

**Supplementary Report of the Independent
Expert on the proposed Scheme to
transfer certain life insurance businesses
from The Royal London Mutual Insurance
Society Limited to Royal London
Insurance DAC (formerly Royal London
Financial Services DAC)**

24 January 2019

Contents

1	Executive summary	3
2	Introduction	8
3	Updated information	11
4	Updated impact of the Transfer on policyholders and reinsurers	25
5	Consideration of the policyholder communication process and objections and representations received	40
6	Conclusion	46
Appendices		
A	Information and documents reviewed and/or relied on	47

1 Executive summary

Background

- 1.1 The Royal London Mutual Insurance Society Limited (“RLMIS”) is a mutual life insurance company incorporated and domiciled in the United Kingdom (“UK”). RLMIS currently sells protection business in Ireland through its Irish branch and services euro-denominated insurance policies written in Ireland and Germany. Under European Union (“EU”) regulations, UK insurance companies can sell policies and service business written in European Economic Area (“EEA”) countries on a Freedom of Services or Freedom of Establishment basis (commonly referred to as “EU passporting rights”).
- 1.2 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK government officially notified the European Council of the UK’s intention to withdraw from the EU (“Brexit”), and Brexit is expected to take effect on 29 March 2019. It is uncertain whether UK insurance companies will continue to be able to sell policies and service business, including the collection of premiums and payment of claims, written in EEA countries outside of the UK under EU passporting rights, after 29 March 2019. Therefore, unless suitable transitional or grandfathering arrangements between the UK and EU are agreed prior to 29 March 2019, it is expected that it will become illegal for RLMIS to continue to sell protection business in Ireland and service its policies written in Ireland and Germany.
- 1.3 RLMIS created a new subsidiary in Ireland, (which upon incorporation was called Royal London Financial Services Designated Activity Company), which is authorised by the Central Bank of Ireland (“CBI”) as a life insurance company. Upon authorisation, the name of the subsidiary was changed to Royal London Insurance Designated Activity Company (“Royal London DAC”). Royal London DAC has obtained approval to write insurance policies in Germany under EU passporting rights.
- 1.4 RLMIS intends to transfer business written in Ireland and Germany to Royal London DAC. This transfer will be carried out using a legal process known as a Part VII Transfer of insurance business (under the Financial Services and Market Act 2000 (as amended) (“FSMA”). The terms of the transfer are set out in a document known as the Scheme. The Scheme provides certainty that the Royal London Group (“RLG”) will be able to lawfully service the business written by RLMIS through its Irish branch and the euro-denominated insurance policies written in Ireland and Germany, which RLMIS currently services, post Brexit.
- 1.5 I have classified the business being transferred under the Scheme (the “Transferring Business”) into three categories:
 - RL Post-2011 Business – business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 and sold until 6 January 2019, the day prior to the date on which Royal London DAC started selling new business,
 - Ireland Liver Business – business written in Ireland by Royal Liver Assurance Limited (“RLA”), Caledonian Insurance Company Limited (“Caledonian Life”), Irish Life Assurance plc, and GRE Life Ireland Limited. All of this business now resides in RLMIS following various previous transfers of insurance business, and
 - German Bond Business – business written in Germany on a Freedom of Services basis by RLMIS.
- 1.6 Immediately following the transfer of the Transferring Business to Royal London DAC, the German Bond Business and the Ireland Liver Business will be 100% reinsured back to RLMIS through two new reinsurance agreements (the “German Bond Reinsurance Agreement” and the “Liver Reinsurance Agreement”, together the “New Reinsurance Agreements”). To provide security for each of the New Reinsurance Agreements, RLMIS will enter into fixed and floating charges supported by collateral framework agreements (the “Security Arrangements”) with Royal London DAC.
- 1.7 I prepared a previous report dated 8 October 2018 (the “Report”) in my capacity as Independent Expert in which I considered the impact of the proposed Scheme, New Reinsurance Agreements and Security Arrangements (together referred to as the “Transfer”) on policyholders and other affected parties.

- 1.8 The purpose of this report (the "Supplementary Report") is to provide the Court with an updated assessment of the likely effect of the proposed Transfer and to consider whether or not the conclusions reached in my Report remain unchanged after taking into account any financial and non-financial developments since the publication of the Report and any objections received in relation to the proposed Scheme.
- 1.9 This Supplementary Report should be read in conjunction with the Report. For the avoidance of doubt, capitalised terms used in this Supplementary Report shall have the same meaning as in the Report.
- 1.10 Details of the scope of my appointment, my qualifications, limitations and reliances are contained in the Report. The additional information that I have relied on in preparing this Supplementary Report is set out in Appendix A.

Update on Brexit negotiations

- 1.11 There have been no developments within the public domain regarding Brexit negotiations that provide any certainty over whether RLMIS will be allowed to continue to service business written under EU passporting rights after 29 March 2019. The Scheme is still expected to proceed as planned, and given the current status of the Brexit negotiations, the Scheme continues to provide certainty that the Transferring Business can continue to be lawfully serviced post-Brexit.

Update on FSCS protection

- 1.12 RLG has considered whether FSCS protection for the 22% of Transferring Policyholders that will lose this protection as a result of the Transfer could be maintained, for acts or omissions occurring after the Effective Date, if Royal London DAC were to either obtain passporting rights to write business within the UK or set up a third country branch in the UK. I agree with RLG that transferring the Transferring Policies to Royal London DAC is a reasonable option, and that the other options considered either do not provide the certainty required or are costly and complex for the reasons listed in 3.14.
- 1.13 For the purpose of this Supplementary Report I have considered the latest Brexit negotiations, the alternative operating models considered (see paragraphs 3.13 to 3.14) and the impact of the PRA consultation paper CP26/18 (see paragraphs 3.3 to 3.10). It remains, as stated in the Report, that those RLMIS Transferring Policyholders who currently benefit from FSCS protection will lose this, in relation to acts and omissions occurring after the Effective Date, as a result of the Transfer.

Updated financial information

- 1.14 In section 3, I provide an update to the financial information from 31 December 2017, as provided in the Report, to 30 June 2018, which is the most recent date that this information is available. I also provide updates in section 3 on a number of non-financial issues.
- 1.15 Paragraph 3.26 includes updated SCR Cover figures calculated assuming the Transfer had taken place on 30 June 2018. The main change to the figures is the result of an Estate Distribution within the Royal Liver Sub-Fund. All of the SCR Covers remain at or above Target SCR Cover levels.
- 1.16 I have also received:
- more recent, confidential SCR Cover figures: these do not show a material change in the financial positions of RLMIS or Royal London DAC since 30 June 2018, and
 - an updated, confidential 2018 ORSA for RLMIS: this shows that RLMIS' solvency position over the projection period continues to be stable and does not raise cause for concern over its future solvency.

Updated key dependencies

- 1.17 The analysis contained in the Report was prepared on the basis that a number of actions would take place in advance of the Effective Date. These key dependencies were:
- Royal London DAC receiving authorisation from the CBI by 1 January 2019,
 - Royal London DAC receiving a capital injection from RLMIS by 1 January 2019,
 - the PRA and FCA approving the proposed changes to the Royal Liver IoT by the Effective Date, and
 - Royal London DAC and RLMIS entering into the New Reinsurance Agreements and Security Arrangements by the Effective Date.
- 1.18 Paragraphs 3.39 to 3.44 provide an update on these key dependencies. All of the key dependencies have either been completed or are on track to be completed in advance of the Effective Date.

Updated non-financial information

- 1.19 Other developments since the Report include:
- the division of the one-off costs of implementing the Scheme between the Royal Liver Sub-Fund and the RL Main Fund has changed and a review of how the incremental ongoing costs are recognised has been performed since the Report was finalised. I explain why I remain satisfied with the allocation of the incremental ongoing costs and one-off costs to the Estates of the Royal Liver Sub-Fund and RL Main Fund in 4.31 to 4.35 and 4.63 to 4.66,
 - external reinsurers have agreed to novate reinsurance arrangements covering the RL Post-2011 Business to Royal London DAC and to convert reinsurance agreements in place for the Ireland Liver Business in the Liver Ireland Sub-Fund into retrocession contracts; in each case with effect from the Effective Date,
 - Royal London DAC is performing a gap analysis on the differences between the conduct of business regulations applicable to the German Bond Business before and after the Transfer. The primary purpose of the analysis is to ensure that Royal London DAC is aware of the conduct regulations that will apply in respect of this business post-Transfer so that it can ensure that it is able to comply with it. The analysis cannot be completed until Royal London DAC has been advised by the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”) of the parts of the German regulations applicable to the German Bond Business,
 - the Irish Revenue Commissioners (“IRC”) have confirmed that, as the Transfer will not result in a material change to the terms and conditions of the Transferring Business, there will be no change in policyholder taxation for these policies,
 - RLMIS has successfully obtained the required clearances and confirmations from HMRC and the IRC, with the exception of the transfer of carried forward losses in the Royal Liver Sub-Fund to the Liver Ireland Sub-Fund. The IRC has requested to see the submission of the first tax computation before providing clearance on this point; this will be after the Effective Date. Given that no trading profits are expected to arise in the Liver Ireland Sub-Fund, I do not expect the IRC’s decision to have any impact on the tax being charged to the Liver Ireland Sub-Fund, so this does not change any of my conclusions,
 - on 20 December 2018, the Royal London DAC Board confirmed Royal London DAC’s adoption of RLG’s Customer Value Statements,
 - the consultation period for CP122 (Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II), released by the CBI, ended on 14 September 2018. In the Report, in paragraphs 3.58 and 3.59, I outlined the amendments to the actuarial regime in Ireland proposed by CP122. Since the Report, the CBI has produced a feedback document detailing the changes to those requirements

previously detailed in CP122, including some changes to the requirements I previously highlighted in the Report:

- the Report stated that the additional requirements detailed in CP122 would not apply until 1 January 2020, however they will apply to Royal London DAC from 1 January 2019,
 - (re)insurance undertakings will no longer be required to send an annual report to with-profits policyholders on the compliance of the fund with the principles of WPOP. Instead they will be required to make such a report available on their website and send it to policyholders who request a copy, and
 - the HoAF will continue to be required to report to the Board on the compliance of the with-profits funds with the principles in the WPOP, however the requirement for the HoAF to communicate directly with with-profits policyholders has been removed. The Board will need to reference the HoAF's report and explicitly call out any exemptions mentioned by the HoAF.
- Royal London DAC started writing new business in the Royal London DAC Open Fund on 7 January 2019. As at 16 January 2019, Royal London DAC had written 211 new policies, and
 - small changes have been made to the Scheme, New Reinsurance Agreements and Security Arrangements. These are described in paragraphs 3.59 to 3.62.

1.20 There have been no changes to any of my opinions set out in the Report. Overall, it remains my opinion that the implementation of the proposed Scheme with the New Reinsurance Agreements and Security Arrangements will not have a material adverse effect on the security of benefits or the future benefit expectations of the Transferring Policyholders, the Remaining Policyholders or the Existing Policyholders. It is also my opinion that the Transfer will have no material adverse effect on the governance or service standards experienced by the Transferring Policyholders, the Remaining Policyholders or the Existing Policyholders.

1.21 Further, I have concluded that:

- I remain satisfied with the level of the one-off costs and incremental ongoing costs and their allocation to the Estates of the Royal Liver Sub-Fund and RL Main Fund,
- I remain satisfied that there will be no material adverse effect on Transferring Policyholders caused by the loss of entitlement to FSCS protection on certain policies as a result of the Transfer, and
- I remain satisfied that it is reasonable for RLMIS not to provide any financial compensation at the time of the Transfer for the loss of Membership rights for with-profits German Bond Policyholders.

1.22 It remains my opinion that the Transfer will have no material adverse effect on any of the current external reinsurers of RLMIS whose contracts of reinsurance cover the Transferring Policyholders.

Policyholder communications and objections and representations received

1.23 In section 5, I provide an update on the policyholder communication process and respond to the objections and expressions of dissatisfaction raised. The objections and expressions of dissatisfaction can be summarised into the following categories:

- loss of FSCS protection and financial stability of Royal London DAC,
- how the Transfer is being paid for,
- no option to opt out of the Transfer,
- impact on policy value in the future,
- concerns over progressing with the Transfer when uncertainty over Brexit remains,

- request for return of premiums, and
 - no reason provided.
- 1.24 Overall, I am satisfied that the communication process for informing Transferring Policyholders, Remaining Policyholders and Existing Policyholders of the Transfer has met the requirements of the Directions Order and the policyholders have been given sufficient details and notice of the proposed Scheme. Further, I am satisfied that, at the time of writing this Supplementary Report, RLMIS and Royal London DAC are recording the objections and representations received from policyholders appropriately, and that policyholders have not raised any issues that were not considered in the work leading up to the Report.

Conclusion

- 1.25 I confirm that, overall, I am satisfied that the implementation of the proposed Scheme with the New Reinsurance Agreements and Security Arrangements will not have a material adverse effect on the security of benefits or future benefit expectations of the Transferring Policyholders, Remaining Policyholders or the Existing Policyholders. It is also my opinion that the Transfer will have no material adverse effect on the governance or service standards experienced by the Transferring Policyholders, the Remaining Policyholders or the Existing Policyholders. In addition, I am satisfied that the Transfer will not materially adversely affect the reinsurers of the Transferring Business.
- 1.26 Given my conclusions outlined above, I see no reason why the Transfer should not proceed.

2 Introduction

Background to the Scheme

- 2.1 RLMIS is the largest mutual life, pensions and investment company in the United Kingdom (“UK”). RLMIS currently sells protection business in Ireland through its Irish branch, and services euro-denominated insurance policies written in Ireland and Germany. Under European Union (“EU”) regulations, UK insurance companies can sell policies and service business, including the collection of premiums and payment of claims, written in European Economic Area (“EEA”) countries on a Freedom of Services or Freedom of Establishment basis (commonly referred to as “EU passporting rights”).
- 2.2 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK government officially notified the European Council of the UK’s intention to withdraw from the EU (“Brexit”), and Brexit is expected to take effect on 29 March 2019. It is uncertain whether UK insurance companies will continue to be able to sell policies and service business written in EEA countries outside of the UK, under EU passporting rights, after 29 March 2019. Therefore, unless suitable transitional or grandfathering arrangements between the UK and EU are agreed prior to March 2019, it is expected that it will become illegal for RLMIS to continue to sell protection business in Ireland and service its policies written in Ireland and Germany.
- 2.3 RLMIS created a new subsidiary in Ireland, (which upon incorporation was called Royal London Financial Services Designated Activity Company), which is authorised by the Central Bank of Ireland (“CBI”) as a life insurance company. Upon authorisation, the name of the subsidiary was changed to Royal London Insurance Designated Activity Company (“Royal London DAC”). Royal London DAC has obtained approval to write insurance policies in Germany under EU passporting rights.
- 2.4 RLMIS intends to transfer business written in Ireland and Germany to Royal London DAC. The proposed transfer of business will be carried out using a legal process known as a Part VII Transfer of insurance business (under the Financial Services and Market Act 2000 (as amended) (“FSMA”). The terms of the transfer are set out in a document known as the “Scheme”. The Scheme provides certainty that the Royal London Group (“RLG”) will be able to lawfully service the business written by RLMIS through its Irish branch and the euro-denominated insurance policies written in Ireland and Germany which RLMIS currently service post Brexit.
- 2.5 I have classified the business being transferred under the Scheme (the “Transferring Business”) into three categories:
- RL Post-2011 Business – business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 and sold until 6 January 2019, the day prior to the date on which Royal London DAC started selling new business,
 - Ireland Liver Business – business written in Ireland by Royal Liver Assurance Limited (“RLA”), Caledonian Insurance Company Limited (“Caledonian Life”), Irish Life Assurance plc, and GRE Life Ireland Limited. All of this business now resides in RLMIS following various previous transfers of insurance business,
 - German Bond Business – business written in Germany on a Freedom of Services basis by RLMIS.
- 2.6 Immediately following the transfer of the Transferring Business to Royal London DAC, the German Bond Business and the Ireland Liver Business will be 100% reinsured back to RLMIS through two new reinsurance agreements (the “German Bond Reinsurance Agreement” and the “Liver Reinsurance Agreement”, together the “New Reinsurance Agreements”). To provide security for each of the New Reinsurance Agreements, RLMIS will enter into fixed and floating charges supported by collateral framework agreements (the “Security Arrangements”) with Royal London DAC.

