



Supplementary Report by the Chief Actuary of Scottish Equitable plc

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

Author: Leigh-Ann Plenderleith

Date issued: May 2024

Table of Contents

1. Introduction	3
2. Likely Impact of the Scheme on the Financial Position of SE plc	5
3. Communication to Transferring Policyholders & Other Relevant Parties	7
4. Other Relevant Developments	13
5. Conclusions	17

1. Introduction

Background

- 1.1. In my capacity as Chief Actuary of Scottish Equitable plc ("SE plc") I prepared a report dated February 2024 (the "Main Report"), to review the likely impact of the proposed Transfer of the individual protection business of SE plc to The Royal London Mutual Insurance Society Limited ("Royal London") under Part VII of the Financial Services and Markets Act 2000 (the "Scheme").
- 1.2. In the Main Report I considered the impact on the benefit security, benefit expectations, servicing, governance, and communications for both those policyholders in scope of the proposed Transfer ("the Transferring Policyholders") and those policyholders remaining in SE plc post-Transfer ("the Remaining Policyholders").
- 1.3. The purpose of this report ("the "Supplementary Report") is to consider whether the conclusions in the Main Report remain appropriate in light of material developments since the date of that report. As such, this Supplementary Report should be read in conjunction with the Main Report.
- 1.4. This Report should also be read in conjunction with the main and supplementary reports of Stephen Makin, the Independent Expert for the Scheme, as well as the main and supplementary reports of each of the With-Profits Actuary of SE plc, the Chief Actuary of Royal London, and the With-Profits Actuary of Royal London.
- 1.5. The financial analysis supporting the conclusions set out in this report is based on data available as at 31 December 2023, which I consider to be a suitable date for the purposes of this report.

Disclosures

- 1.6. I am a Fellow of the Institute & Faculty of Actuaries, having qualified in 2002, and hold a Chief Actuary (Life) Practising Certificate issued by the Institute & Faculty of Actuaries. I have over 23 years of experience working in the UK life assurance industry, including 4 years working for SE plc in my current role as Chief Actuary and Financial Strategy Director.
- 1.7. I am a permanent employee of AUK, parent company of SE plc.
- 1.8. I hold a group personal pension policy with SE plc, in keeping with the normal contractual pensions arrangements available to all AUK employees. I do not hold any shares in Aegon or have any other financial interest in Royal London.
- 1.9. My role in AUK is unaffected by the proposed Transfer and I consider myself to be free from any conflict that would prevent me from fairly assessing the likely impact of the Scheme on policyholder benefit expectations, and on the security of those benefits.

Other Advice and Conclusions

- 1.10. I have read a draft of the supplementary report prepared by Mr Stephen Makin, the Independent Expert appointed to consider and opine on the Scheme. I have considered his comments on the likely effect of the Scheme on the various policyholders and his conclusions.
- 1.11. I have read a draft of the supplementary report prepared by Mr Alan McBride, the With-Profits Actuary of SE plc. I have considered his comments on the likely effect of the Scheme on the With-Profits policyholders of SE plc and his conclusions.
- 1.12. I have read a draft of the supplementary report prepared by Mr Anthony Lee, the Chief Actuary of Royal London. I have considered his comments on the likely effect of the Scheme on both the Transferring Policyholders and the existing policyholders of Royal London, and his conclusions.
- 1.13. I have read a draft of the supplementary report prepared by Mr Brian Peters, the With-Profits Actuary of Royal London. I have considered his comments on the likely effect of the Scheme on the With-Profits policyholders of Royal London and his conclusions.

Compliance with Technical Actuarial Standards (TAS)

- 1.14. This report constitutes technical actuarial work concerning the proposed Part VII transfer. It is therefore subject to both TAS-100 (General Actuarial Standards) and TAS-200 (Insurance). This report complies with the requirements of TAS-100 and TAS-200.

Review of Actuarial Work

- 1.15. This report has been prepared by Leigh-Ann Plenderleith and has been subject to independent peer review by an appropriately experienced actuary employed by AUK, in accordance with the requirements of Actuarial Profession Standard APS-X2.

