Scottish Widows Limited & Rothesay Life Plc

Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc

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Contents

1 Introduction

1.1 Background

1.1.1 An insurance company is responsible for administering the policies it provides to policyholders and for paying benefits or claims on those policies. Sometimes, an insurance company may want to transfer some or all of the policies it provides to another insurance company. When this happens, the insurance company receiving the policies becomes responsible for those policies. When the insurer wanting to transfer policies is authorised in the United Kingdom (UK), the transfer of business from one insurance company to another is commonly referred to as a Part VII transfer and can only happen if the insurance companies involved follow the legal process set out in Part VII of the Financial Services and Markets Act 2000 (FSMA).

1.1.2 The terms of the transfer, including the policies, assets and liabilities that will transfer, together with any conditions imposed, are set out in a legal document called a scheme. The transfer can only go ahead if the scheme is approved by an appropriate court, one of which is the High Court of Justice of England and Wales (the Court).

1.2 The Independent Expert

1.2.1 When a scheme for the transfer of insurance business from one company to another is submitted to the Court for approval, section 109 of the FSMA requires it to be accompanied by a report from an Independent Expert, which is called a scheme report. The report from the Independent Expert primarily considers the likely impact of the scheme of transfer on the policyholders of the companies involved in the transfer.

1.2.2 I have been appointed as the Independent Expert to provide the required report on a proposed scheme (the Scheme) for the transfer of a portfolio of business (the Transferring Business) composed of non-profit annuity policies[1], residual risk policies[2] and longevity insurance agreements[3] (together the Transferring Policies, with each individual policy among the Transferring Policies being a Transferring Policy), together with associated assets and liabilities (including the related reinsurance[4] and other third-party contracts), from Scottish Widows Limited (SWL) to Rothesay Life Plc (Rothesay). This report (my Report) has been prepared for the Court to fulfil this requirement.

1.2.3 I have been appointed jointly by SWL and Rothesay (the Companies) with the costs of my work being split equally between the Companies. My appointment as Independent Expert was approved by the Prudential Regulation Authority (PRA) after consulting with the Financial Conduct Authority (FCA). The PRA and FCA (together the Regulators) are responsible for regulating insurance companies in the UK.

[1] An annuity policy is an insurance contract under which, from the date it becomes payable, a regular payment is paid to a beneficiary, usually until the death of the beneficiary. This is explained further in paragraphs 5.3.2 to 5.3.7.

[2] Residual risk policies provide protection to pension schemes against certain defined risks.

[3] A longevity insurance agreement transfers the longevity risk associated with annuities (that is, the risk that the beneficiary lives longer than expected) from one party to another.

[4] A reinsurance contract transfers risks associated with insurance policies from one insurer, the "cedant", to another, the "reinsurer".

1.2.4 The Companies will seek approval from the Court at a hearing (the Directions Hearing), expected to be on 16 December 2024, to notify policyholders of the Scheme. My Report will be presented to the Court at the Directions Hearing.

1.2.5 The Scheme will be submitted to the Court at a second hearing (the Sanction Hearing) expected to be on 14 May 2025 for sanction under Section 111 of Part VII of the FSMA. If sanctioned (approved), it is expected that the Scheme will become operative and take effect on 11 June 2025 (the Scheme Effective Date).

1.2.6 Given the timing of my Report and the Court approval process, I will also prepare a supplementary report (my Supplementary Report) for the Court prior to the Sanction Hearing. My Supplementary Report will provide an update on my conclusions in light of developments and any significant events subsequent to the date of my Report. This will include updated financial information and my views on any issues raised by affected policyholders.

1.2.7 My Report and Supplementary Report (my Reports) will be presented to the Court at the Sanction Hearing and the Court will consider the contents of my Reports in deciding whether to approve the Scheme.

1.3 Qualification and disclosures

1.3.1 I am required to set out my qualifications and disclose any relationship that I have with the Companies.

1.3.2 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1996, and am a Partner in the Insurance Consulting practice of Barnett Waddingham LLP (BW). I am an "approved person" for the purposes of Section 59 of the FSMA. This means that the Regulators have approved me to carry out certain roles within insurance companies and, at the date of my Report, I act as Chief Actuary for four UK life insurance companies. I hold a practising certificate issued by the Institute and Faculty of Actuaries allowing me to perform the Chief Actuary role subject to approval by the Regulators.

1.3.3 I have previously been appointed as the Independent Expert for the business transfer of a portfolio of non-profit annuities from Rothesay to Monument Life Insurance DAC in 2020.

1.3.4 Additionally, I have been involved in a number of insurance transfers under Part VII of the FSMA in the role of adviser or as Chief Actuary to the company selling a portfolio of business.

1.3.5 Neither I, nor my immediate family, hold any policies with or have any financial interest in either of the Companies or their associated group companies.

1.3.6 BW is a consulting firm and has previously provided consulting services to SWL and Rothesay through a small number of assignments. I, personally, have not advised either of the Companies.

1.3.7 In my opinion, these previous assignments do not compromise my independence, create a conflict of interest, or compromise my ability to report on the Scheme.

1.4 Regulation, guidance and professional standards

1.4.1 In preparing my Report, I must comply with certain regulations, guidance and professional standards. I address these below.

1.4.2 My Report has been prepared in accordance with regulations and guidance set by the Regulators:

- the approach and expectations of the PRA, as set out in "The Prudential Regulation Authority's approach to insurance business transfers" dated January 2022 (the PRA Statement of Policy)
- chapter 18 of the Supervision Manual (SUP 18) contained in the FCA Handbook
- the FCA's Final Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated 15 February 2022 (the FCA Guidance).

1.4.3 I have set out in Appendix A details of how these requirements have been met. The PRA, in consultation with the FCA, has approved the form of my Report.

1.4.4 My Report has been shared with the Companies in near-final form for their review and challenge prior to being finalised. The purpose of this review and challenge is to ensure that my Report is complete and accurate with regards to factual information presented. This final version of my Report has also been shared with the Companies.

1.4.5 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise in accordance with Part 35 of the Civil Procedure Rules. This duty overrides any obligation to the Companies from whom I have received instructions. In my opinion, I have complied with this duty, and I confirm that I will continue to comply with this duty. A statement of my compliance with Part 35 of the Civil Procedure Rules is given in Appendix B.

1.4.6 The Financial Reporting Council sets Technical Actuarial Standards (TASs) for members of the Institute and Faculty of Actuaries. My Report and the work carried out to produce it is subject to and, in my opinion, complies with the following standards:

- TAS 100: General Actuarial Standards
- TAS 200: Insurance.

1.4.7 A number of the key documents listed in Appendix C have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.

1.4.8 The Institute and Faculty of Actuaries sets Actuarial Professional Standards for its members. My Report and the work carried out to produce it is subject to and, in my opinion, complies with APS X2: Review of Actuarial Work. In particular, my Report has been independently peer reviewed by a senior actuary, Kim Durniat, who holds Chief Actuary and other named roles for a number of UK insurance companies and friendly societies, has previously advised on insurance business transfers and who has not otherwise been part of the team working on this assignment. I have also considered APS L1: Duties and Responsibilities of Life Assurance Actuaries when carrying out my work.

1.5 The scope of my Report

1.5.1 My engagement terms have been agreed with the Companies and have been seen by the Regulators. They are set out in more detail in Appendix D.

1.5.2 I have considered the consequences of the Scheme for the policyholders of SWL and Rothesay, and the implications of the Scheme on the reinsurance companies to which SWL has passed on some of the risks associated with the Transferring Policies. My Report sets out my findings. In particular, I have had regard to the likely effect of the Scheme on the security of policyholders' benefits and on the reasonable expectations of policyholders created by past practices employed or statements made by each of the

Companies. I explain what security of benefits and policyholders' reasonable expectations mean in the context of the Scheme in more detail in paragraphs 3.2.4 to 3.2.8.

1.5.3 I am not required to, and do not, consider the position of each policyholder, but I have reviewed the consequences for each class of policyholder. I am concerned particularly to assess whether any class or sub-group of policyholders might be materially adversely affected by the Scheme. I comment in paragraphs 3.2.15 and 3.2.16 on how I have interpreted materiality.

1.5.4 I am not required to, and do not, consider the impact of the Scheme on borrowers that have entered into bespoke loan arrangements with SWL (as lender), where such arrangements are expected to transfer to Rothesay if the Scheme is implemented. There are 50 loans, which I refer to as the "FW Assets" in later sections of my Report, which have been made to 23 borrowers with a total value of £1.3bn as at 30 September 2024. SWL has confirmed to me that it has had preliminary engagements with each of the borrowers to inform them of the Scheme.

1.5.5 I am required to comment on the Scheme. I am not required to, and do not, comment on any possible alternatives to the Scheme. However, I am required to state whether the Companies considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with (see paragraphs 2.2.4 and 7.2.2). I do consider the implications if the Scheme does not go ahead.

1.5.6 To the best of my knowledge, I have taken account of all material facts in assessing the impact of the Scheme and in preparing my Report. My Supplementary Report will reflect any updated financial information or circumstances nearer to the date of the Sanction Hearing.

1.5.7 My Report can be read as a stand-alone document, although it draws on the information in the terms of the Scheme, and the reports prepared by the Chief Actuary and With Profits Actuary of SWL and the Chief Actuary of Rothesay. I have considered each of those reports in coming to my opinions, but have not relied upon the opinions expressed in those reports.

1.6 Reliances and sources of information

1.6.1 In performing my review and in preparing my Report, I have relied on the accuracy and completeness of information provided by the Companies, including information received orally, without independent verification. I have reviewed the information provided for consistency and reasonableness using my knowledge of the life assurance industry in the UK. I have also had access to, and discussions with, senior management of the Companies.

1.6.2 In a number of areas I have challenged the information presented to me, and/or have sought additional information and explanations to ensure that I could rely on that information. I have listed the financial information, data and written information that I have relied on in Appendix C.

1.6.3 My analysis of the solvency position (financial strength) of the Companies is based on the pre-Scheme financial position and estimated post-Scheme financial position on a pro forma basis as at 30 June 2024 produced by the Companies. The solvency position is shown on what is called the regulatory capital or Pillar 1 basis, which is described in sub-section 4.3.

1.6.4 The financial information provided by the Companies as at 30 June 2024 is unaudited. I have not checked these estimates, other than for reasonableness as stated above, or the processes used in determining them. However, I note that:

- The information has been prepared using methodologies and assumptions consistent with the most recently audited information (31 December 2023).
- For SWL, the 30 June 2024 financial position has been reviewed and approved by the Chief Actuary, Financial Controller and Financial Director, and has been subsequently reported to the PRA.
- For Rothesay, the 30 June 2024 financial position has been reviewed and approved by the Chief Actuary, Audit Committee and the Rothesay Board, and has been subsequently reported to the PRA.
- The Companies' respective Chief Actuary reports on the Scheme, which also present the 30 June 2024 financial information, and the estimated post-Scheme position as at that date are subject to, and have statements of compliance with, TASs and Actuarial Professional Standards.

1.6.5 Taking these factors into account, in my opinion, it is reasonable for me to rely upon the accuracy of the financial information as at 30 June 2024.

1.6.6 A package of regulatory reforms (the Solvency UK reforms, see paragraph 4.3.34) has been introduced by the UK government and the PRA, some of which will come into effect for the first time on 31 December 2024. These reforms will have some impact on the solvency calculations and solvency positions of SWL and Rothesay at 31 December 2024 and beyond. The Companies have indicated to me that they do not expect the impact of implementing these reforms to be material. However, at the time of writing this report, there remains a degree of uncertainty. The Companies' work will not conclude prior to the Directions Hearing, but will be concluded ahead of the Sanction Hearing. I will provide an update in my Supplementary Report.

1.6.7 My Report also makes reference to a second set of solvency calculations, known as Own Risk and Solvency Assessment calculations or Pillar 2 calculations (described in sub-section 4.3). These are not audited, but are produced using established processes, are checked by the Companies and are used by them in practice as an input to decision-making. They are also submitted to the PRA, although they do not require regulatory approval. A material error in these figures would be a significant matter and so, in my opinion, it is reasonable to rely on their accuracy, subject to reasonableness checking as stated above.

1.6.8 The economic position at the Scheme Effective Date cannot be predicted with certainty. Market conditions and the Companies' financial positions have changed since the 30 June 2024 positions shown in my Report. In particular:

- both Companies continue to write new business
- Rothesay has repaid some debt and paid a dividend
- SWL has paid a dividend
- the following key events have had modest impacts on investment markets:
  - UK government Autumn budget (30 October 2024)
  - US presidential election (5 November 2024)
  - reductions in the Bank of England official Bank Rate (interest rate) from 5.25% to 5.00% on 1 August 2024 and from 5.00% to 4.75% on 7 November 2024.

1.6.9 The Companies have provided me with their financial positions as at 30 September 2024, taking into account all events between 30 June 2024 and 30 September 2024, and which they have each reported to the PRA. The Companies have provided me with estimates of the financial impacts of the items referred to in paragraph 1.6.8 that took place after 30 September 2024. The movements in the financial positions since 30 June 2024 and the estimated impacts of the events referred to in paragraph 1.6.8 do not change my opinions and conclusions.

1.6.10 The financial positions of the Companies at the Scheme Effective Date will differ from those shown in my Report. The impact of the Scheme on the Companies' financial position and their continuing ability to satisfy regulatory solvency requirements is an important consideration for me. I will continue to keep the position under review in the period leading up to the Sanction Hearing and will provide further information in my Supplementary Report.

1.6.11 Some aspects of the Scheme are legal matters that fall outside my expertise. For these areas, I have determined it is appropriate for me to rely on the fact that legal advice has been provided by Herbert Smith Freehills LLP (advising SWL) and CMS Cameron McKenna Nabarro Olswang LLP (advising Rothesay) to SWL and Rothesay respectively rather than seek independent legal advice. My reasons for this are that the legal matters either are not (in my opinion) contentious or, where there is scope for interpretation, the Companies' legal advisers are in agreement and my conclusions regarding the fair treatment of policyholders are not dependent on the legal advice. For the avoidance of doubt, Herbert Smith Freehills LLP and CMS Cameron McKenna Nabarro Olswang LLP have not provided legal advice to me or BW in respect of my Report or any other matters relating to the Scheme.

1.6.12 However, the Companies' legal advisers have reviewed and provided feedback on draft versions of my Report. Some of the feedback received from the Companies' legal advisers included their views on my interpretation of the substance and mechanism of the Scheme. I have taken into account the feedback from the Companies' legal advisers in these areas.

1.6.13 The holders of a small number of Transferring Policies are resident in Guernsey, Jersey or the Isle of Man. The Companies have confirmed to me that there is no impediment to Rothesay servicing these policies if the Scheme is implemented. SWL has shared with me, on a non-reliance basis, the legal advice it received that states that no separate Guernsey, Jersey or Isle of Man schemes are required and there is no statutory obligation to seek the approval of, or notify, the Guernsey, Jersey or Isle of Man regulators. The Companies have told me that they do not intend to notify these regulators.

1.6.14 Detailed understanding of corporate and policyholder taxation is also outside my expertise. SWL has shared with me their internal analysis of the tax impacts of the Scheme, which is consistent with my own understanding. In particular, the Scheme will have no direct impact on policyholders' personal tax liabilities. In my opinion, the Transferring Business is not complex and I therefore consider it unnecessary to seek additional independent advice on tax impacts.

1.7 Distribution and use

1.7.1 My Report has been written in accordance with English law. It is commissioned by the Companies and has been prepared primarily for the Court and for the use of the Companies, and solely for the purpose of assisting in determining whether the Scheme should be sanctioned. Policyholders, reinsurers and any others affected by the Scheme may also place reliance on my Reports. My Reports should not be used for any other purpose.

1.7.2 Neither BW, its partners and staff, nor I owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature, which is caused by any other party's reliance on representations in my Reports.

1.7.3 No liability will be accepted for the use of my Report for which it was not intended or for the results of any misunderstandings by any user of my Report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.7.4 My Report should be considered in its entirety, as parts taken in isolation may be misleading. Draft versions of my Reports should not be relied upon for any purpose. A copy of the final version of my Report may be provided to the following parties:

- the Court, to assist in determining whether the Scheme should be sanctioned
- the Directors and senior management of SWL and its associated group companies
- the Directors and senior management of Rothesay and its associated group companies
- the Regulators, for the purposes of the performance of their statutory obligations under the FSMA
- the professional advisers of any of the above
- policyholders and any other person who requests it.

1.7.5 A copy of the final version of my Report (and subsequently, my Supplementary Report) will be published on the websites of the Companies and a printed copy will be provided to policyholders and other interested parties on request. Otherwise, my Report (or any extract of it) should not be published without my prior written consent. A summary of my Report, written by me, will also be published on the websites of the Companies and will be sent, alongside other materials describing the Scheme, by SWL to the holders of Transferring Policies. A printed copy of the summary of my Report will also be provided to policyholders and other interested parties on request. No other summary of my Report may be made without my prior written consent.

1.8 Form of my report

1.8.1 The remainder of my Report is structured as follows:

- Section 2 is a summary describing the Scheme, my considerations and my conclusions.
- Section 3 provides information about the role of the Independent Expert and the approach I have taken in carrying out my analysis and reaching my conclusions.
- Section 4 provides background information on the insurance company regulatory environment in the UK.
- Sections 5 and 6 provide some relevant background information on SWL and Rothesay respectively.
- Section 7 explains the terms of the transfer under the Scheme and how it will be carried out.
- Sections 8, 9 and 10 cover the impact of the Scheme on the transferring SWL policyholders, the non-transferring SWL policyholders, and the existing policyholders of Rothesay respectively.
- Section 11 considers the impact of the Scheme on Prudential Insurance Company of America, Swiss Re Europe S.A., UK Branch, SCOR SE, UK Branch and Pacific Life Re International Limited, UK Branch, the reinsurance companies to which SWL has passed on some of the risks associated with the Transferring Policies.

1.8.2 The appendices contain:

- details of how my Report complies with regulatory guidance
- my certificate of compliance with Part 35 of the Civil Procedure Rules
- a list of data and information relied upon for forming my conclusions
- an extract from my engagement letter for carrying out this assignment
- a glossary of terms used throughout my Report.

2 Summary and conclusions

2.1 The Independent Expert

2.1.1 I have been appointed as the Independent Expert for the Scheme to transfer the Transferring Business from SWL to Rothesay.

2.1.2 For the transfer to proceed, the Scheme must be approved by the Court at the Sanction Hearing, which is expected to be on 14 May 2025. My role as Independent Expert is primarily to consider the likely impact of the Scheme on the policyholders of the Companies and to set out my conclusions in a report. The report is primarily for the Court, but also for policyholders, reinsurers and any other parties affected by the Scheme. My Reports fulfil this requirement.

2.1.3 I am a Fellow of the Institute and Faculty of Actuaries and I am a Partner in the Insurance Consulting practice of Barnett Waddingham LLP.

2.2 The proposed transfer

The companies involved in the transfer

2.2.1 SWL is a proprietary insurance company incorporated in the UK. SWL writes a range of insurance, pensions and investment business. As at 30 June 2024 SWL had approximately 6.5m in-force policies and valued its liabilities in respect of these policies at £164bn. SWL has a number of reinsurance arrangements, which transfer some of the risks arising from its business to other insurance or reinsurance companies.

2.2.2 Rothesay is a proprietary insurance company incorporated in the UK. Rothesay writes a limited range of products that provide pension benefits or pension-related benefits to individuals, the trustees of UK occupational pension schemes and other insurance companies. As at 30 June 2024 Rothesay had in-force policies covering approximately 1.0m lives and valued its liabilities in respect of these policies at approximately £58bn. Rothesay has a number of reinsurance arrangements, which transfer some of the risks arising from its business to other insurance or reinsurance companies.

Reason for the proposed transfer

2.2.3 In recent years SWL has grown its pension annuity business (contracts that provide an income to a beneficiary during their retirement) by operating in two distinct markets: providing annuities to individuals, usually at the point of retirement (individual annuities); and insuring or acquiring the liabilities of defined benefit pension schemes (referred to as bulk purchase annuity business).

2.2.4 In 2023, SWL took the decision to sell its bulk purchase annuity business (more specifically, the Transferring Business as described in paragraph 1.2.2) following a strategic review of its options. The main reason for the sale is to enable it and its corporate group of companies to focus on growing strategically important lines of business such as insurance, investments and individual retirement and pensions products (which do not include the bulk purchase annuity business) through direct and intermediary channels. Following the decision by SWL to exit the bulk purchase annuity market, the main alternative option that SWL considered to the current Scheme was to run the business off over its lifetime. This was not considered an attractive option due to anticipated challenges in retaining staff with the required expertise, leading to difficulties in maintaining a high quality of customer service and

potentially leading to less good outcomes for customers. In addition, the run-off would lead to inefficiencies in supporting a declining book of business.

2.2.5 Accordingly, following a competitive tender process, SWL entered into a business transfer agreement where it agreed to transfer the Transferring Business to Rothesay, a leading specialist insurer in the management of bulk purchase annuities. The Scheme is the legal mechanism to effect the transfer.

2.2.6 If the Scheme is sanctioned by the Court, the Scheme Effective Date is expected to be 11 June 2025. With effect from the Scheme Effective Date, holders of the Transferring Policies will become policyholders of Rothesay and, from that date, Rothesay will be responsible for the administration of the Transferring Policies and payment of all benefits falling due under them.

2.2.7 In advance of the legal transfer of the Transferring Business to Rothesay, SWL entered into a reinsurance agreement (the Reinsurance Agreement) with Rothesay on 30 April 2024 that transferred the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay in accordance with the terms of the Reinsurance Agreement with effect from 1 January 2024. The choice of 1 January 2024 was made because it was the most recent date at which published audited valuations were available.

2.2.8 The Reinsurance Agreement will be terminated if the Scheme is sanctioned. If the Scheme is not implemented SWL has a right to terminate the Reinsurance Agreement, but Rothesay does not. In such circumstances, if SWL does not exercise its right to terminate the Reinsurance Agreement, the Companies must use reasonable endeavours and co-operate in good faith to agree any amendments necessary to allow the Reinsurance Agreement to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities. The Companies have confirmed to me that, if the Scheme is not sanctioned, the most likely outcome is that the Reinsurance Agreement will remain in place as a long-term reinsurance arrangement. In such circumstances, SWL would continue to administer the Transferring Business, and the majority of the risks and rewards associated with it would remain reinsured to Rothesay under the Reinsurance Agreement. Additionally, the Companies could agree to outsource the administration of the Transferring Policies to Rothesay. Rothesay is experienced in managing long-term reinsurance of this nature. All operational and financial matters related to the Reinsurance Agreement have worked as expected since entering into the agreement on 30 April 2024.

The Transferring Policies

2.2.9 The Transferring Policies are defined in the Scheme and can be summarised (as at 30 June 2024) as:

- 28 bulk purchase annuity policies issued by SWL to 21 UK-based pension scheme trustees pursuant to various buy-in policies, noting that certain pension scheme trustees have more than one buy-in policy with SWL (see paragraph 5.3.10 for a general description of buy-in policies).
- 6,739 individual annuity policies issued by SWL to, or in respect of, individual pension scheme members and/or contingent beneficiaries[5], pursuant to the terms of nine bulk purchase annuity buy-in policies previously issued by SWL to pension scheme trustees that have since transitioned to buyout (see paragraph 5.3.12 for a general description of buyout policies).
- Two residual risk policies issued by SWL to pension scheme trustees that provide additional protection to pension scheme trustees against certain defined risks, for example, claims from

[5] Contingent beneficiaries are persons entitled to receive benefits upon the death of the pension scheme member, such as a spouse.

missing beneficiaries or claims from scheme members that they have a right to a higher level of benefit than those insured as a result of either data or benefit errors (see paragraph 5.3.13).

- Four longevity insurance agreements entered into between SWL (acting as insurer) and Lloyds Banking Group Pensions Trustees Limited (as trustee to three Lloyds Banking Group pension schemes), the Ambrosia Policies, see paragraph 5.3.13.

2.3 My considerations with respect to the proposed transfer

2.3.1 In my Report I have primarily considered the effects of the Scheme on the following three classes of policyholders:

- Transferring Policyholders: The holders of the Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
- SWL Non-Transferring Policyholders: The holders of existing SWL policies as at the Scheme Effective Date that will not transfer to Rothesay under the Scheme (the SWL Non-Transferring Policies) and any other individuals who are or may become entitled to receive benefits under these policies.
- Rothesay Existing Policyholders: The holders of existing Rothesay policies (including reinsurance policies, where Rothesay is acting as reinsurer) as at the Scheme Effective Date (the Rothesay Existing Policies) and any other individuals who are or may become entitled to receive benefits under these policies.

2.3.2 My key considerations in respect of each class of policyholders are the effects of the Scheme on:

- the security of policyholders' benefits, which is primarily dependent on the relevant insurance company's financial strength and the risks to which they are exposed
- the reasonable expectations of policyholders in respect of their benefit expectations, service standards, management and governance.

2.3.3 The test I have applied in considering this Scheme is whether the position of any class or sub-group of policyholders is, in the round, "materially adversely affected". The word "material" is not uniquely defined and so, where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

2.3.4 In most respects, the interests of all Transferring Policyholders are similar and so, mainly, I consider the Transferring Policyholders as a class as a whole. There are some cases where particular sub-groups of policyholders have different considerations. For these purposes, I will refer to the following sub-groups:

- The Transferring Annuities, which are the 28 bulk purchase annuity policies and 6,739 individual annuity policies referred to in the first two bullets of paragraph 2.2.9. I refer to the holders of these policies and any other individuals who are or may become entitled to receive benefits under these policies as the Transferring Annuitants.
- Other Transferring Policies, which are the two residual risk policies and the four longevity insurance agreements referred to in the third and fourth bullets of paragraph 2.2.9. I refer to the holders of these policies and any other individuals who are or may become entitled to receive benefits under these policies as the Other Transferring Policyholders.

2.4 The effect of the Scheme on the Transferring Policyholders

Summary

2.4.1 I am satisfied that the Scheme will have no material adverse effect on the Transferring Policyholders.

2.4.2 To arrive at my conclusions, I have considered the following:

- the impact of the Scheme on the security of the benefits of the Transferring Policyholders
- the impact of the Scheme on the reasonable expectations of the Transferring Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with the Transferring Policyholders in relation to the Scheme is fair.

2.4.3 I expand on the first two points below and cover the third in sub-section 2.7.

Benefit security of Transferring Policyholders

2.4.4 It is important that Transferring Policyholders' benefits are paid as they fall due. The continuing ability of an insurer to pay benefits depends upon it holding:

- sufficient assets to pay the expected amount of future benefits and expenses as they fall due
- additional assets in case the actual amount of future benefits and expenses it needs to pay is greater than expected.

2.4.5 I have investigated the security of Transferring Policyholders' benefits by comparing the sources of security and the profile of risks to which the Transferring Policyholders will be exposed pre- and post-Scheme.

2.4.6 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders.

2.4.7 I have formed this opinion taking into account, amongst other things, that:

- both SWL and Rothesay are subject to the same regulatory solvency regime, meaning that the minimum amount of capital (assets in excess of liabilities) that they must hold offers a similar level of security
- both SWL and Rothesay have reasonably similar targets in respect of excess capital (capital above the minimum capital requirement), such that the probability of either company being unable to meet its obligations to its policyholders, including the Transferring Policyholders is, in my opinion, remote
- as at 30 June 2024 both SWL and Rothesay held capital in excess of their respective capital target levels, and this remains the case based on the most recent information available as at 30 September 2024
- the range of management actions identified by Rothesay as being available to restore its capital position if it breaches its capital targets are, in my opinion, credible and broadly comparable to those identified by SWL in similar circumstances, which I also consider to be credible
- Rothesay's risk management framework and, in particular, its liquidity risk management approach which aims to ensure that assets are available to pay benefits as they fall due, is appropriate and comparable to that of SWL.

Reasonable expectations of Transferring Policyholders

2.4.8 In my opinion, the Transferring Policyholders' reasonable expectations in respect of their policies are that:

- they receive their benefits as guaranteed under the policy, on the dates specified
- to the extent that benefits rely on discretion, that such discretion is exercised fairly
- the administration, management and governance of the policies are in line with the contractual terms under the policy and applicable conduct regulation (how firms treat their customers)
- the standards of service received are as good as those they currently receive.

2.4.9 Transferring Policyholders may also expect an appropriate degree of consumer protection with regards to their fair treatment, the ability to escalate complaints to an independent body where they feel that they have been treated unfairly, and access to any industry compensation scheme. The proposed transfer will not alter the consumer protection framework that applies to Transferring Policyholders (or any other SWL or Rothesay policyholders) and, therefore I do not consider it further in this summary section.

2.4.10 I have investigated the factors listed in paragraph 2.4.8 by looking separately at benefit expectations, policy administration and servicing, and management and governance.

2.4.11 Given differences in approach, where relevant, I consider policy administration and servicing for the Transferring Annuitants separately to policy administration and servicing for the Other Transferring Policyholders.

Benefit expectations

2.4.12 I am satisfied that the Scheme will have no material adverse effect on the reasonable benefit expectations of Transferring Policyholders.

2.4.13 I have formed this opinion taking into account that:

- the majority of benefits are contractually defined and do not rely on discretion
- where discretion is applied, it mainly impacts only a subset of Transferring Annuitants when converting contractually defined benefits to a different form of benefit, where:
  - the amount of the benefit calculated, which I refer to as the "discretionary benefit", is not guaranteed
  - the methodology to be used by Rothesay post-Scheme will be consistent with that currently used by SWL
  - the methodology and assumptions that Rothesay proposes to use to calculate discretionary benefits post-Scheme are, in my opinion, aligned with policy terms and conditions and fair to Transferring Annuitants
  - any future changes to Rothesay's methodology and assumptions will be subject to Rothesay's internal governance and its requirement to meet the FCA's conduct rules which are, in my opinion, comparable to SWL's internal governance and its requirement to meet the same conduct rules

- the only other circumstance in which discretion is exercised affects a very small number of Transferring Annuitants when a spouse's pension[6] becomes payable on the death of a Transferring Annuitant and there is a larger than usual age gap between the Transferring Annuitant and their younger spouse, which I refer to as a "young spouse pension", where:
    - Rothesay will usually take a simplified approach that typically leads to a level of benefit similar to that calculated by SWL; and
    - for the small subset of cases where the spouse is significantly younger than the Transferring Annuitant, Rothesay will review the simplified calculation and adjust it, if necessary, to ensure the benefit meets the relevant policy terms and conditions.

2.4.14 That said, I note that the assumptions expected to be used by Rothesay to calculate discretionary benefits and young spouse pensions differ from those currently used by SWL. The use of different assumptions will lead to changes in the level of discretionary benefits and young spouse pensions. Based on calculations performed by the Companies, these changes are expected to be broadly neutral overall. Where discretion is exercised, some of the Transferring Annuitants may receive higher benefit amounts while others may receive lower amounts. Where the Transferring Annuitants may receive lower amounts, the FCA has asked the Companies to consider whether additional measures could be taken to mitigate the impact of the differences. The Companies have committed to addressing this request and are currently developing their approach to implementing appropriate additional measures. I will report on the outcome in my Supplementary Report. I discuss the changes to the assumptions used to calculate discretionary benefits and young spouse pensions in detail in paragraphs 8.3.20 to 8.3.51. Guaranteed benefits will not be affected.

Policy administration and servicing

2.4.15 In my opinion, the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders.

2.4.16 I discuss the position for the Transferring Annuitants separately to that for the Other Transferring Policyholders as different considerations apply to each group.

2.4.17 For the Transferring Annuitants, I have formed this opinion taking into account, amongst other things, that:

- Transferring Annuities will continue to be administered by the same outsourced service provider using the same administration platform and the same staff immediately after the Scheme is implemented, with the exception of contact centre staff that deal with initial telephone enquiries (where a change is intended to provide a better level of service to the Transferring Annuitants)
- SWL, Rothesay and the outsourced service provider have developed, and shared with me, a plan to facilitate the transfer of the policy data and administration of the Transferring Policies, including the Transferring Annuities, from SWL to Rothesay (the Separation Plan)
- I consider the Separation Plan (which may be amended to reflect changing circumstances) together with supporting documentation to be reasonable, comprehensive and robust
- the Companies will only proceed with the Scheme if they are confident, in advance of the Scheme Effective Date, that the Separation Plan will be successfully implemented

[6] A spouse's pension is a pension payable to the spouse of a Transferring Annuitant upon the death of the Transferring Annuitant. Where the spouse is significantly younger than the Transferring Annuitant, the pension payable to the spouse may be reduced, to reflect that it is likely to be paid over a longer period than expected.

- the proposed service standards following implementation of the Scheme are, by design, at least as good as those that are currently applied by SWL.

2.4.18 For the Other Transferring Policyholders, I have formed this opinion taking into account that:

- Rothesay will administer the Ambrosia Policies using its existing in-house system for longevity swaps
- the Ambrosia Policies are relatively standard longevity swap contracts that Rothesay is experienced in administering
- the Separation Plan, which, together with supporting documentation, I consider to be reasonable, comprehensive and robust, covers the Ambrosia Policies
- there are currently no administration requirements for the residual risk policies as no claims have yet been made under these policies and Rothesay, and its outsourced service providers, have expertise in administering any benefits that may become payable under these type of contracts
- Rothesay is required to use reasonable endeavours to administer the residual risk policies (as well as the Transferring Annuities) to a standard that is equal to or better than the standards of administration provided by Rothesay in its bulk purchase annuities business generally.

2.4.19 As at the date of my Report, the Separation Plan is being implemented. The Separation Plan contains activities that have completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Scheme Effective Date. While this is not an uncommon position in a transfer of insurance business such as this, the Companies need to be confident that the Separation Plan will be successfully implemented before the Scheme Effective Date. This is recognised by the Companies and they have taken into account the timeline for successfully implementing the Separation Plan in setting the Scheme Effective Date.

2.4.20 At the date of my Report, work on implementing the Separation Plan is progressing to plan and I have no reason to be concerned that the activities will not be completed successfully.

2.4.21 I have asked the Companies to keep me informed of progress against the Separation Plan and I will provide an update in my Supplementary Report.

Management and governance

2.4.22 In my opinion, the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

2.4.23 I have formed this opinion taking into account that:

- Rothesay's governance structure is comparable to that of SWL's and is, in my opinion, appropriate
- the same regulatory requirements apply to both SWL and Rothesay
- Rothesay has appropriate resources and processes in place to help ensure it is able to acquire and administer large discrete blocks of business, on a similar scale to the Scheme
- the governance structures of each of the Companies ensure that the Consumer Duty, regulation which requires firms to ensure good outcomes for their retail customers (see paragraphs 4.4.4 to 4.4.6), is considered in wider business operations.

2.5 The effect of the Scheme on the SWL Non-Transferring Policyholders

2.5.1 I am satisfied that the Scheme will have no material adverse effect on the SWL Non-Transferring Policyholders.

2.5.2 To arrive at my conclusion, I have considered the following:

- the impact of the Scheme on the security of the benefits of the SWL Non-Transferring Policyholders
- the impact of the Scheme on the reasonable expectations of the SWL Non-Transferring Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with the SWL Non-Transferring Policyholders in relation to the Scheme is fair.

2.5.3 I summarise my reasoning on the first two points below and cover the third in sub-section 2.7.

2.5.4 I have formed my opinion taking into account, amongst other things, that:

- it is appropriate for me to consider the position with the Reinsurance Agreement in place (see paragraphs 9.1.6 to 9.1.8)
- the economic risk and reward associated with a material part of the Transferring Business have already transferred from SWL to Rothesay in accordance with the terms of the Reinsurance Agreement such that the impact of the Scheme on SWL's financial position is not material
- there will be no changes for SWL Non-Transferring Policyholders, as a result of the Scheme, to:
  - the way benefit amounts are calculated and paid
  - the level of charges or the way charges are determined
- there will be no changes for SWL Non-Transferring Policyholders to SWL's administration, management or governance arrangements as a result of the Scheme.

2.5.5 Given the very limited impact of the Scheme on the SWL Non-Transferring Policyholders, I include no further analysis in this summary section.

2.6 The effect of the Scheme on the Rothesay Existing Policyholders

2.6.1 While SWL is a Rothesay Existing Policyholder (as a result of the Reinsurance Agreement), the considerations in this section do not apply to it, as it is a party to the Scheme. If the Scheme is implemented SWL will cease to be a policyholder of Rothesay. In the remainder of this section, Rothesay Existing Policyholders should be interpreted as excluding SWL.

2.6.2 I am satisfied that the Scheme will have no material adverse effect on the Rothesay Existing Policyholders.

2.6.3 To arrive at my conclusion, I have considered the following:

- the impact of the Scheme on the security of the benefits of the Rothesay Existing Policyholders
- the impact of the Scheme on the reasonable expectations of the Rothesay Existing Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with Rothesay Existing Policyholders in relation to the Scheme is fair.

2.6.4 I summarise my reasoning on the first two points below and cover the third in sub-section 2.7.

2.6.5 I have formed my opinion taking into account, amongst other things, that:

- the economic risk and reward associated with a material part of the Transferring Business have already transferred from SWL to Rothesay in accordance with the terms of the Reinsurance Agreement such that the impact of the Scheme on Rothesay's financial position is not material
- there will be no changes for Rothesay Existing Policyholders, as a result of the Scheme, to the way benefit amounts are calculated and paid
- there will be no changes for Rothesay Existing Policyholders to Rothesay's administration, management or governance arrangements as a result of the Scheme.

2.6.6 Given the very limited impact of the Scheme on the Rothesay Existing Policyholders, I include no further analysis in this summary section.

2.7 Other considerations

Communication of the Scheme to policyholders

2.7.1 The regulations governing transfers of insurance business in the UK set out certain requirements for the Companies to communicate with their policyholders and other affected parties about the proposed transfer.

2.7.2 These communications are an important part of the protections for policyholders, as they allow policyholders to raise any concerns they may have regarding the Scheme with their insurance company and consider whether they wish to exercise their right to object to the Court. The Court will consider any such objections in making its decision.

2.7.3 SWL will send a Policyholder Communications Pack consisting of a letter and a transfer guide (which includes a copy of a summary of my Report) to each holder of a Transferring Policy, except for certain sub-categories of Transferring Policyholders as detailed in paragraph 7.9.15 (for example, where SWL does not have the policyholder's current address and attempts to trace the policyholder have failed).

2.7.4 SWL does not intend to directly notify beneficiaries of the Transferring Policies (other than the holders of the Transferring Policies). All recipients of the Policyholder Communication Packs will be asked to inform any other beneficiaries under the policy. For the bulk purchase annuity buy-in policies included in the Transferring Policies, SWL has contacted the 21 pension scheme trustees via email ahead of the Directions Hearing to strongly encourage the trustees to inform their underlying beneficiaries of the Scheme. The email asked the pension scheme trustees to confirm if they intend to correspond with their underlying beneficiaries and, if not, the reason why. As at 4 December 2024, SWL has received responses from 19 of the 21 pension scheme trustees and 13 of the pension scheme trustees have indicated that they intend to communicate with their members in respect of the Scheme. These 13 pension schemes cover 71% of the underlying beneficiaries of the buy-in policies included in the Scheme. The Policyholder Communications Pack will repeat the encouragement for pension scheme trustees that are holders of Transferring Policies to consider informing their underlying beneficiaries, will offer SWL's support to the trustees in issuing communications and will include suggested wording for the trustees to use for this purpose.

2.7.5 In order to support this proposed communications approach, SWL will seek a general waiver from the Court from the regulatory requirement to notify all policyholders affected by the transfer. Full details of the waiver are set out in sub-section 7.9.

2.7.6 I have reviewed the Policyholder Communications Pack and, in my opinion, it:

- appropriately explains the Scheme and the impact on Transferring Policyholders
- clearly suggests the recipient should consider informing any other beneficiaries of the policy.

2.7.7 Overall, I consider the intended approach to communicating with the Transferring Policyholders to be reasonable and discuss this further in sub-section 8.4.

2.7.8 SWL proposes not to send the Policyholder Communication Pack to the SWL Non-Transferring Policyholders and Rothesay proposes not to write to the Rothesay Existing Policyholders. The rationale for this is that the Scheme has little effect on these policyholders, as implementation of the Scheme does not have a material impact on the financial position of either of the Companies and there will be no changes to these policyholders' terms and conditions, the way their policies are administered or how their benefits are determined. SWL and Rothesay will place information about the Scheme on their websites and will place advertisements in national newspapers in the UK. I consider that this is a reasonable and proportionate way to publicise the Scheme to these policyholders.

Tax

2.7.9 SWL has informed me that it has sought advice from its internal Group Tax Function on the tax impacts of the Scheme. This advice confirms that there should be no direct impact on tax paid by any group of policyholders and, in particular, that the Scheme will not change the way in which benefits are taxed in the hands of the Transferring Policyholders. As the Transferring Policies are not complex, I consider it unnecessary to seek additional independent advice on this topic.

Cost of the Scheme

2.7.10 Certain costs of the transfer process, including my fees in the role of Independent Expert, will be shared equally between SWL and Rothesay. Other costs will be borne by the party incurring the costs. None of the costs will be borne by any group of policyholders, either directly or indirectly through an increase in policy charges or a reduction in benefits.