Purpose of this Supplementary Report

- 2.7 I prepared a previous report dated 8 October 2018 (the “Report”) in my capacity as Independent Expert in which I considered the impact on policyholders and other affected parties of the proposed

Scheme, New Reinsurance Agreements and Security Arrangements (together referred to as the "Transfer").

- 2.8 The purpose of this report (the "Supplementary Report") is to provide the Court with an updated assessment of the likely effect of the proposed Transfer and to consider whether or not the conclusions reached in my Report remain unchanged after considering the most recent financial information for RLMIS and Royal London DAC that has been made available to me. I have also considered any other significant relevant developments since writing the Report, including any objections received in relation to the proposed Scheme.
- 2.9 This Supplementary Report should be read in conjunction with the Report. For the avoidance of doubt, capitalised terms used in this Supplementary Report shall have the same meaning as in the Report.
- 2.10 This Supplementary Report will be available to the Court and published on the websites royallondon.com/transfer, royallondon.ie/transfer and royallondongroup.de/transfer prior to the Court hearing to sanction the Scheme which is scheduled for 31 January 2019.
- 2.11 Details of the scope of my appointment, my qualifications, limitations and reliances are contained in the Report. The additional information that I have relied on in preparing this Supplementary Report is set out in Appendix A.
- 2.12 My independence has remained unchanged since the preparation of the Report.

Regulatory and professional guidance

- 2.13 This Supplementary Report has been prepared in accordance with guidance contained in SUP 18 and the Statement of Policy: The PRA's approach to insurance business transfers. I have also paid regard to the FCA's guidance FG18/4: The FCA's approach to the review of Part VII insurance business transfers.
- 2.14 The FRC has issued standards which apply to certain types of actuarial work. I have prepared this Supplementary Report, with the intention that it, and the work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance). I believe that this Supplementary Report and my work underlying it does so in all material respects.
- 2.15 I confirm that I have also complied with the Actuarial Practice Standard X2: Review of actuarial work and considered Actuarial Practice Standard L1: Duties and Responsibilities of Life Assurance Actuaries, issued by the Institute and Faculty of Actuaries.

Duty to the Court

- 2.16 I confirm that I am aware of the requirements of Part 35 of the Civil Procedure Rules and the relevant Practice Direction, and the Guidance for the Instruction of Experts in Civil Claims.
- 2.17 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to RLMIS or Royal London DAC. I confirm that I have complied with this duty.

Statement of truth

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

- 2.19 This Supplementary Report has been peer reviewed by a fellow Actuary at Grant Thornton, Derek Smith, who has over 25 years of experience in the insurance industry and specialises in reviewing insurance transactions.
- 2.20 Finally, RLMIS and Royal London DAC have reviewed my Supplementary Report for factual accuracy in relation to the references to RLMIS and Royal London DAC respectively.

3 Updated information

- 3.1 This section updates the financial and non-financial information that was presented in the Report, I also provide an update on the latest relevant Brexit negotiations. I give my opinion on the implications of this on the likely impact on policyholders and reinsurers in section 4.

Update on Brexit negotiations

- 3.2 There have been no developments within the public domain regarding Brexit negotiations that provide any certainty over whether RLMIS will be allowed to continue to service business written under EU passporting rights after 29 March 2019. The Scheme is still expected to proceed as planned and, given the current status of the Brexit negotiations, the Scheme continues to provide certainty that the Transferring Business can be lawfully serviced post-Brexit.

Update on FSCS protection

- 3.3 I have been advised that the holders of the following groups of Transferring Policies currently benefit from FSCS:
- all Transferring RL Post-2011 Policies,
 - all Transferring German Bond Policies, and
 - any Ireland Liver Policies originally written by RLA or Caledonian Life on or after 1 December 2001.
- 3.4 At 30 June 2018, it is estimated that there are approximately 109,000 Transferring Policies which currently benefit from FSCS, this represents approximately 22% of the Transferring Policies.
- 3.5 In the Report I explained that holders of the policies detailed in 3.3 are expected to lose FSCS protection in respect of any acts or omissions arising after the Effective Date, as a result of the Transfer. The PRA has recently published consultation paper CP 26/18 – UK withdrawal from the EU: Changes to the PRA Rulebook and onshored Binding Technical Standards (dated October 2018). This paper covers, amongst other things, the proposals for continuation of FSCS protection after Brexit when policies are transferred from one provider to a 'successor' (as defined by the PRA Rulebook). Where a UK insurer transfers its insurance liabilities to an insurer without UK authorisation, existing PRA rules provide FSCS protection only to claims in relation to acts or omissions (see paragraph 3.10) that arose before the transfer to the 'successor'. The consultation paper CP 26/18 proposed not to change this existing policy. However, if the 'successor' to which the policies are transferred is a 'relevant person' (as defined by the PRA Rulebook) the consultation paper CP 26/18 has proposed that FSCS will continue to apply to protected claims in respect of acts or omissions which have occurred before Brexit.
- 3.6 I have discussed the sections of this paper relating to FSCS protection, in relation to this Transfer, with RLMIS's legal advisers. RLMIS has taken legal advice in relation to FSCS protection and the implications of this Transfer on this protection for Transferring Policyholders from its legal advisers, and a note was prepared by the legal advisers detailing this advice. This legal advice note has been shared with me and I have had an opportunity to discuss and explore this note with the legal advisers and to establish the basis and logical flow of the legal advice. I am not an expert in legal matters and therefore, in forming my conclusions related to the loss of FSCS protection for those Transferring Policyholders who are currently protected by the FSCS, I have given consideration to my discussions with RLMIS's legal advisers and the legal advice prepared on this topic. In my opinion, it is reasonable to rely on the discussions and the legal advice note related to FSCS provided by RLMIS's legal advisers as they are a respected law firm with significant experience in insurance regulation including FSCS, Part VII transfers, including cross-border transfers, and are well experienced in advising on such matters.
- 3.7 I do not believe it is necessary to seek independent legal advice in relation to the loss of FSCS for those Transferring Policyholders who are currently covered by this protection as:

- in forming views on FSCS I have taken into consideration my interpretation of the FSCS rules, as set out in the PRA Handbook, however I am not a legal expert,
 - as a result of my analysis, whether Transferring Policyholders will have FSCS protection in relation to acts or omissions occurring after the Effective Date is a relatively clear-cut matter and I do not expect that seeking independent legal advice would result in a different conclusion and would result in unnecessary additional costs, and
 - the discussions with RLMIS's legal advisers and the legal advice note prepared for RLMIS by its legal advisers with regards the loss of FSCS protection for those Transferring Policyholders currently protected is consistent with what I have seen elsewhere on similar corporate restructuring and is consistent with my own understanding, based on over 20 years' experience of advising on acquisitions and restructuring, including cross border transactions.
- 3.8 I understand from these discussions that following the transfer of the Transferring Policies to Royal London DAC (the successor in this Transfer) acts or omissions of RLMIS that occur prior to the Effective Date will continue to be covered by FSCS, in line with existing PRA rules (as mentioned in paragraph 3.5).
- 3.9 The Scheme transfers the Transferring Policies to Royal London DAC, an insurer based in Ireland. As Royal London DAC is not a 'relevant person' under FSMA, in accordance with the guidance detailed in paragraph 3.3 and following the discussions detailed in paragraph 3.6, acts or omissions occurring after the Effective Date will not be covered by FSCS protection. Therefore, all acts or omissions occurring after the Effective Date, even if they occur prior to Brexit, will not be covered by FSCS protection.
- 3.10 The table below provides examples of acts or omissions of RLMIS, for different policy types, that could have arisen prior to the Effective Date, and if so, would therefore retain FSCS protection if Royal London DAC defaults on the transferred liability, as advised by RLMIS's legal advisers:

Policy type	Example of an act or omission
Protection	Mis-selling occurring prior to the Effective Date, errors in administration occurring prior to the Effective Date, valid claims under the insurance policy where the insured event occurs prior to the Effective Date
Annuity	Mis-selling occurring prior to the Effective Date, errors in administration occurring prior to the Effective Date, valid claims under the insurance policy where the insured event occurs prior to the Effective Date
Savings / Pension	Mis-selling occurring prior to the Effective Date, errors in administration occurring prior to the Effective Date, valid claims under the insurance policy where the insured event occurs prior to the Effective Date

Conclusion

- 3.11 For the purpose of this Supplementary Report I have considered the impact of CP 26/18, discussed this paper with RLMIS and its legal advisers and considered the latest Brexit negotiations. It remains, as stated in the Report, that those RLMIS Transferring Policyholders who currently benefit from FSCS protection will lose this, in relation to acts and omissions occurring after the Effective Date, as a result of the Transfer. The conclusions detailed in my Report, related to the loss of FSCS, therefore remain unchanged.
- 3.12 I note that, as at 16 January 2019, RLMIS has received four objections and six expressions of dissatisfaction in relation to the loss of FSCS protection for relevant Transferring Policyholders. I discuss these further in section 5.

Alternative operating models considered to mitigate the loss of FSCS

- 3.13 RLG has considered whether a possible mitigant against the loss of FSCS protection is for the Royal London DAC to set up a third country branch in the UK. Any Transferring Policies currently benefiting from FSCS protection would not lose that protection if they were transferred to a UK branch of Royal London DAC, as the UK branch would make Royal London DAC a 'relevant person' in the UK (as defined by the PRA Rulebook). RLG has considered this operating model, and has deemed it to be an impracticable option because:
- Royal London DAC does not require a third country branch in the UK in order to carry out its day-to-day operations, and
 - the cost of setting up a third country branch in the UK would be borne by the Royal London DAC Open Fund and, due to the mutual nature of its parent company RLMIS, ultimately borne by RLMIS policyholders.
- 3.14 RLG has also considered whether FSCS protection could be maintained following the Transfer if Royal London DAC were to have passporting rights to write business within the UK. RLG has considered this option, and I have discussed this option with RLG, and at the present time they have no intention of applying for passporting rights to write business within the UK, because RLMIS is authorised in the UK, although I understand this decision will be kept under review. This is because RLG has deemed it to be of limited benefit as:
- Royal London DAC does not require UK passporting rights in order to carry out its day-to-day operations, and
 - there is uncertainty over whether it will still be possible to maintain passporting rights to write and / or service business in the UK post-Brexit.

Conclusion

- 3.15 Having considered the alternative operating models Royal London DAC has investigated as mitigants to the loss of FSCS for those Transferring Policies which currently have it (detailed in paragraph 3.3), I believe proceeding with the transfer of the Transferring Policies to Royal London DAC is a reasonable approach as:
- setting up a third country branch in the UK would result in additional cost and is not necessary for Royal London DAC to carry out its day-to-day activities, and
 - obtaining passporting rights in the UK does not provide certainty as to continuation of FSCS protection, as uncertainty remains over whether passporting to the UK will still be possible post-Brexit and Royal London DAC does not require passporting rights in the UK to carry out its day-to-day activities.

Updated financial information

Volume of Transferring Business

- 3.16 The table below provides an update on the volume of business that is to be transferred from RLMIS to Royal London DAC.

Block of Transferring Business	Type of Business ¹	31 December 2017		30 June 2018	
		Gross BEL (£m)	Number of Policies	Gross BEL (£m)	Number of Policies
RL Post-2011 Business	Protection	(62)	49,878	(65)	55,060
	Total	(62)	49,878	(65)	55,060
Ireland Liver Business	Protection	41	49,272	42	46,958
	UWP	254	7,772	249	7,542
	Conventional with-profits	250	62,481	236	58,902
	Conventional Life & Pensions	109	347,481	109	330,767
	Unit-linked	13	1,014	13	986
	Annuities	70	1,269	69	1,286
	Adjustments	19	0	18	0
	Total	755	469,289	737	446,441
German Bond Business	UWP	118	1,307	103	1,276
	Unit-linked	2	35	1	28
	Total	120	1,342	105	1,304
Total Transferring Business		813	520,509	777	502,805

- 3.17 At 30 June 2018, the Transferring Business had 3.4% fewer policies and the BEL had reduced by 4.4% compared to the figures as at 31 December 2017. The reduction in policies and BEL is as a result of exits (surrenders, deaths, expiries and maturities). The reduction in BEL caused by these exits will be partially offset by the investment return earned. The reduction in the number of policies will be partially offset by new RL Post-2011 business being written. The Ireland Liver Business and German Bond Business are both closed to new business.
- 3.18 Since the Report, RLMIS has written a new Multi-Claim Protection Cover product through its Irish branch on a Freedom of Establishment basis. RLMIS ceased selling this product on 6 January 2019, the day prior to which Royal London DAC started selling this new product. These policies fall within the definition of "Transferred Policy" and will therefore be transferred under the Scheme. I have discussed this new product with RLMIS, which is a variation of a current product offered by the Irish branch and the risks within the product are risks which RLMIS are familiar with and has the relevant expertise to manage. In addition, RLMIS has confirmed that the volume of new business associated with this product since its launch has been low.

Conclusion

- 3.19 Following my review of the number of Transferring Policyholders and level of Transferring Business as at 30 June 2018, I am satisfied that these are not materially different to those detailed in the Report. The Multi-Claim Protection Cover presents no new issues.

¹Protection; Conventional Life & Pensions (including contingent bonus business) and Annuities are all non-profit business.

With-profits business is composed of: UWP and conventional with-profits.

Size of Estates pre and post Transfer

- 3.20 In the Report I included tables which set out the change in the Solvency II balance sheets for the RL Main Fund (see paragraph 10.61 of the Report) and the Royal Liver Sub-Fund (see paragraph 10.63 of the Report). Within these tables the impact of the Transfer on the Estates (labelled in the tables as "Own Funds") was split between the various elements of the Transfer, assuming the Transfer had taken effect on 31 December 2017. In preparing this Supplementary Report I have reviewed the impact of the Transfer on the Estates of the RL Main Fund and Royal Liver Sub-Fund, assuming the Transfer had taken place on 30 June 2018.
- 3.21 The table below shows the Estates of the RL Main Fund and Royal Liver Sub-Fund at 31 December 2017 and 30 June 2018 and how those Estates would have changed had the Transfer taken place on either of those dates.

