

MILLIMAN CLIENT REPORT

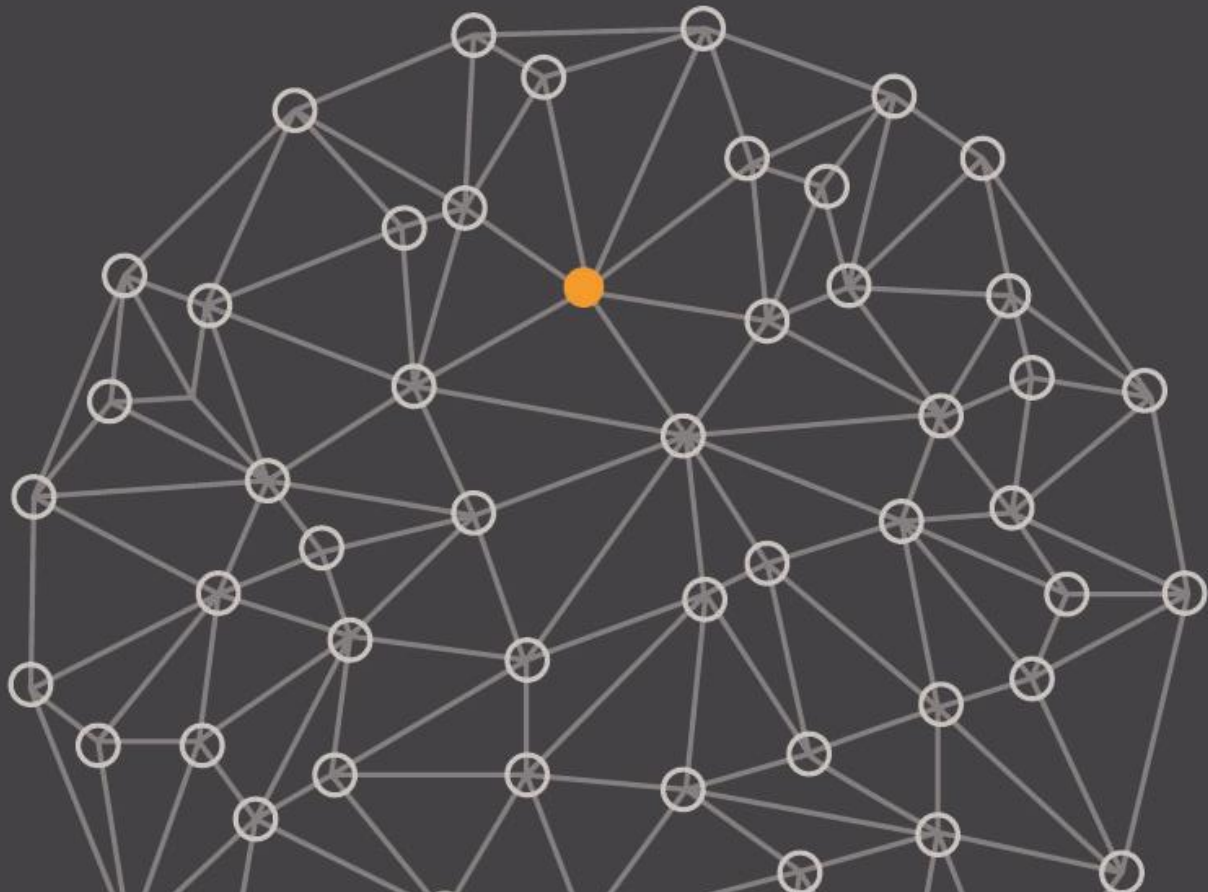
Phoenix Group Holdings Plc

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

Philip Simpson, FIA, FSAI





Contents

1. PURPOSE AND SCOPE.....	4
2. EXECUTIVE SUMMARY.....	12
3. THE INSURANCE MARKET AND REGULATORY ENVIRONMENT AND THE ROLE OF THE INDEPENDENT PERSON.....	46
4. BACKGROUND REGARDING THE ENTITIES CONCERNED IN THE SCHEMES.....	62
5. THE PROPOSED UK SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS, WITH-PROFITS REINSURANCE AGREEMENTS AND ASSOCIATED SECURITY ARRANGEMENTS	81
6. THE PROPOSED IRISH SCHEME, UNIT-LINKED REINSURANCE AGREEMENT, WITH-PROFITS REINSURANCE AGREEMENTS AND ASSOCIATED SECURITY ARRANGEMENTS	96
7. THE IMPACT OF THE UK SCHEME ON THE PLL TRANSFERRED POLICYHOLDERS	109
8. THE IMPACT OF THE UK SCHEME ON THE RLL TRANSFERRED POLICYHOLDERS.....	137
9. THE IMPACT OF THE IRISH SCHEME ON THE IRISH PLL TRANSFERRED POLICYHOLDERS	157
10. THE IMPACT OF THE UK SCHEME ON THE PLL NON-TRANSFERRING POLICYHOLDERS.....	184
11. THE IMPACT OF THE UK SCHEME ON THE RLL NON-TRANSFERRING POLICYHOLDERS	191
12. THE IMPACT OF THE IRISH SCHEME ON THE PLL NON-TRANSFERRING POLICYHOLDERS	196
13. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO THE UK SCHEME.....	203
14. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO IRISH SCHEME.....	209
15. OTHER CONSIDERATIONS IN RELATION TO THE UK SCHEME	213
16. OTHER CONSIDERATIONS IN RELATION TO THE IRISH SCHEME.....	220
17. CONCLUSIONS ON THE UK SCHEME	227
18. CONCLUSIONS ON THE IRISH SCHEME.....	228
APPENDIX A SELECTED FINANCIAL INFORMATION BEFORE THE IMPLEMENTATION OF THE SCHEME.....	229
APPENDIX B SELECTED FINANCIAL INFORMATION AFTER THE IMPLEMENTATION OF THE SCHEME	231
APPENDIX C DETAILS OF THE INTERACTION BETWEEN THE UK SCHEME AND THE IRISH SCHEME	233
APPENDIX D CV FOR PHILIP SIMPSON	235
APPENDIX E SCOPE OF THE WORK OF THE INDEPENDENT PERSON IN RELATION TO THE SCHEMES.....	236
APPENDIX F THE SOLVENCY II REGULATORY REGIME	238
APPENDIX G THE REGULATION AND GOVERNANCE OF INSURANCE COMPANIES IN THE UK AND IRELAND.....	242
APPENDIX H COMPLIANCE WITH THE PRA STATEMENT OF POLICY	247
APPENDIX I COMPLIANCE WITH THE FCA GUIDANCE	251
APPENDIX J COMPLIANCE WITH ADVICE FROM THE SOCIETY OF ACTUARIES IN IRELAND.....	258
APPENDIX K CERTIFICATE OF COMPLIANCE	264
APPENDIX L DEFINITIONS	265
APPENDIX M KEY SOURCES OF DATA	274

1. PURPOSE AND SCOPE

PURPOSE OF THIS REPORT

- 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”). RLL and PLL are the “Transferors” and PLAE is the “Transferee”.
- 1.2 Section 109 of FSMA requires that an application to the High Court of Justice in England and Wales (the “UK Court”) for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the transfer (the “UK Scheme Report”) by an independent person (the “Independent Expert”) having the skills necessary to make the report and who is nominated or approved by the Prudential Regulation Authority (“PRA”), having consulted with the Financial Conduct Authority (“FCA”). The UK Scheme Report is required in order that the UK Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.
- 1.3 Following the United Kingdom’s exit from the European Union (“EU”), the transfer of the direct 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”), in accordance with the European Union (Insurance and Reinsurance) Regulations 2015 (see Appendix C for further detail). The transfer of the direct business in the Irish branch (the “Irish Scheme”) will run parallel to the UK Scheme¹. Section 13 of the Assurance Companies Act 1909 requires that such 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”).
- 1.4 Both the UK Scheme Report and Irish Scheme Report, which for this transfer are identical (and referred to collectively as the “Scheme Report”), consist of this report (the “Report”) and any subsequent supplementary reports. 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. Appendix C sets out in more detail the co-dependencies of the UK Scheme and Irish Scheme, and the interactions between these schemes.
- 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. My role is collectively referred to as the “Independent Person”, to provide the Scheme Report in respect of the UK Scheme and the Irish Scheme (together the “Schemes”), and the PRA has approved my appointment following consultation with the FCA (see paragraph 1.27 below). Given the co-dependency of the UK Scheme and the Irish Scheme, RLL, PLL and PLAE consider it appropriate to appoint me to cover both roles collectively and include my analysis and conclusions on both Schemes in a single Scheme Report. The PRA, FCA and the Central Bank of Ireland “CBI”) have agreed to this approach.
- 1.6 This Report describes the proposed transfer and discusses its likely effects on the policyholders of RLL and PLL, in respect of the business remaining in RLL and PLL and the business transferring from RLL and PLL to PLAE, including its likely effects on the security of policyholder benefits and levels of service. As such, this Report fulfils the requirements of the Scheme Report.
- 1.7 RLL and PLL are both domiciled, authorised and regulated in the United Kingdom (“UK”). PLAE is domiciled and, once authorised, will be regulated in the Republic of Ireland (“Ireland”).
- 1.8 RLL, PLL and PLAE are all indirect subsidiaries of Phoenix Group Holdings plc (“PGH”). In this Report, I refer to PGH and its direct and indirect subsidiaries collectively as the “Phoenix Group”.
- 1.9 A list of terms defined in this Report is shown in Appendix L. Otherwise, I use the same defined terms as are in the documents that sets out the terms of the proposed transfer (the “Scheme documents”).

THE PROPOSED SCHEMES

- 1.10 There are two tranches of business to be transferred (the “Transferred Business”) under the proposed UK Scheme:

¹ An Irish Scheme is required as PLL has an Irish branch. PLL does not have any other branches and therefore no other parallel schemes are required.

- 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 1.11 below), Iceland or Germany.
- 1.11 As detailed in paragraph 1.3, following the UK’s exit from the EU, it is necessary to run an Irish Scheme in parallel with the UK Scheme. The proposed Irish Scheme transfers only a subset of the PLL Transferred Business to PLAE:
- It transfers all 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 1.10 above and is captured by both the Irish Scheme and the UK Scheme.
- 1.12 The proposed Schemes, 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 Schemes become effective), which is expected to be 1 January 2023. The UK Scheme and Irish Scheme documents allow for the Effective Date to be deferred up to 1 April 2023 without a further application to the UK Court or Irish Court.
- 1.13 The investment element of the unit-linked RLL Transferred Business and unit-linked PLL Transferred Business will be immediately reinsured back to RLL and PLL, respectively, while the non-investment risks are retained in PLAE. RLL’s and PLL’s respective obligations to transfer the associated unit-linked assets to PLAE under the Schemes will be set off against PLAE’s obligation to pay reinsurance premiums of an amount equal to the unit value of the respective business to RLL and PLL.
- 1.14 The Irish PLL Transferred Business written in a with-profits fund will be immediately reinsured back to PLL and so PLL’s obligation to transfer the associated with-profits funds’ assets to PLAE will be set off against PLAE’s obligation to pay a reinsurance premium of an equal amount to PLL.
- 1.15 PLAE will retain the non-investment element of the unit-linked RLL Transferred Business and unit-linked PLL Transferred Business and the non-unit-linked Transferred Business that is not written in a with-profits fund (which primarily consists of annuity business). These risks are to be retained by PLAE as they are not directly linked to market risk, and so do not need to be reinsured back to PLL or RLL to ensure those benefits are unchanged. Conversely, if PLAE were to retain the market risk associated with the Transferred Business then there would be various implications on policyholder benefits, operations and costs. The proposed reinsurances back to RLL and PLL address these implications on policyholder benefits, and minimise the duplication of costs and operations.
- 1.16 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.
- 1.17 The Irish Scheme is expected to be presented to the Irish Court for a Directions Hearing on 18 July 2022. The date of the Irish Sanction Hearing will be confirmed at the Irish Directions Hearing, however the date of the Irish Sanction Hearing is expected to be 1 November 2022.
- 1.18 The business involved in the Schemes, the arrangements for the Schemes and the effect of the Schemes are discussed in Sections 4 to 16 of this Report.

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.

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

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

THE INDEPENDENT EXPERT (UK) AND THE INDEPENDENT ACTUARY (IRELAND)

- 1.19 I am a Principal of Milliman LLP (“Milliman”) and I am based in its UK Life Insurance and Financial Services practice in London. I am a Fellow of the Institute and Faculty of Actuaries (“IFoA”), which was established in 2010 by the merger of the Institute of Actuaries and the Faculty of Actuaries. I became a Fellow of the Institute of Actuaries in 1992. My experience of life insurance includes acting previously as an Independent Expert, an Actuarial Function Holder and a With-Profits Actuary. I have included my Curriculum Vitae in Appendix C in which I explicitly note the insurance business transfer schemes for which I have acted as the Independent Expert or Independent Actuary.
- 1.20 I am a Fellow of the Society of Actuaries in Ireland have previously acted in Ireland as the Appointed Actuary to an Irish life insurance company and as a Reinsurance Signing Actuary for two Irish special purpose reinsurance vehicles. I have also previously acted as the Independent Actuary for a Section 13 transfer in Ireland and as the Independent Actuary for the transfer of long-term insurance business from Gibraltar into Ireland. More details on these transfers are included in Appendix C.
- 1.21 I am not an expert in the detailed application of the pan EU prudential regulation regime, Solvency II, by the Irish financial regulator (the CBI), or in market practice in Ireland. I have been advised in these areas by experienced qualified actuaries from Milliman Inc.’s large office in Dublin.
- 1.22 I do not have any direct or indirect personal interest in any of the parties involved in the proposed Schemes, and, to the best of my knowledge, have never had any such interest. I have never had any life insurance policies with any of the companies within the Phoenix Group, and I am not a shareholder or member of PLAE or of any other Phoenix Group entity.
- 1.23 I believe that, for all practical purposes, I am independent for the purposes of assessing the proposed Schemes.
- 1.24 The UK Scheme is subject to sanction by the UK Court under Section 111 of FSMA, and the Irish Scheme is subject to sanction by the Irish Court under Section 13 of the Assurance Companies Act 1909.
- 1.25 The costs associated with preparing and carrying out the proposed Schemes will be borne by the shareholder funds of RLL and PLL. This includes the costs of my work as Independent Expert. The costs of the Schemes will not be met by any policyholders of RLL, PLL or PLAE.
- 1.26 I understand that no other individuals have previously been appointed and subsequently vacated from acting as the Independent Expert or the Independent Actuary in respect of the proposed UK Scheme or Irish Scheme.

THE SCOPE OF MY REPORT

- 1.27 My terms of reference have been reviewed by the PRA, the FCA and the CBI and are set out in Appendix E.
- 1.28 I have considered the terms of the Schemes only and have not considered whether any other scheme or schemes or alternative arrangement might provide a more efficient or effective outcome.
- 1.29 The Report describes the Schemes and their likely effects on policyholders of RLL and PLL, including effects on the security of policyholders’ benefits, the profile of risks to which policyholders are exposed, policyholders’ reasonable benefit expectations and policy servicing standards.
- 1.30 In arriving at the conclusions in this Report, I have applied the concept of “materiality”, and considered whether I believe any group of policyholders in the round is “materially adversely affected” by the implementation of the Schemes. The phrase “material adverse effect” is used in Section 18 of the FCA Supervision Manual (“SUP18”) in the context of the transferee and considering policyholder security; however, it is not defined. If a potential effect of the Schemes is very unlikely to happen or has a very small impact, I do not consider it material. This is supported by the Prudential Rothesay judgement (see paragraphs 3.93 to 3.95) which states:
- “An adverse effect will only be material to the court’s consideration if it is: (i) a possibility that cannot sensibly be ignored having regard to the nature and gravity of the feared harm in the particular case, (ii) a consequence of the scheme, and (iii) material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.”*
- 1.31 The Report should be read in conjunction with the full terms of the Schemes.

- 1.32 My work has required an assessment of the liabilities of RLL, PLL and PLAE for the purposes of describing the effect of the Schemes. My review of the liabilities was based on the technical provision assessments conducted by internal actuaries, on behalf of RLL, PLL and PLAE. I have reviewed the methodology and assumptions used in their work and assessed the key areas of uncertainty in relation to these liabilities. I have not attempted to review in detail the calculations performed by the internal actuaries on behalf of RLL, PLL and PLAE or to produce independent estimates of the liabilities.
- 1.33 In addition to the liabilities, I have assessed the appropriateness in nature and amount of any assets to be transferred under the Schemes, and the capital position of RLL, PLL and PLAE both pre- and post-Schemes. Again, I have not attempted to review in detail the calculations of the capital position performed by RLL, PLL or PLAE, and I have not attempted to produce independently my own estimates. I discuss my reliance on financial information in this Report, and why I consider such reliance to be reasonable, in more detail in Section 3.
- 1.34 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Schemes and in preparing this Report, but which nonetheless should be drawn to the attention of policyholders in their consideration of the Schemes.
- 1.35 In reporting on the UK Scheme as the Independent Expert, I recognise that I owe a duty to the UK Court, and in reporting on the Irish Scheme as the Independent Actuary, I recognise that I owe a duty to the Irish Court to assist them on matters within my expertise. This duty overrides any obligation to RLL, PLL and / or to PLAE. I confirm that I have complied with these duties and will continue to comply with these duties throughout the course of my appointment as the Independent Expert and as the Independent Actuary.
- 1.36 I have taken account of the requirements regarding experts set out in Part 35 of the Civil Procedure Rules⁵, Practice Direction 35⁶ and the Guidance for the Instruction of Experts in Civil Claims 2014⁷ produced by the UK's Civil Justice Council.
- 1.37 I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.
- 1.38 This Report has been prepared following a period of great volatility in global and local economies, in the actions of national governments, in social and work activity and in consumer habits as a result of the COVID-19 pandemic. Following developments in relation to vaccinations and advances in treatments, the impact of COVID-19 has been reduced; however, there still remains uncertainties in relation to possible new variants and the impact of the winter season. I have considered the impact of the pandemic on the Schemes in Section 15 of this Report.
- 1.39 Shortly before the dates of the hearings at which orders sanctioning the UK Scheme and Irish 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 Report. As part of my preparation of the Supplementary Report, I shall review and comment on the then most up-to-date financial information relating to RLL, PLL and PLAE, as well as any further updates (as required) in respect of material developments relating to COVID-19 that are pertinent to the Schemes.
- 1.40 The letters, notices and advertisements to be sent to policyholders or published in relation to the Schemes will refer all queries to a postal address, a telephone number, an email address or a website address. RLL, PLL and PLAE have stated that they will respond promptly to any such queries.
- 1.41 It is intended that both this Report and the Supplementary Report will be published on the RLL, PLL and PLAE websites, and that copies will be sent to any policyholders who request them. In addition, a copy of the Supplementary Report will be sent to any policyholder who objects or makes a representation in respect of the Scheme, or who indicates they will attend either the UK Court hearing or Irish Court hearing.

THE STRUCTURE OF THIS REPORT

- 1.42 The remainder of this Report is set out as follows:
- Section 2: I provide an executive summary of this Report (I have also provided a separate summary of this Report, as described in paragraph 1.49, below).

⁵ *Rules & Practice Directions - Civil Procedure Rules (justice.gov.uk)*

⁶ *PART 35 - EXPERTS AND ASSESSORS - Civil Procedure Rules (justice.gov.uk)*

⁷ *Guidance for the instruction of experts in civil claims | Courts and Tribunals Judiciary*

- Section 3: I provide some background information regarding the regulatory environment in which RLL, PLL and PLAE operate and also on the role of the Independent Expert and Independent Actuary.
- Section 4: I provide some background information regarding the RLL, PLL and PLAE.
- Section 5: I summarise the key provisions of the UK Scheme.
- Section 6: I summarise the key provisions of the Irish Scheme.
- Section 7: I consider the likely impact of the UK Scheme on the policyholders of PLL to be transferred to PLAE under the UK Scheme (the “PLL Transferred Policyholders”).
- Section 8: I consider the likely impact of the UK Scheme on the policyholders of RLL to be transferred to PLAE under the UK Scheme (the “RLL Transferred Policyholders”).
- Section 9: I consider the likely impact of the Irish Scheme on the policyholders of PLL to be transferred to PLAE under the Irish Scheme (the “Irish PLL Transferred Policyholders”).
- Section 10: I consider the likely impact of the UK Scheme on the policyholders who would remain within PLL after the transfer has taken place (the “PLL Non-transferring Policyholders”).
- Section 11: I consider the likely impact of the UK Scheme on the policyholders who would remain with RLL after the transfer has taken place (the “RLL Non-transferring Policyholders”).
- Section 12: I consider the likely impact of the Irish Scheme on the PLL Non-transferring Policyholders.
- Section 13: I consider the likely impact of the UK Scheme on the fair treatment of customers.
- Section 14: I consider the likely impact of the Irish Scheme on the fair treatment of customers.
- Section 15: I cover more general issues relating to the UK Scheme and the management of RLL, PLL and PLAE.
- Section 16: I cover more general issues relating to the Irish Scheme and the management of PLL and PLAE.
- Section 17: I summarise my conclusions on the effect of the UK Scheme.
- Section 18: I summarise my conclusions on the effect of the Irish Scheme.
- Appendices: Include financial and other information.

1.43 Figure 1.1 below sets out the sections of this Report relevant to the UK Scheme and the Irish Scheme.

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

Section	UK Scheme	Irish Scheme
1	✓	✓
2	✓	✓
3	✓	✓
4	✓	✓
5	✓	
6		✓
7	✓	
8	✓	
9		✓
10	✓	
11	✓	
12		✓
13	✓	
14		✓
15	✓	
16		✓
17	✓	
18		✓
Appendices	✓	✓

RELIANCES AND LIMITATIONS

- 1.44 In carrying out my review and producing this Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me, in both written and oral form, by RLL, PLL and PLAE. Reliance has been placed upon, but not limited to, the information detailed in Appendix M. My opinions depend on the substantial accuracy of this data, information and the underlying calculations. I am unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me. All information that I have requested in relation to my review has been provided. I have been assisted in my review of the information and my analyses by colleagues of mine at Milliman but I have not relied on their work or their advice. I note in paragraph 3.107, below, that I have seen some legal advice sought by RLL, PLL and PLAE, and I have described there how I have used that advice and why I thought it reasonable to use it in that way. I have neither sought nor relied on any other legal advice.
- 1.45 This Report has been prepared for the purposes of the UK Scheme in accordance with Section 109 of FSMA and for the purposes of the Irish Scheme in accordance with Section 13 of the Assurance Companies Act 1909. A copy of this Report will be sent to the PRA, the FCA and the CBI, and will accompany the UK Scheme application to the UK Court and the Irish Scheme application to the Irish Court.
- 1.46 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.
- 1.47 Neither this Report, nor any extract from it, may be published without me having provided my specific written consent, save that:
 - copies of this Report may be made available for inspection by policyholders who might be affected by the Schemes; and
 - copies may be provided to any person requesting the same in accordance with legal requirements.
- 1.48 I also consent to this Report being made available on the Phoenix Group websites.

- 1.49 No summary of this Report may be made without my express consent. I have provided a summary of this Report (the "Summary Report") for inclusion in a document that will be made available to the affected policyholders of RLL and PLL, to the lawyers dealing with or representing individual claimants in relation to the Transferred Business, to the affected reinsurers of RLL and PLL, and to other relevant bodies, e.g. to anyone who has been identified as having an interest in the policies being transferred or who has notified RLL, PLL or PLAE of their interest (further details are provided in paragraphs 13.1 to 13.42, below). The Summary Report will be sent to the PRA, the FCA and the CBI, and will accompany the UK Scheme application to the UK Court and the Irish Scheme application to the Irish Court, and will be available on the website dedicated to the Schemes.
- 1.50 The Summary Report will be included in the Communications Packs that are sent to the Transferred Policyholders, and will be translated into the language in which the original policy was written. I understand that a suitably qualified external translation service will be used to translate the Communications Packs (including the Summary Report). However, should there be any discrepancies between the English version of the Summary Report and the translated versions, it is the English version that should be referred to as the primary and original version.
- 1.51 I confirm that I have no objection to the Summary Report being sent to the Transferred Policyholders, rather than this Report. I am satisfied that the Summary Report covers all material points contained within this Report and that the Transferred Policyholders will not be disadvantaged in any way by transmission of the Summary Report rather than this Report. I note that, in any event, this Report will be available on the website dedicated to the Schemes and paper copies of this Report will be available on request without charge, and that the Communications Packs sent to Transferred Policyholders will make this clear.
- 1.52 This Report has been prepared within the context of the assessment of the terms of the Schemes, and must not be relied upon for any other purpose. Milliman and/or I will accept no liability for any application of this Report to a purpose for which it was not intended or for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.
- 1.53 Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, economic and investment conditions. Therefore, it should be expected that the actual emergence of claims, premiums, expenses and investment income will vary from any estimate. Such variations in experience could have a significant effect on the results and conclusions of this Report. No warranty is given by Milliman or me that the assumptions, results and conclusions on which this Report is based will be reflected in actual future experience. I discuss my reliance on financial information in this Report in more detail in Section 3.
- 1.54 This review does not comprise an audit of the financial resources and liabilities of RLL, PLL or PLAE, or of the wider Phoenix Group.
- 1.55 The Report should not be construed as providing investment advice. It does not provide financial or other advice to individual policyholders.
- 1.56 Nothing in this Report should be regarded as providing a legal opinion on the effectiveness of the Schemes.
- 1.57 In considering the background to RLL, PLL and PLAE, and in considering the likely impact of the Schemes, I have made extensive use of financial information as at 31 December 2021 as that is, in general, the most recent date at which financial information that has been through RLL's and PLL's internal review processes will be available for the Scheme Report. I have asked the managements of RLL, PLL and PLAE for information regarding any developments between 31 December 2021 and the date of this Report that would have affected RLL, PLL or PLAE, in particular any development that might have affected the security of their policyholders, their risk profile, the reasonable benefit expectations of their policyholders or the standards of service provided to them, both now and in the future. I have referred in this Report to the developments that they have reported to me. At the date of this Report, I am not aware of any material changes in circumstances since 31 December 2021 other than those referred to in this Report. The Report also takes no account of any information that I have not received, or of any inaccuracies in the information provided to me. I will review any further financial statements of RLL and PLL, whether audited or unaudited, as and when they become available, and will comment on this information in my Supplementary Report.

- 1.58 The financial information with which I have been provided has been expressed in pounds sterling or euros. However, I would expect that some of the underlying assets and transactions would be or would have been denominated in other currencies. I presume that, throughout the financial information, data in other currencies has been converted to pounds sterling and euros at appropriate and mutually consistent currency exchange rates.
- 1.59 The use of Milliman’s name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations, is not authorised without Milliman’s prior written consent for each such use or release, which consent shall be given in Milliman’s sole discretion.

PROFESSIONAL AND REGULATORY GUIDANCE

- 1.60 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including *TAS 100: Principles for Technical Actuarial Work* and *TAS 200: Insurance*. I have complied with such standards, subject to the principles of proportionality and materiality.
- 1.61 In accordance with *Actuarial Profession Standard X2*, as issued by the IFoA and *General Actuarial Practice ASP PA-2* as issued by the Society of Actuaries in Ireland, I have considered whether this Report should be subject to review (“Work Review”). I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Report or in the preparation of this Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Report should be subject to “Independent Peer Review”. I confirm that this Report has been subject to Independent Peer Review prior to its publication.
- 1.62 This Report has been prepared under the terms of the guidance set out in the Statement of Policy entitled *The Prudential Regulation Authority’s approach to insurance business transfers* (the “PRA Statement of Policy”), initially issued in April 2015 and updated in January 2022, and in SUP18 contained in the Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. I have also followed the FCA’s guidance FG22/1 entitled *The FCA’s approach to the review of Part VII insurance business transfers* (the “FCA Guidance”), initially issued in May 2018 and updated in February 2022, and the advice of the Society of Actuaries in Ireland ASP-LA6 entitled *Transfer of Insurance Portfolio of a Life Insurance Company – Role of the Independent Actuary*. Appendix H, Appendix I and Appendix J set out how this Report complies with the PRA Statement of Policy, the FCA Guidance and the advice of the Society of Actuaries in Ireland respectively.

2. EXECUTIVE SUMMARY

INTRODUCTION

- 2.1 To facilitate reading this section in isolation, I repeat herein the definitions of terms already defined in Section 1 and used in this section.
- 2.2 Phoenix Group Holding plc (“PGH”) has a number of direct and indirect life insurance subsidiaries, including Phoenix Life Limited (“PLL”), ReAssure Limited (“RAL”) and ReAssure Life Limited (“RLL”). In this Report, I refer to PGH and its direct and indirect subsidiaries collectively as the “Phoenix Group”.
- 2.3 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.
- 2.4 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.
- 2.5 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 European Union (“EU”) legislation in all EEA states in which it has been identified that a policyholder of the Transferred Business is currently resident.
- 2.6 It is proposed to transfer particular blocks of long-term insurance business of PLL and RLL, and all directly insured business in the Irish branch of PLL, to PLAE by an insurance business transfer scheme (the “UK Scheme”), as defined in Section 105 of the Financial Services and Markets Act 2000 (“FSMA”). The implementation of the UK Scheme will require approval of the High Court of Justice in England and Wales (the “UK Court”).
- 2.7 Following the UK’s exit from the European Union, the transfer of the direct 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”), in accordance with the European Union (Insurance and Reinsurance) Regulations 2015, as there is no longer automatic recognition of the UK Scheme in Ireland. The transfer of the direct business in the Irish branch (the “Irish Scheme”) will run parallel to the UK Scheme.
- 2.8 I refer to the UK Scheme and the Irish Scheme collectively as the “Schemes”.
- 2.9 Figure 2.1 below sets out the paragraphs in this Section of the Report relevant to the UK Scheme and the Irish Scheme.

FIGURE 2.1 SECTIONS OF REPORT RELEVANT TO THE UK SCHEME AND THE IRISH SCHEME

Section	Paragraphs	UK Scheme	Irish Scheme
Introduction	2.1 to 2.9	✓	✓
The proposed UK Scheme	2.10 to 2.18	✓	
The proposed Irish Scheme	2.19 to 2.27		✓
The Unit-Linked Reinsurance Agreements, With-Profits Reinsurance Agreements and security arrangements associated with the Schemes	2.28 to 2.45	✓	✓
My considerations with respect to the proposed Schemes	2.46 to 2.48	✓	✓
PLL, RLL and PLAE balance sheets	2.49 to 2.50	✓	✓
The impact of the UK Scheme on the PLL Transferred Policyholders	2.51 to 2.74	✓	
The impact of the UK Scheme on the RLL Transferred Policyholders	2.76 to 2.95	✓	
The impact of the Irish Scheme on the Irish PLL Transferred Policyholders	2.97 to 2.120		✓
The impact of the UK Scheme on the PLL Non-transferring Policyholders	2.123 to 2.129	✓	
The impact of the UK Scheme on the RLL Non-transferring Policyholders	2.131 to 2.136	✓	
The impact of the Irish Scheme on the PLL Non-transferring Policyholders	2.138 to 2.144		✓
My considerations in respect of the fair treatment of customers in relation to the UK Scheme	2.145 to 2.160	✓	
My considerations in respect of the fair treatment of customers in relation to the Irish Scheme	2.161 to 2.172		✓
Other considerations in relation to the UK Scheme	2.173 to 2.191	✓	
Other considerations in relation to the Irish Scheme	2.192 to 2.208		✓
Conclusions on the UK Scheme	2.209 to 2.211	✓	
Conclusions on the Irish Scheme	2.212 to 2.214		✓

THE PROPOSED UK SCHEME

Motivation for the UK Scheme

2.10 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.

- 2.11 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 5⁸.
- 2.12 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.
- 2.13 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

- 2.14 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 2.23 below), Iceland or Germany.
- 2.15 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 Policies⁹, 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.
- 2.16 Figure 2.2 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).

⁸ 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").

⁹ 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 2.2 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

- 2.17 The UK Scheme is expected to be presented to the UK Court for a Directions Hearing¹⁰ on 11 July 2022 and for a Sanction Hearing¹¹ on 18 October 2022.
- 2.18 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.

THE PROPOSED IRISH SCHEME

Motivation for the Irish Scheme

- 2.19 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.
- 2.20 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 5¹².
- 2.21 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 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.
- 2.22 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.

Summary of the Irish Scheme

- 2.23 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 2.14 above and is captured by both the Irish Scheme and the UK Scheme.

¹⁰ The Directions Hearing is a short hearing at which the UK Court or Irish Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.

¹¹ The Sanction Hearing is the hearing at which the UK Court or Irish Court hears the application to sanction a proposed transfer of insurance business.

¹² 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 it was initiated prior to the UK's withdrawal from the EU ("EIOPA Recommendation 5").

- 2.24 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 Policies¹³, 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.
- 2.25 Figure 2.3 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 2.3 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.

- 2.26 The Irish Scheme is expected to be presented to the Irish Court for a Directions Hearing¹⁴ on 18 July 2022. The date of the Irish Sanction Hearing¹⁵ will be confirmed at the Irish Directions Hearing, however the date of the Irish Sanction Hearing is expected to be 1 November 2022.
- 2.27 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.

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

- 2.28 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

- 2.29 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 Scheme¹⁶.
- 2.30 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”.
- 2.31 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.

¹³Irish 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.

¹⁴ 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.

¹⁵ 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.

¹⁶ The Irish Scheme does not involve RLL, and so does not transfer any assets and liabilities of Linked Funds of RLL.

- 2.32 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.
- 2.33 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 policyholders¹⁷) 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.
- 2.34 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.
- 2.35 While the above description outlines the current expectations at the time of writing this 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

- 2.36 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.
- 2.37 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.
- 2.38 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.

¹⁷ This includes any new business written by RLL or PLL and any new policies that arise in relation to existing policies.

- 2.39 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 policyholders¹⁸) 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.
- 2.40 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.
- 2.41 While the above description outlines the current expectations at the time of writing this 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

- 2.42 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 relevant 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.
- 2.43 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.
- 2.44 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.

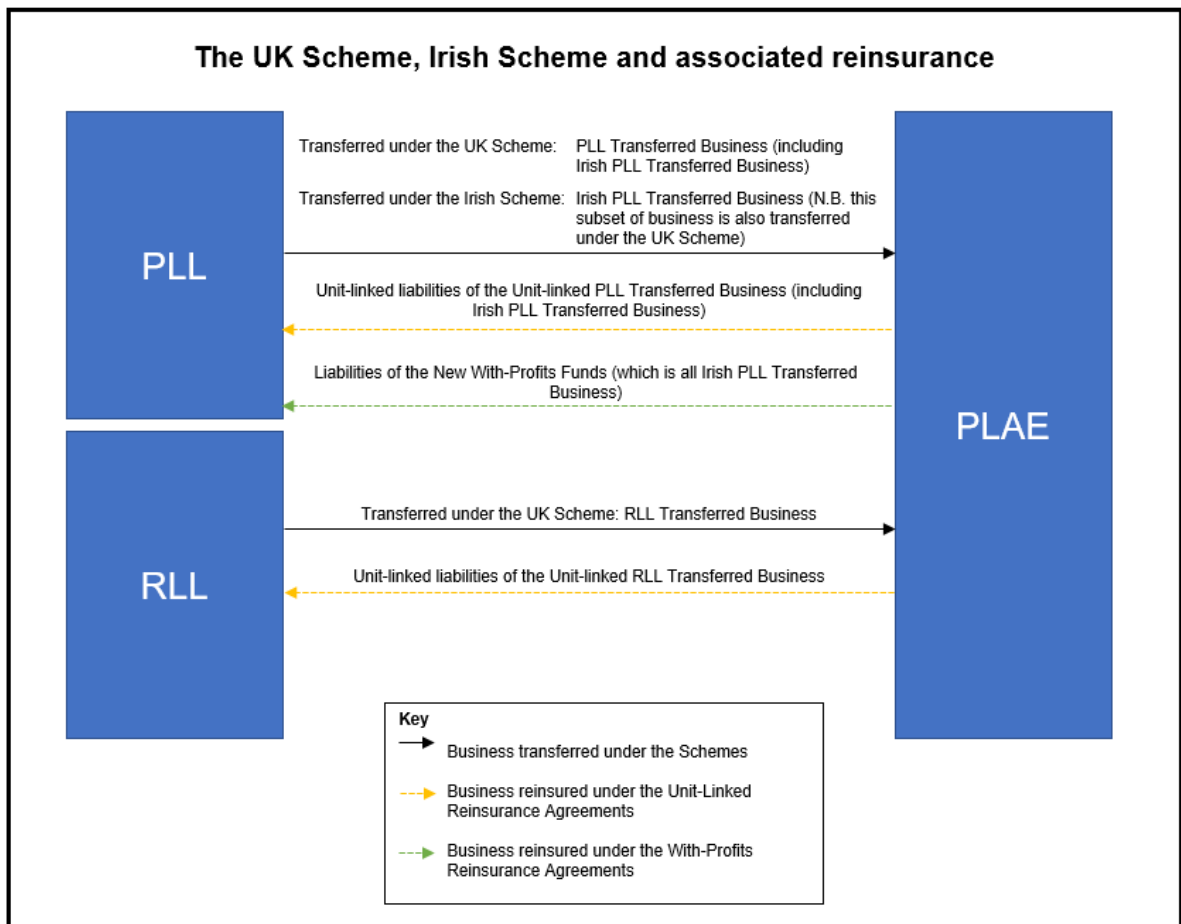
¹⁸ This includes any new business written by PLL and any new policies that arise in relation to existing policies.

- 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

2.45 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 2.16) is not included within this diagram.

FIGURE 2.4 SUMMARY STRUCTURE AFTER THE UK SCHEME, IRISH SCHEME, UNIT-LINKED REINSURANCE



AGREEMENTS AND WITH-PROFITS REINSURANCE AGREEMENTS

MY CONSIDERATIONS WITH RESPECT TO THE PROPOSED SCHEMES

- 2.46 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.

2.47 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 Policyholders¹⁹.

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

PLL, RLL AND PLAE BALANCE SHEETS

2.49 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 2.5 and 2.6 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 2.5 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

FIGURE 2.6 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

¹⁹ 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.

- 2.50 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).

THE IMPACT OF THE UK SCHEME ON THE PLL TRANSFERRED POLICYHOLDERS

- 2.51 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

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

- 2.53 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 agreement²⁰ 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.

- 2.54 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.

- 2.55 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.

²⁰ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

- 2.56 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

- 2.57 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.
- 2.58 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)²¹.

The effect on the PLL Transferred Policies of the change in regulatory regime from the UK to Ireland

- 2.59 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 (country) host 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;
 - 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

²¹ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- 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.

2.60 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

2.61 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 2.65 below, would continue to apply to such policies.

2.62 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.

2.63 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.

2.64 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.

2.65 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.
- 2.66 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.
- 2.67 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.
- 2.68 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

- 2.69 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.
- 2.70 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).

- 2.71 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 ("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 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.
- 2.72 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 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.
- 2.73 Since the establishment of PLAE's administration and servicing model and detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.
- 2.74 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.
- 2.75 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.

THE IMPACT OF THE UK SCHEME ON THE RLL TRANSFERRED POLICYHOLDERS

- 2.76 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

- 2.77 I have considered the effect of the proposed UK Scheme on the security of benefits under the RLL Transferred Policies.
- 2.78 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.

2.79 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.

2.80 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

2.81 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.

2.82 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)²².

The effect on the RLL Transferred Policies of the change in regulatory regime from the UK to Ireland

2.83 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:

²² PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- 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.

2.84 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

2.85 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).

2.86 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.

2.87 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:

- 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.

2.88 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.

2.89 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

2.90 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.

- 2.91 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.
- 2.92 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.
- 2.93 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.
- 2.94 Since the establishment of PLAE’s administration and servicing model and detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.
- 2.95 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.
- 2.96 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.

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

- 2.97 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

- 2.98 I have considered the effect of the proposed Irish Scheme on the security of benefits under the Irish PLL Transferred Policies.
- 2.99 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 agreement²³ 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.

2.100 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.

2.101 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.

2.102 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

2.103 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.

2.104 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

²³ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

- 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)²⁴.

The effect on the Irish PLL Transferred Policies of the change in regulatory regime from the UK to Ireland

2.105 If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policyholders would become part of PLAЕ, 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;
- 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.

2.106 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.

²⁴ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

The effect of the Irish Scheme on the reasonable expectations of the Irish PLL Transferred Policyholders in respect of their benefits

- 2.107 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 2.111 below, would continue to apply to such policies.
- 2.108 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.
- 2.109 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.
- 2.110 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. 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.
- 2.111 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.
- 2.112 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.
- 2.113 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.
- 2.114 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

- 2.115 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.
- 2.116 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).
- 2.117 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.
- 2.118 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.
- 2.119 Since the establishment of PLAE's administration and servicing model and detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.

2.120 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.

2.121 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.

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

2.122 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

2.123 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.

2.124 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

2.125 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

2.126 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.

- 2.127 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.
- 2.128 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.
- 2.129 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.

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

- 2.130 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

- 2.131 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.
- 2.132 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

- 2.133 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

- 2.134 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.

2.135 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.

2.136 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.

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

2.137 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

2.138 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.

2.139 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

2.140 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

2.141 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.
- 2.142 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.
- 2.143 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.
- 2.144 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.

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

Proposed waiver applications

- 2.145 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.
- 2.146 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.
- 2.147 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 respect of bankruptcy;
 - The holder of the power of attorney; and
 - Deceased policyholders.

- 2.148 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.
- 2.149 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 2.154 below); and
 - As outlined in paragraph 2.145, there is not expected to be any benefit to Non-transferring Policyholders in receiving communications about the UK Scheme.
- 2.150 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

- 2.151 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.
- 2.152 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 UK 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.
- 2.153 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 Packs are sent, and therefore these will be included in a separate letter.

The approach to gone-aways

- 2.154 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 Ireland. In addition, PLL will make efforts 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

- 2.155 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.
- 2.156 I will review the responses received from policyholders, including any objections received, and provide an update on these in my Supplementary Report.

Conclusion

- 2.157 I have reviewed the proposed communications strategy and drafts of the Communications Packs.
- 2.158 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.
- 2.159 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.
- 2.160 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 of the UK Scheme is reasonable.

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

Proposed waiver applications

- 2.161 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.
- 2.162 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

- 2.163 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.
- 2.164 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.

2.165 In addition to the Communications Pack, 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 Packs are sent, and therefore these will be included in a separate letter.

The approach to gone-aways

2.166 As at April 2022, 2,661 (approximately 15%) of the Irish PLL Transferred Policyholders were marked as 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

- 2.167 PLL has made arrangements to manage policyholder responses to communications relating to the Irish Scheme as well as to handle any objections received.
- 2.168 I will review the responses received from policyholders, including any objections received, and provide an update on these in my Supplementary Report.

Conclusion

- 2.169 I have reviewed the proposed communications strategy and drafts of the Communications Packs.
- 2.170 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.
- 2.171 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.
- 2.172 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.

OTHER CONSIDERATIONS IN RELATION TO THE UK SCHEME

What would happen were the UK Scheme not to proceed?

- 2.173 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 2.174 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.

2.174 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 2.173 would apply to these excluded policies.

The Effective Date of the UK Scheme

2.175 As outlined in paragraph 2.11, 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.

2.176 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.

2.177 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. 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 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.

2.178 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

2.179 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.

2.180 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.

2.181 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.

2.182 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

- 2.183 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.
- 2.184 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.
- 2.185 I would expect the scheme(s) related to such intended transfers to abide by the provisions of the proposed UK Scheme where relevant.
- 2.186 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

- 2.187 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.
- 2.188 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

- 2.189 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.
- 2.190 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

2.191 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.

OTHER CONSIDERATIONS IN RELATION TO THE IRISH SCHEME

What would happen were the Irish Scheme not to proceed?

2.192 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 PLL²⁵. 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

2.193 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.

2.194 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.

2.195 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

2.196 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.

²⁵ The Irish PLL Transferred Business cannot be transferred to PLAE if the UK Scheme is sanctioned but the Irish Scheme is not.

2.197 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 2.173 above.

The future operation of the Irish Scheme

2.198 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.

2.199 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.

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

2.201 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

2.202 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 2.51 to 2.73 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.

2.203 Similarly, in paragraph 2.210 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

2.204 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.

2.205 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 their progress, including the matters outlined in the above paragraphs, in my Supplementary Report.

The COVID-19 pandemic

2.206 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 annuitant 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.

2.207 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

2.208 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.

CONCLUSIONS ON THE UK SCHEME

2.209 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 Report) to be necessary.

2.210 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.

2.211 I am satisfied that the UK Scheme is equitable to all classes and generations of RLL and PLL policyholders.

CONCLUSIONS ON THE IRISH SCHEME

2.212 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 2.210 and 2.211). I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Report) to be necessary.

2.213 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.

2.214 I am satisfied that the Irish Scheme is equitable to all classes and generations of PLL policyholders.

3. THE INSURANCE MARKET AND REGULATORY ENVIRONMENT AND THE ROLE OF THE INDEPENDENT PERSON

INTRODUCTION

- 3.1 Given that the Transferors are domiciled in the UK and Transferee is domiciled in Ireland, the regulatory regimes to which insurers are subject to in the UK and Ireland are relevant to my considerations as Independent Person, as well as the applicable solvency requirements.
- 3.2 This section provides some background on the types of long-term business involved in the transfer, and the solvency and governance requirements of the regulatory regimes in the UK and Ireland. The background is provided in the context of these Schemes and is not intended to be a complete description of the products or regulatory environment in the UK and Ireland. The final paragraphs describe the role of the Independent Expert and Independent Actuary.

THE UK'S EXIT FROM THE EUROPEAN UNION – “BREXIT”

- 3.3 Following the UK Referendum on Continuing EU Membership in June 2016, the UK government started the process by which the UK would leave the EU (commonly referred to as “Brexit”). The UK Parliament ratified the Withdrawal Agreement Bill on 22 January 2020 and the UK’s withdrawal from the EU took place on 31 January 2020.
- 3.4 The UK has now formally left the EU (and the EEA), and the transition period ended on 31 December 2020, during which the existing trading relationships continued unaltered and the future relationship between the UK and the EU was negotiated. On 24 December 2020, as a result of the negotiations, a deal setting out the future relationship between the UK and EU was agreed. However, this deal does not permit the continuation of the current European Economic Area (“EEA”) Passport Rights for UK insurers. Most insurers which operated across UK/EEA borders had put plans in place in anticipation of such a situation, with some UK based insurers establishing a regulated entity in a (continuing) EU-member country from which EEA business can be conducted and into which existing EEA business can be transferred from the UK-based entity.
- 3.5 EEA Passporting Rights for UK-based financial institutions ended on 31 December 2020. Consequently, the administration of EEA policies is only permitted in limited circumstances and for a limited time. The specific arrangements are determined by the host regulator:
- Ireland – subject to meeting certain conditions, insurers can continue to administer existing policies after 31 December 2020 for a maximum period of 15 years under the Temporary Run-Off Regime. The regulator in Ireland has also noted the European Insurance and Occupational Pensions Authority (“EIOPA”) Recommendation 5²⁶.
 - Germany – the regulator in Germany, Federal Financial Supervisory Authority or Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”), introduced the General Administrative Act that (amongst other provisions) permits insurers to administer existing business until the finalisation of a transfer of the insurance contracts (initiated before 31 December 2020) to an insurer located in the EU or EEA. They have also publicly confirmed the adoption of EIOPA Recommendation 5.
 - Sweden – the Swedish regulator has adopted EIOPA Recommendation 5, no separate legislation for dealing with transfers of books in run-off has been introduced.
 - Norway – the Norwegian Financial Supervisory Authority permits business to be run off, but no renewals are permitted, and has indicated its intention to follow EIOPA’s Recommendation 5.
 - Iceland – similar to Norway, the Icelandic regulator permits existing business to be run off in line with the current terms of the policies. It has also stated publicly its intention to follow EIOPA’s Recommendation 5.

²⁶On 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 it was initiated prior to the UK’s withdrawal from the EU (“EIOPA Recommendation 5”).

- 3.6 Given that the administration of, and payment of benefits under, EEA policies is only permitted in certain circumstances, insurers have had to utilise plans put in place in anticipation of such a scenario. These Schemes are the result of such a plan for the Phoenix Group, within which RLL and PLL are both UK insurance companies and PLAE is a regulated entity in Ireland, a continuing EU member.

THE SOLVENCY II REGIME REQUIREMENTS IN THE UK AND IRELAND

Introduction

- 3.7 The current regulatory solvency framework for the EEA insurance and reinsurance industry (from 1 January 2016 onwards) is known as Solvency II, and all but the smallest EEA insurance companies are required to adhere to the Solvency II regime. As described in paragraph 3.20 below, Solvency II (as amended by the PRA) is also the applicable regulatory solvency regime for the UK.
- 3.8 The Solvency II regime is summarised in Appendix F of this Report and I bring out below some of the features of the regime that are particularly important to understand in the context of the proposed Schemes.

The Solvency II Pillar 1 capital requirements

- 3.9 Under Solvency II, assets are, broadly speaking, reported at market value.
- 3.10 A company's liabilities are called the "technical provisions", which consist of the sum of the best estimate liabilities (the "BEL") and the "risk margin".
- 3.11 The BEL is a market-consistent²⁷ value of liabilities calculated by projecting the expected future obligations of the insurer over the lifetime of the contracts using the most up-to-date financial information (at the date of the valuation) and the best estimate actuarial assumptions. The BEL is the present value of these projected cash flows.
- 3.12 The risk margin is an adjustment designed to bring the total technical provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.
- 3.13 The discount rate used to calculate the technical provisions is the risk-free rate provided by EIOPA. For calculating the BEL, insurers may seek regulatory approval to apply one of the following adjustments to the EIOPA risk-free rates:
- The Matching Adjustment ("MA"), which is an increase to the discount rate that allows firms to take credit for holding less liquid assets used to back their most stable and predictable liabilities; or
 - The Volatility Adjustment ("VA"), which may be used (subject to regulatory approval) for liabilities that are not eligible for use of the MA. The VA is an increase to the discount rate that aims to prevent the forced sale of assets in the event of extreme bond spread movements, and is published by EIOPA.
- 3.14 The excess of assets over liabilities, plus any subordinated liabilities, is known as "Own Funds". Own Funds can be thought of as the capital available in the company to cover capital requirements, and are also referred to as "Basic Own Funds".
- 3.15 The Solvency Capital Requirement ("SCR") is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5%.
- 3.16 In calculating the SCR, most firms in the UK and Ireland use the "Standard Formula", as prescribed by EIOPA. However, Solvency II also permits firms to use their own internal models, or a combination of a "partial internal model" (for assessing the capital required to be held for certain risks) and the Standard Formula, to derive the SCR (for the assessment of other risks). These internal models and partial internal models are subject to approval by the relevant regulator: in the UK this is the PRA and in Ireland it is the CBI.
- 3.17 Insurers are permitted to apply to the regulator (the PRA in the UK) to make use of transitional measures on technical provisions ("TMTP"), which allows firms to phase in the balance sheet impact of moving from the former regulatory regime to Solvency II linearly over a sixteen year period.

²⁷ A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

Ring-fenced funds

- 3.18 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which the surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.
- 3.19 In the UK and Ireland, many firms have set up ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business within the with-profits fund.

The impact of Brexit on Solvency II

- 3.20 Following the end of the Brexit transition period, as described in paragraphs 3.3 to 3.4 above, I note that the UK government might seek to cancel or amend certain pieces of legislation that were enacted in accordance with EU Directives, such as Solvency II. As part of the UK's preparations to leave the EU, the Solvency II regime was brought into UK law, and therefore, Solvency II continues to be the applicable regulatory regime for insurers in the UK. However, in June 2020, the government announced that it would review certain features of Solvency II in order to ensure that the regime properly reflects the structural features of the UK insurance sector. In October 2020, the government initiated the first stage of its review; HM Treasury published a call for evidence in order to seek the views of the insurance industry on potential changes to Solvency II. The key topics covered in the call for evidence included:
- The methodology for calculating the risk margin, including its sensitivity to changes in interest rates;
 - The use of the Matching Adjustment, including the criteria for eligibility of assets and its approval process;
 - The calculation of the SCR, including the Standard Formula methodology, the approval process for the use of internal models and the calculation of group SCRs;
 - The calculation of the TMTP, including the requirement to maintain legacy models; and
 - Solvency II reporting requirements.
- 3.21 The call for evidence closed on 19 February 2021 and the government is now considering the responses received. The timing of the government's response to the call for evidence has not been stated; however, its response will set out how the review will be taken forward. Potential next steps may include further analysis and technical consultations by the PRA. I will consider any relevant developments relating to this matter in my Supplementary Report.
- 3.22 On 20 July 2021, the PRA launched its Quantitative Impact Study ("QIS") exercise covering the review of Solvency II in the UK. This forms part of the UK's review of Solvency II being led by HM Treasury, and focuses on the impact of potential changes on the risk margin and Matching Adjustment methodologies, as identified above under HM Treasury's call for evidence, and the impact of these potential changes on the TMTP. Subsequently, on 28 April 2022 HM Treasury and the PRA each released further consultation papers covering the Solvency II review, setting out current views on some of the key aspects of the potential changes to the risk margin and Matching Adjustment, drawing on insights from data gathered through the QIS exercise. HM Treasury and the PRA have requested responses to their respective consultation papers by 21 July 2022. I will consider any relevant developments relating to this matter in my Supplementary Report.
- 3.23 Further, on 7 January 2021 the PRA published Consultation Paper 1/21²⁸ covering its proposals on a number of aspects of the transition from a London Inter-Bank Offered Rate ("LIBOR") referenced risk-free rate curve for pounds sterling, to a Sterling Overnight Index Average ("SONIA") referenced risk-free rate curve in the future production of the UK Solvency II technical information. Subsequently on 3 June 2021, the PRA published Policy Statement 12/21²⁹ that contains the PRA's final policy on the approach to the publication of Solvency II technical information, and the proposed transition from LIBOR-referenced risk-free rate curves to SONIA-referenced risk-free rate curves for pounds sterling became effective from 31 July 2021.

²⁸ <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/solvency-ii-deep-liquid-and-transparent-assessments-gbp-transition-to-sonia>

²⁹ <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/solvency-ii-deep-liquid-and-transparent-assessments-gbp-transition-to-sonia>

- 3.24 Similarly, on 30 April 2021, EIOPA consulted on the transition from LIBOR to SONIA. On 30 September 2021, it published its proposed approach which detailed that from the January 2022, it will implement an updated methodology for calculating the pounds sterling risk-free interest rate, and it will be derived based on the SONIA curve; however, it also stated that the Last Liquid Point³⁰ for sterling would change from 50 to 30 years.
- 3.25 Therefore, whilst the Solvency II regime continues to apply in the UK, it is possible that certain elements of the regime will be further amended in the future. However, I note the following:
- The UK played a prominent role in the design, structuring and development of Solvency II;
 - The costs for the UK insurance industry of implementing Solvency II were considerable and it is likely that the costs of implementing a replacement solvency regime that was materially different from Solvency II would also be very large;
 - Solvency II took many years to develop and to implement, and it is likely that any materially different replacement solvency regime would also take a long time to develop and to implement;
 - A UK Treasury Select Committee was formed in September 2016 to consider the Solvency II Directive 2009/138/EC (the “Solvency II Directive”), its impact on the UK insurance industry and what improvements could be made in the interests of the consumer. The UK Treasury Select Committee reported in October 2017. While it called for the development of a clear agreed strategy to refine the Solvency II Directive post-Brexit in order to foster innovation, competition and competitiveness for the benefit of UK consumers, it did not recommend the dismantling of the Solvency II Directive; rather it looked for greater harmonisation between UK insurance and international capital standards and emerging accounting standards;
 - As described in paragraphs 3.3 and 3.4 above, on the 24 December 2020, a deal was agreed between the UK and EU, and accompanying this deal was a Joint Declaration on Financial Services. Within this it details that the EU and UK agree to establish “structured regulatory cooperation on financial services” and that a Memorandum of Understanding would be established as a framework for this co-operation. In March 2021 it was announced that technical discussions on the text of the Memorandum of Understanding had concluded, but that formal steps must be taken before it can be signed. At the time of writing this Report, the content of the Memorandum of Understanding has not yet been made public; and
 - There is some desire within the UK insurance industry that the UK solvency and prudential regime maintains “equivalence” with the Solvency II regime that will remain in place throughout the remaining countries of the EU, to facilitate cross-border operations without unnecessary duplication of regulation.
- 3.26 In addition, I note that during 2020, EIOPA conducted a review of Solvency II and published its opinion on this review in December 2020. EIOPA stated that it is of the view that, overall, the Solvency II framework is working well and no fundamental changes are currently needed, but a number of adjustments are required to ensure the regulatory framework continues as a well-functioning risk-based regime. It is now up to the European Commission³¹ to adopt, amend or reject the proposals made by EIOPA, with the implementation of these changes for insurers based in the EU likely to be in or around 2025. On 22 September 2021, the European Commission set out its proposed adjustments to the Solvency II Directive; these proposals will now be discussed and negotiated before final legislative text is issued. Any amendments made by the European Commission to the Solvency II Directive will later be supplemented by updates to the Delegated Acts³² at a later stage.
- 3.27 The extent to which the adjustments proposed by EIOPA will lead to material divergence between the UK’s Solvency II regime and the Solvency II regime will depend on the extent to which these measures are adopted by the European Commission, any adjustments made by the European Commission and any revisions proposed by the UK government (as discussed above).

³⁰ This is the point beyond which the risk-free interest rate must be extrapolated.

³¹ The European Commission is the executive branch of the European Union, responsible for proposing legislation, enforcing EU laws and directing the union’s administrative operations.

³² Many of the technical requirements of Solvency II are contained in Commission Delegated regulation (EU) 2015/35, known as the Delegated Acts, adopted by the European Commission in October 2014.

3.28 Overall, I note that both the Solvency II regime and the UK's adoption of the Solvency II regime are currently under review and subject to possible change. At this stage, the only change that I believe is appropriate to consider in this Report in the context of the proposed Schemes is the transition from LIBOR-based risk-free rates to SONIA-based risk-free rates, which I set out in paragraphs 7.20, 8.20 and 9.20. Aside from this, given the current stage of the review of Solvency II in the UK, I am unable to consider in detail the impact that any other 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 have therefore not considered any further potential changes to the UK's adoption of Solvency II in this Report. I will, however, consider any further developments relating to this matter in my Supplementary Report.

THE REGULATION OF INSURANCE COMPANIES IN THE UK AND IRELAND

3.29 RLL and PLL are authorised by the PRA and regulated by the PRA and the FCA in the UK and PLAE has applied to the CBI in Ireland for authorisation.

3.30 The roles of the regulators are described in more detail in Appendix G of this Report but in summary:

- In the UK:
 - The PRA is a part of the Bank of England and is responsible for the prudential regulation and supervision in the UK of banks, building societies, credit unions, insurers and major investment firms.
 - The FCA regulates the conduct of all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.
- In Ireland:
 - The CBI carries out the prudential regulation and supervision in Ireland of banks, building societies, credit unions, insurance companies and investment firms.
 - The CBI also regulates the conduct of all financial services firms in Ireland in relation to consumer protection and conduct of business.
 - As with the FCA in the UK, although there may be circumstances in which the CBI retains a role, responsibility for supervising compliance with the conduct of business rules for policies administered under the EU's passporting regime principally lies with the host state supervisors.

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

- adherence to the Solvency II regime (see paragraphs 3.7 to 3.28 for further detail);
- adherence to the appropriate risk appetite statements; and
- the standards of governance required.

THE GOVERNANCE OF LONG-TERM INSURERS IN THE UK AND IRELAND

UK

3.32 The governance of long-term insurers in the UK is set out in more detail in Appendix G of this Report but in summary:

- The Board of Directors of a proprietary long-term insurer is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.
- Under Solvency II, all insurers are required to establish the following key functions:
 - Actuarial function: This function is required, inter alia, to coordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions.
 - Compliance function: This function is required, inter alia, to advise the insurer on compliance with the Solvency II regulations.
 - Internal audit function: This function is required, inter alia, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.

- Risk management function: This function is required, inter alia, to facilitate the implementation of the insurer's risk management system.
- Since 10 December 2018, UK insurers have been subject to the Senior Managers and Certification Regime ("SM&CR"). The SM&CR defines a set of senior management functions ("SMF"), which includes:
 - Chief Executive Officer;
 - Chief Financial Officer;
 - Chief Risk Officer;
 - Chief Actuary;
 - Head of Internal Audit; and
 - Head of Key Business Area.
- In addition, under SM&CR firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function" (the "WPA"). This individual's responsibilities include advising the firm's management on the key aspects of the discretion to be exercised affecting those classes of with-profits business of the firm in respect of which he has been appointed.
- In addition, in the UK, firms with with-profits business must appoint a With-Profits Committee ("WPC") (or a "with-profits advisory arrangement" if appropriate given the size, nature and complexity of the fund in question) in respect of with-profits business. The WPC's role is to advise and provide recommendations to the firm's governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures.

Ireland

- 3.33 As in the UK, the Board of Directors of a long-term insurer is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the firm's day-to-day management and approving the firm's financial statements.
- 3.34 In addition, as Solvency II is also the relevant regulation in Ireland, insurers must have an actuarial function, compliance function, internal audit function and risk management function, as detailed in paragraph 3.32.
- 3.35 In Ireland, the CBI has implemented a Fitness and Probity Regime ("F&P Regime") for Irish insurers which defines a set of Pre-Approval Controlled Functions ("PCFs"), including:
- Chief Executive Officer;
 - Head of Finance;
 - Chief Risk Officer;
 - Head of Actuarial Function ("HoAF"); and
 - Head of Internal Audit.
- 3.36 Unlike in the UK, those firms with with-profits business are not required to appoint an actuary (or actuaries) to perform a 'with-profits actuary function'. However, the CBI has issued the Domestic Actuarial Regime and Related Governance Requirements under Solvency II that, amongst other things, does set out some additional responsibilities of the HoAF for insurance undertakings which have with-profits business.
- 3.37 There is no requirement in Ireland for firms with with-profits business to appoint a WPC.

A FIRM'S RISK APPETITE AND CAPITAL MANAGEMENT POLICY

UK

- 3.38 The Board of an insurer is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form that references the probability that the Board is willing to accept of not being able to pay policyholder liabilities as they fall due and/or meet regulatory capital requirements.

- 3.39 In order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of their risk appetite and regulatory capital requirements, firms usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's internal capital policy and stated in terms of the capital requirements set down by the PRA. Typically, capital policies specify either a target minimum level of capital to be held in addition to the SCR, or a target maximum probability of the capital held falling below the SCR.
- 3.40 The internal capital policy of a firm is set by and owned by the Board. Changes to the capital policy usually require Board approval and firms would typically consult with the relevant regulator (the PRA in the UK).
- 3.41 The level of capital required may also be driven by the desire of the Board to maintain a particular credit rating with external credit rating agencies.

Ireland

- 3.42 Similar to the UK, the Board of an insurer is responsible for adopting effective risk management and internal controls framework. The risk management framework should include a risk appetite and tolerance levels, and this is typically specified in relation to the probability that the Board is willing to accept of not being able to meet liabilities as they fall due and/or meet regulatory capital requirements.
- 3.43 As is common in the UK, insurers usually aim to hold capital in excess of regulatory requirements in order to reduce the risk of day-to-day market fluctuations resulting in a breach of risk appetite, and this is usually defined within the firm's internal capital policy.
- 3.44 The capital policy is typically stated in terms of the capital requirements as determined under Solvency II. It is common for a minimum floor to be set by the capital policy regarding the additional capital to be held in excess of regulatory requirements, in order to reduce the probability of a breach of those requirements.

CONDUCT PRINCIPLES

UK

- 3.45 Within its document "Fair treatment of customers", the FCA sets out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:
- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
 - Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
 - Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
 - Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
 - Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
 - Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.

These outcomes are often summarised as "Treating Customers Fairly" ("TCF").

- 3.46 The FCA has supplemented its Fair Treatment of Customers document with guidance, published in January 2018, entitled "The Responsibilities of Providers and Distributors for the Fair Treatment of Customers" ("RPPD"). This provides the FCA's view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:
- Principle 2: A firm must conduct its business with due skill, care and diligence;
 - Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
 - Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly; and

- Principle 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way that is clear, fair and not misleading.
- 3.47 The FCA is currently consulting on a new Consumer Duty, which aims to bring about a fairer, more consumer-focused and level playing field in retail financial markets. It is expected that the Consumer Duty will be finalised by 31 July 2022. I will therefore provide an update on this matter in my Supplementary Report.

Ireland

- 3.48 The CBI is responsible for conduct-of-business regulation of regulated firms, including insurers, in Ireland. Within its Consumer Protection Code 2012 (“CPC”) the CBI aims to ensure a consistent level of protection for customers regardless of the financial services provider they choose. The provisions of the CPC are binding on regulated entities and must be complied with when providing financial services.
- 3.49 The CPC contains twelve general principles that firms must follow. A firm must ensure that, in all dealings with customers, it:
- acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market;
 - acts with due skill, care and diligence in the best interests of its customers;
 - does not recklessly, negligently or deliberately mislead a customer as to the real or perceived advantages or disadvantages of any product or service;
 - has and employs effectively the resources, policies and procedures, systems and control checks, including compliance checks, and staff training that are necessary for compliance with the CPC;
 - seeks from its customers information relevant to the product or service requested;
 - makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer;
 - seeks to avoid conflicts of interest;
 - corrects errors and handles complaints speedily, efficiently and fairly;
 - does not exert undue pressure or undue influence on a customer;
 - ensures that any outsourced activity complies with the requirements of the CPC;
 - without prejudice to the pursuit of legitimate commercial aims, does not, through its policies, procedures, or working practices, prevent access to basic financial services; and
 - complies with the letter and spirit of the CPC.

THE INSURANCE DISTRIBUTION DIRECTIVE

- 3.50 The Insurance Distribution Directive (“IDD”) has applied in the UK and Ireland (as well as in all other EU Member States) since 1 October 2018. The key requirements of the IDD include:
- Product oversight and governance arrangements aimed at ensuring that customers’ interests are taken into consideration throughout the whole life cycle of an insurance product;
 - Transparency of inducement schemes to ensure respect of customers’ interests;
 - The insurance undertaking (or insurance intermediary) providing advice to a customer is responsible for the assessment as to whether the insurance product(s) is/are suitable and appropriate, having regard to the customer’s profile; and
 - A conflict of interest policy to facilitate customers’ understanding of an insurance undertaking’s actions taken on their behalf.
- 3.51 Business conducted via an EU branch is subject to the conduct of business regulations, including consumer protection rules, of the host country of each respective branch. The regulator in the country hosting each branch oversees the compliance of that branch with its insurance laws and regulations, implementing, if appropriate, the relevant EU Directives.

POLICYHOLDER PROTECTION SCHEME AND ADDITIONAL REGULATION

UK

Financial Services Compensation Scheme

- 3.52 As well as through the regulations of the PRA and the FCA, consumer protection is also provided by the Financial Services Compensation Scheme (“FSCS”). This is a statutory “fund of last resort”, which compensates eligible customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or the FCA.
- 3.53 The FSCS provides compensation (100% of the policyholder’s entitlement) to eligible individual holders of long-term insurance policies in the event of the insolvency of an insurer (the failure of that insurer to pay benefits). An individual holder of a long-term insurance policy is eligible if the policy is issued by a UK insurer in the UK or, if issued prior to Brexit, an EEA state. In the event of an insolvency, a call on the FSCS is covered by levies on the insurers in the UK insurance industry.

Financial Ombudsman Service

- 3.54 The Financial Ombudsman Service (“FOS”) is an independent public body that aims to resolve disputes between individuals and UK financial services companies and make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. The FOS may direct UK financial service companies to pay compensation up to a maximum limit of:
- £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019.
 - £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019.
 - £160,000 for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019.
- 3.55 The “Dispute Resolution: Complaints” section of the FCA Handbook sets out the jurisdiction and the scope of the FOS in the UK, it also states that the compensation limits will increase each year with the UK Consumer Price Index (“CPI”), rounded down to the nearest £5,000.

Ireland

Financial Services Compensation Scheme

- 3.56 There is no financial compensation scheme in Ireland for which policyholders of life insurance contracts in Ireland are eligible.
- 3.57 The implications for eligible policyholders of losing the protections conferred by the FSCS as a result of the proposed transfer are covered in Sections 7 to 9 of this Report.

Financial Ombudsman Service

- 3.58 In 2017, the Irish government decided to merge the offices of the Financial Services Ombudsman’s Bureau and the Office of the Pensions Ombudsman to form the Irish Financial Services and Pensions Ombudsman (“FSPO”). The FSPO was established by the Financial Services and Pensions Ombudsman Act 2017 and opened for business on 1 January 2018.
- 3.59 The FSPO is an independent public body that aims to resolve disputes between individuals and Irish financial services providers. Having heard the evidence in each particular case, the FSPO issues findings which are legally binding on both parties (subject to the right of appeal to the Irish Court). Holders of policies issued by Irish insurers are permitted to bring complaints to the FSPO. The FSPO may direct financial services providers to pay compensation up to a maximum of €52,000 per annum where the subject of the complaint is an annuity, and a maximum of €500,000 for any other complaints.
- 3.60 The implications for policyholders of the financial ombudsman changing from the FOS to the FSPO (in some circumstances) as a result of the proposed transfers are covered in Sections 7 to 9 of this Report.

SECURITY UPON WIND UP

UK

- 3.61 Under UK law, the winding-up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding-Up) Regulations 2004 (as amended, including under the Solvency II Regulations 2015). Under these regulations, insurance claims from direct policyholders have precedence over any claim on the insurance undertaking with the exception of certain preferential claims (e.g. claims by employees, claims by public bodies on taxes, collateral arrangements etc.) with respect to the whole of the insurance undertaking's assets. Therefore, direct policyholders rank ahead of inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

Ireland

- 3.62 In Ireland, the main legislation governing the winding-up of an insurance undertaking is the *European Union (Insurance and Reinsurance) Regulations 2015*. Under Irish regulations, insurance claims take precedence over any other claim on the insurance undertaking, including collateral or other security arrangements, with respect to assets representing the technical provisions (subject to certain rules). This is subject to the expenses associated with the winding-up having been sufficiently covered by the insurer's other assets.

THE PRODUCTS AND LONG-TERM INSURANCE BUSINESS RELEVANT TO THE SCHEMES

- 3.63 The long-term business that is proposed to be transferred under the Scheme can be divided into the following three categories: with-profits, unit-linked business and conventional non-profit business. I summarise the key features of these products below.

With-profits business

- 3.64 With-profits business refers to insurance business where policyholders are entitled to share in the profits of the fund.
- 3.65 There are different types of with-profits policies but in general the policyholder pays premiums which usually secure a minimum level of guaranteed benefit. This benefit or policy value is increased periodically through bonuses awarded at the discretion of the insurer depending on the surplus emerging in the relevant insurance fund and, once they have been awarded, bonuses are typically guaranteed. There is often a further bonus (a final or terminal bonus) payable at maturity, death or surrender.
- 3.66 There are two types of with-profits policies: conventional and unitised with-profits. For conventional with-profits, declared bonuses are added to the sum assured, whereas for unitised the bonuses either increase the value of the units, or increase the number of units. The majority of the with-profits policies proposed to be transferred under the Schemes are conventional with-profits.
- 3.67 It is typical for insurers to target payments to policyholders to be relatively close to the policy's "asset share", which is a measure of the accumulated value of the policy based on premiums paid, actual investment returns, mortality costs and expenses incurred by the fund.
- 3.68 The with-profits business proposed to be transferred under the Schemes comprises:
- Whole of life policies,
 - Endowment assurances and
 - Deferred Annuities.

Unit-linked business

- 3.69 Unit-linked business is principally a type of non-profit investment product where policyholders' premiums are used to buy units in investment funds. The value of the policyholders' units then moves in line with the performance of the investments in the fund. Charges are deducted from policyholders' premiums and/or from their units. At maturity, policyholders receive the value of their units.
- 3.70 From an insurer's perspective, the BEL arising from unit-linked business can be split into two components:
- The unit-linked BEL relates to the value of the policyholders' units, and is what payments to policyholders and communications of current values are based upon; and
 - The non-unit BEL, which relates to the insurer's future profits (or losses) arising from the policy, typically in relation to charges (unit deductions) net of the costs of administering the policies and any guarantees on the unit-linked policies.

- 3.71 An insurer may reinsure the unit-linked BEL in order to offer a wider range of investment choices to policyholders, or to preserve the availability of current investment choices when transferring policies to another insurer.
- 3.72 The unit-linked business proposed to be transferred under the Schemes comprises:
- Investment bonds, which are whole of life policies that can provide a regular income;
 - Savings products, which may include life cover;
 - Pension products administered as unit-linked policies that pay out a regular pension payment from the retirement date; and
 - Whole of life policies.

Conventional non-profit business

- 3.73 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount or calculated based on a fixed formula. For example, a life insurance policy that pays a fixed benefit on the death of the policyholder.
- 3.74 The conventional non-profit business proposed to be transferred under the Schemes comprises:
- Annuities which pay a regular pension to the policyholder until their death. The pension amount may be fixed or may be subject to regular increases, which may be based on a fixed annual percentage or linked to an inflation index;
 - Non-linked critical illness policies that pay a lump sum should the policyholder suffer from one or more of a range of defined critical illnesses;
 - Income protection policies that pay a regular income when the policyholder is unable to work due to illness or injury; and
 - Whole of life policies.

THE ROLE OF THE INDEPENDENT PERSON

The role of the Independent Expert in the UK

- 3.75 Policyholders involved in UK insurance business transfers have four main layers of independent protection provided by the legal and regulatory system in the UK. These layers of protection are provided by:
- The UK regulators (the PRA and the FCA) as they:
 - Approve the appointment of the Independent Expert and the form of their Scheme Report;
 - Produce their own reports on the UK Scheme for consideration by the UK Court;
 - Are entitled to appear at the UK Court hearings; and
 - Approve the form of the notices that are published and sent to policyholders.
 - The Independent Expert. He/she produces the (publicly available) Scheme Report assessing the scheme and an updated supplementary report for the UK Sanction Hearing.
 - The obligations placed on the companies to give notice of the proposed transfer to policyholders and other interested parties. Any person who considers they may be adversely affected by the scheme may make a representation to the UK Court.
 - The UK Court. There are two UK Court hearings: the Directions Hearing and the Sanction (or Final) Hearing. The UK Court reviews the scheme at the Sanction Hearing, at which it takes into account the views of the regulators, the Independent Expert, evidence on behalf of the parties to the transfer, and any objections raised by policyholders and other interested parties.
- 3.76 My role as Independent Expert, as the second of the layers of protection for policyholders described above, is to assess the UK Scheme and to report on this via the Scheme Report (this Report and the Supplementary Report) to the UK Court. I set out my significant areas of consideration in discharging this role in paragraphs 3.79 to 3.86 below.

The role of the Independent Actuary in Ireland

- 3.77 Policyholders involved in Irish insurance business transfers have four main layers of independent protection provided by the legal and regulatory system in Ireland. These layers are provided by:
- The Irish regulator, the CBI as it:
 - Reviews the form of the Scheme Report;

- Is entitled to appear at the Irish Court hearings; and
 - Reviews the form of the notices that are published and sent to policyholders.
 - The Independent Actuary. He/she produces the (publicly available) Scheme Report assessing the scheme and an updated supplementary report for the Irish Sanction Hearing.
 - The obligations placed on the companies to give notice of the proposed transfer to policyholders and other interested parties. Any person who considers they may be adversely affected by the scheme may make a representation to the Irish Court.
 - The Irish Court. There are two Irish Court hearings: the Hearing of Application for entry into Commercial Court and Motion for Directions and the Sanction (or Final) Hearing. The Irish Court reviews the scheme at the Sanction Hearing and takes into account the views of the regulator, the Independent Actuary, evidence on behalf of the parties to the transfer, and any objections raised by policyholders or other interested parties.
- 3.78 My role as Independent Actuary, as the second of the layers of protection for policyholders described above, is to assess the Irish Scheme and to report on this via the Scheme Report (this Report and the Supplementary Report) to the Irish Court. I set out my significant areas of consideration in discharging this role in paragraphs 3.79 to 3.86 below.

THE CONSIDERATIONS OF THE INDEPENDENT PERSON

The regulatory requirements in respect of my role

- 3.79 The UK requirements in respect of a Scheme Report are set out in:
- Paragraphs 2.27 to 2.30 of the PRA Statement of Policy described in paragraph 1.62;
 - Paragraphs 31 to 41 of Section 2 of SUP 18 of the FCA Handbook; and
 - The FCA Guidance described in paragraph 1.62.
- 3.80 This Report complies with these requirements and there are no further requirements imposed by Ireland.
- 3.81 In considering the Schemes, the concept of 'Treating Customers Fairly' ("TCF") should be applied. From the policyholders' perspective, the successful implementation of the Schemes must be on the basis that they are treated fairly during the process and will be treated fairly in the future.
- 3.82 As described in Section 1 of this Report, the Schemes concern three life insurance companies: RLL, PLL and PLAE. I need to consider the terms of the Schemes generally and how any different groups of policyholders of RLL and PLL are likely to be affected by the implementation of the Schemes, including whether any different generations of policyholders within each group will be affected differently. In particular, I need to consider:
- The effect of the implementation of the Schemes on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
 - The effect of the implementation of the Schemes on the reasonable expectations of policyholders in respect of their benefits; and
 - The effect of the implementation of the Schemes on the standards of service, administration, management and governance applicable to the policies.
- 3.83 My considerations in respect of each of these areas are set out in more detail below. Prior to the transfer PLAE does not have any policyholders.
- 3.84 In this Report, I have not restricted my assessment of the Schemes to adverse effects.
- 3.85 I am only required to comment on the effects of the implementation of the Schemes on policyholders who enter into contracts with RLL and PLL prior to the date of the implementation of the Schemes, which is expected to be the Effective Date. I am not required to consider the effects of the Schemes on new policyholders entering into contracts after this date. However, I note that PLAE will be closed to new business and RLL has been closed to new business since 27 March 2020, other than for increments to, or options exercised under, existing contracts. Furthermore, I note that PLL is closed to new business for non-UK policyholders, other than for increments to, or options exercised under, existing contracts.

- 3.86 I am not required to consider possible alternative schemes and I have therefore only considered the terms of the Schemes presented to me. As covered later in Sections 5 and 6, RLL, PLL and PLAE 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.

The security of policyholder benefits

- 3.87 As part of my role as Independent Person for the Schemes, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Schemes on the likelihood that policyholders will receive their benefits when these are due.
- 3.88 Solvency II requires insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic estimate of their liabilities to policyholders. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios.
- 3.89 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the benefits and security is also provided by other capital resources in the insurance company. As well as the amount of available capital, the quality of that capital is also an important consideration in the context of security of benefits as are the constraints around the circumstances when shareholders can effectively withdraw capital arising from profits through the payment of dividends.
- 3.90 The life insurance companies involved in the Schemes have a different mix of policies and policyholders and the type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholders' risk exposure will be the characteristics of the company in which the policy is held such as the size of the company, the mix of different types of business, the amount and quality of capital resources available, and the internal capital policy and risk appetite of the company.

Policyholders' reasonable expectations in respect of their benefits and the levels of service received

- 3.91 As Independent Expert I also need to consider the proposals in the context of the FCA's regulatory objectives and in particular the effect of the implementation of the Schemes on policyholders' reasonable expectations in respect of their benefits and the quality of the levels of administration, servicing, management and governance in respect of their policies.
- 3.92 This includes considering the effect of the implementation of the Schemes on any areas where discretion may be involved on behalf of the relevant insurance company with regard to the charges applied to a policy and the benefits granted to the policyholder.

THE FRAMEWORK FOR THE INDEPENDENT EXPERT'S CONSIDERATION OF THE SCHEMES

- 3.93 The framework for my conclusions is a consequence of the UK Court's consideration of prior schemes, including the transfer of a portfolio of annuities from Prudential Assurance Company Limited ("Prudential") to Rothesay Life Limited ("Rothesay"). An appeal was brought to the Court of Appeal by Prudential and Rothesay, who appealed against the decision of Snowden J who, on 16 August 2019, declined to sanction the transfer.
- 3.94 In the judgement issued by the Court of Appeal some clarity was provided on the principles that a judge should consider when deciding whether to approve a Part VII transfer, it clarified that:
- The crucial question for the UK Court remains whether the transfer results in a material adverse effect on policyholders, creditors, employees or other stakeholders.
 - An adverse effect will only be material if it is:
 - a possibility that cannot sensibly be ignored, given the nature and gravity of feared harm in the particular case;
 - a consequence of the scheme; and
 - material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.
 - In some cases it may also be necessary for the UK Court to consider whether there would be a material adverse effect in the event that the scheme was not sanctioned.

- Should a transfer result in a material adverse effect on some group(s) of policyholders, there may still be reasons to approve the scheme. However, if the impact of the scheme differs for different group(s) of policyholders then the UK Court will need to consider whether the scheme as a whole is fair.
 - In reaching a decision, and determining the key factors for consideration, the UK Court must consider the nature of the business concerned (both transferring and non-transferring) as well as the circumstances surrounding the transfer.
 - Whilst the UK Court has discretion over whether to sanction a transfer, in exercising this discretion it takes into account matters that should be considered and ignores matters that have no bearing on the decision. The decision as to what matters to consider will depend on the particular circumstances of the transfer.
 - The UK Court scrutinises the reports of the Independent Expert, PRA and FCA, and any evidence required to be heard by the UK Court. The UK Court is entitled to ask questions as is necessary to ensure that the opinions are fully understood and with a view to identifying any “errors, omissions, or instances of inadequate or defective reasoning”. However, in the absence of such defects the UK Court should place “full weight” on the opinions of the Independent Expert, PRA and FCA and only depart from their conclusions if there are “significant and appropriate reasons” for doing so.
 - Following the UK Court’s evaluation, it will decide whether or not to sanction the scheme if it is appropriate in all the circumstances to do so. The UK Court cannot explicitly request for a scheme to be altered, although alterations may occur as a result of the UK Court expressing concerns in relation to certain aspects of the scheme.
- 3.95 In the particular case of the Prudential to Rothesay transfer, the Court of Appeal judgement also drew the following conclusions:
- It is justifiable for the Independent Expert, PRA and FCA to rely on the Solvency II metrics at a specific date to support their opinions that there was a remote chance of parental support being needed in the future as Rothesay would continue to be regulated under these same rules for the foreseeable future.
 - The possibility of non-contractual parental support being available in the future was not a relevant factor for consideration.
 - Given the extensive financial and actuarial evidence available to the UK Court, the subjective factors raised by the policyholders (such as the age, vulnerability and reputation of Prudential) are not relevant.
- 3.96 As Independent Expert, my assessment of the impact of the implementation of the Schemes on the various affected policies is ultimately a matter of expert judgment regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies and policyholders.
- 3.97 A scheme may have both positive and negative effects on a group of policies, and policyholders, and the existence of detrimental effects should not necessarily imply that the UK Court or Irish Court should reject the scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.
- 3.98 In order to acknowledge this inherent uncertainty, and to be consistent with the statements by the UK Court noted above, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. In line with paragraph 3.94, if the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies and policyholders.
- 3.99 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders’ benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.
- 3.100 This is the framework in which I undertake my consideration of the Schemes.

