

MILLIMAN REPORT

The proposed Part VII transfer of non-profit annuity business from The Prudential Assurance Company Limited to Rothesay Life Plc

The Supplementary Report of the Independent Expert

21 October 2021

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1. Introduction

BACKGROUND

- 1.1 When an application is made to the High Court of Justice of England and Wales (the “**Court**”) for an order to sanction the transfer of long-term insurance business from one insurer to another, the application is subject to Part VII of the Financial Services and Markets Act 2000 (“**FSMA**”) and approval by the Court under Section 111 of FSMA.
- 1.2 In 2018 The Prudential Assurance Company Limited (“**PAC**”) and Rothesay Life Plc (“**Rothesay**”) (collectively “**the Companies**”) applied to the Court for the sanction of an insurance business transfer scheme (“**the Scheme**”) pursuant to Part VII of FSMA to effect the transfer of certain non-profit annuity policies of PAC (the “**Transferring Policies**” or “**Transferring Business**”) to Rothesay. The Sanction Hearing took place between 10 and 20 June 2019.
- 1.3 On 16 August 2019 Mr. Justice Snowden handed down his judgment (“**the Court Judgment**”) on the proposed transfer, in which he declined to sanction the Scheme. In this report (“**this Report**” or the “**2021 Supplementary Report**”) I refer to the process leading up to Mr. Justice Snowden’s decision as “**the 2019 Court Process**”, with the Court hearings held pursuant to the 2019 Court Process referred to respectively as the “**2019 Directions Hearing**”¹ and the “**2019 Sanction Hearing**”². Mr. Justice Snowden granted PAC and Rothesay leave to appeal against his decision, and on 27 September 2019 PAC and Rothesay lodged an appeal (“**the Appeal**”) against the Court’s decision. The main hearing for the Appeal took place between 27 and 29 October 2020.
- 1.4 On 2 December 2020 the Court of Appeal handed down its judgment (“**the Appeal Judgment**”) in which it upheld the Appeal and ordered that the application for the sanction of the Scheme should be remitted to the Court for consideration. The consequent process to be followed by the Court (the “**2021 Court Process**”) in its consideration of the Scheme will take a similar form to the 2019 Court Process, that is, a Directions Hearing followed in due course by a Sanction Hearing.
- 1.5 The Directions Hearing for the 2021 Court Process (the “**2021 Directions Hearing**”) took place on 23 July 2021. The corresponding Sanction Hearing (the “**2021 Sanction Hearing**”) is scheduled to commence on 8 November 2021.
- 1.6 When an application is made to the Court for an order to sanction the transfer of insurance business from one insurer to another, Section 109 of Part VII of FSMA requires the application to be accompanied by a report on the terms of the scheme by a person nominated or approved by the Prudential Regulation Authority (“**PRA**”), referred to as the “Independent Expert”.
- 1.7 PAC and Rothesay appointed me as the Independent Expert for the Scheme, and my appointment was approved by the PRA, having consulted with the Financial Conduct Authority (“**FCA**”), on 21 June 2018.
- 1.8 The Companies have reviewed my continued independence in relation to the Independent Expert role for the 2021 Court Process³ and sought the non-objection of the PRA and the FCA for me to continue to discharge the Independent Expert role. The PRA, having consulted with the FCA, confirmed on 1 April 2021 that it did not object to my continuing to discharge the role of Independent Expert for the Scheme for the 2021 Court Process. At the time of writing this Report, I am satisfied that there have been no developments that would affect my ability to act independently in relation to the Scheme and the Companies.

MY 2019 REPORTS

- 1.9 In discharging my role as Independent Expert during the 2019 Court Process, I submitted two reports to the Court, namely:

¹ A Directions Hearing is an initial Court hearing at which the companies’ plans for notifying policyholders are considered.

² A Sanction Hearing is a Court hearing at which the Court considers whether it is appropriate to sanction a Part VII scheme.

³ A statement of independence is provided in Appendix 1 of my 2021 Main Report.

- A report entitled “*The Part VII transfer of non-profit annuity business from The Prudential Assurance Company Limited to Rothesay Life Plc – The report of the Independent Expert*”, dated 21 January 2019 (my “**2019 Main Report**”); and
- A report entitled “*The Part VII transfer of non-profit annuity business from The Prudential Assurance Company Limited to Rothesay Life Plc – Supplementary Report of the Independent Expert*”, dated 17 May 2019 (my “**2019 Supplementary Report**”).

1.10 A summary of my 2019 Main Report (the “**2019 Summary Report**”) was included in the mailing pack sent to holders of Transferring Policies (“**Transferring Policyholders**”) by PAC prior to the 2019 Sanction Hearing.

1.11 In addition to my 2019 Main Report, the 2019 Summary Report and my 2019 Supplementary Report, I wrote four letters to the Boards of Directors of PAC and Rothesay during May and June 2019, including two letters during the course of the 2019 Sanction Hearing.

1.12 In this Report, I refer collectively to my 2019 Main Report, the 2019 Summary Report and my 2019 Supplementary Report as the “**2019 Reports**”.

1.13 I did not submit any reports or letters to the Court of Appeal as part of the Appeal process.

MY 2021 MAIN REPORT

1.14 For the 2021 Court Process I have prepared a report entitled: “*The proposed Part VII transfer of non-profit annuity business from The Prudential Assurance Company Limited to Rothesay Life Plc*”, dated 13 July 2021 (my “**2021 Main Report**”).

1.15 I also prepared a summary of my 2021 Main Report (the “**2021 Summary Report**”), which was included in the mailing pack sent to the Transferring Policyholders.

MY PREVIOUS CONCLUSIONS

1.16 In my 2019 Main Report and my 2021 Main Report I concluded, based on information available at the time, that the implementation of the Scheme would not have a material adverse effect on:

- The security of benefits of the policyholders of PAC and Rothesay, including the Transferring Policyholders; or
- The reasonable expectations of the policyholders of PAC and Rothesay, including the Transferring Policyholders, including:
 - The reasonable benefit expectations of the policyholders of PAC and Rothesay, including the Transferring Policyholders; and
 - The standards of service, management and governance applicable to the PAC and Rothesay policies, including the Transferring Policies.

1.17 I also concluded in these reports that the Scheme was equitable to all classes and generations of PAC and Rothesay policyholders.

THIS REPORT

1.18 The purpose of this Report is to provide my updated assessment of the likely effects of the proposed transfer and to address any areas in respect of which information was not available at the time I prepared my 2021 Main Report. I also consider whether the conclusions reached in my 2021 Main Report remain valid in the light of updated financial information on the Companies, any other relevant significant events subsequent to the date of finalisation

of my 2021 Main Report, and any policyholder objections to the Scheme notified to me prior to the date of this Report⁴.

- 1.19 The PRA confirmed its non-objection to the form of this Report on 21 October 2021.
- 1.20 Details of the scope of my appointment, my qualifications, disclosures and the reliances and limitations applying to my work are provided in my 2021 Main Report.
- 1.21 This Report should be read in conjunction with my 2021 Main Report, and both should be considered in their entirety. The limitations listed in Section 1 of my 2021 Main Report also apply equally to this Report.
- 1.22 This Report contains certain terminology related to insurance products, the Solvency II regime and other areas. Where this terminology has been defined and explained in my 2021 Main Report I have not always reproduced the relevant definition and explanation in this Report. Readers of this Report should refer to the definitions and explanations of such terminology that are in my 2021 Main Report. A glossary of terms used in this Report is set out in Appendix 5 of my 2021 Main Report.
- 1.23 I have received all the information I have requested from PAC and Rothesay for the purposes of preparing this 2021 Supplementary Report, and Appendix 1 contains a list of the key documents which I have considered. I have considered, and am satisfied with, the reasonableness of this information based upon my own experience of the UK life insurance industry.
- 1.24 I understand that this Report, as well as the supplementary report prepared by PAC's Chief Actuary and the supplementary report prepared by PAC's With-Profits Actuary, will be made available on the PAC website prior to the 2021 Sanction Hearing (also referred to as the final Court Hearing or the Approval Hearing). Rothesay will also make this Report and the supplementary report prepared by Rothesay's Chief Actuary available on the Rothesay website prior to the final Court hearing. PAC and Rothesay will also send this Report to policyholders who have objected to the transfer at any time, and to those who have requested a hard copy of this Report or the 2021 Main Report.
- 1.25 As described in paragraph 1.17 of my 2021 Main Report, Transferring Policies which were issued to residents of the Bailiwick of Guernsey (the "**Guernsey Policies**") will transfer pursuant to a Guernsey Scheme of transfer (the "**Guernsey Scheme**"), and Transferring Policies which were issued as part of the business carried on by PAC in or from within Jersey (the "**Jersey Policies**") will transfer pursuant to a Jersey Scheme of transfer (the "**Jersey Scheme**"). As was the case with my 2019 Reports and my 2021 Main Report, this Report and its conclusions apply equally to Guernsey Policies and Jersey Policies as they do to the other business of PAC and Rothesay. This Report, along with my 2021 Main Report, may be presented to the Royal Court of Guernsey and the Royal Court of Jersey in respect of the Guernsey Scheme and Jersey Scheme respectively, as well as to the other bodies or persons listed in paragraph 1.25 of my 2021 Main Report.

REGULATORY AND PROFESSIONAL GUIDANCE

- 1.26 This Report has been prepared under the terms of the guidance ("**Regulatory Guidance**") set out in the PRA's Policy Statement⁵ entitled "The Prudential Regulation Authority's approach to insurance business transfers" (the "**PRA Policy Statement**"), in Chapter 18 of the Supervision Manual ("**SUP 18**") contained in the FCA Handbook⁶ and in FG18/4⁷ "The FCA's approach to the review of Part VII insurance business transfers" (the "**FCA Guidance**"). As the PRA Policy Statement and FG18/4 include requirements specifically in relation to scheme reports, I have included a checklist against these requirements in Appendix 3 of this Report.

⁴ I will also consider any additional policyholder objections received following the completion of this Report and, if necessary, will report separately to the Court on any such objections

⁵ <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-insurance-business-transfers>

⁶ <https://www.handbook.fca.org.uk/handbook>

⁷ <https://www.fca.org.uk/publications/finalised-guidance/fg18-04-review-part-vii-insurance-business-transfers>

- 1.27 On 28 July 2021 the PRA issued Consultation Paper CP16/21⁸ proposing changes to the PRA Policy Statement; it requests responses by 28 October and indicates that approved changes will be implemented with effect from 29 November 2021. On 8 July 2021 the FCA issued Guidance Consultation GC21/3⁹ proposing changes to the FCA Guidance, with a closing date of 31 August; no implementation date has been specified. As the revised Regulatory Guidance is not in force at the date of this Report I have not formally complied with the amended wording, but I have taken it into account in preparing this Report where appropriate.
- 1.28 This Report has been prepared having regard to the terms of Technical Actuarial Standard (“**TAS**”) 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance) issued by the Financial Reporting Council. In my opinion, my report complies with these standards. In complying with these requirements, I note that a number of the key documents listed in Appendix 1 have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.
- 1.29 Actuarial Profession Standard (“**APS**”) X2, issued by the Institute and Faculty of Actuaries, requires members to consider whether their work requires an independent peer review. In my view this Report does require independent peer review and this has been carried out by a senior actuary in Milliman LLP who has not been part of my team working on this assignment.

THE STRUCTURE OF THIS SUPPLEMENTARY REPORT

- 1.30 This Report is structured as follows:
- Section 2 includes updates on relevant developments since I prepared my 2021 Main Report and any outstanding issues highlighted at that time;
 - Section 3 provides an update of the financial positions of PAC and Rothesay;
 - Section 4 includes details of the objections to the Scheme received from policyholders;
 - Section 5 includes updates on a number of other items;
 - Section 6 contains my overall conclusions;
 - Appendix 1 lists the key documents that I have relied upon;
 - Appendix 2 contains a certificate of compliance with Part 35 of the Civil Procedure Rules; and
 - Appendix 3 indicates how I have complied with the various provisions of the Regulatory Guidance.

⁸ <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/insurance-business-transfers>

⁹ <https://www.fca.org.uk/publications/guidance-consultations/gc21-3-proposed-changes-guidance-fcas-approach-review-part-vii-insurance-business-transfers>

2. Recent Developments

2.1 Since my 2021 Main Report dated 13 July 2021 there have been a number of developments of relevance to the Scheme, which I describe below.

TRANSFERRING BUSINESS

2.2 Table 2.1 shows updated figures for the volume of Transferring Business, expressed in terms of both the number of Transferring Policies and the Solvency II Best Estimate Liability (“BEL”)¹⁰ of the Transferring Business based on policies in force as at 30 June 2021, and a comparison to the equivalent figures as at 31 December 2020 (as described in paragraph 7.15 of my 2021 Main Report).

TABLE 2.1: COMPARISON OF TRANSFERRING BUSINESS AT 30 DECEMBER 2020 AND 30 JUNE 2021

	Policy Count	Solvency II BEL (£bn)
TOTAL (as at 31 December 2020)	352,832	10.7
TOTAL (as at 30 June 2021)	348,884	10.1

2.3 The number of Transferring Policies has fallen by 3,948 between 31 December 2020 and 30 June 2021, as a result of deaths reported during the period and the commutation¹¹ of the benefits of individual policies in circumstances where policyholders are permitted to request such actions. The change in BEL of -£0.6 billion reflects the policyholder benefits that have been paid over the period, the reduced number of Transferring Policies and any changes in assumptions used in the BEL calculation, including the change in the level and shape of the risk-free interest rate curve (this is described in more detail in paragraph 3.5).

ADMINISTRATION

2.4 As the planned Transfer Date is drawing closer, Rothesay has added more detail to its planning for the migration of the administration and servicing of the Transferring Policies to Capita Employee Solutions (“**Capita**”), which is its chosen outsourced service provider, as well as the post-migration operating model. In summary:

- Rothesay’s Third Party Administration Oversight team will oversee the servicing of the Transferring Policies following the migration;
- Rothesay has recruited additional individuals to ensure that it can provide suitable oversight of the increased volumes of servicing that will be handled by Capita;
- Rothesay has received assurances from Capita that it will allocate suitable levels of resources to the migration and to post-migration customer servicing and administration;
- A cross-disciplinary project team has been set up to manage the migration including specialists from PAC, Rothesay and Capita; this team reports progress to a steering committee comprising senior individuals from PAC and Rothesay;
- The migration will cover a number of workstreams, including data transfer, electronic images, payroll, calculations, reinsurance and training, and parallel payroll runs will be carried out during the migration to ensure that there is no impact on annuity payments following the migration.

¹⁰ Section 4 of my Main Report defines the BEL and explains other relevant aspects of the regulatory regime that applies to UK insurance companies

¹¹ Commutation” refers to a situation where a policyholder gives up some or all of their pension income in return for a lump sum or a transfer value paid to another pension provider.

- 2.5 It should be noted that Capita also administers the annuity business transferred to Rothesay from Zurich Assurance Ltd. and Scottish Equitable plc, which is very similar to that being transferred under the Scheme, and therefore the service provider has experience of migrating and undertaking the full range of administration and servicing tasks required in relation to such a portfolio.
- 2.6 Migration of administration systems is a complex exercise, and I cannot guarantee that the process of migrating the administration and servicing of the Transferring Policies to Capita will be entirely problem-free. However, based on the information I have received, I am satisfied that all reasonable steps are being taken by the Companies to ensure that the migration will proceed smoothly and without any disruption to annuity payments, and that service standards after the transfer will be satisfactory. I also note that any delays to the migration timetables would not be expected to result in disrupted annuity payments to the Transferring Policyholders, and the Companies are committed to ensuring that this is the case during the migration exercise. I therefore remain satisfied that the implementation of the Scheme will not result in a material adverse impact on service standards experienced by holders of Transferring Policies.

