¹⁴

THE EFFECT ON THE PLL TRANSFERRED POLICIES OF THE CHANGE IN REGULATORY REGIME FROM THE UK TO IRELAND

- 6.9 If the proposed UK Scheme were to be implemented, the PLL Transferred Policyholders would become part of PLAE, and so protected by the regulatory environment in Ireland rather than that of the UK as currently. Accordingly:
- The FCA will no longer have any responsibility in respect of conduct of business regulation, instead the CBI will have primary responsibility. There will be no change to the local host (country) regulator requirements which also need to be met. However, I have no reason to believe that the conduct of business regulations of the CBI would be any less robust than those applied by the FCA, in addition the principles of the CBI and the FCA in respect of conduct of business are generally aligned;
 - There is no requirement in Ireland for insurers with with-profits business to establish a With-Profits Committee ("WPC"); however, while the With-Profits Reinsurance Agreements are in place, the WPC of PLL will continue to consider issues related to the PLL Transferred Business;

¹⁴ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- The PLL Principles and Practices and Financial Management (“PPFM”), which governs the operation of PLL WPFs, will be updated to make clear that it applies to the PLL Transferred Policies reinsured back to the PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place;
- With regard to prudential supervision, which will be undertaken by the CBI rather than the PRA, the two regulators have aligned aims of promoting the strength and financial soundness of financial institutions;
- The solvency framework for insurers in Ireland and the UK is Solvency II; however, both the Solvency II regime itself and the UK’s adoption of the Solvency II regime are under review. Given the current stage of the review of Solvency II in the UK, I am unable to consider in detail the impact that any potential changes may have on the proposed Schemes. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime, the intended cooperation of the UK and the EU in relation to regulatory and supervisory matters, and the extended timeframe over which any changes to the solvency capital regime in the UK or the EU are likely to be considered. I will, however, consider any further developments relating to this matter in my Supplementary Report; and
- In most circumstances, after the implementation of the UK Scheme, there will be a change to the independent complaints service to which PLL Transferred Policyholders have access. However, the services provided are broadly similar to those currently available in the UK and I do not consider the differences to represent a material weakening in the independent complaints services available to PLL Transferred Policyholders. In addition, since PLL has previously referred complaints from PLL Transferred Policyholders to the independent complaints service in Ireland, the fact that in most circumstances following the implementation of the UK Scheme, the PLL Transferred Policyholders will be required to raise complaints with the independent complaints service in Ireland, does not represent a change to current practice.

6.10 Overall, I am satisfied that the change in regulatory regime from the UK to Ireland would not have a material adverse effect on the PLL Transferred Policies.

THE EFFECT OF THE UK SCHEME ON THE REASONABLE EXPECTATIONS OF THE PLL TRANSFERRED POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

6.11 If the proposed UK Scheme were to be implemented there would be no intended changes to the terms and conditions of the PLL Transferred Policies (aside from becoming policies of PLAE and therefore being administered in line with PLAE’s approach to administration). However, given the legacy nature of PLL’s business, it is possible that some of the PLL Transferred Policies will need to be interpreted in a way that is consistent with the operation of the UK Scheme, PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements, post transfer. An example is that some of the terms and conditions of the with-profits PLL Transferred Policies refer to the insurer maintaining funds by reference to which the benefits payable under the policies will be calculated. After the Effective Date, such terms and conditions would need to be interpreted as allowing benefits under these policies to be calculated, through the UK Scheme and With-Profits Reinsurance Agreements, by reference to the performance and financial position of the relevant PLL WPFs. The nature of such changes would not impact the way in which any affected policies are managed. In addition, the various aspects of the transfer which ensure that the implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the with-profits PLL Transferred Policies, as outlined in paragraph 6.15 below, would continue to apply to such policies.

6.12 For the non-profit PLL Transferred Policies, there would be no change to the benefits guaranteed under the policy, or the dates or contingencies on which these benefits would be paid.

6.13 For some Irish PLL Transferred Policyholders paying their policy premiums by bank transfer, Standing Order, Giro or cheque, after the UK Scheme there will be a change to the account into which payments are made. This will be highlighted in the Communications Packs, and a bespoke letter will also be sent to affected Irish PLL Transferred Policyholders ahead of the Effective Date. I understand that the Phoenix Group is novating the relevant bank accounts to PLAE and therefore all policyholder premiums should be received by PLAE following the Effective Date, regardless of whether an affected policyholder updates the payee account to which their premium payments are directed. I am therefore satisfied that the change in bank account into which certain policyholders pay premiums will not impact the benefit expectations of those policyholders.

6.14 The implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the unit-linked PLL Transferred Policies. This is because:

- There would be no change to the range of funds to which the unit-linked PLL Transferred Policies would have access, nor the management of these funds and no change to the number, value or type of units held; and
 - Where the charges to unit-linked policies are contractual, these would be unchanged, and where there is an element of discretion, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the PLL Board. I understand that confirming its approach to the exercise of discretion is a priority agenda item for the PLAE Board and has been added to the agenda for the PLAE Board meeting on 19 July 2022, I will provide an update on this matter in my Supplementary Report.
- 6.15 The implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the with-profits PLL Transferred Policies. This is because:
- Through the With-Profits Reinsurance Agreements, the with-profits PLL Transferred Policyholders will continue to participate in the same PLL WPFs and will continue to be entitled to the same share of the estate of the relevant PLL WPF;
 - Whilst the WP Fixed Charges held over segregated custodian accounts will require the splitting of assets within the relevant PLL WPFs, these assets will continue to be managed in line with the respective strategic asset allocation described in the PPFM;
 - There would be no change to the management of the PLL WPFs, nor the application of discretion;
 - The UK Scheme contains a provision which ensures that benefits payable to with-profits PLL Transferred Policyholders would be no less than if their policy was still allocated to the relevant PLL WPF;
 - Together, the UK Scheme and the With-Profits Reinsurance Agreements provide a clear governance structure that must be followed to effect the termination of the agreements, and to ensure that the PLL Transferred Policyholders are not materially adversely affected by PLAE's decision to either maintain or close the relevant New With-Profits Funds; and
 - All of the PLL WPFs have existing evergreen fixed expense agreements. This will be unchanged as a result of the transfer.
- 6.16 The Irish Revenue has confirmed that the proposed UK Scheme should not result in any tax consequences for annuities in payment contained within the PLL Transferred Business; however it is necessary to bulk transfer these policies to a new payroll system. The ability to perform the bulk transfer of these policies is still being confirmed with the relevant administration providers, and I will provide an update on this in my Supplementary Report. I understand from PLL that they anticipate that all administration providers will be able to perform the bulk transfer, and further it is not unusual for administration providers in Ireland to perform such transfers; however, should the PLL Transferred Policyholders suffer any detrimental changes to their tax status as a result of the proposed UK Scheme, PLAE would ensure ex-gratia payments are made to rectify the situation.
- 6.17 Based on the information provided, I am satisfied that there would not be a material adverse change to PLL Transferred Policyholders' tax liabilities following the implementation of the UK Scheme.
- 6.18 Overall, I am satisfied that the proposed UK Scheme would not have a material adverse effect on the reasonable expectations of the PLL Transferred Policyholders in respect of their benefits.

THE EFFECT OF THE UK SCHEME ON MANAGEMENT, GOVERNANCE, ADMINISTRATION AND SERVICING OF THE PLL TRANSFERRED POLICYHOLDERS

- 6.19 The PLL Transferred Business is currently subject to the management and governance of PLL and would, if the UK Scheme is implemented, be subject to the management and governance of PLAE. The PLAE Board consists of a majority of independent members.

- 6.20 If the proposed UK Scheme is implemented, there will be no change to the administration for Icelandic PLL Transferred Policies, German PLL Transferred Policies and the subset of Irish PLL Transferred Policies that is administered by SS&C International Managed Services Limited (“SS&C”). However; for the Icelandic PLL Transferred Policies and the German PLL Transferred Policies, where oversight of claims administration and referrals for decision making from the administration providers were previously undertaken by Diligenta Limited (“Diligenta”), these activities will now be undertaken by PLAE. For Irish PLL Transferred Policies administered by Diligenta, Mercer Limited (“Mercer”) or Unum Limited (“Unum”), after the UK Scheme the servicing model would be that Standard Life Assets & Employee Services Limited (“SLAESL”) (Irish branch) would provide personnel to PLAE to enable PLAE to carry out the regulated activities in this administration arrangement (that is, SLAESL would not be undertaking regulated activities in its own name in respect of these policies, but providing personnel who act “as” PLAE). Unregulated IT and back-office services and automated processes, not amounting to regulated nor IDD-related activities, would continue to be procured from Diligenta in the UK for the Irish PLL Transferred Policies currently administered by Diligenta, and would be provided by ReAssure UK Services Limited (“RUKSL”) in the UK for the Irish PLL Transferred Policies currently administered by Mercer or Unum (which is aligned to the approach being taken for RLL Transferred Policyholders).
- 6.21 PLAE is currently establishing its administration and servicing model in Ireland for the groups of policies outlined above for which the administration provider will change. However, I understand that PLAE’s overall aim is to provide administration and services equivalent to those under the contracts that PLL currently has in place in respect of the PLL Transferred Policies and that PLAE does not anticipate any change to the current service delivery levels following the implementation of the UK Scheme. In order to achieve this, the Master Service Agreement (“MSAs”) that PLAE and SLAESL (Irish branch) will enter into will contain service level metrics which are aligned to existing service level metrics, and the agreements that SLAESL (Irish branch) will enter into with external parties will maintain the features of the corresponding existing agreements. In addition, the MSA arrangements that PLAE enters into (either directly or indirectly through Phoenix Group service companies) will be aligned to the Phoenix Group Sourcing and Procurement Framework, Supplier Governance Framework and Supplier Management Model as applicable, ensuring consistency with existing services provided to PLL in respect of the PLL Transferred Policies. PLAE will also establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE’s customers, including oversight of outsourced activities.
- 6.22 In addition, the Phoenix Group is currently in the process of recruiting new staff members to perform services in respect of the PLL Transferred Business in Ireland, and is undertaking various measures to ensure that new staff members receive adequate training and handover from existing staff outsourcers to maintain the levels of administration and servicing of the relevant PLL Transferred Policies. PLAE has certain contingencies in place to ensure that the PLL Transferred Policies can continue to be serviced following the Effective Date including, if necessary, seconding existing staff in the UK to SLAESL (Irish branch) in Ireland in order to perform some or all of the required roles on a temporary basis.
- 6.23 Since the establishment of PLAE’s administration and servicing model and detailed implementation plan are still in progress at the time of writing this Summary Report, I will provide an update on this matter in my Supplementary Report.
- 6.24 I am satisfied that PLAE has adequate plans in place to ensure there is no deterioration in the levels of administration and servicing of the PLL Transferred Policies, including suitable measures to enable effective oversight of the PLL Transferred Policies and plans to ensure that new staff members providing services in respect of the PLL Transferred Policies are adequately trained to deliver services to the same standards as currently provided.
- 6.25 Overall, I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on the levels and standards of management, governance, administration and service that would apply to the PLL Transferred Business.