Size of Estate, £m	31 December 2017			30 June 2018		
	Before Transfer	After Transfer	Change	Before Transfer	After Transfer	Change
RL Main Fund	4,303	4,163	(140)	4,540	4,407	(133)
Royal Liver Sub-Fund	499	479	(20)	452	416	(36)

- 3.22 The Estate of the RL Main Fund has increased due to favourable investment returns over the first half of 2018. There has, however, been a reduction in the Estate of the Royal Liver Sub-Fund as a result of a distribution of the Estate that occurred in 2018. This is reflected in the 30 June 2018 figures but not in the 31 December 2017 figures. The Estate Distribution, which was necessary under the Royal Liver IoT, resulted in an enhancement to asset shares of eligible with-profits policies and sums assured of contingent bonus policies.
- 3.23 The reductions in the Estates of the RL Main Fund and Royal Liver Sub-Fund can be broken down into the following components:

£m	30 June 2018	
	RL Main Fund	Royal Liver Sub-Fund
One-off expenses	3.0	9.6
Incremental ongoing costs	7.3	16.8
Retention of assets in Royal London DAC	2.0	9.7
Capital injection	35.4*	-
Transfer of the RL Post-2011 Business	85.4	-
Total	133.1	36.1

*this is the capital injection of €40m.

- 3.24 The figures in paragraph 3.21 and 3.23 above show that, had the Transfer occurred on 30 June 2018, the Estates of the RL Main Fund and Royal Liver Sub-Fund would have decreased by £133m and £36m respectively. The impact of the Transfer on the Estate of the RL Main Fund has decreased slightly (from £140m to £133m) from that which was detailed in the Report. This is because certain costs associated with the Transfer have now been incurred and are therefore included in the "Before Transfer" figure rather than the "After Transfer" figure. The impact of the Transfer on the Estate of the Royal Liver Sub-Fund has increased by £16m (from £20m to £36m) from that detailed in the Report. This is due to a change to the way in which certain costs are recognised (as detailed in paragraph 3.50).

Conclusion

- 3.25 Having considered the above, I am satisfied that the impact of the Transfer on the Estates of the RL Main Fund and Royal Liver Sub-Fund are not materially different from those calculated assuming the Transfer occurred on 31 December 2017.

Pre and post-Transfer SCR Cover

- 3.26 The tables below set out the SCR Cover within RLMIS and Royal London DAC before and after the Transfer assuming the Transfer took place on 31 December 2017 (as stated in the Report) and assuming the Transfer took place on 30 June 2018. The actual SCR Cover results at 30 June 2018 before the Transfer have been prepared under the same control environment that applies to year-end reporting. This includes a “do, check and review” process as well as external audit review. The pro-forma SCR Covers after the Transfer have been prepared under the same internal control environment but without external audit. I have reviewed an analysis which reconciles the before and after Transfer positions and my questions on this have been answered adequately by RLMIS.

RLMIS	31 December 2017		30 June 2018	
	Before Transfer	After Transfer	Before Transfer	After Transfer
RL Main Fund	223%	217%	214%	210%
Royal Liver Sub-Fund	275%	264%	245%	225%
Total (investor reporting view)	228%	225%	225%	222%
Total (regulatory reporting view)	156%	154%	156%	153%

Royal London DAC	31 December 2017		30 June 2018	
	Before Transfer	After Transfer	Before Transfer	After Transfer
Royal London DAC Open Fund	N/A	449%	N/A	416%
German Bond Sub-Fund	N/A	164%	N/A	164%
Liver Ireland Sub-Fund	N/A	164%	N/A	164%
Total (investor reporting view)	N/A	414%	N/A	386%
Total (regulatory reporting view)	N/A	406%	N/A	379%

- 3.27 In all cases, the SCR Cover remains at levels at or above Target SCR Cover levels before and after the Transfer.
- 3.28 I am aware that, since 30 June 2018, RLMIS has completed a GAR (guaranteed annuity rate) compromise scheme for certain policyholders in the Scottish Life Closed Fund. This does not have a material impact on the SCR Cover for RLMIS, and the SCR Cover remains at or above the Target SCR Cover.
- 3.29 I have also reviewed the Capital Monitoring Report for RLMIS at December 2018. I remain satisfied that RLMIS SCR Cover is at or above the Target SCR Cover. In my opinion it is reasonable to rely on the RLMIS’s Capital Monitoring Report which monitors real time solvency. Although the Capital Monitoring Report uses different models to the published results (as provided in paragraph 3.26), it has been used by RLMIS for a number of years as it has proved to be a good indicator of actual solvency results. In addition, the solvency estimates take account of up to date market conditions of equity markets, interest rates and bond spreads and reflect the impact these conditions have on the risks within the portfolio. The results are also subject to a “do, check and review” process. I have

reviewed the results from the Capital Monitoring Report at regular intervals since June 2018 and have asked RLMIS questions on the results, which have been answered adequately.

- 3.30 I have reviewed the credit rating of RLMIS and can confirm that RLMIS continue to have a credit rating of A from Standard and Poor's and a credit rating of A2 from Moody's. These have not changed since the finalisation of the Report.

Conclusions

- 3.31 Given the above, I am satisfied that the solvency positions of RLMIS and Royal London DAC, including at a fund level, as at 30 June 2018 are not materially different from those detailed in the Report. Additionally, having monitored the solvency positions of RLMIS and Royal London DAC, up to and including estimates for 31 December 2018, I am satisfied that they remain materially unchanged.

Changes in market conditions and SCR Cover since 30 June 2018

- 3.32 RLMIS continues to estimate its SCR Cover on an ongoing basis. In addition to the 30 June 2018 solvency figures, I have had sight of the ongoing solvency estimates, including draft financial information, as at 31 December 2018 (contained within the Capital Monitoring Report, see paragraph 3.29). At the time of writing this Supplementary Report, there is no reason to believe that the solvency position of either RLMIS or Royal London DAC will change materially from 30 June 2018. I will continue to receive estimated SCR Covers up to the date of the Sanction Hearing on 31 January 2019 and will monitor these with a view to determining whether they will have any impact on my conclusions. If, after the finalisation of this Supplementary Report, these estimates show any material adverse change to the solvency of either RLMIS or Royal London DAC I will prepare a note to the Court, which will include updated analysis and conclusions on the impact of the Transfer.
- 3.33 I have also monitored market conditions since 30 June 2018, and nothing has arisen which alters the conclusions detailed in this Supplementary Report. I will continue to monitor market conditions up to the date of the Sanction Hearing on 31 January 2019 with a view to determining whether these will have any impact on my conclusions. If, after the finalisation of this Supplementary Report, there is any material adverse change to market conditions, which would alter the conclusions of this Supplementary Report, I will prepare a note to the Court, which will include updated analysis and conclusions on the impact of the Transfer.
- 3.34 The table below shows the values of a number of economic indicators as at 30 June 2018 and as at 31 December 2018. The figures in 3.20 and 3.26 are based on the Transfer taking place at 30 June 2018.

Economic indicator	31 Dec 2017	30 June 2018	31 Dec 2018
FTSE 100 Index	7,687.77	7,636.93	6,728.13
£/€ exchange rate	1.127	1.131	1.115
Bank of England base rate	0.50%	0.50%	0.75%
10-year zero coupon gilt yield	1.26%	1.39%	1.32%
10-year zero coupon £ swap yield	1.27%	1.52%	1.44%
10-year zero coupon € swap yield	0.89%	0.88%	0.82%

Conclusion

- 3.35 Although the economic indicators at 31 December 2018 differ from those at 30 June 2018, I have reviewed estimates of RLMIS solvency as at 31 December 2018, including the estimated solvency positions of the Royal Liver Sub-Fund and the RL Main Fund, and discussed these with RLMIS. I am satisfied that the SCR Cover of RLMIS remains at or above the Target SCR Cover range.

Updated ORSA

- 3.36 I have been provided with an updated version of RLMIS' ORSA (dated December 2018). This includes updated projections of SCR Cover and updated descriptions of the actions that RLMIS could take to restore its solvency in certain stress scenarios. It shows that RLMIS' solvency position over the projection period continues to be stable and does not raise causes for concern over its future solvency.
- 3.37 Since the Report, the Royal London DAC ORSA has not been updated, however it is reasonable to rely on the 2017 ORSA (prepared in March 2018) because it is drafted on the assumption that the Transfer goes ahead and therefore reflects the Scheme and New Reinsurance Agreements. The risks modelled, the stresses and scenarios tested and the management actions assumed are still the most relevant ones for Royal London DAC and its business. The starting solvency position under the ORSA is similar to that anticipated at the Effective Date. The ORSA work is subject to a "do, check and review" process. I am satisfied that Royal London DAC's solvency position over the projection period is also stable and does not raise causes for concern over its future solvency.

Conclusion

- 3.38 Following my review of the 2018 ORSA for RLMIS and 2017 ORSA for Royal London DAC I remain satisfied that the solvency positions of the entities over the projection periods remain stable and do not raise causes for concern over future solvency.

Update on key dependencies

- 3.39 I prepared the Report on the assumption that a number of actions would take place in advance of the Effective Date. I provide updates on all of these below.

CBI authorisation of Royal London DAC

- 3.40 Royal London DAC was authorised by the CBI from 1 January 2019. Royal London DAC has obtained approval to write insurance policies in Germany under EU passporting rights.

Capital injection from RLMIS to Royal London DAC

- 3.41 Royal London DAC received a €40m capital injection from RLMIS on 17 December 2018, an amount that was sufficient to capitalise Royal London DAC at or above its target level at 1 January 2019.

PRA and FCA approval of changes to the Royal Liver IoT

- 3.42 The PRA approved the proposed changes to the Royal Liver IoT on 10 October 2018. The Royal Liver IoT governs how the Royal Liver Sub-Fund is maintained and operated. As a result of the Transfer, the Royal Liver IoT has been updated to ensure it remains applicable to both the Remaining Policies in the Royal Liver Sub-Fund and the Ireland Liver Policies from the Effective Date. Importantly, the Royal Liver IoT requires the treatment of the Ireland Liver Policyholders Business and the Remaining Policyholders in the Royal Liver Sub-Fund to be consistent. The changes to the Royal Liver IoT were also approved by the FCA on 25 October 2018.

Royal London DAC and RLMIS entering into the New Reinsurance Agreements and Security Arrangements

- 3.43 Royal London DAC and RLMIS will enter into the New Reinsurance Agreements and Security Arrangements with effect from the Effective Date, and these will be treated as effective from 1 January 2019 for accounting purposes only, as detailed in the Witness Statement of Timothy Walter Harris.

Conclusion

- 3.44 All of these key dependencies have either been completed or are on track to be completed in advance of either the Effective Date or 1 January 2019 (date at which the Scheme is deemed to take effect for accounting purposes).

Updated non-financial information

- 3.45 In the following paragraphs, I provide updates on what I consider to be the main areas of consideration for Transferring Policyholders, Remaining Policyholders and Existing Policyholders in relation to the Transfer, namely:

- the cost of implementing the Scheme and incremental ongoing expenses, and
- the loss of Membership rights of with-profits German Bond Policyholders.

- 3.46 In addition, I provide an update on a number of other non-financial issues:

- the overall purpose, structure and scope of the Scheme, the New Reinsurance Agreements and the Security Arrangements,
- the novation and conversion of existing reinsurance treaties,
- the composition of the Royal London DAC Board,
- conduct of business regulations,
- policyholder taxation,
- tax clearances,
- the adoption of Customer Value Statements by Royal London DAC,
- the transfer of administration for certain Ireland Liver Policies from RLMS in the UK to Ireland,
- proposed changes to CBI regulations, and
- new business written by Royal London DAC.

- 3.47 I have not identified any other major developments since the publication of the Report that will impact the Transfer or my opinion on whether any policyholders or reinsurers are materially adversely affected.

Update on cost of implementing the Scheme and incremental ongoing expenses

- 3.48 Within the Report, I stated that the one-off cost of implementing the Scheme was estimated to be £21.0m and that the cost would be shared by the Estates of the Royal Liver Sub-Fund (£10.3m) and the RL Main Fund (£10.7m). The estimate of total one-off costs and the methodology for allocating them between funds are unchanged. However, there has been a refinement to how the allocation methodology has been applied, resulting in a change to the apportionment: £9.6m will now be borne by the Royal Liver Sub-Fund and £11.4m by the RL Main Fund. This refinement does not represent a change to the allocation methodology.

- 3.49 Within the Report, I stated that the incremental ongoing costs would be approximately €2.1m higher following the Transfer. This €2.1m can be broken down into:

- €2.0m relating to Ireland Liver Business, to be charged to the Estate of the Royal Liver Sub-Fund up until the expiry of the current rate card on 1 December 2021. After that date, the extra expenses will be charged to all of the policies (including the Ireland Liver Policies), in the Royal Liver Sub-Fund. As such, these additional costs will be shared between the Remaining Royal Liver Sub-Fund Business and the Ireland Liver Business,
- €0.1m relating to German Bond Business, to be charged to the Estate of the RL Main Fund, and
- the additional costs associated with the RL Post-2011 Business as a result of the Transfer are expected to be immaterial. These costs will be borne by the Royal London DAC Open Fund.

- 3.50 The latest estimate for the total incremental ongoing costs is unchanged from the above but the timing of when certain costs are being recognised has been accelerated. A review of how these costs are recognised has indicated that, rather than all being charged to the Estate of the Royal Liver Sub-Fund as they are incurred, which is what was originally assumed, the majority of these costs should instead be recognised by an increase to the value of the BEL at the Effective Date. This is because a large proportion of the costs will be allocated to non-profit policies. This results in a reduction in the Estate of the Royal Liver Sub-Fund immediately after the Transfer and, consequently, as the total incremental ongoing costs are unchanged, a smaller annual impact on the Estate of the Royal Liver Sub-Fund going forward.
- 3.51 In the Report, I detailed that the one-off costs and incremental ongoing costs led to an estimated reduction of approximately 2.0% to the Estate Distribution applied to eligible with-profits policyholders' Asset Shares and sums assured, for eligible contingent bonus policies at year end 2018, when compared to the current run-off plan for the Royal Liver Sub-Fund. Since the Report was finalised there has been a review of how the ongoing costs are recognised. The combination of this review and the change to the allocation of one-off costs, detailed in paragraph 3.48, has resulted in a change to the estimated reduction to the Estate Distribution of the Royal Liver Sub-Fund detailed in the Report. It is now estimated that the one-off costs and incremental ongoing costs will lead to reductions of approximately 3.0% at year end 2018 and 2.0% at year end 2019 in the Estate Distribution compared to the existing run-off plan. I have also carried out some approximate calculations of the impact of charging the one-off costs and ongoing costs to the Royal Liver Sub-Fund and the results showed similar levels of reduction in the Estate Distribution to those stated by RLMIS.
- 3.52 I have reviewed the changes to the one-off costs and the timing of when certain incremental ongoing costs are recognised and following this review I am satisfied that the allocation of these for the Royal Liver Sub-Fund are in line with the Royal Liver PPFM, Royal Liver IoT and past practice and for the RL Main Fund are in line with the RL Main Fund PPFM and past practice.