COVID-19

- 2.7 The situation in relation to the COVID-19 pandemic in the UK is not dissimilar to the situation that prevailed at the time of my 2021 Main Report, i.e. a relatively high proportion of the UK adult population has received a full dose of a COVID-19 vaccine, and COVID-19-related hospitalisations and deaths remain at relatively low (but not negligible) levels compared to the height of the pandemic, although infection levels remain high compared to many countries.
- 2.8 I understand from the Companies that there have been no additional adverse impacts from COVID-19 on the Companies' respective abilities to administer and service their policies, including the Transferring Policies, since the date of my 2021 Main Report.
- 2.9 I also understand that neither of the Companies has changed its assumptions in respect of future annuitant mortality rates as a result of COVID-19 since the date of my 2021 Main Report, and neither of the Companies has plans to make any such changes prior to the implementation of the Scheme. I have commented briefly on the Companies' assumptions-setting processes in paragraph 2.11 below.
- 2.10 At the time of writing this report there have been no developments relating to the pandemic that would affect the conclusions in my 2021 Main Report, and I remain satisfied that the potential impacts of COVID-19 on policyholders are not such that it would be inappropriate for the Companies to pursue the 2021 Court Process in accordance with the proposed timescales. The position of policyholders who have indicated an intention to attend the Sanction Hearing is considered further in paragraph 4.31.

ASSUMPTIONS REVIEW AND SETTING

- 2.11 Both PAC and Rothesay have provided me with an overview of the processes and controls they follow in setting assumptions used in the determination of their financial position, with particular reference to any mortality assumption changes that may occur as a result of the COVID-19 pandemic. While specific details of the respective processes differ, they are broadly similar at a high level and provide for comparable levels of oversight and controls, including external audit.
- 2.12 Consequently I am satisfied that the Companies' processes and controls for assumption-setting and reviews are appropriate and there are no differences that would change my conclusions in relation to the proposed transfer.

PAC WPSF EXPENSE COMPENSATION

- 2.13 In paragraph 9.35 of my 2021 Main Report I described the impact of the transfer on the allocation of expenses between sub-funds of PAC, and in particular the expected increase in fixed costs that are allocated to the PAC With-Profits Sub-Fund ("**PAC WPSF**") following the transfer. I also described the proposed remediation for this situation, under which the PAC Shareholder-Backed Business will make a payment, currently expected to be £24 million, to the PAC WPSF upon the implementation of the Scheme to compensate the PAC WPSF for the first three years of increased cost allocations. At the end of this three year period a review will be undertaken to establish

whether any further compensation is appropriate. For the avoidance of doubt, this compensation will not be sourced from policyholder funds.

- 2.14 I have now received details of the proposed approach for the review after three years, and the associated governance arrangements. A baseline projection of expenses and numbers of policies for each of the PAC Shareholder-Backed Business and the PAC WPSF will be developed, on a “business as usual” basis and ignoring the proposed transfer of the administration of the Transferring Business to Rothesay. The actual position at the end of the three year period will be compared with this baseline, and any additional and unwarranted costs referable to the PAC WPSF (excluding any activity¹² that is unrelated to the transfer) would give rise to additional compensation. The form of any such compensation would be agreed at the time, depending on the circumstances, and could comprise a further payment covering a limited period with provision for another review at the end of that period, or a single payment in full and final settlement.
- 2.15 The outcome of the review would require approval by the PAC Board, with advice from the PAC With-Profits Committee and the PAC Finance Capital and Liquidity Committee, which would seek input from the PAC Chief Actuary and the PAC With-Profits Actuary.
- 2.16 The PAC With-Profits Actuary has reviewed the proposed approach and has concluded that both the approach and the governance arrangements appear reasonable. I agree with his conclusion.

REGULATORY CHANGES

The review of Solvency II

- 2.17 As discussed in paragraph 4.8 of my 2021 Main Report, the prudential regime applicable to UK insurers and reinsurers (Solvency II) is now the responsibility of the UK authorities following the UK’s exit from the EU on 31 January 2020. The UK Government (HM Treasury) and the PRA are, at the time of writing, in the process of reviewing certain features of Solvency II.
- 2.18 A call for evidence was published by HM Treasury on 19 October 2020 and following the receipt of the responses (which were summarised by HM Treasury in a follow up paper¹³ on 1 July 2021), the UK Government asked the PRA to undertake a data collection exercise to support the review of these Solvency II features.
- 2.19 On 20 July 2021, the PRA launched this data collection exercise in the form of a Quantitative Impact Study (“**QIS**”)¹⁴. Under the QIS, UK insurers were asked to provide the PRA with details of their Solvency II financial position under a number of prescribed scenarios covering potential changes to certain aspects of the Solvency II regime under a range of economic conditions. The design options covered by the QIS relate in particular to the Matching Adjustment and the Risk Margin, and require consideration of any consequential effects on the size of the Transitional Measure on Technical Provisions (“**TMTP**”). Participation in the QIS is voluntary, and the deadline for insurers to submit responses to the PRA was 20 October 2021. The PRA has also made it clear that the scenarios that are being tested in the QIS should not be taken as a signal that the PRA has reached any settled policy decision, and that the PRA is collecting data, not testing specific proposals.
- 2.20 In relation to the determination of the Risk Margin¹⁵, the current approach is to use a “cost of capital” calculation. Under this calculation, the non-hedgeable components of the current and estimated future Solvency Capital Requirements (“**SCR**”) applicable to the insurer’s in-force business are determined¹⁶. The Risk Margin is then

¹² For example, an inward transfer of with-profits business from a third party.

¹³ Review of Solvency II: Call for Evidence – Response

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998396/Solvency_II_Call_for_Evidence_Response.pdf

¹⁴ <https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/solvency-ii/solvency-ii-reform-quantitative-impact-survey>

¹⁵ The Risk Margin is a component of an insurer’s Technical Provisions designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm’s length transaction.

¹⁶ These SCR components are only required to cover risks that cannot be readily hedged, and therefore typically exclude most market risks.

calculated as the opportunity cost of holding low-risk assets to meet these capital requirements over the lifetime of the in-force business, based on a prescribed opportunity cost of 6% p.a. A consequence of the current approach to the Risk Margin for long duration liabilities (such as non-profit annuities) is that it can be very significant in size and can be highly sensitive to changes in long-term interest rates.

2.21 Two approaches to the Risk Margin are being tested as part of the QIS:

- An approach aligned with that proposed under the Insurance Capital Standard (“**ICS**”)¹⁷, known as the Margin Over Current Estimate (“**MOCE**”). The MOCE is a departure from the cost of capital approach that prevails under Solvency II, and instead the Risk Margin would be determined as a prescribed percentage of the SCR.
- An approach aligned with that proposed by the European Insurance and Occupational Pensions Authority (“**EIOPA**”) as part of its proposed reform of Solvency II. Under EIOPA’s proposed approach, the cost of capital approach is retained but, for various technical reasons, an exponentially reducing factor is applied to future capital requirements in the calculation described in paragraph 2.20.

2.22 The second approach listed above would, by definition, result in a smaller Risk Margin for all insurers, as well as reduced sensitivity to changes in long-term interest rates, and this would be particularly the case for insurers with long duration liabilities such as annuities. For such insurers it is also expected that the MOCE approach would result in a reduction in the Risk Margin and reduced sensitivity to changes in long-term interest rates.

2.23 In relation to the Matching Adjustment, the PRA notes in the “Dear CEO” letter¹⁸ that accompanied the QIS that the UK insurance market has changed significantly since the design of Solvency II, and annuity providers now hold a much wider range of assets. In particular, it notes that illiquid assets are often a significant component of Matching Adjustment portfolios in the UK market. Additionally, the PRA notes that the Matching Adjustment calculation is heavily reliant on each asset’s credit rating, and the increasing reliance being placed on insurers’ internally assigned credit ratings for assets that are not rated by external credit rating agencies has led to the risk of potential inconsistencies between insurers in the approach to determining the Matching Adjustment.

2.24 As part of the QIS, the PRA is gathering data on two scenarios involving the Matching Adjustment, both of which include the following components of the Fundamental Spread¹⁹:

- An expected loss component, which is similar to the probability of default component of the Fundamental Spread in the current Solvency II framework;
- An adjustment for sovereign, supranational and quasi government exposures, which is similar to the treatment of these exposures for the Fundamental Spread calculation under the current Solvency II framework;
- A credit risk premium (“**CRP**”) component, which includes an element linked to the prevailing spread at the level of individual assets. This includes a floor such that it does not fall below a given level in bps²⁰ and, in one of the scenarios, a cap on the CRP; and
- A valuation uncertainty component, which is an addition to the Fundamental Spread for assets for which the valuation may be subject to uncertainty.

2.25 It is not yet clear what impact these scenarios would have on the overall benefit of the Matching Adjustment to the financial position of UK insurers if either of them were to be adopted. However, the introduction of a CRP component (as described above) to the Fundamental Spread would result in the Matching Adjustment becoming more sensitive to changes in prevailing credit spreads on assets in Matching Adjustment portfolios; currently the

¹⁷ The ICS is a proposed [capital standard](#) that will apply to internationally active insurance groups, and is part of a package of reforms completed by the International Association of Insurance Supervisors in response to the financial crisis of 2007/2008. It is not expected to apply to either of the Companies, as neither is deemed to be an internationally active insurance group.

¹⁸ <https://www.bankofengland.co.uk/prudential-regulation/letter/2021/july/gathering-data-solvency-ii-review>

¹⁹ The Fundamental Spread is an adjustment within the determination of the Matching Adjustment, prescribed by the PRA, that represents default and downgrade risk on assets within Matching Adjustment Portfolios. It is described more fully in paragraph 4.29 of my 2021 Main Report.

²⁰ bps = basis points; 1bps = 0.01 percentage point

Fundamental Spread is linked to a long-term average of historical spreads and is therefore relatively insensitive to day-to-day movements in market spreads. This means that, under the QIS scenarios, the benefit available from the Matching Adjustment could reduce, and capital requirements in relation to credit risk could increase in times of widening credit spreads by more than is currently the case.

- 2.26 In respect of the TMTP, the PRA is seeking to understand how it would be affected under the various scenarios considered in the QIS, which involve variations of the approaches to the Risk Margin and Matching Adjustment calculations (as described above). Participants with approval to use a TMTP are required to provide information on the breakdown of the TMTP as at the most recent recalculation date, as well as to recalculate the TMTP after carrying out each scenario calculation.
- 2.27 In addition to quantitative aspects considered in the QIS, the PRA issued a questionnaire which poses a series of qualitative questions to insurers on certain related matters, including the eligibility criteria for assets in Matching Adjustment portfolios and the approval processes for the Matching Adjustment and Internal Model.
- 2.28 As noted in my 2021 Main Report, it is likely that certain aspects of the UK's prudential regulatory regime will change following the completion of the reviews by HM Treasury and the PRA; however, at the time of writing it is not possible to identify with certainty the nature or extent of any such changes. The impact of the QIS scenarios on the Companies' financial positions was not available at the time of finalisation of this Report. Since the PRA has made it clear that the QIS scenarios are not intended to be indicative of any specific policy proposals, I consider that the results of the QIS exercise would be of limited relevance to my evaluation of the impact of the Scheme.

The LIBOR-SONIA transition

- 2.29 As noted in paragraph 4.9 of my 2021 Main Report, to reflect the planned discontinuation of LIBOR on 31 December 2021, the PRA announced on 3 June 2021²¹ that the approach used to derive the risk-free interest rate curve used by insurers to calculate their regulatory solvency position in respect of their GBP-denominated liabilities would change from a LIBOR-based approach to a SONIA-based approach. This change in approach was implemented on 31 July 2021.
- 2.30 Both PAC and Rothesay have confirmed that there have been no material impacts to their pre-or-post-Scheme regulatory solvency positions as a result of this change.

ROTHESAY LIFETIME MORTGAGE TRANSACTION

- 2.31 It was announced²² on 16 August 2021 that Rothesay had agreed to purchase a portfolio of lifetime mortgages from Just Group plc ("**Just Group**") for a consideration of £334 million. Lifetime mortgages are described in paragraphs 8.128 to 8.139 of my 2021 Main Report.
- 2.32 Given that it represents less than 1% of Rothesay's total assets, and increases Rothesay's lifetime mortgage portfolio by less than 10%, I do not consider that the transaction with Just Group materially affects Rothesay's risk exposures.

ROTHESAY DEBT ISSUANCE

- 2.33 As described in paragraphs 6.37, 6.56 and 8.42 of my 2021 Main Report, Rothesay's capital structure includes a number of debt issuances, which are, in effect, subordinated to policyholder liabilities.
- 2.34 On 6 October 2021 Rothesay issued a further £450 million of debt. This debt will be used to support Rothesay's strategy and growth plans and is, similarly to Rothesay's other debt issuances, effectively subordinated to policyholder liabilities. Based on the position as at 30 June 2021, it is estimated that the debt issuance would have increased Rothesay's SCR Coverage Ratio by approximately 13 percentage points.

²¹ "PS12/21 | CP1/21 – Solvency II: Deep, liquid and transparent assessments, and GBP transition to SONIA" - <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/solvency-ii-deep-liquid-and-transparent-assessments-gbp-transition-to-sonia>

²² https://otp.tools.investis.com/clients/uk/jrp_group_plc1/rms/regulatory-story.aspx?cid=1319&newsid=1500284

2.35 Given that the purpose of the debt issuance is to support future growth, and repayment of the debt is contingent on Rothesay's SCR Coverage Ratio remaining above 100%, this debt issuance does not affect my conclusions in relation to the quality of Rothesay's Own Funds, as set out in paragraph 8.44 of my 2021 Main Report, nor my conclusions on the transfer more generally.

CONCLUSION

2.36 I am satisfied that none of the developments described above affects the conclusions set out in Section 14 of my 2021 Main Report, which are restated in Section 6 of this report, either individually or in aggregate.

3. The updated financial position of the companies at 30 June 2021

INTRODUCTION

- 3.1 This section describes the financial position of PAC and Rothesay as at 30 June 2021, the most recent date for which full financial results are available at the date of this Report.
- 3.2 My assessment of the impact of the implementation of the Scheme as set out in my 2021 Main Report was based on financial information on a Solvency II basis as at 31 December 2020.
- 3.3 The financial positions of PAC and Rothesay under Pillar 1 of Solvency II as at 30 June 2021 have now been published; PAC's has been subject to a full external audit and Rothesay's has been subject to external review under the International Standard On Review Engagements 2410²³. I consider it reasonable to rely on these financial results in revisiting the conclusions of my 2021 Main Report. In the case of Rothesay, I am comfortable relying on the financial results in light of the relatively short time that has elapsed since the last set of audited figures, and the fact that the change in its financial position over the first half of 2021 is in line with what I would expect, given its sales volumes and the changes in financial market conditions during the first half of 2021.

