

Rothesay

Report of the Chief Actuary of Rothesay Life Plc on the Proposed Insurance Business Transfer Scheme relating to the Transfer of the Bulk Purchase Annuities Long-term Business of Scottish Widows Limited to Rothesay Life Plc

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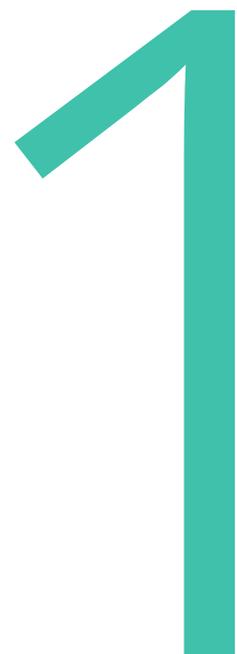


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Introduction



Background

- 1.1 The purpose of this report is to:
 - Describe my understanding of the proposed insurance business transfer scheme (the “Scheme”) as defined in section 105 of Part VII of The Financial Services And Markets Act 2000 (“FSMA”) relating to the transfer of the bulk purchase annuities long-term business of Scottish Widows Limited (“SWL”) to Rothesay Life Plc (“Rothesay”);
 - Consider the implications of the proposed Scheme on the security and benefit expectations of existing Rothesay policyholders and other beneficiaries of insurance policies issued by Rothesay.
- 1.2 This report has been prepared for the Board of Directors of Rothesay in my capacity as the Chief Actuary of Rothesay. Given the subject of this report, in the first instance I will present this report to Rothesay’s Customer Conduct Committee, as well as the management-level Executive Customer Committee.
- 1.3 In this report I address the effects of the Scheme on the security and benefit expectations of the existing Rothesay policyholders. While I may make reference to or comment on the position as regards the transferring policyholders (who it is proposed will become Rothesay policyholders under the Scheme if it is approved), this is not the primary purpose of this report.
- 1.4 For the purposes of this report, I have interpreted ‘policyholders’ to include not only the individual policyholders (for instance, those issued with individual policies arising from pension scheme buy-out arrangements or those holding individual annuities acquired by Rothesay from other insurers) but also the trustee policyholders in respect of pension scheme buy-in arrangements with Rothesay and the underlying individual pension beneficiaries in respect of whom the relevant buy-in liabilities relate. In addition, I have also interpreted ‘policyholders’ to include the contingent dependants of such other policyholders. As discussed from section 3.27, Rothesay has provided longevity swap insurance to a small number of pension schemes, which is held as an investment or asset of the pension scheme, to hedge against longevity risk. While the pension scheme trustees as holders of the longevity swap insurance are policyholders, I do not consider the underlying beneficiaries of the pension scheme to be policyholders (for the purpose of this report), as unlike bulk annuity transactions these arrangements do not provide the pension scheme with an annuity or benefit payment which funds part or all of their obligation to members under the pension scheme and these will not lead to Rothesay, in time, becoming the direct provider of the pension for the underlying beneficiaries. While I have also included SWL as a holder of reinsurance from Rothesay, I do not consider the underlying beneficiaries under the reinsured SWL policies to be existing Rothesay policyholders.
- 1.5 In preparing this report, I have been in regular contact with the Independent Expert (“IE”) John Hoskin of Barnett Waddingham and his team. This is to provide information in order for the IE to consider all aspects of the proposed Scheme in detail, with a view to him providing an independent report (“the Scheme Report”) on the likely effect of the Scheme on the policyholders of Rothesay and the transferring and non-transferring policyholders of SWL. The Prudential Regulation Authority (“PRA”) has approved Mr Hoskin as the Independent Expert following consultation with the Financial Conduct Authority (“FCA”). Mr Hoskin’s Report is required by section 109 of FSMA as part of the procedure for gaining approval of the Scheme by the High Court of Justice of England and Wales (the “Court”).
- 1.6 While this report is addressed to the Board of Directors of Rothesay, it will also be provided to the Court, Independent Expert, the PRA and the FCA in order to assist them with their considerations in relation to the proposed Scheme.
- 1.7 I am aware of the PRA’s policy statement (PS1/22: “Insurance business transfers”) and the FCA guidance (FG 22/1: “The FCA’s approach to the review of Part VII insurance business transfers”). I have considered the PRA policy statement and the FCA guidance and where appropriate I have taken them

into account in carrying out my review. For example, my interpretation of policyholder is consistent with their guidance.

- 1.8 The contents of this report should be considered together with the material information contained in the Scheme Report on the terms of the Scheme required by section 109 of FSMA. It is my intention that (unless otherwise defined in this report) defined terms used within this report should be the same as those used in the Scheme.
- 1.9 This report has been prepared for only those users listed in 1.6 above. As such this report assumes familiarity with the insurance industry in the UK, including the regulatory and legal framework under which insurance companies operate. Any other readers of this report may wish to consult relevant publicly available information relating to Rothesay, including the most recent Annual Report and Accounts and Solvency and Financial Condition Report, which can be found on the Rothesay website (Rothesay.com).
- 1.10 I note that the Chief Actuary of SWL has produced a report which considers the impact of the Scheme on the transferring policyholders of SWL and on the non-transferring policyholders of SWL, and that the With-Profits Actuary of SWL has produced a report which considers the impact of the Scheme on SWL's with-profits policyholders. I have been in regular contact with the actuarial team at SWL and we have exchanged draft reports.
- 1.11 I intend to issue a supplementary report closer to the date of the Sanction Hearing (the hearing at which the Court will consider whether to sanction the proposed Scheme), providing an update on the topics considered in this report.

Disclosures and Reliances

- 1.12 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 2004, and hold a certificate issued by the Institute and Faculty of Actuaries to act as Chief Actuary (Life). I joined Rothesay to act as Chief Actuary in April 2018 and I have over 20 years of experience working in the UK life assurance industry.
- 1.13 I am employed by the Rothesay Group and in common with a number of employees of the Rothesay Group I have a minor equity interest in Rothesay Limited (Rothesay's ultimate parent company) as a result of shares received as part of my remuneration. Due to a previous employment, I am a member of a defined benefit pension scheme which Rothesay insures by way of a buy-in, but I am not a direct policyholder of Rothesay. I have a mortgage and a current account with Lloyds Bank plc. I do not consider any of these to be an actual conflict of interest, and there are no other potential conflicts of interest.
- 1.14 In this report Solvency II should be understood to refer to the on-shored UK Solvency II regime. While to date changes since the UK left the EU have been largely technical, there have been a number of changes made effective 30 June 2024, and the solvency regime applicable in the UK will change further from 31 December 2024. I have considered them in Section 5: 'SII Reform' below.
- 1.15 In preparing this report I have had access to all relevant financial information in relation to Rothesay. In forming my conclusions, I have relied upon work carried out by other Rothesay Group employees, which has been subject to suitable peer review where appropriate, and which I have challenged or investigated personally where material.
- 1.16 This report is intended to be applicable as of 6 December 2024, and much of the analysis is based on information as at 30 June 2024. While I have considered material effects after this date in Section 5, I will provide an update to this report by issuing a supplementary report ahead of the Sanction Hearing.

Compliance with technical actuarial standards

- 1.17 The Financial Reporting Council ("FRC") sets technical standards for the members of the UK actuarial profession. This report is subject to and complies with these standards, including having received suitable peer review.
- 1.18 A full description of compliance with relevant actuarial standards is given in Section 7.

Executive summary

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The key points of the proposed Scheme are as follows:

Reinsurance arrangements

- 2.1 On 13 March 2024, SWL and Rothesay entered into a business transfer agreement (“BTA”) under which SWL agreed to transfer its bulk purchase annuities business (the “Transferring Business”) to Rothesay. The transfer of the business will be implemented through a Part VII transfer under FSMA, subject to Court approval.
- 2.2 As contemplated by that agreement, on 30 April 2024 SWL and Rothesay entered into a Reinsurance Agreement (the “RA”) which transferred the economic risk and reward of a material part of the Transferring Business from SWL to Rothesay, with effect from 1 January 2024 (being the risk transfer date under the RA). This is supported by associated security arrangements.
- 2.3 Therefore, SWL has reinsured a portfolio of in-payment and deferred annuities, including related residual risk policies, to Rothesay. These policies will be referred to as the “SWL Transferring Policies”, comprising approximately £5bn of Solvency II best estimate liabilities as of 30 June 2024. These policies were all reinsured to Rothesay with the intention from both parties that the Part VII transfer considered in this report would then take place, subject to Court approval. This reinsurance arrangement between Rothesay and SWL will terminate when the Scheme takes effect.
- 2.4 The SWL Transferring Policies arise from a number of different buy-in and buy-out transactions with 37 different schemes, as described fully in Section 4. These are known as Bulk Purchase Annuity (BPA) policies.
- 2.5 In addition to the BPA policies set out above, the perimeter of the Scheme includes four longevity insurance swaps with Lloyds Banking Group pension schemes, which have been reinsured with SCOR and Pacific Life Re, with SWL as the intermediation insurer carrying out calculation and operational services but where almost the entirety of the risk is passed to those reinsurers. These will be referred to as the “SWL Ambrosia Arrangements”. Under the Scheme Rothesay will replace SWL as the insurer. The SWL Ambrosia Arrangements are not reinsured to Rothesay via the RA (as the risks are already fully reinsured to SCOR and Pacific Life Re), but due to the reinsurance with SCOR and Pacific Life Re the insurer’s net liability is negligible.
- 2.6 The reinsurance under the RA is structured as funded reinsurance where a premium representing the value of the liabilities is paid by SWL to Rothesay, which is satisfied by transfer of certain agreed assets.
- 2.7 The majority of the assets have already been transferred from SWL to Rothesay already as premium, and the remaining assets comprising mainly of loans (referred to as the “Funds Withheld Assets” or “FW Assets”) will transfer to Rothesay under the Scheme. Rothesay is exposed to the risk and reward of all of the assets, including the FW Assets by the terms of the RA, although the FW Assets have not yet legally transferred to Rothesay due to practical considerations. Rothesay’s obligations under the RA are collateralised, with the liquid collateral assets held in a security arrangement with a security charge in favour of SWL.
- 2.8 Under certain circumstances, which I consider are unlikely to materialise, SWL would be entitled to terminate the RA, with the termination amount determined using an agreed approach. Such termination amount is supported by the collateral assets and the FW Assets.
- 2.9 Prior to the transaction agreed with Rothesay, SWL had in place existing longevity reinsurance (“SWL Longevity Reinsurance”) with The Prudential Insurance Company of America and Swiss Re in respect of some of the SWL Transferring Policies, providing protection against adverse movements in longevity experience for some but not all of the liabilities proposed to transfer under the Scheme. These reinsurance contracts (and related security arrangements) form part of the Scheme and therefore Rothesay will replace SWL as the cedant under those arrangements once the Scheme takes effect. Under the terms of the reinsurance between Rothesay and SWL in the RA, Rothesay is exposed to the economic effect of the SWL Longevity Reinsurance.

- 2.10 Subsequent to the entry into the RA, Rothesay has also taken out further longevity reinsurance ("Rothesay Longevity Reinsurance") in relation to the unreinsured portion of the SWL Transferring Policies. During the period prior to the date on which the Scheme becomes effective (the "Scheme Effective Date"), the Rothesay Longevity Reinsurance operates as a retrocession of the relevant risks in respect of the unreinsured portion of the SWL Transferring Policies. The Rothesay Longevity Reinsurance together with the SWL Longevity Reinsurance (which will form part of the long-term business transferring under the Scheme) puts Rothesay back in line with its typical risk appetite for longevity risk in relation to the SWL Transferring Policies overall. The Rothesay Longevity Reinsurance will remain in place following the Scheme Effective Date.
- 2.11 In the unlikely event that the Scheme is not approved by the Court it is expected that the RA will remain in place as a long-term reinsurance unless it is terminated by a party in accordance with its terms. The Scheme not being approved by the Court does not by itself result in a termination of the RA.
- If the RA becomes a long-term reinsurance arrangement between SWL and Rothesay, the Rothesay Longevity Reinsurance will stay in place; or
 - If the RA is terminated (other than as a result of the Scheme taking effect), the Rothesay Longevity Reinsurance will also terminate.

The Scheme

- 2.12 The Scheme requires the approval of the High Court of England and Wales to be put into effect. The Scheme Effective Date is anticipated to be 11 June 2025.
- 2.13 Under the Scheme, SWL will transfer all insurance liabilities associated with the SWL Transferring Policies, together with the associated SWL Longevity Reinsurance, the SWL Ambrosia Arrangements and all data and records required to administer the Transferring Business.
- 2.14 The Scheme will also transfer all remaining assets and liabilities (unless specifically excluded) in respect of the Transferring Business to Rothesay, including the FW Assets and other material third party contracts.
- 2.15 On the Scheme Effective Date, the security arrangement (described in paragraph 2.6) between Rothesay and SWL supporting Rothesay's obligations under the RA will be terminated, and the collateral assets will be released to Rothesay. As noted above, the Scheme will also effect the legal transfer of the FW Assets to Rothesay, who will be able to directly manage these assets.
- 2.16 From the Scheme Effective Date:
- (a) any policyholders or claimants in respect of the transferred SWL Transferring Policies will become policyholders or claimants respectively of Rothesay;
 - (b) Rothesay will become the cedant facing the relevant reinsurer under the SWL Longevity Reinsurance;
 - (c) Rothesay will become the insurer in respect of the SWL Ambrosia Arrangements described in 2.5; and
 - (d) Rothesay will replace SWL in respect of any other transferring assets or transferring contracts in-scope under the Scheme, including the Aptia services agreement and the FW Assets.

Impact of the Scheme on Rothesay

- 2.17 The reinsurance transaction entered into by Rothesay and SWL was set up to replicate the economics of transferring the SWL Transferring Policies and related assets and liabilities from SWL to Rothesay, taking into account the effect of the SWL Longevity Reinsurance. As a result of the Scheme taking effect, there is a small positive financial impact for Rothesay from cancelling the reinsurance transaction between SWL and Rothesay and transferring the SWL Transferring Policies and associated SWL Longevity Reinsurance from SWL to Rothesay.
- 2.18 As a result of the Scheme Rothesay would have primary responsibilities in respect of the Transferring Business, including responsibility for ensuring the SWL Transferring Policies are appropriately managed and administered.
- 2.19 The current administrator of the SWL Transferring Policies, Aptia is a current administrator of some of Rothesay's policies. Following the Scheme Effective Date, Aptia will continue to administer the SWL Transferring Policies and the existing Rothesay policies. There will be no impact on the existing Rothesay policies administered by Aptia on Rothesay's behalf. Other Rothesay policies are administered by a number of different third-party administrators, and this will not change as a result of the Scheme.
- 2.20 Aptia also currently administers the SWL Ambrosia Arrangements on behalf of SWL. Following the Scheme Effective Date, these arrangements will be administered by Rothesay directly.
- 2.21 Rothesay's governance arrangements will not change as a result of the Scheme, including the way that it manages and oversees its administrators.
- 2.22 I am not aware of any other expected or potential adverse impacts on Rothesay or Rothesay's existing policyholders which would arise as a result of the Scheme.
- 2.23 Upon completion of the Scheme, the security arrangement supporting Rothesay's obligations under the RA will terminate and the assets held as security for SWL will be released to Rothesay. Additionally, the FW Assets will also legally transfer to Rothesay, with Rothesay being able to manage these assets directly. Overall, this will provide a small liquidity management benefit for Rothesay, improving Rothesay's ability to risk manage the asset portfolio supporting the SWL Transferring Policies, and provide a small reduction in operational expense for Rothesay. While positive, these impacts are small.
- 2.24 Rothesay will also have additional reinsurance contracts to manage. Rothesay has significant experience in managing reinsurance contracts of this type, and all of the reinsurer counterparties are existing Rothesay reinsurer counterparties.
- 2.25 As a result of removing the constraints and operational overheads associated with operating the reinsurance with SWL compared to directly managing the SWL Transferring Policies, the Scheme taking effect is expected to produce a small net positive impact for Rothesay. This comes from removing the constraints associated with the management of the collateral assets held in the secured account charged in favour of SWL, Rothesay being able to manage the FW Assets directly, Rothesay being able to operate and manage the administration services as it sees fit, and from Rothesay being able to more efficiently manage the SWL Longevity Reinsurance in respect of the SWL Transferring Policies. However, given that these expected benefits are small, positive and not certain in terms of amount or timing, they are not reflected in any pro-forma assessment of the impact of the Scheme. I have not relied on these expected benefits in forming my conclusions as to the overall impact of the Scheme on Rothesay's existing policyholders.

Summary and Opinion of the Chief Actuary

- 2.26 I have considered the potential impacts resulting from the Scheme for the existing policyholders of Rothesay. My key detailed conclusions are that:

- There are no changes to the terms and conditions for policies of existing policyholders of Rothesay;
- Their administration arrangements will also be unchanged;
- The economic risk and reward relating to the SWL Transferring Policies, which will transfer to Rothesay under the Scheme, have already been reinsured to Rothesay under the RA;
- As a result, there is no material change in the regulatory solvency position of Rothesay were the Scheme to go ahead, and therefore no change in the security of benefits for existing policyholders of Rothesay.