2.8 Conclusions

2.8.1 I am satisfied that the implementation of the Scheme will not have a material adverse effect on:

- the security of the benefits of the policyholders of SWL and Rothesay, including the Transferring Policyholders
- the reasonable expectations of the policyholders of SWL and Rothesay in respect of their benefit expectations, service standards, management and governance, including the Transferring Policyholders.

2.8.2 Based on the analysis above, and in the remainder of my Report, I am satisfied that the Scheme is equitable to all classes and sub-groups of SWL and Rothesay policyholders, although as noted in paragraph 2.4.14 and discussed in detail in paragraphs 8.3.20 to 8.3.51, where discretion is exercised in determining the level of benefit payable, some of the Transferring Annuitants may receive higher (non-guaranteed) benefit amounts while others may receive lower amounts. Where the Transferring Annuitants may receive lower amounts, the Companies have committed to addressing a request from the FCA to take additional measures to mitigate the impact of the differences. The Companies are currently developing their approach to implementing appropriate additional measures and I will report on the outcome of this work in my Supplementary Report. Guaranteed benefits are not affected.

2.8.3 I am satisfied that the proposed communications plan is appropriate and that the Policyholder Communication Packs that I have seen are appropriate.

2.8.4 I have also considered the impact of the Scheme on the four third-party companies that reinsure (accept some of the risks on) the Transferring Policies and have concluded that the Scheme will have no material adverse impact on those third parties.

2.8.5 My Supplementary Report will provide an update on my conclusions in light of any significant events subsequent to the date of my Report.

3 The Independent Expert

3.1 Overview

3.1.1 Policyholders affected by UK insurance business transfers have four main layers of protection provided by the legal and regulatory system in the UK. These layers of protection are provided by:

- the Regulators who:
  - approve the appointment of the Independent Expert and the form of the scheme report written by the Independent Expert
  - produce their own reports on the scheme for consideration by the Court
  - are entitled to appear in Court
  - approve the form of the notices that are published and sent to policyholders.
- the Independent Expert, who produces the scheme report assessing the scheme and an updated supplementary report for the Sanction Hearing
- the obligations placed on the companies involved in the transfer to give notice of the proposed transfer to policyholders and other interested parties
- the Court, whose role is explained in the next paragraph.

3.1.2 Any person who considers they may be adversely affected by the scheme may make a representation to the Court. There are two Court Hearings: the Directions (or Preliminary) Hearing and the Sanction (or Final) Hearing. At the Directions Hearing, the companies involved seek Court approval to notify policyholders of the proposed transfer. The Court reviews the scheme at the Sanction Hearing taking into account the views of the Regulators, the Independent Expert, various statements made by the parties to the transfer, and any objections raised by policyholders and other interested parties.

3.1.3 My role as Independent Expert, as one of the layers of protection for policyholders described above, is to assess the Scheme and to report on it to the Court. My Report, together with my Supplementary Report, are the scheme report for the Scheme.

3.1.4 I set out below my significant areas of consideration in discharging this role.

3.2 The considerations of the Independent Expert

Requirements

3.2.1 The Regulators have specified certain material that must be covered in the Independent Expert's scheme report. Appendix A details how I have met these requirements in my Report.

Considerations

3.2.2 In summary, I need to consider the terms of the Scheme generally and, if implemented, its likely impact on the different classes and sub-groups of policyholders of SWL and Rothesay. In particular, I need to consider the effect of the implementation of the Scheme on:

- the security of policyholders' contractual rights, including the likelihood and potential effects of insolvency of the insurer
- other matters, such as administration and governance in so far as they may affect:

- the security of policyholders' contractual rights
- levels of service provided to policyholders
- the ability to meet the reasonable expectations of policyholders.

- the cost and tax effects of the Scheme in so far as they may affect the security of policyholders' contractual rights or the ability to meet the reasonable expectations of policyholders.

3.2.3 Below, I explain what is meant by security of policyholders' contractual rights and reasonable expectations of policyholders before detailing some other considerations.

Security of policyholders' contractual rights

3.2.4 I need to consider the security of policyholders' contractual rights or, more simply, the security of policyholders' benefits. By this, I mean the likelihood that policyholders will receive their contractual benefits when they are due.

3.2.5 In considering and commenting upon security, I shall consider policyholders' contractual benefits and take into account the financial resources of the Companies and the risks to which they are exposed.

Reasonable expectations of policyholders

3.2.6 I also need to consider the Scheme in the context of the regulatory obligation on the Companies to act to deliver good outcomes for retail customers under the FCA Consumer Duty rules and treat their customers fairly (see paragraphs 4.4.3 to 4.4.6). In particular, I need to consider the effect of the implementation of the Scheme on policyholders' reasonable benefit expectations.

3.2.7 This means considering the likely effect of the Scheme on any areas where either of the Companies may apply discretion in determining the amount and form of benefits payable to policyholders.

3.2.8 In addition, I need to consider the likely impact of the Scheme on applicable management, service and governance standards.

Other considerations

3.2.9 I have also considered:

- the adequacy of safeguards in the Scheme to protect the ongoing interests of different sub-groups of policyholders
- the effect of the Scheme on reinsurance contracts entered into by SWL (which are contracts between two insurance companies whereby one insurer, in this case SWL, pays a premium to another insurer to pass on some of its risks to the other insurer)
- the adequacy of the communications made to policyholders concerning the Scheme
- any other matters required by the Regulators to be addressed within my Report.

3.2.10 I comment on the effects of the Scheme on the following policyholder classes and, where relevant, sub-groups:

- the Transferring Policyholders
- the SWL Non-Transferring Policyholders
- the Rothesay Existing Policyholders.

3.2.11 In most respects, the interests of all policyholders within each class are similar and so, mainly, I consider the effects of the Scheme at the level of each of these three classes. There are some aspects of benefit

expectations and administration that are specific to particular sub-groups and I have considered these sub-groups where relevant in forming my conclusions.

3.2.12 I have considered whether there are any:

- previous schemes of transfer that created particular rights or protections for Transferring Policyholders that might be lost as a result of the Scheme; or
- planned corporate acquisitions or future schemes of transfer that might impact the Scheme.

3.2.13 There are no previous relevant schemes and the Companies have confirmed to me that as at the date of my Report, they are not involved in corporate acquisitions or other unannounced future schemes that will occur in advance of, or around, the Scheme Effective Date.

Assessment

3.2.14 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of expert judgement 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 classes or sub-groups of policies, it is not possible to be certain of the effect on the policies.

3.2.15 For any class or sub-group of policyholders affected by the Scheme, there may be some changes for the better and some for the worse. If there are some changes for the worse, this does not necessarily mean that the Scheme is unfair or unreasonable, as they might be outweighed by other benefits, or they might be small. The test I have applied in considering this Scheme is whether the position of any class or sub-group is, in the round, "materially adversely affected". The word "material" is not uniquely defined and so, where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

3.2.16 My assessment of whether any class or sub-group is materially adversely affected includes consideration of the effect discussed in paragraph 3.2.7; the application of discretion in determining the amount and form of benefits payable to policyholders. In assessing this impact on policyholders, I consider whether the Companies' approaches to the use of discretion are, in my opinion, consistent, aligned with policy terms and conditions and fair to policyholders.

3.2.17 The framework for my assessment is a consequence of, and I believe is consistent with, the Court's consideration of prior schemes. Of particular relevance is a recent Court of Appeal ruling that is discussed in sub-section 3.3 below.

Exclusions

3.2.18 I am not required to, and do not, consider the impact on new policyholders of either of the Companies entering into contracts after the implementation of the Scheme.

3.2.19 I have considered the Scheme in the form it is presented to the Court. I am not required to, and do not, consider the potential impacts of any possible alternative schemes or arrangements.

3.2.20 As the Independent Expert, I was not involved in the formulation of the Scheme.

3.2.21 I acknowledge that the Court, in exercising its discretion, will be concerned with whether the Scheme has a material adverse effect on employees of the Companies. As discussed in paragraph 2.2.4, the Scheme is a consequence of a strategic decision taken by SWL and does not involve the transfer of staff

between SWL and Rothesay. Any impacts on employees will result from commercial decisions taken by SWL and Rothesay. Both SWL and Rothesay have informed their employees of the Scheme and I have not considered the impacts on employees in my Report. While there may be redundancies or redeployment of some employees of SWL, SWL is committed to treating all of its employees fairly, and adhering to all legal requirements and its relevant corporate group policies.

3.3 Framework for consideration of the Scheme

3.3.1 As mentioned in paragraph 3.2.17, the outcome of a relatively recent scheme of transfer is particularly relevant to my considerations. On 16 August 2019, the Court, presided over by Mr Justice Snowden, declined to sanction a proposed scheme to transfer approximately 370,000 non-profit annuities in payment from The Prudential Assurance Company Limited (PAC) to Rothesay. PAC and Rothesay appealed this decision and on 2 December 2020, the Court of Appeal overturned the original ruling. The scheme was later sanctioned and the transfer from PAC to Rothesay effected. As the Transferring Policies include non-profit annuities, it is appropriate for me to consider the clarifications and conclusions of the Court of Appeal when it overturned the initial ruling.

3.3.2 Key points from the Court of Appeal judgement on the approach to the sanction of Part VII transfers, with particular relevance to the Scheme, include the following:

- The Court considering the transfer of a book of annuities in payment will primarily be concerned with the interests of the transferring policyholders. More generally, in exercising its discretion, the Court will consider whether the proposed scheme will have a material adverse effect on policyholders, employees or other stakeholders.
- Where the transfer is for annuities in payment, the paramount concern of the Court will be to assess whether the transfer will have any material adverse effect on the receipt by the annuitants of their annuities, and on whether the transfer may have any such effect on payments that are or may become due to the other annuitants, policyholders and creditors of the insurance companies involved in the transfer. The Court will also be concerned to assess whether there may be any material adverse effect on the service standards provided to the transferring annuitants or policyholders. Whether any other factors require consideration will depend on the circumstances of the case.
- The Court must take into account and give proper weight to matters that ought to be considered, and ignore matters that ought not properly to be taken into account.
- 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.

  In some cases, it may also be relevant for the Court to consider whether there would be such material adverse effects in the event that the scheme was not sanctioned.
- In the absence of defects in the reports of the independent expert and the Regulators, the court should accord "full weight" to their opinions and only depart from their conclusions if there are "significant and appropriate reasons" for doing so.

- Even if the Court finds that the proposed scheme will have a material adverse effect on some sub-group or sub-groups of policyholders, it may still sanction the scheme in the exercise of its discretion. If there are differential effects on the interests of different classes of person affected, the Court will need to consider whether the proposed scheme as a whole is fair as between those interests.

3.3.3 The Court of Appeal also made the following conclusions in its judgement on the PAC and Rothesay case brought to appeal:

- The likelihood of non-contractual external financial support potentially available to either of the insurance companies involved in a transfer of business is not a relevant factor to be taken into account in determining whether a scheme should be sanctioned.
- Subjective factors raised by policyholders objecting to a transfer (such as the value placed on the age, venerability and established reputation of an insurance company, in the appeal case, PAC) are not relevant to be taken into account in the exercise of the Court's discretion.

3.3.4 My considerations on the Scheme take the Court of Appeal judgement into account.

3.4 Definition of policyholder

3.4.1 As required by the FCA Guidance, in the context of the Scheme, where I use the terms Transferring Policyholders, SWL Non-Transferring Policyholders and Rothesay Existing Policyholders, the term "Policyholders" includes all of the following, whether or not they are policyholders as a matter of law:

- the holders of:
  - Transferring Policies
  - SWL Non-Transferring Policies
  - Rothesay Existing Policies.
- the trustees of pension schemes that have bought an insurance contract (commonly known as a "buy-in") provided by either SWL or Rothesay to cover part of the liabilities of the pension scheme for which they are trustees
- the underlying members of these pension schemes
- other individuals who are or may become entitled to receive benefits under the policies written by SWL or Rothesay including:
  - contingent beneficiaries who are entitled to receive benefits from the insurer upon the death of the policyholder/pension scheme member
  - the former spouses of policyholders that, by way of a court-appointed divorce settlement, are entitled to a share of benefits when they become payable to the policyholder/pension scheme member.

4 The regulatory environment

4.1 Introduction

4.1.1 Insurance companies in the UK are regulated for the protection of policyholders. Insurance company regulation can be broken down into the following areas:

- requirements in relation to the financial soundness (or solvency) of firms (known as "prudential" regulation)
- requirements in relation to the way firms manage their business and how they treat their customers (known as "conduct" regulation)
- requirements in relation to how the firm is directed and controlled by its board of directors (known as "corporate governance")
- industry-level protections for consumers.

4.1.2 The Scheme involves a transfer from one insurance company to another, both of which are regulated in the UK.

4.1.3 This section provides some background information on the regulatory regime in the UK. This background is provided in the context of the Scheme. It is not intended to be a complete description.

4.1.4 I use the information in this section in later sections of my Report. It helps to put the background information on the Companies given in sections 5 and 6 into context and I use it in sections 8 to 10 when considering the possible impact of the Scheme on policyholders.

4.2 The Regulators

4.2.1 UK insurance companies are authorised by the PRA and regulated by the PRA and FCA. The PRA is responsible for prudential regulation and the FCA is responsible for conduct regulation. Although the PRA and FCA are separate bodies, they co-ordinate their activities where appropriate. In particular, the PRA and FCA are required to co-ordinate with each other in advance of insurance business transfers under Part VII of the FSMA.

4.2.2 The PRA's primary objectives are to:

- promote the safety and soundness of the firms it regulates
- contribute to ensuring that insurance policyholders are appropriately protected.

4.2.3 The FCA's strategic objective is to ensure that relevant markets function well. It regulates all UK financial services firms in relation to consumer protection, market integrity and the promotion of competition in the interests of consumers.

4.2.4 The PRA has a Rulebook and the FCA has a Handbook. These contain rules and guidance that authorised and regulated firms are expected to adhere to. The Rulebook and Handbook are supplemented by additional publications by the Regulators, which may set out expectations and guidance on specific topics.

4.3 Prudential regulation

Introduction

4.3.1 Prudential regulation relates to the financial soundness (or solvency) of firms. Financial soundness is a key consideration for me as Independent Expert, as it affects the security of policyholders' benefits.

4.3.2 The regulatory solvency framework in the UK is based on the Solvency II framework developed by the European Union (EU) prior to the UK's withdrawal from the EU.

4.3.3 Since the UK's withdrawal from the EU, the UK government and the PRA have implemented certain changes to the Solvency II framework as it applies in the UK. A number of important further reforms to the UK's implementation of Solvency II, which are described in paragraph 4.3.34, are currently in the process of being implemented and are expected to come into effect on 31 December 2024. I have taken the potential impacts of these reforms into account when forming my opinions on the Scheme.

4.3.4 Following implementation of these further reforms, the PRA is expected to change the name of the UK regulatory solvency framework from Solvency II to Solvency UK, although the timing of this name change, as at the date of my Report, is uncertain. Throughout my Report I will refer to the UK regulatory solvency framework using the usual current terminology of Solvency II. The Solvency II framework applicable in the UK is summarised below.

Solvency II framework

4.3.5 The Solvency II framework is made up of three pillars:

- Pillar 1 sets outs regulatory capital requirements that firms are required to meet.
- Pillar 2 sets out requirements for corporate governance and risk and capital management.
- Pillar 3 sets out requirements for the disclosure of information to regulators and the public.

4.3.6 I briefly describe each of the three pillars below.

Pillar 1

4.3.7 Pillar 1 focuses on quantitative aspects. It sets out details on the valuation of assets and liabilities, and on how the regulatory capital requirements should be calculated.

4.3.8 Simplistically, assets are items owned by the insurer that have value and amounts owed to the insurer. Liabilities are amounts the insurer owes and the value of amounts it expects to have to pay to meet benefit payments and expenses on its policies. The principle underlying the Solvency II valuation methodology is that the assets and liabilities are valued at the amount for which they could be exchanged, transferred or settled by a knowledgeable and willing third party in an arm's length transaction.

4.3.9 Insurance companies are required to hold assets in excess of their liabilities. The minimum amount of that excess, the regulatory capital requirement, is calculated taking into account the risks accepted by the insurance company.

Valuation of assets and liabilities

4.3.10 Assets held by the insurer such as cash and investments are, broadly speaking, reported at market value.

4.3.11 The values placed on companies' insurance liabilities are called the Technical Provisions. The Technical Provisions are usually calculated as the sum of the Best Estimate Liabilities (BEL) and the Risk Margin:

- The BEL is intended to be a best estimate, that is, neither an optimistic nor pessimistic estimate, of the amount of money the insurance company needs to hold today to be able to pay policyholder benefits in the future on its existing business. It is usually calculated by projecting expected premium income, insurance liability outgo and relevant expense outgo over the expected lifetime of the existing policies. The projections use up-to-date and best estimate information. The net liability and expense outgo in each future period of the projection is then discounted using prescribed discount rates to give a present date total value, which is the BEL.
- The Risk Margin is intended to represent the additional amount that a third party would require, in excess of the BEL, to take over responsibility for meeting the insurance liabilities in an arm's length transaction. The Solvency II regulations set out how it should be calculated but, simplistically, it is a function of the current and projected future regulatory capital requirement.

4.3.12 The Technical Provisions for some liabilities may be calculated "as a whole" rather than as the sum of the BEL and Risk Margin. This applies when the value of the liability can be replicated using market data and is typically used where the insurance liability is defined by reference to the value of specific assets.

4.3.13 Non-insurance liabilities, such as amounts owed to service providers, are also reported, broadly speaking, at market value.

4.3.14 The excess of the value of assets over the value of liabilities is referred to as "Own Funds". Own Funds generally represent the amount of financial resources an insurance company has available to meet its regulatory capital requirements. However, in some cases, in accordance with the detailed Solvency II regulations, the amount of Own Funds available to meet an insurance company's regulatory capital requirement may be restricted to a lower amount, with the restricted amount referred to as "Eligible Own Funds". In the remainder of my Report, where I use the term Own Funds, I am referring to Eligible Own Funds.

Regulatory capital requirements

4.3.15 The capital required under the Solvency II regime, the regulatory capital requirement, is the Solvency Capital Requirement (SCR). It is intended to ensure that, if capital equal to the SCR is held, the value of the firm's assets will exceed the value of its liabilities over a one-year time period with a probability of 99.5%.

4.3.16 Many firms use the Solvency II Standard Formula to calculate the SCR. The Standard Formula sets out a given approach for calculating the SCR and aims to capture the material quantifiable risks to which most insurers are exposed. Where the Standard Formula is used, both the insurance company and the PRA are required to assess its appropriateness on a regular basis.

4.3.17 Solvency II also permits firms to use their own Internal Model (IM) to calculate the SCR. In the UK today, most large insurance firms use an IM. An IM reflects the specific risk exposures of the firm and must be approved by the PRA. Firms may also use a combination of an approved IM for some risks or business lines and the Standard Formula for others. This is known as a Partial Internal Model (PIM).

4.3.18 In certain circumstances, such as where the PRA considers that a firm's calculation of its SCR does not adequately capture the risks to which it is exposed, the PRA may require the firm to hold additional capital (known as a capital add-on).

4.3.19 The SCR is underpinned by the Minimum Capital Requirement (MCR), which usually sets a lower limit on the amount of capital that an insurance company must hold. The calculation of the MCR is set out in the Solvency II regulations. The result is between 25% and 45% of the SCR although there is an overriding constraint that the MCR must be at least as large as a monetary amount set out in the Solvency II regulations. For life insurance companies the minimum amount is currently set at €4.0m (£3.49m using the prescribed exchange rate that is updated on an annual basis). Assuming the reforms referred to in paragraph 4.3.3 are implemented as planned, the monetary minimum of the MCR will be defined as a sterling amount of £3.5m with effect from 31 December 2024.

4.3.20 Breaches of the SCR and MCR will result in regulatory intervention. The intervention will be more severe if the MCR is breached.

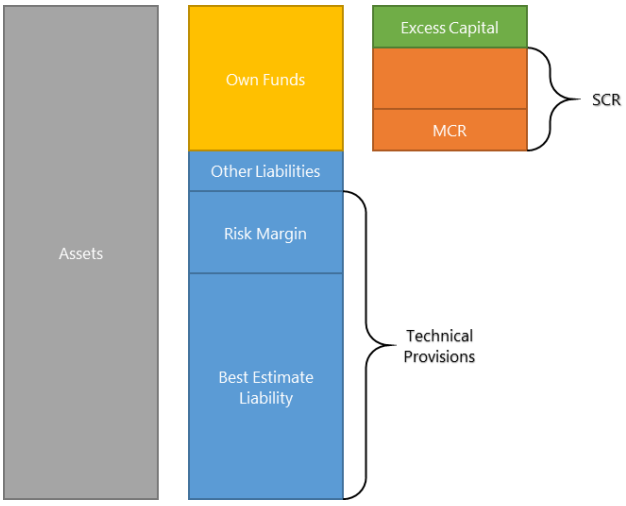
Adjustments to Technical Provisions

4.3.21 Certain methodologies that reduce the calculated Technical Provisions are available to firms in certain circumstances. In the UK a firm must get approval from the PRA before using the methodologies. The methodologies that are relevant in the context of the Scheme are described briefly below:

- Transitional Measure on Technical Provisions (TMTP): The TMTP allows firms to phase in, over a 16-year period from 1 January 2016, the increase in Technical Provisions that resulted from moving from Solvency I (the regulatory solvency framework in place prior to the introduction of Solvency II) to Solvency II.
- Matching Adjustment (MA): The MA is an increase in the prescribed discount rates used in the calculation of the BEL. Using higher discount rates places a lower value on the BEL. The MA only applies to particular assets and liabilities. A firm must be able to demonstrate that the cashflows it expects to receive on these assets closely match the claims and expense cashflows that it expects to pay. Both the assets and the liabilities must satisfy certain criteria. The exact size of the MA will depend on the specific assets held.
- Volatility Adjustment (VA): The VA is an increase in the discount rates used in the calculation of the BEL. The VA is based on a representative portfolio of assets for each relevant currency and, unlike the MA, does not take into account the individual firm's actual assets. Firms cannot apply the MA and the VA to the same insurance liabilities.

4.3.22 A simplified diagram showing the main components of the Solvency II balance sheet is shown in Figure 4.1 below.

Figure 4.1: Simplified Solvency II balance sheet



Pillar 2

4.3.23 Pillar 2 focuses on more qualitative requirements, particularly in relation to corporate governance, risk and capital management. It also includes the Prudent Person Principle, which requires insurance companies to consider, amongst other things, the interests of policyholders in the way they manage their assets.

Corporate Governance

4.3.24 All insurers are required to establish at least the key functions listed below as part of their governance structures and consider whether other functions should be deemed key, taking into account the specific nature of the insurance company. The required key functions are:

- Actuarial Function: Required, among other things, to co-ordinate the calculation of Technical Provisions and to ensure the appropriateness of the data, models, methodologies and assumptions used in the calculation of Technical Provisions.
- Compliance Function: Required, among other things, to advise the insurer on compliance with the Solvency II regulations.
- Internal Audit Function: Required, among other things, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance.
- Risk Management Function: Required, among other things, to facilitate the implementation of the insurer's risk management system.

4.3.25 Additional information on corporate governance is contained in sub-section 4.5.

Risk and capital management

4.3.26 Risk and capital management are important considerations for me as Independent Expert. The way an insurer manages risk and the capital it chooses to hold against those risks will affect the security of policyholders' benefits. I need to be confident that the security of policyholders' benefits is not materially adversely affected by the Scheme.

4.3.27 An insurer is required to implement an effective risk management system, setting out how it identifies, measures, monitors and controls its risks. This includes maintaining a risk appetite, which quantifies the level of risk an insurer is prepared to take, and a capital policy to help manage the company in line with its risk appetite.

4.3.28 Usually, a firm will express its risk appetite in terms of a target capital level as a percentage (greater than 100%) of the SCR (which I refer to as the SCR cover ratio) or other calculated capital requirement. Maintaining capital in excess of the regulatory minimum increases the probability that a firm will have sufficient assets to cover its liabilities in the future following adverse experience, and therefore increases the security of policyholder benefits.

4.3.29 The risk appetite and capital management policy are set by the firm's board of directors (board) and are communicated to the PRA. The PRA may challenge a firm if it considers the board-agreed appetite and policy inadequate.

4.3.30 As part of the risk management system, firms are required to carry out an Own Risk and Solvency Assessment (ORSA) at least annually. The ORSA process includes an assessment of the firm's capital needs taking into account the specific risk profile and strategy of the firm. This assessment of required capital is referred to as the ORSA capital requirement or Pillar 2 capital requirement.

Prudent Person Principle

4.3.31 In summary, the Solvency II Prudent Person Principle requires insurance companies to invest sensibly. There are some overarching requirements including that insurance companies must be able to properly identify, measure, monitor and manage the assets that they invest in. In particular, assets held to cover Technical Provisions must take into account the nature and duration of the insurance liabilities and the best interests of policyholders. The nature of the insurance liabilities means whether the liabilities are fixed in amount or, if they are variable, how they vary. The duration of the insurance liabilities essentially means the period to when the liability is expected to be paid by the insurance company.

4.3.32 I need to be confident that the Companies consider the Prudent Person Principle in relation to the Scheme.

Pillar 3

4.3.33 Pillar 3 sets out requirements for the disclosure of information to regulators and the public. I do not consider that these requirements are particularly relevant to the Scheme and so I have not considered them in detail. However, I have reviewed the Companies' public and regulatory disclosures to help me to understand their business models and risk exposures with summary information provided in sections 5 and 6 of my Report.

Solvency UK reforms

4.3.34 A package of regulatory reforms (the Solvency UK reforms) has been introduced by the UK government and the PRA. Some of these reforms came into effect on 30 June 2024 (and are, therefore, reflected in the Companies' financial information included in my Report) and some will come into effect on 31 December 2024. The key reforms which come into effect on 31 December 2024, and which may affect the Companies include:

- the option to adopt a new simplified calculation method for the TMTP
- widening the potential assets eligible for inclusion in the MA
- the use of "notched" credit ratings, that is more granular assessment of the creditworthiness of assets, in the calculation of MA benefits (firms can choose to implement this before 31 December 2024)
- the requirement for a senior manager of the insurer to attest each year to the appropriateness of the insurer's MA benefit (that is the reduction in Technical Provisions that results from the firm's use of the MA)
- changes to the information that must be disclosed to the PRA under the Pillar 3 requirements.

4.3.35 I comment on these reforms in the context of the Companies' regulatory solvency in paragraphs 5.5.10 and 6.5.10. The impacts of the reforms that come into effect on 31 December 2024 are not currently known but are not expected to be material. I will comment on these impacts further in my Supplementary Report.

Group requirements

4.3.36 Solvency II includes some additional regulations that apply only when an insurer is part of a group of companies. The extent of the additional regulations depends upon the type of companies within the group and whether there is more than one insurer in the group. A key additional requirement that applies to the groups of both SWL and Rothesay is that they need to calculate a consolidated group SCR and hold sufficient assets at a group-level (group Own Funds) to cover the group SCR.

4.3.37 Where a group contains more than one insurance company, I refer to that group as an insurance group. SWL is part of an insurance group. Each individual UK insurance company within an insurance group must comply with the prudential regulations set out earlier in this sub-section 4.3. Individual insurance companies within an insurance group but situated outside of the UK will have to comply with their local regulatory requirements.

4.3.38 Where the insurance companies within an insurance group operate in different countries, the relevant prudential regulators of each relevant country will agree on which regulator will lead oversight of the insurance group.

4.3.39 Typically, where an insurer is part of a group of companies, the group will apply common governance and risk management practices across all group companies. I mention this as it helps to explain some of the approaches taken by the Companies, as discussed in sections 5 and 6 of my Report. I also consider the group structures when assessing the risks to which the Companies are exposed.

4.4 Conduct regulation

Introduction

4.4.1 Conduct regulation refers to the rules and regulations surrounding the behaviours of companies and their staff with the aim of ensuring customers are treated fairly. How the Companies comply with conduct regulation is a consideration for me in my assessment of the potential impacts of the Scheme on policyholders.

4.4.2 The FCA is responsible for the conduct regulation of insurers in the UK, further details are set out below.

Principles for Business

4.4.3 The FCA Handbook includes twelve principles for business, setting out general standards of conduct that all firms regulated by the FCA are expected to follow. I do not list the full twelve principles here, but the following are, in my opinion, the key principles that need to be considered in the context of the Scheme:

- Integrity: A firm must conduct its business with integrity.
- Skill, care and diligence: A firm must conduct its business with due skill, care and diligence.
- Customers' interests: A firm must pay due regard to the interests of its customers and treat them fairly.
- Communications with clients: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.
- Conflicts of interest: A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.
- Consumer Duty: A firm must act to deliver good outcomes for retail customers.

Consumer Duty and customer outcomes

4.4.4 The Consumer Duty is relatively new regulation that was introduced by the FCA effective from 31 July 2023, although some elements were not required to be implemented until 31 July 2024. It applies to all firms regulated by the FCA, with scope limited to where a firm has a material influence on the outcomes of retail customers. For insurance firms, retail customers typically include individual persons that are policyholders of the firm and the beneficiaries of pension schemes where the trustees

of the pension scheme are the policyholder and where the insurance firm has a material influence over the outcomes for those beneficiaries.

4.4.5 The overarching requirement, for firms to act to deliver good outcomes for retail customers, is underpinned by three cross-cutting rules which require firms to:

- act in good faith
- avoid causing foreseeable harm
- enable and support retail customers to pursue their financial objectives.

4.4.6 The FCA has also outlined four customer outcomes that firms should strive to achieve as they are instrumental in helping drive good outcomes for retail customers.

- Products and services: Consumers are sold and receive products and services that have been designed to meet their needs, characteristics and objectives.
- Price and value: Consumers pay a price for products and services that represents fair value.
- Consumer understanding: Consumers are given the right information to make effective, timely and properly informed decisions about products and services.
- Consumer support: Consumers receive good customer service.

Conduct of Business Sourcebook

4.4.7 In addition to Principles for Business, the FCA Handbook contains specific rules in relation to conduct, known as the Conduct of Business Sourcebook (COBS). Much of COBS relates to specific types of insurance and investment business and is not directly relevant to the Scheme. Of relevance is COBS 4 "Communicating with clients, including financial promotions". These rules mirror one of the principles for business in that they require all policyholder communications to be clear, fair and not misleading.

Complaints handling

4.4.8 The FCA Handbook also contains specific rules in relation to complaints handling and resolution in the Dispute Resolution: Complaints (DISP) section. This includes the requirement to maintain a complaints procedure and minimum requirements for handling complaints, including communication with the complainant, time limits and reporting requirements.

4.5 Corporate governance

Introduction

4.5.1 Corporate governance describes the system by which a firm is directed and controlled by its board. This system sets out the process by which decisions are made and who is authorised to make which decisions. It affects how the Companies are currently run, and the future direction of the Companies will be set through the decisions that are made through their governance structures.

4.5.2 This is a relevant consideration for me as Independent Expert as I need to be comfortable that decisions that potentially affect policyholders will continue to be made appropriately.

4.5.3 I have already mentioned, in paragraph 4.3.24, the Solvency II requirement for insurers to establish at least the four key functions (Actuarial, Compliance, Internal Audit and Risk Management). Further information about corporate governance requirements is set out below. The implications for Transferring Policyholders are set out in paragraphs 8.3.82 to 8.3.88.

General governance requirements

4.5.4 Usually, an insurer will have a board, which governs the company. The board is responsible for strategy, culture, oversight of management including committees of the board, and approval of the firm's financial statements and other disclosures.

4.5.5 The Regulators expect the board to contain some independent non-executive directors (individuals that do not work within the firm and do not have a particularly long association with the firm) that are able to provide independent oversight and constructive challenge.

4.5.6 The Regulators also expect insurance companies subject to Solvency II regulation to have the following board committees:

- Audit Committee (broadly to provide oversight of financial reporting and internal controls)
- Risk Committee (broadly to provide oversight in relation to risk management).

4.5.7 As noted in paragraph 4.3.24, Solvency II contains governance requirements that oblige insurers to establish, at least, the four key functions as part of their governance structures.

Regulation of senior managers

4.5.8 Since December 2018, UK insurers have been subject to the Senior Managers and Certification Regime (SM&CR). This regime is operated jointly by the Regulators. The SM&CR defines a set of senior management functions (SMF), or roles within a firm, such as Chief Executive Officer and Chief Actuary.

4.5.9 Individuals undertaking these functions are subject to approval by the Regulators. The firm must ensure that all relevant staff are at all times "fit and proper" to perform their job.

4.5.10 Other insurance company employees who do not perform SMF roles, but who can have a significant impact on customers, the firm and/or market integrity, must be certified. Here, the firm must ensure that all relevant staff are at all times "fit and proper" to perform their job and certify annually that this is the case. The certification requirements for insurers came into effect in December 2019.

4.5.11 The regime is intended to ensure that individuals performing SMF and certified roles have the necessary skills, experience and personal characteristics to perform their function effectively.

4.6 Consumer protections

Introduction

4.6.1 As Independent Expert, I need to consider if there are any changes in consumer protection for Transferring Policyholders as a result of the Scheme and, if so, whether those changes give rise to a material adverse effect on the Transferring Policyholders. There are two areas of industry-level consumer protection that are important in my considerations:

- industry compensation schemes that can compensate policyholders in the event that an insurer is insolvent and unable to pay claims
- industry dispute resolution bodies that can resolve complaints made by policyholders against insurers.

4.6.2 In the UK, the industry compensation scheme is the Financial Services Compensation Scheme (FSCS) and the relevant dispute resolution bodies are the Financial Ombudsman Service (FOS) and the Pensions Ombudsman (TPO). More information about these protections is set out below.

4.6.3 The Scheme does not affect the Transferring Policyholders' access to the FSCS or the FOS/TPO. Transferring Policyholders that are eligible to claim from the FSCS or eligible to refer a complaint to the FOS/TPO will continue to be eligible if the Scheme is implemented.

The FSCS

4.6.4 The FSCS can provide compensation to eligible policyholders of UK authorised insurers in the event of the insolvency of the insurer such that the insurer is unable to pay policyholder benefits in part or in full. For certain types of insurance, including the Transferring Policies, the FSCS will arrange for 100% of any successful eligible claim to be paid, meaning eligible policyholders should receive or continue to receive their guaranteed benefits even if the insurance company fails. Eligibility depends upon the policyholder's country of habitual residence at the time the policy was issued or, for the members of pensions schemes, the country of habitual residence when they joined the pension scheme. Most Transferring Policyholders are eligible, but a small number of Transferring Policyholders that have individual annuities may not be. Those that may not be eligible were resident in certain overseas countries when their policies were issued, and their eligibility will depend on their residential status at the time they joined the pension scheme. This information is not readily available to SWL. It is expected that the FSCS would carry out its own investigation into the eligibility of these policyholders in the circumstances where they sought FSCS compensation. The FSCS is financed by levies on the insurers in the UK insurance industry.

The FOS

4.6.5 The FOS is an independent UK public body that aims to resolve disputes between individuals and UK financial services companies, including insurers, and may make compensation awards (payable by the relevant financial services company) in favour of policyholders. Holders of policies that constitute business carried on in, or from, the UK are permitted to bring complaints to the FOS. All of the Transferring Policies constitute business carried on in, or from, the UK and, therefore, all of the Transferring Policyholders that have individual annuities may bring a complaint to the FOS. The FOS is free to use and its rulings are only legally binding if accepted by the policyholder.

TPO

4.6.6 TPO is an independent UK public body that aims to resolve complaints and disputes relating to occupational and personal pension schemes. TPO is free to use. Pension scheme trustees, members and their beneficiaries can submit complaints to TPO. Transferring Policyholders that are not able to bring a complaint to FOS, in particular the members and beneficiaries of pension schemes that have a bulk purchase annuity buy-in policy, may raise the issue with TPO. In this situation the member or beneficiary would be able to bring a complaint against the pension scheme, not the insurer. TPO may direct compensation to be paid where complaints are upheld. TPO's determinations are binding on the parties and enforceable in Court.

5 Background information on Scottish Widows Limited

5.1 Introduction

5.1.1 In this section, I set out some background information on SWL. In section 6, I set out similar information for Rothesay. I use this information in later sections when considering the possible impact of the Scheme on policyholders, primarily by comparing the similarities and differences between SWL and Rothesay.

5.1.2 The aspects I compare, and the reasons for doing so, are given below:

- Group structure: The group structure gives an indication of whether, on the basis of current information, additional financial support may be available if either of the Companies get into financial difficulty, although I only take this into account in forming my opinions if the support is guaranteed. It also highlights if there are material risks elsewhere in the group that could have an impact on the financial strength of the group.
- Business model: Under business model, I consider:
  - the types of policies that have been written by the Companies, which is important, as I need to consider the possible effects of the Scheme on different types of policies
  - the overall scale of the business so that I can consider how significant the Transferring Policies are compared to the overall size of the insurance business and consequently if this gives rise to any particular issues
  - recent and upcoming events, so that I can determine if allowance needs to be made for these in the financial information shown in my Report and whether they are important to me in forming my opinions
  - the use of reinsurance, so that I can determine whether differences in approach introduce particular risks that I need to consider in forming my opinions.
- Governance structure: I need to consider whether changes to the governance structure may lead to poorer outcomes for the Transferring Policyholders. This includes considerations in respect of the fair treatment of policyholders.
- Regulatory solvency: The methods and assumptions used to calculate the solvency position of an insurer can have a material impact on the amount of capital it holds. It is therefore important for me to consider differences in approach when I compare the financial position of the Companies.
- Capital management policy: The capital management policy will set out target levels of capital, in excess of the regulatory capital requirement, which provide additional security. I need to consider whether differences between the Companies' capital management policies could have a material impact on the security of Transferring Policyholders' benefits.
- Risk management framework: The risk management framework can be thought of as the policies, processes and governance that a company has in place to monitor, manage and control risks. I need to compare the risk management frameworks of the Companies, in particular when considering security of benefits for Transferring Policyholders.
- Administration and outsourcing: An important consideration of mine is that implementation of the Scheme should lead to no material deterioration in the service standards experienced by Transferring Policyholders. I therefore look at the approaches taken by the Companies to administering their policies.

- Material risks: The risks accepted by a company will influence its financial soundness. I therefore need to look at the risks the Companies are exposed to when considering security of benefits.
- Consumer Duty: Consumer Duty assessments identify whether firms are achieving good outcomes for retail policyholders. I need to consider and compare approaches taken by the Companies, particularly when considering the price and value, consumer understanding and the consumer support outcomes for the Transferring Policyholders.

5.2 Group structure

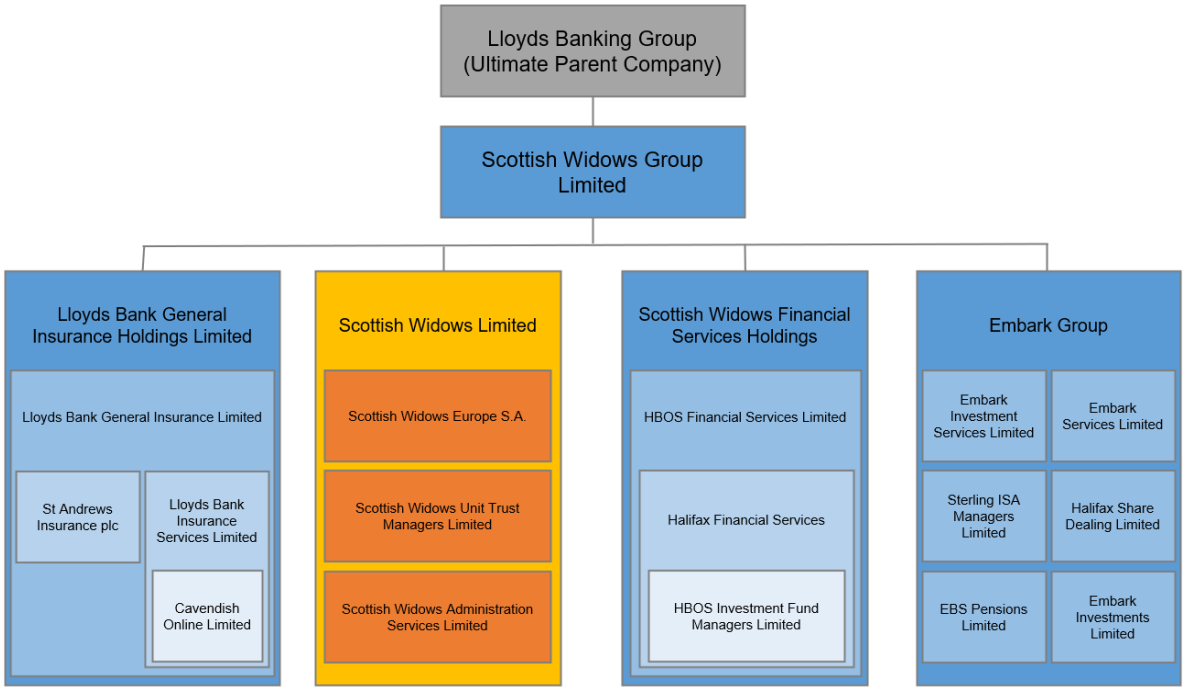
5.2.1 SWL is a UK limited company authorised by the PRA and regulated by the PRA and the FCA.

5.2.2 SWL is a wholly-owned subsidiary of Scottish Widows Group Limited (SWG). SWG is a UK limited company. SWG is ultimately owned by Lloyds Banking Group plc (LBG), a UK financial services group.