PAC'S FINANCIAL CONDITION

Developments since 31 December 2020

- 3.4 Since 31 December 2020, there have been no changes to PAC's business that have materially affected its balance sheet, nor have there been any changes to PAC's approvals to use the Matching Adjustment or TMTP. PAC recalculated its TMTP on 31 March 2020; this was approved by the PRA.
- 3.5 However, changes in financial market conditions between 31 December 2020 and 30 June 2021 have affected the financial position of PAC. In particular:
- The shape of the risk-free interest rate curves, published by the PRA, changed between 31 December 2020 and 30 June 2021. The most relevant curve in this case is the United Kingdom risk-free curve which had moderate increases at both shorter and longer terms.
 - Credit spreads²⁴ on medium to long term investment grade corporate debt declined moderately between 31 December 2020 and 30 June 2021.
 - UK equity markets rose between 31 December 2020 and 30 June 2021, with the FTSE All-Share Index increasing from c. 3,674 to c.4,015.

The Solvency II Pillar 1 financial position as at 30 June 2021 for PAC is shown in Table 3.1, with figures as at 31 December 2020 (as presented in Table 5.4 of my 2021 Main Report) for comparison.

- 3.6 It should also be noted that, since the 31 December 2020 regulatory solvency position of PAC was produced, PAC has refined its approach to reflecting the payments that the PAC Shareholder-Backed Business will make to the PAC With-Profits Fund to compensate it for three years of increased fixed cost allocations (as described in paragraph 9.10 of my 2021 Main Report). The 31 December 2020 PAC financial position presented in Table 3.1 below reflects an approximation of the expected impact, whereas the 30 June 2021 financial position reflects PAC's current estimate of the impact of the agreed approach, which has been subject to review by PAC's external auditors, and accounts for indefinite compensation payments (beyond the three years initially agreed) from the PAC Shareholder-Backed Business to the PAC With-Profits Fund.

²³ <https://www.ifac.org/system/files/downloads/b011-2010-iaasb-handbook-isre-2410.pdf>

²⁴ The credit spread is the excess of the yield on an asset over the corresponding "risk-free" yield. It represents the compensation required by the investor in the yield for the risks associated with the asset.

TABLE 3.1: PAC SOLVENCY II PILLAR 1 BALANCE SHEET

PAC Solvency II Financial Position	30 June 2021			31 December 2020		
	£ million	Total PAC Shareholder- Backed Business	PAC With- Profits Fund	Consolidated PAC	Total PAC Shareholder- Backed Business	PAC With- Profits Fund
Solvency II Assets (net of other items)	57,074	137,825	183,871	59,704	136,163	186,174
Technical Provisions (including TMTP)	48,602	126,467	171,728	50,987	124,267	172,561
Own Funds (A)	8,472	11,358	12,142	8,718	11,896	13,613
SCR (B)	4,653	3,671	8,324	5,107	4,895	10,002
Excess Capital (=A – B)	3,818	7,687	3,818	3,611	7,001	3,611
SCR Coverage Ratio (A/B)	182%	309%	146%	171%	243%	136%

Notes:

- Totals/differences may not be additive due to rounding.
- As noted above, the 31 December 2020 pre-Scheme financial position for PAC reflects an estimate of the impacts of the approach to the payments that the PAC Shareholder-Backed business will make to the PAC With-Profits Fund to compensate it for three years of increased fixed cost allocations (as described in paragraph 9.10 of my 2021 Main Report). The 30 June 2021 figures reflect the final agreed approach, which has been subject to review by PAC's external auditors.

- 3.7 Table 3.1 shows that the SCR Coverage Ratio of the PAC Shareholder-Backed Business increased from 171% to 182% between 31 December 2020 and 30 June 2021. The change in financial position of the PAC Shareholder-Backed Business between 31 December 2020 and 30 June 2021 includes some offsetting impacts, including the emergence of surplus from the in-force business, the changes in market conditions described in paragraph 3.5, the payment of a dividend from PAC to M&G plc, the allowance for the final agreed approach to the compensation payments from the PAC Shareholder-Backed Business to the PAC With-Profits Fund (as described in paragraph 3.6) and various management actions that affect PAC's solvency position.
- 3.8 In addition, Table 3.1 shows that the SCR Coverage Ratio of the PAC With-Profits Fund increased from 243% to 309% between 31 December 2020 and 30 June 2021.

I am unable to disclose details of PAC's Solvency II Pillar 2 financial position (economic capital)²⁵, as this is submitted privately to the PRA. As noted in my 2021 Main Report, I used this information in my assessment of the risk profile, as well as the recent and expected future development of the business of PAC (covered in paragraphs 5.31 to 5.38, and paragraphs 5.68 to 5.69 of my 2021 Main Report). In paragraph 5.43 of my 2021 Main Report I noted that at the time of drafting, PAC's most recent Pillar 2 financial positions were as at 31 December 2019, which showed a significantly greater level of excess capital than the Pillar 1 figure. I have now been provided with PAC's Pillar 2 financial position as at 31 December 2020 and I can confirm that this remains the case. I am therefore satisfied that the updated Pillar 2 figures do not affect the conclusions in my 2021 Main Report.

²⁵ PAC maintains an internal view of its capital needs through the calculation of its 'economic capital requirement' as part of its ORSA process.

PAC's projected post-transfer financial position

- 3.9 The financial information below shows the Solvency II Pillar 1 position of PAC's Shareholder-Backed Business as at 30 June 2021 (from Table 3.1) as well as the *pro forma* post-transfer position if the Scheme had been implemented on 30 June 2021.

TABLE 3.2 PAC SHAREHOLDER-BACKED BUSINESS PRE-TRANSFER AND PRO FORMA POST-TRANSFER REGULATORY SOLVENCY POSITION

PAC pre- and post-Scheme Solvency II financial position as at 30 June 2021			
£ million	PAC Shareholder-Backed Business, pre-Scheme	PAC Shareholder-Backed Business, post-Scheme	Impact of Scheme
Solvency II Assets (net of other items)	57,074	46,988	(10,086)
Technical Provisions (including TMTP)	48,602	38,516	(10,086)
Own Funds (A)	8,472	8,472	-
SCR (B)	4,653	4,523	(130)
Excess Capital (=A – B)	3,818	3,948	130
SCR Coverage Ratio (A/B)	182%	187%	5%

Totals/differences may not be additive due to rounding

- 3.10 Table 3.2 shows that, on a Solvency II Pillar 1 basis, if the Scheme had been implemented on 30 June 2021, the SCR Coverage Ratio of PAC's Shareholder-Backed Business would have increased from 182% to 187%. PAC's consolidated SCR Coverage Ratio would have been 148% had the Scheme been implemented on 30 June 2021, compared to 146% pre-Scheme.
- 3.11 Table 3.2 also shows that it is expected that there would be a zero impact on the Own Funds of the PAC Shareholder-Backed Business as at 30 June 2021. As described in paragraphs 9.9 and 9.10 of my 2021 Main Report, the equivalent impact as at 31 December was a reduction in Own Funds of £7 million, which occurred as a result of a number of partially offsetting effects of the Scheme. The primary reason that the expected Own Funds impact of the Scheme as at 30 June 2021 is zero (rather than a small negative impact on Own Funds, as at 31 December 2020) is because PAC has refined its approach to reflecting in its financial position the payments that it will make to the PAC With-Profits Fund to compensate it for increased fixed cost allocations (described in paragraph 9.10 of my 2021 Main Report). In particular, the PAC pre-Scheme position at 31 December 2020, as set out in Tables 5.4 and 9.1 of my 2021 Main Report, and Table 3.1 of this Report, reflected an estimate of the impact of the approach for the compensation payments, as information on the precise impact of the cost allocation and the associated shareholder support was not available at the time the pre-Scheme 31 December 2020 financial position was determined. As noted in paragraph 3.6 above, PAC's 30 June 2021 pre-Scheme financial position allows for indefinite future compensation payments from the PAC Shareholder-Backed Business to the PAC With-Profits Fund, and therefore PAC's pre-Scheme position has been constructed assuming that the Scheme will be implemented. As a result, the pre-Scheme figures do not represent the financial position of PAC at 30 June 2021 under the assumption that the Scheme does not proceed, as any allowance for the compensation payments would be removed in such a scenario. PAC estimates that, for the PAC Shareholder-Backed Business, an assumption that the Scheme does not proceed would, relative to the 30 June 2021 pre-Scheme position shown in Table 3.1 above, result in an increase in Own Funds of approximately £50 million, an increase in the SCR of approximately £8 million²⁶ and an increase in SCR Coverage Ratio of approximately 1%. The changes in Own Funds and SCR

²⁶ The increase in SCR arises because PAC's future expense outgo is expected to be higher under an assumption that the Scheme does not proceed, resulting in a second order impact on PAC's capital requirements in relation to the risk of higher than expected future expenses.

on a consolidated basis are the same in absolute terms, and the SCR Coverage Ratio on a consolidated basis would be unchanged to the nearest percentage point.

- 3.12 On the basis underlying Table 3.2, the SCR of PAC's Shareholder-Backed Business would be expected to decrease by £130 million as at 30 June 2021 as a result of the implementation of the Scheme. This is consistent with the expected impact of the Scheme at 31 December 2020 (an SCR decrease of £137 million), as set out in Table 9.1 of my 2021 Main Report.
- 3.13 The impact of the Scheme on the financial position of PAC's Shareholder-Backed Business at 30 June 2021 (a change in the SCR Coverage Ratio of +5%) is equivalent to that shown in Table 9.1 (+5%) of my 2021 Main Report at 31 December 2020, i.e. the Scheme would have resulted in a small increase in the SCR Coverage Ratio calculated for this business.
- 3.14 The impact of the Scheme on PAC's consolidated SCR Coverage Ratio at 30 June 2021 (+2%) is also equivalent to that quoted in paragraph 9.8 (+2%) of my 2021 Main Report at 31 December 2020²⁷; i.e. the Scheme would have resulted in a small increase in PAC's consolidated SCR Coverage Ratio.
- 3.15 Table 3.3 below shows the Solvency II financial position of the PAC With-Profits Fund as at 30 June 2021 (from Table 3.1) as well as the *pro forma* post-transfer position of the PAC With-Profits Fund if the Scheme had been implemented on 30 June 2021.

TABLE 3.3 THE PAC WITH-PROFITS FUND PRE-TRANSFER AND PROJECTED POST-TRANSFER SOLVENCY POSITION AS AT 30 JUNE 2021

	PAC With-Profits Fund, pre-Scheme	PAC With-Profits Fund, post-Scheme	Impact of Scheme
	£m	£m	£m
Solvency II Assets (net of other items)	137,825	137,825	-
Technical Provisions (including TMTP)	126,467	126,467	-
Own Funds (A)	11,358	11,358	-
SCR (B)	3,671	3,671	-
Excess Capital (=A-B)	7,687	7,687	-
SCR Coverage Ratio (A/B)	309%	309%	-

Totals/differences may not be additive due to rounding

- 3.16 Table 3.3 shows that the Scheme would be expected to have had no impact on the excess Own Funds or the SCR of the PAC With-Profits Fund if it had been implemented on 30 June 2021. This is in contrast to the expected impacts of the Scheme at 31 December 2020, as set out in Table 9.2 of my 2021 Main Report, which included a £13 million increase in Own Funds and a £5 million increase to the SCR. The primary reason for the difference in impacts between the 31 December 2020 and 30 June 2021 positions is the same as that described for the PAC Shareholder-Backed Business, i.e. PAC has refined its approach to anticipating the impact of the Scheme in its pre-Scheme financial position, resulting in the Scheme itself not being expected to have a financial impact.
- 3.17 The overall impact of the Scheme on the SCR Coverage Ratio of the PAC With-Profits Fund is expected to be zero at 30 June 2021. This is consistent with the expected impact of the Scheme at 31 December 2020, as set out in Table 9.2 of my 2021 Main Report.
- 3.18 As noted above for the Shareholder Backed Business, the PAC pre-Scheme figures do not represent the financial position of PAC at 30 June 2021 under the assumption that the Scheme does not proceed, as any allowance for

²⁷ Paragraphs 9.9 and 9.14 of my Main Report state the *pro forma* impact of the Scheme on PAC's consolidated balance sheet at 31 December 2020 respectively before and after allowing for the transfer of PAC's Hong Kong business to PCA.

the compensation payments from the Shareholder Backed Business to the PAC With-Profits Fund would be removed in such a scenario. PAC estimates for the PAC With-Profits Fund that an assumption that the Scheme does not proceed would, relative to the 30 June 2021 pre-Scheme position shown in Table 3.3 above, result in a decrease in Own Funds of approximately £13 million, a reduction in the SCR of approximately £5 million and a change in SCR Coverage Ratio of less than 1%.

ROTHESAY'S FINANCIAL CONDITION

Developments since 31 December 2020

- 3.19 There have been a number of events that have affected Rothesay's balance sheet since 31 December 2020, in particular:
- Rothesay wrote approximately £1.6 billion of new liability business in the first half of 2021, and longevity reinsurance was put in place for one of the new business schemes;
 - The amortisation of Rothesay's TMTP on 1 January 2021 (equal to one sixteenth of Rothesay's original TMTP).
 - Ongoing investment of assets in line with Rothesay's long-term investment strategy; and
 - The changes in the level of interest rates, credit spreads an equity markets as described in paragraph 3.5, as well as increases in property prices and the strengthening of sterling.
- 3.20 There have been no changes to Rothesay's approval to use the Matching Adjustment or TMTP since 31 December 2020. At the time of writing, Rothesay has not recalculated its TMTP since 31 December 2020; however, I should note that the expected impact of such a recalculation is small.
- 3.21 No dividend payments have been made by Rothesay between 31 December 2020 and the date of this Report. I understand that Rothesay does not expect to pay any dividends during 2021.
- 3.22 Table 3.4 below shows the financial position at Rothesay at 30 June 2021 compared to Rothesay's financial position at 31 December 2020 that was shown in Table 10.1 of my 2021 Main Report.

TABLE 3.4 – ROTHESAY REGULATORY SOLVENCY POSITION AT 30 JUNE 2021 AND 31 DECEMBER 2020

Rothesay Solvency II financial position	30 June 2021	31 December 2020
£ million		
Solvency II Assets (net of other items)	60,392	61,742
Technical Provisions (including TMTP)	53,223	54,389
Own Funds (A)	7,169	7,353
SCR (B)	3,508	3,623
Excess Capital (=A – B)	3,662	3,730
SCR Coverage Ratio (A/B)	204%	203%

Totals/differences may not be additive due to rounding

- 3.23 Table 3.4 shows that Rothesay's SCR Coverage Ratio has increased marginally between 31 December 2020 and 30 June 2021, from 203% to 204%. This reflects the impacts of the events described in paragraph 3.19 above.
- 3.24 The financial information below shows the Solvency II financial position of Rothesay as at 30 June 2021 (from Table 3.4) as well as the *pro forma* post-transfer position if the Scheme had been implemented on 30 June 2021.

TABLE 3.5 - ROTHESAY PRE-TRANSFER AND PRO FORMA POST-TRANSFER REGULATORY SOLVENCY POSITION AT 30 JUNE 2021

Rothesay pre- and post-Scheme Solvency II financial position as at 30 June 2021			
£ million	Rothesay, pre-Scheme	Rothesay, post-Scheme	Difference
Solvency II Assets (net of other items)	60,392	60,392	-
Technical Provisions (including TMTP)	53,223	53,223	-
Own Funds (A)	7,169	7,169	-
SCR (B)	3,508	3,508	-
Excess Capital (=A – B)	3,662	3,662	-
SCR Coverage Ratio (A/B)	204%	204%	-

Totals/differences may not be additive due to rounding

- 3.25 As was the case for the equivalent table in my 2021 Main Report at 31 December 2020 (Table 10.1), Table 3.5 shows that the Scheme would not be expected to result in a change to Rothesay's financial position as the Transferring Policies are already reinsured to Rothesay and the transaction was fully funded at outset.