Conclusion

- 3.53 For the RL Main Fund, although the one-off costs allocated to the RL Main Fund have marginally increased I remain satisfied that these costs are allocated in line with the RL Main Fund PPFM and past practice and do not represent a change in the allocation methodology. I have also considered whether the increase in one-off costs will alter future ProfitShare rates and I am satisfied that future ProfitShare rates will not be adversely effected by the increased one-off costs.
- 3.54 For the Royal Liver Sub-Fund, the level of one-off costs have decreased and the level of incremental ongoing costs are unchanged. A review of how the incremental ongoing costs are recognised has shown that the timing of certain costs being recognised is sooner than was originally estimated. Consequently, immediately after the Transfer there is a larger impact on the Estate of the Royal Liver Sub-Fund than originally estimated and a smaller annual impact going forward. I remain satisfied that these costs are allocated in line with the Royal Liver Sub-Fund PPFM, Royal Liver IoT and past practice, and the change to the level of one-off costs do not represent a change to the allocation methodology. Although the timing of the allocation of incremental ongoing costs is accelerated, the level of incremental ongoing costs is unchanged. Therefore, although this is estimated to reduce the Estate Distributions at year end 2018 and year end 2019, there will be a smaller annual impact on the Estate of the Royal Liver Sub-Fund going forward.
- 3.55 I note that RLMIS has received one objection in relation to how the costs of the Transfer will be met. I discuss this further in section 5.

Update on Membership rights of German Bond Policyholders

- 3.56 The position on the loss of Membership rights of with-profits German Bond Policyholders remains unchanged from the position presented in the Report. That is, with-profits German Bond Policyholders will lose their Membership rights as a result of the Transfer and there will not be any compensation payable to these policyholders at the time of the Transfer for this loss of Membership. However, whilst RLMIS has no foreseeable plans to demutualise, if RLMIS were to demutualise prior to the fifth anniversary of the Effective Date, with-profits German Bond Policyholders, who at the time of the demutualisation still hold German Bond Policies with Royal London DAC, will be entitled to receive any compensation made as a consequence of the demutualisation. Any compensation paid to such

policyholders would be on the same basis as any compensation proposed for the Members of RLMIS holding with-profits policies in the RL Main Fund.

Conclusion

- 3.57 Given that the position on the loss of Membership rights of with-profits German Bond Policyholders remains unchanged from that detailed in the Report, my conclusions in relation to the loss of Membership rights have not altered.
- 3.58 I note that RLMIS has received no objections in relation to the loss of Membership rights for with-profits German Bond Policyholders.

Update on the Scheme, New Reinsurance Agreements and Security Arrangements

- 3.59 I provided a description of the Scheme in section 6 of the Report, and a description of the New Reinsurance Agreements and Security Arrangements in section 9 of the Report. There have been some minor changes to the Scheme and New Reinsurance Agreements which, for example, correct spelling or cross referencing errors. I detail below the more significant changes to these documents.
- 3.60 Under the Scheme Royal London DAC undertakes to comply with the relevant requirements of DISP in relation to the handling of complaints brought to the FOS and any judgements, settlements or awards made by the FOS in respect of proceedings which are commenced but not settled before the Effective Date or are commenced after the Effective Date in respect of acts or omissions of RLMIS prior to the Effective Date. A provision has been included in the Scheme which confers upon Transferring Policyholders the right to enforce the aforementioned undertaking against Royal London DAC. I have reviewed this change and I am satisfied it does not alter the purpose or operation of the Scheme and therefore, in my opinion, it is not a material change.
- 3.61 Within the New Reinsurance Agreements a new termination clause has been added which allows Royal London DAC to terminate the New Reinsurance Agreements, and enforce the collateral, if the Custody Agreement (the agreement between the custodian and RLMIS) or Account Control Agreements (the agreement between the custodian, RLMIS and Royal London DAC in relation to the charged accounts under the Collateral Framework Agreements) are terminated due to certain events occurring, such as insolvency (or some similar event) of the custodian or the custodian acting fraudulently and no replacement custodian has been appointed within 30 business days. I have reviewed this change and I am satisfied it does not alter the purpose or operation of the New Reinsurance Agreements and therefore, in my opinion, is not a material change.
- 3.62 A small change has been made to the Security Arrangements, with the removal of paragraphs that allowed RLMIS to terminate the Security Arrangements if the security ever became, according to an independent legal advisor appointed by both parties, no longer necessary or valid. In my opinion, these changes do not alter the security provided by the Security Arrangements and I therefore do not consider these changes to have an adverse impact on Remaining Policyholders, Remaining Policyholders or Existing Policyholders.
- 3.63 Within paragraph 10.50 of the Report, I discussed Royal London DAC's plan to take credit for the Security Arrangements within the calculation of its SCR on a Standard Formula basis was still the subject of ongoing discussions with the CBI and with Royal London DAC's external auditors. Since the Report, the external auditors have confirmed that they are comfortable with the planned approach. The CBI is also aware of Royal London DAC's approach and legal opinions to support Royal London DAC's chosen approach have been provided to the CBI. The CBI has not indicated that it is uncomfortable with the proposal.

Conclusion

- 3.64 Following my review of the above changes, given that these changes do not alter the purpose or operation of the Scheme, New Reinsurance Agreements and Security Arrangements I am satisfied that they are not material.

Update on novation and conversion of existing reinsurance treaties

- 3.65 RLMIS has been in contact with the external reinsurers with reinsurance arrangements covering the RL Post-2011 Business, and it has been agreed that the reinsurance arrangements will be amended and novated to Royal London DAC with effect from the Effective Date.
- 3.66 In addition, the relevant external reinsurers have agreed to convert the reinsurance agreements in place for the Ireland Liver Business in the Liver Ireland Sub-Fund into retrocession contracts, which will take effect from the Effective Date.
- 3.67 Since the Report it has been identified that a reinsurance agreement that primarily covers certain Ireland Liver Business also covers a few hundred policies that are part of the RL Post-2011 Business. It has been agreed with the reinsurer that while that agreement will in part become a retrocession in respect of the Ireland Liver Business reinsured under it, the RL Post-2011 Business referred to above will instead be captured by a new treaty between Royal London DAC and the reinsurer which shall be on substantially the same terms as the existing arrangement.
- 3.68 As detailed in paragraph 3.18, RLMIS has written a new Multi-Claim Protection Cover product through its Irish branch. This product is reinsured via a new Swiss Re reinsurance treaty. The reinsurance treaty will be amended and novated to Royal London DAC with effect from the Effective Date.

Conclusion

- 3.69 Having discussed with RLMIS the progress of amending and novating the reinsurance agreements applicable to the RL Post-2011 Business, including the new Swiss Re reinsurance treaty, and converting the reinsurance agreements in place for the Ireland Liver Business into retrocession contracts, I am satisfied that these are all on track to be in place prior to the Sanction Hearing.

Update on composition of Royal London DAC Board

- 3.70 No changes have been made to the composition of the Royal London DAC Board since writing the Report. On 1 January 2019, the CBI provided approval of the members of the Royal London DAC Board, and the Board was formally appointed.

Update on conduct of business regulations

- 3.71 Royal London DAC is performing a gap analysis on the differences between the conduct of business regulations applicable to the German Bond Business before and after the Transfer. The primary purpose of the analysis is to ensure that Royal London DAC is aware of the conduct of business regulation that will apply in respect of this business post-transfer so that it can ensure that it is able to comply with it. The analysis cannot be completed until Royal London DAC has been advised by BaFin of the parts of the German regulations, if any, applicable to the German Bond Business.

Conclusion

- 3.72 I have discussed with Royal London Group its intentions following the completion of this gap analysis and I am satisfied that RLMIS is committed to ensuring that, where necessary, the governance within Royal London DAC is altered to comply with the outcome of the gap analysis.

Update on policyholder taxation

- 3.73 The Irish Revenue Commissioners ("IRC") have confirmed that, as the Transfer will not result in a material change to the terms and conditions of the Transferring Business, there will be no change in policyholder taxation for these policies.

Update on tax clearances

- 3.74 RLMIS has successfully obtained the required clearances and confirmations from HMRC and the IRC, with the exception of the transfer of carried forward losses in the Royal Liver Sub-Fund to the Liver Ireland Sub-Fund. The IRC has requested to see the submission of the first tax computation before providing clearance on this point; this will not happen before the Effective Date. Given that no trading profits are expected to arise in the Liver Ireland Sub-Fund, I do not expect the IRC's decision to have any impact on the tax being charged to the Liver Ireland Sub-Fund, so this does not change any of my conclusions.

Update on adoption of Customer Value Statements by Royal London DAC

- 3.75 On 20 December 2018, the Royal London DAC Board confirmed Royal London DAC's adoption of RLG's Customer Value Statements.

Update on the transfer of administration for certain Ireland Liver Business from RLMS in the UK to Ireland

- 3.76 As detailed in the Report, the administration of the RL Post-2011 Business, the Ireland Liver Business originally written by Caledonian Life and GRE Life Ireland Limited, the German Bond Business, the Remaining Business and the Existing Royal London DAC Business will be unchanged by the Transfer.
- 3.77 The administration of the Ireland Liver Business not originally written by Caledonian Life or GRE Life Ireland Limited is currently performed by RLMS in the UK. Ahead of Brexit the administration of these policies will move to Ireland.
- 3.78 When determining the number of staff required in Ireland, RLMIS considered the experience of the teams currently responsible for the administration of the Ireland Liver Business and as a result it was determined that a team of 16 employees was required. In the early months members of the team currently responsible for the administration will be on site to assist and will stay on site for as long as is required.
- 3.79 The recruitment project is on course to deliver its objectives with 14 staff already recruited as at 11 January 2019, with the transfer of the administration expected to occur on 7 February 2019. All of the individuals recruited have financial services experience and are either Qualified Financial Advisers or Accredited Product Advisers. In addition, a training programme has been put in place and all new recruits must undertake this training.

Conclusion

- 3.80 I am satisfied that the recruitment programme is on track and with the support of current team members this will mean that any delays in recruiting new staff would not present an issue, and I will continue to monitor this programme leading up to the Sanction Hearing. In addition, I am satisfied that the individuals recruited are suitable for the roles given the qualifications and experience they have.

Update on proposed changes to CBI regulations

- 3.81 As stated in the Report, on 22 June 2018, the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II. This consultation paper proposes further amendments to the actuarial regime in Ireland relating to the governance of with-profits business involving additional governance processes for the operation of with-profits funds. This has been outlined in the Report in paragraphs 3.58 and 3.59. The consultation period ended on 14 September 2018. Since the Report, the CBI has produced a feedback document detailing the changes to those requirements previously detailed in CP122, including some changes to the requirements I previously highlighted in the Report:

- the Report previously stated that the additional requirements detailed in CP122 would not apply until 1 January 2020, however they will apply to Royal London DAC from 1 January 2019,
 - (re)insurance undertakings will no longer be required to send an annual report to with-profits policyholders on the compliance of the fund with the principles of WPOP. Instead they will be required to make such a report available on their website and send it to policyholders who request a copy, and
 - the HoAF will continue to be required to report to the Board on the compliance of the with-profits funds with the principles in the WPOP, however the requirement for the HoAF to communicate directly with with-profits policyholders has been removed. The Board will need to reference the HoAF's report and explicitly call out any exemptions mentioned by the HoAF.
- 3.82 The Board of Royal London DAC has approved the implementation of the Liver Ireland PPFM Guide and German Bond PPFM Guide and, noting the advice of the HoAF, consider the WPOP documents are equivalent in content and purpose in all material respects. The PPFM Guides will accordingly be renamed WPOP documents. Therefore, Royal London DAC will maintain the relevant WPOPs rather than the Liver Ireland PPFM Guide and German Bond PPFM Guide from the Effective Date, as is permitted by the Scheme.

Conclusion

- 3.83 CP122 introduces changes to the actuarial regime in Ireland related to the governance of with-profits business, these new requirements represent a strengthening of the current regime in Ireland. In the Report I concluded that the Transfer did not have a material adverse effect on the governance of the with-profits Ireland Liver Business and with-profits German Bond Business and given that the changes detailed in paragraph 3.81 represent a strengthening of the with-profits regime in Ireland the conclusions detailed in my Report are unaltered.

Update on the Liver Ireland PPFM Guide and German Bond PPFM Guide

- 3.84 In the Report I stated that the Liver Ireland PPFM Guide and the German Bond PPFM Guide would govern the Liver Ireland Sub-Fund and German Bond Sub-Fund, respectively. Since the Report was finalised there have been some minor amendments to the proposed German Bond PPFM Guide. I have reviewed these changes and I am satisfied that they are not material and were for clarity only. They do not change the operation or purpose of the German Bond PPFM Guide.
- 3.85 As detailed in 3.81 above, Royal London DAC is required to maintain a WPOP for both the Liver Ireland Sub-Fund and the German Bond Sub-Fund and, as detailed in paragraph 3.82, the Board of Royal London DAC is satisfied that the Liver Ireland PPFM Guide and the German Bond PPFM Guide meet the requirements of a WPOP in all aspects. Therefore the PPFM Guides have been renamed to WPOP documents.

Conclusion

- 3.86 The WPOP documents for the Liver Ireland Sub-Fund and German Bond Sub-Fund are not materially different to the Liver Ireland PPFM Guide and German Bond PPFM Guide, respectively, which I reviewed when preparing the Report.

Update on new business written by Royal London DAC

- 3.87 Since receiving authorisation from the CBI on 1 January 2019, Royal London DAC has started writing new business in the Royal London DAC Open Fund. As at 16 January 2019, Royal London DAC had written 211 policies.

4 Updated impact of the Transfer on policyholders and reinsurers

- 4.1 Within this section I set out whether the developments described in section 3 change the opinions that I provided on the impact of the Transfer on policyholders and reinsurers in the Report.

The impact of the Transfer on the Transferring Policyholders

- 4.2 Below I consider whether my overall opinion on the impact of the Transfer on Transferring Policyholders has changed as a result of the developments described in section 3. Unless explicitly stated, the comments and conclusions in the section apply to all classes of Transferring Policyholders, i.e. RL Post-2011 Policyholders, Ireland Liver Policyholders and German Bond Policyholders.

Security of benefits

- 4.3 The developments since the Report that could impact the security of benefits for the Transferring Policyholders are:
- the updated figures for the Estates and the SCR Covers based on the Transfer being assumed to take place on 30 June 2018: these include the impact of market movements over the first half of 2018,
 - the confidential updated Estates and SCR Covers that I have seen up to the finalisation of this Supplementary Report: these include the impact of market movements since 30 June 2018, and
 - the changes to the Scheme, New Reinsurance Agreements and Security Arrangements.
- 4.4 With regard to security of benefits,
- the tables in paragraph 3.26 show that the SCR Covers for RLMIS and for the RL Main Fund and Royal Liver Sub-Fund would have remained above Target SCR Cover levels, both before and after the Transfer, had it taken place on 30 June 2018,
 - the tables in paragraph 3.26 show that the SCR Cover for Royal London DAC and for the German Bond Sub-Fund and Liver Ireland Sub-Fund would have been at or above Target SCR Cover levels, had the Transfer taken place at 30 June 2018,
 - although the economic indicators at 31 December 2018 differ from those at 30 June 2018 (paragraph 3.34), I have reviewed estimates of RLMIS solvency as at 31 December 2018 and am satisfied that the SCR Cover of RLMIS remains at or above the Target SCR Cover,
 - the projections shown within Royal London DAC's 2017 ORSA have not been updated, however I am satisfied that the ORSA remains relevant (paragraph 3.37). I am satisfied that Royal London DAC's solvency position over the projection period is stable and does not raise causes for concern over its future solvency,
 - the stress and scenario tests within Royal London DAC's 2017 ORSA have not been updated however I am satisfied that these continue to cover the main risks to which Royal London DAC is exposed, and the management actions Royal London DAC can use to control its solvency in adverse conditions remain appropriate, and
 - I discuss the impact of the changes to the Scheme, New Reinsurance Agreements and Security Arrangements on Transferring Policyholders in 4.21 to 4.24 and conclude that, in my opinion these changes are not material.
- 4.5 As concluded in paragraph 3.10 above, it remains the case that those Transferring Policyholders who currently have FSCS protection will lose this in relation to acts or omissions occurring after the Effective Date. I discuss the loss of FSCS further in paragraphs 4.15 to 4.18 below.

