



Royal London Insurance DAC

Report on the proposed Scheme

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10 June 2022

Contents

1. Introduction.....	4
1.1 Purpose of Report	4
1.2 Authorisation and existing business of RLI DAC.....	6
1.3 Irish Scheme Overview and Background Rationale.....	7
1.4 Supporting documents and information	8
1.5 Key terminology	9
1.6 Credentials and declaration of interest.....	9
1.7 Materiality	9
1.8 Reliances and limitations.....	10
2. Executive Summary	11
2.1 Background and context	11
2.2 The purpose of this report and the role of the HoAF.....	11
2.3 Governance around the Scheme.....	12
2.4 HoAF Conclusion	12
3. Background to RLMIS, RLI DAC and the Liver Ireland Business.....	14
3.1 Background History: Pre July 2011	14
3.2 Background History: July 2011 and beyond.....	14
3.3 Overview of Liver Fund	15
3.4 Overview of RL Open Fund	17
3.5 Overview of the Liver Ireland Business	18
3.6 Overview of the Capital Management Frameworks.....	27
4. Outline of the Proposed Offer under the Schemes	28
4.1 The requirement for an Irish Scheme	28
4.2 Eligibility and rights of policy groups	31
4.3 Scheme Contribution	36
4.4 Distribution of Estate.....	45
4.5 Reinsurance Arrangements.....	49
4.6 Impact on Assets backing Liabilities	51
4.7 Impact on Capital Support.....	52
4.8 Impact on Collateral Agreements.....	53
4.9 Impact on RLI DAC Transfer Scheme.....	53
4.10 Impact on future bonuses & distributions	53
4.11 Impact on Pension Schemes	54
4.12 Impact on IoT	55

4.13	Financial Implications	55
4.14	Governance	56
5.	Communications.....	59
5.1	Communications Strategy	59
5.2	Maximising the reach of communications	60
5.3	Liver Ireland WPOP and RLMIS PPFM Changes	60
6.	Fairness Assessment of the Proposed Schemes.....	62
6.1	Fairness Criteria 1 - Security of Benefits	64
6.2	Fairness Criteria 2 – Financial Benefit Expectations.....	73
6.3	Fairness Criteria 3 – Servicing & Governance Expectations.....	98
6.4	Fairness Criteria 4 – Scheme Terms	100
6.5	Fairness Criteria 5 – Scheme Conduct	103
7.	Appendices	108
7.1	RLI DAC Fairness Principles and Criteria	108
7.2	Glossary of terms and abbreviations	111

1. Introduction

1.1 Purpose of Report

This report has been prepared for the Board of Directors of Royal London Insurance DAC (“RLI DAC” or the “Company”) in my capacity as Head of Actuarial Function (“HoAF”) of RLI DAC to assist them in reaching a decision on whether to proceed with the Irish Scheme and the proposed Liver Fund Consolidation.

The Liver Ireland Sub-Fund business, which is the subject of this report, was transferred from RLMIS to RLI DAC on the 7 February 2019 under Part VII of the Financial Services and Markets Act 2000 (the “**RLI DAC Transfer Scheme**”). Since the transfer of the Liver Ireland Sub-Fund business from RLMIS to RLI DAC in 2019, the RLI DAC policyholders invested in the Liver Ireland Sub-Fund (“**Liver Ireland Policyholders**”) are no longer direct policyholders of RLMIS but rather are reinsured policyholders of Royal London Mutual Insurance Society¹ (“**RLMIS**”) with benefits provided via the RLMIS Royal Liver Sub-Fund (the “**Liver Fund**”). Certain of the Liver Ireland Policyholders are collectively entitled to a share of the estate within the Liver Fund (the “**Liver Fund Estate**”) under the terms of the RLI DAC Transfer Scheme (i.e. those Liver Ireland policies that were entitled to a share of the estate prior to the RLI DAC Transfer Scheme remain entitled to a share of the estate on the same basis). As the Liver Fund Estate was not split under the RLI DAC Transfer Scheme, this entitlement is effected through the Liver Reinsurance Agreement (“**LRA**”), described further in **section 3.5.1**. The estate of a with-profits fund is the excess value of the realistic assets over the value of the realistic liabilities in the ring-fenced fund.