THE FRAMEWORK FOR THE INDEPENDENT ACTUARY'S CONSIDERATION OF THE SCHEME

3.101 The Scheme Report of the Independent Actuary has been prepared under the terms of guidance set out in version 2.3 (effective 1 September 2021) of the Actuarial Standard of Practice (ASP) LA-6 ("Transfer of long-term business of an authorised insurance company – role of the independent actuary") issued by the Society of Actuaries in Ireland.

RELIANCES OF THE INDEPENDENT PERSON IN THIS REPORT

The financial information in this Report

3.102 Appendices A and B show the current (i.e. before the implementation of the Schemes) and pro-forma post-Schemes Solvency II balance sheets (including capital requirements) as at 31 December 2021 for RLL, PLL and PLAE. The balance sheets for RLL and PLAE have been prepared using the Standard Formula, and the balance sheet for PLL has been prepared using an approved internal model. The financial information as at 31 December 2021 is used in the analysis of the effects of the implementation of the Schemes as set out in Sections 7 to 12, as this is the most recent date at which financial information that has been through RLL's and PLL's internal and external review processes will be available for the Report.

3.103 In respect of this financial information:

- For pre-Schemes balance sheets:
 - For RLL, the risk margin and SCR have been calculated using the Standard Formula; and,
 - For PLL, the risk margin and SCR have been calculated using an internal model.
- For pro-forma post-Schemes balance sheets:
 - For RLL, the risk margin and SCR have been calculated using the Standard Formula;
 - For PLAE, the risk margin and SCR have been calculated using the Standard Formula; and,
 - For PLL, the risk margin and SCR for PLL Non-transferring Business have been calculated using an internal model. The risk margin and SCR for PLL Transferred Business reinsured back to PLL and as reported on PLL's balance sheet have been calculated using an internal model.

The checks that have been carried out on the financial information

3.104 I have not carried out an independent review of the financial information but:

- The reported Solvency II balance sheet of RLL as at 31 December 2021 (shown in Appendix A) has been subject to ReAssure's internal governance and second line review by ReAssure's Technical Approvals Committee (a body responsible for the approval of external reporting and including senior members from the Risk, Actuarial and Finance teams) and Board approval. In addition, the Solvency II balance sheets of RLL as at 31 December 2021 have been subject to external audit review of those areas which are within external audit scope.
- The reported Solvency II balance sheet of PLL as at 31 December 2021 (shown in Appendix A) has been subject to Phoenix Group's internal governance and second line review by Phoenix Group's Balance Sheet Oversight team (part of the Risk team, responsible for the approval of external reporting) and Board approval. In addition, the Solvency II balance sheet of PLL as at 31 December 2021 have been subject to external audit review of those areas that are within external audit scope.
- I have seen a reconciliation of the pro-forma post-Schemes Solvency II balance sheets carried out by RLL and PLL actuaries as at 31 December 2021 for RLL and PLL, shown in Appendix B, back to the reported Solvency II balance sheets for RLL and PLL.
- I have cross-checked the PLAE pro-forma balance sheet as at 31 December 2020 to PLAE's authorisation application to the CBI, and have seen a reconciliation of that balance sheet to constituent inputs from PLL and RLL as at 31 December 2020. (The 31 December 2020 balance sheets are not used in my report, but the bridge between the PLAE authorisation application and the constituent inputs from PLL and RLL form a useful control.)

Conclusion in respect of the financial information

3.105 Given the level of external review and internal checking and governance to which the financial information will have been subject, as well as my own high-level review and reasonableness checks, I am satisfied that it is appropriate to rely upon this financial information for the purpose of this Report.

3.106 My Supplementary Report will contain financial information as at 30 June 2022 and will provide an update on the effect of the implementation of the Schemes based upon these figures.

My reliance on legal advice

3.107 My Report is prepared for both the UK Court and Irish Court (together, the “Courts”) as part of the process of submission of the Schemes to the Courts. I am not an expert in legal matters and hold no qualifications in UK law or Irish law (insurance regulations or otherwise) and therefore incorporate the input of experts in UK and Irish insurance law. In particular, I incorporate the input given by legal experts in order to ensure that my understanding of the Schemes, and my description of its relevant features in my Report, is materially accurate.

3.108 Obtaining information in respect of the operation of the Schemes from the legal experts provides a sound basis from which to carry out my review and analysis using actuarial expertise.

3.109 In order to get a sound understanding of the legal effect of the Schemes, the options available to me are to retain my own legal adviser(s) to carry out the relevant legal review, or to incorporate the input of the legal firms retained by RLL, PLL and PLAE in respect of this Schemes, namely Linklaters LLP and A&L Goodbody. In this case, I consider that it is not necessary for me to obtain independent legal input and that it is appropriate for me to incorporate the input of Linklaters LLP and A&L Goodbody.

3.110 Linklaters LLP and A&L Goodbody have not been retained by me, and Linklaters LLP and A&L Goodbody have no liability to me or Milliman for any input that has been made available to me in order to provide me with information that I consider relevant to my assessment of the effects of the Schemes.

3.111 My reasons for incorporating the input of Linklaters LLP are:

- Linklaters LLP is a large international legal firm (“Linklaters”) with a wide range of experience in UK insurance law and Part VII transfers and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK;
- The nature of the input from Linklaters LLP that I have incorporated is factual and primarily deals with the specifics of the UK Scheme and how it works in accordance with UK law;
- The relevant legal matters do not appear to be contentious; and
- The fair treatment of policyholders is not dependent on the legal input.

3.112 My reasons for incorporating the input of A&L Goodbody are:

- A&L Goodbody is a leading Irish and European law firm with a wide range of experience in Irish insurance law and domestic mergers in Ireland as well as cross-border transfers. It is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in Ireland;
- The nature of the input from A&L Goodbody that I have incorporated is factual and primarily deals with the specifics of the Irish Scheme and how it works in accordance with Irish law;
- The relevant legal matters do not appear to be contentious; and
- The fair treatment of policyholders is not dependent on the legal input.

3.113 For these reasons, I am satisfied that the input given by Linklaters LLP and A&L Goodbody would not be different if they were retained directly by me in respect of the Schemes.

3.114 I am therefore satisfied that it is appropriate for me to incorporate and rely (without liability for Linklaters LLP or A&L Goodbody) upon the input of Linklaters LLP and A&L Goodbody in forming my view on the UK Scheme and Irish Scheme, respectively.

4. BACKGROUND REGARDING THE ENTITIES CONCERNED IN THE SCHEMES

4.1 In this section of the Report, I set out some background information and key metrics relating to the entities that are involved in the Schemes.

THE PHOENIX GROUP

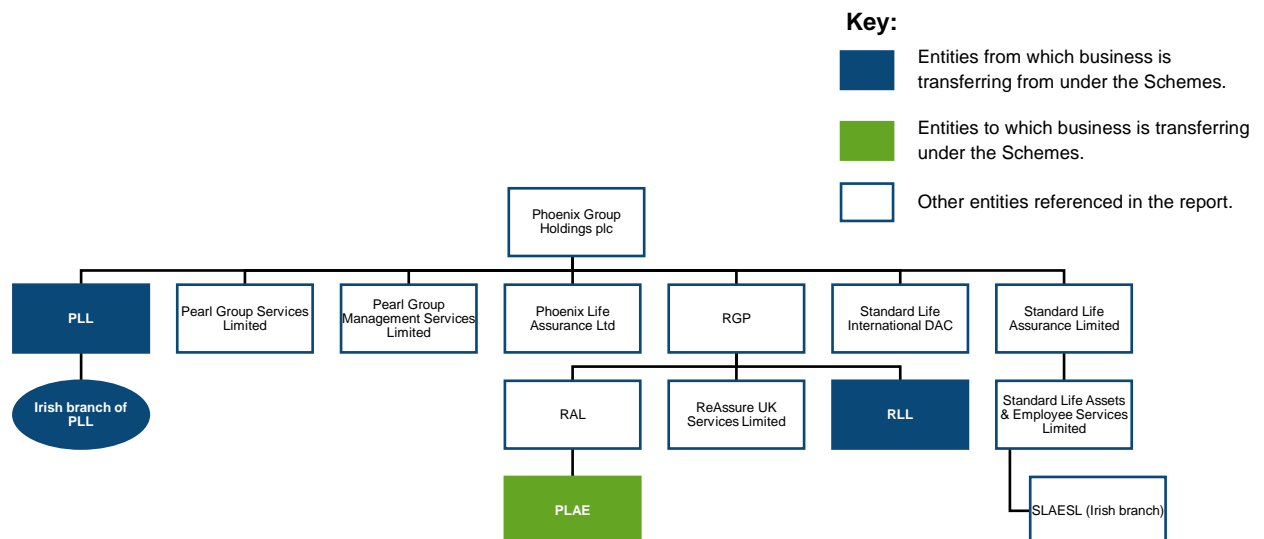
Background

- 4.2 The Phoenix Group has a number of active UK regulated life insurance companies: the largest are PLL, Phoenix Life Assurance Limited, ReAssure Limited (“RAL”), and Standard Life Assurance Limited. Phoenix Life Holdings Limited is the senior UK and European Community insurance holding company in the Group. Phoenix Group Holdings, which is listed on the London Stock Exchange and is a FTSE 100 company, is the ultimate parent.
- 4.3 Phoenix Group can trace its origins back to 1782 with the establishment of Phoenix Assurance. Its evolution since then is complex and further details of the Phoenix Group’s and PLL’s history can be found on the Group’s website. Phoenix Group has approximately £310 billion of assets under administration as at 31 December 2021.
- 4.4 All three entities involved in the Schemes are members of the Phoenix Group of companies.
- 4.5 ReAssure Group plc (“RGP”) was established in 2019 in advance of an Initial Public Offering of the ReAssure Group plc. This Initial Public Offering was superseded by the announcement on 6 December 2019 of a proposed sale of RGP and its subsidiaries to PGH.
- 4.6 Phoenix Group Holdings is the ultimate parent of RGP.

Current structure of the Phoenix Group

4.7 Figure 4.1 below shows the current structure of the Phoenix Group. The structure has been simplified by including intermediate holding companies only if they are referenced in this report, and management services companies only if they are referenced in this report.

FIGURE 4.1 SIMPLIFIED COMPANY STRUCTURE OF THE PHOENIX GROUP



Source: Simplification of structure shown in section A.1.2 of the Phoenix Group SFCR as at 31 December 2021, and PLAE added.

- 4.8 PLL is a UK life and pensions business with a dual focus on managing closed in-force portfolios and on growth through vesting pension annuity business, bulk purchase annuities and protection business written under the SunLife brand.
- 4.9 RAL is a UK life and pensions business with a focus on managing closed in-force portfolios. It is the primary operating company for long-term insurance business in RGP. RAL owns 100% of PLAE, which was incorporated in December 2020 for the purpose of accepting the RLL and PLL business in these Schemes.
- 4.10 ReAssure UK Services Limited (“RUKSL”), Pearl Group Management Services Limited (“PGMS”), Pearl Group Services Limited (“PGS”) and Standard Life Assets & Employee Services Limited (“SLAESL”) provide management services, including governance and policy administration services, to the life assurance and group companies within the Phoenix Group. SLAESL also operates a service company branch in Ireland known as SLAESL (Irish branch).

PLL

Background

- 4.11 PLL was incorporated in England and Wales on 30 June 1971 under the Companies Acts 1948 to 1967 as a private limited company. As shown in Figure 4.1, the ultimate parent of PLL is Phoenix Group Holdings plc.
- 4.12 PLL is domiciled and authorised in England and Wales and is subject to the relevant requirements and guidelines of the PRA and the FCA. It also operates a branch in Ireland, where it is regulated by the CBI in respect of prudential regulation and conduct of business rules.
- 4.13 The principal activity of PLL is the transaction of life assurance and pension business that, except for vesting pension annuity business, bulk purchase annuities and protection business written under the SunLife brand, is largely in run-off. All of the in-force business was targeted at policyholders resident in the UK, except for business written in the Irish branch, and elsewhere in the EEA. Further detail is provided in the paragraphs below.
- 4.14 The focus of the business until recently has been on closed fund consolidation. However, having recently developed a bulk purchase annuity capability, more than half of PLL’s operating profits for 2021 arose from writing new business.

PLL’s current business

- 4.15 PLL is authorised by the PRA to effect and carry on long-term business classes I (life and annuity), II (marriage and birth), III (linked long-term), IV (permanent health), VI (capital redemption contracts) and VII (pension fund management).
- 4.16 PLL’s long-term business is held within ten with-profits sub-funds and one non-profit fund. The net BEL of each of the funds as at 31 December 2021 is shown in Figure 4.2 below. The four with-profits sub-funds of relevance to the Schemes are shown individually, with the remaining six grouped together as “other with-profits funds”.

FIGURE 4.2 PLL SUB-FUND SIZES

PLL Sub-Fund	Net BEL as at 31 December 2021 (£m)
Alba WPF	528
90% WPF	71
Phoenix WPF	2,086
SPI WPF	1,148
Other WPFs	7,965
Non-Profit Fund (NPF)	39,948
Total	51,746

Source: PLL Chief Actuary’s Report on the proposed transfer of business.

- 4.17 The with-profits funds containing business subject to the Schemes are described below:

- Alba with-profits fund (“Alba WPF”): This contains business originally sold by Life Association of Scotland Crusader Insurance plc, FS Assurance and Britannia Life Limited. It consists of with-profits (traditional and unitised) life and corporate pension business, together with non-profit deferred and in payment annuities.
- 90% with-profits fund (“90% WPF”): This contains business transferred into it from Swiss Life and from Britannic Unit Linked Assurance. It consists of traditional with-profits endowment and whole life business together with industrial branch (low sums assured) business, and the investment element of unitised with-profits business otherwise written in the non-profit fund.
- Phoenix with-profits fund (“Phoenix WPF”): This contains business transferred in from Royal Life Insurance Limited. It consists of traditional with-profits whole life and endowments and pension business, unitised with-profits whole life bonds and pension business, non-profit endowments, and non-profit deferred annuities.
- SPI with-profits fund (“SPI WPF”): This contains business originally sold by Scottish Provident. It consists of traditional with-profits pension and deferred annuity business, the unitised with-profits benefits (investment funds) for some unit-linked policies written in the non-profit fund, and deposit administration business.

- 4.18 Only the non-profit fund is open to new business.
- 4.19 PLL benefits from internal model approval, whereby its capital requirements are established through a model developed by the Phoenix Group and approved by the PRA, rather than a Standard Formula model set by insurance regulators for insurers not having internal model approval.
- 4.20 The PLL business to be transferred under the Schemes consists of all PLL’s Irish directly-written insurance business (which is currently contained within the Irish branch of PLL), and all PLL’s German and Icelandic business (which is contained within PLL directly). Collectively, PLL’s Irish, German and Icelandic business is referred to as the PLL Transferred Business.
- 4.21 I will refer to all of PLL’s other business – UK business including new policies written since the date of the financial information used in my Report, and inwards reinsurance business³³ accepted from Utmost and Irish Life which, for operational efficacy, has been treated by PLL as connected with the Irish branch of PLL – as “PLL Non-transferring Business”.
- 4.22 PLL is subject to a number of terms arising from the 2009 Part VII scheme (affecting the SPI WPF) and earlier Part VII schemes. These terms govern the management of the business, including the PLL Transferred business.

PLL’s Direct EEA long-term business (the “PLL Transferred Business”)

Introduction

- 4.23 As at 31 December 2021, the PLL Transferred Business consisted of 21,611 policies. Most of the policyholders holding a policy within the PLL Transferred Business appear in the records of PLL as currently being resident outside the UK. As at April 2022, there were 187 PLL Transferred Policyholders recorded as UK resident.
- 4.24 The PLL Transferred Business consists of the following groups of business, each of which is described in further detail in the following sub-sections:
- The Irish PLL Transferred Business, within the scope of both the Irish Scheme and the UK Scheme;
 - The Icelandic PLL Transferred Business, within the scope of the UK Scheme; and
 - The German PLL Transferred Business, within the scope of the UK Scheme.

The Irish PLL Transferred Business

- 4.25 The Irish PLL Transferred Business includes policies that were sold direct to policyholders in Ireland, either via Irish branches of PLL’s predecessor entities (which were later acquired by PLL) or via cross-border passporting and consists of both with-profits and non-profit business. All of the Irish PLL Transferred Business is contained within the Irish branch of PLL.

³³ This is indirectly-written business of PLL in the sense that the relevant policies are written by an insurer other than PLL and under the reinsurance agreement PLL has agreed to meet certain benefits under those policies in return for reinsurance premiums.

4.26 Figure 4.3 below provides a summary of the Irish PLL Transferred Business.

FIGURE 4.3 BREAKDOWN OF THE IRISH PLL TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Net BEL (£m)
Ireland	Conventional with-profits	7,828	275
	Conventional non-profit	2,897	14
	Income protection	2	0
	Annuity	4,764	403
	Unit-linked (non-profit)	3,900	34
	Unitised with-profits	584	28
Total		19,974	754

Source: Phoenix Group Actuarial

4.27 The Irish PLL Transferred Business is currently held in either the PLL Non-Profit Fund (“PLL NPF”), which includes a Matching Adjustment Fund, or in a with-profits funds of PLL. The number of policies in the Irish PLL Transferred Business, the net BEL of those policies, the PLL fund in which they currently exist and the percentage of that fund they currently comprise (based on BEL net of reinsurance) are shown in Figure 4.4 below:

FIGURE 4.4 BREAKDOWN OF THE IRISH PLL TRANSFERRED BUSINESS BY FUND AS AT 31 DECEMBER 2021

Fund	Number of Policies	Net BEL (£m)	Net BEL Proportion of Underlying PLL Fund
Non-Profit Fund	9,114	435	1%
SPI WPF	6,876	258	22%
90% WPF	1,996	1	2%
Phoenix WPF	1,136	43	2%
Alba WPF	852	17	3%
Total	19,974	754	1%

Source: PLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from PLL to PLAE.

4.28 Figure 4.5 below details the types of Irish PLL Transferred Business, and the PLL fund in which it is currently held:

FIGURE 4.5 BREAKDOWN OF THE IRISH PLL TRANSFERRED BUSINESS BY TYPE AS AT 31 DECEMBER 2021

Policy type	Alba WPF	90% WPF	Phoenix WPF	SPI WPF	PLL NPF
Conventional With-Profits	✓	✓	✓	✓	
Unitised With-Profits and/or Deposit Administration	✓			✓	
Conventional Non-Profit	✓	✓	✓	✓	✓
Annuities	✓		✓		✓
Unit-Linked					✓

Source: Milliman summary of descriptions in PLL Chief Actuary Report

4.29 All of the Irish PLL Transferred Business is in run-off, with no new business having been written for circa 20 years, except for vesting non-profit annuities written from existing business. Virtually all of the Irish PLL Transferred Business are denominated in euros.

The Icelandic PLL Transferred Business

4.30 The Icelandic PLL Transferred Business was originally marketed by Landesbankinn on behalf of Swiss Life (UK) plc, between 2002 and 2005, and was transferred to PLL on 31 December 2005. All of the Icelandic PLL Transferred Business is contained within PLL directly.

4.31 Figure 4.6 below provides a summary of the Icelandic PLL Transferred Business.

FIGURE 4.6 BREAKDOWN OF THE ICELANDIC PLL TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Net BEL (£m)
Iceland	Accelerated critical illness, standalone critical illness, and term assurance	1,304	0.3
Total		1,304	0.3

Source: Milliman table of information in PLL Chief Actuary Report

4.32 The Icelandic PLL Transferred business is all a part of the PLL NPF.

4.33 The Icelandic PLL Transferred business are all non-profit products written in Iceland and consist of accelerated critical illness, standalone critical illness and term assurance business. The policies are denominated in sterling.

The German PLL Transferred Business

4.34 The German PLL Transferred Business was originally marketed by Swiss Life Germany on behalf of Swiss Life (UK) plc, between 2001 and 2004, and was transferred to PLL on 31 December 2005. All of the German PLL Transferred Business is contained within PLL directly.

4.35 Figure 4.7 below provides a summary of the German PLL Transferred Business.

FIGURE 4.7 BREAKDOWN OF THE GERMAN PLL TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Net BEL (£m)
German	Reviewable premium accelerated critical illness	333	-0.4
Total		333	-0.4

Source: Milliman table of information in PLL Chief Actuary Report

4.36 The German PLL Transferred business are all non-profit policies sold in Germany and consist of reviewable premium accelerated critical illness and term assurance business. The policies are denominated in euros.

PLL's reinsurance agreements

Reinsurance agreements covering the PLL Transferred Business

4.37 The PLL Transferred Business currently benefits from a number of external reinsurance arrangements. The majority of these external reinsurance arrangements relate to the non-unit liability on UL Irish PLL Transferred Business. These treaties are with Swiss Re, Gen Re and Unum Limited ("Unum") and are a mixture of quota share, including variable quota share, and excess of loss reinsurance. There is also a small reinsurance treaty with Swiss Re in respect of Irish PLL Transferred Business in the SPI WPF.

4.38 There are two further treaties with Swiss Re and Munich Re covering the German PLL Transferred Business and the Icelandic PLL Transferred Business.

PLL's inwards reinsurance business

4.39 As referred to in paragraph 4.21 above, the PLL Non-transferring Business includes inwards reinsurance business: Phoenix is the insurer for three blocks of business (unitised with-profits business and unit-linked business with Utmost and unitised with-profits business with Irish Life). For operational efficacy, this inwards reinsurance business has been treated by PLL as connected with the Irish branch of PLL; however, this business is business of PLL in the UK. It consists of around 1,200 policies and approximately £23m of BEL as at 31 December 2021. It does not form part of the PLL Transferred Business.

PLL's other reinsurance agreements

- 4.40 PLL's Non-transferring Business is covered by a range of reinsurance arrangements, including excess of loss and quota share reinsurance treaties with various reinsurers. PLL also makes use of intragroup reinsurance.

The PLL Linked Funds

- 4.41 PLL maintains internal linked funds for the purposes of calculating benefits payable under the unit-linked policies (the "PLL Linked Funds"), including those unit-linked policies within the Irish PLL Transferred Business.
- 4.42 Each unit-linked policy in PLL is associated with one or more PLL Linked Funds into which relevant policyholders' premiums are invested, with assets acquired by such PLL Linked Funds being the "PLL Linked Assets".
- 4.43 A PLL Linked Fund may invest directly in assets or, where the PLL Linked Fund provides access to an investment fund owned by another insurer, PLL will have entered into a reinsurance arrangement with that other insurer and the PLL Linked Fund will be represented by a reinsurance asset in the books of PLL. These reinsurance arrangements are designed to offer policyholders exposure to the relevant investment fund on terms equivalent to those offered when investing directly.
- 4.44 The PLL Linked Funds available for investment by the Irish PLL Transferred Policies are also available to reinsurances accepted from external parties, as set out in paragraph 4.39.
- 4.45 As at 31 December 2021, the PLL Linked Funds attributable to the PLL Transferred Business had an aggregate value of approximately £32 million.

The With-Profits Funds

- 4.46 PLL contains a number of ring-fenced with-profits funds (the "PLL WPFs"), four of these with-profits funds contain Irish PLL Transferred Business as well as PLL Non-transferring Business.
- 4.47 Each of the with-profits funds is managed by PLL in accordance with the PLL Principles and Practices of Financial Management ("PPFM"), which has a chapter that details the specific management of each of the funds.
- 4.48 The PPFM sets out that should the asset value of any of the PLL WPFs fall below the amount required to meet the funds regulatory or capital policy, then these funds will be supported by either the Non-Profit Fund or the Shareholder Fund to the extent that the Board determines there are sufficient assets available to provide such support.
- 4.49 As at 31 December 2021, the BEL associated with Irish PLL Transferred Business written in the PLL WPFs had a BEL of approximately £320 million.

Key financial information and risk profile

- 4.50 PLL prepares its Solvency II results in accordance with its internal model and makes use of Transitional Measures for Technical Provisions and a Matching Adjustment.
- 4.51 The Solvency II Pillar 1 results for PLL as at 31 December 2021 are set out in Appendix A. As at 31 December 2021, PLL had an SCR of £2.7 billion and excess capital over its SCR of £1.7 billion, resulting in a solvency cover ratio of 162%.
- 4.52 Under Solvency II, assets are classified into three tiers depending on their quality, with Tier 1 representing the highest quality. As at 31 December 2021, PLL's Own Funds of £4.3 billion entirely consisted of Tier 1 assets.

PLL Capital Management Policy

- 4.53 The PLL Capital Management Policy sets the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR and the quality of this capital.
- 4.54 The PLL Board has approved its PLL Capital Management Policy such that it is aligned to the Life Companies Risk Appetite Framework ("Life Companies RAF"), which sets out PGH's expectations for the capital policies of life companies in the Phoenix Group. The Life Companies RAF is considered within the context of the PGH Capital Risk Appetite Framework ("PGH Capital RAF"), which sets out PGH's more general expectations of the amount of capital that should be held by entities in the Phoenix Group.

- 4.55 Under the Life Companies RAF, the quantity of capital to be held in excess of the SCR is referred to as the minimum capital buffer and is defined as the more onerous of:
- having sufficient Own Funds to cover the SCR following a 1-in-10 year all risk stress event, and
 - having sufficient Own Funds to cover the SCR following a 1-in-20 year market stress event that emerges over the short term.

The minimum capital buffer is expressed as a percentage of the SCR and is recalibrated at least annually by the Board of PLL.

- 4.56 The PLL Capital Management Policy requires the capital held by PLL to meet two quality-based metrics. These cover the ability to maintain Matching Adjustment compliance when calculating the SCR following a 1-in-10 year all risk, and a 1 in 20 year market risk stress event on a regulatory basis, and the ability to maintain sufficient tangible assets following a 1-in-200 year stress event on PLL's internal economic basis.
- 4.57 In addition, the PLL Capital Management Policy contains details on certain contingent actions that PLL may adopt under stress conditions in order to restore its capital position, which are reviewed on a quarterly basis. This includes potential actions such as de-risking certain blocks of assets and introducing longevity reinsurance.
- 4.58 If PLL's solvency cover ratio were to fall below its minimum capital buffer, management would notify the Board of PLL and advise whether remedial action is considered necessary. If PLL were expected to restore its capital buffer within four months, taking account of emerging surplus, current management actions and any short term contingency actions, then its solvency position would be regarded as Amber until the capital buffer had been restored. If the breach of the minimum capital buffer was more severe than this, then the solvency position would be regarded as Red, and PLL management would put in place a remedial action plan. The PLL Capital Management Policy lists potential management actions that could be taken in the event of such circumstances.
- 4.59 The PLL Capital Management Policy also specifies that in normal circumstances, a dividend will only be considered if, following the payment of the dividend, PLL will continue to hold capital above the minimum capital buffer.
- 4.60 The PLL Capital Management Policy is the responsibility of the PLL Board and it is required to be reviewed annually. Any changes to the PLL Capital Management Policy would be subject to consultation and approval of the PLL Board.

PLL's risk profile

- 4.61 The Pillar 1 SCR illustrates the key risks to which PLL is exposed. The breakdown of PLL's pre-diversification SCR as at 31 December 2021 is shown in Figure 4.8 below.

FIGURE 4.8 PLL'S SCR BREAKDOWN AS AT 31 DECEMBER 2021

Risk exposure	Pre-diversification capital
Market risk (other than spread risk)	31%
Spread risk	22%
Longevity risk	21%
Other underwriting risk	17%
Operational risk	5%
Counterparty default risk	4%

Source: PLL YE21 SCR Pre-Post PLAE PVII(IE).

Note: The figures shown broadly reconcile to PLL's S.25.03.21 Quantitative Reporting Template included in the Phoenix Group Solvency and Financial Condition Report 31 December 2021 on a pre-diversification basis. Here, pre-diversification means before diversification within risk exposures (such as within market risk) as well as between risk exposures (such as between market risk and credit risk).

- 4.62 The largest components of PLL's SCR on an undiversified basis are market risk, spread risk and longevity risk.

- 4.63 Market risk is the risk of a reduction in earnings and/or value from unfavourable market movements. Market risk can be split into: interest rate risk, equity risk, property risk, inflation risk, currency risk and alternative assets risk. Interest rate risk is managed by matching assets and liabilities, where practicable, and by entering into derivative arrangements where appropriate. For with-profits business, increased exposure to interest rate risk is permitted where it is consistent with the principles of treating customers fairly. Equity and property price risk is managed through diversification and (in the case of equity risk) the holding of derivatives or physical positions in relevant asset positions to hedge equity risk where appropriate.
- 4.64 Spread risk is the risk of a reduction in earnings and/or value from changes in the spread between corporate bond yields and risk free yields. This also includes changes in the spreads between government bonds and risk free yields (that is, gilt swap spread risk). PLL's exposure to spread risk is managed by monitoring aggregate Phoenix Group exposures to individual counterparties and using investment mandates to diversify credit risk.
- 4.65 PLL is also exposed to longevity risk, which is the risk that there are a lower than expected number of deaths experienced on annuity products. The underwriting risk is managed by a mixture of techniques, including: establishing Minimum Control Standards to manage the risk within appetite, monitoring the exposure against agreed risk appetite statements and making use of external reinsurance.

PLL's governance arrangements

- 4.66 Phoenix operates a uniform governance model across the Group that sets the responsibilities of each life company Board, including that of PLL, and the matters reserved for that Board. The life company Boards delegate some responsibilities to certain committees of those Boards. These committees are shared with other life companies in the Group.
- 4.67 Key Solvency II functions are operated within the Group, and representatives of the Actuarial and Risk and Compliance functions are members of a Board committee. In addition, the Internal Audit function reports directly to the Board Audit Committees. There are also a number of other key functions in the Group including Group Finance, Human Resources, Corporate Affairs and Investor Relations, Asset Management, Operations and General Counsel.
- 4.68 The risk profile and policies are managed at Group level, and operations is led at the Group level.
- 4.69 The PLL Chief Executive Officer is tasked with optimising PLL with due regard to the Group risk policies.
- 4.70 PLL operates a WPC, which has the following roles, duties and responsibilities:
- Provide clear advice and, where appropriate, recommendations to the Board on the way in which each with-profits fund is managed and whether this is properly reflected in, and in compliance with, the PPFM and on any other issue which PLL considers that with-profits policyholders might reasonably expect the WPC to be involved;
 - Provide independent judgement in the assessment of PPFM compliance and how any competing or conflicting rights and interests of policyholders and, if applicable, shareholders have been addressed;
 - Consider all major transactions involving PLL (for example Part VII transfers, reinsurances, outsourcing) to the extent to which they impact upon with-profit policyholders; and
 - Consider at the request of the Board all proposals for the exercise of discretion in respect of non-profit policies and the conduct and overall approach to treating customers fairly.

PLL's administration and servicing arrangements

- 4.71 PLL largely uses an outsourced model for the administration and servicing of the PLL Transferred Policies.
- 4.72 The Irish PLL Transferred Policies are administered in English and the administration is outsourced by PLL mainly to Diligenta Limited ("Diligenta") in the UK and SS&C International Managed Services Limited ("SS&C") in Ireland. Approximately 80 Irish PLL Transferred Policies are administered by Mercer Limited ("Mercer") in the UK and a single Irish PLL Transferred Policy is administered by Unum in the UK.
- 4.73 The Icelandic PLL Transferred Policies are administered in Icelandic and the administration is outsourced by PLL to Diligenta, which subcontracts this responsibility to Tryggingamiðlun Íslands ehf ("TMI") in Iceland.
- 4.74 The German PLL Transferred Policies are administered in German and the administration is outsourced by PLL to Diligenta, which subcontracts this responsibility to S.L.P. Vertriebsservice AG in Germany ("SLP").
- 4.75 PLL is party to a Master Service Agreement ("MSA") which covers the administration of the PLL Transferred Business. It is a multi-party MSA including the following:

- PGMS (Ireland), which has an outsourcing contract with SS&C in respect of some of the Irish PLL Transferred Policies;
 - PGMS, which has an outsourcing contract with Mercer in respect of some of the Irish PLL Transferred Policies;
 - PGS, which has an outsourcing contract with Diligenta in respect of:
 - Some of the Irish PLL Transferred Policies;
 - All of the Icelandic PLL Transferred Policies; and
 - All of the German PLL Transferred Policies.
- 4.76 The terms of the administration services provided by Unum in respect of a single Irish PLL Transferred Policy are included within the reinsurance agreement in place between PLL and Unum.
- 4.77 The Phoenix Group maintains a Sourcing and Procurement Framework, which sets out the standards that must be adhered to in relation to intra-group and third party relationships. Two key components of the Sourcing and Procurement Framework are the Supplier Governance Framework and the Supplier Management Model. The Supplier Governance Framework entails the Phoenix Group's approach to governing the services provided by third parties, and the Supplier Management Model covers the approach to overseeing intra-group and outsourced service providers. The Supplier Management Model includes details on the level of oversight and frequency of performance reporting for all classes of outsourced service providers, the minimum operating standards that are required of outsourced service providers throughout the Group and the approach to procuring new service providers. The outsourced services provided to PLL in respect of the PLL Transferred Business, as outlined in the above paragraphs, are captured by the Sourcing and Procurement Framework, Supplier Governance Framework and Supplier Management Model.

Previous schemes transferring long-term business to which PLL has been party

- 4.78 PLL has been party to many insurance business transfers undertaken in accordance with Part VII of FSMA. The PLL Transferred Business was transferred to PLL via the following schemes:
- The German PLL Transferred Business and the Icelandic PLL Transferred Business was moved to PLL from Swiss Life (UK) plc on 31 December 2005 (the "2005 Scheme").
 - The 90% WPF was established as a result of the 2005 Scheme which transferred the Irish PLL Transferred Business originally written by Swiss Life (UK) plc to the 90% WPF.
 - A further scheme on 31 December 2006 (the "2006 Scheme") transferred business written in the with-profits fund of Britannic Unit Linked Assurance into the 90% WPF. The 2006 Scheme also established the Alba WPF and the Phoenix WPF, into which certain business from Alba Life Limited and Phoenix Life & Pensions Limited, respectively, was transferred.
 - The SPI WPF was established following the transfer of business from the SPI Fund of Scottish Provident Limited on 6 February 2009 (the "2009 Scheme").
- 4.79 The 2009 Scheme also established closure provisions for the four with-profits funds in which the Irish PLL Transferred Business is currently allocated.
- 4.80 The management of PLL has analysed the previous schemes and deemed that the only previous scheme relevant to the PLL Transferred Business is the 2009 Scheme. I have seen analysis detailing which clauses of the 2009 Scheme have been mapped into the Schemes.

RLL

Background

- 4.81 The firm now known as RLL was incorporated in England and Wales on 31 December 1979 as a private limited company, then known as Skandia Life Assurance Company Limited ("Skandia"). Since then, it has changed its name to:
- Old Mutual Wealth Life Assurance Limited ("OMWLA") on 19 September 2014; and
 - ReAssure Life Limited on 27 May 2020 (with the subsequent rebranding to ReAssure Life Limited for operational reasons being effective from 13 June 2020).
- 4.82 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's principal activity is the transaction of life assurance and pension business, which is largely in run-off. All business is written in the UK, except for the EEA business to be transferred under the UK Scheme.

Acquisition of RLL by RGP

- 4.83 Quilter plc was demerged from Old Mutual plc (the then parent company of OMWLA) in 2018.
- 4.84 RLL was Quilter plc's heritage life and pensions division, and was purchased from Quilter plc by RGP in 2019, with the change of control becoming effective as at 31 December 2019.
- 4.85 A key component of the integration plan between Quilter plc and RGP was a proposed Part VII transfer of the non-UK business of RLL to Ark Life Assurance Company DAC ("Ark Life"), then an Irish subsidiary of RAL, by the end of 2020. This transfer was delayed in August 2020 and following Phoenix's acquisition of RGP the transfer of non-UK business of RLL to Ark Life was redirected to PLAE, a new subsidiary of Phoenix domiciled in Ireland. It was also decided that the non-UK business in PLL, and the business in its Irish branch, should be transferred to PLAE. On 1 November 2021, the sale of Ark Life to Irish Life was completed.
- 4.86 The RLL policies have been successfully migrated onto the ReAssure administration platforms, this migration was part of the integration plan between Quilter plc and RGP and was not linked directly to the Schemes.

Acquisition by Phoenix

- 4.87 In July 2020 Phoenix Group completed the acquisition of RGP. The shared service functions of RGP and the Phoenix Group are being brought together to achieve a new organisational design.
- 4.88 As disclosed in its presentation to investors relating to its acquisition of RGP, Phoenix Group confirmed that a Part VII transfer for both the UK and Irish businesses formed part of its planned capital synergies. Phoenix management does not expect the future UK Part VII to occur before 2024 at the earliest. Such a Part VII transfer is outside of the scope of this Scheme Report and the Schemes covered by this Scheme Report, and I understand is yet to be initiated.

RLL's current business

- 4.89 RLL is authorised by the PRA to effect and carry on long-term business classes I (life and annuity), II (marriage and birth), III (linked long-term), IV (permanent health), VI (capital redemption contracts) and VII (pension fund management).
- 4.90 RLL's historical business is a mixture of pension, investment and protection products, the majority of which relate solely to the UK. As at 31 December 2021, RLL is closed to new business, other than for increments to, or options exercised under, existing contracts. Aside from the RLL Transferred Business described in more detail in paragraphs 4.93 to 4.110 below, RLL's material lines of business were:
- A range of unit-linked pension products including personal pensions, executive pensions, free-standing additional voluntary contribution schemes, trustee investment schemes and drawdown;
 - An institutional investment plan offered to institutional pension schemes;
 - A range of single premium unit-linked bonds and regular premium unit-linked endowment products;
 - A unit-linked protection product; and
 - A pure protection product known as "Protect", which was only open to UK residents. The Protect product allowed policyholders to insure against death and/or critical illness on a single or joint life basis.
- 4.91 Throughout this Report, I will refer to the RLL business described above as the "RLL Non-transferring Business".
- 4.92 As at 31 December 2021, in respect of the RLL Non-transferring Business, RLL held approximately £6.9 billion of policyholder assets under administration and 152,000 policies.

RLL's EEA long-term business (the "RLL Transferred Business")

Introduction

- 4.93 As at 31 December 2021, the RLL Transferred Business consisted of 7,161 policies. Most of the policyholders holding a policy within the RLL Transferred Business appear in the records of RLL as currently being resident outside the UK. As at April 2022, there were 17 RLL Transferred Policyholders recorded as UK resident.

- 4.94 The RLL Transferred Business is a closed book of business and no new business has been written since 2014. However certain of the policies comprised in the RLL Transferred Business do continue to receive regular premiums and, in addition, certain of the policies are open to top ups and increments and accordingly new premium may be received.
- 4.95 Having been successfully migrated onto ReAssure’s policy administration systems, the RLL Transferred Business is held on a separate version of ReAssure’s administration system to the remainder of the RLL business.
- 4.96 The RLL Transferred Business is described in further detail in the following sub-sections.

The German RLL Transferred Business

- 4.97 RLL applied to establish a branch in Germany on 7 September 1995. RLL’s German branch entered into a joint venture arrangement with Skandia Versicherung Management & Service GmbH (“Skandia Germany”) on 26 May 1999, and through this joint venture sold critical illness plans in Germany through independent financial advisers.
- 4.98 The joint venture arrangement was terminated when Skandia Germany was sold outside of the Skandia group to the Heidelberg Leben Group in 2004. Following the sale, Skandia Germany continued to provide the critical illness plans on a standalone basis, while RLL’s German branch closed to new business with effect from 30 April 2004. Following this closure to new business, RLL wrote business in Germany on a Freedom of Services basis.
- 4.99 RLL received confirmation of the closure of its German branch from the PRA on 1 July 2014.
- 4.100 Figure 4.9 below provides a summary of the German RLL Transferred Business. The BEL is shown allowing for the Intra-Group Reinsurance (“IGR”) agreement described in paragraphs 4.111 to 4.119 (the “Post-IGR BEL”).

FIGURE 4.9 BREAKDOWN OF THE GERMAN RLL TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Post IGR BEL (£m)
Germany	Non-linked critical illness	1,001	0.0
Total		1,001	0.0

Source: RLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from RLL to PLAE

- 4.101 The only product RLL offered in Germany, and so the only product sold in Germany comprised within the RLL Transferred Business, was a renewable, 10-year term, non-linked regular premium contract that pays a lump sum should the relevant insured suffer from one of a range of critical illnesses listed in the product documentation. There are certain guaranteed insurability options. The product was designed specifically for the German market and was sold to German nationals/residents (with all policyholder correspondence in German). Premiums and claims are paid in euros.

The Norwegian RLL Transferred Business

- 4.102 RLL was authorised to establish a branch in Norway in December 1996. RLL’s Norwegian branch entered into a joint venture arrangement with Vesta LIV AS (“Vesta”), which was then an affiliate of RLL, on 14 March 1997, and through this joint venture sold unit-linked savings and pensions policies in Norway through a direct sales team (employed by Vesta) and independent financial advisers.
- 4.103 Vesta was sold outside of the RLL group in December 1999 and the parties terminated the joint venture with effect from April 2001. RLL subsequently decided to close its Norwegian branch due to the sale of Vesta and prevailing market conditions in Norway. The Norwegian branch was formally closed on 31 December 2007.
- 4.104 Figure 4.10 below provides a summary of the Norwegian RLL Transferred Business. The BEL shown in the Figure 4.10 is the Post-IGR BEL only.

FIGURE 4.10 BREAKDOWN OF THE NORWEGIAN RLL TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Post IGR BEL (£m)
Norway	Unit-linked savings	320	5.1
	Unit-linked pensions	916	11.4
Total		1,236	16.4

Source: RLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from RLL to PLAE

- 4.105 The unit-linked policies sold in Norway consisted of savings products and pension products. The savings business comprises regular and single premium investment business with no guarantees. The pension business comprises single premium policies that pay out a regular pension payment from the retirement date. All of the unit-linked policies sold in Norway were designed specifically for the Norwegian market and all policyholder correspondence is in Norwegian. Premiums and claims are paid in Norwegian Krone. This business is closed to increments.

The Swedish Transferred Business

- 4.106 RLL originally offered unit-linked savings, investment and protection products, including unit-linked critical illness plans to customers in Sweden pursuant to an arrangement with its then parent company in the jurisdiction ("Skandia Sweden"). This arrangement commenced in January 1988. RLL was subsequently approved to carry on business in Sweden on a Freedom of Services basis with effect from 23 May 1995.
- 4.107 RLL ceased writing business in Sweden in December 2007.
- 4.108 Figure 4.11 below provides a summary of the Swedish Transferred Business. The BEL shown in the table below is the Post-IGR BEL.

FIGURE 4.11 BREAKDOWN OF THE SWEDISH TRANSFERRED BUSINESS AT 31 DECEMBER 2021

Country	Policy type	Number of policies	Post IGR BEL (£m)
Sweden	Unit-linked investment bonds	1,627	100.8
	Swedish bonds	608	15.8
	Protection policies	658	0.3
	Unit-linked savings	2,031	20.3
Total		4,924	137.2

Source: RLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from RLL to PLAE

- 4.109 The policies sold in Sweden consisted of unit-linked investment bonds, protection policies and unit-linked savings business. The unit-linked investment bonds (including Swedish bonds) are single premium whole of life policies and these are a mixture of UK-style unit-linked products and products designed specifically for the Swedish market. The protection business comprises unit-linked, regular premium whole of life policies. The unit-linked savings products are regular premium contracts, which may include life cover but do not include any guarantees.
- 4.110 The policies are denominated in pounds sterling, but premiums and claims payments are settled in Swedish Krone.

RLL's reinsurance agreements

The intra-group reinsurance agreement between RLL and RAL

- 4.111 As noted in paragraph 4.84, RLL was purchased from Quilter Plc by RGP in 2019 with the change of control becoming effective as at 31 December 2019. As part of this acquisition, an IGR agreement between RLL and RAL was put into place effective as of the same date.
- 4.112 The IGR reinsures the risks (with the exception of operational risks and some counterparty default risks) of RLL to RAL. There are some future liabilities that are excluded from the IGR, such as the budgeted integration costs arising from the migration to RUKSL (although the expense risk is passed to RAL through the IGR).

- 4.113 The unit-linked funds remain in RLL and there is no reinsurance of the unit-linked elements of any RLL policy. However, the non-unit cash flows arising from unit-linked RLL policies are 100% reinsured to RAL.
- 4.114 The impact of the IGR was to transfer the majority of the economic interest and the associated risks in the business of RLL to the RAL Non-Profit Fund ("RAL NPF"). This transfer also involved the following two transactions:
- An initial advance claim amount of £182 million paid from RAL to RLL; and
 - A reinsurance premium of £95 million paid from RLL to RAL, which was collateralised by being retained within RLL in a "funds withheld" structure, known as the "FWH Account". This structure avoids a counterparty credit exposure arising in RLL against the possibility of a failure of RAL to meet its obligations.
- 4.115 The IGR made allowance for a true-up of the advance claim amount and the reinsurance premium to reflect economic conditions as at 31 December 2019. This true-up was completed on 3 April 2020 and the revised values are £206 million and £90 million respectively. The balance of the advance claim amount above the reinsurance premium represents the value of the future profits expected to emerge from the reinsured business.
- 4.116 The FWH Account was initially set at £95m; it represents the Solvency II BEL of RLL's non-linked business. The amount owing to RAL increases or decreases as experience emerges; that is allowing for premiums received, claims paid, expenses incurred and investment return on the FWH Account, all net of external reinsurance (as described in paragraphs 4.120 to 4.122). The amount owing is settled on a quarterly basis to the extent required to maintain the desired level of assets in the FWH Account.
- 4.117 Any new business written by RLL since 31 December 2019 (including top-ups and increments to existing policies) is automatically included in the IGR on the same terms, and will be reflected in the quarterly settlement amounts.
- 4.118 The RLL Transferred Business is included within the scope of the IGR. At the inception of the IGR, a plan was already in place to transfer this business to Ark Life. However, the RLL Transferred Business was included within the scope of the IGR for operational reasons at that time. The IGR includes a set of partial recapture provisions, that are intended to be invoked upon the completion of the proposed UK Scheme described in Section 5.
- 4.119 The IGR will terminate immediately following the expected future Part VII transfer of all of the RLL Non-transferring Business to another appropriately authorised member of the Phoenix Group described in paragraph 4.87.

Reinsurance agreements covering the RLL Transferred Business

- 4.120 The RLL Transferred Business currently benefits from outwards reinsurance treaties with Swiss Re covering the German RLL Transferred Business.
- 4.121 The treatment of these reinsurance agreements covering the RLL Transferred Business as a result of the proposed UK Scheme are described in Section 5.

RLL's other reinsurance agreements

- 4.122 RLL's business is covered by a range of excess of loss and quota share reinsurance treaties with Swiss Re, Pacific Life Re, Scor Re, Hannover Re and Munich Re. The external reinsurance covering the RLL Non-Transferred Business will remain in place.

The RLL Linked Funds

- 4.123 RLL maintains internal linked funds for the purposes of calculating benefits payable under the unit-linked policies (the "RLL Linked Funds"), including those unit-linked policies within the RLL Transferred Business.
- 4.124 Each unit-linked policy is associated with one or more RLL Linked Fund into which relevant policyholders' premiums are invested, with assets acquired by such RLL Linked Funds being the "RLL Linked Assets".
- 4.125 An RLL Linked Fund may invest directly in assets or, where the RLL Linked Fund provides access to an investment fund owned by another insurer, RLL will have entered into a reinsurance arrangement with that other insurer and the RLL Linked Fund will be represented by a reinsurance asset in the books of RLL. These reinsurance arrangements are designed to offer policyholders exposure to the relevant investment fund on terms equivalent to those offered to those investing directly.

- 4.126 The Swedish Transferred Policies were previously invested into funds in which UK RLL Non-transferring Business is also invested. A new series of funds has been set up for the Swedish Transferred Policies (the “Swedish Linked Funds”) and the Swedish Transferred Policies have been successfully migrated out of the existing unit funds into the Swedish Linked Funds, receiving units of the same number and value as they had previously. This migration was required because the way in which Swedish Transferred Business is taxed will change from 1 January 2022 (it was not required to facilitate the implementation of the UK Scheme). The RLL Linked Funds available to the Norwegian RLL Transferred Policyholders are available only for such policyholders.
- 4.127 As at 31 December 2021, the Linked Funds attributable to the RLL Transferred Business had an aggregate value of approximately £154 million.

Key financial information and risk profile

- 4.128 RLL prepares its Solvency II results in accordance with the Standard Formula and does not make use of any additional regulatory permissions to reduce its technical provisions.
- 4.129 The Solvency II Pillar 1 results for RLL as at 31 December 2021 are set out in Appendix A. As at 31 December 2021, RLL had an SCR of £37 million and excess capital over its SCR of £196 million, resulting in a solvency cover ratio of 636%.
- 4.130 The solvency cover ratio is high as a result of the IGR with RAL, which reduces RLL’s SCR from £275 million to £37 million.
- 4.131 Under Solvency II, assets are classified into three tiers depending on their quality, with Tier 1 representing the highest quality. As at 31 December 2021, RLL’s Own Funds of £233 million consisted entirely of Tier 1 capital.

RLL Capital Management Policy

- 4.132 I understand that RLL is currently undergoing an alignment exercise whereby RLL will derive its capital management policy from the Life Companies Capital RAF, which is considered within the context of the PGH Capital RAF. Under the Life Companies RAF, the quantity of capital to be held in excess of the SCR is referred to as the minimum capital buffer and is defined as the more onerous of:
- having sufficient Own Funds to cover the SCR following a 1-in-10 year all risk stress event; and
 - having sufficient Own Funds to cover the SCR following a 1-in-20 year market stress event that emerges over the short term.

The minimum capital buffer is expressed as a percentage of the SCR, and would be recalibrated at least annually by the Board of RLL.

- 4.133 As at the date of this Report, the alignment exercise has not completed and RLL continues to adopt the RGP Capital Management Policy, which I outline below. It is expected that the alignment exercise will complete in advance of the UK Sanction Hearing and the finalisation of my Supplementary Report, and I will therefore provide an update on this matter in my Supplementary Report.
- 4.134 Prior to the alignment exercise outlined above, RLL adheres to the RGP Capital Management Policy. The RGP Capital Management Policy requires a minimum capital buffer to be held in excess of the SCR, with this buffer being defined as the amount required to absorb a 1-in-20 year all-risk stress event while still holding sufficient Own Funds to cover its SCR. This minimum capital buffer is typically expressed as a percentage of the SCR, and is recalibrated at least annually. However, for RLL, the approach to setting the minimum capital buffer is different. Since the IGR transfers most of the economic interest of RLL into RAL, the SCR is driven by operational risk, which is a function of the expenses over the past 12 months. As expenses are expected to reduce over time the SCR will also reduce, but the risk profile of RLL is not expected to reduce in a similar manner. As a result, the minimum capital buffer for RLL is set as an absolute monetary amount, rather than being set directly in line with the 1-in-20 year threshold. The absolute monetary amount held by RLL as the minimum capital buffer is approved by the RLL Board on an annual basis.
- 4.135 As outlined above, currently RLL is aligning its Capital Management Policy to the Life Companies RAF. I understand from RLL that the amount of capital retained within RLL is more than sufficient to satisfy the Life Companies RAF as the amount of capital that RLL is able to distribute is currently constrained by IFRS distributable surplus.

- 4.136 There is also currently a restriction preventing the payments of dividends out of RLL due to the amortisation of the IGR on an accounting basis.
- 4.137 As the majority of the risks are transferred out of RLL under the IGR, the RLL Board does not currently maintain a document detailing specific solvency triggers at which it would take corrective action.
- 4.138 The RLL Capital Management Policy is the responsibility of the RLL Board and it is required to be reviewed annually. Any changes to the RLL Capital Management Policy would be subject to approval by the RLL Board.

RLL's risk profile

- 4.139 The IGR between RLL and RAL removes most of the SCR and risk margin of RLL, and so the solvency cover ratio³⁴ of RLL at 31 December 2021 was exceptionally high at 636%. This is significantly above the minimum capital buffer required by the RLL Capital Management Policy.
- 4.140 Due to the presence of the IGR, the risk of RLL breaching its capital management buffer is primarily through exposure to the risk of the failure of RAL. In that unlikely (due to the financial strength of RAL) event, the funds withheld structure in the IGR would enable RLL to retain ownership of sufficient assets to cover its non-linked liabilities. These assets are in addition to the RLL Linked Assets held in the RLL Linked Funds by RLL in respect of the unit-linked liabilities of RLL.
- 4.141 Furthermore, the schedule of termination payments under the IGR was set to ensure that RLL would be able to cover its recaptured SCR and technical provisions³⁵. During the first 10 to 15 years of the agreement (which was put in place at 31 December 2019), termination of the IGR would result in a payment from RLL to RAL. Consequently, in the unlikely event of the failure of RAL and so the loss of the IGR, RLL would still be able to cover its (then significantly greater) recaptured SCR without the need to source further funds from the Phoenix Group.
- 4.142 Figure 4.12 below sets out the breakdown of RLL's SCR, net of the IGR with RAL, as at 31 December 2021, as this provides an indication of the key risks to which RLL is exposed.

FIGURE 4.12 RLL'S SCR BREAKDOWN AS AT 31 DECEMBER 2021

Risk exposure	Pre-diversification capital
Operational risk	41%
Spread risk	9%
Other market risk	39%
Counterparty default risk	10%

Source: Provided by RLL; totals to 99% due to rounding.

- 4.143 Figure 4.12 shows that operational risk is the most significant component of RLL's risk profile on a Solvency II Pillar 1 basis, net of the IGR with RAL. The Standard Formula methodology prescribed by EIOPA requires operational risk capital to be based on expenses and premiums gross of reinsurance, and so the IGR is ignored for the purposes of regulatory capital requirements in respect of operational risk. However, the actual operational risk exposures of RLL are passed to RAL, subject to the exceptions noted in paragraph 4.112.
- 4.144 The spread risk, counterparty default risk and other market risk (which consists solely of interest rate risk) mostly arise from the loan paid to RGP which has an outstanding balance of £69 million as at 31 December 2021.

RLL's governance arrangements

- 4.145 Phoenix operates a uniform governance model across the Group which sets the responsibilities of each life company Board, including that of RLL, and the matters reserved for that Board. The life company Boards delegate some responsibilities onto certain committees of those Boards. These committees are shared with other life companies in the Group.

³⁴ The solvency cover ratio is equal to the Own Funds divided by the SCR.

³⁵ Technical provisions being the sum of the BEL and the risk margin, as described in paragraph 3.10.

- 4.146 Key Solvency II functions are operated within the Group, and representatives of the Actuarial and Risk and Compliance functions are members of a Board committee. In addition, the Internal Audit function reports directly to the Board Audit Committees. There are also a number of other key functions in the Group including Group Finance, Human Resources, Corporate Affairs and Investor Relations, Asset Management, Operations and General Counsel.
- 4.147 The risk profile and policies are managed at Group level, and Operations is led at the Group level.
- 4.148 The RLL Chief Executive Officer is tasked with optimising RLL with due regard to the Group risk policies.
- 4.149 The approach to governance is different for RLL compared to PLL. Until recently RLL operated a Fairness Committee, although I understand that this has now been disbanded, with certain responsibilities moved to the With Profits Committee (similarly to the other Board committees, the With Profits Committee is shared with other life companies in the Group).

RLL's administration and servicing arrangements

- 4.150 In Q4 2021, RGP successfully migrated the administration of the RLL Transferred Policies and the RLL Non-transferring Policies to its own administration platform and administration team. Therefore, the RLL Transferred Policies are now administered by RUKSL using ReAssure's policy administration system.
- 4.151 The RLL Transferred Business and the RLL Non-transferring Business are segmented onto different versions of ReAssure's administration platform. Different versions are used due to differing features of the policies comprising the blocks of business, including the currencies in which the business is denominated.
- 4.152 Within RUKSL, there are small and dedicated administration teams that are responsible for administering the German RLL Transferred Policies, Norwegian RLL Transferred Policies and Swedish RLL Transferred Policies. The majority of these policies are administered in German, Norwegian and Swedish respectively. However, some of the Swedish RLL Transferred Policies are administered in English, depending on the nature of the product sold.
- 4.153 The services provided by RUKSL to RLL in respect of the RLL Transferred Policies are governed by an MSA between the two parties which specifies the required service standards.

Previous schemes transferring long-term business to which RLL has been party

- 4.154 RLL has been party to three previous insurance business transfer schemes undertaken in accordance with Part VII of FSMA, as follows:
- A scheme sanctioned by the UK Court in 2000 whereby the unit-linked long-term business of Professional Life Assurance Co Limited was transferred to RLL;
 - A scheme sanctioned by the UK Court in 2006 whereby certain fixed annuity business of RLL was transferred to Legal and General Assurance Ltd; and
 - A scheme sanctioned by the UK Court in 2012 whereby the business previously underwritten by RLL's Finnish branch was transferred to Aurum Sijoitusvakuutus Oy.
- 4.155 The policies comprising the RLL Transferred Business were not included in any of the schemes outlined above.

PLAE

Background

- 4.156 As detailed in paragraph 4.85, originally it was intended that the non-UK business of RLL would be transferred to Ark Life, an Irish subsidiary of RAL. However, this transfer was delayed in August 2020.
- 4.157 Following the acquisition of RGP by Phoenix Group (see paragraphs 4.87 and 4.88) it was decided that transfers from RLL and PLL should be combined, and transferred to a newly established entity, rather than use Ark Life, and Ark Life has subsequently been sold.
- 4.158 PGH decided that the new entity should be established in Ireland as the majority of the Transferred Business comprises the Irish PLL Transferred Business, and therefore PLAE was newly incorporated in December 2020. PLAE is 100% owned by RAL.

4.159 PLAE is domiciled in the Republic of Ireland, and an application for authorisation 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. As at the date of this Report, PLAE's application for authorisation was being considered by the CBI, and I will provide an update on this matter in my Supplementary Report.

PLAE's current business

4.160 PLAE has applied for authorisation from the CBI to effect and carry on long-term business classes I (life and annuity), III (linked long-term), IV (permanent health) and VII (pension fund management).

4.161 Following its authorisation PLAE will be closed to new business except for policies issued pursuant to guaranteed annuity options and other contractual entitlements, such as annuity business in respect of vesting in-force pensions business. Therefore, the writing of new business in Europe is not part of PLAE's core business plan and prior to the implementation of the Schemes PLAE will not underwrite any policies and will not have any policyholders.

4.162 Alongside its authorisation application to the CBI, PLAE has applied for 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. It is expected that this permission will be granted at the point of authorisation, and therefore prior to the UK Sanction Hearing. I will confirm whether PLAE has this authorisation and permission in my Supplementary Report.

PLAE's reinsurance agreements

4.163 PLAE does not currently have any reinsurance agreements. However, as at the Effective Date, it is intended that PLAE will enter into reinsurance agreements with PLL and RLL in respect of the Transferred Business. The details of these reinsurance agreements are provided in Sections 5 and 6.

PLAE's fund structure

4.164 PLAE will maintain the PLAE Non-Profit Fund ("PLAE NPF"), as well as four ring-fenced with-profits funds corresponding to the relevant with-profits funds within PLL: the PLAE Alba With-Profits Fund ("PLAE Alba WPF"), the PLAE 90% With-Profits Fund ("PLAE 90% WPF"), the PLAE Phoenix With-Profits Fund ("PLAE Phoenix WPF") and the PLAE SPI With-Profits Fund ("PLAE SPI WPF").

4.165 In addition, PLAE will maintain linked funds corresponding to the unit-linked funds invested in by the unit-linked policies within the Transferred Business.

4.166 Any annuity business in respect of vesting in-force pensions business will typically be written in the PLAE NPF.

Key financial information and risk profile

4.167 PLAE will prepare its Solvency II results in accordance with the Standard Formula and does not intend to apply any regulatory permissions to reduce its technical provisions.

4.168 Prior to its authorisation, PLAE will receive a capital injection from RAL which is at least sufficient to meet PLAE's expenses and the absolute floor of the Minimum Capital Requirement ("MCR") in relation to the Transferred Business of €3.7m (£3.1m), calculated as at 31 December 2021 and assuming this business was transferred to PLAE on the same date. RAL will inject into PLAE the remaining amount of capital required to meet the requirements of the PLAE Capital Management Policy prior to the Effective Date. This amount will be calculated assuming that PLAE holds the PLL Transferred Business and the RLL Transferred Business due to transfer on the Effective Date. Furthermore, this amount will be after allowances for the receipt by PLAE of transfer pricing considerations from PLL and for the payment of transfer pricing considerations to RLL in respect of the expected future profits from the unit-linked business within the RLL Transferred Business. The capital will be provided to PLAE by RAL subscribing to shares issued by PLAE.

PLAE Capital Management Policy

4.169 PLAE currently has a draft Capital Management Policy. Approving this Capital Management Policy is a priority agenda item for the PLAE Board once it is established in advance of the UK Sanction Hearing. The draft Capital Management Policy has been aligned to the Life Companies RAF, which is considered in the context of the PGH Capital RAF. Under the Life Companies RAF, the quantity of capital to be held in excess of the SCR is referred to as the minimum capital buffer and is defined as the more onerous of:

- having sufficient Own Funds to cover the SCR following a 1-in-10 year all risk stress event, and
 - having sufficient Own Funds to cover the SCR following a 1-in-20 year market stress event that emerges over the short-term.
- 4.170 The PLAE Own Risk and Solvency Assessment (“ORSA”) that was prepared as part of its application for authorisation, and submitted to the CBI, contains PLAE’s risk appetite statements and details that PLAE aims to hold a minimum capital buffer aligned to that set out in the Life Companies RAF. This minimum capital buffer is expressed as a percentage of the SCR and will be reviewed periodically. In addition, the draft PLAE Capital Management Policy requires 100% of the Own Funds supporting the SCR must be held as tier 1 capital. The minimum capital buffer was calibrated on the basis that the PLAE Board approves a Capital Management Policy consistent with its draft policy, and the analysis in this report is based on this scenario. If the PLAE Board approves a different Capital Management Policy I will address that, and its consequences, in my Supplementary Report.
- 4.171 If PLAE’s solvency ratio were to fall below the minimum capital buffer, initially set at 150%, but remain above 135%, then its solvency position would be regarded as Amber and the PLAE ORSA states that the PLAE management must notify the PLAE Board of the breach and advise on whether any remedial action is necessary to restore the solvency ratio. If the solvency ratio falls below 135% then the solvency position of PLAE would be regarded as Red, and again the PLAE management must notify the Board; however, in addition, the PLAE Board must notify the CBI and communicate a remedial plan as soon as is practical and no later than five working days of becoming aware of the breach.
- 4.172 The draft PLAE Capital Management Policy stipulates that a list of potential management actions to manage PLAE’s solvency position will be maintained, although these have not yet been defined. However, the PLAE ORSA does indicate the management actions that would be taken in respect of the most material risks to which PLAE will be exposed, these include reinsurance, revision of asset strategy and hedging strategies. Once the PLAE Board is established it will approve the potential management actions on at least an annual basis.
- 4.173 The draft PLAE Capital Management Policy also sets out the conditions that must be satisfied before a dividend payment may be made in normal circumstances, including ensuring that the minimum capital buffer is not expected to be breached over a 5 year projection period.
- 4.174 Once finalised, the PLAE Capital Management Policy will be reviewed at least annually, and approved by the PLAE Board, as appropriate.
- 4.175 In line with CBI requirements, the draft PLAE Capital Management Policy also requires that PLAE establishes a Capital Management Plan within 12 months of authorisation, which will be presented to the PLAE Board on an annual basis and will contain details on the minimum capital buffer and the nature and tiering of capital held, amongst other items.

PLAE’s risk profile

- 4.176 The Pillar 1 SCR illustrates the key risks to which PLAE will be exposed. The breakdown of PLAE’s pro-forma pre-diversification SCR as at 31 December 2021 is shown in Figure 4.13 below, assuming the Schemes had taken place on this date.

FIGURE 4.13 PLAE’S PRO-FORMA PRE-DIVERSIFIED SCR BREAKDOWN AS AT 31 DECEMBER 2021

Risk exposure	Pre-diversification capital
Longevity risk	46%
Spread risk	23%
Other underwriting risk	13%
Counterparty default risk	10%
Equity risk	5%
Currency risk	1%
Interest rate risk	1%
Other	1%

Source: Report of the Phoenix Life Assurance Europe dac Head of Actuarial Function on the proposed transfer of long-term insurance business from ReAssure Life Limited and Phoenix Life Limited to Phoenix Life Assurance Europe dac

- 4.177 The largest individual components of PLAE's pro-forma SCR on an undiversified basis are longevity, spread and counterparty default risk.
- 4.178 PLAE will be exposed to longevity risk through its annuity business, which is the majority of business to be retained within PLAE net of its reinsurance arrangements. PLAE will be exposed to spread risk due to its corporate bond asset portfolio, which backs its annuity business. Lastly, PLAE will be exposed to counterparty default risk due to its planned reinsurance arrangements with PLL and RLL.

PLAE's governance arrangements

- 4.179 PLAE will have a standalone Board and Committee structure and will run as an independent entity. PLAE will adhere to the Fitness and Probity standards (see paragraph 3.35) to ensure those individuals appointed to a pre-approved control function or control function roles are: competent and capable; honest, ethical and act with integrity; and financially sound.
- 4.180 The PLAE Board will have a majority of independent non-executive directors, and will meet at least four times per calendar year, and at least once in every six-month period. The PLAE Board will delegate day-to-day operations and decision making to the PLAE Executive Committee, and in addition the PLAE Board will be supported by the PLAE Board Risk Committee and the PLAE Board Audit Committee, as well as a number of underlying management committees.
- 4.181 In addition, PLAE will, as relevant, have representation at or on certain Phoenix Group committees.

5. THE PROPOSED UK SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS, WITH-PROFITS REINSURANCE AGREEMENTS AND ASSOCIATED SECURITY ARRANGEMENTS

MOTIVATION FOR THE UK SCHEME

- 5.1 In accordance with the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (“EEA Passport Rights”), prior to Brexit RLL and PLL were authorised to write and administer insurance business under EEA Passport Rights:
- At the point at which the RLL Transferred Business was sold, RLL was authorised to write and administer insurance business on a Freedom of Services basis in France, Germany, Norway, Spain and Sweden; and
 - At the point at which the PLL Transferred Business was acquired by PLL, it 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.
- 5.2 Following the general election held on 12 December 2019:
- The European Union (Withdrawal Agreement) Act 2020 (the “Withdrawal Act”) entered into law in the UK on 23 January 2020; and
 - The UK left the European Union (“EU”) at 23:00 (Greenwich Mean Time) on 31 January 2020.
- 5.3 The Withdrawal Act provided for a transition period, during which time existing arrangements between the UK and EU continued to apply, however this transition period ended on the 31 December 2020. On 24 December 2020 a deal setting out the future relationship between the UK and EU was agreed; however, it does not permit the continuation of EEA Passport Rights for UK insurers. As outlined in paragraphs 3.3 to 3.6, the administration of EEA policies is only permitted in limited circumstances and for a limited time, with the specific arrangements determined by the host regulators.
- 5.4 All of the relevant host regulators³⁶ have either noted or confirmed that they will follow EIOPA Recommendation 5. Recommendation 5 states that, provided a portfolio transfer was initiated prior to the UK’s withdrawal from the EU, then regulators should allow the finalisation of such transfers from the UK to insurers in the EU.
- 5.5 The transfer of EEA business from RLL, the timetable for the transfer and the Independent Expert were originally agreed by the PRA and FCA in Q1 2019. Following the acquisition of RLL by Phoenix Group the transferee and the business to be transferred have subsequently changed. The UK Scheme is an approved “transitional insurance business transfer scheme” as defined in The Financial Services (Miscellaneous) (Amendment) (EU Exit) Regulations 2019 (the “Regulations”) and falls within section 105(2) (a) of FSMA (as amended by the Regulations). The PRA has confirmed that the transfer 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), the UK Scheme would continue to be a transitional insurance business transfer scheme if the Effective Date is 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.

³⁶ The relevant host regulators in respect of the PLL Transferred Business are those in Germany, Iceland and Ireland. The relevant host regulators in respect of the RLL Transferred Business are those in Germany, Norway and Sweden.

- 5.6 Within the Phoenix Group there is another insurance entity authorised by the CBI, Standard Life International DAC. The Phoenix Group did consider transferring the PLL Transferred Business to this entity, however I understand that this would have resulted in the transfer losing its status as an initiated portfolio transfer under EIOPA Recommendation 5.
- 5.7 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, including the ability to issue policies required under existing options, in the event of future legislative and regulatory divergence between the EU and UK. The position if the UK Scheme were not to be sanctioned is set out in paragraphs 15.1 to 15.3.
- 5.8 PLL did consider, as an alternative to these Schemes, setting up branches in Ireland and Germany and running off the business in Iceland, however following the acquisition of RGH by Phoenix Group it was decided that the Brexit plans should be aligned. Therefore, to provide certainty, as well as consistency and continuity, over the ability to continue to administer and provide benefits under these policies, the Phoenix Group decided that the best option is to proceed with the transfer into PLAE, an EEA domiciled insurer. I agree that of the options discussed above, the proposed transfers are the option that gives most certainty to policyholders.

SUMMARY OF THE UK SCHEME

- 5.9 If the proposed UK Scheme were to be implemented, all of the assets and liabilities associated with the Transferred Business (except those excluded by the UK Scheme) would be transferred from RLL and PLL to PLAE on the Effective Date (described in paragraph 5.13 below). The liabilities in relation to any past mis-selling of the Transferred Business are excluded from the UK Scheme, and therefore remain with PLL and RLL, respectively.
- 5.10 The investment element of the unit-linked business and the liabilities from the with-profits funds would be immediately reinsured back to RLL and PLL as appropriate so RLL and PLL's obligations to transfer the associated unit-linked and with-profits funds assets to PLAE would be set off against PLAE's obligation to pay reinsurance premiums of an equal amount to RLL and PLL. The reasons for this are set out in paragraphs 5.39 to 5.40 and 5.56 to 5.58. The UK Scheme contains a clause which requires PLL and RLL to have entered into these reinsurance agreements with PLAE, and the associated security arrangements (see paragraphs 5.43 to 5.44 and 5.62 to 5.67), prior to the Effective Date.
- 5.11 As at 31 December 2021, the RLL Transferred Business and PLL Transferred Business consisted of 7,161 policies and 21,611 policies, respectively. The total BEL in respect of these policies was £154m for RLL, allowing for the IGR with RAL, and £754m for PLL.
- 5.12 The UK Scheme is expected to be presented to the UK Court for a Directions Hearing on 11 July 2022 and for a Sanction Hearing on 18 October 2022.
- 5.13 If PLAE were capitalised such that it had a solvency cover ratio at or above its minimum capital buffer and both the UK Scheme and Irish Scheme were to be approved by the UK Court and Irish Court respectively, the UK Scheme would become operative on the Effective Date (1 January 2023), at which point the Transferred Business would legally transfer from RLL and PLL to PLAE. The UK Scheme document allows for the Effective Date to be deferred up to 1 April 2023 without a further UK Court application. If the UK Scheme has not become effective within this period then, in order for it to become effective, a new application to the UK Court would be required.
- 5.14 Residual Policies are those within the Transferred Business that cannot be transferred to PLAE on the Effective Date. There are not expected to be any policies in the Transferred Business that would be excluded from the transfer, aside from the potential exceptions outlined in paragraphs 5.23 to 5.27 below.
- 5.15 A diagram summarising the structure of PLL, RLL and PLAE after the implementation of the proposed UK Scheme, the Irish Scheme, the Unit-Linked Reinsurance Agreements and the With-Profits Reinsurance Agreements is included as Figure 5.1 at the end of this section.

Co-dependency of the UK Scheme and Irish Scheme

- 5.16 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 UK Scheme contains a provision which means it cannot become effective unless the Irish Court has approved the Irish Scheme, similarly the Irish Scheme contains a provision meaning that it cannot become effective unless the UK Court has approved the UK Scheme. Further details on why an Irish Scheme is necessary and the interaction between the UK Scheme and Irish Scheme can be found in Appendix C.
- 5.17 It is possible that at the Irish Directions Hearing, which is scheduled to occur after the UK Directions Hearing, the Irish Court request 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.
- 5.18 The Sanction Hearing of the UK Scheme is scheduled to take place prior to the Sanction Hearing of the Irish Scheme. Given this, it is possible that the Irish Court could request a change to the Irish Scheme which would need to be replicated in the UK Scheme after it has been sanctioned by the UK Court; to cover such an eventuality the UK Scheme contains a clause which allows modifications to the UK Scheme prior to the Irish Scheme being sanctioned and subject to the UK Court approving the change.
- 5.19 The proposed Schemes, if implemented, would transfer all of the assets and liabilities associated with the Transferred Business, with the exception of any Residual Policies, from RLL and PLL to PLAE on the Effective Date (which will be the same for both the UK Scheme and the Irish Scheme). 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.

POLICYHOLDERS AFFECTED

- 5.20 I have considered the effects of the UK Scheme on the following groups of policyholders:
- The PLL Transferred Policyholders (including the Irish PLL Transferred Policyholders);
 - The RLL Transferred Policyholders;
 - The policyholders of PLL whose policies are not being transferred to PLAE by the Schemes, i.e. the PLL Non-transferring Policyholders (including the inwards reinsurance business which, for operational efficacy, has been treated by PLL as connected with the Irish branch of PLL); and
 - The policyholders of RLL whose policies are not being transferred to PLAE by the Schemes, i.e. the RLL Non-transferring Policyholders.
- 5.21 PLAE is not writing any new business and therefore does not have any existing policyholders.
- 5.22 I cover the effects of the Schemes on each of these groups of policyholders in Sections 7, 8, 9, 10 and 11 respectively.

RESIDUAL POLICIES

- 5.23 Residual Policies are those policies within the Transferred Policies that cannot be transferred to PLAE on the Effective Date. The most likely reason for this would be an objection from a local EEA regulator which would mean that policies taken out by residents of that EEA state could not be transferred by order of the Court under FSMA (as amended by the Regulations). If the proposed UK Scheme were to be implemented, all liabilities that relate to the Residual Policies would not be transferred to PLAE as at the Effective Date but would remain with RLL or PLL, as appropriate, but with the intention that each Residual Policy would be transferred to PLAE subsequently.
- 5.24 Each Residual Policy would be reinsured from RLL or PLL to PLAE with effect on and from the Effective Date, thereby transferring the financial risks associated with the Residual Policy to PLAE at this date, until such time as it can be transferred to PLAE.
- 5.25 As and when all consents, permissions or other requirements for the transfer of a Residual Policy from RLL or PLL to PLAE had been obtained, such Residual Policy would promptly be transferred to PLAE, together with the assets and liabilities that relate to the Residual Policy. It would then be treated in all respects as if it had been transferred to PLAE with effect from the Effective Date.

- 5.26 If any Residual Policy is novated to PLAE³⁷, then such Residual Policy would subsequently be dealt with by PLAE under the provisions of this UK Scheme in all respects as if it were a Transferred Policy.
- 5.27 It is not intended that there would be any Residual Policies.

REINSURANCE

The intra-group reinsurance between RLL and RAL

- 5.28 As described in Section 4, as part of the acquisition of RLL by RGP in 2019, an IGR between RLL and RAL was put into place, transferring the economic risk of the business of RLL from RLL to RAL. The RLL Transferred Business is included within the scope of the IGR.
- 5.29 The IGR includes a set of partial recapture provisions, which are intended to be invoked in anticipation of the proposed UK Scheme, removing the RLL Transferred Business from the scope of the IGR. Therefore, the risks associated with the RLL Transferred Business would transfer to PLAE and would be removed from the risk profile of RAL.

Reinsurance agreements covering the Transferred Business

RLL

- 5.30 RLL has some external reinsurance in place with Swiss Re covering the German RLL Transferred Business.
- 5.31 This reinsurance agreement with Swiss Re will be transferred from RLL to PLAE under the proposed UK Scheme and is expected to be retained within PLAE post transfer.

PLL

- 5.32 The PLL Transferred Business currently benefits from outwards reinsurance agreements with Swiss Re, Gen Re, Munich Re and Unum, as described in Section 4. All of the treaties, except that which covers the Irish PLL Transferred Business in the PLL SPI WPF, will be transferred from PLL to PLAE under the proposed UK Scheme. The reinsurance treaty which covers the Irish PLL Transferred Business in the PLL SPI WPF will instead be converted to a retrocession agreement³⁸ for PLL, given that the business covered by this treaty will be reinsured from PLAE back to the PLL SPI WPF under the relevant With-Profits Reinsurance Agreement. This conversion will take place through a separate process, when the UK Scheme is implemented.

The other reinsurance agreements of RLL and PLL

- 5.33 The proposed UK Scheme would have no impact on the other reinsurance agreements of RLL and PLL, i.e. the reinsurance agreements other than the IGR and the reinsurance agreements covering the Transferred Business.

THE LINKED FUNDS

Overview

- 5.34 As described in Section 4, RLL and PLL maintain internal linked funds for the purposes of calculating benefits payable under the unit-linked policies (i.e. the RLL Linked Funds and PLL Linked Funds, respectively, together the Linked Funds). Each unit-linked policy is associated with one or more Linked Funds into which relevant policyholders' premiums are invested, with assets acquired by such RLL Linked Funds being the RLL Linked Assets and assets acquired by such PLL Linked Funds being the PLL Linked Assets (together the linked assets are referred to as the "Linked Assets").
- 5.35 As described in paragraph 4.126, the Swedish Transferred Policies have recently been successfully migrated out of the existing unit funds into the 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).

³⁷ Extinguished and replaced with an identical contract between the policyholder and PLAE.

³⁸ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

- 5.36 The 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). This will not be changed by the implementation of the proposed Scheme, and the same approach to unit pricing will continue to apply to the Swedish Linked Funds after the separation. Whilst the split of the Swedish Linked Funds is not a direct consequence of the UK Scheme, I note that this split may result in some daily differences arising in the unit pricing bases for the respective funds due to fluctuations in daily cash flows of the Linked Funds, although this should not be material as these RLL Linked Funds are closed to new business and the information provided to me by RLL indicates that generally the outgo is expected to exceed income, and so the Linked Funds, including the Swedish Linked Funds, will normally be priced on a bid basis.
- 5.37 The Linked Funds currently available to the Norwegian RLL Transferred Policyholders and those now available to the Swedish Transferred Policyholders (following the migration detailed in paragraph 4.126) are available only for such policyholders. Some of the Linked Funds available to the Irish PLL Transferred Policyholders are also available to reinsurance business accepted from Utmost. However, there will be no structural changes required to these funds prior to the implementation of the proposed UK Scheme.
- 5.38 In order for the Transferred Policyholders to continue to have access to the same Linked Funds following the Effective Date, PLAE will 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 Date³⁹. 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 Scheme.

Unit-Linked Reinsurance Agreements

Introduction

- 5.39 RLL and PLL would enter into reinsurance agreements with PLAE in respect of the unit-linked Transferred Business on the Effective Date (the “RLL Unit-Linked Reinsurance Agreement” and “PLL Unit-Linked Reinsurance Agreement”, respectively, together the “Unit-Linked Reinsurance Agreements”). As a result the unit-linked liabilities relating to the New Linked Funds would be immediately reinsured back to RLL and PLL, and so RLL’s and PLL’s obligations to transfer the associated Linked Assets to PLAE on the Effective Date will be set off against PLAE’s obligations to pay a reinsurance premium to RLL and PLL. After the Effective Date:
- Premiums received and claims paid on the Transferred Policies would trigger associated unitised reinsurance cash flows between RLL and PLAE and PLL and PLAE;
 - Non-unit cash flows, including the part of any premiums not invested in units, would remain within PLAE and will not be reinsured to RLL or PLL;
 - RLL and PLL will not retain any charges, but will pay these to PLAE;
 - Investment income and gains would accrue within the Linked Funds in RLL and PLL;
 - The annual management charge will continue to be deducted from the Linked Funds. From this RLL and PLL will deduct their costs (including external fund management costs, custodian fees etc) plus a 2 basis point (“bp”) deduction for RLL’s and PLL’s reinsurer’s fund management expenses respectively, and the remainder of the annual management charge will be transferred to the PLAE NPF; and
 - RLL and PLL would continue to manage the RLL Linked Funds and PLL Linked Funds, respectively, including the fund management agreements with external fund managers.
- 5.40 The result of the establishment of the New Linked Funds and the Unit-Linked Reinsurance Agreements would be 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. Those policyholders will also be able to invest in the same range of funds they are currently entitled to invest in; such investment will be via the corresponding New Linked Funds operated by PLAE.
- 5.41 After the Unit-Linked Reinsurance Agreement has been put in place:
- Unit pricing will be performed and unit charges would be made in exactly the same way as they are currently done within RLL and PLL;

³⁹ Although “RLL New Linked Funds” includes “RLL” in the name and “PLL New Linked Funds” includes “PLL” in the name, it should be noted that these will be unit-linked funds of PLAE. The “RLL” and “PLL” have been included in the names to distinguish between the two sets of unit-linked funds of PLAE

- RLL or PLL may make changes to the range of funds offered through the Unit-Linked Reinsurance Agreements in the same way as they can make changes before the transfer, provided that it is:
 - possible to replicate the changes in the corresponding New Linked Funds, in accordance with the UK Scheme, and
 - PLAE is given as much notice as is reasonably practicable.
- By virtue of the UK Scheme, PLAE would be entitled to the same rights in relation to the management of the New Linked Funds as RLL's and PLL's current rights in relation to the corresponding Linked Funds, including the powers to close to new or further investment, divide, modify or wind-up funds in the future. Such actions undertaken by PLAE:
 - would be subject to consultation with RLL and/or PLL to the extent that such action affects or has the potential to affect the business of, or any fund of, RLL, PLL or any of the respective policyholders,
 - must align to any similar actions being undertaken by RLL or PLL in respect of the corresponding Linked Fund whilst the relevant Unit-Linked Reinsurance Agreement is in place, and
 - would be subject to the approval of the PLAE Board, having consulted with the HoAF (or another appropriate senior manager with PCF approval).

Governance

5.42 A Reinsurance Business Committee would be established with representatives from PLAE, PLL and RLL and would monitor, review and challenge the day-to-day management of the Unit-Linked Reinsurance Agreements. In addition, PLAE would appoint a Finance Technical Committee, which would be responsible for, amongst other things, overseeing the management and operation of the Unit-Linked Reinsurance Agreements.

Associated security

5.43 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.

5.44 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 policyholders⁴⁰) 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 would rank equally with (and not below) any existing or future floating charges granted by RLL or PLL respectively.

Termination of the Unit-Linked Reinsurance Agreements

5.45 As detailed in the Unit-Linked Reinsurance Agreements, these can be terminated under the following circumstances:

- All parties to the Unit-Linked Reinsurance Agreements have the right to terminate the agreements in the following circumstances:
 - Following a material breach of the Unit-Linked Reinsurance Agreement;
 - If the other party has any licence, permit or other authorisation which it requires to transact the business covered by the Unit-Linked Reinsurance Agreement withdrawn, suspended or surrendered; and
 - If any material part of the Unit-Linked Reinsurance Agreement becomes prohibited or is rendered impossible by law or regulation.
- Should any of the following events occur, PLAE has the right under the Unit-Linked Reinsurance Agreements to terminate the agreements with no minimum notice period:
 - If PLL or RLL, respectively, fail to make a payment which is due to PLAE under the Unit-Linked Reinsurance Agreement or the Floating Charges;

⁴⁰ This includes any new business written by RLL or PLL and any new policies that arise in relation to existing policies.