7. THE IMPACT OF THE UK SCHEME ON THE RLL TRANSFERRED POLICYHOLDERS

- 7.1 In this section I consider the likely effects on the RLL Transferred Policyholders of the implementation of the proposed UK Scheme.

THE EFFECT OF THE UK SCHEME ON THE SECURITY OF BENEFITS UNDER THE RLL TRANSFERRED POLICIES

7.2 I have considered the effect of the proposed UK Scheme on the security of benefits under the RLL Transferred Policies.

7.3 In summary, I have concluded that if the proposed UK Scheme were to be implemented:

- RLL is currently aligning its capital management policy such that it follows the principles that underpin the Life Companies RAF and PLAE's draft capital management policy also follows these principles, therefore they will calibrate their minimum capital buffer in the same way. The alignment of RLL's capital management policy with the Life Companies RAF is expected to complete in advance of the UK Sanction Hearing, and I will provide an update on this matter in my Supplementary Report;
- PLAE has a formalised plan should its solvency cover ratio fall below its capital buffer, however RLL does not have a formalised plan due to the existence of the IGR. Although there are differences in management responses required following a breach of the minimum capital buffer, these would not have a material adverse effect on the security of benefits of the RLL Transferred Policies;
- The governance arrangements in respect of any changes to the respective capital management policies are broadly equivalent between RLL and PLAE;
- Reliance on the financial strength of PLAE rather than RLL would not lead to a material adverse effect on the security of benefits under the RLL Transferred Policies;
- The RLL Unit-Linked Reinsurance Agreement would not lead to a material adverse effect on the security of benefits under the RLL Transferred Policies;
- As a result of the RLL Floating Charge, PLAE would rank equally to RLL Non-transferring Policyholders in the event of RLL insolvency;
- There would be no changes to the existing reinsurance arrangements used in respect of the RLL Transferred Business (other than that the arrangements would be transferred to PLAE), aside from the IGR between RLL and RAL which will no longer cover the risks associated with the RLL Transferred Business. The risks associated with the RLL Transferred Business would transfer to PLAE;
- Both RLL and PLAE are members of the Phoenix Group, with PGH being the ultimate parent of both. It is therefore unlikely that the proposed UK Scheme would change PGH's willingness or ability to support the RLL Transferred Business; and
- The policyholder ranking upon wind-up of an Irish insurer is at least as favourable as the policyholder ranking upon wind-up of a UK insurer.

7.4 Some of the RLL Transferred Policies are covered under the FSCS, the UK's statutory 'fund of last resort'. There is no equivalent Irish compensation scheme for the types of policies held by the RLL Transferred Policyholders. Therefore it is likely that if the proposed UK Scheme were to be implemented, the eligible RLL Transferred Policyholders would no longer have access to a scheme offering protection in the event of insurer insolvency. However, I note that:

- The purpose of the proposed UK Scheme is to effect the transfer of the RLL Transferred Business to PLAE in order to provide certainty, as well as consistency and continuity, of the provision of administration and benefits following Brexit and the end of the transition period, and the loss of FSCS protection is an unavoidable consequence of this; and
- Given that PLAE will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of default or insolvency of PLAE to be remote.

7.5 Overall, I am satisfied that if the proposed UK Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the RLL Transferred Policies.

THE EFFECT OF THE UK SCHEME ON THE PROFILE OF RISKS TO WHICH THE RLL TRANSFERRED POLICIES ARE EXPOSED

7.6 If the proposed UK Scheme were to be implemented, the risk profiles of RLL and PLAE would differ considerably, and the largest risks to which PLAE will be exposed are longevity, spread and counterparty default risk. However, the risks to which PLAE will be exposed are typical of insurance entities, and the minimum capital it will be required to hold will reflect its risk profile.

7.7 I am satisfied that any change in risk profile exposure of RLL Transferred Policies as a result of the implementation of the proposed UK Scheme would not have a material adverse effect on the RLL Transferred Policies as:

- The longevity basis used by PLAE is specific to the annuities of the PLL Transferred Business and reflects the profile of these policyholders;
- The spread risk is predominantly due to the corporate bond asset portfolio held to back the annuity business of the PLL Transferred Business;
- The counterparty default risk is mainly as a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements and the risks associated with these agreements are mitigated by the corresponding Floating Charges and WP Fixed Charges; and
- The With-Profits Reinsurance Agreements contain termination provisions which can be triggered if PLL is assigned a credit rating which is credit quality step 4 or below, in accordance with Solvency II standards (as they apply in the EU).¹⁵

THE EFFECT ON THE RLL TRANSFERRED POLICIES OF THE CHANGE IN REGULATORY REGIME FROM THE UK TO IRELAND

7.8 If the proposed UK Scheme were to be implemented, the RLL Transferred Policyholders would become part of PLAE, and so protected by the regulatory environment in Ireland rather than that of the UK as currently. Accordingly:

- The FCA will no longer have any responsibility in respect of conduct of business regulation, instead the CBI will have primary responsibility. There will be no change to the local host (country) regulator requirements which also need to be met. However, I have no reason to believe that the conduct of business regulations of the CBI would be any less robust than those applied by the FCA, in addition the principles of the CBI and the FCA in respect of conduct of business are generally aligned;
- With regard to prudential supervision, which will be undertaken by the CBI rather than the PRA, the two regulators have aligned aims of promoting the strength and financial soundness of financial institutions;
- The solvency framework for insurers in Ireland and the UK is Solvency II; however, both the Solvency II regime itself and the UK's adoption of the Solvency II regime are under review. Given the current stage of the review of Solvency II in the UK, I am unable to consider in detail the impact that any potential changes may have on the proposed Schemes. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime, the intended cooperation of the UK and the EU in relation to regulatory and supervisory matters, and the extended timeframe over which any changes to the solvency capital regime in the UK or the EU are likely to be considered. I will, however, consider any further developments relating to this matter in my Supplementary Report; and
- In most circumstances, after the implementation of the UK Scheme, there will be a change to the independent complaints service to which RLL Transferred Policyholders have access. However, the services provided are broadly similar to those currently available in the UK and I do not consider the differences to represent a material weakening in the independent complaints services available to RLL Transferred Policyholders.

7.9 Overall, I am satisfied that the change in regulatory regime from the UK to Ireland would not have a material adverse effect on the RLL Transferred Policies.

THE EFFECT OF THE UK SCHEME ON THE REASONABLE EXPECTATIONS OF THE RLL TRANSFERRED POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

7.10 If the proposed UK Scheme were to be implemented there would be no change to the terms and conditions of the RLL Transferred Policies (aside from becoming policies of PLAE and therefore being administered in line with PLAE's approach to administration).

7.11 For the non-profit RLL Transferred Policies, there would be no change to the benefits guaranteed under the policy, or the dates or contingencies on which these benefits would be paid.

7.12 The implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the unit-linked RLL Transferred Policies. This is because:

¹⁵ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- There would be no change to the range of funds to which the unit-linked RLL Transferred Policies would have access, nor the management of these funds and no change to the number, value or type of units held; and
 - Where the charges to unit-linked policies are contractual, these would be unchanged, and where there is an element of discretion, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the RLL Board. I understand that confirming its approach to the exercise of discretion is a priority agenda item for the PLAE Board and has been added to the agenda for the PLAE Board meeting on 19 July 2022, I will provide an update on this matter in my Supplementary Report.
- 7.13 Based on the information provided, I am satisfied that there would not be a material adverse change to RLL Transferred Policyholders' tax liabilities following the implementation of the UK Scheme.
- 7.14 Overall, I am satisfied that the proposed UK Scheme would not have a material adverse effect on the reasonable expectations of the RLL Transferred Policyholders in respect of their benefits.