The purpose of this report is to consider the likely impact of a proposed scheme of arrangement which will be proposed to the Irish High Court under Part 9 of the Irish Companies Act 2014 (the “**Irish Scheme**”) and which would effect the distribution of the Liver Fund Estate and, in conjunction with amendments to the LRA, enable the consolidation of the Liver Fund into the RLMIS Open Fund (“**RL Open Fund**”), as it relates to Liver Ireland Policyholders. There is also a corresponding scheme of arrangement being proposed to the High Court of Justice in England and Wales (the “**UK High Court**”) under Part 26 of the UK Companies Act 2006 (the “**UK Scheme**”) which would effect the distribution of the Liver Fund Estate and initiate consolidation of the Liver Fund into the RL Open Fund, as it relates to the RLMIS UK direct policyholders currently invested in the Liver Fund (“**Liver UK Policyholders**”). The Irish Scheme and the UK Scheme (the “**Schemes**”) are co-dependent in that one scheme cannot be effected without the other and legal due diligence has deemed it necessary to have both Schemes. The Schemes are expected to be implemented as at 31 December 2022 (“**Implementation Date**”). A implementation deed (the “**Implementation Deed**”) will be

¹ RLI DAC is the reinsured policyholder under the Liver Reinsurance Agreement rather than the RLI DAC Liver Ireland Sub-Fund policyholders. However, the benefits payable to RLI DAC under the LRA and the extent of RLI DAC’s entitlement to the Liver Fund Estate is dependent on the number and size of the in-force RLI DAC Liver Ireland Sub-Fund policyholders. Therefore, for the purposes of considering the actuarial implications of the proposed Schemes, it is simpler to think of the RLI DAC Liver Ireland Sub-Fund policyholders as reinsured policyholders of RLMIS via the Liver Fund with rights equal to the direct policyholders of the Liver Fund. Therefore, throughout this report, I refer to the RLI DAC Liver Sub-Fund policies and policyholders as reinsured policies and reinsured policyholders of the RLMIS via the Liver Fund.

entered into between RLI DAC and RLMIS which will become effective, at the same time as the Schemes, pursuant to which (i) RLI DAC shall consent to the UK Scheme as a creditor of RLMIS through the LRA and (ii) each of RLI DAC and RLMIS shall agree to perform (or procure the performance of) all further acts (including payments or deductions from the Liver Sub-Fund Estate) required to give effect to the Schemes.

As a consequence of the proposed Schemes and the associated consolidation activities (including amendments to the LRA), the Liver Fund Estate will be distributed and all assets and liabilities of the Liver Fund covered by the Schemes including the portion of reinsured liabilities of the Liver Ireland Policies covered by the Schemes (the **“Eligible Policies”**), will be transferred from the Liver Fund to the RL Open Fund. To facilitate this transfer and the associated costs, RLI DAC will make an Offer to certain Liver Ireland Policyholders (i.e. the holders of **“Liver Ireland Eligible Policies”** or **“Liver Ireland Eligible Policyholders”** – see definitions within **section 4.2.1**). Under the Offer, Liver Ireland Eligible Policyholders will be asked to agree RLI DAC providing its consent (as a creditor of RLMIS by virtue) to the UK Scheme pursuant to which to certain payments (the **“Scheme Contribution”**) shall be made from the Liver Fund Estate to the RL Open Fund in return for the application by RLI DAC of an immediate percentage one-off increase (**“Uplift”**) to the **“Eligible Benefits”** (i.e. asset shares for with-profits Eligible Policies; claim amount for non-profit Contingent Bonus (**“CB”**) Eligible Policies). The Scheme Contribution will include a payment to cover the value of anticipated uplifts to with-profit asset shares in respect of eligible contractual regular premiums on policies included in the Schemes (the **“Premium Uplift Contribution”**). The Liver Fund Estate will fund the Uplift and the Scheme Contribution (including the Premium Uplift Contribution). Those Liver Ireland Policyholders who are not the holders of Liver Ireland Eligible Policies (i.e. holders of **“Liver Ireland Non-Eligible Policies”** or **“Liver Ireland Non-Eligible Policyholders”**) are outside of the scope of the Schemes. However, the movement² of the Eligible Policies from the Liver Fund to the RL Open Fund will reduce the Liver Fund to such a level that the “sunset” provision within the Liver Instrument of Transfer (**“IoT”**) will be triggered. This will allow the contemporaneous movement of the Non-Eligible Policies from the Liver Fund (including the reinsured liabilities of the Liver Ireland Non-Eligible Policies) to the RL Open Fund (see **section** Error! Reference source not found.). The IoT is the legal document that led to the creation of the Liver Fund and governs the management of the fund.