- Any procedure is commenced with a view to winding up or reorganisation of PLL or RLL (save where frivolous or as part of a solvent reorganisation);
 - Any step is taken or any procedure is commenced with a view to appointment of an administrator, receiver, administrator receiver, examiner or liquidator or any other insolvency officer in relation to PLL or RLL (save where frivolous);
 - The holder of any security over all or a substantial part of the assets of PLL or RLL takes steps to enforce that security;
 - PLL or RLL is unable to pay its debts as they fall due;
 - Anything analogous to the above; or
 - PLL's or RLL's respective Solvency Capital Ratio falls below 105%.
- In addition, the Unit-Linked Reinsurance Agreement can also be terminated subject to the following:
 - PLAE providing at least 90 business days' notice; or
 - Such other notice period being agreed by RLL or PLL and PLAE.
- 5.46 Also, under the terms of the Unit-Linked Reinsurance Agreements, PLL and RLL are required to notify PLAE immediately if their respective Solvency Capital Ratio falls below 125%.
- 5.47 Upon termination of the Unit-Linked Reinsurance Agreements, PLAE would be due a termination amount equal to the bid value of the units, set at the date of the termination, in relation to the business reinsured under the Unit-Linked Reinsurance Agreements from either PLL or RLL, respectively. This termination amount should be calculated within 20 business days and paid within 30 business days.
- 5.48 If PLAE disputes the calculation of the termination amount then the following escalation process would be followed:
- The two parties to the Unit-Linked Reinsurance Agreement should use their reasonable endeavours to resolve the dispute within 30 business days;
 - If it is not resolved after 30 business days then the matter should be referred to the Reinsurance Business Committee;
 - If it is not resolved by the Reinsurance Business Committee within 30 days, the matter should be referred to the chief executive officers of the two parties to the Unit-Linked Reinsurance Agreement, who should use their reasonable endeavours to resolve the dispute; and
 - If it is not resolved by the chief executive officers within 20 business days then the parties to the Unit-Linked Reinsurance Agreement may appoint an expert whose decision will be binding.
- 5.49 In the event that there is a dispute in relation to the termination amount then, pending the resolution of the dispute in line with the above process, PLL or RLL will instead pay to PLAE an amount equal to the bid value of units as at the termination date for the business covered by the relevant reinsurance agreement, with an estimated adjustment for any outstanding cashflows associated with the reinsurance agreement. This amount must be paid by PLL or RLL within 30 business days. Following the resolution of the dispute, if any balancing payment is required by either party, this must be made within 30 business days of the resolution.

Ongoing management of the New Linked Funds

- 5.50 As out lined in paragraph 5.41, under the terms of the UK Scheme PLAE would have the powers to close to new or further investment, divide, modify or wind-up funds in the future, subject to certain requirements.
- 5.51 In the event that PLAE determines to wind-up a New Linked Fund, PLAE shall cancel units in that fund allocated to Transferred Policyholders and allocate the affected policyholders, without charge, new units of equal value to a different New Linked Fund. In determining the value of the units to be allocated to an alternative New Linked Fund, the PLAE Board must have regard to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role. The alternative New Linked Fund selected must be an available fund that, in the opinion of the PLAE Board, having regards to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role, provides reasonable equivalent investment exposure to the New Linked Fund that is to be wound-up.

THE WITH-PROFITS FUNDS

Overview

- 5.52 As described in Section 4, the performances of the PLL WPFs drive the bonuses paid to with-profits policies within each of the funds. The bonuses are set at the discretion of the PLL Board for all PLL WPFs except the SPI WPF; for the SPI WPF they are set at the discretion of the WPC. The premiums paid by with-profits policyholders are invested in the respective with-profits fund, with assets acquired by each with-profits fund being the With-Profits Assets.
- 5.53 In order for the Irish PLL Transferred Policyholders to continue to have access to the same with-profits funds after the Effective Date, the UK Scheme requires that PLAE establish four with-profits funds (the “New With-Profits Funds”) in respect of each of the PLL WPFs in which Irish PLL Transferred Business is currently allocated. The New With-Profits Funds would be:
- PLAE 90% WPF;
 - PLAE Alba WPF;
 - PLAE Phoenix WPF; and
 - PLAE SPI WPF.
- 5.54 The New With-Profits Funds would be formal ring-fenced funds (as per Solvency II) within PLAE with no sharing of profits between these funds, or any other funds within PLAE. They would be 100:0 funds⁴¹ and would be closed to new business, aside from renewals and new annuities associated with the PLL Transferred Business.
- 5.55 Under the UK Scheme, assets and liabilities relating to Irish PLL Transferred Business in the PLL WPFs would transfer to the respective New With-Profit Funds of PLAE.

With-Profits Reinsurance Agreements

Introduction

- 5.56 Should the UK Scheme (and the Irish Scheme) be sanctioned, PLL would enter into four reinsurance agreements with PLAE on the Effective Date (the “With-Profits Reinsurance Agreements”), one for each of the New With-Profits Funds, so that the liabilities relating to the New With-Profits Funds would be immediately reinsured back to PLL, and so PLL’s obligation to transfer the associated With-Profits Assets would be set off against PLAE’s obligation to pay reinsurance premiums of an equal amount to PLL. An initial fee of £10m would also be paid to PLAE from the PLL NPF to recognise the capital that will be held by PLAE in respect of the with-profits Transferred Business. This initial fee would not be charged to any of the PLL WPFs.
- 5.57 After the Effective Date:
- Premiums received and claims paid on the Irish PLL Transferred Business covered by the With-Profits Reinsurance Agreements would trigger associated reinsurance cash flows between PLL and PLAE;
 - PLL will pass on to PLAE the fixed per policy fee that each PLL WPF would have paid to PLL and/or a counterparty to an MSA in respect of the reinsured Irish PLL Transferred Business had the UK Scheme not taken place. PLAE will then use these fees to cover amounts due under the MSA with SLAESL (Irish branch), which is discussed further in Section 7;
 - PLL will pass on to PLAE any Irish tax due from the New With-Profits Funds; and
 - PLL would continue to manage the PLL WPFs, in line with the 2009 Scheme and the PPFM.
- 5.58 The result of the establishment of the New With-Profits Funds and the With-Profits Reinsurance Agreements would be 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 WPFs after the Effective Date as prior to the Effective Date, although they would be holders of policies with PLAE rather than PLL. It also avoids the need to split the PLL WPFs between PLL and PLAE, which would:
- Require a process to ensure that the split of the fund assets is fair to all policyholders, the process of determining this fair split would be a complex and costly exercise;

⁴¹ 100:0 funds are with-profits funds for which 100% of the surplus arising in the fund is owned by the with-profits policyholders within the fund, with none of the surplus being owned by shareholders.

- Potentially change the benefits of either or both the with-profits PLL Transferred Business and the with-profits PLL Non-transferring Business invested in with-profits; and
- Result in three of the four New With-Profits Funds being of a size which is either at or below the sunset clause⁴² trigger point as set out in the 2009 Scheme (the “2009 Scheme Sunset Clause”), which may make it difficult to manage these as stand-alone with-profits funds within PLAE.

5.59 After the With-Profits Reinsurance Agreements have been put in place:

- The Board of PLL would continue to be responsible for managing the PLL WPFs;
- The PLL WPFs would continue to be managed in line with the 2009 Scheme and the PPFM;
- The benefits payable under the with-profits PLL Transferred Business would continue to be calculated by reference to the performance and financial position of the PLL WPF to which the policy was allocated prior to the transfer and will be no less than those which would have been paid had the Transferred Policy still been allocated to the PLL WPF; and
- PLL may make changes to the PPFM, subject to noting and discussion at the Finance Technical Committee, and, where the change is material, provide PLAE with at least 6 weeks’ notice.

Governance

5.60 The Reinsurance Business Committee would be established with representatives from PLAE and PLL and would monitor, review and challenge the day-to-day management of the With-Profits Reinsurance Agreements. The With-Profits Reinsurance Agreements require PLAE to appoint and maintain a Finance Technical Committee, which will comprise individuals with sufficient with-profits expertise, to oversee the management of the New With-Profits Funds.

5.61 Upon the transfer of with-profits business to PLAE, under the *Domestic Actuarial Regime and Related Governance Requirements under Solvency II*, the HoAF of PLAE would have additional responsibilities in respect of the New With-Profits Funds, including:

- Writing a report to the Board on matters concerning the New With-Profits Funds, which should include an opinion on any discretion exercised by the Board in relation to the funds, an opinion on the management of competing or conflicting interests and any further information that the HoAF deems relevant; and
- Writing an annual report to the Board of PLAE recommending any allocation of profits related to such policyholder rights.

Associated security

5.62 PLAE would have a mixture of fixed charges (the “WP Fixed Charges”) over the assets of PLL in respect of the liabilities transferred under the With-Profits Reinsurance Agreements and a floating charge (the “PLL Floating Charge”) over all of the available assets held by PLL (that is, all assets except those over which PLL is unable to grant security), 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.

5.63 PLAE would have a fixed charge over assets held by PLL in a custodian account in respect of three of the with-profits funds: the SPI WPF, Alba WPF and Phoenix WPF, at a level equal to 65% of the BEL of the liabilities covered by the respective With-Profits Reinsurance Agreements. Should an insolvency process be undertaken in respect of PLL, the WP Fixed Charges would provide PLAE with an immediate source of liquidity whilst the insolvency process determined the amounts due under the PLL Floating Charge. There is no fixed charge over the assets held by PLL in the 90% WPF, as the total liabilities reinsured under the relevant With-Profits Reinsurance Agreement represents a very small proportion of the total liabilities of the 90% WPF.

5.64 As the WP Fixed Charges are over assets held by PLL in custodian accounts, this will require the splitting of assets from the relevant PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. The intention is that the management of these assets will remain in line with the strategic asset allocation set out in the funds’ PPFM.

⁴² The sunset clause, referred to in the PLL PPFM as the “closure provisions”, is the point at which the relevant PLL WPF will be closed, subject to the prior approval of the regulator. For the 90% WPF it is defined as the point at which its statutory liabilities fall below £10m and for the Alba WPF, Phoenix WPF and SPI WPF it is the point at which the statutory liabilities of the relevant fund fall below £50m.

- 5.65 The WP Fixed Charges contain a provision which prohibits PLL from granting any future security over the assets associated with the WP Fixed Charges.
- 5.66 The PLL Floating Charge would also be held over all of the available assets of PLL (that is, all assets except those over which PLL is unable to grant security), but subject to a maximum claim equal to the termination amount due under each of the With-Profits Reinsurance Agreements, less any amounts already recovered under the WP Fixed Charges.
- 5.67 The PLL Floating Charge also contains 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 to the PLL Non-transferring Policyholders (and other policyholders of PLL⁴³) in the event of insolvency of PLL, except (given the effect of the WP Fixed Charges) in the extreme event where the PLL Non-transferring Policyholders receive less than 65% of their BEL, when the effect of the WP Fixed Charges is to ensure PLAE receives 65% of the BEL in respect of liabilities covered by the With-Profits Reinsurance Agreements. The PLL Floating Charge also 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.

Circumstances in which the With-Profits Reinsurance Agreements can be terminated

- 5.68 As detailed in the With-Profits Reinsurance Agreements, these can be terminated under the following circumstances:
- PLL and PLAE both have the right to terminate the With-Profits Reinsurance Agreements in the following circumstances:
 - By mutual agreement;
 - Following a material breach of certain clauses in the With-Profits Reinsurance Agreements, WP Fixed Charges or PLL Floating Charge;
 - If any material part of the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge becomes unlawful; or
 - Where the other party to the With-Profits Reinsurance Agreements, ceases to hold any authorisation, permission, approval, registration, consent or licence that it requires to perform its material obligations under the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge.
 - There are certain “Events of Default” following which PLAE has the right under the With-Profits Reinsurance Agreements to terminate the agreements; these are:
 - PLL fails to make a payment which is due to PLAE under the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge;
 - Any procedure is commenced with a view to the winding up or reorganisation of PLL (save where frivolous or as part of a solvent reorganisation);
 - Any step is taken or any procedure is commenced with a view to appointment of an administrator, receiver, administrator receiver, examiner or liquidator or any other insolvency officer in relation to PLL (save where frivolous);
 - The holder of any security over all or a substantial part of the assets of PLL takes steps to enforce that security;
 - PLL is unable to pay its debts as they fall due; or
 - Anything analogous to the above.
 - In addition, PLAE would also have the right to terminate the reinsurance after any of the following events:
 - PLL amends any principle in the PPFM in a way in which PLAE considers to have materially adversely impacted the Irish PLL Transferred Business;
 - PLL ceases to maintain the corresponding PLL WPF;
 - PLL’s Solvency Capital Ratio falls below 105%;
 - 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)⁴⁴;

⁴³ This includes any new business written by PLL and any new policies that arise in relation to existing policies.

⁴⁴ PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- PLL proposes a change to the terms of the Investment Management Agreement (the agreements between PLL and the investment managers of the assets secured under the WP Fixed Charge) and PLL and PLAE are unable to reach agreement following the conclusion of the dispute process (detailed in paragraph 5.73); or
 - For the With-Profits Reinsurance Agreement in respect of the PLL 90% WPF, if all other With-Profits Reinsurance Agreements have been terminated.
 - PLL also has the right to terminate a With-Profits Reinsurance Agreement in the event that PLAE fails to make a payment which is due to PLL under the With-Profits Reinsurance Agreement.
- 5.69 Under the terms of the With-Profits Reinsurance Agreements, PLL is required to notify PLAE on a timely basis if PLL's Solvency Capital Ratio falls below 125%, if PLL is assigned a credit rating which is credit quality step 4 or below or if PLL's credit rating is withdrawn. In addition, if a change of control occurs in relation to PLAE, PLAE is required to discuss the changes required to the With-Profits Reinsurance Agreements with PLL.

Procedures that follow the termination of the With-Profits Reinsurance Agreements

- 5.70 The With-Profits Reinsurance Agreements set out the procedures that must be followed to terminate the agreements, the process differs depending on whether it is as a result of any of the Events of Default, due to PLL no longer being required to maintain any of the PLL WPFs covered by the With-Profits Reinsurance Agreements due to the relevant PLL WPF reaching the criteria of its 2009 Scheme Sunset Clause or due to other reasons.

Termination other than due to Events of Default or the 2009 Scheme Sunset Clause

- 5.71 If the termination of the With-Profits Reinsurance Agreements is as a result of anything other than Events of Default or the 2009 Scheme Sunset Clause, then the termination amount due from PLL to PLAE would be paid in three steps:
- PLL to make an initial payment to PLAE within 3 business days of termination;
 - A further interim payment to be paid to PLAE within 20 business days of termination; and
 - A final true-up payment, being the difference between the sum of the interim and initial payments and the final termination amount, to be calculated as soon as is reasonably practicable and then paid within 30 business days of it being agreed.
- 5.72 The termination amount is calculated as the sum of:
- The BEL in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements;
 - The PLL Transferred Business' share of the inherited estate less the present value of the PLL shareholder's share of surplus. This inherited estate calculation must be confirmed by an Independent Actuary to be fair to both the PLL Non-transferring Business in the relevant PLL WPF and to the PLL Transferred Business in the relevant New With-Profits Funds, unless the Boards of PLL and PLAE agree:
 - That (on an arm's length and objective basis) the expected share of the inherited estate due to the with-profits PLL Transferred Business is less than £1m; and
 - The amount of inherited estate due to the with-profits PLL Transferred Business has also been agreed by the Boards of PLL and PLAE.
 - Any remaining liabilities reinsured under the With-Profits Reinsurance Agreements.
- 5.73 Should PLAE dispute the termination amount calculated by PLL, then notification of the dispute must be given within 30 business days, and the dispute process followed will be:
- The two parties to the With-Profits Reinsurance Agreement should use their reasonable endeavours to resolve the dispute;
 - If it is not resolved after 30 business days then the matter should be referred to the Reinsurance Business Committee;
 - If it is not resolved by the Reinsurance Business Committee within 30 business days, the matter should be referred to the chief executive officers of PLAE and PLL to resolve the dispute; and
 - If it is not resolved by the chief executive officers within 20 business days then the parties to the With-Profits Reinsurance Agreement may appoint an expert (which may be an Independent Actuary or other appropriately qualified professional appointed by written agreement) whose decision will be binding.

Termination due to Events of Default

- 5.74 If the termination is due to any of the Events of Default, then the termination amount would be calculated by an Independent Actuary (unless PLL and PLAE agree otherwise as set out in paragraph 5.72 above), and there would be no initial or interim payments to PLAE. PLAE and PLL would have 12 business days to dispute the calculation by the Independent Actuary, the Independent Actuary will consider the disputes raised and potentially update their calculation, after which the termination amount will be binding on PLAE and PLL.

Termination due to the 2009 Scheme Sunset Clause

- 5.75 If the termination of the relevant With-Profits Reinsurance Agreement is a result of the 2009 Scheme Sunset Clause, there would be no initial or interim payments to PLAE. The termination amount due from PLL to PLAE would be equal to the sum of:
- The BEL in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements;
 - The Closure Uplift (defined in paragraph 5.79 below);
 - PLAE's cost of capital (defined in paragraph 5.76 below); and
 - Any remaining liabilities reinsured under the With-Profits Reinsurance Agreements.
- 5.76 The PLAE cost of capital represents the cost of raising and providing capital to meet PLAE's capital requirements after the termination date in respect of the policies reinsured under the With-Profits Reinsurance Agreements immediately before the termination date, calculated in line with Solvency II.
- 5.77 Under the UK Scheme, the maximum payment from the relevant PLL WPF to PLAE shall be the termination amount calculated as per paragraph 5.72, and any amount due to PLAE in excess of this will be met by the shareholders of PLL.
- 5.78 Should PLAE dispute the termination amount calculated by PLL or PLL dispute the cost of capital calculated by PLAE, then the dispute process detailed in paragraph 5.73 shall apply.

Ongoing management of the New With-Profits Funds

Ongoing management of the New With-Profits Funds following the termination of the With-Profits Reinsurance Agreements as a result of the 2009 Scheme Sunset Clause

- 5.79 If, due to the 2009 Scheme Sunset Clause, PLL is no longer required to maintain any of the PLL WPFs captured by the With-Profits Reinsurance Agreements, then the UK Scheme requires PLAE to cease to maintain the relevant New With-Profits Fund. In such a circumstance, the UK Scheme requires the "Closure Uplift" (an increase in the benefit entitlement of a relevant 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.

Ongoing management of the New With-Profits Funds following the termination of the With-Profits Reinsurance for reason other than the 2009 Scheme Sunset Clause

- 5.80 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 NPF, or to maintain the relevant New With-Profits Fund without the benefit of the With-Profits Reinsurance Agreement. In making such a decision, the PLAE Board must follow the governance requirements set out in the UK Scheme, which include obtaining the prior approval of the CBI as well as a certificate from an independent actuary stating that in their opinion the proposed changes do not materially adversely affect the reasonable expectations of policyholders.

Maintaining the New With-Profits Funds as with-profits funds

- 5.81 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 relevant New With-Profits Fund. Amongst other things, a With Profits Operating Principles ("WPOP") document must be established (which is a document setting out the principles to be followed when managing with-profits business) and PLAE is required to establish a WPC 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.

Closing the New With-Profits Funds

- 5.82 If the relevant New With-Profits Fund is closed, the assets and liabilities of the fund will be transferred to the PLAE NPF. Having regard to the advice of the 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.
- 5.83 The UK Scheme also sets out additional principles that PLAE must consider when determining the Closure Uplift, including:
- Using all assets within the fund to secure benefits for the relevant PLL Transferred Policies in a way that fairly reflects policyholder rights and expectations;
 - Ensuring that all costs associated with closing the fund are met by PLAE shareholders, however an allowance may be made to reflect the ongoing costs the shareholders would incur in operating the policies on a non-profit basis;
 - Where relevant with-profits PLL Transferred Policies are converted to non-profit, using the termination amount (excluding that in respect of non-profit liabilities) to determine a scale of guaranteed increases in policy benefits which will apply for the outstanding duration of each policy;
 - Where relevant with-profits PLL Transferred Policies are converted to unit-linked:
 - Using the termination amount (excluding that in respect of non-profit liabilities) to calculate an uplifted policy value that will be applied when allocating a number and value of units to each policy; and
 - Taking into account a range of factors when considering the appropriate New Linked Fund(s) in which to invest the relevant policies.
 - If agreed at the time between PLAE and PLL, any with-profits PLL Transferred Policies converted to unit-linked would then be in-scope of the Unit-Linked Reinsurance Agreement, meaning these policies would have access to the PLL Linked Funds, in the same way as the unit-linked PLL Transferred Business have access to these funds. PLAE would also be free to allocate these amounts to its own linked funds or to set up a different third party linked fund reinsurance agreement; and
 - Where PLAE ceases to maintain a New With-Profits Fund for any reason other than arising from the 2009 Scheme Sunset Clause, in addition to having regard to the advice of the HoAF, PLAE must also 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.

Annuity benefits on vesting with-profits policies

- 5.84 Currently when a with-profit policy with a guaranteed annuity option or benefits defined in terms of an annuity vests and the policyholder opts to take an annuity benefit with PLL, PLL normally provides this benefit from the PLL Non-Profit Fund, and there is a transfer of the cost of the annuity from the respective with-profits fund to the PLL Non-Profit Fund. However, as stated in the 2009 Scheme for the SPI WPF, and is the practice for all other PLL WPFs, should the WPA of the respective fund consider the cost of the annuity to exceed what is reasonable, the WPA has the right to require that the annuity benefit is provided by the relevant PLL WPF.
- 5.85 Following the transfer, as required by the UK Scheme, annuity benefits on with-profits Transferred Policies will instead be provided by the PLAE NPF, with the cost of the annuity being on rates approved by the PLAE Board. However:
- While the With-Profits Reinsurance Agreements are in force, should the PLL Board, having regard to the advice of the PLL WPA, consider the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, then the PLL Board can require that the annuity be provided by the relevant New With-Profits Fund, and be reinsured back to the respective PLL WPF. Under the UK Scheme, PLAE is required to adhere to any such recommendation.

- The UK Scheme provides that following the termination of the With-Profits Reinsurance Agreements, should the HoAF, having considered the advice of the PLAE WPC (established as detailed in paragraph 5.81), consider the cost of a newly vesting annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, they can require that the annuity be provided by the relevant New With-Profits Fund.

A provision consistent with the above is included in the 2009 Scheme in respect of the PLL SPI WPF.

- 5.86 In addition, certain Transferred Policies transferring from the PLL NPF to the PLAE NPF under the UK Scheme contain guaranteed annuity options. Under the terms of the UK Scheme, from the Effective Date the costs of meeting such guaranteed annuity options will be met by the PLAE SPI WPF, and are subsequently reinsured back to the PLL SPI WPF. A provision consistent with this is included in the 2009 Scheme in respect of the PLL SPI WPF.

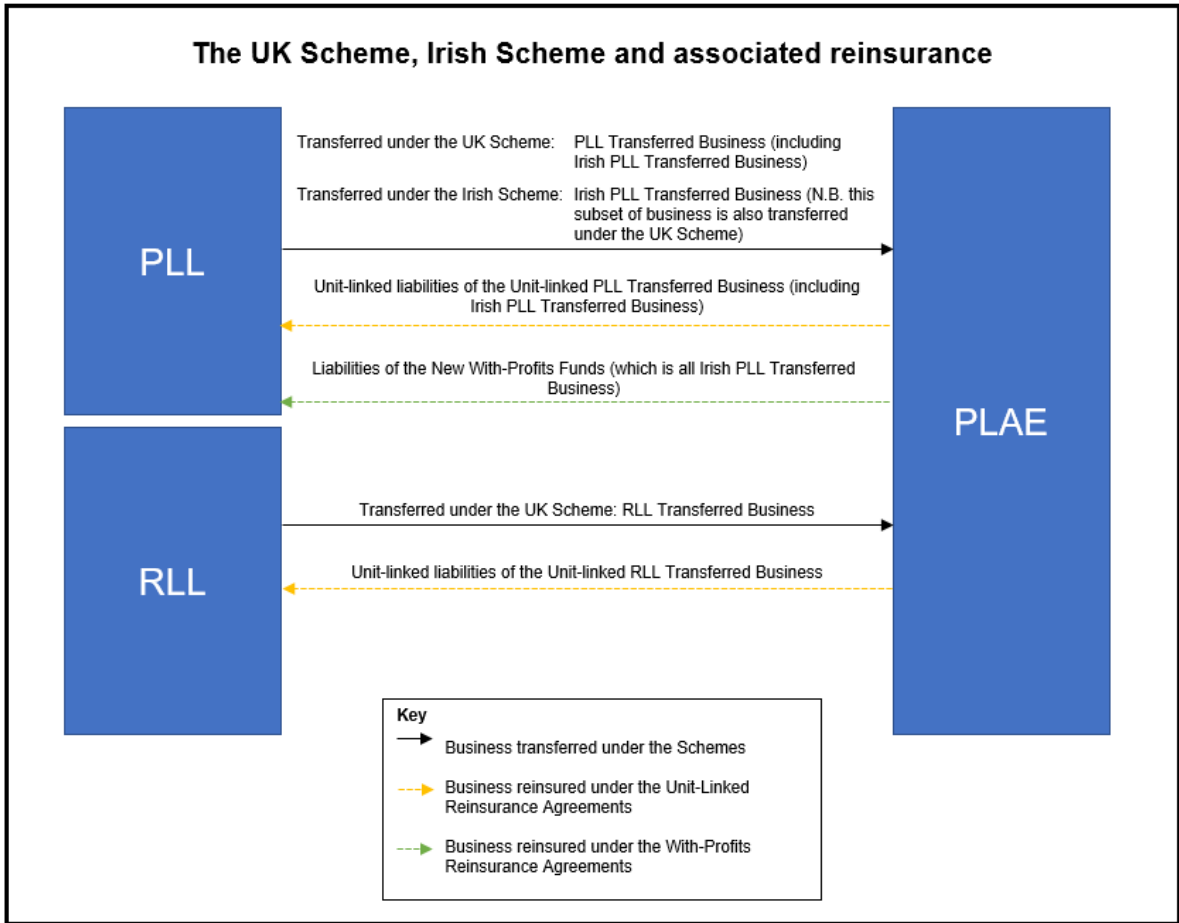
CAPITALISATION OF PLAE

- 5.87 The UK Scheme requires that PLAE has sufficient capital such that immediately after the transfer it has Own Funds at least equal to the amount required under the PLAE Capital Management Policy, therefore the UK Scheme cannot become effective without PLAE being sufficiently capitalised.
- 5.88 The process of capitalising PLAE will be as follows:
- In May 2022 RAL provided PLAE with sufficient capital to cover its MCR and expenses; and
 - Prior to the Effective Date RAL will provide PLAE with the additional capital required to ensure PLAE has sufficient Own Funds to meet the PLAE Capital Management Policy.
- 5.89 The capital will be provided to PLAE by RAL subscribing to shares to be issued by PLAE. RAL will give a direct undertaking to the UK Court as described in the UK Scheme and other UK Court documents that it is able and willing to provide this capital; therefore, failure by RAL to provide the required capital to PLAE in advance of the Effective Date would put RAL in contempt of the UK Court.

STRUCTURE AFTER THE IMPLEMENTATION OF THE UK SCHEME

- 5.90 If the proposed UK Scheme were to be implemented on the Effective Date:
- All of the Transferred Business would be part of PLAE and as a result the Transferred Policies will be held in an insurance company within the EEA;
 - PLAE would administer the Transferred Business but would not write any further business, aside from increments, options, and new annuities associated with the Transferred Business;
 - PLAE would make use of the external reinsurance arrangements with Swiss Re, Gen Re, Unum and Munich Re as set out in paragraphs 5.30 to 5.32;
 - PLAE would maintain New Linked Funds with the liabilities relating to these being reinsured to RLL and PLL through the Unit-Linked Reinsurance Agreements, and PLAE would operate these as described in paragraph 5.41; and
 - PLAE would maintain New With-Profits Funds, with the liabilities relating to these being reinsured back to PLL through the With-Profits Reinsurance Agreements, and PLAE would operate these as described in paragraphs 5.59 and 5.38.
- 5.91 Figure 5.1 below summarises the structure of PLL, RLL and PLAE after the implementation of the proposed UK Scheme, the Irish Scheme, the Unit-Linked Reinsurance Agreements and the With-Profits Reinsurance Agreements. Please note that the IGR arrangement between RLL and RAL (see paragraphs 4.111 to 4.119) is not included within this diagram.

FIGURE 5.1 SUMMARY STRUCTURE AFTER THE UK SCHEME, IRISH SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS AND WITH-PROFITS REINSURANCE AGREEMENTS



6. THE PROPOSED IRISH SCHEME, UNIT-LINKED REINSURANCE AGREEMENT, WITH-PROFITS REINSURANCE AGREEMENTS AND ASSOCIATED SECURITY ARRANGEMENTS

MOTIVATION FOR THE IRISH SCHEME

- 6.1 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.
- 6.2 Following the UK general election held on 12 December 2019:
- The European Union (Withdrawal Agreement) Act 2020 entered into law in the UK on 23 January 2020; and
 - The UK left the EU at 23:00 (Greenwich Mean Time) on 31 January 2020.
- 6.3 The Withdrawal Act provided for a transition period, during which time existing arrangements between the UK and EU continued to apply, however this transition period ended on the 31 December 2020. On 24 December 2020 a deal setting out the future relationship between the UK and EU was agreed; however, it does not permit the continuation of EEA Passport Rights for UK insurers. As outlined in paragraphs 3.3 to 3.6, the administration of EEA policies is only permitted in limited circumstances and for a limited time, with the specific arrangements determined by the host regulators.
- 6.4 The CBI has noted EIOPA Recommendation 5, which states that provided a portfolio transfer was initiated prior to the UK's withdrawal from the EU, then regulators should allow the finalisation of such transfers from the UK to insurers in the EU. The PRA has confirmed that this Irish Scheme is considered an initiated portfolio transfer, in line with EIOPA Recommendation 5.
- 6.5 Within the Phoenix Group there is another insurance entity authorised by the CBI, Standard Life International DAC. The Phoenix Group did consider transferring the PLL Transferred Business to this entity, however I understand that this would have resulted in the transfer losing its status as an initiated portfolio transfer under EIOPA Recommendation 5.
- 6.6 PLL also considered an alternative approach of continuing 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.
- 6.7 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. The position if the Irish Scheme were not to be sanctioned is set out in paragraph 16.1.

SUMMARY OF THE IRISH SCHEME

- 6.8 If the proposed Irish Scheme were to be implemented, all of the assets and liabilities associated with the Irish PLL Transferred Business (except those excluded by the Irish Scheme) would be transferred from PLL to PLAE on the Effective Date (described in paragraph 6.12 below). The Irish PLL Transferred Business includes policies that were sold direct to policyholders in Ireland, either via Irish branches of PLL's predecessor entities (which were later acquired by PLL) or via cross-border passporting and consists of both with-profits and non-profit business. All of the Irish PLL Transferred Business is contained within the Irish branch of PLL. The liabilities in relation to any past mis-selling of the Irish PLL Transferred Business are excluded from the Irish Scheme, and therefore remain with PLL.

- 6.9 The investment element of the unit-linked business and the liabilities from the with-profit funds would be immediately reinsured back to PLL, so PLL's obligations to transfer the associated unit-linked and with-profit fund assets to PLAE would be set off against PLAE's obligation to pay reinsurance premiums to PLL. The reasons for this are set out in paragraph 6.33 to 6.34 and 6.50 to 6.52. The Irish Scheme contains a clause which requires PLL to have entered into this reinsurance agreement with PLAE, and the associated security arrangement (see paragraph 6.37 to 6.38 and 6.56 to 6.61), prior to the Effective Date.
- 6.10 As at 31 December 2021, the Irish PLL Transferred Business consisted of 19,974 policies with a total BEL of £754m.
- 6.11 The Irish Scheme is expected to be presented to the Irish Court for a Directions Hearing⁴⁵ on 18 July 2022. The date of the Irish Sanction Hearing⁴⁶ will be confirmed at the Irish Directions Hearing, however the date of the Irish Sanction Hearing is expected to be 1 November 2022.
- 6.12 If PLAE were capitalised such that it had an SCR Ratio at or above its minimum capital buffer and both the Scheme and the Irish Scheme were to be approved by the UK Court and Irish Court, respectively, the Irish Scheme would become operative on the Effective Date (1 January 2023), at which point the Irish PLL Transferred Business would legally transfer from PLL to PLAE. The Irish Scheme document allows for the Effective Date to be deferred up to 1 April 2023 without a further Court application. If the Irish Scheme has not become effective within this period then, in order for it to become effective, a new application to the Irish Court would be required.
- 6.13 Residual Policies are those within the Transferred Business that cannot be transferred to PLAE on the Effective Date. There are not expected to be any policies in the Irish PLL Transferred Business that would be excluded from the transfer, aside from the potential exceptions outlined in paragraphs 6.23 to 6.27 below.
- 6.14 A diagram summarising the structure of PLL, RLL and PLAE after the implementation of the proposed Irish Scheme, the UK Scheme, the Unit-Linked Reinsurance Agreements and the With-Profits Reinsurance Agreements is included as Figure 6.1 at the end of this section.

Co-dependency of the Scheme and Irish Scheme

- 6.15 The transfers under the UK Scheme and the Irish Scheme are designed such that they are co-dependent, meaning that the transfers would only occur should both the UK Scheme and Irish Scheme be approved by the relevant court. The Irish Scheme contains a provision which means it cannot become effective unless the UK Court has approved the UK Scheme, similarly the UK Scheme contains a provision meaning that it cannot become effective unless the Irish Court has approved the Irish Scheme. Further details on why an Irish Scheme is necessary and the interaction between the UK Scheme and Irish Scheme can be found in Appendix C.
- 6.16 It is possible that at the Irish Directions Hearing, which is scheduled to occur after the UK Directions Hearing, the Irish Court request 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.
- 6.17 The Sanction Hearing of the UK Scheme is scheduled to take place prior to the Sanction Hearing of the Irish Scheme. Given this, it is possible that the Irish Court could request a change to the Irish Scheme which would need to be replicated in the UK Scheme after it has been sanctioned by the UK Court; to cover such an eventuality the UK Scheme contains a clause which allows modifications to the UK Scheme prior to the Irish Scheme being sanctioned and subject to the UK Court approving the change.
- 6.18 The proposed Schemes, if implemented, would transfer all of the assets and liabilities associated with the Transferred Business, with the exception of any Residual Policies, from RLL and PLL to PLAE on the Effective Date (which will be the same for both the UK Scheme and the Irish Scheme). The proposed Schemes are identical in the terms which relate to the transfer of the Transferred Business to, and the operation of the Transferred Business in, PLAE.

POLICYHOLDERS AFFECTED

- 6.19 I have considered the effects of the Irish Scheme on the following groups of policyholders:

⁴⁵ 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.

⁴⁶ 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.

- The Irish PLL Transferred Policyholders;
- The policyholders of PLL whose policies are not being transferred to PLAE by the Irish Scheme, i.e. the PLL Non-transferring Policyholders (including the inwards reinsurance business which, for operational efficacy, has been treated by PLL as connected with the Irish branch of PLL); and
- The policyholders of PLL whose policies are being transferred to PLAE under the UK Scheme but not the Irish Scheme (the German PLL Transferred Policyholders and the Icelandic PLL Transferred Policyholders).

6.20 Prior to the Irish Scheme, PLAE does not have any existing policyholders.

6.21 I cover the effects of the Irish Scheme on each of these groups of policyholders in Sections 9 and 12, respectively.

6.22 I do not consider the policyholders of any other insurance companies that may be affected by the Irish Scheme.

IRISH PLL RESIDUAL POLICIES

6.23 Irish PLL Residual Policies are those policies within the Irish PLL Transferred Policies that cannot be transferred to PLAE on the Effective Date. The most likely reason for this would be an objection from a local EEA regulator which means that policies taken out by residents of that EEA state could not be transferred by order of the Irish Court under the Assurance Companies Act 1909. If the proposed Irish Scheme were to be implemented, all liabilities that relate to the Irish PLL Residual Policies would not be transferred to PLAE as at the Effective Date but would remain with PLL, as appropriate, but with the intention that each Irish PLL Residual Policy would be transferred to PLAE subsequently.

6.24 Each Irish PLL Residual Policy would be reinsured from PLL to PLAE with effect on and from the Effective Date, thereby transferring the financial risks associated with the Irish PLL Residual Policy to PLAE at this date, until such time as it can be transferred to PLAE.

6.25 As and when all consents, permissions or other requirements for the transfer of an Irish PLL Residual Policy from PLL to PLAE had been obtained, such Irish PLL Residual Policy would promptly be transferred to PLAE, together with the assets and liabilities that relate to the Irish PLL Residual Policy. It would then be treated in all respects as if it had been transferred to PLAE with effect from the Effective Date.

6.26 If any Irish PLL Residual Policy is novated⁴⁷ to PLAE, then such Irish PLL Residual Policy would subsequently be dealt with by PLAE under the provisions of this Irish Scheme in all respects as if it were an Irish PLL Transferred Policy.

6.27 It is not intended that there would be any Irish PLL Residual Policies.

REINSURANCE

Reinsurance agreements covering the Irish PLL Transferred Business

PLL

6.28 The Irish PLL Transferred Business currently benefits from outwards reinsurance agreements with Swiss Re, Gen Re and Unum, as described in Section 4. All of the treaties, except that which covers the Irish PLL Transferred Business in the PLL SPI WPF, would be transferred from PLL to PLAE under the proposed Irish Scheme. The reinsurance treaty which covers the Irish PLL Transferred Business in the PLL SPI WPF will instead be converted to a retrocession agreement⁴⁸ for PLL, given that the business covered by this treaty will be reinsured from PLAE back to the PLL SPI WPF under the relevant With-Profits Reinsurance Agreement. This conversion will take place through a separate process, when the Irish Scheme is implemented.

The other reinsurance agreements of PLL

6.29 The proposed Irish Scheme would have no impact on the other reinsurance agreements of PLL.

⁴⁷ Extinguished and replaced with an identical contract between the policyholder and PLAE.

⁴⁸ The relevant liabilities are reassured from PLAE to PLL which in turn reassures (retrocedes) those liabilities as it currently does.

THE PLL LINKED FUNDS

Overview

- 6.30 As described in Section 4, PLL maintains internal linked funds for the purposes of calculating benefits payable under the unit-linked policies (i.e. the PLL Linked Funds). Each unit-linked policy is associated with one or more PLL Linked Funds into which relevant policyholders' premiums are invested, with assets acquired by such PLL Linked Funds being the PLL Linked Assets.
- 6.31 The PLL Linked Funds currently available to the Irish PLL Transferred Policyholders are available only for such policyholders. There would therefore be no structural changes to these funds prior to the implementation of the proposed Irish Scheme.
- 6.32 In order for the Irish PLL Transferred Policyholders to continue to have access to the same PLL Linked Funds following the Effective Date, PLAE will establish identical funds, (the "PLL New Linked Funds") to those PLL Linked Funds available to the Irish PLL Transferred Policyholders, immediately before the Effective Date. The relevant assets and liabilities relating to the PLL Linked Funds available to Irish PLL Transferred Policyholders would transfer to the PLL New Linked Funds under the Irish Scheme.

PLL Unit-Linked Reinsurance Agreement

Introduction

- 6.33 PLL would enter into a reinsurance agreement with PLAE in respect of the unit-linked Transferred Business on the Effective Date (the "PLL Unit-Linked Reinsurance Agreement") so that the unit-linked liabilities relating to the PLL New Linked Funds would be immediately reinsured back to PLL, and so PLL's obligation to transfer the associated PLL Linked Assets to PLAE on the Effective Date would be set off against PLAE's obligation to pay a reinsurance premium to PLL. After the Effective Date:
- Premiums received and claims paid on the PLL Transferred Policies would trigger associated unitised reinsurance cash flows between PLL and PLAE;
 - Non-unit cash flows, including the part of any premiums not invested in units, would remain within PLAE and would not be reinsured to PLL;
 - PLL would not retain any charges, but would pay these to PLAE;
 - Investment income and gains would accrue within the PLL Linked Funds in PLL;
 - The annual management charge will be deducted from the PLL Linked Funds. From this PLL will deduct its costs (including external fund management costs, custodian fees etc) plus a 2bp deduction for PLL's reinsurer's fund management expenses, and the remainder of the annual management charge will be transferred to the PLAE NPF; and
 - PLL would continue to manage the PLL Linked Funds, including the fund management agreements with external fund managers.
- 6.34 The result of the establishment of the PLL New Linked Funds and the PLL Unit-Linked Reinsurance Agreement would be that the unit-linked PLL Transferred Policyholders would be invested in exactly the same funds after the Effective Date as immediately prior to the Effective Date. Those policyholders will also be able to invest in the same range of funds they are currently entitled to invest in; such investment will be via the corresponding New Linked Funds operated by PLAE.
- 6.35 After the PLL Unit-Linked Reinsurance Agreement has been put in place:
- Unit pricing would be performed and unit charges would be made in exactly the same way as they are currently done within PLL;
 - PLL may make changes to the range of funds offered through the PLL Unit-Linked Reinsurance Agreements in the same way as they can make changes before the transfer, provided that it is:
 - possible to replicate the changes in the corresponding New Linked Funds, in accordance with the Irish Scheme, and
 - PLAE is given as much notice as is reasonably practicable.
 - By virtue of the Irish Scheme, PLAE would be entitled to the same rights in relation to the management of the PLL New Linked Funds as PLL's current rights in relation to the corresponding PLL Linked Funds, including the powers to close to new or further investment, divide, modify or wind-up funds in the future. Such actions undertaken by PLAE:

- would be subject to consultation with PLL to the extent that such action affects or has the potential to affect the business of, or any fund of, RLL or any of the respective policyholders,
- must align to any similar actions being undertaken by PLL in respect of the corresponding PLL Linked Fund whilst the PLL Unit-Linked Reinsurance Agreement is in place, and
- would be subject to the approval of the PLAE Board, having consulted with the HoAF (or another appropriate senior manager with PCF approval).

Governance

6.36 A Reinsurance Business Committee would be established with representatives from PLAE and PLL who would monitor, review and challenge the day-to-day management of the Unit-Linked Reinsurance Agreements. In addition, PLAE would appoint a Finance Technical Committee, which would be responsible for overseeing the management and operation of the PLL Unit-Linked Reinsurance Agreements.

Associated security

6.37 PLAE would have a floating charge over all of the available assets held by PLL (that is, all assets except those over which PLL is unable to grant security) in order to minimise its counterparty exposure resulting from the PLL Unit-Linked Reinsurance Agreement (and the With-Profits Reinsurance Agreements). I refer to this floating charge as the “PLL Floating Charge”. 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.

6.38 The PLL Floating Charge contains a provision that limits the recoverability to which PLAE is entitled to that of an unsecured insurance debt, therefore having the effect that PLAE would rank equally to the Non-transferring Policyholders of PLL (and other policyholders⁴⁹) in the event of insolvency of PLL. The PLL Floating Charge also 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.

Circumstances in which the Unit-Linked Reinsurance Agreements can be terminated

6.39 As detailed in the PLL Unit-Linked Reinsurance Agreement, the agreement can be terminated under the following circumstances:

- PLL and PLAE both have the right to terminate the PLL Unit-Linked Reinsurance Agreement in the following circumstances:
 - Following a material breach of the PLL Unit-Linked Reinsurance Agreement;
 - If the other party has any licence, permit or other authorisation which it requires to transact the business covered by the PLL Unit-Linked Reinsurance Agreement withdrawn, suspended or surrendered; and
 - If any material part of the PLL Unit-Linked Reinsurance Agreement becomes prohibited or rendered impossible by law or regulation.
- Should any of the following events occur, PLAE would have the right under the PLL Unit-Linked Reinsurance Agreements to terminate the agreement with no minimum notice period:
 - If PLL fails to make a payment which is due to PLAE under the PLL Unit-Linked Reinsurance Agreement or the PLL Floating Charge;
 - Any procedure is commenced with a view to winding up or reorganisation of PLL (save where frivolous or as part of a solvent reorganisation);
 - Any step is taken or any procedure is commenced with a view to appointment of an administrator, receiver, administrator receiver, examiner or liquidator or any other insolvency officer in relation to PLL (save where frivolous);
 - The holder of any security over all or a substantial part of the assets of PLL takes steps to enforce that security;
 - PLL is unable to pay its debts as they fall due;
 - Anything analogous to the above; or
 - PLL’s Solvency Capital Ratio falls below 105%.
- In addition, the Unit-Linked Reinsurance Agreement can also be terminated subject to the following:
 - PLAE providing at least 90 business days’ notice; or

⁴⁹ This includes any new business written by PLL and any new policies that arise in relation to existing policies.

- Such other notice period being agreed by RLL or PLL and PLAE.
- 6.40 Also, under the terms of the Unit-Linked Reinsurance Agreement, PLL is required to notify PLAE immediately if its Solvency Capital Ratio falls below 125%.
- 6.41 Upon termination of the PLL Unit-Linked Reinsurance Agreement, PLAE shall be due a termination amount equal to the bid value of the units, set as at the date of the termination, in relation to the business reinsured under the PLL Unit-Linked Reinsurance Agreements from PLL. This termination amount should be calculated within 20 business days and paid within 30 business days.
- 6.42 If PLAE disputes the calculation of the termination amount then the following escalation process would be followed:
- PLL and PLAE should use their reasonable endeavours to resolve the dispute within 30 business days;
 - If it is not resolved after 30 business days then the matter should be referred to the Reinsurance Business Committee;
 - If it is not resolved by the Reinsurance Business Committee within 30 days, the matter should be referred to the chief executive officers of PLL and PLAE, who should use their reasonable endeavours to resolve the dispute; and
 - If it is not resolved by the chief executive officers within 20 business days then PLL and PLAE may appoint an expert whose decision would be binding.
- 6.43 In the event that there is a dispute in relation to the termination amount then, pending the resolution of the dispute in line with the above process, PLL will instead pay to PLAE an amount equal to the bid value of units as at the termination date for the business covered by the PLL Unit-Linked Reinsurance Agreement, with an estimated adjustment for any outstanding cashflows associated with the reinsurance agreement. This amount must be paid by PLL within 30 business days. Following the resolution of the dispute, if any balancing payment is required by either party, this must be made within 30 business days of the resolution.

Ongoing management of the New Linked Funds

- 6.44 As out lined in paragraph 6.35, under the terms of the Irish Scheme PLAE would have the powers to close to new or further investment, divide, modify or wind-up funds in the future, subject to certain requirements.
- 6.45 In the event that PLAE determines to wind-up a PLL New Linked Fund, PLAE shall cancel units in that fund allocated to Irish PLL Transferred Policyholders and allocate the affected policyholders, without charge, new units of equal value to a different PLL New Linked Fund. In determining the value of the units to be allocated to an alternative PLL New Linked Fund, the PLAE Board must have regard to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role. The alternative PLL New Linked Fund selected must be an available fund that, in the opinion of the PLAE Board, having regards to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role, provides reasonable equivalent investment exposure to the PLL New Linked Fund that is to be wound-up.

THE WITH-PROFITS FUNDS

Overview

- 6.46 As described in Section 4, the performances of the PLL WPFs drive the bonuses paid to with-profits policies within each of the funds. The bonuses are set at the discretion of the PLL Board for all PLL WPFs except the SPI WPF; for the SPI WPF they are set at the discretion of the WPC. The premiums paid by with-profits policyholders are invested in the respective with-profits fund, with assets acquired by each with-profits fund being the With-Profits Assets.
- 6.47 In order for the Irish PLL Transferred Policyholders to continue to have access to the same with-profits funds after the Effective Date, the Irish Scheme requires that PLAE establish four with-profits funds (the “New With-Profits Funds”) in respect of each of the PLL WPFs in which Irish PLL Transferred Business is currently allocated. The New With-Profits Funds would be:
- PLAE 90% WPF;
 - PLAE Alba WPF;
 - PLAE Phoenix WPF; and
 - PLAE SPI WPF.

- 6.48 The New With-Profits Funds would be ring-fenced funds within PLAE with no sharing of profits between these funds, or any other funds within PLAE. They would be 100:0⁵⁰ funds and would be closed to new business, aside from renewals and new annuities associated with the PLL Transferred Business.
- 6.49 Under the Irish Scheme, assets and liabilities relating to Irish PLL Transferred Business in the PLL WPFs would transfer to the respective New With-Profit Funds of PLAE.

With-Profits Reinsurance Agreements

Introduction

- 6.50 Should the Irish Scheme (and the UK Scheme) be sanctioned, PLL would enter into four reinsurance agreements with PLAE on the Effective Date (the "With-Profits Reinsurance Agreements"), one for each of the New With-Profits Funds, so that the liabilities relating to the New With-Profits Funds would be immediately reinsured back to PLL, and so PLL's obligation to transfer the associated With-Profits Assets would be set off against PLAE's obligation to pay reinsurance premiums of an equal amount to PLL. An initial fee of £10m would also be paid to PLAE from the PLL NPF to recognise the capital that will be held by PLAE in respect of the with-profits Irish PLL Transferred Business. This initial fee would not be charged to any of the PLL WPFs.
- 6.51 After the Effective Date:
- Premiums received and claims paid on the Irish PLL Transferred Business covered by the With-Profits Reinsurance Agreements would trigger associated reinsurance cash flows between PLL and PLAE;
 - PLL will pass on to PLAE the fixed per policy fee that each PLL WPF would have paid to PLL and/or a counterparty to an MSA in respect of the reinsured Irish PLL Transferred Business had the Irish Scheme not taken place. PLAE will then use these fees to cover amounts due under the MSA with SLAESL (Irish branch), which is discussed further in Section 9;
 - PLL will pass on to PLAE any Irish tax due from the New With-Profits Funds; and
 - PLL would continue to manage the PLL WPFs, in line with the 2009 Scheme and the PPFM.
- 6.52 The result of the establishment of the New With-Profits Funds and the With-Profits Reinsurance Agreements would be that the Irish PLL Transferred Policyholders currently allocated to the PLL WPFs would continue to have their benefits payable calculated by reference to the performance and financial position of the same PLL WPFs after the Effective Date as prior to the Effective Date, although they would be holders of policies with PLAE rather than PLL. It also avoids the need to split the PLL WPFs between PLL and PLAE, which would:
- Require a process to ensure that the split of the fund assets is fair to all policyholders, the process of determining this fair split would be a complex and costly exercise;
 - Potentially change the benefits of either or both the with-profits PLL Transferred Business and the with-profits PLL Non-transferring Business invested in with-profits; and
 - Result in three of the four New With-Profits Funds being of a size which is either at or below the sunset clause trigger point as set out in the 2009 Scheme, which may make it difficult to manage these as stand-alone with-profits funds within PLAE.
- 6.53 After the With-Profits Reinsurance Agreements have been put in place:
- The Board of PLL would continue to be responsible for managing the PLL WPFs;
 - The PLL WPFs would continue to be managed in line with the 2009 Scheme and the PPFM;
 - The benefits payable under the with-profits PLL Transferred Policy would continue to be calculated by reference to the performance and financial position of the PLL WPF to which the policy was allocated prior to the transfer and will be no less than those which would have been paid had the PLL Transferred Policy still been allocated to the PLL WPF;
 - PLL may make changes to the PPFM, subject to noting and discussion at the Finance Technical Committee, and, where the change is material, provide PLAE with at least 6 weeks' notice.

⁵⁰ 100:0 funds are with-profits funds for which 100% of the surplus arising in the fund is owned by the with-profits policyholders within the fund, with none of the surplus being owned by shareholders.

Governance

- 6.54 The Reinsurance Business Committee would be established with representatives from PLAE and PLL and would monitor, review and challenge the day-to-day management of the New With-Profits Funds. The With-Profits Reinsurance Agreements require PLAE to appoint and maintain a Finance Technical Committee, which would comprise individuals with sufficient with-profits expertise to oversee the management of the New With-Profits Funds.
- 6.55 Upon the transfer of with-profits business to PLAE, under the *Domestic Actuarial Regime and Related Governance Requirements under Solvency II*, the HoAF of PLAE would have additional responsibilities in respect of the New With-Profits Funds, including:
- Writing a report to the Board on matters concerning the New With-Profits Funds, which should include an opinion on any discretion exercised by the Board in relation to the funds, an opinion on the management of competing or conflicting interests and any further information that the HoAF deems relevant; and
 - Writing an annual report to the Board of PLAE recommending any allocation of profits related to such policyholder rights.

Associated security

- 6.56 PLAE would have a mixture of fixed charges (the “WP Fixed Charges”) over the assets of PLL in respect of the liabilities transferred under the With-Profits Reinsurance Agreements and a floating charge (the “PLL Floating Charge”) over all of the available assets held by PLL (that is, all assets except those over which PLL is unable to grant security), 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.
- 6.57 PLAE would have a fixed charge over the reinsured assets held by PLL in the SPI WPF, Alba WPF and Phoenix WPF, at a level equal to 65% of the BEL of the liabilities covered by the respective With-Profits Reinsurance Agreements. Should an insolvency process be undertaken in respect of PLL, the WP Fixed Charges would provide PLAE with an immediate source of liquidity whilst the insolvency process determined the amounts due under the PLL Floating Charge. There is no fixed charge over the assets held by PLL in the 90% WPF as these represent a very small proportion of the total liabilities reinsured under the With-Profits Reinsurance Agreements.
- 6.58 As the WP Fixed Charges are over assets held by PLL in custodian accounts, this will require the splitting of assets from the relevant PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. The intention is that the management of these assets will remain in line with the strategic asset allocation set out in the funds’ PPFM.
- 6.59 The WP Fixed Charges contain a provision which prohibits PLL from granting any future security over the assets associated with the WP Fixed Charges.
- 6.60 The PLL Floating Charge would also be held over all of the available assets of PLL (that is, all assets except those over which PLL is unable to grant security), but subject to a maximum claim equal to the termination amount due under each of the With-Profits Reinsurance Agreements, less any amounts already recovered under the WP Fixed Charges.
- 6.61 The PLL Floating Charge contains 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 to the PLL Non-transferring Policyholders (and other policyholders of PLL⁵¹) in the event of insolvency of PLL, except in the extreme event where the PLL Non-transferring Policyholders receive less than 65% of their BEL, when the effect of the WP Fixed Charges is to ensure PLAE receives 65% of the BEL in respect of liabilities covered by the With-Profits Reinsurance Agreements. The PLL Floating Charge also 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.

Termination of the With-Profits Reinsurance Agreements

- 6.62 As detailed in the With-Profits Reinsurance Agreements these can be terminated under the following circumstances:

⁵¹ This includes any new business written by PLL and any new policies that arise in relation to existing policies.

- PLL and PLAE both have the right to terminate the With-Profits Reinsurance Agreements in the following circumstances:
 - By mutual agreement;
 - Following a material breach of certain clauses in the With-Profits Reinsurance Agreements, WP Fixed Charges or PLL Floating Charge;
 - If any material part of the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge becomes unlawful; or
 - Where the other party to the With-Profits Reinsurance Agreements, ceases to hold any authorisation, permission, approval, registration, consent or licence which it requires to perform its material obligations under the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge.
- There are certain “Events of Default”, following which PLAE has the right under the With-Profits Reinsurance Agreements to terminate the agreements; these are:
 - PLL fails to make a payment which is due to PLAE under the With-Profits Reinsurance Agreement, WP Fixed Charges or PLL Floating Charge;
 - Any procedure is commenced with a view to winding up or reorganisation of PLL (save where frivolous or as part of a solvent reorganisation);
 - Any step is taken or any procedure is commenced with a view to appointment of an administrator, receiver, administrator receiver, examiner or liquidator or any other insolvency officer in relation to PLL (save where frivolous);
 - The holder of any security over all or a substantial part of the assets of PLL takes steps to enforce that security;
 - PLL is unable to pay its debts as they fall due; or
 - Anything analogous to the above.
- In addition, PLAE would also have the right to terminate the reinsurance after any of the following events:
 - PLL amends any principle in the PPFM in a way in which PLAE considers to have materially adversely impacted the Irish PLL Transferred Business;
 - PLL ceases to maintain the corresponding PLL WPF;
 - PLL’s Solvency Capital Ratio falls below 105%;
 - 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)⁵²;
 - PLL proposes a change to the terms of the Investment Management Agreement (the agreements between PLL and the investment managers of the assets secured under the WP Fixed Charge) and PLL and PLAE are unable to reach agreement following the conclusion of the dispute process (detailed in paragraph 6.67); or
 - For the With-Profits Reinsurance Agreement in respect of the PLL 90% WPF, if all other With-Profits Reinsurance Agreements have been terminated.
- PLL also has the right to terminate a With-Profits Reinsurance Agreement in the event that PLAE fails to make a payment which is due to PLL under the With-Profits Reinsurance Agreement.

6.63 Under the terms of the With-Profits Reinsurance Agreements, PLL is required to notify PLAE on a timely basis if PLL’s Solvency Capital Ratio falls below 125%, if PLL is assigned a credit rating which is credit quality step 4 or below or if PLL’s credit rating is withdrawn. In addition, if a change of control occurs in relation to PLAE, PLAE is required to discuss the changes required to the With-Profits Reinsurance Agreements with PLL.

Procedures that follow the termination of the With-Profits Reinsurance Agreements

6.64 The With-Profits Reinsurance Agreements set out the procedures that must be followed to terminate the agreements, the process differs depending on whether it is as a result of any of the Events of Default, due the 2009 Scheme Sunset Clause or due to other reasons.

Termination other than due to Events of Default or the 2009 Scheme Sunset Clause

⁵² PLL currently has a credit rating of AA- from Fitch Ratings Inc, which corresponds to Solvency II Credit Quality Step 1.

- 6.65 If the termination of the With-Profits Reinsurance Agreements is as a result of anything other than Events of Default or the 2009 Scheme Sunset Clause, then the termination amount due from PLL to PLAE would be paid in three steps:
- PLL to make an initial payment to PLAE within 3 business days of termination;
 - A further interim payment to be paid to PLAE within 20 business days of termination; and
 - A final true-up payment, being the difference between the sum of the interim and initial payments and the final termination amount, to be calculated as soon as is reasonably practicable and then paid within 30 business days of it being agreed.
- 6.66 The termination amount is calculated as the sum of:
- The BEL in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements;
 - The Irish PLL Transferred Business' share of the inherited estate less the present value of the PLL shareholder's share of surplus. This inherited estate calculation must be confirmed by an Independent Actuary to be fair to both the PLL Non-transferring Business in the relevant PLL WPF and to the Irish PLL Transferred Business in the relevant New With-Profits Funds, unless the Boards of PLL and PLAE agree:
 - That (on an arm's length and objective basis) the expected share of the inherited estate due to the with-profits Irish PLL Transferred Business is less than £1m, and
 - The amount of inherited estate due to the with-profits Irish PLL Transferred Business has also been agreed by the Boards of PLL and PLAE.
 - Any remaining liabilities reinsured under the With-Profits Reinsurance Agreements.
- 6.67 Should PLAE dispute the termination amount calculated by PLL, then notification of the dispute must be given within 30 business days, and the dispute process followed will be:
- The two parties to the With-Profits Reinsurance Agreement should use their reasonable endeavours to resolve the dispute;
 - If it is not resolved after 30 business days then the matter should be referred to the Reinsurance Business Committee;
 - If it is not resolved by the Reinsurance Business Committee within 30 business days, the matter should be referred to the chief executive officers of PLAE and PLL to resolve the dispute; and
 - If it is not resolved by the chief executive officers within 20 business days then the parties to the With-Profits Reinsurance Agreement may appoint an expert (which may be an Independent Actuary or other appropriately qualified professional appointed by written agreement) whose decision will be binding.

Termination due to Events of Default

- 6.68 If the termination is due to any of the Events of Default, then the termination amount would be calculated by an Independent Actuary (unless PLL and PLAE agree otherwise as set out in paragraph 6.66 above), and there would be no initial or interim payments to PLAE. PLAE and PLL would have 12 business days to dispute the calculation by the Independent Actuary, the Independent Actuary will consider the disputes raised and potentially update their calculation, after which the termination amount will be binding on PLAE and PLL.

Termination due to the 2009 Scheme Sunset Clause

- 6.69 If the termination of the relevant With-Profits Reinsurance Agreement is a result of the 2009 Scheme Sunset Clause, there would be no initial or interim payments to PLAE. The termination amount due from PLL to PLAE would be equal to the sum of:
- The BEL in respect of the liabilities reinsured under the With-Profits Reinsurance Agreements;
 - The Closure Uplift (defined in paragraph 6.73 below);
 - PLAE's cost of capital (defined in paragraph 6.70 below); and
 - Any remaining liabilities reinsured under the With-Profits Reinsurance Agreements.
- 6.70 The PLAE cost of capital represents the cost of raising and providing capital to meet PLAE's capital requirements after the termination date in respect of the policies reinsured under the With-Profits Reinsurance Agreements immediately before the termination date, calculated in line with Solvency II.

- 6.71 Under the Irish Scheme, the maximum payment from the relevant PLL WPF to PLAE shall be the termination amount calculated as per paragraph 6.66, and any amount due to PLAE in excess of this will be met by the shareholders of PLL.
- 6.72 Should PLAE dispute the termination amount calculated by PLL or PLL dispute the cost of capital calculated by PLAE, then the dispute process detailed in paragraph 6.67 shall apply.

Ongoing management of the New With-Profits Funds

Ongoing management of the New With-Profits Funds following the termination of the With-Profits Reinsurance Agreements as a result of the 2009 Scheme Sunset Clause

- 6.73 If, due to the 2009 Scheme Sunset Clause, PLL is no longer required to maintain any of the PLL WPFs captured by the With-Profits Reinsurance Agreements, then the Irish Scheme requires PLAE to cease to maintain the relevant New With-Profits Fund. In such a circumstance, the Irish Scheme requires the “Closure Uplift” (an increase in the benefit entitlement of a relevant with-profits Irish 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.

Ongoing management of the New With-Profits Funds following the termination of the With-Profits Reinsurance for reason other than the 2009 Scheme Sunset Clause

- 6.74 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 NPF, or to maintain the relevant New With-Profits Fund without the benefit of the With-Profits Reinsurance Agreement. In making such a decision, the PLAE Board must follow the governance requirements set out in the Irish Scheme, which include obtaining the prior approval of the CBI as well as a certificate from an independent actuary stating that in their opinion the proposed changes do not materially adversely affect the reasonable expectations of policyholders.

Maintaining the New With-Profits Funds as with-profits funds

- 6.75 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 relevant New With-Profits Fund. Amongst other things, a With Profits Operating Principles (“WPOP”) document must be established (which is a document setting out the principles to be followed when managing with-profits business) and PLAE is required to establish a WPC 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.

Closing the New With-Profits Funds

- 6.76 If the relevant New With-Profits Fund is closed, the assets and liabilities of the fund will be transferred to the PLAE NPF. Having regard to the advice of the HoAF, PLAE will determine the relevant Closure Uplift to be applied, and whether converting the relevant with-profits Irish 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.
- 6.77 The Irish Scheme also sets out additional principles that PLAE must consider when determining the Closure Uplift, including:
- Using all assets within the fund to secure benefits for the relevant Irish PLL Transferred Policies in a way that fairly reflects policyholder rights and expectations;
 - Ensuring that all costs associated with closing the fund are met by PLAE shareholders, however an allowance may be made to reflect the ongoing costs the shareholders will incur in operating the policies on a non-profit basis;
 - Where relevant with-profits Irish PLL Transferred Policies are converted to non-profit, using the termination amount (excluding that in respect of non-profit liabilities) to determine a scale of guaranteed increases in policy benefits which will apply for the outstanding duration of each policy;
 - Where relevant with-profits Irish PLL Transferred Policies are converted to unit-linked:
 - Using the termination amount to calculate an uplifted policy value that will be applied when allocating a number and value of units to each policy; and
 - Taking into account a range of factors when considering the appropriate New Linked Fund(s) in which to invest the relevant policies.

If agreed at the time between PLAE and PLL, any with-profits Irish PLL Transferred Policies converted to unit-linked would then be in-scope of the PLL Unit-Linked Reinsurance Agreement, meaning these policies would have access to the PLL Linked Funds, in the same way as the unit-linked Irish PLL Transferred Business have access to these funds. PLAE would also be free to allocate these amounts to its own linked funds or to set up a different third party linked fund reinsurance agreement; and

- Where PLAE ceases to maintain a New With-Profits Fund for any reason other than arising from the 2009 Scheme Sunset Clause, in addition to having regard to the advice of the HoAF, PLAE must also 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.

Annuity benefits on vesting with-profits policies

6.78 Currently when a with-profit policy with either a guaranteed annuity option or benefits defined in terms of an annuity vests and the policyholder opts to take an annuity benefit with PLL, PLL provides this benefit from the PLL Non-Profit Fund, and there is a transfer of the cost of the annuity from the respective with-profits fund to the PLL Non-Profit Fund. However, as stated in the 2009 Scheme for the SPI WPF, and is the practice for all other PLL WPFs, should the WPA of the respective fund consider the cost of the annuity to exceed what is reasonable, the WPA has the right to require that the annuity benefit is provided by the relevant PLL WPF.

6.79 Following the transfer, as required by the Irish Scheme, annuity benefits on with-profits Irish PLL Transferred Policies will instead be provided by the PLAE NPF, with the cost of the annuity being on rates approved by the PLAE Board. However:

- While the With-Profits Reinsurance Agreements are in force, should the PLL Board consider, having regard to the advice of the PLL WPA, the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, then the PLL Board can require that the annuity be provided by the relevant New With-Profits Fund, and be reinsured back to the respective PLL WPF. Under the Irish Scheme, PLAE is required to adhere to any such recommendation.
- The Irish Scheme provides that following the termination of the With-Profits Reinsurance Agreements, should the HoAF, having considered the advice of the PLAE WPC (established as detailed in paragraph 6.75), consider the cost of a newly vesting annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, they can require that the annuity be provided by the relevant New With-Profits Fund.

A provision consistent with the above is included in the 2009 Scheme in respect of the PLL SPI WPF.

6.80 In addition, certain Irish PLL Transferred Policies transferring from the PLL NPF to the PLAE NPF under the Irish Scheme contain guaranteed annuity options. Under the terms of the Irish Scheme, from the Effective Date the costs of meeting such guaranteed annuity options will be met by the PLAE SPI WPF. A provision consistent with this is included in the 2009 Scheme in respect of the PLL SPI WPF.

CAPITALISATION OF PLAE

6.81 The Irish Scheme requires that PLAE has sufficient capital such that immediately after the transfer it has Own Funds at least equal to the amount required under the PLAE Capital Management Policy, therefore the Irish Scheme cannot become effective without PLAE being sufficiently capitalised.

6.82 The process of capitalising PLAE will be as follows:

- In May 2022 RAL provided PLAE with sufficient capital to cover its MCR and expenses; and
- Prior to the Effective Date RAL will provide PLAE with the additional capital required to ensure PLAE has sufficient Own Funds to meet the PLAE Capital Management Policy.

6.83 The capital will be provided to PLAE by RAL subscribing to shares to be issued by PLAE. RAL will give a direct undertaking to the Irish Court as described in the Irish Scheme and other Irish Court documents that it is able and willing to provide this capital; therefore, failure by RAL to provide the required capital to PLAE in advance of the Effective Date would put RAL in contempt of the Irish Court.

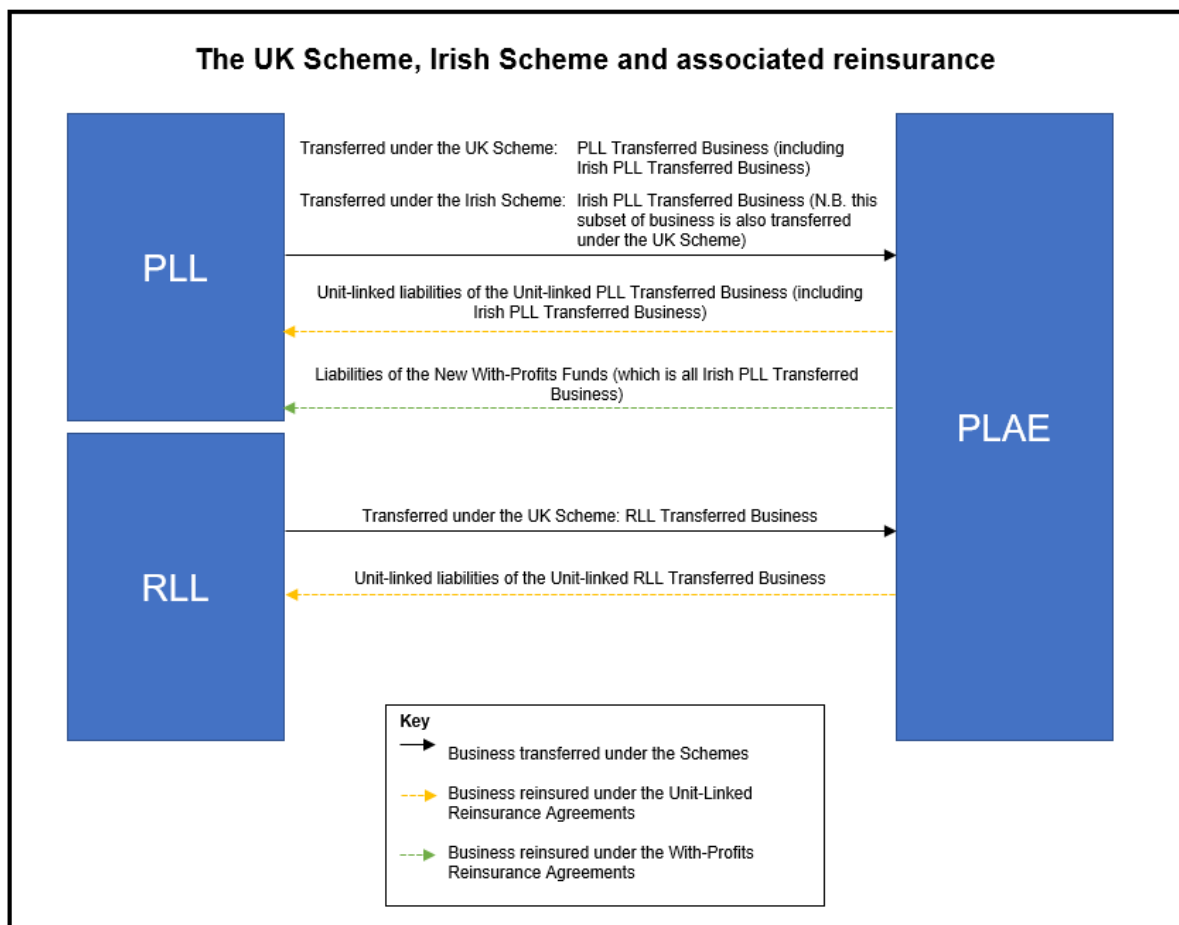
STRUCTURE AFTER THE IMPLEMENTATION OF THE IRISH SCHEME

6.84 If the proposed Irish Scheme were to be implemented on the Effective Date:

- All of the Irish PLL Transferred Business would be part of PLAE and as a result the Irish PLL Transferred Policies would be held in an insurance company within the EEA and can be administered under the scope of EIOPA regulations following the UK's exit from the EU;
- PLAE would administer the Irish PLL Transferred Business but would not write any further business, aside from renewals and new annuities associated with the Irish PLL Transferred Business;
- PLAE would make use of the external reinsurance arrangements with Swiss Re, Gen Re and Unum as set out in paragraph 6.28;
- PLAE would maintain PLL New Linked Funds with the liabilities relating to these being reinsured to PLL through the PLL Unit-Linked Reinsurance Agreements, and PLAE would operate these as described in paragraph 6.35; and
- PLAE would maintain New With-Profits Funds, with the liabilities relating to these being reinsured back to PLL through the With-Profits Reinsurance Agreements, and PLAE would operate these as described in paragraphs 6.53 to 6.54.

6.85 Figure 6.1 below summarises the structure of PLL, RLL and PLAE after the implementation of the proposed Irish Scheme, the UK Scheme, the Unit-Linked Reinsurance Agreements and the With-Profits Reinsurance Agreements. Please note that the IGR arrangement between RLL and RAL (see paragraphs 4.111 to 4.119) is not included within this diagram.

FIGURE 6.1 SUMMARY STRUCTURE AFTER THE IRISH SCHEME, UK SCHEME, UNIT-LINKED REINSURANCE AGREEMENTS AND WITH-PROFITS REINSURANCE AGREEMENTS



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

INTRODUCTION

- 7.1 If the proposed UK Scheme were to be approved by the UK Court and, given the co-dependencies of the Schemes, the Irish Scheme approved by the Irish Court, the PLL Transferred Business (including the Irish PLL Transferred Business) would be transferred from PLL to PLAE. The policies within the PLL Transferred Business are collectively referred to as the “PLL Transferred Policies”, and the policyholders holding these policies are collectively referred to as the “PLL Transferred Policyholders”, for the avoidance of doubt these policies and policyholders include those of the Irish PLL Transferred Business.
- 7.2 In this section of the Report, I consider the likely effects on the PLL Transferred Policyholders of the implementation of the proposed UK Scheme. The key points to consider in respect of the PLL Transferred Policyholders are the changes in the following due to the transfer:
- **The security of benefits under the PLL Transferred Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the PLL Transferred Policies under the applicable capital management policy and includes the strength provided by the reinsurance agreements and by the support from the Phoenix Group.
 - This is covered in paragraphs 7.3 to 7.75.
 - **The profile of risks to which the PLL Transferred Policies are exposed.**
 - If the proposed UK Scheme were to be implemented, the PLL Transferred Policies would become direct policies of PLAE and directly exposed to the risk profile of a different company.
 - This is covered in paragraphs 7.76 to 7.85.
 - **The oversight provided by the regulatory regime that will apply to the PLL Transferred Policies.**
 - If the proposed UK Scheme were to be implemented, the PLL Transferred Policies would move from being subject to the laws and regulations of the UK to those of Ireland.
 - This is covered in paragraphs 7.86 to 7.122.
 - **The reasonable expectations of the PLL Transferred Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, service, management and governance applied to the PLL Transferred Policies.
 - This is covered in paragraphs 7.123 to 7.184.

My overall conclusions regarding the likely effects on the PLL Transferred Policyholders are set out in paragraph 7.185.

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

Introduction

- 7.3 Currently, the PLL Transferred Policies derive their security of benefits from being part of PLL and the associated financial strength under the PLL Capital Management Policy, the strength of PLL’s reinsurance agreements and support provided to PLL from its ultimate parent (PGH). In addition, in the extreme scenario of PLL becoming unable to pay policyholder benefits, some of the PLL Transferred Policyholders are currently protected under the FSCS (as described in Section 3 of this Report).
- 7.4 The implementation of the proposed UK Scheme would mean that PLL would cease to have defined contractual obligations to the PLL Transferred Policyholders and that these obligations would be transferred to PLAE. Therefore, after the implementation of the proposed UK Scheme, the PLL Transferred Policies would derive their security of benefits from:
- being part of PLAE and the associated financial strength under the PLAE Capital Management Policy;

- the strength of PLAE’s reinsurance agreements (including the reinsurance agreements covering the PLL Transferred Business novated to PLAE and those put in place at the Effective Date of the UK Scheme); and
- the support provided to PLAE from its ultimate parent (PGH).

7.5 In considering the effects of the UK Scheme on the security of benefits, I therefore need to consider the effects on the security of the benefits under the PLL Transferred Policies of:

- The change of applicable capital management policy from the PLL Capital Management Policy to the PLAE Capital Management Policy;
- The change of insurer to PLAE after the UK Scheme as compared to PLL currently. This will include consideration of the changes to the:
 - Financial strength provided by PLAE;
 - Applicable reinsurance agreements; and
 - Support from the parent;
- The loss of the protection conferred by the FSCS.

7.6 These are covered in order below.

The effect on the security of benefits of a change in the applicable capital management policy

7.7 The capital management policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the policies within the business covered by the capital management policy.

7.8 When considering the financial strength available to provide security for the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy. This is because the assets in excess of the capital policy’s requirements need not be kept in the company and, subject to appropriate governance procedures, could be transferred out of the company.

7.9 The strength of a risk appetite statement is derived from both the relative level of capital required, as stipulated via the capital management policy, and the qualitative aspects such as the required response of management to a breach and the governance surrounding changes to the policies.

7.10 In respect of the relative strength of the capital management policies:

- PLL sets its Capital Management Policy to follow the principles that underpin the Phoenix Group Life Companies RAF, which requires a minimum capital buffer to be held in excess of the SCR. The buffer is defined as the amount required to absorb the more onerous of a 1-in-10 year all-risk stress event and a 1-in-20 year market risk stress event while still holding sufficient Own Funds to cover the SCR.
- PLAE has a draft Capital Management Policy that follows the principles that underpin the Phoenix Group Life Companies RAF. Therefore, PLAE must also hold enough capital to absorb the most onerous of a 1-in-10 year all risk stress event and a 1-in-20 year market risk stress event whilst still holding sufficient Own Funds to cover the SCR. Approving this Capital Management Policy is a priority agenda item for the PLAE Board once it is established in advance of the UK Sanction Hearing. If the PLAE Board approves a Capital Management Policy consistent with PLAE’s draft policy, then the minimum capital buffer for PLAE will be initially set at 150%. The analysis in this report is based on this scenario. If the PLAE Board approves a different Capital Management Policy I will address that, and its consequences, in my Supplementary Report.

7.11 Both PLL and PLAE have Capital Management Policies that follow the principles that underpin the Phoenix Group Life Companies RAF and so calibrate their minimum capital buffer in the same way. Therefore, I am satisfied that the minimum capital buffer required to be held by PLAE under the PLAE Capital Management Policy is of comparable strength to the minimum capital buffer held by PLL under the PLL Capital Management Policy.

- 7.12 In respect of the required response of management to a breach of the capital buffer:
- If PLL's solvency cover ratio were to fall below its capital buffer, management would notify the Board of PLL and advise whether remedial action is necessary. If required, and as determined by the severity of the breach, PLL management would put a plan in place to return the solvency cover to above the minimum capital buffer, further detail is set out in paragraph 4.58. The PLL Capital Management Policy sets out the management actions that could be taken by PLL in the event of a breach.
 - If PLAE's solvency cover ratio were to fall below its capital buffer, management would notify the Board of PLAE and advise whether remedial action is necessary. If required, and as determined by the severity of the breach, PLAE management would put a plan in place to return the solvency cover to above the minimum capital buffer within a defined period. The management actions that could be taken by PLAE in the event of a breach have not yet been defined, but these will be finalised once PLAE is operational, although the management actions in respect of the most material risks for PLAE have been considered in its ORSA (see paragraphs 4.171 and 4.172).
 - I note that the management responses will be triggered by a breach of the capital buffer. The capital buffer is greater than the capital Solvency II requires to be held to ensure continued solvency over a one-year trading timeframe with a likelihood of 99.5% (i.e. the SCR). Therefore, the PLAE Capital Management Policy requires management to take steps to maintain capital in line with its Capital Management Policy and such actions are required while there is still a significant margin before PLAE would be unable to pay its policyholders.
 - In the extreme, while PLL and PLAE have their own Capital Management Policies which require an additional buffer to be held over the SCR, the Phoenix Group has a policy which sets out a commitment that the Phoenix Group will provide support where it is able to do so, subject to the circumstances of any shortfall and the nature of options available, to restore the solvency in a suitable timeframe.
 - While this support is not legally binding, PGH is subject to a number of obligations (as set out in paragraph 7.57) which link PGH's financial position to that of PLL and PLAE and which, in my view, limit PGH's ability to walk away from either PLL or PLAE to all but the most extreme scenarios.
- 7.13 Overall, I am satisfied that the differences in management responses required following a breach of the respective minimum capital buffers would not have a material adverse effect on the security of benefits of the PLL Transferred Policies.
- 7.14 In respect of the governance surrounding changes to the policies, as described in Section 4:
- The PLL Capital Management Policy is the responsibility of the PLL Board and should be reviewed annually.
 - The PLAE Capital Management Policy is to be reviewed annually. If changes are recommended these would need to be approved by the PLAE Board.
- 7.15 The governance arrangements and requirement for regulatory notification in respect of any changes to the respective capital management policies are therefore broadly equivalent between PLL and PLAE.
- 7.16 I am satisfied that there is no material adverse effect on the security of benefits for PLL Transferred Business from being subject to the PLAE Capital Management Policy as compared to the PLL Capital Management Policy.

The effect on the security of benefits due to being part of PLAE after the UK Scheme compared to PLL currently

Introduction

- 7.17 If the UK Scheme were to be implemented, then the PLL Transferred Policies would be transferred from PLL to PLAE. The PLL Transferred Policies would derive the security for their benefits from:
- The financial strength of PLAE as provided by the assets backing the technical provisions and SCR as required by the Solvency II regulations and the excess assets up to the level of the requirements of the PLAE Capital Management Policy;
 - The existing reinsurance agreements that would be transferred to PLAE under the UK Scheme;
 - The PLL Unit-Linked Reinsurance Agreement between PLL and PLAE reinsuring the investment element of the unit-linked PLL Transferred Business, and the associated security arrangements in favour of PLAE;

- The With-Profits Reinsurance Agreements between PLL and PLAE which reinsure all of the liabilities transferred from the PLL WPFs to the PLAE New With-Profits Funds, and the associated security arrangements in favour of PLAE; and
- The potential support from PGH as the ultimate parent of PLAE.

The financial strength of PLAE

- 7.18 If the UK Scheme were to be implemented, the financial strength of PLAE would be provided by:
- The assets backing the technical provisions and SCR as required by the Solvency II regulations. In respect of these I note that:
 - PLL is, and PLAE will be, subject to the Solvency II regime and the technical provisions and the SCR of PLAE, including that in respect of the PLL Transferred Policies, would continue to be calculated in accordance with the Solvency II regulations;
 - The Solvency II regulations concerning the calculation of the technical provisions and the SCR are not materially different between the UK and Ireland;
 - For the reasons set out in paragraph 3.28, I do not expect the level of protection provided by any potential replacement for Solvency II in the UK would differ materially from that provided by Solvency II currently; and
 - The UK Scheme would not change the Solvency II Standard Formula as set by EIOPA, which will be used to calculate the SCR for the PLL Transferred Business in PLAE.
 - The excess assets (in excess of total technical provisions and SCR) in PLAE up to the level of the requirements of the PLAE Capital Management Policy.
- 7.19 Currently the SCR in respect of the PLL Transferred Business is calculated by PLL using an approved internal model and, in respect of the annuities, PLL also has approval to use the MA. RAL, on behalf of PLAE, undertook an assessment of the appropriateness of using the Standard Formula for the PLL Transferred Business and concluded that the risk profile of PLAE would not deviate materially from the assumptions underlying the Standard Formula, and therefore it was appropriate for PLAE to calculate its SCR using this approach. The documentation in respect of the appropriateness of using the Standard Formula has been shared with me, as well as the CBI, and in my opinion it is reasonable for PLAE to use the Standard Formula.
- 7.20 At the date of writing, EIOPA and the PRA have now both transitioned to using a SONIA-based curve for the sterling risk-free rates. However, the Last Liquid Point used differs, with EIOPA moving to 30 years and the UK using 50 years. The majority of business retained in PLAE after the transfer will be euro-denominated and therefore this change to the sterling risk-free rate is unlikely to have a material impact on the capital PLAE is required to hold.
- 7.21 Figure 7.1 sets out the pre-UK Scheme PLL and pro-forma post-UK Scheme PLAE solvency cover ratio as at 31 December 2021. The pre-UK Scheme PLL position has been prepared using PLL's approved internal model, and the pro-forma post-UK Scheme PLAE position has been prepared using the Standard Formula approach to calculate the SCR.