Definitions and Abbreviations

- 1.16. Defined terms used, but not defined, in this report have the same meaning as those used in the Scheme document and the report of the Independent Expert unless otherwise highlighted.

Structure of the Report

- 1.17. The remainder of this Report is structured as follows:
- Section 2 sets out the likely effect of the Scheme on the financial position of SE plc as at end December 2023;
 - Section 3 considers key points relating to the communication of the proposed Transfer;
 - Section 4 considers other developments since the date of the Main Report;
 - Section 5 sets out my conclusions.

2. Likely Impact of the Scheme on the Financial Position of SE plc

Solvency II position of SE plc pre and post-Transfer

- 2.1. In order to assess whether or not the security of policyholder benefits is materially affected by the Scheme, it is useful to compare the solvency position of SE plc before and after the proposed Transfer.
- 2.2. The Solvency II surplus provides a useful indicator of the immediate impact of the Transfer on the level of security provided to policyholders.
- 2.3. The impact of the Transfer on the solvency position of SE plc is shown in the tables below. In the Main Report, I showed the impact as at 30 June 2023. Below I also show the updated impact as at 31 December 2023 for comparison.
- 2.4. The impact of the Transfer on the solvency position of SE plc in both tables below includes the impact of implementing the temporary reinsurance agreement with Royal London and the release of capital anticipated on completion of the proposed Transfer, as referred to in paragraph 2.7 below.
- 2.5. Financial Impact at end June 2023:

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

- 2.6. Financial Impact at end December 2023:

£m	SE plc pre-Transfer	SE plc post-Transfer	Impact
Own Funds	2,261	2,220	(42)
SCR	1,224	1,189	(35)
Surplus / (Deficit)	1,038	1,031	(6)
Solvency Ratio	185%	187%	2%

- 2.7. At the end of June 2023, SE plc held approximately £6m of pre-tax, pre-diversification capital in respect of the Transferring Policies, including around £3m of counterparty default risk capital. At end December 2023, the capital held had reduced to £4m pre-tax, pre-diversification. This capital will be released in full on completion of the Transfer. The impacts set out in both tables above include the release of this residual capital and the release of capital following implementation of the temporary reinsurance agreement, both post-tax, post-diversification.
- 2.8. The updated analysis at end December 2023 does not change the conclusions set out in the Main Report. In particular, the proposed Transfer does not result in a material movement in the overall solvency position of SE plc at end December 2023, with a small reduction in Solvency II Surplus of c£6m, and a small increase in the Solvency Ratio of around 2%. The increase in Solvency Ratio reflects the relative size of the movements in Own Funds (a reduction of c£42m) and SCR (a reduction of £35m).

- 2.9. The Solvency Ratio remains in the Target Zone and above the Operating Level post-Transfer.
- 2.10. I am not aware of any events since 31 December 2023 to the date of this report that would materially alter the assessment of the impact of the proposed Transfer based on the Solvency position of SE plc as at 31 December 2023. I will continue to monitor the solvency position and risk profile of SE plc during the period up to the Sanction Hearing on 14 June 2024.
- 2.11. I have been provided with the updated impact of the proposed Transfer on Royal London at 31 December 2023, and note that it does not have a material impact on the solvency ratio of Royal London at that date. The solvency ratio of Royal London will remain above its target level post-Transfer.

Conclusions

- 2.12. Having considered the issues set out above, I am satisfied that the conclusions of the Main Report remain appropriate. In particular, I am satisfied that the proposed Transfer will have no material adverse effect on:
- The benefit security of the Transferring Policyholders; or
 - The benefit security of the Remaining Policyholders.

3. Communication to Transferring Policyholders & Other Relevant Parties

- 3.1. In this section I cover the key points relating to the communication of the proposed Transfer to Transferring Policyholders and to other interested parties. The communication exercise has been carried out in accordance with the Court Order issued subsequent to the Directions Hearing on 28 February 2024, which included a waiver from the requirement to mail non-transferring Policyholders.