The implementation of the combined Irish and UK Schemes along with the triggering of the IoT sunset provision will enable the Liver Fund to be merged into the RL Open Fund (the **“Liver Fund Consolidation”**) which will allow the business to be managed more efficiently from both an operational and a capital perspective. This will benefit **Eligible Policyholders** who, as a result, will see the Liver Fund Estate distributed with greater certainty and more equitably.

² The terms “move” and “movement” are used in this report to indicate movements between (sub-)funds in the same legal entity. The terms “transfer” and “transferred” are used in this report to indicate transfers of business between different legal entities.

After the Liver Fund Consolidation is completed, the Liver Fund will cease to exist and the RL Open Fund will assume responsibility for meeting the reinsured liabilities of the Liver Ireland Sub-Fund. This will arise from certain changes to the LRA, as described further in **section 4.5.3**.

In preparing this report, I have assessed the impact of the proposed Schemes on the Liver Ireland Policyholders, both Liver Ireland Eligible Policyholders and Liver Ireland Non-Eligible Policyholders, of RLI DAC at the Implementation Date. This report considers the fairness of the proposal to the Liver Ireland Policyholders of RLI DAC. It also considers the overall impact of the Irish Scheme (and to the extent applicable due to the co-dependence, the UK Scheme) on RLI DAC and its other policyholders.

In preparing this report, I have discussed the Schemes with the Independent Expert in relation to the Irish Scheme, Mr. Michael Culligan.

This report has been prepared solely for the use of RLI DAC in connection with the proposed scheme of arrangement to the Irish High Court under Part 9 of the Irish Companies Act 2014. It is also expected that this report will be provided to the Irish High Court and to the Central Bank of Ireland ("CBI").

The CBI, as the regulator of RLI DAC, has been informed of the proposed terms of the Schemes.

Finally, I also note that:

- the Chief Actuary of RLMIS has also produced a report that considers the impact of the Schemes on the holders of the policies currently invested in, or reinsured to, the Liver Fund and the holders of policies currently invested in, or reinsured to, the RL Open Fund.
- the With-Profits Actuary ("**WPA**") of RLMIS has also produced a report on the fairness of the Schemes and its likely impact on the Eligible Policyholders and the existing with-profits policyholders in the RL Open Fund. The WPA has direct responsibility for all WP policyholders of RLMIS. This responsibility includes the individual policyholders with policies directly written to RLMIS and those covered by the reinsurance arrangements between RLMIS and RLI DAC.

1.2 Authorisation and existing business of RLI DAC

RLI DAC was established and authorised by the CBI in the Republic of Ireland ("**ROI**") as a life assurance entity with effect from 1 January 2019 and is a wholly owned subsidiary of RLMIS. RLI DAC was established to enable the life insurance business previously written by RLMIS, through the ROI branch, to be written through an authorised life insurer in the ROI.

The establishment of RLI DAC was required to enable the transfer of business from RLMIS that could not otherwise be serviced post-Brexit and to enable RLMIS to continue to sell new business to customers based in the ROI through an Irish subsidiary.