THE EFFECT OF THE UK SCHEME ON MANAGEMENT, GOVERNANCE, ADMINISTRATION AND SERVICING OF THE RLL TRANSFERRED POLICYHOLDERS

- 7.15 The RLL Transferred Business is currently subject to the management and governance of RLL and would, if the UK Scheme is implemented, be subject to the management and governance of PLAE. The PLAE Board consists of a majority of independent members.
- 7.16 If the proposed UK Scheme is implemented, the administration provider for the RLL Transferred Policies will change from RUKSL to PLAE. SLAESL (Irish branch) would provide personnel to PLAE to enable PLAE to carry out the regulated activities in this administration arrangement (that is, SLAESL would not be undertaking regulated activities in its own name in respect of these policies, but providing personnel who act "as" PLAE). Unregulated IT and back-office services and automated processes, not amounting to regulated nor IDD-related activities, would continue to be provided by RUKSL in the UK.
- 7.17 PLAE is currently establishing its administration and servicing model in Ireland for the RLL Transferred Policies. However, I understand that PLAE's overall aim is to provide administration and services equivalent to those under the contracts that RLL currently has in place in respect of the RLL Transferred Policies and that PLAE does not anticipate any change to the current service delivery levels following the implementation of the UK Scheme. In order to achieve this, the MSA that PLAE and SLAESL (Irish branch) will enter into will contain service level metrics which are aligned to existing service level metrics. In addition, the MSA arrangements that PLAE enters into (either directly or indirectly through Phoenix Group service companies) will be aligned to the Phoenix Group Sourcing and Procurement Framework, Supplier Governance Framework and Supplier Management Model as applicable, ensuring consistency with existing services provided to RLL in respect of the RLL Transferred Policies. PLAE will also establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE's customers, including oversight of outsourced services.
- 7.18 In addition, the Phoenix Group is currently in the process of recruiting new staff members to perform services in respect of the RLL Transferred Business in Ireland, and is undertaking various measures to ensure that new staff members receive adequate training and handover from existing outsourcers to maintain the levels of administration and servicing of the RLL Transferred Policies. PLAE has certain contingencies in place to ensure that the RLL Transferred Policies can continue to be serviced following the Effective Date including, if necessary, seconding existing staff in the UK to SLAESL (Irish branch) in Ireland in order to perform some or all the required roles on a temporary basis.
- 7.19 Since the establishment of PLAE's administration and servicing model and detailed implementation plan are still in progress at the time of writing this Summary Report, I will provide an update on this matter in my Supplementary Report.
- 7.20 I am satisfied that PLAE has adequate plans in place to ensure there is no deterioration in the levels of administration and servicing of the RLL Transferred Policies, including suitable measures to enable effective oversight of its service providers and plans to ensure that new staff members providing services in respect of the RLL Transferred Policies are adequately trained to deliver services to the same standard as currently provided.

7.21 Overall, I am satisfied that the implementation of the UK Scheme would not have a material adverse effect on the levels and standards of management, governance, administration and service that would apply to the RLL Transferred Business.

8. THE IMPACT OF THE IRISH SCHEME ON THE IRISH PLL TRANSFERRED POLICYHOLDERS

8.1 In this section I consider the likely effects on the Irish PLL Transferred Policyholders of the implementation of the proposed Irish Scheme.

THE EFFECT OF THE IRISH SCHEME ON THE SECURITY OF BENEFITS UNDER THE IRISH PLL TRANSFERRED POLICIES

8.2 I have considered the effect of the proposed Irish Scheme on the security of benefits under the Irish PLL Transferred Policies.

8.3 In summary, I have concluded that if the proposed Irish Scheme were to be implemented:

- Both PLL and PLAE have capital management policies that follow the principles that underpin the Life Companies RAF and so calibrate their minimum capital buffer in the same way;
- The management responses required following a breach of the minimum capital buffer are materially the same for PLL and PLAE;
- The governance arrangements in respect of any changes to the respective capital management policies are broadly equivalent between PLL and PLAE;
- Reliance on the financial strength of PLAE rather than PLL would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies;
- The PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies;
- As a result of the PLL Floating Charge and WP Fixed Charges, PLAE would rank at least equally to PLL Non-transferring Policyholders in the event of PLL insolvency;
- There would be no changes to the existing reinsurance arrangements used in respect of the Irish PLL Transferred Business, other than that the arrangements would be transferred to PLAE (aside from one existing reinsurance contract in respect of the business in the Irish PLL Transferred Business which, given this business is to be reinsured back to PLL under the With-Profits Reinsurance Agreements, will not be transferred to PLAE but will instead be converted to a retrocession agreement¹⁶ for PLL);
- Both PLL and PLAE are members of the Phoenix Group, with PGH being the ultimate parent of both. It is therefore unlikely that the proposed Irish Scheme would change PGH's willingness or ability to support the PLL Transferred Business; and
- The policyholder ranking upon wind-up of an Irish insurer is at least as favourable as the policyholder ranking upon wind-up of a UK insurer.

8.4 Some of the Irish PLL Transferred Policies are covered under the FSCS, the UK's statutory 'fund of last resort'. There is no equivalent Irish compensation scheme for the types of policies held by the Irish PLL Transferred Policyholders. Therefore it is likely that if the proposed Irish Scheme were to be implemented, the eligible Irish PLL Transferred Policyholders would no longer have access to a scheme offering protection in the event of insurer insolvency. However, I note that:

- The purpose of the proposed Irish Scheme is to effect the transfer of the Irish PLL Transferred Business to PLAE in order to provide certainty, as well as consistency and continuity, of the provision of administration and benefits following Brexit and the end of the transition period, and the loss of FSCS protection is an unavoidable consequence of this; and
- Given that PLAE will be adequately capitalised and will be required to comply with Solvency II, I consider the likelihood of default or insolvency of PLAE to be remote.

¹⁶ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

- 8.5 In addition, I understand that PLL has conducted internal analysis and believes that approximately half of Irish PLL Transferred Policyholders are not currently covered by the FSCS; for such policyholders, the implementation of the Irish Scheme would therefore not result in any changes to their compensation scheme eligibility.
- 8.6 Overall, I am satisfied that if the proposed Irish Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the Irish PLL Transferred Policies.

THE EFFECT OF THE IRISH SCHEME ON THE PROFILE OF RISKS TO WHICH THE IRISH PLL TRANSFERRED POLICIES ARE EXPOSED

- 8.7 If the proposed Irish Scheme were to be implemented, the risk profiles of PLL and PLAE would differ considerably. Underwriting risk (driven by longevity risk) and market risk are the two most significant components of PLL's risk profile, whilst credit risk is also a material risk; should the UK Scheme be implemented the largest risks to which PLAE would be exposed are longevity, spread and counterparty default risk. However, the risks to which PLAE will be exposed are typical of insurance entities, and the minimum capital it will be required to hold will reflect its risk profile.
- 8.8 I am satisfied that any change in risk profile exposure of Irish PLL Transferred Policies as a result of the implementation of the proposed Irish Scheme would not have a material adverse effect on the Irish PLL Transferred Policies as:
- The longevity basis used by PLAE is specific to the annuities of the PLL Transferred Business and reflects the profile of these policyholders;
 - The spread risk is predominantly due to the corporate bond asset portfolio held to back the annuity business of the PLL Transferred Business;
 - The counterparty default risk is mainly as a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements and the risks associated with these agreements are mitigated by the Floating Charges and WP Fixed Charges; and
 - The With-Profits Reinsurance Agreements contain termination provisions which can be triggered if PLL is assigned a credit rating which is credit quality step 4 or below, in accordance with Solvency II standards (as they apply in the EU).¹⁷

THE EFFECT ON THE IRISH PLL TRANSFERRED POLICIES OF THE CHANGE IN REGULATORY REGIME FROM THE UK TO IRELAND

- 8.9 If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policyholders would become part of PLAE, and so protected by the regulatory environment in Ireland rather than that of the UK as currently. Accordingly:
- The FCA will no longer have any responsibility in respect of conduct of business regulation, instead the CBI will have primary responsibility. There will be no change to the local host (country)_regulator requirements which also need to be met. However, I have no reason to believe that the conduct of business regulations of the CBI would be any less robust than those applied by the FCA, in addition the principles of the CBI and the FCA in respect of conduct of business are generally aligned;
 - There is no requirement in Ireland for insurers with with-profits business to establish a WPC; however, while the With-Profits Reinsurance Agreements are in place, the WPC of PLL will continue to consider issues related to the Irish PLL Transferred Business;
 - The PLL PPFM, which governs the operation of PLL WPFs, will be updated to make clear that it applies to the Irish PLL Transferred Policies reinsured back to the PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place;
 - With regard to prudential supervision, which will be undertaken by the CBI rather than the PRA, the two regulators have aligned aims of promoting the strength and financial soundness of financial institutions;

¹⁷ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- The solvency framework for insurers in Ireland and the UK is Solvency II; however, both the Solvency II regime itself and the UK's adoption of the Solvency II regime are under review. Given the current stage of the review of Solvency II in the UK, I am unable to consider in detail the impact that any potential changes may have on the proposed Schemes. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime, the intended cooperation of the UK and the EU in relation to regulatory and supervisory matters, and the extended timeframe over which any changes to the solvency capital regime in the UK or the EU are likely to be considered. I will, however, consider any further developments relating to this matter in my Supplementary Report; and
- In most circumstances, after the implementation of the Irish Scheme, there will be a change to the independent complaints service to which Irish PLL Transferred Policyholders have access. However, the services provided are broadly similar to those currently available in the UK and I do not consider the differences to represent a material weakening in the independent complaints services available to Irish PLL Transferred Policyholders. In addition, since PLL has previously referred complaints from Irish PLL Transferred Policyholders to the independent complaints service in Ireland, the fact that in most circumstances following the implementation of the Irish Scheme, the Irish PLL Transferred Policyholders will be required to raise complaints with the independent complaints service in Ireland, does not represent a change to current practice.

8.10 Overall, I am satisfied that the change in regulatory regime from the UK to Ireland would not have a material adverse effect on the Irish PLL Transferred Policies.