SENSITIVITY OF SOLVENCY II FINANCIAL POSITIONS

- 3.26 I described the scenario and sensitivity analysis undertaken by the Companies in paragraphs 8.56 to 8.66 of my 2021 Main Report. A similar comparison of scenario and sensitivity analysis is not possible as at 30 June 2021 as I have only received sensitivity analysis from Rothesay, which shows similar results to the sensitivities performed by Rothesay as at 31 December 2020. PAC has informed me that the sensitivity of its solvency position to the areas considered in my 2021 Main Report is materially unchanged, and I am comfortable relying on this given my understanding of PAC's risk exposures and the relatively stable financial market conditions during the first half of 2021.

IMPACT OF THE LONG-TERM GUARANTEE MEASURES

The Matching Adjustment

- 3.27 As described in paragraphs 5.41 and 6.29 respectively of my 2021 Main Report, both PAC and Rothesay have approval to use the Matching Adjustment and the TMTP in their derivation of their Solvency II financial positions. In relation to the Matching Adjustment.
- 3.28 Table 3.6 below shows what the impact on the PAC Shareholder-Backed Business's financial position would be if the Matching Adjustment were set to zero. Under the Solvency II regulations, insurers with approval to use the Matching Adjustment are required to disclose the impact on their financial position of not applying the Matching Adjustment and it is for this reason that both Rothesay and PAC have calculated the impact of setting the Matching Adjustment to zero. As described in paragraph 8.23 of my 2021 Main Report, I regard it as unlikely that the regulatory solvency benefit of the Matching Adjustment would not remain available over the long term, and I comment further on this in paragraphs 3.37 and 3.38.

TABLE 3.6 – IMPACT OF ZERO MATCHING ADJUSTMENT ON PAC SHAREHOLDER-BACKED BUSINESS

PAC Shareholder-Backed Business	30 June 2021			31 December 2020		
	£bn	Own Funds	SCR Coverage Ratio	Own Funds	SCR	SCR Coverage Ratio
Reported position	8.5	4.7	182%	8.7	5.1	171%
<i>Impact of setting Matching Adjustment to zero</i>	<i>(1.6)</i>	<i>2.5</i>	<i>(90)%</i>	<i>(2.2)</i>	<i>2.7</i>	<i>(88)%</i>
Position with zero Matching Adjustment (no TMTP recalculation)	6.9	7.2	92%	6.5	7.8	83%

Notes:

- While the 'Reported position' line reflects PAC's approved TMTP, the impacts of setting the Matching Adjustment to zero in Table 3.6 are derived based on a starting point in which PAC's TMTP is set to zero, and therefore there may be second order interactions between the Matching Adjustment and the approved TMTP that are not reflected in the impacts shown in Table 3.6.
- The increase from a 'zero Matching Adjustment' SCR Coverage Ratio of +83% at 31 December 2020 to +92% at 30 June 2021 principally reflects increases in interest rates and reductions in credit spreads during the first half of 2021.
- Totals/differences may not be additive due to rounding.

3.29 Table 3.6 shows that, at 30 June 2021, the impact on PAC of a zero Matching Adjustment would be to reduce its SCR Coverage Ratio to 92%. This does not take account of management actions that may be available to PAC in the event of a zero Matching Adjustment, including PAC's ability to seek a recalculation of its TMTP. However, under this scenario, it is reasonable to expect that PAC would seek a recalculation of its TMTP, albeit that such a recalculation would be subject to regulatory approval. PAC does not have details of the expected financial impact of such a recalculation but, if approved, a TMTP recalculation would be likely to partially mitigate the solvency impact of a zero Matching Adjustment.

3.30 The corresponding information for Rothesay in the event of a zero Matching Adjustment is shown in Table 3.7 below.

TABLE 3.7 – IMPACT OF ZERO MATCHING ADJUSTMENT ON ROTHESAY

Rothesay	30 June 2021			31 December 2020		
£bn	Own Funds	SCR	SCR Coverage Ratio	Own Funds	SCR	SCR Coverage Ratio
Reported position	7.2	3.5	204%	7.4	3.6	203%
<i>Impact of setting Matching Adjustment to zero</i>	<i>(5.4)</i>	<i>6.8</i>	<i>(187)%</i>	<i>(7.2)</i>	<i>7.0</i>	<i>(201)%</i>
Position with zero Matching Adjustment (no TMTP recalculation)	1.8	10.3	17%	0.2	10.6	2%

Notes:

- Unlike for PAC in Table 3.6, the impacts shown in Table 3.7 are based on a starting point which reflects Rothesay's approved TMTP. However, the figures quoted for Rothesay in paragraph 8.14 of my 2021 Main Report were derived in a similar way to those shown in Table 3.6 above, i.e. using a starting point of a zero TMTP. This explains the difference between the impacts quoted in paragraph 8.14 of my 2021 Main Report for Rothesay as at 31 December 2020 and those shown in Table 3.7 as at 31 December 2020.
- The increase from a 'zero Matching Adjustment' SCR Coverage Ratio of +2% at 31 December 2020 to +17% at 30 June 2021 principally reflects increases in interest rates and reductions in credit spreads during the first half of 2021.
- Totals/differences may not be additive due to rounding.

3.31 Table 3.7 shows that, as at 30 June 2021, the impact on Rothesay of a zero Matching Adjustment would be to reduce its SCR Coverage Ratio to 17% (2% at 31 December 2020). As for PAC, this figure does not take account of management actions that may be available to Rothesay in the event of a zero Matching Adjustment, including seeking approval for a recalculation of its TMTP.

3.32 Should Rothesay receive approval for such a TMTP recalculation in this scenario, its SCR Coverage Ratio as at 30 June 2021 would increase to 41% (also 41% at 31 December 2020, as described in paragraph 8.14 of my 2021 Main Report).

3.33 The estimated impact of a TMTP recalculation on the position shown in Table 3.6 is not available for PAC, albeit that it is likely that PAC would seek a TMTP recalculation in this scenario, and such a recalculation would (if approved) be likely to increase PAC's SCR Coverage Ratio. Similarly, Rothesay has informed me that it would be highly likely to seek approval for a TMTP recalculation in this scenario. In this context, I note that:

- Paragraph 4.3 of PRA Supervisory Statement SS6/16²⁸ states that "a change in the firm's use of either the matching adjustment or the volatility adjustment" is an example of a circumstance that may give rise to a change in risk profile that, in turn, may trigger a TMTP recalculation; and
- While an increased TMTP would give rise to a greater drag on the financial position each year as the larger TMTP is amortised, I am satisfied that the surplus expected to emerge from the assets backing Rothesay's liabilities and capital requirements in such a scenario would be more than sufficient to meet the increased cost of TMTP amortisation.

3.34 Based on this, as well as detail provided by Rothesay on the processes that it would follow in relation to such a scenario, it is, in my view, reasonable to assume that a material TMTP recalculation would be approved in the event that Rothesay lost the use of the Matching Adjustment. Therefore, within what is already a highly improbable scenario, I consider the plausible outcome to be an SCR Coverage Ratio of 41%, rather than 17%.

3.35 The reason that Rothesay's financial position would be more severely affected by the loss of the Matching Adjustment than that of PAC is simply because Rothesay is a monoline annuity provider that continues to sell new business, whereas PAC contains a range of different types of business and is currently closed to new annuity

²⁸ SS6/16: "Maintenance of the 'transitional measure on technical provisions' under Solvency II"

business. This means that Rothesay's Matching Adjustment benefit (in absolute terms) is likely to continue to grow, whereas PAC's is likely to reduce.

3.36 The contextual commentary related to the Matching Adjustment, as set out in paragraphs 8.15 to 8.23 of my 2021 Main Report, remains relevant in the context of the figures quoted in Tables 3.6 and 3.7. In addition, it is instructive to note the following:

- At 31 December 2020, PAC's Matching Adjustment was equivalent to an increase in its discount rate for liabilities in its Matching Adjustment Portfolio of approximately 110bps²⁹ (110bps at 31 December 2019), whereas the equivalent figure for Rothesay at the same date was approximately 99bps (93 bps at 31 December 2019). Therefore, while the overall impact of the Matching Adjustment is larger for Rothesay than for PAC in monetary terms, PAC was taking credit in its financial position for a greater return in excess of the risk-free rate via its Matching Adjustment than Rothesay as at 31 December 2020 and 31 December 2019.
- While the PRA is gathering data on the impact of various scenarios around the operation of the Matching Adjustment in its QIS exercise (described in Section 2), none of the QIS scenarios comes close to reducing the benefit of the Matching Adjustment to zero.
- The 92% quoted in respect of PAC in Table 3.6 only reflects the loss of PAC's Matching Adjustment in isolation; it does not reflect the potential impact on PAC of a scenario in which the Matching Adjustment is no longer available to both Rothesay and PAC. In such a scenario (i.e. one in which the Matching Adjustment becomes unavailable to both PAC and Rothesay), the benefit of the Reinsurance Agreement to PAC's regulatory solvency position would be likely to be reduced. This is because the Solvency II regulations require insurers to restrict any reduction in SCR (and Risk Margin) arising from reinsurance agreements that are in place with reinsurers that are not meeting their Solvency II capital requirements (to allow for the increased risk of such reinsurers defaulting on their reinsurance obligations)³⁰. As a result, in this scenario PAC's SCR Coverage Ratio would therefore be expected to be lower than the 92% quoted in Table 3.6 in such a scenario. PAC would be in a similar position if it were to terminate the Reinsurance Agreement in such a scenario³¹, i.e. its SCR Coverage Ratio would reduce below 92% as the termination payment received from Rothesay would be insufficient to meet the additional capital requirements arising for PAC from a termination of the Reinsurance Agreement.

3.37 As described in paragraph 8.23 of my 2021 Main Report, and notwithstanding the review of Solvency II described in Section 2, I consider it highly unlikely that the benefits of the Matching Adjustment to UK insurers' regulatory solvency positions will be removed or substantially reduced by the PRA or the UK Government (unless the Matching Adjustment is replaced by an alternative measure with comparable benefits). Among the reasons for this are:

- Such a move would have serious financial consequences for large parts of the UK life insurance industry, which have based their business models on the assumption of a stable regulatory environment;
- It would be politically unattractive at a time when greater investment in infrastructure projects by the savings and pensions industries is being sought;
- It would be likely to lead to increased reinsurance of annuity liabilities to overseas territories operating more liberal solvency regimes; and
- It would increase the cost of annuities, and considerably reduce the attractiveness of pension scheme buyouts and buy-ins, which provide improved security for members of defined benefit pension schemes.

²⁹ The 110bps Matching Adjustment is quoted on page 46 of PAC's SFCR as at 31 December 2020. However, I understand that this figure relates to the return on assets backing PAC's net-of-reinsurance cash flows, whereas the 99bps quoted for Rothesay is based on the return on assets (including reinsurance assets) backing Rothesay's gross-of-reinsurance cashflows. On a gross-of-reinsurance basis, PAC's Matching Adjustment would be slightly higher than the 110bps quoted.

³⁰ Technically this part of the Solvency II regulations (Article 211(3) of Commission Delegated Regulation 2015/35) applies only to insurers subject to the Standard Formula, but in practice I would expect PAC to be required to follow a comparable approach in such a scenario.

³¹ Under the Reinsurance Agreement, PAC has the right to terminate the Reinsurance Agreement if Rothesay's SCR Coverage Ratio falls below 100% for more than three months.

Moreover, although the concept of a Matching Adjustment was introduced as part of Solvency II, the ability of UK insurers to discount illiquid liabilities at rates which reflect expected returns on matching assets is not new. Similar arrangements existed for many years under the previous Solvency I and ICAS regimes, but Solvency II introduced more stringent conditions for insurers wishing to qualify for such treatment.

- 3.38 As insurers are required to demonstrate continuing Matching Adjustment compliance in order to retain their Matching Adjustment benefits, there is a risk that PAC or Rothesay could, at some point, inadvertently fail to comply with the necessary requirements, which could result in the removal of their Matching Adjustment benefits by the PRA. However, in accordance with PRA Supervisory Statement SS7/18³², insurers are granted two months to restore compliance with the Matching Adjustment eligibility conditions and firms are required to demonstrate to the PRA the steps they will take to do so. I have had discussions with Rothesay to understand its processes for monitoring compliance with the various requirements relating to the Matching Adjustment and am comfortable that these processes provide close oversight and controls over this compliance. Moreover, given the importance of the Matching Adjustment to both PAC and Rothesay, I consider it highly unlikely that either company would risk losing its Matching Adjustment benefits by failing to comply with the Matching Adjustment approval criteria.
- 3.39 Another consideration is whether both Companies are confident they will earn the return implied by the Matching Adjustment on the assets they hold over time. Both Companies monitor closely the assets in their respective Matching Adjustment portfolios, and the level of defaults and downgrades experienced to date is significantly below the level implied by the Fundamental Spread used in the derivation of the Matching Adjustment. In addition, both Companies hold capital requirements (within their SCRs) at the 1-in-200 year level against the risk of higher defaults and downgrades than those implied by the Fundamental Spread.
- 3.40 Arguably a greater threat to policyholder security than loss of the Matching Adjustment is that political pressure to expand the range of asset classes in which annuity providers are able to or encouraged to invest leads to liberalisation of the conditions for the Matching Adjustment, and greater investment in assets carrying risks that are not well understood. As noted in paragraph 8.22 of my 2021 Main Report, the Chief Executive of the PRA has emphasised the importance of having high confidence that the Matching Adjustment's calibration is prudent, and has urged caution in relation to calls to make the Matching Adjustment more generous.

The TMTP

- 3.41 In relation to the TMTP:
- As at 30 June 2021, PAC's Solvency II financial position benefited from the TMTP by £1.4 billion (£1.5 billion at 31 December 2020), of which £1.1 billion (£1.2 billion at 31 December 2020) related to the impact of the TMTP on PAC's Own Funds and £0.3 billion (£0.2 billion at 31 December 2020) related to the impact on PAC's SCR³³.
 - Rothesay's Solvency II financial position benefited from the TMTP by £1.5 billion (£1.6 billion at 31 December 2020), of which £1.1 billion (£1.3 billion at 31 December 2020) related to the impact of the TMTP on Rothesay's Own Funds and £0.4 billion (£0.3 billion at 31 December 2020) related to the impact on Rothesay's SCR.
- 3.42 It remains the case that the implementation of the Scheme is not expected to lead to a recalculation of the TMTP of either of the Companies as it will only have a small impact on their Solvency II financial positions (which reflect that the risk and benefits in respect of the Transferring Business have already, in effect, been transferred to Rothesay through the Reinsurance Agreement).

³² <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2018/ss718.pdf>

³³ While the TMTP principally results in an increase in Own Funds, there is often a smaller impact on the insurer's SCR relating to the effect of the TMTP on deferred tax assets and liabilities.