Post the transfer of business into RLI DAC from RLIMS, RLI DAC is now comprised of the following blocks of business:

- **Liver Ireland Business:** closed book of ROI policyholders invested in the Liver Ireland Sub-Fund and 100% reinsured into the Liver Fund within RLMIS.
- **German Bond Business:** closed book of German policyholders invested in the German Bond Sub-Fund and 100% reinsured into the RL Open Fund within RLMIS.
- **RLI DAC Open Fund Business:** open book of ROI protection business (both directly written by RLI DAC and transferred from RLMIS in 2019) into which all of RLI DAC's new ROI business is being written. There are some third party reinsurance arrangements in place which support some (but not all) of the liabilities in this fund.

As noted in **section 1.1**, the purpose of this report is to consider the likely impact of the Schemes, specifically the Irish Scheme, on the policyholders of RLI DAC. For the avoidance of doubt, this includes policyholders in all three blocks of business, including all German Bond Sub-Fund and RLI DAC Open Fund policies as well as Eligible and Non-Eligible Liver Ireland policies.

1.3 Irish Scheme Overview and Background Rationale

RLMIS is conducting a significant legacy simplification project (the “**Legacy Simplification Project**”) to rationalise and simplify its fund structure, products and administration systems to generate operational efficiencies, reduce risk and improve outcomes for long-standing customers. The fund structure rationalisation is to be achieved by consolidating, into the RL Open Fund, a number of blocks of business currently accounted for in separate with-profits funds or sub-funds (the “**Consolidating Funds**”). RLMIS has already consolidated four other UK funds into the RL Open Fund as part of the Legacy Simplification Project.

For the Liver Ireland Business, the relevant Consolidated Fund is the Liver Fund as this is the fund into which the Liver Ireland Business is currently reinsured within RLMIS through the Liver Reinsurance Agreement. The consolidation of the Liver Fund into the RL Open Fund is also expected to generate capital diversification benefits which will be shared with the Liver Fund, as described further in **section 4.3.2.3.4**.

Under the Irish Scheme and the corresponding UK Scheme (which are co-dependent), it is proposed that RLMIS will move the assets and liabilities of all Eligible Policies from the Liver Fund to the RL Open Fund post the distribution of the Liver Fund Estate (less certain deductions to cover cost of capital financing and project costs) under the Uplift Offer made to Eligible Policyholders.

Separately from the two Schemes, but as a result of their implementation, the sunset provision within the IoT will be triggered and therefore RLMIS will also reallocate the Non-Eligible Policies from the Liver Fund to the RL Open Fund. Once all Liver Fund Policies have been reallocated to the RL Open Fund and various payments have been made, the Liver Fund will no longer exist as all Eligible and Non-Eligible Policies will be in the RL Open Fund which will assume responsibility for meeting any associated direct and (in the case of RLI DAC policyholders) reinsured liabilities along with the associated capital requirements. The Schemes are expected to take effect from the Implementation Date, which is currently expected to be 31 December 2022.

Post implementation of the Liver Fund Consolidation, the RL Open Fund will assume responsibility for meeting the capital requirements of all policies consolidated from the Liver Fund which includes the reinsured Liver Ireland Policies within the Liver Ireland Sub-Fund. The RL Open Fund will receive compensation from the Liver Fund Estate in return for assuming responsibility for meeting these capital requirements, as described further in **section 4.3.2**.

For clarity, RLI DAC will continue to meet its own capital requirements on a Standard Formula basis in respect of its ring-fenced Liver Ireland Sub-Fund and these will also continue to be fully funded by RLMIS (via the RL Open Fund) through the Liver Reinsurance Agreement.