2.27 In light of the considerations set out in this report, I have therefore concluded that:

- The security of the existing policyholders of Rothesay is not likely to be adversely affected as a result of the proposed Scheme;
- The reasonable benefit expectations of the existing policyholders of Rothesay are not likely to be adversely affected as a result of the proposed Scheme;
- The administrative arrangements applicable to the existing policyholders of Rothesay are not likely to be adversely affected as a result of the proposed Scheme;
- Rothesay's proposed communication strategy is appropriate and proportionate, given the above conclusions; and
- In relation to the impact on Rothesay's existing policyholders, there are no features of the proposed Scheme that appear to me likely to prejudice Court approval of the Scheme.

2.28 In the remainder of this report I set out in more detail how I have arrived at these conclusions.

2.29 I also note that the IE has considered the Scheme in his report, and concluded that¹:

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

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

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

...

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

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

¹ Source: Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc, December 2024, extract from Section 2.6.

Description of Rothesay Life Plc

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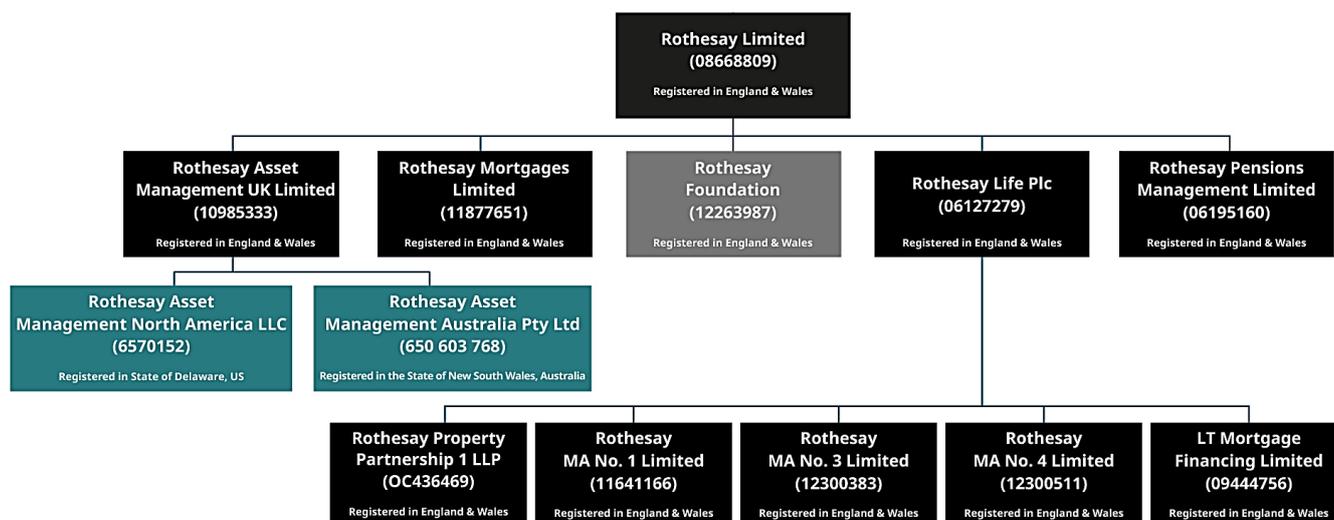
History of Rothesay Life Plc

- 3.1 Rothesay was incorporated as a proprietary company on 26 February 2007, as a wholly owned subsidiary of Rothesay Life (Cayman) Limited. It was previously known as Hackremco (No. 2460) Limited (until 14 March 2007) and First Premium Company Limited (until 14 May 2007) and Rothesay Life Limited (until 24 March 2016). It was renamed as Rothesay Life Plc on 24 March 2016.
- 3.2 Rothesay was authorised by the Financial Services Authority (the FSA) (the predecessor to the PRA and the FCA) as a regulated insurance company (licensed to write long-term classes I, III, IV and VII) on 12 July 2007.
- 3.3 Rothesay completed its first transaction in February 2008 and has since grown to become the largest pensions insurance specialist in the UK market.
- 3.4 Until 2013, Rothesay's ultimate parent company was The Goldman Sachs Group, Inc. ("Goldman Sachs") but, in December 2013, Goldman Sachs completed a partial sale of Rothesay, introducing three additional main shareholders. As part of the deconsolidation from Goldman Sachs, Rothesay HoldCo UK Limited was introduced as a holding company between Rothesay Life (Cayman) Limited and Rothesay. Rothesay became a PLC in March 2016.
- 3.5 In December 2017 it was announced that Goldman Sachs had sold its entire shareholding of Rothesay to those three shareholders. In December 2020 it was announced that one of those shareholders, Blackstone, had sold its entire shareholding to the remaining two main shareholders.

Rothesay Group structure

- 3.6 Rothesay is a wholly-owned subsidiary of Rothesay Limited. Rothesay Limited (formerly known as Rothesay HoldCo UK Limited) is a UK limited company. Rothesay Limited is owned by two institutional shareholders, who hold the following percentage interest as at the date of this report (such percentages representative of each shareholder's nominal holding of shares in Rothesay Limited):
 - Cambourne Life Investment Pte Ltd, which is controlled by GIC Special Investments Pte Limited (GIC), holds 50.2% interest in Rothesay Limited
 - MM Rothesay Holdco US LLC, which is controlled by Massachusetts Mutual Life Insurance Company (MassMutual), holds 47.6% interest in Rothesay LimitedGIC and MassMutual have equal governance rights.
- 3.7 The remaining shares are held by management and employees of the group, and an employee benefit trust which provides ownership benefits to Rothesay Group employees through employee share schemes.
- 3.8 Rothesay is the only regulated insurance company within the Rothesay Group, but Rothesay Limited has several other subsidiaries. Rothesay itself also has a number of subsidiaries, which are companies principally used as vehicles to restructure certain investments to create investments that are eligible for inclusion in Rothesay's Matching Adjustment Portfolio.

3.9 The ownership structure of Rothesay Limited and its subsidiaries (together 'the Rothesay Group') is set out below as at the date of this report:



3.10 Rothesay's insurance business is contained within Rothesay Life Plc.

3.11 Each entity is wholly owned by its parent with the exception of Rothesay Property Partnership 1 LLP whose members are Rothesay Life Plc (99.9%) and Rothesay Limited (0.1%)

3.12 Rothesay Asset Management North America LLC is a US limited liability company, providing asset sourcing services to the group. Final trade negotiation and execution takes place out of the London office.

3.13 Rothesay Asset Management Australia Pty Ltd is an Australian proprietary company limited by shares also providing asset sourcing services to the group. Final trade negotiation and execution takes place out of the London office.

3.14 In 2020 the Rothesay Foundation was established, a wholly owned charitable subsidiary of Rothesay Limited. The foundation aims to support charities helping those later in their lives. It is controlled by its trustees rather than the Group.

3.15 LT Mortgage Financing Limited ("LTMF") was incorporated as a wholly owned subsidiary of Rothesay on 17 February 2015. The company remained dormant until December 2018 but now is the holding company for most of the Group's investments in equity release mortgages following the approval of the Group's partial internal model by the PRA. LTMF then issues a series of notes secured over the equity release mortgage portfolio to be held by Rothesay in its matching and non-matching adjustment funds.

3.16 Rothesay MA No.1 Limited ("RMA1") was incorporated as a wholly owned subsidiary of Rothesay on 24 October 2018. It holds some of Rothesay's previously originated long dated loans secured over freeholds and the ground rent cashflows from the underlying long-leases and has in turn issued time-tranched notes secured over those long-dated ground rent loans back to Rothesay to be held by Rothesay in its matching and non-matching adjustment funds.

3.17 Rothesay MA No.3 Limited ("RMA3") was incorporated as a wholly owned subsidiary of Rothesay on 6 November 2019. It holds certain euro-denominated residential mortgage assets (previously owned by Rothesay Life Plc). RMA3 has in turn issued notes secured over those assets back to Rothesay to be held in its matching and non-matching adjustment funds.

3.18 Rothesay MA No.4 Limited ("RMA4") was incorporated as a wholly owned subsidiary of Rothesay on 6 November 2019 and is currently dormant.

- 3.19 Rothesay Mortgages Limited (formerly known as Rothesay MA No.2 Limited) was incorporated during March 2019, changed name in September 2022, and has not commenced trading.
- 3.20 Rothesay Property Partnership 1 LLP was incorporated on 30 March 2021, and has not commenced trading.