FIGURE 7.1 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2021

	PLL Pre-UK Scheme	PLAE Post-UK Scheme
SCR	£2,656m	£66m
Own Funds	£4,309m	£99m
Solvency cover ratio	162%	150%

Source: Appendix A and Appendix B

- 7.22 Figure 7.1 shows that, as at 31 December 2021:
- The capital resources of PLL covered the SCR with Own Funds of £4,309 million. This corresponds to a solvency cover ratio of 162%, which is in excess of that required by the regulations and by the PLL Capital Management Policy.

- If the UK Scheme had been implemented on this date, the pro-forma financial information shows that PLAE's capital resources would have covered its SCR with Own Funds of £99 million. This corresponds to a solvency cover ratio of 150% which would be in materially excess of that required by the regulations and at the level required by the PLAE Capital Management Policy.

7.23 Figure 7.2 below sets out the pre-UK Scheme and pro-forma post-UK Scheme solvency cover ratios for the relevant PLL WPFs as at 31 December 2021.

FIGURE 7.2 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2021

	PLL Pre-UK Scheme	PLL Post-UK Scheme
SPI WPF	119%	119%
90% WPF	138%	138%
Phoenix WPF	126%	126%
Alba WPF	105%	105%
Other WPFs	146%	146%
NPF and Shareholders' Fund	178%	181%

Source: Calculated by Milliman using data from the PLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from PLL to PLAE

- 7.24 Figure 7.2 shows that, based on the position as at 31 December 2021 the solvency cover ratio of the PLL WPFs are materially unchanged as a result of the UK Scheme and the With-Profits Reinsurance Agreements, which fully reinsure the liabilities of the New With-Profits Funds back to the corresponding PLL WPFs.
- 7.25 The solvency cover ratios are indicators of, or proxies for, financial strength and when considering the solvency coverage, one should only take into account the capital resources that the firm is required to hold up to the level specified by the capital management policy because capital resources in excess of this may be transferred out of the company.
- 7.26 Figure 7.1 indicates that, if the UK Scheme had been implemented on 31 December 2021, PLAE would have been sufficiently well capitalised to withstand a wide range of adverse stress events. In addition, it is a condition of the UK Scheme that PLAE has sufficient capital so that immediately after the Effective Date it has a solvency capital ratio at or above its minimum capital buffer.
- 7.27 I have been provided with base and stressed projections for PLAE, which forecast the expected Own Funds over the five-year business planning horizon if the proposed UK Scheme were to be implemented. These projections show that PLAE is not expected to breach the minimum capital buffer under the PLAE Capital Management Policy during the projection period, and is expected to generate Own Funds in excess of the level required to meet the minimum capital buffer (such excess could be distributed as dividends subject to company law and regulatory requirements). In addition, I understand that the projection model used by PLAE projects the full run-off of the business, subject to some model limitations, and that this projection did not highlight any areas of concerns.
- 7.28 In summary, I am satisfied that reliance on the financial strength of PLAE if the UK Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies.

The reinsurance arrangements of PLAE after the implementation of the UK Scheme

- 7.29 If the UK Scheme were to be implemented, the reinsurance agreements of PLAE would be as follows:
- The existing outwards reinsurance contracts with Swiss Re in relation to the RLL Transferred Business, that would be transferred to PLAE at the Effective Date.
 - The existing outwards reinsurance contracts in relation to the PLL Transferred Business, except that which relates to the Irish PLL Transferred Business in the PLL SPI WPF, that would be transferred to PLAE at the Effective Date.

- 7.30 There is one existing outwards reinsurance contract in respect of the business in the Irish PLL Transferred Business allocated to the PLL SPI WPF. Given that this business is to be reinsured back to the PLL SPI WPF (under the With-Profits Reinsurance Agreements) the existing outwards reinsurance will not be transferred to PLAE, instead it will be converted to a retrocession agreement for PLL. PLL has already taken steps to engage with the relevant reinsurer, and the reinsurer has not raised any concerns to the proposed conversion of this agreement to a retrocession agreement.
- 7.31 Given that the UK Scheme would not result in any changes to the existing reinsurance arrangements in respect of the PLL Transferred Policies, other than the fact they are transferred to PLAE, I am satisfied that the transfer of these reinsurance contracts does not materially adversely affect the security of benefits for the PLL Transferred Business.

The New Linked Funds and the Unit-Linked Reinsurance Agreement between PLL and PLAE

- 7.32 PLL maintains internal PLL Linked Funds for the purposes of calculating benefits payable under the unit-linked policies, including those unit-linked policies within the PLL Transferred Business. PLAE will establish identical funds (i.e. the "PLL New Linked Funds") to those PLL Linked Funds available to the PLL Transferred Policyholders, immediately before the Effective Date. The relevant assets and liabilities relating to the relevant PLL Linked Funds will transfer to the PLL New Linked Funds under the UK Scheme.
- 7.33 PLL and PLAE will enter into a PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds would be immediately reinsured back to PLL, with PLL's obligation to transfer the associated PLL Linked Assets to PLAE being set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 7.34 At the Effective Date, in association with the PLL Unit-Linked Reinsurance Agreement and to minimise its counterparty exposure, PLAE would have a floating charge over all available assets of PLL⁵³. As the process for terminating the Unit-Linked Reinsurance Agreement is not as complex, and therefore not as time consuming as that associated with the With-Profits Reinsurance Agreements I am satisfied that there is not a need for PLAE to also have a fixed charge in respect of the PLL Unit-Linked Reinsurance Agreement. As a result of the PLL Floating Charge, all else being equal, under the Insurers (Reorganisation and Winding-Up) Regulations 2004 in the UK, PLAE would rank ahead of direct policyholders of PLL in the (unlikely) event that PLL became insolvent. However, the provisions of the PLL Floating Charge limit (in percentage terms) the amount recoverable by PLAE in respect of the unit-linked PLL Transferred Policyholders to that of the direct policyholders of PLL. Consequently, PLAE would rank equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL (as they currently do).
- 7.35 I have been provided with information regarding the value of the assets against which PLL is unable to grant security and, when comparing this figure to PLL's Own Funds in excess of SCR as at 31 December 2021, I am satisfied that the available assets over which the PLL Floating Charge applies would be sufficient for PLAE to recover an amount equal to the liabilities covered by the PLL Unit-Linked Reinsurance Agreement. I understand that when granting any new security, PLL undertakes a review of existing securities in order to identify any potential impact of granting further security. In addition, 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. I am therefore satisfied that there are sufficient assets available under the PLL Floating Charge to cover the liabilities included in the PLL Unit-Linked Reinsurance Agreement and that there are adequate safeguards in place in relation to the granting of future floating charges by PLL.
- 7.36 I have discussed the PLL Unit-Linked Reinsurance Agreement and the PLL Floating Charge with executives within PLL, as well as their legal advisors in the UK and Ireland. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. Lastly, I understand that similar such arrangements are commonplace in the market. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.

⁵³ 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.

- 7.37 Therefore, as a result of the implementation of the proposed UK Scheme, the unit-linked PLL Transferred Policyholders would no longer have a direct investment in the PLL Linked Funds. The PLL Transferred Policyholders would instead have a direct investment in the PLAE New Linked Funds and PLAE would have a reinsured investment in the relevant PLL Linked Funds. As a consequence of this, the security of benefits in respect of the unit holdings of the PLL Transferred Policyholders would be provided (indirectly) by the PLL Unit-Linked Reinsurance Agreement, the associated PLL Floating Charge held by PLAE and the assets held by PLL in respect of these.
- 7.38 Overall, I am satisfied that the establishment of the PLL New Linked Funds, the PLL Unit-Linked Reinsurance Agreement between PLL and PLAE and the PLL Floating Charge would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies. In addition, given that the process for terminating the PLL Unit-Linked Reinsurance Agreement is not as complex and time consuming as that for the With-Profits Reinsurance Agreements, I am satisfied that there is not a need for PLAE to also have a fixed charge in respect of the PLL Unit-Linked Reinsurance Agreement.
- 7.39 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement and the associated 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme.

The New With-Profits Funds and the With-Profits Reinsurance Agreements between PLL and PLAE

- 7.40 PLL maintains a range of with-profits funds, with the performance of these funds driving the bonuses paid to the with-profits policies within each of the funds, at the discretion of the PLL Board. The with-profits PLL Transferred Policies are assigned to four of the PLL WPFs and therefore PLAE will establish the following New With-Profits Funds at the Effective Date:
- PLAE 90% WPF;
 - PLAE Alba WPF;
 - PLAE Phoenix WPF; and
 - PLAE SPI WPF.
- 7.41 The relevant assets and liabilities relating to the relevant PLL WPF will transfer to the corresponding New With-Profits Fund under the UK Scheme.
- 7.42 PLL and PLAE will enter into four With-Profits Reinsurance Agreements on the Effective Date so that the liabilities relating to each of the four New With-Profits Funds would be immediately reinsured back to PLL, with PLL's obligation to transfer the associated PLL with-profits assets to PLAE being set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 7.43 To minimise the counterparty exposure of PLAE there would be one floating charge, the PLL Floating Charge⁵⁴, in respect of all of the New With-Profits Funds, and this would be over all of the available assets of PLL and subject to a maximum claim amount equal to the termination amounts due under the relevant With-Profits Reinsurance Agreements, less any amounts already recovered under the WP Fixed Charges.
- 7.44 There would be three fixed charges, the WP Fixed Charges, in respect of the PLAE Alba WPF, PLAE Phoenix WPF or the PLAE SPI WPF, and each of these will be over assets held in segregated custodian accounts at a level equal to 65% of the BEL of the reinsured liabilities under the respective With-Profits Reinsurance Agreement. As the WP Fixed Charges are over assets held by PLL in custodian accounts, this will require the splitting of assets from the relevant PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. The intention is that the management of these assets will remain in line with the strategic asset allocation set out in the funds' PPFM.
- 7.45 The threshold of 65% of the BEL was chosen for two reasons:
- i. It was calibrated by Phoenix Group to be broadly equivalent to the impact on the PLAE SCR of a downgrade of PLL's credit rating from A to BBB, and

⁵⁴ 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.

- ii. It was set at a level significantly below the PLL Floating Charge to minimise any potential disadvantage to the PLL Non-transferring Business (see paragraph 7.47).
- 7.46 The purpose of the WP Fixed Charges is to provide an immediate source of liquidity for PLAE should PLL become insolvent, and given the relatively small size of the PLL Transferred Business allocated to the 90% WPF (see Figure 4.4), Phoenix management felt that a fixed charge was not required for this fund as, even in such an extreme circumstance, the absence of this fixed charge would not constrain PLAE's ability to meet claims. I agree with this conclusion.
- 7.47 As a result of the PLL Floating Charge and WP Fixed Charges, all else being equal, under the Insurers (Reorganisation and Winding-Up) Regulations 2004 in the UK, PLAE would rank ahead of direct policyholders of PLL in the (unlikely) event that PLL became insolvent. However, the provisions of the PLL Floating Charge limit (in percentage terms) the amount recoverable by PLAE in respect of the unit-linked PLL Transferred Policyholders to that in respect of the direct policyholders of PLL. A similar provision is not present in the WP Fixed Charges. The only situation in which PLAE would recover more than the direct policyholders of PLL is where the direct policyholders of PLL recover less than 65% of the BEL, when the effect of the WP Fixed Charge is to ensure PLAE receives 65% of the BEL in respect of the liabilities covered by the With-Profits Reinsurance Agreements. Consequently, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the most unlikely circumstances.
- 7.48 I have been provided with information regarding the value of the assets against which PLL is unable to grant security and, when comparing this figure to PLL's Own Funds in excess of SCR as at 31 December 2021, I am satisfied that the available assets over which the PLL Floating Charge applies would be sufficient for PLAE to recover an amount equal to the liabilities covered by the With-Profits Reinsurance Agreements. I understand that when granting any new security, PLL undertakes a review of existing securities in order to identify any potential impact of granting further security. In addition, 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, and the WP Fixed Charges contain a provision which prohibits PLL from granting any future security over the assets associated with the WP Fixed Charges. I am therefore satisfied that there are sufficient assets available under the PLL Floating Charge and the WP Fixed Charges to cover the liabilities included in the With-Profits Reinsurance Agreements and that there are adequate safeguards in place in relation to the granting of future fixed and floating charges by PLL.
- 7.49 I have discussed the With-Profits Reinsurance Agreements, WP Fixed Charges and the PLL Floating Charge with executives within PLL, as well as their legal advisors in the UK and Ireland. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. Lastly, I understand that similar such arrangements are commonplace in the market. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 7.50 I am also aware that PLAE has sought a draft legal opinion on whether the fixed charge meets the eligibility criteria of collateral under Solvency II, as implemented in Ireland, and I have also had the opportunity to discuss this matter with PLL's legal advisors in the UK and PLAE's legal advisors in Ireland. Based on these discussions I am satisfied that it is unlikely that the fixed charge will not meet that eligibility criteria.
- 7.51 Therefore, as a result of the implementation of the proposed UK Scheme, the relevant PLL Transferred Policies would be allocated to the New With-Profits Funds, although their benefits would be fully reinsured back to the relevant PLL WPF. As a consequence of this, the security of benefits in respect of the relevant PLL Transferred Policyholders would be provided (indirectly) by the With-Profits Reinsurance Agreements, the associated PLL Floating Charge and WP Fixed Charges held by PLAE and the assets held by PLL in the PLL WPFs.
- 7.52 Overall, I am satisfied that the establishment of the New With-Profits Funds, the With-Profit Reinsurance Agreements between PLL and PLAE, the PLL Floating Charge and WP Fixed Charges would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies.

7.53 While the above description outlines the current expectations at the time of writing this Report, the terms of the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed Charges have been entered into prior to the Effective Date of the UK Scheme.

The support for PLAE from PGH as the ultimate parent of PLAE

7.54 There is no formal capital support arrangement between PLAE and PGH.

7.55 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintains a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, it is not legally binding.

7.56 Therefore, PGH's interest in PLAE is limited to indirectly owning the entire issued share capital of PLAE. As a matter of company law, PGH is not under any legal obligation to provide capital support to PLAE.

7.57 However, PGH is subject to a number of obligations which link PGH's financial position to that of PLAE and which, in my view, limit PGH's ability to walk away from PLAE to all but the most extreme scenarios when PGH itself is at risk of not being able to meet its own claims:

- PGH's status as the shareholder of PLAE means that PLAE is integrated into the PGH management and oversight framework. PGH's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries including PLAE. The financial position of PLAE would therefore affect the Phoenix Group's financial position and the failure of PLAE to meet its SCR would be expected to lead to regulatory intervention by the CBI, and this could ultimately lead to a constraint on PGH's ability to pay a dividend.
- Once PLAE is authorised by the CBI, PGH will not be able to freely sell its shares in PLAE to a third party without the prior approval of the CBI to the change in control over PLAE and this approval would only be given if the CBI was satisfied with the suitability of the acquirer and financial soundness of the acquisition.
- Given the number of policyholders of PLAE and the nature of its insurance business, any attempt by PGH to walk away from PLAE would be likely to result in significant adverse publicity that would be highly undesirable to PGH.
- PGH and PLL have strong credit ratings, with current credit ratings of A+ and AA-, respectively, according to Fitch Ratings Inc. ("Fitch Ratings"), a global credit rating agency. Any downgrade in PGH's credit rating as a result of the insolvency of one of its subsidiaries would be highly undesirable to PGH.
- PGH holds a substantial amount of liquid assets, with c.£2.2 billion of assets that could be made available within 1 day and £2.3 billion of assets in total that could be made available within 1 year as at 31 December 2021. It should be noted, however, that in significantly adverse circumstances the amount potentially available to provide support may have been depleted by those circumstances, and there could be more than one subsidiary requiring capital support.
- There have been previous instances where PGH has provided capital support to subsidiary companies.

7.58 Therefore, although there is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including PLL and PLAE, PLAE can derive additional security from having PGH as its parent as in most circumstances PGH would be expected to provide support to PLAE if and when required.

7.59 Furthermore, both PLL and PLAE are members of the Phoenix Group of companies, with PGH being the ultimate parent of both PLL and PLAE. It is therefore unlikely that the proposed UK Scheme would change PGH's willingness or ability to support the PLL Transferred Business.

Additional security for the PLL Transferred Policies

- 7.60 Under the regulatory regime in Ireland, the assets held against the technical provisions must be recorded on a register, and the total value of assets on the register shall at no time be less than the Solvency II technical provisions. In the extreme scenario of PLAE becoming insolvent, the PLAE policies would, with the exception of expenses arising out of winding up proceedings (where these cannot be met by PLAE's other assets), have a priority claim on the assets of PLAE backing the Solvency II technical provisions.
- 7.61 This would apply to all PLAE policies (without exception) and they would rank *pari passu* (i.e. on equal footing) as regards all the assets held against the technical provisions. The ranking of insurance claimants upon wind-up of an insurer provides additional security for the benefits under the PLAE policies, including the PLL Transferred Policies, which would not necessarily be available in the absence of such wind-up regulations.
- 7.62 Under the UK regulatory regime, the position is different. Insurance claims take precedence over any other claims, with the exception of certain preferential claims (e.g. claims by employees) and secured claims with respect to the whole of the insurance undertaking's assets. Similarly to Ireland, direct insurance creditors rank equally and ahead of inwards reinsurance creditors and all other unsecured/non-preferential creditors in the event that an insurer is wound up.
- 7.63 The comparative position of policyholders in a UK insurance undertaking versus policyholders in an Irish insurance undertaking in a winding-up situation is therefore a function of the assets available (and their size relative to the technical provisions) and the proportion of inwards reinsurance business relative to direct business.
- 7.64 Overall, 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.

Summary and conclusion

- 7.65 As set out above, if the proposed UK Scheme were to be implemented, the PLL Transferred Policies would be transferred to be part of PLAE rather than PLL, and I am satisfied that there would be no material adverse effect on the security of benefits under the PLL Transferred Policies as a result of:
- The reliance on the financial strength of PLAE rather than PLL;
 - PLAE's reinsurance arrangements;
 - PLAE having PGH as an ultimate parent, as PGH is also the ultimate parent of PLL; and
 - Being subject to Irish law relating to the rights on wind-up of an insurer.
- 7.66 For clarity, even if the potential for parental financial support had not been taken into account in reaching my conclusion (that there would be no material adverse effect on the security of benefits under the PLL Transferred Policies) it would not have changed my conclusion on this point.
- 7.67 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 of the PLL Transferred Policies as a result of being part of PLAE after the UK Scheme rather than PLL as currently.

The effect on the security of benefits under the PLL Transferred Policies due to losing the protection conferred by the FSCS

- 7.68 Some of the PLL Transferred Policies, including certain policies that were incepted from 1 December 2001 onwards and policies that were sold or have been administered in the UK, are covered under the FSCS, the UK's statutory 'fund of last resort'. In the event that PLL were to become insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance benefits 100% of the benefits are protected and the coverage is automatic for policyholders of UK authorised insurers and is funded by levies on firms authorised by the PRA and the FCA.
- 7.69 If the UK Scheme were to be implemented, claims from eligible PLL Transferred Policyholders occurring prior to the Effective Date (whether reported or not) would be protected in the event of the failure of PLL. However, PLL Transferred Policies would no longer be covered under the FSCS for claims occurring on or after the Effective Date.
- 7.70 I understand that there is no relevant equivalent Irish compensation scheme for the types of policies held by the PLL Transferred Policyholders.

- 7.71 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.
- 7.72 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.
- 7.73 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of benefits for the PLL Transferred Policyholders. In particular, given that the likelihood of default or insolvency of PLAE is remote, the loss of FSCS is more than outweighed by the benefits of the UK Scheme, in that the UK Scheme ensures certainty, as well as consistency and continuity, of the provision of administration and benefits for PLL's EEA policyholders by an insurer within the Phoenix Group.

Overall conclusion on the effect of the UK Scheme on the security of benefits under the PLL Transferred Policies

- 7.74 In summary, 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 from being subject to the PLAE Capital Management Policy rather than the PLL Capital Management Policy;
 - There would be no material adverse effect on the security of benefits under the PLL Transferred Policies as a result of being part of PLAE rather than PLL as currently; and
 - The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the PLL Transferred Policies.
- 7.75 Therefore, in conclusion, 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 EFFECT OF THE UK SCHEME ON THE PROFILE OF RISKS TO WHICH THE PLL TRANSFERRED POLICIES ARE EXPOSED

- 7.76 If the proposed UK Scheme were to be implemented, the PLL Transferred Policies would be direct policies of PLAE and directly exposed to the risk profile of a different company, that at outset that would have a different business mix and policyholders with different demographic profiles.
- 7.77 The risk profiles of PLL and PLAE differ considerably:
- As shown in Figure 4.8, market risk, spread risk, longevity risk and other underwriting risk are the most significant components of PLL's risk profile on a Solvency II Pillar 1 basis, whilst credit risk is also a material risk.
 - As shown in Figure 4.13, following the implementation of the UK Scheme the most material individual components of PLAE's risk profile, on a Solvency II Pillar 1 basis, are longevity risk, spread risk and counterparty default risk.
 - PLAE would be exposed to longevity risk through the annuity business which is the majority of business retained within PLAE net of its reinsurance arrangements, and the spread risk is predominantly due to the corporate bond asset portfolio held to back its annuity business. The counterparty default risk is due to the significant reinsurance arrangements PLAE would have in place, primarily those which PLAE would enter into with RLL and PLL as a result of the transfer.
- 7.78 The risks to which PLAE is exposed are typical of insurance entities, and although the largest risk for PLAE is longevity risk, there are no abnormal risks or impaired lives within this block of business. The capital that will be held by PLAE will reflect its risk profile.

- 7.79 The counterparty default risk is mainly as a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements. The risks associated with these agreements are mitigated by the associated security (the Floating Charges and WP Fixed Charges), see paragraphs 7.34 and 7.43 to 7.47. In addition, the With-Profits Reinsurance Agreements with PLL contain termination provisions which can be triggered following the downgrade of PLL's credit rating below a certain threshold, which would allow PLAE to recapture the business.
- 7.80 Whilst the implementation of the UK Scheme would result in a change to the risk exposures of the PLL Transferred Policies, it should be noted that:
- PLAE has the ability to terminate the With-Profits Reinsurance Agreements should the credit rating of PLL fall below a certain threshold or PLL's solvency capital ratio fall below 105%;
 - PLAE has the ability to terminate the PLL Unit-Linked Reinsurance Agreement should the solvency capital ratio of PLL fall below 105%;
 - The Solvency II regime has been implemented consistently across the UK and Ireland;
 - The SCR calculated in accordance with the Solvency II regime will reflect the risk exposures of the relevant company;
 - The capital to be held in PLAE comfortably exceeds the required SCR;
 - The capital to be held in PLAE will meet the minimum capital buffer required under the PLAE Capital Management Policy, and this minimum buffer takes account of PLAE's exposure to RLL and PLL; and
 - PLAE has undertaken stress and scenario testing, including the potential recapture of the WP Reinsurance Agreements and UL Reinsurance Agreements, and this shows that in all circumstances considered PLAE is projected to recover through the emergence of surplus from Transferred Business.
- 7.81 The longevity assumptions used by PLAE in the valuation of the annuities of the Irish PLL Transferred Business, the most material business retained by PLAE, are specific to the annuities of the Irish PLL Transferred Business, and reflect the profile of these policyholders.
- 7.82 PLL has a risk management framework that is aligned to the Phoenix Group Risk Management Framework, and the risk management framework established by PLAE will also be aligned with the Phoenix Group Risk Management Framework. There may be instances where the frameworks adopted by PLL and PLAE differ. This will occur when the Boards of the relevant entities choose to deviate from the Phoenix Group Risk Management Framework to better reflect the specific risks of their entity.
- 7.83 PLL uses an Internal Model to calculate its SCR, and this is intended to capture all of the key risks to which it is exposed. PLL also performs stress and scenario testing which considers the specific risks to which PLL is exposed. PLAE will use a Standard Formula approach to calculate its SCR, however within its ORSA it includes some scenario testing which captures risks not fully captured under Solvency II, including the potential recapture of the With-Profits Reinsurance Agreements and Unit-Linked Reinsurance Agreements, as well as a "miscellaneous" scenario which covers situations such as cyber-attacks, financial crime and data breaches. I am therefore satisfied that the stress and scenario testing performed reflects the current risks to which it is expected that the entities are exposed, or are likely to be exposed as a result of the UK Scheme, including those which are not fully captured under Solvency II.
- 7.84 The PLL Transferred Business is a subset of the business of PLL, not a broad cross section of its business. This is also the case for the RLL Transferred Business and RLL. Accordingly, the mix and volumes of risks to which PLAE will be exposed will be different to the corresponding exposure of PLL currently, and its exposure after the UK Scheme has been effected. However, as detailed in paragraphs 7.82 and 7.83, PLAE has a risk management framework which is aligned to that of the Phoenix Group, but which is adapted to ensure it captures all the risks to which PLAE will be exposed.
- 7.85 I am satisfied that any change in risk profile and risk management would not have a material adverse effect on the PLL Transferred Policies.

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

Introduction

- 7.86 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. This would involve a change to:
- Regulation in respect of conduct of business. The responsibility for conduct of business supervision is currently shared between the FCA and the host regulator (but the CBI is also responsible for prudential and conduct of business supervision regarding the Irish branch of PLL);
 - The supervisory body responsible for prudential regulation. The supervisors are the PRA in the UK and the CBI in Ireland, the CBI is also responsible for prudential supervision in respect of the Irish branch of PLL;
 - The access of policyholders to the services of an independent complaints service to opine on alleged cases of policyholder mistreatment. This role is currently fulfilled by the FOS in the UK and the FSPO in Ireland; and
 - The access of policyholders to a compensation scheme in the event of insurer default or insolvency. This protection is conferred by the FSCS in the UK, however there is no equivalent to the FSCS in Ireland.

I consider each of these in turn in the following paragraphs.

Regulation in respect of the conduct of business

- 7.87 Currently, for the PLL Transferred Business the regulatory responsibility for conduct of business supervision is shared between the FCA and the host regulator (but the CBI is also responsible for prudential and conduct of business supervision regarding the Irish branch of PLL). The host regulator will usually be the regulator in the country in which the policies were sold and marketed, i.e. Ireland, Iceland or Germany, however if the PLL Transferred Policyholder has subsequently become resident in another EEA state, then it will be the relevant regulator in that EEA state. As a result, the conduct of business regulations applicable in respect of the PLL Transferred Business are currently those issued by the FCA and the “general good”⁵⁵ rules applied by the host regulator.
- 7.88 If the proposed UK Scheme were to be implemented, the “general good” rules of the host regulator would continue to apply; however, the CBI would become the regulator primarily responsible for conduct of business supervision instead of the FCA.
- 7.89 The FCA sets out various outcomes that firms should strive to achieve to ensure the fair treatment of customers, which are included in full in Appendix G. The FCA also sets out guidance on the principles that firms should adopt to ensure they fulfil their TCF duties. Further, the Conduct of Business Sourcebook (“COBS”) section of the FCA Handbook applies to firms with respect to the conduct of certain activities carried on in the UK.
- 7.90 The FCA is currently consulting on the new Consumer Duty (paragraph 3.47) which aims to bring about a fairer, more consumer-focused and level playing field in retail financial markets; it is anticipated that this will be finalised by 31 July 2022. The Phoenix Group has an internal programme in anticipation of the Consumer Duty taking effect in April 2023; this programme will deliver new Customer Business Standards and articulate the standards of treatment and product outcome that will apply for customers. As the proposed UK Scheme is due to become effective before the Consumer Duty comes into effect, it will not be a regulatory requirement in respect of the PLL Transferred Business, however as PLAE is part of the Phoenix Group the findings of the Customer Business Standards programme will be considered by the PLAE Board, and in particular how these impact customers. In addition, while the With-Profits Reinsurance Agreement is in place the charges applied to the with-profits PLL Transferred Business will be the same as those for the Non-Transferring PLL Business allocated to the respective PLL WPF.
- 7.91 The CPC was issued by the CBI, as detailed in paragraph 3.48, and aims to ensure a consistent level of protection for customers regardless of their chosen financial services provider. These provisions are binding on regulated entities, and therefore will be binding on PLAE.

⁵⁵ All EEA states are required to publish general good rules which insurance companies must adhere to when selling and servicing policies on a cross-border basis in the respective EEA state.

- 7.92 Additionally, the CBI has issued principles of best practice for the distribution of products in other EU member states and third countries. Although the principles of best practice are not binding, they may reflect certain binding requirements of the CBI, and Phoenix management anticipates that the PLAE Board will implement these principles of best practice in full. Amongst other things, the principles address:
- Confining target markets to consumers for which products are suitable;
 - Checking whether the product continues to meet the general needs of its target market;
 - Ensuring that information provided to intermediaries is clear, accurate and not misleading;
 - Appropriately addressing errors, complaints and policyholder communications; and
 - Relationships with intermediaries.
- 7.93 Further, there are CBI representatives on the Board of Supervisors of EIOPA and the CBI operates within a significant and sophisticated insurance market. In my view there is therefore no reason to believe that the oversight applied by the CBI would be any less robust than that applied within the UK. PLAE is wholly owned by PGH, a holding company whose subsidiaries include insurers that are regulated by the PRA and the FCA in the UK.
- 7.94 Additionally, the IDD, which ensures that customers' interest are taken into consideration throughout the whole life cycle of an insurance product, applies to PLL as transposed in the UK prior to Brexit, and will equally apply to PLAE in Ireland as it has been adopted into Irish law.
- 7.95 Overall, the FCA and CBI have each issued conduct principles which aim to ensure the fair treatment of customers, which must be complied with by the firms they regulate. I am therefore satisfied that, in terms of conduct of business regulation, the implementation of the proposed UK Scheme would not have a material adverse effect on the PLL Transferred Policies. I will confirm in my Supplementary Report whether the PLAE Board has implemented in full the CBI principles of best practice for the distribution of products in other EU member states and third countries.

Conduct regulation in respect of with-profits business

- 7.96 In the UK, there are specific conduct of business rules that apply to with-profits business. These stipulate that, amongst other things, it is necessary for an insurer with with-profits business:
- to establish and maintain a PPFM which must set out how the insurer intends to manage its with-profits funds; and
 - to appoint a WPC or advisory arrangement, the purpose of this committee is to ensure that the interests of with-profits policyholders are appropriately considered within a firm's governance structures.
- 7.97 In addition, under SM&CR rules in the UK, firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function"; they are responsible for advising the firm's management on the key aspects of discretion in the operation of with-profits business.
- 7.98 In Ireland, the Domestic Actuarial Regime and Related Governance Requirements under Solvency II issued by the CBI sets out:
- that firms with with-profits business must establish and maintain a WPOP, detailing the principles by which the with-profits business is managed; and
 - the additional responsibilities of the HoAF in respect of with-profits business.
- 7.99 There is no requirement in Ireland for insurers with with-profits business to establish a WPC or advisory arrangement, nor to appoint a With-Profits Actuary. However, while the With-Profits Reinsurance Agreements are in place, the PLL WPC will be required to consider issues related to the PLL Transferred Business as if this business was held directly within the relevant PLL WPFs, and therefore the with-profits PLL Transferred Business will continue to be subject to WPC oversight. If any of the With-Profits Reinsurance Agreements are terminated and PLAE elects to maintain any of the relevant New With-Profits Funds, under the UK Scheme the PLAE Board must make full provisions for the governance and management of the fund, including establishing a WPC with a terms of reference and a role in the governance of the relevant New-With-Profits Fund equivalent to that in place in respect of the corresponding PLL WPF.

- 7.100 As part of its authorisation application, PLAE is seeking a derogation from the CBI in relation to the requirement to establish and maintain a WPOP in respect of each of the New With-Profits Funds, and it is expected that derogation would be granted as part of PLAE's authorisation. This derogation is being sought as the with-profits PLL Transferred Policyholders will still benefit from the PPFMs of the respective PLL WPFs via the With-Profits Reinsurance Agreements. In addition, the PPFM of PLL 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. As a result, the fact that PLAE will not establish a WPOP will not have any impact on with-profits PLL Transferred Policyholders. I understand that if the CBI does not grant derogation from the requirement to establish a WPOP in respect of each of the New With-Profits Funds, a WPOP would be established by PLAE which is consistent with the PLL PPFM, and the PLAE HoAF will have responsibility for reporting on compliance with the WPOP on an annual basis. Further, if any of the With-Profits Reinsurance Agreements are terminated and PLAE elects to maintain any of the relevant New With-Profits Funds, under the UK Scheme the PLAE Board must establish a WPOP.
- 7.101 The PPFM will also include an update, which replicates the provision of the With-Profits Reinsurance Agreements, entitling the PLAE Board to make representations to the PLL WPA, the PLL WPC, the PLL Board and the Chief Executive Officer of PLL on matters affecting the PLL Transferred Business which is reinsured back to the PLL WPFs and to receive an explanation of the basis for decisions which affect these policyholders. PLL must also pay regard to any such representations when making decisions.
- 7.102 I am satisfied that, in terms of conduct regulation of with-profits business, the implementation of the proposed UK Scheme would not have a material adverse effect on the PLL Transferred Policies. I discuss the governance that will apply to the with-profits business of PLAE whilst the With-Profits Reinsurance Agreements are in place further in paragraphs 7.143 to 7.144 below, and following the termination of the With-Profits Reinsurance Agreements in paragraph 7.159 below.

Regulation in respect of prudential supervision

- 7.103 If the proposed UK Scheme were to be implemented there would be a change in the primary regulator responsible for prudential supervision from the PRA to the CBI. In respect of the Irish branch of PLL, the CBI currently exercises additional prudential supervision.
- 7.104 At a high level, the PRA and the CBI have aligned aims of promoting the strength and financial soundness of financial institutions in the UK and Ireland respectively. The solvency framework for insurers in Ireland and the UK is Solvency II. As detailed in paragraph 3.28, the Solvency II regime and the UK's adoption of the Solvency II regime are currently under review. Given the stages of these reviews it is not possible to consider in detail the impact that any potential divergence may have. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime. I will consider any further developments relating to this in my Supplementary Report.
- 7.105 The change in the primary regulator responsible for prudential supervision from the PRA to the CBI would not have a material adverse effect on:
- The Solvency II regulations that would apply to the PLL Transferred Business;
 - The adherence to the Solvency II regulations in relation to the methodologies and assumptions used to calculate the Solvency II balance sheet (in particular the technical provisions and the SCR);
 - The adherence to the appropriate risk appetite statements; and/or
 - The governance, management (including risk management) and servicing standards that apply to the PLL Transferred Policies.
- 7.106 Overall, the PRA and the CBI have aligned aims in respect of prudential supervision. They both operate under the Solvency II regime and I have no reason to believe the prudential supervision provided by the CBI is any less robust than that provided by the PRA. Therefore, I am satisfied that the change in primary regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the PLL Transferred Policies.

The access of PLL Transferred Policyholders to the services of an independent complaints service

- 7.107 Prior to the implementation of the UK Scheme, whilst the PLL Transferred Policyholders have access to the FOS in the UK, I understand that in practice PLL has referred policyholders to their local ombudsman (in respect of Irish PLL Transferred Policyholders, the local ombudsman is the FSPO; I understand that historically PLL has not received any complaints from the German PLL Transferred Policyholders or Icelandic PLL Transferred Policyholders and therefore has not previously referred any complaints to the ombudsman in Germany or Iceland).
- 7.108 If the proposed UK Scheme were to be implemented, the PLL Transferred Policyholders would continue to have access to the FOS, and the provisions of the Dispute Resolution: Complaints (“DISP”) section of the FCA Handbook would continue to apply, in relation to the following cases:
- Complaints in respect of acts or omissions of PLL prior to the Effective Date; and
 - Complaints in respect of acts or omissions after the Effective Date where the complaint relates to activity carried on in the UK (see paragraph 7.111).
- 7.109 In respect of the above cases, the UK Scheme document requires that PLAE must comply with:
- The relevant provisions of the DISP section of the FCA Handbook (and other relevant sections of the FCA Handbook) that would apply to the handling of any complaints brought to the FOS that fall under its jurisdiction; and
 - Any valid judgment, settlement, order or award (or relevant part thereof) of the FOS, made under its jurisdiction as set out in DISP 2 of the FCA Handbook.
- 7.110 For complaints in respect of acts and omissions subsequent to the implementation of the proposed UK Scheme where the complaint relates to activities carried on outside of the UK, the PLL Transferred Policyholders would usually pursue complaints against the insurer through the FSPO rather than the FOS. The PLL Transferred Policyholders will continue to have the ability to raise a complaint with the ombudsman in their home EEA state, but as agreed in a Memorandum of Understanding between EEA states, this would be passed to the ombudsman in the home state of the insurer, which after the UK Scheme will be the FSPO in Ireland.
- 7.111 While, following the implementation of the UK Scheme, the PLL Transferred Business would be administered by resources provided by both intra-group and external service providers (as outlined in paragraphs 7.172 to 7.173 below), administrative activities are unlikely to give rise (directly) to a complaint. Following the Effective Date, the responsibility for decisions (such as claims decisions) would sit with PLAE in Ireland. Therefore, it is my expectation that the majority of any complaints that could arise in the future on the PLL Transferred Business would relate to activities carried out in Ireland, and the FOS would not have jurisdiction to consider any such complaint.
- 7.112 As I expect in most circumstances the PLL Transferred Policyholders would no longer have access to the FOS, I need to consider whether the independent complaints service provided by the FSPO rather than the FOS constitutes a material weakening in the independent complaints services available for PLL Transferred Policyholders.
- 7.113 The complaints procedures for both the FOS and the FSPO are broadly similar. Both organisations have the power to make legally binding rulings on individual disputes. However, for FOS the limits to the amount it can make a business pay an individual are currently:
- £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019;
 - £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019;
 - £160,000, increasing on 1 April each year from 1 April 2020, for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019; and
 - Within the relevant section of the Dispute Resolution: Complaints rules included in the FCA Handbook it states that on the 1 April each year these limits are adjusted by applying a percentage increase linked to the change in CPI, and rounded to the nearest £5,000. However, for 2021 the FCA decided not to update the compensation limits.
- 7.114 By contrast the limit for the FSPO is €52,000 per annum where the subject of the complaint is an annuity, and a maximum of €500,000 for any other complaints.

- 7.115 For complaints relating to policies other than annuities, I note that the limit under the FSPO in Ireland is higher than for complaints raised to the FOS in the UK.
- 7.116 For complaints relating to annuities, in the majority of cases policyholders have scope for greater potential financial recovery under the FSPO in Ireland than under the FOS in the UK. However, in limited circumstances it is possible that the overall compensation paid to policyholders may be lower under the FSPO than under the FOS. This would be the case for a complaint raised relating to an annuity with an annual benefit in excess of the FSPO's €52,000 limit that is paid for a period of 8 years or shorter⁵⁶. I understand that there are fewer than 20 annuity policies contained within the PLL Transferred Business that are expected to fall within this category (based on current exchange rates and PLL's expected payment term for each policy). Further, these policies would only be adversely affected by having recourse to the FSPO in Ireland rather than the FOS in the UK in the event that the policyholder has a valid complaint regarding their policy and is seeking compensation for an amount which is in excess of the annual €52,000 limit in Ireland but below the total compensation limit that applies in the UK. I consider the probability of this set of circumstances occurring to be low and not material in the context of my overall conclusions on the UK Scheme. Overall, it is my view that the PLL Transferred Policyholders will not be materially adversely affected by the payout limits under the FSPO compared to the FOS.
- 7.117 I consider the services provided by the FOS and the FSPO to be broadly similar and I do not consider the differences outlined above to represent a material weakening in the independent complaints services available to PLL Transferred Policyholders. Further, as outlined in paragraph 7.107, PLL has previously referred complaints from PLL Transferred Policyholders to the FSPO. Therefore, the fact that post-UK Scheme, in most circumstances the PLL Transferred Policyholders will be required to raise complaints with the FSPO rather than the FOS, does not represent a change to current practice.
- 7.118 In addition, the implementation of the proposed UK Scheme would not change the rights of any of the PLL Transferred Policyholders to access to the relevant ombudsman schemes in Iceland and Germany.
- 7.119 Overall, given the similarities in the services provided by the FOS and the FSPO and the continued access to local ombudsman services, I am satisfied that the implementation of the proposed UK Scheme would not have a material adverse effect on the rights of the PLL Transferred Policyholders in relation to their access to the services of an independent complaints service.

The access of PLL Transferred Policyholders to a compensation scheme in the event of insurer default or insolvency

7.120 The implications of the loss of FSCS protection are discussed in paragraphs 7.68 to 7.72.

Overall conclusion on effect on the PLL Transferred Policies of the change in regulatory regime from the UK to Ireland

- 7.121 In summary, I am satisfied that, if the proposed UK Scheme were to be implemented:
- In terms of conduct of business regulation, there would be no material adverse effect on the PLL Transferred Policies;
 - In terms of conduct of business regulation specifically related to with-profits business, there would be no material adverse effect on the PLL Transferred Policies;
 - The change in primary regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the PLL Transferred Policies;
 - There would be no material adverse effect on the rights of PLL Transferred Policyholders in relation to their access to an independent complaints service; and
 - I am satisfied that the loss of FSCS protection would not lead to a material adverse effect on the rights of PLL Transferred Policies.
- 7.122 Therefore, in conclusion, 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.

⁵⁶ For an annuity with an annual benefit in excess of €52,000 that is paid for a period of more than 8 years, the overall compensation limit under FOS in the UK would be triggered, and therefore the overall amount of compensation under the FSPO in Ireland would be greater than under the FOS in the UK.

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

Introduction

7.123 The PLL Transferred Business consists of with-profits, unit-linked and non-profit non-linked business. For these types of business, policyholders' expectations in respect of their benefits are that:

- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions; and
- The management, governance, administration and servicing of the policies is performed to a consistent standard throughout the duration of their policy.

7.124 It is therefore necessary to consider the impact of the UK Scheme on the following:

- In respect of the unit-linked PLL Transferred Policies:
 - The range of funds available, the management of those funds (including the allowance for discretion in managing them), the investment objectives applied to those funds, the charges applied to those funds and the pricing of those funds;
 - The benefits received by the policyholders, as these should continue to reflect the investment performance of the assets in which their units are invested and the contractual charges payable under the policies; and
 - The assets in which the units under unit-linked policies are invested, as these should continue to be materially in line with the target investment allocation in the relevant fund literature.
- In respect of the with-profits PLL Transferred Policies:
 - The with-profits fund in which the policy participates;
 - The bonuses paid in respect of the with-profits policy; and
 - The application of discretion.
- The benefits paid in respect of the non-profit non-linked PLL Transferred Policies; and
- The management, governance, administration and servicing in respect of the PLL Transferred Policies.

7.125 These are considered in turn below.

The benefit expectations of the PLL Transferred Policyholders

Introduction

7.126 If the proposed UK Scheme were to be implemented, there would be no material change 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 as discussed in paragraphs 7.169 to 7.183 below). 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 some of the with-profits Irish PLL Transferred Policies, which I describe further in paragraph 7.144 below. 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 paragraphs 7.140 to 7.147 below, would continue to apply to such policies.

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

- 7.128 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.
- 7.129 For the unit-linked and with-profits PLL Transferred Policies, I have set out my additional considerations below.

The PLL Linked Funds and the PLL Unit-Linked Reinsurance Agreement

- 7.130 As described in Section 5, PLAE will establish PLL New Linked Funds that mirror the PLL Linked Funds available to the PLL Transferred Policyholders, immediately before the Effective Date. The relevant assets and liabilities relating to the relevant PLL Linked Funds will transfer to the PLL New Linked Funds under the UK Scheme. PLL and PLAE will enter into the PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds would be immediately reinsured back to PLL and so PLL's obligation to transfer the associated PLL Linked Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 7.131 As a result of the establishment of the PLL New Linked Funds and the PLL Unit-Linked Reinsurance Agreement, the PLL Transferred Policyholders will continue to have access to the same PLL Linked Funds following the Effective Date as they would if the UK Scheme had not been implemented.
- 7.132 The implementation of the proposed UK Scheme would not change:
- The range of funds to which the unit-linked PLL Transferred Policies would have access;
 - The management of the funds in respect of investment objectives and the charges taken; or
 - The number, value or type of units held by the PLL Transferred Policyholders.
- 7.133 Furthermore, PLL may make changes to the range of funds offered through the Unit-Linked Reinsurance Agreement in the same way as it can make changes before the transfer, subject to it being possible to replicate the change in the PLL New Linked Funds, the relevant change being permitted under the terms of the UK Scheme and PLL providing adequate notice to PLAE.
- 7.134 Following implementation of the proposed scheme, PLAE will be entitled to the same rights in relation to the management of the PLL New Linked Funds as PLL has in relation to the corresponding PLL Linked Funds. These rights include the powers to close to new or further investment, divide, modify or wind-up funds in the future, subject to consultation with PLL to the extent that such action affects or has the potential to affect the business of, or any fund of, PLL or any of its policyholders. Whilst the PLL Unit-Linked Reinsurance Agreement is in place, any such actions must also align with any similar actions being undertaken by PLL in respect of the corresponding PLL Linked Fund. The provisions for the future management of the PLL New Linked Funds are set out in the UK Scheme document and any future changes would be subject to the approval by PLAE's Board, having consulted with the HoAF (or another appropriate senior manager with PCF approval).
- 7.135 In the event that the PLAE Board determines to wind-up any of the PLL New Linked Funds then, when implementing its closure, units of equal value will be allocated without charge to another appropriate PLL New Linked Fund, and the PLAE Board must have regard to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role when determining the value of units to be allocated and the alternative PLL New Linked Fund to which the units will be allocated. I note that these provisions are in line with the current provisions that PLL must comply with if it were to wind-up any of the PLL Linked Funds.

- 7.136 The 2009 Scheme contains a clause which permits PLL to wind-up any PLL Linked Fund when the value of the assets of such fund is below £5m (increased annually from 31 December 2006 in line with retail price inflation). The UK Scheme does not contain an equivalent threshold because such threshold would not necessarily be applicable for PLAE as the unit-linked PLL Transferred Policies is a smaller pool of policies than those allocated to the PLL Linked Funds overall⁵⁷. I am satisfied that it is appropriate that the UK Scheme does not contain such a threshold in respect of the PLL New Linked Funds, in particular given that the governance process that must be followed upon wind-up of a PLL New Linked Fund is in line with the existing governance process that PLL would be required to follow.
- 7.137 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement are in final draft form and are expected to be finalised in advance of the UK Sanction Hearing. The UK Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme. I will provide an update on these matters, and any implications on my conclusions in respect of the proposed UK Scheme, in my Supplementary Report.

Charges on unit-linked PLL Transferred Business

- 7.138 Where the charges to unit-linked policies are contractual, these would be unchanged by the UK Scheme as there are no material changes to the terms and conditions of the PLL Transferred Policies (except that the policies would become policies of PLAE and would therefore be administered in line with PLAE's approach to administration as discussed in paragraphs 7.169 to 7.183 below).
- 7.139 Where there is an element of discretion in setting charges for unit-linked PLL Transferred Business, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the PLL Board, which pays due regard to the reasonable expectations of these policyholders. 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.

The New With-Profits Funds and the With-Profits Reinsurance Agreements

- 7.140 As described in Section 5, PLAE will establish four New With-Profits Funds immediately before the Effective Date. The assets and liabilities of PLL Transferred Policies allocated to the PLL WPFs will transfer to the New With-Profits Funds under the UK Scheme. At the same time PLL and PLAE will enter into four With-Profits Reinsurance Agreements, one in respect of each of the New With-Profits Funds, so that the liabilities relating to the New With-Profits Funds would be immediately reinsured back to PLL and so PLL's obligation to transfer the associated assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 7.141 As a result of the establishment of the New With-Profits Funds and the With-Profits Reinsurance Agreements, the with-profits PLL Transferred Policies will continue to participate in the same PLL WPFs following the Effective Date as they would have done if the UK Scheme had not been implemented, including being entitled to the same share in the estate of the relevant PLL WPF as before the implementation of the UK Scheme. The with-profits PLL Transferred Policies will also continue to benefit indirectly from any capital support provided by the Non-Profit Fund or Shareholder Fund of PLL to the relevant PLL WPFs (see paragraph 4.48).
- 7.142 In association with the With-Profits Reinsurance Agreements, PLAE would have the WP Fixed Charges over assets held in a custodian account in respect of three of the PLL WPFs: the SPI WPF, the Alba WPF and the Phoenix WPF. As mentioned in paragraph 5.64, this will require the splitting of assets from these PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. However, the intention is that these assets will be managed in line with the respective strategic asset allocation detailed in the PPFM.
- 7.143 The implementation of the proposed UK Scheme, together with the With-Profits Reinsurance Agreements, would not change:
- The management of each of the with-profits funds, this will continue to be in line with the 2009 Scheme and current PPFM;

⁵⁷ It appears likely that the threshold was set in 2006 by estimating the size of fund at which the costs of administration, investment and the governing processes of operating the fund for a unit-linked fund would become significant in relation to the investment return that might be earned by the fund. Such an estimate is not relevant to a PLL New Linked Fund, as the investments of the PLL New Linked Fund are to be invested in the corresponding much larger PLL Linked Fund.

- The point at which the relevant with-profits funds are expected to meet their respective 2009 Scheme Sunset Clause trigger points;
- The application of discretion; and
- The provision of advice by the WPC of PLL on the management of the with-profits funds to which the with-profits PLL Transferred Business will be reinsured, they will continue to consider issues related to the with-profits PLL Transferred Business.

7.144 As referred to in paragraph 7.126, whilst there would be no material change to the terms and conditions of the PLL Transferred Policies as a result of the UK Scheme, 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 the with-profits Irish PLL Transferred Policies. Under the UK Scheme, those policies are to be allocated the relevant New With-Profits Fund. Some of those policies refer to the insurer maintaining funds by reference to which the benefits payable under the policies will be calculated and would need (in line with the arrangements in the UK Scheme and the related With-Profits Reinsurance Agreements designed to ensure preservation of policyholder benefits) to be interpreted as allowing those benefits to be calculated, through the UK Scheme and the relevant With-Profits Reinsurance Agreements, by reference to the performance and financial position of the relevant PLL WPFs. Under those preservation arrangements in the UK Scheme, the relevant policyholders will receive at least the same amount of benefits that they would have if their policy had not transferred to PLAE.

7.145 As set out in paragraph 7.101, PLAE will be entitled to make representations to, amongst others, the PLL WPA and PLL WPC on matters affecting the with-profits PLL Transferred Business that is reinsured back to PLL. In addition, under the terms of the With-Profits Reinsurance Agreements (i) a Reinsurance Business Committee would be established with representatives from PLAE and PLL which would monitor, review and challenge the day-to-day-management of the With Profits Reinsurance Agreements, (ii) the PLL WPC is required to oversee the PLL Transferred Business as if this business was held directly within the relevant PLL WPFs, and (iii) PLAE is required to appoint and maintain a Finance Technical Committee which will oversee the management of the New With-Profits Funds. Therefore, given that the with-profits PLL Transferred Business will continue to be managed in line with the 2009 Scheme and the currently applicable PPFM, it would continue to be considered by the PLL WPC and will be covered by adequate oversight arrangements between PLL and PLAE, I am satisfied that the protection conferred by the governance of with-profits business in PLAE is no less than that which is currently in place. I discuss the governance arrangements of with-profits business in PLAE following the termination of the With-Profits Reinsurance Agreements further in paragraph 7.159 below.

7.146 Furthermore, the UK Scheme contains a provision relating to the preservation of benefits while the With-Profits Reinsurance Agreements are in force, which requires benefits payable to with-profits PLL Transferred Policyholders to be calculated with reference to the relevant PLL WPF and ensures that benefits payable would be no less than if their policy was still allocated (rather than reinsured) to the relevant PLL WPF. Therefore, there will be no change to the bonus expectations for the with-profits PLL Transferred Business as a result of the UK Scheme.

7.147 I am therefore satisfied that there would be no material adverse effect on the benefit expectations of the with-profits PLL Transferred Policyholders as a result of the UK Scheme and the With-Profits Reinsurance Agreements, I set out my considerations on the benefit expectations of the with-profits PLL Transferred Policyholders upon termination of the With-Profits Reinsurance Agreements in paragraphs 7.153 to 7.161 below.

Annuity benefits on vesting with-profits policies

7.148 Currently PLL provides annuity benefits on vesting with-profits policies which have either a guaranteed annuity option or benefits defined in terms of an annuity from the PLL NPF, and there is a transfer of the cost of the annuity from the respective with-profits fund to the PLL NPF. However, should the WPA of the respective fund consider the cost of the annuity to exceed what is reasonable, the WPA has the right to require that the annuity benefit is provided by the relevant PLL WPF.

7.149 Following the transfer, this arrangement will be replicated within PLAE in respect of annuity benefits on vesting with-profits policies in the PLL Transferred Business, whereby the benefits will be provided from the PLAE NPF on rates approved by the PLAE Board, with the cost being transferred from the relevant New With-Profits Funds (the monies having been provided by the relevant PLL WPF via the applicable With-Profits Reinsurance Agreement) to the PLAE NPF on rates approved by the PLAE Board. However:

- While the With-Profits Reinsurance Agreements are in force, should the PLL Board, having regard to the advice of the PLL WPA, consider the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, then the PLL Board can recommend that the annuity be provided by the relevant New With-Profits Fund and reinsured back to the respective PLL WPF.
 - Following the termination of the With-Profits Reinsurance Agreements, should the HoAF, having considered the advice of the PLAE WPC (established as detailed in paragraph 5.81), consider the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, they can require that the annuity be provided by the relevant New With-Profits Fund.
- 7.150 For deferred annuity PLL Transferred Policyholders whose policy does not have a guaranteed annuity option (or have such an option but do not exercise it) or does not have its primary benefits expressed in terms of an annuity, they will continue to be able to elect to have an annuity provided by the Phoenix Group, however such benefits will be provided by the PLAE NPF and on rates approved by the PLAE Board, rather than the PLL Board. Therefore, the annuity rates offered may differ as a result of the UK Scheme; however, the policyholders will retain the ability to purchase an annuity from the open market.
- 7.151 In addition, currently the PLL SPI WPF meets the cost of guaranteed annuity options associated with certain PLL Transferred Policies in the PLL NPF. Under the terms of the UK Scheme, from the Effective Date the PLAE SPI WPF will meet such costs in respect of the PLL Transferred Policies in the PLAE NPF.
- 7.152 There would be a consistent treatment of annuity benefits vesting on with-profits PLL Transferred Policies before and after the implementation of the UK Scheme, and the UK Scheme contains provisions in this area consistent with provisions in the 2009 Scheme in respect of the PLL SPI WPF. The only change would be that after the implementation of the UK Scheme the additional amount to be transferred in respect of these policies would be calculated by the PLAE Actuary, rather than the PLL WPA, however the UK Scheme requires the PLAE Actuary to consult with the PLL WPA. Therefore, I am satisfied that the UK Scheme will not materially adversely affect the treatment of annuity benefits vesting on with-profits PLL Transferred Policies.

Termination of the With-Profits Reinsurance Agreements and ongoing management of the New With-Profits Funds

- 7.153 I understand PLL and PLAE have no intention of terminating the With-Profits Reinsurance Agreements in the short term; however, I have considered the governance around such a termination as it would mean that the with-profits PLL Transferred Policies would no longer participate in the PLL WPFs.
- 7.154 As a result of the termination of any of the With-Profits Reinsurance Agreements, a termination amount must be paid by PLL to PLAE in respect of the liabilities reinsured under the With-Profits Reinsurance Agreement. The controls in place regarding the calculation of the termination amount are as follows:
- For terminations other than due to Events of Default or the 2009 Scheme Sunset Clause, the element of the termination amount in relation to the split of the inherited estate of the PLL WPF must be confirmed by an Independent Actuary;
 - For terminations due to Events of Default, the termination amount must be calculated by an Independent Actuary, unless the Boards of PLL and PLAE agree not to seek such confirmation due to the expected share of the inherited estate due to with-profits PLL Transferred Business being less than £1m and the Board of PLL and PLAE agree the amount (see paragraph 5.72); and
 - For termination due to the 2009 Scheme Sunset Clause, the termination amount paid from the relevant PLL WPF to PLAE shall not exceed the termination amount calculated as per paragraph 5.72 and any amount in excess of this must be met by the shareholders of PLL.
- 7.155 The With-Profits Reinsurance Agreement relating to the PLL 90% WPF contains a termination provision that is not contained in the With-Profits Reinsurance Agreements relating to the other three New With-Profits Funds. This termination provision allows PLAE to terminate the With-Profits Reinsurance Agreement in respect of the PLL 90% WPF if all other With-Profits Reinsurance Agreements have been terminated. Given the small volume of business that will be reinsured from the PLAE 90% WPF to the PLL 90% WPF, PLAE may consider it inefficient to keep this With-Profits Reinsurance Agreement in place if all others had been terminated. It therefore appears reasonable to provide PLAE with the option to terminate the With-Profits Reinsurance Agreement relating to the 90% WPF in this scenario. Given the small volume of PLL Transferred Business that is invested in the PLL 90% WPF, in the ordinary course of events it appears likely that this business will terminate before the last With-Profits Reinsurance Agreement is terminated.

- 7.156 As described in Section 5, if, due to the 2009 Scheme Sunset Clause, PLL is no longer required to maintain any of the PLL WPFs captured by the With-Profits Reinsurance Agreements, then the UK Scheme requires PLAE to cease to maintain the relevant New With-Profits Fund. In such a circumstance, the UK Scheme requires the “Closure Uplift” (an increase in the benefit entitlement of a relevant 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.
- 7.157 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 all assets and liabilities associated with the fund to the PLAE NPF, or to maintain the relevant New With-Profits Fund without the benefit of the With-Profits Reinsurance Agreement. In making such a decision the PLAE Board must follow governance specified in the UK Scheme, which includes:
- obtaining a certificate from an independent actuary stating that in his or her opinion the proposal does not materially adversely affect the reasonable expectations of policyholders; and
 - obtaining the prior approval or non-objection of the CBI.
- 7.158 These provisions under the UK Scheme provide PLAE with flexibility to convert with-profits PLL Transferred Policies to either non-profit or unit-linked depending on which option is deemed fair and in the best interests of policyholders at the time of conversion.
- 7.159 If PLAE elects to maintain any of the relevant New With-Profits Funds without the benefit of the With-Profits Reinsurance Agreement, then the termination amount due from PLL to PLAE would be allocated to the relevant New With-Profits Fund. In addition, under the UK Scheme, the PLAE Board must make full provisions for the governance and management of the fund, including:
- Establishing a WPOP;
 - Establishing a WPC with a terms of reference and a role in the governance of the relevant New With-Profits Fund equivalent to that in place in respect of the corresponding PLL WPF; and
 - Considering the terms covering what can be charged to the fund.
- 7.160 If the relevant New With-Profits Fund is closed for a reason other than the 2009 Scheme Sunset Clause, the corresponding assets and liabilities of the fund will be transferred to the PLAE NPF (with no closure costs deducted). The UK Scheme also sets out additional principles that PLAE must adhere to when determining the Closure Uplift, including ensuring that all assets within the fund are used to secure benefits for the relevant PLL Transferred Policies in a way that fairly reflects policyholder rights and expectations and all costs associated with closing the fund are met by the PLAE shareholders, however an allowance may be made to reflect the ongoing costs the shareholders would incur in operating the policies on a non-profit basis. In addition, PLAE must obtain a certificate from an Independent Actuary that in their opinion the conversion to non-profit does not materially adversely affect the reasonable expectations of the relevant policyholders.
- 7.161 In summary, together the UK Scheme and With-Profits Reinsurance Agreements provide a clear governance structure that must be followed to effect the termination of the agreements, to ensure that the PLL Transferred Policyholders are not materially adversely affected by PLAE’s decision either to maintain or close the relevant New With-Profits Funds, and to ensure there is robust governance of PLAE’s with-profits business if PLAE elects to maintain any of the New-With-Profits Funds following the termination of the corresponding With-Profits Reinsurance Agreement.

Charges on with-profits PLL Transferred Business

- 7.162 All of the PLL WPFs have existing evergreen fixed expense agreements; this will not be changed as a result of the transfer, and the total expense deductions from the PLL WPFs will be unchanged. Therefore, as the with-profits PLL Transferred Business is reinsured back to the relevant PLL WPFs, there will be no change to the expense deductions, or any other charges applied to these policies. PLAE will not apply any further charges.

Tax in respect of the PLL Transferred Policyholders

- 7.163 I am not an expert in tax matters and therefore, in forming my opinion on the tax implications of the proposed UK Scheme, I have relied on information provided by PLL’s internal tax team.
- 7.164 The Irish PLL Transferred Business, German PLL Transferred Business and Icelandic PLL Transferred Business were written as part of the Non-Basic Life Assurance and General Annuity Business (“Non-BLAGAB”) of PLL.

7.165 I understand that as the Irish PLL Transferred Policies form part of the third country branch in Ireland and therefore are also subject to tax in Ireland:

- Some of the with-profits business, and some of the unit-linked business in the SPI WPF, comprises the Irish Old Basis Business (“OBB”), which is subject to corporation tax under the I minus E regime in Ireland. Policyholders’ share of profits are taxable under the OBB regime, as are shareholder profits; and
- The remainder of the Irish PLL Transferred Business is New Basis Business (“NBB”), and so tax is charged on an 8 year deemed disposal basis and on exit for Irish residents.

7.166 Taking each of the groups of PLL Transferred Policies in turn:

- For the Irish PLL Transferred Policies:
 - Due to the With-Profits Reinsurance Agreements both the policyholders’ share of profits and shareholder profits are expected to continue to emerge in the UK, and therefore the UK Scheme should not have an impact on the UK tax in respect of these policies;
 - For OBB business, confirmation is to be sought from the Irish Revenue that they would accept the existing basis to be used after the UK Scheme, and I understand that the Irish Revenue has accepted this position in the context of a similar transaction undertaken by the Phoenix Group. Subject to the Irish Revenue accepting this basis, the UK Scheme should not have an impact on the Irish tax in respect of these policies;
 - For NBB business, subject to confirmation from the Irish Revenue that the transfer does not give rise to a chargeable event, the time period for deemed disposals will continue uninterrupted and any exit tax declarations will continue to be regarded as appropriate declarations, meaning there is no impact on policyholder tax in respect of these policies;
 - Currently, a charge is made to the 90% WPF for the total of UK and Irish tax on shareholder profits. This will continue to be the case after the implementation of UK Scheme (albeit that all the tax will be UK tax) and it is not expected that the UK Scheme will materially alter the amount of shareholder tax charged to the 90% WPF; and
 - 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.
- The Icelandic and German PLL Transferred Business is non-linked and has no surrender value, therefore no tax on policyholder profits is due under the UK tax regime on these policies, and I understand that none will be due under the Irish tax regime as, subject to confirmation from the Irish Revenue, the Icelandic and German PLL Transferred business will be taxed as NBB. Therefore, the proposed UK Scheme would not impact on policyholder tax in respect of these policies.

7.167 Overall, based on the information provided, as described above, if the proposed UK Scheme were to be implemented, I am satisfied that there would not be a material adverse change to policyholders’ tax liabilities. I will provide an update in my Supplementary Report on any further correspondence with the Irish Revenue.

Overall conclusion of the effect on the benefit expectations of the PLL Transferred Policyholders

7.168 I am satisfied that the implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the PLL Transferred Policyholders.

The effect of the UK Scheme on the management, governance, administration and servicing of the PLL Transferred Policies

Management and governance

7.169 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. I note the following in respect of the planned management of the PLL Transferred Business after the transfer:

- The PLAE Board would replace the PLL Board as the governing body with responsibility for the PLL Transferred Business;
- The PLAE Board will consist of a majority of independent members;
- The non-linked assets backing the transferring non-profit business would be managed in accordance with PLAE’s governance and management guidelines. These are materially similar to those of PLL and there would not be a material adverse effect on the security of policies as a result of this change;
- The PLL Transferred Policies covered by the With-Profits Reinsurance Agreements would continue to benefit indirectly from the management and governance of the PLL WPFs; and
- The pro-forma financial information shown in Appendices Appendix A and B shows that there is no material change in respect of policyholder benefit certainty if the UK Scheme had been effected as at 31 December 2021.

7.170 Similarly to PLL and RLL, the organisational design of PLAE follows the principles of the Phoenix Group. Senior management roles will be based in Ireland and will be supported by Phoenix Group functions and shared services. In addition, the CBI has implemented the F&P Regime, which defines a set of PCFs, and therefore individuals undertaking these roles will need to be approved by the CBI, as detailed in paragraph 3.35. The comparative regime in the UK is the SM&CR as detailed in 3.32. PLAE is currently in the process of appointing the PCFs; all applications for PCFs have been submitted to the CBI. I will provide an update on the progress of the PCF applications in my Supplementary Report; however, I note that PLAE will not be authorised until all PCFs are approved, and therefore it would not be possible for the UK Scheme to become effective without these approvals being obtained.

7.171 Overall, I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on the levels of management and governance that would apply to the PLL Transferred Policies.

Administration and servicing

7.172 Figure 7.3 below shows the administration providers in respect of the PLL Transferred Policies before and after the UK Scheme:

FIGURE 7.3 TABLE SHOWING THE ADMINISTRATION PROVIDERS FOR THE PLL TRANSFERRED POLICIES PRE AND POST THE UK SCHEME

PLL Transferred Policies	Administration Provider Pre-UK Scheme	Administration Provider Post-UK Scheme
	Diligenta	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will continue to be provided by Diligenta.
	SS&C	SS&C
Irish PLL Transferred Policies	Mercer	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will be provided by RUKSL.
	Unum	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will be provided by RUKSL.
Icelandic PLL Transferred Policies	Diligenta, with responsibility for the administration subcontracted to TMI	Diligenta, with responsibility for the administration subcontracted to TMI
German PLL Transferred Policies	Diligenta, with responsibility for the administration subcontracted to SLP	Diligenta, with responsibility for the administration subcontracted to SLP

- 7.173 As can be seen in the table above, there will be no change to the administration provider for Icelandic PLL Transferred Policies, German PLL Transferred Policies and the subset of Irish PLL Transferred Policies that is administered by 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 TMI and SLP were previously undertaken by Diligenta, these activities will now be undertaken by PLAE. For Irish PLL Transferred Policies administered by Diligenta, Mercer or Unum, after the UK 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). Therefore, there will be a change to the individuals performing the administration for Irish PLL Transferred Policies currently administered by Diligenta, Mercer and Unum.
- 7.174 There will be no change to the administration platforms for the Icelandic PLL Transferred Policies and German PLL Transferred Policies or the Irish PLL Transferred Policies currently administered by Diligenta and SS&C. For the Irish PLL Transferred Policies currently administered by Mercer or Unum, the platform on which they are administered will change, however the platform that they will be transferred to is not a new platform but a tried and tested inhouse Phoenix Group administration platform.
- 7.175 For services in respect of the PLL Transferred Policies that will be provided by PLAE using the personnel of SLAESL (Irish branch), PLAE and SLAESL (Irish branch) will enter in an MSA. The MSA, which I have seen a draft of, will set out the specific details of the services being provided by SLAESL (Irish branch), the number and qualifications of the personnel, the required standards of service, the location of the services and PLAE’s approach to monitoring the provision of these services. In addition, the MSA between PLAE and SLAESL (Irish branch) will contain service level metrics which are aligned to the existing service level metrics used in respect of the Irish PLL Transferred Business.
- 7.176 Similarly, for services in respect of the PLL Transferred Policies that will continue to be provided by external third parties, SLAESL (Irish branch) will enter into, or amend existing, agreements with these parties, with the overall aim of maintaining the existing features of the corresponding agreements that PLL currently has in place. I will provide an update on the status of the MSA and agreements with external third parties in my Supplementary Report.
- 7.177 The Phoenix Group does not anticipate any change to current service delivery levels following the implementation of the UK Scheme. In order to achieve this, 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 (as outlined in paragraph 4.77), ensuring consistency with existing services provided to PLL in respect of the PLL Transferred Policies.
- 7.178 In addition, PLAE will establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE’s customers, including oversight of outsourced services. I understand that the intention is that the PLAE Customer Committee will meet monthly until PLAE becomes operationally established, from which point it will meet quarterly.
- 7.179 PLAE is currently implementing various measures in order to ensure the operational readiness of its administration and servicing model. The Phoenix Group is currently in the process of recruiting new staff members to perform the services that will be provided by SLAESL (Irish branch) personnel within Ireland in respect of the relevant PLL Transferred Policies. Some of the key aspects of the recruitment and training of new staff members are as follows:
- The new staff members recruited to provide services on behalf of PLAE will be required to meet the CBI’s Minimum Competency Requirements⁵⁸, and will be required to possess the key skills needed in order to perform their role, including ensuring there are members of staff who speak Icelandic and German;

⁵⁸ *The CBI’s Minimum Competency Requirements set out the CBI’s minimum professional standards for persons providing certain financial services, in particular when dealing with customers. The aim is to ensure that customers obtain a minimum acceptable level of competence from individuals acting for or on behalf of regulated firms in the provision of advice and information and associated activities in connection with retail financial products.*

- By utilising SLAESL (Irish branch) personnel to support PLAE, an existing servicing company within the Phoenix Group, PLAE will be able to make use of an established support capability in Ireland, which it will use to enable recruitment, induction and training of new staff members, and the development of comprehensive training and accreditation plans in order to on-board and train new staff members;
- The aim is to offer a hybrid working model to new staff members, in order to reflect the increase in home working as a result of the COVID-19 pandemic and to ensure competitiveness when recruiting. All new staff members will be provided with the necessary equipment to work remotely. The intention is to have new staff members based in the office full time for their first month of employment to ensure a robust and efficient training and onboarding process; however, if another full or partial lockdown were to be enforced, hybrid or fully remote training would be utilised instead as appropriate. I understand that both hybrid and fully remote approaches to training and onboarding have been successfully utilised within the Phoenix Group during the COVID-19 pandemic, and it has various means of tailoring its induction programme to a hybrid or fully remote format should the need arise. I am therefore satisfied that PLAE has adequate plans in place to ensure new staff members can be effectively trained and onboarded under both hybrid and fully remote models;
- Both pre- and post-Effective Date, existing staff performing services in respect of the PLL Transferred Policies will be available to provide training support to new staff members until competency has been signed off, and the existing administration platform providers have existing training guides as further support to new staff members;
- Attainment of the CBI's Minimum Competency Requirements will form part of new staff members' roles and probation sign-off. This will also be factored into their ongoing career plans, and staff members will be required to complete minimum levels of Continued Professional Development annually to ensure their ongoing development;
- The number of new staff members that the Phoenix Group intends to recruit to administer the PLL Transferred Policies is greater than the number of full-time employees currently used, in order to ensure sufficient cover in unforeseen circumstances and to cater for fluctuations in work volumes; and
- Phoenix Group is also developing contingency plans in the event that recruitment is not completed in advance of the Effective Date, which consists of seconding existing staff in the UK to SLAESL (Irish branch) in Ireland as necessary in order to perform some or all of the required roles on a temporary basis.

7.180 I understand that PLAE will establish dedicated Irish telephone numbers for PLL Transferred Policyholders (excluding the Irish PLL Transferred Policyholders administered by SS&C for which Irish telephone numbers already exist) to contact PLAE representatives in Ireland for any queries relating to their policy. A targeted communication will be sent to these PLL Transferred Policyholders in good time in advance of the Effective Date containing these new contact details. In addition, Phoenix Group website information will be updated to signpost the new contact details, and existing staff in the UK will receive training on where to direct the relevant PLL Transferred Policyholders in the event that queries are directed to UK service centres.

7.181 I have been informed by PLL and PLAE that the costs associated with implementing the administration and servicing model outlined above will be met entirely by shareholders. The shareholders will also meet any additional ongoing costs incurred as a result of these changes.

7.182 PLL currently manages its policyholder data in accordance with General Data Protection Regulation ("GDPR"), the EU-wide data protection regime. Likewise, PLAE is required to manage its policyholder data in accordance with GDPR. Therefore, if the proposed UK Scheme were to be implemented, the PLL Transferred Policyholders would continue to be protected by GDPR.

7.183 Overall, 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 its service providers 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 standard as currently provided. I am therefore satisfied that, based on the information and assurances provided to me to date, the implementation of the UK Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the PLL Transferred Policies. However, since the establishment of PLAE's administration and servicing model and the detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.

Overall conclusion on the effect of the UK Scheme on the reasonable expectations of the PLL Transferred Policyholders in respect of their benefits and standards of service

7.184 In conclusion, 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 and standards of service.

CONCLUSION FOR THE EFFECT OF THE PROPOSED UK SCHEME ON THE PLL TRANSFERRED POLICIES

7.185 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.

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

INTRODUCTION

- 8.1 If the proposed UK Scheme were to be approved by the UK Court and, given the co-dependencies of the Schemes, the Irish Scheme approved by the Irish Court, the RLL Transferred Business would be transferred from RLL to PLAE. The policies within the RLL Transferred Business are collectively referred to as the “RLL Transferred Policies”, and the policyholders holding these policies are collectively referred to as the “RLL Transferred Policyholders”.
- 8.2 In this section of the Report, I consider the likely effects on the RLL Transferred Policyholders of the implementation of the proposed UK Scheme. The RLL Transferred Policyholders are not in-scope of the Irish Scheme. The key points to consider in respect of the RLL Transferred Policyholders are the changes in the following due to the transfer:
- **The security of benefits under the RLL Transferred Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the RLL Transferred Policies under the applicable capital management policy and includes the strength provided by the reinsurance agreements and by the support from the Phoenix Group.
 - This is covered in paragraphs 8.3 to 8.60.
 - **The profile of risks to which the RLL Transferred Policies are exposed.**
 - If the proposed UK Scheme were to be implemented, the RLL Transferred Policies would become direct policies of PLAE and directly exposed to the risk profile of a different company.
 - This is covered in paragraphs 8.61 to 8.69.
 - **The oversight provided by the regulatory regime that will apply to the RLL Transferred Policies.**
 - If the proposed UK Scheme were to be implemented, the RLL Transferred Policies would move from being subject to the laws and regulations of the UK to those of Ireland.
 - This is covered in paragraphs 8.70 to 8.96.
 - **The reasonable expectations of the RLL Transferred Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, management and governance applied to the RLL Transferred Policies.
 - This is covered in paragraphs 8.97 to 8.134.

My overall conclusions regarding the likely effects on the RLL Transferred Policyholders are set out in paragraph 8.135.

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

Introduction

- 8.3 Currently, the RLL Transferred Policies derive their security of benefits from being part of RLL and the associated financial strength under the RLL Capital Management Policy, the strength of RLL’s reinsurance agreements and support provided to RLL from its ultimate parent (PGH). In addition, in the extreme scenario of RLL becoming unable to pay policyholder benefits, some of the RLL Transferred Policyholders are currently protected under the FSCS (as described in Section 3 of this Report).
- 8.4 The implementation of the proposed UK Scheme would mean that RLL would cease to have a defined contractual obligation to the RLL Transferred Policyholders and that these obligations would be transferred to PLAE. Therefore, after the implementation of the proposed UK Scheme, the RLL Transferred Policies would derive their security of benefits from:
- being part of PLAE and the associated financial strength under the PLAE Capital Management Policy;

- the strength of PLAE’s reinsurance agreements (including the reinsurance agreements covering the RLL Transferred Business novated to PLAE and those put in place at the Effective Date of the UK Scheme); and
 - the support provided to PLAE from its ultimate parent (PGH).
- 8.5 In considering the effects of the UK Scheme on the security of benefits, I therefore need to consider the effects on the security of the benefits under the RLL Transferred Policies of:
- The change of applicable capital management policy from the RLL Capital Management Policy to the PLAE Capital Management Policy;
 - The change of insurer to PLAE after the UK Scheme as compared to RLL currently. This will include consideration of the changes to the:
 - Financial strength provided by PLAE;
 - Applicable reinsurance agreements; and
 - Support from the parent;
 - The loss of the protection conferred by the FSCS.
- 8.6 These are covered in order below.

The effect on the security of benefits of a change in the applicable capital management policy

- 8.7 The capital management policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the policies within the business covered by the capital management policy.
- 8.8 When considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy. This is because assets in excess of the capital policy requirements need not usually be kept in the company and, subject to appropriate governance procedures, could be transferred out of the company.
- 8.9 The strength of a risk appetite statement is derived from both the relative level of capital required, as stipulated via the capital management policy, and the qualitative aspects such as the required response of management to a breach and the governance surrounding changes to the policies.
- 8.10 In respect of the relative strength of the capital management policies:
- At the time of writing this report, RLL continues to adopt the RGP Capital Management Policy which requires a minimum capital buffer to be held in excess of the SCR, with this buffer being defined as the amount required to absorb a 1-in-20 year all-risk stress event while still holding sufficient Own Funds to cover the SCR. However, as detailed in paragraph 4.134, due to the IGR transferring the majority of the risks out of RLL, the minimum capital buffer is set as an absolute monetary amount. There is currently a restriction preventing the payment of dividends due to the amortisation of the IGR on an accounting basis;
 - RLL is currently undergoing an alignment exercise whereby RLL will align its Capital Management Policy to the principles that underpin the Phoenix Group Life Companies RAF, which is considered within the context of the PGH Capital RAF. The Life Companies RAF defines the minimum capital buffer as the amount required to absorb the more onerous of a 1-in-10 year all risk-stress event and a 1-in-20 year market risk stress event whilst still holding sufficient Own Funds to cover the SCR. This alignment is expected to complete in advance of the Effective Date and the finalisation of my Supplementary Report, and I will therefore provide an update on this matter in my Supplementary Report; and
 - PLAE has a draft Capital Management Policy that follows the principles that underpin the Phoenix Group Life Companies RAF. Therefore, PLAE must hold enough capital to absorb the more onerous of a 1-in-10 year all risk-stress event and a 1-in-20 year market risk stress event whilst still holding sufficient Own Funds to cover the SCR. Approving this Capital Management Policy is a priority agenda item for the PLAE Board once it is established in advance of the UK Sanction Hearing. If the PLAE Board approves a Capital Management Policy consistent with PLAE’s draft policy, the minimum capital buffer for PLAE will be initially set at 150%. The analysis in this report is based on this scenario. If the PLAE Board approves a different Capital Management Policy I will address that, and its consequences, in my Supplementary Report.

- 8.11 Currently RLL is aligning its Capital Management Policy to the Life Companies RAF. I understand from RLL that the amount of capital retained within RLL is more than sufficient to satisfy the Life Companies RAF as the amount of capital that RLL is able to distribute is currently constrained by IFRS distributable surplus. Both the RLL Capital Management Policy and the PLAE Capital Management Policy will be aligned to the Life Companies RAF, therefore, I am satisfied that the minimum capital buffer required to be held by PLAE under the PLAE Capital Management Policy will be of comparable strength to the minimum capital buffer held by RLL under the RLL Capital Management Policy.
- 8.12 In respect of the required response of management to a breach of the capital buffer:
- Due to the presence of the IGR, the risk of RLL breaching its capital management buffer is primarily through exposure to the risk of the failure of RAL. In that unlikely event (due to the financial strength of RAL), the funds withheld structure in the IGR would enable RLL to retain ownership of sufficient assets to cover its non-linked liabilities. These assets are in addition to the RLL Linked Assets held in the RLL Linked Funds in respect of the unit-linked liabilities of RLL;
 - Furthermore, the schedule of termination payments under the IGR was set to ensure that RLL would be able to cover its recaptured SCR and technical provisions. During the first 10 to 15 years of the agreement (which was put in place on 31 December 2019), termination of the IGR would result in a payment from RLL to RAL. Consequently, in the unlikely event of the failure of RAL and so the loss of the IGR, in most circumstances RLL would still be able to cover its (then significantly greater) recaptured SCR without the need to source further funds from the Phoenix Group;
 - As at 31 December 2021 RAL had an SCR Ratio of 155%, which was in excess of that required by its capital management plan;
 - As a result of the IGR being in place, RLL does not have a formalised list of management actions;
 - If PLAE's solvency cover ratio were to fall below its required capital buffer, management would notify the Board of PLAE and advise whether remedial action is necessary. If required, and as determined by the severity of the breach, PLAE management would put a plan in place to return the solvency cover to above the capital buffer within a defined period. The management actions that could be taken by PLAE in the event of a breach have not yet been defined, but these will be finalised once PLAE is operational, although the management actions in respect of the most material risks for PLAE have been considered in its ORSA (see paragraphs 4.171 and 4.172);
 - I note that the management responses will be triggered by a breach of the minimum capital buffer, which is greater than the capital required to be held under Solvency II to ensure continued solvency over a one-year trading timeframe with a likelihood of 99.5% (i.e. the SCR). Therefore, the PLAE Capital Management Policy requires management to take steps to maintain capital in line with its Capital Management Policy, and such actions are required while there is still a significant margin before PLAE would be unable to pay its policyholders;
 - In the extreme, while RLL and PLAE have their own Capital Management Policies which require an additional buffer to be held over the SCR, the Phoenix Group has a policy which sets out a commitment that the Phoenix Group will provide support where it is able to do so, subject to the circumstances of any shortfall and the nature of options available, to restore solvency in a suitable timeframe; and
 - While this support is not legally binding, PGH is subject to a number of obligations (as set out in paragraph 8.43) which link PGH's financial position to that of RLL and PLAE and which, in my view, limit PGH's ability to walk away from either RLL or PLAE to all but the most extreme scenarios.
- 8.13 Overall, I am satisfied that the differences in management responses required following a breach of PLAE's minimum capital buffer (compared to the security provided by the IGR within RLL) would not have a material adverse effect on the security of benefits of the RLL Transferred Policies.
- 8.14 In respect of the governance surrounding changes to the policies, as described in Section 4:
- The RLL Capital Management Policy is the responsibility of the RLL Board and should be reviewed annually. Any changes to the policy would be subject to consultation with the RGP Board; and
 - The PLAE Capital Management Policy is to be reviewed annually. If changes are recommended these would need to be approved by the PLAE Board.
- 8.15 The governance arrangements in respect of any changes to the respective capital management policies are therefore broadly equivalent between RLL and PLAE.

- 8.16 I am satisfied that there is no material adverse effect on the security of benefits for RLL Transferred Business from being subject to the PLAE Capital Management Policy as compared to the RLL Capital Management Policy.

The effect on the security of benefits due to being part of PLAE after the UK Scheme compared to RLL currently

Introduction

- 8.17 If the UK Scheme were to be implemented, then the RLL Transferred Policies would be transferred from RLL to PLAE. The RLL Transferred Policies would derive their security of benefits from:
- The financial strength of PLAE as provided by the assets backing the technical provisions and SCR as required by the Solvency II regulations and the excess assets up to the level of the requirements of the PLAE Capital Management Policy;
 - The existing reinsurance agreements that would be transferred to PLAE under the UK Scheme;
 - The RLL Unit-Linked Reinsurance Agreement between RLL and PLAE reinsuring the investment element of the unit-linked RLL Transferred Business, and the associated security arrangements in favour of PLAE; and
 - The potential support from PGH as the ultimate parent of PLAE.