5.2.3 SWG and all of its subsidiaries (the Insurance Group) form an insurance group. As discussed in paragraphs 4.3.36 to 4.3.38, each insurance company within an insurance group is, individually, subject to prudential regulation and there is a further level of prudential regulation that applies to the insurance group as a whole. Group regulation for SWG is overseen by the PRA.

5.2.4 A simplified structure chart showing the insurance business of LBG is given in Figure 5.1 below.

Figure 5.1: Simplified Scottish Widows Group structure as at the date of my Report



Source: Report of the Chief Actuary of SWL on the Scheme

5.2.5 SWL writes a wide range of life, health and pensions business, including unit-linked and conventional non-profit business (including annuities). SWL includes two with-profits funds. The types of business provided by SWL are explained in sub-section 5.3 below.

5.2.6 Following the UK's exit from the EU, most UK insurance companies that had written policies in the EU transferred such policies to insurers based in the EU to ensure benefits could continue to be paid to policyholders. In 2019, SWL business relating to sales made in Europe was transferred via a Part VII

transfer to newly established Scottish Widows Europe S.A. (SWE). SWE is based in Luxembourg and is regulated by the Commissariat aux Assurances.

5.2.7 The subsidiaries of Lloyds Bank General Insurance Holdings Limited write general insurance business with a focus on UK home insurance and are regulated by the PRA and the FCA.

5.2.8 Embark Group Limited (Embark) was acquired by SWG in 2022. Embark and Scottish Widows Financial Services Holdings provide non-insurance investment solutions for saving and retirement.

5.2.9 LBG can provide capital injections to SWG in times of stress. The SWG Recovery Plan (which sets out the actions SWG considers are available to it and its subsidiary companies, were it to get into financial difficulty) notes this is an action that may be available, but it will be dependent on LBG's willingness and capacity to provide such support. Support from LBG is, therefore, not guaranteed.

5.3 SWL's business model

Description of SWL's business

5.3.1 SWL's in-force business is mainly composed of:

- non-profit annuities
- contracts with defined benefit pension schemes (which include non-profit annuities)
- protection products
- unit-linked savings contracts (for individual customers and group pensions)
- with-profits policies.

Non-profit annuities

5.3.2 An annuity is a policy under which a regular payment is paid to a beneficiary, usually until the death of the beneficiary.

5.3.3 An annuity can be in payment or in deferment. In payment means that regular payments to the beneficiary have started. When an annuity is in deferment, it is called a "deferred annuity". This means that the regular payments will start at a later date, usually the beneficiary's planned retirement date.

5.3.4 The amount paid may be fixed or may be subject to regular increases. Increases may be based on a fixed annual percentage, or linked to an inflation index.

5.3.5 Some of these annuities contain additional benefits, such as:

- spouse's or other dependant's annuities to be paid on the death of the main beneficiary
- a guaranteed return on death of the main beneficiary during a specified guarantee period of typically 5 to 10 years after the annuity payments start.

5.3.6 SWL's annuities are mainly "non-profit" (though the annuities may be purchased with the proceeds of a SWL with-profits policy, see paragraphs 5.3.19 to 5.3.22). This means that the benefits of the annuity are defined when the policy is taken out and they do not depend upon the profits made by SWL. Apart from as set out immediately below, SWL has no discretion in the amount of benefits paid.

5.3.7 In certain situations, the beneficiary may choose to forgo some or all of their annuity income in return for a lump sum payment (called a commutation). Holders of deferred annuities may also ask to move

the value of their policy to a different pension provider (called a transfer, with the amount transferred called a transfer value) or have payments started earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively to reflect the change in the expected payment period. These policyholder choices are referred to as optional benefits or, simply, options. The factors to be used in these calculations and the actuarial bases underlying them are set by SWL. These affect the amount of the lump sum given by SWL for each £1 of annuity income forgone, the value passed across to the other pension provider or the recalculated annuity income amount. In these cases, SWL has an obligation to ensure that policyholders are treated fairly. SWL's approach to setting the factors used for a given policy will take into account any requirements included in the policy's terms and conditions.

Contracts with defined benefits pension schemes

5.3.8 SWL provides several types of contracts in relation to defined benefit pension schemes.

5.3.9 A bulk purchase annuity arises when the trustees of a defined benefit pension scheme enter into a buy-in or a buyout contract with an insurance company to transfer some or all of the pension scheme's liabilities to the insurer. The contracts are collectively referred to as bulk annuity policies, bulk annuities or bulk purchase annuities. These are specific types of non-profit annuities and typically include the additional benefits and optional benefits discussed in paragraphs 5.3.5 and 5.3.7 respectively.

5.3.10 Under a buy-in contract, the pension scheme pays the insurer a lump sum. In return, the insurer becomes liable for a contractually-defined portion of the pension scheme liabilities. The pension scheme liabilities correspond to the payments that need to be made to individual beneficiaries of the pension scheme, the pension scheme members and, if relevant, contingent beneficiaries (such as a spouse or child) following the death of the scheme member. The insurer will pay the pension scheme trustees an amount to cover the pension scheme's liabilities insured under the contract as they fall due. The pension scheme trustees remain responsible for paying the pension scheme beneficiaries. The pension scheme trustees become a policyholder of the insurer. There is no change to the status of the members or other beneficiaries of the pension scheme.

5.3.11 The bulk purchase annuity buy-in contracts can be thought of as a number of individual annuities, one for each member of the pension scheme, and for each other beneficiary of the pension scheme receiving benefits. However, under the buy-in contracts, the annuity income is paid to the pension scheme trustees and not the beneficiary directly.

5.3.12 Under a buyout contract, the pension scheme pays the insurer a lump sum (which could be funded by the conversion of an existing buy-in policy to a buyout contract). In return, the insurer becomes liable for the benefits payable to the relevant pension scheme beneficiaries. The pension scheme's members, and other beneficiaries that are receiving benefits from the pension scheme, become policyholders of the insurance company and are issued with individual insurance policies setting out the benefits that will be paid by the insurance company.

5.3.13 There are two further types of contract that SWL has entered into with defined benefit pension schemes:

- Residual risk policies. These are insurance policies that provide additional protection to pension scheme trustees that have entered into a buyout contract. The policy will provide cover for certain defined risks that may not be covered by the buyout contract. These risks could include claims from missing beneficiaries or claims from scheme members that they have a right to a higher level of benefit than those insured as a result of either data or benefit errors. SWL has written a residual risk policy with one of the pension schemes with which it has a buyout contract. It has written another residual risk policy with one of the pension schemes that purchased a SWL buy-in policy,

but this residual risk policy will only be enacted should the buy-in policy be converted to a buyout contract at some point in the future (at which point a premium will be payable by the pension scheme).

- Longevity insurance agreements. SWL has entered into four longevity insurance agreements with three defined benefit pension schemes of LBG (the Ambrosia Policies). These agreements, which are also referred to as longevity swaps, transfer some of the longevity risk (the risk that pension scheme members live longer than expected and, therefore, that member pensions are paid for longer than expected) in the defined benefit pension schemes to SWL. Under these swap arrangements, the pension schemes pay SWL a fee and a fixed cashflow each month. In return, SWL pays a cashflow to the pension schemes each month that varies with the longevity experience of the schemes. SWL fully reinsures the longevity risk arising from these agreements and this is discussed further in paragraphs 5.3.34 to 5.3.37.

Protection products

5.3.14 SWL writes a range of protection products that, subject to the policyholder paying the required premiums, pay benefits upon the policyholder dying or suffering from a prescribed illness or health condition covered by their policy.

5.3.15 SWL also writes small volumes of health insurance policies that, assuming premiums are paid, provide either a lump sum or a periodic (for example, monthly) income upon the policyholder meeting ill health criteria specified in the policy.

Unit-linked savings contracts

5.3.16 A unit-linked savings contract is an investment policy which can also have life insurance benefits. When used for general savings, the policy may have a fixed term (typically referred to as an endowment) or be open-ended (referred to as whole-of-life). When used for retirement savings the contracts are referred to as unit-linked pension plans and although the term of the policy typically runs to a chosen retirement, there is normally some flexibility as to when benefits may be taken. Unit-linked pensions plans can be sold to individuals on a stand-alone basis or as part of what is referred to as a workplace pension, where a company chooses a particular insurer to provide a pensions savings vehicle for its employees. The policyholder may pay a single or regular premium.

5.3.17 The premiums are used to purchase units in an investment fund. The value of the units will change in line with the investment performance of the assets in the investment fund. Charges are deducted from the value of units by the insurer to pay for the costs associated with administering the policy and providing any insurance cover selected such as a guaranteed payment (sum assured) on death.

5.3.18 SWL has the discretion to review and change the charges on some of its unit-linked contracts.

With-profits policies

5.3.19 With-profits policies are investment policies which can also have life insurance benefits. Similar to unit-linked savings contracts, these policies may have a fixed term (endowments), be open-ended (whole-of-life), or used for retirement (pension) savings. The policyholder may pay either a single or regular premium.

5.3.20 A key difference compared to unit-linked contracts is that the premiums on with-profits policies are invested in a with-profits fund. The with-profits policyholders share in the profits and losses of the with-profits fund which include investment returns net of expenses charged to the fund plus, potentially, other sources of profit such as from insurance claims being less than expected. A distinguishing feature of with-profits policies is the smoothing of investment returns via a bonus policy.

5.3.21 Payouts on SWL's with-profits policies are determined by reference to benefit levels including bonuses. Regular bonuses are declared and added to the value of the policy throughout the lifetime of the policy and cannot be removed once declared. The regular bonuses declared distribute a proportion, but not all of, the fund's profits. Upon a claim or policy maturity, a terminal bonus may also be declared which acts to uplift the policy value to allow, at the time of policyholder exit, for an appropriate share of profit previously held back.

5.3.22 SWL has two with-profits funds: the Scottish Widows With Profits Fund (SW WPF), which has liabilities of £5.6bn; and the Clerical Medical With Profits Fund (CM WPF) which has liabilities of £3.2bn (values as at 31 December 2023[7]). These funds contain a mix of pensions savings, whole-of-life, annuity and endowment business. Both with-profits funds have low levels of new business.

Source of SWL's business

5.3.23 SWL is actively seeking new business in some, but not all, of the above product areas. It does not seek to write new with-profits policies. Up until 2023, SWL actively sought to write new non-profit annuities through bulk purchase annuities with defined benefit pension schemes. Following a business strategy change, SWL no longer seeks to write bulk purchase annuities, and the proposed Part VII transfer is motivated by the strategic objective to exit the bulk purchase annuity market. SWL actively seeks new business through writing:

- individual non-profit annuities
- unit-linked savings contracts
- protection business.

Individual non-profit annuities

5.3.24 SWL sources individual annuities internally, when SWL's unit-linked pension and with-profits pension policyholders retire and buy an annuity from SWL with the proceeds of their pension policy, and externally through independent financial advisers (IFAs) and annuity brokers.

Unit-linked savings contracts

5.3.25 SWL sources individual pensions and non-pension savings business through direct-to-customer propositions to mass market and mass affluent banking customers. SWL expects a significant portion of growth in workplace pensions to come from existing customers.

Protection business

5.3.26 SWL sells new protection business via intermediary (IFA), direct (online) and retail (bank) channels.

Summary of SWL's in-force business

5.3.27 SWL's in-force business as at 30 June 2024 is summarised in Table 5.1 below. The table shows the number of in-force policies across key product categories and the Solvency II BEL. Note that all tables in my Report may include rounding differences where totals or the difference between two numbers are shown.

[7] Source: SWG ORSA as at 31 December 2023

Table 5.1: Policy count and Solvency II BEL for SWL's in-force business as at 30 June 2024

	Policies	BEL (£m)
Protection	1,060,661	454
Pensions and Investments[8]	4,925,779	149,148
Annuities	525,650[9]	15,211
Total	**6,512,090**	**164,812**

Source: SWL

Recent and upcoming events

5.3.28 I need to consider if there are any known events that might invalidate the analysis carried out in my Report, which uses financial information as at 30 June 2024.

5.3.29 SWL has confirmed that it is not currently involved in any corporate acquisitions or other unannounced future schemes that will occur in advance of or around the Scheme Effective Date.

5.3.30 SWL has told me that it intends to make use of the option to adopt the new simplified calculation method for the TMTP (see paragraph 4.3.34) with effect from 31 December 2024 in most situations. However, SWL has applied to the PRA to not use the simplified option in certain circumstances, and this is subject to the PRA's approval.

5.3.31 SWL paid a dividend in November 2024. SWL has provided me with the estimated impact of paying this dividend on its SCR cover ratio.

5.3.32 Based on the information given to me by SWL, I am satisfied that it is appropriate for me to use the financial position of SWL as at 30 June 2024 to form my opinions. I will review my opinions taking into account more up-to-date financial information in my Supplementary Report.

Reinsurance

5.3.33 Reinsurance is the passing of risk from one insurer (the cedant) to another (the reinsurer). Reinsurance does not typically affect an insurer's obligations to its policyholders, but it may provide a source of income that can be used to meet them. Although the intention of reinsurance is to transfer specific risks, it does introduce reinsurance counterparty default risk, which is the risk that the reinsurer defaults on its obligations to the cedant.

5.3.34 One of SWL's main risks is longevity risk. This means the risk of policyholders living longer than expected such that the annuities SWL must pay, remain in payment for longer than expected. Prior to the implementation of the Reinsurance Agreement (see sub-section 7.4), SWL reinsured, or passed on to other insurers, approximately 30% of the longevity risk arising from its bulk purchase annuities and fully reinsured the longevity risk arising from the Ambrosia Policies (see paragraph 5.3.13). SWL reinsures a much smaller proportion of the longevity risk arising from its individual annuities.

[8] This includes both unit-linked savings contracts products and relevant with-profits policies.
[9] This annuity policy count does not include the underlying beneficiaries of buy-in policies.

5.3.35 For both bulk and individual annuities, the longevity reinsurance is done using collateralised longevity swap reinsurance contracts (longevity swaps). This is where the reinsurer will pay SWL if SWL has to pay policyholders more than it expects to on the reinsured business because those receiving an annuity live longer than expected (and where SWL will pay the reinsurer if SWL has to pay policyholders less than it expects to on the reinsured business because those receiving an annuity live shorter than expected).

5.3.36 Collateralisation reduces SWL's exposure to the risk of the reinsurer failing to honour its obligations (and also reduces the risk to the reinsurer of SWL failing to honour its obligations). Such collateral arrangements may take different forms but with each:

- the reinsurer and SWL must identify assets (the collateral) broadly equal to the value of the reinsurance contract
- in the event of either party defaulting on its obligations, the other party is able to take ownership of the collateral up to a maximum of the amount owed to it.

5.3.37 For the reinsurance in place in respect of the Ambrosia Policies, SWL is not obliged to make a payment to the pension schemes until it receives the corresponding payment from the reinsurer. The risk of the reinsurer failing to honour its obligations is therefore borne by the pension schemes rather than by SWL.

5.3.38 SWL has longevity swaps in place in respect of the Transferring Policies. Five contracts are in place with either Prudential Insurance Company of America (PICA) or Swiss Re Europe S.A., UK Branch (Swiss Re) that reinsure some of the longevity risks associated with four bulk purchase annuity buy-in policies and the individual annuity policies of a pension scheme that previously held a buy-in policy that subsequently moved to buyout included in the Transferring Policies. The Ambrosia Policies are reinsured with SCOR SE, UK Branch (SCOR SE) and Pacific Life Re International Limited, UK Branch (Pacific Life Re). I consider the impact of the Scheme on the four reinsurers in section 11.

5.3.39 SWL also uses reinsurance to transfer a significant portion of the mortality risk (the risk of more policyholders dying or them dying sooner than expected) and morbidity risk (the risk that more policyholders than expected become eligible to claim ill-health benefits) that arises in its protection business.

5.3.40 Finally, reinsurance is used in the provision of reinsured fund links for unit-linked savings contracts. This reinsurance does not transfer risk but is the legal mechanism that allows SWL's policyholders to invest in the unit-linked funds managed by third-party insurance companies. SWL currently has this type of outwards reinsurance contract with over ten insurance companies.

5.3.41 On 30 April 2024, Rothesay and SWL entered into the Reinsurance Agreement, which is discussed in detail in sub-section 7.4. The Reinsurance Agreement transferred the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay in accordance with its terms with effect from 1 January 2024. This includes both asset risks and liability risks.

5.3.42 The economic effects of the reinsurance contracts that SWL has in place to reinsure longevity risk relating to the Transferring Policies (see paragraphs 5.3.34 to 5.3.38), other than those in place in respect of the Ambrosia Policies, are reinsured under the Reinsurance Agreement. This means that the economic exposures to reinsurer counterparty default risk associated with those contracts has been transferred from SWL to Rothesay under the Reinsurance Agreement. The risk of counterparty default on the reinsurance in place in respect of the Ambrosia Policies remains with the pension schemes that hold the Ambrosia Policies (see paragraph 5.3.37).

5.3.43 SWL has some internal reinsurance arrangements in place whereby SWL reinsures risk arising from its subsidiary SWE. These reinsurance arrangements are unaffected by the Scheme.

5.4 Governance structure

5.4.1 SWL is governed within the Insurance Group of LBG. The Insurance Group consists of Scottish Widows Group Limited (SWG) and its subsidiaries, associates, joint ventures and other legal entities. SWL is a subsidiary of SWG. The boards of SWG, SWL and twelve other companies have common membership and meet concurrently as the "Insurance Board" to govern those entities, including SWL. The Insurance Board is the Insurance Group's ultimate authorisation body for matters which concern the operation of LBG's insurance business, recognising however that SWG's subsidiary boards are authorisation bodies in respect of the business of those subsidiaries. The SWL Board is the authorisation body for SWL.

5.4.2 The Insurance Board has eleven directors: its Chair (a non-executive director who was independent on appointment); the Chief Executive Officer (CEO) of SWL (who is also CEO of LBG's Insurance, Pensions and Investment operating division, of which SWL is a significant component); another executive director; six independent non-executive directors; and two LBG nominated non-executive directors.

5.4.3 Relevant subsidiary boards of the Insurance Group, together with the Insurance Group's management, are responsible for ensuring the security of each subsidiary's obligations to its policyholders or customers, and generating and delivering sustainable shareholder value through the management of the Insurance Group's business.

5.4.4 The SWL Board has delegated certain matters to several committees: the Insurance Audit Committee; the Insurance Risk Oversight Committee; the Insurance People Committee; the Insurance With-Profits Committee; the Independent Governance Committee; the Insurance Board Investment Committee; and the Insurance General Purposes Committee. These committees provide oversight and direction of the Insurance Group's senior management team to the Insurance Board entities (including SWL) and (to the extent relevant or appropriate) across all of SWG's subsidiary companies. All of these are committees of the Insurance Board with the exception of the With-Profits Committee and the Independent Governance Committee, which are committees of the SWL Board. The committees of most relevance to the Scheme are listed below:

- Insurance Audit Committee: Provides oversight of the financial statements and reporting of the Insurance Group companies; their internal controls; the Insurance Group Audit function; whistleblowing and fraud reporting; and the Insurance Group's relationship with its external auditors.
- Insurance Risk Oversight Committee: The purpose of this committee is to review and challenge the enterprise-wide risk framework within the Insurance Group; monitor adherence to the risk framework; and consider material risk events and risk concentrations in order to form a view of the Insurance Group's aggregate risk profile.

5.4.5 The Insurance Board delegates the day-to-day running of the Insurance Group to the Insurance Group CEO, who is supported by the Insurance, Pensions and Investments Executive Committee (the Executive Committee), and the Insurance, Pensions and Investment Performance Committee (the Performance Committee). Members of the Executive Committee and the Performance Committee provide the day-to-day oversight and management of the business and affairs of the Insurance Group, subject to any specific matters reserved for consideration by the Insurance Board or one of its committees or subsidiary boards.

- The Executive Committee is accountable for business standards and practices, including risk management.
- The Performance Committee is accountable for driving and monitoring progress against the Insurance Group's longer-term plans.

5.4.6 The Executive Committee is supported by a number of other executive-level committees to drive and monitor progress against the Insurance Group's longer-term plan.

5.5 Regulatory solvency

5.5.1 SWL is required to comply with the Solvency II regulatory capital requirements and uses an IM to calculate its SCR (see sub-section 4.3). The IM is approved by the PRA at the SWG level such that the Insurance Group's SCR and the SCR for each of its UK insurance subsidiaries is calculated using the IM. SWE uses the Standard Formula to calculate its SCR on a stand-alone basis (under the EU version of Solvency II).

5.5.2 SWL is not required to hold any capital add-ons.

5.5.3 SWL has approval from the PRA to use the TMTP and MA (see paragraph 4.3.21).

5.5.4 The amount of the TMTP as at 31 December 2023 was £377m for SWL (equivalent to 11% of SWL's SCR, and 0.2% of SWL's BEL) and this will run-down to zero by 1 January 2032 in line with the Solvency II rules.

5.5.5 The impact of removing the MA as at 31 December 2023 would have been to increase SWL's BEL by £1.8bn (1%) and to reduce Own Funds by £1.3bn (23%). However, subject to regulatory approval, these impacts would have been partly offset by an increase in the TMTP. SWL has not publicly disclosed the impact of the increase in the TMTP. The SCR would also have increased by £3.7bn (107%). I discuss these sensitivities in sub-section 8.2 where I consider the impact of the Scheme on the benefit security of Transferring Policyholders.

5.5.6 I have quoted above the MA and TMTP impacts as at 31 December 2023, as these are publicly available. SWL has provided me with the amounts as at 30 June 2024, which I have considered in my assessment of the Scheme.

5.5.7 Table 5.2 shows a simplified presentation of SWL's Solvency II Pillar 1 balance sheet as at 30 June 2024.

Table 5.2: SWL's reported regulatory solvency position as at 30 June 2024

Scottish Widows Limited	30 June 2024 (£m)
Own Funds (A)	5,064
Solvency Capital Requirement (B)	3,295
Excess capital (=A-B)	1,769
SCR cover ratio (%) (=A/B)	154%

Source: SWL

5.5.8 The SCR cover ratio as at 30 June 2024, calculated as Own Funds divided by the SCR, is 154%.

5.5.9 SWL's capital management policy is set at the Insurance Group (SWG) level. The SCR cover ratio as at 30 June 2024 is in excess of the target solvency buffer set out in this capital management policy. This is discussed further in sub-section 5.6. Historically, SWG and SWL have maintained capital above this target buffer.

5.5.10 SWL has provided me with information about how the Solvency UK reforms that it will implement from 31 December 2024 (see paragraph 4.3.34) will impact on its solvency position. Based on this information, I have concluded that the implementation of the reforms in paragraph 4.3.34 are not expected to have a material impact on SWL's solvency position, either individually or cumulatively. I have considered this information in my assessment of the consequences of the Scheme and, given the expected limited materiality of the reforms to SWL's solvency position, it does not affect the conclusions in my Report. As noted in paragraph 1.6.6, I will provide an update on the impact of these reforms in my Supplementary Report.

5.5.11 SWL has also provided me with its Pillar 2 solvency calculations. I am unable to disclose the details of the Pillar 2 solvency position, as this is submitted privately to the PRA. However, I have used this information in my assessment of the risk profile, and expected future development, of SWL.

5.6 Capital management policy

Overview

5.6.1 SWG's capital management policy is to target a SCR cover ratio equal to a target buffer. The target buffer is defined as a neutral point plus a counter-cyclical adjustment. The counter-cyclical adjustment is set using expert judgement to reflect prevailing economic conditions (in stressed economic conditions, the adjustment will be negative). The size of the counter-cyclical adjustment is subject to limits defined by the capital management policy. The SWG target capital buffer also applies to SWL. In calculating the SCR cover ratio of SWG and SWL for this purpose, any excess assets in the with-profits funds and the risks from the with-profits funds that are not borne by the shareholder are excluded, reflecting that there are restrictions on using excess assets in the with-profits funds other than for the benefit of with-profits policyholders. SWL has asked me not to disclose details of its target buffer and counter-cyclical adjustment, as it considers this commercially sensitive information.

5.6.2 This solvency target buffer is set by the Insurance Board in its Insurance Board Risk Appetite statements and Risk Preferences. These statements are reviewed at least annually by the Insurance Risk Oversight Committee and approved by the relevant subsidiary board where required.

5.6.3 The policy is aligned with LBG's Group Capital Policy, whilst recognising that the Insurance Board is ultimately responsible for the management and development of capital policy for the insurance business. SWL discloses any material proposed changes to its capital management policy to the PRA.

Capital management actions

5.6.4 If SWL's SCR cover ratio exceeds its target buffer as defined in paragraph 5.6.1 then it considers itself to have excess capital. SWL considers excess capital to be available to pay a dividend to SWG, to repay capital, or to support new business.

5.6.5 The capital management policy also specifies a lower buffer risk appetite limit and a red risk appetite limit, which is lower again, and these are also specified as SCR cover ratios. SWL will not pay a dividend if doing so would cause its SCR cover ratio to fall below the lower buffer risk appetite limit and it will

only pay a dividend that takes its SCR cover ratio below its target buffer if it can evidence an expectation that the SCR cover ratio will return to target.

5.6.6 If SWG's or SWL's SCR cover ratio falls below the target buffer but remains above the lower buffer risk appetite, the capital management policy requires that the SCR cover ratio is monitored, but does not require action to be taken.

5.6.7 SWG's Capital Management Plan sets out details of a range of mitigating actions that management could take to improve the solvency position if SWG or SWL's SCR cover ratio falls below the lower buffer risk appetite or the red risk appetite. The actions are categorised as minor, moderate or material. Material actions could include:

- reducing the SWG and/or SWL cost base
- restricting the volume of new business
- raising additional capital by issuing senior debt from SWG to LBG
- requesting and obtaining an equity capital injection from LBG
- divestment of propositions (selling parts of the business).

5.6.8 If SWG or SWL's SCR cover ratio falls below 100% and management believe recovery is possible, then it will implement its Recovery Plan, which sets out actions to be taken to restore solvency. If SWG or SWL's SCR cover ratio falls below 100% and management believe recovery is not possible, it will implement its Resolution Plan, which sets out how it would go about securing benefits for policyholders in such circumstances.

5.6.9 The Capital Management Plan and Recovery Plan are sponsored by the SWL Chief Financial Officer. The Resolution Plan is jointly sponsored by the SWL Chief Financial Officer and the SWL Chief Controls Officer. These plans are annually reviewed by the Risk Oversight Committee and approved by the Insurance Board.

5.7 Risk management framework

5.7.1 The Insurance Board is responsible for the management of risk including setting risk appetite and risk policies (as described in paragraph 5.6.1), cascade of delegated authorities and effective management and oversight over risk exposures in accordance with the agreed risk appetite.

5.7.2 The Insurance Board is assisted by the Insurance Risk Oversight Committee and the Risk Management Function. As noted in paragraph 5.4.4, the Insurance Risk Oversight Committee plays a key role in reviewing and challenging SWG's risk management framework and monitoring adherence to the risk management framework.

5.7.3 SWL maintains a comprehensive risk management framework for measuring, monitoring and controlling risk. The SWL risk management, internal control systems and reporting procedures are also applied at the SWG level, ensuring consistency in approach.

5.7.4 SWL maintains a set of policy and process documents that set out the framework for managing particular risks.

5.7.5 Risks are monitored and reported on to help ensure that they remain within risk limits or that corrective action is taken. Early warning thresholds are established so that corrective action can be taken before risk limits are breached.

5.7.6 The SCR cover ratios described in paragraphs 5.6.1 to 5.6.3 are monitored and reported monthly to executives and the Insurance Risk Oversight Committee to help ensure that they remain within risk limits or that corrective action is taken.

5.8 Administration and outsourcing

5.8.1 The Insurance Group has numerous outsourcing arrangements in place which are managed according to two categories: outsourcing that is delivered by shared services within LBG (IT, Change, Risk, Finance, Legal, Audit and People Services); and outsourcing that is delivered by external suppliers.

5.8.2 The use of external suppliers must meet the requirements of LBG's Group Sourcing & Supply Chain Management Policy, which aims to mitigate risks inherent in dealing with external suppliers.

5.8.3 Of relevance to the Scheme is that SWL outsources its pension administration services for the Transferring Policies to Aptia UK Limited (Aptia). Aptia is a recently formed company created by the purchase of the pension administration businesses of Mercer LLC (Mercer), with Mercer being the entity that originally administered the Transferring Policies under the terms of an outsourcing contract between SWL and Mercer. That contract has subsequently been novated to be between SWL and Aptia with effect from 1 November 2024. In the period between Aptia purchasing the pension administration business of Mercer and 1 November 2024, Mercer subcontracted administration of the Transferring Policies to Aptia.

5.9 Material risks within SWL

Overview

5.9.1 SWL considers its main risks to be:

- market and credit risks arising from its asset portfolio
- longevity risk
- operational risk
- persistency risk.

5.9.2 These risks, plus less severe but potentially material risks, are discussed below.

Market and credit risks

5.9.3 SWL's market and credit risks mainly relate to the change in the value of assets backing guaranteed liabilities such as annuities and the risk that proceeds from loan investments are not received as expected due to borrowers failing to make the expected payments.

5.9.4 SWL also has market risk that arises from its unit-linked savings contracts and with-profits funds. Changes in the market values of with-profits policies and the underlying units in unit-linked contracts impacts on SWL's expected future income from this business, which has a consequential effect on its Solvency II own funds.

5.9.5 SWL manages the market and credit risks on its investments backing annuity business by predominantly investing in low-risk assets such as investment-grade bonds and by investing in asset classes with suitable security and/or other structural mitigation that provides protection against default.

5.9.6 SWL further reduces its market risks through interest rate, inflation and currency swaps contracts, to match closely with the duration and type of the insurance liabilities such that the values of assets and liabilities move broadly in line under changing market conditions. It also uses equity derivative contracts and the established actuarial technique of unit matching to reduce its market risk exposure arising from unit-linked savings contracts.

5.9.7 Market and credit risk related to the assets backing annuities are significantly reduced by the Reinsurance Agreement (see paragraph 5.3.41 and discussed further in sub-section 7.4) but remain material risks for SWL.

Longevity risk

5.9.8 Longevity risk is the risk of annuity policyholders living longer than expected. SWL uses reinsurance to reduce its exposure to longevity risk. Prior to entering the Reinsurance Agreement, SWL transferred approximately 30% of the longevity risk associated with its bulk purchase annuities to third-party reinsurers. A smaller proportion of the longevity risk associated with individual annuities is transferred to third-party reinsurers.

5.9.9 SWL's retained longevity risk is significantly reduced by the implementation of the Reinsurance Agreement. As at 30th June 2024, retained longevity risk represented less than 5% of SWL's SCR.

Operational risk

5.9.10 Operational risk is the risk of losses arising from inadequate or failed internal processes, people and systems or from external events. SWG includes legal and regulatory risk in its operational risk definition. SWL has exposure to legal risk that arises from potential legal claims on legacy with-profits business sold in Europe.

Persistency risk

5.9.11 Persistency risk is, typically, the risk that higher-than-expected rates of policy exits and/or higher-than-expected rates at which policyholders cease to continue to pay premiums occur in the future, resulting in lower income to cover expenses. The unit-linked savings business has material exposure to persistency risk. For SWL's with-profits business, persistency risk is the risk of lower-than-expected rates of policy exits, as this will tend to result in an increase in guarantee costs.

5.9.12 Persistency risk is a larger proportion of SWL's overall risk profile following the implementation of the Reinsurance Agreement.

Liquidity risk

5.9.13 Liquidity risk refers to the risk of being unable to meet claims, expenses and other cash outgoings as they fall due. SWL manages this risk by maintaining a forward-looking view of liquidity needs and by maintaining a liquidity buffer determined by considering liquidity needs under stressed conditions.

Mortality risk

5.9.14 Mortality risk is the risk that policyholders die sooner than expected. Mortality risk arises in some of the protection products written by SWL. However, SWL transfers most of its mortality risk exposure to reinsurers.

Reinsurance counterparty default risk

5.9.15 Reinsurance counterparty default risk is the risk that, where SWL has reinsurance in place, the reinsurer fails to make the payments due to SWL under the appropriate reinsurance arrangement. Most of SWL's reinsurance arrangements are collateralised to reduce its exposure to the risk of default by the reinsurer (see paragraphs 5.3.33 to 5.3.36). As noted in paragraph 5.3.37, in the case of the reinsurance in place to transfer the longevity risk arising from the Ambrosia Policies, the reinsurance counterparty default risk is borne by the pension schemes that hold the Ambrosia Policies rather than by SWL.

5.9.16 The Reinsurance Agreement mitigates some prior reinsurance counterparty default risk (in the case where existing reinsurance contracts have been included in the Reinsurance Agreement) but creates a new reinsurance counterparty default risk to Rothesay. The Rothesay counterparty default risk is mitigated by the use of collateralisation (discussed further in sub-section 7.4).

5.10 Consumer Duty

5.10.1 The Insurance Group has considered the requirements of the Consumer Duty for its products, services and customer communications, and considers that it is meeting its obligations under the Consumer Duty as at 31 July 2024. SWL has not restricted its definition of customer to a strict definition of retail customer when considering the requirements of the Consumer Duty.

5.10.2 The Insurance Board has approved a Consumer Duty delivery plan that will continue to invest in projects aligned to the ongoing requirements of the Consumer Duty.

6 Background information on Rothesay

6.1 Introduction

6.1.1 In this section, I set out some background information on Rothesay. In section 5, I set out similar information for SWL. I use this information in later sections when considering the possible impact of the Scheme on policyholders, primarily by comparing the similarities and differences between SWL and Rothesay.

6.1.2 The aspects I compare, and the reasons for doing so, were set out in paragraph 5.1.2.

6.2 Group structure

6.2.1 Rothesay is a UK public limited company authorised by the PRA and regulated by the PRA and the FCA.

6.2.2 Rothesay is a wholly-owned subsidiary of Rothesay Limited. Rothesay Limited is a UK limited company. Rothesay Limited and all of its subsidiary companies form the Rothesay Group. Rothesay Limited is owned by two institutional shareholders, who held the following percentage interest as at the date of my Report (such percentages representative of each shareholder's nominal holding of shares in Rothesay Limited):

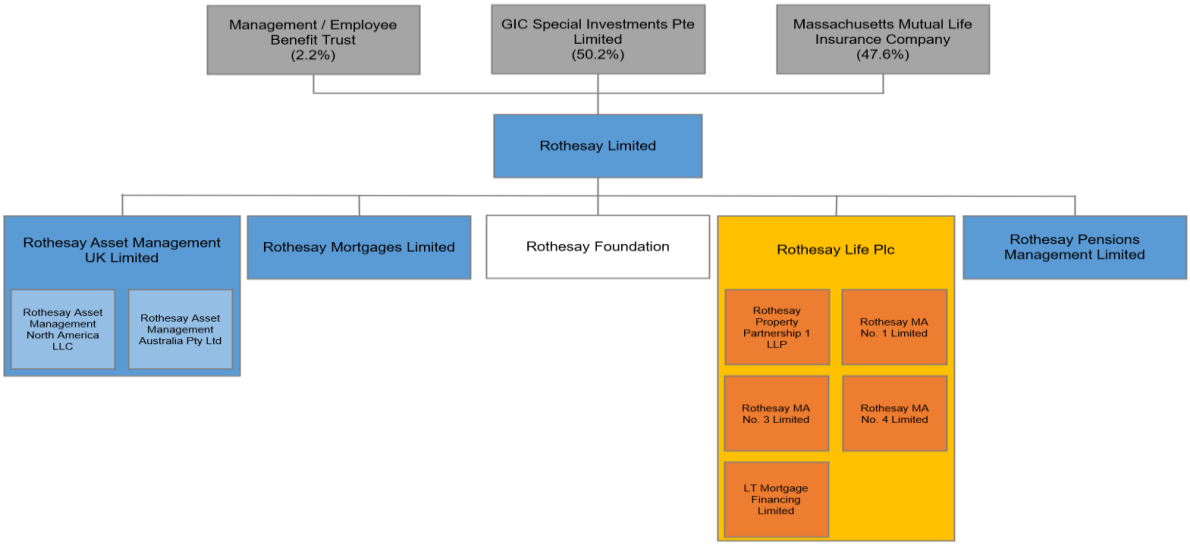
- Cambourne Life Investment Pte Ltd, which is controlled by GIC Special Investments Pte Limited (GIC), currently holds 50.2% interest in Rothesay Limited (48.9% as at 30 June 2024).
- MM Rothesay Holdco US LLC, which is controlled by Massachusetts Mutual Life Insurance Company (MassMutual), currently holds 47.6% interest in Rothesay Limited (48.9% as at 30 June 2024).

6.2.3 The remaining shares are held by management and employees of the Rothesay Group, and an employee benefit trust which provides ownership benefits to Rothesay Group employees through employee share schemes.

6.2.4 Rothesay is the only insurance company within the Rothesay Group. It is subject to prudential regulation on a stand-alone basis and the Rothesay Group is subject to prudential regulation as outlined in paragraph 4.3.36 with consolidation required at the level of Rothesay Limited.

6.2.5 A simplified structure chart is given in Figure 6.1 below.

Figure 6.1: Simplified Rothesay Group structure as at the date of my Report (active companies only)



Source: Report of the Chief Actuary of Rothesay

6.2.6 Rothesay Limited's other subsidiaries include:

- Rothesay Pensions Management Limited, which provides services to other companies within the Rothesay Group and employs the Rothesay Group's management and staff in the UK.
- Rothesay Asset Management North America LLC and Rothesay Asset Management Australia Pty Ltd, which source key investment opportunities in their markets for the Rothesay Group.
- Rothesay Foundation, which is a charity that focuses on tackling material deprivation in the pension-age population in the UK. Despite being a subsidiary of Rothesay Limited, Rothesay Foundation does not impact the Rothesay Limited financial statements.

6.2.7 There are a number of other active group companies, which are there to help Rothesay manage its assets in an efficient way.

6.2.8 Rothesay Property Partnership 1 LLP is the only subsidiary shown in Figure 6.1 that is not wholly owned by its parent. Its owners are Rothesay (99.9%) and Rothesay Asset Management UK Limited (0.1%).

6.2.9 Rothesay can raise capital from its ultimate institutional shareholders in times of stress. The Rothesay Recovery Plan (which sets out potential actions Rothesay could take, were it to get into financial difficulty) notes that this action may be available, but it will be dependent on the existing shareholders being willing to provide such capital or giving permission to approach new potential shareholders. Support from Rothesay's shareholders is, therefore, not guaranteed.

6.3 Rothesay's business model

Description of Rothesay's business

6.3.1 Rothesay's in-force business is composed of:

- non-profit annuities
- longevity insurance
- inwards reinsurance.

Non-profit annuities

6.3.2 See paragraphs 5.3.2 to 5.3.7 for a description of non-profit annuities. Rothesay's annuities are all non-profit and originate either from bulk purchase annuity policies written with pension schemes (see paragraphs 5.3.9 to 5.3.12) or from transfers of annuity policies from other insurers. Rothesay has previously completed successful transfers of annuity portfolios from Zurich Assurance Ltd, Scottish Equitable plc and Prudential Assurance Company Limited.

6.3.3 Rothesay sets the factors used when determining optional benefits (see paragraph 5.3.7). Rothesay's approach to setting the factors used for a given policy will take into account any requirements of the policy's terms and conditions.

Longevity insurance

6.3.4 The longevity insurance policies written by Rothesay are longevity swaps provided to UK defined benefit pension schemes.

6.3.5 Under these swap arrangements, pension schemes pay Rothesay a fee and a fixed amount each month based on the benefits the pension scheme expects to pay its members. In return, Rothesay will pay the pension scheme the benefit amounts that the pension scheme has to pay to its members (typically set out in an agreed policy data file and a benefit specification), within scope of the longevity swap agreement, each month. The actual payments may be higher or lower than the expected payments. The pension schemes remain legally liable for the benefits payable to their members.

Inwards reinsurance

6.3.6 Rothesay may accept liabilities in relation to the non-profit annuities of another insurance company (the ceding company) by way of inwards reinsurance. This is typically done in anticipation of a Part VII transfer or equivalent non-UK processes as applicable but can also be a long-term arrangement.

6.3.7 Under these arrangements, in return for receiving a premium from the ceding company, Rothesay will typically pay, to the ceding company, the benefit amounts that the ceding company has to pay to its policyholders falling within the scope of the reinsurance. In some circumstances, as defined in the terms of the particular reinsurance agreement, there may be differences between the amounts payable by Rothesay acting as reinsurer and the amounts the ceding company pays to its policyholders.

6.3.8 The ceding company remains legally liable for the benefits payable to its policyholders.

Source of Rothesay's business

6.3.9 Rothesay is actively seeking new business. It does this through:

- writing bulk purchase annuity policies with pension schemes
- transfers of business (Part VII transfers or equivalent non-UK processes as applicable) into Rothesay, (typically preceded by reinsurance of the business being transferred)
- acquisitions of other annuity providers.

Bulk purchase annuity policies with pension schemes

6.3.10 See paragraphs 5.3.9 to 5.3.12 for a description of bulk purchase annuity policies from pension schemes.

Transfer into Rothesay

6.3.11 Rothesay may purchase a portfolio of annuities from another insurer. The first stage is typically to fully reinsure the portfolio (see paragraphs 6.3.6 to 6.3.8) in advance of seeking a transfer of business to transfer the portfolio into Rothesay. The purpose of the reinsurance is to allow the economic risk and

reward relating to the reinsured policies to be transferred pending a legal transfer, mitigating the economic risk arising from a delay to the transfer. A transfer may also take place without the preceding reinsurance.

