HYMANS ROBERTSON

Scottish Equitable plc and The Royal London Mutual Insurance Society Limited

An Addendum to the Supplementary Report by the Independent Expert on the proposed transfer of certain business from Scottish Equitable plc to The Royal London Mutual Insurance Society Limited by means of a Scheme under Part VII of the Financial Services and Markets Act 2000

1. I have been appointed to act as Independent Expert on the proposed transfer of individual protection business from SE plc to Royal London. In connection with this transfer, I produced a Scheme Report dated 22 February 2024 and a Supplementary Report dated 31 May 2024.

2. I have prepared this Addendum to the Supplementary Report to update the Court on matters that have arisen subsequent to my Supplementary Report. This Addendum should be read in conjunction with the Scheme Report and Supplementary Report. The reliances and limitations set out in the Scheme Report apply equally to this Addendum. The terms and abbreviations used in the Scheme Report and Supplementary Report are also used in this Addendum without further definition. A term in this Addendum that is underlined indicates that it is explained in the glossary of the Scheme Report or Supplementary Report.

Policyholder Communications

3. In the Supplementary Report, I considered policyholder correspondence and in particular objections received in relation to the Scheme up until 22 May 2024, at which date SE plc had received 47 objections from holders of Transferring Policies. As at 5pm on 12 June 2024, SE plc has received four further objections from holders of Transferring Policies, which I comment on below. No objections have been received from holders of Remaining Policies or Existing Policies.

4. One holder of a Transferring Policy stated that their policy was "taken out with Aegon" and should not be transferred to suit current business strategy for the purpose of benefiting the firm. As discussed in paragraph 3.17 of the Supplementary Report, it is entirely valid for insurance business transfers to be carried out for commercial reasons, there being many historical examples of this, and the Court will only approve such transfers if it is satisfied that there is no material adverse effect on policyholders. This objection therefore does not give me cause to change my conclusions in respect of the Scheme.

5. Two further holders of Transferring Policies objected to the Scheme. Their objections covered the same content and, insofar as they appeared to me to relate to the Scheme, the policyholders stated the following (paraphrased slightly for ease of my drafting) as reasons for their objections or conditions they wanted to be satisfied by the Scheme:

   (i) that SE plc should end their relationship with "the bank" in connection with their policy,

   (ii) that SE plc must inform the "new trustee" that the policyholder is the "sole beneficiary and settlor" after the transfer, and

   (iii) that they did not wish their policies to be securitised or their property to be handed over to the Ministry of Defence or otherwise invested in ways (e.g. arms or wars) that would be detrimental to mankind.

6. In relation to item (i), I have taken the policyholders' references to "the bank" to mean Barclays Bank PLC, with whom SE plc has a relationship in the context of the Barclays Bank Account. As policy terms and conditions require premiums to be paid by direct debit, and similarly for benefits to be paid to a UK bank account, SE plc manages cash flows relating to its individual protection business using the Barclays Bank Account, as discussed in paragraph 7.51 of the Scheme Report. As also discussed there, the Barclays Bank Account will be novated to Royal London with effect from the Transfer Date, when SE plc's relationship with Barclays in respect of the Transferring Policies will cease. For the avoidance of doubt, Royal London will effectively continue SE plc's current relationship with "the bank", which I consider to be appropriate in the context of properly administering the Transferring Policies after the Transfer Date.

7. In relation to item (ii), SE plc has advised me that these policies are not written in trust, but rather that each policyholder is the relevant life assured. As none of the policy details or terms and conditions will change as a result of the Scheme, other than references to SE plc being read as references to Royal London, I am satisfied that the Scheme will not affect these policyholders' entitlements to receive benefits from their policies.

8. In relation to item (iii), the Transferring Policies have not been securitised by SE plc and Royal London has advised me that it currently has no plans to do so following the implementation of the Scheme. Assets backing policy liabilities will remain the property of Royal London, and they will be invested in a manner determined by Royal London's Board, in compliance with its various investment policies including those relating to responsible investment, climate risk, and controversial weapons.

9. Having considered the points covered in items (i) to (iii), I am content that these objections do not give me cause to change my conclusions in respect of the Scheme.

10. Finally, one holder of a Transferring Policy objected to the Scheme on the basis that they are unable to opt out of the transfer and have their policy transferred to their bank instead. The policyholder also expressed a concern that the conditions of their policy might change as a result of the transfer. As discussed at paragraph 3.27 of the Supplementary Report, the proposed transfer is being carried out in accordance with Part VII of FSMA which, subject to being sanctioned by an appropriate court, permits such a transfer without the consent of each transferring policyholder and without providing for individual opt out. As reiterated at paragraph 3.4 of the Supplementary Report, the terms and conditions of the Transferring Policies will not change as a result of the Scheme, other than changing references from SE plc to Royal London. The policyholder's objections therefore do not give me cause to change my conclusions in respect of the Scheme.

11. It therefore remains the case that none of the objections received from policyholders cause me to change my conclusions as set out in the Scheme Report.

Solvency UK developments and impact on the parties

12. In September 2023, the PRA published Consultation Paper CP 19/23 – Review of Solvency II: Reform of the Matching Adjustment, outlining a number of key proposed reforms relating to the MA. I discussed this in paragraphs 12.11 to 12.14 of my Scheme Report. On 6 June 2024, the PRA published the corresponding Policy Statement PS 10/24 – Review of Solvency II: Reform of the Matching Adjustment, providing both the PRA's responses to industry feedback on CP 19/23 and final policy in relation to the MA.

13. PS 10/24 is extensive, and it will take a period of time for the UK insurance industry to fully digest and implement the finalised policy. However, the thrust and intent of the final policy is unchanged from the consultation, with the PRA having responded to industry feedback in a way that I expect will generally be received positively.

14. Based on a high-level review, I consider PS 10/24 to contain nothing of concern in relation to the Scheme. The parties are still assessing its impacts, but both have confirmed to me that their initial reactions are aligned with mine, and that changes to the MA are still expected to have an immaterial impact on their financial position. Finally, I note that the PRA states in its second report to the Court in connection with the Scheme that any applicable changes from Solvency UK reforms will be considered as part of its ongoing supervision.

15. The publication of PS 10/24 therefore does not cause me to change my conclusions as set out in the Scheme Report.

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Independent Expert
For and on behalf of Hymans Robertson LLP
12 June 2024