THE EFFECT OF THE IRISH SCHEME ON THE REASONABLE EXPECTATIONS OF THE IRISH PLL TRANSFERRED POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

- 8.11 If the proposed Irish Scheme were to be implemented there would be no intended changes to the terms and conditions of the Irish PLL Transferred Policies (aside from becoming policies of PLAE and therefore being administered in line with PLAE's approach to administration). However, given the legacy nature of PLL's business, it is possible that some of the Irish PLL Transferred Policies will need to be interpreted in a way that is consistent with the operation of the Irish Scheme, PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements, post transfer. An example is that some of the terms and conditions of the with-profits Irish PLL Transferred Policies refer to the insurer maintaining funds by reference to which the benefits payable under the policies will be calculated. After the Effective Date, such terms and conditions would need to be interpreted as allowing benefits under these policies to be calculated, through the Irish Scheme and With-Profits Reinsurance, by reference to the performance and financial position of the relevant PLL WPFs. The nature of such changes would not impact the way in which any affected policies are managed. In addition, the various aspects of the transfer which ensure that the implementation of the Irish Scheme would not have a material adverse effect on the benefit expectations of the with-profits Irish PLL Transferred Policies, as outlined in paragraph 8.15 below, would continue to apply to such policies.
- 8.12 For the non-profit Irish PLL Transferred Policies, there would be no change to the benefits guaranteed under the policy, or the dates or contingencies on which these benefits would be paid.
- 8.13 For some Irish PLL Transferred Policyholders paying their policy premiums by bank transfer, Standing Order, Giro or cheque, after the Irish Scheme there will be a change to the account into which payments are made. This will be highlighted in the Communications Packs, and a bespoke letter will also be sent to affected Irish PLL Transferred Policyholders ahead of the Effective Date. I understand that the Phoenix Group is novating the relevant bank accounts to PLAE and therefore all policyholder premiums should be received by PLAE following the Effective Date, regardless of whether an affected policyholder updates the payee account to which their premium payments are directed. I am therefore satisfied that the change in bank account into which certain policyholders pay premiums will not impact the benefit expectations of those policyholders.
- 8.14 The implementation of the Irish Scheme would not have a material adverse effect on the benefit expectations of the unit-linked Irish PLL Transferred Policies. This is because:
- There would be no change to the range of funds to which the unit-linked Irish PLL Transferred Policies would have access, nor the management of these funds and no change to the number, value or type of units held; and

- Where the charges to unit-linked policies are contractual, these would be unchanged, and where there is an element of discretion, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the PLL Board and has been added to the agenda for the PLAE Board meeting on 19 July 2022, I understand that confirming its approach to the exercise of discretion is a priority agenda item for the PLAE Board once it is established in advance of the Effective Date, and I will provide an update on this matter in my Supplementary Report.
- 8.15 The implementation of the Irish Scheme would not have a material adverse effect on the benefit expectations of the with-profits Irish PLL Transferred Policies. This is because:
- Through the With-Profits Reinsurance Agreements, the with-profits Irish PLL Transferred Policyholders will continue to participate in the same PLL WPFs and will continue to be entitled to the same share of the estate of the relevant PLL WPF;
 - Whilst the WP Fixed Charges held over segregated custodian accounts will require the splitting of assets within the relevant PLL WPFs, these assets will continue to be managed in line with the respective strategic asset allocation described in the PPFM;
 - There would be no change to the management of the PLL WPFs, nor the application of discretion;
 - The Irish Scheme contains a provision which ensures that benefits payable to with-profits Irish PLL Transferred Policyholders would be no less than if their policy was still allocated to the relevant PLL WPF;
 - Together, the Irish Scheme and the With-Profits Reinsurance Agreements provide a clear governance structure that must be followed to effect the termination of the agreements, and to ensure that the Irish PLL Transferred Policyholders are not materially adversely affected by PLAE's decision to either maintain or close the relevant New With-Profits Funds; and
 - All of the PLL WPFs have existing evergreen fixed expense agreements. This will be unchanged as a result of the transfer.
- 8.16 The Irish Revenue has confirmed that the proposed Irish Scheme should not result in any tax consequences for annuities in payment contained within the Irish PLL Transferred Business; however it is necessary to bulk transfer these policies to a new payroll system. The ability to perform the bulk transfer of these policies is still being confirmed with the relevant administration providers, and I will provide an update on this in my Supplementary Report. I understand from PLL that they anticipate that all administration providers will be able to perform the bulk transfer, and further it is not unusual for administration providers in Ireland to perform such transfers; however, should the Irish PLL Transferred Policyholders suffer any detrimental changes to their tax status as a result of the proposed Irish Scheme, PLAE would ensure ex-gratia payments are made to rectify the situation.
- 8.17 Based on the information provided, I am satisfied that there would not be a material adverse change to Irish PLL Transferred Policyholders' tax liabilities following the implementation of the Irish Scheme.
- 8.18 Overall, I am satisfied that the proposed Irish Scheme would not have a material adverse effect on the reasonable expectations of the Irish PLL Transferred Policyholders in respect of their benefits.

THE EFFECT OF THE IRISH SCHEME ON MANAGEMENT, GOVERNANCE, ADMINISTRATION AND SERVICING OF THE IRISH PLL TRANSFERRED POLICYHOLDERS

- 8.19 The Irish PLL Transferred Business is currently subject to the management and governance of PLL and would, if the UK Scheme is implemented, be subject to the management and governance of PLAE. The PLAE Board consists of a majority of independent members.
- 8.20 If the proposed Irish Scheme is implemented, there will be no change to the administration for Irish PLL Transferred Policies administered by SS&C. For Irish PLL Transferred Policies administered by Diligenta, Mercer or Unum, after the Irish Scheme the servicing model would be that SLAESL (Irish branch) would provide personnel to PLAE to enable PLAE to carry out the regulated activities in this administration arrangement (that is, SLAESL would not be undertaking regulated activities in its own name in respect of these policies, but providing personnel who act "as" PLAE). Unregulated IT and back-office services and automated processes, not amounting to regulated nor IDD-related activities, would continue to be procured from Diligenta in the UK for the Irish PLL Transferred Policies currently administered by Diligenta, and would be provided by RUKSL in the UK for the Irish PLL Transferred Policies currently administered by Mercer or Unum (which is aligned to the approach being taken for RLL Transferred Policyholders).

- 8.21 PLAE is currently establishing its administration and servicing model in Ireland for the Irish PLL Transferred Policies for which the administration provider will change. However, I understand that PLAE's overall aim is to provide administration and services equivalent to those under the contracts that PLL currently has in place in respect of the Irish PLL Transferred Policies and that PLAE does not anticipate any change to the current service delivery levels following the implementation of the Irish Scheme. In order to achieve this, the MSA that PLAE and SLAESL (Irish branch) will enter into will contain service level metrics which are aligned to existing service level metrics, and the agreements that SLAESL (Irish branch) will enter into with external parties will maintain the features of the corresponding existing agreements. In addition, the MSA arrangements that PLAE enters into (either directly or indirectly through Phoenix Group service companies) will be aligned to the Phoenix Group Sourcing and Procurement Framework, Supplier Governance Framework and Supplier Management Model as applicable, ensuring consistency with existing services provided to PLL in respect of the Irish PLL Transferred Policies. PLAE will also establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE's customers, including oversight of outsourced activities.
- 8.22 In addition, the Phoenix Group is currently in the process of recruiting new staff members to perform services in respect of the Irish PLL Transferred Business in Ireland, and is undertaking various measures to ensure that new staff members receive adequate training and handover from existing outsourcers to maintain the levels of administration and servicing of the relevant Irish PLL Transferred Policies. PLAE has certain contingencies in place to ensure that the Irish PLL Transferred Policies can continue to be serviced following the Effective Date including, if necessary, seconding existing staff in the UK to SLAESL (Irish branch) in Ireland in order to perform some or all the required roles on a temporary basis.
- 8.23 Since the establishment of PLAE's administration and servicing model and detailed implementation plan are still in progress at the time of writing this Summary Report, I will provide an update on this matter in my Supplementary Report.
- 8.24 I am satisfied that PLAE has adequate plans in place to ensure there is no deterioration in the levels of administration and servicing of the Irish PLL Transferred Policies, including suitable measures to enable effective oversight of the Irish PLL Transferred Policies and plans to ensure that new staff members providing services in respect of the Irish PLL Transferred Policies are adequately trained to deliver services to the same standards as currently provided.
- 8.25 Overall, I am satisfied that the implementation of the Irish Scheme would not have a material adverse effect on the levels and standards of management, governance, administration and service that would apply to the Irish PLL Transferred Business.

9. THE IMPACT OF THE UK SCHEME ON THE PLL NON-TRANSFERRING POLICYHOLDERS

- 9.1 In this section I consider the likely effects on the PLL Non-transferring Policyholders of the implementation of the proposed UK Scheme.

THE EFFECT OF THE UK SCHEME ON THE SECURITY OF BENEFITS UNDER THE PLL NON-TRANSFERRING POLICIES

- 9.2 If the proposed UK Scheme were to be implemented:
- There would be no change to the PLL Capital Management Policy;
 - There would be no adverse effect on the financial strength of PLL;
 - The PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements would not have a material adverse effect on the security of benefits under the PLL Non-transferring Policies or on the ranking of PLL Non-transferring Policyholders in the event of PLL insolvency;
 - There would be no changes to the external reinsurance arrangements used by PLL in respect of the PLL Non-transferring Business;
 - There would be no material change to how PLL manages the reinsurance business currently accepted in the Irish branch of PLL from two external parties;
 - There would be no change to the availability of parental support from PGH to PLL; and
 - There would be no change to the FSCS eligibility of PLL Non-transferring Policyholders.

- 9.3 Therefore, I am satisfied that, if the proposed UK Scheme were to be implemented, there would be no material adverse effect on the security of the benefits under the PLL Non-transferring Policies.

THE EFFECT OF THE UK SCHEME ON THE PROFILE OF RISKS TO WHICH THE PLL NON-TRANSFERRING POLICIES ARE EXPOSED

- 9.4 If the proposed UK Scheme were to be implemented, the risk profile of PLL would be materially unchanged. I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on the profile of risks to which the PLL Non-transferring Policies are exposed.