OTHER CONSIDERATIONS

M&G Group support

- 3.43 PAC has informed me that approximately £1.7 billion of capital resources invested in liquid assets were available at the M&G plc level as at 30 June 2021 (£1.0 billion as at 31 December 2020). In the event that these assets had been made fully available to the PAC Shareholder-Backed Business on that date, the SCR Coverage Ratio of the PAC Shareholder-Backed Business would have increased to approximately 219% (from 182%) and that of PAC's consolidated regulatory position would have increased to approximately 166% (from 146%).
- 3.44 As noted in my 2021 Main Report, there is no guarantee that these resources will remain available within M&G plc, and M&G plc would be under no legal obligation to make such assets available to PAC if PAC were to get into difficulty beyond any contractual amounts agreed in relevant support arrangements³⁴.

Other areas in respect of the security of policyholder benefits

- 3.45 In respect of my assessments on the impacts of the Scheme on the security of benefits of the Transferring Policies, non-transferring policies of PAC and existing Rothesay policies, as set out in Sections 8, 9 and 10 respectively of my 2021 Main Report, there have been no material changes to those areas considered in addition to the impacts of the Scheme on the financial resources of the Companies, including:
- The PAC and Rothesay capital management policies and risk appetite statements;
 - The profile of risks to which these groups of policyholders are exposed, including the Companies' underlying investments;
 - The financial stress scenario analysis undertaken by PAC and Rothesay; and
 - The priority of direct Rothesay policyholders relative to inward reinsurance business.

CONCLUSION

- 3.46 The financial information in this section shows that the impact of the implementation of the Scheme on the financial positions of PAC and Rothesay at 30 June 2021 is similar to that shown in my 2021 Main Report in Tables 9.1 and 10.1 at 31 December 2020. In addition it shows that the relative financial positions of PAC before the transfer (182% for the PAC Shareholder-Backed Business and 146% for PAC's consolidated position) and Rothesay after the transfer (204%) remain similar to those shown in my 2021 Main Report in Table 8.1 (171% PAC Shareholder-Backed Business, 136% PAC consolidated position, 203% Rothesay), i.e. Rothesay has a stronger financial position than PAC, measured by SCR Coverage Ratio.
- 3.47 In light of this and my conclusions in relation to the Matching Adjustment and TMTP in paragraphs 3.27 to 3.42, as well as the areas described in paragraphs 3.43 to 3.45, I am satisfied that, based on the financial information as at 30 June 2021, the conclusions in relation to the financial resources available to support the benefits of policyholders of PAC and Rothesay set out in Section 14 of my 2021 Main Report (and reproduced in Section 6 of this Report) remain valid.

³⁴ As described in paragraph 5.64 of my 2021 Main Report I have been provided with details of arrangements formalising the circumstances in which M&G plc would make capital and liquidity support available to PAC, but these are confidential and I am not permitted to disclose them.

4. Correspondence and questions received from policyholders

- 4.1 PAC has received a number of comments on the Scheme from policyholders and representatives of policyholder schemes (e.g. trustees or employers)³⁵ via email, letter and telephone. Rothesay has also received comments from its policyholders and PAC's policyholders on the Scheme. Comments have also been received by PAC's solicitors and forwarded to PAC. I have also received direct correspondence from some Transferring Policyholders.
- 4.2 In my 2021 Main Report, I commented on the correspondence received up until 25 May 2021. I concluded in my 2021 Main Report that I did not consider that the policyholder enquiries that were categorised as objections raised any concerns that would cause me to change my conclusions in relation to the proposed transfer. In this Report I comment below on any correspondence received after 25 May 2021 that raises issues not covered in my 2021 Main Report.
- 4.3 I have been provided with summaries of all submissions that have been classed by PAC and Rothesay as objections to the Scheme on or prior to 15 October 2021. I understand that copies of all objections and associated responses will be provided to the Court, the PRA and the FCA.

DIRECT CORRESPONDENCE

- 4.4 I set out my considerations in respect of the points raised in direct correspondence from Transferring Policyholders below. I have not received direct correspondence from non-transferring policyholders of PAC or policyholders of Rothesay.

Policyholder records

- 4.5 Since February 2021 I have received more than 150 emails and 10 hours of telephone calls from a Transferring Policyholder, covering a wide range of topics, one of which was PAC's service standards and the completeness of its record-keeping in respect of the policyholder's annuity. Some of the emails were also sent to PAC. The policyholder requested that I undertake a detailed review of these areas as part of my considerations as Independent Expert. In paragraphs 13.57 to 13.62 of my 2021 Main Report I provided commentary on the aspects of these areas that I considered to be relevant to the Scheme, including in relation to the alleged deficiencies in record-keeping and any associated impact on the transfer. I am satisfied that there have been no material developments since the date of my 2021 Main Report which would necessitate further consideration of these areas. For the avoidance of doubt, I do not consider that a general review of PAC's service standards and record-keeping would be consistent with my remit as Independent Expert, given that my role is entirely focused on the impact of the transfer and these areas will be unaffected by the transfer.

Documentation issues

- 4.6 The same policyholder has raised some concerns about apparent shortcomings in the documentation of their annuity, and has asked whether this creates a risk either that the existing entitlements will not be transferred in full under the Scheme, or that Rothesay will not have sufficient information on those entitlements to be able to administer the annuity. I understand that the annuity in question is one of approximately 27,000 Transferring Policies that were issued via the Prudential (Corporate) Personal Pension Scheme ("**PCPPS**"). The documents provided to the policyholder comprise the Member's Policy Booklet, a quotation, a Statement of Benefits, an application/acceptance form and a Key Features document.
- 4.7 I have reviewed the relevant documentation pertaining to this policyholder, in redacted form, and note that the Member's Policy Booklet for this policyholder relates to an annuity under "*the Immediate Vesting Personal Transfer Plan*". It describes the policyholder's rights and obligations, and explains that the individual has become a member of the PCPPS in order to take immediate benefits in the form of an annuity. The PCPPS was established by PAC, which is the administrator of the PCPPS (the "**Scheme Administrator**"), and is governed by the scheme rules (the "**Rules**"). The Member's Policy Booklet further explains that the benefits of members are provided under a single

³⁵ For clarity I will refer to both policyholders and representatives of policyholder schemes as 'policyholders' in this section.

“master” policy held by PAC as Scheme Administrator for the PCPPS (the “**Master Policy**”) and in accordance with the Rules of the PCPPS³⁶. However, it also states that the Member’s Policy Booklet is the document issued to policyholders in order to ensure that they have the information relevant to them, and it is the Member’s Policy Booklet which is stated to contain the full legal explanation of the pension benefits and contractual terms and conditions relating to their annuity.

4.8 I note that there is the potential for confusion arising from an apparent contradiction between the following statements:

- The quotation provided to the policyholder states: “*If your annuity is purchased by the ...Administrators of your pension scheme, the scheme will normally own it on your behalf*”.
- Section 3.3 (d) of the Rules states: “*The purchase of a pension by or for the Member from an Insurance Company [...] will extinguish the Member’s rights under the scheme*”.

4.9 I have been informed that the quotation would have been a standard form document used for different categories of policyholders (including vesting policyholders becoming members of the PCPPS) and hence this wording reflects a common situation, but not the only one.

4.10 In relation to section 3.3 (d) of the Rules, in the case of this particular policyholder the transfer value received by the PCPPS was used for the purchase of a pension as described in section 3.3 (d) of the Rules and, while this would have extinguished the policyholder’s rights under the PCPPS, the relevant policyholder instead benefits from the entitlements created by the issue of the Member’s Policy Booklet and the broader documentation provided.

4.11 I have also been informed by PAC that the Master Policy referred to in the Member’s Policy Booklet was never committed to writing.

4.12 I have considered whether this results in any material lack of clarity over the benefits to be provided or how they will be administered in the context of the transfer of responsibility for providing and administering those benefits to Rothesay. I note that:

- The Member’s Policy Booklet is identified on its face as the document which describes the technical and legal rights and obligations under the PCPPS and sets out the terms and conditions of the Master Policy which are relevant to the individual annuitants. It is clear that the Master Policy was never intended to be issued to individual policyholders, who received instead a package of documents as described in paragraph 4.6.
- The Key Features document states that the legal contract for the annuity comprises these documents plus the “policy Terms and Conditions” although these are then described as the terms and conditions set out in the Member’s Policy Booklet.
- Based on advice received from PAC’s legal advisers, I understand that the Master Policy itself is reflected in the contractual documentation provided to the policyholder by virtue of the inclusion of the relevant provisions of it in the Member’s Policy Booklet.

Consequently, there do not appear to be material documents missing from the perspective of the individual policyholder, because the documentation that has been provided comprises all the documentation that makes up the legal contract for their annuity.

4.13 The policyholder has also argued that the quotation states that a policy will be issued in the annuitant’s name. I believe that, rather than pointing to the existence of another document which has not been provided, this is a misinterpretation of a statement intended to explain that, in cases where a joint life annuity is issued to an individual policyholder, the second life will not be named as an owner of the policy.

4.14 It is evident to me that there are inconsistencies and gaps in the available documentation, and it does not surprise me that the policyholder had difficulty in interpreting it. Nevertheless, when taken together, I consider that the

³⁶ The original insurer of this Master Policy was Prudential Retirement Income Limited (“PRIL”). All of the business of PRIL was transferred to PAC by means of a Part VII transfer in 2016.

relevant documents provided do specify sufficiently clearly what the rights and benefit entitlements of annuitants are, and PAC's legal advisers have informed me that they consider that the Member's Policy Booklet constitutes an individual contract between PAC and the annuitant. Moreover, I have not been made aware of any situations where the rights and entitlements of annuitants for whom this form of documentation applies have not been met in practice.

- 4.15 I need to consider the relevance of the shortcomings in the documentation in the context of the proposed transfer. The Scheme states that:

“Every person who is a holder of any of the Transferred Policies or is a party to, or has the benefit of, any other agreement with the Transferor which forms part of the Transferred Business shall, on and with effect from the Transfer Date, become entitled, in succession to, and to the exclusion of, any rights which he may have had against the Transferor under any of the Transferred Policies or any other such agreement relating to the Transferred Business, to the same rights against the Transferee (subject to the terms of this Scheme) as were available to him against the Transferor under such Policies or such other agreement which forms part of the Transferred Business.”

- 4.16 This means that the policyholder's rights to their annuity (including all relevant terms and conditions) will be legally transferred in full to Rothesay if the Scheme is sanctioned. This is notwithstanding that the PCPPS and the Master Policy will not be transferred. By referring to the annuitant's existing rights, rather than specific documents, the wording of the Scheme ensures that existing entitlements will be fully replicated in Rothesay. This same approach has been used by numerous previous transfer schemes without any detriment to transferring policyholders. Rothesay has confirmed to me that it has reviewed the documentation provided to annuitants as described in paragraph 4.6 above and considers that the benefits are clearly set out in that documentation and hence are capable of being administered correctly.
- 4.17 In the Scheme, Transferred Policies are defined as the “annuity policies” included in a database file stored on a specified DVD. This is consistent with the view of PAC's legal advisers that individual contracts do exist between PAC and the annuitants who have this form of documentation.
- 4.18 Separately from the point identified above with respect to the PCPPS, I have requested, and received, confirmation from Rothesay that it does not regard any other identified shortcomings in the documentation of some of the Transferred Policies as inhibiting payment of the correct benefits in respect of those policies following implementation of the Scheme.

Reliance on the work of others

- 4.19 The same policyholder also questioned the extent to which I have relied on financial information provided by the Companies, on the work of PAC's auditors and on legal advice provided to the Companies. In respect of this point, it is not practical for me independently to derive all the financial and other information on which my assessment of the consequences of the Scheme is based and as a result it is necessary to rely on financial information provided by the Companies and on the work of PAC's auditors. In each case I have considered the appropriateness of such reliance, and where possible I have performed reasonableness checks and comparisons with public information sources. The approach I have taken is the same as that followed by other independent experts reviewing Part VII transfers.

My reports

- 4.20 The policyholder has also asked why my 2021 Main Report is described on the front cover as a “Milliman Report”, when my appointment is in a personal capacity. This is because I am a partner of Milliman LLP, and my appointment by the Companies is through Milliman LLP. That does not alter the fact that the opinions in my reports on the Scheme are my own.

My independence

- 4.21 The policyholder asked why, in the Statement of Independence in Appendix 1 of my 2019 Main Report, I did not refer to the transfer of the long term business of Prudential Retirement Income Limited (“**PRIL**”) to PAC, which took place in 2016 and for which my colleague Oliver Gillespie acted as Independent Expert. That was an oversight on my part, for which I apologise. That assignment was, however, disclosed in the information provided to the PRA and the FCA in advance of my appointment as Independent Expert in 2018. I peer reviewed Mr Gillespie’s reports on the proposed transfer from PRIL to PAC.
- 4.22 While many of the Transferring Policies were transferred from PRIL to PAC in 2016, that transfer did not have any effect on the benefits, administration or service standards applicable to those policies.

Use of outsourcing

- 4.23 The policyholder has expressed concern at the use of outsourced service providers and other sub-contractors to deliver services to customers. In the case of Transferring Policyholders, administration and servicing is currently carried out by TCS/Diligenta on PAC’s behalf; after the transfer, administration and servicing will be outsourced to Capita by Rothesay.
- 4.24 It is not within my scope to comment more generally on the use of outsourced service providers or other sub-contractors by insurance companies, but I note that it is a relatively commonly used method to deliver services to customers within the UK insurance industry and the use of outsourced service providers by insurers is subject to supervision by the FCA.
- 4.25 In relation to the transfer, I have commented in paragraphs 8.162 to 8.187 of my 2021 Main Report and in paragraphs 2.4 to 2.6 of this Report on the implications of the transfer for standards of administration and servicing.

Insurance industry consolidation

- 4.26 The policyholder has expressed concern at the trend of consolidation of pension providers into a relatively small number of specialist firms, whereas Part VII schemes are generally considered on a case-by-case basis.
- 4.27 In relation to this, it is worth noting that existing insurance policies can only be transferred from one insurer to another pursuant to a Part VII transfer, whereas the majority of the recent growth in the size of insurance companies specialising in pension consolidation has arisen from buyout and buy-in transactions between such insurers and defined benefit pension schemes, which are described in paragraphs 4.57 to 4.62 of my 2021 Main Report, and which do not require High Court approval.
- 4.28 Therefore, while it is true that specialist annuity insurers are growing rapidly, a relatively small proportion of this growth at the industry level arises from the acquisition of existing portfolios of annuities from other insurers.
- 4.29 In relation to the growing size of specialist annuity insurers, the policyholder specifically suggests that a “*much higher benchmark*” should be applied by regulators and the Independent Expert to such firms “*on which the income of an increasingly large number of elderly people depend*”. I agree that supervision and regulation of insurers should be in proportion to the capacity of the insurer to cause disruption, and this is indeed the PRA’s approach to supervision³⁷, under which insurers are divided into five ‘categories’ based on their size and various other quantitative and qualitative factors. “Category 1” insurers can expect the most intensive level of regulatory supervision.
- 4.30 I understand that the PRA’s categorisation of individual insurers is not public information, but both Companies are large insurers that are subject to a high level of regulatory oversight (noting that an insurer’s size is not the only factor considered by the PRA in determining the appropriate level of regulatory engagement).