Business and Strategy

- 3.21 Rothesay is a wholesale annuity provider, sourcing business through three different channels:
- Bulk annuity business from pension schemes;
 - Acquisition of annuity portfolios, through reinsurance followed by Part VII transfer; and
 - Acquisition of other annuity providers.
- 3.22 Rothesay has previously completed successful transfers of annuity portfolios from Zurich Assurance Ltd, Scottish Equitable plc and Prudential Assurance Company Limited in a form substantially similar to that envisaged under this Scheme.
- 3.23 The Rothesay Group aims to protect regulatory surplus, manage liquidity and minimise balance sheet volatility, and achieve attractive risk-adjusted returns through de-risking the business by hedging longevity risk and adopting a cautious approach to investment.

Asset Strategy

- 3.24 Rothesay's asset portfolio is managed by its in-house team. Rothesay pursues an investment strategy that minimises risk in a number of ways:
- Investment in a diverse set of assets;
 - Investment in low credit-risk asset classes such as government-guaranteed bonds and other highly-rated bonds;
 - Investment in asset classes which contain significant structural mitigants to provide protection in the event of a counterparty defaulting;
 - Prudent selection and monitoring of assets which create counterparty credit exposures; and
 - Limiting outright credit risk, including using credit derivatives to hedge out credit risk.
- 3.25 Rothesay then further reduces its market risks through interest rate and inflation swaps contracts, to match closely with the tenor and type of the insurance liabilities, as well as active monitoring of assets and counterparties including assessing downgrade risk.

Reinsurance

- 3.26 Rothesay pursues a strategy that reduces its key demographic risks by hedging the majority of its longevity and related risks through collateralised longevity swap contracts. Rothesay makes extensive use of this market with approximately 72% of its longevity risk (on a quota-share basis) being transferred to the third-party reinsurance market. Note that this figure includes the effect of both the existing and transferring liabilities, and the effect of the SWL Longevity Reinsurance and Rothesay Longevity Reinsurance (described in paragraph 2.9 and 2.10 respectively), as Rothesay has the economic exposure to and benefit from these arrangements.

Liabilities

- 3.27 Currently the majority of Rothesay's existing direct insurance liabilities result from taking over risks associated with pension schemes, effected via longevity risk transfer, buy-in or buy-out (or equivalent mechanism, including directly acquiring blocks of business from other insurance companies who have written these types of contracts). The remainder arise from taking on annuities written by insurance companies, namely Zurich Assurance Ltd, Scottish Equitable plc and Prudential Assurance Company Limited. The risks associated with the liabilities do not materially differ depending on the original source (i.e. pension scheme or insurance company), and Rothesay has significant experience in accepting and managing both types.
- 3.28 Generally the liabilities to policyholders are for the payment of guaranteed annuity amounts, where amounts may be pre-determined (i.e. level or increasing at a fixed rate) or linked wholly or partially to published indices such as the Retail Prices Index or the Consumer Prices Index; are payable on either an immediate or a deferred basis; and are payable either during the lifetime of the original pension scheme member/insurance company policyholder, or in some cases also to their dependant(s) on a contingent basis.
- 3.29 Where the trustee policyholders effect a buy-out of a pension scheme's liabilities, these annuity benefits could potentially be secured by individual annuity policies directly with the member and/or dependant(s), rather than under a bulk purchase annuity policy issued to the trustees. Individual deferred annuities may be surrendered (i.e. transferred to another registered pension scheme) in which case a transfer value would be payable on terms which have not been guaranteed but for which Rothesay has an established policy (i.e. payable on a broadly cost-neutral basis to Rothesay).
- 3.30 In addition to bulk purchase annuity policies, Rothesay has written longevity swap insurance arrangements with a small number of pension schemes.
- 3.31 Rothesay has also entered into reinsurance arrangements with UK insurers as cedants where Rothesay acts as reinsurer, typically followed by Part VII transfers.

Non-standard terms in existing Rothesay policies

- 3.32 While the nature of the insurance liabilities accepted (as described above) are relatively homogeneous, there may be some contractual differences between different schemes or contracts, which I need to take into account in considering the impact of the Scheme.
- 3.33 I have considered the non-standard contractual terms or features, and do not believe that there are any features that could have a detrimental impact on either the SWL Transferring Policies, or the existing Rothesay policies, were the Scheme to go into effect as proposed.

Financial History

- 3.34 The following table summarises the key financial metrics of Rothesay at Year-end (YE) 2022, YE 2023 and Half-year (HY) 2024. Further information can be found in the latest Solvency and Financial Condition Report for Rothesay. Under Solvency II, "Own Funds" represent the excess of assets over the best estimate valuation of an insurer's liabilities. The Solvency Capital Requirement (SCR) represents an amount required to be held in addition to the liabilities, to protect against unexpected changes. There are restrictions on which Own Funds can be used to meet the SCR, these are known as "Eligible Own Funds". The SCR cover % is a metric which compares Eligible Own Funds to the SCR, i.e. this should be over 100%.

Table 3.1: Solvency II financial position at prior annual reporting dates

Rothesay Life Plc £m	31 December 2022	31 December 2023	30 June 2024
Eligible Own Funds	8,151	8,558	8,667
Solvency Capital Requirement	3,162	3,101	3,506
Surplus	4,989	5,457	5,161
SCR cover (%)	258%	276%	247%

Financial Strength Ratings

3.35 Rothesay has been reviewed by two recognised credit ratings agencies and given the following financial strength ratings:

- Moody's: Insurance Financial Strength rating of A2, with a stable outlook
- Fitch: Insurer Financial Strength rating of A+, with a stable outlook

Outline of the Scheme

4

- 4.1 Further to the entry into of the BTA and the RA between SWL and Rothesay, the Boards of both Rothesay and SWL agreed to begin the process of a legal transfer of the Transferring Business (including the SWL Transferring Policies) to Rothesay pursuant to Part VII of FSMA. The purpose of the proposed Scheme is to transfer the Transferring Business, including the SWL Transferring Policies, from SWL to Rothesay. The types of liabilities to be transferred are materially the same as Rothesay's current liabilities as described in sections 3.27 – 3.31, with no materially new or different features. In particular, the SWL Transferring Policies arose from insuring pension scheme liabilities.
- 4.2 SWL entered the Bulk Annuity market in 2015 and with a market share of less than 5% is one of the smaller participants in the market.
- 4.3 I understand that the motivation from SWL for the transfer of its bulk purchase annuities business was because they have taken a strategic decision to exit this market and the transaction is in line with Scottish Widows' strategy of building a customer-focused digital leader and integrated financial services provider. The transfer will enable it and its corporate group of companies to focus on growing strategically important lines of business such as insurance, investments, retirement and pensions products (which do not include the bulk purchase annuity business), through direct and intermediary channels.
- 4.4 SWL is a wholly-owned subsidiary of the Lloyds Banking Group.
- 4.5 The RA was put into effect to transfer, as far as possible, the economic risk and reward of the SWL Transferring Policies and associated longevity reinsurance, assets and liabilities from SWL to Rothesay. Under the RA, SWL agreed to transfer assets, as premium, to Rothesay. Premium assets comprising of liquid assets have already been transferred to Rothesay under the RA. A portion of these premium assets, the FW Assets, will legally transfer to Rothesay under the Scheme, but the economic exposure to these assets has already been accepted by Rothesay under the terms of the RA.
- 4.6 The SWL Transferring Policies proposed to transfer are:
- 28 Bulk Annuity "Buy-in" policies, where the policyholder is the pension scheme trustee
 - Approximately 6,700 Individual Annuities, issued to or in respect of individuals following "buy-out" under 9 previous bulk purchase annuities issued by SWL
 - 2 "residual risk" policies issued by SWL to pension scheme trustees
- 4.7 The Scheme will also transfer to Rothesay:
- 4 longevity swap insurance contracts with the Lloyds Banking Group Pension Trustee Limited, where SWL is acting as the insurer, plus associated longevity swap reinsurance arrangements (together the "SWL Ambrosia Arrangements")
 - 5 Longevity swap reinsurance transactions (and applicable collateral arrangements) with third party reinsurers (The Prudential Insurance Company of America and Swiss Re), where SWL is acting as the cedant (the "SWL Longevity Reinsurance")
 - the FW Assets and associated contracts
 - other relevant contracts in respect of the Transferring Business, including the administration services agreement with Aptia
 - all required data and other assets (including records) such that Rothesay will be able to administer the Transferring Business
- 4.8 These contracts are all materially of the same type, and give rise to the same liabilities, as Rothesay's existing insurance business. As a result, neither the acceptance of the risks via the RA, or via the Scheme, materially changes Rothesay's risk profile.
- 4.9 The assets that have, or will, transfer to Rothesay by way of consideration for accepting the liabilities are also assets of the type that Rothesay typically holds to back such liabilities.