THE EFFECT OF THE UK SCHEME ON THE REASONABLE EXPECTATIONS OF THE PLL NON-TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

- 9.5 If the proposed UK Scheme were to be implemented there would be no change to:
- The terms and conditions of the PLL Non-transferring Policies;
 - The governance or management of the PLL Non-transferring Policies;
 - The administration, servicing and asset management arrangements for the PLL Non-transferring Policies;
 - The range of funds to which the unit-linked PLL Non-transferring Policyholders have access and the management of these funds; or
 - The with-profits PLL Non-transferring Policyholders' participation in the relevant PLL WPFs and the management of these funds as they apply to with-profits PLL Non-transferring Policies. Whilst the WP Fixed Charges held over segregated custodian accounts will require the splitting of assets within the relevant PLL WPFs, these assets will continue to be managed in line with the respective strategic asset allocation described in the PPFM.
- 9.6 The with-profits PLL Transferred Business that is currently allocated to the PLL SPI With-Profits Fund ("PLL SPI WPF") represents 22% of the PLL SPI WPF by BEL as at 31 December 2021, and therefore the termination of the With-Profits Reinsurance Agreement in respect of the PLL SPI WPF may bring forward the estimated date at which the PLL SPI WPF is wound-up by two to three years. At the point that the SPI WPF is wound-up the with-profits PLL Non-transferring Policyholders that reside in the SPI WPF would have their policies reallocated to the PLL Non-Profit Fund and provided with alternative non-profit benefits, and this process would be subject to PLL obtaining appropriate actuarial advice and FCA approval. Overall I am satisfied that this would not materially adversely affect the reasonable benefit expectations of the relevant with-profits PLL Non-transferring Policyholders. This is because there will be no change to the sunset clause as a result of the proposed UK Scheme, the amount of time by which the UK Scheme is expected to bring the trigger point forward is not significant and PLL would be required to obtain appropriate actuarial advice regarding the fair treatment of policyholders under this process.
- 9.7 It is not anticipated that the With-Profits Reinsurance Agreements will be terminated in the short-term. However, if such termination does occur, there are adequate steps included within the With-Profits Reinsurance Agreements to ensure that the relevant PLL WPF is split fairly between PLL and PLAE, and that the termination amount paid by PLL to PLAE in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements would be fair to both the relevant with-profits PLL Non-transferring Policyholders and the relevant with-profits PLL Transferred Policyholders. I am therefore satisfied that there would be no material adverse effect on the reasonable benefit expectations of the with-profits PLL Non-transferring Policyholders.
- 9.8 Overall, I am satisfied that the implementation of the UK Scheme would not have a material adverse effect on the reasonable benefit expectations of the PLL Non-transferring Policyholders or on the standards of administration, service, management and governance that apply to the PLL Non-transferring Policies.

10. THE IMPACT OF THE UK SCHEME ON THE RLL NON-TRANSFERRING POLICYHOLDERS

- 10.1 In this section I consider the likely effects on the RLL Non-transferring Policyholders of the implementation of the proposed UK Scheme.

THE EFFECT OF THE UK SCHEME ON THE SECURITY OF BENEFITS UNDER THE RLL NON-TRANSFERRING POLICIES

10.2 If the proposed UK Scheme were to be implemented:

- There would be no change to the capital management policy adopted by RLL as a result of the UK Scheme;
- There would be no adverse effect on the financial strength of RLL;
- The RLL Unit-Linked Reinsurance Agreement would not have a material adverse effect on the security of benefits under the RLL Non-transferring Policies or on the ranking of RLL Non-transferring Policyholders in the event of RLL insolvency;
- There would be no changes to the IGR and external reinsurance arrangements used by RLL in respect of the RLL Non-transferring Business;
- There would be no change to the availability of parental support from PGH to RLL; and
- There would be no change to the FSCS eligibility of RLL Non-transferring Policyholders.

10.3 Therefore, I am satisfied that, if the proposed UK Scheme were to be implemented, there would be no material adverse effect on the security of the benefits under the RLL Non-transferring Policies.

THE EFFECT OF THE UK SCHEME ON THE PROFILE OF RISKS TO WHICH THE RLL NON-TRANSFERRING POLICIES ARE EXPOSED

10.4 If the proposed UK Scheme were to be implemented, the risk profile of RLL would be materially unchanged. I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on the profile of risks to which the RLL Non-transferring Policies are exposed.

THE EFFECT OF THE UK SCHEME ON THE REASONABLE EXPECTATIONS OF THE RLL NON-TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

10.5 If the proposed UK Scheme were to be implemented there would be no change to:

- The terms and conditions of the RLL Non-transferring Policies;
- The governance or management of the RLL Non-transferring Policies;
- The administration, servicing and asset management arrangements for the RLL Non-transferring Policies; or
- The range of funds to which the unit-linked RLL Non-transferring Policyholders have access and the management of these funds.

10.6 The Swedish Transferred Policies have recently been successfully migrated from existing RLL Linked Funds into separate Swedish Linked Funds. This migration was required because the way in which unit-linked Swedish Transferred Business is taxed changed from 1 January 2022 (it was not required to facilitate the implementation of the UK Scheme). The RLL Linked Funds are currently priced on a bid or offer basis according to net daily cash inflows (i.e. the price will be on an offer basis if the fund is net inflow and on a bid basis if the fund is net outflow). Whilst this split of the relevant RLL Linked Funds is not a direct consequence of the UK Scheme, it may result in some daily differences arising in the unit pricing bases for the two parts of the respective split funds due to fluctuations in daily cash flows of the RLL Linked Funds. However, as these RLL Linked Funds are closed to new business, and the information provided to me by RLL indicates that generally outgo is expected to exceed income, it is likely that the funds will be net outflow, and therefore usually priced on a bid basis. I am therefore satisfied that any differences will not be material, and it is not unreasonable to conclude that there would be no systematic material adverse impact on the unit-linked RLL Non-transferring Policyholders.

10.7 Overall, I am satisfied that the implementation of the UK Scheme would not have a material adverse effect on the reasonable benefit expectations of the RLL Non-transferring Policyholders or on the standards of administration, service, management and governance that apply to the RLL Non-transferring Policies.

11. THE IMPACT OF THE IRISH SCHEME ON THE PLL NON-TRANSFERRING POLICYHOLDERS

11.1 In this section I consider the likely effects on the PLL Non-transferring Policyholders of the implementation of the proposed Irish Scheme.

THE EFFECT OF THE IRISH SCHEME ON THE SECURITY OF BENEFITS UNDER THE PLL NON-TRANSFERRING POLICIES

11.2 If the proposed Irish Scheme were to be implemented:

- There would be no change to the PLL Capital Management Policy;
- There would be no adverse effect on the financial strength of PLL;
- The PLL Unit-Linked Reinsurance Agreement and With-Profits Reinsurance Agreements would not have a material adverse effect on the security of benefits under the PLL Non-transferring Policies or on the ranking of PLL Non-transferring Policyholders in the event of PLL insolvency;
- There would be no changes to the external reinsurance arrangements used by PLL in respect of the PLL Non-transferring Business;
- There would be no material change to how PLL manages the reinsurance business currently accepted in the Irish branch of PLL from two external parties;
- There would be no change to the availability of parental support from PGH to PLL; and
- There would be no change to the FSCS eligibility of PLL Non-transferring Policyholders.

11.3 Therefore, I am satisfied that, if the proposed Irish Scheme were to be implemented, there would be no material adverse effect on the security of the benefits under the PLL Non-transferring Policies.

THE EFFECT OF THE IRISH SCHEME ON THE PROFILE OF RISKS TO WHICH THE PLL NON-TRANSFERRING POLICIES ARE EXPOSED

11.4 If the proposed Irish Scheme were to be implemented, the risk profile of PLL would be materially unchanged. I am therefore satisfied that the implementation of the Irish Scheme would not have a material adverse effect on the profile of risks to which the PLL Non-transferring Policies are exposed.

THE EFFECT OF THE IRISH SCHEME ON THE REASONABLE EXPECTATIONS OF THE PLL NON-TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

11.5 If the proposed Irish Scheme were to be implemented there would be no change to:

- The terms and conditions of the PLL Non-transferring Policies;
- The governance or management of the PLL Non-transferring Policies;
- The administration, servicing and asset management arrangements for the PLL Non-transferring Policies;
- The range of funds to which the unit-linked PLL Non-transferring Policyholders have access and the management of these funds; or
- The with-profits PLL Non-transferring Policyholders' participation in the relevant PLL WPFs and the management of these funds as they apply to with-profits PLL Non-transferring Policies. Whilst the WP Fixed Charges held over segregated custodian accounts will require the splitting of assets within the relevant PLL WPFs, these assets will continue to be managed in line with the respective strategic asset allocation described in the PPFM.

11.6 The with-profits Irish PLL Transferred Business that is currently allocated to the PLL SPI WPF represents 22% of the PLL SPI WPF by BEL as at 31 December 2021, and therefore the termination of the With-Profits Reinsurance Agreement in respect of the PLL SPI WPF may bring forward the estimated date at which the PLL SPI WPF is wound-up by two to three years. At the point that the SPI WPF is wound-up the with-profits PLL Non-transferring Policyholders that reside in the SPI WPF would have their policies reallocated to the PLL Non-Profit Fund and provided with alternative non-profit benefits, and this process would be subject to PLL obtaining appropriate actuarial advice and FCA approval. I am therefore satisfied that this would not materially adversely affect the reasonable benefit expectations of the relevant with-profits PLL Non-transferring Policyholders. This is because there will be no change to the sunset clause as a result of the proposed Irish Scheme, the amount of time by which the Irish Scheme is expected to bring the trigger point forward is not significant and PLL would be required to obtain appropriate actuarial advice regarding the fair treatment of policyholders under this process.

- 11.7 It is not anticipated that the With-Profits Reinsurance Agreements will be terminated in the short-term. However, if such termination does occur, there are adequate steps included within the With-Profits Reinsurance Agreements to ensure that the relevant PLL WPF is split fairly between PLL and PLAE, and that the termination amount paid by PLL to PLAE in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements would be fair to both the relevant with-profits PLL Non-transferring Policyholders and the relevant with-profits PLL Transferred Policyholders. I am therefore satisfied that there would be no material adverse effect on the reasonable benefit expectations of the with-profits PLL Non-transferring Policyholders.
- 11.8 Overall, I am satisfied that the implementation of the Irish Scheme would not have a material adverse effect on the reasonable benefit expectations of the PLL Non-transferring Policyholders or on the standards of administration, service, management and governance that apply to the PLL Non-transferring Policies.

12. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO THE UK SCHEME

PROPOSED WAIVER APPLICATION

- 12.1 PLL and RLL intend to seek waivers from the regulatory requirements to send a written notice to the PLL Non-transferring Policyholders and the RLL Non-transferring Policyholders respectively. This is on the basis that the financial impact of the UK Scheme on these policyholders is not material, there is not expected to be any benefit to these policyholders in receiving communications about the UK Scheme as they will be unaffected by the proposal, and the significant costs of contacting these policyholders would outweigh any disadvantage of these policyholders not receiving communications about the UK Scheme.
- 12.2 In addition, I have concluded that the implementation of the proposed UK Scheme would have no material adverse effect on the Non-transferring Policyholders. I am therefore satisfied that the application for a waiver from the regulatory requirements to send a written notice to the Non-transferring Policyholders is reasonable.
- 12.3 In addition to the parties outlined above, RLL and PLL intend to seek waivers from the regulatory requirements to send a written notice to the following parties:
- Gone-aways (policyholders for whom a valid address is not held);
 - Joint policyholders (living at different addresses, with only the first or otherwise nominated policyholder to receive communications);
 - Beneficiaries and dependants (including in respect of pensions earmarking);
 - Assignees;
 - Trustees in bankruptcy;
 - The holder of the power of attorney; and
 - Deceased policyholders.
- 12.4 These waivers have been sought on the basis of practicality, impossibility and/or proportionality. I have reviewed the reasons why each of these waivers has been sought and I am satisfied that the application for a waiver to send a written notice to the parties outlined above is reasonable.
- 12.5 RLL and PLL intend to seek a waiver from the regulatory requirement to publish a notice in two UK newspapers, including any international editions of UK newspapers. This is on the basis that:
- Advertising in the UK (or international versions of UK publications) is considered unlikely to have the effect of notifying additional Transferred Policyholders than would be notified either through the mailing for the proposed UK Scheme or the additional advertising planned in Ireland due to the high number of Irish PLL Transferred Policyholders marked as 'gone-away' (see paragraph 12.10 below); and
 - As outlined in paragraph 12.1, there is not expected to be any benefit to Non-transferring Policyholders in receiving communications about the UK Scheme.

12.6 Based on the above, and since I have concluded that the implementation of the proposed UK Scheme would have no material adverse effect on the Non-transferring Policyholders, I am satisfied that the application for a waiver from the requirement to publish a notice in two UK national newspapers, including any international editions of UK newspapers, is reasonable.

THE COMMUNICATIONS PACK

12.7 The Transferred Policyholders for whom RLL or PLL holds a name and address (except for those populations where a mailing waiver has been granted by the UK Court) will be sent a “Communications Pack” about the UK Scheme prior to the UK Sanction Hearing to enable them to make representations to the UK Court if they feel they may be disadvantaged by the proposals.

12.8 I have reviewed the draft Communications Packs, and I am satisfied that the content highlights to the Transferred Policyholders the key elements of the UK Scheme of which they should be aware, including:

- The motivation, process and co-dependencies of the UK and Irish Schemes;
- How to raise an objection;
- The loss of future coverage under the FSCS as a result of the Irish Scheme, and reference to my conclusions on this;
- Impacts of the UK Scheme on the benefits, terms and conditions, administration and tax status;
- Confirmation that the costs of the UK Scheme will be met by PLL and RLL, and not the policyholders or with-profits funds of PLL or RLL; and
- Where currently available, the new contact details that policyholders should use to raise queries relating to their policy after the Effective Date.

12.9 In addition to the Communications Packs, there will be separate mailings to policyholders on specific matters. For example, separate letters will be sent to Transferred Policyholders impacted by the following:

- For some Irish PLL Transferred Policyholders it will be necessary for them to use updated payment details to pay their premiums after the Effective Date. The affected Irish PLL Transferred Policyholders will be provided with this information with sufficient time prior to the Effective Date to action the required changes.
- For some Transferred Policyholders the contact details that should be used to raise queries after the Effective Date will not be available at the time the Communications Pack is sent, and therefore these will be included in a separate letter.

THE APPROACH TO GONE-AWAYS

12.10 As at April 2022, 49 (less than 1%) of the Transferred Policyholders covered by the UK Scheme, excluding the Irish PLL Transferred Policyholders, were marked as ‘gone-away’. Of the Irish PLL Transferred Policyholders 2,661 (approximately 15%) were marked as gone-away. Due to the high level of gone-aways in Ireland, PLL will arrange additional advertising of the UK Scheme in three daily newspapers. In addition, PLL will make effort to reduce the number of gone-aways in Ireland in advance of the UK Scheme by publishing a separate advertisement in six daily newspapers in Ireland, aimed at re-establishing contact with gone-away policyholders.

POLICYHOLDER RESPONSES

12.11 RLL and PLL have made arrangements to manage policyholder responses to communications relating to the UK Scheme as well as to handle any objections received.

12.12 I will review the responses received from policyholders, including any objections received, and provide an update on these in my Supplementary Report.

CONCLUSION

12.13 I have reviewed the proposed communications strategy and drafts of the Communications Packs.

- 12.14 As detailed within this Report, PLAE is currently in the process of implementing various measures to ensure the operational readiness of its administration and servicing model. The Communications Packs highlight to Transferred Policyholders any change to the administration of their policy and I understand that where the proposed UK Scheme results in a change to the telephone numbers policyholders should use to contact the Phoenix Group, a separate targeted mailing will be sent in respect of this. I will ensure that I provide an update on this matter in my Supplementary Report.
- 12.15 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the waivers, is fair and reasonable, and that the information contained in the draft communications with policyholders adequately describes the proposals to policyholders.
- 12.16 The costs of the UK Scheme will be met by the shareholders of the Phoenix Group, and will not be met by any policyholders or with-profits funds of RLL or PLL. I am satisfied that this allocation of costs as described above is reasonable.

13. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO THE IRISH SCHEME

PROPOSED WAIVER APPLICATIONS

- 13.1 PLL intends to seek waivers from the regulatory requirements to send a written notice to the following parties:
- Gone-aways (policyholders for whom a valid address is not held);
 - Joint policyholders (living at different addresses, with only the first or otherwise nominated policyholder to receive communications);
 - Beneficiaries and dependants (including in respect of pensions earmarking);
 - Assignees;
 - Trustees in respect of bankruptcy;
 - The holder of the power of attorney; and,
 - Deceased policyholders.
- 13.2 These waivers have been sought on the basis of practicality, impossibility and/or proportionality. I have reviewed the reasons why each of these waivers has been sought and I am satisfied that the application for a waiver to send a written notice to the parties outlined above is reasonable.

THE COMMUNICATIONS PACK

- 13.3 The Irish PLL Transferred Policyholders for whom PLL holds a name and address (except for those populations where a mailing waiver has been granted by the Irish Court) will be sent a “Communications Pack” about the Irish Scheme prior to the Irish Sanction Hearing to enable them to make representations to the Irish Court if they feel they may be disadvantaged by the proposals.
- 13.4 I have reviewed the draft Communications Packs, and I am satisfied that the content highlights to the Irish PLL Transferred Policyholders the key elements of the Irish Scheme of which they should be aware, including:
- The motivation, process and co-dependencies of the UK and Irish Schemes;
 - How to raise an objection;
 - The loss of future coverage under the FSCS as a result of the Irish Scheme, and reference to my conclusions on this;
 - Impacts of the Irish Scheme on the benefits, terms and conditions, administration and tax status;
 - Confirmation that the costs of the Irish Scheme will be met by PLL, and not the policyholders or with-profits funds of PLL; and
 - Where currently available, the new contact details that policyholders should use to raise queries relating to their policy after the Effective Date.
- 13.5 In addition to the Communications Packs, there will be separate mailings to policyholders on specific matters. For example, separate letters will be sent to Transferred Policyholders impacted by the following:

- For some Irish PLL Transferred Policyholders it will be necessary for them to use updated payment details to pay their premiums after the Effective Date. The affected Irish PLL Transferred Policyholders will be provided with this information with sufficient time prior to the Effective Date to action the required changes.
- For some Transferred Policyholders the contact details that should be used to raise queries after the Effective Date will not be available at the time the Communications Pack is sent, and therefore these will be included in a separate letter.

THE APPROACH TO GONE-AWAYS

13.6 As at April 2022, 2,661 (approximately 15%) of the Irish PLL Transferred Policyholders were marked gone-away. Due to the high-level of gone-aways, PLL will arrange additional advertising of the Irish Scheme in three daily newspapers in Ireland. In addition, PLL will make efforts to reduce the number of gone aways in Ireland in advance of the Irish Scheme by publishing a separate advertisement in six daily newspapers in Ireland, aimed at re-establishing contact with gone-away policyholders.

POLICYHOLDER RESPONSES

13.7 PLL has made arrangements to manage policyholder responses to communications relating to the Irish Scheme as well as to handle any objections received.

13.8 I will review the responses received from policyholders, including any objections received, and provide an update on these in my Supplementary Report.

CONCLUSION

13.9 I have reviewed the proposed communications strategy and drafts of the Communications Packs.

13.10 As detailed within this Report, PLAE is currently in the process of implementing various measures to ensure the operational readiness of its administration and servicing model. The Communications Packs highlight to Irish PLL Transferred Policyholders any change to the administration of their policy and I understand that where the proposed Irish Scheme results in a change to the telephone numbers policyholders should use to contact the Phoenix Group, a separate targeted mailing will be sent in respect of this. I will ensure that I provide an update on this matter in my Supplementary Report.

13.11 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the waivers, is fair and reasonable, and that the information contained in the draft communications with policyholders adequately describes the proposals to policyholders.

13.12 The costs of the Irish Scheme will be met by the shareholders of the Phoenix Group, and will not be met by any policyholders or with-profits funds of PLL. I am satisfied that this allocation of costs of the Irish Scheme is reasonable.

14. OTHER CONSIDERATIONS IN RELATION TO THE UK SCHEME

WHAT WOULD HAPPEN WERE THE UK SCHEME NOT TO PROCEED?