The financial strength of PLAE

- 8.18 If the UK Scheme were to be implemented, the financial strength of PLAE would be provided by:
- The assets backing the technical provisions and SCR as required by the Solvency II regulations. In respect of these I note that:
 - RLL is, and PLAE will be, subject to the Solvency II regime and the technical provisions and SCR of PLAE, including those in respect of the RLL Transferred Policies, would continue to be calculated in accordance with the Solvency II regulations;
 - The Solvency II regulations concerning the calculation of the technical provisions and the SCR are not materially different between the UK and Ireland;
 - For the reasons set out in paragraph 3.28, I do not expect the level of protection provided by any potential replacement for Solvency II in the UK would differ materially from that provided by Solvency II currently; and
 - The UK Scheme would not change the Solvency II Standard Formula as set by EIOPA, which will be used to calculate the SCR for the RLL Transferred Business.
 - The excess assets (in excess of total technical provisions and SCR) in PLAE up to the level of the requirements of the PLAE Capital Management Policy.
- 8.19 Currently the SCR in respect of the RLL Transferred Business is calculated by RLL using the standard formula approach. RAL, on behalf of PLAE, undertook an assessment of the appropriateness of using the Standard Formula for the RLL Transferred Business and concluded that the risk profile of PLAE would not deviate materially from the assumptions underlying the Standard Formula, and therefore it was appropriate for PLAE to calculate its SCR using this approach. The documentation in respect of the appropriateness of using the Standard Formula has been shared with me, as well as the CBI, and in my opinion it is reasonable for PLAE to use the Standard Formula.
- 8.20 At the date of writing, EIOPA and the PRA have now both transitioned to using a SONIA-based curve for the sterling risk-free rates. However, the Last Liquid Point used differs with EIOPA moving to 30 years and the UK using 50 years. The majority of the business retained in PLAE after the transfer will be euro-denominated and therefore this change to the sterling risk-free rate is unlikely, in the view of Phoenix management, to have a material impact on the capital PLAE is required to hold.
- 8.21 Figure 8.1 below sets out the pre-UK Scheme RLL and pro-forma post-UK Scheme PLAE solvency cover ratio as at 31 December 2021. Both the pre-UK Scheme RLL position and the pro-forma post-UK Scheme PLAE position have been prepared using the Standard Formula approach to calculate the SCR.

FIGURE 8.1 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2021

	RLL Pre-UK Scheme	PLAE Post-UK Scheme
SCR	£37m	£66m
Own Funds	£233m	£99m
Solvency cover ratio	636%	150%

Source: Appendix A and Appendix B.

- 8.22 Figure 8.1 shows that, as at 31 December 2021:
- The capital resources of RLL covered the SCR with Own Funds of £233 million. This corresponds to a solvency cover ratio of 636%, which is significantly in excess of that required by the regulations and by the RLL Capital Management Policy; and
 - If the UK Scheme had been implemented on this date, the pro-forma financial information shows that PLAE's capital resources would have covered its SCR with Own Funds of £99 million. This corresponds to a solvency cover ratio of 150% which would be materially in excess of that required by the regulations and at the level required by the PLAE Capital Management Policy.
- 8.23 This projected decrease in the solvency cover ratio that would be experienced by the RLL Transferred Policies because of the UK Scheme might be taken, in isolation, to imply a negative impact on the security of the RLL Transferred Policies. However, the solvency cover ratios are indicators of, or proxies for, financial strength and a decrease in the solvency cover ratio does not necessarily indicate a significant or material reduction in security.
- 8.24 In particular, when considering the solvency coverage, one should only take into account the capital resources that the firm is required to hold up to the level specified by the capital management policy because capital resources in excess of this may be transferred out of the company. In addition, it is important to note that, as described in paragraphs 4.139 to 4.144, the IGR between RLL and RAL removes most of the SCR and risk margin of RLL, resulting in a high solvency cover ratio at 31 December 2021. After the implementation of the proposed Scheme, PLAE will not have an equivalent arrangement to the IGR in place in respect of the RLL Transferred Business.
- 8.25 Figure 8.1 indicates that, if the UK Scheme had been implemented on 31 December 2021, PLAE would have been sufficiently well capitalised to withstand a wide range of adverse stress events. In addition, it is a condition of the UK Scheme that PLAE has sufficient capital so that immediately after the Effective Date it has a solvency capital ratio at or above its minimum capital buffer.
- 8.26 I have been provided with base and stressed projections for PLAE, which forecast the expected Own Funds over the five-year business-planning horizon if the proposed UK Scheme were to be implemented. These projections show that PLAE is not expected to breach the minimum capital buffer under the PLAE Capital Management Policy during the projection period and is expected to generate Own Funds in excess of the level required to meet the minimum capital buffer (such excess could be distributed as dividends subject to company law and regulatory requirements). In addition, I understand that the projection model used by PLAE projects the full run-off of the business, subject to some model limitations, and that this projection did not highlight any areas of concern.
- 8.27 In summary, I am satisfied that reliance on the financial strength of PLAE if the UK Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the RLL Transferred Policies.

The reinsurance arrangements of PLAE after the implementation of the UK Scheme

- 8.28 If the UK Scheme were to be implemented, the reinsurance agreements of PLAE would be as follows:
- The existing outwards reinsurance contracts with Swiss Re in relation to the RLL Transferred Business, that would be transferred to PLAE at the Effective Date; and
 - The existing outwards reinsurance contracts in relation to the PLL Transferred Business, except those in relation to the Irish PLL Transferred Business currently allocated to the PLL SPI WPF, that would be transferred to PLAE at the Effective Date.

- 8.29 Currently the IGR reinsures the risks (with the exception of operational risks and some counterparty default risks) arising from the long-term business of RLL, including RLL Transferred Business, to RAL. Following the proposed future transfer of the RLL Non-transferring Business (which Phoenix management does not expect to effect before 2024 at the earliest), the IGR will no longer cover the RLL Transferred Business.
- 8.30 The IGR between RLL and RAL will terminate immediately following the expected future Part VII transfer (which will be a separate Part VII transfer to the UK Scheme) of all the RLL Non-transferring Business to another appropriately authorised member of the Phoenix Group described in paragraph 4.119. The RLL Transferred Business was included in the scope of the IGR for operational reasons at the inception of the IGR and was not intended to be a permanent reinsurance agreement covering this business.
- 8.31 Therefore, I am satisfied that the security of benefits for the RLL Transferred Business would not be materially adversely affected by no longer being covered by this reinsurance agreement as a result of implementation of the proposed UK Scheme.

The New Linked Funds and the Unit-Linked Reinsurance Agreement between RLL and PLAE

- 8.32 RLL maintains internal RLL Linked Funds for the purposes of calculating benefits payable under its unit-linked policies, including those unit-linked policies within the RLL Transferred Business. PLAE will establish identical funds (i.e. the "RLL New Linked Funds") to those RLL Linked Funds available to the RLL Transferred Policyholders, immediately before the Effective Date. The relevant assets and liabilities of the relevant RLL Linked Funds will transfer to the RLL New Linked Funds under the UK Scheme.
- 8.33 RLL and PLAE will enter into an RLL Unit-Linked Reinsurance Agreement on the Effective Date. Under this agreement, the unit-linked liabilities relating to the RLL New Linked Funds would be immediately reinsured back to RLL. Consequently, RLL's obligation to transfer the associated RLL Linked Assets to PLAE will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to RLL.
- 8.34 At the Effective Date, in association with the RLL Unit-Linked Reinsurance Agreement and to minimise its resulting counterparty exposure, PLAE would have a floating charge over all available assets of RLL, the RLL Floating Charge. As the process for terminating the RLL Unit-Linked Reinsurance Agreement is not as complex, and therefore not as time consuming as that associated with the With-Profits Reinsurance Agreements, I am satisfied that there is not a need for PLAE to also have a fixed charge in respect of the RLL Unit-Linked Reinsurance Agreement. As a result of the RLL Floating Charge, all else being equal, under the Insurers (Reorganisation and Winding-Up) Regulations 2004 in the UK, PLAE would rank ahead of the direct policyholders of RLL in the (unlikely) event that RLL became insolvent. However, the provisions of the RLL Floating Charge limit (in percentage terms) the amount recoverable by PLAE in respect of the unit-linked RLL Transferred Policyholders to that of the direct policyholders of RLL. Consequently, PLAE would rank equally with the RLL Non-transferring Policyholders in the insolvency of RLL (as they currently do).
- 8.35 I have been provided with information regarding the value of the assets against which RLL is unable to grant security and, when comparing this figure to RLL's Own Funds in excess of SCR as at 31 December 2021, I am satisfied that the available assets over which the RLL Floating Charge applies is sufficiently in excess of the liabilities covered by the RLL Unit-Linked Reinsurance Agreement. I understand that when granting any new security, RLL undertakes a review of existing securities in order to identify any potential impact of granting further security. In addition, the RLL Floating Charge contains a provision which ensures that the RLL Floating Charge will rank equally with (and not below) any existing or future floating charges granted by RLL. I am therefore satisfied that there are sufficient assets available under the RLL Floating Charge to cover the liabilities included in the RLL Unit-Linked Reinsurance Agreement and that there are adequate safeguards in place in relation to the granting of future floating charges by RLL.
- 8.36 I have discussed the RLL Unit-Linked Reinsurance Agreements and the RLL Floating Charge with executives within RLL, as well as their legal advisors in the UK and Ireland. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. Lastly, I understand that similar such arrangements are commonplace in the market. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.

- 8.37 Therefore, following the implementation of the proposed UK Scheme, the RLL Transferred Policyholders will no longer have a direct investment in the RLL Linked Funds. The RLL Transferred Policyholders will instead have a direct investment in the PLAE New Linked Funds and PLAE will have a reinsured investment in the relevant RLL Linked Funds. Consequently, the security of benefits in respect of the unit holdings of the RLL Transferred Policyholders would be provided (indirectly) by the RLL Unit-Linked Reinsurance Agreement, the associated RLL Floating Charge held by PLAE and the assets held by RLL in respect of these.
- 8.38 Overall, I am satisfied that the establishment of the RLL New Linked Funds, the RLL Unit-Linked Reinsurance Agreement between RLL and PLAE and the RLL Floating Charge would not lead to a material adverse effect on the security of benefits under the RLL Transferred Policies, and there is not a need for RLL to also have a fixed charge in respect of the RLL Unit-Linked Reinsurance Agreement.
- 8.39 While the above description outlines the current expectations at the time of writing this Report, the terms of the RLL Unit-Linked Reinsurance Agreement and the associated RLL 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the RLL Unit-Linked Reinsurance Agreement and the associated RLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme.

The support for PLAE from PGH as the ultimate parent of PLAE

- 8.40 There is no formal capital support arrangement between PLAE and PGH.
- 8.41 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintain a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, this is not legally binding.
- 8.42 Therefore, PGH's interest in PLAE is limited to indirectly owning the entire issued share capital of PLAE and so, as a matter of company law, PGH is not under any legal obligation to provide capital support to PLAE.
- 8.43 However, PGH is subject to a number of obligations which link PGH's financial position to that of PLAE and which, in my view, limit PGH's ability to walk away from PLAE to all but the most extreme scenarios when PGH itself is at risk of not being able to meet its own claims:
- PGH's status as the shareholder of PLAE means that PLAE will be integrated into the PGH management and oversight framework. PGH's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries including PLAE. The financial position of PLAE would therefore affect the Phoenix Group's financial position and the failure of PLAE to meet its SCR would be expected to lead to regulatory intervention by the CBI, and this could ultimately lead to a constraint on PGH's ability to pay a dividend;
 - Once PLAE is authorised by the CBI, PGH will not be able to freely sell its shares in PLAE to a third party without the prior approval of the CBI to the change in control over PLAE, and this approval would only be given if the CBI was satisfied with the suitability of the acquirer and financial soundness of the acquisition;
 - Given the number of policyholders of PLAE and the nature of its insurance business, any attempt by PGH to walk away from PLAE would be likely to result in significant adverse publicity that would be highly undesirable to PGH;
 - PGH has a strong credit rating, with a current credit rating of A+ according to Fitch Ratings. Any downgrade in PGH's credit rating as a result of the insolvency of one of its subsidiaries would also be highly undesirable to PGH;
 - PGH holds a substantial amount of liquid assets, with c.£2.2 billion of assets that could be made available within 1 day and £2.3 billion of assets in total that could be made available within 1 year as at 31 December 2021. It should be noted, however, that in significantly adverse circumstances the amount potentially available to provide support may have been depleted by those circumstances, and there could be more than one subsidiary requiring capital support; and
 - There have been previous instances where PGH has provided capital support to subsidiary companies.

- 8.44 Therefore, although there is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including PLL and PLAE, PLAE can derive additional security from having PGH as its parent, as in most circumstances PGH would be expected to provide support to PLAE if, and when, required.
- 8.45 Furthermore, both RLL and PLAE are members of the Phoenix Group of companies, with PGH being the ultimate parent of both RLL and PLAE. It is therefore unlikely that the proposed UK Scheme would change PGH's willingness or ability to support the RLL Transferred Business.

Additional security for the RLL Transferred Policies

- 8.46 Under the regulatory regime in Ireland, the assets held against the technical provisions must be recorded on a register, and the total value of assets on the register shall at no time be less than the Solvency II technical provisions. In the extreme scenario of PLAE becoming insolvent, the PLAE policies would, with the exception of expenses arising out of winding up proceedings (where these cannot be met by PLAE's other assets), have a priority claim on the assets of PLAE backing the Solvency II technical provisions.
- 8.47 This would apply to all PLAE policies (without exception) and they would rank *pari passu* (i.e. on equal footing) as regards all the assets held against the technical provisions. The ranking of insurance claimants upon wind-up of an insurer provides additional security for the benefits under the PLAE policies, including the RLL Transferred Policies, which would not necessarily be available in the absence of such wind-up regulations.
- 8.48 Under the UK regulatory regime the position is different. Insurance claims take precedence over any other claims, with the exception of certain preferential claims (e.g. claims by employees) and secured claims with respect to the whole of the insurance undertaking's assets. Similarly, in Ireland, direct insurance creditors rank equally and ahead of inwards reinsurance creditors and all other unsecured/non-preferential creditors in the event that an insurer is wound up.
- 8.49 The comparative position of policyholders in a UK insurance undertaking versus policyholders in an Irish insurance undertaking in a winding-up situation is therefore a function of the assets available (and their size relative to the technical provisions) and the proportion of inwards reinsurance business relative to direct business.
- 8.50 Overall, 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.

Summary and conclusion

- 8.51 As set out above, if the proposed UK Scheme were to be implemented, the RLL Transferred Policies would be transferred to, and become policyholders of, PLAE rather than RLL, and I am satisfied that there would be no material adverse effect on the security of benefits under the RLL Transferred Policies as a result of:
- The reliance on the financial strength of PLAE rather than RLL;
 - PLAE's reinsurance arrangements;
 - PLAE having PGH as an ultimate parent, as PGH is also the ultimate parent of RLL; and
 - Being subject to Irish law relating to the rights on wind-up of an insurer.
- 8.52 For clarity even if the potential for parental financial support had not been taken into account in reaching my conclusion (that there would be no material adverse effect on the security of benefits under the RLL Transferred Policies) it would not have changed my conclusion on this point.
- 8.53 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 of the RLL Transferred Policies as a result of being part of PLAE after the UK Scheme rather than RLL as currently.

The effect on the security of benefits under the RLL Transferred Policies due to losing the protection conferred by the FSCS

- 8.54 Some of the RLL Transferred Policyholders are currently covered under the UK's statutory 'fund of last resort', the FSCS. In the event that RLL were to become insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance benefits 100% of the benefits are protected and the coverage is automatic for policyholders of UK authorised insurers and is funded by levies on firms authorised by the PRA and the FCA.

- 8.55 If the UK Scheme were to be implemented, claims from eligible RLL Transferred Policyholders occurring prior to the Effective Date (whether reported or not) would be protected in the event of the failure of RLL. However, RLL Transferred Policies would no longer be covered under the FSCS for claims occurring on or after the Effective Date.
- 8.56 I understand that there is no relevant equivalent Irish compensation scheme for the types of policies held by the RLL Transferred Policyholders.
- 8.57 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.
- 8.58 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of benefits for the RLL Transferred Policyholders. In particular, given the likelihood of default or insolvency of PLAE is remote, the loss of FSCS is more than outweighed by the benefits of the UK Scheme, in that the UK Scheme ensures certainty, as well as consistency and continuity, of the provision of administration and benefits for RLL's EEA policyholders by an insurer within the Phoenix Group.

Overall conclusion on the effect of the UK Scheme on the security of benefits under the RLL Transferred Policies

- 8.59 In summary, 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 from being subject to the PLAE Capital Management Policy rather than the RLL Capital Management Policy;
 - There would be no material adverse effect on the security of benefits under the RLL Transferred Policies as a result of being part of PLAE rather than RLL as currently; and
 - The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the RLL Transferred Policies.
- 8.60 Therefore, in conclusion, 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 RLL Transferred Policies.

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

- 8.61 If the proposed UK Scheme were to be implemented, the RLL Transferred Policies would be direct policies of PLAE and directly exposed to the risk profile of a different company that at outset would have a different business mix and policyholders with different demographic profiles.
- 8.62 The risk profiles of RLL and PLAE differ considerably:
- As shown in Figure 4.12, operational risk is the most significant component of RLL's risk profile on a Solvency II Pillar 1 basis;
 - RLL's exposure to other risks is greatly reduced because of the IGR, which reinsures 100% of the risks arising from the long-term business of RLL to RAL. However, although the actual operational risk exposures of RLL are also passed to RAL through the IGR, this cannot be allowed for under the Standard Formula methodology. Therefore, the most material risks are counterparty default, spread and interest rate risk, which mostly arise from the loan paid to RGP that has an outstanding balance of £69 million;

- Due to the presence of the IGR, the risk of RLL breaching its capital management buffer is primarily through exposure to the risk of the failure of RAL. In that unlikely (due to the financial strength of RAL) event, the funds withheld structure in the IGR would enable RLL to retain ownership of sufficient assets to cover its non-linked liabilities. These assets are in addition to the Linked Assets held in the Linked Funds by RLL in respect of the unit-linked liabilities of RLL. Furthermore, the schedule of termination payments under the IGR was set to ensure that RLL would be able to cover its recaptured SCR and technical provisions;
 - As shown in Figure 4.13, following the implementation of the UK Scheme the most material individual components of PLAE's risk profile, on a Solvency II Pillar 1 basis, are longevity, spread and counterparty default risk; and
 - PLAE would be exposed to longevity risk through the annuity business which is the only business retained within PLAE net of its reinsurance arrangements, and the spread risk is predominantly due to the corporate bond asset portfolio held to back its annuity business. The counterparty default risk is due to the significant reinsurance arrangements within PLAE, primarily those that PLAE would enter into with RLL and PLL resulting from the transfer.
- 8.63 The risks to which PLAE is exposed are typical of insurance entities and, although the largest risk for PLAE is longevity risk, there are no abnormal risks or impaired lives within this block of business. The capital that will be held by PLAE will reflect its risk profile.
- 8.64 The counterparty default risk is mainly a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements. The risks associated with these agreements are mitigated by the associated security (the Floating Charges and WP Fixed Charges), see paragraphs 5.43 and 5.62 to 5.67.
- 8.65 Whilst the implementation of the UK Scheme would result in a change to the risk exposures of the RLL Transferred Policies, it should be noted that:
- The IGR will terminate following the expected future Part VII transfer of the RLL Non-transferring Business to another appropriately authorised member of the Phoenix Group described in paragraph 4.85;
 - PLAE has the ability to terminate the With-Profits Reinsurance Agreements should the credit rating of PLL fall below a certain threshold or PLL's solvency capital ratio fall below 105%;
 - PLAE has the ability to terminate the RLL Unit-Linked Reinsurance Agreement should the solvency capital ratio of RLL fall below 105%;
 - The Solvency II regime has been implemented consistently across the UK and Ireland;
 - The SCR calculated in accordance with the Solvency II regime will reflect the risk exposures of the relevant company;
 - The capital held in PLAE comfortably exceeds the required SCR;
 - The capital held in PLAE meets the minimum capital buffer required under the PLAE Capital Management Policy, and this minimum buffer takes account of PLAE's exposure to RLL and PLL; and
 - PLAE has undertaken stress and scenario testing, including the potential recapture of the WP Reinsurance Agreements and UL Reinsurance Agreements, and this shows that in all circumstances considered PLAE is projected to recover through the emergence of surplus from Transferred Business.
- 8.66 RLL has a risk management framework that is aligned to the Phoenix Group Risk Management Framework, and the risk management framework established by PLAE will also be aligned with the Phoenix Group Risk Management Framework. There may be instances where the frameworks adopted by PLL and PLAE differ. This will occur when the Boards of the relevant entities choose to deviate from the Phoenix Group Risk Management Framework to better reflect the specific risks of their entity.
- 8.67 As detailed in paragraphs 4.112 to 4.115 RLL has an IGR in place which means that the majority of the financial and insurance risks of RLL are passed to RAL, in addition, stress and scenario testing is performed by Phoenix Group and it considers stresses and scenarios outside of those required by Solvency II. PLAE will use a Standard Formula approach to calculate its SCR, however within its ORSA it includes some scenario testing which capture risks not fully captured under Solvency II, including the potential recapture of the Unit-Linked Reinsurance Agreements, as well as a "miscellaneous" scenario which covers situations such as cyber-attacks, financial crime and data breaches.

- 8.68 The RLL Transferred Business is a subset of the business of RLL, not a broad cross section of its business. This is also the case for the PLL Transferred Business and PLL. Accordingly, the mix and volumes of risks to which PLAE will be exposed will be different to the corresponding exposure of PLL currently, and its exposure after the UK Scheme has been effected. However, as detailed in paragraphs 8.66 and 8.67, PLAE has a risk management framework which is aligned to that of the Phoenix Group, but which is adapted to ensure it captures all the risks to which PLAE will be exposed.
- 8.69 I am satisfied that any change in risk profile and risk management would not have a material adverse effect on the RLL Transferred Policies.

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

Introduction

- 8.70 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. This would involve a change to:
- Regulation in respect of conduct of business. The responsibility for conduct of business supervision is currently shared between the FCA and the host regulator;
 - The supervisory body responsible for prudential regulation. The supervisors are the PRA in the UK and the CBI in Ireland;
 - The access of policyholders to the services of an independent complaints service to opine on alleged cases of policyholder mistreatment. This role is currently fulfilled by the FOS in the UK and the FSPO in Ireland; and
 - The access of policyholders to a compensation scheme in the event of insurer default or insolvency. This protection is conferred by the FSCS in the UK; however, there is no equivalent to the FSCS in Ireland.

I consider each of these in turn in the following paragraphs.

Regulation in respect of the conduct of business

- 8.71 Currently, for the RLL Transferred Business the regulatory responsibility for conduct of business supervision is shared between the FCA and the host regulator. The host regulator will usually be the regulator in the country in which the policies were sold and marketed, i.e. Germany, Norway or Sweden, however if the RLL Transferred Policyholder has subsequently become resident in another EEA state, then it will be the relevant regulator in that EEA state. As a result, the conduct of business regulations applicable in respect of the RLL Transferred Business are currently those issued by the FCA and the “general good”⁵⁹ rules applied by the host regulator.
- 8.72 If the proposed UK Scheme were to be implemented, the “general good” rules of the host regulator would continue to apply; however, the CBI would have primary responsibility in respect of conduct of business supervision instead of the FCA.
- 8.73 The FCA sets out various outcomes that firms should strive to achieve to ensure the fair treatment of customers, which are included in full in Appendix G. The FCA also sets out guidance on the principles that firms should adopt to ensure they fulfil their TCF duties. Further, the Conduct of Business Sourcebook (“COBS”) section of the FCA Handbook applies to firms with respect to the conduct of certain activities carried on in the UK.
- 8.74 The FCA is currently consulting on the new Consumer Duty (paragraph 3.47) which aims to bring about a fairer, more consumer-focused and level playing field in retail financial markets; it is anticipated that this will be finalised by 31 July 2022. The Phoenix Group has an internal programme in anticipation of the Consumer Duty taking effect in April 2023; this programme will deliver new Customer Business Standards and articulate the standards of treatment and product outcome that will apply for customers. As the proposed UK Scheme is due to become effective before the Consumer Duty comes into effect, it will not be a regulatory requirement in respect of the RLL Transferred Business, however as PLAE is part of the Phoenix Group the findings of the Customer Business Standards programme will be considered by the PLAE Board, and in particular how these impact customers.

⁵⁹ All EEA states are required to publish general good rules which insurance companies must adhere to when selling and servicing policies on a cross-border basis in the respective EEA state.

- 8.75 The CPC was issued by the CBI, as detailed in paragraph 3.48, and aims to ensure a consistent level of protection for customers regardless of their chosen financial services provider. These provisions are binding on regulated entities, and therefore will be binding on PLAE.
- 8.76 Additionally, the CBI has issued principles of best practice for the distribution of products in other EU member states and third countries. Although the principles of best practice are not binding, they may reflect certain binding requirements of the CBI, and Phoenix management anticipates that the PLAE Board will implement these principles of best practice in full. Amongst other things, the principles address:
- Confining target markets to consumers for which products are suitable;
 - Checking whether the product continues to meet the general needs of its target market;
 - Ensuring that information provided to intermediaries is clear, accurate and not misleading;
 - Appropriately addressing errors, complaints and policyholder communications; and
 - Relationships with intermediaries.
- 8.77 Further, there are CBI representatives on the Board of Supervisors of EIOPA and the CBI operates within a significant and sophisticated insurance market. In my view there is therefore no reason to believe that the oversight applied by the CBI would be any less robust than that applied within the UK. PLAE is wholly owned by PGH, a holding company whose subsidiaries include insurers that are regulated by the PRA and the FCA in the UK.
- 8.78 Additionally, the IDD, which ensures that customers' interest are taken into consideration throughout the whole life cycle of an insurance product, applies to RLL as transposed in the UK prior to Brexit, and will equally apply to PLAE in Ireland as it has been adopted into Irish law.
- 8.79 Overall, the FCA and CBI have each issued conduct principles which aim to ensure the fair treatment of customers, which must be complied with by the firms they regulate. I am therefore satisfied that, in terms of conduct of business regulation, the implementation of the proposed UK Scheme would not have a material adverse effect on the RLL Transferred Policies. I will confirm in my Supplementary Report whether the PLAE Board has implemented in full the CBI principles of best practice for the distribution of products in other EU member states and third countries.

Regulation in respect of prudential supervision

- 8.80 If the proposed UK Scheme were to be implemented, there would be a change in the regulator responsible for prudential supervision from the PRA to the CBI. At a high level, the PRA and the CBI have aligned aims of promoting the strength and financial soundness of financial institutions in the UK and Ireland respectively.
- 8.81 The solvency framework for insurers in Ireland and the UK is Solvency II. As detailed in paragraph 3.28, the Solvency II regime and the UK's adoption of the Solvency II regime are currently under review. Given the stages of these reviews it is not possible to consider in detail the impact that any potential divergence may have. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime. I will consider any further developments relating to this matter in my Supplementary Report.
- 8.82 The change in prudential regulatory supervision from the PRA to the CBI would not have a material adverse effect on:
- The Solvency II regulations that would apply to the RLL Transferred Business;
 - The adherence to the Solvency II regulations in relation to the methodologies and assumptions used to calculate the Solvency II balance sheet (in particular the technical provisions and the SCR);
 - The adherence to the appropriate risk appetite statements; and/or
 - The governance, management (including risk management) and servicing standards that apply to the RLL Transferred Policies.
- 8.83 Overall, the PRA and the CBI have aligned aims in respect of prudential supervision. They both operate under the Solvency II regime and I have no reason to believe the prudential supervision provided by the CBI is any less robust than that provided by the PRA. Therefore, I am satisfied that the change in regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the RLL Transferred Policies.

The access of Transferred Policyholders to the services of an independent complaints service

- 8.84 If the proposed UK Scheme were to be implemented, the RLL Transferred Policyholders would continue to have access to the FOS, and the provisions of the DISP section of the FCA Handbook would continue to apply, in relation to the following cases:
- Complaints in respect of acts or omissions of RLL prior to the Effective Date; and
 - Complaints in respect of acts or omissions after the Effective Date where the complaint relates to activity carried on in the UK (see paragraph 8.87).
- 8.85 In respect of the above cases, the UK Scheme document requires that PLAE must comply with:
- The relevant provisions of the DISP section of the FCA Handbook (and other relevant sections of the FCA Handbook) that would apply to the handling of any complaints brought to the FOS that fall under its jurisdiction; and
 - Any valid judgment, settlement, order or award (or relevant part thereof) of the FOS, made under its jurisdiction as set out in DISP 2 of the FCA Handbook.
- 8.86 For complaints in respect of acts and omissions subsequent to the implementation of the proposed UK Scheme which relate to activities carried on outside of the UK, the RLL Transferred Policyholders would usually pursue complaints against the insurer through the FSPO rather than the FOS. The RLL Transferred Policyholders will continue to have the ability to raise a complaint with the ombudsman in their home EEA state, but as agreed in a Memorandum of Understanding between EEA states, this would be passed to the ombudsman in the home state of the insurer, which after the UK Scheme will be the FSPO in Ireland.
- 8.87 While, following the implementation of the UK Scheme, the RLL Transferred Business would be administered by resources provided by an intra-group service provider (as outlined in paragraphs 8.124 to 8.125 below), administrative activities are unlikely to give rise (directly) to a complaint. Following the Effective Date, the responsibility for decisions (such as claims decisions) would sit with PLAE in Ireland. Therefore, it is my expectation that the majority of any complaints that could arise in the future on the RLL Transferred Business would relate to activities carried out in Ireland, and so the FOS would not have jurisdiction to consider any such complaint.
- 8.88 As I expect in most circumstances that the RLL Transferred Policyholders would no longer have access to the FOS, I need to consider whether the independent complaints service provided by the FSPO rather than the FOS constitutes a material weakening in the independent complaints services available for RLL Transferred Policyholders.
- 8.89 The complaints procedures for both the FOS and the FSPO are broadly similar. Both organisations have the power to make legally binding rulings on individual disputes. However, for FOS the limits to the amount it can make a business pay an individual are currently:
- £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019;
 - £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019;
 - £160,000, increasing on 1 April each year from 1 April 2020, for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019; and
 - Within the relevant section of the Dispute Resolution: Complaints rules included in the FCA Handbook it states that on the 1 April each year these limits are adjusted by applying a percentage increase linked to the change in CPI, and rounded to the nearest £5,000. However, for 2021 the FCA decided not to update the compensation limits.
- 8.90 By contrast, the limit for the FSPO is €52,000 per annum where the subject of the complaint is an annuity, and a maximum of €500,000 for any other complaints. There are no annuities contained within the RLL Transferred Business, and I note that the limit for other complaints raised to the FSPO in Ireland is higher than the limit for complaints raised to the FOS in the UK. Therefore, the RLL Transferred Policyholders will not be materially adversely affected by the payout limits under the FSPO compared to the FOS.
- 8.91 I consider the services provided by the FOS and the FSPO to be broadly similar and I do not consider the differences outlined above to represent a material weakening in the independent complaints services available to RLL Transferred Policyholders.

8.92 In addition, the implementation of the proposed UK Scheme would not change the rights of any of the RLL Transferred Policyholders to access to the relevant Ombudsman schemes in Germany, Norway and Sweden.

8.93 In summary, the services provided by the FOS and the FSPO are quite similar and policyholders will continue to have access to local ombudsman services. Therefore, I am satisfied that the implementation of the proposed UK Scheme would not have a material adverse effect on the rights of the RLL Transferred Policyholders in relation to their access to the services of an independent complaints service.

The access of RLL Transferred Policyholders to a compensation scheme in the event of insurer default or insolvency

8.94 The implications of the loss of FSCS protection are discussed in paragraphs 8.54 to 8.58.

Overall conclusion on effect on the RLL Transferred Policies of the change in regulatory regime from the UK to Ireland

8.95 In summary, I am satisfied that, if the proposed UK Scheme were to be implemented:

- In terms of conduct of business regulation, there would be no material adverse effect on the RLL Transferred Policies;
- The change in regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the RLL Transferred Policies;
- There would be no material adverse effect on the rights of RLL Transferred Policyholders in relation to their access to an independent complaints service; and
- I am satisfied that the loss of FSCS protection would not lead to a material adverse effect on the rights of RLL Transferred Policies.

8.96 Therefore, in conclusion, 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 AND STANDARDS OF SERVICE

Introduction

8.97 The RLL Transferred Business consists of unit-linked and non-profit non-linked business. For these types of business, policyholders' expectations in respect of their benefits are that:

- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions; and
- The management, governance, administration and servicing of the policies is performed to a consistent standard throughout the duration of their policy.

8.98 It is therefore necessary to consider the impact of the UK Scheme on the following:

- In respect of the unit-linked RLL Transferred Policies:
 - The range of funds available, the management of those funds (including the allowance for discretion in managing them), the investment objectives applied to those funds, the charges applied to those funds and the pricing of those funds;
 - The benefits received by the policyholders, as these should continue to reflect the investment performance of the assets in which their units are invested and the contractual charges payable under the policies; and
 - The assets in which the units under unit-linked policies are invested, as these should continue to be materially in line with the target investment allocation in the relevant fund literature.
- The benefits paid in respect of the non-profit non-linked RLL Transferred Policies;
- The management, governance, administration and servicing in respect of the RLL Transferred Policies.

8.99 These are considered in turn below.

The benefit expectations of the RLL Transferred Policyholders

Introduction

- 8.100 If the proposed UK Scheme were to be implemented, there would be no material 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 as discussed in paragraphs 8.124 to 8.133 below).
- 8.101 For the non-profit RLL Transferred Policies, there would be no change to the benefits guaranteed under the policy, or to the dates or contingencies on which these benefits would be paid.
- 8.102 For the unit-linked RLL Transferred Policies, I have set out my additional considerations below.

The RLL Linked Funds and the RLL Unit-Linked Reinsurance Agreement

- 8.103 As described in Section 5, PLAE will establish RLL New Linked Funds that mirror the RLL Linked Funds available to the RLL Transferred Policyholders, immediately before the Effective Date. This includes the newly established Swedish Linked Funds in RLL, as described in paragraph 5.35. The assets and liabilities relating to the relevant RLL Linked Funds will transfer to the corresponding RLL New Linked Funds under the UK Scheme. RLL and PLAE will enter into the RLL Unit-Linked Reinsurance Agreement on the Effective Date. Under this agreement, the unit-linked liabilities relating to the RLL New Linked Funds would be immediately reinsured back to RLL, with RLL's obligation to transfer the associated RLL Linked Assets to PLAE on the Effective Date being set off against PLAE's obligation to pay a reinsurance premium of an equal amount to RLL.
- 8.104 Due to the establishment of the RLL New Linked Funds and the RLL Unit-Linked Reinsurance Agreement, the RLL Transferred Policyholders will continue to have access to the same RLL Linked Funds following the Effective Date as they would if the UK Scheme had not been implemented.
- 8.105 The implementation of the proposed UK Scheme would not change:
- The range of funds to which the unit-linked RLL Transferred Policies would have access;
 - The management of the funds in respect of investment objectives and the charges taken; or
 - The number, value or type of units held by the RLL Transferred Policyholders.
- 8.106 Furthermore, RLL may make changes to the range of funds offered through the Unit-Linked Reinsurance Agreement in the same way as it can make changes before the transfer, subject to it being possible to replicate the change in the RLL New Linked Funds, the relevant change being permitted under the terms of the UK Scheme and RLL providing adequate notice to PLAE.
- 8.107 Following implementation of the proposed UK Scheme, PLAE will be entitled to the same rights in relation to the management of the RLL New Linked Funds as RLL has to the corresponding RLL Linked Funds. These rights include the powers to close to new or further investment, divide, modify or wind-up funds in the future, subject to consultation with RLL to the extent that such action affects or has the potential to affect the business of, or any fund of, RLL or any of its policyholders. Whilst the RLL Unit-Linked Reinsurance Agreement is in place, any such actions must also align with any similar actions being undertaken by RLL in respect of the corresponding RLL Linked Fund. The provisions for the future management of the RLL New Linked Funds are set out in the UK Scheme document and any future changes would be subject to the approval by PLAE's Board, having consulted with the HoAF (or another appropriate senior manager with PCF approval).
- 8.108 In the event that the PLAE Board determines to close any of the RLL New Linked Funds then, when implementing its wind-up, units of equal value will be allocated without charge to another appropriate RLL New Linked Fund, and the PLAE Board must have regard to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role when determining the value of units to be allocated and the alternative PLL New Linked Fund to which the units will be allocated.
- 8.109 While the above description outlines the current expectations at the time of writing this Report, the terms of the RLL Unit-Linked Reinsurance Agreement and the associated RLL Floating Charge are in final draft form and are expected to be finalised in advance of the UK Sanction Hearing. The UK Scheme contains a clause which requires that the RLL Unit-Linked Reinsurance Agreement and the associated RLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed UK Scheme, in my Supplementary Report.

Unit pricing for the Swedish Linked Funds

- 8.110 The Linked Funds are currently priced on a bid or offer basis according to net daily cashflows (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 in net outflow). This would not be changed by the implementation of the proposed UK Scheme, and the same approach to unit pricing would continue to apply to the Swedish Linked Funds and the remaining UK part of the Linked Funds after the split of the relevant Linked Funds prior to the implementation of the proposed UK Scheme. Furthermore, the implementation of the proposed UK Scheme would not change the number or value of units held by any of the unit-linked policyholders on the Effective Date.
- 8.111 Whilst the split of the Swedish Linked Funds is not a direct consequence of the UK Scheme, I note that this split may result in some daily differences arising in the unit pricing bases for the respective funds due to fluctuations in daily cash flows within the Swedish parts and UK parts of the Linked Funds. However, in general both the UK parts of the Linked Funds and the Swedish parts of the Linked Funds are declining as they are closed to new business and the information provided to me by RLL indicates that generally the outgo is expected to exceed income, meaning it is likely that the funds will be net outflow and so the Swedish Linked Funds will normally be priced on a bid basis. Therefore, there is no material adverse impact on the Swedish Transferred Policyholders (or, for completeness, the non-transferring UK policyholders).

Charges on unit-linked RLL Transferred Policyholders

- 8.112 Where the charges to unit-linked policies are contractual, these would be unchanged by the UK Scheme as there are no material changes to the terms and conditions of the RLL Transferred Policies (except that the policies would become policies of PLAE and would therefore be administered in line with PLAE's approach to administration as discussed in paragraphs 8.124 to 8.1338.121 below).
- 8.113 Where there is an element of discretion in setting charges for unit-linked RLL Transferred Business, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the RLL Board, which will pay due regard to the reasonable expectations of these policyholders. 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 updated on this matter in my Supplementary Report.

Tax in respect of the RLL Transferred Policyholders

- 8.114 I am not an expert in tax matters and therefore, in forming my opinion on the tax implications of the proposed Scheme, I have relied on information provided by RLL's internal tax team.
- 8.115 The Norwegian RLL Transferred Business and German RLL Transferred Business were written as part of the Non-Basic Life Assurance and General Annuity Business ("Non-BLAGAB") of RLL. The Swedish RLL Transferred Business was originally written as Basic Life Assurance and General Annuity Business ("BLAGAB"), but I understand that from 1 January 2022, the Swedish RLL Transferred Business will operate under the Non-BLAGAB tax regime.
- 8.116 During the period in which the Swedish Transferred Business has been taxed on a BLAGAB basis, policies where premiums were paid after 1 January 1997 received a tax credit of up to 50% of the Swedish tax suffered annually, to recognise that UK tax was being paid. Following the re-categorisation of these policies to Non-BLAGAB from 1 January 2022 (which is not a consequence of the UK Scheme) I understand that no further tax credit would be available. Therefore, such policyholders will have an increased Swedish tax liability, but no UK tax will be due under the Non-BLAGAB tax regime. Modelling undertaken by Phoenix has shown that overall the total tax paid by these individual policyholders will be reduced following the change in tax basis from BLAGAB to Non-BLAGAB.
- 8.117 Following the implementation of the proposed UK Scheme, and subject to confirmation that will be sought from the Irish tax authorities, the RLL Transferred Policies will be treated as NBB in Ireland. As a result of this, in respect of policyholder tax:
- Investment income and gains within unit-linked funds would be credited gross of tax; and
 - An exit tax charge would be payable by any policyholders who are resident in Ireland for tax purposes at the point at which a chargeable event occurs.
- 8.118 Taking each of the groups of RLL Transferred Policies in turn:

- I understand that no UK tax is due under the I-E regime on the investment returns associated with the German RLL Transferred Business. Similarly, no tax would be payable under the Irish tax regime. The proposed UK Scheme would therefore have no impact on policyholder tax in respect of the German RLL Transferred Business; and
- I understand that for the Norwegian RLL Transferred Business, investment income and gains within unit-linked funds are currently credited gross of tax. This will also be the taxation basis for the Swedish Transferred Business after 31 December 2021. Therefore, following the implementation of the proposed UK Scheme, being treated as NBB in Ireland will result in consistent tax treatment in respect of investment income and gains within unit-linked funds. However, there would be adverse tax consequences because of the proposed UK Scheme if the policyholder were resident in Ireland for tax purposes at the point at which a chargeable event occurs. As none of the policyholders of Norwegian RLL Transferred Business or Swedish Transferred Business are currently recorded as resident in Ireland, and as the Communications Packs clearly set out this potential risk, I do not consider this change to have a material adverse effect on policyholder tax in respect of the Norwegian RLL Transferred Business or Swedish Transferred Business.

8.119 Therefore, based on the information provided, as described above, if the proposed UK Scheme were to be implemented I am satisfied that there would not be a material adverse change to policyholders' tax liabilities.

Overall conclusion of the effect on the benefit expectations of the RLL Transferred Policyholders

8.120 I am satisfied that the implementation of the UK Scheme would not have a material adverse effect on the benefit expectations of the RLL Transferred Policyholders.

The effect of the UK Scheme on the management, governance, administration and servicing of the RLL Transferred Policies

Management and governance

8.121 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. I note the following in respect of the planned management of the RLL Transferred Business after the transfer:

- The PLAE Board would replace the RLL Board as the governing body with responsibility for the RLL Transferred Business;
- The PLAE Board will consist of a majority of independent members;
- The non-linked assets backing the transferring non-profit business would be managed in accordance with PLAE's governance and management guidelines. Any assets backing non-profit RLL Transferred Business will initially be held as cash and at a later date be invested in liquid and high quality government or government-agency securities; and
- As detailed in paragraph 8.59, I am satisfied that there is no material change in the security of benefits and therefore in respect of policyholder benefit certainty.

8.122 Similarly to PLL and RLL, the organisational design of PLAE follows the principles of the Phoenix Group. Senior management roles will be based in Ireland and will be supported by Phoenix Group functions and shared services. In addition, the CBI has implemented the F&P Regime, which defines a set of PCFs, and therefore individuals undertaking these roles will need to be approved by the CBI, as detailed in paragraph 3.35. The comparative regime in the UK is the SM&CR as detailed in 3.32. PLAE is currently in the process of appointing the PCFs; all applications for PCFs have been submitted to the CBI. I will provide an update on the progress of the PCF applications in my Supplementary Report; however, I note that PLAE will not be authorised until all PCFs are approved, and therefore it would not be possible for the UK Scheme to become effective without these approvals being obtained.

8.123 Overall, I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on the levels of management and governance that would apply to the RLL Transferred Policies.

Administration and servicing

8.124 Figure 8.2 below shows the administration providers in respect of the RLL Transferred Policies before and after the UK Scheme:

FIGURE 8.2 TABLE SHOWING THE ADMINISTRATION PROVIDERS FOR THE RLL TRANSFERRED POLICIES PRE AND POST THE UK SCHEME

RLL Transferred Policies	Administration Provider Pre-UK Scheme	Administration Provider Post-UK Scheme
German RLL Transferred Policies		SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will continue to be provided by RUKSL.
Norwegian RLL Transferred Policies	RUKSL	
Swedish RLL Transferred Policies		

- 8.125 As can be seen from the table above, the RLL Transferred Policies are currently administered by RUKSL. RUKSL uses its own administration platform to administer these policies. Following the UK Scheme the administration of the RLL Transferred Policies will transfer to PLAE, with the resources for the administration being provided by SLAESL (Irish branch), and therefore the individuals performing the administration of these policies will change. However, there will be no change to the administration platform used. 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.
- 8.126 For services in respect of the RLL Transferred Policies that will be provided by PLAE using the personnel and resources of SLAESL (Irish branch), PLAE and SLAESL (Irish branch) will enter into an MSA. The MSA, which I have seen a draft of, will set out the specific details of the services being provided, the number and qualifications of the personnel, the required standards of service, the location of the services and PLAE's approach to monitoring the provision of these services. In addition, the MSA between PLAE and SLAESL (Irish branch) will contain service level metrics which are aligned to the existing service level metrics used in respect of the RLL Transferred Business. I will provide an update on the status of this MSA agreement in my Supplementary Report.
- 8.127 The Phoenix Group does not anticipate any change to current service delivery levels following the implementation of the UK Scheme. In order to achieve this, the MSA agreements 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.
- 8.128 In addition, PLAE will establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE's customers, including oversight of outsourced services. I understand that the intention is that the PLAE Customer Committee will meet monthly until PLAE becomes operationally established, from which point it will meet quarterly.
- 8.129 PLAE is currently implementing various measures in order to ensure the operational readiness of its administration and servicing model. The Phoenix Group is currently in the process of recruiting new staff members to perform the services that will be provided by SLAESL (Irish branch) personnel within Ireland in respect of the RLL Transferred Policies. Some of the key aspects of the recruitment and training of new staff members are as follows:
- The new staff members recruited to provide services on behalf of PLAE will be required to meet the CBI's Minimum Competency Requirements⁶⁰, and will be required to possess the key skills needed in order to perform their role, including ensuring there are members of staff who speak German, Norwegian and Swedish;
 - By utilising SLAESL (Irish branch) personnel to support PLAE, an existing servicing company within the Phoenix Group, PLAE will be able to make use of an established support capability in Ireland, which it will use to enable recruitment, induction and training of new staff members, and the development of comprehensive training and accreditation plans in order to on-board and train new staff members;

⁶⁰ The CBI's Minimum Competency Requirements set out the CBI's minimum professional standards for persons providing certain financial services, in particular when dealing with customers. The aim is to ensure that customers obtain a minimum acceptable level of competence from individuals acting for or on behalf of regulated firms in the provision of advice and information and associated activities in connection with retail financial products.

- The aim is to offer a hybrid working model to new staff members, in order to reflect the increase in home working as a result of the COVID-19 pandemic and to ensure competitiveness when recruiting. All new staff members will be provided with the necessary equipment to work remotely. The intention is to have new staff members based in the office full time for their first month of employment to ensure a robust and efficient training and onboarding process; however, if another full or partial lockdown were to be enforced, hybrid or fully remote training would be utilised instead as appropriate. I understand that both hybrid and fully remote approaches to training and onboarding have been successfully utilised within the Phoenix Group during the COVID-19 pandemic, and it has various means of tailoring its induction programme to a hybrid or fully remote format should the need arise. I am therefore satisfied that PLAE has adequate plans in place to ensure new staff members can be effectively trained and onboarded under both hybrid and fully remote models;
- Both pre- and post-Effective Date, existing staff performing services in respect of the RLL Transferred Policies will be available to provide training support to new staff members until competency has been signed off, and the existing administration platform providers have existing training guides as further support to new staff members;
- Attainment of the CBI's Minimum Competency Requirements will form part of new staff members' roles and probation sign-off. This will also be factored into their ongoing career plans, and staff members will be required to complete minimum levels of Continued Professional Development annually to ensure their ongoing development;
- The number of new staff members that the Phoenix Group intends to recruit to administer the RLL Transferred Policies is greater than the number of full-time employees currently used, in order to ensure sufficient cover in unforeseen circumstances and to cater for fluctuations in work volumes; and
- Phoenix Group is also developing contingency plans in the event that recruitment is not completed in advance of the Effective Date, which consists of seconding existing staff in the UK to SLAESL (Irish branch) in Ireland as necessary in order to perform some or all of the required roles on a temporary basis.

8.130 I understand that PLAE will establish dedicated Irish telephone numbers for RLL Transferred Policyholders to contact PLAE representatives in Ireland for any queries relating to their policy, and a targeted communication will be sent to the RLL Transferred Policyholders in good time in advance of the Effective Date containing these new contact details. In addition, Phoenix Group website information will be updated to signpost the new contact details, and existing staff in the UK will receive training on where to direct the relevant RLL Transferred Policyholders in the event that queries are directed to UK service centres.

8.131 I have been informed by RLL and PLAE that the costs associated with implementing the administration and servicing model outlined above will be met entirely by shareholders. The shareholders will also meet any additional ongoing costs incurred as a result of these changes.

8.132 RLL currently manages its policyholder data in accordance with GDPR, the EU-wide data protection regime. Likewise, PLAE is required to manage its policyholder data in accordance with GDPR. Therefore, if the proposed UK Scheme were to be implemented, the RLL Transferred Policyholders would continue to be protected by GDPR.

8.133 Overall, 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. I am therefore satisfied that, based on the information and assurances provided to me to date, the implementation of the UK Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the RLL Transferred Policies. However, since the establishment of PLAE's administration and servicing model and the detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.

Overall conclusion on the effect of the UK Scheme on the reasonable expectations of the RLL Transferred Policyholders in respect of their benefits and standards of service

8.134 In conclusion, 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 and standards of service.

CONCLUSION FOR THE EFFECT OF THE PROPOSED UK SCHEME ON THE RLL TRANSFERRED POLICIES

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

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

INTRODUCTION

- 9.1 If the proposed Irish Scheme were to be approved by the Irish Court and, given the co-dependencies of the Schemes, the UK Scheme approved by the UK Court, the Irish PLL Transferred Business would be transferred from PLL to PLAE. The policies within the Irish PLL Transferred Business are collectively referred to as the “Irish PLL Transferred Policies”, and the policyholders holding these policies are collectively referred to as the “Irish PLL Transferred Policyholders”. Given the co-dependencies of the Schemes, in this section I have considered the combined financial impact of the Schemes on PLL and PLAE rather than considering the financial impact of the Irish Scheme in isolation.
- 9.2 In this section of the Report, I consider the likely effects on the Irish PLL Transferred Policyholders of the implementation of the proposed Irish Scheme. The key points to consider in respect of the Irish PLL Transferred Policyholders are the changes in the following due to the transfer:
- **The security of benefits under the Irish PLL Transferred Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the Irish PLL Transferred Policies under the applicable capital management policy and includes the strength provided by the reinsurance agreements and by the support from the Phoenix Group.
 - This is covered in paragraphs 9.3 to 9.75.
 - **The profile of risks to which the Irish PLL Transferred Policies are exposed.**
 - If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policies would become direct policies of PLAE and directly exposed to the risk profile of a different company.
 - This is covered in paragraphs 9.76 to 9.85.
 - **The oversight provided by the regulatory regime that will apply to the Irish PLL Transferred Policies.**
 - If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policies would move from being subject to the laws and regulations of the UK to those of Ireland.
 - This is covered in paragraphs 9.86 to 9.121.
 - **The reasonable expectations of the Irish PLL Transferred Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, service, management and governance applied to the Irish PLL Transferred Policies.
 - This is covered in paragraphs 9.122 to 9.182.

My overall conclusions regarding the likely effects on the Irish PLL Transferred Policyholders are set out in paragraph 9.184.

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

Introduction

- 9.3 Currently, the Irish PLL Transferred Policies derive their security of benefits from being part of PLL and the associated financial strength under the PLL Capital Management Policy, the strength of PLL’s reinsurance agreements and support provided to PLL from its ultimate parent (PGH). In addition, in the extreme scenario of PLL becoming unable to pay policyholder benefits, some of the Irish PLL Transferred Policyholders are currently protected under the FSCS (as described in Section 3 of this Report).
- 9.4 The implementation of the proposed Irish Scheme would mean that PLL would cease to have a defined contractual obligation to the Irish PLL Transferred Policyholders and that these obligations would be transferred to PLAE. Therefore, after the implementation of the proposed Irish Scheme, the Irish PLL Transferred Policies would derive their security of benefits from:
- being part of PLAE and the associated financial strength under the PLAE Capital Management Policy;

- the strength of PLAE’s reinsurance agreements (including the reinsurance agreements covering the Irish PLL Transferred Business novated to PLAE and those put in place at the Effective Date of the Irish Scheme); and
 - the support provided to PLAE from its ultimate parent (PGH).
- 9.5 In considering the effects of the Irish Scheme on the security of benefits, I therefore need to consider the effects on the security of the benefits under the Irish PLL Transferred Policies of:
- The change of applicable capital management policy from the PLL Capital Management Policy to the PLAE Capital Management Policy;
 - The transfer to be in PLAE after the Irish Scheme as compared to PLL currently. This will include consideration of the changes to the:
 - Financial strength provided by PLAE;
 - Applicable reinsurance agreements; and
 - Support from the parent;
 - The loss of the protections conferred by the FSCS.
- 9.6 These are covered in order below.

The effect on the security of benefits of a change in the applicable capital management policy

- 9.7 The capital management policy in respect of a company specifies the capital that a company is committed to hold in respect of its business and is typically stated in terms of the capital required by the relevant regulations. By requiring additional capital to be held on top of the regulatory requirements, the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the policies within the business covered by the capital management policy.
- 9.8 When considering the financial strength available to provide the security of the benefits of a particular group of policies, reliance should only be placed upon the assets held in accordance with the capital policy. This is because the assets in excess of the capital policy’s requirements need not be kept in the company and, subject to appropriate governance procedures, could be transferred out of the company.
- 9.9 The strength of a risk appetite statement is derived from both the relative level of capital required, as stipulated via the capital management policy, and the qualitative aspects such as the required response of management to a breach and the governance surrounding changes to the policies.
- 9.10 In respect of the relative strength of the capital management policies:
- PLL sets its Capital Management Policy to follow the principles that underpin the Phoenix Group Life Companies RAF, which requires a minimum capital buffer to be held in excess of the SCR. The buffer is defined as the amount required to absorb the more onerous of a 1-in-10 year all-risk stress event and a 1-in-20 year market risk stress event while still holding sufficient Own Funds to cover the SCR; and
 - PLAE has a draft Capital Management Policy that follows the principles that underpin the Phoenix Group Life Companies RAF. Therefore PLAE must also hold enough capital to absorb the most onerous of a 1-in-10 year all risk stress event and a 1-in-20 year market risk stress event whilst still holding sufficient Own Funds to cover the SCR. Approving this Capital Management Policy is a priority agenda item for the PLAE Board once it is established in advance of the Irish Sanction Hearing. If the PLAE Board approves a Capital Management Policy consistent with PLAE’s draft policy then, the minimum capital buffer for PLAE will be initially set at 150%. The analysis in this report is based on this scenario. If the PLAE Board approves a different Capital Management Policy I will address that, and its consequences, in my Supplementary Report.
- 9.11 Both PLL and PLAE have Capital Management Policies that follow the principles that underpin the Phoenix Group Life Companies RAF and so calibrate their minimum capital buffer in the same way. Therefore, I am satisfied that the minimum capital buffer required to be held by PLAE under the PLAE Capital Management Policy is of comparable strength to the minimum capital buffer held by PLL under the PLL Capital Management Policy.
- 9.12 In respect of the required response of management to a breach of the capital buffer:

- If PLL's solvency cover ratio were to fall below its capital buffer, management would notify the Board of PLL and advise whether remedial action is necessary. If required, and as determined by the severity of the breach, PLL management would put a plan in place to return the solvency cover to above the minimum capital buffer; further detail is set out in paragraph 4.58. The PLL Capital Management Policy sets out the management actions that could be taken by PLL in the event of a breach;
 - If PLAE's solvency cover ratio were to fall below its capital buffer, management would notify the Board of PLAE and advise whether remedial action is necessary. If required, and as determined by the severity of the breach, PLAE management would put a plan in place to return the solvency cover to above the minimum capital buffer within a defined period. The management actions that could be taken by PLAE in the event of a breach have not yet been defined, but these will be finalised once PLAE is operational, although the management actions in respect of the most material risks for PLAE have been considered in its ORSA (see paragraphs 4.170 to 4.171);
 - I note that the management responses will be triggered by a breach of the capital buffer. The capital buffer is greater than the capital Solvency II requires to be held to ensure continued solvency over a one-year trading timeframe with a likelihood of 99.5% (i.e. the SCR). Therefore, the PLAE Capital Management Policy requires management to take steps to maintain capital in line with its Capital Management Policy and such actions are required while there is still a significant margin before PLAE would be unable to pay its policyholders;
 - In the extreme, while PLL and PLAE have their own Capital Management Policies which require an additional buffer to be held over the SCR, the Phoenix Group has a policy which sets out a commitment that the Phoenix Group will provide support where it is able to do so, subject to the circumstances of any shortfall and the nature of options available, to restore the solvency in a suitable timeframe; and
 - While this support is not legally binding, PGH is subject to a number of obligations (as set out in paragraph 9.57) which link PGH's financial position to that of PLL and PLAE and which, in my view, limit PGH's ability to walk away from either PLL or PLAE to all but the most extreme scenarios.
- 9.13 Overall, I am satisfied that the differences in management responses required following a breach of the respective minimum capital buffers would not have a material adverse effect on the security of benefits of the Irish PLL Transferred Policies.
- 9.14 In respect of the governance surrounding changes to the policies, as described in Section 4:
- The PLL Capital Management Policy is the responsibility of the PLL Board and should be reviewed annually; and
 - The PLAE Capital Management Policy is to be reviewed annually. If changes are recommended these would need to be approved by the PLAE Board.
- 9.15 The governance arrangements and requirement for regulatory notification in respect of any changes to the respective capital management policies are therefore broadly equivalent between PLL and PLAE.
- 9.16 I am satisfied that there is no material adverse effect on the security of benefits for Irish PLL Transferred Business from being subject to the PLAE Capital Management Policy as compared to the PLL Capital Management Policy.

The effect on the security of benefits due to being part of PLAE after the Irish Scheme compared to PLL currently

Introduction

- 9.17 If the Irish Scheme were to be implemented then the Irish PLL Transferred Policies would be transferred from PLL to PLAE. The Irish PLL Transferred Policies would derive their security of benefits from:
- The financial strength of PLAE as provided by the assets backing the technical provisions and SCR as required by the Solvency II regulations and the excess assets up to the level of the requirements of the PLAE Capital Management Policy;
 - The existing reinsurance agreements that would be transferred to PLAE under the Irish Scheme;
 - The PLL Unit-Linked Reinsurance Agreement between PLL and PLAE reinsuring the investment element of the unit-linked PLL Transferred Business, and the associated security arrangements in favour of PLAE;

- The With-Profits Reinsurance Agreements between PLL and PLAE which reinsure all of the liabilities transferred from the PLL WPFs to the PLAE New With-Profits Funds, and the associated security arrangements in favour of PLAE; and
- The potential support from PGH as the ultimate parent of PLAE.

The financial strength of PLAE

- 9.18 If the Irish Scheme were to be implemented, the financial strength of PLAE would be provided by:
- The assets backing the technical provisions and SCR as required by the Solvency II regulations. In respect of these I note that:
 - PLL is, and PLAE will be, subject to the Solvency II regime and the technical provisions and the SCR of PLAE, including that in respect of the Irish PLL Transferred Policies, would continue to be calculated in accordance with the Solvency II regulations;
 - The Solvency II regulations around the calculation of the technical provisions and the SCR are not materially different between the UK and Ireland;
 - For the reasons set out in paragraph 3.28, I do not expect the level of protection provided by any potential replacement for Solvency II in the UK would differ materially from that provided by Solvency II currently; and
 - The Irish Scheme would not change the Solvency II Standard Formula as set by EIOPA, which will be used to calculate the SCR for the Irish PLL Transferred Business in PLAE.
 - The excess assets (in excess of total technical provisions and SCR) in PLAE up to the level of the requirements of the PLAE Capital Management Policy.
- 9.19 Currently the SCR in respect of the Irish PLL Transferred Business is calculated by PLL using an approved internal model and, in respect of the annuities, PLL also has approval to use the MA. RAL, on behalf of PLAE, undertook an assessment of the appropriateness of using the Standard Formula for the PLL Transferred Business and concluded that the risk profile of PLAE would not deviate materially from the assumptions underlying the Standard Formula, and therefore it was appropriate for PLAE to calculate its SCR using this approach. The documentation in respect of the appropriateness of using the Standard Formula has been shared with me, as well as the CBI, and in my opinion it is reasonable for PLAE to use the Standard Formula.
- 9.20 At the date of writing, EIOPA and the PRA have now both transitioned to using a SONIA-based curve for the Sterling risk-free rates. However, the Last Liquid Point used differs with EIOPA moving to 30 years and the UK using 50 years. The majority of the business retained in PLAE after the transfer will be euro-denominated and therefore this change to the sterling risk-free rate is unlikely to have a material impact on the capital PLAE is required to hold.
- 9.21 Figure 9.1 sets out the pre-Irish Scheme PLL and pro-forma post-Irish Scheme PLAE solvency cover ratio as at 31 December 2021. The pre-Irish Scheme PLL position has been prepared using PLL's approved internal model, and the pro-forma post-Irish Scheme PLAE position has been prepared using the Standard Formula approach to calculate the SCR. In addition, the pro-forma post-Irish Scheme PLAE position assumes that the UK Scheme has also been implemented.

FIGURE 9.1 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2021

	PLL Pre-Irish Scheme	PLAE Post-Irish Scheme
SCR	£2,656m	£66m
Own Funds	£4,309m	£99m
Solvency cover ratio	162%	150%

Source: Appendix A and Appendix B

- 9.22 Figure 9.1 shows that, as at 31 December 2021:
- The capital resources of PLL covered the SCR with Own Funds of £4,309 million. This corresponds to a solvency cover ratio of 162%, which is in excess of that required by the regulations and by the PLL Capital Management Policy.

- If the Irish Scheme had been implemented on this date, the pro-forma financial information shows that PLAE's capital resources would have covered its SCR with Own Funds of £99 million. This corresponds to a solvency cover ratio of 150% which would be materially in excess of that required by the regulations and at the level required by the PLAE Capital Management Policy.

9.23 Figure 9.2 below sets out the pre-Irish Scheme and pro-forma post-Irish Scheme solvency cover ratios for the relevant PLL WPFs as at 31 December 2021. The pro-forma post-Irish Scheme position assumes that the UK Scheme has also been implemented.

FIGURE 9.2 SOLVENCY II PILLAR 1 SOLVENCY RATIOS AS AT 31 DECEMBER 2021

	Pre-Irish Scheme	Post-Irish Scheme
SPI WPF	119%	119%
90% WPF	138%	138%
Phoenix WPF	126%	126%
Alba WPF	105%	105%
Other WPFs	146%	146%
NPF and Shareholders' Fund	178%	181%

Source: Milliman calculated using data in the PLL Chief Actuary Report on the proposed transfer of certain long-term insurance business from PLL to PLAE

- 9.24 Figure 9.2 shows that, as at 31 December 2021, the solvency cover ratio of the PLL WPFs are materially unchanged as a result of the Irish Scheme and the With-Profits Reinsurance Agreements, which fully reinsure the liabilities of the New With-Profits Funds back to the corresponding PLL WPFs.
- 9.25 The solvency cover ratios are indicators of, or proxies for, financial strength and when considering the solvency coverage, one should only take into account the capital resources that the firm is required to hold up to the level specified by the capital management policy because capital resources in excess of this may be transferred out of the company.
- 9.26 Figure 9.1 indicates that, if the Irish Scheme had been implemented on 31 December 2021, PLAE would have been sufficiently well capitalised to withstand a wide range of adverse stress events. In addition, it is a condition of the Irish Scheme that PLAE has sufficient capital so that immediately after the Effective Date it has a solvency capital ratio at or above its minimum capital buffer.
- 9.27 I have been provided with base and stressed projections for PLAE, which forecast the expected Own Funds over the five-year business planning horizon if the proposed Irish Scheme were to be implemented. These projections show that PLAE is not expected to breach the minimum capital buffer under the PLAE Capital Management Policy during the projection period, and is expected to generate Own Funds in excess of the level required to meet the minimum capital buffer (such excess could be distributed as dividends subject to company law and regulatory requirements). In addition, I understand that the projection model used by PLAE projects the full run-off of the business, subject to some model limitations, and that this projection did not highlight any areas of concern.
- 9.28 In summary, I am satisfied that reliance on the financial strength of PLAE if the Irish Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies.

The reinsurance arrangements of PLAE after the implementation of the Irish Scheme

- 9.29 If the Irish Scheme were to be implemented, the reinsurance agreements of PLAE would be as follows:
- The existing outwards reinsurance contracts with Swiss Re in relation to the RLL Transferred Business, that would be transferred to PLAE at the Effective Date;
 - The existing outwards reinsurance contracts PLL has in place with Swiss Re and Munich Re that relate to the German PLL Transferred Business and Icelandic PLL Transferred Business transferred to PLAE at the Effective Date; and
 - The existing outwards reinsurance contracts in relation to the Irish PLL Transferred Business allocated to the PLL Non-Profit Fund transferred to PLAE at the Effective Date.

- 9.30 There is one existing outwards reinsurance contract in respect of the business in the Irish PLL Transferred Business allocated to the PLL SPI WPF. Given that this business is to be reinsured back to the PLL SPI WPF (under the With-Profits Reinsurance Agreements) the existing outwards reinsurance will not be transferred to PLAE, instead it will be converted to a retrocession agreement for PLL. PLL has already taken steps to engage with the relevant reinsurer, and the reinsurer has not raised any concerns to the proposed conversion of this agreement to a retrocession agreement.
- 9.31 Given that the Irish Scheme would not result in any changes to the existing reinsurance arrangements in respect of the Irish PLL Transferred Policies, other than the fact they are transferred to PLAE, I am satisfied that the transfer of these reinsurance contracts does not materially adversely affect the security of benefits for the Irish PLL Transferred Business.

The New Linked Funds and the Unit-Linked Reinsurance Agreement between PLL and PLAE

- 9.32 PLL maintains internal PLL Linked Funds for the purposes of calculating benefits payable under the unit-linked policies, including those unit-linked policies within the Irish PLL Transferred Business. PLAE will establish identical funds (i.e. the "PLL New Linked Funds") to those PLL Linked Funds available to the Irish PLL Transferred Policyholders, immediately before the Effective Date. The relevant assets and liabilities relating to the relevant PLL Linked Funds will transfer to the PLL New Linked Funds under the Irish Scheme.
- 9.33 PLL and PLAE will enter into an PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds would be immediately reinsured back to PLL and so PLL's obligation to transfer the associated PLL Linked Assets to PLAE will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 9.34 At the Effective Date, in association with the PLL Unit-Linked Reinsurance Agreement and to minimise its counterparty exposure, PLAE would have a floating charge over all available assets of PLL⁶¹. As the process for terminating the Unit-Linked Reinsurance Agreement is not as complex, and therefore not as time consuming as that associated with the With-Profits Reinsurance Agreements, I am satisfied that there is not a need for PLAE to also have a fixed charge in respect of the PLL Unit-Linked Reinsurance Agreement. As a result of the PLL Floating Charge, all else being equal, under the Insurers (Reorganisation and Winding-Up) Regulations 2004 in the UK, PLAE would rank ahead of direct policyholders of PLL in the (unlikely) event that PLL became insolvent. However, the provisions of the PLL Floating Charge limit (in percentage terms) the amount recoverable by PLAE in respect of the unit-linked Irish PLL Transferred Policyholders to that of the direct policyholders of PLL. Consequently, PLAE would rank equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL (as they currently do).
- 9.35 I have been provided with information regarding the value of the assets against which PLL is unable to grant security and, when comparing this figure to PLL's Own Funds in excess of SCR as at 31 December 2021, I am satisfied that the available assets over which the PLL Floating Charge applies would be sufficient for PLAE to recover an amount equal to the liabilities covered by the PLL Unit-Linked Reinsurance Agreement. I understand that when granting any new security, PLL undertakes a review of existing securities in order to identify any potential impact of granting further security. In addition, 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. I am therefore satisfied that there are sufficient assets available under the PLL Floating Charge to cover the liabilities included in the PLL Unit-Linked Reinsurance Agreement and that there are adequate safeguards in place in relation to the granting of future floating charges by PLL.
- 9.36 I have discussed the PLL Unit-Linked Reinsurance Agreement and PLL Floating Charge with the executives within PLL, as well as their legal advisors in the UK and Ireland. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. Lastly, I understand that similar such arrangements are commonplace in the market. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.

⁶¹ 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.

- 9.37 Therefore, as a result of the implementation of the proposed Irish Scheme, the unit-linked Irish PLL Transferred Policyholders would no longer have a direct investment in the PLL Linked Funds. The Irish PLL Transferred Policyholders would instead have a direct investment in the PLAE New Linked Funds and PLAE would have a reinsured investment in the relevant PLL Linked Funds. As a consequence of this, the security of benefits in respect of the unit holdings of the Irish PLL Transferred Policyholders would be provided (indirectly) by the PLL Unit-Linked Reinsurance Agreement, the associated PLL Floating Charge held by PLAE and the assets held by PLL in respect of these.
- 9.38 Overall, I am satisfied that the establishment of the PLL New Linked Funds, the PLL Unit-Linked Reinsurance Agreement between PLL and PLAE and the PLL Floating Charge would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies. In addition, given that the process for terminating the PLL Unit-Linked Reinsurance Agreement is not as complex and time consuming as that for the With-Profits Reinsurance Agreements, I am satisfied that there is not a need for PLAE to also have a fixed charge in respect of the PLL Unit-Linked Reinsurance Agreement.
- 9.39 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge are in final draft form and are expected to be finalised in advance of the Irish Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Irish Scheme, in my Supplementary Report. The Irish Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the Irish Scheme.

The New With-Profits Funds and the With-Profits Reinsurance Agreements between PLL and PLAE

- 9.40 PLL maintains a range of with-profits funds, with the performance of these funds driving the bonuses paid to the with-profits policies within each of the funds, at the discretion of the PLL Board. The with-profits Irish PLL Transferred Policies are assigned to four of the PLL WPFs and therefore PLAE will establish the following New With-Profits Funds at the Effective Date:
- PLAE 90% WPF;
 - PLAE Alba WPF;
 - PLAE Phoenix WPF; and
 - PLAE SPI WPF.
- 9.41 The relevant assets and liabilities relating to the relevant PLL WPF will transfer to the corresponding New With-Profits Fund under the Irish Scheme.
- 9.42 PLL and PLAE will enter into four With-Profits Reinsurance Agreements on the Effective Date so that the liabilities relating to each of the four New With-Profits Funds would be immediately reinsured back to PLL, with PLL's obligation to transfer the associated PLL with-profits assets to PLAE being set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 9.43 To minimise the counterparty exposure of PLAE there would be one floating charge, the PLL Floating Charge⁶², in respect of all of the New With-Profits Funds, and this would be over all of the available assets of PLL and subject to a maximum claim amount equal to the termination amounts due under the relevant With-Profits Reinsurance Agreements, less any amounts already recovered under the WP Fixed Charges.
- 9.44 There would be three fixed charges (the "WP Fixed Charges"), in respect of the PLAE Alba WPF, PLAE Phoenix WPF and the PLAE SPI WPF, and each of these will be over assets held in segregated custodian accounts at a level equal to 65% of the BEL of the reinsured liabilities under the respective With-Profits Reinsurance Agreement. As the WP Fixed Charges are over assets held by PLL in custodian accounts, this will require the splitting of assets from the relevant PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. The intention is that the management of these assets will remain in line with the strategic asset allocation set out in the funds' PPFM.
- 9.45 The threshold of 65% of the BEL was chosen for two reasons:
- i. It was calibrated by Phoenix Group to be broadly equivalent to the impact on the PLAE SCR of a downgrade of PLL's credit rating from A to BBB, and

⁶² 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.

- ii. It was set at a level significantly below the PLL Floating Charge to minimise any potential disadvantage to the PLL Non-transferring Business (see paragraph 9.47).
- 9.46 The purpose of the WP Fixed Charges is to provide an immediate source of liquidity for PLAE should PLL become insolvent and, given the relatively small size of the Irish PLL Transferred Business allocated to the 90% WPF (see Figure 4.4), Phoenix management felt that a fixed charge was not required for this fund as, even in such an extreme circumstance, the absence of this fixed charge would not constrain PLAE's ability to meet claims. I agree with this conclusion.
- 9.47 As a result of the PLL Floating Charge and WP Fixed Charges, all else being equal, under the Insurers (Reorganisation and Winding-Up) Regulations 2004 in the UK, PLAE would rank ahead of direct policyholders of PLL in the (unlikely) event that PLL became insolvent. However, the provisions of the PLL Floating Charge limit (in percentage terms) the amount recoverable by PLAE in respect of the unit-linked Irish PLL Transferred Policyholders to that in respect of the direct policyholders of PLL. A similar provision is not present in the WP Fixed Charges. The only situation in which PLAE would recover more than the direct policyholders of PLL is where the direct policyholders of PLL recover less than 65% of the BEL when the effect of the WP Fixed Charge is to ensure PLAE receives 65% of the BEL in respect of the liabilities covered by the With-Profits Reinsurance Agreements. Consequently, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the most unlikely circumstances.
- 9.48 I have been provided with information regarding the value of the assets against which PLL is unable to grant security and, when comparing this figure to PLL's Own Funds in excess of SCR as at 31 December 2021, I am satisfied that the available assets over which the PLL Floating Charge applies would be sufficient for PLAE to recover an amount equal to the liabilities covered by the With-Profits Reinsurance Agreements. I understand that when granting any new security, PLL undertakes a review of existing securities in order to identify any potential impact of granting further security. In addition, 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, and the WP Fixed Charges contain a provision which prohibits PLL from granting any future security over the assets associated with the WP Fixed Charges. I am therefore satisfied that there are sufficient assets available under the PLL Floating Charge and the WP Fixed Charges to cover the liabilities included in the With-Profits Reinsurance Agreements and that there are adequate safeguards in place in relation to the granting of future fixed and floating charges by PLL.
- 9.49 I have discussed the With-Profits Reinsurance Agreements, the WP Fixed Charges and the PLL Floating Charge with executives within PLL, as well as their legal advisors in the UK and Ireland. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. Lastly, I understand that similar such arrangements are commonplace in the market. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 9.50 I am also aware that PLAE has sought a draft legal opinion on whether the fixed charge meets the eligibility criteria of collateral under Solvency II, as implemented in Ireland, and I have also had the opportunity to discuss this matter with PLL's legal advisors in the UK and PLAE's legal advisors in Ireland. Based on these discussions I am satisfied that it is unlikely that the fixed charge will not meet that eligibility criteria.
- 9.51 Therefore, as a result of the implementation of the proposed Irish Scheme, the relevant Irish PLL Transferred Policies (both with-profits and non profit) would be allocated to the New With-Profits Funds, although their benefits would be fully reinsured back to the relevant PLL WPF. As a consequence of this, the security of benefits in respect of the relevant Irish PLL Transferred Policyholders would be provided (indirectly) by the With-Profits Reinsurance Agreements, the associated PLL Floating Charge and WP Fixed Charges held by PLAE and the assets held by PLL in the PLL WPFs.
- 9.52 Overall, I am satisfied that the establishment of the New With-Profits Funds, the With-Profit Reinsurance Agreements between PLL and PLAE, the PLL Floating Charge and WP Fixed Charges would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies.

9.53 While the above description outlines the current expectations at the time of writing this Report, the terms of the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed Charges are in final draft form and are expected to be finalised in advance of the Irish Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Irish Scheme, in my Supplementary Report. The Irish Scheme contains a clause which requires that the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed Charges have been entered into prior to the Effective Date of the Irish Scheme.

The support for PLAE from PGH as the ultimate parent of PLAE

9.54 There is no formal capital support arrangement between PLAE and PGH.

9.55 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintains a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, this is not legally binding.

9.56 Therefore, PGH's interest in PLAE is limited to indirectly owning the entire issued share capital of PLAE and so, as a matter of company law, PGH is not under any legal obligation to provide capital support to PLAE.

9.57 However, PGH is subject to a number of obligations which link PGH's financial position to that of PLAE and which, in my view, limit PGH's ability to walk away from PLAE to all but the most extreme scenarios when PGH itself is at risk of not being able to meet its own claims:

- PGH's status as the shareholder of PLAE means that PLAE is integrated into the PGH management and oversight framework. PGH's Solvency II and internal economic capital results incorporate the financial position of its subsidiaries including PLAE. The financial position of PLAE would therefore affect the Phoenix Group's financial position and the failure of PLAE to meet its SCR would be expected to lead to regulatory intervention by the CBI, and this could ultimately lead to a constraint on PGH's ability to pay a dividend;
- Once PLAE is authorised by the CBI, PGH will not be able to freely sell its shares in PLAE to a third party without the prior approval of the CBI to the change in control over PLAE. This approval would only be given if the CBI was satisfied with the suitability of the acquirer and financial soundness of the acquisition;
- Given the number of policyholders of PLAE and the nature of its insurance business, any attempt by PGH to walk away from PLAE would be likely to result in significant adverse publicity that would be highly undesirable to PGH;
- PGH and PLL have strong credit ratings, with current credit ratings of A+ and AA-, respectively, according to Fitch Ratings. PLAE does not currently have a credit rating as it has not yet been authorised. Any downgrade in PGH's credit rating as a result of the insolvency of one of its subsidiaries would be highly undesirable to PGH;
- PGH holds a substantial amount of liquid assets, with c.£2.2 billion of assets that could be made available within 1 day and £2.3 billion of assets in total that could be made available within 1 year as at 31 December 2021. It should be noted, however, that in significantly adverse circumstances the amount potentially available to provide support may have been depleted by those circumstances, and there could be more than one subsidiary requiring capital support; and
- There have been previous instances where PGH has provided capital support to subsidiary companies.

9.58 Therefore, although there is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including PLL and PLAE, PLAE can derive considerable security from having PGH as its parent as in all but the most extreme scenarios PGH would be expected to provide support to PLAE if and when required.

9.59 Furthermore, both PLL and PLAE are members of the Phoenix Group of companies, with PGH being the ultimate parent of both PLL and PLAE. It is therefore unlikely that the proposed Irish Scheme would change PGH's willingness or ability to support the Irish PLL Transferred Business.

Additional security for the Irish PLL Transferred Policies

- 9.60 Under the regulatory regime in Ireland, the assets held against the technical provisions must be recorded on a register, and the total value of assets on the register shall at no time be less than the Solvency II technical provisions. In the extreme scenario of PLAE becoming insolvent, the PLAE policies would, with the exception of expenses arising out of winding up proceedings (where these cannot be met by PLAE's other assets), have a priority claim on the assets of PLAE backing the Solvency II technical provisions.
- 9.61 This would apply to all PLAE policies (without exception) and they would rank *pari passu* (that is on equal footing) as regards all the assets held against the technical provisions. The ranking of insurance claimants upon wind-up of an insurer provides additional security for the benefits under the PLAE policies, including the Irish PLL Transferred Policies, which would not necessarily be available in the absence of such wind-up regulations.
- 9.62 Under the UK regulatory regime, the position is different. Insurance claims take precedence over any other claims, with the exception of certain preferential claims (e.g. claims by employees) and secured claims with respect to the whole of the insurance undertaking's assets. Similarly to Ireland, direct insurance creditors rank equally and ahead of inwards reinsurance creditors and all other unsecured/non-preferential creditors in the event that an insurer is wound up.
- 9.63 The comparative position of policyholders in a UK insurance undertaking versus policyholders in an Irish insurance undertaking in a winding-up situation is therefore a function of the assets available (and their size relative to the technical provisions) and the proportion of inwards reinsurance business relative to direct business.
- 9.64 Overall, 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.

Summary and conclusion

- 9.65 As set out above, if the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policies would be transferred to be part of PLAE rather than PLL, and I am satisfied that there would be no material adverse effect on the security of benefits under the Irish PLL Transferred Policies as a result of:
- The reliance on the financial strength of PLAE rather than PLL;
 - PLAE's reinsurance arrangements;
 - PLAE having PGH as an ultimate parent, as PGH is also the ultimate parent of PLL; and
 - Being subject to Irish law relating to the rights on wind-up of an insurer.
- 9.66 For clarity even if the potential for parental financial support had not been taken into account in reaching my conclusion (that there would be no material adverse effect on the security of benefits under the Irish PLL Transferred Policies) it would not have changed my conclusion on this point.
- 9.67 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 of the Irish PLL Transferred Policies as a result of being part of PLAE after the Irish Scheme rather than PLL as currently.

The effect on the security of benefits under the Irish PLL Transferred Policies due to losing the protection conferred by the FSCS

- 9.68 Some of the Irish PLL Transferred Policyholders are currently covered under the UK's statutory 'fund of last resort', the FSCS. In the event that PLL were to become insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance benefits 100% of the benefits are protected and the coverage is automatic for policyholders of UK authorised insurers and is funded by levies on firms authorised by the PRA and the FCA.
- 9.69 If the Irish Scheme were to be implemented, claims from eligible Irish PLL Transferred Policyholders occurring prior to the Effective Date (whether reported or not) would be protected in the event of the failure of PLL. However, Irish PLL Transferred Policies would no longer be covered under the FSCS for claims occurring on or after the Effective Date.
- 9.70 I understand that there is no relevant equivalent Irish compensation scheme for the types of policies held by the Irish PLL Transferred Policyholders.

- 9.71 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.
- 9.72 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.
- 9.73 I am therefore satisfied that the loss of FSCS protection would not lead to a material adverse effect on the security of benefits for the Irish PLL Transferred Policyholders. In particular, given the likelihood of default or insolvency of PLAE is remote, the loss of FSCS is more than outweighed by the benefits of the Irish Scheme, in that the Irish Scheme ensures certainty, as well as consistency and continuity, of the provision of administration and benefits for PLL's EEA policyholders by an insurer within the Phoenix Group.

Overall conclusion on the effect of the Irish Scheme on the security of benefits under the Irish PLL Transferred Policies

- 9.74 In summary, 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 from being subject to the PLAE Capital Management Policy rather than the PLL Capital Management Policy;
 - There would be no material adverse effect on the security of benefits under the Irish PLL Transferred Policies as a result of being part of PLAE rather than PLL as currently; and
 - The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the Irish PLL Transferred Policies.
- 9.75 Therefore, in conclusion, I am satisfied that the implementation of the proposed Irish Scheme would not have a 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

- 9.76 If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policies would be direct policies of PLAE and directly exposed to the risk profile of a different company, that at outset that would have a different business mix and policyholders with different demographic profiles.
- 9.77 The risk profiles of PLL and PLAE differ considerably:
- As shown in Figure 4.8, underwriting risk (driven by longevity risk) and market risk are the most significant components of PLL's risk profile on a Solvency II Pillar 1 basis, whilst credit risk is also a material risk.
 - As shown in Figure 4.13, following the implementation of the Irish Scheme the most material individual components of PLAE's risk profile, on a Solvency II Pillar 1 basis, are longevity, spread and counterparty default risk.
 - PLAE would be exposed to longevity risk through the annuity business which is the majority of business retained within PLAE net of its reinsurance arrangements, and the spread risk is predominantly due to the corporate bond asset portfolio held to back its annuity business. The counterparty default risk is due to the significant reinsurance arrangements within PLAE, primarily those which PLAE would enter into with RLL and PLL as a result of the transfer.
- 9.78 The risks to which PLAE is exposed are typical of insurance entities, and although the largest risk for PLAE is longevity risk, there are no abnormal risks or impaired lives within this block of business. The capital that will be held by PLAE will reflect its risk profile.