- 4.10 The overall transaction increases the size of Rothesay's assets and liabilities by around 8% and the policyholder/member count by approximately 4%.
- 4.11 All of the SWL Transferring Policies were insurance contracts written in the UK by SWL, which like Rothesay, is a UK-based insurer. The transfer of liabilities under the Scheme requires the approval of the High Court of England and Wales. While a small number of the individuals insured currently reside in the Channel Islands and the Isle of Man, I understand that no local schemes are required and they will also be transferred by way of this Scheme.
- 4.12 The proposed Scheme will not make any changes to terms and conditions of the existing Rothesay policies, and none of Rothesay's existing policyholders are being transferred. None of the liabilities due to existing Rothesay policyholders, nor commitments by existing Rothesay policyholders to make any subsequent premium payments to Rothesay, are being changed as a result of the proposed Scheme.
- 4.13 The administration of the SWL Transferring Policies and SWL Ambrosia Arrangements is currently being performed by Aptia, on behalf of SWL. The services contract between Aptia and SWL is expected to transfer to Rothesay under the Scheme, and it is proposed that immediately following the Scheme taking effect the administration of these policies will continue to be performed by Aptia (on behalf of Rothesay instead of SWL) using the same systems. As a result there will be a change in owner of the relevant administration records, but there is no data migration required. However Rothesay will administer the Ambrosia Arrangements itself after the Scheme Effective Date in line with its approach for administering its longevity swap arrangements, which it is experienced in administering. For further details relating to administration of the various type of policies, please see paragraph 5.15. Therefore, I would not anticipate any material changes in the administration or to the standards of service provided to the in-scope transferring policyholders as a result of the transfer.
- 4.14 Compared to maintaining the reinsurance under the RA for the lifetime of the liabilities, a transfer under Part VII of FSMA is expected to have a number of benefits for Rothesay, including:
- Increased control over the administration and data being provided;
 - Simpler and clearer customer communication;
 - Direct ownership and management of all of the assets, including the FW Assets; and
 - Removal of collateral ring-fencing requirements of the current reinsurance structure.
- 4.15 For existing Rothesay policyholders all existing customer administration arrangements will remain in place and there will be no impact from the proposed Scheme. This includes existing Rothesay policyholders who are currently administered by Aptia as administrator on behalf of Rothesay. The Aptia systems and staff currently servicing Rothesay existing policyholders are different to the systems and staff who service the SWL Transferring Policies, and this will remain the case after the Scheme takes effect, therefore the risk of any material adverse impact on service standards is low.
- 4.16 If the proposed Scheme does not take place, then under certain circumstances SWL are able to terminate the RA in accordance with its terms. However, SWL may consider continuing with the reinsurance, depending on its view on the merits of termination compared with long term reinsurance. If the RA terminates, then as a result of no longer being exposed to the risks of those liabilities, Rothesay's solvency coverage would increase slightly. However, in either case there is no material impact on Rothesay's existing policyholders (other than SWL as cedant under the RA).

Financial position post
transfer

5

Capital policy for Rothesay Life Plc

- 5.1 The solvency requirements prescribed under the Solvency II regime came into effect on 1 January 2016. Since this date, and continuously thereafter, Rothesay held surplus assets in excess of its regulatory capital requirement (the Solvency Capital Requirement or SCR).
- 5.2 Solvency II is a strong capital regime designed to provide a high level of policyholder security. Solvency II is a risk-based regime which means that insurers are required to hold capital commensurate with the level of risk that they operate with. Companies are expected to hold sufficient excess capital such that they can withstand adverse scenarios measured at the 99.5% confidence level over one year.
- 5.3 Following the UK's withdrawal from the EU, with effect from 1 January 2021 responsibility for the regulatory solvency framework applicable to UK insurance and reinsurance companies has reverted to the UK authorities. A number of changes have taken place to the regime since then, and further changes are anticipated to take effect in future, as the regime becomes tailored to the UK insurance market. Changes to Solvency II under the UK regime are considered in more detail in the 'Solvency II Reform' section below.
- 5.4 Rothesay's parent, Rothesay Limited, is also managed on a Solvency II basis. The Rothesay Group (as described in Section 3) is a simple one, with Rothesay being the only material active risk-carrying entity, and therefore there are no material residual risks outside of Rothesay which may affect the security of Rothesay's policyholders. For the remainder of this section I will therefore consider only Rothesay on a standalone basis, although given the simple structure of the Rothesay Group the conclusions reached are likely to hold for Rothesay Limited also.
- 5.5 Rothesay's capital management policy aims to maintain a solvency ratio of not less than 140% on a Solvency II regulatory capital basis, that is, to have surplus assets or "Own Funds" to cover at least 140% of the SCR. Since HY 2023, Rothesay calculates its SCR using the Full Internal Model (FIM). Rothesay's FIM represents a comprehensive capital model that accurately reflects the nature and magnitude of the key risks on its balance sheet.
- 5.6 Under Solvency II, a firm is also obliged to consider the capital it believes that it needs in order to meet its own needs, a process known as the Own Risk and Solvency Assessment ("ORSA"). Rothesay's capital policy in relation to the ORSA was aligned with the FIM in 2023, since the FIM represents Rothesay's internal view of the nature and magnitude of the key risks on its balance sheet. In practice it is the Solvency II regulatory capital basis which is the more onerous, and this is expected to continue to be the case for the foreseeable future.
- 5.7 The proposed transfer of the Transferring Business to Rothesay under the Scheme will have no direct impact on the capital management policy. Rothesay's capital policy will remain under regular review by the Board to ensure that it remains appropriate.

Solvency II capital position

5.8 The Solvency II position of Rothesay before and after the proposed transfer (as if it had been effective on 30 June 2024) is set out in Table 5.1 below. which is consistent with the presentation of prior positions shown in Table 3.1. As the policies in question (other than the SWL Ambrosia Arrangements) are reinsured to Rothesay and the transaction was fully funded at the point of sale, with assets already having transferred to Rothesay (or, in the case of the FW assets, where Rothesay has accepted the economic exposure to the assets via the RA), there is no change in the solvency position of Rothesay due to the Scheme.

Table 5.1: Solvency II financial position as at 30 June 2024 before and after the proposed transfer (£m)

Rothesay Life Plc £m	30 June 2024 Pre-scheme	30 June 2024 Post-scheme
Net Assets	68,484	68,484
Net Technical Provisions	59,818	59,818
Eligible Own Funds	8,667	8,667
Solvency Capital Requirement	3,506	3,506
Surplus	5,161	5,161
SCR cover	247%	247%

5.9 The SWL Transferring Policies comprise best estimate liabilities of around £5bn, or around 8% of Rothesay's total liabilities, and are included in the Net Technical Provisions line above. In the Pre-Scheme position this is in respect of the reinsured benefits under the RA, and post-Scheme this is in relation to the direct liabilities associated with the SWL Transferring Policies, but as discussed earlier other than the SWL Ambrosia Arrangements these liabilities are the same pre- and post-Scheme. In both cases this also allows for the related longevity reinsurance in relation to those liabilities. The net liability associated with the SWL Ambrosia Arrangements is negligible, because of the nature of those arrangements, as described in 2.5.

5.10 Pre-Scheme some of the assets backing the liabilities are held by Rothesay directly, with the FW Assets remaining on the SWL balance sheet until completion of the Scheme but with the economic interest fully passed to Rothesay under the RA. Post-Scheme Rothesay will hold all of the assets directly, but the economic effect is unchanged.

5.11 The values of Technical Provisions shown above include the use of a Matching Adjustment in the valuation of the best estimate liability as approved by the PRA in November 2015. This involves the application of a spread to risk-free discount rates reflecting the liabilities being long-term and illiquid. The Scheme will not affect the ability of Rothesay to apply the Matching Adjustment.

5.12 In common with many other firms in the UK, Rothesay has been given approval by the PRA to use a transitional adjustment to technical provisions (the Transitional Measure on Technical Provisions or "TMTP"). This reduces the technical provisions required in order to smooth the impact of moving to Solvency II. The Scheme will not affect the ability of Rothesay to apply this adjustment to technical provisions.