14.1 If the UK Scheme does not proceed for any reason (or if a relevant EEA regulator objects to the UK Scheme, as outlined in paragraph 14.2 below), then the policies comprising the affected Transferred Business will not become policies of PLAE and will remain within RLL and PLL, respectively. This would mean that RLL's and PLL's ability to manage, administer and provide benefits to the Transferred Business in Germany, Norway, Sweden, Iceland and Ireland (as applicable) may be at risk of any changes to, or withdrawal of, regulations that allow the Transferred Business to be managed and administered in those countries by a UK insurance company. In particular, at short notice EEA regulators can withdraw permissions to allow the business to run off, and this possibility creates uncertainty for affected policyholders.

- 14.2 Following the UK Directions Hearing the relevant EEA regulators will be consulted on the UK Scheme by the PRA and will have the ability to object to the UK Scheme. I am therefore satisfied that the relevant EEA regulators will have sufficient opportunity to raise any objections they may have regarding the UK Scheme. If an EEA regulator objects to the UK Scheme then the UK Court would not have jurisdiction to transfer any policies for which the state of commitment is that jurisdiction and such policies would be excluded from the UK Scheme. In this scenario, the circumstances in paragraph 14.1 would apply to these excluded policies.

THE EFFECTIVE DATE OF THE UK SCHEME

- 14.3 As outlined in paragraph 2.2, the UK Scheme must be sanctioned by 31 December 2022. The proposed Effective Date for the UK Scheme is 1 January 2023. The Phoenix Group has obtained legal advice which concludes that under relevant legislation there is no provision as to when the UK Scheme must become effective, and this position was clarified further by the UK Court at a preliminary application on 15 June 2022, at which it confirmed that, without prejudice to any objections relating to potential adverse effects associated with the proposed Effective Date (which will be considered at the UK Sanction Hearing as usual), there is nothing that prohibits the UK Scheme from having an Effective Date after 31 December 2022.
- 14.4 The Phoenix Group has proposed an Effective Date of 1 January 2023, rather than one in 2022 that follows the Sanction Hearing, for operational efficiency reasons. In particular, the change in accounting standards from IFRS 4 to IFRS 17 on 1 January 2023 would result in PLAE being required to produce a balance sheet on an IFRS 4 basis for a very short period of time before moving to IFRS 17 if the effective date was in 2022. This would have operational and cost implications.
- 14.5 I am satisfied that this proposed Effective Date of 1 January 2023 does not affect my conclusions regarding the impact of the UK Scheme on policyholders compared with an effective date in 2022 after the Sanction Hearing. This is because an Effective Date on 1 January 2023 compared with an effective date in 2022 is an operational matter and would have no adverse effect on the security and reasonable expectations of Transferred Policyholders and Non-transferring Policyholders in respect of their benefits, or the levels and standards of administration and service that would apply. For the same reasons, if an effective date in 2022 were to be adopted instead of 1 January 2023, I am satisfied that this would not affect my conclusions on the UK Scheme.
- 14.6 The UK Scheme allows for the proposed Effective Date of 1 January 2023 to be deferred up to 1 April 2023 without a further UK Court application and I am satisfied that, if implemented, such a deferral of the Effective Date would not affect my conclusions regarding the impact of the UK Scheme on policyholders.

CO-DEPENDENCY OF THE UK SCHEME AND THE IRISH SCHEME

- 14.7 Due to the co-dependency of the UK Scheme and the Irish Scheme, if there were any delay to the Directions Hearing or Sanction Hearing in respect of the UK Scheme, I understand that the planned subsequent Directions Hearing and/or Sanction Hearing in respect of the Irish Scheme would be rescheduled where necessary to the earliest possible date once any issues in respect of the UK Scheme had been resolved. During this time, the policies comprising the Transferred Business would not become policies of PLAE and would remain within RLL and PLL until both the UK Scheme and the Irish Scheme are sanctioned by the UK Court and the Irish Court respectively and implemented by the Phoenix Group.
- 14.8 It is possible that at the Irish Directions Hearing, which is scheduled to occur after the UK Directions Hearing, the Irish Court requests changes to the policyholder communications. Should the Irish Court request such a change it would not be necessary for the UK Court to approve the change as the UK Court does not approve the exact form of policyholder communications.
- 14.9 It is possible that the Irish Court could request a change to the Irish Scheme which may be necessary to replicate in the UK Scheme after it has been sanctioned by the UK Court. I understand that in such a circumstance the Phoenix Group would notify the PRA, the FCA and myself and the UK Court would be asked to approve the change, as required by a clause of the UK Scheme.
- 14.10 I am satisfied that there is a process in place to make changes to the UK Scheme should they be required following a request by the Irish Court in order to ensure that the Schemes remain aligned. In addition, I will be made aware of the detail of the change and I will consider the impact of this on the Transferred Policyholders, PLL Non-transferring Policyholders and RLL Non-transferring Policyholders.

THE FUTURE OPERATION OF THE UK SCHEME

- 14.11 It is my understanding that subject to the approval of the UK Court, the Phoenix Group intends to transfer the business of Standard Life Assurance Limited (as set out in Standard Life Assurance Limited's 2020 year-end report and accounts), Standard Life Pensions Funds Limited and Phoenix Life Assurance Limited into PLL. I understand that this transfer would not directly involve PLAE.
- 14.12 Similarly, the Phoenix Group currently intends, in due course and subject to the approval of the UK Court, to seek to transfer the RLL Non-transferring Business from RLL and all of the business of RAL to PLL. This would mean that PLAE would become a subsidiary of PLL (rather than RAL), and PLL would become the sole intra-group reinsurer of the Transferred Business. Phoenix management does not expect the potential future transfer to occur before 2024 at the earliest. After the UK Scheme has been implemented PLAE would have a similar status to an RLL policyholder when it comes to any future transfers of business out of RLL, and thus would be protected by the Part VII transfer process undertaken to enact any such transfers.
- 14.13 I would expect the scheme(s) related to such intended transfers to abide by the provisions of the proposed UK Scheme where relevant.
- 14.14 In my opinion there are reasonable safeguards in place to ensure that, if approved by the UK Court, the UK Scheme will be operated as presented to the UK Court.

OPERATIONAL READINESS OF PLAE

- 14.15 PLAE is a newly established entity within the Phoenix Group, and the Phoenix Group has established an Operational Readiness project to ensure all aspects of operational readiness are in place prior to the Effective Date of the UK Scheme. I have been provided with an operational risk review that has been performed by Phoenix Group which shows that the overall level of operational risk has been assigned an Amber rating with a stable outlook, which is mainly due to the ongoing recruitment of SLAESL (Irish branch) personnel that will be involved in PLAE-related activity. The Phoenix Group is developing contingency plans in the event that recruitment is not completed in advance of the Effective Date, in order to ensure that the Transferred Policies can continue to be serviced following the Effective Date. I will continue to discuss this matter with the Phoenix Group and will provide an update in my Supplementary Report.
- 14.16 Overall, I understand that Phoenix Group has mitigations in place to address issues arising in respect of the operational matters identified as part of the operational risk review, and is currently undertaking various measures to minimise the likelihood of operational risks materialising. I will continue to discuss the progress of the Operational Readiness project with the Phoenix Group at regular intervals and provide an update on its progress, including the matters outlined in the above paragraphs, in my Supplementary Report.

THE COVID-19 PANDEMIC

- 14.17 I understand that PLL and RLL have factored COVID-19 experience data into their recent experience analysis and best estimate assumptions setting process, including both underwriting and market experience. PLL and RLL management do not consider the impact of COVID-19 on their balance sheets to be material. For PLAE, the most significant risk exposure is longevity risk (that is the risk that policyholders live longer than expected). Therefore the primary adverse impacts of the COVID-19 pandemic for PLAE would be through operational or market impacts (in contrast, benefits payable to annuitants would reduce as a result of more annuitant policyholders dying than expected), which are assessed within its Own Risk and Solvency Assessment ("ORSA"). In my view the COVID-19 pandemic does not provide any reason to change my conclusions regarding the UK Scheme.
- 14.18 Whilst currently I do not foresee that the COVID-19 pandemic will impact the ability of policyholders to engage with the transfer process, or the services provided by the Phoenix Group to policyholders, I will continue to monitor this and will provide an update in my Supplementary Report.

CONFLICT BETWEEN RUSSIA AND UKRAINE

14.19 I have been informed by RLL that, at the time of writing this Report, c.250 unit-linked Swedish RLL Transferred Policyholders hold units in RLL Linked Funds that have been suspended due to sanctions imposed as a result of the current conflict between Russia and Ukraine. If these funds remain suspended at the Effective Date, then RLL is not expected to change its approach to applying sanctions, and the suspensions would continue to affect the relevant unit-linked Swedish RLL Transferred Policyholders through the RLL Unit-Linked Reinsurance Agreement. I note that the UK Scheme will not directly affect the suspension of the affected RLL Linked Funds and therefore my conclusions are unaffected by these suspensions. I have been informed by PLL that, at the time of writing this Report, there are no PLL Transferred Policyholders who currently hold units in PLL Linked Funds that have been suspended. I will provide an update on this matter in my Supplementary Report.

15. OTHER CONSIDERATIONS IN RESPECT OF THE IRISH SCHEME

WHAT WOULD HAPPEN WERE THE IRISH SCHEME NOT TO PROCEED?

15.1 If the Irish Scheme does not proceed for any reason, then the policies comprising the Irish PLL Transferred Business will not become policies of PLAE and will remain within PLL¹⁸. I understand that in this scenario, PLL would continue to manage and administer the Irish PLL Transferred Business through its Irish branch, as is currently the case. Since a third-country branch cannot use EEA Passport Rights, there is no guarantee that PLL would be able to continue to provide benefits under, or administer, policies in respect of policyholders that are not resident in Ireland, including those who move to reside in other EEA member states. I understand that in this scenario PLL would manage this risk, acknowledging that it will not issue any policies to new policyholders in its Irish branch and that it would endeavour to satisfy its obligations to policyholders in accordance with the laws governing the policies and the rules governing PLL's activities.