- 4.6 Given the above, the conclusions within the Report regarding the security of benefits remain unchanged and I continue to be satisfied that there will be no material adverse effects on the security of the benefits of the Transferring Policyholders, as a result of the Transfer.

Policyholder benefit expectations and contractual rights

- 4.7 The developments since the Report that could impact on policyholder benefits and contractual rights of the Transferring Policyholders are:

- the change to the allocation of one-off costs to individual funds (see paragraph 3.48),
- a review of how the incremental ongoing costs are recognised (see paragraphs 3.49 to 3.50),
- the PRA's and the FCA's approval of the proposed changes to the Royal Liver IoT (paragraph 3.42),
- Royal London DAC is performing a gap analysis, comparing the conduct of business regulations applicable to the German Bond Policies before and after the Transfer (paragraph 3.71),
- a number of tax clearances received from HMRC and the IRC and confirmation that there will be no changes to policyholder tax as a result of the Transfer (paragraph 3.74), and
- the Royal London DAC Board's adoption of RLG's Customer Value Statements (paragraph 3.75),
- that the Liver Ireland Sub-Fund and German Bond Sub-Fund will be managed according to the relevant WPOP rather than the Liver Ireland PPFM Guide and German Bond PPFM Guide, respectively (see paragraph 3.82). Additionally, the respective WPOP documents are not materially different to the PPFM Guides I reviewed when preparing the Report (see paragraph 3.86).

- 4.8 In response to these developments:

- I cover the implications of the change in the allocation of one-off costs and the change in how the incremental ongoing costs are recognised and why my conclusions do not change as a result of this in paragraphs 4.31 to 4.35,
- once the gap analysis is complete, Royal London DAC is committed to ensuring that, where necessary, the governance within Royal London DAC is altered to comply with the outcome of the gap analysis, and
- none of the other developments identified materially adversely impact the Transferring Policyholders.

- 4.9 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights of Transferring Policyholders as a result of the Transfer. I provide the rationale for my conclusion for each class of Transferring Policyholder in the following paragraphs.

- 4.10 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for RL Post-2011 Policyholders because:

- there will be no material change to policy terms and conditions, and
- as outlined in paragraph 3.75, on 20 December 2018 the Royal London DAC Board confirmed Royal London DAC's adoption of RLG's Customer Value Statements, which will be taken into account to govern the application of discretion.

- 4.11 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for Ireland Liver Policyholders because:

- the Scheme contains provisions to ensure that the Ireland Liver Business' interests in the Estate of the Royal Liver Sub-Fund are preserved while the Liver Reinsurance Agreement is in place, and the Liver Reinsurance Agreement allows the Royal Liver Sub-Fund to be managed materially in the same way after the Transfer as it is currently, and there will be no change to the underlying investment strategy of the sub-fund,
- decisions such as Bonus distribution will be the responsibility of Royal London DAC, in consultation with RLMIS, and in the event that an agreement cannot be reached, there is an escalation process that must be followed, as set out in the Liver Reinsurance Agreement,

- for with-profits Ireland Liver Policies, the Royal Liver PPFM will be updated to ensure that it remains applicable to the Ireland Liver Policies from the Effective Date, albeit indirectly,
- the Liver Ireland PPFM Guide meets the WPOP requirements,
- the Board of Royal London DAC has approved the implementation of the Liver Ireland PPFM Guide and, noting the advice of the HoAF, consider the WPOP documents are equivalent in content and purpose in all material respects and therefore Royal London DAC will maintain the relevant WPOP rather than the Liver Ireland PPFM Guide, as permitted under the Scheme,
- whilst there is a reduction in the anticipated Estate Distribution of the Royal Liver Sub-Fund as a result of costs associated with the Transfer, this reduction is small and short-term. The charging of these costs to the Estate is in line with the Royal Liver PPFM, the Royal Liver IoT and past practices. The costs will be allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner,
- the unit-linked Ireland Liver Policies will continue to participate in the same unit-linked funds and there will be no change to the management or investment strategy of these funds,
- whilst Royal London DAC will become ultimately responsible for the application of discretion relating to unit-linked charges following the Transfer, RLMIS will continue to calculate the charges for the unit-linked Ireland Liver Policies,
- the application of discretion for non-profit Ireland Liver Policies will be largely unchanged following the Transfer because, on 20 December 2018, the Royal London DAC Board confirmed Royal London DAC's adoption of RLG's Customer Value Statements which currently govern the application of discretion for these policies, and
- CP122 will strengthen the regulations around the governance of with-profits business; Royal London DAC intend to comply with the requirements of the resulting governance regime immediately following the Transfer.

4.12 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for German Bond Policyholders because:

- the proposed changes to the German Bond Policies' terms and conditions do not alter the benefit expectations and contractual rights of the German Bond Policyholders,
- whilst there are a number of factors which act to reduce the value of the Estate of the RL Main Fund, the Scheme must be implemented due to Brexit and therefore this is unavoidable, and the reductions are in accordance with the RL Main Fund PPFM,
- the charges applicable to unit-linked German Bond Policies will continue to be determined in accordance with the same policies as before the Transfer, with ultimate responsibility resting with Royal London DAC,
- for with-profits German Bond Policies, the RL Main Fund PPFM will not materially change,
- the German Bond PPFM Guide meets the WPOP requirements,
- the Board of Royal London DAC has approved the implementation of the German Bond PPFM Guide and, noting the advice of the HoAF, consider the WPOP documents are equivalent in content and purpose in all material respects and therefore Royal London DAC will maintain the relevant WPOP rather than the German Bond PPFM Guide, as permitted under the Scheme, and
- CP122 will strengthen the regulations around the governance of with-profits business; Royal London DAC intend to comply with the requirements of the resulting governance regime immediately following the Transfer.

Membership rights

4.13 As outlined in paragraph 3.56 above, the loss of Membership rights for with-profits German Bond Policyholders remains unchanged from the position presented in the Report.

4.14 Therefore, my conclusion regarding the loss of Membership rights for with-profits German Bond Policyholders remains unchanged from that presented in the Report. That is, I remain satisfied that it is reasonable to not provide any financial compensation at the time of the Transfer for the loss of Membership rights for with-profits German Bond Policyholders because:

- Membership rights provide little in the way of realisable financial value since RLMIS has no foreseeable plans to demutualise,
- if demutualisation occurs prior to the fifth anniversary of the Effective Date, with-profits German Bond Policyholders that still hold German Bond Policies with Royal London DAC will

be entitled to receive compensation on the same basis as any compensation proposed for Members of RLMIS holding with-profits policies in the RL Main Fund, and

- having certainty about being able to service these policies lawfully after Brexit is more important than maintaining Membership rights.

External bodies providing further policyholder protection

- 4.15 As explained in paragraph 3.11 above, it remains the case that certain Transferring Policyholders, as set out within the Report, will, as a result of the Transfer, lose entitlement to FSCS protection (although if the claim results from a covered event which occurs prior to the transfer it will continue to be covered by the FSCS).
- 4.16 My conclusion regarding this loss of FSCS protection for certain Transferring Policyholders remains unchanged from that presented in the Report. That is, I remain satisfied that there will be no material adverse effect on policyholder protection for Transferring Policyholders as a result of the Transfer because:
- in my view, the certainty of being able to service a policy lawfully after Brexit is more important than maintaining FSCS protection, and
 - because Royal London DAC will be maintaining a strong SCR Cover, the need for the protection provided by the FSCS is remote. This means that the value of the FSCS protection is low.
- 4.17 With regard to the additional forms of external policyholder protection outlined in the Report, including ombudsman services and conduct of business regulations, my conclusions remain unchanged.
- 4.18 Overall, I am satisfied that, with regard to external bodies providing policyholder protection, there will be no material adverse effect on the Transferring Policyholders as a result of the Transfer.

Governance arrangements

- 4.19 The developments since the Report relating to governance arrangements for the Transferring Policyholders are:
- the PRA and the FCA have approved the proposed changes to the Royal Liver IoT,
 - the CBI has approved the members of the Royal London DAC Board,
 - Royal London DAC is performing a gap analysis, comparing the conduct of business regulations applicable to the German Bond Policies before and after the Transfer,
 - the Royal London DAC Board has adopted RLG's Customer Value Statements, and
 - the Board of Royal London DAC has approved the implementation of the Liver Ireland PPFM Guide and German Bond PPFM Guide and, noting the advice of the HoAF, consider the WPOP documents are equivalent in content and purpose in all material respects. The PPFM Guides will accordingly be renamed WPOP documents. Therefore, as permitted under the Scheme, the relevant WPOP will govern the German Bond Sub-Fund and Liver Ireland Sub-Fund.
- 4.20 None of the above developments adversely impact the Transferring Policyholders. With regard to the governance arrangements for Transferring Policyholders, my conclusion therefore remains unchanged. I am satisfied that there will be no material adverse effect on the governance arrangements for the Transferring Policyholders as a result of the Transfer because:
- the proposed composition of the Board of Royal London DAC complies with Irish regulations,
 - the CBI have approved the members of the Royal London DAC Board. The Board of Royal London DAC consists of a sufficient number of independent directors and individuals with appropriate competencies,
 - the Board committee structure and scope for Royal London DAC will be similar to that for RLMIS,
 - I am satisfied that the Royal Liver IoT will be adequately amended to capture the Ireland Liver Business, and the Scheme appropriately incorporates the relevant provisions within the Royal

Liver IoT, meaning that relevant provisions of the Royal Liver IoT will continue to apply to the Ireland Liver Business following the termination of the Liver Reinsurance Agreement,

- there will be no material adverse effect on the governance which applies to with-profits policies,
- there will be no material change to the level of governance which will apply to unit-linked and non-profit policies as similar levels of oversight will continue to apply,
- the application of discretion for unit-linked and non-profit policies will continue to consider RLG's Customer Value Statements in RLMIS, and
- although the relevant WPOP will govern the German Bond Sub-Fund and Liver Ireland Sub-Fund, these are, in all material matters, equivalent to the German Bond PPFM Guide and Liver Ireland PPFM Guide, respectively.

Scheme, New Reinsurance Agreements and Security Arrangements

- 4.21 As outlined in paragraph 3.60, since the Report was finalised, there has been a change to the Scheme. The change confers upon Transferring Policyholders the right to enforce a provision of the Scheme related to the handling of certain complaints brought to the FOS and any judgements, settlements or awards made by the FOS in respect of certain proceedings. This change does not alter the purpose or operation of the Scheme and therefore, in my opinion, it is not a material change.
- 4.22 There has also been a change to the New Reinsurance Agreements, as detailed in paragraph 3.61. The change to the New Reinsurance Agreements protects against the event in which, for example, the custodian becomes insolvent or acts in a fraudulent manner and the replacement custodian is not appointed within 30 business days. This change does not alter the purpose or operation of the New Reinsurance Agreements and it is not, in my opinion, a material change.
- 4.23 There have also been some changes to the Security Arrangements, as discussed in paragraph 3.62. These changes remove the right of RLMIS to terminate the Security Arrangements in a particular circumstance. In my opinion, these changes do not materially alter the security provided by the Security Arrangements and I therefore do not consider these changes to have an adverse impact on the Remaining Policyholders.
- 4.24 Given that the changes to the Scheme, New Reinsurance Agreements and Security Arrangements are, in my opinion, not material, I am satisfied that they do not have a material adverse effect on the interests of Transferring Policyholders.

Tax implications

- 4.25 Aside from the two developments outlined below regarding policyholder tax and tax clearances, all other tax implications of the Transfer on Transferring Policyholders remain unchanged since writing the Report.

Policyholder tax

- 4.26 As outlined in paragraph 3.73, the IRC has confirmed that there will be no change in policyholder taxation for the Transferring policies, as the Transfer will not result in a material change to the terms and conditions of the Transferring Policies.
- 4.27 Therefore, my conclusion regarding the impact of the Transfer on policyholder taxation remains unchanged. I am satisfied that there will not be any change to the tax liability for Transferring Policyholders as a result of the Transfer.

Tax clearances

- 4.28 As outlined in paragraph 3.74, with one exception, both HMRC and the IRC has provided the clearances as requested.
- 4.29 The exception is the transfer of carried forward of new basis business losses in the Royal Liver Sub-Fund to the Liver Ireland Sub-Fund. The IRC has requested to see the submission of the first tax computation before it confirms its position on this point. Given that no trading profits are expected to

arise in the Liver Ireland Sub-Fund, I do not expect the IRC's decision to have any impact on the tax being charged to the Liver Ireland Sub-Fund, so this does not change any of my conclusions.

Conclusion

- 4.30 Overall, taking into account the developments since the Report outlined in paragraphs 3.73 to 3.74, my conclusions regarding the tax implications of the Transfer on Transferring Policyholders remain unchanged. I am satisfied that the tax implications of the Transfer will not materially adversely affect the Transferring Policies because:
- there will be no material policyholder tax impacts on any of the Transferring Policies as a result of the Transfer,
 - the indirect tax impacts on Ireland Liver Policies via the Estate of the Royal Liver Sub-Fund will not be material, and are a necessary and unavoidable cost of ensuring the continued servicing of the Ireland Liver Business, and
 - the indirect tax impacts on German Bond Policies via the Estate of the RL Main Fund will not be material and are a necessary and unavoidable cost of ensuring the continued servicing of the Transferring Business.

Costs of the Transfer and incremental ongoing expenses

- 4.31 In paragraphs 3.48 to 3.52 above I discuss that the following have occurred:
- a change, since the Report, to the allocation of the estimated one-off costs of implementing the Scheme between the funds, with the Royal Liver Sub-Fund Estate paying £0.7m less and the RL Main Fund £0.7m more, and
 - a review of how the incremental ongoing costs are recognised since the Report was finalised.
- 4.32 With regard to those policies transferring to the Liver Ireland Sub-Fund (which shares in the Estate Distributions from the Royal Liver Sub-Fund):
- the review of how the allocation of incremental ongoing costs are recognised has shown it is likely that there will be a reduction in the Estate Distribution applied to eligible with-profits policyholders' Asset Shares and sums assured for eligible contingent bonus policies at year end 2018 and year end 2019 when compared to the current-run-off plan for the Royal Liver Sub-Fund,
 - it is estimated that these result in reductions of 3.0% as at year end 2018 and 2.0% as at year end 2019 in the Estate Distribution for the Royal Liver Sub-fund. Within the Report, the estimated reduction was 2.0% as at year end 2018 when compared to the existing run-off plan. As detailed in paragraph 3.50, the review of expenses results in a reduction in the Estate of the Royal Liver Sub-Fund immediately after the Transfer. Consequently, as the total incremental ongoing costs are unchanged, there will be a smaller annual impact on the Estate of the Royal Liver Sub-Fund going forward, and
 - I remain satisfied with the allocation and level of the one-off and incremental ongoing costs to the Estate of the Royal Liver Sub-Fund as these costs remain an unavoidable consequence of the Transfer and are allocated in line with the Royal Liver PPFM, Royal Liver IoT and past practice.
- 4.33 With regard to the RL Post-2011 Policies transferring to the Royal London DAC Open Fund:
- the cost of the Transfer and the incremental ongoing expenses do not impact the RL Post-2011 Business as these are all non-profit policies.
- 4.34 With regard to the German Bond Policies:
- for the RL Main Fund, the changes detailed in paragraph 4.31 result in an increase in the one-off costs allocated with the RL Main Fund and no change to the incremental costs borne by the RL Main Fund. I remain satisfied with the allocation and level of the one-off and incremental ongoing costs to the Estate of the RL Main Fund as these costs remain an

unavoidable consequence of the Transfer and are allocated in line with the RL Main Fund PPFM and past practice.