- 9.79 The counterparty default risk is mainly a result of the Unit-Linked Reinsurance Agreements and With-Profits Reinsurance Agreements. The risks associated with these agreements are mitigated by the associated security (the Floating Charges and WP Fixed Charges); see paragraphs 5.43 and 5.62 to 5.67. In addition, the With-Profits Reinsurance Agreements with PLL contain termination provisions that can be triggered following the downgrade of PLL's credit rating below a certain threshold, which would allow PLAE to recapture the business.
- 9.80 Whilst the implementation of the Irish Scheme would result in a change to the risk exposures of the Irish PLL Transferred Policies, it should be noted that:
- PLAE has the ability to terminate the With-Profits Reinsurance Agreements should the credit rating of PLL fall below a certain threshold or PLL's solvency capital ratio fall below 105%;
 - PLAE has the ability to terminate the PLL Unit-Linked Reinsurance Agreement should the solvency capital ratio of PLL falls below 105%;
 - The Solvency II regime has been implemented consistently across the UK and Ireland;
 - The SCR calculated in accordance with the Solvency II regime will reflect the risk exposures of the relevant company;
 - The capital held in PLAE comfortably exceeds the required SCR;
 - The capital held in PLAE meets the minimum capital buffer required under the PLAE Capital Management Policy, and this minimum buffer takes account of PLAE's exposure to RLL and PLL; and
 - PLAE has undertaken stress and scenario testing, including the potential recapture of the WP Reinsurance Agreements and UL Reinsurance Agreements, and this shows that in all circumstances considered PLAE is projected to recover through the emergence of surplus from Transferred Business.
- 9.81 The longevity assumptions used by PLAE in the valuation of the annuities of the Irish PLL Transferred Business, the most material business retained by PLAE, are specific to the annuities of the Irish PLL Transferred Business, and better reflects the profile of these policyholders.
- 9.82 PLL has a risk management framework that is aligned to the Phoenix Group Risk Management Framework, and the risk management framework established by PLAE will also be aligned with the Phoenix Group Risk Management Framework. There may be instances where the frameworks adopted by PLL and PLAE differ. This will occur when the Boards of the relevant entities choose to deviate from the Phoenix Group Risk Management Framework to better reflect the specific risks of their entity.
- 9.83 PLL uses an Internal Model to calculate its SCR, and this is intended to capture all of the key risks to which it is exposed. PLL also performs stress and scenario testing which considers the specific risks to which PLL is exposed. PLAE will use a Standard Formula approach to calculate its SCR, however within its ORSA it includes some scenario testing which capture risks not fully captured under Solvency II, including the potential recapture of the With-Profits Reinsurance Agreements and Unit-Linked Reinsurance Agreements, as well as a "miscellaneous" scenario which covers situations such as cyber-attacks, financial crime and data breaches. I am therefore satisfied that the stress and scenario testing performed reflects the current risks to which it is expected that the entities are exposed, or will be exposed as a result of the Irish Scheme, including those which are not fully captured under Solvency II.
- 9.84 The Irish PLL Transferred Business is a subset of the business of PLL, not a broad cross section of its business. This is also the case for the RLL Transferred Business and RLL. Accordingly, the mix and volumes of risks to which PLAE will be exposed will be different to the corresponding exposure of PLL currently, and its exposure after the Irish Scheme has been effected. However, as detailed in paragraphs 9.82 and 9.83, PLAE has a risk management framework which is aligned to that of the Phoenix Group, but which is adapted to ensure it captures all the risks to which PLAE will be exposed.
- 9.85 I am satisfied that any change in risk profile and risk management would not have a material adverse effect on the Irish PLL Transferred Policies.

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

Introduction

- 9.86 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. This would involve a change to:
- Regulation in respect of conduct of business. The responsibility for conduct of business supervision is currently shared between the FCA and the host regulator (but the CBI is also responsible for prudential and conduct of business supervision regarding the Irish branch of PLL);
 - The supervisory body responsible for prudential regulation. The supervisors are the PRA in the UK and the CBI in Ireland, the CBI is also responsible for prudential supervision in respect of the Irish branch of PLL;
 - The access of policyholders to the services of an independent complaints service to opine on alleged cases of policyholder mistreatment. This role is currently fulfilled by the FOS in the UK and the FSPO in Ireland; and
 - The access of policyholders to a compensation scheme in the event of insurer default or insolvency. This protection is conferred by the FSCS in the UK, however there is no equivalent to the FSCS in Ireland.

I consider each of these in turn in the following paragraphs.

Regulation in respect of the conduct of business

- 9.87 Currently, for the Irish PLL Transferred Business the regulatory responsibility for conduct of business supervision is shared between the FCA and the host regulator (but the CBI is also responsible for prudential and conduct of business supervision regarding the Irish branch of PLL). The host regulator will usually be the regulator in the country in which the policies were sold and marketed, i.e. Ireland, however if the Irish PLL Transferred Policyholder has subsequently become resident in another EEA state, then it will be the relevant regulator in that EEA state. As a result, the conduct of business regulations applicable in respect of the Irish PLL Transferred Business are currently those issued by the FCA and the “general good”⁶³ rules applied by the host regulator.
- 9.88 If the proposed Irish Scheme were to be implemented, the “general good” rules of the host regulator would continue to apply; however, the CBI would have primary responsibility in respect of conduct of business supervision.
- 9.89 The FCA sets out various outcomes that firms should strive to achieve to ensure the fair treatment of customers, which are included in full in Appendix G. The FCA also sets out guidance on the principles that firms should adopt to ensure they fulfil their TCF duties. Further, the Conduct of Business Sourcebook (“COBS”) section of the FCA Handbook applies to firms with respect to the conduct of certain activities carried on in the UK.
- 9.90 The FCA is currently consulting on the new Consumer Duty (paragraph 3.47) which aims to bring about a fairer, more consumer-focused and level playing field in retail financial markets; it is anticipated that this will be finalised by 31 July 2022. The Phoenix Group has an internal programme in anticipation of the Consumer Duty taking effect in April 2023; this programme will deliver new Customer Business Standards and articulate the standards of treatment and product outcome that will apply for customers. As the proposed Irish Scheme is due to become effective before the Consumer Duty comes into effect, it will not be a regulatory requirement in respect of the Irish PLL Transferred Business, however as PLAE is part of the Phoenix Group the findings of the Customer programme Business Standards will be considered by the PLAE Board, and in particular how these impact customers. In addition, while the With-Profits Reinsurance Agreement is in place the charges applied to the with-profits Irish PLL Transferred Business will be the same as those for the Non-Transferring PLL Business allocated to the respective PLL WPF.
- 9.91 The CPC was issued by the CBI, as detailed in paragraph 3.48, and aims to ensure a consistent level of protection for customers regardless of their chosen financial services provider. These provisions are binding on regulated entities, and therefore will be binding on PLAE.

⁶³ All EEA states are required to publish general good rules which insurance companies must adhere to when selling and servicing policies on a cross-border basis in the respective EEA state.

- 9.92 Additionally, the CBI has issued principles of best practice for the distribution of products in other EU member states and third countries. Although the principles of best practice are not binding, they may reflect certain binding requirements of the CBI, and Phoenix management anticipates that the PLAE Board will implement these principles of best practice in full. Amongst other things, the principles address:
- Confining target markets to consumers for which products are suitable;
 - Checking whether the product continues to meet the general needs of its target market;
 - Ensuring that information provided to intermediaries is clear, accurate and not misleading;
 - Appropriately addressing errors, complaints and policyholder communications; and
 - Relationships with intermediaries.
- 9.93 Further, there are CBI representatives on the Board of Supervisors of EIOPA and the CBI operates within a significant and sophisticated insurance market. In my view there is therefore no reason to believe that the oversight applied by the CBI would be any less robust than that applied within the UK. PLAE is wholly owned by PGH, a holding company whose subsidiaries include insurers that are regulated by the PRA and the FCA in the UK.
- 9.94 Additionally, the IDD, which ensures that customers' interest are taken into consideration throughout the whole life cycle of an insurance product, applies to PLL as transposed in the UK prior to Brexit, and will equally apply to PLAE in Ireland as it has been adopted into Irish law.
- 9.95 Overall, the FCA and CBI have each issued conduct principles which aim to ensure the fair treatment of customers, which must be complied with by the firms they regulate. I am therefore satisfied that, in terms of conduct of business regulation, the implementation of the proposed Irish Scheme would not have a material adverse effect on the Irish PLL Transferred Policies. I will confirm in my Supplementary Report whether the PLAE Board has implemented in full the CBI principles of best practice for the distribution of products in other EU member states and third countries.

Conduct regulation in respect of with-profits business

- 9.96 In the UK, there are specific conduct of business rules that apply to with-profits business. These stipulate that, amongst other things, it is necessary for an insurer with with-profits business:
- to establish and maintain a PPFM which must set out how the insurer intends to manage its with-profits funds; and
 - to appoint a WPC or advisory arrangement, the purpose of this committee is to ensure that the interests of with-profits policyholders are appropriately considered within a firm's governance structures.
- 9.97 In addition, under SM&CR rules in the UK, firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function"; they are responsible for advising the firm's management on the key aspects of discretion in the operation of with-profits business.
- 9.98 In Ireland, the Domestic Actuarial Regime and Related Governance Requirements under Solvency II issued by the CBI sets out:
- that firms with with-profits business must establish and maintain a WPOP, detailing the principles by which the with-profits business is managed; and
 - the additional responsibilities of the HoAF in respect of with-profits business.
- 9.99 There is no requirement in Ireland for insurers with with-profits business to establish a WPC or advisory arrangement, nor to appoint a With-Profits Actuary. However, while the With-Profits Reinsurance Agreements are in place the PLL WPC will be required to consider issues related to the Irish PLL Transferred Business as if this business was held directly within the relevant PLL WPF, and therefore the with-profits Irish PLL Transferred Business will continue to be subject to WPC oversight. If any of the With-Profits Reinsurance Agreements are terminated and PLAE elects to maintain any of the relevant New With-Profits Funds, under the Irish Scheme the PLAE Board must make full provisions for the governance and management of the fund, including establishing a WPC with a terms of reference and a role in the governance of the relevant New-With-Profits Fund equivalent to that in place in respect of the corresponding PLL WPF.

- 9.100 As part of its authorisation application, PLAE is seeking a derogation from the CBI in relation to the requirement to establish and maintain a WPOP in respect of each of the New With-Profits Funds, and it is expected that derogation would be granted as part of PLAE's authorisation. This derogation is being sought as the with-profits Irish PLL Transferred Policyholders will still benefit from the PPFMs of the respective PLL WPFs via the With-Profits Reinsurance Agreements. In addition, the PPFM of PLL 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. As a result, the fact that PLAE will not establish a WPOP will not have any impact on with-profits Irish PLL Transferred Policyholders. I understand that if the CBI does not grant derogation from the requirement to establish a WPOP in respect of each of the New With-Profits Funds, a WPOP would be established by PLAE which is consistent with the PLL PPFM, and the PLAE HoAF will have responsibility for reporting on compliance with the WPOP on an annual basis. Further, if any of the With-Profits Reinsurance Agreements are terminated and PLAE elects to maintain any of the relevant New With-Profits Funds, under the Irish Scheme the PLAE Board must establish a WPOP.
- 9.101 The PPFM will also include an update, which replicates the provision of the With-Profits Reinsurance Agreements, entitling the PLAE Board to make representations to the PLL WPA, the PLL WPC, the PLL Board and the Chief Executive Officer of PLL on matters affecting the Irish PLL Transferred Business which is reinsured back to the PLL WPFs and to receive an explanation of the basis for decisions which affect these policyholders. PLL must also pay regard to any such representations when making decisions.
- 9.102 I am satisfied that, in terms of conduct regulation of with-profits business, the implementation of the proposed Irish Scheme would not have a material adverse effect on the Irish PLL Transferred Policies. I discuss the governance that will apply to the with-profits business of PLAE whilst the With-Profits Reinsurance Agreements are in place further in paragraphs 9.142 to 9.143 below, and following the termination of the With-Profits Reinsurance Agreements in paragraph 9.158 below.

Regulation in respect of prudential supervision

- 9.103 If the proposed Irish Scheme were to be implemented there would be a change in the primary regulator responsible for prudential supervision from the PRA to the CBI. In respect of the Irish branch of PLL, the CBI currently exercises additional prudential supervision.
- 9.104 The solvency framework for insurers in Ireland and the UK is Solvency II. As detailed in paragraph 3.28, the Solvency II regime and the UK's adoption of the Solvency II regime are currently under review. Given the stages of these reviews it is not possible to consider in detail the impact that any potential divergence may have. However, I note the desire for the UK to maintain broad equivalence with the Solvency II regime. I will consider any further developments relating to this in my Supplementary Report.
- 9.105 The change in the primary regulator responsible for prudential supervision from the PRA to the CBI would not have a material adverse effect on:
- The Solvency II regulations that would apply to the Irish PLL Transferred Business;
 - The adherence to the Solvency II regulations in relation to the methodologies and assumptions used to calculate the Solvency II balance sheet (in particular the technical provisions and the SCR);
 - The adherence to the appropriate risk appetite statements; and/or
 - The governance, management (including risk management) and servicing standards that apply to the Irish PLL Transferred Policies.
- 9.106 Overall, the PRA and the CBI have aligned aims in respect of prudential supervision. They both operate under the Solvency II regime and I have no reason to believe the prudential supervision provided by the CBI is any less robust than that provided by the PRA. Therefore, I am satisfied that the change in primary regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the Irish PLL Transferred Policies.

The access of Irish PLL Transferred Policyholders to the services of an independent complaints service

- 9.107 Prior to the implementation of the Irish Scheme, whilst the Irish PLL Transferred Policyholders have access to the FOS in the UK, I understand that in practice PLL has referred policyholders to their local ombudsman (in respect of Irish PLL Transferred Policyholders, the local ombudsman is the FSPO).
- 9.108 If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policyholders would continue to have access to the FOS, and the provisions of the DISP section of the FCA Handbook would continue to apply, in relation to the following cases:
- Complaints in respect of acts or omissions of PLL prior to the Effective Date; and

- Complaints in respect of acts or omissions after the Effective Date where the complaint relates to activity carried on in the UK (see paragraph 9.111).
- 9.109 In respect of the above cases, the Irish Scheme document requires that PLAE must comply with:
- The relevant provisions of the DISP section of the FCA Handbook (and other relevant sections of the FCA Handbook) that would apply to the handling of any complaints brought to the FOS that fall under its jurisdiction; and
 - Any valid judgment, settlement, order or award (or relevant part thereof) of the FOS, made under its jurisdiction as set out in DISP 2 of the FCA Handbook.
- 9.110 For complaints in respect of acts and omissions subsequent to the implementation of the proposed Irish Scheme where the complaint relates to activities carried on outside of the UK, the Irish PLL Transferred Policyholders would usually pursue complaints against the insurer through the FSPO rather than the FOS.
- 9.111 While, following the implementation of the Irish Scheme, the Irish PLL Transferred Business would be administered by resources provided by both intra-group and external service providers (as outlined in paragraphs 9.171 to 9.172 below), administrative activities are unlikely to give rise (directly) to a complaint. Following the Effective Date, the responsibility for decisions (such as claims decisions) would sit with PLAE in Ireland and not with SLAESL in the UK under the terms of the MSA. Therefore, it is my expectation that the majority of any complaints that could arise in the future on the Irish PLL Transferred Business would relate to activities carried out in Ireland, and so the FOS would not have jurisdiction to consider any such complaint.
- 9.112 As I expect in most circumstances the Irish PLL Transferred Policyholders would no longer have access to the FOS, I need to consider whether the independent complaints service provided by the FSPO rather than the FOS constitutes a material weakening in the independent complaints services available for Irish PLL Transferred Policyholders.
- 9.113 The complaints procedures for both the FOS and the FSPO are broadly similar. Both organisations have the power to make legally binding rulings on individual disputes. However, for FOS the limits to the amount it can make a business pay an individual are currently:
- £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019;
 - £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019;
 - £160,000, increasing on 1 April each year from 1 April 2020, for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019; and
 - Within the relevant section of the DISP rules included in the FCA Handbook it states that on the 1 April each year these limits are adjusted by applying a percentage increase linked to the change in CPI, and rounded to the nearest £5,000. However, for 2021 the FCA decided not to update the compensation limits.
- 9.114 By contrast the limit for the FSPO is €52,000 per annum where the subject of the complaint is an annuity, and a maximum of €500,000 for any other complaints.
- 9.115 For complaints relating to policies other than annuities, I note that the limit under the FSPO in Ireland is higher than for complaints raised to the FOS in the UK.

- 9.116 For complaints relating to annuities, in the majority of cases policyholders have scope for greater potential financial recovery under the FSPO in Ireland than under the FOS in the UK. However, in limited circumstances it is possible that the overall compensation paid to policyholders may be lower under the FSPO than under the FOS. This would be the case for a complaint raised relating to an annuity with an annual benefit in excess of the FSPO's €52,000 limit that is paid for a period of 8 years or shorter⁶⁴. I understand that there are fewer than 20 annuity policies contained within the Irish PLL Transferred Business that are expected to fall within this category (based on current exchange rates and PLL's expected payment term for each policy). Further, these policies would only be adversely affected by having recourse to the FSPO in Ireland rather than the FOS in the UK in the event that the policyholder has a valid complaint regarding their policy and is seeking compensation for an amount which is in excess of the annual €52,000 limit in Ireland but below the total compensation limit that applies in the UK. I consider the probability of this set of circumstances occurring to be low and not material in the context of my overall conclusions on the Irish Scheme. Overall, it is my view that the Irish PLL Transferred Policyholders will not be materially adversely affected by the payout limits under the FSPO compared to the FOS.
- 9.117 I consider the services provided by the FOS and the FSPO to be broadly similar and I do not consider the differences outlined above to represent a material weakening in the independent complaints services available to Irish PLL Transferred Policyholders. Further, as outlined in paragraph 9.107, PLL has previously referred complaints from Irish PLL Transferred Policyholders to the FSPO. Therefore, the fact that post-Irish Scheme, in most circumstances the Irish PLL Transferred Policyholders will be required to raise complaints with the FSPO rather than the FOS, does not represent a change to current practice.
- 9.118 Overall, given the similarities in the services provided by the FOS and the FSPO and the continued access to local ombudsman services, I am satisfied that the implementation of the proposed Irish Scheme would not have a material adverse effect on the rights of the Irish PLL Transferred Policyholders in relation to their access to the services of an independent complaints service.

The access of Irish PLL Transferred Policyholders to a compensation scheme in the event of insurer default or insolvency

9.119 The implications of the loss of FSCS protection are discussed in paragraphs 9.68 to 9.72.

Overall conclusion on effect on the Irish PLL Transferred Policies of the change in regulatory regime from the UK to Ireland

9.120 In summary, I am satisfied that, if the proposed Irish Scheme were to be implemented:

- In terms of conduct of business regulation, there would be no material adverse effect on the Irish PLL Transferred Policies;
- In terms of conduct of business regulation specifically related to with-profits business, there would be no material adverse effect on the Irish PLL Transferred Policies;
- The change in primary regulatory oversight in respect of prudential supervision from the PRA to the CBI would not have a material adverse effect on the Irish PLL Transferred Policies;
- There would be no material adverse effect on the rights of Irish PLL Transferred Policyholders in relation to their access to an independent complaints service; and
- I am satisfied that the loss of FSCS protection would not lead to a material adverse effect on the rights of the Irish PLL Transferred Policies.

9.121 Therefore, in conclusion, 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 AND STANDARDS OF SERVICE

Introduction

9.122 The Irish PLL Transferred Business consists of with-profits, unit-linked and non-profit non-linked business. For these types of business, policyholders' expectations in respect of their benefits are that:

- They receive their benefits as guaranteed under the policy, on the dates and in the contingencies specified in the terms and conditions; and

⁶⁴ For an annuity with an annual benefit in excess of €52,000 that is paid for a period of more than 8 years, the overall compensation limit under FOS in the UK would be triggered, and therefore the overall amount of compensation under the FSPO in Ireland would be greater than under the FOS in the UK.

- The management, governance and administration of the policies is performed to a consistent standard throughout the duration of their policy.

9.123 It is therefore necessary to consider the impact of the Irish Scheme on the following:

- In respect of the unit-linked Irish PLL Transferred Policies:
 - The range of funds available, the management of those funds (including the allowance for discretion in managing them), the investment objectives applied to those funds, the charges applied to those funds and the pricing of those funds;
 - The benefits received by the policyholders, as these should continue to reflect the investment performance of the assets in which their units are invested and the contractual charges payable under the policies; and
 - The assets in which the units under unit-linked policies are invested, as these should continue to be materially in line with the target investment allocation in the relevant fund literature.
- In respect of the with-profits Irish PLL Transferred Policies:
 - The with-profits fund in which the policy participates;
 - The bonuses paid in respect of the with-profits policy; and
 - The application of discretion.
- The benefits paid in respect of the non-profit non-linked Irish PLL Transferred Policies; and
- The management, governance and administration in respect of the Irish PLL Transferred Policies.

9.124 These are considered in turn below.

The benefit expectations of the Irish PLL Transferred Policyholders

Introduction

9.125 If the proposed Irish Scheme were to be implemented, there would be no material change 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 administering policies as discussed in paragraphs 9.168 to 9.182 below). 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 some of the with-profits Irish PLL Transferred Policies, which I describe further in paragraph 9.143 below. 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 paragraphs 9.139 to 9.146 below, would continue to apply to such policies.

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

9.127 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.

9.128 For the unit-linked and with-profits Irish PLL Transferred Policies, I have set out my additional considerations below.

The PLL Linked Funds and the PLL Unit-Linked Reinsurance Agreement

- 9.129 As described in Section 6, PLAE will establish PLL New Linked Funds that mirror the PLL Linked Funds available to the Irish PLL Transferred Policyholders immediately before the Effective Date. The relevant assets and liabilities relating to the relevant PLL Linked Funds will transfer to the PLL New Linked Funds under the Irish Scheme. PLL and PLAE will enter into the PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds would be immediately reinsured back to PLL and so PLL's obligation to transfer the associated PLL Linked Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 9.130 As a result of the establishment of the PLL New Linked Funds and the PLL Unit-Linked Reinsurance Agreement, the Irish PLL Transferred Policyholders will continue to have access to the same PLL Linked Funds following the Effective Date as they would if the Irish Scheme had not been implemented.
- 9.131 The implementation of the proposed Irish Scheme would not change:
- The range of funds to which the unit-linked Irish PLL Transferred Policies would have access;
 - The management of the funds in respect of investment objectives and the charges taken; or
 - The number, value or type of units held by the Irish PLL Transferred Policyholders.
- 9.132 Furthermore, PLL may make changes to the range of funds offered through the Unit-Linked Reinsurance Agreement in the same way as it can make changes before the transfer, subject to it being possible to replicate the change in the PLL New Linked Funds, the relevant change being permitted under the terms of the Irish Scheme and PLL and providing adequate notice to PLAE.
- 9.133 Following implementation of the proposed Irish Scheme, PLAE will be entitled to the same rights in relation to the management of the PLL New Linked Funds as PLL has in relation to the corresponding PLL Linked Funds. These rights include the powers to close to new or further investment, divide, modify or wind-up funds in the future, subject to consultation with PLL to the extent that such action affects or has the potential to affect the business of, or any fund of, PLL or any of its policyholders. Whilst the PLL Unit-Linked Reinsurance Agreement is in place, any such actions must also align with any similar actions being undertaken by PLL in respect of the corresponding PLL Linked Fund. The provisions for the future management of the PLL New Linked Funds are set out in the Irish Scheme document and any future changes would be subject to the approval by PLAE's Board, having consulted with the HoAF (or another appropriate senior manager with PCF approval).
- 9.134 In the event that the PLAE Board determines to wind-up any of the PLL New Linked Funds then, when implementing its closure, units of equal value will be allocated without charge to another appropriate PLL New Linked Fund, and the PLAE Board must have regard to the advice of the HoAF or another appropriate PLAE senior manager holding a PCF role when determining the value of units to be allocated and the alternative PLL New Linked Fund to which the units will be allocated. I note that these provisions are in line with the current provisions that PLL must comply with if it were to wind-up any of the PLL Linked Funds.
- 9.135 The 2009 Scheme contains a clause which permits PLL to wind-up any PLL Linked Fund when the value of the assets of such fund is below £5m (increased annually from 31 December 2006 in line with retail price inflation). The Irish Scheme does not contain an equivalent threshold because such threshold would not necessarily be applicable for PLAE as the unit-linked Irish PLL Transferred Policies is a smaller pool of policies than those allocated to the PLL Linked Funds overall⁶⁵. I am satisfied that it is appropriate that the Irish Scheme does not contain such a threshold in respect of the PLL New Linked Funds, in particular given that the governance process that must be followed upon closure of a PLL New Linked Fund is in line with the existing governance process that PLL would be required to follow.
- 9.136 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement are in final draft form and are expected to be finalised in advance of the Irish Sanction Hearing. The Irish Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the Irish Scheme. I will provide an update on this matter, and any implications of these on my conclusions in respect of the proposed Irish Scheme, in my Supplementary Report.

⁶⁵ It appears likely that the threshold was set in 2006 by estimating the size of fund at which the costs of administration, investment and the governing processes of operating the fund for a unit-linked fund would become significant in relation to the investment return that might be earned by the fund. Such an estimate is not relevant to a PLL New Linked Fund, as the investments of the PLL New Linked Fund are to be invested in the corresponding much larger PLL Linked Fund.

Charges on unit-linked Irish PLL Transferred Business

- 9.137 Where the charges to unit-linked policies are contractual, these would be unchanged by the Irish Scheme as there are no material changes to the terms and conditions of the Irish PLL Transferred Policies (except that the policies would become policies of PLAE and would therefore be administered in line with PLAE's approach to administering policies as discussed in paragraphs 9.168 to 9.182 below).
- 9.138 Where there is an element of discretion in setting charges for unit-linked Irish PLL Transferred Business, the intention is that the PLAE Board will adopt an approach consistent with that currently taken by the PLL Board, which pays due regard to the reasonable expectations of these policyholders. 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.

The New With-Profits Funds and the With-Profits Reinsurance Agreements

- 9.139 As described in Section 6, PLAE will establish four New With-Profits Funds immediately before the Effective Date. The assets and liabilities of Irish PLL Transferred Policies allocated to the PLL WPFs will transfer to the New With-Profits Funds under the Irish Scheme. At the same time PLL and PLAE will enter into four With-Profits Reinsurance Agreements, one in respect of each of the New With-Profits Funds, so that the liabilities relating to the New With-Profits Funds would be immediately reinsured back to PLL and so PLL's obligation to transfer the associated assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 9.140 As a result of the establishment of the New With-Profits Funds and the With-Profits Reinsurance Agreements, the with-profits Irish PLL Transferred Policies will continue to participate in the same PLL WPFs following the Effective Date as they would if the Irish Scheme had not been implemented, including being entitled to the same share in the estate of the relevant PLL WPF as before the implementation of the Irish Scheme. The with-profits Irish PLL Transferred Policies will also continue to benefit indirectly from any capital support provided by the Non-Profit Fund or Shareholder Fund of PLL to the relevant WPFs (see paragraph 4.48).
- 9.141 In association with the With-Profits Reinsurance Agreements, PLAE would have the WP Fixed Charges over assets held in a custodian account in respect of three of the PLL WPFs: the SPI WPF, the Alba WPF and the Phoenix WPF. As mentioned in paragraph 6.58, this will require the splitting of assets from these PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. However, the intention is that these assets will be managed in line with the respective strategic asset allocation detailed in the PPFM.
- 9.142 The implementation of the proposed Irish Scheme, together with the With-Profits Reinsurance Agreements, would not change:
- The management of each of the PLL WPFs, this will continue to be in line with the 2009 Scheme and current PPFM;
 - The point at which the relevant with-profits funds are expected to meet their respective 2009 Scheme Sunset Clause trigger points;
 - The application of discretion; and
 - The provision of advice by the WPC of PLL on the management of the with-profits funds to which the with-profits Irish PLL Transferred Business will be reinsured, they will continue to consider issues related to the with-profits Irish PLL Transferred Business.
- 9.143 As referred to in paragraph 9.125, whilst there would be no material change to the terms and conditions of the Irish PLL Transferred Policies as a result of the Irish Scheme, 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 the with-profits Irish PLL Transferred Policies. Under the Irish Scheme, those policies are to be allocated the relevant New With-Profits Fund. Some of those policies refer to the insurer maintaining funds by reference to which the benefits payable under the policies will be calculated and would need (in line with the arrangements in the Irish Scheme and the related With-Profits Reinsurance Agreements designed to ensure preservation of policyholder benefits) to be interpreted as allowing those benefits to be calculated, through the Irish Scheme and the relevant With-Profits Reinsurance Agreements, by reference to the performance and financial position of the relevant PLL WPFs. Under those preservation arrangements in the Irish Scheme, the relevant policyholders will receive at least the same amount of benefits that they would have if their policy had not transferred to PLAE.

- 9.144 As set out in paragraphs 9.101, PLAE will be entitled to make representations to, amongst others, the PLL WPA and PLL WPC on matters affecting the with-profits Irish PLL Transferred Business that is reinsured back to PLL. In addition, under the terms of the With-Profits Reinsurance Agreements (i) a Reinsurance Business Committee would be established with representatives from PLAE and PLL which would monitor, review and challenge the day-to-day-management of the With Profits Reinsurance Agreements, (ii) the PLL WPC is required to oversee the PLL Transferred Business as if this business was held directly within the relevant PLL WPFs, and (iii) PLAE is required to appoint and maintain a Finance Technical Committee which will oversee the management of the New With-Profits Funds. Therefore, given that the with-profits Irish PLL Transferred Business will continue to be managed in line with the 2009 Scheme and the current PPFM, it would continue to be considered by the PLL WPC and will be covered by adequate oversight arrangements between PLL and PLAE, I am satisfied that the protection conferred by the governance of with-profits business in PLAE is no less than that which is currently in place. I discuss the governance arrangements of with-profits business in PLAE following the termination of the With-Profits Reinsurance Agreements further in paragraph 9.158 below.
- 9.145 Furthermore, the Irish Scheme contains a provision relating to the preservation of benefits while the With-Profits Reinsurance Agreements are in force, which requires benefits payable to with-profits Irish PLL Transferred Policyholders to be calculated with reference to the relevant PLL WPF and ensures that benefits payable would be no less than if their policy was still allocated (rather than reinsured) to the relevant PLL WPF. Therefore, there will be no change to the bonus expectations for the with-profits Irish PLL Transferred Business as a result of the Irish Scheme.
- 9.146 I am therefore satisfied that there would be no material adverse effect on the benefit expectations of the with-profits Irish PLL Transferred Policyholders as a result of the Irish Scheme and the With-Profits Reinsurance Agreements. I set out my considerations on the benefit expectations of the with-profits Irish PLL Transferred Policyholders upon termination of the With-Profits Reinsurance Agreements in paragraphs 9.152 to 9.160 below.

Annuity benefits on vesting with-profits policies

- 9.147 Currently PLL provides annuity benefits on vesting with-profits policies which have either a guaranteed annuity option or benefits defined in terms of an annuity from the PLL NPF, and there is a transfer of the cost of the annuity from the respective with-profits fund to the PLL NPF. However, should the WPA of the respective fund consider the cost of the annuity to exceed what is reasonable, the WPA has the right to require that the annuity benefit is provided by the relevant PLL WPF.
- 9.148 Following the transfer, this arrangement will be replicated within PLAE in respect of annuity benefits on vesting with-profits policies in the Irish PLL Transferred Business, whereby the benefits will be provided from the PLAE NPF on rates approved by the PLAE Board, with the cost being transferred from the relevant New With-Profits Funds (the monies having been provided by the relevant PLL WPF via the applicable With-Profits Reinsurance Agreement) to the PLAE NPF on rates approved by the PLAE Board. However:
- While the With-Profits Reinsurance Agreements are in force, should the PLL Board, having regard to the advice of the PLL WPA, consider the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, then the PLL Board can recommend that the annuity be provided by the relevant New With-Profits Fund and reinsured back to the respective PLL WPF.
 - Following the termination of the With-Profits Reinsurance Agreements, should the HoAF, having considered the advice of the PLAE WPC (established as detailed in paragraph 6.75), consider the cost of the annuity to exceed that which is reasonable based on annuity rates generally available in the market at the time, they can require that the annuity be provided by the relevant New With-Profits Fund.
- 9.149 For deferred annuity Irish PLL Transferred Policyholders whose policy does not have a guaranteed annuity option (or have such an option but do not exercise it) or does not have primary benefits expressed in terms of an annuity, they will continue to be able to elect to have an annuity provided by the Phoenix Group, however such benefits will be provided by the PLAE NPF and on rates approved by the PLAE Board, rather than the PLL Board. Therefore, the annuity rates offered may differ as a result of the Irish Scheme; however, the policyholders will retain the ability to purchase an annuity from the open market.
- 9.150 In addition, currently the PLL SPI WPF meets the cost of guaranteed annuity options associated with certain Irish PLL Transferred Policies in the PLL NPF. Under the terms of the Irish Scheme, from the Effective Date the PLAE SPI WPF will meet such costs in respect of the Irish PLL Transferred Policies in the PLAE NPF.

9.151 There would be a consistent treatment of annuity benefits vesting on with-profits Irish PLL Transferred Policies before and after the implementation of the Irish Scheme, and the Irish Scheme contains provisions in this area consistent with provisions in the 2009 Scheme in respect of the PLL SPI WPF. The only change would be that after the implementation of the Irish Scheme the additional amount to be transferred in respect of these policies would be calculated by the PLAE Actuary, rather than the PLL WPA, however the Irish Scheme requires the PLAE Actuary to consult with the PLL WPA. Therefore, I am satisfied that the Irish Scheme will not materially adversely affect the treatment of annuity benefits vesting on with-profits Irish PLL Transferred Policies.

Termination of the With-Profits Reinsurance Agreements and ongoing management of the New With-Profits Funds

9.152 I understand PLL and PLAE have no intention of terminating the With-Profits Reinsurance Agreements in the short term, however I have considered the governance around such a termination as it would mean that the with-profits Irish PLL Transferred Policies would no longer participate in the PLL WPFs.

9.153 As a result of the termination of any of the With-Profits Reinsurance Agreements, a termination amount must be paid by PLL to PLAE in respect of the liabilities reinsured under the With-Profits Reinsurance Agreement. The controls in place regarding the calculation of the termination amount are as follows:

- For terminations other than due to Events of Default or the 2009 Scheme Sunset Clause, the element of the termination amount in relation to the split of the inherited estate of the PLL WPF must be confirmed by an Independent Actuary;
- For terminations due to Events of Default, the termination amount must be calculated by an Independent Actuary, unless the Boards of PLL and PLAE agree not to seek such confirmation due to the expected share of the inherited estate due to with-profits Irish PLL Transferred Business being less than £1m and the Board of PLL and PLAE agree the amount (see paragraph 6.66); and
- For termination due to the 2009 Scheme Sunset Clause, the termination amount paid from the relevant PLL WPF to PLAE shall not exceed the termination amount calculated as per paragraph 6.66 and any amount in excess of this must be met by the shareholders of PLL.

9.154 The With-Profits Reinsurance Agreement relating to the PLL 90% WPF contains a termination provision that is not contained in the With-Profits Reinsurance Agreements relating to the other three New With-Profits Funds. This termination provision allows PLAE to terminate the With-Profits Reinsurance Agreement in respect of the PLL 90% WPF if all other With-Profits Reinsurance Agreements have been terminated. Given the small volume of business that will be reinsured from the PLAE 90% WPF to the PLL 90% WPF, PLAE may consider it inefficient to keep this With-Profits Reinsurance Agreement in place if all others had been terminated. It therefore appears reasonable to provide PLAE with the option to terminate the With-Profits Reinsurance Agreement relating to the 90% WPF in this scenario. Given the small volume of Irish PLL Transferred Business that is invested in the PLL 90% WPF, in the ordinary course of events it appears likely that this business will terminate before the last With-Profits Reinsurance Agreement is terminated.

9.155 As described in Section 6, if, due to the 2009 Scheme Sunset Clause, PLL is no longer required to maintain any of the PLL WPFs captured by the With-Profits Reinsurance Agreements, then the Irish Scheme requires PLAE to cease to maintain the relevant New With-Profits Fund. In such a circumstance, the Irish Scheme requires the "Closure Uplift" (an increase in the benefit entitlement of a relevant with-profits Irish 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.

9.156 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 all assets and liabilities associated with the fund to the PLAE NPF, or to maintain the relevant New With-Profits Fund without the benefit of the With-Profits Reinsurance Agreement. In making such a decision the PLAE Board must follow governance specified in the Irish Scheme, which includes:

- obtaining a certificate from an independent actuary stating that in his or her opinion the proposal does not materially adversely affect the reasonable expectations of policyholders; and
- obtaining the prior approval or non-objection of the CBI.

9.157 These provisions under the Irish Scheme provide PLAE with flexibility to convert with-profits Irish PLL Transferred Policies to either non-profit or unit-linked depending on which option is deemed fair and in the best interests of policyholders at the time of conversion.

- 9.158 If PLAE elects to maintain any of the relevant New With-Profits Funds without the benefit of the With-Profits Reinsurance Agreements, then the termination amount due from PLL to PLAE would be allocated to the relevant New With-Profits Fund. In addition, under the Irish Scheme, the PLAE Board must make full provisions for the governance and management of the fund, including:
- Establishing a WPOP;
 - Establishing a WPC with a terms of reference and a role in the governance of the relevant New With-Profits Fund equivalent to that in place in respect of the corresponding PLL WPF; and
 - Considering the terms covering what can be charged to the fund.
- 9.159 If the relevant New With-Profits Fund is closed for a reason other than the 2009 Scheme Sunset Clause, the corresponding assets and liabilities of the fund will be transferred to the PLAE NPF (with no closure costs deducted). The Irish Scheme also sets out additional principles that PLAE must consider to when determining the Closure Uplift, including ensuring that all assets within the fund are used to secure benefits for the relevant Irish PLL Transferred Policies in a way that fairly reflects policyholder rights and expectations and all costs associated with closing the fund are met by the PLAE shareholders, however an allowance may be made to reflect the ongoing costs the shareholder will incur in operating the policies on a non-profit basis. In addition, PLAE must obtain a certificate from an Independent Actuary that in their opinion the conversion to non-profit does not materially adversely affect the reasonable expectations of the relevant policyholders.
- 9.160 In summary, together the Irish Scheme and With-Profits Reinsurance Agreements provide a clear governance structure that must be followed to effect the termination of the agreements, to ensure that the Irish PLL Transferred Policyholders are not materially adversely affected by PLAE's decision either to maintain or close the relevant New With-Profits Funds, and to ensure there is robust governance of PLAE's with-profits business if PLAE elects to maintain any of the New-With-Profits Funds following the termination of the corresponding With-Profits Reinsurance Agreement.

Charges on with-profits Irish PLL Transferred Business

- 9.161 All of the PLL WPFs have existing evergreen fixed expense agreements; this will not be changed as a result of the transfer, and the total expense deductions from the PLL WPFs will be unchanged. Therefore, as the with-profits Irish PLL Transferred Business is reinsured back to the relevant PLL WPFs, there will be no change to the expense deductions, or any other charges applied to these policies. PLAE will not apply any further charges.

Tax in respect of the Irish PLL Transferred Policyholders

- 9.162 I am not an expert in tax matters and therefore, in forming my opinion on the tax implications of the proposed Irish Scheme, I have relied on information provided by PLL's internal tax team.
- 9.163 The Irish PLL Transferred Business was written as part of the Non-Basic Life Assurance and General Annuity Business ("Non-BLAGAB") of PLL.
- 9.164 I understand that as the Irish PLL Transferred Policies form part of the third country branch in Ireland and therefore are also subject to tax in Ireland:
- Some of the with-profits business, and some of the unit-linked business in the SPI WPF, comprises the Irish Old Basis Business ("OBB"), which is subject to corporation tax under the I minus E regime in Ireland. Policyholders' share of profits are taxable under the OBB regime, as are shareholder profits; and
 - The remainder of the Irish PLL Transferred Business is NBB, and so tax is charged on an 8 year deemed disposal basis and on exit for Irish residents.
- 9.165 As a result of the Irish Scheme, the tax in respect of Irish PLL Transferred Business will be as follows:
- Due to the With-Profits Reinsurance Agreements both the policyholders' share of profits and shareholder profits are expected to continue to emerge in the UK, and therefore the Irish Scheme should not have an impact on the UK tax in respect of these policies;
 - For OBB business, subject to confirmation from the Irish Revenue that they would accept the existing basis to be used after the Irish Scheme, and I understand that the Irish Revenue has accepted this position in the context of a similar transaction undertaken by the Phoenix Group. Subject to the Irish Revenue accepting this basis, the Irish Scheme should not have an impact on the Irish tax in respect of these policies;

- For NBB business, subject to confirmation from the Irish Revenue that the transfer does not give rise to a chargeable event, the time period for deemed disposals will continue uninterrupted and any exit tax declarations will continue to be regarded as appropriate declarations, meaning there is no impact on policyholder tax in respect of these policies;
- Currently, a charge is made to the 90% WPF for the total of UK and Irish tax on shareholder profits, this will continue to be the case after implementation of the Irish Scheme (albeit that all the tax will be UK tax) and it is not expected that the Irish Scheme will materially alter the amount of shareholder tax charged to the 90% WPF; and
- 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.

9.166 Overall, based on the information provided, as described above, if the proposed Irish Scheme were to be implemented I am satisfied that there would not be a material adverse change to policyholders' tax liabilities. I will provide an update in my Supplementary Report on any further correspondence with the Irish Revenue.

Overall conclusion of the effect on the benefit expectations of the Irish PLL Transferred Policyholders

9.167 I am satisfied that the implementation of the Irish Scheme would not have a material adverse effect on the benefit expectations of the Irish PLL Transferred Policyholders.

The effect of the Irish Scheme on the management, governance and administration of the Irish PLL Transferred Policies

Management and governance

9.168 The Irish PLL Transferred Business is currently subject to the management and governance of PLL and would, if the Irish Scheme is implemented, be subject to the management and governance of PLAE. I note the following in respect of the planned management of the Irish PLL Transferred Business after the transfer:

- The PLAE Board would replace the PLL Board as the governing body with responsibility for the Irish PLL Transferred Business;
- The PLAE Board will consist of a majority of independent members;
- The non-linked assets backing the transferring non-profit business would be managed in accordance with PLAE's governance and management guidelines. These are materially similar to those of PLL and there would not be a material adverse effect on the security of policies as a result of this change;
- The Irish PLL Transferred Policies covered by the With-Profits Reinsurance Agreements would continue to indirectly benefit from the management and governance of the PLL WPFs; and
- The pro-forma financial information shown in Appendices A and B shows that there is no material change in respect of policyholder benefit certainty if the Irish Scheme had been effected as at 31 December 2021.

9.169 Similarly to PLL and RLL, the organisational design of PLAE follows the principles of the Phoenix Group. Senior management roles will be based in Ireland and will be supported by Phoenix Group functions and shared services. In addition, the CBI has implemented the F&P Regime, which defines a set of PCFs, and therefore individuals undertaking these roles will need to be approved by the CBI, as detailed in paragraph 3.35. The comparative regime in the UK is the SM&CR as detailed in 3.32. PLAE is currently in the process of appointing the PCFs; all applications for PCFs have been submitted to the CBI. I will provide an update on the progress of the PCF applications in my Supplementary Report; however, I note that PLAE will not be authorised until all PCFs are approved, and therefore it would not be possible for the Irish Scheme to become effective without these approvals being obtained.

9.170 Overall, I am therefore satisfied that the implementation of the Irish Scheme would not have a material adverse effect on the levels of management and governance that would apply to the Irish PLL Transferred Policies.

Administration and servicing

9.171 The table below shows the administration providers in respect of the Irish PLL Transferred Policies before and after the Irish Scheme:

FIGURE 9.3 TABLE SHOWING THE ADMINISTRATION PROVIDERS FOR THE IRISH PLL TRANSFERRED POLICIES PRE AND POST THE IRISH SCHEME

PLL Transferred Policies	Administration Provider Pre-Irish Scheme	Administration Provider Post-Irish Scheme
	Diligenta	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will continue to be provided by Diligenta.
	SS&C	SS&C
Irish PLL Transferred Policies	Mercer	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will be provided by RUKSL.
	Unum	SLAESL (Irish branch) will provide personnel to PLAE to enable PLAE to carry on the regulated activities in this administration arrangement. Unregulated activities will be provided by RUKSL.

9.172 As can be seen in the table above, 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). Therefore, there will be a change to the individuals performing the administration for Irish PLL Transferred Policies currently administered by Diligenta, Mercer and Unum.

9.173 There will be no change to the administration platform for Irish PLL Transferred Policies currently administered by Diligenta and SS&C. For the Irish PLL Transferred Policies currently administered by Mercer or Unum, the platform on which they are administered will change, however the platform that they will be transferred to is not a new platform but a tried and tested inhouse Phoenix Group administration platform.

9.174 For services in respect of the Irish PLL Transferred Policies that will be provided by PLAE using the personnel of SLAESL (Irish branch), PLAE and SLAESL (Irish branch) will enter into an MSA. The MSA, which I have seen a draft of, will set out the specific details of the services being provided, the number and qualifications of the personnel, the required standards of service, the location of the services and PLAE’s approach to monitoring the provision of these services. In addition, the MSA between PLAE and SLAESL (Irish branch) will contain service level metrics which are aligned to the existing service level metrics used in respect of the Irish PLL Transferred Business.

- 9.175 Similarly, for services in respect of the Irish PLL Transferred Policies that will continue to be provided by external third parties, SLAESL (Irish branch) will enter into, or amend existing, agreements with these parties, with the overall aim of maintaining the existing features of the corresponding agreements that PLL currently has in place. I will provide an update on the status of the MSA and agreements with external third parties in my Supplementary Report.
- 9.176 The Phoenix Group does not anticipate any change to current service delivery levels following the implementation of the Irish Scheme. In order to achieve this, 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 (as outlined in paragraph 4.77), ensuring consistency with existing services provided to PLL in respect of the Irish PLL Transferred Policies.
- 9.177 In addition, PLAE will establish the PLAE Customer Committee in order to oversee the management of all areas impacting PLAE's customers, including oversight of outsourced services. I understand that the intention is that the PLAE Customer Committee will meet monthly until PLAE becomes operationally established, from which point it will meet quarterly.
- 9.178 PLAE is currently implementing various measures in order to ensure the operational readiness of its administration and servicing model. The Phoenix Group is currently in the process of recruiting new staff members to perform the services that will be provided by SLAESL (Irish branch) personnel within Ireland in respect of the relevant Irish PLL Transferred Policies. Some of the key aspects of the recruitment and training of new staff members are as follows:
- The new staff members recruited to provide services on behalf of PLAE will be required to meet the CBI's Minimum Competency Requirements⁶⁶, and will be required to possess the key skills needed in order to perform their role, including ensuring there are members of staff who speak Icelandic and German;
 - By utilising SLAESL (Irish branch) personnel to support PLAE, an existing servicing company within the Phoenix Group, PLAE will be able to make use of an established support capability in Ireland, which it will use to enable recruitment, induction and training of new staff members, and the development of comprehensive training and accreditation plans in order to on-board and train new staff members;
 - The aim is to offer a hybrid working model to new staff members, in order to reflect the increase in home working as a result of the COVID-19 pandemic and to ensure competitiveness when recruiting. All new staff members will be provided with the necessary equipment to work remotely. The intention is to have new staff members based in the office full time for their first month of employment to ensure a robust and efficient training and onboarding process; however, if another full or partial lockdown were to be enforced, hybrid or fully remote training would be utilised instead as appropriate. I understand that both hybrid and fully remote approaches to training and onboarding have been successfully utilised within the Phoenix Group during the COVID-19 pandemic, and it has various means of tailoring its induction programme to a hybrid or fully remote format should the need arise. I am therefore satisfied that PLAE has adequate plans in place to ensure new staff members can be effectively trained and onboarded under both hybrid and fully remote models;
 - Both pre- and post-Effective Date, existing staff performing services in respect of the PLL Transferred Policies will be available to provide training support to new staff members until competency has been signed off, and the existing administration platform providers have existing training guides as further support to new staff members;
 - Attainment of the CBI's Minimum Competency Requirements will form part of new staff members' roles and probation sign-off. This will also be factored into their ongoing career plans, and staff members will be required to complete minimum levels of Continued Professional Development annually to ensure their ongoing development;
 - The number of new staff members that the Phoenix Group intends to recruit to administer the Irish PLL Transferred Policies is greater than the number of full-time employees currently used, in order to ensure sufficient cover in unforeseen circumstances and to cater for fluctuations in work volumes; and

⁶⁶ *The CBI's Minimum Competency Requirements set out the CBI's minimum professional standards for persons providing certain financial services, in particular when dealing with customers. The aim is to ensure that customers obtain a minimum acceptable level of competence from individuals acting for or on behalf of regulated firms in the provision of advice and information and associated activities in connection with retail financial products.*

- Phoenix Group is also developing contingency plans in the event that recruitment is not completed in advance of the Effective Date, which consists of seconding existing staff in the UK to SLAESL (Irish branch) in Ireland as necessary in order to perform some or all of the required roles on a temporary basis.

9.179 I understand that PLAE will establish dedicated Irish telephone numbers for Irish PLL Transferred Policyholders (excluding the Irish PLL Transferred Policyholders administered by SS&C for which Irish telephone numbers already exist) to contact PLAE representatives in Ireland for any queries relating to their policy. A communication will be sent to the Irish PLL Transferred Policyholders in good time in advance of the Effective Date containing these new contact details. In addition, Phoenix Group website information will be updated to signpost the new contact details, and existing staff in the UK will receive training on where to direct the relevant Irish PLL Transferred Policyholders in the event that queries are directed to UK service centres.

9.180 I have been informed by PLL and PLAE that the costs associated with implementing the administration and servicing model outlined above will be met entirely by shareholders. The shareholders will also meet any additional ongoing costs incurred as a result of these changes.

9.181 PLL currently manages its policyholder data in accordance with GDPR, the EU-wide data protection regime. Likewise, PLAE is required to manage its policyholder data in accordance with GDPR. Therefore, if the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policyholders would continue to be protected by GDPR.

9.182 Overall, 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 its service providers 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 standard as currently provided. I am therefore satisfied that, based on the information and assurances provided to me to date, the implementation of the Irish Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the Irish PLL Transferred Policies. However, since the establishment of PLAE's administration and servicing model and the detailed implementation plan are still in progress at the time of writing this Report, I will provide an update on this matter in my Supplementary Report.

Overall conclusion on the effect of the Irish Scheme on the reasonable expectations of the Irish PLL Transferred Policyholders in respect of their benefits and standards of service

9.183 In conclusion, 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 and standards of service.

CONCLUSION FOR THE EFFECT OF THE PROPOSED IRISH SCHEME ON THE IRISH PLL TRANSFERRED POLICIES

9.184 I am satisfied that the implementation of the proposed Irish Scheme would not have a material adverse effect on:

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

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

INTRODUCTION

- 10.1 If the proposed UK Scheme were to be approved by the UK Court and, given the co-dependences of the Schemes, the Irish Scheme approved by the Irish Court, the PLL Transferred Business would be transferred from PLL to PLAE. The PLL Non-transferring Business would remain in PLL after the Effective Date. The policies within the PLL Non-transferring Business are collectively referred to as the “PLL Non-transferring Policies”, and the policyholders holding these policies are collectively referred to as the “PLL Non-transferring Policyholders”.
- 10.2 As outlined in paragraphs 4.20 to 4.21, the PLL Non-transferring Business includes inwards reinsurance business accepted from two external parties, Utmost and Irish Life. I understand that for operational efficacy reasons, this inwards reinsurance business is treated by PLL as connected with the Irish branch of PLL. However, this inwards reinsurance business is, and will remain post-transfer, business of PLL in the UK (and will not transfer to PLAE under the UK Scheme). No business will remain within the Irish branch of PLL following the implementation of the UK Scheme, and I understand that after the Effective Date, PLL’s intention is to surrender the CBI authorisation held by the Irish branch of PLL as it will no longer be required. PLL expects that the closure of the Irish branch will take place after the Effective Date.
- 10.3 In this section of the Report, I consider the likely effects on the PLL Non-transferring Policyholders of the implementation of the proposed UK Scheme. Unless otherwise specified, I consider all PLL Non-transferring Policyholders collectively. There are certain areas where, in my view, it is appropriate to consider the inwards reinsurance business connected with the Irish branch of PLL separately to the other PLL Non-transferring Business, and I have indicated where this is the case. The key points to consider in respect of the PLL Non-transferring Policyholders are the changes to the following due to the transfer:
- **The security of benefits under the PLL Non-transferring Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the PLL Non-transferring Policies. Financial strength is derived from the applicable risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
 - This is covered in paragraphs 10.4 to 10.27.
 - **The profile of risks to which the PLL Non-transferring Policies are exposed.**
 - This includes the impact of the transfer of the PLL Transferred Policies out of PLL on the risk profile of PLL.
 - This is covered in paragraph 10.28 to 10.31.
 - **The reasonable expectations of the PLL Non-transferring Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, service, management and governance applied to PLL Non-transferring Policies.
 - This is covered in paragraphs 10.32 to 10.45.

My overall conclusions regarding the likely effects on the PLL Non-Transferred Policyholders are set out in paragraph 10.46.

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

- 10.4 As at 31 December 2021:
- The PLL Transferred Business consisted of 21,611 policies and approximately £754 million of BEL (net of reinsurance); and
 - The PLL Non-transferring Business consisted of around 3.7 million policies and approximately £52 billion of BEL (net of reinsurance). This includes the inwards reinsurance business accepted from Utmost and Irish Life, which consists of around 1,200 policies and approximately £23 million of BEL.

- 10.5 The PLL Transferred Policies represent a small proportion (1% by number of policies and c.1.5% by BEL as at 31 December 2021) of PLL's balance sheet and so the PLL Transferred Business is not material in the context of the PLL Non-transferring Business.
- 10.6 The PLL Non-transferring Policies derive their security of benefits from being part of PLL and the associated financial strength under the applicable capital management policy, the strength of PLL's reinsurance agreements and support provided to PLL from its ultimate parent (PGH). In addition, in the extreme scenario of PLL becoming unable to pay policyholder benefits, the majority of PLL Non-transferring Policyholders are currently protected under the FSCS (as described in Section 3 of this Report). I consider the impact of the UK Scheme on these matters in respect of the PLL Non-transferring Policyholders below.

The security of benefits derived from the applicable capital management policy

- 10.7 The UK Scheme would have no effect on the PLL Capital Management Policy, and the PLL Non-transferring Business would continue to be managed in accordance with this policy after the implementation of the proposed UK Scheme.

The security of benefits derived from the financial strength of PLL

- 10.8 As shown in Appendices A and B, if the UK Scheme had been implemented as at 31 December 2021, the transfer of the PLL Transferred Business from PLL to PLAE would have resulted in a small increase of the solvency cover ratio of PLL from 162% to 164%. This is caused mainly by a small reduction in the SCR resulting from the transfer of business out of PLL under the UK Scheme. As a result, I am satisfied that there is no material adverse effect on the financial strength of PLL as a result of the UK Scheme.

The security of benefits derived from the reinsurance arrangements of PLL

The PLL Unit-Linked Reinsurance Agreement

- 10.9 As described in Section 5, if the UK Scheme is implemented, PLL and PLAE will enter into the PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds established by PLAE would be immediately reinsured back to PLL. Under the PLL Unit-Linked Reinsurance Agreement, PLL's obligations to transfer the associated PLL Linked Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 10.10 PLAE would have a floating charge, the PLL Floating Charge, over all of the available assets held by PLL. As a result of this, PLAE would rank equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL. As the PLL Transferred Policyholders currently rank equally to the PLL Non-transferring Policyholders (as they are currently all direct policyholders of PLL), I do not consider that the PLL Unit-Linked Reinsurance Agreement or the PLL Floating Charge that would be held by PLAE would have a material adverse effect on the security of benefits under the PLL Non-transferring Policies. In addition, I have discussed the PLL Unit-linked Reinsurance Agreement and the PLL Floating Charge with executives within PLL, as well as their legal advisors. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 10.11 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement and the associated 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme.

The With-Profits Reinsurance Agreements

- 10.12 As described in Section 5, if the UK Scheme is implemented, PLL and PLAE will enter into four With-Profits Reinsurance Agreements on the Effective Date, one for each of the New With-Profits Funds established by PLAE. As a result, the liabilities relating to the New With-Profits Funds established by PLAE would be immediately reinsured back to PLL. Under the With-Profits Reinsurance Agreements, PLL's obligations to transfer the associated With-Profits Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay reinsurance premiums of an equal amount to PLL.
- 10.13 PLAE would have a mixture of fixed charges (the "WP Fixed Charges") over the assets of PLL in respect of the liabilities transferred under the With-Profits Reinsurance Agreements and a floating charge (the "PLL Floating Charge") over all of the available assets held by PLL (that is, all assets except those over which PLL is unable to grant security), which would minimise its counterparty exposure arising from the With-Profits Reinsurance Agreements. The overall result of the PLL Floating Charge and WP Fixed Charges is that in the event that PLL became insolvent, the minimum recovery to which PLAE is entitled is 65% of the BEL of the reinsured liabilities under the With-Profits Reinsurance Agreements in respect of the PLAE Alba WPF, PLAE Phoenix WPF and PLAE SPI WPF. Since there is no equivalent minimum recovery in respect of the PLL Non-transferring Business, the only situation in which PLAE would recover more than the PLL Non-transferring Policyholders in the event of PLL insolvency is where the PLL Non-transferring Policyholders recover less than 65% of the BEL. Given that PLL will be adequately capitalised following the implementation of the proposed UK Scheme and will continue to adhere to the PLL Capital Management Policy, I consider the likelihood of PLL insolvency to be remote and therefore the likelihood that the PLL Non-transferring Policyholders recover less than 65% of the BEL in the event of PLL insolvency to be even more remote. In addition, if this remote scenario were to arise whereby PLL Non-transferring Policyholders recover less than PLAE upon PLL insolvency then, given the reinsured liabilities under the With-Profits Reinsurance Agreements represent a small proportion of PLL's total liabilities, the fact that PLAE would recover 65% of the BEL of the reinsured liabilities in respect of the relevant New With-Profits Funds would be unlikely to have a material impact on the amount ultimately recovered by the PLL Non-transferring Policyholders, unless the overall recovery amount was significantly below 65% of PLL's overall BEL. Consequently, following the implementation of the proposed UK Scheme, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the most unlikely circumstances.
- 10.14 As the PLL Transferred Policyholders currently rank equally to the PLL Non-transferring Policyholders (as they are currently all direct policyholders of PLL), I do not consider that the With-Profits Reinsurance Agreements or the PLL Floating Charge and WP Fixed Charges that would be held by PLAE would have a material adverse effect on the security of benefits under the PLL Non-transferring Policies. In addition, I have discussed the With-Profits Reinsurance Agreement, WP Fixed Charges and PLL Floating Charge with executives within PLL, as well as their legal advisors. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 10.15 While the above description outlines the current expectations at the time of writing this Report, the terms of the With-Profits Reinsurance Agreements, the PLL Floating Charge and WP Fixed 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed Charges have been entered into prior to the Effective Date of the UK Scheme.

Other reinsurance arrangements of PLL

- 10.16 PLL has a range of external reinsurance agreements in place in respect of the PLL Non-transferring Business. These external reinsurance agreements will remain in place following the implementation of the proposed UK Scheme.
- 10.17 Since there would be no change to the external reinsurance arrangements used by PLL in respect of the PLL Non-transferring Business as a result of the UK Scheme, I am satisfied that the UK Scheme will not have a material adverse effect on PLL Non-transferring Policyholder benefit security in relation to these reinsurance arrangements.

10.18 As discussed in paragraph 10.2, the inwards reinsurance business connected with the Irish branch of PLL is, and will remain post-transfer, business of PLL in the UK (and will not transfer to PLAE under the UK Scheme). No business will remain within the Irish branch of PLL following the implementation of the UK Scheme, and I understand that after the Effective Date, PLL's intention is to surrender the CBI authorisation held by the Irish branch of PLL as it will no longer be required. Whilst not a direct consequence of the UK Scheme, this will result in the inwards reinsurance business contained within the PLL Non-transferring Business no longer being subject to CBI oversight. However, the lead supervisor will continue to be the PRA, and the PRA and the CBI have aligned aims in respect of prudential supervision. Further, I understand that there will be no change to PLL's management of this business.

The security of benefits derived from the parental support for PLL

10.19 There is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including PLL.

10.20 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintains a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, this is not legally binding.

10.21 Therefore, PGH's interest in PLL is limited to indirectly owning the entire issued share capital of PLL and so, as a matter of company law, PGH is not under any legal obligation to provide capital support to PLL.

10.22 Following the implementation of the proposed UK Scheme, PLL will continue to be subject to the Phoenix Group policy regarding the provision of capital support, however it will remain the case that PGH is not under any legal obligation to provide capital support to PLL.

10.23 Therefore, I am satisfied that the proposed UK Scheme would not change the level of parental support available to PLL from PGH.

Additional security for PLL Non-transferring Policyholders

10.24 There would be no change to the FSCS eligibility of the PLL Non-transferring Policyholders as a result of the UK Scheme.

10.25 In addition, there would be no material change to the ranking of PLL Non-transferring Policyholders on wind-up in the event of insolvency of PLL. As outlined in paragraph 10.10, the PLL Floating Charge associated with the PLL Unit-Linked Reinsurance Agreement results in PLAE ranking equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL. As outlined in paragraph 10.13, the overall result of the PLL Floating Charge and WP Fixed Charges associated with the With-Profits Reinsurance Agreements is that in the event of PLL insolvency, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the very remote scenario where PLL Non-transferring Policyholders receive less than 65% of the BEL. Therefore, the ranking of PLAE and PLL Non-transferring Policyholders in the event of PLL insolvency is materially equivalent to the current position whereby the PLL Transferred Policyholders rank equally to the PLL Non-transferring Policyholders.

Summary and conclusion

10.26 Overall, 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.

10.27 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

10.28 If the proposed UK Scheme were to be implemented, the PLL Transferred Policies would be transferred to PLAE. Figure 10.1 below sets out the pre-UK Scheme and pro-forma post-UK Scheme breakdown of PLL's pre-diversification Pillar 1 SCR as at 31 December 2021.

FIGURE 10.1 PLL'S PRE-UK SCHEME AND PRO-FORMA POST-UK SCHEME SCR BREAKDOWN AS AT 31 DECEMBER 2021

Pre-Diversification Capital	PLL Pre-UK Scheme	PLL Post-UK Scheme
Market (excluding spread)	31%	31%
Spread	22%	22%
Longevity	21%	20%
Other underwriting	17%	17%
Operational	5%	5%
Counterparty default	4%	4%

Source: PLL YE21 SCR Pre_Post PLAE PVII. Figures are rounded to nearest 1% and therefore the PLL post-UK scheme column entries sum to 99%.

- 10.29 Prior to the implementation of the proposed UK Scheme, the key risks to which PLL is exposed are market risk, credit spread risk and longevity risk. This would continue to be the case following the implementation of the proposed UK Scheme, and the risk profile of PLL would be materially unchanged.
- 10.30 Furthermore, as the PLL Transferred Business is small compared to the PLL Non-transferring Business, I am satisfied that the transfer out of c.1.5% of the liabilities of PLL would not have a material adverse effect on the profile of risks to which the PLL Non-transferring Policies are exposed.
- 10.31 The implementation of the UK Scheme would not result in a material change to the overall risk exposures of the inwards reinsurance business that is currently connected with the Irish branch of PLL, as this business is, and will remain post-transfer, business of PLL in the UK and is therefore exposed to the overall risk profile of PLL.

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

- 10.32 The implementation of the proposed UK Scheme would not change:
- The terms and conditions of the PLL Non-transferring Policies;
 - The governance or management of the PLL Non-transferring Policies; or
 - The administration and asset management arrangements for the PLL Non-transferring Policies. The administration of the PLL Non-transferring Policies is mainly outsourced to Diligenta and SS&C and this will continue to be the case if the proposed UK Scheme is implemented. Therefore, there is no reason why the quality of administration or the level of service provided to PLL Non-transferring Policyholders should deteriorate as a result of the UK Scheme.
- 10.33 For the non-profit PLL Non-transferring Policies, the fact that there is no change to the terms and conditions of the policies also means there would be no change to the benefits guaranteed under the policy, or to the dates or contingencies on which these benefits would be paid.
- 10.34 In light of the above points, for the non-profit PLL Non-transferring Policies I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on reasonable benefit expectations or on the applicable standards of administration, management and governance.
- 10.35 In addition, as discussed in paragraph 10.18 above, there will be no change to the way in which PLL manages the inwards reinsurance business that is currently connected with the Irish branch of PLL. I also understand that there will be no contractual changes or changes to the administration and service standards that apply to this inwards reinsurance business, which will continue to be business of PLL in the UK following the implementation of the UK Scheme.

10.36 For the unit-linked PLL Non-transferring Policies and with-profits PLL Non-transferring Policies, I have set out my additional considerations below.

Unit-linked PLL Non-transferring Policies

10.37 PLL maintains internal PLL Linked funds for the purposes of calculating benefits payable under its unit-linked policies. Some of the PLL Linked Funds available to the PLL Non-transferring Policyholders are also available to PLL Transferred Policyholders. However, there will be no structural changes required to these funds prior to the implementation of the proposed UK Scheme. In particular:

- Unit-linked PLL Non-transferring Policies would have access to the same range of funds;
- These funds would be managed in the same way as currently in respect of investment objectives, charges taken, unit pricing and the tax charged to the unit funds;
- There would be no change to the number, value or type of units held by the unit-linked PLL Non-transferring Policyholders;
- There would be no change to the level or calculation of charges applied to the unit-linked PLL Non-transferring Policyholders; and
- There would be no change to the application of discretion in respect of unit-linked PLL Non-transferring Policies.

With-profits PLL Non-transferring Policies

10.38 PLL maintains the PLL WPFs, four of which contain Irish PLL Transferred Business as well as PLL Non-transferring business: the PLL 90% WPF, PLL Alba WPF, PLL Phoenix WPF and the PLL SPI WPF. If the proposed UK Scheme were to be implemented, the with-profits PLL Non-transferring Policies would continue to reside within the same PLL WPFs as they do currently. The Irish PLL Transferred Business in the PLL WPFs would transfer to the corresponding New With-Profits Funds within PLAE; however, this business would be immediately reinsured back to the relevant PLL WPFs under the With-Profits Reinsurance Agreements.

10.39 In association with the With-Profits Reinsurance Agreements, PLAE would have the WP Fixed Charges over assets held in custodian accounts in respect of three of the PLL WPFs: the PLL SPI WPF, the PLL Alba WPF and the PLL Phoenix WPF. As mentioned in paragraph 5.64, this will require the splitting of assets from these PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. However, the intention is that these assets will be managed in line with the respective strategic asset allocation detailed in the PPFM.

10.40 Overall, the effect of the With-Profits Reinsurance Agreements is that following the implementation of the proposed UK Scheme, the PLL WPFs in which the with-profits PLL Non-transferring Policies reside will be materially unchanged.

10.41 The implementation of the proposed UK Scheme would not change the with-profits PLL Non-transferring Policyholders' participation in the relevant PLL WPFs, and in particular:

- There would be no change to the management of each of the PLL WPFs as it applies to with-profits PLL Non-transferring Policies, and the PLL WPFs will continue to be managed in line with the 2009 Scheme and the current PPFM;
- There would be no change to the charges applied to the with-profits PLL Non-transferring Policies; and
- There would be no change to the application of discretion in respect of with-profits PLL Non-transferring Policies.

10.42 As shown in Figure 4.4, the only PLL WPF that contains a material amount of PLL Transferred Business is the PLL SPI WPF. Currently under the terms of its 2009 Scheme Sunset Clause it is expected that the SPI WPF will need to be wound up around 2044. Given the volume of business that would be transferred out of the PLL SPI WPF, if the With-Profits Reinsurance Agreement in respect of the PLAE SPI WPF were to be terminated, it is possible that this would bring forward the estimated date at which the 2009 Scheme Sunset Clause is triggered by two to three years. At the point the 2009 Scheme Sunset Clause is triggered, the with-profits PLL Non-transferring Policyholders that reside in the PLL 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.

10.43 Whilst the termination of the With-Profits Reinsurance Agreement in respect of the PLAE SPI WPF may bring forward the date at which the PLL SPI WPF is wound-up, 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 2009 Scheme 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.

10.44 It is not anticipated that the With-Profits Reinsurance Agreements will be terminated in the short-term. However, if such termination does occur, I am satisfied that 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 the implementation of the proposed UK Scheme would not materially adversely affect the reasonable benefit expectations of the with-profits PLL Non-transferring Policyholders in the event that any of the With-Profits Reinsurance Agreements are terminated.

Conclusion

10.45 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, management and governance that apply to the PLL Non-transferring Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED UK SCHEME ON PLL NON-TRANSFERRING POLICIES

10.46 Overall, 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 Non-transferring Policies;
- The profile of risks to which the PLL Non-transferring Policies are exposed; and
- The reasonable expectations of the PLL Non-transferring Policyholders in respect of their benefits, including the standards of administration, management and governance that apply to the PLL Non-transferring Policies.

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

INTRODUCTION

- 11.1 If the proposed UK Scheme were to be approved by the UK Court and, given the co-dependences of the Schemes, the Irish Scheme approved by the Irish Court, the RLL Transferred Business would be transferred from RLL to PLAE. The RLL Non-transferring Business would remain in RLL after the Effective Date. The policies within the RLL Non-transferring Business are collectively referred to as the “RLL Non-transferring Policies”, and the policyholders holding these policies are collectively referred to as the “RLL Non-transferring Policyholders”.
- 11.2 In this section of the Report, I consider the likely effects on the RLL Non-transferring Policyholders of the implementation of the proposed UK Scheme. The key points to consider in respect of the RLL Non-transferring Policyholders are the changes in the following due to the transfer:
- **The security of benefits under the RLL Non-transferring Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the RLL Non-transferring Policies. Financial strength is derived from the applicable risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
 - This is covered in paragraphs 11.3 to 11.22.
 - **The profile of risks to which the RLL Non-transferring Policies are exposed.**
 - This includes the impact of the transfer of the RLL Transferred Policies out of RLL on the risk profile of RLL.
 - This is covered in paragraphs 11.23 to 11.26.
 - **The reasonable expectations of the RLL Non-transferring Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, service, management and governance applied to the RLL Non-transferring Policies.
 - This is covered in paragraphs 11.27 to 11.37.

My overall conclusions regarding the likely effects on the PLL Non-Transferred Policyholders are set out in paragraph 11.38.

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

Introduction

- 11.3 As at 31 December 2021:
- The RLL Transferred Business consisted of 7,161 policies and approximately £154 million of BEL (allowing for the IGR with RAL); and
 - The RLL Non-transferring Business consisted of around 152,000 policies and approximately £6.9 billion of BEL (allowing for the IGR with RAL).
- 11.4 The RLL Transferred Policies represent a small proportion (c.5% by number of policies and c.2% by BEL as at 31 December 2021) of RLL’s balance sheet and so the RLL Transferred Business is not material in the context of the RLL Non-transferring Business.
- 11.5 The RLL Non-transferring Policies derive their security of benefits from being part of RLL and the associated financial strength under the applicable capital management policy, the strength of RLL’s reinsurance agreements and support provided to RLL from its ultimate parent (PGH). In addition, in the extreme scenario of RLL becoming unable to pay policyholder benefits, the majority of RLL Non-transferring Policyholders are currently protected under the FSCS (as described in Section 3 of this Report). I consider the impact of the UK Scheme on these matters in respect of the RLL Non-transferring Policyholders below.

The security of benefits derived from the applicable capital management policy

11.6 At the time of writing this Report RLL continues to adopt the RGP Capital Management Policy. However, RLL is currently undergoing an alignment exercise whereby RLL will derive its capital management policy from the Life Companies RAF, and this exercise is expected to complete in advance of the Effective Date. Whilst I acknowledge that the capital management policy adopted by RLL is expected, by Phoenix management, to change prior to the Effective Date, this change is a result of the acquisition of RGP by the Phoenix Group and is not a consequence of the UK Scheme. As a result, the UK Scheme is expected to have no effect on the capital management policy adopted by RLL. Nonetheless, I will provide an update on this matter in my Supplementary Report.

The security of benefits derived from the financial strength of RLL

11.7 As shown in Appendices A and B, if the UK Scheme had been implemented as at 31 December 2021, the transfer of the RLL Transferred Business from RLL to PLAE would have resulted in an increase of the post-IGR solvency cover ratio of RLL from 636% to 661%⁶⁷. This is caused mainly by a small increase in Own Funds due to the transfer price received by RLL from PLAE, offset slightly by a small decrease in the SCR resulting from the transfer of business out of RLL under the UK Scheme. As a result, I am satisfied that there is no material adverse effect on the financial strength of RLL as a result of the UK Scheme.

The security of benefits derived from the reinsurance arrangements of RLL

The RLL Unit-Linked Reinsurance Agreement

11.8 As described in Section 5, if the UK Scheme is implemented, RLL and PLAE will enter into the RLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the RLL New Linked Funds established by PLAE would be immediately reinsured back to RLL. Under the RLL Unit-Linked Reinsurance Agreement, RLL's obligations to transfer the associated RLL Linked Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to RLL.

11.9 PLAE would have a floating charge over all of the available assets held by RLL, the RLL Floating Charge. As a result of this, PLAE would rank equally to the RLL Non-transferring Policyholders in the event of insolvency of RLL. As the RLL Transferred Policyholders currently rank equally to the RLL Non-transferring Policyholders (as they are currently all direct policyholders of RLL), I do not consider that the RLL Unit-Linked Reinsurance Agreement or the RLL Floating Charge that would be held by PLAE would have a material adverse effect on the security of benefits under the RLL Non-transferring Policies. In addition, I have discussed the RLL Unit-linked Reinsurance Agreement and the RLL Floating Charge with executives within RLL, as well as their legal advisors. Based these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.

11.10 While the above description outlines the current expectations at the time of writing this Report, the terms of the RLL Unit-Linked Reinsurance Agreement and the associated RLL 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 UK Scheme, in my Supplementary Report. The UK Scheme contains a clause which requires that the RLL Unit-Linked Reinsurance Agreement and the associated RLL Floating Charge have been entered into prior to the Effective Date of the UK Scheme.

⁶⁷ That the ratios are so high is a function of dividing by a relatively small number: the SCR determined after allowing for the IGR. In monetary terms, on a pro forma basis the Own Funds of RLL increases by £2 million and its SCR reduces by £1 million following the implementation of the UK Scheme.

Other reinsurance arrangements of RLL

- 11.11 As described in Section 4, RLL has an IGR in place with RAL which transfers the majority of the economic interest and the associated risks in the business of RLL to the RAL NPF. The partial recapture provisions of the IGR would be invoked upon completion of the proposed UK Scheme, removing the RLL Transferred Business from the scope of the IGR. The RLL Non-transferring Business would continue to be covered by the IGR following the Effective Date; however, it will terminate immediately following the expected future Part VII transfer of all of the RLL Non-transferring Business to another appropriately authorised member of the Phoenix Group described in paragraph 4.88. Therefore, the eventual termination of the IGR is not a consequence of the UK Scheme.
- 11.12 RLL has a range of external reinsurance agreements in place in respect of the RLL Non-transferring Business. These external reinsurance agreements will remain in place following the implementation of the proposed UK Scheme.
- 11.13 Since there would be no material change to the IGR and external reinsurance arrangements used by RLL in respect of the RLL Non-transferring Business as a result of the UK Scheme, I am satisfied that the UK Scheme will not have a material adverse effect on RLL Non-transferring Policyholder benefit security in relation to these reinsurance arrangements.

The security of benefits derived from the parental support for RLL

- 11.14 There is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including RLL.
- 11.15 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintains a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, this is not legally binding.
- 11.16 Therefore, PGH's interest in RLL is limited to indirectly owning the entire issued share capital of RLL and so, as a matter of company law, PGH is not under any legal obligation to provide capital support to RLL.
- 11.17 Following the implementation of the proposed UK Scheme, RLL will continue to be subject to the Phoenix Group policy regarding the provision of capital support, however it will remain the case that PGH is not under any legal obligation to provide capital support to RLL.
- 11.18 Therefore, I am satisfied that the proposed UK Scheme would not change the level of parental support available to RLL from PGH.

Additional security for RLL Non-transferring Policyholders

- 11.19 There would be no change to the FSCS eligibility of the RLL Non-transferring Policyholders a result of the UK Scheme.
- 11.20 In addition, there would be no change to the ranking of RLL Non-transferring Policyholders on wind-up in the event of insolvency of RLL. As outlined in paragraph 11.9, the RLL Floating Charge associated with the RLL Unit-Linked Reinsurance Agreement results in PLAE ranking equally to the RLL Non-transferring Policyholders in the event of insolvency of RLL. This is equivalent to the current position whereby the RLL Transferred Policyholders rank equally to the RLL Non-transferring Policyholders.

Summary and conclusion

- 11.21 Overall, 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.

11.22 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

11.23 If the proposed UK Scheme were to be implemented, the RLL Transferred Policies would be transferred to PLAE. Figure 11.1 below sets out the pre-UK Scheme and pro-forma post-UK Scheme breakdown of RLL's pre-diversification Pillar 1 SCR, net of the IGR with RAL, as at 31 December 2021.

FIGURE 11.1 RLL'S PRE-UK SCHEME AND PRO-FORMA POST-UK SCHEME SCR BREAKDOWN AS AT 31 DECEMBER 2021

Pre-diversification capital	RLL Pre-UK Scheme	RLL Post-UK Scheme
Operational risk	41%	41%
Spread risk	9%	10%
Other market risk	39%	39%
Counterparty default risk	10%	10%

Source: Provided by RLL; pre-UK Scheme totals to 99% due to rounding.

11.24 Prior to the implementation of the proposed UK Scheme, the IGR has the effect of transferring the majority of the risks associated with the business of RLL (including the risks associated with the RLL Transferred Business) to RAL. As a result, the key risks to which RLL is exposed are operational risk, equity risk (in respect of shareholder exposure to the unit-linked funds, included in the 'other market risk' in Figure 11.1) spread risk and counterparty default risk. Whilst the majority of operational risk is passed from RLL to RAL under the IGR, the methodology for calculating this component of the SCR under the Standard Formula does not take account of the IGR. RLL's exposure to spread risk, counterparty default risk and other market risk mostly arises from an outstanding loan balance with RGP.

11.25 If the proposed UK Scheme were to be implemented, the RLL Transferred Policies would be transferred to PLAE, and only the unit-linked liabilities of the RLL Transferred Policies would be retained by RLL as a result of the RLL Unit-Linked Reinsurance Agreement. Since the risks associated with the non-unit liabilities of the RLL Transferred Policies were previously transferred to RAL under the IGR, the implementation of the UK Scheme would have a minimal impact on the risk profile of RLL.

11.26 Furthermore, as the RLL Transferred Business is small compared to the RLL Non-transferring Business, I am satisfied that the transfer out of c.2% of the liabilities of RLL 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 AND STANDARDS OF SERVICE

11.27 The implementation of the proposed UK Scheme would not change:

- The terms and conditions of the RLL Non-transferring Policies;
- The governance or management of the RLL Non-transferring Policies; or
- The administration and asset management arrangements for the RLL Non-transferring Policies. The administration of the RLL Non-transferring Policies is carried out by RUKSL and this will continue to be the case if the proposed UK Scheme is implemented. Therefore, there is no reason why the quality of administration or the level of service provided to RLL Non-transferring Policyholders should deteriorate as a result of the UK Scheme.

11.28 For the non-profit RLL Non-transferring Policies, the fact that there is no change to the terms and conditions of the policies also means there would be no change to the benefits guaranteed under the policy, or to the dates or contingencies on which these benefits would be paid.

11.29 In light of the above points, for the non-profit RLL Non-transferring Policies I am therefore satisfied that the implementation of the UK Scheme would not have a material adverse effect on reasonable benefit expectations or on the applicable standards of administration, management and governance.

11.30 For the unit-linked RLL Non-transferring Policies, I have set out my additional considerations below.

Unit-linked RLL Non-transferring Policies

11.31 RLL maintains internal RLL Linked Funds for the purposes of calculating benefits payable under the unit-linked policies, including those unit-linked policies within the RLL Transferred Business.

11.32 As described in Section 5, 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).

11.33 The RLL Linked Funds available to the Norwegian RLL Transferred Policyholders are available only for such policyholders. This will not be changed by the implementation of the proposed UK Scheme.

11.34 There would be no other changes for the unit-linked RLL Non-transferring Policies in respect of the RLL Linked Funds in which they can currently invest and, in particular:

- Unit-linked RLL Non-transferring Policies would have access to the same range of funds;
- These funds would be managed in the same way as currently in respect of investment objectives, charges taken, unit pricing and the tax charged to the unit funds;
- There would be no change to the number, value or type of units held by the unit-linked RLL Non-transferring Policyholders;
- There would be no change to the level or calculation of charges applied to the unit-linked RLL Non-transferring Policyholders; and
- There would be no change to the application of discretion in respect of unit-linked RLL Non-transferring Policies.

11.35 The RLL Linked Funds are currently priced on a bid or offer basis according to net daily cashflows (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). This would not be changed by the implementation of the proposed UK Scheme, and the same approach to unit pricing would continue to apply to the Swedish Linked Funds and to the remaining UK part of the corresponding RLL Linked Funds after the split. Furthermore, the implementation of the proposed Scheme would not change the number or value of units held by any of the unit-linked RLL Non-transferring Policyholders on the Effective Date.

11.36 Whilst the split of the relevant RLL Linked Funds to facilitate the creation of the Swedish Linked Funds is not a direct consequence of the UK Scheme, I note that this split 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 therefore declining, 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. Given this, I am satisfied that any differences will not be material. Therefore, it is not unreasonable to conclude that there would be no systematic material adverse impact on the unit-linked RLL Non-transferring Policyholders arising from that split.

Conclusion

11.37 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, management and governance that apply to the RLL Non-transferring Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED UK SCHEME ON RLL NON-TRANSFERRING POLICIES

11.38 Overall, 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 RLL Non-transferring Policies;
- The profile of risks to which the RLL Non-transferring Policies are exposed; and
- The reasonable expectations of the RLL Non-transferring Policyholders in respect of their benefits, including the standards of administration, management and governance that apply to the RLL Non-transferring Policies.

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

INTRODUCTION

- 12.1 If the proposed Irish Scheme were to be approved by the Irish Court and, given the co-dependences of the Schemes, the UK Scheme approved by the UK Court, the Irish PLL Transferred Business would be transferred from PLL to PLAE. The PLL Non-transferring Business would remain in PLL after the Effective Date. The policies within the PLL Non-transferring Business are collectively referred to as the “PLL Non-transferring Policies”, and the policyholders holding these policies are collectively referred to as the “PLL Non-transferring Policyholders”. Given the co-dependencies of the Schemes, in this section I have considered the combined financial impact of the Schemes on PLL and PLAE rather than considering the financial impact of the Irish Scheme in isolation.
- 12.2 As outlined in paragraphs 4.20 to 4.21, the PLL Non-transferring Business includes inwards reinsurance business accepted from two external parties, Utmost and Irish Life. I understand that for operational efficacy reasons, this inwards reinsurance business is treated by PLL as connected with the Irish branch of PLL. However, this inwards reinsurance business is, and will remain post-transfer, business of PLL in the UK (and will not transfer to PLAE under the Irish Scheme). No business will remain within the Irish branch of PLL following the implementation of the Irish Scheme, and I understand that after the Effective Date, PLL’s intention is to surrender the CBI authorisation held by the Irish branch of PLL as it will no longer be required. PLL expects that the closure of the Irish branch will take place after the Effective Date.
- 12.3 In this section of the Report, I consider the likely effects on the PLL Non-transferring Policyholders of the implementation of the proposed Irish Scheme. Unless otherwise specified, I consider all PLL Non-transferring Policyholders collectively. There are certain areas where, in my view, it is appropriate to consider the inwards reinsurance business connected with the Irish branch of PLL separately to the other PLL Non-transferring Business, and I have indicated where this is the case. The key points to consider in respect of the PLL Non-transferring Policyholders are the changes to the following due to the transfer:
- **The security of benefits under the PLL Non-transferring Policies.**
 - This is derived from the financial strength available to provide security for the benefits under the PLL Non-transferring Policies. Financial strength is derived from the applicable risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group.
 - This is covered in paragraphs 12.4 to 12.27.
 - **The profile of risks to which the PLL Non-transferring Policies are exposed.**
 - This includes the impact of the transfer of the Irish PLL Transferred Policies out of PLL on the risk profile of PLL.
 - This is covered in paragraphs 12.28 to 12.31.
 - **The reasonable expectations of the PLL Non-transferring Policyholders in respect of their benefits and standards of service.**
 - This includes the likely effects of the transfer on the standards of administration, service, management and governance applied to PLL Non-transferring Policies.
 - This is covered in paragraphs 12.32 to 12.45.