³⁷ See paragraph 39 of “The Prudential Regulation Authority’s approach to insurance supervision”: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/insurance-approach-2018.pdf?la=en&hash=4055BBB0B728E1F9E536AB09D69107D01236C658>

Participation in the Sanction Hearing

- 4.31 The policyholder has expressed concern that the continuing high level of COVID-19 cases in the UK may disadvantage elderly annuitants who may wish to participate in the Sanction Hearing, because they do not wish to risk attending in person but lack the necessary IT skills and/or equipment to attend remotely. The Companies have agreed that they will contact objectors who have indicated that they may wish to take part in the hearing to ascertain whether they will require assistance to enable them to do so, and to provide such assistance where possible.

Rothesay's financial position

- 4.32 The policyholder has enquired as to the SCR Coverage Ratio of Rothesay in the event that the Matching Adjustment were set to zero and no TMTP recalculation is assumed. I have provided this figure as at 30 June 2021 and 31 December 2020 in Table 3.7 and paragraph 3.32 of this Report.

Annuity averages, COVID-19, Transferring Policyholder numbers and Ground Rents

- 4.33 I have also received a letter from another Transferring Policyholder who objected to the Scheme during the 2019 Court Process and continues to object to the Scheme. The policyholder asked for further detail on the following areas:

- The average “capital” transferred for each annuity and why the Solvency II BEL per annuity was higher in Rothesay than under PAC. In relation to this point the policyholder asked for a “statement of the monies” that are to be transferred to Rothesay along with their annuity;
- The “fees charged / taken by Rothesay”. The policyholder states that, in the 2021 Main Report, “it was shown that Rothesay possibly took the full annual cost from the transfer, soon after its transfer” and asks “have Rothesay charged the full fee for the year 2020 (or whichever 12 months the scheme runs within)”. The policyholder goes on to say that “if the % of capital removed in annual fees/expenses/charges etc. continued in the same way that this £12 billion + transfer capital sum would soon be exhausted, possibly in less than, or little more than a decade”.
- The number of Transferring Policyholders who have died from COVID-19 since June 2019 and whether the right to their remaining funds would lead to profit for PAC or Rothesay;
- Whether there has been an increase in the number of Transferring Policyholders; the policyholder interpreted my 2021 Main Report as implying that an additional 14,000 annuities had been added to the Transferring Business. The policyholder asked whether additional funds will be transferred to Rothesay as a result.
- The value of Rothesay’s investments secured by ground rents and how any devaluations of such investments have affected Rothesay’s capital position.

- 4.34 This letter was also addressed to multiple other parties, including PAC, who responded directly to the policyholder. In respect of the points listed above that were raised by the policyholder, taking each point in turn:

- The policyholder referred to Rothesay annuities having an “average capitalisation” of £66,666 and those of PAC having an average capitalisation of £32,000. I understand that these figures have been arrived at by dividing the respective Solvency II BEL by the number of annuities in-force. The policyholder asked why the PAC annuities are “funded so low in their capital transfer average”. I have examined these figures and can confirm that the differences principally reflect the underlying differences in the annuity portfolios of the Companies. In particular, the differences reflect the portfolio differences in average annuity size, average annuitant age, average rates of annuity escalation, the extent to which the underlying annuity policies have included dependants’ pensions and the nature of the dependants’ pensions. Taking a hypothetical example, if Rothesay and PAC had exactly the same portfolio of annuities, except that Rothesay’s annuities all had annual pension amounts that were twice as high as those of PAC, then it would be expected that Rothesay’s “average capitalisation” would be roughly twice that of PAC. Furthermore, it is not surprising that Rothesay’s “average capitalisation” is higher than PAC’s, given that Rothesay principally insures defined benefit pensions,

which would be expected to be higher on average than amounts paid under annuities sold to individuals on the retail market (that comprise the Transferring Policies).

In relation to the policyholder's request for a "statement of monies" to be transferred with their annuity, no payments will be made from PAC to Rothesay in respect of any of the Transferring Policies upon the implementation of the Scheme; this is because Rothesay is already responsible for reimbursing PAC for the annuity payments it makes under the Transferring Policies via the Reinsurance Agreement, and therefore a payment was made from PAC to Rothesay upon the inception of the Reinsurance Agreement in 2018 as consideration for this. There is no specific value that can be provided in respect of the policyholder's own annuity as no separate fund is maintained (by PAC or Rothesay) at the level of individual annuities; this is normal industry practice.

- In relation to the "fees charged" by Rothesay, it is important to be clear that neither Rothesay nor PAC charges fees to any annuitant, including Transferring Policyholders, and no such fees will be introduced in future.

In relation to sums paid between PAC and Rothesay, the only material payments made between PAC and Rothesay that relate to the Transferring Policies' annuity payments are the original premium paid by PAC to Rothesay in 2018 to enter into the Reinsurance Agreement, and the regular payments made from Rothesay to PAC under the Reinsurance Agreement to reimburse PAC for the annuity outgo under the Transferring Policies.

In relation to the policyholder's assertion that the transfer capital sum would be exhausted in roughly a decade, it is not obvious what the basis for this assertion is. However, it is important to state that it is **not** the case that the amount transferred from PAC to Rothesay upon the inception of the Reinsurance Agreement in 2018 is in some way held as a fund within Rothesay that is gradually drawn down upon with annuity payments ceasing if this fund is exhausted. Instead, Rothesay is contractually obliged to meet the annuity payments in full, even if they exceed the amount paid to Rothesay by PAC. Rothesay ensures that it can meet this obligation by holding back assets sufficient to meet reserves, capital requirements and additional amounts in accordance with those required under the Solvency II regime and Rothesay's capital management policy; these are intended to be calibrated in such a way as to be sufficient to meet its future liabilities to Transferring Policyholders (and other policyholders) in full under all but the most extreme scenarios.

- In relation to deaths as a result of COVID-19, PAC has informed the policyholder that it is not prepared to disclose the cause of death of any annuitant.

However, in relation to the profit arising from such deaths, the nature of annuity policies is such that the insurer takes the risk of annuitants living longer than expected and the insurer is therefore entitled to make a profit on a certain annuity portfolio if the annuitants within that portfolio do not live as long as expected. As the Transferring Business is 100% reinsured to Rothesay, any profits arising on this portfolio that result from the early deaths of underlying annuitants would accrue to Rothesay (just as any losses from annuitants living longer than expected would fall on Rothesay), and this will remain the case after the proposed transfer. However, it is relevant to note that much of the longevity risk on the Transferring Business is reinsured externally to various reinsurers, as described in paragraph 7.24 and Table 7.2 of my 2021 Main Report. Therefore, a significant proportion of any profits relating to early deaths of annuitants would ultimately accrue to the relevant reinsurer rather than to Rothesay.

- In relation to the policyholder's assertion that an additional 14,000 annuities have been added to the Transferring Business, this is not the case. This appears to arise as a result of confusion around the number of policies reinsured to Rothesay under the Reinsurance Agreement (which includes over 30,000 deferred annuities) and the number of policies transferring to Rothesay under the Scheme (which only includes a very small number of deferred annuities). I can confirm that, with the exception of a single policyholder whose

policy was originally inadvertently omitted³⁸ from the Transferring Business, no annuities have been added to the Transferring Business and in fact the number of Transferring Policies has reduced relative to the figures shown in my 2019 Main Report as a result of the death of some annuitants in the intervening period. The only additional funds transferred to Rothesay in respect of additional annuities were in respect of the single policy that has been added to the Transferring Business.

- In relation to investments secured by ground rents, I covered the impact of recent developments on these investments in paragraphs 8.118 to 8.127 of my 2021 Main Report. I am not aware of any material further developments in this area (and in particular there have not been any material devaluations of these investments) that would necessitate my revisiting the analysis in my 2021 Main Report.

4.35 I am satisfied that PAC's response to the policyholder appropriately covered the issues and questions raised and I do not consider any of the points raised to affect the conclusions in my 2021 Main Report.

OBJECTIONS

4.36 As at 15 October 2021, PAC had received 190 further objections to the Scheme and one complaint (since the date of my 2021 Main Report), along with 97 restated objections from policyholders who had previously objected to the Scheme (i.e. where the policyholder has either restated their original objection or has amended / added to their original objection). All of the objections received were from Transferring Policyholders. I have reviewed summaries of all of the objections PAC received since 25 May 2021 and I have also reviewed samples (chosen by me) of the correspondence between PAC and the Transferring Policyholders; based on this sample, I consider that the responses by PAC appropriately address the questions or issues raised. I am also satisfied that the criteria used to determine whether a submission should be classified as an objection are reasonable.

4.37 As at 15 October 2021, Rothesay had received no further objections to the Scheme from its policyholders since the 2019 Court Process, albeit that one of its policyholders who objected during the 2019 Court Process (and who is also a Transferring Policyholder) has restated their objection.

4.38 The main arguments and issues put forward in the additional objections that were not considered in my 2021 Main Report are listed below. Some of the individual objections received covered more than one issue, and for clarity I have dealt with each distinct issue separately, where appropriate. I have set out my comments on these matters in the following paragraphs.

- A Transferring Policyholder who believes that Rothesay is a Scottish company and is concerned that their annuity may be at risk should Scotland become independent from the United Kingdom;
- A Scottish Transferring Policyholder who is concerned that no Scottish court is involved in the transfer;
- A Transferring Policyholder who is concerned at Rothesay's larger reliance on the U.S., and the plans of "Prudential" in Asia;
- A Transferring Policyholder who has challenged the statement in paragraph 12.69 of my 2021 Main Report that, in the event of default by the insurer, compensation from the Financial Services Compensation Scheme ("FSCS") to eligible holders of annuities in payment is the full amount of the annuity;
- A Transferring Policyholder who feels it is unfair that they should be exposed to a company with a less favourable credit rating than PAC;
- A Transferring Policyholder who has argued that the cost to policyholders of having to spend time engaging with the proposals, reading the documentation and registering any concerns should be taken into account by the Independent Expert; and

³⁸ This omission was due to the incorrect termination of widow's record following the death of the primary annuitant. Given that this annuity is under a group policy, the policy is required to be included within the Transferring Business.

ASSESSMENT OF OBJECTIONS

A Transferring Policyholder who states that they are concerned that, because they believe Rothesay is a Scottish company, a scenario in which Scotland becomes independent from the rest of the United Kingdom would put their annuity at risk

- 4.39 In relation to this objection, I can confirm that Rothesay's registered office is in London and Rothesay does not have a presence in Scotland.

A Scottish Transferring Policyholder who states that they are concerned that no Scottish court is involved in the transfer

- 4.40 As both Companies are registered in England, the application for the transfer has been made to the High Court of Justice in London. If PAC as the transferor were registered in Scotland it would be typical for the application to be made to the Court of Session in Scotland. However, orders from the High Court of Justice in London in relation to Part VII transfers are applicable to all UK policies of the Companies, including policies held by individuals resident in Scotland.

A Transferring Policyholder concerned at Rothesay's larger reliance on the U.S., and the plans of "Prudential" in Asia

- 4.41 It is unclear from the information I have what the policyholder means by Rothesay's reliance on the U.S., but I can envisage two potential interpretations:

- Rothesay's investments in U.S. dollar ("USD") denominated assets; and
- The fact that one of Rothesay's institutional shareholders is MassMutual, which is a U.S.-based mutual insurance company.

- 4.42 In relation to the first point, page 19 of Rothesay's 2020 Annual Report³⁹ discloses that 20% of Rothesay's investments are held in the U.S. It is normal for UK insurers to invest in high quality assets denominated in other currencies, and arguably such investments can contribute to greater resilience as they ensure that Rothesay's asset exposure is not overly concentrated in a single geography. In addition, given that Rothesay's policyholder liabilities are denominated in sterling, Rothesay uses derivatives to immunise itself from the risk of adverse movements in exchange rate between U.S. dollars and sterling.

- 4.43 In relation to the second point regarding Rothesay's shareholder, the identity of Rothesay's shareholders is not a consideration for the independent expert in a Part VII transfer except to the extent that it may affect Rothesay's ability to seek additional capital in the future should it need to do so. I have addressed this point in paragraph 8.95 of my 2021 Main Report, noting in relation to MassMutual specifically that it is likely to have a low appetite for the type of reputational damage that could ensue if Rothesay were allowed to fail.

- 4.44 In relation to the plans of "Prudential" in Asia, it is again not clear which plans the policyholder is referring to from the information I have. However, it is relevant to note that:

- The M&G Group's activities in Asia relate solely to investment management, and in particular PAC does not undertake activities in Asia; and
- It is possible that the policyholder is referring to the Asian operations of Prudential plc. However, the M&G Group (of which PAC is a part) demerged from Prudential plc on 21 October 2019 and is now entirely separate from Prudential plc. Prior to this demerger, PAC had subsidiaries domiciled in Hong Kong, but it sold both of those subsidiaries to Prudential Corporation Asia (which remains part of the Prudential plc group) in December 2018.

³⁹ https://www.rothesay.com/media/z5zfpftc/rothesay-life-plc_ar2020.pdf

A Transferring Policyholder who has challenged the statement in paragraph 12.69 of my 2021 Main Report concerning compensation from the FSCS

- 4.45 The policyholder has argued that, in the event of default by an insurer, the availability and extent of compensation from the FSCS would be dependent on the way in which the insolvency proceedings were conducted. While this may be the case, the clear intention of the FSCS is to arrange for obligations to eligible annuitants to be met in full, and it seems highly unlikely that a competent insolvency practitioner would conduct the process in such a way that FSCS support was not available, given the serious adverse consequences for policyholders of such an outcome. In any event, the relevant section of my 2021 Main Report was concerned with whether the Scheme would affect Transferring Policyholders' eligibility for FSCS compensation, and I concluded that it would not. My conclusions in Section 6 of this Report, and in Section 14 of my 2021 Main Report, do not depend on the availability of the FSCS, either before or after implementation of the Scheme.

A Transferring Policyholder who feels it is unfair that they should be exposed to a company with a less favourable credit rating than PAC

- 4.46 As described in paragraphs 5.49 and 6.39 of my 2021 Main Report, PAC and Rothesay have been assigned credit ratings of Aa3 and A3 respectively by Moody's, and credit ratings AA- and A+ by Fitch. Additionally, PAC has been assigned a rating of A+ by Standard & Poor's.
- 4.47 In my view the most relevant measure of financial strength from the perspective of a policyholder is that provided for by the strength of the regulatory solvency regime, supplemented by the insurer's capital management policy. I have examined this in detail for both Companies in my 2021 Main Report and in this Supplementary Report, and have concluded that the transfer would not have a material adverse effect on the security of benefits under the Transferring Policies.
- 4.48 Moreover, one of the barriers to a stronger credit rating for Rothesay is likely to be the fact that Rothesay has issued a number of tranches of debt (and as described in paragraph 2.34, Rothesay issued a further tranche of debt on 6 October 2021). However, as described in paragraph 6.37 of my 2021 Main Report, interest and principal repayments on these debt instruments rank below obligations to Rothesay's policyholders, and in particular can be deferred or cancelled if Rothesay's SCR Coverage Ratio falls below 100%, and therefore from a policyholder security perspective these payments could not be made if to do so would affect Rothesay's ability to meet its obligations to its policyholders.
- 4.49 Other barriers to a stronger credit rating relate to Rothesay's lower level of strategic and geographical diversification relative to PAC, given that Rothesay focuses only on annuity business in the UK. However, as described in paragraph 8.142 of my 2021 Main Report, the SCR that Rothesay is required to hold under Solvency II will reflect the risk profile of the company and its business, including requiring a higher SCR where there is a lower level of risk diversification.

