

Independent Expert's summary report for policyholders

Introduction

1. Scottish Equitable plc, which I refer to as SE plc, and The Royal London Mutual Insurance Society Limited, which I refer to as Royal London, wish to transfer SE plc's individual protection business to Royal London. To do this, they must make an application to the High Court of Justice in England and Wales. The application must include a report by an Independent Expert on the terms of the transfer. I have been instructed jointly by SE plc and Royal London to fulfil this role, and my appointment has been approved by the UK's insurance regulators. I am a Fellow of the Institute and Faculty of Actuaries, and a partner of Hymans Robertson LLP, an actuarial consultancy firm.
2. This is my report for the policyholders of SE plc and Royal London in connection with the proposed transfer. It is a summary of my full report to the Court, which is available on both firms' websites or from either firm on request. That report sets out the detailed scope of my work, the standards applying to it, and the information I have used in preparing it. Nothing in that report and this summary is, and nor should it be viewed as being, investment, accounting, legal or tax advice, including to SE plc, to Royal London, or to their policyholders.
3. The main focus of my work is to consider whether the proposed transfer is likely to affect the benefits paid to any group of policyholders, or to significantly reduce either the security of those benefits or the standards of service provided to policyholders. I have considered the likely effect of the proposed transfer on SE plc's current policyholders whose policies will be transferred to Royal London, on SE plc's current policyholders whose policies will not be transferred to Royal London, and on Royal London's existing policyholders. I refer to these groups of policies and policyholders as "transferring", "remaining" and "existing" policies and policyholders, respectively.

The impact of the transfer on benefits expected to be paid to policyholders

Policyholders transferring from SE plc to Royal London

4. There will be no changes to the terms and conditions of transferring policies, except to refer to Royal London rather than SE plc. In particular, there will be no changes to premiums payable by transferring policyholders, or to benefits due to them in accordance with their terms and conditions. While SE plc does have some areas of discretion in its management of the transferring policies, I am satisfied that these areas will continue to be managed in materially the same way by Royal London.
5. I therefore do not expect the transfer to result in any change to the benefits paid to or premiums required from any of the transferring policyholders.

SE plc's policyholders not transferring to Royal London and Royal London's existing policyholders

6. There will be no changes to the terms and conditions of SE plc's remaining policies or to those of Royal London's existing policies. There will also be no changes to the way in which any of these policies are managed, including premiums, charges, expenses, investment strategy, and the range of funds available where relevant. The transfer will also not affect or dilute policyholders' rights to share in certain profits arising in their firm, where relevant.
7. I therefore do not expect the transfer to result in any changes to the benefits paid to or the premiums required from any of SE plc's remaining policyholders or any of Royal London's existing policyholders.

The security of policyholder benefits

Policyholders transferring from SE plc to Royal London

8. SE plc and Royal London have different ownership structures, business plans, and operating models, and both companies maintain internal policies which govern the financial resources retained in each firm to provide security to their policyholders. These policies inevitably differ to some extent, but they have been approved as being appropriate by the parties' Boards, in the context of their businesses, the regulatory

environment in which the parties operate, and the options available to them to manage their financial positions. These policies require both SE plc and Royal London to hold capital in excess of the regulatory minimum.

9. In that context, I view SE plc and Royal London as being of approximately equal financial strength provided that they both comply with their capital management policies, which they currently do, and which is expected to be the case after the transfer.
10. Furthermore, both SE plc and Royal London, which have similar management and governance arrangements, hold similar types of insurance policies and are exposed to similar risks. I have considered the risks faced by both SE plc and Royal London, and I am satisfied that the transfer should not materially change the risks faced by transferring policyholders.
11. I have also considered how Royal London's financial position is expected to change in the years following the transfer, and I am satisfied that the company's financial position is expected to continue to meet the targets set out in its financial resources policy.
12. I therefore do not expect the transfer to have a material adverse effect on the security of benefits for policyholders transferring from SE plc to Royal London.