Overview

- 3.2. Information and key documents relating to the proposed Transfer were published on the websites of Aegon UK and Royal London shortly after the Directions Hearing.
- 3.3. The Legal Notice regarding the proposed Transfer was published on 8 March 2024 in each of 3 national newspapers (the Times, The Daily Mail and The Sun), the international edition of The Financial Times, and the London, Edinburgh and Belfast Gazettes.
- 3.4. The mailing of the Transfer Guide was completed over the period of the agreed mailing window of 4 March 2024 to 26 April 2024, with 389,607 packs issued to Transferring Policyholders. The final mailing batch was processed on 19th April, meaning Transferring Policyholders had at least 7 weeks from the date of receipt of the mailing to the date of the Sanction Hearing to consider the content of the Transfer Mailing. Most Transferring Policyholders had a longer period of time to do so.
- 3.5. Both SE plc and Royal London put in place ring-fenced resource to deal exclusively with all inbound enquiries received in response to the policyholder mailing during the period from the start of the mailing window until the effective date of the proposed Transfer.
- 3.6. Regular management information tracking the progress of the mailing itself, and all policyholder responses, has been provided to the FCA, the PRA, and the Independent Expert. This management information included details of all policyholder objections to the proposed Transfer.
- 3.7. Formal notification of the proposed Transfer was issued on 5 April 2024 to each of the reinsurers of SE plc whose contracts of reinsurance are in scope of the proposed Transfer. Acknowledgement of receipt of the notification has been received from each reinsurer, with none expressing any concern or objecting to the proposed Transfer.
- 3.8. SE plc has also issued a letter to each of the Independent Financial Advisers who provided advice to Transferring Policyholders to inform them of the proposed Transfer. These letters confirm the transfer of ongoing obligations relating to the payment of commission and recovery of commission clawback from Scottish Equitable plc to Royal London.

Policyholder Responses to Mailing

- 3.9. As of 22 May 2024 a total of 13,403 policyholder responses have been received by SE plc as a result of the Policyholder Mailing, representing a response rate of approximately 3.4%. The vast majority of policyholder responses were general enquiries about individual policies, or general enquiries about the proposed Transfer.

- 3.10. The overall level of inbound queries has largely been in line with forecasts. However, there were some fluctuations in the volume of queries over the period, and I note some challenges relating to call answer times and abandonment rates in the early part of the mailing window. In response, SE plc took action to improve service levels, in particular ensuring additional resource was available to support the call handling team. The action was effective and there has been significant improvement in service levels as a result.
- 3.11. Given the improvement in service levels, and the period of time available to policyholders who experienced service issues during the early part of the mailing window to re-contact the call centre, as well as the other communication channels available, I am satisfied that the servicing issues described above have not been a barrier to Transferring Policyholders being able to ask questions or raise concerns or objections regarding the proposed Transfer.
- 3.12. As of 22 May 2024, a total of 47 objections to the proposed Transfer have been raised, representing approximately 0.01% of all Transferring Policyholders. A full record of all correspondence relating to these objections is set out in the SE plc Communications Witness Statement for the Sanction Hearing. A summary of the objections is set out below, grouped by common theme. Where a particular objection references more than one theme, it is recorded multiple times in the analysis below. Any objections received after 22 May 2024 will be reported separately to the Court at the Sanction Hearing on 14 June 2024.

- Benefit Expectations and Benefit Security (referenced in 11 of 47 objections)

Six objections were raised by Transferring Policyholders reflecting concerns that the proposed Transfer would have an adverse impact on the level of benefits payable under their policy. As set out in paragraphs 5.8 to 5.12 of the Main Report, the proposed Transfer will not result in any change to the terms and conditions of the Transferring Policies. There will be no changes to the contractual premiums and benefits payable under those policies, or to the application of discretion in the management of the Transferring Policies (e.g. in relation to claims underwriting standards, or the management of policy options). A response was sent to each policyholder to this effect.