A Transferring Policyholder who has argued that the cost to policyholders of having to spend time engaging with the proposals, reading the documentation and registering any concerns should be taken into account by the Independent Expert

- 4.50 Through the involvement of the PRA, the FCA and the Independent Expert in reviewing the proposals and the Court in deciding whether to sanction the Scheme, and by requiring an accessible summary to be provided to those who are most affected by it, the Part VII transfer process is designed to limit the burden on individual policyholders as far as is practical. For policyholders who wish to study the full documentation in detail, and potentially to challenge the proposals, the burden is indeed onerous, but that is true in many other situations. The investment of time is required whether or not the Scheme is sanctioned and should not affect the Independent Expert's conclusions.

MY REVIEW OF OBJECTIONS RECEIVED

- 4.51 As described in paragraph 4.36, PAC sent me a brief description of every additional objection it has received, and I selected a sample of objections for which PAC provided the case file which contained full details of the objection and PAC's response.
- 4.52 On the basis of this review, I am satisfied that PAC's responses to this sample of objections were appropriate in tone, language and content, and in particular adequately addressed the substance of the policyholders' objections.
- 4.53 As described above, Rothesay has not received any objections to the transfer since the 2019 Court Process.
- 4.54 I therefore do not have any concerns around the way in which objections to the proposed transfer have been handled by PAC or Rothesay.

CONCLUSION

- 4.55 While many of the concerns raised by policyholders are understandable, I do not consider that any of the policyholder enquiries received that have been categorised as objections raise any concerns that cause me to change my conclusions in relation to the proposed transfer, and I am therefore satisfied that the conclusions in Section 14 of my 2021 Main Report (and reproduced in Section 6 of this Report) remain valid.
- 4.56 In all cases policyholders have the right to raise their objections at the 2021 Sanction Hearing for the Scheme, which is scheduled to commence on 8 November 2021.

5. Other considerations arising from the scheme

THE POLICYHOLDER COMMUNICATION PROCESS

- 5.1 PAC and Rothesay have published notices (in English) of the proposed Scheme in each of the following national newspapers in the UK:
- The Times;
 - The Financial Times;
 - The Daily Telegraph;
 - The Sun;
 - The Daily Mail;
 - The Daily Record; and
 - The Daily Mirror.
- 5.2 PAC sent the 2021 PAC Policyholder Pack to all Transferring Policyholders for whom it has a valid address. As noted in Section 12 of my 2021 Main Report, PAC has not directly contacted:
- Certain groups of transferring policyholders:
 - **“Goneaways”**: Policies where PAC does not have a valid address for the policyholder or pension scheme and subsequent reasonable attempts to trace the policyholder or scheme have been unsuccessful are classed as “Goneaways”. PAC will not be able to notify these policyholders or pension schemes;
 - **Attorneys**: Where PAC’s database records that a policyholder has appointed an attorney in respect of the policy, the attorney has been notified instead of the policyholder;
 - **Beneficiaries under group schemes**: In general, PAC has notified the trustees rather than beneficiaries. However, for buy-ins where PAC has an existing arrangement in place with a trustee to directly contact that trustee’s beneficiaries, PAC has notified the beneficiaries instead;
 - **Contingent annuitants**: For policies that may pay an individual an annuity in the future (but there is not yet an annuity in payment), the contingent annuitant has not been notified. This is because PAC does not, generally speaking, communicate with contingent beneficiaries and does not hold contact details for them prior to any benefits becoming due to them. However, the 2021 PAC Policyholder Pack asked recipients to draw the contents of the pack to the attention of others, including contingent beneficiaries;
 - **Trustees-in-bankruptcy, receivers and administrative receivers**: For policies where the policyholder has been declared bankrupt, the policyholder was notified rather than the trustees-in-bankruptcy, receivers or administrative receivers, unless PAC had a record in its databases of the appointment of the trustee-in-bankruptcy, receiver or administrative receiver;
 - **Pension Sharing Orders**: Some policies are subject to a Pension Sharing Order where a court has ordered that some or all of the benefits are paid to the policyholder’s former spouse with any remainder being paid to the policyholder. PAC notified policyholders with the benefit of a Pension Sharing Order where PAC’s records showed the existence of that Pension Sharing Order;
 - **Deceased policyholders**: For policies for which PAC has been notified of the death of the policyholder but the benefits have not yet been settled, PAC did not attempt to notify the executors or personal representatives the policyholder. The policyholder’s spouse was only notified if they have a contingent benefit under the policy; and

- **Accidental omissions:** Some of the Transferring Policyholders may not have been sent a policyholder pack as a result of an accidental omission or an intervening event that is outside of PAC’s direct control. PAC will remedy any such failure in advance of the 2021 Sanction Hearing wherever possible.
- All non-transferring policyholders.

This is consistent with the waiver granted by the Court at the 2019 Directions Hearing on 31 January 2019, and the Directions Order from the 2021 Directions Hearing in which the Court stated that it was satisfied with the steps intended to be taken to update policyholders of the Companies.

- 5.3 In respect of advertising in EEA states, as noted in my 2021 Main Report the Companies have received advice that the relevant requirements were complied with in 2019, subject to the waivers granted by the Court at the 2019 Directions Hearing. The judge at the 2021 Directions Hearing confirmed that he was satisfied with the notification proposals of the Companies in respect of the 2021 Court Process, and these did not include the EEA notifications. I remain satisfied that the Companies’ proposed approach of not undertaking further advertising of the Scheme in EEA states is reasonable.
- 5.4 As at 15 October 2021, PAC has received 582 returned policyholder packs where the policyholder no longer lives at the address on record. For each of these policyholders, PAC has initiated a tracing procedure using a third party tracing agency, and this activity is ongoing. Where practicable, a policyholder pack will be sent to the individuals who have been successfully traced.
- 5.5 As noted in Section 12 of my 2021 Main Report, Rothesay sent the 2019 Rothesay Policyholder Letter to its policyholders during the course of the 2019 Court Process notifying them of the Scheme. Rothesay has received advice that, as it complied with the statutory communication requirements in 2019, it is not required to mail any further communications to its existing policyholders on the Scheme and therefore Rothesay did not undertake a further mass mailing of its policyholders in relation to the Scheme. Rothesay’s rationale for this approach is further described in paragraph 12.37 of my 2021 Main Report.
- 5.6 However, Rothesay has written to the 10 of its current policyholders who submitted an objection to the transfer in 2019, and has sent the 2021 Rothesay Trustee Letter to the 21 trustees of the pension schemes that have entered into buy-in transactions with Rothesay since the 2019 Rothesay Policyholder Letter was issued in February 2019⁴⁰ and who remained policyholders of Rothesay at the relevant record date. For the avoidance of doubt, the 2021 Rothesay Trustee Letter was not sent to individuals who have been issued a Rothesay policy as a result of a buyout of their pension scheme benefits by Rothesay since February 2019.
- 5.7 As at 19 October 2021, Rothesay had received no returned 2021 Rothesay Trustee Letters.
- 5.8 Policyholders and other interested parties have been, and are currently, able to obtain information on the Scheme from the PAC and Rothesay websites. The available documents include the full Scheme document, my 2021 Main Report, a summary of the terms of the Scheme and my 2021 Summary Report. In addition, the PAC website and PAC’s financial adviser website include copies of the reports of PAC’s Chief Actuary and With-Profits Actuary, and all the information included in the 2021 PAC Policyholder Pack. The Rothesay website includes a copy of the report on the Scheme by Rothesay’s Chief Actuary. Documents from the 2019 Court Process are also available on the PAC website.

TRANSFERRING POLICYHOLDERS RESIDENT IN THE EEA

- 5.9 As described in paragraph 8.182 of my 2021 Main Report, in response to the UK’s withdrawal from the EU, EIOPA issued recommendations to national supervisory bodies in EU jurisdictions on 19 February 2019 (the “**EIOPA Recommendations**”), which were developed to promote consistent supervisory practices in relation to the treatment of UK insurance undertakings by setting out guidance on matters relating to the loss of passporting rights.

⁴⁰ Trustees of pension schemes which entered into buy-in transactions with Rothesay after the 2019 Rothesay Policyholder Letter that were subsequently converted into buyouts were not sent the 2021 Rothesay Trustee Letter as they are no longer policyholders of Rothesay.

5.10 Notwithstanding the EIOPA Recommendations, as PAC and Rothesay proposed the transfer prior to the UK's withdrawal from the EU and given the UK is no longer a member state of the EU, the PRA requested that PAC and Rothesay seek advice regarding the ability of Rothesay to service the Transferring Policies in any relevant EEA state (if the Scheme is sanctioned) and PAC's ability to service the Transferring Policies (if the Scheme is not sanctioned). As a result of this request, the Companies have taken an approach that they believe to be proportionate by seeking legal advice in those EEA jurisdictions where approximately 100 or more Transferring Policyholders reside (the "Relevant EEA States"), which covers the EEA states in which the vast majority of the EEA-resident Transferring Policyholders are currently resident. The Relevant EEA States which meet this criterion are listed in Table 5.1:

TABLE 5.1 – EEA STATES IN WHICH CIRCA 100 OR MORE TRANSFERRING POLICYHOLDERS ARE RESIDENT

Jurisdiction	Estimated number of Transferring Policyholders
Cyprus	304
France	1,080
Germany	107
Greece	92
Italy	112
Portugal	212
Republic of Ireland	670
Spain	2,028

- 5.11 As set out in paragraph 8.180 of my 2021 Main Report, so far as PAC is aware, the Member state of the commitment of each of the Transferring Policies is the UK. On this basis, the advice received by the Companies from local counsel in each of the Relevant EEA States confirms that the ongoing servicing of the Transferring Policies in each of these EEA states either by Rothesay (if the Scheme is sanctioned) or by PAC (if the Scheme is not sanctioned) would not be prohibited or require any additional regulatory permissions or licences in that jurisdiction or, where the local law position is not beyond doubt (as is the case in a small minority of EEA States), that there are good arguments that that would be the case.
- 5.12 If it transpires that the Member state of the commitment for any of the Transferring Policies is in fact the Relevant EEA State in which they currently reside (which is a situation that PAC regards as unlikely), further engagement with the relevant national supervisory bodies would be undertaken by Rothesay (if the Scheme is sanctioned) or by PAC (if the Scheme is not sanctioned) at that time in light of the specific facts of the case. However, on the basis of the advice received from local counsel and the fact that the national supervisory bodies in each of the Relevant EEA States have indicated that they either already comply or intend to comply with each of the EIOPA Recommendations (with the exception of France in respect of Recommendation 6, as further explained in paragraph 8.183 of my 2021 Main Report), the Companies understand that, depending on the jurisdiction concerned, they will either not require any additional regulatory permissions or licences in order to continue to pay the relevant annuity, or expect to benefit from continuity principles applied by the relevant national supervisory body. In either case the Companies expect that the relevant Transferring Policyholders would continue to receive the benefit of their annuity.
- 5.13 The implementation of the Scheme is not therefore expected to adversely affect the policy servicing position with respect to the holders of the Transferring Policies.
- 5.14 Further, the national supervisory body in each EEA state was notified by the PRA of the proposed transfer in 2019, and the PRA provided a further notification to each EEA national supervisory body following the 2021 Directions Hearing. After the most recent notifications, some of the national supervisory bodies raised queries relating to the servicing of the Transferring Policies in their jurisdiction by PAC or Rothesay. These queries were responded to and appear to have been satisfactorily answered. Moreover, neither PAC nor Rothesay is aware of any objections or concerns.

THE SCHEME

5.15 There have been no changes to the wording of the Scheme document itself since my 2021 Main Report.

RECENT SOLVENCY UPDATES

5.16 As at the time of finalising this Report, financial market conditions have changed since 30 June 2021, with the most relevant changes being:

- GBP interest rates (based on swap rates) at medium to long durations have increased by between 0.25 and 0.4 percentage points since 30 June 2021;
- Credit spreads on long duration investment grade corporate bonds have declined slightly or are at roughly the same level as at 30 June 2021;
- The FTSE 100 share index has increased by approximately 1%.

5.17 I have been provided with estimated SCR Coverage Ratios of the Companies as at 30 September 2021, which show that the differential between the estimated SCR Coverage Ratios of PAC and Rothesay has not changed significantly since 30 June 2021. Consequently my conclusions that reference the relative SCR Coverage Ratios of PAC and Rothesay remain valid.

6. Conclusions

- 6.1 I have considered relevant developments since the completion of my 2021 Main Report. I have not changed my conclusions regarding the likely effects of the Scheme.
- 6.2 Accordingly I remain satisfied that the implementation of the Scheme will not have a material adverse effect on:
- The security of benefits of the policyholders of PAC and Rothesay, including the Transferring Policyholders; or
 - The reasonable expectations of the policyholders of PAC and Rothesay, including the Transferring Policyholders, including:
 - The reasonable benefit expectations of the policyholders of PAC and Rothesay, including the Transferring Policyholders; and
 - The standards of service, management and governance applicable to the PAC and Rothesay policies, including the Transferring Policies.
- 6.3 I also remain satisfied that the Scheme is equitable to all classes and generations of PAC and Rothesay policyholders.



Nick Dumbreck

21 October 2021

Fellow of the Institute and Faculty of Actuaries

Appendix 1: Key documents relied upon

In addition to discussions (both orally and electronically) with PAC and Rothesay staff, I have relied upon the following principal documents in formulating my conclusions:

- Draft PAC Chief Actuary Supplementary Report on the Scheme
- Draft Rothesay Chief Actuary Supplementary Report on the Scheme
- Documents and email correspondence from PAC and Rothesay containing responses to questions from the Independent Expert
- PAC Policyholder communications documents
- Correspondence to and from affected policyholders, as supplied by PAC
- Pre-Scheme and pro forma post-Scheme Solvency II financial position of Rothesay as at 30 June 2021
- Pre-Scheme and pro forma post-Scheme Solvency II financial position of PAC as at 30 June 2021
- Other financial information related to PAC and Rothesay as at 30 June 2021
- Solvency estimates from PAC and Rothesay as at 30 September 2021

Appendix 2: Certificate of Compliance

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.

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 Guidance for the Instruction of Experts in Civil Claims 2014 produced by the Civil Justice Council, and have complied with and will continue to comply with them. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the Court, the Royal Court of Guernsey and the Royal Court of Jersey, and have complied with and will continue to comply with this duty.

I confirm that I have made clear which facts and matters referred to in my Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

A handwritten signature in black ink, appearing to read 'Nick Dumbreck', followed by a stylized signature mark consisting of a vertical line, a horizontal line, and a diagonal line.

Nick Dumbreck

21 October 2021

Fellow of the Institute and Faculty of Actuaries

Appendix 3: Compliance with Regulatory Requirements

The table below indicates how I have complied with the provisions of the PRA Policy Statement and FG18/4 that pertain to the form of the scheme report. In some instances the information provided in my 2021 Main Report serves to meet the relevant requirement and there have been no changes to the situation since my 2021 Main Report. I have therefore not repeated this information in this Report; in such instances I have marked the requirement as not applicable in the final column of the table below, and I refer the reader to the relevant reference in my 2021 Main Report.