- 5.13 Rothesay's SCR is calculated using its FIM, which determines an appropriate SCR to be held directly based on Rothesay's risk profile. This is calculated to be the amount such that Rothesay can withstand a 99.5th percentile stress, over a 12-month period. The FIM methodology and calibration will not change as a result of the Scheme.
- 5.14 It is noted that following the Scheme, Rothesay will have additional responsibilities and liabilities in relation to the SWL Transferring Policies compared to simply reinsuring them, in particular primary responsibility for administering the policies. Rothesay's FIM calculation for operational risk has been updated to reflect all of the additional operational risk associated with the SWL Transferring Policies and other transferring contracts (including the SWL Longevity Reinsurance and the Ambrosia Arrangements), and there will be no change once the Scheme goes into effect. Therefore Rothesay's SCR will not change as a result of the Scheme.
- 5.15 Administration of the SWL Transferring Policies and the SWL Ambrosia Arrangements is currently being carried out by Aptia, on behalf of SWL, and the cost of this administration is covered by the RA. From the Scheme Effective Date it is proposed that the administration of the SWL Transferring Policies will continue to be carried out by Aptia, but on behalf of Rothesay (as the services contract between SWL and Aptia will transfer to Rothesay under the Scheme). The SWL Transferring Policies will continue to be administered by Aptia using the same systems and staff as that immediately before the Scheme Effective Date. Rothesay will administer the Ambrosia Arrangements itself, using the in house platform that it uses to administer similar reinsurance arrangements. Rothesay administers a large number of longevity reinsurance arrangements and has extensive experience in doing so. As part of the preparation for the transfer, Rothesay is already using its reinsurance platform to carry out 'shadow' calculation and administration in respect of the Ambrosia Arrangements. For the 2 residual risk policies, these do not require servicing until a claim is received, which will be considered by Rothesay, in accordance with the terms of these policies. Rothesay has written similar type of residual risk policies as part of its bulk annuities business. There is not expected to be any material change in the cost of administration, nor in the risks associated with those costs, compared to those currently assumed by Rothesay as part of its reserving and capital calculations. Therefore there is not expected to be a change in either the reserves held by Rothesay for expenses or in the capital held for those risks immediately following the Scheme. It is possible that over time there would be differences in the costs associated with maintaining and administering the policies directly (including internal and external costs) compared to the costs reflected in the RA, but this is not expected to be material and are not reflected in the pro-forma position shown in Table 5.1.
- 5.16 Before the Scheme Effective Date, some of the assets backing the reinsured liabilities are being held in a custody account as collateral subject to a security charge for SWL's benefit. There are some restrictions on the types of assets which can be posted as collateral. These contractual restrictions and the security charge relating to the collateral assets will be removed after the Scheme and Rothesay will have more investment freedom to manage the assets. For assets which remain with SWL (where the economic interest was transferred to Rothesay under the RA), being the FW Assets, these will also legally transfer to Rothesay under the Scheme, following which Rothesay will have direct control over those assets. However, the Scheme will not change Rothesay's economic exposure to these assets. Further, Rothesay does not anticipate fundamentally changing the types of assets to be held immediately following the transfer. While there may be some economic benefits to Rothesay as a result of removing these restrictions, these are not reflected in the pro-forma position shown in Table 5.1.
- 5.17 The comparative solvency coverages for Rothesay Limited as at 30 June 2024 are 244% SCR cover pre-transfer and 244% SCR cover post-transfer. These are slightly lower than the equivalent Rothesay Life Plc values primarily due to a small amount of additional non-insurance liabilities at the Rothesay Limited level. There are no impacts of the Scheme to consider at the Rothesay Limited level beyond those considered at the Rothesay level.
- 5.18 I have considered the latest financial position of Rothesay, as measured on a Solvency II basis. This has not changed my views and conclusions in relation to the proposed scheme.

5.19 In summary, I do not expect the proposed transfer to have any impact on the Solvency II capital position of Rothesay, and therefore no material impact on the security of Rothesay's current policyholders.

Solvency II ORSA

5.20 In addition to the results shown above, I have also considered the ORSA position of the business before and after the proposed transfer, as if the transfer had become effective on 30 June 2024. As the material portion of liabilities associated with the SWL Transferring Policies are reinsured to Rothesay and the transaction was fully funded at the point of sale, with assets transferred to Rothesay, there is no change in the ORSA position of Rothesay due to the Scheme. It is noted that Rothesay will have additional operational responsibilities following the transfer and therefore the overall quantum of operational risk will be higher after the Scheme, but under Rothesay's ORSA all of the operational risk associated with the transferring liabilities and assets was recognised from the point that the reinsurance agreement with SWL was entered into. This included the SWL Ambrosia Arrangements. I am therefore comfortable that the extra risks are captured under Rothesay's ORSA and that therefore there should be no material reduction in the security of Rothesay's policyholders as a result of the Scheme.

Solvency II Reform

5.21 A number of changes are being made to Solvency II methodology ahead of 31 December 2024.

5.22 The PRA have issued a number of consultations in relation to reform of Solvency II (to be known as Solvency UK), and these have been followed by Policy Statements and final (or near-final) rules and related policy materials. Of most interest to Rothesay and potentially relevant for the considerations in this report are;

- Changes to widen the asset eligibility for Matching Adjustment portfolios
- A proposal that a senior manager (expected to be the CFO) attests to the level of matching adjustment taken and that the fundamental spread used reflects all retained risks
- That the Fundamental Spread (FS) will be set at a notched rating (rather than CQS or "big letter") level. The FS reflects the allowance for credit risk within the Matching Adjustment calculation
- That firms can adjust the FS with an FS addition if required, and
- Simplification of the TMTP calculation.

5.23 For 30 June 2024, notching has been introduced to the ratings calculation as used for the FS. This had negligible impact on Rothesay's solvency position, and is reflected in the figures in Table 5.1.

5.24 Further changes, including those relating to attestation of the level of the Matching Adjustment, will be required before 31 December 2024 to implement all Solvency reform changes.

5.25 The impact of these changes to the regulatory regime are not expected to have a material effect on Rothesay's solvency position. More importantly for this report, they will not differ whether the Scheme is put into effect or not, and so they do not change my conclusions.

Subsequent events

- 5.27 This section sets out the events which have happened since the analysis above was performed, or which may happen between now and the effective date of the transfer. I will comment fully on any such events and their impact within my supplementary report to be issued shortly before the sanction hearing.
- 5.28 On 5 August 2024 Rothesay announced its intention to repay £400m of Tier 2 borrowings, during September 2024. Had this been repaid as of 30 June 2024 there would be no impact on the financial positions shown in Table 3.1 and Table 5.1, because this Tier 2 capital was not eligible to count towards the SCR.
- 5.29 Rothesay continues to write new business, and will continue to write new business up to and beyond the date of the sanction hearing and the Scheme Effective Date. Rothesay considers that it has SCR coverage above its target operating range, and expects to use this excess capital to write further new business over time.
- 5.30 On 25 September Rothesay announced that it intends to pay an interim dividend of £352m. Had this been recognised as of 30 June 2024, SCR coverage would have reduced by around 10%.
- 5.31 I have considered the latest financial position of Rothesay, as measured on a Solvency II basis, and considered the reasons for the movements since the values shown in Table 5.1.
- 5.32 None of these points change the impact of the scheme on Rothesay's existing policyholders, and so do not change my conclusions.

Impact of Scheme on existing Rothesay policyholders

6

In this section I summarise the analysis and consider the impact of the proposed Scheme on existing Rothesay policyholders, including SWL. SWL is a policyholder of Rothesay as it is the cedant under the RA.

Impact on contractual terms applicable to existing Rothesay policyholders (other than SWL)

- 6.1 There are no intended changes within the proposed Scheme to the contractual terms of any of the existing Rothesay policies, except that (as discussed in para 6.13 - 6.16) it is anticipated that once the Scheme is put into effect, the RA and related security arrangements will terminate and SWL will cease to be a policyholder of Rothesay.
- 6.2 The majority of the benefits payable under the existing Rothesay policies are fully defined or vary only in relation to an external data source (e.g. the level of an inflation index). Where Rothesay has some discretion over payments to be made, for example in relation to the amount paid when a deferred annuity is transferred away from Rothesay or other types of commutations, there are no changes in the approach or basis to be used as a result of the Scheme.
- 6.3 No changes are to be made to the existing collateral or security arrangements in place with certain existing trustee policyholders of Rothesay.