- I remain satisfied that the changes to the costs borne by the RL Main Fund do not materially adversely affect the German Bond Policyholders; in particular the future ProfitShare rates for eligible German Bond Policyholders are not expected to be materially affected as a consequence of the Scheme.

4.35 My conclusion is therefore unchanged for the following reasons:

- the Scheme must be implemented to mitigate the risk of not being able to service the Transferring Policies due to Brexit and therefore the nature and quantum of these costs are unavoidable,
- given the mutual nature of RLMIS, it is not possible to charge the costs to shareholders and therefore the costs need to be met by the Estate of one or more with-profits funds,
- with regard to the Royal Liver Sub-fund:
 - the Royal Liver PPFM and Royal Liver IoT allow such exceptional costs to be charged to the Estate of the Royal Liver Sub-Fund, as they are the result of a major legislative change,
 - the one-off costs and ongoing incremental costs allocated to the Royal Liver Sub-Fund affect both the Remaining Royal Liver Sub-Fund Policies and Ireland Liver Policies in the same way, and I consider that this is fair as this is in line with past practice in relation to how the Royal Liver Sub-Fund is managed, and
 - there is no reason to depart from past practice by charging the costs being charged to the Estate of the Royal Liver Sub-Fund only to the Ireland Liver Business, as this would not be in line with the current approach of sharing experience, such as investment returns, across the Royal Liver Sub-Fund, and
- with regard to the RL Main Fund:
 - the allocation of costs to the Estate of the RL Main Fund is consistent with past precedents and the RL Main Fund PPFM.
 - within the RL Main Fund all insurance, expense and investment risks are shared across the whole of the RL Main Fund. Therefore, it is fair to share the costs and risks, as a result of the Transfer, between the with-profits Remaining RL Main Fund Business and the with-profits German Bond Business.

Administration and service standards

4.36 The only development since the Report with regard to administration and service standards is in respect of the progress that the administration team in Ireland has made in recruiting staff to administer the Ireland Liver Business. The administration team in Ireland has identified that 16 more staff are required to administer these extra policies. The recruitment project is on course to deliver its objectives with 14 staff already recruited as at 11 January 2019. The transfer of the administration is expected to occur on 7 February 2019. In the early months, members of the team currently responsible for administration will be on site to assist and will stay on site for as long as is required.

4.37 The development described above does not adversely impact the Transferring Policyholders. With regard to the administration and service standards experienced by Transferring Policyholders, my conclusion therefore remains unchanged. I am satisfied that there will be no material adverse effect on the administration and service standards experienced by Transferring Policyholders because:

- the RL Post-2011 Policies will continue to be serviced by the same staff and in the same location as was the case prior to the Transfer. These policies will be subject to the same target standards of service,
- the Ireland Liver Policies that were originally written by Caledonian Life and GRE Life Ireland Limited will continue to be serviced by the same staff and in the same location as they were prior to the Transfer. These policies will be subject to the same target standards of service,
- the administration of the rest of the Ireland Liver Business will transfer from the UK to Ireland on 7 February 2019. The administration team in Ireland is recruiting staff to administer these policies. The recruitment project is on course to deliver its objectives and I consider the plans (including staff levels and training) to be appropriate. Further, Royal London DAC will adopt and adhere to the existing service standards for these policies, and
- the German Bond Policies will continue to be serviced by the same staff and in the same location as is the case prior to the Transfer. These policies will be subject to the same target standards of service.

Conclusion

- 4.38 Overall, having considered all the developments within section 3, I have concluded that my opinion in the Report remains unchanged: The Transferring Policyholders will not be materially adversely affected by the Transfer.

The impact of the Transfer on the Remaining Policyholders of RLMIS

- 4.39 In the following paragraphs, I consider whether my overall opinion on the impact of the Transfer on Remaining Policyholders has changed as a result of the developments described in section 3. Unless explicitly stated, the comments and conclusions in this section apply to all classes of Remaining Policyholder, i.e. Remaining RL Main Fund Policyholders, Remaining Royal Liver Sub-Fund Policyholders and Other Remaining Policyholders.

Security of benefits

- 4.40 The developments since the Report that could impact on the security of benefits for the Remaining Policyholders are:
- the updated figures for Estates and SCR Covers based on the Transfer being assumed to take place on 30 June 2018: this includes the impact of market movements over the first half of 2018,
 - the confidential updated Estates and SCR Covers that I have seen up to the finalisation of this Supplementary Report: these include the impact of market movements since 30 June 2018,
 - the 2018 ORSA for RLMIS that was provided to me in January 2019, and
 - the changes to the Scheme, New Reinsurance Agreements and Security Arrangements.
- 4.41 With regard to security of benefits:
- the tables in 3.26 show that the SCR Cover for RLMIS and for the RL Main Fund and Royal Liver Sub-Funds would be at or above Target SCR Cover levels, had the Transfer taken place on 30 June 2018,
 - I have seen an estimate of the SCR Covers for the RLMIS Closed Funds (including the Royal Liver Sub-Fund) and the RL Main Fund as well as RLMIS in total at 31 December 2018 and they are not materially different to those as at 30 June 2018,
 - although the economic indicators at 31 December 2018 differ from those at 30 June 2018 (paragraph 3.34), I have reviewed estimates of RLMIS solvency as at 31 December 2018 and am satisfied that the SCR Cover of RLMIS remains at or above the Target SCR Cover,
 - the projections within the RLMIS ORSA have been updated as at December 2018. I have reviewed the 2018 ORSA and I am satisfied that RLMIS' solvency position over the projection period continues to be stable and does not raise causes for concern over its future solvency,
 - the stress and scenario tests within the RLMIS ORSA have been updated as at December 2018. I am satisfied that these continue to cover the main risks to which RLMIS is exposed, and the management actions RLMIS can use to control its solvency in adverse conditions are appropriate, and
 - I discuss the impact of the changes to the Scheme, New Reinsurance Agreements and Security Arrangements on the Remaining Policyholders in 4.56 to 4.59 and conclude that, in my opinion, these changes are not material.
- 4.42 Given the above, the conclusions within the Report regarding the security of benefits remain unchanged and I continue to be satisfied that there will be no material adverse effect on the security of the benefits of the Remaining Policyholders, as a result of the Transfer.

Policyholder benefit expectations and contractual rights

- 4.43 The developments since the Report that could impact on policyholder benefits and contractual rights of the Remaining Policyholders are:
- the reallocation of one-off costs between the Royal Liver Sub-Fund and the Royal London Main Fund,
 - a review of how the incremental ongoing costs are recognised, and
 - a number of tax clearances received from HMRC and the IRC and confirmation that there will be no changes to policyholder tax as a result of the Transfer.
- 4.44 In response to these developments:
- I cover the implications of the reallocation of one-off costs and the review of how the incremental ongoing costs are recognised and why my conclusions do not change as a result in paragraphs 4.63 to 4.66, and
 - the tax clearances and confirmation do not adversely impact the Remaining Policyholders.
- 4.45 I remain satisfied that there will be no material adverse effects on the benefit expectations and contractual rights of the Remaining Policyholders, as a result of the Transfer. I provide the rationale for my conclusion for each class of Remaining Policyholder in the following paragraphs.
- 4.46 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for Remaining RL Main Fund Policyholders because:
- there are no changes to the policy terms and conditions of the Remaining RL Main Fund Policyholders,
 - the Bonus setting process for the with-profits Remaining RL Main Fund Policies is unchanged as a result of the Transfer,
 - only minor changes will be made to the RL Main Fund PPFM, and the changes made will not have any impact on with-profits Remaining RL Main Fund Policyholders,
 - whilst there are a number of factors which act to reduce the value of the Estate of the RL Main Fund, the Scheme must be implemented due to Brexit and therefore this is unavoidable. The reductions are small as a proportion of the overall size of the Estate, and the reductions are in accordance with the RL Main Fund PPFM, and
 - the Transfer is not expected to affect the ProfitShare paid to eligible Remaining RL Main Fund Policyholders.
- 4.47 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for Remaining Royal Liver Sub-Fund Policyholders because:
- there are no changes to the policy terms and conditions of these policies,
 - the changes being made to the Royal Liver PPFM will not have any material effect on with-profits Remaining Royal Liver Sub-Fund Policyholders,
 - whilst there is a reduction in the anticipated Estate Distribution of the Royal Liver Sub-Fund as a result of the Transfer, the Scheme must be implemented due to Brexit and therefore this is unavoidable. Further, this reduction is in line with the Royal Liver PPFM and past practices, and will be allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner,
 - there is a prescriptive approach to distributing the Estate of the Royal Liver Sub-Fund, as set out within the Royal Liver IoT. This means that disputes between RLMIS and Royal London DAC in respect of Estate Distributions are unlikely, and
 - whilst there have been some Estate Distributions from the Royal Liver Sub-Fund in recent years, these have not been applied regularly, meaning RLMIS has not set the expectations of with-profits Remaining Royal Liver Sub-Fund Policyholders at a specified level.
- 4.48 I remain satisfied that there will be no material adverse effect on the benefit expectations or contractual rights for Other Remaining Policyholders because:
- there are no changes to policy terms and conditions, and no changes to the options and guarantees to which these policyholders are currently entitled,

- the policies in relation to discretion, investment and the management of charges and expenses will not change as a result of the Transfer,
- there will be no change to the Estate Distribution as a result of the Transfer, and
- the PPFMs covering these policyholders will be unchanged (except for the Refuge Assurance IB, United Friendly IB and United Friendly OB policyholders who are governed by the RL Main Fund which will be non-materially updated as a result of the Transfer).

Membership rights

- 4.49 As outlined in the Report, there will be no change in the Membership rights of the Remaining Policyholders as a result of the Transfer. That is, all Remaining Policyholders that held Membership rights prior to the Transfer will continue to hold these rights after the Transfer.
- 4.50 Because nothing has changed since the Report, my conclusions with regard to Membership rights of the Remaining Policyholders remain unchanged.

External bodies providing further policyholder protection

- 4.51 As outlined in the Report, there will be no change to the availability of FSCS protection, or any other external policyholder protection services, for Remaining Policyholders, as a result of the Transfer.
- 4.52 Because nothing has changed since the Report, my conclusions with regard to external bodies providing further policyholder protection for Remaining Policyholders remain unchanged.

Governance arrangements

- 4.53 There have been no changes to governance arrangements for RLMIS since the Report.
- 4.54 With regard to governance arrangements for Remaining Policyholders, my conclusion therefore remains unchanged. Overall, I am satisfied that there will be no material adverse effect on the governance arrangements for Remaining Policyholders as a result of the Transfer, as there will be no material change to the arrangements in respect of these policyholders.
- 4.55 In addition, as outlined in paragraph 3.42, the PRA and FCA have now approved the proposed changes to the Royal Liver IoT to recognise the Transfer and Liver Reinsurance Agreement. The updates to the Royal Liver IoT ensure it remains applicable to both the Remaining Policies in the Royal Liver Sub-Fund and the Ireland Liver Policies from the Effective Date. Importantly, the Royal Liver IoT requires the treatment of the Ireland Liver Policyholders and the Remaining Policyholders in the Royal Liver Sub-Fund to be consistent.

Scheme, New Reinsurance Agreements and Security Arrangements

- 4.56 As outlined in paragraph 3.60, since the Report was finalised, there has been a change to the Scheme. The change confers upon Transferring Policyholders the right to enforce a provision of the Scheme related to the handling of certain complaints brought to the FOS and any judgements, settlements or awards made by the FOS in respect of certain proceedings. This change does not alter the purpose or operation of the Scheme and therefore, in my opinion, it is not a material change.
- 4.57 There has also been a change to the New Reinsurance Agreements, as detailed in paragraph 3.61. The change to the New Reinsurance Agreements protects against the event in which, for example, the custodian becomes insolvent or acts in a fraudulent manner and the replacement custodian is not appointed within 30 business days. This change does not alter the purpose or operation of the New Reinsurance Agreements and it is not, in my opinion, a material change.
- 4.58 There have also been some changes to the Security Arrangements, as discussed in paragraph 3.62. These changes remove the right of RLMIS to terminate the Security Arrangements in a particular circumstance. In my opinion, these changes do not materially alter the security provided by the

Security Arrangements and I therefore do not consider these changes to have an adverse impact on the Remaining Policyholders.

- 4.59 Given that the changes to the Scheme, New Reinsurance Agreements and Security Arrangements are, in my opinion, not material, I am satisfied that they do not have a material adverse effect on the interests of Remaining Policyholders.

Tax implications

- 4.60 All tax implications of the Transfer for Remaining Policyholders remain unchanged since writing the Report.

Tax clearances

- 4.61 As outlined in paragraph 3.74, with one exception, both HMRC and the IRC has provided the clearances as requested. All tax clearances relevant to the Remaining Policyholders have been obtained.

Conclusion

- 4.62 Overall, taking into account the developments since the Report outlined in paragraph 3.74, my conclusions regarding the tax implications of the Transfer on Remaining Policyholders remain unchanged. I am satisfied that the tax implications of the Transfer will not materially adversely affect the Remaining Policyholders because:

- there will be no material policyholder tax impacts on the Remaining Policyholders as a result of the Transfer, and
- the indirect tax impacts on the Remaining Policies via the Estates of the RL Main Fund and the Royal Liver Sub-Fund will not be material and are a necessary and unavoidable cost of ensuring the continued servicing of the Transferring Policies.

Costs of the Scheme and incremental ongoing expenses

- 4.63 In paragraphs 3.48 to 3.50 above I set out that there has been:

- a change, since the Report, to how the estimated one-off costs of implementing the Scheme are to be divided between Royal Liver Sub-Fund and the RL Main Fund, with the Royal Liver Sub-Fund Estate paying £0.7m less and the RL Main Fund £0.7m more, and
- a review of how the incremental ongoing costs are recognised since the Report was finalised.

- 4.64 With regard to those policies remaining in the Royal Liver Sub-Fund:

- the review of how the incremental ongoing costs are allocated has shown it is likely that there will be a reduction in the Estate Distribution applied to eligible with-profits policyholders' Asset Shares and sums assured for eligible policies at year end 2018 and year end 2019 when compared to the current-run-off plan for the Royal Liver Sub-Fund,
- it is estimated that these result in reductions of 3.0% as at year end 2018 and 2.0% as at year end 2019 in the Estate Distribution for the Royal Liver Sub-Fund when compared to the existing run-off plan. Within the Report, the estimated reduction was 2.0% as at year end 2018. As detailed in paragraph 3.50 the review of expenses resulted in a larger reduction in the Estate of the Royal Liver Sub-Fund immediately after the Transfer. Consequently, as the total incremental ongoing costs are unchanged, there will be a smaller annual impact on the Estate of the Royal Liver Sub-Fund going forward, and
- I remain satisfied with the allocation and level of the one-off and incremental ongoing costs to the Estate of the Royal Liver Sub-Fund as these costs remain an unavoidable consequence of the Transfer and are allocated in line with the Royal Liver PPFM, Royal Liver IoT and past practice.