Three objections were raised by existing protection policyholders of Royal London, reflecting concerns that the benefits payable to them in the event of claim could be adversely affected as a result of them holding multiple protection policies with Royal London post-Transfer, rather than spread across different insurers. A response was provided to each these policyholders confirming that the terms and conditions of their policies would remain unchanged post-Transfer, that the benefits payable on any of their policies in the event of a claim would be unchanged, and that any claim under any of their policies would continue to be assessed in the same way as it would have been prior to the proposed Transfer.

One existing pension policyholder of Royal London objected on the grounds that the proposed Transfer could lead to a reduction in the level of protection afforded to them under the Financial Services Compensation Scheme ("FSCS"). A response was sent to the policyholder reassuring them that this was not the case, and that neither eligibility for protection under FSCS nor the level of protection under FSCS was affected by the proposed Transfer. As a contract of insurance, the transferring protection policy will continue to benefit from 100% FSCS protection in the event of claim, with no monetary limit applying. This is covered in paragraph 5.7 of the Main Report and in paragraph 7.57 of the report of the Independent Expert.

One objection was raised by a Transferring Policyholder on the grounds that they wanted to increase their cover level with SE plc but had been advised that this was not possible. Historically, SE plc has facilitated an increase in existing cover levels by issuing a new policy, subject to underwriting. This option was withdrawn in April 2023 following the decision to close to new protection business. Since this time, only those policyholders with a contractual right to increase cover by way of a 'Guaranteed Insurability Option' on their policy have been able to increase their level of cover. Policyholders have otherwise been advised that they can take out cover with an alternative provider (including Royal London). The proposed Transfer has no impact on the ability of individual policyholders to change the level of cover on their existing policy.

None of these objections cause me to reconsider the conclusion set out in the Main Report that the proposed Transfer will not have a material adverse effect on the benefit expectations or benefit security of Transferring Policyholders.

- Service Standards (referenced in 4 of 47 objections)

Four Transferring Policyholders objected to the proposed Transfer on the grounds that they believe service standards may be adversely affected.

Atos currently provides administration services for the Transferring Policies on behalf of SE plc. As set out in paragraph 5.21 of the Main Report, Atos will continue to provide administration services post-Transfer under a new contract with Royal London. The target service levels under this new contract will be equivalent to those under the current agreement with SE plc in all material respects. As discussed in paragraph 5.22 of the Main Report, the target service levels relating to time to answer policyholder calls and the acceptable call abandonment rate will change. However, I do not consider either of these changes to constitute a material adverse effect on Transferring Policyholders. I note that the Independent Expert reaches a similar conclusion in his report.

- Negative Perception or Negative Experience of Royal London (referenced in 20 of 47 objections)

Twelve objections were raised by Transferring Policyholders, reflecting concerns about the transfer given their past experience as a customer of Royal London.

A further eight objections were raised by Transferring Policyholders, reflecting concerns about the transfer based on a negative perception of Royal London formed through reviews they have read of the company, or through word of mouth.

In considering each of these objections, I note that I am unable to comment on the specific issues that Transferring Policyholders may have had with Royal London in past, or on the reviews of Royal London that these policyholders may have read and considered. However, I note that Royal London is the largest mutual life, pensions and investment company in the UK and has significant experience and expertise in managing individual protection business, attracting and retaining approximately 1.1 million protection policyholders. I also note that the number of objections recorded under this theme is low relative to the volume of Notification Packs issued to policyholders.

Overall, I am satisfied that the conclusions set out in the Main Report remain valid, and in particular that I do not expect the proposed Transfer to have a material adverse effect on the benefit expectations, benefits security, or the applicable service standards for Transferring Policyholders. I note that the Independent Expert reaches the same conclusion in his report.