My overall conclusions regarding the likely effects on the PLL Non-Transferred Policyholders are set out in paragraph 12.46.

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

- 12.4 As at 31 December 2021:
- The Irish PLL Transferred Business consisted of 19,974 policies and approximately £754 million of BEL (net of reinsurance); and
 - The PLL Non-transferring Business consisted of around 3.7 million policies and approximately £52 billion of BEL (net of reinsurance). This includes the inwards reinsurance business accepted from Utmost and Irish Life, which consists of around 1,200 policies and approximately £23 million of BEL.

- 12.5 The Irish PLL Transferred Policies represent a small proportion (c.1% by number of policies and c.1.5% by BEL as at 31 December 2021) of PLL's balance sheet and so the Irish PLL Transferred Business is not material in the context of the PLL Non-transferring Business.
- 12.6 The PLL Non-transferring Policies derive their security of benefits from being part of PLL and the associated financial strength under the applicable capital management policy, the strength of PLL's reinsurance agreements and support provided to PLL from its ultimate parent (PGH). In addition, in the extreme scenario of PLL becoming unable to pay policyholder benefits, the majority of PLL Non-transferring Policyholders are currently protected under the FSCS (as described in Section 3 of this Report). I consider the impact of the Irish Scheme on these matters in respect of the PLL Non-transferring Policyholders below.

The security of benefits derived from the applicable capital management policy

- 12.7 The Irish Scheme would have no effect on the PLL Capital Management Policy, and the PLL Non-transferring Business would continue to be managed in accordance with this policy after the implementation of the proposed Irish Scheme.

The security of benefits derived from the financial strength of PLL

- 12.8 As shown in Appendices A and B, if the Schemes had been implemented as at 31 December 2021, the transfer of the PLL Transferred Business under the Schemes from PLL to PLAE would have resulted in a small increase of the solvency cover ratio of PLL from 162% to 164%. This is caused mainly by a small reduction in the SCR resulting from the transfer of business out of PLL under the Irish Scheme. As a result, I am satisfied that there is no material adverse effect on the financial strength of PLL as a result of the Irish Scheme.

The security of benefits derived from the reinsurance arrangements of PLL

The PLL Unit-Linked Reinsurance Agreement

- 12.9 As described in Section 6, if the Irish Scheme is implemented, PLL and PLAE will enter into the PLL Unit-Linked Reinsurance Agreement on the Effective Date so that the unit-linked liabilities relating to the PLL New Linked Funds established by PLAE would be immediately reinsured back to PLL. Under the PLL Unit-Linked Reinsurance Agreement, PLL's obligations to transfer the associated PLL Linked Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay a reinsurance premium of an equal amount to PLL.
- 12.10 PLAE would have a floating charge over all of the available assets held by PLL. As a result of this, PLAE would rank equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL. As the Irish PLL Transferred Policyholders currently rank equally to the PLL Non-transferring Policyholders (as they are currently all direct policyholders of PLL), I do not consider that the PLL Unit-Linked Reinsurance Agreement or the PLL Floating Charge that would be held by PLAE would have a material adverse effect on the security of benefits under the PLL Non-transferring Policies. In addition, I have discussed the PLL Unit-linked Reinsurance Agreement and the PLL Floating Charge with executives within PLL, as well as their legal advisors. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 12.11 While the above description outlines the current expectations at the time of writing this Report, the terms of the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge are in final draft form and are expected to be finalised in advance of the Irish Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Irish Scheme, in my Supplementary Report. The Irish Scheme contains a clause which requires that the PLL Unit-Linked Reinsurance Agreement and the associated PLL Floating Charge have been entered into prior to the Effective Date of the Irish Scheme.

The With-Profits Reinsurance Agreements

- 12.12 As described in Section 6, if the Irish Scheme is implemented, PLL and PLAE will enter into four With-Profits Reinsurance Agreements on the Effective Date, one for each of the New With-Profits Funds established by PLAE. As a result, the liabilities relating to the New With-Profits Funds established by PLAE would be immediately reinsured back to PLL. Under the With-Profits Reinsurance Agreements, PLL's obligations to transfer the associated With-Profits Assets to PLAE on the Effective Date will be set off against PLAE's obligation to pay reinsurance premiums of an equal amount to PLL.
- 12.13 PLAE would have a mixture of fixed charges (the "WP Fixed Charges") over the assets of PLL in respect of the liabilities transferred under the With-Profits Reinsurance Agreements and a floating charge (the "PLL Floating Charge") over all of the available assets held by PLL (that is, all assets except those over which PLL is unable to grant security), which would minimise its counterparty exposure arising from the With-Profits Reinsurance Agreements. The overall result of the PLL Floating Charge and WP Fixed Charges is that in the event that PLL became insolvent, the minimum recovery to which PLAE is entitled is 65% of the BEL of the reinsured liabilities under the With-Profits Reinsurance Agreements in respect of the PLAE Alba WPF, PLAE Phoenix WPF and PLAE SPI WPF. Since there is no equivalent minimum recovery in respect of the PLL Non-transferring Business, the only situation in which PLAE would recover more than the PLL Non-transferring Policyholders in the event of PLL insolvency is where the PLL Non-transferring Policyholders recover less than 65% of the BEL. Given that PLL will be adequately capitalised following the implementation of the proposed Irish Scheme and will continue to adhere to the PLL Capital Management Policy, I consider the likelihood of PLL insolvency to be remote and therefore the likelihood that the PLL Non-transferring Policyholders recover less than 65% of the BEL in the event of PLL insolvency to be even more remote. In addition, if this remote scenario were to arise whereby PLL Non-transferring Policyholders recover less than PLAE upon PLL insolvency then, given the reinsured liabilities under the With-Profits Reinsurance Agreements represent a small proportion of PLL's total liabilities, the fact that PLAE would recover 65% of the BEL of the reinsured liabilities in respect of the relevant New With-Profits Funds would be unlikely to have a material impact on the amount ultimately recovered by the PLL Non-transferring Policyholders, unless the overall recovery amount was significantly below 65% of PLL's overall BEL. Consequently, following the implementation of the proposed Irish Scheme, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the most unlikely circumstances.
- 12.14 As the Irish PLL Transferred Policyholders currently rank equally to the PLL Non-transferring Policyholders (as they are currently all direct policyholders of PLL), I do not consider that the With-Profits Reinsurance Agreements or the PLL Floating Charge and WP Fixed Charges that would be held by PLAE would have a material adverse effect on the security of benefits under the PLL Non-transferring Policies. In addition, I have discussed the With-Profits Reinsurance Agreement, the WP Fixed Charges and the PLL Floating Charge with executives within PLL, as well as their legal advisors. Based on these discussions I have no reason to believe that these arrangements would not work as designed and intended. I also understand based on these discussions that PLAE has the necessary authority and has taken all necessary action to enable it to adhere to the obligations under the arrangements, that the arrangements are governed by English law and that the Irish Court is likely to uphold any decisions made by the UK Court in relation to these arrangements. I am satisfied that the approach taken by the Phoenix Group on this matter is reasonable.
- 12.15 While the above description outlines the current expectations at the time of writing this Report, the terms of the With-Profits Reinsurance Agreements, the PLL Floating Charge and WP Fixed Charges are in final draft form and are expected to be finalised in advance of the Irish Sanction Hearing. I will provide an update on this matter, and any implications on my conclusions in respect of the proposed Irish Scheme, in my Supplementary Report. The Irish Scheme contains a clause which requires that the With-Profits Reinsurance Agreements and the associated PLL Floating Charge and WP Fixed Charges have been entered into prior to the Effective Date of the Irish Scheme.

Other reinsurance arrangements of PLL

- 12.16 PLL has a range of external reinsurance agreements in place in respect of the PLL Non-transferring Business. These external reinsurance agreements will remain in place following the implementation of the proposed Irish Scheme.

- 12.17 Since there would be no change to the external reinsurance arrangements used by PLL in respect of the PLL Non-transferring Business as a result of the Irish Scheme, I am satisfied that the Irish Scheme will not have a material adverse effect on PLL Non-transferring Policyholder benefit security in relation to these reinsurance arrangements.
- 12.18 As discussed in paragraph 12.3, the inwards reinsurance business connected with the Irish branch of PLL is, and will remain post-transfer, business of PLL in the UK (and will not transfer to PLAE under the Irish Scheme). No business will remain within the Irish branch of PLL following the implementation of the Irish Scheme, and I understand that after the Effective Date, PLL's intention is to surrender the CBI authorisation held by the Irish branch of PLL as it will no longer be required. Whilst not a direct consequence of the Irish Scheme, this will result in the inwards reinsurance business contained within the PLL Non-transferring Business no longer being subject to CBI oversight. However, the lead supervisor will continue to be the PRA, and the PRA and the CBI have aligned aims in respect of prudential supervision. Further, I understand that there will be no change to PLL's management of this business.

The security of benefits derived from the parental support for PLL

- 12.19 There is no formal capital support arrangement in place between PGH and insurance companies in the Phoenix Group, including PLL.
- 12.20 In the event that a life company in the Phoenix Group breaches its Capital Management Policy, or its SCR, the Phoenix Group maintains a policy which sets out that it will provide support, where it is able to do so. The commitment is subject to the circumstances of any shortfall and the nature of options available to restore solvency in a suitable timeframe. However, this is not legally binding.
- 12.21 Therefore, PGH's interest in PLL is limited to indirectly owning the entire issued share capital of PLL and so, as a matter of company law, PGH is not under any legal obligation to provide capital support to PLL.
- 12.22 Following the implementation of the proposed Irish Scheme, PLL will continue to be subject to the Phoenix Group policy regarding the provision of capital support, however it will remain the case that PGH is not under any legal obligation to provide capital support to PLL.
- 12.23 Therefore, I am satisfied that the proposed Irish Scheme would not change the level of parental support available to PLL from PGH.

Additional security for PLL Non-transferring Policyholders

- 12.24 There would be no change to the FSCS eligibility of the PLL Non-transferring Policyholders a result of the Irish Scheme.
- 12.25 In addition, there would be no material change to the ranking of PLL Non-transferring Policyholders on wind-up in the event of insolvency of PLL. As outlined in paragraph 10.10, the PLL Floating Charge associated with the PLL Unit-Linked Reinsurance Agreement results in PLAE ranking equally to the PLL Non-transferring Policyholders in the event of insolvency of PLL. As outlined in paragraph 12.13, the overall result of the PLL Floating Charge and WP Fixed Charges associated with the With-Profits Reinsurance Agreements is that in the event of PLL insolvency, PLAE would rank equally to the PLL Non-transferring Policyholders in all but the very remote scenario where PLL Non-transferring Policyholders receive less than 65% of the BEL. Therefore, the ranking of PLAE and PLL Non-transferring Policyholders in the event of PLL insolvency is materially equivalent to the current position whereby the Irish PLL Transferred Policyholders rank equally to the PLL Non-transferring Policyholders.

Summary and conclusion

- 12.26 Overall, 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.

12.27 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

12.28 If the proposed Irish Scheme were to be implemented, the Irish PLL Transferred Policies would be transferred to PLAE. Figure 12.1 below sets out the pre-Schemes and pro-forma post-Schemes breakdown of PLL's pre-diversification Pillar 1 SCR as at 31 December 2021.

FIGURE 12.1 PLL'S PRE-SCHEMES AND PRO-FORMA POST-SCHEMES SCR BREAKDOWN AS AT 31 DECEMBER 2021

Pre-Diversification Capital	PLL Pre-Schemes	PLL Post-Schemes
Market (excluding spread)	31%	31%
Spread	22%	22%
Longevity	21%	20%
Other underwriting	17%	17%
Operational	5%	5%
Counterparty default	4%	4%

Source: PLL YE21 SCR Pre_Post PLAE PVII. Figures are rounded to nearest 1% and therefore the PLL post-Schemes column entries sum to 99%. The source assumes the effect of both the Irish and the UK Schemes, that is, arising from the transfer of a small amount of non-Irish business through the UK Scheme. Exclusion of the transfer of the non-Irish business would not materially affect the post-Irish Scheme risk profile.

- 12.29 Prior to the implementation of the proposed Irish Scheme, the key risks to which PLL is exposed are market risk, credit spread risk and longevity risk. This would continue to be the case following the implementation of the proposed Irish Scheme, and the risk profile of PLL would be materially unchanged.
- 12.30 Furthermore, as the Irish PLL Transferred Business is small compared to the PLL Non-transferring Business, I am satisfied that the transfer out of c.1.5% of the liabilities of PLL would not have a material adverse effect on the profile of risks to which the PLL Non-transferring Policies are exposed.
- 12.31 The implementation of the Irish Scheme would not result in a material change to the overall risk exposures of the inwards reinsurance business that is currently connected with the Irish branch of PLL, as this business is, and will remain post-transfer, business of PLL in the UK and is therefore exposed to the overall risk profile of PLL.

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

- 12.32 The implementation of the proposed Irish Scheme would not change:
- The terms and conditions of the PLL Non-transferring Policies;
 - The governance or management of the PLL Non-transferring Policies; or
 - The administration and asset management arrangements for the PLL Non-transferring Policies. The administration of the PLL Non-transferring Policies is mainly outsourced to Diligenta and SS&C and this will continue to be the case if the proposed Irish Scheme is implemented. Therefore, there is no reason why the quality of administration or the level of service provided to PLL Non-transferring Policyholders should deteriorate as a result of the Irish Scheme.
- 12.33 For the non-profit PLL Non-transferring Policies, the fact that there is no change to the terms and conditions of the policies also means there would be no change to the benefits guaranteed under the policy, or to the dates or contingencies on which these benefits would be paid.

- 12.34 In light of the above points, for the non-profit PLL Non-transferring Policies I am therefore satisfied that the implementation of the Irish Scheme would not have a material adverse effect on reasonable benefit expectations or on the applicable standards of administration, management and governance.
- 12.35 In addition, as discussed in paragraph 12.18 above, there will be no change to the way in which PLL manages the inwards reinsurance business that is currently connected with the Irish branch of PLL. I also understand that there will be no contractual changes or changes to the administration and service standards that apply to this inwards reinsurance business, which will continue to be business of PLL in the UK following the implementation of the Irish Scheme.
- 12.36 For the unit-linked PLL Non-transferring Policies and with-profits PLL Non-transferring Policies, I have set out my additional considerations below.

Unit-linked PLL Non-transferring Policies

- 12.37 PLL maintains internal PLL Linked funds for the purposes of calculating benefits payable under its unit-linked policies. Some of the PLL Linked Funds available to the PLL Non-transferring Policyholders are also available to PLL Transferred Policyholders. However, there will be no structural changes required to these funds prior to the implementation of the proposed Irish Scheme. In particular:
- Unit-linked PLL Non-transferring Policies would have access to the same range of funds;
 - These funds would be managed in the same way as currently in respect of investment objectives, charges taken, unit pricing and the tax charged to the unit funds;
 - There would be no change to the number, value or type of units held by the unit-linked PLL Non-transferring Policyholders;
 - There would be no change to the level or calculation of charges applied to the unit-linked PLL Non-transferring Policyholders; and
 - There would be no change to the application of discretion in respect of unit-linked PLL Non-transferring Policies.

With-profits PLL Non-transferring Policies

- 12.38 PLL maintains the PLL WPFs, four of which contain Irish PLL Transferred Business as well as PLL Non-transferring business: the PLL 90% WPF, PLL Alba WPF, PLL Phoenix WPF and the PLL SPI WPF. If the proposed Irish Scheme were to be implemented, the with-profits PLL Non-transferring Policies would continue to reside within the same PLL WPFs as they do currently. The Irish PLL Transferred Business in the PLL WPFs would transfer to the corresponding New With-Profits Funds within PLAE; however, this business would be immediately reinsured back to the relevant PLL WPFs under the With-Profits Reinsurance Agreements.
- 12.39 In association with the With-Profits Reinsurance Agreements, PLAE would have the WP Fixed Charges over assets held in custodian accounts in respect of three of the PLL WPFs: the PLL SPI WPF, the PLL Alba WPF and the PLL Phoenix WPF. As mentioned in paragraph 5.64, this will require the splitting of assets from these PLL WPFs whilst the With-Profits Reinsurance Agreements remain in place. However, the intention is that these assets will be managed in line with the respective strategic asset allocation detailed in the PPFM.
- 12.40 Overall, the effect of the With-Profits Reinsurance Agreements is that following the implementation of the proposed Irish Scheme, the PLL WPFs in which the with-profits PLL Non-transferring Policies reside will be materially unchanged.
- 12.41 The implementation of the proposed Irish Scheme would not change the with-profits PLL Non-transferring Policyholders' participation in the relevant PLL WPFs, and in particular:
- There would be no change to the management of each of the PLL WPFs as it applies to with-profits PLL Non-transferring Policies, and the PLL WPFs will continue to be managed in line with the 2009 Scheme and the current PPFM;
 - There would be no change to the charges applied to the with-profits PLL Non-transferring Policies; and
 - There would be no change to the application of discretion in respect of with-profits PLL Non-transferring Policies.

- 12.42 As shown in Figure 4.4, the only PLL WPF that contains a material amount of Irish PLL Transferred Business is the PLL SPI WPF. Currently under the terms of its 2009 Scheme Sunset Clause it is expected that the SPI WPF will need to be wound up around 2044. Given the volume of business that would be transferred out of the PLL SPI WPF, if the With-Profits Reinsurance Agreement in respect of the PLAE SPI WPF were to be terminated, it is possible that this would bring forward the estimated date at which the 2009 Scheme Sunset Clause is triggered by two to three years. At the point the 2009 Scheme Sunset Clause is triggered, the with-profits PLL Non-transferring Policyholders that reside in the PLL 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.
- 12.43 Whilst the termination of the With-Profits Reinsurance Agreement in respect of the PLAE SPI WPF may bring forward the date at which the PLL SPI WPF is wound-up, 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 2009 Scheme 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.
- 12.44 It is not anticipated that the With-Profits Reinsurance Agreements will be terminated in the short-term. However, if such termination does occur, I am satisfied that 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 the implementation of the proposed Irish Scheme would not materially adversely affect the reasonable benefit expectations of the with-profits PLL Non-transferring Policyholders in the event that any of the With-Profits Reinsurance Agreements are terminated.

Conclusion

- 12.45 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, management and governance that apply to the PLL Non-transferring Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED IRISH SCHEME ON PLL NON-TRANSFERRING POLICIES

- 12.46 Overall, I am satisfied that the implementation of the proposed Irish Scheme would not have a material adverse effect on:
- The security of benefits under the PLL Non-transferring Policies;
 - The profile of risks to which the PLL Non-transferring Policies are exposed; and
 - The reasonable expectations of the PLL Non-transferring Policyholders in respect of their benefits, including the standards of administration, management and governance that apply to the PLL Non-transferring Policies.

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

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

Introduction

13.1 Regulations made under FSMA require a communication regarding the proposed transfer to be sent to every policyholder of the parties under the UK Scheme. However, this requirement may be waived at the discretion of the UK Court which will consider issues such as the practicality and costs of sending notices relative to the likely benefits for policyholders of receiving such communications.

The proposed waiver applications

Non-transferring Policyholders

13.2 PLL and RLL intend to seek waivers from the regulatory requirements to send a written notice to:

- The policyholders of PLL that would not be transferred if the UK Scheme were to be implemented, i.e. the PLL Non-transferring Policyholders; and
- The policyholders of RLL that would not be transferred if the UK Scheme were to be implemented, i.e. the RLL Non-transferring Policyholders.

13.3 These waivers are being sought on the basis that:

- The financial impact of the UK Scheme on the PLL Non-transferring Policyholders is not material as the PLL Transferred Policies represent a small proportion (approximately 1% by policies and approximately 1% by BEL as at 31 December 2021) of PLL's balance sheet;
- The financial impact of the UK Scheme on the RLL Non-transferring Policyholders is not material as the RLL Transferred Policies represent a small proportion (approximately 5% by policies and approximately 2% by BEL as at 31 December 2021) of RLL's balance sheet;
- The Non-transferring Policyholders are not transferring to another insurer under the UK Scheme and therefore, any notification sent to such policyholders would effectively be notifying them that their policies are remaining with the current insurer;
- The PLL WPA has concluded as detailed in Section 4.5 of his report that he is satisfied that there is no benefit to non-transferring with-profits customers in receiving communications about the UK Scheme as they will be unaffected by the proposal;
- The significant costs of contacting the Non-transferring Policyholders would outweigh any disadvantage for those policyholders in not receiving communications about the UK Scheme; and
- The commercial rationale for the transfer is to ensure that the Transferred Policyholders can continue to have their policies administered, as opposed to any other commercial considerations such as fund rationalisation.

13.4 Paragraph 13.3 lists the rationale set out by PLL, RLL, and PLAE in its communications strategy. I further note that:

- As described in Sections 10 and 11 of this Report, in my view there would be no material adverse effect on:
 - The security of benefits under PLL Non-transferring Policies and RLL Non-transferring Policies;
 - The profile of risks to which these policies are exposed; and
 - The reasonable expectations of holders of these policies in respect of their benefits, including the standards of administration, management and governance that apply to these policies.
- There will be press advertising for the UK Scheme to comply with the advertising requirements, subject to the publication waivers being sought as described in paragraphs 13.10 and 13.25.
- There would be no change to the terms and conditions of any Non-transferring Policies.
- There would be no change to the governance structure or regulatory framework applicable to the Non-transferring Policies.

13.5 Based on the above, I am satisfied that the application for a waiver from the regulatory requirements to send a written notice to the Non-transferring Policyholders is reasonable.

Additional parties for which a waiver is sought

13.6 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 and trust based pension schemes);
- Assignees;
- Trustees in respect of bankruptcy;
- The holder of the power of attorney; and
- Deceased policyholders.

13.7 The proposed approaches to gone-aways are covered in paragraphs 13.30 to 13.35.

13.8 The covering letter of the Communications Packs (described in paragraphs 13.13 to 13.17) will request that the recipient shares the Communications Pack with all persons who may have an interest in the policy. This includes those listed in paragraph 13.6, where applicable, including trustees of trust-based pension schemes who will be asked to share the Communications Pack with beneficiaries (unless the trustee has shared beneficiary contact details with RLL or PLL, in which case RLL or PLL as applicable will send the Communications Pack to the beneficiary directly).

13.9 The specific reasons for waivers being sought for each of the parties listed in paragraph 13.6 varies due to the differing nature of each party. However, in general, 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.

Publication in the UK

13.10 RLL and PLL intend to seek a waiver from the regulatory requirement to publish a notice in two UK national newspapers, including any international editions of UK newspapers. This is on the basis that:

- Advertising in the UK (or in 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 paragraphs 13.33 to 13.35 below); and
- As outlined in paragraphs 13.2 to 13.5, there is not expected to be any benefit to Non-transferring Policyholders in receiving communications about the UK Scheme.

13.11 Furthermore, as described in Sections 10 and 11 of this Report, in my view the implementation of the proposed UK Scheme would not have a material adverse effect on the security of benefits under the Non-transferring Policies, the profile of risks to which the Non-transferring Policies are exposed or the reasonable expectations of the Non-transferring Policyholders in respect of their benefits.

13.12 Based on the above, 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

13.13 Both the PRA Statement of Policy and the FCA Proposed Guidance state that, in respect of insurance business transfers, companies are required to notify the policyholders, or interested persons, at least six weeks before the date of the UK Sanction Hearing at which the application to sanction the relevant scheme will be heard.

13.14 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.

- 13.15 The Irish PLL Transferred Business is covered by both the UK Scheme and the Irish Scheme. Policyholders of the Irish PLL Transferred Business will receive a single mailing in relation to the two schemes.
- 13.16 The Communications Packs will be provided in the language in which the original policy was written and will contain:
- A covering letter (the “Cover Letter”);
 - A Questions & Answers leaflet providing answers to the most common questions that a policyholder may have about the Schemes (the “Q&A”);
 - A brochure (the “Scheme Guide”) containing:
 - A summary of the process being followed;
 - A summary of what the transfer means for the policyholders;
 - A summary of the terms of the UK Scheme;
 - A summary of this Report produced by me; and
 - A copy of the legal notice on the UK Scheme.
 - For with-profits Transferred Business or holders of investments in a with-profits fund only: a with-profit leaflet explaining how the proposals affect the with-profit funds in which with-profits Transferred Policyholders are invested; and
 - For Irish PLL Transferred Business (which is captured by both the UK Scheme and the Irish Scheme), policyholders will receive a single version of the summary of the Schemes within the Scheme Guide; there will be no duplication or separation for the UK Scheme and the Irish Scheme. However; these policyholders will receive two separate legal notices on the UK Scheme and the Irish Scheme.
- 13.17 The Q&A leaflet and the Cover Letter will be tailored to the products in the different jurisdictions, with the main differences being language and contact details. The Scheme Guide will be common across all versions of the Communications Pack, with the exception that these will have been translated to German, Icelandic, Norwegian or Swedish as appropriate.
- 13.18 I understand that RLL and PLL have taken various measures which aim to ensure that the Communications Packs are suitable for vulnerable customers. This includes review by a Plain English expert to ensure that the information presented to customers is clear, providing a helpline (free of charge) to explain any part of the Communications Packs that vulnerable customers are not able to understand, ensuring that call handlers are trained to recognise and respond to vulnerability and, where requirements are known in advance, sending the Communications Packs in a specific format such as Braille, audio or large print.
- 13.19 I have reviewed the draft Communications Pack, 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 UK 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.
- 13.20 In addition to the Communications Pack, 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 Packs are sent, and therefore these will be included in a separate letter.

- 13.21 I understand that my Summary Report will be translated into the language in which the original policy was written, however should there be any discrepancies between the English version of the Summary Report and the translated versions, it is the English version that should be referred to as the primary and original version. I understand that a suitably qualified external translation service will be used to translate the Communications Pack, and that the translations will be reviewed by the respective teams responsible for servicing the Transferred Business, I am satisfied that this is a reasonable approach.
- 13.22 The Communications Packs will also be sent to all external (to PGH) reinsurers covering PLL Transferred Business and RLL Transferred Business as part of the formal notification that the treaties covering the PLL Transferred Business and RLL Transferred Business will be transferred from PLL and RLL respectively to PLAE or converted to a retrocession agreement. I cover the likely impact of the proposed UK Scheme upon reinsurers of the Transferred Business in Section 15.

Further publication of the UK Scheme and distribution of information in respect of the UK Scheme

- 13.23 The RLL, PLL and PLAE websites will contain the following information:
- The Communications Packs (as described in paragraph 13.16) in German, Icelandic, Norwegian, Swedish and English;
 - The full version of this Report and any supplementary reports in English; and
 - The full Scheme document(s) in English.
- 13.24 Paper copies of the full Scheme document(s) and this Report will be available on request without charge. This Report will be available in English, German, Icelandic, Norwegian and Swedish.
- 13.25 RLL and PLL intend to publish a notice in two national newspapers in each EEA member state which is a state of commitment in respect of a policy underlying the Transferred Business. The state of commitment is defined in FSMA as the state in which an individual has habitual residence at the date of entering the policy. RLL and PLL believe that all policyholders underlying the Transferred Business were habitually resident in Germany, Iceland, Norway, Sweden or the Republic of Ireland at the time of entering their policy and that therefore these states are the only states of commitment. Accordingly, PLL and PLAE will publish a notice in two national newspapers in each of these five jurisdictions. PLL and PLAE will also publish the same notice in an additional three national newspapers in Ireland and separately PLL is also undertaking additional advertisement in Ireland in efforts to reduce the number of gone-aways, as discussed further in paragraphs 13.33 to 13.35 below. In addition, RLL and PLL will advertise the UK Scheme in EEA member states if it is required by local regulation.
- 13.26 As part of their planning for Brexit and the end of the transition period, RLL and PLL undertook a business risk assessment which involved a review of valuation data and policyholder addresses, with input from their outsourced service providers and appropriate individuals within RLL and PLL. Through this assessment, RLL and PLL have identified the countries in which the Transferred Policyholders are now resident. This indicates that a total of eight countries, three of which are EEA member states excluding Germany, Iceland, Norway, Sweden and the Republic of Ireland, have ten or more Transferred Policyholders, whilst a further 29 countries, 12 of which are EEA member states, have fewer than ten Transferred Policyholders.
- 13.27 Given RLL's and PLL's high level of confidence around their respective states of commitment and the low number (fewer than 100 of those not marked as 'gone-away') of Transferred Policyholders that are now resident in other EEA member states, I am satisfied that RLL's and PLL's proposed approach to publicising the UK Scheme is reasonable.
- 13.28 In addition to the above, RLL, PLL and PLAE will publish a notice in respect of the UK Scheme in a form approved by the PRA in The London Gazette, The Belfast Gazette, and The Edinburgh Gazette.
- 13.29 Finally I understand that, whilst there will be no contractual or other change to the inwards reinsurance treaties included within the PLL Non-transferring Business and treated by PLL as connected with the Irish branch of PLL (see paragraph 10.2), the parties to these treaties will be notified of the UK Scheme by PLL.

The approach to gone-aways

- 13.30 The approach to gone-aways in respect of German, Icelandic, Swedish and Norwegian RLL Transferred Business is different to that for Irish Business, and I describe the two separately.

German, Icelandic, Swedish and Norwegian Transferred Business

13.31 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'. Prior to creating the final mailing file, all of these gone-aways will have been through a business as usual tracing process, as follows:

- In Germany, a tracing company is used to trace the relevant RLL policyholder. No tracing is undertaken for PLL policyholders, and policies are cancelled in the event that premiums are not received;
- In Iceland, the Icelandic government (civil) register is used to trace the relevant PLL policyholder (there are no RLL Icelandic policies); and
- In Sweden and Norway, this process involves RLL contacting the in-country tax office and requesting a new address based on the national ID number of the relevant policyholder (there are no PLL Swedish or Norwegian policies).

13.32 As the number of gone-aways listed above is low, and all of these gone-aways will have been through the business as usual tracing process ahead of mailing for the proposed UK Scheme, RLL and PLL do not intend to carry out any additional tracing activity. However, any gone-away German, Icelandic, Swedish, or Norwegian RLL Transferred Policyholders who are traced between the mailing date and a date that is as close as practicable to the UK Sanction Hearing will receive a Communications Pack.

Irish PLL Transferred Business

13.33 As at April 2022, 2,661 (approximately 15%) of the Irish PLL Transferred Policyholders were marked as 'gone-away'. (This excludes any Irish PLL Transferred Policies paid out to a fund, the Dormant Accounts Fund, managed by the National Treasury Management Agency⁶⁸ that would otherwise be 'gone-away'.)

13.34 PLL anticipates difficulties in tracing the gone-away Irish PLL Transferred Policyholders due to the following reasons:

- The data held on the Industrial Branch business is of a poor quality due to the nature of the business, its age and historical movements. No paper copies are held, and for certain policies the data lacks information on policyholder date of birth and address, which is necessary in order to use forensic tracing.
- The current tracing practice for all Irish gone-away policies is to use the Department of Social Protection (DSP) letter forwarding service. This is initiated if a broker associated with the policy is unable to provide an updated address for that policy. I am also informed that the DSP does not provide a bulk tracing service.
- PLL has explored third party forensic tracing options in Ireland and understands they are limited, and PLL does not have the fundamental base data about the policyholders to undertake any reliable forensic tracing activity.

13.35 Due to the high level of gone-aways in Ireland, PLL will arrange additional advertising of the UK Scheme in three daily newspapers in Ireland (as detailed in paragraph 13.25). In addition, PLL will make efforts to reduce the number of gone-aways in Ireland in advance of the Effective Date of the UK Scheme by publishing a separate advertisement in six daily newspapers in Ireland. This advertisement will be published in advance of the UK Directions Hearing and will not refer to the UK Scheme, instead focussing solely on re-establishing contact with gone-away policyholders.

Route for policyholder queries and objections

13.36 RLL and PLL have made arrangements to manage policyholder responses to the communications detailed above as well as to handle any objections received.

13.37 Based on the previous experience, the management of RLL and PLL expect around 1.5-2% of recipients of the Communications Packs to get in contact following the mailing. RLL and PLL have ensured staffing levels are sufficient to allow for the possibility that up to 2% of Transferred Policyholders contacted will respond in some way with questions about the proposed UK Scheme or with "business as usual" enquiries.

⁶⁸ The National Treasury Management Agency is an agency which manages the assets and liabilities of the Government of Ireland.

- 13.38 I note that a 2% response rate for the proposed UK Scheme equates to 53 responses per day at the peak. If the response rate were to be higher than the estimated 1.5%-2% (within a plausible range), I am comfortable that this would not cause response handling issues given the total number of Transferred Policyholders.
- 13.39 I will review the responses received from policyholders, including any objections received, and provide an update on these in my Supplementary Report.

Conclusion

- 13.40 I have reviewed the proposed communications strategy and drafts of the Communications Packs.
- 13.41 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.
- 13.42 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 those policyholders.

FUTURE CONDUCT AND REGULATORY RISK

- 13.43 If the proposed UK Scheme were to be implemented, any costs arising as a result of conduct or failure to comply with regulations (with the exception of historical mis-selling risk) would be met by PLAE.

PREVIOUS STATEMENTS MADE TO POLICYHOLDERS

- 13.44 The Transferred Business covers various blocks of legacy business for which RLL and PLL do not have all historical policyholder communications. However, RLL and PLL have confirmed that they are not aware of any previous statements made through policyholder communications that could be relied upon to claim that the UK Scheme is effecting a substantive change to their expectations.

COSTS OF THE UK SCHEME

- 13.45 The costs associated with preparing and carrying out the proposed UK Scheme, including the costs of my work as Independent Expert, will be borne by the shareholders of the Phoenix Group, with the split of these costs to be agreed internally.
- 13.46 The costs of the UK Scheme will not be met by any policyholders or with-profits fund of RLL or PLL.
- 13.47 As stated in Section 5, the primary motivation for the UK Scheme is to ensure the Transferred Business can continue to be administered by an entity within the Phoenix Group and to ensure consistency and continuity of administration in the event of future legislative and regulatory divergence between the EU and UK.
- 13.48 I am satisfied that the allocation of costs as described above is reasonable.

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

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

Introduction

- 14.1 Regulations made under the Assurance Companies Act 1909 require a communication regarding the proposed transfer to be sent to every policyholder of the parties under the Irish Scheme. However, this requirement may be waived at the discretion of the Irish Court which will consider issues such as the practicality and costs of sending notices relative to the likely benefits for policyholders of receiving such communications.
- 14.2 Regulation 178 of the European Union (Insurance and Reinsurance) Regulations 2015 requires advertisement regarding the proposed transfer to be published in the Irish Gazette and two daily national newspapers, and in other EEA member states where the insurance risks (typically, policyholders) are located, in accordance with the laws of those member states.

The proposed waiver applications

- 14.3 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 and trust based pension schemes);
 - Assignees;
 - Trustees in respect of bankruptcy;
 - The holder of the power of attorney; and,
 - Deceased policyholders.
- 14.4 The proposed approaches to gone-aways are covered in paragraphs 14.23 to 14.25.
- 14.5 The covering letter of the Communications Packs (described in paragraphs 14.7 to 14.10) will request that the recipient shares the Communications Pack with all persons who may have an interest in the policy. This includes those listed in paragraph 14.3 where applicable, including trustees of trust-based pension schemes who will be asked to share the Communications Pack with beneficiaries (unless the trustee has shared beneficiary contact details with PLL, in which case PLL will send the Communications Pack to the beneficiary directly).
- 14.6 The specific reasons for waivers being sought for each of the parties listed in paragraph 14.3 varies due to the differing nature of each party. However, in general, 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

- 14.7 As noted in paragraph 14.1 above, in respect of insurance business transfers, companies are required to notify the policyholders, or interested persons, before the date of the Irish Sanction Hearing at which the application to sanction the relevant scheme will be heard.
- 14.8 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.
- 14.9 The Irish PLL Transferred Business is covered by both the UK Scheme and the Irish Scheme. Policyholders of the Irish PLL Transferred Business will receive only one mailing in relation to the two schemes.

14.10 The Communications Packs will contain:

- A covering letter (the “Cover Letter”);
- A Questions & Answers leaflet providing answers to the most common questions that a policyholder may have about the Schemes (the “Q&A”);
- A brochure (the “Scheme Guide”) containing:
 - A summary of the process being followed;
 - A summary of what the transfer means for the policyholders;
 - A summary of the terms of the Schemes;
 - A summary of this Report produced by me;
 - A copy of the legal notice on the UK Scheme; and
 - A copy of the legal notice on the Irish Scheme.
- For with-profits Irish PLL Transferred Business or holders of investments in a with-profits fund only: a with-profit leaflet explaining how the proposals affect the with profit funds in which with-profits Irish PLL Transferred Policyholders are invested.

14.11 I understand that PLL has taken various measures which aim to ensure that the Communications Packs are suitable for vulnerable customers. This includes review by a Plain English expert to ensure that the information presented to customers is clear, providing a helpline (free of charge) to explain any part of the Communications Packs that vulnerable customers are not able to understand, ensuring that call handlers are trained to recognise and respond to vulnerability and, where requirements are known in advance, sending the Communications Packs in a specific format such as Braille, audio or large print.

14.12 I have reviewed the draft Communications Pack, 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.

14.13 In addition to the Communications Pack, 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 Packs are sent, and therefore these will be included in a separate letter.

14.14 The Communications Packs will also be sent to all external (to PGH) reinsurers covering the Irish PLL Transferred Business as part of the formal notification that the treaties covering the Irish PLL Transferred Business will be transferred from PLL to PLAE or converted to a retrocession agreement. I cover the likely impact of the proposed Irish Scheme upon reinsurers of the Irish PLL Transferred Business in Section 16.

Further publication of the Irish Scheme and distribution of information in respect of the Irish Scheme

14.15 The PLL and PLAE websites will contain the following information:

- The Communications Packs (as described in paragraph 14.10);
- The full version of this Report and any supplementary reports; and
- The full Scheme document(s).

- 14.16 Paper copies of the full Scheme document(s) and this Report will be available on request without charge.
- 14.17 In line with Regulation 178 of the European Union (Insurance and Reinsurance) Regulations 2015, PLL and PLAE will publish a notice in respect of the Irish Scheme in 'An Iris Oifigiúil' (the Irish Gazette), the Irish Times, the Irish Independent and the Financial Times (International Edition) (opting for one additional daily newspaper than required by this regulation).
- 14.18 Furthermore, due to the approach to gone-aways set out below, additional advertising of the Irish Scheme will be placed in the Irish Daily Mirror, the Irish Daily Sun and the Irish Examiner. PLL and PLAE have selected these newspapers on the basis of their geographic circulation, socio-economic profile, and daily readership volume.
- 14.19 As noted in paragraph 14.2, advertising must be undertaken in any EEA member state where the Irish PLL Transferred Policyholders are resident. PLL believes that all policyholders of the Irish PLL Transferred Business were habitually resident in the Republic of Ireland at the time of entering their policy. As part of its planning for Brexit and the end of the transition period, PLL undertook a business risk assessment which involved a review of valuation data and policyholder addresses, with input from its outsourced service providers and appropriate individuals within PLL. Through this assessment, PLL has identified the European countries in which the Irish PLL Transferred Policyholders are now resident. This indicates that there are a total of ten EEA countries (excluding the Republic of Ireland) in which the Irish PLL Transferred Policyholders are now resident (Belgium, France, Germany, Holland, Italy, Luxembourg, Norway, Portugal, Spain and Sweden).
- 14.20 Under Irish regulations PLL is required to advertise in all EEA member states which are a state of commitment if and as required by local regulation. In Ireland this is defined to be the country in which the policyholder is now resident. Therefore, in each relevant state of commitment PLL will advertise the Irish Scheme as required by local regulation (plus an additional three national newspapers in Ireland, as outlined in paragraph 14.18). PLL is also undertaking additional advertisement in Ireland in efforts to reduce the number of gone-aways, as discussed further in paragraph 14.25 below.
- 14.21 I understand that PLL has also identified the non-EEA countries in which Irish PLL Transferred Policyholders are now resident, which includes the UK, where just under 200 policyholders now reside, plus other countries in which smaller numbers of policyholders now reside. PLL does not propose to advertise the Irish Scheme in these identified countries, as the significant costs of doing so would significantly outweigh the benefits. My overall conclusions regarding the Irish Scheme and the fact that the Irish Scheme is driven by regulatory changes rather than having a commercial motivation further support this decision. I am therefore satisfied that the proposal not to advertise the Irish Scheme in non-EEA countries is reasonable.
- 14.22 Finally I understand that, whilst there will be no contractual or other change to the inwards reinsurance treaties included within the PLL Non-transferring Business and treated by PLL as connected with the Irish branch of PLL (see paragraph 12.2), the parties to these treaties will be notified of the Irish Scheme by PLL.

The approach to gone-aways

- 14.23 As at April 2022, 2,661 (approximately 15%) of the Irish PLL Transferred Policyholders, were marked as 'gone-away'. (This excludes any Irish PLL Transferred Policies paid out to the National Treasury Management Agency⁶⁹ that would otherwise be 'gone-away'.)
- 14.24 PLL anticipates difficulties in tracing the gone-away Irish PLL Transferred Policyholders due to the following reasons:
- The data held on the Industrial Branch business is of a poor quality due to the nature of the business, its age and historical movements. No paper copies are held, and the data lacks certain important information necessary in order to use forensic tracing, for example the date of birth of policyholders.
 - The current tracing practice for all Irish gone-away policies is to use the Department of Social Protection (DSP) letter forwarding service. This is initiated if a broker associated with the policy is unable to provide an updated address for that policy. I am also informed that the DSP does not provide a bulk tracing service; and
 - PLL has explored third party forensic tracing options in Ireland and understands they are limited, and PLL does not have the fundamental base data about the policyholders to undertake any reliable forensic tracing activity.

⁶⁹ The National Treasury Management Agency is an agency which manages the assets and liabilities of the Government of Ireland.

14.25 Due to the high level of gone-aways in Ireland, PLL will arrange additional advertising of the Irish Scheme in three daily newspapers (see paragraph 14.18). In addition, PLL will make efforts to reduce the number of gone-aways in Ireland in advance of the Effective Date of the Irish Scheme by publishing a separate advertisement in six daily newspapers in Ireland. This separate advertisement will be published in advance of the Irish Directions Hearing and will not refer to the Irish Scheme, instead focussing solely on re-establishing contact with gone-away policyholders.

Route for policyholder queries and objections

14.26 PLL has made arrangements to manage policyholder responses to the communications detailed above as well as to handle any objections received.

14.27 Based on previous experience, the management of PLL expects around 1.5-2% of recipients of the Communications Packs to get in contact following the mailing. PLL has ensured staffing levels are sufficient to allow for the possibility that up to 2% of Transferred Policyholders contacted will respond in some way with questions about the proposed Irish Scheme or with “business as usual” enquiries.

14.28 I note that a 2% response rate for the proposed Irish Scheme equates to around 38 responses per day at the peak. If the response rate were to be higher than the estimated 1.5%-2% (within a plausible range), I am comfortable that this would not cause response handling issues given the total number of Transferred Policyholders.

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

Conclusion

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

14.31 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.

14.32 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 those policyholders.

FUTURE CONDUCT AND REGULATORY RISK

14.33 If the proposed Irish Scheme were to be implemented, any costs arising as a result of conduct or failure to comply with regulations (with the exception of historical mis-selling risk) would be met by PLAE.

PREVIOUS STATEMENTS MADE TO POLICYHOLDERS

14.34 The Irish PLL Transferred Business covers various block of legacy business for which PLL does not have all historical policyholder communications. However, PLL has confirmed that it is not aware of any previous statements made through policyholder communications that could be relied upon to claim that the Irish Scheme is effecting a substantive change to their expectations.

COSTS OF THE IRISH SCHEME

14.35 The costs associated with preparing and carrying out the proposed Irish Scheme, including the costs of my work as Independent Expert, will be borne by the shareholders of the Phoenix Group, with the split of these costs to be agreed internally.

14.36 The costs of the Irish Scheme will not be met by any policyholders or with-profits funds of PLL.

14.37 As stated in Section 6, the primary motivation for the Irish Scheme is to ensure the Irish PLL Transferred Business can continue to be administered by an entity within the Phoenix Group and to ensure consistency and continuity of administration in the event of future legislative and regulatory divergence between the EU and UK.

14.38 I am satisfied that the allocation of costs as described above is reasonable.

15. OTHER CONSIDERATIONS IN RELATION TO THE UK SCHEME

WHAT WOULD HAPPEN WERE THE UK SCHEME NOT TO PROCEED?

- 15.1 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 15.3 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 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. In order to reduce the level of uncertainty in the event that the UK Scheme does not proceed for any reason, RLL and PLL have liaised with the relevant regulators in each relevant state and sought legal advice to understand what the legal and regulatory position would be in each relevant jurisdiction. While the exact legal and regulatory position would vary by jurisdiction, I understand that the overall position is that, based on current approaches and conversations held with the relevant regulators, the run-off of the Transferred Business would be permitted with no cut-off date in all but one jurisdiction.
- 15.2 The approach adopted by the regulator in any jurisdiction could change, resulting in the run-off of the Transferred Business no longer being permitted and RLL or PLL potentially becoming subject to sanctions or penalties. However; the likelihood of this chain of events occurring is considered very low by RLL and PLL, and I agree with this assessment. The one exception to this position is in Sweden, where there is currently no regime which permits the run-off of existing business. I understand that RLL is in discussion with the Swedish regulator regarding the approach for the Swedish Transferred Business if the UK Scheme were not to proceed, and as a contingency RLL is in the process of establishing a third country branch in Sweden. RLL is aiming to establish the Swedish branch in advance of the Effective Date so that, in the event that the UK Scheme is not sanctioned, the Swedish RLL Transferred Business could be managed via this branch. However, I understand that if the UK Scheme and the Irish Scheme are both sanctioned, the process will be ceased and the Swedish branch will not be established. I will provide an update on this matter in my Supplementary Report.
- 15.3 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 15.1 would apply to these excluded policies.

THE EFFECTIVE DATE OF THE UK SCHEME

- 15.4 As outlined in paragraph 5.5, the UK Scheme is a "transitional insurance business transfer scheme" and therefore 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), the UK Scheme would continue to be a transitional insurance business transfer scheme if the Effective Date is after 31 December 2022.
- 15.5 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.

- 15.6 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. 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 Transferred Policyholders and Non-transferring Policyholders in respect of their benefits, or the levels and standards of administration and service that would apply. Further, the Phoenix Group has informed the PRA, the FCA and the CBI that an Effective Date of 31 December 2022 could be achieved instead of 1 January 2023 if necessary, and therefore in practice an Effective Date of 1 January 2023 could be as short as two minutes after the alternative effective date that would otherwise be adopted.
- 15.7 The UK Scheme document 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 deferral of the Effective Date would not affect my conclusions regarding the impact of the UK Scheme on policyholders. However, if the UK Scheme is not sanctioned by 31 December 2022, then the circumstances in paragraph 15.1 would apply.
- 15.8 Whilst the legal advice obtained and the outcome of the preliminary application give no reason as to why an Effective Date of 1 January 2023 should not be permitted, if the Irish Court were to conclude that an effective date in 2022 was required then I understand that, due to the co-dependency of the UK Scheme and the Irish Scheme, the Phoenix Group would amend the proposed Effective Date for the Schemes to 31 December 2022. Whilst this would add some complexity and costs (for the reasons outlined in paragraph 15.5), the Phoenix Group has confirmed that an Effective Date of 31 December 2022 could be achieved if necessary and I am satisfied that this would not affect my conclusions on the UK Scheme for the reasons provided in paragraph 15.6. Similarly, if an EEA regulator concluded that an effective date in 2022 was required and no compromise could be found then the same approach would be taken and I am satisfied that this would not affect my conclusions on the UK Scheme.

CO-DEPENDENCY OF THE UK SCHEME AND THE IRISH SCHEME

- 15.9 Due to the co-dependency of the UK Scheme and the Irish Scheme, if there were any delay to the Directions Hearing in respect of the UK Scheme, I understand that the planned subsequent Directions 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. I understand that Directions Hearings with the Irish Court can typically be arranged on short notice, and for any cases that cannot be heard on a given date, they can usually be heard by the Irish Court one week later.
- 15.10 Similarly, if there were any delay to the Sanction Hearing in respect of the UK Scheme, I understand that where necessary Irish Counsel would attend the scheduled Sanction Hearing in respect of the Irish Scheme and seek approval from the Irish Court to postpone that Sanction Hearing to a future date, once any issues in respect of the UK Scheme had been resolved. I understand that, should it be necessary to seek to postpone the Sanction Hearing in respect of the Irish Scheme, there is a process that PLL and PLAE will follow, and it is anticipated that there would be adequate time to schedule this date for before 31 December 2022.
- 15.11 Therefore, it is not expected that there would be any issues with rescheduling the Directions Hearing or Sanction Hearing in respect of the Irish Scheme at relatively short notice, should the need arise. 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. Appendix C sets out in more detail the co-dependencies of the UK Scheme and Irish Scheme, and the interactions between these schemes.
- 15.12 As set out in paragraph 5.17, 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. Further detail is provided in paragraphs C.10 to C.12.
- 15.13 As set out in paragraph 5.18, 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. This is described further in paragraphs C.13 to C.15.

15.14 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 and Non-transferring Policyholders.

THE FUTURE OPERATION OF THE UK SCHEME

15.15 If the proposed UK Scheme is approved by the UK Court, RLL, PLL and PLAE are committed to implementing the UK Scheme as set out in the UK Scheme document (and reflected in this report). In giving effect to those obligations, the Directors of RLL, PLL and PLAE must act in accordance with their fiduciary responsibilities under UK company law and Irish company law and their responsibilities under UK regulation and Irish regulation where applicable.

15.16 Under the UK Scheme, PLL, RLL and PLAE undertake that they will not challenge the validity, effectiveness or enforceability of the Schemes and will meet their respective commitments to Transferred Policyholders in the manner envisaged under the Schemes.

15.17 It is my understanding that the Phoenix Group has three further transfers planned:

- The business of Standard Life Assurance Limited, Standard Life Pensions Funds Limited and Phoenix Life Assurance Limited (see paragraph 15.18);
- The RLL Non-transferring Business from RLL and all of the business from RAL (see paragraphs 15.19 and 15.20); and
- The investment and platform related products of Standard Life Assurance Limited to an insurance subsidiary of Abrdn plc (see paragraph 15.21).

The main reason for the UK Scheme taking place ahead of the above three transfers is due to it being an approved “transitional insurance business transfer scheme” (see paragraph 5.5) and therefore, under the relevant legislation, must be sanctioned before 31 December 2022.

15.18 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 would expect the scheme(s) related to this intended transfer to abide by the provisions of the proposed UK Scheme where relevant. I understand that this transfer would not directly involve PLAE.

15.19 In due course the Phoenix Group intends to seek to transfer the RLL Non-transferring Business and all of the business of RAL into 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.

15.20 The intended future transfer of the RLL Non-transferring Business and all of the business of RAL to PLL does not have, nor does it require, explicit treatment in the UK Scheme. PLAE will retain access to the RLL Linked Funds through the RLL Unit-Linked Reinsurance Agreement, and 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. I expect the scheme(s) related to this intended transfer to abide by the provisions of the proposed UK Scheme where relevant.

15.21 In February 2021 the Phoenix Group announced that it was to sell its Standard Life Assurance Limited investment and platform-related products to an insurance subsidiary of Abrdn plc, it is currently expected that this transfer will occur towards the end of 2023. I understand that this transfer would not involve PLL, RLL or PLAE.

15.22 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.

TRANSFERRED POLICYHOLDERS RESIDENT IN A NON-EEA STATE

15.23 There are a number of Transferred Policyholders which are now resident in a non-EEA state, including the UK, and outside of the EEA there is no equivalent to the EEA Passporting Rights. The Phoenix Group's view is that PLAE will not be conducting insurance business in these non-EEA states in which the Transferred Policyholders are resident and therefore that (a) no additional permissions are required to continue to service/administer these policies; and (b) following the UK Scheme, PLAE will have the ability to service/administer these policies without the need for any additional permissions. This view is consistent with established Phoenix Group practice and the current practice exercised by RLL and PLL is consistent with this view, and no regulatory issues have arisen to date as a result of the Phoenix Group adopting this practice. Therefore, following the UK Scheme Phoenix Group management believes that PLAE will have the ability to service these policies without the need for any additional permissions.

THE LIKELY EFFECTS OF THE UK SCHEME UPON REINSURERS OF THE TRANSFERRED BUSINESS

15.24 As outlined in Section 5, if the proposed UK Scheme were to be implemented, the reinsurance treaties that PLL and RLL have in place with Swiss Re, Gen Re, Munich Re and Unum in respect of the Transferred Business, except the reinsurance which covers the Irish PLL Transferred Business in the SPI WPF, will be transferred to PLAE. No other changes to the terms and conditions of those treaties are anticipated. Since these reinsurance arrangements will continue to cover the same policies after the transfer, I am satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurers.

15.25 The IGR between RLL and RAL includes a set of partial recapture provisions, which are intended to be invoked upon the completion of the proposed UK Scheme, removing the Transferred Business from the scope of the IGR. These provisions include a schedule of partial recapture premiums, payable from RLL to RAL, designed to be applied at the Effective Date of the proposed UK Scheme to compensate RAL for the reduction in its Own Funds associated with the removal of the Transferred Business from the scope of the IGR. Since there are provisions in place for RLL to pay partial recapture premiums to RAL, I am satisfied that this partial recapture will not have a material impact on RAL.

TAX IMPLICATIONS OF THE UK SCHEME

15.26 I am not aware of any corporate tax implications of the proposed UK Scheme that would result in any direct cost to policyholders or that would have a material adverse effect on the security of benefits under any PLL or RLL policies as a result of changes in the Own Funds of either PLL, RLL or PLAE following the implementation of the proposed UK Scheme.

15.27 I have considered the implications of the UK Scheme on the PLL Transferred Policyholders' tax liabilities in paragraphs 7.163 to 7.167, and on the RLL Transferred Policyholders' tax liabilities in paragraphs 8.114 to 8.119.

IFRS 17 READINESS

15.28 The Phoenix Group is working to implement the accounting standard IFRS 17 ahead of it becoming effective. The impact of the UK Scheme on the implementation of IFRS 17 is being considered by the relevant team and I will provide an update on this in my Supplementary Report.

OPERATIONAL RESILIENCE

15.29 The Phoenix Group has in place an operational resilience framework, which complies with policy statements on this topic issued by the PRA and FCA during 2021. PLL and RLL both operate under this operational resilience framework, and PLAE will operate under the same framework following its authorisation.

15.30 The CBI has issued a consultation paper on operational resilience, PLAE is currently performing a gap analysis between the consultation paper and the Phoenix Group's operational resilience framework. Should any gaps be identified then the Phoenix Group operational resilience framework would be updated, as the intention is that the same framework will continue to be used across the entire Phoenix Group, including PLAE.

THE EFFECT OF THE PROPOSED UK SCHEME ON PREVIOUS SCHEMES

15.31 As outlined in paragraph 4.154, RLL has been party to three previous insurance business transfer schemes undertaken in accordance with Part VII of FSMA.

15.32 I understand from the management of RLL that, on the basis of an internal legal review, it is satisfied that the implementation of the proposed UK Scheme is not expected to have a material effect on any of the previous schemes to which RLL has been party.

15.33 I consider that it is reasonable and appropriate for me in the circumstances to rely on this confirmation. In particular:

- The policies comprising the RLL Transferred Business were not included in any of the previous insurance business transfer schemes undertaken by RLL;
- The investment element of the unit-linked RLL Transferred Business are to be reinsured back to RLL on unchanged terms;
- The UK Scheme does not create or change any obligations on the management of RLL Non-transferring business aside from creating the RLL Floating Charge over assets of RLL; and
- The proposed UK Scheme does not seek to amend the terms of any of these previous schemes.

15.34 As outlined in paragraph 4.78, PLL has been party to many previous insurance business transfer schemes undertaken in accordance with Part VII of FSMA, three of which directly relate to PLL Transferred Business.

15.35 I understand from the management of PLL that, on the basis of an internal legal review, it is satisfied that the implementation of the proposed UK Scheme is not expected to have a material effect on any of the previous schemes to which PLL has been party.

15.36 I consider that it is reasonable and appropriate for me in the circumstances to rely on this confirmation. In particular:

- The policies comprising the with-profits PLL Transferred Business and the investment element of the unit-linked PLL Transferred Business are to be reinsured back to PLL on unchanged terms;
- The UK Scheme does not create or change any obligations on the management of PLL Non-transferring business aside from:
 - Creating the PLL Floating Charge and WP Fixed Charges over assets of PLL; and,
 - Effecting the Reinsurance Business Committee, which will monitor, review and challenge the day to day operational aspects of the UL Reinsurance Agreements and With Profits Reinsurance Agreements;
- The proposed UK Scheme does not seek to amend the terms of any of the previous schemes; and
- Certain provisions of the 2009 Scheme have been incorporated into the UK Scheme to ensure the continuity of relevant protections to PLL Transferred Policies currently allocated to the SPI With-Profits Fund.

15.37 PLAE will be a newly authorised insurer and as such has not been party to any previous insurance business transfer schemes.

OPERATIONAL READINESS OF PLAE

15.38 As detailed in paragraph 4.159, PLAE is a newly established entity within the Phoenix Group and has submitted an application for authorisation to the CBI. It will not be possible for the UK Scheme to proceed without PLAE being granted authorisation from the CBI; however, I understand that the Phoenix Group expects this authorisation to be granted prior to the UK Sanction Hearing. The Phoenix Group has established an Operational Readiness project for PLAE, with the aim of ensuring that all aspects of operational readiness are in place prior to the Effective Date of the UK Scheme. A project plan has been established for the Operational Readiness project, with a set of key milestones and deliverables.

15.39 I have been provided with a recent operational risk review that has been performed by Phoenix Group and a plan of the key milestones under the Operational Readiness project. This showed 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. Under the operational risk review, it is noted that these risks have been documented and are being worked through in a methodical and disciplined approach. In addition, as noted in paragraphs 7.179 and 9.178, 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.

- 15.40 I note that the Phoenix Group has now addressed the open matters that were identified as part of a previous operational risk review as far as possible; namely appointing the PLAE PCFs and establishing PLAE's administration and servicing model in Ireland. Regarding PCF recruitment, all applications for PCFs have now been submitted to the CBI, and I note that PLAE will not be authorised until all PCFs are approved. Therefore it will not be possible for the UK Scheme to become effective without these approvals being obtained. Regarding the establishment of PLAE's administration and servicing model in Ireland, in addition to the activities regarding recruitment outlined in the above paragraph, the Phoenix Group has made strong progress which I discuss in detail in paragraphs 7.172 to 7.183 and 9.171 to 9.183. As well as recruiting new staff members to perform services in respect of the Transferred Business, this includes changing the administration platform currently used to administer some of the Transferred Policies, drafting contractual agreements and establishing monitoring frameworks. I conclude that overall 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 Transferred Policies. I will continue to discuss this matter with the Phoenix Group and will provide an update in my Supplementary Report.
- 15.41 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 this 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

- 15.42 In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organisation, and the outbreak has continued to spread globally during the intervening period. In response, governments around the world have enforced restrictions to varying degrees and at varying times since the declaration of the pandemic.
- 15.43 In late 2021 a new variant of COVID-19 became dominant, the Omicron variant. This variant looks to be more transmissible than previous variants but also appears to be less severe. The reduction in severity is likely to be caused by a combination of the composition of the variant and also due to the success of the vaccine roll out across many countries.
- 15.44 In Spring 2022 most COVID-19 related restrictions in the UK had been removed. Omicron has had limited disruptive impact, although many firms were reporting higher than usual sickness absences due to COVID-19.
- 15.45 The short- and long-term impacts of the COVID-19 pandemic remain uncertain, however 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 ORSA. In my view the COVID-19 pandemic does not provide any reason to change my conclusions regarding the UK Scheme, and I am satisfied that the Transferred Policyholders and Non-transferring Policyholders will be no more exposed to the impacts of the COVID-19 pandemic as a result of the UK Scheme.
- 15.46 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

15.47 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.

RELEVANT POST BALANCE SHEET EVENTS

15.48 PLL has entered into two bulk annuity transactions since 31 December 2021. I understand that these transactions are not material in the context of PLL's overall balance sheet and therefore my conclusions are unaffected by these transactions.

16. OTHER CONSIDERATIONS IN RELATION TO THE IRISH SCHEME

WHAT WOULD HAPPEN WERE THE IRISH SCHEME NOT TO PROCEED?

- 16.1 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 PLL⁷⁰. 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

- 16.2 The proposed Effective Date of the Irish Scheme is 1 January 2023. The Phoenix Group has proposed an Effective Date of 1 January 2023, 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.
- 16.3 Whilst I have no reason to believe any issues could arise as a direct result of the Effective Date of the Irish Scheme being 1 January 2023, due to the co-dependency of the UK Scheme and the Irish Scheme it is necessary to consider any potential changes to the Effective Date of the UK Scheme as this would lead to the equivalent change being made to the Effective Date of the Irish Scheme. The UK Scheme is a "transitional insurance business transfer scheme" and therefore must be sanctioned by 31 December 2022; however, 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. 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 Irish Sanction Hearing as usual), the UK Scheme would continue to be a transitional insurance business transfer scheme despite if the Effective Date is after 31 December 2022. Therefore, for the reasons outlined in paragraph 16.2 above, the proposed Effective Date for the Irish Scheme (and the UK Scheme) is 1 January 2023.
- 16.4 I am satisfied that the 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 after the Irish Sanction Hearing. 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. Further, the Phoenix Group has informed the PRA, the FCA and the CBI that an Effective Date of 31 December 2022 could be achieved instead of 1 January 2023 if necessary, and therefore in practice an Effective Date on 1 January 2023 could be as short as two minutes after the alternative effective date that would otherwise be adopted.
- 16.5 The Irish Scheme document 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 deferral of the Effective Date would not affect my conclusions regarding the impact of the Irish Scheme on policyholders.

⁷⁰ The Irish PLL Transferred Business cannot be transferred to PLAE if the UK Scheme is sanctioned but the Irish Scheme is not.

16.6 If for any reason, however, it was concluded that the UK Scheme must have an Effective Date in 2022 then I understand that, due to the co-dependency of the UK Scheme and the Irish Scheme, the Phoenix Group would amend the proposed Effective Date for the Schemes to 31 December 2022. Whilst this would add some complexity and costs (for the reasons outlined in paragraph 16.2), the Phoenix Group has confirmed that an Effective Date of 31 December 2022 could be achieved if necessary and I am satisfied that this would not affect my conclusions on the Irish Scheme for the reasons provided above.

CO-DEPENDENCY OF THE UK SCHEME AND THE IRISH SCHEME

16.7 Due to the co-dependency of the UK Scheme and the Irish Scheme, if there were any delay to the Directions Hearing in respect of the UK Scheme, I understand that the planned subsequent Directions 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. I understand that Directions Hearings with the Irish Court can typically be arranged on short notice, and for any cases that cannot be heard on a given date, they can usually be heard by the Irish Court one week later.

16.8 Similarly, if there were any delay to the Sanction Hearing in respect of the UK Scheme, I understand that where necessary Irish Counsel would attend the scheduled Sanction Hearing in respect of the Irish Scheme and seek approval from the Irish Court to postpone that Sanction Hearing to a future date, once any issues in respect of the UK Scheme had been resolved. I understand that, should it be necessary to seek to postpone the Sanction Hearing in respect of the Irish Scheme, there is a process that PLL and PLAE will follow, and it is anticipated that there would be adequate time to schedule this date for before 31 December 2022. Therefore, it is not expected that there would be any issues with rescheduling the Directions Hearing or Sanction Hearing in respect of the Irish Scheme at relatively short notice, should the need arise. During this time, the policies comprising the Irish PLL Transferred Business would not become policies of PLAE and would remain within 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. Appendix C sets out in more detail the co-dependencies of the UK Scheme and Irish Scheme, and the interactions between these schemes.

16.9 As set out in paragraph 6.16, 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 the policyholder communications. Further detail is provided in paragraphs C.10 to C.12.

16.10 As set out in paragraph 6.17, 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. This is described further in paragraphs C.13 to C.15.

16.11 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. The impact on Irish PLL Transferred Policies of the Irish Scheme not proceeding is described in paragraph 16.1. 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 paragraphs 15.1 to 15.3.

THE FUTURE OPERATION OF THE IRISH SCHEME

16.12 If the proposed Irish Scheme is approved by the Irish Court, PLL and PLAE are committed to implementing the Irish Scheme as set out in the Irish Scheme document (and reflected in this report). In giving effect to those obligations, the Directors of PLL and PLAE must act respectively in accordance with their fiduciary responsibilities under UK company law and Irish company law and their responsibilities under UK regulation and Irish regulation where applicable.

16.13 Under the Irish Scheme, PLL and PLAE undertake that they will not challenge the validity, effectiveness or enforceability of the Schemes and will meet their respective commitments to Transferred Policyholders in the manner envisaged under the Schemes.

16.14 It is my understanding that the Phoenix Group has three further transfers planned:

- The business of Standard Life Assurance Limited, Standard Life Pensions Funds Limited and Phoenix Life Assurance Limited (see paragraph 16.15);
- The RLL Non-transferring Business from RLL and all of the business from RAL (see paragraphs 16.16 and 16.17); and
- The investment and platform related products of Standard Life Assurance Limited to an insurance subsidiary of Abrdn plc (see paragraph 16.18).

The main reason for the UK Scheme taking place ahead of the above three transfers is due to it being an approved “transitional insurance business transfer scheme” (see paragraph 6.4) and therefore, under the relevant legislation, must be sanctioned before 31 December 2022.

- 16.15 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 would expect the scheme(s) related to this intended transfer to abide by the provisions of the proposed UK Scheme where relevant. I understand that this transfer would not directly involve PLAE.
- 16.16 In due course the Phoenix Group intends to seek to transfer the RLL Non-transferring Business and all of the business of RAL into 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.
- 16.17 The intended future transfer of the RLL Non-transferring Business and all of the business of RAL to PLL does not have, nor does it require, explicit treatment in the UK Scheme. PLAE will retain access to the RLL Linked Funds through the RLL Unit-Linked Reinsurance Agreement, and 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. I expect the scheme(s) related to this intended transfer to abide by the provisions of the proposed UK Scheme where relevant.
- 16.18 In February 2021 the Phoenix Group announced that it was to sell its Standard Life Assurance Limited investment and platform-related products to an insurance subsidiary of Abrdn plc, it is currently expected that this transfer will occur towards the end of 2023. I understand that this transfer would not involve PLL, RLL or PLAE.
- 16.19 I am not aware of any planned subsequent transfers of business into PLAE after the implementation of the Irish Scheme. Nonetheless, I would expect any future transfers of business into PLAE, should they occur, to abide by the provisions of the proposed Irish Scheme where relevant. 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.

TRANSFERRED POLICYHOLDERS RESIDENT IN A NON-EEA STATE

- 16.20 There are a number of Irish PLL Transferred Policyholders which are now resident in a non-EEA state, including the UK, and outside of the EEA there is no equivalent to the EEA Passporting Rights. The Phoenix Group’s view is that PLAE will not be conducting insurance business in these non-EEA states in which the Irish PLL Transferred Policyholders are resident and therefore that (a) no additional permissions are required to continue to service/administer these policies; and (b) following the Irish Scheme, PLAE will have the ability to service/administer these policies without the need for any additional permissions. This view is consistent with established Phoenix Group practice and the current practice exercised by RLL and PLL is consistent with this view, and no regulatory issues have arisen to date as a result of the Phoenix Group adopting this practice. Therefore, following the Irish Scheme Phoenix Group management believes that PLAE will have the ability to service these policies without the need for any additional permissions.

THE LIKELY EFFECTS OF THE IRISH SCHEME UPON REINSURERS OF THE IRISH PLL TRANSFERRED BUSINESS

16.21 As outlined in Section 6, if the proposed Irish Scheme were to be implemented, the reinsurance treaties that PLL has in place with Swiss Re, Gen Re and Unum in respect of the PLL Transferred Business, except that part of the Swiss Re reinsurance which covers the Irish PLL Transferred Business in the SPI WPF, will be transferred to PLAE. No other changes to the terms and conditions of these treaties are anticipated. Since these reinsurance arrangements will continue to cover the same policies after the transfer, I am satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurers.

TAX IMPLICATIONS OF THE IRISH SCHEME

16.22 I am not aware of any corporate tax implications of the proposed Irish Scheme that would result in any direct cost to policyholders or that would have a material adverse effect on the security of benefits under any PLL Policies as a result of changes in the Own Funds of either PLL or PLAE following the implementation of the proposed Irish Scheme.

16.23 I have considered the implications of the Irish Scheme on the PLL Transferred Policyholders' tax liabilities in paragraphs 9.162 to 9.166.

IFRS 17 READINESS

16.24 The Phoenix Group is working to implement the accounting standard IFRS 17 ahead of it becoming effective. The impact of the Irish Scheme on the implementation of IFRS 17 is being considered by the relevant team and I will provide an update on this in my Supplementary Report.

OPERATIONAL RESILIENCE

16.25 The Phoenix Group has in place an operational resilience framework, which complies with policy statements on this topic issued by the PRA and FCA during 2021. PLL and RLL both operate under this operational resilience framework, and PLAE will operate under the same framework following its authorisation.

16.26 The CBI has issued a consultation paper on operational resilience, PLAE is currently performing a gap analysis between the consultation paper and the Phoenix Group's operational resilience framework. Should any gaps be identified then the Phoenix Group operational resilience framework would be updated, as the intention is that the same framework will continue to be used across the entire Phoenix Group, including PLAE.

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

16.27 In addition to the Irish PLL Transferred Policies that will transfer to PLAE under the Irish Scheme (which I consider in Section 9) and the PLL Non-transferring Policies that will remain with PLL following the implementation of the Irish Scheme (which I consider in Section 12), 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 in Section 7 also captures the impact of the Irish Scheme on this group of policies. In Section 7 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.

16.28 Similarly, in Section 17 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.

THE EFFECT OF THE PROPOSED IRISH SCHEME ON PREVIOUS SCHEMES

- 16.29 As outlined in paragraph 4.78, PLL has been party to many previous insurance business transfer schemes undertaken in accordance with Part VII of FSMA, three of which directly relate to Irish PLL Transferred Business.
- 16.30 I understand from the management of PLL that, on the basis of an internal legal review, it is satisfied that the implementation of the proposed Irish Scheme is not expected to have a material effect on any of the previous schemes to which PLL has been party.
- 16.31 I consider that it is reasonable and appropriate for me in the circumstances to rely on this confirmation. In particular:
- The policies comprising the with-profits Irish PLL Transferred Business and the investment element of the unit-linked PLL Transferred Business are to be reinsured back to PLL on unchanged terms;
 - The Irish Scheme does not create or change any obligations on the management of PLL Non-transferring business aside from:
 - Creating the PLL Floating Charges and WP Fixed Charges over assets of PLL; and
 - Effecting the Reinsurance Business Committee, which will monitor, review and challenge the day to day operational aspects of the UL Reinsurance Agreements and With Profits Reinsurance Agreements;
 - The proposed Irish Scheme does not seek to amend the terms of any of these previous schemes; and
 - Certain provisions of the 2009 Scheme have been incorporated into the Irish Scheme to ensure the continuity of relevant protections to PLL Transferred Policies currently allocated to the SPI With-Profits Fund.
- 16.32 PLAE will be a newly authorised insurer and as such has not been party to any previous insurance business transfer schemes.

OPERATIONAL READINESS OF PLAE

- 16.33 As detailed in paragraph 4.159, PLAE is a newly established entity within the Phoenix Group and has submitted an application for authorisation to the CBI. It will not be possible for the Irish Scheme to proceed without PLAE being granted authorisation from the CBI; however, I understand that the Phoenix Group expects this authorisation to be granted prior to the Irish Sanction Hearing. The Phoenix Group has established an Operational Readiness project for PLAE, with the aim of ensuring that all aspects of operational readiness are in place prior to the Effective Date of the Irish Scheme. A project plan has been established for the Operational Readiness project, with a set of key milestones and deliverables.
- 16.34 I have been provided with a recent operational risk review that has been performed by Phoenix Group and a plan of the key milestones under the Operational Readiness project. This showed 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. Under the operational risk review, it is noted that these risks have been documented and are being worked through in a methodical and disciplined approach. In addition, as noted in paragraph 8.129, 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.

- 16.35 I note that the Phoenix Group has now addressed the open matters that were identified as part of a previous operational risk review as far as possible; namely appointing the PLAE PCFs and establishing PLAE's administration and servicing model in Ireland. Regarding PCF recruitment, all applications for PCFs have now been submitted to the CBI, and I note that PLAE will not be authorised until all PCFs are approved. Therefore it will not be possible for the Irish Scheme to become effective without these approvals being obtained. Regarding the establishment of PLAE's administration and servicing model in Ireland, in addition to the activities regarding recruitment outlined in the above paragraph, the Phoenix Group has made strong progress which I discuss in detail in paragraphs 9.171 to 9.183. As well as recruiting new staff members to perform services in respect of the Transferred Business, this includes changing the administration platform currently used to administer some of the Transferred Policies, drafting contractual agreements and establishing monitoring frameworks. I conclude that overall 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 Transferred Policies. I will continue to discuss this matter with the Phoenix Group and will provide an update in my Supplementary Report.
- 16.36 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 this 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

- 16.37 In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organisation, and the outbreak has continued to spread globally during the intervening period. In response, governments around the world have enforced restrictions to varying degrees and at varying times since the declaration of the pandemic.
- 16.38 In late 2021 a new variant of COVID-19 became dominant, the Omicron variant. This variant looks to be more transmissible than previous variants but also appears to be less severe. The reduction in severity is likely to be caused by a combination of the composition of the variant and the success of the vaccine roll out across many countries.
- 16.39 In Spring 2022 many COVID-19 related restrictions in Ireland had been relaxed. Omicron has had limited disruptive impact, although many firms were reporting higher than usual sickness absences due to COVID-19.
- 16.40 The short- and long-term impacts of the COVID-19 pandemic remain uncertain, however 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 annuitant 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, and I am satisfied that the Irish PLL Transferred Policyholders will be no more exposed to the impacts of the COVID-19 pandemic as a result of the Irish Scheme.
- 16.41 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

- 16.42 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.

POST BALANCE SHEET EVENTS


16.43 PLL has entered into two bulk annuity transactions since 31 December 2021. I understand that these transactions are not material in the context of PLL's overall balance sheet and therefore my conclusions are unaffected by these transactions.

17. CONCLUSIONS ON THE UK SCHEME

- 17.1 I confirm that I have considered the issues affecting the various 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. My considerations are set out in Sections 7, 8, 10, 11, 13 and 15, and I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Report) to be necessary.
- 17.2 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;
 - The profile of risks to which the Transferred Policies are exposed;
 - The protection offered by the regulatory regime that would apply to the Transferred Policies; and
 - The reasonable expectations of the Transferred Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Transferred Policies.
- 17.3 In addition, 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 Non-transferring Policies;
 - The profile of risks to which the Non-transferring Policies are exposed; and
 - The reasonable expectations of the Non-transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Non-transferring Policies.
- 17.4 I am satisfied that the UK Scheme is equitable to all classes and generations of RLL and PLL policyholders.

18. CONCLUSIONS ON THE IRISH SCHEME

- 18.1 I confirm that I have considered the issues affecting the various policyholders of PLL, including the policyholders that remain with PLL, those of the Irish branch of PLL 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 Section 17). My considerations are set out in Sections 9, 12, 14 and 16, and I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Report) to be necessary.
- 18.2 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;
 - The profile of risks to which the Irish PLL Transferred Policies are exposed;
 - The protection offered by the regulatory regime that would apply to the Irish PLL Transferred Policies; and
 - The reasonable expectations of the Irish PLL Transferred Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Irish PLL Transferred Policies.
- 18.3 In addition, I am satisfied that the implementation of the proposed Irish Scheme would not have a material adverse effect on:
- The security of benefits under the PLL Non-transferring Policies;
 - The profile of risks to which the PLL Non-transferring Policies are exposed; and
 - The reasonable expectations of the PLL Non-transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the PLL Non-transferring Policies.
- 18.4 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

Appendix A Selected financial information before the implementation of the Scheme

SOLVENCY II PILLAR 1 FINANCIAL INFORMATION AS AT 31 DECEMBER 2021

	PLL (£m)	RLL (£m)
Total assets	71,119	8,218
Total liabilities	66,391	7,986
Adjustment for Restricted Own Funds	419	0
Own Funds	4,309	233
SCR	2,656	37
Excess assets after SCR	1,653	196
Solvency Cover Ratio	162%	636%

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

Notes:

- Total assets and total liabilities are measured on a Solvency II basis (as opposed to an IFRS basis).
- Total liabilities excludes Own Funds. For PLL, Own Funds is reduced due to restrictions in respect of ring-fenced funds. Own Funds = Total assets – Total liabilities – ring-fenced funds restrictions.
- The financial information for RLL includes the effect of the IGR between RLL and RAL.
- PLAE was awaiting authorisation to undertake life insurance business from the Central Bank of Ireland as at 31 December 2021, so no figures are shown for it in the table above.
- The liabilities net of reinsurance can be broken down as follows:

Best Estimate Liability Breakdown (£m)	PLL	RLL
Net BEL Transferred Business - Irish PLL Transferred Business covered by both the UK Scheme and the Irish Scheme ⁽¹⁾ excluding matching adjustment ⁽³⁾	754	n/a
Matching adjustment in respect of Irish PLL Transferred Business while in PLL ⁽³⁾	(11)	n/a
Net BEL Transferred Business – Non-Irish Transferred Business covered by the UK Scheme only	(0) ⁽²⁾	154
Net BEL Non-transferring Business	51,003	6,897
Total Net BEL	51,746	7,051

⁽¹⁾ The Irish PLL Transferred Business is contained within the Irish branch of PLL

⁽²⁾ within rounding

⁽³⁾ The Irish PLL Transferred Business benefits from PLL's matching adjustment – which reduces the BEL – while in PLL. As the matching adjustment does not apply to PLAE, this report and that of the PLL Chief Actuary excludes the benefit of the matching adjustment when quoting BELs for the Irish PLL Transferred Business.

Sources: Totals from Phoenix Group 31 December 2021 Solvency and Financial Condition Report. Transferring BELs from PLL CA and RLL CA reports on the Proposed Part VII Schemes of Transfer.

- All RLL and PLL Transferred Business is within the scope of the UK Scheme. The Irish PLL Transferred Business is also in the scope of the Irish Scheme (and so is included within both Schemes). All Non-

transferring Business is neither transferred by the Irish Scheme nor transferred by the UK Scheme. In more detail:

- No RLL Transferred Business is covered by the Irish Scheme;
- All RLL Transferred Business is covered by the UK Scheme;
- The Irish PLL Transferred Business is covered by the Irish Scheme and the UK Scheme;
- The Icelandic PLL Transferred Business is covered by the UK Scheme only; and
- The German PLL Transferred Business is covered by the UK Scheme only.

7. Each of the Icelandic PLL Transferred Business and the German PLL Transferred Business have net BELs of £0m within rounding, and the sum of the net BELs are £0m within rounding.

Appendix B Selected financial information after the implementation of the Scheme

SOLVENCY II PILLAR 1 PRO-FORMA POST-SCHEME FINANCIAL INFORMATION AS AT 31 DECEMBER 2021

	PLL (£m)	RLL (£m)	PLAE (£m)
Total assets			1,091
Total liabilities			992
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%

Sources: See below.

Notes:

1. The financial information presented above is expressed in Pounds Sterling irrespective of local reporting currencies.
2. The financial information for RLL includes the effect of the IGR between RLL and RAL.
3. The assets for PLAE include its reinsurance recoverables.
4. The assets and liabilities are presented net of current liabilities.
5. Own Funds is shown after any ring-fenced fund restrictions.
6. The Solvency Cover Ratio is calculated using unrounded versions of the Own Funds and SCR shown in the table.

Sources:

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

RLL: Report of the ReAssure Life Limited Chief Actuary on the proposed transfer of certain long-term insurance business from Reassure Life Limited to Phoenix Life Assurance Europe dac

PLAE: Head of Actuarial Function Report: On the proposed transfers of business from RLL and PLL to PLAE (figures in euros converted to pounds sterling by me).

7. The liabilities include BEL net of reinsurance which can be broken down as follows:

Best Estimate Liability Breakdown (£m)	PLL (£m)	RLL (£m)	PLAE (£m)
Net BEL Transferred Business - Irish PLL Transferred Business covered by both the UK Scheme and the Irish Scheme ⁽¹⁾	351	n/a	401
Matching adjustment in respect of Irish PLL Transferred Business while in PLL ⁽²⁾	0	n/a	0
Net BEL Transferred Business – Non-Irish Transferred Business covered by the UK Scheme only ⁽³⁾	0	154	(8)
Net BEL Non-transferring Business ⁽⁴⁾	51,003	6,897	n/a
Expense reserve ⁽⁵⁾	n/a	n/a	52
Counterparty default adjustment ⁽⁶⁾	n/a	n/a	1
Total net BEL	51,534	7,051	445

(1) The Irish PLL Transferred Business is contained within the Irish branch of PLL. Parts of the BEL are reinsured from PLAE to PLL.

(2) The Irish PLL Transferred Business benefits from PLL's matching adjustment – which reduces the BEL – while in PLL. As the matching adjustment does not apply to PLAE, and therefore this row is nil. It is included for ease of comparison to Appendix A.

(3) The investment component of the RLL Transferred Business is reinsured from PLAE to PLL. The IGR is recaptured, and therefore PLAE holds the -£8m non-unit BEL.

(4) The net BEL for the Non-transferring Business is not affected by the proposed Schemes.

(5) An expense reserve is required for PLAE post Schemes as PLAE is not of the same scale as PLL and RLL.

(6) The counterparty default adjustment is required in respect of reinsurance back to PLL and RLL, and given its immateriality has not been split across the different blocks of business defined in the preceding rows of the table.