- 4.65 With regard to policies remaining in the RL Main Fund:

- the changes detailed in paragraph 4.31 result in an increase in the one-off costs allocated to the RL Main Fund and no change to the incremental costs borne by the RL Main Fund,
- the costs borne by the RL Main Fund are not expected to materially affect future ProfitShare rates available for eligible Remaining RL Main Fund Policyholders, and
- I remain satisfied with the allocation and level of the one-off and incremental ongoing costs to the Estate of the RL Main Fund as these costs remain an unavoidable consequence of the Transfer and are allocated in line with the RL Main Fund PPFM and past practice.

4.66 As a result, my conclusion is unchanged and I am satisfied with the allocation of the incremental ongoing costs and one-off costs to the Estates of the Royal Liver Sub-Fund and RL Main Fund because:

- the Scheme must be implemented to mitigate the risk of not being able to service the Transferring Policies due to Brexit and therefore the nature and quantum of these costs are unavoidable. The costs represent a small proportion of the Estate of the RL Main Fund,
- given the mutual nature of RLMIS, it is not possible to charge the costs to shareholders and therefore the costs need to be met by the Estate of one or more with-profits funds,
- with regard to the Royal Liver Sub-fund:
 - the Royal Liver PPFM and Royal Liver IoT allow such exceptional costs to be charged to the Estate of the Royal Liver Sub-Fund, as they are the result of a major legislative change,
 - the one-off costs and ongoing incremental costs allocated to the Royal Liver Sub-Fund affect both the Remaining Royal Liver Sub-Fund Policies and Ireland Liver Policies in the same way. I consider that this is fair as this is in line with past practice in relation to how the Royal Liver Sub-Fund is managed, and
 - there is no reason to depart from past practice by charging the costs being charged to the Estate of the Royal Liver Sub-Fund only to the Ireland Liver Business, as this would not be in line with the current approach of sharing experience, such as investment returns, across the Royal Liver Sub-Fund, and
- with regard to the RL Main Fund:
 - the allocation of costs to the Estate of the RL Main Fund is consistent with past precedents and the RL Main Fund PPFM, and
 - within the RL Main Fund all insurance, expense and investment risks are shared across the whole of the RL Main Fund. Therefore, it is fair to share the costs and risks as a result of the Transfer between the with-profits Remaining RL Main Fund Business and the with-profits German Bond Business.

Administration and service standards

4.67 There have been no changes in plans for the administration of the Remaining Policies since the Report.

4.68 With regard to the administration and service standards experienced by Remaining Policyholders, my conclusion therefore remains unchanged. I am satisfied that there will be no material adverse effect on the administration and service standards of Remaining Policyholders as a result of the Transfer, as there are no anticipated changes to either of these aspects.

Conclusion

4.69 Overall, having considered all the developments within section 3, I have concluded that my opinion in the Report remains unchanged: the Remaining Policyholders will not be materially adversely affected by the Transfer.

The impact of the Transfer on the Existing Policyholders of Royal London DAC

4.70 Below I consider whether my overall opinion on the impact of the Transfer on Existing Policyholders has changed as a result of the developments described in section 3. As at 16 January 2019 Royal London DAC had written 211 policies.

Security of benefits

- 4.71 The developments since the Report that could impact on the security of benefits for the Existing Policyholders of Royal London DAC are:
- the updated figures for Estates and SCR Covers based on the Transfer being assumed to take place on 30 June 2018: this includes the impact of market movements over the first half of 2018,
 - the confidential updated Estates and SCR Covers that I have seen up to the finalisation of this Supplementary Report: these include the impact of market movements since 30 June 2018, and
 - the changes to the Scheme, New Reinsurance Agreements and Security Arrangements.
- 4.72 With regard to security of benefits,
- the tables in paragraph 3.26 show that the SCR Covers for Royal London DAC and for the Royal London DAC Open Fund would have remained above Target SCR Cover levels had the Transfer taken place on 30 June 2018,
 - the projections within Royal London DAC's 2017 ORSA have not been updated however I am satisfied that the ORSA remains relevant (paragraph 3.37) and that Royal London DAC's solvency position over the projection period is stable and does not raise causes for concern over its future solvency,
 - the stress and scenario tests within Royal London DAC's 2017 ORSA have not been updated however I am satisfied that these continue to cover the main risks to which Royal London DAC is exposed, and the management actions Royal London DAC can use to control its solvency in adverse conditions remain appropriate, and
 - I discuss the impact of the changes to the Scheme, New Reinsurance Agreements and Security Arrangements on the Existing Policyholders in paragraphs 4.78 to 4.80 and conclude that, in my opinion, these changes are not material.
- 4.73 Given the above, the conclusions within the Report regarding the security of benefits remain unchanged and I continue to be satisfied that there will be no material adverse effect on the security of the benefits of the Existing Policyholders of Royal London DAC, as a result of the Transfer.

Policyholder benefit expectations and contractual rights

- 4.74 There have been no developments since the Report that could impact on the benefit expectations of contractual rights of the Existing Policyholders of Royal London DAC.
- 4.75 I remain satisfied that there will be no material adverse effect on the policyholder benefits or contractual rights for the Existing Policyholders as a result of the Transfer because:
- there is no change to the policy terms and conditions,
 - the discretion policies and the governance related to the Existing Policyholders will be unchanged by the Transfer, and
 - all Existing Policies are non-profit and therefore the policy benefits are not affected by the Transfer.

External bodies providing further policyholder protection

- 4.76 As outlined in the Report, there will be no change to the availability of the existing external policyholder protection services available to Remaining Policyholders, as a result of the Transfer.
- 4.77 Because nothing has changed since the Report, my conclusions with regard to external bodies providing policyholder protection for Existing Policyholders remain unchanged.

Scheme, New Reinsurance Agreements and Security Arrangements

- 4.78 As outlined in paragraph 3.60, since the Report was finalised, there has been a change to the Scheme. The change confers upon Transferring Policyholders the right to enforce a provision of the Scheme related to the handling of certain complaints brought to the FOS and any judgements, settlements or awards made by the FOS in respect of certain proceedings. This change does not alter the purpose or operation of the Scheme and therefore, in my opinion, it is not a material change.
- 4.79 There has also been a change to the New Reinsurance Agreements, as detailed in paragraph 3.61. The change to the New Reinsurance Agreements protects against the event in which, for example, the custodian becomes insolvent or acts in a fraudulent manner and the replacement custodian is not appointed within 30 business days. This change does not alter the purpose or operation of the New Reinsurance Agreements and it is not, in my opinion, a material change.
- 4.80 There have also been some changes to the Security Arrangements, as discussed in paragraph 3.62. These changes remove the right of RLMIS to terminate the Security Arrangements in a particular circumstance. In my opinion, these changes do not materially alter the security provided by the Security Arrangements and I therefore do not consider these changes to have an adverse impact on the Remaining Policyholders.
- 4.81 Given that the changes to the Scheme, New Reinsurance Agreements and Security Arrangements are, in my opinion, not material I am satisfied that they do not have a material adverse effect on the interests of Existing Policyholders.

Tax implications

- 4.82 As outlined in the Report, the Transfer will not impact the tax paid by Existing Policyholders on the benefits arising from their policies, as these are non-profit policies with fixed benefits.
- 4.83 Because nothing has changed since the Report, my conclusions with regard to tax implications for Existing Policyholders remain unchanged.

Costs of the Transfer and incremental ongoing expenses

- 4.84 As outlined in the Report, the costs of implementing the Scheme will not be borne by Existing Policyholders as they all hold non-profit policies with fixed benefits. Therefore, my conclusions with regard to the costs of the transfer and incremental ongoing expenses in relation to the Existing Policyholders remain unchanged.

Administration and service standards

- 4.85 As outlined in the Report, the transfer will not alter the team administering the Existing Policyholders. It will be the same administration team, in the same location operating under the same service standards as is the case prior to the Transfer.
- 4.86 With regard to the administration and service standards experienced by Existing Policyholders, my conclusion therefore remains unchanged. I am satisfied that there will be no material adverse effect on the administration and service standards of Existing Policyholders as a result of the Transfer.

Conclusion

- 4.87 Overall, having considered all the developments within section 3, I have concluded that my opinion in the Report remains unchanged: the Existing Policyholders will not be materially adversely affected by the Transfer.

The impact of the Transfer on reinsurers of the Transferring Business

- 4.88 As outlined in paragraphs 3.65 to 3.68, the arrangements set out in the Report in relation to external reinsurance arrangements, including the newly identified reinsurance arrangement, have been put in place to take effect from the Effective Date. There have been no other developments that will impact on the reinsurers of the Transferring Business.
- 4.89 My opinion therefore remains unchanged: the external reinsurers of the Transferring Business will not be materially adversely affected by the Transfer.

5 Consideration of the policyholder communication process and objections and representations received

- 5.1 At the Directions Hearing on 15 October 2018, the Court agreed to the proposed plans of RLMIS and Royal London DAC for policyholder communication in respect of the Scheme.
- 5.2 All Transferring Policyholders and Remaining Royal Liver Sub-Fund Policyholders, except those subject to the waivers, were to be sent a letter and a communication pack by RLMIS by post. The communication packs were to include:
- a summary of the Scheme,
 - a summary of my Report,
 - a copy of the legal notice, including contact details should the policyholder wish to raise any questions regarding the Transfer,
 - questions and answers explaining the likely impact of the Scheme,
 - where relevant, information related to the loss of FSCS protection,
 - where relevant, changes to policy terms and conditions, the Royal Liver PPFM and the RL Main Fund PPFM, and
 - an overview of the legal process and the rights that policyholders and any other person who considers that they would be adversely affected by the Scheme has to object to the Scheme.
- 5.3 Since 7 January 2019, Royal London DAC has been selling new business. During the sales process it has made policyholders aware of the Transfer through a pre-sale information leaflet. Shortly after the inception of the policies for Existing Policyholders and prior to the Sanction Hearing, Existing Policyholders are sent an information pack. The information pack will include:
- a summary of the Scheme,
 - a summary of the Report,
 - a copy of the legal notice, including contact details should the policyholder wish to raise any questions regarding the Transfer,
 - questions and answers explaining the likely impact of the Scheme, and
 - an overview of the legal process and the rights that Existing Policyholders, and any other person who considers they would be adversely affected by the Scheme, have to object to the Scheme.
- 5.4 RLMIS has confirmed to me that they have carried out their communications with the Transferring Policyholders and Remaining Royal Liver Sub-Fund Policyholders in line with the Directions Order², and this has been confirmed in the witness statements I have seen. I note that the mailing was completed by 12 December 2018, which is approximately 7 weeks prior to the Sanction Hearing and in line with the requirement under the FCA and PRA's guidance. I have also discussed with RLMIS the progress of communications and the responses they have received on a weekly basis.
- 5.5 Royal London DAC has confirmed to me that they have carried out their communications with the Existing Policyholders in line with the Directions Order. I note that all Existing Policyholders were informed of the Scheme during the sales process and were sent an information pack shortly after policy inception.
- 5.6 RLMIS also confirmed that out of the 614,848 communication packs sent out, and as at 16 January 2019 29,442 have been returned. I have performed some analysis into the returned packs and the majority of returned communication packs were those sent to Remaining Royal Liver Sub-

² An order was made by Deputy ICC Judge Prentis in the High Court of Justice ((Insolvency and Companies List (ChD)) on 15 October 2018 (the Directions Order) upon the Claim Form dated 8 October 2018.

Fund Policies, and most of these were for non-profit and contingent bonus policies. These Remaining Royal Liver Sub-Fund non-profit and contingent bonus policies have an average policy value of £115 (including the contingent bonus) and £40, respectively. For the Transferring Policyholders the return rate was less than 1%. It was acknowledged ahead of the mailing process that it was possible that some communication packs would be returned, and this is one of the reasons that RLG elected to publish a copy of the legal notice in significantly more publications than is required. None of the communication packs sent out by Royal London DAC were returned. Therefore, I am satisfied that the number of returns is not unreasonable as it is in line with what I have seen elsewhere for similar books of business.

- 5.7 Any UK based policyholder whose communication pack has been returned has been placed in the business as usual tracing process, which usually takes 12 weeks. Therefore, even if the tracing process is successful in obtaining correct addresses there is unlikely to be sufficient time ahead of the Sanction Hearing to mail these policyholders for a second time. For communication packs which are returned from Ireland and Germany there is no such tracing process available in these countries.
- 5.8 RLMIS has confirmed that as at 16 January 2019 it had received, 27,496 letters/telephone calls from Transferring Policyholders and Remaining Policyholders relating to the Scheme, of which seven were confirmed as objections and nine as expressions of dissatisfaction. The remaining 27,480 letters/telephone calls are comprised of enquiries related to the Transfer, enquiries unrelated to the Transfer or complaints unrelated to the Transfer, and these do not meet the criteria of either objections or expressions of dissatisfaction, as defined in paragraph 5.11. RLMIS has corresponded with these policyholders by letter and by telephone. I have been provided with copies of the correspondence with any objecting policyholders up to 16 January 2019.
- 5.9 Royal London DAC has confirmed that as at 16 January 2019 it had received no letters/telephone calls from Existing Policyholders relating to the Scheme. This is not unexpected as Royal London DAC made all Existing Policyholders aware of the Transfer prior to the sale of the policy and Royal London DAC only started writing new business from 7 January 2019.
- 5.10 All of the call handlers taking calls related to the Transfer have been through specific training, this training included the assessment of the call handler's ability to identify Transfer related objections or expressions of dissatisfaction. Once the call handler has recorded an objection or an expression of dissatisfaction then an email is automatically sent to an escalation team who will then discuss this in the next daily meeting. The escalation team contains representatives from the following areas:
- legal,
 - actuarial,
 - group customer services UK, Ireland and Isle of Man,
 - customer relations, and
 - project communications team.
- 5.11 Within the training the definition of objection and expression of dissatisfaction were set out and discussed:
- objection – refers to a statement indicating that a policyholder objects to the Scheme proceeding. It is not necessary for a policyholder to use the word “objection” in order for their statement to be classified as an objection. Any clear statement having the effect of an objection will be classified as such, and
 - expression of dissatisfaction – falls short of an objection and would refer to a statement from a policyholder indicating that the relevant policyholder is not happy / satisfied with the Scheme proceeding but which falls short of an objection to the Scheme. RLMIS has confirmed that for all but one of the policyholders raising expressions of dissatisfaction, the matter has been resolved to the satisfaction of the policyholder.
- 5.12 I have reviewed how RLMIS and Royal London DAC define objections and the controls they have in place to ensure that all objections are identified and recorded under this definition. I have held calls with RLMIS specifically on this topic to better understand the process and I have reviewed a document detailing the process of quality assurance, the training that has been given to call handlers regarding how to identify objections, and I have reviewed the outcome of the quality assurance reviews.