Acquisitions of other annuity providers

6.3.12 An acquisition refers to one insurer purchasing another insurer in full. The purchased insurer becomes a subsidiary of the purchasing insurer. The purchasing insurer may subsequently consider undertaking a transfer of business to move the insurance liabilities from the subsidiary into the main insurance company. Rothesay has previously acquired MetLife Assurance Limited and Paternoster Limited.

Summary of Rothesay's in-force business

6.3.13 Rothesay's in-force business as at 30 June 2024 is summarised in Table 6.1 below. The table shows the number of in-force policies and the Solvency II BEL.

Table 6.1: Policy count and Solvency II BEL for Rothesay's in-force business as at 30 June 2024

	Policies[10]	BEL (£m)
Total business	1,008,000	58,464

Source: Report of the Chief Actuary of Rothesay on the Scheme/Information provided by Rothesay

Recent and upcoming events

6.3.14 The nature of Rothesay's business means that a single transaction might have a material impact on Rothesay's financial position. I need to consider if there are any known events that might invalidate the analysis carried out in my Report, which uses financial information as at 30 June 2024.

6.3.15 Rothesay has provided me with details of new business written since 30 June 2024 and its updated solvency position as at 30 September 2024 incorporating this new business. Rothesay has confirmed that, while it continues to pursue new bulk purchase annuity business in line with its strategy, it is currently involved in no corporate acquisitions or other unannounced future schemes that will occur in advance of or around the Scheme Effective Date.

6.3.16 Furthermore, Rothesay provided me with details of debt raised, debt repaid, dividends paid, and a change in the shareholder relative holdings. Rothesay has provided me with the estimated impact on its financial position as at 30 June 2024, assuming that these changes had taken place as at 30 June 2024.

6.3.17 Rothesay has told me that since 30 June 2024 it has received approval from the PRA to use the VA (see paragraph 4.3.21) in respect of its liabilities where it does not apply the MA. Rothesay has provided me with the impact of using the VA as at 30 June 2024, which is not material.

6.3.18 Rothesay has also told me that since 30 June 2024, it received approval from the PRA to not make use of the option to adopt a new simplified calculation method for the TMTP (see paragraph 4.3.34).

[10] The number of policies shows the approximate number of individual lives covered where a single policy covers multiple lives under a buy-in contract or inwards reinsurance.

6.3.19 Based on the information given to me by Rothesay, I am satisfied that it is appropriate for me to use the financial position of Rothesay as at 30 June 2024 to form my opinions. I will review my opinions taking into account more up-to-date financial information in my Supplementary Report.

Reinsurance

6.3.20 One of Rothesay's main risks is longevity risk. Rothesay reinsures, or passes on to third-party reinsurers, approximately 72% of its longevity risk. This is done through the use of longevity swap reinsurance contracts, where all material reinsurance exposures are collateralised (see paragraphs 5.3.35 and 5.3.36). Rothesay does not currently have any outward reinsurance where it passes the assets backing the liabilities to the reinsurer as part of the reinsurance contract (which is often referred to as "funded reinsurance").

6.3.21 As noted in paragraph 5.3.41, Rothesay and SWL entered into the Reinsurance Agreement, which transferred the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay in accordance with its terms with effect from 1 January 2024. This included the economic risk and reward associated with the longevity reinsurance that SWL had put in place to pass on some of the longevity risk associated with the relevant Transferring Policies to third-party reinsurers, other than the reinsurance in respect of the Ambrosia Policies (see paragraph 5.3.42). Since entering into the Reinsurance Agreement, Rothesay has put in place additional reinsurance for the longevity risk associated with the Transferring Policies.

6.3.22 Rothesay currently has outwards reinsurance contracts with fourteen reinsurers.

6.4 Governance structure

6.4.1 Rothesay's Board is responsible for providing oversight and direction to Rothesay's senior management team, and for ensuring that there is an appropriate risk and control framework in place. Rothesay's Board comprises of its independent Chairman, the Founding Director, the CEO, the Chief Finance Officer (CFO) and eleven non-executive directors, seven of whom are independent. Rothesay's Board, together with its management, are responsible for ensuring the security of its obligations to Rothesay's policyholders, and generating and delivering sustainable shareholder value through the management of Rothesay's business.

6.4.2 The Rothesay Board has delegated certain matters to several committees: the Nomination Committee; the Audit Committee; the Customer Conduct Committee; the Board Risk Committee; and the Remuneration Committee. The committees of most relevance to the Scheme are listed below:

- Audit Committee: Responsible for providing oversight of the financial reporting process, the system of internal control, the internal and external audit processes, and Rothesay's process for monitoring compliance with laws and regulations and the regulators' business principles.
- Board Risk Committee: Responsible for the ongoing monitoring and control of all risks associated with the activities of Rothesay.
- Customer Conduct Committee: Responsible for the delivery of good outcomes for Rothesay's customers, and that Rothesay's clients and customers are treated fairly, as well as overseeing Rothesay's approach to regulatory conduct.

6.4.3 The Rothesay Board delegates the day-to-day oversight and management of Rothesay, subject to any specific matters reserved for consideration by itself, to the Executive Management Committee. The Executive Management Committee is chaired by the CEO, and is accountable for business standards and practices, including risk management.

6.5 Regulatory solvency

6.5.1 Rothesay is required to comply with the Solvency II regulatory capital requirements and uses an IM to calculate its SCR (see sub-section 4.3).

6.5.2 Rothesay is not required to hold any capital add-ons.

6.5.3 Rothesay has approval from the PRA to use the TMTP and MA (see paragraph 4.3.21). As mentioned in paragraph 6.3.17, Rothesay has recently been given approval to use the VA. As this approval was granted after 30 June 2024, it is not reflected in Rothesay's financial information included in this report. The impact of the VA is currently not material for Rothesay.

6.5.4 The amount of the TMTP as at 31 December 2023 was £222m (equivalent to 7% of Rothesay's SCR, and 0.5% of Rothesay's BEL) and this will run-down to zero by 1 January 2032 in line with the Solvency II rules.

6.5.5 The impact of removing the MA as at 31 December 2023 would have been to increase Rothesay's BEL by £7.0bn (13%) and to reduce Own Funds by £6.6bn (75%). However, subject to regulatory approval, this would have been partly offset by an increase in the TMTP. Rothesay has publicly disclosed that after recalculation of the TMTP, the impact on its Own Funds would have been a reduction of £4.0bn (45%) compared to the £6.6bn noted earlier. The SCR would also have increased by around £7.5bn (244%). I discuss these sensitivities in sub-section 8.2 where I consider the impact of the Scheme on the benefit security of Transferring Policyholders.

6.5.6 I have quoted above the MA and TMTP impacts as at 31 December 2023, as these are publicly available. Rothesay has provided me with the amounts as at 30 June 2024, which I have considered in my assessment of the Scheme and it does not affect the conclusions in my Report.

6.5.7 Table 6.2 shows a simplified presentation of Rothesay's Solvency II Pillar 1 balance sheet as at 30 June 2024.

Table 6.2: Rothesay's reported regulatory solvency position as at 30 June 2024

Rothesay	30 June 2024 (£m)
Own Funds (A)	8,667
Solvency Capital Requirement (B)	3,506
Excess capital (=A-B)	5,161
SCR cover ratio (%) (=A/B)	247%

Source: Report of the Chief Actuary of Rothesay on the Scheme

6.5.8 The SCR cover ratio as at 30 June 2024, calculated as Own Funds divided by the SCR, is 247%.

6.5.9 Rothesay's capital management policy states that Rothesay aims to operate at a level of cover within a target range. Rothesay's SCR cover ratio as at 30 June 2024 is above the top end of this range. This is discussed further in sub-section 6.6. Historically, Rothesay has maintained capital within or above its target range.

6.5.10 Rothesay has confirmed that it has already implemented the use of notched credit ratings in the calculation of MA benefits and that this is reflected in the 30 June 2024 balance sheet shown above. Rothesay has provided me with information about how the other Solvency UK reforms that it will

implement from 31 December 2024 (see paragraph 4.3.34) will impact on its solvency position. Based on this information, I have concluded that the implementation of the reforms in paragraph 4.3.34 are not expected to have a material impact on Rothesay's solvency position, either individually or cumulatively. I have considered this information in my assessment of the consequences of the Scheme and, given the limited materiality of the reforms to Rothesay's solvency position, it does not affect the conclusions in my Report. As noted in paragraph 1.6.6, I will provide an update on the impact of these reforms in my Supplementary Report.

6.5.11 Rothesay has also provided me with its Pillar 2 solvency calculations. I am unable to disclose the details of the Pillar 2 solvency position, as this is submitted privately to the PRA. However, I have used this information in my assessment of the risk profile, and expected future development, of Rothesay.

6.6 Capital management policy

Overview

6.6.1 Rothesay's capital management policy is to target a SCR cover ratio between a defined range. The policy is owned by Rothesay's CFO and is reviewed by the Rothesay Board at least annually. Rothesay discloses any material proposed changes to its capital management policy to the PRA.

Capital management actions

6.6.2 Rothesay maintains a Recovery Plan which sets out actions it can take to restore solvency. The Recovery Plan is owned by Rothesay's CFO and CRO, and it is reviewed annually by Rothesay's Board and Board Risk Committee.

6.6.3 Rothesay has a set of principles that it uses to determine how it manages its business depending on its SCR cover ratio. If Rothesay's SCR cover ratio:

- exceeds the top end of the target range, then it considers itself to have excess capital that is available to pay a dividend to its shareholders, to repay capital, or to support further new business
- falls below the mid-point of the target range, then its management would consider taking action to improve its solvency position and would carefully consider pro forma solvency as well as any other relevant factors when executing new business or making dividend payments
- falls below the lower end of the target range, then it will pause executing new business, it will not pay dividends, and it will have increased focus on the use of management actions to improve coverage back to its target range, including actions documented in its Recovery Plan
- falls below a trigger point below the lower end of the target range, then there will be immediate focus on taking actions to improve solvency
- falls below 100% then Rothesay's Recovery Plan will be formally activated, noting that some of the actions would have already been taken prior to the coverage ratio reaching this level.

6.6.4 The management actions available to Rothesay to improve its solvency could include:

- raising additional capital through issuing new equity or debt
- reducing risk (for example by increasing the use of reinsurance and hedging of risks)
- revising investment strategy
- increasing operating efficiencies (for example by reducing discretionary expenditure).

6.7 Risk management framework

6.7.1 The Rothesay Board is responsible for overseeing and maintaining the adequacy and effectiveness of the risk management and internal control systems. It is responsible for providing leadership, direction and oversight of the group's risk appetite, tolerance, risk strategy, risk governance and Risk Management Framework (RMF).

6.7.2 The Rothesay Board is assisted by the Board Risk Committee and the Executive Risk Committee:

- The Board Risk Committee's primary function is the ongoing monitoring and control of all financial, operational, insurance, and other business-wide risks associated with Rothesay's activities.
- The Executive Risk Committee is responsible for the overall operation of the RMF, and the ongoing monitoring and control of business-wide risks.

6.7.3 Rothesay maintains a comprehensive RMF for identifying, measuring, managing, monitoring and controlling of risk. The Rothesay risk management, internal control systems and reporting procedures are also applied at a group level, ensuring consistency in approach.

6.7.4 Risk appetite is set for different types of high-level risk as follows:

- Desired risks: strategy, insurance (including expense and longevity risks) and credit
- Tolerated risks: market
- Undesired risks: liquidity and operational.

6.7.5 Risk appetite is translated into quantitative tolerances and limits through Rothesay's Risk Limit and Stress Testing Framework.

6.7.6 Rothesay maintains a set of policy and process documents that set out the framework for managing particular risks.

6.7.7 Risks are monitored and reported on to help ensure that they remain within risk limits or that corrective action is taken. Early warning thresholds are established so that corrective action can be taken before risk limits are breached.

6.7.8 Rothesay has noted that its business plan includes writing or acquiring large discrete blocks of annuity business, on a similar scale to the Scheme. Rothesay undertook a review in 2023 to verify that it has the skills, capacity, and infrastructure to carry out this business plan. The review did not identify any material deficiencies but did identify some minor risk management actions, which Rothesay has confirmed to me it has implemented.

6.8 Administration and outsourcing

6.8.1 Rothesay uses third parties in order to take advantage of economies of scale and external expertise.

6.8.2 Rothesay maintains oversight of third parties carrying out work in line with its third-party oversight policies and risk management framework, including in respect of third-party administrators, its TPA Management Procedures.

6.8.3 The following key functions and activities are fully or partially outsourced:

- Risk software and some IT provision to Goldman Sachs

- Pensions administration to Aptia, Capita Pensions Solutions and Willis Towers Watson
- Middle office operational activity (settlements and collateral management) to Northern Trust.

6.8.4 Rothesay is in a process to remove its reliance on Goldman Sachs for IT provision, largely by developing its own IT systems and environments using internal teams.

6.8.5 Rothesay is currently establishing a framework and process whereby each of its outsourced pensions administrators act as a backup payroll provider and customer call centre for each of the other pensions administrators. This will mean that if one of the pension administrators has a significant operational issue, then the holders of policies administered by that provider would continue to receive their annuity benefit, and customer support would remain accessible. This work is on schedule to be tested and signed off by the end of December 2024.

6.9 Material risks within Rothesay

Overview

6.9.1 Rothesay considers its main risks to be:

- market and credit risks arising from its asset portfolio
- liquidity risk
- longevity risk
- counterparty default risk, including that arising from its longevity reinsurance arrangements
- operational risk.

6.9.2 These risks, which cover all material risks for Rothesay are discussed below.

Market and credit risks

6.9.3 Rothesay's market and credit risks mainly relate to the change in the value of assets and the risk that proceeds from loan investments are not received as expected due to borrowers failing to make the expected payments.

6.9.4 Rothesay manages the market and credit risks on its investments by predominantly investing in low-risk assets such as government-guaranteed and investment-grade bonds and by investing in asset classes with suitable security and/or other structural mitigation that provides protection against default. It also uses credit derivatives, which pay out in the event of a default by a specific counterparty, to reduce risk in respect of certain counterparties.

6.9.5 Rothesay further reduces its market risks through interest rate and inflation swaps contracts, to match closely with the duration and type of the insurance liabilities such that the values of assets and liabilities move broadly in line under changing market conditions.

Liquidity risk

6.9.6 Liquidity risk refers to the risk of being unable to meet claims, expenses and other cash outgoings as they fall due. Rothesay manages this risk by maintaining a forward-looking view of liquidity needs and by maintaining a liquidity buffer determined by considering liquidity needs under stressed conditions.

Longevity risk

6.9.7 Longevity risk is the risk of policyholders living longer than expected. Rothesay uses reinsurance to significantly reduce its exposure to longevity risk, with approximately 72% of the longevity risk being transferred to third-party reinsurers. However, the retained longevity risk remains a material risk for Rothesay.

Reinsurance counterparty default risk

6.9.8 Reinsurance counterparty default risk is the risk that, where Rothesay has reinsurance in place, the reinsurer fails to make the payments due to Rothesay under the appropriate reinsurance arrangement. All of Rothesay's material reinsurance exposures are collateralised to reduce its exposure to the risk of default by the reinsurer (see paragraphs 5.3.35 and 5.3.36).

Operational risk

6.9.9 Operational risk is the risk of losses arising from inadequate or failed internal processes, people and systems or from external events. Rothesay manages its operational risk using its risk and controls framework.

6.10 Consumer Duty

6.10.1 Rothesay has considered the requirements of the Consumer Duty for its products, services and customer communications, and formally assesses itself against the Consumer Duty annually. Rothesay has not restricted its definition of customer to a strict definition of retail customer when considering the requirements of the Consumer Duty.

6.10.2 The Rothesay Board approved Rothesay's annual Consumer Duty Report 2023/24 on 13 June 2024, and confirmed that it was comfortable that Rothesay had satisfied its Consumer Duty obligations for the period set out in the report. The Consumer Duty Report sets out how Rothesay has, since the last review, challenged itself to review and improve customer experience.

6.10.3 Going forward, Rothesay remains committed to the Consumer Duty and to continually challenging itself to review and improve the customer experience, particularly where foreseeable harm is identified.

7 Proposed transfer of business

7.1 Introduction

7.1.1 In this section, I set out information about the Scheme and the intended approach to notify policyholders about it. This forms the basis for my analysis of the impacts of the Scheme in the remaining sections of my Report. My conclusions are given in those sections.

7.2 Background

7.2.1 The portfolio of policies included in the Transferring Business is composed of:

- non-profit annuity policies in the form of bulk purchase annuity policies issued by SWL to trustees of UK defined benefit pension schemes (buy-ins as described paragraph 5.3.10)
- non-profit annuity policies in the form of individual annuity policies issued by SWL to or in respect of pension scheme members and/or contingent beneficiaries to effect the buyout of certain bulk purchase annuity buy-in policies previously issued by SWL
- residual risk policies
- longevity insurance agreements (the Ambrosia Policies, as described in paragraph 5.3.13).

7.2.2 The above policies, being the Transferring Policies (defined fully in paragraph 7.6.1 below), along with associated assets and liabilities (including the related reinsurance and other third-party contracts), comprise the bulk purchase annuity business of SWL (the Transferring Business). SWL took the decision to sell the Transferring Business following a strategic review of its options. The main reason for the sale is to enable LBG and SWL to focus on growing strategically important lines of business such as insurance, investments, and individual retirement and pensions products through direct and intermediary channels. The main alternative option to a sale of the Transferring Business considered by SWL was to run the business off over its lifetime. This was not considered an attractive option due to anticipated challenges in retaining staff with the required expertise, leading to difficulties in maintaining a high quality of customer service and potentially leading to less good outcomes for customers. In addition, the run-off would lead to inefficiencies in supporting a declining book of business.

7.2.3 Accordingly, following a competitive tender process, SWL entered into a business transfer agreement where it agreed to transfer the Transferring Business to Rothesay. It is now proposed to transfer the Transferring Business from SWL to Rothesay by way of an insurance business transfer scheme under Part VII of the FSMA. There are certain liabilities which are excluded from transferring under the Scheme, as described in paragraph 7.5.5.

7.2.4 From Rothesay's perspective, the transfer is consistent with its business strategy of acquiring portfolios of annuities from other insurers and bulk purchase annuity business written directly with defined benefit pension schemes.

7.3 Business Transfer Agreement

7.3.1 The agreement to seek a transfer of the Transferring Business from SWL to Rothesay is formalised in the Business Transfer Agreement (BTA), which was entered into between SWL and Rothesay on 13 March 2024.

7.3.2 The BTA envisaged that the economic risk and reward associated with a material part of the Transferring Business should be transferred to Rothesay in advance of the transfer by implementing a reinsurance contract (the Reinsurance Agreement) between SWL and Rothesay. The Reinsurance Agreement is discussed further below.

7.3.3 The BTA defines a "long stop date" as 31 March 2028. If the transfer has not been completed by the long stop date (which may be extended by the Companies) SWL has the option to terminate the Reinsurance Agreement but otherwise the Reinsurance Agreement will continue to remain in place, and SWL and Rothesay agree to:

- discuss in good faith the potential outsourcing of the operation of the Transferring Business that was in scope of the Scheme to Rothesay
- each use all reasonable endeavours and co-operate in good faith to agree amendments (if any) to the Reinsurance Agreement that may be necessary to enable the Reinsurance Agreement to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities.

7.3.4 If the long stop date is passed, the BTA will terminate when outsourcing of the operation of the Transferring Business that was in scope of the Scheme is agreed or the Companies determine that an outsourcing agreement cannot be reached. The BTA may also be terminated before the long stop date pursuant to a limited set of termination rights under the BTA, including where the failure to complete the transfer is due to one of the parties to the agreement breaching specified obligations relating to the transfer.

7.4 Reinsurance Agreement

7.4.1 On 30 April 2024, SWL and Rothesay entered into the Reinsurance Agreement together with associated security arrangements. The Reinsurance Agreement and associated security arrangements became effective on 1 May 2024 (the Reinsurance Effective Date).

7.4.2 The purpose of the Reinsurance Agreement is to transfer the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay in accordance with its terms, with effect from 1 January 2024, pending completion of the transfer. The choice of 1 January 2024 was made because it was the most recent date at which published audited valuations were available. The policies included in the Reinsurance Agreement (the Reinsured Policies) include all Transferring Policies other than the Ambrosia Policies. The risks associated with the Ambrosia Policies and the associated reinsurance are not reinsured under the Reinsurance Agreement as longevity risk associated with these policies is already fully reinsured by SWL to third-party reinsurers (see paragraph 5.3.13), and the reinsurance counterparty risk associated with this reinsurance is borne by the LBG pension schemes (see paragraph 5.3.37) such that SWL considers it is not exposed to residual risks that could be reinsured under the Reinsurance Agreement. However, the fees under the Ambrosia Policies due to SWL have been transferred to Rothesay under the Reinsurance Agreement. SWL remains responsible for paying policyholder benefits of the Reinsured Policies and for policy administration of the Reinsured Policies and the Ambrosia Policies until the transfer takes place on the Scheme Effective Date.

7.4.3 Under the terms of the Reinsurance Agreement, the majority of the assets representing the reinsurance premium have already been transferred from SWL to Rothesay pursuant to the terms of the Reinsurance Agreement, in return for Rothesay reinsuring the liabilities associated with the Reinsured Policies. To effect this, Rothesay makes payments to SWL broadly equal to the actual benefit payments arising on the Reinsured Policies, plus a defined allowance for expenses. Since the Reinsurance Agreement was

entered into, the Companies have agreed a change to the Reinsurance Agreement which means that, up until 31 December 2025, the element of the payment made by Rothesay in respect of benefit payments will be exactly equal to the benefit payments arising on the Reinsured Policies. However, from 1 January 2026, some differences may arise on a small proportion of benefit payments as, from that date, the Companies have agreed for Rothesay to use its own bases when determining the value placed on optional benefits, such as cash commutation values and transfer values (see paragraph 5.3.7). This change is discussed further in paragraphs 8.3.33 to 8.3.35 and will be reflected in an amendment to the Reinsurance Agreement at a later date.

7.4.4 Part of the premium, represented by the value of a portfolio of loan assets referred to as the "FW Assets" has not yet been transferred to Rothesay. Each of the FW Assets is a bilateral loan agreement between SWL and a borrower, and, unlike the assets that were transferred as part of the reinsurance premium, are not traded securities. As such, there were practical challenges that meant transfer of the legal ownership of the FW Assets was not possible immediately after signing the Reinsurance Agreement. However, the economic risk and reward associated with the FW Assets are transferred to Rothesay by the Reinsurance Agreement with effect from 1 January 2024. The FW Assets are comprised of 50 loans to 23 borrowers and had a total value of £1.3bn as at 30 September 2024. SWL plan to transfer some of the FW Assets to Rothesay under the terms of the Reinsurance Agreement prior to the Scheme Effective Date. It is anticipated that the remaining FW Assets will legally transfer to Rothesay on the Scheme Effective Date as part of the Scheme.

7.4.5 Rothesay's liability to SWL under the Reinsurance Agreement is fully collateralised pursuant to the security arrangements entered into at the same time as the Reinsurance Agreement. This means that the assets expected to be sufficient to meet the liabilities on the Reinsured Policies are either held by Rothesay in a security arrangement (a collateral account, with an independent custodian), or remain in the legal ownership of SWL (in the case of the FW Assets described above). The value of assets required to be held in the collateral account is reassessed at least monthly. The assets in the collateral account are owned by Rothesay but, if Rothesay defaults on its commitments under the Reinsurance Agreement, SWL is legally able to take assets from the collateral account to make good its losses (or to take the full amount in the collateral account if this is insufficient to make good its losses). There are restrictions on the assets that can be held in the collateral account, including permitted investments and concentration limits by sector, rating and counterparty. The operation of the collateral account and the custodian oversight is set out in separate security arrangements.

7.4.6 If the Scheme is not implemented (or not implemented before the long stop date specified in the BTA, as extended if applicable) or if the BTA is otherwise terminated then SWL has a right to terminate the Reinsurance Agreement, but Rothesay does not. In such circumstances, the Companies have confirmed to me that the most likely outcome is that the Reinsurance Agreement will remain in place as a long-term reinsurance arrangement, and the Companies must use reasonable endeavours and co-operate in good faith to agree any amendments necessary to allow the Reinsurance Agreement to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities.

7.4.7 If the Reinsurance Agreement remains in place as a long-term reinsurance arrangement:

- SWL would continue to be responsible for the Transferring Business
- the majority of the risks and rewards associated with the Transferring Business would remain reinsured to Rothesay under the Reinsurance Agreement
- Rothesay will continue to meet its obligations under the Reinsurance Agreement, both in financial terms and in relation to the standard of service provided to SWL.

7.4.8 Additionally, the Companies have informed me that they expect the following to happen in these circumstances:

- the security arrangements associated with the Reinsurance Agreement (see paragraph 7.4.5) will remain in place to support the long-term reinsurance
- the Companies will likely seek to transfer the FW Assets to Rothesay, so as to align the legal ownership of these asset with the economic risks and rewards associated with them, which has already been transferred to Rothesay
- the Companies are likely to agree for the administration and operations of the Transferring Policies to be outsourced to Rothesay.

7.4.9 If the Scheme is not sanctioned and SWL exercises its right to terminate the Reinsurance Agreement for this reason, the basis for the calculation of the termination amount payable by Rothesay to SWL is defined in the Reinsurance Agreement. I have commented on the impact this would have on SWL and Rothesay in paragraphs 9.1.7 and 10.1.7 respectively.

7.4.10 Other limited termination provisions exist to allow either SWL or Rothesay to terminate the Reinsurance Agreement in certain circumstances (for example, in the event of default, insolvency or loss of authorisation of the other party). The termination amount (the amount paid back to SWL) in these circumstances would be determined using an agreed approach set out in the Reinsurance Agreement, which is dependent upon the exact cause of termination. If the Reinsurance Agreement is not terminated then it will remain in force for the remaining duration of the reinsured liabilities.

7.4.11 If the Scheme is implemented, the Reinsurance Agreement and associated security arrangements will terminate.

7.5 Summary of the Scheme

7.5.1 The Scheme is expected to be presented to the Court for a Directions Hearing on 16 December 2024 and for a Sanction Hearing on 14 May 2025.

7.5.2 If the Scheme is sanctioned by the Court it will be implemented on the Scheme Effective Date (expected to be 11 June 2025) and, on that date, the Transferring Business (including the Transferring Policies) will transfer to Rothesay.

7.5.3 On the Scheme Effective Date:

- holders of Transferring Policies will become policyholders of Rothesay
- the FW Assets described in paragraph 7.4.4 and other assets associated with the Transferring Business will transfer from SWL to Rothesay
- Rothesay will become responsible for the payment of all contractual liabilities falling due after the Scheme Effective Date in respect of the Transferring Policies
- the Reinsurance Agreement and associated security arrangements will terminate
- the reinsurance contracts and related arrangements described in paragraph 5.3.38 along with other third-party contracts associated with the Transferring Business will transfer to Rothesay.

7.5.4 Approximately three quarters of the financial assets previously held by SWL in respect of the Transferring Policies have already been transferred to Rothesay as part of the reinsurance premium payable pursuant to the terms of the Reinsurance Agreement. Pending the Scheme Effective Date, the economic risk and reward associated with the FW Assets were transferred to Rothesay under the

Reinsurance Agreement with effect from 1 January 2024. The transfer of the FW Assets on the Scheme Effective Date will effect the legal transfer of the remaining part of the reinsurance premium.

7.5.5 The Scheme transfers liabilities in respect of the Transferring Business from SWL to Rothesay, including liabilities arising from the action or inaction in relation to the administration of the policies prior to the Scheme Effective Date, unless they fall within one of the categories of excluded liabilities. Excluded liabilities, as defined in the Scheme, include any liabilities arising from the sale of a policy which constitute a breach of applicable law that occurred prior to the Scheme Effective Date, and any fines, penalties or sanctions charged by any regulatory authority in relation to actions or omissions by SWL in respect to the Transferring Business and any tax liability in connection with the Transferring Business in respect of the period prior to the Scheme Effective Date. Any such excluded liabilities will remain with SWL and any complaints raised by Transferring Policyholders with Rothesay in respect of the excluded liabilities will be referred to SWL by Rothesay.

7.5.6 The Scheme makes no changes to the terms and conditions of the Transferring Policies and imposes no particular requirements upon Rothesay in respect of the Transferring Policies or otherwise. Rothesay will therefore be bound by the existing terms of the Transferring Policies and will have to comply with these.

7.5.7 SWL has informed me that, at 2 December 2024, none of the policyholders or assets included in the Transferring Business are subject to economic sanctions that would restrict their transfer from SWL to Rothesay. SWL follows LBG's processes for determining whether sanctions apply, which includes frequent checking of the sanctions list. SWL has informed me that it has not carried out sanctions screenings for the underlying pension scheme members of the pension schemes that are insured under the Ambrosia Policies (see paragraph 5.3.13), which I refer to as the Ambrosia Underlying Members. SWL has explained that Lloyds Banking Group Pensions Trustees Limited has responsibility for carrying out sanctions screenings for the Ambrosia Underlying Members, as the trustee of the pension schemes, and is required to notify SWL if any sanctioned individuals are identified. I note the status of the Ambrosia Underlying Members does not affect the Scheme as SWL is not a direct provider of benefits to these individuals and, therefore, the Ambrosia Underlying Members are not policyholders included in the Transferring Business. I will review the sanctions position again in my Supplementary Report.

7.6 Description of the Transferring Policies

7.6.1 The Transferring Policies are defined in the Scheme and can be summarised (as at 30 June 2024) as:

- 28 bulk purchase annuity policies issued by SWL to 21 UK-based pension scheme trustees pursuant to various buy-in policies, noting that certain pension scheme trustees have more than one buy-in policy with SWL (see paragraph 5.3.10 for a general description of buy-in policies).
- 6,739 individual annuity policies issued by SWL to, or in respect of, individual pension scheme members and/or contingent beneficiaries, pursuant to the terms of nine bulk purchase annuity buy-in policies previously issued by SWL to pension scheme trustees that have since transitioned to buyout (see paragraph 5.3.12 for a general description of buyout policies).
- Two residual risk policies issued by SWL to pension scheme trustees that provide additional protection to pension scheme trustees against certain defined risks, for example, claims from missing beneficiaries or claims from scheme members that they have a right to a higher level of benefit than those insured as a result of either data or benefit errors (see paragraph 5.3.13).

- Four longevity insurance agreements entered into between SWL (acting as insurer) and Lloyds Banking Group Pensions Trustees Limited (as trustee to three Lloyds Banking Group pension schemes), the Ambrosia Policies, see paragraph 5.3.13.

7.6.2 As noted in paragraph 2.3.4, I refer to the bulk purchase annuity policies and the individual annuity policies collectively as the Transferring Annuities and the holders of these policies and any other individuals who are or may become entitled to receive benefits under these policies as the Transferring Annuitants. I refer to the residual risk policies and the Ambrosia Policies as the Other Transferring Policies and the holders of these policies and any other individuals who are or may become entitled to receive benefits under these policies as the Other Transferring Policyholders.

7.6.3 SWL has advised me that previous Part VII schemes to which SWL has been a party contain no provisions relevant to the Transferring Policies and place no restrictions on the current proposed Scheme.

7.6.4 As at 30 June 2024, the Transferring Policies consisted of 34,719 annuities plus the two residual risk policies and the four Ambrosia Policies. For buy-in policies, this count includes each underlying beneficiary (the pension scheme member included in the buy-in, or the scheme members' dependants where those dependants are receiving benefits) across the 28 buy-in schemes.

7.6.5 The exact annuity benefits payable vary by policy. All annuities provide for a periodic payment to be paid once the policyholder, or in the case of buy-in policies a member of the underlying pension scheme, reaches a specified retirement age, with the periodic payment (the annuity) continuing until the policyholder's/scheme member's subsequent death. Variations include whether:

- there is a guarantee period such that, if the policyholder/scheme member dies before the end of the guarantee period, then the amount that is due to be paid from the time of death to the end of the guaranteed period is paid as either an annuity or a lump sum in accordance with the contractual terms of the policy
- there are any increases in the annuity over time and, if so, how the increases are determined (usually either fixed percentage increases or in line with an inflation index)
- benefits are also payable to dependants of policyholders/scheme members upon the death of the policyholder/scheme member either before or after the specified retirement age.

7.6.6 The majority of the annuities are in payment, that is, policyholders are currently receiving benefits. A smaller number of policies arising from four buy-ins and three buyouts are currently deferred annuities where benefits will become payable in the future.

7.6.7 The Transferring Policies include all in-scope buy-in policies and individual annuities that arose from the buy-in policies previously written by SWL which subsequently have gone to buyout, including those individual annuities that have been terminated following the death of the beneficiary and where no further payments are expected. Thus, any residual SWL liability that may arise under the Transferring Policies (other than excluded liabilities which will remain with SWL, as described in paragraph 7.5.5) will be a liability of Rothesay.

7.6.8 A summary of the Transferring Policies (excluding the residual risk policies and the Ambrosia Policies) as at 30 June 2024 is given in Tables 7.1 and 7.2 on the next page. These show the number of in-force annuities and the BEL as calculated by SWL as at 30 June 2024.

Table 7.1: Summary of in-force annuities in payment/deferred annuities in respect of the Transferring Policies, as at 30 June 2024

	Number of in-force annuities[11]	BEL (£m)
Annuities in payment	31,342	5,170
Deferred annuities	3,377	386
Total	**34,719**	**5,556**

Source: SWL

Table 7.2: Summary of in-force annuities in respect of the Transferring Policies, split by buy-in and buyout, as at 30 June 2024

	Number of in-force annuities[12]	BEL (£m)
Buy-in	27,980	4,612
Buyout	6,739	944
Total	**34,719**	**5,556**

Source: SWL

7.6.9 A summary of the residual risk policies and the Ambrosia Policies within the Transferring Policies as at 30 June 2024 is given in Table 7.3 below.

Table 7.3: Summary of residual risk and longevity insurance agreements in-force as at 30 June 2024

	Number of in-force policies	BEL (£m)
Residual risk	2[13]	0
Ambrosia Policies	4	0
Total	**6**	**0**

Source: SWL

[11] The number of in-force annuities shows the approximate number of individual lives covered where a single policy covers multiple lives under a buy-in contract.
[12] The number of annuities shows the approximate number of individual lives covered where a single policy covers multiple lives under a buy-in contract.
[13] One of these residual risk policies will only come into force should a specified SWL buy-in policy be converted into a buyout and then only upon payment by the policyholder of the required premium.

7.6.10 I have been advised by SWL that no BEL is held in respect of the residual risk policies as their overall size is trivial to SWL.

7.6.11 I have been advised by SWL that no BEL is held in respect of the Ambrosia Policies because SWL considers it is not exposed to any material risk on these agreements (as the longevity risks are fully reinsured and SWL is not exposed to reinsurer counterparty default risk, see paragraph 5.3.37) and there is no situation in which SWL is required to meet the benefit payments of the underlying LBG pension schemes.

7.6.12 Comparing Tables 7.1, 7.2 and 7.3 with Table 5.1 in sub-section 5.3, I note that the Transferring Policies represent 0.5% of SWL's total number of policyholders (approximately 6.5m) and 3.4% of its BEL.

7.6.13 The Transferring Policies are already reflected in the summary of Rothesay's business shown in Table 6.1 in sub-section 6.3. This is by virtue of the Reinsurance Arrangement for the Reinsured Policies and the position in respect of the Ambrosia Policies (the only Transferring Policies that are not Reinsured Policies) being neutral as Rothsay will bear no material risks on these policies given they are fully reinsured and the risk of reinsurer default is borne by the policyholder as explained in paragraph 5.3.37. Using the information in Tables 7.1, 7.2 and 7.3, including the BEL calculated by SWL, and comparing this to the information in Table 6.1, the Transferring Policies represent 3.4% of Rothesay's in-force business policy count and approximately 10% of its in-force business BEL as at 30 June 2024.

7.7 Governance of the Transferring Policies

7.7.1 Rothesay does not intend to make any changes to its governance structure as a result of the Scheme. The governance structure of Rothesay will therefore remain as set out in sub-section 6.4.

7.8 Administration and servicing

7.8.1 Under the BTA, SWL and Rothesay agree to the objective of the transfer having minimal impact on the Transferring Policies. I consider this further in paragraphs 8.3.52 to 8.3.81.

7.8.2 The Transferring Policies are currently administered on behalf of SWL by Aptia. Following the transfer:

- The administration contract between SWL and Aptia will transfer to Rothesay as part of the Scheme.
- Aptia will continue to administer the Transferring Annuities on behalf of Rothesay. Aptia will continue to use the same team and the same systems that it currently uses immediately following the transfer. The exception to this is that Rothesay's existing dedicated contact centre within Aptia will be a first point of contact for the Transferring Annuitants. This contact centre will be ringfenced for Rothesay's policyholders and will have a defined service level for call answering. This is considered a service improvement compared to the current Aptia contact centres for SWL, which are not dedicated to SWL's policyholders and have no defined call answering service level.
- The Ambrosia Policies will be administered using Rothesay's in-house system for administering longevity swaps. The residual risk policies currently involve no administration. The benefits payable under the residual risk policies, if any occur, are expected take a form that Rothesay is experienced in administering (such as setting up an annuity, amending the amount of an annuity, or making a monetary payment) and Rothesay will select appropriate administration arrangements from the options available to it as and when benefits become payable.

7.8.3 Rothesay has an existing engagement with Aptia, whereby Aptia carries out the administration of a subset of the Rothesay Existing Policies. The administration of this subset of the Rothesay Existing

Policies is carried out under a separate arrangement Rothesay has with Aptia, and using a different system within Aptia. Rothesay is in the process of working with SWL and Aptia to understand any differences in contractual services standards that have been agreed between SWL and Aptia, compared to those that Rothesay has directly agreed with Aptia. Immediately following the transfer, the contractual services standards agreed between SWL and Aptia will largely continue to apply to the Transferring Annuities, with the only immediate change being an improvement to the service level for answering telephone calls. All other service levels will remain the same. Rothesay will enter into discussions with Aptia after the Scheme Effective Date to potentially revise service levels. Any such revisions will only be made if they are beneficial to the Transferring Annuitants.

7.8.4 In certain situations, holders of Transferring Annuities may exercise options to take benefits in a different form to the guaranteed benefits under the policy. Where the Transferring Annuity is a buyout policy, the individual to whom the policy is issued requests the option directly from the insurer. Where the Transferring Annuity is a buy-in policy beneficiaries request the option from the pension scheme and the trustees of the pension scheme, the holder of the Transferring Annuity, will request the option from the insurer. The main options available are to:

- forgo some or all of the contractual annuity income payable in return for a lump sum payment, called a commutation (only available on deferred annuities or potentially upon commencement of an annuity for a contingent beneficiary)
- move benefits to a different pension provider, called a transfer (only available on deferred annuities)
- take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively.

7.8.5 The actuarial bases used in these calculations is at the discretion of the insurer.

7.8.6 SWL's and Rothesay's approaches to determining their actuarial bases for these calculations are different and, if the Scheme is sanctioned, the Rothesay bases will be used to determine the amount of the optional benefits provided to Transferring Annuitants after the Scheme Effective Date (other than where option amounts have been quoted to policyholders in advance of the Scheme Effective Date and the period over which the policyholder can accept the quote has not expired). I consider the implications of this on Transferring Annuitants in paragraphs 8.3.20 to 8.3.51.

7.9 Communications to policyholders

Regulatory requirements

7.9.1 The requirements for communications with policyholders in respect of a Part VII transfer are set out in regulations made under the FSMA. These requirements are an important part of the protections for policyholders (see sub-section 3.1).

7.9.2 The regulations require that a notice is sent to every policyholder of both the transferor (SWL) and transferee (Rothesay) companies informing them of the proposed transfer, subject to any waiver of these requirements granted by the Court. The definition of policyholder has a wide scope under the FSMA. In addition, the FCA gives a wide interpretation of the definition of policyholder in the FCA Guidance, which includes not only the legal owner of the policy but also any other potential beneficiaries (see sub-section 3.4).

7.9.3 The regulations also require that a notice stating that an application to Court has been made for an order sanctioning the proposed transfer must be published in:

- the London, Edinburgh and Belfast Gazettes
- two national newspapers in the UK.

Communications plan

7.9.4 The Companies have worked together to each develop a communications plan setting out how they will communicate with policyholders in relation to the proposed transfer, in accordance with the regulations. This is summarised in the following paragraphs and I provide my opinion on it in respect of different classes of policyholders in sub-sections 8.4, 9.4 and 10.4.

7.9.5 Notices of the transfer will be placed in:

- the London, Edinburgh and Belfast Gazettes
- print and online (where available) versions of:
  - The Daily Mail
  - The Sun
  - The Daily Telegraph
  - The Financial Times.