PRA Policy Statement Reference	Requirement	2021 Main Report paragraph reference	2021 Supplementary Report paragraph reference
2.30 (1)	Who appointed the independent expert and who is bearing the costs of that appointment	1.5, 1.23	1.6 to 1.8
2.30 (2)	Confirmation that the independent expert has been approved or nominated by the appropriate regulator.	1.5	1.7, 1.8
2.30 (3)	A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role	1.20, 1.21	N/A
2.30 (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	1.22	1.8
2.30 (5)	The scope of the report	1.5, 1.16, 1.17, 1.34 to 1.38, 3.1 to 3.19	1.6, 1.18
2.30 (6)	The purpose of the scheme	7.2	N/A
2.30 (7)	A summary of the terms of the scheme in so far as they are relevant to the report	7.4 to 7.42	N/A
2.30 (8)	What documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided	Appendix 3	Appendix 1
2.30 (9)	The extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others	1.27, 3.22 to 3.25	4.19
2.30 (10)	The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable	3.22 to 3.25	4.19
2.30 (11)	His opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee	8.194, 9.49, 10.32, 14.1, 14.2	2.36, 3.47, 4.55, 6.2, 6.3

2.30 (12)	His opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme	12.46 to 12.49	N/A
2.30 (13)	What matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme	1.16	N/A
2.30 (14)	For each opinion that the independent expert expresses in the report, an outline of his reasons.	Sections 8 to 13	Sections 2 to 5
2.32 (1)	The summary of the terms of the scheme should include a description of any reinsurance agreements that it is proposed should pass to the transferee under the scheme	7.24	N/A
2.32 (2)	The summary of the terms of the scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred	7.17 to 7.22	N/A
2.33 (1)	The independent expert's opinion of the likely effects of the scheme on policyholders should include a comparison of the likely effects if it is or is not implemented	Sections 8 through 13	N/A
2.33 (2)	The independent expert's opinion of the likely effects of the scheme on policyholders should state whether he considered alternative arrangements and, if so, what	1.16	N/A
2.33 (3)	The independent expert's opinion of the likely effects of the scheme on policyholders should, where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders	Sections 8 through 13	Sections 2 through 5
2.33 (4)	The independent expert's opinion of the likely effects of the scheme on policyholders should include his views on: (a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; (b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as 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; and (c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations	8.102, 8.103, 8.145, 8.161, 8.187, 8.192, 9.28, 9.31, 9.41, 9.47, 10.12, 10.21, 10.30, 10.24	3.47, 4.55, 6.2
2.35 (1)	For any mutual company involved in the scheme, the report should describe the effect of the	N/A	N/A

	<p>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</p>		
2.35 (2)	<p>For any mutual company involved in the scheme, the report should state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights</p>	N/A	N/A
2.35 (3)	<p>For any mutual company involved in the scheme, the report should comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.</p>	N/A	N/A
2.36 (1)	<p>For a scheme involving long-term insurance business, the report should describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits</p>	12.73 to 12.76	N/A
2.36 (2)	<p>For a scheme involving long-term insurance business, the report should, if any such rights will be diluted by the scheme, 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;</p>	N/A	N/A
2.36 (3)	<p>For a scheme involving long-term insurance business, the report should 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</p>	9.43 to 9.45	N/A
2.36 (4)	<p>For a scheme involving long-term insurance business, the report should describe what safeguards are provided by the scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm</p>	12.79 to 12.82	N/A
2.36 (5)	<p>For a scheme involving long-term insurance business, the report should include the independent expert's overall assessment of the likely effects of the scheme on the reasonable expectations of long-term insurance business policyholders</p>	8.193, 9.48, 10.31, 14.1	6.2
2.36 (6)	<p>For a scheme involving long-term insurance business, the report should state whether the independent expert is satisfied that for each firm the scheme is equitable to all classes and generations of its policyholders</p>	14.2	6.3
2.36 (7)	<p>For a scheme involving long-term insurance business, the report should state whether, in the independent expert's opinion, for each</p>	12.79 to 12.82	N/A

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.

FCA FG18/4 reference	Requirement	2021 Main Report paragraph reference	IE Supplementary Report paragraph reference
6.2	<p>Report is constructed in such a way that it is easily readable and understandable by all its users, paying attention to the following:</p> <ul style="list-style-type: none"> • Technical terms and acronyms should be defined on first use. • There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions. • The business to be transferred should be described early in the report. • The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when viewed as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. • IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. 	<p>Throughout</p> <p>Section 2</p> <p>1.1, 2.2 to 2.6</p> <p>No specific reference</p> <p>No specific reference</p>	<p>1.22</p> <p>N/A</p> <p>N/A</p> <p>No specific reference</p> <p>No specific reference</p>
6.3	<p>Report must consider and compare:</p> <ul style="list-style-type: none"> • Reasonable benefit expectations (including impact of charges). • Type and level of service (including claims handling). • Management, administration and governance arrangements. 	<p>8.161, 9.41, 9.47, 10.30</p> <p>8.187, 8.192, 9.31, 10.24</p> <p>8.192, 9.31, 10.30</p>	<p>N/A</p> <p>2.4 to 2.6, 2.11, 2.12</p>
The level of reliance on the Applicants assessments and assertions			
6.6	<p>Question the adequacy of assessments carried out by Applicants before relying on them to reach own conclusions (including requesting additional work and evidence from Applicants in order to support their assertions).</p>	<p>No specific reference</p>	<p>No specific reference</p>
6.7	<p>Explain the nature of any challenges made to the Applicants and the outcome of these within the IE report, rather than just stating the final position.</p>	<p>No specific reference</p>	<p>No specific reference</p>
6.8	<p>Where conclusions are supported solely or largely by statements such as 'I have discussed with the firm's management and they tell me that...' followed by 'I have no reason to doubt what they have told me...', then:</p> <ul style="list-style-type: none"> • Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the Scheme's impact, the IE should review relevant underlying material, rather than relying on the Applicants' analysis of the material and subsequent assertions. • If there are concerns about matters that fall outside the IE's sphere of expertise, such as legal issues, the Applicants must provide the IE with any advice that they have received. If the issue is significant or remains uncertain, the IE must ensure that the Applicants had 	<p>N/A</p> <p>N/A</p>	<p>N/A</p> <p>N/A</p>

	obtained appropriate advice from a suitably qualified independent subject matter expert.		
6.9	<p>IE has challenged calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, the IE should:</p> <ul style="list-style-type: none"> review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete 	N/A	N/A
6.10	<p>Documents provided by the Applicants have been challenged where they contain an insufficient level of detail or analysis. For example:</p> <ul style="list-style-type: none"> Applicants' assertions that service levels will be maintained to at least the pre-transfer standard: IE should include not only details of the Applicant's plans and any gap analyses that have been produced but also include their view of their adequacy. Change in governance arrangements in the Transferee that may lead to poorer customer outcomes: the IE must review and compare the governance arrangements in the Transferor which produce good customer outcomes (e.g. any committees with conduct responsibilities) within the Transferee's governance arrangements. Consideration of the strain on resources that may occur post-transfer and that could impact on the service standards of the Transferee's existing customers and/or control over conduct of business risk. The IE report should include a review of relevant management information indicators and related contingency planning. 	8.162 to 8.187	2.4 to 2.6
		8.188 to 8.192	N/A
		8.170	2.4 to 2.6
Sufficient comparative regulatory framework analysis			
6.11	Where the regulatory framework is different for the Transferor and Transferee, the IE has carried out sufficient analysis of the differences including, where appropriate, taking independent advice.	N/A	N/A
6.12	<p>For cross-border transfers ensure there is a sufficiently detailed analysis of regulatory protections post-transfer. This can include:</p> <ul style="list-style-type: none"> The extent to which existing regulatory requirements and protections continue, including whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme. In the context of EU withdrawal this is expected at least until the point of policy renewal. The comparative regulatory requirements and conduct protections across any relevant jurisdictions, including but not limited to complaints or compensation bodies compared to the UK. Post EU Withdrawal, non-UK EEA customers may be subject to the local conduct of business rules regime, which may not include FOS or FSCS issues. In these cases, firms taking proportionate approaches to compare 	N/A	N/A
		N/A	N/A
		N/A	N/A

	regimes are likely to be accepted. For example a high level analysis may be appropriate, selecting key UK protections for consumers that are not harmonised in the EEA, and that could be relevant to servicing contracts. This could be accompanied by an explanation that a full gap analysis has not been carried out, but that policyholders can contact the Applicants if they are concerned. Some firms are able to continue to service contracts from UK branches to preserve continuity of regime at least until renewal.		
6.13	The IE report must contain a statement describing the two regimes as well as a considered comparison, highlighting points of significant difference that could adversely impact Policyholders. The level of detail to be included must be sufficient for the Court to be in a position to be satisfied.	Section 4	N/A
6.14	If the IE's analysis is inconclusive or there are potential conduct risks due to differences in the regulatory framework, we expect to see sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	N/A	N/A
6.15	When stating that the IE is satisfied by referencing the Scheme, the IE must adequately explain how the features have led to their satisfaction. The IE must include both the evidence and their reasoning.	Section 8 – Section 12	Section 2 – Section 5
Balanced judgements and sufficient reasoning			
6.16	The IE must state in their report whether they are certain there will be no material adverse impact to Policyholders or whether this is their best judgement, but lacks certainty. In these instances, the IE must consider the following: <ul style="list-style-type: none"> Where the IE takes the view that there is probably no material adverse impact, the IE must challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree. The IE should challenge the Applicants in order to gain the necessary level of confidence that their report's conclusions are robust. Applicants and IEs should be aware that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups. 	N/A	N/A
6.17	The IE must check that the documents they are relying, and forming judgements, on are the most up-to-date available when finalising their report.	Throughout	Throughout
6.18	If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgement, the Applicants must discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged.	12.53 - 12.55	Tables 3.1 to 3.7
Sufficient regard to relevant considerations affecting Policyholders			

6.19	<p>Consider all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. The IE is expected, when giving their opinion, to consider the:</p> <ul style="list-style-type: none"> • 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 - 10	Sections 2 – 5
6.20	<p>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.</p>	7.46 - 7.50	N/A
6.21	<p>Review and give opinion on administrative changes affecting Policyholders, including:</p> <ul style="list-style-type: none"> • Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Provide a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations. • For the case where the IE concludes that because the transfer will not create any change to the administrative arrangements, there will be no material impact on Policyholders: consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process. 	N/A	N/A
6.21		N/A	N/A
6.22	<p>Review and provide opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:</p> <ul style="list-style-type: none"> • Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. • If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, consider the Scheme as if the reinsurance was not in place. 	Section 11	N/A
6.22		Section 11	N/A
6.23	<p>If the IE identifies particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected, the IE should take into account the Transferor's obligations under Principle 6 (Customers' interests) of the FCA's Principles for Businesses.</p>	N/A	N/A

6.24	Ensure there is consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material.	N/A	N/A
6.25	Provide the analysis outlined in 6.24 even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where: <ul style="list-style-type: none"> Some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure. 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. 	N/A	N/A
6.26	Ensure that no conclusions are reached based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	Sections 8 to 10	Sections 2 to 5
6.28	Present the consideration, evidence and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially adversely impact a group of Policyholders.	Sections 8 to 10	Sections 2 to 5
Commercially sensitive or confidential information			
6.29	When considering commercially sensitive information, consider policyholders' interests as the information will not be publically available.	PAC Shareholder Risk Appetite (5.51 - 5.58, 8.72 - 8.88) Pillar 2 (5.43, 6.32)	N/A
6.30	In these situations, document the analysis and the information relied upon. Consider sending a separate document with further details, solely for the Court's use and not for public disclosure	Appendix 3	Appendix 1
The level of reliance on the work of other experts			
6.31	For large scale and complex insurance business transfers, if relying on the analytical work of other qualified professionals, it is still expected the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	4.80 to 4.85	4.19
6.32	Obtain a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	12.77 - 12.78	N/A
6.33	If referring to factors outside of expertise and relying on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue.	3.22 - 3.25	N/A
6.34	Consider if the IE needs to obtain separate legal advice, this will depend on the significance and materiality of the issue.	3.22 - 3.25	N/A

6.35	Consider whether it is reasonable for the IE to rely on advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers may be challenged.	3.22 - 3.25	N/A
6.36	<p>When deciding whether to obtain independent legal advice, the IE should consider, amongst other things, the following:</p> <ul style="list-style-type: none"> • The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice. • How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether, depending on the issue's significance or uncertainty, the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	3.22 - 3.25	N/A
6.37	The IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. The IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. Consider where risks are identified with no suggestion about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations would allow the IE to consider the worst case scenario of these impacts.	3.22 - 3.25	4.19
6.38	Consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	N/A	N/A
6.40	Consider obtaining a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-EEA jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court would adopt the approach set out in the advice. In that case, the IE should not use such advice as the sole basis of their conclusion that there are no materially adverse effects. IE should consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court.	N/A	5.9 to 5.11

	The legal advice itself should address this and suggest ways of mitigating this risk.		
6.41	If the IE is 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.	N/A	N/A
6.42	<p>The position may be different depending on whether the Transferor remains authorised/in existence. So:</p> <ul style="list-style-type: none"> If the Transferor's authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Even if the IE has received advice that, even if the Scheme is not formally recognised in another jurisdiction, the Courts of that jurisdiction would still act to prevent the Transferee from denying that it is liable, the IE should still assess any material possibility, and any mitigations if it is not 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. The IE should still 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 in full. Mitigations could include some clear commitment by both Transferor and Transferee in the Scheme, enforceable by Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements. 	N/A	N/A
6.43	How the IE satisfied themselves about the identified uncertainty and formed an opinion on any potential impact.	Sections 8 to 10	Sections 2 to 5
6.45	At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. Overly general reliance will indicate a lack of critical assessment or challenge.	1.16, 1.27	N/A
6.47	<p>If the report does not reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:</p> <ul style="list-style-type: none"> That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. 	N/A	N/A

	<ul style="list-style-type: none"> How the IE satisfied themselves about the identified uncertainty and formed an opinion on any potential impact. 	N/A	N/A
Demonstrating challenge			
6.48	To ensure the IE report is complete and considered there should be challenge from all involved parties. Including evidence that Applicants have made appropriate challenges, particularly when believed that the IE has not fully addressed issues. Applicants have an interest in ensuring that the Court, regulators and Policyholders are able to rely on the IE report, taking into account to the IE's disclaimers. Applicants should make the challenges without compromising the IE's independence. It should be confirmed that the near-final version of the IE's report had the relevant challenge at the time it was submitted.	Confirmed	Confirmed
6.49	To ensure effective two-way challenge it is expected the IE engages with FCA or PRA approved persons of sufficient seniority at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the Chief Financial Officer, Senior Underwriters and so on.	Confirmed	Confirmed
6.50	IEs who are members of the Institute & Faculty of Actuaries should pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council,10 particularly those for compiling actuarial reports.	1.32 - 1.33	1.28 to 1.291.29
6.51	IEs should be aware of TAS (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.	1.32 - 1.33	1.28 to 1.29
6.52	Ensure compliance with paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information' and to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.	Throughout	Throughout
6.53	Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	Confirmed	Confirmed
Review of the communications strategy			
7.3	IEs should include consideration of the proposed communications strategy and any supporting requests for dispensations from the Transfer Regulations in their report. There should be evidence that the IE has challenged proposed communications that are not clear and fair and do not adequately explain the transfer and the potential impacts on Policyholders and how these have been addressed.	12.24	5.1 to 5.8