Source: RLL Actuarial Team

Appendix C Details of the interaction between the UK Scheme and the Irish Scheme

- C.1 Following the UK's exit from the EU there ceased to be automatic recognition of Part VII transfers under Article 39 of the Solvency II Directive in Ireland.
- C.2 Following meetings held between Phoenix and the CBI in respect of this transfer it became apparent that the CBI were not comfortable with PLL relying solely on the UK Scheme, and Phoenix sought external legal advice in Ireland which established that a mechanism existed in Ireland to transfer business from an Irish branch.
- C.3 The transfer of business from an Irish branch is permitted under Solvency II, and reflected in the European Union (Insurance and reinsurance) Regulations 2015 in Ireland, specifically regulation 178 allows the transfer from an Irish branch to an insurer authorised in Ireland.
- C.4 The provision which gives jurisdiction to the Irish Court is Regulation 178(1) which states that:
- “(1) For the purposes of section 13 of the Assurance Companies Act 1909, subject to section 36 of the Insurance Act 1989 and these Regulations a branch of a third-country insurance undertaking established in the State [Ireland] may, after consultation with the Bank [Central Bank of Ireland], transfer all or part of its portfolio of contracts to-...(a) an insurance undertaking with its head office in the State....*
- (2) A transfer may not be affected unless... the law of the Member State [Ireland] in which that branch is situated permits the transfer and the supervisory authority of that Member State [Ireland] has consented”*

CO-DEPENDENCIES OF THE UK SCHEME AND IRISH SCHEME

- C.5 As set out in paragraphs 5.16 to 5.19 and 6.15 to 6.18, the UK Scheme and Irish Scheme are co-dependent, meaning that the transfer of business under these Schemes can only occur if both the UK Scheme and Irish Scheme are approved by the UK Court and Irish Court, respectively.
- C.6 This co-dependency is written into both the UK Scheme and Irish Scheme as the UK Scheme contains a provision which means it cannot become effective unless the Irish Court has approved the Irish Scheme and, similarly, the Irish Scheme contains a provision which means it cannot become effective unless the UK Court has approved the UK Scheme.

OPERATION OF THE UK SCHEME AND IRISH SCHEME TOGETHER

- C.7 There are two tranches of business to be transferred under the proposed UK Scheme:
- The RLL Transferred Business consisting 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 PLL Transferred Business consisting 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, Iceland or Germany.
- C.8 The Irish Scheme transfers the Irish PLL Transferred Business which is all of the directly insured policies of PLL's third country branch operation in Ireland. The Irish PLL Transferred Business is a subset of the PLL Transferred Business and is therefore covered by both the UK Scheme and Irish Scheme.
- C.9 The UK Scheme and Irish Scheme provisions which relate to the Irish PLL Transferred Business mirror each other and are substantially the same, and therefore the operations of the UK Scheme and Irish Scheme in respect of the Irish PLL Transferred Business is identical.

THE IRISH DIRECTIONS HEARING

- C.10 I understand that the purpose of the Irish Directions Hearing is very similar to the purpose of the UK Directions Hearing and that the substantive points addressed are alike. That is, the purpose of the Irish Directions Hearing is for the Irish Court to issue directions in relation to the business contained within the Irish Scheme, in particular in relation to communications with policyholders regarding the Irish Scheme and advertisement of the Irish Scheme. If the Irish Court had any concerns regarding the policyholder communications (or other matters considered at the Irish Directions Hearing), it would outline the required

changes that it would like to be incorporated in the draft Directions order, and in advance of the Irish Sanction Hearing, the Phoenix Group would be required to detail to the Irish Court how it had addressed the changes required by the Irish Court.

- C.11 The UK Court does not approve the exact form of policyholder communications, therefore it would not be necessary for the UK Court to approve any changes to the policyholder communications requested by the Irish Court.
- C.12 The Irish Directions Hearing is also used to confirm the date for the Irish Sanction Hearing. The Irish Directions Hearing is focussed solely on the Irish Scheme.

THE IRISH SANCTION HEARING

- C.13 The Sanction Hearing of the UK Scheme is scheduled to take place prior to the Sanction Hearing of the Irish Scheme. Given this, it is possible that the Irish Court could request a change to the Irish Scheme which would need to be replicated in the UK Scheme after it has been sanctioned by the UK Court; to cover such an eventuality the UK Scheme contains a clause which allows modifications to the UK Scheme prior to the Irish Scheme being sanctioned and subject to the UK Court approving the change.
- C.14 At the Sanction Hearing of the UK Scheme it will be brought to the UK Court's attention that it may be necessary to revert to the UK Court should the Irish Court request a material change to the Irish Scheme which is to be replicated in the UK Scheme. Should this occur, then the UK Court would be asked to approve the proposed change, the date of this hearing would be published on the webpage dedicated to the Scheme and any other directions made by the Court would be complied with. It is anticipated that the Irish Court would adjourn sanctioning the Irish Scheme until the change had been approved by the UK Court.
- C.15 Any changes required to the UK Scheme as a result of changes to the Irish Scheme requested by the Irish Court will also be notified to the PRA and FCA, I will also be informed of the change and will consider the details of such a change and the impact on the Transferred Policyholders, PLL Non-transferring Policyholders and RLL Non-transferring Policyholders.

Appendix D CV for Philip Simpson

- D.1 Philip Simpson is a Principal and actuarial consultant in Milliman's London office. He has worked with the firm and its predecessors since 1999.
- D.2 Philip is a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Society of Actuaries in Ireland.
- D.3 Philip specialises in life insurance and reinsurance. His consulting assignments include insurance business transfers; with-profits business; mergers and acquisitions; unit-linked business, reinsurance, financial reporting, annuities, longevity, Solvency II, Embedded Value, company reconstructions, new company launches, and product design and pricing.
- D.4 Philip has acted as an Independent Expert or Independent Actuary on a number of insurance business transfers. He has worked on over 40 transactions, including insurance business transfers, in the last 15 years.
- D.5 Philip has advised sellers and purchasers on a large number of business transformations and mergers and acquisitions, including ones with material levels of mortality or longevity risk and with-profits exposure.
- D.6 Philip has consulted on a wide range of with-profits, unit-linked and longevity related assignments including bonus reviews, reinsurance programmes, product design, reserve reviews, financial reporting and pricing.
- D.7 Philip acts, or has acted, as a Head of Actuarial Function, an Actuarial Function Holder, a With Profits Actuary, an Appointed Actuary (in Ireland), an Independent Expert, an Independent Actuary (in Ireland and elsewhere) and a Life Reinsurance Signing Actuary (in Ireland). He has wide experience in with-profits business, unit-linked business, annuity business and traditional business.
- D.8 Philip holds a Chief Actuary (Life) Practising Certificate and a With Profits Actuary Practising Certificate issued by the Institute and Faculty of Actuaries.
- D.9 Philip leads Milliman's global research into Shareholder Value reporting and is one of the key authors of Milliman's Shareholder Value publications.
- D.10 Philip is the Deputy Chair of the UK actuarial profession's Life Board.
- D.11 Philip is a member of the International Actuarial Association's (IAA) Insurance Regulation Committee and also a member of the IAA's Actuarial Standards Committee.
- D.12 Since 2012, Philip acted as the Independent Expert or Independent Actuary in respect of the following Part VII transfers:
- Transfer of the business of the Finnish branch of Skandia Life Assurance Company limited to a new life company in Finland, a transfer that was sanctioned in 2012;
 - Transfer of the business of Hannover Life Reassurance (UK) Limited to its parent company Hannover Rückversicherung AG, a transfer that was sanctioned in 2012;
 - Transfer of the long-term business from PEL Altraplan (Gibraltar) PCC Limited to Augura Life Ireland Limited, this transfer from Gibraltar to Ireland was sanctioned in 2014;
 - Transfer for a block of long-term business from Mobius Life to Scottish Friendly, a transfer that was sanctioned in 2018;
 - Transfer of life insurance business from Assurant Life Limited and London General Life Company Limited to Assurant Europe Life Insurance N.V. in 2020; and
 - Transfer of a block of business from Pacific Life Re Limited to Pacific Life Re International Limited, a transfer that was sanctioned in December 2021.
- D.13 In 2010 Philip acted as the Independent Actuary, in Ireland, for the Section 13 transfer of part of the long-term insurance business of Darta Saving Life Assurance Ltd to Allianz Global Life Ltd.
- D.14 In addition, Philip has been peer reviewer to the Independent Expert for a significant number of Part VII transfers.
- D.15 Before joining Milliman, Philip worked in reinsurance for 12 years.

Appendix E Scope of the Work of the Independent Person in relation to the Schemes

The following was included within the third amendment to the letter of engagement that was agreed between RLL, PLL and PLAE, Milliman and me, and which was shown to the PRA prior to the approval by the PRA and the FCA of my appointment as the Independent Expert in respect of the Schemes. It has also been shared with the CBI for whose purposes the references to Independent Expert should be interpreted as references to Independent Actuary. The following constitutes my terms of reference in respect of this assignment.

“My report is to consider the terms of the Schemes generally and the effect that each of the UK Scheme and the Irish Scheme will have on the Companies’ different groups of policyholders.

In particular my report will consider the following specific matters in both such scenarios:

- The impact of the Schemes on the security of benefits of policyholders, and on the risks to which policyholders will be exposed;*
- The impact of the Schemes on the benefit expectations of policyholders;*
- How the application of any management discretion that is embedded in the current policies would be affected by the transfer; and,*
- The impact of the Schemes on existing service levels and agreements.*

The review and report will address generally the way in which the Companies have conducted their long-term business but taking into account the particular circumstances of each class of insurance business to be transferred. It will deal inter alia with the following aspects:

- Reserving, capital and security;*
- The terms of the respective policies issued by the Companies;*
- The Companies’ respective reinsurance agreements;*
- Any service, or other relevant, agreements with intra-group companies;*
- The regulatory regime, financial ombudsman scheme (or equivalent) and financial services compensation scheme (or equivalent) that policyholders of the transferors and transferee are subject to;*
- The existing and proposed internal working arrangements relating to the financial management of the long term business funds, including the operational and administrative arrangements which will apply to the business to be transferred under the terms of the Schemes;*
- The terms and conditions expected to be imposed by the Schemes to be presented to the Courts;*
- The views expressed by the governing bodies or management of the Companies with respect to the Schemes;*
- The terms of any previous schemes of transfer concerning the policyholders of the Companies; and*
- The assessment of any adverse effect of a conduct nature, such as those effects that might arise from changes to the product terms and conditions, service and administration, and the relative governance arrangements between the firms.*

The above list is not intended to be exclusive to any other aspects which may be identified during the completion of the project and which are considered to be relevant.

I shall not be directly involved in the formulation of the proposed transfer although I should expect to give guidance during the evolution of the detailed proposals on those issues which concern me, or which I consider unsatisfactory.

The Scheme Report will be prepared in accordance with:

- the form approved by the PRA pursuant to section 109(3) of the UK Act and will comply with all lawful requirements of the PRA and in particular those requirements set out in the PRA’s Statement of Policy, The Prudential Regulation Authority’s approach to insurance business transfers (the “PRA Statement of Policy”), and Chapter 18 of the Supervision Manual (“SUP 18”) contained in the FCA Handbook; and*
- pursuant to the Society of Actuaries in Ireland, Actuarial Standard of Practice LA-6;*

The Scheme Report will consider the consequences of the Schemes for those policyholders likely to be affected by the implementation of the Schemes.

The Scheme Report (and any supplemental Scheme Report in relation to the Scheme) will comply with relevant Technical Actuarial Standards issued by the Financial Reporting Council and/or any relevant Actuarial Profession Standards issued by the Institute and Faculty of Actuaries and/or Society of Actuaries in Ireland

If the PRA and/or CBI lawfully requires the form and content of the Scheme Report to include matters not set out in Schedule 2 of this Agreement, such matters will be deemed to be included in Schedule 2 for the purposes of this Agreement. In preparing the Scheme Report, the Independent Expert will give due consideration to all material facts and take proper care to ensure that the Scheme Report will in its final form accurately represent his opinion, honestly held, on the matters set out in Schedule 2 and be limited to the matters of opinion which fall within his area of expertise.”

Appendix F The Solvency II regulatory regime

INTRODUCTION

- F.1 A new regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II and it aims to introduce solvency requirements that better reflect the risks that insurers and reinsurers actually face and to introduce consistency across the EEA.
- F.2 All but the smallest EEA insurance companies must comply with Solvency II and are required to adhere to a set of new, risk-based capital requirements and the results will be shared with the public.
- F.3 The Solvency II regime has been brought into UK law and therefore continues to be the applicable regulatory regime for insurers and reinsurers in the UK following its departure from the EU and the end of the Brexit transition period. As discussed in paragraphs 3.20 to 3.28, the UK government is currently reviewing the Solvency II regime and it is therefore possible that elements of the regime will be amended in the future.
- F.4 Solvency II is based on three pillars:
- Under Pillar 1, quantitative requirements define a market consistent⁷¹ framework for valuing the company's assets and liabilities, the results of which will be publicly disclosed.
 - Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward looking assessment of risks, solvency needs and adequacy of capital resources, called the ORSA, and senior management must demonstrate that the ORSA actively informs business planning, management actions and risk mitigation.
 - Under Pillar 3, there are explicit requirements governing disclosures to supervisors and policyholders. Firms will produce private reports to supervisors and a public solvency and financial condition report.

THE PILLAR 1 REQUIREMENTS

- F.5 Assets are, broadly speaking, reported at market value under Pillar 1.
- F.6 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the BEL. The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and the best estimate actuarial assumptions, and the BEL represents the present value of these projected cash-flows.
- F.7 Under Solvency II, a company's Pillar 1 liabilities are called the "technical provisions" which consist of the sum of the BEL and the "risk margin". The risk margin is an adjustment designed to bring the technical provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.
- F.8 The SCR under Solvency II is the capital requirement under Pillar 1 and is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5%.
- F.9 The MCR, which is lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.
- F.10 In calculating the SCR, the majority of firms use the "Standard Formula", as prescribed by EIOPA. However, Solvency II also permits firms to use their own internal models (or a combination of a "partial internal model" and the Standard Formula) to derive the SCR. These internal models and partial internal models are subject to approval by the relevant regulator: in the UK this is the PRA and in Ireland it is the CBI
- F.11 EIOPA published the implementing technical standards and guidelines for the new regime and these were endorsed by the European Commission, are legally binding and apply to all national regulators under the scope of Solvency II.

⁷¹ A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

F.12 Many of the technical requirements of Solvency II are contained in Commission Delegated regulation (EU) 2015/35, known as the Delegated Acts, adopted by the European Commission in October 2014.

OWN FUNDS AND CAPITAL

F.13 Under the Solvency II regime, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital available in the company to cover capital requirements.

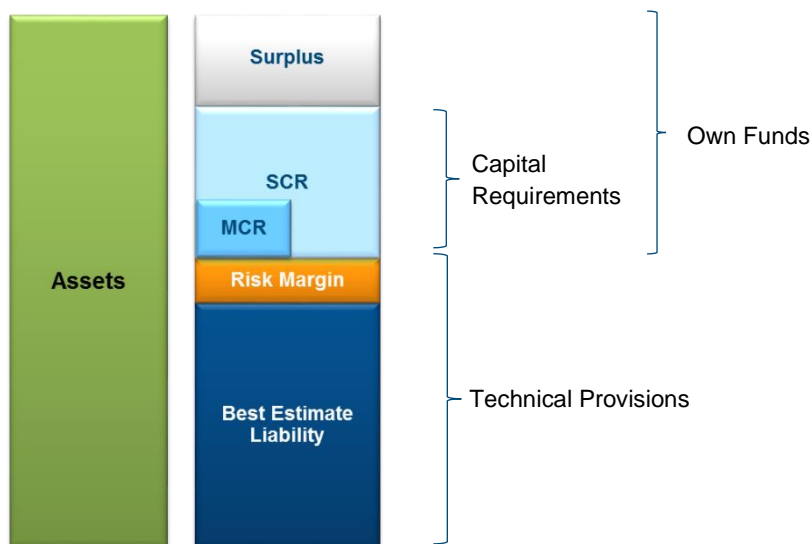
F.14 Under Solvency II, companies are required to classify their Own Funds into three tiers, which broadly represent the quality of the Own Funds in relation to their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must exhibit both of the following:

- Permanent availability, i.e. the item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up.
- Subordination, i.e. in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.

F.15 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

F.16 The Own Funds described above are also often referred to as “Basic Own Funds”. In addition to Basic Own Funds, Solvency II permits insurers to use Ancillary Own Funds to meet capital requirements, subject to regulatory approval. Ancillary Own Funds are committed but unpaid sources of capital, which can be drawn on demand by the insurer without any attaching conditionality. Ancillary Own Funds are also classified in line with the tiers outlined above and are allocated to tier one level below the level of the underlying item if it were a Basic Own Funds item.

F.17 The following diagram shows the structure of the balance sheet for a UK life insurance company under a Solvency II market consistent valuation.



REGULATORY APPROVALS UNDER SOLVENCY II

F.18 Any UK firms intending to use an internal model, transitional measures, a matching adjustment or a volatility adjustment (as described in the paragraphs below) must apply to the PRA for approval. In Ireland, firms must apply to the CBI for approval.

F.19 Under the Solvency II regulations, the PRA has the right to remove approvals for the use of any of these measures if the firm is found to be in breach of the restrictions and conditions on which the original approval was based.

- F.20 Firms must apply to the PRA if they wish to make changes to the terms of their existing approvals. For example, firms would seek approval from the PRA to make a major change to their internal model and would not be expected to submit more than one major change application per year. A major change can comprise a single change or an accumulation of minor changes that, in aggregate, comprise a major change.
- F.21 Additionally, firms are permitted to seek approval to undertake a recalculation of their TMTP, as described below, every six months if their risk profile has changed materially since the previous recalculation or there are significant market changes.

THE MATCHING ADJUSTMENT

- F.22 In calculating the BEL, the Solvency II regulations permit firms to apply to their regulator to make use of the “matching adjustment”. The matching adjustment is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk free rate (swap rates under Solvency II) that they expect to earn from a “hold to maturity” investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in-payment annuity liabilities.
- F.23 Firms using the matching adjustment are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cash flows is permitted.

THE VOLATILITY ADJUSTMENT

- F.24 Where insurers have liabilities that are not eligible for use of the matching adjustment, the Solvency II regulations permit firms to apply to their regulator to make use of the “volatility adjustment”. The volatility adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the matching adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.
- F.25 The volatility adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the volatility adjustment are published by EIOPA.

THE TRANSITIONAL MEASURES

- F.26 Insurers are also permitted to apply to their regulator (the PRA in the UK and the CBI in Ireland) to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:
- The TMTP allows firms to phase in the increase in technical provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm’s Solvency I Pillar II liabilities.
 - The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen year period.
- F.27 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e. 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm’s technical provisions under Solvency II and the firm’s insurance liabilities under the previous Solvency I Pillar II regime.
- F.28 A further test is then carried out to determine whether deducting the calculated TMTP from the firm’s Solvency II technical provisions at 31 December 2015 would result in a Financial Resources Requirement (“FRR”) under Solvency II that is lower than the firm’s FRR under the previous Pillar I and Pillar II regimes at the same valuation date.
- F.29 The FRR for a given solvency regime is calculated as the total liabilities plus the firm’s capital requirement under that regime. If the Solvency II FRR after deduction of the TMTP is lower than the FRR under the Solvency I regime (Pillar I and Pillar II) then the calculated TMTP must be reduced to a level that ensures that this is no longer the case. The purpose of the FRR test is to ensure that firms are not able to hold lower amounts of financial resources under Solvency II than under the Solvency I regime as a result of the use of the TMTP.

- F.30 The final calculated TMTP is deducted from the firm's technical provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen year period.
- F.31 The PRA has stated publicly⁷² that it regards the financial benefit conferred by the TMTP as Tier 1 capital.
- F.32 The Solvency II Directive provides for firms' TMTPs to be subject to recalculation every two years, with more frequent recalculations permitted if the firm's risk profile has materially changed, as described above.

RING-FENCED FUNDS

- F.33 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.
- F.34 In the UK, many firms have set up ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business within the with-profits fund.

THE LONG-TERM FUND AND SHAREHOLDERS' FUND IN THE UK

- F.35 Prior to the implementation of Solvency II, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund (the "LTF"). The other assets of a proprietary company were typically allocated to the shareholders' fund (the "SHF"). Under the PRA rules, the assets in the LTF were only available to be used to support the firm's long-term insurance business and firms were required to maintain assets in the LTF sufficient in value to cover the fund's mathematical reserves.
- F.36 Following the implementation of Solvency II, the requirement to maintain a separate LTF has been removed and therefore a firm's "fund structure" now consists of the ring-fenced funds and the business outside of the ring-fenced funds. This business outside the ring-fenced funds is often called the "non-profit fund" (if it is all long-term business) or the "shareholder backed fund" (this could include short-term or general insurance business) but whatever the name it includes the assets and liabilities of what were, under the previous regime, called the non-profit fund (in the LTF) and the shareholders' fund (outside of the LTF).
- F.37 Although not required to do so for regulatory purposes, some firms continue to maintain a notional fund for accounting purposes in respect of long-term business outside of the ring-fenced funds. Such a notional fund is sometimes referred to as the non-profit fund.

⁷² <http://www.bankofengland.co.uk/publications/Pages/speeches/2015/829.aspx>

Appendix G The regulation and governance of insurance companies in the UK and Ireland

THE ROLE OF THE REGULATORS

UK

- G.1 Since 1 April 2013, responsibility for the regulation of insurance companies in the UK has been split between the PRA and the FCA.
- G.2 The PRA is a part of the Bank of England and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms.
- G.3 The PRA has statutory objectives to promote the safety and soundness of the insurers that it regulates, and to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated UK insurers have resilience against failure (although this is not a “zero failure” regime) and that disruption to the stability of the UK financial system from regulated UK insurers is minimised.
- G.4 The FCA regulates the conduct of all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers. The FCA does not have conduct of business responsibility for the policies serviced under EEA Passport Rights as responsibility for the conduct of business of such policies lies with the host state supervisors.
- G.5 The Financial Reporting Council (“FRC”) is an independent regulator in the UK that is responsible for regulating auditors, accountants, and actuaries, and setting the UK’s Corporate Governance and Stewardship Codes. The FRC seeks to promote transparency and integrity in business by aiming its work at investors and others who rely on company reports, audits and high-quality risk management. The FRC’s UK Corporate Governance Code places emphasis on the relationships between companies, shareholders and stakeholders and promotes the importance of establishing a corporate culture that is aligned with the company purpose, business strategy, promotes integrity and values diversity.

FCA Conduct Principles

- G.6 Within its document *Fair treatment of customers*, the FCA sets out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:
- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
 - Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
 - Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
 - Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
 - Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
 - Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.
- G.7 These outcomes, which are often summarised as ‘Treating Customers Fairly’ or TCF, apply even for firms that do not have direct contact with retail customers. The FCA’s rationale is that risks and poor conduct can be carried from wholesale to retail markets.
- G.8 The FCA has supplemented its *Fair Treatment of Customers* document with guidance, published in January 2018, entitled *The Responsibilities of Providers and Distributors for the Fair Treatment of Customers* (“RPPD”). This provides the FCA’s view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:

- Principle 2: A firm must conduct its business with due skill, care and diligence;
- Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly; and
- Principle 7: A firm must pay due regard to the information needs of its clients and communicate information to them in a way that is clear, fair and not misleading.

Ireland

- G.9 In Ireland, responsibility for the regulation and supervision of insurance companies rests with the CBI.
- G.10 The CBI also carries out the prudential regulation and supervision of banks, building societies, credit unions, insurance companies and investment firms and exercises additional supervision over third country branches in Ireland.
- G.11 The CBI aims to ensure that regulated firms are financially sound and safely managed. Regulation of financial institutions and markets is undertaken through risk-based supervision, which is underpinned by credible enforcement deterrents. This mandate is delivered through a range of tools which include:
- Supervising banks within the Single Supervisory Mechanism framework;
 - Monitoring of regulatory returns filed with the Bank;
 - Approval of persons under the relevant fitness and probity standards; and
 - Taking enforcement actions when necessary.
- G.12 The CBI aims to take a proportionate approach to its actions as an intrusive and assertive regulator and does not seek to ensure a 'zero-failure' system of regulation and supervision but to safeguard that any firms that fail do so in a way that avoids significant disruption to financial services or consumers.
- G.13 The CBI introduced the Probability Risk and Impact System ("PRISM") in 2011. Under PRISM, the most significant firms – those with the ability to have the greatest impact on financial stability and the consumer – receive a high level of supervision under structured engagement plans, leading to early interventions to mitigate potential risks. Conversely, those firms that have the lowest potential adverse impact are supervised reactively or through thematic assessments, with the CBI taking targeted enforcement action against firms across all impact categories whose poor behaviour risks jeopardising the CBI's statutory objectives including financial stability and consumer protection.
- G.14 The CBI and the PRA are aligned in their approach to prudential supervision in terms of the adherence to the Solvency II regime, adherence to the appropriate risk appetite statements, and the standards of governance required.
- G.15 The CBI also regulates the conduct of all financial services firms in relation to consumer protection and conduct of business. As with the FCA in the UK, the CBI does not have conduct of business responsibility for the policies serviced under the EU's passporting regime as responsibility for the supervision of the conduct of business of such policies lies with the host state supervisors.
- G.16 Similar to the FRC's UK Corporate Governance Code, the CBI's Corporate Governance Requirements for Insurance Undertakings in Ireland impose minimum core standards upon all insurance undertakings authorised by the CBI, in order to promote strong and effective governance. Additional requirements are imposed on those insurance undertakings that have been designated as High Impact by the CBI under PRISM.

THE GOVERNANCE OF LONG-TERM INSURERS IN THE UK AND IRELAND

UK

- G.17 The Board of Directors of a proprietary long-term insurer is the firm's governing body and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.
- G.18 Under Solvency II, all insurers are required to establish the following key functions:
- Actuarial function: This function is required, inter alia, to coordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions.

- Compliance function: This function is required, inter alia, to advise the insurer on compliance with the Solvency II regulations.
 - Internal audit function: This function is required, inter alia, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.
 - Risk management function: This function is required, inter alia, to facilitate the implementation of the insurer's risk management system.
- G.19 Since 10 December 2018, UK insurers have been subject to the SM&CR, operated jointly by the PRA and the FCA. This replaced the separate Senior Insurance Managers Regime, and has brought insurers under the same governance regime as other UK financial institutions. The SM&CR defines a set of SMFs, which includes:
- Chief Executive Officer;
 - Chief Financial Officer;
 - Chief Risk Officer;
 - Chief Actuary;
 - Head of Internal Audit; and
 - Head of Key Business Area.
- The individuals responsible for these functions are subject to PRA approval.
- G.20 In addition to the roles listed above, those firms with with-profits business must appoint an actuary (or actuaries) to perform the "with-profits actuary function". This individual's responsibilities include advising the firm's management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which he has been appointed.

Ireland

- G.21 As in the UK, the Board of Directors of a proprietary long-term insurer is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.
- G.22 The relevant regulation in Ireland is also Solvency II, and therefore insurers in Ireland are required to have the following key functions: actuarial function, compliance function, internal audit function and risk management function (see paragraph G.18).
- G.23 In Ireland, the CBI has implemented the F&P Regime for Irish insurers which defines a set of PCFs, including:
- PCF-1 – Executive Director;
 - PCF-2 – Non-Executive Director;
 - PCF-8 – Chief Executive Officer;
 - PCF-11 – Head of Finance;
 - PCF-13 – Head of Internal Audit;
 - PCF-14 – Chief Risk Officer;
 - PCF-18 – Head of Underwriting; and
 - PCF-48 – Head of Actuarial Function.
- G.24 Under the F&P Regime, the persons having responsibility for the actuarial function, internal audit function and risk management under Solvency II are the Head of Actuarial Function ("HoAF"), Head of Internal Audit and Chief Risk Officer respectively, and the individuals responsible for these functions will be subject to CBI pre- approval.
- G.25 Unlike in the UK, those firms with with-profits business are not required to appoint an actuary (or actuaries) to perform a 'with-profits actuary function'. However, the *Domestic Actuarial Regime and Related Governance Requirements under Solvency II* does set out some additional responsibilities of the HoAF for insurance undertakings which have with-profits business. These are:
- At least annually, the HoAF must report to the Board on the ongoing compliance of the with-profits funds with the principles set out in the With-Profits Operating Principles ("WPOP");

- The above report should contain the HoAF's opinion on the following:
 - Whether the insurance undertaking has complied with the WPOP;
 - Any discretion exercised by the Board in relation to the with-profits funds;
 - The management of competing or conflicting interests or expectations between with-profits fund members and shareholders; and
 - Any further information deemed relevant.
- At least annually the HoAF must provide to the Board a report detailing the recommended allocation of profits to with-profits policyholders.

G.26 In July 2021 the Department for Finance released the General Scheme of the Central Bank (Individual Accountability Framework) Bill 2021. This sets out the draft Heads of Bill to address the CBI's proposals for an Individual Accountability Framework and Senior Executive Accountability Framework ("SEAR"), which was originally proposed in 2018. The process of writing SEAR into law and the full rulebook being implemented may take up to 18 months, however given that the SEAR has been known about since 2018, the CBI may expect that firms have commenced their preparations.

THE GOVERNANCE OF WITH-PROFITS BUSINESS

UK

G.27 Chapter 20 of the FCA's Conduct of Business Sourcebook ("COBS") sets out the FCA's rule in relation to managing with-profits business. In particular, it sets out that all firms that conduct with-profits business in the UK must establish and maintain a PPFM, which sets out how the with-profits fund is managed. The PPFM must also be made publicly available.

G.28 COBS also specifies the governance arrangements that must be put in place for with-profits business, this includes the requirement to appoint a With-Profits Committee ("WPC") (or a "with-profits advisory arrangement" if appropriate given the size, nature and complexity of the fund in question) in respect of the with-profits business. The With-Profits Committee's role is to advise and provide recommendations to the firm's governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures.

G.29 When a with-profits fund ceases to write new contracts of insurance then it must submit a run-off plan to the PRA and FCA within three months of closure to new business. The run-off plan is required to include a plan which demonstrates how the firm will ensure a fair distribution of any inherited estate, with such a plan having been approved by the firm's Board.

Ireland

G.30 In Ireland the HoAF has oversight responsibilities in respect of the with-profits funds and will advise the Board on any matters relating to such funds. Under the *Domestic Actuarial Regime and Related Governance Requirements under Solvency II* the HoAF has additional responsibilities in respect of with-profits business:

- At least annually, the HoAF must report to the Board on the ongoing compliance of the with-profits funds with the principles set out in the WPOP, which should contain the HoAF's opinion on:
 - Whether the insurance undertaking has complied with the WPOP (see below);
 - Any discretion exercised by the Board in relation to the with-profits funds;
 - The management of competing or conflicting interests or expectations between with-profits fund members and shareholders; and
 - Any further information deemed relevant.
- At least annually the HoAF must provide to the Board a report detailing the recommended allocation of profits to with-profits policyholders.

G.31 In the management of with-profits business, regard must be paid to Policyholders' Reasonable Expectations. This is the responsibility of the Board.

G.32 The *Domestic Actuarial Regime and Related Governance Requirements under Solvency II* states that:

- Insurers with with-profits business should establish and maintain a WPOP, which details the principles by which the with-profits business is managed, and must be publicly available.
- The WPOP shall include at least the following principles:

- Benefits;
- Investment strategy;
- Business risk;
- Charges and expenses; and
- Equity between with-profits policies and shareholders.
- The Board of the insurer is responsible for the content of the WPOP and must ensure that the with-profits fund is operated in accordance with the principles detailed in the WPOP, and that the principles are applied in all aspects of managing the fund.
- No changes should be made to the WPOP unless the Board agrees that the change does not materially affect the substance of the WPOP, or is justified in order to:
 - Respond to changes in the business or economic environment;
 - Protect the interests of the With-Profits fund members; or
 - Correct an error or omission.
- Any such change should be notified to policyholders at least four weeks prior to implementation of the change, except where it is to correct an error or omission, or where it does not materially affect the substance of the WPOP.
- The Board must ensure the fair treatment of with-profits members.
- Annually a written report should be made available to with-profits policyholders, which provides the opinion of the Board on the consistency of management of the with-profits fund with the principles in the WPOP over the previous year.

Appendix H Compliance with the PRA Statement of Policy

The table below indicates how I have complied with the provisions of the PRA Statement of Policy PS1/22 “*The Prudential Regulation Authority’s approach to insurance business transfers*”, dated January 2022 (updated from April 2015) that pertain to the form of the Report. The table includes references to relevant parts of this report relating to the UK Scheme and those relating to the Irish Scheme. I have not included references to paragraphs in the Executive Summary of this Report; there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

I note that, in preparing this Report, I have also been mindful of the contents of SUP18, the FCA Guidance and the advice of the Society of Actuaries in Ireland.

PRA Statement of Policy Reference	Requirement	Report paragraph reference
2.30 (1)	Who appointed the Independent Expert and who is bearing the costs of that appointment	1.5 and 1.25
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator	1.5
2.30 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.19 to 1.21 and Appendix C
2.30 (4)	Whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties that might be thought to influence their independence, and details of any such interest	1.22 to 1.23
2.30 (5)	The scope of the report	1.27 to 1.41
2.30 (6)	The purpose of the Scheme(s)	1.10 to 1.18, 5.1 to 5.7 and 6.1 to 6.7
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	Sections 5 and 6
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report, whether they have identified any material issues with the information provided and whether any information that he requested has not been provided	Appendix M and 1.44
2.30 (8A)	Any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible	n/a
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	3.102 to 3.114
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	3.102 to 3.114
2.30 (11)	His opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified	Sections 7 to 16
2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	15.24 to 15.25 and 16.21
2.30 (12A)	Their definition of ‘material adverse’ effect	1.30

2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme	n/a
2.30 (14)	For each opinion and conclusion that the independent expert expresses in the report, an outline of his reasons	Sections 7 to 16
2.30 (15)	An outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders	1.4 to 1.5
2.31A	The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	3.102 to 3.114
2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	5.28 to 5.33 and 6.28 to 6.29
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	5.39 to 5.48, 5.56 to 5.86, 6.33 to 6.42 and 6.50 to 6.80
2.33	The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level	Sections 7 to 16
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	15.1 and 15.3 to 16.1
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with	1.28, 5.5 to 5.8 and 6.5 to 6.7
2.33 (2A)	The independent expert's opinion of the likely effects of the scheme on policyholders should analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion	Sections 7 to 16
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on: (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing; (aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets; (aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	(a) to (aaaa) Sections 7 to 12 (b) Sections 7 to 12 (c) 7.163 to 7.167, 8.114 to 8.119, 9.162 to 9.166, 13.45 to 13.48, 14.35 to 14.38, 15.26 to 15.27 and 16.22 to 16.23 (d) Sections 7 to 12

	<p>(aaaa) whether the transferee(s) existing (or proposed, where applicable) capital model would remain appropriate following the scheme;</p> <p>(b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to:</p> <p style="padding-left: 40px;">(i) the security of policyholders' contractual rights;</p> <p style="padding-left: 40px;">(ii) levels of service provided to policyholders;</p> <p style="padding-left: 40px;">(iii) for long-term insurance business, the reasonable expectations of policyholders; and</p> <p>(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations</p> <p>(d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.</p>	
2.35 (1)	For any mutual company involved in the scheme, the report should describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes that could affect their entitlements as policyholders	n/a
2.35 (2)	For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights	n/a
2.35 (3)	For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without	n/a
2.36 (1)	For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits	7.140 to 7.162, 9.139 to 9.161, 10.38 to 10.44 and 12.38 to 12.44
2.36 (2)	For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders	n/a
2.36 (3)	For a scheme involving long-term insurance business, the report should describe the likely effect of the scheme on the approach used to determine:	7.123 to 7.184, 8.97 to 8.134, 9.122 to 9.182, 10.32 to 10.45, 11.27 to 11.37 and 12.32 to 12.45
	(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	
	(b) the levels of any discretionary charges	
2.36 (4)	For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)-(3)) that could act to the detriment of existing policyholders of either firm	15.15 to 15.22 and 16.12 to 16.15
2.36 (5)	For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders	7.123 to 7.184, 8.97 to 8.134, 9.122 to 9.182, 10.32 to 10.45, 11.27 to 11.37 and 12.32 to 12.45

2.36 (6)	For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders	17.4 and 18.4
2.36 (7)	For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each relevant firm the scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holder) to ensure that the scheme operates as presented	15.15 to 15.22 and 16.12 to 16.15
2.37	Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the independent expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level	1.4 to 1.5, Section 4, Sections 7 to 16

Appendix I Compliance with the FCA Guidance

The table below indicates how I have complied with the provisions of the FCA Guidance FG22/1 “*The FCA’s approach to the review of Part VII insurance business transfers*” dated 15 February 2022 that pertain to the form of the Report. The table includes references to relevant parts of this report relating to the UK Scheme and those relating to the Irish Scheme. I have not included references to paragraphs in the Executive Summary of this Report; there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

I note that, in preparing this Report, I have also been mindful of the contents of SUP 18 and the PRA Statement of Policy and the advice of the Society of Actuaries in Ireland.

FCA FG18/4 reference	Requirement	Report paragraph reference
6.2	Report is constructed in such a way that it is easily readable and understandable by all its users, paying attention to the following:	Appendix L
	<ul style="list-style-type: none"> Technical terms and acronyms should be defined on first use. 	Appendix L
	<ul style="list-style-type: none"> There should be an executive summary that explains, at least in outline, the proposed transfer and the IE’s conclusions. 	Section 2
	<ul style="list-style-type: none"> The business to be transferred should be described early in the report. 	Section 1
	<ul style="list-style-type: none"> The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when viewed as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. 	Sections 7 to 16
	<ul style="list-style-type: none"> IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. 	All sections
6.3	Report must consider and compare:	
	<ul style="list-style-type: none"> Reasonable benefit expectations (including impact of charges). 	Sections 7 to 12
	<ul style="list-style-type: none"> Type and level of service. This includes details of the analysis to support any conclusions including factors like claims and complaints handling (speed and quality), means of access to the service (including service provided by third parties) and any changes in functionality, speed and usability of service, past performance and customer feedback, reliability of service, number of requests for assistance or complaints, quality and speed of Policyholder support services, quality and frequency of communications. 	Sections 7 to 12
	<ul style="list-style-type: none"> Management, administration and governance arrangements. 	Sections 7 to 12
	<ul style="list-style-type: none"> Where the scheme includes Employers’ Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms’ Employers’ Liability tracing arrangements 	n/a
	<ul style="list-style-type: none"> Where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process. 	Sections 15 and 16
The level of reliance on the Applicants’ assessments and assertions		
6.6	Question the adequacy of assessments carried out by Applicants before relying on them to reach own conclusions (including requesting additional work and evidence from Applicants in order to support their assertions to ensure that the IE can be satisfied on a specific point).	3.102 to 3.114
6.7	Explain the nature of any challenges made to the Applicants and the outcome of these within the IE report, rather than just stating the final position.	Sections 7 to 16

6.8	Where conclusions are supported solely or largely by statements such as 'I have discussed with the firm's management and they tell me that...' followed by 'I have no reason to doubt what they have told me...', then:	
	<ul style="list-style-type: none"> Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the Scheme's impact, the IE should review relevant underlying material, rather than relying on the Applicants' analysis of the material and subsequent assertions. 	Appendix M
	<ul style="list-style-type: none"> If there are concerns about matters that fall outside the IE's sphere of expertise, such as legal issues, the Applicants must provide the IE with any advice that they have received. If the issue is significant or remains uncertain, the IE must make sure that the Applicants had obtained appropriate advice from a suitably qualified independent subject matter expert. 	3.107 to 3.114, 7.163 to 7.167, 8.114 to 8.119, 9.162 to 9.166
6.9	IE has challenged calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, the IE should:	
	<ul style="list-style-type: none"> review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate 	3.102 to 3.106
	<ul style="list-style-type: none"> challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete 	n/a
6.10	Documents provided by the Applicants have been challenged where they contain an insufficient level of detail or analysis. For example:	
	<ul style="list-style-type: none"> Applicants' assertions that service levels will be maintained to at least the pre-transfer standard: IE should include not only details of the Applicant's plans and any gap analyses that have been produced but also include their view of their adequacy. We also expect the IE to include a comparison of service standards and quality, including where outsourcers are used. 	Sections 7 to 12
	<ul style="list-style-type: none"> Change in governance arrangements in the Transferee that may lead to poorer customer outcomes: the IE must review and compare the governance arrangements in the Transferor which produce good customer outcomes (e.g. any committees with conduct responsibilities) within the Transferee's governance arrangements. 	Sections 7 to 9
	<ul style="list-style-type: none"> Consideration of the strain on resources that may occur post-transfer and that could impact on the service standards of the Transferee's existing customers and/or control over conduct of business risk. The IE report should include a review of relevant management information indicators and related contingency planning. 	Sections 7 to 9 and 13 to 16
Balanced judgments and sufficient reasoning		
6.12	The IE must state in their report whether they are certain there will be no material adverse impact to Policyholders or whether this is their best judgment, but lacks certainty. In these instances, the IE must consider the following:	
	<ul style="list-style-type: none"> Where the IE takes the view that there is probably no material adverse impact, the IE must challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree. 	Documented separately
	<ul style="list-style-type: none"> The IE should challenge the Applicants to be confident that their report's conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups. 	Sections 7 to 16
6.13	The IE must check that the documents they are relying, and forming judgments, on are the most up-to-date available when finalising their report.	1.57

6.14	If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgment, the Applicants must discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgment is unchanged.	1.57
Sufficient regard to relevant considerations affecting Policyholders		
6.15	Consider all relevant issues for each individual group of Policyholders in all firms, as well as how an issue may impact each group. The IE is expected, when giving their opinion, to consider the:	
	<ul style="list-style-type: none"> ▪ Current and proposed future position of each Policyholder group 	Sections 7 to 12
	<ul style="list-style-type: none"> ▪ Potential effects of the transfer on each of the different Policyholder groups 	Sections 7 to 12
	<ul style="list-style-type: none"> ▪ Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated 	Sections 7 to 12
6.16	Consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.	17.1 and 18.1
6.17	Review and give opinion on administrative changes affecting Policyholders, including:	
	<ul style="list-style-type: none"> ▪ Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Provide a comparison of the pre and post-outsourced administration arrangements so the IE and firms can clearly review and compare any changes to Policyholder positions and service expectations. 	Sections 7 to 12
	<ul style="list-style-type: none"> ▪ Policyholder service level - we expect the IE and the firms not only to have consideration of the impact on Policyholder service levels due to changes in services or service providers specifically contemplated by the proposed transfer, but also to consider the possible risks associated with the transfer that may impact service levels. For example, the risk that the transferee may change services or service providers to align with its broader offering, or risks associated with the migration of systems or services. We expect IEs to consider whether changes in service levels, provision and migrations could lead to consumer harms and what could be done to mitigate those risks. We expect IEs to consider whether there are differences in the identification of customers in vulnerable circumstances. In relation to migration of systems or services we expect to see a sufficiently detailed report of the possible impact. 	Sections 7 to 12
	<ul style="list-style-type: none"> ▪ For the case where the IE concludes that because the transfer will not create any change to the administrative arrangements, there will be no material impact on Policyholders: consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process. 	Sections 7 to 16
6.18	Where the transferring business involves employer's liability policies the IE should consider the quality of the firms' tracing procedures.	n/a
6.19	Review and provide opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	

	<ul style="list-style-type: none"> Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. 	n/a
	<ul style="list-style-type: none"> If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, consider the Scheme as if the reinsurance was not in place. 	n/a
6.20	If the IE identifies particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected, the IE should take into account the Transferor's obligations under Principle 6 (Customers' interests) of the FCA's Principles for Businesses.	n/a
6.21	Ensure there is consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material.	Sections 7 to 12
6.22	Provide the analysis outlined in 6.21 even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where:	
	<ul style="list-style-type: none"> Some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure. 	n/a
	<ul style="list-style-type: none"> Some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer. 	Sections 7 to 9
6.23	Ensure that no conclusions are reached based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	n/a
6.25	Present the consideration, evidence and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially adversely impact a group of Policyholders.	Sections 7 to 16
Commercially sensitive or confidential information		
6.26	When considering commercially sensitive information, consider Policyholders interests as the information will not be publicly available.	Assessed when considering risk management frameworks, risk appetite statements and costs of the Schemes
6.27	In these situations, document the analysis and the information relied upon and require it to be sent separately from the IE Report. Consider sending a separate document with further details, solely for the Court's use and not for public disclosure. Please note that this is at the Court's discretion.	Appendix M
The level of reliance on the work of other experts		
6.28	For large scale and complex insurance business transfers, if relying on the analytical work of other qualified professionals, it is still expected the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	1.21, 3.102 to 3.114, 7.163 to 7.167, 8.114 to 8.119, 9.162 to 9.166
6.29	Obtain a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	3.107 to 3.114 and Appendix M
6.30	If referring to factors outside of expertise and relying on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue.	1.21, 3.102 to 3.114, 7.163 to 7.167, 8.114 to

		8.119, 9.162 to 9.166
6.31	Consider if the IE needs to obtain separate legal advice, this will depend on the significance and materiality of the issue.	3.107 to 3.114
6.32	Consider whether it is reasonable for the IE to rely on advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers may be challenged.	1.21, 3.102 to 3.114, 7.163 to 7.167, 8.114 to 8.119, 9.162 to 9.166
6.33	When deciding whether to obtain independent legal advice, the IE should consider, amongst other things, the following: <ul style="list-style-type: none"> ▪ The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from that considered likely in the legal advice. ▪ How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact? ▪ The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. ▪ Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. ▪ Whether, depending on the issue's significance or uncertainty, the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. ▪ Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	3.107 to 3.114
6.34	The IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. The IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. Consider where risks are identified with no suggestion about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations will allow the IE to consider the worst case scenario of these effects.	3.109
6.35	Consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	n/a
6.37	Consider obtaining a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-UK jurisdictions. Should the work of overseas legal advisors be relied upon, the IE should not use such advice as the sole basis of their conclusion that there are no materially adverse effects, the IE is expected to consider the position if the advice turns out to be incorrect.	3.107 to 3.114
6.38	If the IE is uncertain and cannot form a conclusion on an issue, they may wish to obtain further independent legal advice to ensure they can reach a more considered conclusion.	n/a
6.39	The position may be different depending on whether the Transferor remains authorised/in existence:	n/a

	<ul style="list-style-type: none"> If the Transferor's authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the scheme is not formally recognised in another jurisdiction, the courts of that jurisdiction will still act to prevent the Transferee from denying that it is liable. This may well be correct, but we still expect the IE to assess any material possibility, and any mitigations if it is not. 	
	<ul style="list-style-type: none"> Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We will still expect an IE to examine what possible material adverse impact this could have on Policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements. 	
6.40	Ensure the likelihood for consumers to be adversely affected is low. The IE should take a view on that and seek the appropriate reassurances.	Sections 7 to 16
6.42	At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. Overly general reliance will indicate a lack of critical assessment or challenge.	1.44 to 1.59
6.44	If the report does not reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:	
	<ul style="list-style-type: none"> That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. 	n/a
	<ul style="list-style-type: none"> How the IE satisfied themselves about the identified uncertainty and formed an opinion on any potential impact. 	n/a
Demonstrating challenge		
6.45	To ensure the IE report is complete and considered there should be challenge from all involved parties. Including evidence that Applicants have made appropriate challenges, especially when believed there are issues that the IE has not fully addressed. It is in Applicants' interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account to the IE's disclaimers. Applicants can make these challenges without compromising the IE's independence.	1.61
6.46	To ensure effective two-way challenge it is expected the IE engages with FCA or PRA approved senior management function holders at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the Chief Financial Officer or Senior Underwriters.	Appendix M
6.48	IEs who are members of the Institute & Faculty of Actuaries should pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.	1.60
6.49	of the revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.	1.60

6.50	Ensure compliance with paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information' and to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	1.60
6.51	Actuarially qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	1.61
Review of the communications strategy		
7.3	IEs should include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. There should be evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential effect on Policyholders and how this is addressed.	13.1 to 13.42 and 14.1 to 14.32

Appendix J Compliance with advice from the Society of Actuaries in Ireland

The table below indicates how I have complied with the provisions of the advice from the Society of Actuaries in Ireland on the role of the Independent Actuary (“Transfer of Insurance Portfolio of a Life Insurance Company – Role of the Independent Actuary”). The table includes references to relevant parts of this report relating to the UK Scheme and those relating to the Irish Scheme. I have not included references to paragraphs in the Executive Summary of this Report, there should be nothing in the Executive Summary that has not been stated or explained in other parts of the Report.

In preparing this Report I have also been mindful of the contents of the PRA Statement of Policy, SUP18 and the FCA Guidance.

Society of Actuaries in Ireland's Actuarial Standard of Practice paragraph	Requirement	Report paragraph reference
2.1	Whether the Independent Actuary has relevant practical knowledge and experience, including familiarity with the role and responsibilities and the types of business being transacted by the companies concerned. In the case of an Independent Actuary asked to act in another jurisdiction, they should be satisfied that they have, or can acquire, sufficient knowledge of local legislation/regulation to accept the appointment.	1.19 to 1.21 and Appendix C
2.1	An (Independent) actuary must disclose to all parties any direct or indirect interests the actuary may have or have had in any of them.	1.22 to 1.23
2.2	It is advised for the Independent Actuary to ensure that the Regulator has been advised by those petitioning the scheme of his or her appointment and has not raised any objections to this appointment.	1.5, 1.27 and Appendix E
2.3	An Independent Actuary should ensure prior to accepting the appointment that both parties understand that it would be improper for the Independent Actuary to take instruction from any of the parties on what should be included in or excluded from the report; or to be denied access by any of the parties to persons the Independent Actuary may wish to interview, or to information, reports and documents which the Independent Actuary may reasonably consider material to the formulation of an opinion on the likely effects of the scheme on the policyholders of the companies concerned.	Appendix E and Appendix M
2.4	Any actuary offered an appointment as an Independent Actuary should enquire if the appointment has previously been accepted and subsequently vacated by another actuary; if so, an actuary should take all reasonable steps to establish the circumstances in which the revocation of the previous actuary's appointment or the resignation of the previous actuary took place.	1.26
3.1	The Independent Actuary should actively seek the draft terms and provisions of the proposed scheme at the various stages of its development.	3.79 to 3.100 and Appendix M

3.4	If the transfer forms part of a chain of events including restructuring, reinsurance or changes in ownership, the Independent Actuary should seek explanations regarding corporate plans to the extent necessary for the whole picture to be clear.	Sections 5 to 16
3.5	If the HoAF had been in position only a short while then it may be necessary to seek information from the previous HoAF.	n/a
3.6	<p>The Independent Actuary may wish to examine:</p> <ul style="list-style-type: none"> ▪ details on the transfer itself, to include information such as the rationale for the transfer, the impacted policyholders, the structure and terms of the transfer and the timetable of anticipated activities; ▪ the constitution or similar documents related to the legal establishment of the company and, if the company is currently trading, its latest annual reports, auditor reports and supervisory returns; ▪ the latest actuarial reports; ▪ reports prepared to support the risk management of the firm, such as the latest Own Risk and Solvency Assessment; ▪ any external reviews prepared on the reserves and capital position of the companies involved such as audit reports or formal actuarial peer review reports; ▪ details on planned capital management activities, such as dividend payments; ▪ reports detailing embedded value or other forward-looking profitability metrics; ▪ product brochures issued by the company in recent years; ▪ policyholder correspondence which may have shaped policyholders' reasonable expectations; ▪ any reports, actuarial or otherwise, dealing specifically with policyholders' reasonable expectations; ▪ the methodology and assumptions used to produce illustrations of projected future benefits; ▪ sample quotations and policy documents which state or illustrate how policies will participate in profits, qualify for discretionary benefits, or be subject to future variations in charges, as well as information on how these benefits or charges have been determined in recent years; ▪ any reports dealing with the investment policy of the company; ▪ any relevant correspondence between the company and the Regulator; ▪ details on the administrative arrangements pre- and post-transfer, to include arrangements with third-party administrators, planned changes to administrative systems and any implications for policyholder data protection; 	Sections 5 to 16

	<ul style="list-style-type: none"> ▪ details of active and historic complaints for the transferring business; ▪ details on the overall communication approach and the information being provided to policyholders to explain the effects of the scheme and any subsequent complaints or issues raised including the manner in which these have been dealt with; ▪ details on the system of governance in place, including details on the risk appetite statement and risk registers; ▪ current and historic risk reporting, noting risk events and risk issues; ▪ winding-up provisions, if applicable; ▪ details on the policyholder protection schemes in place in each country and the impact, if any, of the transfer on the applicability of such schemes; ▪ details of any existing or planned reinsurance treaties that are impacted by the transfer, including confirmation from reinsurers on the transferability of cover (if applicable); ▪ details on any warranties in place in relation to previous transfers; ▪ details on any shareholder commitments regarding capital support; ▪ details on the future business plans for the entities involved in the transfer; ▪ detail on any relevant tax implications of the scheme for the companies involved or the impacted policyholders; ▪ any other relevant documents associated with the transfer. 	
3.7	The Independent Actuary should document any operational plans of any company that is a party to the scheme, which, at the effective date, will have policyholders who fail to be considered in the Independent Actuary's report.	Sections 5, 6, 15 and 16
4.1	The Independent Actuary should bear in mind in preparing the Report that policyholders and members, may rely on it when considering how to cast their vote in any extraordinary general meeting called to approve the terms of the scheme, and any member of the public may rely on it when considering whether or not to make representations to the authority which is responsible for approving the scheme about the likely adverse effect of the scheme on him or her.	Sections 7 to 16
4.2	An Independent Actuary should ensure that the contents of any summary are adequate given the context in which it is being circulated, and that neither it nor any document which will accompany it gives a misleading impression of the findings in the full Report.	Section 2 and Summary Report
4.3	The Independent Actuary should review the overall communication approach and the information being provided to policyholders to explain the effects of the scheme.	Sections 13 and 14

4.4	The Independent Actuary needs to consider and report as appropriate on the likely effects of the scheme on (a) all transferring policyholders, (b) any policyholders of the transferor companies whose policies will remain with those companies, and (c) any policyholders of the transferee companies.	(a) Sections 7 to 9 (b) Sections 10 to 12 (c) n/a
4.4	The Independent Actuary will need to consider whether the development plans of any of the companies involved may adversely affect policyholders with whom the Independent Actuary is concerned.	15.15 to 15.22 and 16.12 to 16.15
4.5	The report should include a comparison of the likely effects on the policyholders of the relevant companies if the scheme of transfer being presented to the authority which is responsible for approving the scheme is or is not implemented.	15.1 to 15.3 and 16.1
4.6 (i)	The report should include the name of the party which has appointed the Independent Actuary and a statement of who is bearing the costs of that appointment.	1.5 and 1.25
4.6 (ii)	The report should include a statement of the Independent Actuary's professional qualification.	1.19 to 1.21 and Appendix C
4.6 (iii)	The report should include whether or not the Independent Actuary has a direct or indirect interest in any of the parties which might be thought to influence the Independent Actuary's independence; if the Independent Actuary has an interest, it should be disclosed.	1.22 to 1.23
4.6 (iv)	The report should include the scope of the report in accordance with paragraph 4.5 above.	1.27 to 1.41 and Appendix E
4.6 (v)	The report should include the purpose of the scheme.	5.1 to 5.7 and 6.1 to 6.7
4.6 (vii)	The report should include a summary of the terms of the scheme insofar as they are relevant to the contents of the Independent Actuary's report.	Sections 5 and 6
4.6 (vii)	The report should include the documents and reports the Independent Actuary has considered in relation to each of the companies involved in the transfer and whether there was any additional information which was requested but not provided.	1.44 and Appendix M
4.6 (viii)	The report should include the cost and tax consequences of the scheme, in so far as these will affect policyholders' funds.	13.45 to 13.48, 14.35 to 14.38, 15.26 to 15.27 and 16.22 to 16.23
4.6 (ix)	The report should include the effect of the scheme on the security of policyholders' contractual benefits.	7.3 to 7.75, 8.3 to 8.60, 9.3 to 9.75, 10.4 to 10.27, 11.3 to 11.22, 12.4 to 12.27
4.6 (x)	The report should include the effect of the scheme on the nature and value of any rights of policyholders to participate in profits. In particular, if any such rights will be diluted by the scheme, how any compensation being offered to those policyholders as a group compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders.	7.140 to 7.162, 9.139 to 9.161, 10.38 to 10.44 and 12.38 to 12.44

4.6 (xi)	The report should include the likely effect of the scheme on the approach used to determine the amounts of non-guaranteed benefits such as reversionary and terminal bonuses and surrender values, and the levels of discretionary charges and what safeguards are provided by the scheme against a subsequent change of approach that could act to the detriment of existing policyholders of either company and is not due to external circumstances beyond its control.	Sections 7, 9, 10 and 12
4.6 (xii)	The report should include the likely effects of the scheme on matters such as investment management, fund choice, administration and fund management platforms, use of third-party administrators and custodians, new business strategy, administration, expense levels and assumptions used in the calculation of technical provisions, in so far as they may affect the ability of the companies to meet throughout the lifetime of existing policies the reasonable expectations of the holders of those policies.	Sections 7 to 13
4.6 (xiii)	The report should include in the case of any mutual company involved in the scheme, the effect of the scheme on the proprietary rights of members of that company and, in particular, the significance of any loss or dilution of the rights of those members to secure or prevent further constitutional changes which could affect their expectations as policyholders (for example, losing the ability to change the board and therefore control over a board's decision to convert to a closed fund). The Independent Actuary should state whether, and to what extent, members will receive compensation under the scheme for any diminution in their proprietary rights, and comment on its appropriateness. Also, when commenting on the fairness of the scheme, the Independent Actuary should pay particular attention to any differences in treatment between policyholders with voting rights and those without. It will assist the Independent Actuary if the issues involved are adequately explained in the directors' circular to policyholders.	N/A
4.6 (xiv)	The report should include which matters, if any, the Independent Actuary has not taken into account or evaluated in the report that might nevertheless be relevant to policyholders' consideration of the scheme.	Paragraph 1.34
4.6 (xv)	The report should include the Independent Actuary's overall assessment of the likely effects of the scheme on the reasonable expectations of policyholders; whether the Independent Actuary is satisfied that for each of the companies concerned the scheme is equitable to all classes and generations of its policyholders; and whether for each relevant company the scheme places obligations on ASP LA-6 v. 2.3 11 the directors sufficient in the Independent Actuary's opinion for the protection of those expectations.	Sections 17 and 18
4.7	Where the Independent Actuary expresses an opinion in the report, the Independent Actuary should outline the reasons for it.	Sections 7 to 16

4.8 (i)	The Independent Actuary may also be asked by the transferring companies to prepare a supplementary report. Issues which may need to be considered include the latest financial condition of the entities involved and whether the financial impacts of the transfer are consistent with those outlined in the original Report.	A Supplementary Report will be written and will cover any relevant matters that might have arisen since the date of this Report.
4.8 (ii)	The supplementary report may need to include any policyholder or regulatory objections that have arisen and, if required, the Independent Actuary's view on such objections.	N/A
4.8 (iii)	The supplementary report may need to include any updates in relation to the communication approach adopted.	N/A
4.8 (iv)	The supplementary report may need to include the outcome from any legal or commercial discussions, which had not been completed at the date of the original Report, between the transferring companies.	N/A
4.8 (v)	The supplementary report may need to include any assumptions which the Independent Actuary had to make in the original Report and whether they remain valid or are no longer necessary given the activities of the transferring companies.	N/A
4.8 (vi)	The supplementary report may need to include the Independent Actuary's opinion in relation to the transfer and whether this has changed since the date of preparation of the original report.	N/A

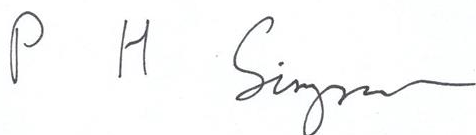
Appendix K Certificate of compliance

I understand that my duty in preparing my Report is to help the Courts on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of, and have complied with and will continue to comply with, the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 and Guidance for the Instruction of Experts in Civil Claims 2014 produced by the Civil Justice Council. As required by rule 35.10(2) of Part 35 of the Civil Procedure Rules and by paragraph 3.2(9)(b) of Practice Direction 35, I hereby confirm that I have understood, and have complied with and will continue to comply with, my duty to the Courts.

I confirm that I have made clear which facts and matters referred to in my Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

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

Appendix L Definitions

TERM	DEFINITION
2005 Scheme	The Part VII transfer of the German PLL Transferred Business and the Icelandic Transferred Business from Swiss Life (UK) plc to PLL on 31 December 2005.
2006 Scheme	The Part VII transfer of business written in the with-profits fund of Britannic Unit Linked Assurance into the 90% WPF on 31 December 2006.
2009 Scheme	The Part VII transfer of business from the SPI Fund of Scottish Provident Limited to PLL on 6 February 2009.
2009 Scheme Sunset Clause	The sunset clauses, referred to in the PLL PPFM as the “closure provisions”, is the point at which the PLL WPFs will be closed, subject to the prior approval of the regulator. For the 90% WPF it is defined at the point at which the statutory liabilities fall below £10m and for the Alba WPF, Pheonix WPF and SPI WPF it is the point at which the statutory liabilities fall below £50m.
Ark Life	Ark Life Assurance Company DAC.
Basic Own Funds	See Own Funds.
BaFin	Federal Financial Supervisory Authority or Bundesanstalt für Finanzdienstleistungsaufsicht, the financial regulator in Germany.
BEL	The best estimate liability under Solvency II.
Best estimate	This term is used in this Report in reference to an estimate of outstanding claim amounts and is intended to represent an expected value over a reasonable range of estimates. As such a “best estimate” is not deliberately biased upwards or downwards, and does not include any margins. However, the limitations of actuarial projection methods mean that a “best estimate” is not a statistically rigorous estimate of the mean of the underlying distribution of all possible outcomes.
BLAGAB	Basic Life Assurance and General Annuity Business, a tax regime in the UK under which tax is calculated on an I-E basis.
bp	Basis Point – that is, one hundredth of one percentage point.
Brexit	“Brexit” refers to the exit of the UK from the EU on 31 January 2020, following the referendum on continuing membership held in the UK in June 2016. As at the time of drafting this Report, the future relationship between the UK and the EU, including the regulatory environment for insurers operating across UK/EEA borders, was being negotiated. The transition period during which the regulatory environment for insurers remained unaltered from its pre-Brexit state ended on 31 December 2020.
CBI	The Central Bank of Ireland (“CBI”) is Ireland’s central bank and Ireland’s financial services regulator for most categories of financial firm.
Closure Uplift	An increase paid to a with-profits policy following the closure of a with-profits fund.
COBS	Conduct of Business Sourcebook.
Communications Pack	The Communications Pack contains the Cover Letter, the Q&A, the Scheme Guide and, for with-profits Irish PLL Transferred Business or holders of investments in a with-profits fund only, a with-profit leaflet explaining how the proposals affect with profit funds for with-profits Transferred Policyholders.
Courts	Together the Irish Court and UK Court.
CPC	Consumer Protection Code 2012, issued by the CBI and aims to ensure a consistent level of protection for customers regardless of the financial services provider they choose.
Diligenta	Diligenta Limited.
Directions Hearing	A short hearing at which the UK Court or Irish Court makes procedural orders with regard to a proposed transfer, in particular in relation to communications with policyholders.

DISP	The 'Dispute Resolution: Complaints' ("DISP") section of the FCA Handbook sets out the jurisdiction and scope of the FOS in the UK.
EEA	The European Economic Area ("EEA") was established by the EEA Agreement on 1 January 1994. The EEA unites the 27 EU member states with Iceland, Liechtenstein, and Norway into an internal market governed by the same basic rules. These rules aim to enable goods, services, capital, and persons to move freely about the EEA in an open and competitive environment, a concept referred to as the four freedoms.
EEA Passport Rights	The right under the EU Directives (and as manifested in the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001 (as amended)) for UK regulated insurers to operate freely in other EEA member states.
Effective Date	The date on and from which the Scheme shall become effective.
EIOPA	The European Insurance and Occupational Pensions Authority ("EIOPA") was established in consequence of the reforms to the structure of supervision of the financial sector in the EU, with the goals of: better protecting consumers and rebuilding trust in the financial system; ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions; greater harmonisation and coherent application of rules for financial institutions & markets across the EU; strengthening oversight of cross-border groups; and promoting coordinated EU supervisory responses.
EIOPA Recommendation 5	On the 31 December 2020 EIOPA released 'Recommendations for the insurance sector in light of the United Kingdom withdrawing from the European Union', which stated that regulators should allow the finalization of portfolio transfers from the UK to insurers within the EU, provided that it was initiated prior to the UK's withdrawal from the EU.
EU	European Union.
EU Directives	The legal acts of the EU, applicable to all EU members.
European Commission	The executive branch of the European Union responsible for proposing legislation, enforcing EU laws and directing the union's administrative operations.
Events of Default	These are certain circumstances in which the With-Profits Reinsurance Agreement could be terminated, detailed in paragraphs 5.68 and 6.62.
F&P Regime	The Fitness and Probity Regime ("F&P Regime") implemented by the CBI in Ireland that defines a set of Pre-Approval Controlled Functions for Irish insurers.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FCA Guidance	Guidance published by the FCA in May 2018 relating to Part VII insurance business transfers.
Fitch Ratings	Fitch Ratings Inc.
Floating Charges	The floating charges that PLAE would have over all of the available assets of RLL or PLL.
FOS	Set up by the UK Parliament, the Financial Ombudsman Service ("FOS") is the UK's official expert in sorting out problems with financial services.
FRC	The Financial Reporting Council ("FRC") is an independent regulator in the UK that is responsible for regulating auditors, accountants and actuaries, and setting the UK's Corporate Governance and Stewardship Codes.
Freedom of Services	Under EU legislation, subject to obtaining permission, insurance companies are able to provide insurance services to policyholders resident in other EEA states.
FSCS	The Financial Services Compensation Scheme ("FSCS") is the compensation fund of last resort for customers of UK authorised financial services firms.

FSMA	Financial Services and Markets Act 2000, the legislation under which Part VII governs the transfer of (re)insurance business between (re)insurance undertakings.
FSPO	Financial Services and Pension Ombudsman in Ireland, an independent body to resolve disputes between individuals and Irish financial service providers.
FWH Account	The “funds withheld” structure within RLL.
GDPR	The General Data Protection Regime (“GDPR”), the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and repealing Directive 95/46/EC (General Data Protection Regulation) OJ L 119/1, 4.5.2016.
German PLL Transferred Business	The PLL business to be transferred comprising non-profit policies sold in Germany.
German RLL Transferred Business	The RLL business to be transferred comprising non-linked critical illness policies sold in Germany.
HoAF	Head of Actuarial Function.
Icelandic PLL Transferred Business	The PLL business to be transferred comprising non-profit policies sold in Iceland.
IDD	The Insurance Distribution Directive, which has applied in the UK (and in all other EU Member States) with effect from 1 October 2018.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
IGR	The Intra-Group Reinsurance (“IGR”) agreement between RLL and RAL put in place following RGP’s purchase of RLL from Quilter plc.
Independent Actuary	The Independent Actuary prepares the Scheme Report and provides it to the Irish Court in order that it may properly assess the impact of the proposed transfer, including the effect on policyholders of the insurance companies in question. In the case of this Irish Scheme, I have been appointed as the Independent Actuary.
Independent Expert	The Independent Expert prepares the Scheme Report and provides it to the UK Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Expert.
Independent Peer Review	Work Review undertaken by one or more individual(s) who is, or are, not otherwise involved in the work in question and who would have had the appropriate experience and expertise to take responsibility for the work themselves. The Independent Peer Review of this Report was undertaken by an individual within Milliman LLP who was not otherwise involved in this work.
Independent Person	Collectively the Independent Actuary and Independent Expert.
Investment Management Agreement	The agreements between PLL and the investment managers of the assets secured under the WP Fixed Charges.
Ireland	Republic of Ireland.
Irish Court	The High Court in Ireland.
Irish PLL Transferred Business	A subset of the business to be transferred. It consists of all the direct insurance policies in PLL’s third country branch in Ireland.
Irish PLL Transferred Policyholders	The policyholders of the Irish PLL Transferred Business.
Irish Revenue	The body responsible for, amongst other things, the taxation regime in Ireland.

The Irish Scheme	In the context of this Report, the proposal that the Irish PLL Transferred Business be transferred to PLAE under the provisions of Section 13 of the Assurance Companies Act 1909.
Irish Scheme Report	A report on the terms of the Irish Scheme under Section 13 of the Assurance Companies Act 1909, to be prepared by an independent actuary. The Irish Scheme Report is required in order that the Irish Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. This Report is the Irish Scheme Report in respect of the transfer of Irish PLL Transferred Business to PLAE.
Last Liquid Point	This is the point beyond which the risk-free interest rate must be extrapolated.
LIBOR	London Inter-Bank Offered Rate.
Life Companies RAF	The Life Companies Risk Appetite Framework.
Linked Assets	The assets acquired by the Linked Funds.
Linked Funds	Internal linked funds maintained by PLL and RLL for the purposes of calculating benefits payable under its unit-linked policies.
MA	See Matching Adjustment .
Matching Adjustment	If insurers have approval they may apply an adjustment to the risk-free rate used to calculate the BEL under Solvency II. The Matching Adjustment allows firms to take credit for holding less liquid assets used to back their most stable and predictable liabilities.
MCR	Minimum Capital Requirement
Mercer	Mercer Limited
Milliman LLP	Milliman's UK practice, which is a member of Milliman, Inc.
Milliman	see Milliman LLP.
MSA	A Management Services Agreement ("MSA") between two parties setting out the terms of the agreement.
National Treasury Management Agency	The National Treasury Management Agency is an agency which manages the assets and liabilities of the Government of Ireland.
NBB	New Basis Business, a tax regime in Ireland under which there is no tax due on policyholders' share of profits.
New Linked Funds	The new linked funds that will be established by PLAE immediately before the Effective Date to mirror the current Linked Funds of RLL and PLL in respect of the unit-linked Transferred Policies.
Non-BLAGAB	Non-Basic Life Assurance and General Annuity Business, a tax regime in the UK under which no tax is due on policyholder investment returns.
Non-transferring Business	The business of RLL and PLL that is not to be transferred to PLAE under the Schemes.
Non-transferring Policies	The policies of RLL and PLL that are included within the Non-transferring Business.
Non-transferring Policyholders	The policyholders of the Non-transferring Business.
Norwegian Transferred Business	The RLL business to be transferred comprising unit-linked savings and pensions policies sold in Norway.
OBB	Old Basis Business, a tax regime in Ireland whereby policyholders' share of profits are subject to Irish corporation tax.
OMWLA	Old Mutual Wealth Life Assurance Limited.

ORSA	The Own Risk and Solvency Assessment (“ORSA”) is a fundamental set of processes under Solvency II constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	In Solvency II terminology, the amount of capital or excess assets of an insurance company. Own funds are divided into basic own funds and ancillary own funds (e.g. additional premiums from members), which require regulatory approval.
PCFs	Pre-Approval Controlled Functions defined under the F&P Regime in Ireland.
PGH	Phoenix Group Holdings plc.
PGH Capital RAF	The PGH Capital Risk Appetite Framework.
PGMS	Pearl Group Management Services Limited.
PGS	Pearl Group Services Limited.
Phoenix Group	Phoenix Group Holdings plc and its direct and indirect subsidiaries.
PRA Statement of Policy	The Statement of Policy issued by the PRA entitled The Prudential Regulation Authority’s approach to insurance business transfers, issued in April 2015.
PLAE	Phoenix Life Assurance Europe DAC.
PLAE 90% WPF	The PLAE 90% With-Profits Fund.
PLAE Alba WPF	The PLAE Alba With-Profits Fund.
PLAE NPF	The PLAE Non-Profit Fund.
PLAE Capital Management Policy	The capital management policy adopted by PLAE, which sets out the minimum capital requirements that PLL must satisfy relating to the quantity and quality of capital held in excess of the SCR.
PLAE Phoenix WPF	The PLAE Phoenix WPF.
PLAE SPI WPF	The PLAE SPI With-Profits Fund.
PLL	Phoenix Life Limited.
PLL 90% WPF	The PLL 90% With-Profits Fund.
PLL Alba WPF	The PLL Alba With-Profits Fund.
PLL Capital Management Policy	The capital management policy adopted by PLL, which sets out the minimum capital requirements that PLL must satisfy relating to the quantity and quality of capital held in excess of the SCR.
PLL Floating Charges	The floating charges that PLAE would have over all of the available assets of PLL.
PLL Linked Assets	The assets acquired by the PLL Linked Funds.
PLL Linked Funds	Internal linked funds maintained by PLL for the purposes of calculating benefits payable under its unit-linked policies.
PLL New Linked Funds	The new linked funds that will be established by PLAE immediately before the Effective Date to mirror the current Linked Funds of PLL in respect of the unit-linked PLL Transferred Policies.
PLL Non-transferring Business	The business of PLL that is not to be transferred to PLAE under the Schemes.
PLL Non-transferring Policies	The policies of PLL that are included within the PLL Non-transferring Business.
PLL Non-transferring Policyholders	The policyholders of the PLL Non-transferring Business.
PLL NPF	The PLL Non-Profit Fund.
PLL Phoenix WPF	The PLL Phoenix WPF.
PLL SPI WPF	The PLL SPI With-Profits Fund.

PLL Transferred Business	The second tranche of business (see paragraph 1.10) to be transferred 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, Iceland or Germany.
PLL Transferred Policyholders	The policyholders of the PLL Transferred Business.
PLL Unit-Linked Reinsurance Agreement	The unit-linked reinsurance agreement to be entered into between PLL and PLAE to reinsure the investment element of the unit-linked PLL Transferred Business enabling these policyholders to continue to have access to the Linked Funds of PLL.
PLL WPFs	The with-profits funds of PLL.
Post-IGR BEL	The BEL calculated allowing for the IGR agreement i.e. net of the IGR.
PRA	The Prudential Regulation Authority (“PRA”) is part of the Bank of England and carries out the prudential supervision of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
PRISM	The Probability Risk and Impact System in Ireland, under which the most significant firms receive a high level of supervision and those firms that have the lowest potential adverse impact are supervised reactively.
Prudential	Prudential Assurance Company Limited.
Q&A	Questions & Answer.
QIS	Quantitative Impact Study launched by the PRA to review the application of Solvency II in the UK.
RAL	ReAssure Limited.
RAL NPF	RAL Non-Profit Fund.
ReAssure Group	RGP and its direct and indirect subsidiaries collectively.
Report	References to the “Report” refer to this report.
Residual Policy	A contract of insurance (if any) written or assumed by RLL or PLL under which any liability remains unsatisfied or outstanding as at the Effective Date and which would have formed part of the Transferred Business but which, for any reason, is not transferred by order of the UK Court pursuant to Part VII of FSMA on the Effective Date.
RGP	ReAssure Group Plc.
Risk Management Framework	The Risk Management Framework encompasses the processes, controls and measures in place to ensure risks are being identified, quantified and mitigated properly.
Risk margin	Under Solvency II, the risk margin is an adjustment designed to bring the total technical provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm’s length transaction.
RLL	ReAssure Life Limited.
RLL Floating Charges	The floating charges that PLAE would have over all of the available assets of RLL.
RLL Linked Assets	The assets acquired by the RLL Linked Funds.
RLL Linked Funds	Internal linked funds maintained by RLL for the purposes of calculating benefits payable under its unit-linked policies.
RLL New Linked Funds	The new linked funds that will be established by PLAE immediately before the Effective Date to mirror the current Linked Funds of RLL in respect of the unit-linked RLL Transferred Policies.
RLL Non-transferring Business	The business of RLL that is not to be transferred to PLAE under the UK Scheme.

RLL Non-transferring Policies	The policies of RLL that are included within the RLL Non-transferring Business.
RLL Non-transferring Policyholders	The policyholders of the RLL Non-transferring Business.
RLL Transferred Business	The first tranche of business (see paragraph 1.10) to be transferred that was underwritten by RLL for policyholders resident in Germany, Norway or Sweden. This comprises the German RLL Transferred Business, the Norwegian Transferred Business, and the Swedish Transferred Business.
RLL Transferred Policies	The policies of the RLL Transferred Business.
RLL Transferred Policyholders	The policyholders of the RLL Transferred Business.
RLL Unit-Linked Reinsurance Agreement	The unit-linked reinsurance agreement to be entered into between PLL and PLAE to reinsure the investment element of the unit-linked PLL Transferred Business enabling these policyholders to continue to have access to the Linked Funds of PLL.
Rothesay	Rothesay Life Limited.
RPPD	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers, a guidance document published by the FCA in January 2018.
RUKSL	ReAssure UK Services Limited.
Sanction Hearing	A hearing at which the UK Court or Irish Court hears the application to sanction a proposed transfer of insurance business.
Scheme documents	The documents that set out the terms of the proposed transfer, namely the UK Scheme and Irish Scheme.
Schemes	Together, the UK Scheme and Irish Scheme.
Scheme Report	The collective term for the UK Scheme Report and the Irish Scheme Report.
SCR	The Solvency Capital Requirement (“SCR”) under Solvency II is the amount of capital required to ensure continued solvency over a one-year trading timeframe with a likelihood of 99.5%.
SCR Ratio	The ratio of Solvency II Own Funds to SCR.
Skandia	Skandia Life Assurance Company Limited.
Skandia Germany	Skandia Versicherung Management & Service GmbH.
Skandia Sweden	RLL’s parent company in Sweden during the period in which RLL offered unit-linked savings, investment and protection products in Sweden pursuant to an arrangement with Skandia Sweden, prior to being approved to carry on business in Sweden on a Freedom of Services basis.
SLAESL	Standard Life Assets & Employee Services Limited.
SLAESL (Irish branch)	A service company branch operated in Ireland by SLAESL.
SM&CR	The Senior Managers and Certification Regime (“SM&CR”) is the PRA and FCA’s governance regime for UK insurers, which became effective on 10 December 2018.
SMF	The Senior Management Functions (“SMF”) are the set of roles required within UK insurers as prescribed in the SM&CR.
Solvency II	<p>The system for establishing (among other things) minimum capital requirements for EU (re)insurers under the Solvency II Directive 2009/138/EC.</p> <p>As part of the UK’s preparations to leave the EU, the Solvency II regime was brought into UK law, and therefore, Solvency II continues to be the applicable regulatory regime for insurers in the UK.</p> <p>The use of the term “Solvency II” in this report refers to the Solvency II regulation as it applies in the UK or Ireland, as appropriate to the context in which it is used.</p>

Solvency II Directive	The Solvency II Directive 2009/138/EC.
SONIA	Sterling Overnight Index Average.
Standard Formula	A method for calculating the SCR under Solvency II, as prescribed by EIOPA.
SUP18	Section 18 of the FCA Supervision Manual.
Swedish Linked Funds	The Swedish Transferred Policies have recently been successfully migrated from existing RLL Linked Funds into separate Swedish Linked Funds
Swedish Transferred Business	The RLL business to be transferred comprising unit-linked investment bonds, and unit-linked protection and savings products sold in Sweden.
Swedish Transferred Policies	Unit-linked investment bonds, unit-linked protection, and savings policies comprising the Swedish Transferred Business.
Swedish Transferred Policyholders	Policyholders of Swedish Transferred Policies.
Summary Report	The summary of this Report, prepared specifically to be included in a document that also summarises the Scheme and which will be made available to policyholders of the Companies and to others who might be affected by the Scheme.
Supplementary Report	A report I will prepare in advance of the UK Sanction Hearing to sanction the Scheme covering any relevant matters that might have arisen since the date of this Report.
TCF	The TCF (“treating customers fairly”) principles aim to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to: help customers fully understand the features, benefits, risks and costs of the financial products they buy; and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.
Technical provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk (see Appendix F for further details).
TMTP	Transitional measures on technical provisions (“TMTP”) allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is PLAE.
Transferors	The entities from which business is being transferred – in the case of the Scheme, this is RLL and PLL.
Transferred Business	The business that is to be transferred to PLAE under the Scheme, comprising the RLL Transferred Business and the PLL Transferred Business.
Transferred Policies	The policies of RLL and PLL that are included within the Transferred Business.
Transferred Policyholders	The policyholders of the Transferred Business.
UK	United Kingdom.
The UK Court	The High Court of Justice of England and Wales.
The UK Scheme	In the context of this Report, the proposal that the Transferred Business be transferred to PLAE under the provisions of Part VII of FSMA.
UK Scheme Report	A report on the terms of the UK Scheme under Part VII of FSMA, to be prepared by an independent expert. The UK Scheme Report is required in order that the UK Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question.

This Report is the UK Scheme Report in respect of the transfer of the Transferred Business to PLAE.

Unit-Linked Reinsurance Agreements	Together, the RLL Unit-Linked Reinsurance Agreement and PLL Unit-Linked Reinsurance Agreement.
Unum	Unum Limited
VA	See Volatility Adjustment.
Volatility Adjustment	If insurers have approval they may apply an adjustment to the risk-free rate used to calculate the BEL under Solvency II. The Volatility Adjustment may be used for assets that are not eligible for use of the MA. The Volatility Adjustment is an increase to the discount rate that aims to prevent the forced sale of assets in the event of extreme bond spread movements, and is published by EIOPA.
Vesta	Vesta LIV AS.
With-Profits Reinsurance Agreements	The with-profits reinsurance agreements to be entered into between PLL and PLAE to enable the transferred with-profits Irish PLL Transferred Policyholders to continue to participate in the same with-profits after the Schemes as they did before. There is a with-profits reinsurance agreement in relation to each of the relevant with-profits funds.
Withdrawal Act	The European Union (Withdrawal Agreement) Act 2020
Work Review	Process by which a piece of actuarial work is considered by at least one other individual for the purpose of providing assurance as to the quality of the work in question.
WP Fixed Charges	The fixed charges that PLAE would have over assets held by PLL in separate custodian accounts in respect of three of the PLL WPFs: the SPI WPF, Alba WPF and Phoenix WPF.
WPA	With-Profits Actuary. A With-Profits Actuary must be appointed under SM&CR if a firm has with-profits business.
WPC	Under COBS 20, firms in the UK with with-profits business must appoint a With-Profits Committee to advise and provide recommendations to the firm's governing body on the management of the with-profits business.
WPOP	With-Profits Operating Principles, as required by the Domestic Actuarial Regime in Ireland.

Appendix M Key Sources of Data

M.1 In writing this Report, I relied upon the accuracy of certain documents provided by RLL, PLL and PLAE. These included, but were not limited to, the following:

Document	Date of document
The 2021 SFCR of Phoenix Group (downloaded from the Phoenix Group's website)	31/12/2021
The 2020 Phoenix Group ORSA	June 2020
The 2019 and Q1 2020 ReAssure Group ORSA	June 2020
The PLAE Authorisation Application to the CBI and some appendices to the application	02/08/2021
The UK Scheme Document	June 2022
The Irish Scheme Document	June 2022
With-Profits Reinsurance Agreements	June 2022
Unit-Linked Reinsurance Agreements	June 2022
Deed of Floating Charge	June 2022
Deed of Fixed Charge	June 2022
The RLL Witness Statement	June 2022
The PLL Grounding Affidavit	June 2022
The PLL Witness Statement	June 2022
The PLAE Witness Statement	June 2022
The report of the RLL Chief Actuary on the proposed transfer	June 2022
The report of the PLL Chief Actuary on the proposed transfer	June 2022
The report of the PLL With-Profits Actuary on the proposed transfer	May 2022
The report of the PLAE Head of Actuarial Function on the proposed transfer	May 2022
Responses received to Independent Expert Query Log	N/A
Policyholder communications	N/A
Various additional underlying documentation	N/A

M.2 Information relating to the items listed above was also gathered during discussions with staff of RLL, PLL and PLAE.

M.3 I confirm that I did not identify any material issues with the information provided by RLL, PLL and PLAE. I am unaware of any issue that might cause me to doubt the accuracy of the data and other information provided. All information that I have requested in relation to my review has been provided.