THE EFFECTIVE DATE OF THE IRISH SCHEME

15.2 The proposed Effective Date of the Irish Scheme is 1 January 2023. The Phoenix Group has proposed an Effective Date of 1 January 2023 for operational efficiency reasons. In particular, the change in accounting standards from IFRS 4 to IFRS 17 on 1 January 2023 would result in PLAE being required to produce a balance sheet on an IFRS 4 basis for a very short period of time before moving to IFRS 17 if the effective date was in 2022. This would have operational and cost implications.

15.3 I am satisfied that this proposed Effective Date of 1 January 2023 does not affect my conclusions regarding the impact of the Irish Scheme on policyholders compared with an effective date in 2022. This is because an Effective Date on 1 January 2023 compared with an effective date in 2022 after the Sanction Hearing is an operational matter and would have no adverse effect on the security and reasonable expectations of Irish PLL Transferred Policyholders and Irish PLL Non-transferring Policyholders in respect of their benefits, or the levels and standards of administration and service that would apply. For the same reasons, if an effective date in 2022 were to be adopted instead of 1 January 2023, I am satisfied that this would not affect my conclusions on the Irish Scheme.

15.4 The Irish Scheme allows for the proposed Effective Date of 1 January 2023 to be deferred up to 1 April 2023 without a further Irish Court application, and I am satisfied that, if implemented, such a deferral of the Effective Date would not affect my conclusions regarding the impact of the Irish Scheme on policyholders.

CO-DEPENDENCY OF THE UK SCHEME AND THE IRISH SCHEME

15.5 Due to the co-dependency of the UK Scheme and the Irish Scheme, if there were any delay to the Directions Hearing or Sanction Hearing in respect of the UK Scheme, I understand that the planned subsequent Directions Hearing and/or Sanction Hearing in respect of the Irish Scheme would be rescheduled where necessary to the earliest possible date once any issues in respect of the UK Scheme had been resolved. During this time, the policies comprising the Transferred Business would not become policies of PLAE and would remain within RLL and PLL until both the UK Scheme and the Irish Scheme are sanctioned by the UK Court and the Irish Court respectively and implemented by the Phoenix Group.

¹⁸ The Irish PLL Transferred Business cannot be transferred to PLAE if the UK Scheme is sanctioned but the Irish Scheme is not.

15.6 In addition, due to the co-dependency of the UK Scheme and the Irish Scheme, if the Irish Scheme does not proceed for any reason, then equally the UK Scheme would not proceed. Therefore, the impact of the Irish Scheme not proceeding on the policies included within the UK Scheme but not the Irish Scheme (namely the RLL Transferred Business, the Icelandic PLL Transferred Business and the German PLL Transferred Business) would be equivalent to the impact on these policyholders of the UK Scheme not proceeding, which I discuss in paragraph 14.1 above.

THE FUTURE OPERATION OF THE IRISH SCHEME

15.7 It is my understanding that subject to the approval of the UK Court, the Phoenix Group intends to transfer the business of Standard Life Assurance Limited (as set out in Standard Life Assurance Limited's 2020 year-end report and accounts), Standard Life Pensions Funds Limited and Phoenix Life Assurance Limited into PLL. I understand that this transfer would not directly involve PLAE.

15.8 Similarly, the Phoenix Group currently intends, in due course and subject to the approval of the UK Court, to seek to transfer the RLL Non-transferring Business from RLL and all of the business of RAL to PLL. This would mean that PLAE would become a subsidiary of PLL (rather than RAL), and PLL would become the sole intra-group reinsurer of the Transferred Business. Phoenix management does not expect the potential future transfer to occur before 2024 at the earliest. After the Irish Scheme has been implemented PLAE would have a similar status to an RLL policyholder when it comes to any future transfers of business out of RLL, and thus would be protected by the Part VII transfer process undertaken to enact any such transfers.

15.9 I would expect the scheme(s) related to such intended transfers to abide by the provisions of the proposed UK Scheme where relevant.

15.10 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Irish Court, the Irish Scheme will be operated as presented to the Irish Court.

THE EFFECT OF THE PROPOSED IRISH SCHEME ON POLICIES INCLUDED WITHIN UK SCHEME BUT NOT THE IRISH SCHEME

15.11 In addition to the Irish PLL Transferred Policies that will transfer to PLAE under the Irish Scheme and the PLL Non-transferring Policies that will remain with PLL following the implementation of the Irish Scheme, there is a third group of policies within PLL to consider; the PLL Transferred Policies included within the UK Scheme but not the Irish Scheme (the Icelandic PLL Transferred Business and the German PLL Transferred Business). By virtue of the co-dependency of the UK Scheme and the Irish Scheme, my consideration of the impact of the UK Scheme on PLL Transferred Policies also captures the impact of the Irish Scheme on this group of policies. In paragraphs 6.16.1 to 6.25 I conclude that I am satisfied that the implementation of the proposed UK Scheme would not have a material adverse effect on:

- The security of benefits under the PLL Transferred Policies;
- The profile of risks to which the PLL Transferred Policies are exposed;
- The oversight provided by the regulatory regime that will apply to the PLL Transferred Policies; and
- The reasonable expectations of the PLL Transferred Policyholders in respect of their benefits, including the standards of administration, service, management and governance that apply to the PLL Transferred Policies.

15.12 Similarly, in paragraph 16.3 I provide my overall conclusions on the UK Scheme, which also captures the impact of the Irish Scheme on the PLL Transferred Policies included within the UK Scheme but not the Irish Scheme.

OPERATIONAL READINESS OF PLAE

- 15.13 PLAE is a newly established entity within the Phoenix Group, and the Phoenix Group has established an Operational Readiness project to ensure all aspects of operational readiness are in place prior to the Effective Date of the Irish Scheme. I have been provided with an operational risk review that has been performed by the Phoenix Group which shows that the overall level of operational risk has been assigned an Amber rating with a stable outlook, which is mainly due to the ongoing recruitment of SLAESL (Irish branch) personnel that will be involved in PLAE-related activity. The Phoenix Group is developing contingency plans in the event that recruitment is not completed in advance of the Effective Date, in order to ensure that the Transferred Policies can continue to be serviced following the Effective Date. I will continue to discuss this matter with the Phoenix Group and will provide an update in my Supplementary Report.
- 15.14 Overall, I understand that Phoenix Group has mitigations in place to address issues arising in respect of the operational matters identified as part of the operational risk review, and is currently undertaking various measures to minimise the likelihood of operational risks materialising. I will continue to discuss the progress of the Operational Readiness project with the Phoenix Group at regular intervals and provide an update on its progress, including the matters outlined in the above paragraphs, in my Supplementary Report.

THE COVID-19 PANDEMIC

- 15.15 I understand that PLL has factored COVID-19 experience data into its recent experience analysis and best estimate assumptions setting process, including both underwriting and market experience. PLL management does not consider the impact of COVID-19 on its balance sheet to be material. For PLAE, the most significant risk exposure is longevity risk (that is the risk that policyholders live longer than expected). Therefore the primary adverse impacts of the COVID-19 pandemic for PLAE would be through operational or market impacts (in contrast, benefits payable to annuitants would reduce as a result of more policyholders dying than expected), which are assessed within its ORSA. In my view the COVID-19 pandemic does not provide any reason to change my conclusions regarding the Irish Scheme.
- 15.16 Whilst currently I do not foresee that the COVID-19 pandemic will impact the ability of policyholders to engage with the transfer process, or the services provided by the Phoenix Group to policyholders, I will continue to monitor this and will provide an update in my Supplementary Report.

CONFLICT BETWEEN RUSSIA AND UKRAINE

- 15.17 I have been informed by PLL that, at the time of writing this Report, there are no Irish PLL Transferred Policyholders who currently hold units in PLL Linked Funds that have been suspended due to sanctions imposed as a result of the current conflict between Russia and Ukraine. I will provide an update on this matter in my Supplementary Report.

16. CONCLUSIONS ON THE UK SCHEME

- 16.1 I confirm that I have considered the issues affecting the various categories of policyholders of RLL and PLL separately, including both the policyholders that remain with RLL and PLL and those that transfer to PLAE under the UK Scheme. I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Summary Report) to be necessary.
- 16.2 I am satisfied that the implementation of the proposed UK Scheme would not have a material adverse effect on:
- The security of the benefits under the Transferred Policies and the Non-transferring Policies;
 - The profile of risks to which the Transferred Policies and the Non-transferring Policies are exposed;
 - The protection offered by the regulatory regime that would apply to the Transferred Policies; or
 - The reasonable expectations of the Transferred Policyholders and the Non-transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply.
- 16.3 I am satisfied that the UK Scheme is equitable to all classes and generations of RLL and PLL policyholders.

17. CONCLUSIONS ON THE IRISH SCHEME

- 17.1 I confirm that I have considered the issues affecting the various categories of policyholders of PLL, including the policyholders that remain with PLL, those of the Irish branch that transfer to PLAE under the Irish Scheme and those that transfer to PLAE under the UK Scheme but not the Irish Scheme (for whom I set out my conclusions in paragraph 16.2 and 16.3). I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Summary Report) to be necessary.
- 17.2 I am satisfied that the implementation of the proposed Irish Scheme would not have a material adverse effect on:
- The security of the benefits under the Irish PLL Transferred Policies and the PLL Non-transferring Policies;
 - The profile of risks to which the Irish PLL Transferred Policies and the PLL Non-transferring Policies are exposed;
 - The protection offered by the regulatory regime that would apply to the Irish PLL Transferred Policies; or
 - The reasonable expectations of the Irish PLL Transferred Policyholders and the PLL Non-transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply.
- 17.3 I am satisfied that the Irish Scheme is equitable to all classes and generations of PLL policyholders.

Handwritten signature of Philip Simpson, consisting of the initials 'P H' followed by the name 'Simpson' in a cursive script.

Philip Simpson

1 July 2022

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Fellow of the Society of Actuaries in Ireland