- Strategic Rational and Consequences (referenced in 3 of 47 objections)

One Transferring Policyholder objected to the proposed Transfer, confirming that they have been quite happy with the service they have received from SE plc, asking whether it was really to the company's advantage to simplify its business through the sale of the protection book, and asking whether the proceeds of the sale would be distributed to policyholders. A response was sent to the policyholder explaining the decision to sell the book followed a strategic review of its business, and highlighting the conclusion in the report of the Independent Expert that the Transfer is not expected to result in a material adverse effect on the benefit expectations of transferring policyholders or from the applicable service standards. The response also explained that the business is owned by the shareholders of the ultimate parent company of SE plc, and that there was no direct financial impact on SE plc policyholders as a result of the sale.

One Transferring Policyholder objected to the proposed Transfer on the grounds that, in their view, it was being done solely for the financial gain of SE plc and not for the benefit of policyholders. A response was sent to this policyholder setting out the strategic rationale for the sale, and the conclusion in the report of the Independent Expert that the Transfer is not expected to result in a material adverse effect on the benefit expectations of transferring policyholders, or from the applicable service standards. In considering this objection, I note that Part VII transfers for commercial reasons are perfectly valid, with many historical precedents.

One Transferring Policyholder objected to the proposed Transfer on the grounds that the sale would reduce the number of participants in the UK protection market, and therefore the competitiveness of the market. In considering this objection, I note that the impact of any acquisition process on the competitiveness of the market is a matter for the relevant competition authorities who have not raised any concerns in relation to the proposed Transfer. In any event, SE plc is no longer writing new individual protection business.

- Existing Administration Issues (referenced in 5 of 47 objections)

One Transferring Policy has a current Terminal Illness claim with SE plc which has been refused on the basis that it does not currently meet the qualifying criteria for such claims. The policyholder has objected to the proposed Transfer on the grounds that, in their view, the claim has been refused in order to maximise the value of the book for sale, and they are concerned that the transfer of their policy could negatively affect their claim. A response was sent to the policyholder explaining that there are no changes to the terms and conditions of their policy and, should their claim not be settled prior to the proposed Transfer, it would be assessed in a consistent manner by Royal London following the proposed Transfer. The response sent to the policyholder also confirmed that the proposed Transfer had no bearing on the decision to refuse their claim at this point.

One Transferring Policyholder objected to the Scheme due to SE plc's refusal to remove an occupational loading from their policy following a change to a less hazardous job. SE plc has subsequently confirmed that it was wrong to refuse to remove the loading, and this change to the policy has now been processed. The cause of the policyholder's objection to the Scheme has therefore been resolved, but it remains in the statistics discussed here.

The trustee of a Transferring Policy objected to the proposed Transfer on the grounds that their surname had been spelled incorrectly by SE plc and their concern that if this was not corrected prior to the Transfer taking place, Royal

London might refuse to make the correction afterwards saying it had been SE plc's responsibility to do so. The trustee confirmed that if the misspelling was corrected prior to Transfer they would have no objection to the Transfer proceeding. The misspelling has now been corrected, and confirmation of this has been issued to the trustee.

One Transferring Policyholder objected to the proposed Transfer on the grounds that, in their view, the policy was mis-sold, and a name and address change was not actioned correctly when requested. SE plc's standard complaints process has been applied in this case, and the administration error relating to the change in name and address has been resolved.

One Transferring Policyholder objected to the proposed Transfer, stating that they had been struggling to communicate with SE plc, and indicating they would like to cancel their policy and look for cover elsewhere. The reason for the stated difficulties in communicating is unclear. A response was sent to this policyholder suggesting they may wish to seek financial advice before proceeding with the cancellation and providing a link to the Money Helper website to help with this.

In considering these objections, I am satisfied that they are isolated incidents and are not representative of any systematic issue in relation to the administration of these policies.

- The Part VII Legal Process (referenced in 23 of 47 objections)

Fourteen Transferring Policyholders objected to the proposed Transfer of their policy without their consent, with some noting the lack of an option to opt-out. Responses were sent to each of these policyholders explaining that the proposed Transfer was being carried out in accordance with all applicable laws and regulations, specifically Part VII of the Financial Services and Markets Act 2000 ("FSMA"), which permits an insurance company to transfer all or part of its business to another insurance company without seeking the consent of each transferring policyholder, and confirming that the legal framework does not provide for individual policyholders to opt out of the transfer. Responses also highlighted to these policyholders that the Transfer would only go ahead if approved by the High Court and, that in reaching its decision, the Court would take into consideration the conclusions of the Independent Expert as well as each of the policyholder objections reported to it.