7.9.6 Information about the transfer will be available on both the SWL website and the Rothesay website, together with the full Scheme document, a summary of the Scheme, my Report, a summary of my Report, and (when available) my Supplementary Report. The SWL webpage will include the SWL Chief Actuary's report and the SWL With Profits Actuary's report (and, when available, any supplementary reports from the SWL Chief Actuary and the SWL With Profits Actuary) and the Rothesay webpage will include the Rothesay Chief Actuary's report (and, when available, any supplementary reports from the Rothesay Chief Actuary). The SWL website will also include a sample copy of the policyholder letter and the transfer guide that it intends to send to Transferring Policyholders (discussed in paragraph 7.9.7 below) as well as frequently asked questions setting out and answering some common questions expected from policyholders. Paper copies of the full documents will be provided to policyholders by SWL and Rothesay upon request.

7.9.7 SWL intends to communicate directly with all Transferring Policyholders other than those categories of Transferring Policyholders set out in paragraph 7.9.15 below. Each of the policyholders contacted directly by SWL will receive a policyholder letter and transfer guide explaining the proposals. The letter and transfer guide will be different according to whether the policyholder is a pension scheme trustee policyholder or an individual policyholder (resulting from a buyout transaction or residual risk policy, although, as at the date of my Report, no annuities have been issued under a residual risk policy). The policyholder letter and transfer guide (together, the Policyholder Communications Pack) includes the following information:

- an introduction and background to the Scheme
- a summary of the Scheme
- a summary of the Independent Expert's report
- a description of the legal process and the rights of Transferring Policyholders to object to the Scheme

- the sources from which Transferring Policyholders can obtain further information about the Scheme that will include information available on the website
- confirmation that copies of relevant documents will be available from SWL on request by phone or in writing
- the contact details which the Transferring Policyholders can use in order to contact a trained team dealing with queries relating to the Scheme
- confirmation that the information is available in Braille, large print or audio format
- Frequently Asked Questions (FAQ) setting out and answering some common questions that might be expected from Transferring Policyholders.
- for the Transferring Policyholders who are the trustees of pension schemes holding a buy-in policy included in the Transferring Policies, suggested wording for the trustees to use in their communication with the underlying beneficiaries at their discretion.

7.9.8 SWL has advised me that, as at 2 December 2024, 124 of the Transferring Policyholders have an overseas address.

7.9.9 The mailing is planned to take place as soon as practicable after the Directions Hearing, which is scheduled for 16 December 2024. SWL expects that the mailing will be completed by 17 January 2025. In this case, there will be at least a sixteen-week period between the mailing and the Sanction Hearing on 14 May 2025. All holders of a Transferring Policy who receive a Policyholder Communications Pack will therefore have at least fourteen weeks to consider the transfer ahead of the Sanction Hearing, after making prudent allowance for the longer delivery time for the Policyholder Communications Pack to reach the Transferring Policyholders who are resident overseas. This should also mean that the holders of Transferring Policies that are pension scheme trustees have sufficient time to communicate with their underlying scheme members if they wish to. The regulatory requirement is for six weeks' notice to be given.

7.9.10 SWL will mail the relevant Transferring Policyholders a paper copy of the Policyholder Communications Pack unless SWL's records show the intended recipient's communication preference to be different. SWL has advised me that as at 2 December 2024, eight of the Transferring Policyholders have indicated a preference for paper-free communication. These policyholders will receive the Policyholder Communications Pack by email. SWL will mail the paper copy of the Policyholder Communications Pack to the policyholder if SWL receives a notification that the email did not reach a recipient. For Transferring Policyholders that have requested large print, the Policyholder Communications Pack will be adjusted appropriately. There are currently no recorded Transferring Policyholders that require audio format or Braille. However, should this change SWL will provide the communication in either format. SWL will review all cases of returned paper mail. If the mail is returned with a notification of a change of address, SWL will send the Policyholder Communications Pack to the new address. If the mail is returned with a notification of death, then SWL will take no further action. In all other cases, SWL will undertake a tracing exercise and reissue the Policyholder Communications Pack where tracing is successful.

7.9.11 SWL will establish a questions handling team to respond to, in the first instance at least, any questions or objections from policyholders and other interested parties relating to the Scheme. SWL has advised me that this team will have received training on engaging with vulnerable customers. This will include training on the use of tools and services developed in support of vulnerable customers, including accessibility options such as providing communications in Braille, large print or audio format. The

questions handling team will be supported by a specialist team that will consider all correspondence containing objections or raising concerns.

Waiver on mailing all policyholders

7.9.12 The Companies intend to seek a general waiver from the Court of the requirement to notify all policyholders affected by the transfer, based on the approach to communication with policyholders set out in the Companies' respective witness statements for the Directions Hearing. The specific classes and sub-groups of policyholders which the Companies do not intend to directly notify are summarised in the following paragraphs and I provide my opinion on them in respect of different classes and sub-groups of policyholders in sub-sections 8.4, 9.4 and 10.4.

7.9.13 SWL does not intend to directly notify the SWL Non-Transferring Policyholders. The reasons for this include:

- The impact of the transfer on SWL Non-Transferring Policyholders is expected to be minimal in terms of balance sheet strength and the number of policies remaining in SWL.
- There are no changes to policy terms and conditions, servicing arrangements and governance arrangements for SWL Non-Transferring Policyholders.
- SWL believes the SWL Non-Transferring Policyholders may find it confusing to receive a mailing informing them of something that does not directly affect them and therefore detract their attention from other routine correspondence that may be of greater relevance to them.

7.9.14 SWL estimates that the cost of mailing the SWL Non-Transferring Policyholders would be at least £14.6m. In view of the points above, SWL considers that this cost would be disproportionate to the benefit to SWL Non-Transferring Policyholders and that publicising the Scheme to these policyholders via SWL's website and newspaper advertisements is a reasonable and proportionate approach.

7.9.15 SWL does not intend to directly notify certain categories of Transferring Policyholders. These categories are set out below:

- Underlying beneficiaries of buy-in policies: The legal owners of the buy-in policies are pension scheme trustees. At 30 June 2024, the Transferring Policyholders included 27,980 underlying beneficiaries of these buy-in policies. SWL's relationship is with the pension scheme trustees and it is the trustees who generally communicate with the underlying beneficiaries. SWL does not have a contractual right to communicate directly with the underlying beneficiaries. SWL has contacted the pension scheme trustees via email ahead of the Directions Hearing to strongly encourage the trustees to inform their underlying beneficiaries of the Scheme. The email asked the pension scheme trustees to confirm if they intend to correspond with their underlying beneficiaries and, if not, the reason why. SWL's policyholder letter that will be sent to the trustees will include wording to strongly encourage trustees to inform their underlying beneficiaries of the Scheme. SWL will also make an offer to support the trustees' communication and will provide a template letter which the trustees may tailor for their underlying beneficiaries (as they see fit) and send out on their own letterhead or as part of a trustee newsletter. SWL will meet reasonable costs incurred by the pension scheme trustees in communicating details of the Scheme to the underlying beneficiaries.
- "Gone-aways": "Gone-aways" are policyholders for whom SWL does not have a current address. I have been told by SWL that there were six such policyholders among holders of Transferring Policies as at 2 December 2024. SWL has undertaken tracing exercises, including the use of a third-party tracing company, to attempt to trace each of these gone-aways. SWL has advised me that it completed a full trace during November 2024 for each of the gone-aways except those where a

full trace had been carried out since September 2024. SWL considers that there are no further reasonable measures it can take to locate these policyholders and therefore it proposes to exclude untraced policyholders from the mailing if it has not found a confirmed address by the date on which the data extract is taken for the Policyholder Communication Pack mailing. SWL will, however, provide the Policyholder Communication Pack to any gone-away who re-establishes contact ahead of the Sanction Hearing for information and if timing allows to allow them time to respond with queries or objections.

- Powers of attorney: Where a power of attorney is recorded in relation to a Transferring Policy, SWL will follow its normal business practice and send the communication to the relevant attorney instead of the policyholder. I have been told by SWL that 51 of the Transferring Policyholders had a power of attorney recorded as at 2 December 2024.
- Contingent annuitants: Contingent annuitants are individuals not currently in receipt of benefits under a policy, but who may become beneficiaries in the future following the death of the person for whom the annuity is set up, the primary annuitant. A contingent annuitant may be a spouse or dependent child, for example. SWL proposes not to write to contingent annuitants. The address of any contingent annuitant would ordinarily only be established by SWL upon the death of the primary annuitant although, in the majority of cases, the address of the contingent annuitant will be the same as that of the primary annuitant, to whom the Policyholder Communication Pack will be sent.
- Trustees in bankruptcy, bankruptcy lawyers, receivers and administrative receivers: Where SWL's records show that a holder of a Transferring Policy has been declared bankrupt and SWL has been notified of the appointment of the trustee in bankruptcy, bankruptcy lawyer, receiver or administrative receiver and has updated its computerised records to reflect such an appointment, SWL will send a copy of the Policyholder Communication Pack to the trustee in bankruptcy, bankruptcy lawyer, receiver or administrative receiver as well as the Transferring Policyholder. However, SWL has advised me that it will often be the case that it will not have records of the name and address of the trustee in bankruptcy, bankruptcy lawyer, receiver or administrative receiver, and in such cases it considers it would be impractical and ineffective to perform a manual search of its records. In these cases, the Policyholder Communication Pack will be sent to the insolvent Transferring Policyholder. The pack will include a request to share the information received with any person who has an interest in the policy. I have been told by SWL that there were no recorded instances of a Transferring Policyholder being declared bankrupt as at 2 December 2024.
- Pension sharing orders: A court may order that, when the benefits of a pension policy come into payment, some or all of the benefits are paid to the policyholder's former spouse. Former spouses who have the benefit of a pension sharing order fall within the definition of a policyholder as described in paragraph 7.9.2, since they are entitled to benefits payable under the policy. Where SWL has details of a pension sharing order (including a contact or mailing address for the former spouse) on its policy records SWL will write to the former spouse. However, there may be cases where SWL is not aware of a pension sharing order having been granted and so it is proposing not to write to former spouses in such cases. I have been told by SWL that it is not aware of any pension sharing orders as at 2 December 2024.
- Deceased: Where deaths have been notified to SWL in advance of the mailing date and benefits have not yet been settled or remain payable, SWL will send the Policyholder Communication Pack to the executors and personal representatives of the deceased policyholder. This will be sent to the address of the deceased policyholder held on SWL's records as at the date on which the data extract is taken for the communication pack mailing. In other cases, where benefits have been settled and no benefits remain payable, SWL does not propose to write to policyholders where

their records indicate that the policyholder is deceased. Where deaths are notified after the cut-off date for the mailing, SWL does not intend to make any further communications relating to the Scheme in light of the sensitivities around communications to the persons that receive the mail of the deceased.

7.9.16 SWL does not intend to directly notify the Ambrosia Underlying Members (the underlying members of the LBG pension schemes, the trustees of which hold the Ambrosia Policies) on the basis that, under these agreements, SWL is not a direct provider of benefits to the pension scheme members (and therefore does not consider the underlying members to be policyholders). SWL will notify the trustees of these pension schemes.

7.9.17 The Policyholder Communication Pack asks recipients to share the pack with any other person who has an interest in the policy. In particular, the pack provided to pension scheme trustee policyholders will offer support to the trustees in informing scheme members. In some of the other cases listed in paragraph 7.9.15, for example in the case of contingent beneficiaries, SWL expects those with an interest in a Transferring Policy will be made aware of the Scheme even if they are not the holder of the Transferring Policy.

7.9.18 Rothesay does not intend to write to its existing policyholders on a number of grounds, including:

- None of Rothesay's existing policyholders need to take any action as a result of the Scheme.
- There are no changes to policy terms and conditions, servicing arrangements and governance arrangements for Rothesay Existing Policyholders.
- The transfer will not expose Rothesay Existing Policyholders to any significant new kinds of risks, as the risk profile of the Transferring Business is very similar to Rothesay's existing business and the risk and reward associated with the majority of the Transferring Business is already reinsured to Rothesay under the Reinsurance Agreement.
- Rothesay's Existing Policyholders may be confused by receiving a technical communication on a matter which is not material to them.
- The cost of mailing Rothesay's policyholders is estimated at £2.6 million. Rothesay considers that this cost would be disproportionate to any benefit.
- There are alternative ways of publicising the Scheme to Rothesay Existing Policyholders such as via the Rothesay website and through newspaper advertisements that Rothesay considers are reasonable and proportionate.

7.9.19 Rothesay Existing Policyholders may still become aware of the Scheme through newspaper advertisements and the Rothesay website and they will have an opportunity to raise concerns or object to the transfer if they feel they are adversely affected. The newspaper advertisements and the information that will be presented on the Rothesay website make clear that policyholders have this right and explain how to go about raising concerns or objections. Where policyholders make contact by phone, the teams receiving calls will be provided with a question and answer document and be trained to enable them to deal with the queries and complaints received regarding the Scheme.

7.10 Cost of the transfer

7.10.1 The BTA provides that regulatory fees, the costs of the Independent Expert, the costs of Counsel jointly appointed by SWL and Rothesay in respect of the Part VII transfer, Court fees and the costs of advertisements in respect of the Scheme will be borne equally by SWL and Rothesay.

7.10.2 All other costs will be borne by the party incurring the costs, including the cost of notifying policyholders.

7.10.3 No costs associated with the transfer will be allocated to either of SWL's with-profits funds.

8 Implications for Transferring Policyholders

8.1 Introduction

8.1.1 In this section, I focus on the impact of the Scheme on Transferring Policyholders.

8.1.2 I am satisfied that the Scheme will have no material adverse effect on the Transferring Policyholders.

8.1.3 To arrive at my conclusions, I have considered the following:

- the impact of the Scheme on the security of the benefits of the Transferring Policyholders
- the impact of the Scheme on the reasonable expectations of the Transferring Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with the Transferring Policyholders in relation to the Scheme is fair.

8.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 8.2 to 8.4 below.

8.1.5 In most respects, the interests of all Transferring Policyholders are similar and so, mainly, I consider the Transferring Policyholders as a class of policyholders as a whole. Where the interests of particular sub-groups of policyholders differ, I consider the relevant sub-groups separately.

8.1.6 There are some specific considerations relating to benefit expectations that are relevant to the holders of deferred annuity policies (and to a lesser degree some in-payment annuities) and I comment on these in paragraphs 8.3.20 to 8.3.51 below.

Treatment of the Reinsurance Agreement

8.1.7 As described in sub-section 7.4, the economic risk and reward associated with a material part of the Transferring Business were transferred from SWL to Rothesay with effect from 1 January 2024 under the Reinsurance Agreement in accordance with its terms. In the event that the Scheme is not implemented, the Reinsurance Agreement could remain in-force or it could be terminated by SWL. If SWL does not exercise its right to terminate the Reinsurance Agreement and the Reinsurance Agreement remains in force, the Companies must use reasonable endeavours and co-operate in good faith to agree any amendments necessary to allow the Reinsurance Agreement to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities.

8.1.8 I am required by the FCA Guidance to consider whether the Companies have entered into the Reinsurance Agreement to pre-empt regulatory scrutiny. In such circumstances, the FCA Guidance requires me to consider if it is appropriate to compare the Scheme with the position the Transferor (in this case, SWL) would be in if they did not benefit from the Reinsurance Agreement. In my opinion, the Companies have entered into the Reinsurance Agreement to implement their respective business strategies in a timely and cost-effective manner, and not for the purpose of pre-empting regulatory scrutiny. I also note that the effect of entering into the Reinsurance Agreement was to slightly improve SWL's solvency position, increasing its SCR cover ratio by approximately three percentage points. This suggests that considering the impact of the Scheme on the security of Transferring Policyholders' benefits relative to the position where the Reinsurance Agreement is in place is a more stringent comparison than considering it relative to the position where the Reinsurance Agreement is not in place.

8.1.9 I am also required by the FCA Guidance to consider the potential impact of the Scheme relative to the status quo (i.e. the position with the Reinsurance Agreement in place). If the reinsurance terminates automatically or can be terminated by Rothesay in the event that the Scheme is not sanctioned, the FCA Guidance also requires me to consider the potential impact of the Scheme relative to the position that the Scheme does not go ahead and the Reinsurance Agreement is terminated. As noted in paragraph 7.4.6, the Reinsurance Agreement does not automatically terminate in the event that the Scheme does not go ahead and Rothesay does not have a right to terminate the Reinsurance Agreement due to the Scheme not being sanctioned.

8.1.10 I therefore consider it appropriate to form my opinions on the Scheme by considering the financial impact of the Scheme only relative to the alternative scenario in which the Scheme does not proceed and the Reinsurance Agreement remains in place. However, my conclusions would remain valid if I were to compare the pre-Scheme financial position ignoring the effect of the Reinsurance Agreement to the financial position post-Scheme.

8.2 Benefit security of Transferring Policyholders

Summary

8.2.1 It is important that Transferring Policyholders' benefits are paid as they fall due. The continuing ability of an insurer to pay benefits depends upon it holding:

- sufficient assets to pay the expected amount of future benefits and expenses as they fall due
- additional assets in case the actual amount of future benefits and expenses it needs to pay is greater than expected.

8.2.2 I have investigated the security of Transferring Policyholders' benefits by comparing the sources of security and the profile of risks to which the Transferring Policyholders will be exposed pre- and post-Scheme.

8.2.3 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the Transferring Policyholders.

8.2.4 I have formed this opinion taking into account that:

- the level of security offered by Rothesay holding its regulatory capital requirement is similar to that offered by SWL holding its regulatory capital requirement
- Rothesay's capital management policy is similar to that of SWL
- the capital management policies provide security, in addition to the regulatory capital requirements, such that the probability of either company being unable to meet its obligations to its policyholders, in my opinion, is remote
- as at 30 June 2024 both SWL and Rothesay held capital in excess of the target levels required by their respective capital management policies and this remains the case based on the most recent information available as at 30 September 2024
- the regulatory requirement for the Rothesay Board to contain independent non-executive directors and the ongoing regulatory oversight by the PRA provides assurance that Rothesay's capital management policy will continue to provide appropriate benefit security for Transferring Policyholders in future

- the range of management actions identified by Rothesay as being available to restore its capital position if it breaches its capital targets are, in my opinion, credible and broadly comparable to those identified by SWL in similar circumstances, which I also consider to be credible
- while Transferring Policyholders will be exposed to a different mix of risks after the transfer, this will predominantly be reflected in the capital requirements of Rothesay with those capital requirements offering a similar level of protection to the capital requirements of SWL
- Rothesay's liquidity risk management will, in my opinion, provide sufficient protection to be confident that benefits on the Transferring Policies can be paid as they fall due in all but very extreme circumstances
- Rothesay's risk management framework is, in my opinion, appropriate and comparable to that of SWL
- costs associated with the Scheme will be met by Rothesay and SWL and these costs will not be significant in relation to the respective company's financial resources.

8.2.5 I explain my reasoning by expanding upon these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

8.2.6 All policyholders of SWL, including the Transferring Policyholders, currently rely on the available resources of SWL for the security of their benefits. These resources primarily comprise of the:

- assets backing the Technical Provisions and SCR of SWL (see sub-section 4.3)
- assets held by SWL in addition to its regulatory capital requirements.

8.2.7 SWL has entered into a number of reinsurance arrangements with various parties (reinsurers), including Rothesay. SWL receives payments from the reinsurers, which then form part of SWL's resources available to pay SWL's policyholders' benefits. The ability of the reinsurers to fulfil their obligations under these arrangements will affect the financial strength of SWL and, therefore, the security of benefits for the Transferring Policies will also be provided indirectly by the assets of the reinsurers. As described in paragraphs 5.3.33 to 5.3.43, the reinsurance contracts that SWL has in place in respect of the Transferring Policies, including the Reinsurance Agreement with Rothesay, are collateralised. The collateral arrangements contribute to SWL's financial strength and therefore to the benefit security of Transferring Policyholders.

8.2.8 If the Scheme is implemented, then benefit security for Transferring Policyholders will instead primarily be provided by the:

- assets backing the Technical Provisions and SCR of Rothesay
- assets held by Rothesay in addition to its regulatory capital requirements.

8.2.9 Similar to SWL, as described in paragraph 8.2.7 above, Rothesay has entered into a number of reinsurance arrangements with various third-party reinsurers. As described in paragraph 6.3.22, Rothesay has reinsurance arrangements with fourteen reinsurance companies. All its reinsurance contracts are unfunded longevity swaps, and all material reinsurance exposures are collateralised. If the Scheme is implemented, the reinsurance arrangements that SWL has in place in respect of the Transferring Policies, as described in paragraph 5.3.38, will transfer to Rothesay. The reinsurance counterparty default risk associated with the reinsurance that SWL has in place in respect of the Transferring Policies, other than in respect of the Ambrosia Policies, has already been transferred to Rothesay under the terms of the Reinsurance Agreement. As noted in paragraph 5.3.37, the reinsurance

counterparty default risk associated with the reinsurance that SWL has in respect of the Ambrosia Policies is borne by the pension schemes that hold the Ambrosia Policies rather than by SWL. If the Scheme is implemented, the reinsurance counterparty default risk on these arrangements will continue to be borne by the pension schemes that hold the Ambrosia Policies, not Rothesay. Security for the benefits of the Transferring Policyholders post-Scheme will therefore also be provided indirectly by the assets of Rothesay's reinsurance counterparties.

8.2.10 To compare benefit security for Transferring Policyholders before and after the Scheme, I need to consider the methodologies used by the Companies to calculate their respective Technical Provisions and SCRs, the capital the Companies intend to hold in addition to their respective regulatory capital requirements and the profile of risks faced by each of the Companies.

Technical Provisions and SCR

8.2.11 Both SWL and Rothesay are subject to the Solvency II regulatory capital requirements. Under Solvency II, an insurer needs to hold assets against its insurance liabilities of an amount at least as great as the Technical Provisions (see paragraphs 4.3.11 and 4.3.12). It must then hold additional assets equal to the SCR (see paragraphs 4.3.15 to 4.3.20), which can be thought of as a "buffer" against adverse experience that may lead to the Technical Provisions being insufficient. The PRA, the prudential regulator of both SWL and Rothesay, is able to take actions to protect policyholders if an insurance company does not have sufficient assets to cover its SCR.

8.2.12 There are many similarities between how SWL and Rothesay approach the calculation of their Technical Provisions and SCRs. The approaches taken are set out in sub-sections 5.5 and 6.5 for SWL and Rothesay respectively. These sub-sections show that in calculating Technical Provisions, both SWL and Rothesay use the MA and both use the TMTP; and in calculating the SCRs, both SWL and Rothesay use an IM and neither are required to hold any capital add-ons.

8.2.13 There are, however, some differences in the approaches taken by SWL and Rothesay to the calculation of their respective Technical Provisions and SCR. As these can have a significant effect on the calculated amounts, I need to assess the approaches taken by the Companies so that I can judge whether the two bases provide a similar level of protection.

Best estimate assumptions

8.2.14 The calculation of the BEL is a key element of the Technical Provisions that relies on assumptions about future uncertain events. Setting these assumptions involves a degree of judgement and it might be expected that SWL and Rothesay will exercise that judgement differently. This applies to the assumptions used to value the whole of the Companies' business. However, in particular, I would have concerns if the BEL on the Transferring Policies calculated by Rothesay is significantly lower than that calculated by SWL after taking into account valid differences in approach.

8.2.15 I have reviewed the assumptions used by both SWL and Rothesay to calculate the BEL for their respective in-force business as at 31 December 2023, which were subject to external audit. I am satisfied that the approaches taken by both firms were reasonable. Both SWL and Rothesay have informed me that the assumptions used at 30 June 2024 have been largely determined in a consistent way with those at 31 December 2023. Where there are differences between the two dates, these have been explained to me and I consider the differences to be based on sound rationale and reasonable.

8.2.16 Furthermore, I have considered the assumptions used by Rothesay to calculate the BEL on the Transferring Policies, the resulting amount of the BEL, and how this compares to the corresponding

amount calculated by SWL. Table 8.1 sets out the comparison of BEL (excluding any reinsurance) as at 30 June 2024.

Table 8.1: Gross Best Estimate Liabilities of Transferring Policies as at 30 June 2024

	SWL	Rothesay
BEL as at 30 June 2024 (£m)	5,556	4,913

Source: SWL and Rothesay

8.2.17 The difference in the BELs in Table 8.1 is primarily due to SWL not applying the MA in its calculation of the BEL (as the Reinsurance Agreement has the effect of removing the assets backing these liabilities from SWL's MA portfolio), whereas the MA is applied to the Transferring Annuities by Rothesay. I consider this a valid difference in approach, compliant with the Solvency II regulations and as approved by the PRA. Accounting for this, I am content that there is no significant difference in the BEL calculated by Rothesay compared to that calculated by SWL and, in my opinion, the assumptions used by Rothesay, and the resulting BEL on the Transferring Policies, are reasonable.

8.2.18 Overall, I am content that differences in the assumptions used by SWL and Rothesay to calculate their BEL are reasonable and will not have a material adverse effect on the security of Transferring Policyholders' benefits. It should be noted that the assumptions used by both firms are subject to a range of controls, including annual external audit, and, therefore, I am confident that BEL assumptions used in future will remain appropriate.

Adjustments to Technical Provisions

8.2.19 Both SWL and Rothesay use the MA and TMTP (see paragraph 4.3.21). (As noted in paragraph 8.2.17, following entering the Reinsurance Agreement, SWL does not apply the MA to the Transferring Annuities. It does, however, apply the MA to some other liabilities.) The MA and TMTP both reduce SWL and Rothesay's Technical Provisions (see sub-sections 5.5 and 6.5).

8.2.20 The TMTP is currently slightly more beneficial to SWL compared to Rothesay, but I do not consider the difference to be material to my considerations and note that this transitional benefit will reduce to zero for both of the Companies by 1 January 2032.

8.2.21 Although the overall benefit of the MA appears to be greater for Rothesay than SWL in terms of the impact if use of the MA is removed (see paragraphs 5.5.5 and 6.5.5), this is primarily because the MA is applied to a larger proportion of Rothesay's business. The difference in the impact of the MA on Rothesay's and SWL's Technical Provisions where the MA is actually applied is small and is primarily driven by differences in their investment strategies for their respective MA portfolios. It can be noted that the most recent public disclosures (as at 31 December 2023) show that the uplift in liability discount rate applicable to MA liabilities for Rothesay (1.17%) was slightly lower than that applicable to SWL (1.28%). Whilst this may not necessarily be the case in the future, it highlights that Rothesay's MA liabilities have not recently benefited from the MA to a greater extent than SWL's.

8.2.22 Both Companies have a significant reliance on the MA, and Rothesay's slightly greater reliance (at an overall balance sheet level) does not, in my opinion, have a material impact on the benefit security of Transferring Policyholders.

8.2.23 I am satisfied that the Companies' use of the MA in the calculation of their respective Technical Provisions is compliant with the Solvency II regulations and, therefore, it is appropriate for me to

consider the financial positions of the Companies allowing for the benefit of the MA in my analysis of the potential impacts of the Scheme.

8.2.24 As noted in paragraphs 5.5.10, 6.5.10 and 6.3.17 the expected impacts of Solvency UK reforms on the Companies, and Rothesay's application to use the VA do not affect my conclusions.

SCR approach

8.2.25 As discussed in sub-sections 5.5 and 6.5, SWL and Rothesay use their PRA-approved IMs in the calculation of their SCRs.

8.2.26 The MA reduces both SWL's and Rothesay's SCRs. Rothesay's SCR is reduced by the MA to a greater extent than SWL's. As explained in paragraph 8.2.21, this is primarily due to the MA being applied to a greater proportion of Rothesay's business.

8.2.27 I place reliance on the PRA's approvals that SWL's and Rothesay's uses of their respective IMs accurately reflect the risks to which they are exposed.

Overall conclusion on Technical Provisions and SCR

8.2.28 Taking the above into account, I am satisfied that the differences in calculation approaches and Solvency II approvals between the Companies will not have a material adverse effect on the security of benefits for the Transferring Policyholders.

8.2.29 Overall, although there are some differences in approach, both Companies' approaches are required to comply with the Solvency II regulations for firms to calculate the SCR such that, if capital equal to the SCR is held, the value of the firm's assets will exceed the value of its liabilities over a one-year time period with a probability of 99.5%.

Comparison of capital management policies

8.2.30 As discussed in paragraph 4.3.28, firms will generally aim to hold capital in excess of the regulatory capital requirement. Any excess above the regulatory minimum increases the probability that the insurer will be able to cover its Technical Provisions over a one-year time horizon to above 99.5% (or conversely reduces the probability it will be unable to cover its Technical Provisions to a level below 0.5%) and, therefore, provides added security.

8.2.31 Subject to certain logistical and governance hurdles, current excess capital could, in principle, be transferred out of either company through dividends or the repayment of capital. The level of excess capital could also change materially through future acquisitions of business. In order to provide meaningful security to policyholders' benefits, it is necessary that capital is held within the company over the full duration of those benefits.

8.2.32 Therefore, rather than consider current excess capital, it is more instructive to compare the capital management policies of the Companies, incorporating their chosen risk appetite, in order to understand the level of excess capital that I can be more confident will be held by the Companies over the longer term.

8.2.33 Both SWL and Rothesay have capital management policies and risk appetite statements that have been approved by their respective boards (see sub-sections 5.6 and 6.6). These articulate target levels of excess capital under the Solvency II regulatory regime and triggers to take management actions if the actual capital level falls below these points.

8.2.34 I have been informed that neither SWL nor Rothesay has current plans to change its capital management policy, either as a result of the Scheme or any other factors.

8.2.35 SWL has asked me not to disclose the detail of its capital management policy. While this does not change my opinions or conclusions, it means that I cannot refer to percentage targets in my Report when comparing the capital management policies of the Companies. What I can say, is that although expressed slightly differently, the current SWL and Rothesay capital management policies are reasonably similar in terms of the target SCR cover ratio.

8.2.36 Furthermore, each of the Companies have a form of "amber" and "red" triggers, which are defined as SCR cover ratio levels below the target amount, with the red level being lower than the amber level. If the SCR cover ratio falls below the amber level, action is required to restore the target SCR cover ratio over time. If the SCR cover ratio falls below the red level, immediate action is required. SWL's amber and red levels are not, in my opinion, materially different to Rothesay's.

8.2.37 The Companies' similar capital targets suggest that the capital management policies provide similar levels of protection for policyholders. However, this similarity in capital targets does not necessarily mean that the capital management policies offer the same protection as the Companies face different risks. Holding a similar level of target capital does not mean that SWL and Rothesay can both withstand the same extreme events.

8.2.38 What can be said is that both SWL and Rothesay aim to ensure that they can withstand extreme events and still meet their liabilities to policyholders.

8.2.39 SWL and Rothesay have each identified a range of management actions that could be taken to improve their solvency position if their excess capital were to fall below the minimum target level set out in their capital management policies (see paragraphs 5.6.7 and 6.6.4). The main options open to both SWL and Rothesay are similar although, if additional capital needs to be raised, SWL is likely to seek this from its ultimate parent company, LBG, rather than directly from capital markets.

8.2.40 However, as noted in paragraph 5.2.9 support for SWL from LBG is not guaranteed and, therefore, I place no weight on it in forming my opinions (beyond recognising it may be a credible management action in some of the circumstances considered in SWL's Recovery Plan in the same way that Rothesay seeking additional capital from its shareholders or capital markets may be a credible management action considered in its Recovery Plan). This is consistent with one of the points of the Court of Appeal ruling (see paragraph 3.3.3) relevant to my considerations as outlined in sub-section 3.3.

8.2.41 Both Companies expand on the management actions they could take in their Recovery Plans or Recovery and Resolution Plans, which consider:

- the steps required to implement the management actions
- any associated risks and how they would be mitigated
- any external dependencies
- an overall assessment of the credibility of the action.

8.2.42 I have reviewed both Companies' assessments, by considering the businesses, the nature of the actions proposed and my view of the feasibility of the management actions based on my knowledge of the insurance market. Although the actions SWL and Rothesay may take are not identical, I am satisfied that both Companies have a range of credible management actions that they could take if necessary to restore their solvency positions.

8.2.43 Changes to either of the Companies' capital management policies would require approval of the relevant board and this would be subject to regulatory scrutiny and the internal oversight of the Risk function. I therefore take some assurance that independent representation on the Rothesay Board, which is a PRA requirement for all insurance companies, together with the regulatory oversight provided by the PRA should ensure that Rothesay's capital management policy continues to provide appropriate benefit security for Transferring Policyholders in future. These governance and regulatory protections are similar to those that apply to SWL.

8.2.44 Overall, I am satisfied that, if the Scheme is implemented, the change for the Transferring Policyholders to be covered by the Rothesay capital management policy rather than the SWL capital management policy will not lead to a material adverse effect on their security of benefits. As discussed in paragraph 8.2.37, it is difficult to make a direct comparison of the strength of Rothesay's capital management policy compared to SWL's. However, in my opinion, the policies are similar and I am satisfied that the Rothesay capital management policy means that the possibility of Rothesay becoming unable to meet its obligations to policyholders as they fall due is remote.

Comparison of solvency position

8.2.45 I need to look at the expected impact of the Scheme on Rothesay's financial position, to assess whether Rothesay will remain financially strong and will continue to meet its capital management policy.

8.2.46 Table 8.2 below compares the regulatory solvency position of SWL immediately before the transfer to that of Rothesay immediately after the transfer (on a pro forma basis), assuming that the transfer took place on 30 June 2024. The expected impacts of Solvency UK reforms on the Companies, and Rothesay's application to use the VA are not included in the figures, but these impacts do not affect my conclusions.

Table 8.2: Comparison of regulatory solvency position as at 30 June 2024 (Rothesay on a pro forma basis)

	SWL pre-transfer (£m)	Rothesay post-transfer (£m)
Own Funds (A)	5,064	8,667
Solvency Capital Requirement (B)	3,295	3,506
Excess capital (A-B)	1,769	5,161
SCR cover ratio (A/B)	154%	247%

Sources: SWL and Report of the Chief Actuary of Rothesay on the Scheme

8.2.47 If the Scheme is not implemented and SWL chooses to terminate the Reinsurance Agreement, then as at 30 June 2024, a modest reduction in SWL's SCR cover ratio is expected, but with cover remaining above SWL's target capital buffer (as described in paragraph 5.6.1). In this scenario, Rothesay's SCR cover ratio is expected to increase slightly.

8.2.48 A direct comparison of the pre-Scheme SWL position to the post-Scheme Rothesay position provides only short-term assurance over benefit security as excess capital over each company's capital management policy target may not persist (see paragraph 8.2.31). Table 8.2 does show that the Transferring Policyholders will move from one financially strong company to another financially strong company and, importantly, Rothesay is expected to exceed its capital management policy target post-Scheme.

8.2.49 Since 30 June 2024, the SWL Board have approved a dividend payment, which was paid to SWG in November 2024. SWL has continued to write new business (other than bulk purchase annuity business). The overall impact is a modest reduction in SWL's SCR cover ratio, but this still exceeds SWL's capital management policy target.

8.2.50 Since 30 June 2024, the Rothesay Board have approved an interim dividend payment, which was paid to Rothesay shareholders in October 2024, and has repaid some debt. It has also continued to write new business. The overall impact is a modest reduction in Rothesay's SCR cover ratio, but this still comfortably exceeds Rothesay's capital management policy target. The impacts do not affect my conclusions on the Scheme as Rothesay's financial position remains strong.

8.2.51 I have been provided with financial projections showing the expected path of the Rothesay SCR cover ratio in subsequent years, to 2027, allowing for planned new business and a level of dividend. The projections show that the SCR cover ratio is expected to remain strong and higher than the level required under the Rothesay capital management policy.

8.2.52 In addition, I have reviewed the stress testing results shown in Rothesay's ORSA, and additional stress tests provided to me separately, which indicate that it can withstand a range of extreme adverse scenarios. I have reviewed the selected scenarios and I consider that they cover the material risks faced by Rothesay and are therefore appropriate.

8.2.53 Overall, I am satisfied that Rothesay is in a strong financial position and will remain so if the Scheme is implemented, such that the security provided by Rothesay's financial position compared to that provided by SWL's will not materially disadvantage the Transferring Policyholders.

8.2.54 In my Supplementary Report, I will consider the impact of the Scheme on Rothesay's financial position as at 31 December 2024.

Comparison of risk profile

8.2.55 If the Scheme becomes effective, the holders of Transferring Policies will become policyholders of Rothesay. Rothesay has a different profile of risks from SWL, as it has a different business model, has written different business and holds different assets.

8.2.56 SWL has a number of different product lines (see paragraphs 5.3.1 to 5.3.21). While it has some exposure to most of the risks faced by Rothesay, the balance of those risks and the potential impacts of those risks occurring are different. SWL also has exposure to additional risks, most notably persistency risk (see paragraph 5.9.11) arising in its unit-linked business.

8.2.57 In contrast, Rothesay has written only non-profit annuity business including longevity swaps and inwards reinsurance (see paragraphs 6.3.1 to 6.3.8). The dominant risks within Rothesay's business are longevity risk and asset risks (see sub-section 6.9). It also has exposures to counterparty risk from reinsurance and derivative counterparties, operational risk and expense risk. While Rothesay is expected to continue to grow, at present it plans to write only business similar to its existing business. The types of risks to which it is exposed are not expected to change materially, although the relative sizes of particular risks may change.

8.2.58 The Scheme will reduce the range of risks to which the Transferring Policies are exposed, but these risks will be less diversified.

8.2.59 Rothesay makes more use of reinsurance than SWL does for its annuity policies. As mentioned in paragraph 6.3.20, Rothesay reinsures approximately 72% of its longevity risk exposure, whereas, as

noted in paragraph 5.3.34, SWL reinsures around 30% of the longevity risk exposure arising from the Transferring Policies. Rothesay also uses a larger number of reinsurance counterparties than SWL does for its annuity policies. I note:

- Rothesay actively manages the risk of default from its reinsurance counterparties:
  - It uses unfunded longevity swap arrangements that are less risky than some other reinsurance structures, such as funded reinsurance
  - all material reinsurance arrangements are collateralised, which provides protection against a reinsurer defaulting on its obligations
  - reinsurance counterparty exposures are managed to limits set within its risk framework.
- If a reinsurer were to default on its obligations to Rothesay, Rothesay's SCR cover ratio would fall, but the fall would be expected to be temporary pending alternative reinsurance cover being put in place.
- Rothesay has tested the impact of five of its most material reinsurance counterparties defaulting at the same time, after which, Rothesay's SCR cover ratio is still above its capital management policy limits.

8.2.60 Implementation of the Scheme will result in a change to the risk exposures of the Transferring Policies but the SCRs of the Companies will reflect the differences in the risk exposures. The regulatory requirements in relation to the calibration of the SCR mean that Transferring Policyholders will have a similar level of security of their benefits both pre- and post-Scheme. I am also satisfied that the more extensive use of reinsurance by Rothesay is appropriately managed. Therefore, in my opinion, the differences in the risk profiles of SWL and Rothesay will not result in the Scheme having an adverse impact on the security of the benefits of Transferring Policyholders.

Liquidity

8.2.61 Liquidity risk is the risk that a company, while solvent, is unable to generate sufficient cash to meet liability payments (such as benefit payments) as they fall due.

8.2.62 Both SWL and Rothesay have defined liquidity risk appetites, which have been approved by their respective boards, setting out the minimum requirements for liquidity. SWL and Rothesay also have policies for managing liquidity risks that are approved by their respective boards. I have reviewed the policies of both SWL and Rothesay and I am satisfied that the policies are broadly comparable in content and strength.

8.2.63 Rothesay manages its investments in line with the Prudent Person Principle (see paragraph 4.3.31) and takes account of the risk associated with the investments, and without relying solely on the risk being adequately captured by capital requirements. Rothesay invests in liquid and illiquid investments to back largely illiquid liabilities and hence actively seeks illiquidity in this respect.

8.2.64 Rothesay manages this risk by maintaining a forward-looking view of liquidity needs and by maintaining a liquidity buffer determined by considering liquidity needs under stressed conditions. Rothesay calculates its view of liquidity needs over a range of time horizons using a range of liquidity management tools, and it tests its liquidity needs under stressed market conditions on a weekly basis.

8.2.65 Taking the strength of Rothesay's liquidity risk management framework into account, I am satisfied that Rothesay's liquidity risk management will provide comparable protection to that of SWL's and, in particular, sufficient protection to be confident that benefits on the Transferring Policies can be paid as they fall due in all but very extreme circumstances.

Risk management

8.2.66 Both SWL and Rothesay have comprehensive risk management frameworks in place, (see sub-sections 5.7 and 6.7), that are intended to meet the Solvency II requirements in respect of risk management (see paragraphs 4.3.26 to 4.3.30). This provides assurance that any differences in risk profile to which the Transferring Policyholders may be exposed would be suitably managed.

8.2.67 I have reviewed the SWL and Rothesay risk management frameworks and a selection of the policies of each company setting out the approach to the management of particular risks. Based on this review I am satisfied that Rothesay's risk management framework is appropriate and comparable to that of SWL.

Group risk

8.2.68 SWL is a wholly-owned subsidiary of SWG, which is itself ultimately owned by LBG, a large diversified financial services group. In contrast, Rothesay is the only insurance company in the group of companies owned by Rothesay Limited and most of the other entities within the Rothesay Group have been established solely to provide efficient services to Rothesay.

8.2.69 While SWL's group structure may have some benefits in terms of economies of shared services and potential capital support, its complexity and intra-group arrangements can expose SWL to additional sources of risk. This is known as "group risk". Group risk can cover a number of aspects such as problems within one group company negatively affecting other group companies (contagion risk) or an unwanted accumulation of a particular risk across the group as a whole.