Impact on security of benefits applicable to existing Rothesay policyholders

- 6.4 As noted in Section 5 of this report, had the proposed Scheme been effective as at 30 June 2024, the capital impact to Rothesay (including the transferred-in assets and liabilities of SWL) would have been nil, and Rothesay would have continued to have capital in excess of the SCR, and in line with its capital management policy.
- 6.5 There would be negligible change in the security of benefits of existing Rothesay policyholders if the proposed Scheme were to be approved, as the reinsured SWL liabilities and associated assets are currently reflected in Rothesay's balance sheet and as such, the existing Rothesay policyholders are already exposed to the overall risks associated with the SWL Transferring Policies. The net insurance liabilities associated with the SWL Ambrosia Arrangements are negligible.
- 6.6 Certain costs associated with the Scheme will be borne in part by Rothesay and in part by SWL. No costs will be passed on to any existing Rothesay policyholders. These costs are not material in the context of the assets of Rothesay and will have no impact on the security of benefits for existing Rothesay policyholders. In line with Rothesay's standard practices, these costs are already reserved and hence allowed for within the current, and pro-forma, financial position as shown in Table 5.1.
- 6.7 Certain policyholders of Rothesay benefit from access to the Financial Services Compensation Scheme ("FSCS"), which acts to provide a safety net should an insurance company be unable to pay claims or benefits due to policyholders. As a general statement of eligibility the FSCS covers all individuals and some businesses. The Scheme will not impact the rights of any of Rothesay's existing policyholders who are currently eligible to make a claim under the FSCS.
- 6.8 Upon completion of the Scheme, SWL will lose all security and recourse to any collateralised assets of Rothesay under the collateral/security arrangement described in section 5.16, including that the FW Assets will transfer to Rothesay. This will provide a liquidity management benefit, give Rothesay more freedom to manage the assets appropriately, and give a small reduction in operational expense for Rothesay, therefore marginally improving the position for Rothesay and its policyholders compared to continuing with the reinsurance. Such benefits are not reflected in the pro-forma solvency position shown in Table 5.1.
- 6.9 The liabilities which are proposed to be transferred from SWL to Rothesay under the Scheme are materially the same types of liabilities which Rothesay currently manages. Upon completion of the Scheme, Rothesay will manage its affairs as a whole and in particular consider the security of all policyholders together, with no one set of policyholders being given preference. I do not expect any scenarios to arise where there would be a material divergence of interests between the existing Rothesay

policyholders and the policyholders under the SWL Transferring Policies (who will become Rothesay policyholders) following the transfer.

Impact on administration applicable to existing Rothesay policyholders

- 6.10 There are no significant administrative changes that will adversely affect existing Rothesay policyholders as a result of the proposed Scheme. Rothesay outsources the majority of policyholder servicing activities and for existing Rothesay policyholders, members or dependants they will continue to be administered by the same outsourced providers, in the same way, and subject to the same service standards. After the Scheme the administration of the SWL Transferring Policies will continue to be performed by the current outsourced administration provider (Aptia) under the services agreement to be transferred to Rothesay by the Scheme. I have reviewed the plans for the migration of administration services and I am satisfied that whether the Scheme is put into effect or not there would be no material impact on the administration arrangements for Rothesay's existing policyholders.
- 6.11 Rothesay currently insures the benefits of over 1,000,000 individuals, including those insured indirectly through a buy-in arrangement with a pension scheme. This includes the benefits of the c35,000 individuals that Rothesay insures currently through the RA, and which will transfer under the Scheme. Having discussed the plans with the relevant individuals, including Rothesay's Chief Operating Officer, I am confident that Rothesay has appropriate plans and sufficient resources to fully accept and on-board this business.
- 6.12 Rothesay will not change the way that it manages or oversees any of its existing policyholders as a result of the Scheme.

Impact on SWL as a policyholder of Rothesay

- 6.13 SWL is a policyholder of Rothesay as a result of the RA. The objective of the RA put into effect between Rothesay and SWL was to act as a precursor to the Scheme which would (subject to Court approval) ultimately remove the liabilities covered by the RA from SWL's balance sheet. On completion of the Scheme, SWL will lose all security and recourse to any collateralised assets of Rothesay supporting the RA (as described in section 5.16). All liabilities covered under the RA will also transfer and as such the security is no longer required. This is as intended by the terms of the BTA and reinsurance between SWL and Rothesay.
- 6.14 Following the transfer, SWL will no longer have primary responsibility for the administration of the SWL Transferring Policies, the SWL Ambrosia Arrangements, the SWL Longevity Reinsurance and the FW Assets, thereby reducing the operational burden for SWL. Responsibility for oversight of the associated longevity reinsurance and other material third party contracts will also switch to Rothesay.
- 6.15 Therefore, the Scheme does not adversely affect SWL as a policyholder.
- 6.16 The implications for individual SWL policyholders, both those transferring to Rothesay as part of the Scheme and SWL's non-transferring policyholders, will be considered in full in the SWL Chief Actuary's report, in the SWL With-Profits Actuary's report and in the Independent Expert's Scheme Report.

Impact on other parties

- 6.17 While they are not strictly existing Rothesay policyholders, I consider it appropriate to determine whether the Scheme will have an adverse impact on a number of other parties with current relationships with Rothesay.
- 6.18 The SWL Transferring Policies and the SWL Ambrosia Arrangements are currently administered by Aptia, on behalf of SWL. Aptia is also currently an outsourced administrator for some of Rothesay's existing policies, which is provided by a dedicated Aptia team and on a different platform, which will continue to be the case following the Scheme. Following the Scheme, the arrangement between SWL and Aptia will become an arrangement between Rothesay and Aptia, and Aptia will continue to administer the SWL Transferring Policies. The administration of the Transferring Policies will continue to be provided by Aptia

using the same platform and staff as that immediately prior to the Scheme. I am content that there is no adverse impact on Aptia.

- 6.19 As part of the Scheme the SWL Longevity Reinsurance arrangements and the reinsurance contracts under the SWL Ambrosia Arrangements described in 2.5 will transfer to Rothesay. These are all reinsurance contracts with reinsurers that Rothesay has existing and long-standing commercial relationships with. The terms of Rothesay's existing reinsurance contracts with these reinsurers will not change as a result of the Scheme. Rothesay has extensive experience with administering a large number of similar longevity reinsurance arrangements. I am content that there is no adverse impact on these reinsurers.
- 6.20 Rothesay has put in place reinsurance in respect of the unreinsured portion of the SWL Transferring Policies, in order to ensure that the retained longevity risk is in line with its risk appetite. Pre-Scheme this arrangement technically is a "retrocession" agreement, as Rothesay is retroceding the risks that it has accepted via the reinsurance provided under the RA. Following the Scheme, this arrangement will automatically become a standard longevity swap reinsurance agreement, with Rothesay as cedant. This is a slightly simpler arrangement, therefore there is a small benefit for both Rothesay and the reinsurer under the Rothesay Longevity Reinsurance in the event that the Scheme goes into effect.
- 6.21 Therefore I am content that there is no adverse impact from the Scheme on these other relevant parties.

Consumer Duty

- 6.22 Consumer Duty came into force on 31st July 2023 for "open" products and services. "Closed" products and services were subject to a later implementation date of 31st July 2024.
- 6.23 The Duty's key principle is that firms and the people who run and work in them must act to deliver good outcomes for retail customers. For Rothesay, that means retail policyholders (in payment and deferred) and the ultimate UK consumers in mortgage arrangements that Rothesay funds.
- 6.24 Following extensive work by a number of the Board's sub-committees, the Board of Rothesay approved the assessment that Rothesay had satisfied the obligations of the Consumer Duty. That assessment was subject to external assurance and validation.
- 6.25 On-going compliance with the requirement of the Consumer Duty are overseen by Rothesay's Executive Customer Committee, Board Customer Conduct Committee and Rothesay's Consumer Duty Champion. The Board will formally review and agree an assessment of Rothesay's compliance with the Consumer Duty annually.
- 6.26 Other than noting that the SWL Transferring Policies will become Rothesay policies and they will become in scope for Rothesay's Consumer Duty responsibilities, the Scheme will not change Rothesay's responsibilities in relation to Consumer Duty, and there will be no change to the way Rothesay discharges those responsibilities.
- 6.27 Rothesay's Executive Customer Committee (ECC) and Customer Conduct Committee (CCC) have considered the impact of the Scheme on Rothesay's existing policyholders, taking into account both my review and the conclusions of the IE, including considering the requirements of Consumer Duty. Both ECC and CCC were content that there would be no adverse impact on policyholders as a result of the Scheme.

Policyholder communications

- 6.28 As part of the Part VII transfer process, Rothesay is required to contact its existing policyholders to inform them of the proposed Scheme. In line with standard practice, Rothesay intends to apply to the Court to seek a waiver from this obligation, on the grounds that:
- (a) There is no impact on the policy terms, security or administration arrangements in respect of Rothesay's existing policyholders

- (b) It would be expensive to write to all of Rothesay's existing policyholders and there would be limited utility, given point (a)
- (c) There is scope for confusion given that Rothesay would not usually write to policyholders, and policyholders may be concerned or misunderstand the reason for the communication.
- 6.29 Rothesay will seek a waiver on those grounds, and instead information about the Scheme will be made available via other channels, such as advertising the Scheme more generally and putting extensive information relating to the Scheme on its website.
- 6.30 Rothesay also has plans in place to deal with any communication from its existing policyholders in relation to concerns, queries or objections to the Scheme, including liaising with all of its third-party administrators so that they can take appropriate actions should they be contacted by a policyholder about the Scheme. All concerns raised or objections to the Scheme received from Rothesay existing policyholders will be passed to a specialist team at Rothesay including representatives from its legal and actuarial functions, who will consider and respond to them. Details of any objections and concerns received from Rothesay existing policyholders will be provided to the regulators, the Independent Expert and the Court. I will also consider any and all objections as part of my supplementary report.
- 6.31 I have reviewed the Rothesay communication plan, including the draft materials, and I am content that the plan is appropriate and I agree that it would be disproportionate to write to Rothesay's existing policyholders.
- 6.32 These communication plans have also been shared with the IE and he concluded:
- "10.4.1 ... I support the intended approach of seeking a waiver from the regulatory requirement to notify the Rothesay Existing Policyholders directly.*
- 10.4.2 I have formed this opinion by taking into account:*
- my conclusions ... that the Scheme will have no material adverse effect on the Rothesay Existing Policyholders*
 - my agreement with Rothesay's assessment as set out in paragraph 7.9.18 that the notices on the Rothesay website and newspapers are a reasonable and proportionate way of notifying these policyholders."*²
- 6.33 The Rothesay Communication Plan which describes the communication approach to Rothesay's existing policyholders and the approach for handling objections from policyholders has also been shared with the PRA and FCA, and they have not raised any objections to this approach.