Four Transferring Policyholders objected to the proposed Transfer on the basis that they felt they should have been informed about it at an earlier stage. These policyholders were provided with responses reiterating the legal process that is being followed and confirming that their objections would be recorded and reported to the Court for consideration in reaching its decision on whether to approve the proposed Transfer. In considering these objections, I note that the policyholder mailing was completed over the agreed window, as set out in paragraph 3.7 above, and that appropriate notice was therefore provided to all Transferring Policyholders in accordance with the relevant regulatory guidelines.

One holder of a Transferring Policy objected to the proposed Transfer stating that they believed the Part VII transfer hearing should take place in Scotland. A response was provided to the policyholder explaining that under FSMA, Part VII transfer hearings may be held in either the High Court of England and Wales or the Court of Session in Scotland and that the parties had elected for the former option for this particular transfer.

One Transferring Policyholder highlighted in their objection to the proposed Transfer the difference between Scottish law and the law of England and Wales. A response was provided to the policyholder confirming that their policy is governed by Scottish law and that this would continue to be the case following the proposed Transfer.

One Transferring Policyholder objected to the proposed Transfer reflecting their view that the planned changes in service standards should have been given more prominence in the Notification Pack. In considering this objection, I note that the Notification Pack was subject to extensive review, including by the Independent Expert, the regulators, and the SE plc Customer Panel. I am therefore satisfied that this issue has been given sufficient prominence in policyholder communications.

One Transferring Policyholder objected to the proposed Transfer on the grounds that their policy is due to expire in September 2024, very shortly after the planned effective date of 1 July 2024, and that they therefore saw little point in it being transferred for such a short period. A response was sent to this policyholder explaining that the Transfer would be fully effective from 1 July 2024, reassuring the policyholder that there would be no changes to the benefits under their policy, and that no action was required on their part in relation to the proposed Transfer.

One Transferring Policyholder objected to the proposed Transfer on the grounds that they would incur additional legal costs in updating their will to reflect the changes resulting from the Transfer. A response was sent to the policyholder explaining that their policy details would not change if and when the Transfer goes ahead, and that it should not therefore be necessary to make any changes to their will as any references to SE plc should be read as Royal London as a result of the Court order. It was suggested to the policyholder that they may wish to store the Transfer paperwork with their will for ease of reference.

- No Reason Specified (2 of 47 objections)

Two Transferring Policyholders objected to the proposed Transfer without specifying a reason for their objection, despite attempts to seek further clarification regarding their concerns.

- 3.13. I have considered each of the objections raised by Transferring Policyholders as set out in paragraph 3.11 above, as well as the responses provided to them. I am satisfied that none of the objections cause me to reconsider the overall conclusions set out in the Main Report.
- 3.14. As of 13 May 2024, a total of 5 expressions of dissatisfaction in relation to the proposed Transfer have been received from Transferring Policyholders in addition to the above objections. I have considered each of these, and the responses provided to them. I am satisfied that none of the expressions of dissatisfaction cause me to reconsider the overall conclusions set out in the Main Report.
- 3.15. As of 13 May 2024, there have been no objections to the proposed Transfer from any of the Remaining Policyholders, or from any other interested party.

Additional Gone-Away Policyholders

- 3.16. As of 13 May 2024, SE plc has received 1,008 returned mailings, representing 0.26% of the mailings issued to Transferring Policyholders. All returned mailings will be subject to SE plc's business-as-usual tracing process. The Transfer Guide will be re-issued to all those Transferring Policyholders successfully traced in advance of the communications Cut-Off Date, being 7 June 2024.

4. Other Relevant Developments

- 4.1. In this section I cover the other relevant developments since the date of the Main Report.