8.2.70 The transfer will reduce the Transferring Policyholders' exposure to SWL's group risk. However, this is not a material consideration for me. The analysis discussed earlier in this sub-section 8.2, demonstrates that, in my opinion, the Scheme will not have a material adverse effect on the security of the Transferring Policyholders' benefits regardless of any potential benefit from the change in group risk exposure.

8.3 Reasonable expectations and consumer protection of Transferring Policyholders

Summary

8.3.1 In my opinion, the Transferring Policyholders' reasonable expectations in respect of their policies are that:

- they receive their benefits as guaranteed under the policy, on the dates specified
- to the extent that benefits rely on discretion that such discretion is exercised fairly
- the administration, management and governance of the policies are in line with the contractual terms under the policy and applicable conduct regulation
- the standards of service received are as good as those they currently receive.

8.3.2 Transferring Policyholders may also expect an appropriate degree of consumer protection with regards to their fair treatment, the ability to escalate complaints to an independent body where they feel that they have been treated unfairly, and access to any industry compensation scheme. The proposed transfer will not alter the consumer protection framework (including access to the FOS and TPO, and FSCS eligibility, see sub-section 4.6) that applies to Transferring Policyholders and, therefore I do not consider it further in this section.

8.3.3 I have investigated the factors listed in paragraph 8.3.1 by looking separately at benefit expectations, policy administration and servicing, and management and governance.

8.3.4 Given differences in approach, where relevant, I consider policy administration and servicing for the Transferring Annuitants separately to policy administration and servicing for the Other Transferring Policyholders.

Benefit expectations

8.3.5 I am satisfied that the Scheme will have no material adverse effect on the reasonable benefit expectations of Transferring Policyholders.

8.3.6 I have formed this opinion taking into account that:

- the majority of benefits are contractually defined and do not rely on discretion
- where discretion is applied, it mainly impacts Transferring Annuitants with optional benefits, where:
  - the amount of the discretionary benefit is not guaranteed
  - the methodology to be used by Rothesay post-Scheme will be consistent with that currently used by SWL
  - the methodology and assumptions that Rothesay proposes to use to calculate discretionary benefits post-Scheme are, in my opinion, aligned with policy terms and conditions and fair to Transferring Annuitants
  - any future changes to Rothesay's methodology and bases will be subject to Rothesay's internal governance, and its requirement to meet the FCA's conduct rules including the Consumer Duty, which are, in my opinion, comparable to SWL's internal governance and its requirement to meet the same conduct rules
- the only other circumstance in which discretion is exercised, in determining young spouse pensions, affects a very small number of Transferring Annuitants when a spouse's pension becomes payable on the death of a Transferring Annuitant and there is a larger than usual age gap between the Transferring Annuitant and their younger spouse, and where:
  - Rothesay will usually take a simplistic approach that typically leads to a level of benefit similar to that calculated by SWL; and
  - for the small subset of cases where the spouse is significantly younger than the Transferring Annuitant, Rothesay will review the simplified calculation and adjust it, if necessary, to ensure the benefit meets the relevant policy terms and conditions
- there will be no change to the way in which benefits are taxed in the hands of the Transferring Policyholders.

8.3.7 That said, I note that the assumptions expected to be used by Rothesay to calculate discretionary benefits and young spouse pensions differ from those currently used by SWL. The use of different assumptions will lead to changes in the level of discretionary benefits and young spouse pensions. Based on calculations performed by the Companies, these changes are expected to be broadly neutral overall. Where discretion is exercised, some of the Transferring Annuitants may receive higher benefit amounts while others may receive lower amounts. Where the Transferring Annuitants may receive lower amounts, the FCA has asked the Companies to consider whether additional measures could be taken to mitigate the impact of the differences. The Companies have committed to addressing this request and are currently developing their approach to implementing appropriate additional measures. I will report on the outcome in my Supplementary Report. I discuss the changes to the assumptions used to

calculate discretionary benefits and young spouse pensions in detail in paragraphs 8.3.20 to 8.3.51. Guaranteed benefits will not be affected.

Policy administration and servicing

8.3.8 In my opinion, the Scheme will have no material adverse effect on the policy administration and service standards experienced by the Transferring Policyholders.

8.3.9 I discuss the position for the Transferring Annuitants separately to that for the Other Transferring Policyholders (the holders of the Ambrosia Policies and the residual risk policies) as different considerations apply to each group.

8.3.10 For the Transferring Annuitants, I have formed this opinion taking into account that:

- Transferring Annuities will continue to be administered by Aptia using the same administration platform and the same staff immediately after the Scheme is implemented, with the exception of contact centre staff that deal with initial telephone enquiries (where a change is intended to provide a better level of service to the Transferring Annuitants)
- SWL, Rothesay and Aptia have developed, and shared with me, the Separation Plan to facilitate the transfer of the policy data and administration of the Transferring Policies, including the Transferring Annuities, from SWL to Rothesay
- I consider the Separation Plan (which may be amended to reflect changing circumstances) together with supporting documentation to be reasonable, comprehensive and robust
- the Companies will only proceed with the Scheme if they are confident, in advance of the Scheme Effective Date, that the Separation Plan will be successfully implemented
- the proposed service standards following implementation of the Scheme are, by design, at least as good as those that are currently applied by SWL
- Aptia has direct experience of already carrying out the administration of the Transferring Annuities to SWL's service standards and has experience of carrying out the administration of other bulk purchase annuity business on behalf of Rothesay to Rothesay's service standards
- Rothesay is in the process of establishing a framework and process whereby each of its outsourced pensions administrators act as a backup payroll provider and customer call centre for each of the other outsourced pension administrators which, when implemented, will reduce the risk of poor outcomes in significant stress scenarios.

8.3.11 For the Other Transferring Policyholders, I have formed this opinion taking into account that:

- Rothesay will administer the Ambrosia Policies using its existing in-house system for longevity swaps
- the Ambrosia Policies are relatively standard longevity swap contracts that Rothesay is experienced in administering
- the Separation Plan, which, together with supporting documentation, I consider to be reasonable, comprehensive and robust, covers the Ambrosia Policies
- there are currently no administration requirements for the residual risk policies as no claims have yet been made under these policies and Rothesay, and its outsourced service providers, have expertise in administering any benefits that may become payable under these type of contracts

- under the BTA, Rothesay is required to use reasonable endeavours to administer the residual risk policies (as well as the Transferring Annuities) to a standard that is equal to or better than the standards of administration provided by Rothesay in its bulk purchase annuities business generally.

8.3.12 I explain my reasoning by expanding upon these points in paragraphs 8.3.52 to 8.3.81 below.

8.3.13 As at the date of my Report, the Separation Plan is being implemented. The Separation Plan contains activities that have completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Scheme Effective Date. While this is not an uncommon position in a transfer of insurance business such as this, it is important that the Separation Plan is implemented successfully to ensure that the Transferring Policies can be administered appropriately following the proposed transfer. Although the transfer of policy data and administration is less complex than most (as, for the majority of the Transferring Policies, the same platform will be used and, with the exception of the contact centre, the same staff will be involved before and immediately after the proposed transfer), the Companies still need to be confident that the Separation Plan will be successfully implemented before the Scheme Effective Date. This is recognised by the Companies and they have taken into account the timeline for successfully implementing the Separation Plan in setting the Scheme Effective Date. Furthermore, if there are unforeseen issues with the transfer of policy data and administration, the Companies may delay the Scheme Effective Date by up to one month without approval of the Court, or up to three months subject to Court approval. The Companies are also developing contingency arrangements to address any unforeseen issues that might arise shortly before or in the weeks immediately after the Scheme Effective Date using an approach that I consider to be reasonable.

8.3.14 At the date of my Report, work on implementing the Separation Plan and developing the contingency arrangements is progressing to plan and I have no reason to be concerned that the activities will not be completed successfully.

8.3.15 I have asked the Companies to keep me informed of progress against the Separation Plan and the development of contingency plans and I will provide an update in my Supplementary Report.

Management and governance

8.3.16 In my opinion, the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

8.3.17 I have formed this opinion taking into account that:

- Rothesay's governance structure is comparable to that of SWL's and is, in my opinion, appropriate
- the same regulatory requirements apply to both SWL and Rothesay
- Rothesay has appropriate resources and processes in place to help ensure it is able to acquire and administer large discrete blocks of business, on a similar scale to the Scheme
- the governance structures of each of the Companies ensure that the Consumer Duty is considered in wider business operations.

8.3.18 I explain my reasoning by expanding upon these points in paragraphs 8.3.82 to 8.3.88 below.

Benefit expectations

Guaranteed benefits

8.3.19 No changes will be made to the terms and conditions of any of the Transferring Policies as a result of the Scheme. Guaranteed benefit amounts, including any applicable inflationary increases, and payment

dates will be unchanged, thereby meeting Transferring Policyholders' benefit expectations with respect to guaranteed benefits.

Discretionary changes to benefits - overview

8.3.20 In certain situations, holders of Transferring Annuities may request changes to their guaranteed benefits. The changes available are called options. Options are predominantly only available on deferred annuities which, when counting the individual lives covered under the in-scope policies, account for around 10% of the Transferring Annuities. The Scheme does not impact on the range of options that are available to Transferring Annuities. The main options available on the Transferring Annuities are outlined below.

- **Cash commutation:** The Transferring Annuitant may choose to forgo some or all of their annuity income in return for a lump sum payment. In most cases up to 25% of the value of the annuity may be commuted. Commutation can only be requested when the annuity first becomes payable and is therefore available only on deferred annuities.
- **Trivial commutation:** If the Transferring Annuitant can demonstrate that the total value of their pensions benefits is less than £30,000, they may request the full annuity otherwise payable be converted to a lump sum payment. Trivial commutation is available on deferred annuities but, unlike a non-trivial cash commutation (described in the bullet point above), it may also be an option for a contingent annuitant (see paragraph 7.9.15 for definition of contingent annuitant). A trivial commutation can normally only be requested when the annuity first becomes payable to the recipient.
- **Early/late retirement:** The Transferring Annuitant may choose to retire earlier or later than the normal retirement date for the pension scheme to which they are or were a member (subject to any statutory or pension scheme imposed minimum or maximum retirement age). If they retire early the amount of annuity they receive is reduced compared to the guaranteed level (as the annuity will be paid for a longer period). If they retire late, the amount of the annuity is increased (as it will be paid for a shorter period). Early/late retirement is only an option for deferred annuities.
- **Transfer out:** The Transferring Annuitant may choose to move the value of their benefits to a different pension provider. Again, this is an option only for deferred annuities.

8.3.21 There are some other options that are potentially available, such as the Transferring Annuitant forgoing some of their pension to enhance the contingent pension payable to their spouse after their death. The occurrence of these other options is rare and I do not consider them further as the factors affecting them are similar to those affecting the four main options set out in paragraph 8.3.20 that I discuss in detail below.

8.3.22 SWL exercises discretion in determining the value of the benefit given to the Transferring Annuitant when an option is exercised (that is, when the Transferring Annuitant chooses to take the option benefit). The calculations are performed on bases that are consistent with the relevant policy terms and conditions, generally with reference to the calculations being performed on a "cost neutral" or, equivalently, a "financially neutral" basis. In some cases, the policy terms and conditions specify that the factors are calculated to be a specific proportion, less than 100%, of the financially neutral value. Financially neutral is defined in the policy terms and conditions of some of the Transferring Annuities and, essentially, means that SWL should be in a no better or worse position financially if an option is exercised.

8.3.23 The calculations require SWL to make a number of economic assumptions such as the return it expects to earn on investments (referred to as the discount rate), inflation and expenses, and a number of

demographic assumptions such as longevity (how long beneficiaries are expected to live) and whether beneficiaries are married (for the purpose of placing a value on contingent annuitant benefits).

8.3.24 The calculation bases used by SWL, which change over time (see paragraphs 8.3.27 and 8.3.28 below), determine the option benefits currently offered to certain holders of Transferring Annuities (see paragraphs 8.3.20 and 8.3.21 above).

8.3.25 For Transferring Annuities that are individual annuities, the policyholder or beneficiary will request the option from SWL and the amount of option benefit received by the policyholder or beneficiary is the amount calculated by SWL. In the case of buy-in policies, an option benefit will be calculated by SWL when a member of the pension scheme has made an option request to the trustees of the pension scheme holding the buy-in policy. Here, if the member exercises the option, the option benefit calculated by SWL will be paid to the pension scheme trustees but the pension scheme trustees may choose to pay a different amount to the pension scheme member that has exercised the option, which may be higher or lower than the amount determined by SWL.

8.3.26 Discretion may also be used when determining some Young Spouse Reductions (YSRs). A YSR is a policy feature that, if applicable, is set out in the policy terms and conditions. A YSR is applied to the pension that is payable to a spouse when the primary annuitant dies, if the spouse is more than a specified number of years younger than the primary annuitant. I refer to the pension payable after the YSR has been applied as the young spouse pension. Not all of the Transferring Annuities include a YSR policy feature. Where a YSR is included in the policy terms and conditions, it may be specified as a fixed percentage reduction to the spouse pension amount (a reduction that varies depending on the age difference between the primary annuitant and their spouse); or the policy terms may specify that the insurer will apply a YSR using a financially neutral reduction factor that makes the insurer no better or worse off than would be the case if the age difference between the primary annuitant and spouse was a specified number of years. Where a financially neutral reduction factor is applied to a Transferring Annuity, SWL exercises discretion in determining the size of the reduction. Approximately 1,300 (less than 5%) of the Transferring Annuities have terms and conditions such that a YSR that will be determined, where applicable, using a financially neutral reduction factor. SWL has advised me that it estimates only around 100 (less than 0.5%) of the Transferring Annuities are likely to have an age difference between the primary annuitant and spouse that would trigger the application of a YSR.

Discretionary changes to benefits – methodology and assumptions

8.3.27 The bases SWL uses to calculate discretionary benefits are not guaranteed and will change over time, for example, as interest rates change or as SWL's best estimate longevity assumptions change. These changes over time can be material and Transferring Annuitants will, therefore, not have any expectation as to the level of option benefit they might receive other than that the amount should be calculated in a financially neutral manner (or as otherwise specified in policy terms and conditions) and that changes to the bases used are fair.

8.3.28 The methodology and assumptions used are reviewed periodically and may be changed as part of the review, subject to SWL following its governance process over any changes. Some assumptions, such as the discount rate, are reviewed and potentially updated frequently, while others, such as longevity, are reviewed and potentially updated less frequently.

8.3.29 Different methodologies can be used, and assumptions can be derived in different ways. Often, it cannot be said that a particular approach is better or more "correct" than an alternative that produces a materially different amount of option benefit. Furthermore, some assumptions rely heavily on expert judgement where there is a relatively wide range of plausible outcomes. A good example of this is

longevity assumptions that require estimates of the probability of someone dying at each future age and how this might change over time.

8.3.30 Assuming the Scheme is sanctioned, Rothesay will use its own bases to calculate option benefits for Transferring Annuitants after the Scheme Effective Date. The general methodology to be used by Rothesay to calculate option benefits will be similar to that currently used by SWL. The bases to be used by Rothesay will also be designed to meet the financially neutral (or other contractual) requirement of the terms and conditions of the Transferring Annuities. However, the bases to be used by Rothesay will differ to those used currently used by SWL as described in further detail in paragraph 8.3.31 below.

8.3.31 This is because the Rothesay bases will reflect Rothesay's assumptions. These will also change over time and may differ to SWL's, reflecting a number of different factors such as:

- alternative methodologies being used to derive assumptions, noting that often there is no single "correct" approach
- different data upon which assumptions are based
- different views in the application of expert judgement.

8.3.32 Similar to SWL, Rothesay reviews its methodology and assumptions periodically and may make changes as part of the review, subject to it following its own governance process over any changes and taking account of its requirement to meet the FCA's conduct rules including the Consumer Duty. Also similar to SWL, Rothesay reviews and potentially updates some assumptions, such as the discount rate, frequently, and others, such as longevity, less frequently.

Discretionary changes to benefits – the Reinsurance Agreement

8.3.33 The purpose of the Reinsurance Agreement (see sub-section 7.4), is to transfer the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay. The terms of the Reinsurance Agreement originally provided that with effect from 1 September 2024 (or, if earlier, the date that SWL confirms to Rothesay that SWL has adopted Rothesay's option benefit bases), the amount payable by Rothesay to SWL in respect of options exercised by relevant holders of Transferring Annuities is calculated using methodology and assumptions adopted by Rothesay. Prior to that date, the amounts payable by Rothesay under the Reinsurance Agreement in respect of option benefits are determined using SWL's bases.

8.3.34 When entering into the Reinsurance Agreement, SWL undertook a review which considered if the option benefits derived by Rothesay would continue to offer fair value to SWL policyholders if they were adopted by SWL for the Transferring Annuities. Following this review, and in accordance with its governance policies, SWL concluded that they would, and intended to adopt the Rothesay bases for determining option benefits prior to 1 September 2024. However, at the request of the FCA, SWL has not implemented this change. The FCA asked for the change to be delayed so that I could consider the implications of any change in bases in my Report, which I do so below.

8.3.35 As a consequence of the delay in SWL adopting Rothesay's bases, the Companies have agreed changes to the terms of the Reinsurance Agreement so that the amounts payable by Rothesay under the Reinsurance Agreement in respect of option benefits will continue to be determined using SWL's bases until 31 December 2025, with Rothesay's bases being used from 1 January 2026 onwards. This revised agreed approach will be reflected in an amendment to the Reinsurance Agreement at a later date.

Discretionary changes to benefits – implications of the change to Rothesay's methodologies and assumptions

8.3.36 I have reviewed the calculation methodologies, methodologies used to derive assumptions and expert judgements that will be used by Rothesay in its approaches to determining option benefits for Transferring Annuities if the Scheme is sanctioned, and I am satisfied that they meet the policy terms and conditions of the Transferring Annuities. In particular, I consider Rothesay's approach to calculating cost neutral/financially neutral values for the purpose of option benefits to be reasonable (recognising the range of methodologies, assumptions and expert judgments that may be reasonably applied (see paragraph 8.3.29)).

8.3.37 SWL and Rothesay use different methodologies in deriving assumptions and make different expert judgments in calculating option benefits. These result in differences in the values of option benefits produced by SWL and Rothesay, and an option benefit under Rothesay's basis for any particular Transferring Annuitant may be larger or smaller than under SWL's basis. This is an inevitable consequence of reasonable differences in calculation approaches of the Companies.

8.3.38 Overall, I am content that the use of Rothesay's bases to determine option benefits if the Scheme is sanctioned will not have a material adverse impact on the reasonable benefit expectations of Transferring Annuitants. I have formed this opinion taking into account:

- the bases used to determine option benefits are not guaranteed other than where a quotation has been provided and the quotation is guaranteed for a fixed period of time
- where a quotation has been provided before the Scheme Effective Date, the quotation will be honoured if the option is exercised within the quotation guarantee period
- the bases used to determine option benefits will change over time and, therefore, the amount of the member option benefit may materially change over time
- Rothesay will determine option benefits for Transferring Annuitants using a general methodology that is consistent with that currently used by SWL
- Rothesay will use a methodology and assumptions that, in my opinion, meet the terms and conditions of the Transferring Annuities and are fair to Transferring Annuitants
- any future changes to the methodology and assumptions used by Rothesay will be subject to Rothesay's internal governance, and its requirement to meet the FCA's conduct rules including the Consumer Duty, which are, in my opinion, comparable to SWL's internal governance and its requirement to meet the same conduct rules.

8.3.39 Although, as indicated above, I am content that the expected option bases do not have a material adverse impact on the reasonable benefit expectations of Transferring Annuitants (taking into account what those expectations are), the change in bases may have a non-trivial impact on the value placed on option benefits.

8.3.40 I considered at some length whether to include information on the likely impacts on option benefits of the change from SWL's to Rothesay's bases but, in the interests of completeness, feel it is appropriate to do so. Calculations performed by the Companies using data and assumptions as at 31 March 2024 indicate that in the majority of cases there is no more than a 5% difference in the value placed on the option benefit. The differences work in both directions. In some cases, the option benefits calculated on the Rothesay bases are higher than on the SWL bases and in other cases they are lower.

8.3.41 However, the calculations performed by the Companies show that in a minority of cases the difference in the value placed on the option benefit may be higher. The differences range up to around 20%, but

only a very small number of policies have differences towards the top of this range. Again, the differences work in both directions. Where the Rothesay bases lead to lower values, the largest differences, where they occur, are most typically seen in transfer values and trivial commutations. These are options that are typically exercised less often than cash commutation and early/late retirements, such that very few of the Transferring Annuitants are likely to be impacted to this degree.

8.3.42 Where the Transferring Annuitants may receive option benefit amounts that are lower under the bases to be used by Rothesay, the FCA has asked the Companies to consider whether additional measures could be taken to mitigate the impact of the differences. The Companies have committed to addressing this request and are currently developing their approach to implementing appropriate additional measures. I will report on the outcome in my Supplementary Report.

8.3.43 Considering the Transferring Annuitants in aggregate, there is no material difference in the average value of the option benefits calculated using the Rothesay bases compared to those calculated using the SWL bases, using data and assumptions as at 31 March 2024. This supports my opinion that the bases to be used by Rothesay are fair to the Transferring Annuitants as a whole.

8.3.44 However, given the scale of some of the impacts on option benefits, this has been an area of focus for me. I asked the Companies to provide me with a detailed analysis that identifies the key differences between the SWL and Rothesay bases and quantifies the impacts on option benefits. I asked that this analysis consider all the forms of options described in paragraph 8.3.20 and to be particularly focused on the individual cases where the differences in option benefit amounts were most material. The detailed analysis provided by the Companies explained the material differences to my satisfaction.

8.3.45 It is important to note that the option benefit comparisons described above are at a single point in time and indicate the scale of differences at that point in time. Differences in assumptions between the bases used by SWL and the bases used by Rothesay, and consequently the impacts of those differences on option benefits, can be expected to vary over time. Variations in these differences may have led to option benefit values under each of the Companies' bases having been closer or further apart in the past and may lead to option benefit values being closer or further apart in the future.

8.3.46 Relative changes in assumptions over time (such as discount rates or longevity assumptions) or changes in the circumstances of a beneficiary (such as a change from being married to unmarried) may also lead to the relative level of option benefits changing over time. This means that an option benefit calculated for a Transferring Annuitant using the Rothesay basis may at times be higher and at other times be lower than the amount calculated using the SWL basis.

8.3.47 In summary, for option benefits, which is the main area where discretion is exercised, benefit amounts are not guaranteed. They are calculated using discretion and there is potentially material variability in the amount of option benefit that may be offered over time, whether or not the Scheme is sanctioned. An overriding consideration is that the amounts offered are calculated fairly and in accordance with policy terms and conditions.

8.3.48 Where YSRs are to be determined using financially neutral factors, the only other area where discretion is applied (and which is likely to apply to only a very small number of the Transferring Annuitants), Rothesay takes a simplified approach. The simplified approach uses a table of reduction factors which vary with the age difference between the primary annuitant and their spouse. Rothesay has provided me with this table of reduction factors and SWL has provided me with some analysis of the YSRs that result from their financially neutral approach. I have concluded from this analysis that:

- in the majority of cases, the reduction factors are likely to be similar under both the SWL and Rothesay approaches, resulting in a difference of no more than 5% in the young spouse pension
- the differences may work in either direction (that is, the young spouse pension payable by Rothesay may be higher or lower than the young spouse pension payable by SWL)
- under the approaches used, the differences for an individual vary with the ages of the primary annuitant and spouse, with Rothesay's simplified approach typically becoming more generous compared to the SWL basis as the age of the spouse increases, meaning, all other things being equal, the pension that a younger spouse receives upon the death of their partner (the primary annuitant) could be lower using the Rothesay approach if their partner died today, and could be higher using the Rothesay approach if their partner died further in the future.

8.3.49 In a very small number of cases, where the spouse is significantly younger than the primary annuitant, the simplified approach used by Rothesay may result in the young spouse pension being materially different to the financially neutral calculation referred to in the relevant policy terms and conditions. Recognising this, Rothesay has a process, whereby, if the spouse is significantly younger than the primary annuitant, it will review the simplified calculation and adjust it, if necessary, to ensure the benefit paid meets the relevant policy terms and conditions and its requirement to comply with the Consumer Duty (see paragraphs 4.4.4 to 4.4.6).

8.3.50 Overall, I am content that there is no systematic bias in Rothesay's approach to determining the discretionary YSR that would result in a material adverse effect on the Transferring Annuitants. Although in some circumstances an individual may receive a lower young spouse pension under the Rothesay basis, in other circumstances the same individual may receive a higher young spouse pension under the Rothesay basis. Taking this into account, together with the expected small impact for the majority of affected Transferring Annuitants, Rothesay's process to review cases that may be affected by a larger amount, and Rothesay's typically more generous approach as the age of the spouse increases, I am content that Rothesay's approach to determining the discretionary YSR is fair to Transferring Annuitants.

8.3.51 Taking all of the above into account, in my opinion Rothesay's approach to determining discretionary benefits is fair to the Transferring Annuitants and I am satisfied that there will be no material adverse effect on the benefit expectations of Transferring Annuitants that arises from implementation of the Scheme.

Administration and servicing

Transfer of policy data and administration

8.3.52 If the Scheme is implemented, Rothesay will be responsible for the administration of the Transferring Policies from the Scheme Effective Date. SWL currently outsources the administration of the Transferring Policies to Aptia (see paragraph 5.8.3). Rothesay has chosen to continue outsourcing the administration of the Transferring Annuities to Aptia following implementation of the Scheme. For the Other Transferring Policies, Rothesay will administer the Ambrosia Policies using its in-house system for longevity swaps and will select appropriate administration for the residual risk policies if and when benefits become payable under those contracts. I need to consider if these changes for the Other Transferring Policies are reasonable.

8.3.53 The Ambrosia Policies are relatively standard longevity swap contracts that Rothesay is experienced in administering in-house. Rothesay has confirmed to me that it has internal capacity to administer these contracts and that they require only marginal effort to administer. As part of its preparation for the Scheme, Rothesay is already using its in-house system to carry out "shadow" calculation and

administration in respect of the Ambrosia Policies that mirror those currently performed by SWL and Aptia.

8.3.54 The Separation Plan includes activities to ensure the administration of the Ambrosia Policies following implementation of the Scheme is comparable to the administration currently performed by Aptia. I have reviewed the Separation Plan and I consider it to be appropriate to facilitate a controlled transfer of policy data and administration for the Ambrosia Policies.

8.3.55 Taking the above into account, I am satisfied that the intended approach is reasonable for the holders of the Ambrosia Policies.

8.3.56 There are currently no administration requirements for the residual risk policies as no claims have yet been made under these policies. The types of claims payable are amendments to annuities already in payment, the setting up of a new annuity and the payment of a lump sum amount. Rothesay and its outsourced service providers have expertise in administering these types of benefits as they are aligned to standard processes. Although it is likely that Rothesay would choose Aptia to administer any benefits arising from the residual risk policies included in the Other Transferring Policies, it may choose an alternative depending upon the circumstances.

8.3.57 I note that, under the BTA, Rothesay is required to use reasonable endeavours to administer the residual risk policies (as well as the Transferring Annuities) to a standard that is equal to or better than the standards of administration provided by Rothesay in its bulk purchase annuities business generally.

8.3.58 Taking the above into account, I am satisfied that the intended approach is reasonable for the holders of the residual risk policies.

8.3.59 In the remainder of this sub-section on administration and servicing, I focus on administration of the Transferring Annuities.

8.3.60 The existing services contract between SWL and Aptia will transfer to Rothesay as part of the Scheme. Following the Scheme, the same administration system will be used for Transferring Annuities and, with the exception of the contact centre staff, the incumbent team within Aptia will continue to carry out the administration. The change in contact centre staff is intended to lead to better service levels for the Transferring Annuitants (see paragraph 8.3.76). Rothesay will employ enhanced oversight of Aptia in the short-term during and after the transfer, as would be expected for any transition.

8.3.61 Rothesay has experience in carrying out transfers of insurance liabilities, as acquiring such liabilities is a core part of its business model. Aptia has the systems and trained staff in place to carry out the administration for the Transferring Annuities.

8.3.62 The Companies, working with Aptia, have jointly developed the Separation Plan for the transfer of policy data and administration. The transfer is of limited complexity as the Aptia systems are not changing, key Aptia staff involved are not changing and, because Aptia will continue to administer the Transferring Annuities after the Scheme is implemented, there is no physical transfer of policyholder data between systems/administrators other than a modest amount in respect of the Other Transferring Policies. The Separation Plan includes:

- a description of each of the ten workstreams identified, covering topics including knowledge transfer, data transfer and policyholder processing, together with the responsibilities and key activities of each of SWL, Rothesay and Aptia under each workstream
- a plan of activities, including a timeline, for each workstream

- the criteria that will be used to determine whether sufficient progress has been made in implementing the Separation Plan at two decision making points (one shortly before the planned date of the Sanction Hearing and one shortly before the planned Scheme Effective date)
- the governance process that will apply to the transfer of policy data and administration.

8.3.63 Some of the activities included in the Separation Plan have been informed by the Business Study Document compiled by Rothesay with input from SWL and Aptia, which sets out a comprehensive list of administration tasks and how those tasks are currently dealt with by SWL and Aptia. The Separation Plan includes activities to ensure the administration tasks are considered and appropriate procedures are implemented where change is necessary.

8.3.64 The key area where change is necessary relates to interactions that are currently between SWL and Aptia, that will need to be between Rothesay and Aptia after the Scheme Effective Date. This includes things like the data feeds that will need to pass between Rothesay and Aptia and "hand-offs" where Aptia will need to contact Rothesay for information, for example the factors to be used for member options, rather than SWL. None of the changes to these and similar interactions are expected to have an impact on Transferring Annuitants.

8.3.65 Any direct interactions between SWL and the Transferring Annuitants will also change to be between Rothesay and the Transferring Annuitants, such change being inevitable as a result of the Scheme.

8.3.66 Although there will be no changes to the core database and administration system used by Aptia to administer the Transferring Annuities following implementation of the Scheme, some adaptations in addition to data feeds will be required, for example, to use Rothesay branding on communications.

8.3.67 The general approach to dealing with necessary changes such as data feeds and other adaptations is to test the changes in a test environment in advance of the Scheme Effective Date, with the changes then promoted to the live system on the Scheme Effective Date.

8.3.68 I have reviewed the Separation Plan and the Business Study Document and, taking into account the features discussed in paragraphs 8.3.62 to 8.3.67, consider them to be appropriate to facilitate a controlled transfer of policy data and administration for the Transferring Annuities.

8.3.69 As at the date of my Report, the implementation of the Separation Plan is in progress. The Separation Plan includes activities that have been completed, activities that are work in progress and activities that are planned to be carried out between the date of my Report and the Scheme Effective Date. While this is not an uncommon position in a transfer of insurance business such as this, it is important that the Separation Plan is successfully implemented to ensure that the Transferring Policies can be administered appropriately following the proposed transfer.

8.3.70 The Companies have taken into account the timeline for successfully implementing the Separation Plan in setting the Scheme Effective Date. They will review progress regularly and the Separation Plan includes formal governance checkpoints both before the Sanction Hearing and between the Sanction Hearing and the Scheme Effective Date. If the Companies consider at any of these checkpoints that the Separation Plan cannot be successfully implemented and there is a risk that payments due to Transferring Policies will not be paid on time with effect from the Scheme Effective Date, then the proposed Scheme Effective Date may be delayed by up to one month without approval of the Court, or up to three months subject to Court approval.

8.3.71 The Companies are also developing contingency arrangements to address any unforeseen issues that might arise shortly before or in the weeks immediately after the Scheme Effective Date using an

approach that I consider to be reasonable. Contingency arrangements include the provision of enhanced monitoring and support from all of SWL, Rothesay and Aptia to promptly remediate any issues experienced. The Scheme Effective Date may also be delayed (as discussed in paragraph 8.3.70) if necessary, but this action would be taken only as a last resort, when other contingency arrangements have been unsuccessful in remediating issues.

8.3.72 As at the date of my Report, work on implementing the Separation Plan and developing the contingency arrangements is progressing to plan and I have no reason to be concerned that the activities will not be completed successfully.

8.3.73 I have asked the Companies to keep me informed of progress against the Separation Plan and the development of contingency plans and I will provide an update in my Supplementary Report.

Standards of service

8.3.74 Under the BTA, Rothesay is required to use reasonable endeavours to administer the Transferring Policies (other than the Ambrosia Policies) to a standard that is equal to or better than the standards of administration provided by Rothesay in its bulk purchase annuities business generally.

8.3.75 The majority of Transferring Policies, being the Transferring Annuities, will continue to be administered by Aptia using the same administration platform. While Aptia is a recently formed company, it has been created by the purchase of the pension administration businesses of Mercer LLC (Mercer), which was a long-established pension administration business.

8.3.76 The outsourcing contract between SWL and Aptia will be transferred to Rothesay when the Scheme is sanctioned. As a result, the Transferring Annuities will largely be administered in the same way as they currently are. In particular, the same administration system will be used and the incumbent team within Aptia, with the exception of the contact centre staff, will continue to carry out the administration immediately following the Scheme Effective Date. Rothesay and SWL have assessed the proposed post-Scheme administration model against the current approach for the Transferring Annuities and have identified certain differences. Other than the obvious differences relating to branding of communications and contact details, the main differences that will affect policyholders are as follows:

- Rothesay will use its existing dedicated contact centre within Aptia as a first point of contact for Transferring Annuitants. This contact centre will be ringfenced for Rothesay's policyholders and will have a defined service level for call answering. This is considered a service improvement compared to the current Aptia contact centres for SWL, which are not dedicated to SWL's policyholders and have no defined call answering service level. Contact centre staff typically deal with basic administration tasks (such as notification of death and data changes like changes of address) but refer more complex queries (such as requests for an explanation of the benefits payable) to other dedicated teams. The dedicated team within Aptia will be the same immediately before and after the Scheme Effective Date.
- Aptia will use its internal processes to pay benefits to policyholders resident outside of the UK, whereas at present payments are made via SWL. Aptia uses its internal processes to pay benefits to policyholders resident outside of the UK on other annuity portfolios that it administers and the change is expected to have no impact on the Transferring Annuitants.
- As discussed in paragraph 8.3.64, following implementation of the Scheme, Aptia will interact with Rothesay rather than SWL. Where those interactions affect timely provision of information to the Transferring Annuitants, Rothesay will meet or better any service levels stated by SWL.

8.3.77 Other than the improved contact centre service level referred to in paragraph 8.3.76, the service levels agreed between SWL and Aptia will persist immediately after the Scheme Effective Date. Rothesay will enter into discussions with Aptia after the Scheme Effective Date to potentially revise service levels. I have reviewed the changes to be sought by Rothesay and note that any such revisions will only be made if they are beneficial to the Transferring Annuitants. Rothesay may subsequently amend service levels, subject to it following its internal governance procedures and meeting conduct regulation requirements. Rothesay has confirmed to me that it has no current intentions of subsequently amending service levels to the detriment of Transferring Annuitants. Furthermore, as noted in paragraph 8.3.74, Rothesay is required under the BTA to use its reasonable endeavours to administer the Transferring Policies (other than the Ambrosia Policies) to a standard that is equal to or better than the standards of administration provided by Rothesay in its bulk purchase annuities business generally.

8.3.78 Overall, I am satisfied that the changes discussed in paragraph 8.3.76 do not constitute a material adverse effect on Transferring Annuitants or Transferring Policyholders in general.

Resilience of outsourced pension administrators

8.3.79 As mentioned in sub-section 6.8, Rothesay outsources pension administration to three firms, including Aptia.

8.3.80 Rothesay is in the process of enhancing the protection of its policyholders by establishing a framework and process whereby each outsourced pension administrator acts as a backup payroll provider and customer call centre for each of the other pensions administrators. This will mean that if one of the pension administrators has a significant operational issue, then the holders of policies administered by that provider would continue to receive their annuity benefit, and customer support would remain accessible. This will reduce the risk of poor outcomes in significant stress scenarios. This work is on schedule to be tested and signed off by the end of December 2024.

8.3.81 SWL does not have an equivalent framework or process in place. Following the Scheme, assuming the planned work is implemented, relevant Transferring Policyholders, primarily the Transferring Annuitants, will benefit from the backup service arrangements. I will provide an update on this topic in my Supplementary Report.

Management and governance

8.3.82 The governance structures of SWL and Rothesay are broadly comparable (see sub-sections 5.4 and 6.4). In particular, both of the Companies' boards contain a mixture of executives, non-executives and independent non-executives, helping to ensure they are balanced and able to provide appropriate oversight and challenge. Both of the Companies are subject to the governance requirements of Solvency II.

8.3.83 Furthermore, both of the Companies are subject to the FCA's conduct of business rules including the Consumer Duty. Both of the Companies have a Consumer Duty Champion who has a key role in ensuring that the Consumer Duty is regularly discussed and raised during all relevant board discussions and both of the Companies' governance structures include oversight of compliance with the Consumer Duty requirements.

8.3.84 SWL does this through its Executive Committee and Rothesay does this through its Customer Conduct Committee (see sub-sections 5.4 and 6.4). The Rothesay Customer Conduct Committee is a dedicated committee, which is responsible for the delivery of good outcomes for Rothesay's customers, and that Rothesay's clients and customers are treated fairly, as well as overseeing Rothesay's approach to

regulatory conduct. Each of Companies have interpreted the Consumer Duty requirements consistently in terms of the Transferring Policies that are subject to the Consumer Duty rules.

8.3.85 Each of the Companies have considered the requirements of the Consumer Duty for their products, services and customer communications, and formally assess themselves against the Consumer Duty annually. The annual Consumer Duty assessments for both of the Companies cover the considerations of the four Consumer Duty outcomes (see paragraph 4.4.6) and both of the Companies have established performance indicators to measure and monitor outcomes. The results of these indicators are reported in each of the Companies' respective Consumer Duty assessments.

8.3.86 I have considered the most recent of these assessments for both of the Companies and both indicate that the Companies are meeting the Consumer Duty (see sub-sections 5.10 and 6.10). The Transferring Policies do not have any features that are not present within the Rothesay Existing Policies. Therefore, the Transferring Policies have no features that have not already been considered by Rothesay as part of its Consumer Duty analysis and implementation. While I place no reliance on it, I note that a third-party assessment, commissioned by Rothesay, has concluded that Rothesay is at the top end of firms in terms of its practices in relation to Consumer Duty. Overall, I am satisfied that Rothesay has implemented appropriate governance arrangements to address the conduct of business rules and Consumer Duty.

8.3.87 As noted in paragraph 6.7.8, Rothesay's business plan includes acquiring large discrete blocks of new business, on a similar scale to the Scheme. Due to its nature, the exact size and timing of business acquired by Rothesay in this way is uncertain and may increase operational risk (see paragraph 6.9.9). In 2023, Rothesay carried out an internal review to assess its readiness and capabilities to acquire large blocks of new business, of a similar size, or larger, than the Scheme. I have seen the output of Rothesay's review, and it shows that Rothesay has thoroughly explored and understands the potential risks and issues. The review did not identify any material deficiencies but did identify minor areas of improvement, which Rothesay has confirmed to me it has addressed.

8.3.88 Taking the above factors into account I consider Rothesay's management and governance to be appropriate. In my opinion, SWL's and Rothesay's management and governance are likely to lead to broadly similar outcomes such that implementation of the Scheme will have no material adverse effect on the management and governance of the Transferring Policies.

8.4 Communication of the Scheme with Transferring Policyholders

8.4.1 SWL's plan for communicating with Transferring Policyholders is set out in sub-section 7.9.

8.4.2 I am satisfied that the proposed communications plan in respect of the Transferring Policyholders is appropriate. I have challenged SWL on a number of aspects of the strategy including the approach where policyholders are to be notified by email, the appropriateness of the selected newspapers and the thoroughness of the attempts to trace policyholders without valid current addresses, and received satisfactory responses.

8.4.3 I have also reviewed the approach that will be taken by SWL to trace Transferring Policyholders if the Policyholder Communications Pack is returned as undeliverable, and consider the approach reasonable.

8.4.4 I am satisfied that the mailing timetable described in paragraph 7.9.9 will ensure there is adequate time for all policyholders to consider the Policyholder Communications Pack, including those who are resident overseas.

8.4.5 I have reviewed the Policyholder Communications Pack and, in my opinion, it:

- appropriately explains the Scheme and the impact on Transferring Policyholders
- clearly suggests the recipient should consider informing any other beneficiaries of the policy.

8.4.6 In my opinion, SWL will also have appropriate procedures in place to deal with any queries from the Transferring Policyholders, as outlined in paragraph 7.9.11.