SE plc's policyholders not transferring to Royal London and Royal London's existing policyholders

13. SE plc has confirmed that the transfer will not result in any changes to its internal policy governing the level of financial resources that it holds, and Royal London has confirmed similarly. I am satisfied that the level of financial resources that each expects to hold following the transfer will comply with its policy. I have also examined the likely effect of the transfer on the risks faced by SE plc and by Royal London, and I am satisfied that I do not expect there to be a material impact on each company's risk profile.
14. I therefore do not expect the transfer to have a material adverse effect on the security of benefits for SE plc's remaining policyholders or Royal London's existing policyholders.

Service standards

Policyholders transferring from SE plc to Royal London

15. The administration of the transferring policies is currently outsourced by SE plc to Atos BPS Limited, who I refer to as Atos, a specialist third-party provider of insurance policy administration. SE plc's contract with Atos will be cancelled, with Royal London entering into a new contract with Atos on materially similar terms. Target service levels will remain unchanged for the vast majority of servicing activities (such as processing claims, complaints and other mail), although there will be a slight reduction in call handling service levels. In deciding whether I consider the proposals to represent a material adverse effect on service standards, I considered them against industry averages and the proposals compare favourably to these. Given this, and given that the administration will continue to be carried out by Atos, and on the same systems, I do not expect there to be a material adverse effect on the standards of service received by the transferring policyholders.
16. Atos SE, the parent company of Atos, announced on 5 February 2024 that it was in formal discussions with its banks to agree a plan to refinance its debts. Since then there have been a number of articles in the press about the financial position of Atos SE and its subsidiaries. As Atos currently provides third-party services for the transferring policies, I am satisfied that the Scheme will not create a significant new reliance on Atos for the transferring policyholders. I also note that Atos's ability to administer and service the transferring policies is not currently impacted. Should this change, either before or after the proposed transfer, SE plc and Royal London both have back-up plans in place to ensure that continuity of service is maintained for transferring policies. I am therefore currently satisfied that the conclusions of my report remain appropriate and unchanged in light of this, provided that these back-up plans are appropriate and continue to support these conclusions. I will report further on the situation, including on the ongoing appropriateness of the parties' back-up plans, in my supplementary report.

17. In the longer term, Royal London intends to bring the administration of transferring policies in-house. While plans to do this have not been finalised, Royal London currently expects that if the transferring policies' administration was brought in-house it would seek to align the service standards for them with those for its existing internally-administered business. While there are some differences between the service standards for the transferring policies under Royal London's new agreement with Atos compared to those currently applying to its internally-administered business, I am satisfied that these are not material and that the service standards are generally comparable. Should the administration of the transferring policies be brought in-house, Royal London has committed to undertaking an assessment at that point to ensure there is no resulting material adverse effect on service standards.

SE plc's policyholders not transferring to Royal London and Royal London's existing policyholders

18. Some of SE plc's remaining policies are currently administered by Atos under the same arrangement referred to in paragraph 15. As that arrangement is to be cancelled, SE plc intends to bring the administration of the relevant remaining policies into the scope of another (separate) agreement it has with Atos, and on identical terms. There are no other changes to the administration of SE plc's remaining policies. I therefore do not expect there to be a material adverse effect on the standards of service received by SE plc's remaining policyholders.

19. As discussed in paragraph 16, there have recently been some articles in the press about the financial position of Atos SE and its subsidiaries. As Atos currently provides third-party services for SE plc's remaining policies, and will continue to do so following the transfer, I am satisfied that the Scheme does not change the reliance on Atos for SE plc's remaining policies. Atos's ability to administer and service these policies is not currently impacted. Should this change, SE plc has a back-up plan in place to ensure that continuity of service is maintained for remaining policies. I am therefore currently satisfied that the conclusions of my report remain appropriate and unchanged in light of this, provided that these back-up plans are appropriate. I will report further on the situation, including on the ongoing appropriateness of SE plc's back-up plan, in my supplementary report.

20. The transfer will not affect the administration of Royal London's existing policies.

Conclusion

21. I therefore conclude that the proposed transfer is not expected to have a material adverse effect on the benefits expected to be paid to any group of policyholders, or to significantly reduce the security of those benefits, or the standards of service received by policyholders.

22. Before the final Court hearing, expected to be held on 14 June 2024, at which the Court will decide whether the transfer may proceed, I will prepare a further report discussing any significant developments that have occurred since my full report was finalised, commenting on whether these developments cause me to change my conclusions.



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For and on behalf of Hymans Robertson LLP

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