UK Solvency II Reform

- 4.2. The Solvency Ratio of SE plc has increased from the date of the Main Report. The primary driver of this increase is the UK Solvency II reforms introduced at end December 2023, and the resulting decrease in the value of the Risk Margin.
- 4.3. In February 2024, the PRA published Policy Statements PS2/24 and PS3/24 setting out more detail on further proposed UK Solvency II reform.
- 4.4. The PRA published Consultation Paper CP5/24 on 22 April 2024, which is the final PRA consultation needed to implement the conclusion of the Solvency II Review initiated by the government in 2020. The CP largely involves the restatement, from assimilated law into the PRA Rulebook and other policy material, of those parts of the Solvency II regime that have not already been subject to consultation as part of the Solvency II Review. In addition, CP5/24 proposes to reform certain areas of regulation as part of their restatement, including reform to rules relating to the Loss Absorbing Capacity of Deferred Taxes (LACDT) for firms for which LACDT is not within the scope of the internal model.
- 4.5. I do not expect a material impact on the solvency position of SE plc, or on the analysis and conclusions set out in this report, from either of the two Policy Statements, or the Consultation Paper noted above.

Outsourcing of Administration Arrangements

- 4.6. Administration services on the Transferring Policies are currently provided by Atos BPS Ltd ("Atos") under an outsourced service agreement with SE plc. Royal London have put in place a new contract with Atos which will take effect from the date of the Transfer, under which Atos will continue to provide administration services on the Transferring Policies.
- 4.7. As set out in the Main Report, Atos SE, the parent company of Atos, announced on 5 February 2024 that it was in formal discussions with its lending banks with a view to agreeing a plan to refinance its financial debts. In the event that the financial position of Atos SE deteriorates in such a way as to impact the ability of Atos to administer and service the Transferring Policies, either before or after the proposed Transfer, SE plc and Royal London each have contingency plans in place to ensure continuity of servicing is maintained. I therefore concluded that I did not expect there to be a material adverse effect on servicing standards for the Transferring Policies as a result of the proposed Transfer, provided that the contingency plans of SE plc and Royal London are appropriate.
- 4.8. Since the date of the Main Report, the financial position of Atos SE and Atos BPS Limited has continued to be closely monitored by both SE plc and Royal London. Discussions between Atos SE and its lending banks are ongoing. On 9 April, Atos SE announced that it had reached an agreement in principle with its lenders to provide interim financing sufficient to meet outgoings through to July 2024 at which point a long-term refinancing plan is expected to be agreed. In addition, on 5 April, Atos SE made a £50m capital injection to Atos BPS Limited which is expected to ensure its operations remain funded until well beyond the Effective Date of the proposed Transfer. As at the date of this Supplementary Report, I am not aware of any reports or announcements suggesting that the financial position of Atos SE and its subsidiaries has deteriorated to such an extent as to impact the ability of Atos BPS Limited to administer and service the Transferring Policies.
- 4.9. The contingency plans of both SE plc and Royal London have been further reviewed since the date of the Main Report. This review has not identified any material deficiency in either plan.
- 4.10. On this basis, I remain satisfied that there will not be any material adverse effect on the servicing standards of the Transferring Policies as a result of the proposed Transfer. The situation will continue to be closely monitored in the lead up to the Sanction Hearing and the effective date of the Transfer.

Administration of Group Protection Claims in Payment

- 4.11. As set out in the Main Report, termination of the Atos outsourcing agreement for the Transferring Policies means an alternative administration solution is required for the group protection claims-in-payment policies which are administered under that agreement and not in scope of the proposed Transfer.

4.12. The terms of this new administration arrangement are now agreed between Atos and AUK, and the contract was signed by both parties on 15 May 2024. The new agreement does not result in any changes to the relevant service levels for the group protection policyholders. Following the proposed Transfer, the group protection policies will come into scope of the contingency plan SE plc has in place for the Remaining Policies which are currently administered by Atos.