- 5.13 I have reviewed all correspondence relating to the objections, and discussed these during regular calls with RLMIS. I have also reviewed correspondence received by RLMIS that has been categorised as expressions of dissatisfaction, one category less severe than an objection, including listening to the policyholder calls. For the expressions of dissatisfaction I have considered whether, in my view, they should instead be classified as objections and held discussions with RLMIS and provided challenge to understand further the reasoning for certain categorisations.
- 5.14 Given the work I have undertaken (detailed in paragraphs 5.10 and 5.13), I am satisfied that the processes RLMIS has in place are robust and that all objections have been correctly identified.
- 5.15 In addition, I have checked that the Royal London websites (royallondon.com/transfer, royallondon.ie/transfer and royallondongroup.de/transfer) have published the following policyholder communications and documents:
- a sample of the letters and information booklets sent to policyholders,
 - the Scheme document,
 - the Report,
 - the RLMIS Chief Actuary Report,
 - the RLMIS WPA Report,
 - the legal notice,
 - the amended Royal Liver PPFM and RL Main Fund PPFM, and
 - the Liver Ireland PPFM Guide and the German Bond PPFM Guide (now the WPOPs).
- 5.16 On 17 January 2019 it was identified that the versions of the Royal Liver PPFM and RL Main Fund PPFM contained on the UK website and the RL Main Fund PPFM on the German website were the current versions of these documents, rather than the amended versions. This error was corrected on the same date. I have discussed this with RLMIS, and am satisfied that this has not adversely affected any of the policyholders of either fund as the proposed changes to the PPFMs are set out in the information booklets sent to policyholders, and which have been made available on the websites.
- 5.17 I am aware that the PRA has notified the supervisory authorities (including the CBI) in all EEA states in respect of the Transfer, in order to initiate the EEA regulator consultation. At the time of writing this Supplementary Report, I am not aware of any objections from the supervisory authorities.
- 5.18 I have analysed both the objections and expressions of dissatisfaction in order to ensure that, within this Supplementary Report, I am covering a wide range of themes raised by policyholders. Based on my analysis of the objections and expressions of dissatisfaction received by RLMIS and by Royal London DAC, the objections raised can be summarised into the following categories, these categorisations may differ to those used by RLMIS:
- loss of FSCS protection and financial stability of Royal London DAC,
 - how the Transfer is being paid for,
 - no option to opt out of the Transfer,
 - impact on policy value in the future,
 - concerns over progressing with the Transfer when uncertainty over Brexit remains,
 - request for return of premiums, and
 - no reason provided.

I have considered each of these types of objections below:

Loss of FSCS protection and financial stability of Royal London DAC

- 5.19 RLMIS received four objections and six expressions of dissatisfaction concerning the loss of FSCS protection on their policies and the financial stability of Royal London DAC. All policyholders raising these objections or expressions of dissatisfaction currently benefit from FSCS protection.

- 5.20 In addition, RLMIS has performed an analysis of the types of policy held by policyholders that raised objections or expressions of dissatisfaction relating to the loss of FSCS. This is summarised in the following table:

Line of business	Number of objections relating to loss of FSCS	Number of expressions of dissatisfaction relating to loss of FSCS
Ireland Liver Policyholder	0	4
German Bond Policyholder	2	0
RL Post-2011 Policyholder	2	2

- 5.21 The objections and expressions of dissatisfaction relating to the loss of FSCS often also expressed concerns about the financial strength of Royal London DAC.
- 5.22 As I explained in the Report, the FSCS provides protection to certain policyholders in an insolvency event. I am satisfied that the insolvency of Royal London DAC would be a remote event because Royal London DAC will be appropriately capitalised immediately after the Transfer, and is required to comply with Solvency II. Under Solvency II rules, Royal London DAC holds an SCR to cover 1 in 200 year adverse risk events. Royal London DAC's own Capital Management Framework sets the Target SCR Cover as an amount sufficient to withstand a 1 in 20 year event in addition to meeting its Internal Capital Requirements, which is in excess of the amount of capital Royal London DAC is required to hold under Solvency II. Therefore, in my opinion the likelihood of FSCS protection being required is remote and I do not consider the loss of FSCS protection to have a material adverse effect on the 22% of Transferring Policyholders that currently have FSCS protection.
- 5.23 Further, as discussed in paragraphs 3.13 to 3.15, I discussed with RLMIS the alternative approaches that had been considered to address the loss of FSCS for the relevant Transferred Policyholders. The alternative approaches that RLMIS considered included consideration of a third country branch of Royal London DAC in the UK and Royal London DAC establishing passporting rights to write business within the UK. Neither of these alternatives were regarded as appropriate as setting up a third country branch in the UK would result in additional cost and is not necessary for Royal London DAC to carry out its day-to-day activities and uncertainty remains over whether passporting in the UK will still be possible post-Brexit. Also, this Transfer has been proposed as a result of Brexit rather than as a result of a strategic decision made by RLMIS.

How the Transfer is being paid for

- 5.24 One policyholder objected to the Scheme because of how the Scheme is funded. The policyholder was concerned that the Royal Liver Sub-Fund would be bearing an unreasonably large proportion of the costs of the Scheme.
- 5.25 The cost of implementing the Scheme is made up of one-off costs and an increase in ongoing costs. I provide updates on these costs and how they affect the Transferring Policyholders, the Remaining Policyholders of RLMIS and the Existing Policyholders of Royal London DAC in paragraphs 4.31 to 4.35, 4.63 to 4.66 and 4.84 respectively. I explain why, in paragraphs 4.35, 4.66 and 4.84, I remain satisfied with how these costs are shared among the Sub-Funds of RLMIS and Royal London DAC.
- 5.26 I am satisfied that the costs of the Transfer and how they were divided among the Sub-Funds of RLMIS and Royal London DAC were given sufficient consideration in the work leading up to the Report. In particular, as concluded in the Report and in this Supplementary Report, I am satisfied with the allocation of the incremental ongoing costs and one-off costs to the Estates of the Royal Liver Sub-Fund and RL Main Fund. The Transfer is necessary to provide certainty that the Transferring Policies can be serviced post-Brexit, and the costs are an unavoidable consequence of the Transfer.

No option to opt out of the Transfer

- 5.27 One policyholder objected and two policyholders recorded expressions of dissatisfaction as they were unhappy about the Transfer generally and expressed a specific concern that there was no option for them to opt out of having their policy transferred.
- 5.28 In order to transfer policies to another insurer, RLMIS has had to undertake a Part VII transfer. A Part VII transfer requires the involvement of both the PRA and FCA, the involvement of an Independent Expert to report to the Court on the impact of the Scheme and lastly, any such transfer must be sanctioned by the Court. In addition, all policyholders, except those subject to waivers, must be notified and have the opportunity to object to the transfer, with all objections being notified to the Court.
- 5.29 The Transfer is being proposed in order to ensure, with certainty, that RLMIS can lawfully service the Transferring Policies post-Brexit. If an option to opt out was offered to policyholders this could result in RLMIS being unable to service these policies post-Brexit and the purpose of the Scheme would not be achieved.
- 5.30 I am satisfied that the process of a Part VII transfer ensures that policyholders are made aware of the Transfer, and have their objections considered by the Court. I can confirm that RLMIS has followed this process. Given also the purpose (as detailed in paragraph 5.29), this Transfer is necessary as a result of Brexit and I therefore do not believe that it would be appropriate to offer an option to opt out of the Transfer.

Impact on policy value in the future

- 5.31 One policyholder objection and one policyholder expression of dissatisfaction related to concerns over the potential impacts on the profits allocated to their policy. One of these policyholders is a with-profits Ireland Liver Business policyholder and the other is a with-profits German Bond Business policyholder and below, for each of these policyholders, I detail why in my opinion the Transfer does not materially affect future policy values.

Ireland Liver Business

- 5.32 As stated in my Report, following the Transfer, all Ireland Liver Policies will be transferred to Royal London DAC and allocated to the Liver Ireland Sub-Fund and the with-profits Ireland Liver Policyholder's interests in the Estate of the Royal Liver Sub-Fund shall be unaffected by the Transfer.
- 5.33 The Report states, in paragraph 11.72, that with-profits Ireland Liver Policies will be managed according to the Liver Ireland PPFM Guide. The Liver Ireland Sub-Fund, to which the Ireland Liver Policies are allocated, will now be managed according to the relevant WPOP (see paragraph 3.82). The WPOP is equivalent, in all material matters, to the Liver Ireland PPFM Guide. In addition, Royal London DAC will be required to manage the Liver Ireland Sub-Fund in line with the Royal Liver IoT CPFM whilst the Liver Reinsurance Agreement is in place and the CPFM thereafter.
- 5.34 Paragraph 11.72 of the Report also detailed that Bonus declarations will become the responsibility of Royal London DAC, in consultation with RLMIS and, in the event that an agreement cannot be reached, there is an escalation process that must be followed.
- 5.35 As detailed in the Report a proportion of the one-off costs of implementing the Scheme and incremental ongoing costs as a result of the Scheme are to be met by the Estate of the Royal Liver Sub-Fund. As detailed in 4.32, although these are estimated to reduce the Estate Distributions as at year end 2018 and 2019 the projected Estate Distributions after this point are not materially altered. In addition, these costs are an unavoidable consequence of the Transfer, and the Transfer is necessary to ensure, with certainty, that the Transferring Policies can be administered post-Brexit.
- 5.36 I remain satisfied that the Transfer will not have a material adverse effect on the benefit expectations of the Ireland Liver Policyholders.

German Bond Business

- 5.37 The Report states, in paragraph 11.151, that the with-profits German Bond Policies will be allocated to the German Bond Sub-Fund and will be managed according to the German Bond PPFM Guide. As detailed in 3.82, the German Bond Sub-Fund will be managed according to the relevant WPOP. The WPOP is equivalent, in all material matters, to the German Bond PPFM Guide. In addition, the Scheme will not alter the eligibility of with-profits German Bond Policyholders to ProfitShare.
- 5.38 The high-level principles for determining ProfitShare are unchanged as a result of the Transfer, and additional costs and expenses do not significantly impact the profitability of RLMIS, therefore the future ProfitShare rates for eligible German Bond Policyholders are not expected to be materially affected as a consequence of the Transfer.
- 5.39 I remain satisfied that the Transfer will not have a material adverse effect on the benefit expectations of the German Bond Business.

Concerns over progressing with the Transfer when uncertainty over Brexit remains

- 5.40 One of the objectors mentioned in their objection that they were not satisfied with the Transfer going ahead when uncertainties over the terms of Brexit, or even the likelihood of Brexit, remained.
- 5.41 In my view, given that there are no certainties over the terms of Brexit, it is important that RLMIS take steps to ensure that they are certain that the Transferring Business can be lawfully serviced post-Brexit. Given the length of time it takes to implement Part VII transfers it is not possible to wait and see what the outcome of the Brexit negotiations are, and RLMIS has been required to take steps in advance of the terms of Brexit becoming clear.
- 5.42 Therefore, I am satisfied that the Transfer is necessary in order to provide certainty that RLMIS can lawfully service the Transferring Policies post-Brexit.

Request for return of premiums

- 5.43 One of the policyholders objecting to the Transfer included, as part of their objection, a request for all premiums paid to date to be returned to them. The need to transfer the Transferring Policies to an EEA insurer outside of the UK is a consequence of Brexit and not a result of any strategic decision taken by RLMIS. In view of this, I am satisfied that it is reasonable for RLMIS to only allow surrenders under the usual policy conditions, and to continue to calculate surrender payments due to policyholders as they normally would.

No reason provided

- 5.44 There were two objections recorded where no reason was stated by the policyholder.

Conclusion

- 5.45 Overall, I am satisfied that at the time of writing this Supplementary Report, RLMIS is recording the objections received appropriately. The policyholders have not raised any issues that were not considered in the work leading up to the Report, and therefore I am satisfied that there are no reasons to change the conclusions in my Report.

6 Conclusion

- 6.1 I confirm that, overall, I am satisfied that the implementation of the proposed Scheme with the New Reinsurance Agreements and Security Arrangements will not have a material adverse effect on the security of benefits or future benefit expectations of the Transferring Policyholders, Remaining Policyholders, or the Existing Policyholders. It is also my opinion that the Transfer will not have a material adverse effect on the governance or service standards experienced by the Transferring Policyholders, the Remaining Policyholders or the Existing Policyholders. In addition, I am satisfied that the Transfer will not materially adversely affect the reinsurers of the Transferring Business.
- 6.2 Given my conclusions outlined above, I see no reason why the Transfer should not proceed.



Tim Roff FIA
Partner
Grant Thornton UK LLP

24 January 2019

A Information and documents reviewed and/or relied on

The table below sets out the key additional documents I have relied on in preparing this Supplementary Report. Some of this information is company confidential and is not publicly available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with senior management and staff at RLG and its UK legal advisers, Pinsent Masons LLP.

Document	Source
003. Royal London (Pelican) Part VII Response Management we 14.11.18	RLMIS Deputy General Counsel
ORSA dated December 2018	RLMIS Chief Risk Officer
13. Royal London (Pelican) Part VII Response Management we 16.01.19 v FINAL PRA FCA & IE Report	RLMIS Deputy General Counsel
Project Pelican Cost Allocation v4	RLMIS WPA
IE Report Data Tables – HY18v0.6a	RLMIS Chief Actuary
Email confirmation from the FCA related to changes to the Royal Liver IoT, dated 25 October 2018	RLMIS Deputy General Counsel
Email confirmation from the PRA related to changes to the Royal Liver IoT, dated 10 October 2018	RLMIS Deputy General Counsel
Capital Monitoring Report December 2018	RLMIS Chief Actuary
Capital Monitoring Report November 2018	RLMIS Chief Actuary
Capital Monitoring Report September 2018	RLMIS Chief Actuary
Updated WPA report	RLMIS WPA
Updated CA report	RLMIS Chief Actuary
HoAF court report	Royal London DAC HoAF
Second Witness Statement of Timothy Walter Harris (9 January 2019)	Pinsent Masons LLP
Second Witness Statement of Viviana Pascoletti (9 January 2019)	Pinsent Masons LLP
Scheme (19 November 2018)	Pinsent Masons LLP
Liver Reinsurance Agreement (16 December 2018)	Pinsent Masons LLP
German Bond Reinsurance Agreement (12 December 2018)	Pinsent Masons LLP
Insolvency Floating Charge (19 December 2018)	Pinsent Masons LLP
Tier 1 – German Bond Reinsurance Security Agreement (19 December 2018)	Pinsent Masons LLP
Tier 1 – Liver Reinsurance Security Agreement (19 December 2018)	Pinsent Masons LLP
Tier 2 – German Bond Reinsurance Security Agreement (19 December 2018)	Pinsent Masons LLP
Tier 2 – Liver Reinsurance Security Agreement (19 December 2018)	Pinsent Masons LLP
German Bond CFA (18 December 2018)	Pinsent Masons LLP
Liver CFA (18 December 2018)	Pinsent Masons LLP
Project Pelican: Pelican Mailing Team – Objections & Complaints Process	Head of Legacy Strategy
Royal London Project Pelican – Breaches & Complaints	Head of Legacy Strategy
Complaints Training	Head of Legacy Strategy

Objections Training	Head of Legacy Strategy
Details of output from the Quality Assurance process	Head of Legacy Strategy
Emails between Pinsent Masons LLP and Grant Thornton following discussions on FSCS in relation to this Transfer	Pinsent Masons LLP
German Bond Sub-Fund With-Profits Operating Principles (WPOP)	Royal London DAC Board
Liver Ireland Sub-Fund With Profits Operating Principles (WPOP)	Royal London DAC Board
Notification in accordance with Article 148(1) of the Solvency II Directive	Head of Compliance, Royal London DAC

I have checked that the information listed above has been audited or supplied by an Approved Person or by a person appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.