² Source: Report of the Independent Expert on the proposed Scheme to transfer certain long-term insurance business from Scottish Widows Limited to Rothesay Life Plc, December 2024, extract from Section 10.4.

Summary

- 6.35 Overall it is my opinion that the proposed Scheme and transfer of the Transferring Business is not likely to adversely affect the benefits, security or administrative arrangements applicable to existing Rothesay policyholders.

Simon Johnson, FIA
Chief Actuary, Rothesay Life Plc
6 December 2024

Compliance with actuarial standards



7.1 The Financial Reporting Council (“FRC”) sets Technical Actuarial Standards (“TASs”) for members of the UK actuarial profession.

7.2 The TASs relevant to this work are:

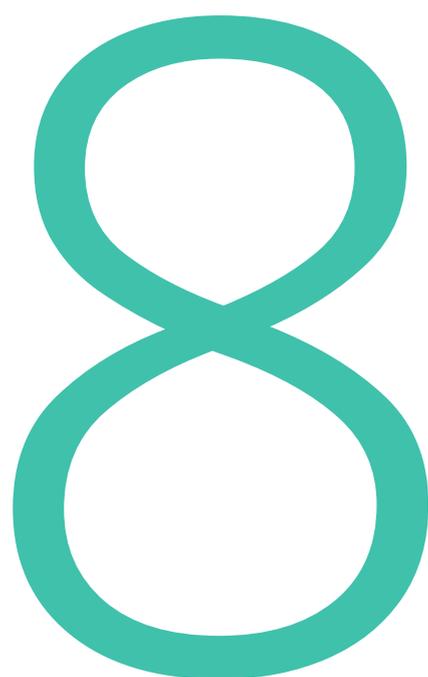
- TAS 100: General Actuarial Standards
- TAS 200: Insurance

and it is my assessment that this report, and the work which underlies it, comply with these TASs.

7.3 The report is also consistent with the requirements of Actuarial Professional Standard APS L1: Duties and Responsibilities of Life Assurance Actuaries, which is issued by the Institute and Faculty of Actuaries (IFoA).

7.4 This Report has been prepared in accordance with the Actuarial Professional Standard APS X2: Review of Actuarial Work. Individual sections of this report have been reviewed by relevant people, for factual accuracy. This has included a Legal review in order to ensure that the Scheme has been accurately described. The drafting of this Report overall has included an internal review by another actuary in the company, Graham Butcher FIA, and I have taken his feedback into account when producing this Report, although the opinions expressed remain my own. The Scheme is also subject to independent review by the Independent Expert which provides a further review of the conclusions of this Report. I am satisfied that in the context of the Scheme and the purpose of this Report, that this is sufficient peer review.

Glossary of terms used



Term	Description
BPA	A Bulk Purchase Annuity is an insurance policy taken out by the Trustees of a Defined Benefit Pension Scheme, whereby an insurance company insures some or all of the pension liabilities being paid by the Scheme
BTA	Business Transfer Agreement, being the agreement between SWL and Rothesay to transfer a portfolio of bulk purchase annuities business by way of a Part VII transfer
Buy-in	A BPA policy held by the Trustees of the Pension Scheme with an insurance company. It can be held for the long term, or as a precursor to a buy-out. During buy-in, the Trustee receives regular payments from the insurance company which in turn fund the Trustee's pension payments to underlying scheme members.
Buy-out	Under a buy-out policy all responsibilities are transferred directly to the insurance company, who issues individual policies to all the members of the Scheme. This may take place either through the insurer issuing individual policies directly of the members or a deed poll (which takes effect as a series of annuities) to or in respect for the members, followed by the issuance of individual policies.
Chief Actuary	The actuary appointed from time to time to carry out the duties set out in the Actuaries section of the PRA rulebook
Court	The High Court of Justice of England and Wales
Excluded Liabilities	Liabilities associated with the Transferring Business but which will not transfer from SWL to Rothesay under the Scheme, e.g. fines or similar losses arising from SWL activities before the transfer. This is referred to as Excluded Liabilities in the Scheme and is set out in more detail in the Scheme.
FCA	Financial Conduct Authority, the regulatory body that regulates the financial services industry in the UK, including protecting customers
FIM	Full Internal Model, a type of internal model which may be used to calculate a company's SCR, subject to PRA permission
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services & Markets Act 2000
FW Assets	Assets (mainly loans made by SWL (as lender) to borrowers) where the economic interest has been passed to Rothesay under the RA, but which will remain on SWL's balance sheet until the Scheme Effective Date, at which point ownership will legally transfer to Rothesay
Independent Expert	The individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and FCA pursuant to Section 109 of FSMA
ORSA	Own Risk and Solvency Assessment. An internal assessment a company makes of its own risk profile and hence the capital needed to allow for those risks
Own Funds	A company's assets minus its liabilities, assessed on a Solvency II basis
PRA	Prudential Regulation Authority, the UK regulatory body responsible for prudential regulation and supervision of insurers and other financial institutions
Reinsurance	Protection sold to or purchased from another insurance company

Residual Risk policy	Residual risk policies are insurance policies that provide additional protection to pension scheme trustees against certain defined risks, for example, claims from missing beneficiaries. Such insurance can be provided as part of, alongside (but separate to) a BPA, or completely separately.
Rothesay	Rothesay Life Plc (formerly known as Rothesay Life Limited)
Rothesay Group	The group of companies with Rothesay Limited as their ultimate parent
Rothesay Limited	Rothesay Limited (formerly known as Rothesay HoldCo UK Limited) the parent company of Rothesay
Rothesay Longevity Reinsurance	Additional longevity reinsurance in relation to the unreinsured portion of the SWL Transferring Policies put in place by Rothesay, which before the Scheme Effective Date, operates as a retrocession of the risks reinsured by Rothesay under the RA.
Scheme	The proposed insurance business transfer scheme relating to the transfer of the bulk purchase annuities long term business of SWL to Rothesay
Scheme Effective Date	The date on which the proposed Scheme will take effect (currently expected to be 11 June 2025), subject to Court approval
Scheme Report	The independent report produced by the Independent Expert required as part of the procedure for gaining approval of the Scheme by the Court
SCR	Solvency Capital Requirement under Solvency II
Standard Formula	A defined method for calculating a company's SCR, using techniques and calibrations intended to be applicable for the majority of insurance companies
Supplementary Report	An update to the Scheme Report (or, if the context infers, to this Report), which may be required for the secondary Court hearing reflecting any material changes that have occurred in the businesses
Surplus	The excess of a firm's Own Funds over its SCR
SWL	Scottish Widows Limited
SWL Ambrosia Arrangements	A series of tripartite arrangements between SWL, a Lloyds Banking Group pension scheme and a reinsurer, to transfer risk from the pension scheme to the reinsurer. SWL acts as the intermediating insurer but have negligible risk as a result of the reinsurance.
SWL Longevity Reinsurance	Longevity swap reinsurance contracts and associated collateral arrangements SWL had in place in respect of some of the SWL Transferring Policies
SWL Transferring Policies	A portfolio of in-payment and deferred annuities, currently reinsured from SWL to Rothesay
Technical Provisions	Solvency II base liability calculated as a sum of the Best Estimate Liability plus Risk Margin net of any transitional provisions
Transferring Business	The bulk purchase annuities business of SWL that it is proposed to transfer to Rothesay, comprising of the SWL Transferring Policies, FW Assets and other related contracts, including the SWL Longevity Reinsurance and the SWL Ambrosia Arrangement, as further described in section 4.6

Rothsay Life Plc is authorised in the UK by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm reference number 466067. Rothsay Life Plc is registered in England and Wales with company number 06127279. Registered office: The Post Building, 100 Museum Street, London, WC1A 1PB.