Guernsey Policyholders

- 4.13. As set out in the Main Report, there are 4 Policyholders who were resident in Guernsey on their policy start date, and whose policies are therefore unable to transfer by way of the Scheme. SE plc has instead written to each of these policyholders seeking agreement to transfer their policies to Royal London by way of novation. Written consent to this novation has now been received from each of the 4 policyholders. Subject to the Scheme being sanctioned by the Court, the policies in question will novate on the Scheme effective date of 1 July 2024.
- 4.14. As requested by the Guernsey Financial Services Commission, a courtesy notification will be sent to them to confirm once the four policies have been successfully novated.

LPTR Policies

- 4.15. As set out in the Main Report, there is a small block of c4,000 Transferring Policies which are life cover protection policies sold under the rules of the Scottish Equitable Personal Pension Scheme. As a consequence, these policies receive tax relief at source on the premiums paid (the "Life Protection with Tax Relief" or "LPTR" policies).
- 4.16. A Court order is to be sought at the Sanction Hearing under s 112(1)(d) of FSMA to the effect that the LPTR policies can continue to be treated as "protected policies" for tax purposes after the Transfer.
- 4.17. Royal London have now informed me, that should the Court order be approved, HMRC have confirmed in writing that the LPTR policies would not lose protected status, and that relief would continue to be available on the contributions paid in respect of those policies.

Consumer Duty

- 4.18. As set out in the Main Report, SE plc carried out a review of Royal London's interpretation of the Consumer Duty and its plans for application of this to the transferring policies and concluded that Royal London's interpretation of the Consumer Duty was in line with its own.
- 4.19. In relation to governance, both Royal London and SE plc have established Consumer Duty programmes to consider and implement the Duty's requirements, reporting to their respective Boards. In preparation for the proposed Transfer, Royal London mobilised a further workstream within their programme to validate SE plc's approach to Consumer Duty in relation to the Transferring Policies. A joint working group was established, with attendees from both organisations meeting regularly to discuss relevant matters, provide oversight of SE plc's implementation of the Consumer Duty, and assess and review any evidence.

- 4.20. SE plc completed a comprehensive proposition review in July 2022 which did not identify any material concerns. A fair value assessment was completed and published online in 2022, and subsequently updated in 2023. This concluded that the protection product represented fair value to customers. Royal London subsequently carried out their own assessment of SE plc's review to determine whether it covered in appropriate depth the areas that Royal London would expect. The assessment was performed against Royal London's ten customer outcomes for protection products, plus subdivisions of those outcomes. The review concluded that there were no material concerns.
- 4.21. In relation to customer support, Royal London has performed a detailed comparison of the claims and servicing standards that will apply before and after the proposed Transfer, noting that administration services for the Transferring Policies will continue to be provided by Atos under a new contract entered into between Royal London and Atos. The review concluded that standards will be aligned in all material respects, noting that there will be slight increases to two of the target metrics Atos will work to under the new contract: the time it takes to answer calls, and the proportion of policyholders who abandon their call before it is answered. As set out in the Main Report, I do not consider these changes to have a material adverse effect on Transferring Policies.
- 4.22. Since the date of the Main Report, SE plc has conducted a review of all documentation issued on a regular basis to Transferring Policyholders to ensure it complies with their interpretation of the Duty. Royal London has reviewed SE plc's communication principles and standards to ensure these are aligned with its own. Royal London has also reviewed a sample of the key customer communications and is satisfied that these materially align to its interpretation of the Consumer Duty.
- 4.23. On this basis of the points set out above, I remain comfortable that the treatment of Transferring Policyholders under Consumer Duty will not change materially as a result of the proposed Transfer.

5. Conclusions

- 5.1 Taking into account each of the points set out in this report, I am satisfied that the conclusions set out in the Main Report remain valid. In particular, I remain satisfied that the proposed Transfer will have no material adverse effect on:
- The benefit security, benefit expectations, or the administration and service standards of the Transferring Policyholders; and
 - The benefit security, benefit expectations, or the administration and service standards of the Remaining Policyholders.

Leigh-Ann Plenderleith
AUK Chief Actuary
May 2024