8.4.7 Having taken into account SWL's reasons for seeking a waiver from the regulatory requirements in respect of notifying certain Transferring Policyholders (as described in paragraph 7.9.15), I am satisfied that the planned waiver request, which is typical for transfers such as this, is appropriate. In particular:

- All holders of Transferring Policies, apart from the six for which SWL currently has no address, will be sent the Policyholder Communications Pack. Given the number of Transferring Policies, the risk of accidental omissions cannot be dismissed, but SWL has put arrangements in place to rectify any such omissions if they are discovered in advance of the Sanction Hearing.
- I am satisfied that SWL has taken reasonable measures, including the use of a third-party tracing firm, to trace holders of Transferring Policies for which it has no current address.
- I am satisfied that it is reasonable for SWL not to communicate directly with the underlying beneficiaries of buy-in policies since underlying beneficiaries do not deal directly with SWL nor usually receive communications from SWL. I note that, in advance of the Directions Hearing, SWL has engaged with the 21 pension scheme trustees that hold buy-in policies to strongly encourage the trustees to inform their underlying beneficiaries of the Scheme. As at 4 December 2024, SWL has received responses from 19 of the 21 pension scheme trustees and 13 of the pension scheme trustees have indicated they intend to communicate with their members in respect of the Scheme. These 13 pension schemes cover 71% of the underlying beneficiaries of the buy-in policies included in the Scheme. SWL's Policyholder Communications Pack for trustees of pension schemes with buy-in policies will also include wording to strongly encourage trustees to inform their underlying beneficiaries, will offer SWL's support with communications, and will include suggested wording for the trustees to use in their communications with the underlying beneficiaries at their discretion. SWL will meet reasonable costs incurred by the pension scheme trustees in communicating details of the Scheme to the underlying beneficiaries. Also, in my opinion, trustees will have sufficient time to inform their members in advance of the Sanction Hearing. Furthermore, documents relating to the transfer (including samples of the documents comprising the Policyholder Communications Pack) will be available to underlying beneficiaries on the SWL website.
- I am satisfied that it is reasonable for SWL not to seek to identify and obtain the contact details of any contingent annuitants in advance of the transfer, since in most cases these individuals will be in contact with the primary annuitant, being the holder of the Transferring Policy.
- I challenged SWL on what measures had been taken to check for pension sharing orders in respect of the deferred annuity policies. In my opinion, a former spouse entitled to share benefits under a pension sharing order is less likely to be in contact with the holder of the Transferring Policy compared to a contingent beneficiary such as a current spouse. Therefore, appropriate efforts should be made to identify pension sharing orders. I was informed by SWL in late October 2024 that Aptia, its third-party administrator, had confirmed that there were no pension sharing orders in progress and that Aptia would keep it informed of any future cases. I am satisfied that SWL has taken reasonable measures to identify pension sharing orders.
- Documents relating to the transfer (including samples of the documents comprising the Policyholder Communications Pack) will be available on the SWL website for other interested parties, such as attorneys, trustees in bankruptcy, bankruptcy lawyers, receivers and administrative receivers who are not recorded in SWL's computerised records. I am satisfied that it would be

impractical and disproportionate for SWL to manually search through its records to identify any such cases.

- I consider that there is no value in writing to deceased policyholders where no benefits remain payable.
- I am satisfied that it is appropriate that the individual underlying members or beneficiaries of the LBG pension schemes that are holders of Ambrosia Policies are not notified of the Scheme and that it is sufficient for SWL to notify the trustees of these pension schemes. I have formed this opinion considering that benefits payable to the individual underlying members or beneficiaries of the LBG pension schemes are not directly related to payments made under the Ambrosia Policies.

9 Implications for SWL Non-Transferring Policyholders

9.1 Introduction

9.1.1 In this section, I focus on the impact of the Scheme on the SWL Non-Transferring Policyholders.

9.1.2 I am satisfied that the Scheme will have no material adverse effect on the SWL Non-Transferring Policyholders.

9.1.3 To arrive at my conclusion, I have considered the following:

- the impact of the Scheme on the security of the benefits of the SWL Non-Transferring Policyholders
- the impact of the Scheme on the reasonable expectations of the SWL Non-Transferring Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with the SWL Non-Transferring Policyholders in relation to the Scheme is fair.

9.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 9.2 to 9.4 below.

9.1.5 In most respects, the interests of all SWL Non-Transferring Policyholders are similar and so, mainly, I consider the SWL Non-Transferring Policyholders as a class. There are some specific considerations relating to benefit expectations that are relevant only to specific sub-groups of SWL Non-Transferring Policyholders and I comment on these in sub-section 9.3 below.

Treatment of the Reinsurance Agreement

9.1.6 In the event that the Scheme is not implemented, the Reinsurance Agreement between SWL and Rothesay (see sub-section 7.4) could remain in-force or it could be terminated by SWL. Given SWL's strategic decision to exit the bulk purchase annuity market, the most likely outcome is for the Reinsurance Agreement to remain in place, amended as necessary to allow it to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities.

9.1.7 Relative to the 30 June 2024 position, immediate termination of the Reinsurance Agreement is expected to:

- increase SWL's exposure to longevity risk, and market and credit risks
- reduce SWL's exposure to reinsurer counterparty default risk
- lead to a modest reduction in SWL's SCR cover ratio that would not result in the ratio falling below SWL's target capital buffer (as described in paragraph 5.6.1)
- have no impact on how SWL's policies are administered.

9.1.8 For the analysis discussed in this section, I compare the position pre-Scheme with the Reinsurance Agreement in place to the position post-Scheme. My conclusions would remain valid if I were to compare the pre-Scheme position ignoring the effect of the Reinsurance Agreement to the position post-Scheme.

9.2 Benefit security of SWL Non-Transferring Policyholders

Summary

9.2.1 I have investigated the security of SWL Non-Transferring Policyholders' benefits by comparing the sources of security and the profile of risks to which the SWL Non-Transferring Policyholders will be exposed pre- and post-Scheme.

9.2.2 I am satisfied that implementation of the Scheme will have no material adverse effect on the benefit security provided to the SWL Non-Transferring Policyholders.

9.2.3 I have formed this opinion taking into account that:

- there will be no changes to the way SWL calculates its regulatory solvency position as a result of the Scheme
- there will be no changes to SWL's capital management policy as a result of the Scheme
- the impact of the Scheme on SWL's solvency position is not material
- the impact of the Scheme on SWL's risk profile is not material
- there will be no change to SWL's liquidity policy as a result of the Scheme
- costs associated with the Scheme will be partly met by SWL and these costs will not be significant in relation to its financial resources.

9.2.4 I explain my reasoning by expanding upon these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

9.2.5 The SWL Non-Transferring Policyholders currently rely on the available resources of SWL for the security of their benefits. Those resources primarily comprise of the:

- assets backing the Technical Provisions and SCR of SWL (see sub-section 4.3)
- assets held by SWL in addition to its regulatory capital requirements.

9.2.6 As described in paragraph 8.2.7, the financial strength of SWL's reinsurance counterparties and the reinsurance collateral arrangements in place also contribute indirectly to the security of the benefits of SWL's policyholders, including the SWL Non-Transferring Policyholders.

9.2.7 Following the implementation of the Scheme, the SWL Non-Transferring Policyholders will continue to rely on the elements described above for security of their benefits, albeit that they will exclude:

- assets currently held in respect of the Transferring Policies
- Rothesay as a reinsurance counterparty.

9.2.8 The remaining assets (and, indirectly, the remaining reinsurance counterparties) will provide security for just the SWL Non-Transferring Policyholders.

Technical Provisions and SCR

9.2.9 SWL's approach to calculating its Technical Provisions and SCR is set out in sub-section 5.5. SWL's approach in respect of the SWL Non-Transferring Policyholders does not depend on the outcome of the Scheme.

9.2.10 In particular, the Scheme will not require any changes to SWL's IM and will not affect its eligibility to apply the MA or the TMTP to relevant business.

9.2.11 The resulting overall Technical Provisions and SCR will therefore lead to a similar level of benefit security both before and after the transfer, with the SCR intended to be sufficient to cover any losses that might arise over a one-year time period with a probability of 99.5%.

Capital management policy

9.2.12 SWL's capital management policy is described in sub-section 5.6. No changes will be made to SWL's capital management policy as a result of the Scheme.

Comparison of solvency position

9.2.13 Table 9.1 compares the regulatory solvency position of SWL immediately before the transfer and immediately after the transfer (on a pro forma basis), assuming that the transfer took place on 30 June 2024. It can be noted that the differences are small as the economic risk and reward associated with the Reinsured Policies have already been transferred from SWL to Rothesay under the terms of the Reinsurance Agreement and the position in respect of the Ambrosia Policies (the only Transferring Policies that are not Reinsured Policies) will be neutral as these policies are fully reinsured and the risk of reinsurer default is borne by the policyholder, the pension scheme trustee, as explained in paragraph 5.3.37.

9.2.14 Table 9.1 shows that SWL's solvency position is expected to improve slightly as a result of the transfer, primarily as a result of eliminating the counterparty default risk capital and associated Risk Margin currently held in respect of the reinsurance to Rothesay. The expected impacts of Solvency UK reforms on SWL are not included in the figures, but these impacts do not affect my conclusions.

Table 9.1: Impact on SWL's pro forma regulatory solvency position as at 30 June 2024

	SWL pre-transfer (£m)	SWL post-transfer (£m)	Impact of Scheme (£m)
Own Funds (A)	5,064	5,088	24
Solvency Capital Requirement (B)	3,295	3,278	(17)
Excess capital (=A-B)	1,769	1,809	40
SCR cover ratio (%) (=A/B)	154%	155%	2%

Source: SWL

9.2.15 Based on the position at 30 June 2024, SWL would continue to have capital in excess of the level required by its capital management policy immediately post-Scheme, providing a high level of benefit security to its policyholders.

9.2.16 If the Scheme is not implemented, SWL will most likely incur additional costs associated with pursuing an alternative to the Scheme, such as amending the Reinsurance Agreement. All other things being equal, this will reduce SWL's SCR cover ratio.

9.2.17 In my Supplementary Report, I will consider the impact of the Scheme on SWL's financial position as at 31 December 2024.

Risk profile

9.2.18 SWL has already transferred longevity, and market and credit (asset) risks arising from the Reinsured Policies (and the assets backing them) to Rothesay under the Reinsurance Agreement. If the Scheme is implemented, there will be a further small reduction in risk for SWL arising from the transfer of operational risk to Rothesay in respect of the Transferring Policies and the elimination of the counterparty default risk exposure to Rothesay arising from the Reinsurance Agreement itself.

Liquidity

9.2.19 No changes will be made to SWL's liquidity policy as a result of the Scheme and, in my opinion, implementation of the Scheme will have no material effect on SWL's ability to meet policyholder benefit payments as they fall due.

9.3 Reasonable expectations and consumer protection of SWL Non-Transferring Policyholders

Summary

9.3.1 As described in sub-section 5.3, SWL's policies are a mix of non-profit annuities, unit-linked savings contracts, protection products and with-profits policies. In my opinion, SWL Non-Transferring Policyholders' reasonable expectations in respect of their policies are that:

- they receive their benefits as guaranteed under the policy, on the dates specified
- to the extent that benefits or charges rely on discretion, that such discretion is exercised fairly
- the administration, management and governance of the policies are in line with the contractual terms under the policies and conduct regulation
- the standards of service received are as good as those they currently receive.

9.3.2 There will be no changes in consumer protection (see sub-section 4.6) for SWL Non-Transferring Policyholders and, therefore, I do not comment on consumer protection further in this section.

9.3.3 I have investigated each of the factors set out in paragraph 9.3.1 and I am satisfied that implementation of the Scheme will have no material adverse effect on the reasonable expectations of the SWL Non-Transferring Policyholders.

9.3.4 I have formed this opinion taking into account that there will be no changes, as a result of the Scheme, to:

- any policy terms and conditions
- the way benefit amounts are calculated and paid
- the level of charges or the way charges are determined
- administration, service standards, management or governance.

9.3.5 I explain my reasoning for this opinion in paragraphs 9.3.6 to 9.3.15 below.

Benefit expectations

9.3.6 No changes will be made to the terms and conditions of any of SWL's policies as a result of the Scheme. In particular, guaranteed benefit amounts and payment dates will be unchanged.

9.3.7 In certain situations, SWL Non-Transferring Policyholders that have deferred annuities may choose to forgo some or all of their annuity income in return for a lump sum payment. Holders of deferred annuities may also request to move their policy to another pension provider or to take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively. No changes are proposed to the bases SWL uses to calculate the amounts payable in these cases for SWL Non-Transferring Policies, or the process that will be followed in reviewing the bases, as a result of the Scheme.

9.3.8 Certain charges levied on some policies held by SWL Non-Transferring Policyholders can be increased, subject to SWL following its internal governance processes and providing appropriate notice to affected policyholders. No changes are proposed to the charges on relevant SWL Non-Transferring Policies, or the process that will be followed in reviewing charges, as a result of the Scheme.

9.3.9 The way in which discretionary benefits are determined on SWL's with-profits policies will not change as a result of the Scheme. I do note, however, that SWL's strategic decision to exit the bulk purchase annuity market may have an impact on with-profits policyholders' benefits as discussed below. Although each of SWL's two with-profits funds (see paragraph 5.3.22) is managed largely on a stand-alone basis, there are two aspects of the Scheme that may lead to an indirect impact on SWL's with-profits policyholders' benefits.

9.3.10 The benefits on some with-profits policies are determined after making a deduction for allocated overhead expenses. The Scheme may result in an increase in the percentage allocation of company overheads to this sub-group of policyholders, as there will no longer be an allocation of company overheads to the business transferred by the Scheme. In my opinion, the change in expenses allocated to with-profits policyholders as a result of the Scheme will not have a material adverse impact on the benefit expectations of this sub-group of policyholders. In forming this opinion, I have considered the following points:

- There may be a reduction in overall company overheads that follows from the transfer of business in the Scheme.
- The pre-Scheme allocation of company overheads to the business transferred by the Scheme is not significant, such that any increase in overhead expenses allocated to with-profits policies is likely to be small.
- The allocation of expenses to with-profits business is not necessarily mechanistic and is subject to industry benchmarking and annual review by the With Profits Committee, that will advise the SWL Board on what is fair to with-profits policyholders.

9.3.11 Some SWL with-profits policyholders may choose to use the proceeds of their with-profits policy to purchase an annuity from SWL. It is possible that SWL's strategic decision to exit the bulk purchase annuity market and transfer such policies to Rothesay could impact on the annuity pricing that SWL offers to these with-profits policyholders. However, if the strategic decision to exit the bulk purchase annuity market were to have a detrimental impact on SWL's annuity pricing, it could be expected to arise from that strategic decision rather than the Scheme. I therefore conclude that the Scheme will not have a material adverse impact on the benefit expectations of relevant SWL with-profits policyholders.

Administration, servicing, management and governance

9.3.12 The implementation of the Scheme will not lead to any changes to the administration and servicing arrangements for SWL Non-Transferring Policies.

9.3.13 In particular, the Separation Plan for the transfer of administration and servicing in respect of the Transferring Policies does not impact on the existing administration and servicing arrangements that SWL has with Aptia for relevant SWL Non-Transferring Policies. The systems and staff used by Aptia for relevant SWL Non-Transferring Policies are operationally independent from the systems and staff used by Aptia for the Transferring Policies and this will remain so following the transfer.

9.3.14 I asked SWL to consider whether the transfer of policy data and administration of the Transferring Policies may have unintended operational consequences on the SWL Non-Transferring Policyholders. SWL identified the main potential risk as being that either SWL or Aptia resources that administer the SWL Non-Transferring Policies are diverted to support the Separation Plan, temporarily impacting on servicing levels for SWL Non-Transferring Policyholders. SWL considers the probability of this risk materialising to be low given the different teams involved and the separation of duties. Given this separation of duties, I am content that the risk of a temporary deterioration in service levels for the SWL Non-Transferring Policyholders is low, and that the Separation Plan does not give rise to a material adverse impact on SWL Non-Transferring Policyholders.

9.3.15 The implementation of the Scheme will also not lead to any changes in the management and governance of SWL Non-Transferring Policies.

9.4 Communication of the Scheme with SWL Non-Transferring Policyholders

9.4.1 SWL's plan for communicating with SWL Non-Transferring Policyholders is set out in sub-section 7.9.

9.4.2 I support the intended approach of seeking a waiver from the regulatory requirement to notify the SWL Non-Transferring Policyholders directly.

9.4.3 I have formed this opinion by taking into account:

- my conclusions from the preceding sub-sections that the Scheme will have no material adverse effect on the SWL Non-Transferring Policyholders
- my agreement with SWL's assessment, as set out in paragraph 7.9.14, that the cost of writing to SWL Non-Transferring Policyholders would be disproportionate to any benefit they might gain from the communication and that the notices on the SWL website and national newspapers are a reasonable and proportionate way of publicising the Scheme to these policyholders.

9.4.4 SWL Non-Transferring Policyholders may still become aware of the Scheme through newspaper advertisements and SWL's website and they will have an opportunity to raise concerns or object to the transfer if they feel they are adversely affected.

9.4.5 The newspaper advertisements and the information that will be presented on the SWL website make clear that policyholders have this right and explain how to go about raising concerns or objections.

10 Implications for Rothesay Existing Policyholders

10.1 Introduction

10.1.1 In this section, I focus on the impact of the Scheme on the Rothesay Existing Policyholders other than SWL. While SWL is a Rothesay Existing Policyholder (as a result of the Reinsurance Agreement), the considerations in this section do not apply to it, as it is a party to the Scheme. If the Scheme is implemented SWL will cease to be a policyholder of Rothesay. In the remainder of this section, Rothesay Existing Policyholders should be interpreted as excluding SWL.

10.1.2 I am satisfied that the Scheme will have no material adverse effect on the Rothesay Existing Policyholders.

10.1.3 To arrive at my conclusion, I have considered the following:

- the impact of the Scheme on the security of the benefits of the Rothesay Existing Policyholders
- the impact of the Scheme on the reasonable expectations of the Rothesay Existing Policyholders, including benefit expectations, service standards, management and governance
- whether the proposed approach to communicating with Rothesay Existing Policyholders in relation to the Scheme is fair.

10.1.4 I discuss each of these areas and set out more detailed conclusions and the rationale for my conclusions in sub-sections 10.2 to 10.4 below.

10.1.5 The interests of all Rothesay Existing Policyholders are similar and so I consider the Rothesay Existing Policyholders as a class.

Treatment of the Reinsurance Agreement

10.1.6 In the event that the Scheme is not implemented, the Reinsurance Agreement between SWL and Rothesay (see sub-section 7.4) could remain in-force or it could be terminated by SWL. Given SWL's strategic decision to exit the bulk purchase annuity market, the most likely outcome is for the Reinsurance Agreement to remain in place, amended as necessary to allow it to continue in full force as a long-term reinsurance arrangement for the remaining duration of the reinsured liabilities.

10.1.7 Relative to the 30 June 2024 position, immediate termination of the Reinsurance Agreement is expected to:

- reduce Rothesay's absolute exposure to reinsurer counterparty default risk, longevity risk, and market and credit risks (although these will remain material) as Rothesay will no longer be exposed to these risks in respect of the Transferring Business that is covered under the Reinsurance Agreement
- lead to a small increase in Rothesay's SCR cover ratio, reflecting the reduction in risk exposures
- have no impact on how Rothesay's policies are administered.

10.1.8 For the analysis discussed in this section, I compare the position pre-Scheme with the Reinsurance Agreement in place to the position post-Scheme. My conclusions would remain valid if I were to compare the pre-Scheme position ignoring the effect of the Reinsurance Agreement to the position post-Scheme.

10.2 Benefit Security of Rothesay Existing Policyholders

Summary

10.2.1 I have investigated the security of Rothesay Existing Policyholders' benefits by comparing the sources of security and the profile of risks to which the Rothesay Existing Policyholders will be exposed pre- and post-Scheme.

10.2.2 I am satisfied that the implementation of the Scheme will have no material adverse effect on the security of benefits provided to the Rothesay Existing Policyholders.

10.2.3 I have formed this opinion taking into account that:

- there will be no changes to the way Rothesay calculates its regulatory solvency position as a result of the Scheme
- the intended approach for calculating the Technical Provisions on the Transferring Policies is, in my opinion, reasonable
- there will be no changes to Rothesay's capital management policy as result of the Scheme
- the impact of the Scheme on Rothesay's solvency position is not material
- the impact of the Scheme on Rothesay's risk profile is not material
- there will be no change to Rothesay's liquidity policy as a result of the Scheme
- costs associated with the Scheme will be partly met by Rothesay and these costs will not be significant in relation to its financial resources.

10.2.4 I explain my reasoning by expanding on these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

10.2.5 The Rothesay Existing Policyholders currently achieve security for their benefits primarily from the:

- assets backing the Technical Provisions and SCR of Rothesay (see sub-section 4.3)
- assets held by Rothesay in addition to its regulatory capital requirements.

10.2.6 As described in paragraph 8.2.9, the financial strength of Rothesay's reinsurance counterparties and the reinsurance security arrangements in place also contribute indirectly to the security of the benefits of the Rothesay Existing Policyholders.

10.2.7 As described in sub-section 7.4, the economic risk and reward associated with a material part of the Transferring Business have already been transferred from SWL to Rothesay by way of the Reinsurance Agreement in accordance with its terms with effect from 1 January 2024. This includes the reinsurance counterparty default risk associated with the reinsurance that SWL has in place in respect of the Transferring Policies, other than in respect of the Ambrosia Policies. As noted in paragraph 5.3.37, the reinsurance counterparty default risk associated with the reinsurance that SWL has in respect of the Ambrosia Policies is borne by the pension schemes that hold the Ambrosia Policies rather than by SWL. If the Scheme is implemented, the reinsurance counterparty default risk on these arrangements will continue to be borne by the pension schemes that hold the Ambrosia Policies, not Rothesay. This means implementation of the Scheme will not increase Rothesay's exposure to its reinsurance counterparties.

10.2.8 Following the implementation of the Scheme, the security of the benefits of the Rothesay Existing Policyholders will continue to be provided by the elements discussed above, albeit that they will include the remaining assets held by SWL in respect of the Transferring Policies that have not already been transferred under the Reinsurance Agreement.

10.2.9 Following implementation of the Scheme, these elements will provide security for both Rothesay Existing Policyholders and Transferring Policyholders.

Technical Provisions and SCR

10.2.10 Rothesay's approach to calculating its Technical Provisions and SCR is set out in sub-section 6.5. Rothesay's approach for the Rothesay Existing Policies does not depend on the outcome of the Scheme.

10.2.11 I have reviewed the methodology and assumptions that will be used to calculate the BEL on the Transferring Policies. In my opinion, these are reasonable and produce what can be considered a best estimate of the liability in respect of the Transferring Policies.

10.2.12 The SCR in respect of the Transferring Policies will be calculated using Rothesay's PRA-approved IM. The Transferring Policies have a similar risk profile to the Rothesay Existing Policies, and so I am satisfied that the use of Rothesay's PRA-approved IM is appropriate for the Transferring Policies and, more generally, the Transferring Business.

10.2.13 The resulting overall Technical Provisions and SCR will therefore lead to a similar level of benefit security both before and after the transfer, with the SCR intended to be sufficient to cover any losses that might arise over a one-year time period with a probability of 99.5%.

Capital management policy

10.2.14 Rothesay's capital management policy is described in sub-section 6.6. No changes will be made to Rothesay's capital management policy as a direct result of the Scheme.

Comparison of solvency position

10.2.15 Table 10.1 below compares the regulatory solvency position of Rothesay immediately before the Scheme and immediately after the Scheme (on a pro forma basis), assuming that the Scheme was effective on 30 June 2024. It can be noted that there is no difference pre- and post-Scheme as:

- the economic risk and reward on the Reinsured Policies have already been transferred from SWL to Rothesay under the terms of the Reinsurance Agreement and this is reflected in Rothesay's solvency calculations
- the position in respect of the Ambrosia Policies (the only Transferring Policies that are not Reinsured Policies) will be neutral as Rothesay will bear no material risks on these policies (as they are fully reinsured and the risk of reinsurer default is borne by the policyholder, the pension scheme trustee, as explained in paragraph 5.3.37).

10.2.16 The expected impacts of Solvency UK reforms on Rothesay, and the recent granting of PRA approval for Rothesay to use the VA are not included in the figures, but these impacts do not affect my conclusions.

Table 10.1: Impact on Rothesay's pro forma regulatory solvency position as at 30 June 2024

	Rothesay pre-transfer (£m)	Rothesay post-transfer (£m)	Impact of Scheme (£m)
Own Funds (A)	8,667	8,667	0
Solvency Capital Requirement (B)	3,506	3,506	0
Excess capital (=A-B)	5,161	5,161	0
SCR cover ratio (%) (=A/B)	247%	247%	0%

Source: Report of the Chief Actuary of Rothesay on the Scheme

10.2.17 Table 10.1 shows that Rothesay's SCR cover ratio is not expected to change as a result of the Scheme. In reality there may be some impacts post-Scheme due to potential changes in expenses and investments, but these are not expected to be material.

10.2.18 Based on the position as at 30 June 2024, Rothesay would continue to have capital in excess of the level required by its capital management policy immediately post-Scheme, providing a high level of benefit security to its policyholders. For the reasons discussed in paragraph 8.2.31, I place limited reliance on capital in excess of target levels as this may be distributed to the shareholder or used to support the acquisition of additional business such that the SCR cover ratio may be reduced in future. However, Table 10.1 does show that the Rothesay is expected to remain financially strong post-Scheme.

10.2.19 In my Supplementary Report, I will consider the impact of the Scheme on Rothesay's financial position as at 31 December 2024.

Risk profile

10.2.20 Rothesay's risk profile is described in sub-section 6.9. As described in sub-section 7.4, the economic risk and reward associated with a material part of Transferring Business have already been passed to Rothesay under the terms of the Reinsurance Agreement. If the Scheme is sanctioned, there will be an increase in operational risk for Rothesay as it will be responsible for operational risk on the Transferring Policies, but this risk is aligned to that it experiences on its existing business.

10.2.21 If the Scheme is implemented, there will be no material change in Rothesay's risk profile.

Liquidity

10.2.22 No changes will be made to Rothesay's liquidity policy as a result of the Scheme and, in my opinion, implementation of the Scheme will have no material effect on Rothesay's ability to meet policyholder benefit payments as they fall due.

10.3 Reasonable expectations and consumer protection of Rothesay Existing Policyholders

Summary

10.3.1 As described in sub-section 6.3, all of Rothesay's policies are non-profit annuities, longevity swaps or inwards reinsurance. In my opinion, Rothesay Existing Policyholders' reasonable expectations in respect of their policies are that:

- they receive their benefits as guaranteed under the policy, on the dates specified
- to the extent that benefits rely on discretion, that such discretion is exercised fairly
- the administration, management and governance of the policies are in line with the contractual terms under the policies and conduct regulation
- the standards of service received are as good as those they currently receive.

10.3.2 There will be no changes in consumer protection (see sub-section 4.6) for Rothesay Existing Policyholders and, therefore, I do not comment on consumer protection further in this section.

10.3.3 I have investigated each of the factors set out in paragraph 10.3.1 and I am satisfied that implementation of the Scheme will have no material adverse effect on the reasonable expectations of the Rothesay Existing Policyholders.

10.3.4 I have formed this opinion taking into account that there will be no changes, as a result of the Scheme, to:

- any policy terms and conditions
- the way benefit amounts are calculated and paid
- administration, service standards, management or governance.

10.3.5 I explain my reasoning for this opinion in paragraphs 10.3.6 to 10.3.13 below.

Benefit expectations

10.3.6 No changes will be made to the terms and conditions of any Rothesay Existing Policies as a result of the Scheme. A small number of Rothesay Existing Policies have collateral or security arrangements in place. These will also remain unchanged immediately following the Scheme.

10.3.7 The majority of benefits payable under the Rothesay Existing Policies are defined and Rothesay does not have an influence over how these are determined. The way these benefits are calculated or paid will not change as a result of the Scheme.

10.3.8 In certain situations, Rothesay Existing Policyholders may choose to forgo some or all of their annuity income in return for a lump sum payment. Holders of deferred annuities may also request to move their policy to another pension provider or to take an adjusted annuity earlier or later than planned, in which case the annuity income amount will be reduced or increased respectively. No changes are proposed to the bases Rothesay uses to calculate the amounts payable in these cases for Rothesay Existing Policyholders, or the process that will be followed in reviewing the bases, as a result of the Scheme.

Administration, servicing, management and governance

10.3.9 The implementation of the Scheme will not lead to any changes to the administration and servicing arrangements for Rothesay Existing Policies.

10.3.10 In particular, the Separation Plan for the transfer of administration and servicing in respect of the Transferring Policies:

- does not impact on the existing administration and servicing arrangements that Rothesay has with Aptia for relevant Rothesay Existing Policies (discussed further below)

- results in a minimal marginal increase in effort where Rothesay will cease to use Aptia (for the Other Transferring Policies) that is expected to place no strain on Rothesay's ability to continue to administer and service the Rothesay Existing Policies.

10.3.11 As Aptia already delivers the administration services for the Transferring Policies, implementation of the Scheme will not lead to an increase in Aptia's workload, which means the Scheme should have no material impact on service levels for Rothesay Existing Policies administered by Aptia. Furthermore, the systems and staff used by Aptia for the relevant Rothesay Existing Policies are operationally independent from the systems and staff used by Aptia for the Transferring Policies. Following the transfer, this will remain so with the exception of the contact centre team. The contact centre will answer calls and deal with basic queries from both Rothesay Existing Policyholders and Transferring Annuitants. The contact centre has a defined service level for call answering such that this approach should have no adverse impact on Rothesay Existing Policyholders.

10.3.12 I asked Rothesay to consider whether the transfer of the policy data and administration of the Transferring Policies may have unintended operational consequences on the Rothesay Existing Policyholders. Rothesay identified the main potential risk as being that either Rothesay or Aptia resources that administer the Rothesay Existing Policies are diverted to support the Separation Plan, temporarily impacting on servicing levels for Rothesay Existing Policyholders. Rothesay considers the probability of this risk materialising to be low given the different teams involved and the separation of duties. Given this separation of duties, I am content that the risk of a deterioration in service levels for the Rothesay Existing Policyholders is low, and that the Separation Plan does not give rise to a material adverse impact on Rothesay Existing Policyholders.

10.3.13 The implementation of the Scheme will also not lead to any changes in the management and governance of Rothesay Existing Policies.

10.4 Communication of the Scheme with Rothesay Existing Policyholders

10.4.1 The plan for communication of the Scheme is set out in sub-section 7.9. I support the intended approach of seeking a waiver from the regulatory requirement to notify the Rothesay Existing Policyholders directly.

10.4.2 I have formed this opinion by taking into account:

- my conclusions from the preceding sub-sections that the Scheme will have no material adverse effect on the Rothesay Existing Policyholders
- my agreement with Rothesay's assessment as set out in paragraph 7.9.18 that the notices on the Rothesay website and newspapers are a reasonable and proportionate way of publicising the Scheme to these policyholders.

10.4.3 Rothesay Existing Policyholders may still become aware of the Scheme through newspaper advertisements and the Rothesay website and they will have an opportunity to raise concerns or object to the transfer if they feel they are adversely affected. The newspaper advertisements and the information that will be presented on the Rothesay website make clear that policyholders have this right and explain how to go about raising concerns or objections. Rothesay has prepared a guidance note to support call centre staff on what to do when a policyholder asks about or objects to the Scheme.

11 Impact of the Scheme on third-party reinsurers

11.1 Introduction

11.1.1 This section focuses on the impact of the Scheme on the reinsurers whose contracts are to be transferred by the Scheme.

11.1.2 There are four reinsurers who have contracts with SWL that will be transferred to Rothesay by the Scheme (see paragraphs 5.3.38 and 7.5.3). These are PICA, Swiss Re, SCOR SE and Pacific Life Re.

11.1.3 Five reinsurance contracts are in place with either PICA or Swiss Re that reinsure some of the longevity risks associated with the Transferring Annuities (see paragraph 5.3.38). The longevity risks associated with the Ambrosia Policies are reinsured with SCOR SE and Pacific Life Re.

11.1.4 SUP 18 of the FCA Handbook requires that my Report should include my opinion on the likely effects of the Scheme on any reinsurer whose contracts are to be transferred by the Scheme. Guidance contained within SUP 18 indicates that the level of detail that my Report should include depends on the complexity of the Scheme, the materiality of the Scheme to the reinsurer and the circumstances.

11.2 Likely effects of the Scheme

11.2.1 The terms and conditions of the reinsurance contracts will be unaffected by the Scheme.

11.2.2 SWL does not have the unfettered right to terminate the reinsurance contracts described in paragraph 11.1.3. It does, however, have limited termination rights that are triggered by specific circumstances such as a relevant change in law, no-fault change in regulatory permissions, force majeure and instances of fraud as well as specified changes in the financial strength of the reinsurer. These termination rights are unaffected by the Scheme and will transfer to Rothesay post-Scheme.

11.2.3 The reinsurance contracts described in paragraph 11.1.3 cover longevity risk relating only to annuities in payment and not to deferred annuities. The change in member option bases for Transferring Annuitants if the Scheme is implemented (see paragraphs 8.3.20 to 8.3.51) will therefore not affect the reinsurance contracts other than for dependants' pension trivial commutation payments, which I do not consider to be material.

11.2.4 As noted in paragraphs 6.3.20 and 6.3.22, Rothesay's risk management strategy involves transferring a significant amount of its longevity risk exposure to a wide range of reinsurers, and this reinsurance largely takes the form of longevity swap contracts of a similar type to those that would be transferred from SWL to Rothesay by the Scheme. I understand that Rothesay has existing and long-standing commercial relationships with each of the four reinsurers.

11.2.5 As noted in paragraph 5.3.37, the reinsurer counterparty default risk exposures relating to the longevity reinsurance of the Ambrosia Policies is borne by the pension scheme trustees which hold the Ambrosia Policies, and not by SWL. The Scheme therefore has no impact on SWL's or Rothesay's reinsurer counterparty default risk exposure to SCOR SE or Pacific Life Re, or to SCOR SE's or Pacific Life Re's counterparty default risk exposure to SWL or Rothesay. SCOR SE and Pacific Life Re potentially have counterparty risk exposure to the pension schemes, the trustees of which hold the Ambrosia Policies. This is unchanged by the Scheme. However, as a result of the Scheme, PICA and Swiss Re will potentially have counterparty default risk exposure to Rothesay instead of SWL (in those situations where amounts payable under the reinsurance by Rothesay exceed the amounts payable by the reinsurer). Here, the

collateralisation that is used in these contracts provides protection to both parties depending upon the net exposure (the difference between the amounts payable by the two parties to the reinsurance contract). Where the amounts payable under the reinsurance by Rothesay exceed the amounts payable by the reinsurer, the reinsurer will be able to take ownership of the collateral assets in the event of Rothesay defaulting on its obligations. The value of the collateral assets closely matches the net exposure and, therefore, following implementation of the Scheme, the collateralisation will largely mitigate any counterparty default risk exposure to Rothesay in the same way as it currently mitigates any counterparty default risk exposure to SWL. Moreover, Rothesay and SWL are similarly well-capitalised insurers with similar risk management and governance policies and standards. I am therefore satisfied that the Scheme will not result in a material increase in counterparty default risk exposure for any of the four reinsurers.

11.2.6 Based on the above points, I conclude that the Scheme will have no material adverse effect on any of the four reinsurers.

Appendix A Regulatory compliance cross reference

A.1 Overview

A.1.1 The requirements in respect of my Report are set out in the PRA Statement of Policy, SUP 18.2, and the FCA Guidance.

A.1.2 In the remainder of this Appendix, I have set out these requirements and provided a cross-reference to evidence how I have complied with these within my Report.

A.2 PRA Statement of Policy and SUP 18.2

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
2.30: The scheme report should comply with the applicable rules on expert evidence and contain the following information:	**SUP 18.2.33G**	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	SUP 18.2.33G (1)	Paragraph 1.2.3
(2) confirmation that the independent expert has been approved or nominated by the PRA;	SUP 18.2.33G (2)	Paragraph 1.2.3
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	SUP 18.2.33G (3)	Sub-section 1.3
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence, and details of any such interest;	SUP 18.2.33G (4)	Sub-section 1.3
(5) the scope of the report;	SUP 18.2.33G (5)	Sub-section 1.5
(6) the purpose of the scheme;	SUP 18.2.33G (6)	Sub-sections 2.2 and 7.2
(7) a summary of the terms of the scheme in so far as they are relevant to the report;	SUP 18.2.33G (7)	Sub-section 7.5
(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	SUP 18.2.33G (8)	Sub-section 1.6 and Appendix C
(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to	n/a	Paragraphs 5.6.1 and 8.2.35

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;		
(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	SUP 18.2.33G (9)	Sub-section 1.6
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	SUP 18.2.33G (10)	Sub-section 1.6
(11) their 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.	SUP 18.2.33G (11)	Sections 8, 9 and 10
(12) their 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;	SUP 18.2.33G (11A)	Section 11
(12A) their definition of 'material adverse' effect;	n/a	Paragraph 3.2.15
(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' consideration of the scheme;	SUP 18.2.33G (12)	Sub-section 1.5
(14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	SUP 18.2.33G (13)	Throughout my Report
(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	n/a	Not relevant to this Scheme
2.31: The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	SUP 18.2.34G	List of who can place reliance on my Report in paragraph 1.7.1 Level of detail considered throughout.

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
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.	n/a	Sub-section 1.6
2.32: The summary of the terms of the scheme should include:	**SUP 18.2.35G**	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	SUP 18.2.35G (1)	Paragraph 5.3.38 and 11.1.3
(2) 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.	SUP 18.2.35G (2)	Paragraph 6.3.21 for transferred business Not applicable for remaining business
2.33: The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should: *(Independent experts when forming their assessment of the effects of a scheme at the policyholder level should have regard to whether the scheme may give rise to different prudential impacts for different types of policyholders for example unit-linked policyholders and with-profit policyholders.)*	**SUP 18.2.36G**	
(1) include a comparison of the likely effects if it is or is not implemented;	SUP 18.2.36G (1)	Sections 8, 9 and 10
(2) state whether they considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	SUP 18.2.36G (2)	Paragraphs 2.2.4 and 7.2.2 describe the alternatives considered by SWL
(2A) 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;	SUP 18.2.36G (3)	Sections 8, 9 and 10

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
(3) include the independent expert's 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; (aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; (c) the likely cost and tax effects of the scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and (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.	SUP 18.2.36G (4)	Sections 8, 9 and 10

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
2.34: The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.	SUP 18.2.37G	Stated in paragraph 3.2.18
2.35: For any mutual company involved in the scheme, the report should: (1) 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 which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	SUP 18.2.38G	Not applicable for this Scheme
2.36: For a scheme involving long-term insurance business, the report should:	**SUP 18.2.39G**	
(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	SUP 18.2.39G (1)	Paragraphs 9.3.9 - 9.3.11
(2) 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;	SUP 18.2.39G (2)	Not applicable for this Scheme
(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and (b) the levels of any discretionary charges;	SUP 18.2.39G (3)	Paragraphs 8.3.19 - 8.3.51 Paragraphs 9.3.6 - 9.3.11 Paragraphs 10.3.6 - 10.3.8
(4) 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;	SUP 18.2.39G (4)	Paragraphs 8.3.30 - 8.3.32 and 8.3.38 Paragraphs 9.3.9 - 9.3.11 Paragraphs 10.3.6 - 10.3.8

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
(5) include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders;	SUP 18.2.39G (5)	Sub-sections 8.3, 9.3 and 10.3
(6) state whether the independent expert is satisfied that for each firm, the scheme is equitable to all classes and generations of its policyholders; and	SUP 18.2.39G (6)	Sub-section 2.8
(7) 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.	SUP 18.2.39G (7)	Limited safeguards are required Examples are 8.3.38 and 8.3.57
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.	SUP 18.2.40G	Paragraphs 5.3.29, 6.3.15 and 8.2.51
2.38: A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions they consider ought to be made, unless: (1) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or (2) they are unable to report on this aspect in the time available. Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to	SUP 18.2.41G	Not applicable for this Scheme

Details of the requirements set out in the PRA Statement of Policy	Equivalent requirement in SUP 18	Reference in this Report
appoint an independent actuary to report on any such post-transfer reduction in benefits.		

A.3 FCA Final Guidance

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
6.1 The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants' position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions.	
6.2 We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. We expect the report to be easy to read and understandable by all its users and for the IE to pay attention to the following:	
• Technical terms and acronyms should be defined on first use.	Throughout and Appendix E
• There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 2
• The business to be transferred should be described early in the report.	Paragraph 1.2.2 and sub-section 2.2
• The detail given should be proportionate to the issues being discussed and the materiality of the transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	Throughout my Report
• IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Throughout my Report
6.3 We sometimes find that IE reports lack detailed and thorough analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we sometimes find that the IE reports lack sufficient consideration and comparison of:	
• reasonable benefit expectations, including impact of charges	Sections 8, 9 and 10

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
• 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 8, 9 and 10
• management, administration and governance arrangements	Sections 8, 9 and 10
• 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	Not applicable
• 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	Not currently applicable
6.4 We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.	Analysis in sections 8, 9 and 10
6.5 This chapter sets out our expectations and gives some specific examples of the things we will consider when reviewing the IE's report. These include: • the level of reliance on the Applicants' assessments and assertions • balanced judgements and sufficient reasoning • sufficient regard to relevant considerations affecting Policyholders • commercially sensitive or confidential information • the level of reliance placed on the work of other experts • examples of over-reliance on the work of other experts • ambiguous language or a lack of clarity • demonstrating challenge • technical actuarial guidance	
The level of reliance on the Applicants assessments and assertions	
6.6 IEs will sometimes rely on Applicants' assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point.	Throughout my report. For example request for additional analysis in paragraph

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
	8.3.44
6.7 We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants' assertions without challenging them or asking for supporting detail or evidence.	Analysis predominantly in section 8 For example, see paragraphs 8.4.2 and 8.4.7
6.8 An example is where conclusions are supported solely or largely by statements like '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…'. In these cases, we will challenge the IE on whether they have come to their own conclusions. In these circumstances:	
• Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the scheme's impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants' analysis of the material and subsequent assertions.	Throughout my Report For example optional benefits discussed in paragraphs 8.3.20 to 8.3.51
• If there are concerns about matters that fall outside the IE's sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert. We give further information below about the IE obtaining and relying on their own independent advice (6.33 onwards).	Sub-section 1.6
6.9 We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to:	
• 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	Paragraphs 1.6.1 - 0, 8.2.15, 8.2.52, 8.3.36 and 10.2.11
• 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	Included in correspondence with SWL and Rothesay

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
6.10 We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis. Specific examples include: • Applicants' assertions that service levels will be maintained to at least the pre-transfer standard. In this case, we expect the IE to include not only details of the Applicant's plans and any gap analyses produced, but also include their view of their adequacy, and governance and oversight arrangements. We also expect the IE to include a comparison of service standards and quality, including where outsourcers are used. • Where there are concerns that a change in governance arrangements in the Transferee may lead to poorer customer outcomes. Applicants' analysis is often carried out at a high level. It does not always include reviewing and comparing any of the Transferor's governance arrangements that produce good customer outcomes with the Transferee's governance arrangements. An example of these governance arrangements is any committees with conduct responsibilities. • Consideration of the potential post-transfer strain on resources which could affect the service standards provided to the Transferee's existing customers and/or control over conduct of business risk. We will expect to see a review of relevant management information indicators and related contingency planning. • Differences in regulatory requirements, or protections available to policyholders, as a result of the transfer.	Sub-section 8.3
Balanced judgements and sufficient reasoning	
6.11 IEs will sometimes state that they are satisfied by referencing certain features of the scheme but will not adequately explain how those features have led to their satisfaction. In these circumstances we will expect to see both the evidence and the IE's reasoning that led to their conclusion.	Sections 8, 9 and 10
6.12 We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following:	
• Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree.	Not applicable
• We accept that it is not the IE's role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to 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 effect all Policyholder groups.	Sections 8, 9 and 10

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
6.13 When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	Paragraph C.1.3
6.14 Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to 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 give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See paragraphs 7.32-7.35 for further information on the Supplementary Report.	Paragraph 1.6.8 Will also be covered in Supplementary Report.
Sufficient regard to relevant considerations affecting Policyholders	
6.15 We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the: • current and proposed future position of each Policyholder group • potential effects of the transfer on each of the different Policyholder groups • potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	Sections 8, 9 and 10
6.16 To support this, we will expect the IE to 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.	Paragraphs 3.2.10 - 3.2.11
6.17 We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we expect the IE to include: • Consideration of the impact of an outsourcing agreement entered 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. Here, we expect to see 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. • 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.	Paragraphs 8.3.74 - 8.3.78

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
• Also, we will not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should 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, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process.	
6.18 Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures.	Not applicable
6.19 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer: • some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should 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. • if the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the scheme as if the reinsurance was not in place.	Sub-sections 8.1, 9.1, and 10.1
6.20 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.	Paragraphs 8.3.20 - 8.3.51
6.21 When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.	Paragraphs 8.3.20 - 8.3.51
6.22 We will expect to see this analysis 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, we will expect to see this analysis where: • some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure • 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	Paragraphs 8.3.20 - 8.3.51
6.23 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	Paragraphs 8.3.20 - 8.3.51

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
6.24 As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer: • The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee's capital position (meeting relevant requirements), and the short-term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail, and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we will not be satisfied with this view without further evidence. For example, some evidence and analysis of why (given the size and complexity of) a particular firm may make a default, before the time that Policyholders have to claim on policies, is extremely unlikely.	Not applicable
6.25 In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE's opinion that a change due to the Part VII transfer will not materially and negatively affect a group of Policyholders.	Sections 8, 9 and 10
Commercially sensitive or confidential information	
6.26 Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. Examples include: • where 'whistle-blower' information relevant to the scheme received is forwarded to the IE by the firm • where we are aware of enforcement action in progress with one of the Applicants	Paragraphs: (Pillar 2 calculations) 5.5.11 and 6.5.11 (MA and TMTP impacts at 30 June 2024) 5.5.6 and 6.5.6 (Financial projections) 8.2.51 (Capital management thresholds) 5.6.1 and 8.2.35
6.27 In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to 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 C and materials provided to the Regulators
The level of reliance on the work of other experts	
6.28 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have	Sub-section 1.6

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
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.	
6.29 We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	Paragraphs 1.6.11 - 1.6.12
6.30 The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice, and we discuss our expectations in further detail below.	Paragraphs 1.6.11 - 1.6.14
6.31 We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes, but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.33 below for a non-exhaustive list of factors which the IE should consider.	Paragraphs 1.6.11 - 1.6.12
6.32 The IE's key consideration is whether it is reasonable for them to rely on the 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. We may challenge IEs who rely on the Applicants' legal advice and merely state 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. Our decision to challenge will depend on how complex the legal issue is.	Paragraphs 1.6.11 - 1.6.12
6.33 In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following: • The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely. • How much the IE relies on the legal advice to reach their conclusions. Also, 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 the Applicants have obtained an adequate level of advice, depending on the issue's significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction.	Paragraphs 1.6.11 - 1.6.12

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
• Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.	
6.34 Alternatively, 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. For example, 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. They should also consider where risks are identified but there are no suggestions 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.	Paragraphs 1.6.11 - 1.6.12
6.35 Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.	Not applicable
Examples of over-reliance on the work of other experts	
6.36 Further to these points, we give some specific examples below where we have challenged the IE around potential over-reliance.	
6.37 Often an Applicant will get a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-UK jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court will adopt the approach set out in the advice. In that case, we expect the IE not to use such advice as the sole basis of their conclusion that there are no materially adverse effects. We will expect the IE to consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court. The legal advice itself should address this and suggest ways of mitigating this risk.	Not applicable
6.38 The IE may be uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.	Not applicable
6.39 The position may be different depending on whether the Transferor remains authorised/in existence: • 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.	Not applicable

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
• 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 Our concern here is that the likelihood of an adverse impact should be low enough for consumers not to be adversely affected. We will expect the IE to take a view on that and seek the appropriate reassurances/ensure mitigations are in place.	Not applicable
6.41 In summary, in most cases we will seek to review copies of relevant significant legal advice obtained, with appropriate arrangements to maintain any legal professional privilege. We will expect that advice to also cover what happens if the relevant court does not take the position of the advice and what mitigations can be used if that happens. It is important that all significant material an IE relies on when evaluating a scheme and reaching their conclusions should, wherever reasonably possible, be available for review by the Court and interested parties. Where material is commercially sensitive there are mechanisms that allow the Court and IE to review without detailed disclosure to all other interested parties.	
Ambiguous language or a lack of clarity	
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. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.	Sub-section 1.6
6.43 Some examples we have seen and challenged IEs on include: • Where a conclusion in the report is that the IE 'takes comfort' from certain matters, as opposed to 'being satisfied' having taken various matters into account. • Where the conclusion is uncertain. For example, 'I am satisfied that there is no material adverse effect. However...' but it is unclear how the qualification affects or undermines the conclusion. • Where the conclusions are caveated, we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat. • It is also important that the caveat does not undermine the report or the IE's ability to be satisfied on the relevant point. For example, the conclusion may be caveated by 'on the basis of information provided to me'. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they	

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
require further information or documentation to be satisfied without making a qualification.	
6.44 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly: • 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. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. • How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact.	Not applicable
Demonstrating challenge	
6.45 To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues 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 the IE's disclaimers. We consider that Applicants can make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.	Paragraph 1.4.4
6.46 To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters.	Paragraph 1.6.1
6.47 The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate.	Paragraph 1.4.4
Technical actuarial guidance	
6.48 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.	Paragraph 1.4.6
6.49 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 applies to technical actuarial work to support Part VII transfers.	Paragraph 1.4.6
6.50 It is important to note paragraph 5 of TAS 100 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'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content	Paragraph 1.4.6 and throughout my Report

Details of the requirements set out in the FCA Final Guidance	Reference in this Report
of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	
6.51 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. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work.	Paragraph 1.4.8

Appendix B Statement of compliance

B.1.1 I understand that my duty in preparing my Report is to help the Court 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.

B.1.2 I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules, the Practice Direction and the Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 paragraph 10 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the Court.

B.1.3 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.

John Hoskin

9 December 2024

Fellow of the Institute and Faculty of Actuaries

Appendix C Data and reliances

C.1 Overview

C.1.1 In performing my review and in preparing my Report, I have relied on the accuracy and completeness of information provided by the Companies, including information received orally, without independent verification. I have reviewed the information provided for consistency and reasonableness using my knowledge of the life assurance industry in the UK and Ireland.

C.1.2 In a number of areas have I challenged the information presented to me, and/or have sought additional information and explanations to ensure that I could rely on that information.

C.1.3 I have checked that the documents that I have relied upon and have formed judgements on, are the most up-to-date available.

C.2 Data received

C.2.1 I have listed the financial information, data and written information that I have relied upon below (unless stated otherwise). Some of this information is company confidential and is not publicly available. In addition to the listed items, I have relied on discussions (both orally and electronically) with SWL and Rothesay primarily to gain additional understanding on certain topics. Any oral discussions material to my considerations have been subsequently confirmed in writing.

Scheme and scheme-related documents:

- Reports from the Chief Actuary of SWL, the With Profits Actuary of SWL and the Chief Actuary of Rothesay on the Scheme
- Business Transfer Agreement between SWL and Rothesay
- Scheme document
- Information about the Transferring Policies, including sample policy documents and literature for the Transferring Policies
- Confirmation that there has been no known mis-selling and that there are no known historic breach liabilities in relation to the Transferring Policies
- Confirmation that there are no known Residual Policies (Excluded Policies) as at 30 June 2024
- SWL and Rothesay Witness Statements
- Communications plan, including letters and booklet to be sent to Transferring Policyholders and SWL and Rothesay website content

Company background, reports and financial statements:

- SWG and Rothesay Solvency and Financial Condition Reports for 2023, 2022 and 2021
- Articles of Association of Rothesay Life Plc, and Articles of Association of Clerical Medical Investment Group Limited, alongside the certification of incorporation on change of name from Clerical Medical Investment Group to Scottish Widows Limited
- SWL and Rothesay report and accounts for 2023, 2022 and 2021
- SWG and Rothesay ORSA for 2023
- SWG and Rothesay methodology and assumptions papers for year-end 2023

- SWG and Rothesay actuarial function reports for year-end 2023
- SWL and Rothesay solvency positions as at 30 September 2024

Risk management information and policies:

- SWL's and Rothesay's risk management framework and risk policies, including documents covering:
  - Capital management and dividend policies
  - Liquidity policy
- SWL and Rothesay risk appetite statements
- SWL and Rothesay recovery and resolution plans
- Rothesay's business continuity plan
- SWL's 2024 capital buffer annual review

Regulatory correspondence and reviews:

- Summary of Rothesay's relevant regulatory correspondence with the PRA, and confirmation that there is no relevant regulatory correspondence with the FCA
- Summary of SWL's relevant regulatory correspondence with the PRA and the FCA

Policy administration related:

- Draft Business Study Document and high-level Separation Plan developed by SWL, Rothesay and Aptia covering the transfer of administration
- Draft detailed Separation Plan developed by SWL, Rothesay and Aptia covering the transfer of administration
- Draft contingency plan to be followed in the event of issues being encountered with the transfer of administration
- Details on SWL's current arrangement for administering the Transferring Policies and the Service Level Agreements used
- A comparison of service levels which policyholders currently receive under the respective SWL and Rothesay contracts with Aptia
- Summary of SWL's complaints statistics for the Transferring Policies for 2021-2024
- Summary of Rothesay's complaints statistics for the period 2020-2024 across all its third-party administrators, and for 2023 only for business administered on behalf of Rothesay by Aptia
- Details of the methodology and assumptions that SWL uses, and that Rothesay intends to use, to calculate discretionary benefits
- Analysis on the impact on the affected Transferring Policies of moving from SWL's to Rothesay's bases for calculating discretionary benefits
- Details of Rothesay's framework for the operational resilience of its third-party administrators in extreme scenarios

Consumer Duty related:

- SWL and Rothesay reports on their annual assessment of Consumer Duty
- A third party's assessment of Rothesay's Consumer Duty practices

Legal and tax advice:

- Interpretation of the substance and mechanism of the Scheme provided via feedback from the Companies' legal advisers on draft versions of my Report
- SWL's analysis from its internal tax function on the tax impacts of the Scheme
- Legal advice SWL received with respects to Transferring Policyholders residing in Guernsey, Jersey and Isle of Man (noting this was shared on a non-reliance basis)

Reinsurance:

- Reinsurance agreement between SWL and Rothesay
- Floating charge security deed between SWL and Rothesay
- Control agreement between SWL, Rothesay and State Street Bank and Trust Company, London Branch
- A summary of SWL's exposure to its reinsurance counterparties as at 30 June 2024
- A summary of Rothesay's exposure to its reinsurance counterparties as at 30 June 2024
- Details of the FW assets including per asset market values as at 30 September 2024

Other:

- Assessment of the financial impact of the Scheme on SWL and Rothesay
- Details of the assumptions that SWL and Rothesay are using to calculate the technical provisions for the Transferring Policies
- Impacts of the MA and TMTP on SWL's and Rothesay's financial position as at 30 June 2024
- Rothesay's expected impact on its financial position as at 30 June 2024 if its VA application is approved
- Impacts of a range of market and demographic stresses to SWL and Rothesay's financial position as at 30 June 2024
- Estimated impacts of events since 30 June 2024 on Rothesay's financial position as at 30 June 2024
- Terms of Reference for SWL and Rothesay Board Committees
- Rothesay's 2023 review verifying that it has the skills, capacity and infrastructure to carry out its business plan
- Analysis of the profile of vulnerable customers with a Transferring Policy and Rothesay's vulnerable customer policy

Appendix D Extract from letter of engagement

D.1.1 This appendix contains an extract from the letter of engagement between Barnett Waddingham and the Companies.

Introduction

1.1 Barnett Waddingham LLP ('BW' or 'we') has been appointed to provide an Independent Expert in connection with the transfer of an annuity portfolio of business (the 'Sale Portfolio') of Scottish Widows Limited (SW) to Rothesay Life Plc ('Rothesay') (together, 'the Companies' or 'you').

1.2 BW is a limited liability partnership incorporated in England and Wales. A limited liability partnership is a body corporate which has "members". The services provided hereunder by BW's members and employees are given (or done) by those persons on BW's behalf and not in their individual capacities and no such person assumes any personal responsibility for the advice or other work provided hereunder.

1.3 SW and Rothesay are insurance companies authorised and regulated by the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

1.4 The Sale Portfolio includes £5.4bn of in-force UK bulk purchase annuity liabilities, the associated longevity and residual risks, reinsurance contracts and a portfolio of backing assets. The Sale Portfolio covers the pension benefits of c. 35,000 people in total, with the vast majority of the business being on a buy-in basis, where a pension scheme is the policyholder. £0.9bn of the liabilities are on a buy-out basis, where the policies are written with the individual members. These are all shareholder-backed non-profit annuity policies, including both annuities in payment and annuities in deferment. One of the buy-out schemes has a residual risk bulk annuity agreement with SW. SW have a single premium insurance policy to cover this additional residual risk and this policy is included within the perimeter. There are longevity reinsurance contracts to be novated to Rothesay within the Part VII scheme. In addition to the BPA schemes and reinsurance set out above, the perimeter includes two longevity swap transactions across three LBG pension schemes, with the in-scope business acting as the pass-through agent carrying out calculation and operational services.

1.5 The transfer of the Sale Portfolio will be conducted pursuant to Part VII of the Financial Services and Markets Act 2000 (the 'Scheme') and will be completed following an order sanctioning the transfer granted by the High Court of England and Wales (the 'Court').

1.6 John Andrew Hoskin will fulfil the role of Independent Expert. Please note that John will owe a duty to the Court that will override BW's duty to each of the Companies.

Approach

1.7 In order to fulfil the Independent Expert role, we will undertake the following high-level steps, many of which will run concurrently:

- Initial meetings to:
  - discuss intentions with senior management from both Companies and your advisers
  - agree the project management framework and timetable.
- Review policy terms and conditions, and other policyholder disclosures.
- Review reports on the financial position of both entities involved in the transfer, including the Own Risk and Solvency Assessment ('ORSA') reports.

- Review the draft Scheme and associated documentation and any previous schemes, in particular considering the impact on all stakeholders affected and the terms of relevant existing schemes.
- If necessary, clarify information and/or the intended approach with relevant parties, including the intended approach with regards to continuing administration.
- Engage with UK supervisors to:
    - offer an early conversation on key points identified in relation to the Scheme.
    - work in-line with the agreed timetable, taking on board any feedback that the supervisors provide.
- Identify any actual or potential issues.
- Discuss and resolve such issues with relevant parties including legal teams, which may require amendment to the Scheme.
- Review drafts of policyholder communications concerning the proposed Scheme and any communication waivers requested.
- Review reports on the Scheme prepared by the Chief Actuary of both Companies.
- Understand and comment on the impact of any use of Solvency II long-term guarantee package or transitional measures.
- Draft the Scheme Report and subsequently finalise, incorporating feedback on the draft as appropriate.
- Draft and subsequently finalise a Summary Report for inclusion with policyholder communications.
- Draft and subsequently finalise a 'Supplementary Report', including responding to any relevant queries raised by policyholders.
- Attend Court hearings and give evidence to the Court as required.

1.8 A key output will be the Scheme Report. The Scheme report will:

- Be prepared in accordance with the form approved by the PRA pursuant to section 109(3) of FSMA 2000 and will comply with all lawful requirements of the PRA and FCA and in particular those requirements set out in:
    - the PRA Statement of Policy, The Prudential Regulation Authority's approach to insurance business transfers
    - the FCA Final Guidance, The FCA's approach to the review of Part VII insurance business transfers
    - Chapter 18 of the Supervision Manual ('SUP 18') contained in the FCA Handbook.
- Be drafted giving due consideration to all material facts and taking proper care to ensure that it will in its final form accurately represent the Independent Expert's honestly held opinion on relevant matters that fall within his area of expertise.
- Consider the consequences of the Scheme in general and, in particular, for those policyholders likely to be affected by the implementation of the Scheme. This will be done by considering the different groups of policyholders of SW and Rothesay separately and will include, but will not be limited to:
    - policyholders' benefit expectations and the security of policyholders' contractual rights including the applicability, or otherwise, of any government-backed guarantee schemes
    - the risks that policyholders are exposed to
    - administration service levels
    - governance arrangements.
- Address the way in which the Companies have conducted their long-term business, taking account of the particular circumstances of the business being transferred. This will include, but will not be limited to:
    - reserving, capital and security

- the Companies' respective reinsurance arrangements
- any service, or other, agreements with intra-group companies
- the existing and proposed arrangements relating to financial management and administration
- the terms of any previous Schemes of transfer that concern the policyholders of the Companies.

1.9 The above lists are not intended to be exhaustive. The Independent Expert will analyse, review, and include any additional aspects, which may be identified during the completion of the project and which are considered relevant.

1.10 If required, at the request of the Companies, we would be happy to attend board meetings to present the draft Scheme Report and Supplementary Report.

Deliverables

1.11 The purpose of this engagement is to fulfil the role of the Independent Expert in relation to the Scheme.

1.12 We will:

- Prepare the Scheme Report, containing detailed results of our work and our opinion.
- Prepare a Summary Report for inclusion with policyholder communications.
- Prepare a Supplementary Report in relation to events occurring, any policyholder objections and matters arising following the Scheme and Summary reports.
- Attend Court hearings and give evidence to the Court as appropriate.

1.13 For the avoidance of doubt, the Companies shall be permitted to disclose the Scheme Report, the Summary Report and the Supplementary Reports to the Court, the PRA and FCA and the general public, including by way of publication on their respective websites.

Appendix E Glossary

Term	Explanation
Actuarial Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibilities primarily relating to the calculation of the Technical Provisions.
Ambrosia Underlying Members	The underlying pension scheme members of the pension schemes that are insured under the Ambrosia Policies.
Ambrosia Policies	The four longevity insurance agreements entered into between SWL (acting as insurer) and Lloyds Banking Group Pensions Trustees Limited.
Annuity	An insurance contract under which, from the date it becomes payable, a regular payment is paid to a beneficiary, usually until the death of the beneficiary.
Approved person	A person who has been approved by the Regulators to carry out one or more of a number of specific roles in an insurance company.
Aptia	Aptia UK Limited, a recently formed company created by the purchase of the pension administration business of Mercer LLC, that administers the Transferring Policies.
Audit Committee	A committee of a company's Board of Directors with delegated responsibility to provide oversight of financial reporting and internal controls.
BEL	The Best Estimate Liability.
Best Estimate Liability	Part of the Technical Provisions under the Solvency II regulatory regime. The amount of money an insurer expects it will need to hold today in order to pay policyholder benefits in the future on its existing business.
Board of directors/Board	The individuals appointed by the companies' owners, with ultimate responsibility for the running of the company.
BTA	The Business Transfer Agreement, an agreement between SWL and Rothesay dated 13 March 2024 under which the Companies agree to pursue a Part VII Transfer of the Transferring Business from SWL to Rothesay.
Bulk purchase annuity	An insurance policy or policies purchased by the trustees of a defined benefit pension scheme to transfer some or all of its liabilities to the insurer. A bulk purchase annuity may be a buy-in or a buyout.
Buy-in	A type of bulk annuity under which the pension scheme pays a lump sum to an insurer and the insurer pays to the pension scheme a defined proportion of the

Term	Explanation
	pension scheme benefits as they fall due. The pension scheme trustees are the policyholder and retain responsibility for paying the individual pension scheme members.
Buyout	A type of bulk annuity under which the pension scheme pays a lump sum to an insurer and the insurer issues individual annuity policies to each of the pension scheme members in scope of the buyout. The insurer then pays the benefits directly to the pension scheme members.
BW	Barnett Waddingham LLP, a firm of actuaries and consultants.
Capital add-on	An additional component of the SCR imposed on a firm by its supervisor under the Solvency II regulatory regime following its supervisory review process if it considers that the firm's calculated SCR is inadequate or if it considers that the firm deviates materially from the governance requirements.
Capital management policy	A policy set by a firm's Board, setting out the target level of its capital (excess of assets and liabilities) and how it manages its capital position.
CEO	Chief Executive Officer, the most senior executive in a company with ultimate responsibility for the day-to-day management of the company.
CFO	Chief Financial Officer, a company executive with responsibility for managing the company's finances.
Chief Actuary	The person approved by the PRA in the UK with responsibility for the Actuarial Function under the Solvency II regulatory regime.
Civil Procedure Rules	The procedure rules in civil cases by, amongst others, the High Court of Justice in England and Wales.
CM WPF	The Clerical Medical With Profits Fund, a with-profits fund within SWL.
COBS	Conduct of Business Sourcebook, a part of the FCA Handbook setting out rules in relation to conduct regulation.
Collateral	A means of providing security under a contract whereby one party designates certain assets as collateral and the other party is entitled to take possession of the collateral assets to recover money owed to it in the event of default by the party posting the collateral.
Compliance Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to advise the firm on compliance with the Solvency II regulations.

Term	Explanation
Conduct regulation	Regulation of insurance companies relating to the way firms manage their business and how they treat their customers.
Consumer Duty	Part of UK conduct regulation, requiring financial services firms to act to deliver good outcomes for retail customers.
Contagion risk	The risk that problems within one group company negatively affect other group companies.
Contingent annuitants	Individuals (for example, a spouse or other dependant) who may become entitled to receive an annuity benefit under an annuity policy following the death of the primary annuitant.
Contingent beneficiaries	Individuals (for example, a spouse or other dependant) who may become entitled to receive benefits from an annuity policy or pension scheme following the death of the primary annuitant.
Corporate governance	The system by which a firm is directed and controlled by its Board, setting out the process by which decisions are made and who is authorised to make which decisions.
Counterparty default risk	The risk of losses arising when the other party to an agreement does not fulfil its obligations under that agreement.
Credit risk	The risk of losses arising from a borrower failing to make the required payments on a loan or other debt.
CRO	Chief Risk Officer, a company executive with responsibility for the Risk Management Function.
Deferred annuity	An annuity policy under which the benefits will start at a date in the future, usually the main beneficiary's retirement date.
Defined benefit pension scheme	A type of pension plan funded by an employer to provide retirement benefits to its employees, where the benefits are determined by a defined formula (such as percentage of the employee's final salary).
Directions Hearing	The Court Hearing at which the Court first considers the Scheme and decides whether to allow the companies to notify their policyholders of the proposed Part VII Transfer. Also known as the Preliminary Hearing.
DISP	Dispute Resolution: Complaints, a part of the FCA Handbook containing rules in relation to complaints handling and resolution.

Term	Explanation
Eligible Own Funds	The excess of the value of assets over the value of liabilities under the Solvency II regulatory regime that is eligible to meet the regulatory capital requirement. I refer to this as Own Funds in my Report.
EU	The European Union.
Excluded Policies	Any policies which, for technical reasons, may need to be excluded from the initial transfer under the Scheme. The Scheme makes provision for these to be transferred later where possible. Sometimes referred to as Residual Policies.
Expense risk	The risk of losses arising from the costs of administering policies being higher than expected.
FCA	The Financial Conduct Authority, the conduct regulator of insurance companies in the UK.
FCA Guidance	"FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated February 2022, a document setting out the FCA's approach and expectations in respect of Part VII transfers.
FCA Handbook	The FCA's book of rules and guidance.
Fellow of the Institute and Faculty of Actuaries	A person who has qualified as an actuary by completing the examinations and other requirements of the Institute and Faculty of Actuaries.
Financial Controller	A company's lead accountant, responsible for accurate financial statements and accounting processes.
Financial Director	A company executive with responsibility for managing the company's finances.
FOS	The Financial Ombudsman Service, an independent UK public body that aims to resolve disputes between individuals and UK financial services companies.
FRC	The Financial Reporting Council, whose responsibilities include setting the TASs for members of the Institute and Faculty of Actuaries.
FSCS	The Financial Services Compensation Scheme, an industry-wide compensation scheme that pays compensations to eligible policyholders of insolvent UK insurance companies.
FSMA	The Financial Services and Markets Act 2000.
Funded Reinsurance	A type of reinsurance contract where the insurer passes the assets backing the liabilities to the reinsurer as part of the reinsurance contract.
Gone-away	A policyholder for whom their insurance company does not have their current address.

Term	Explanation
Group risk	The risk of losses arising from relationships between entities in the same group of companies.
IM	Internal Model.
Independent Expert	The person appointed to produce the scheme report for the Court as part of a Part VII Transfer.
Individual annuity	An annuity that is issued to an individual.
Insurance risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions, or changes in longevity or other expectations.
Internal Audit Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to evaluate the adequacy and effectiveness of the insurer's internal control system.
Internal Model	A method of calculating the SCR under the Solvency II regulatory regime based on the specific risk characteristics of the firm.
Inwards reinsurance	Reinsurance under which a particular insurer is taking on risks and liabilities from another insurer.
LBG	Lloyds Banking Group plc, the ultimate parent company of SWL.
Liquidity risk	The risk that a company is unable to generate sufficient cash to make required payments as they fall due.
Long stop date	If the transfer has not been completed by the long stop date (which may be extended by the Companies), then the Companies will discuss potential outsourcing of the operation of the Transferring Business that was in scope of the Scheme to Rothesay. The BTA will automatically terminate on the date that the Companies enter into an outsourcing agreement or determine that an outsourcing agreement cannot be reached. The BTA specifies the long stop date as 31 March 2028.
Longevity insurance	An insurance policy that transfers the longevity risk associated with annuities from one party to another.
Longevity risk	The risk of losses arising for an insurance company or pension scheme when policyholders or members live longer than expected.
Longevity swap	A type of longevity insurance under which one party pays to another party a fee and a fixed amount each month based on the expected benefit payments on a portfolio of annuities and receives back from the other party the actual benefit payments.

Term	Explanation
MA	Matching Adjustment.
Main beneficiary	An individual who is entitled to receive the benefits under an annuity policy by virtue of that individual being the policyholder or a member of a pension scheme covered under a buy-in policy. Also referred to as a primary annuitant.
Market risk	The risk of losses arising due to changes in the value of assets held or changes in macro-economic variables such as interest rates, inflation or exchange rates.
Matching Adjustment	An increase to the discount rate that may be used in the calculation of the BEL under the Solvency II regulatory regime if certain conditions are met. The Matching Adjustment only applies to a particular portfolio of assets and liabilities within the insurer where Matching Adjustment approval has been granted by the PRA on those asset and liability types.
Material adverse effect	Material adverse effect is not uniquely defined. The definition included in this Glossary is that used by the Independent Expert in considering the Scheme. A class or sub-group of policyholders that are adversely affected by the Scheme are considered to be materially adversely affected if a potential adverse effect is not outweighed by other benefits, is likely to happen, and has an impact that is not small. The assessment is made for the class or sub-group of policyholders as a whole. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, it is not considered material.
MCR	The Minimum Capital Requirement, a minimum underpin to the SCR under the Solvency II regulatory regime.
Morbidity risk	The risk of losses arising for an insurance company when more policyholders become eligible to claim ill-health benefits than expected.
Mortality risk	The risk of losses arising for an insurance company when policyholders die earlier than expected.
Non-profit annuities	Annuity policies under which the benefits are defined at outset and are not subsequently increased to reflect participation in the profits of the insurer.
Operational risk	The risk of losses arising from inadequate or failed internal processes, people and systems or from external events.
ORSA	Own Risk and Solvency Assessment, a process that firms are required to carry out under the Solvency II regulatory regime to assess, amongst other things, the firm's capital needs taking into account the specific risk profile and strategy of the firm.

Term	Explanation
Other Transferring Policies	The Ambrosia Policies and the residual risk policies.
Other Transferring Policyholders	The holders of the Other Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
Outwards reinsurance	Reinsurance under which a particular insurer is transferring risks and liabilities to another insurer.
Own Funds	In general, the excess of the value of assets over the value of liabilities under the Solvency II regulatory regime. In my Report I use the term Own Funds to refer to the excess of the value of assets over the value of liabilities that is eligible to meet the regulatory capital requirement after taking into account any regulatory restrictions on eligibility, sometimes called Eligible Own Funds.
Pacific Life Re	Pacific Life Re International Limited, UK Branch, a reinsurer that holds a longevity swap with SWL, which reinsures the longevity risks associated with the Ambrosia Policies.
Part VII transfer	A transfer of insurance business from one insurer to another under Part VII of the FSMA.
Pension sharing order	An order by a court setting out how much of an individual's pension should be paid to their former spouse.
PICA	Prudential Insurance Company of America, a reinsurer that holds a longevity swap with SWL, which reinsures some of the longevity risks associated with the bulk purchase annuity policies included in the Transferring Policies.
Pillar 1	The quantitative aspects of the Solvency II regulatory regime, including rules relating to the valuation of assets and liabilities and minimum capital requirements.
Pillar 2	The qualitative aspects of the Solvency II regulatory regime, including rules relating to corporate governance, risk and capital management.
Pillar 3	The requirements for the disclosure of information to regulators and the public under the Solvency II regulatory regime.
PIM	Partial Internal Model, a method of calculating the SCR under the Solvency II regulatory regime that uses the Standard Formula for some parts of the calculation and an Internal Model for others.
Policyholder	A person holding an insurance policy or a person who is or may become entitled to receive benefits under the policy.

Term	Explanation
Policyholder Communications Pack	A letter and a transfer guide (which includes a copy of a summary of my Report), that will be sent to each holder of a Transferring Policy (other than where a waiver has been granted by the Court).
Power of Attorney	A legal document that allows a person (the attorney) to make decisions for another person or act on that person's behalf if they are no longer able or willing to make their own decisions.
PRA	The Prudential Regulation Authority, the prudential regulator of insurance companies in the UK.
PRA Rulebook	The PRA's book of rules and guidance.
PRA Statement of Policy	"The Prudential Regulation Authority's approach to insurance business transfers" dated January 2022, a document setting out the PRA's approach and expectations in respect of Part VII transfers.
Primary annuitant	An individual who is entitled to receive the benefits under an annuity policy by virtue of that individual being the policyholder or a member of a pension scheme covered under a buy-in policy. Also referred to as a main beneficiary.
Protection products	A product where, in return for a policyholder paying the required premium, the insurer will pay benefits upon the policyholder dying or suffering from a prescribed illness or health condition covered by their policy.
Prudent Person Principle	A requirement of the Solvency II regulatory regime, which states that insurers may only invest in assets whose risks they can properly identify, measure, monitor, manage and control.
Prudential regulation	Regulation of insurance companies relating to financial soundness.
Recovery Plan	A plan maintained by an insurance company that sets out, amongst other things, the actions the insurance company could take to restore its SCR cover ratio if its SCR cover ratio falls below certain levels.
Regulators	The PRA and the FCA.
Regulatory capital requirement	The minimum level of capital that an insurer needs to hold in accordance with applicable prudential regulation. For an insurer subject to the Solvency II regime, this is the greater of the SCR and the MCR.
Reinsurance	An agreement between two insurers under which the first company (the cedant) pays a premium to the second (the reinsurer) and in exchange receives payments determined by the benefit payments on a certain block of the cedant's policies. The cedant retains legal responsibility to pay the benefits on its policies.

Term	Explanation
Reinsurance Agreement	The agreement between Rothesay and SWL dated 30 April 2024 to transfer the economic risk and reward associated with a material part of the Transferring Business from SWL to Rothesay with effect from 1 January 2024.
Reinsurance Effective Date	1 May 2024, the date upon which the Reinsurance Agreement and associated security arrangement became effective.
Reinsured Policies	All Transferring Policies other than the Ambrosia Policies.
Report	This report.
Reports	This report and my Supplementary Report.
Residual Policies	Any policies which, for technical reasons, may need to be excluded from the initial transfer under the Scheme. The Scheme makes provision for these to be transferred later where possible. Sometimes referred to as Excluded Policies.
Residual risk policy	A policy that provides protection to pension schemes against certain defined risks.
Risk appetite	The level of risk that an organisation is prepared to accept in pursuit of its objectives.
Risk Committee	A committee of a company's Board with delegated responsibility to provide oversight in relation to risk management.
Risk Management Function	A function that must be established as part of a firm's governance structure under the Solvency II regulatory regime with responsibility to facilitate the implementation of the firm's risk management system.
Risk Margin	Part of the Technical Provisions under the Solvency II regulatory regime. The additional amount that a third party would require, in excess of the BEL, to take over responsibility for meeting a firm's insurance liabilities in an arm's-length transaction.
Risk Management Framework	A framework for identifying, measuring, managing, monitoring and controlling of risk.
RMF	Risk Management Framework.
Rothesay	Rothesay Life Plc, the transferee in this Scheme.
Rothesay Board	The individuals appointed by Rothesay's owners, with ultimate responsibility for the running of Rothesay.
Rothesay Existing Policies	The existing Rothesay policies (including reinsurance policies where Rothesay is the reinsurer) as at the Scheme Effective Date.

Term	Explanation
Rothesay Existing Policyholders	The holders of the Rothesay Existing Policies (including reinsurance policies where Rothesay is the reinsurer) and any other individuals who are or may become entitled to receive benefits under these policies.
Rothesay Group	A group of companies consisting of Rothesay Limited and its subsidiaries, including Rothesay.
Sanction Hearing	A Court Hearing, at which the Court will decide whether to approve the Scheme. Also known as the Final Hearing.
Scheme	The legal document that, subject to the approval of the Court, gives effect to the transfer of the Transferring Business from SWL to Rothesay.
Scheme Effective Date	The date when the Scheme, if approved, will become operational and take effect, expected to be 11 June 2025.
Scheme report	The report produced by the Independent Expert for the Court assessing the Scheme.
SCOR SE	SCOR SE, UK Branch, a reinsurer that holds a longevity swap with SWL, which reinsures the longevity risks associated with the Ambrosia Policies.
SCR	Solvency Capital Requirement.
SCR cover ratio	The Own Funds divided by the SCR.
Security arrangement	An arrangement for safe custody of assets used for collateral (a collateral account with an independent custodian).
Senior management function	One of a defined set of roles within a firm, as specified in the Senior Managers and Certification Regime.
Senior Managers and Certification Regime	The Regulators' regime, which defines a set of senior management functions, or roles within a firm, that are subject to approval by the Regulators.
Separation Plan	A plan developed by SWL, Rothesay and Aptia to facilitate the transfer of the policy data and administration of the Transferring Policies, including the Transferring Annuities, from SWL to Rothesay.
SM&CR	The Senior Managers and Certification Regime.
SMF	A senior management function within SM&CR.
Solvency Capital Requirement	The minimum level of capital (excess of assets over liabilities) that an insurer is required to hold under the Solvency II regulatory regime.
Solvency II	The regulatory solvency framework that applies to insurers within the UK.

Term	Explanation
Solvency UK reforms	A package of regulatory reforms to Solvency II that has been introduced by the UK government and the PRA.
Standard Formula	A method of calculating the SCR under the Solvency II regulatory regime based on a defined calculation approach set out in the rules.
Strategy risk	The risk of loss in future earnings and capital arising from changes in the competitive, economic, legal or political environment, changing customer behaviour, or a failure to select appropriate strategic or long-term business plans.
SUP 18	Chapter 18 of the Supervision Manual within the FCA Handbook, setting out requirements in respect of Part VII transfers.
Supplementary Report	A later report I will prepare for the Court for consideration at the Sanction Hearing, updating the analysis in this report in light of any significant events subsequent to the date of my Report.
SW WPF	The Scottish Widows With Profits Fund, a with-profits fund within SWL.
SWG	A group of companies consisting of Scottish Widows Group Limited and its subsidiaries, including SWL.
Swiss Re	Swiss Re Europe S.A., UK Branch, a reinsurer that holds a longevity swap with SWL, which reinsures some of the longevity risks associated with the bulk purchase annuity policies included in the Transferring Policies.
SWL	Scottish Widows Limited, the transferor in this Scheme.
SWL Non-Transferring Policies	SWL policies as at the Scheme Effective Date that will not transfer to Rothesay under the Scheme.
SWL Non-Transferring Policyholders	The holders of the SWL Non-Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
TAS	The Technical Actuarial Standards.
Technical Actuarial Standards	Requirements set by the FRC that apply to actuarial work within their scope.
Technical Provisions	The amount of assets that a firm is required to hold against its insurance liabilities under the Solvency II regulatory regime, equal to the sum of the BEL, the Risk Margin and any element of the Technical Provisions calculated "as a whole", the latter being where the value of the insurance liability can be replicated using market data.
The Companies	SWL and Rothesay.

Term	Explanation
The Court	The High Court of Justice of England and Wales, the court that will decide whether to approve the Scheme.
The Institute and Faculty of Actuaries	The UK-based chartered professional body which represents and regulates actuaries that are members of that body.
The Insurance Group	SWG and all its subsidiaries.
TMTP	The Transitional Measure on Technical Provisions.
TPO	The Pensions Ombudsman Service, an independent UK public body that aims to resolve complaints and disputes relating to occupational and personal pension schemes.
Transferring Annuitants	The holders of the Transferring Annuities and any other individuals who are or may become entitled to receive benefits under these policies.
Transferring Annuities	The 28 bulk purchase annuity policies and 6,739 individual annuity policies that are part of the Transferring Policies.
Transferring Business	The Transferring Policies and the associated assets and liabilities (including the related reinsurance and other third-party contracts) that will transfer from SWL to Rothesay under the Scheme.
Transferring Policies	The policies that will transfer from SWL to Rothesay under the Scheme.
Transferring Policyholders	The holders of the Transferring Policies and any other individuals who are or may become entitled to receive benefits under these policies.
Transitional Measure on Technical Provisions	An adjustment to Technical Provisions under the Solvency II regulatory regime that has the effect of phasing in the increase in Technical Provisions that resulted from moving from the previous regulatory solvency regime to Solvency II over a period of 16 years from 1 January 2016.
UK	United Kingdom.
Unit-linked	A type of insurance contract under which premiums are used to purchase units in an investment fund, which will change in value in line with the investment performance of assets in the investment fund.
VA	Volatility Adjustment.
Volatility Adjustment	An increase to the discount rate that may be used in the calculation of the BEL under the Solvency II regulatory regime.
Waiver	In the context of the Scheme, the Court's agreement to waive the requirement for the Companies to directly notify all policyholders affected by the Scheme.

Term	Explanation
With Profits Actuary	The person approved by the Regulators in the UK with responsibility for advising the management of an insurer that has with-profits policies on the exercise of discretion affecting the with-profits policies.
With-profits policy	An insurance policy typically used as an investment which can also have life insurance benefits. The payout on these policies includes bonuses, which are a mechanism to allow the policyholder to receive a share of the profits.
Young Spouse Reduction	A reduction in the pension payable to a spouse in the event of a primary annuitant's death, which is applicable where the spouse is more than a specified number of years younger than the primary annuitant.
YSR	Young Spouse Reduction.