1.4 Supporting documents and information

In considering the likely implications of the Schemes, I have reviewed the applicable sections of the following documents:

- The latest draft of the Scheme of Arrangement (“Skye (Wave 3) Irish Scheme (180821)(488306.11)”).
- The latest draft of the Implementation Agreement (“SW3 - Implementation Deed (111121)(511784.10)”)
- The latest draft RLMIS With-Profits Actuary’s (“**WPA**”) Report on the Schemes (“Liver WPA Draft report v1.3.1”).
- The latest draft of the RLMIS Chief Actuary’s Report (the “Liver Scheme of Arrangement Chief Actuary Report v4.0.1”).
- The ROI Independent Expert’s Report (“Project Skye - Wave 3 - Irish Report - FINAL_2039 - Clean”).
- The amendments to the Instrument of Transfer (“**IoT**”) which governs the operation of the Liver Fund to reflect the provisions of the IoT which remain effective after the consolidation of the Funds, also known as the “Stub-IoT” (“Pelican - IoT Working Draft(128546102.11)”).
- The latest draft of the amended Liver Reinsurance Agreement (“SW3 - LRA Amendment Agreement Draft 4 16.12.2021(128837285.1)”).
- The amendments to the RLI DAC Transfer Scheme (“Project Pelican - Amended Scheme(127875335.4)”) which effected the transfer of the Liver Ireland policyholders to RLI DAC.
- The CFC Methodology document (“Liver CFCV0.3”).
- The ROI legal due diligence report (“RLIDAC - Updated Wave 3 Due Diligence Report (NH Comments) (060821)(482256.5)”).
- The ROI class composition paper (“SW3 - Irish Class Composition Paper (240821)(490593.8)”).

- The ORSA scenarios and results (“RLI DAC Scenario Analysis - Project Skye, Reinsurance Dynamics v0.3”).

1.5 Key terminology

Formal definitions of the various policyholder groups are given in the relevant sections of this report and in the glossary. However, for the sake of clarity, the following simplified explanations are provided of the key policyholder terminology used throughout this report:

- **Eligible Policy** or **Eligible Policyholder** (or plural thereof) is used to refer to all policies or policyholders that are in scope of the UK and Irish Schemes. This is essentially all with-profits and contingent bonus policies except L&M policies (UK only), HITM³ policies and policies which are expected to have matured/retired/fully claimed before the Implementation Date.
- **Included Policy** or **Included Policyholder** (or plural thereof) is used to refer to all Eligible Policies or Eligible Policyholders that remain in-force at the Implementation Date.
- **Non-Eligible Policy** or **Non-Eligible Policyholder** (or plural thereof) is used to refer to all Liver Fund and Liver Ireland Sub-Fund policies or policyholders that are not in scope of the Schemes.

The terms above are used as written when referring to all policyholders (including reinsurance policyholders) of the Liver Fund. When referring only to the policyholders of the RLI DAC or the direct policyholders of the Liver Fund, the terms above are used with the prefix “Liver Ireland” or “Liver UK” respectively.

1.6 Credentials and declaration of interest

I am a Fellow of the Institute and Faculty of Actuaries (UK) and a Fellow of the Society of Actuaries in Ireland. I have more than 28 years’ experience in the Irish insurance and reinsurance industry and I am a Partner in Deloitte Ireland LLP (“Deloitte”).

I am the Head of Actuarial Function (“**HoAF**”) for RLI DAC. I am not aware of any conflict of interest that would affect my professional judgement in reaching any of the conclusions detailed in this report.

1.7 Materiality

In producing this report and in providing my opinion, I have considered a material movement to be one which results in the expected Solvency Capital falling below the Capital Framework target (i.e. below a 1-in-20 year level for RLI DAC or below a 1-in-10 year level (“Lower Amber”) for RLMIS). The Solvency Capital of both RLI DAC and RLMIS are both relevant to the considerations set out in this paper as RLMIS reinsures the liabilities of the Liver Ireland Sub-Fund.

Additionally, I have considered a material movement in the policyholder benefits to be one which has a significant impact on the expected benefits of the RLI DAC policyholders.

³ Heavily in the money

1.8 Reliances and limitations

To the best of my knowledge, I have taken account of all material facts in assessing the likely impact of the Irish Scheme (and to the extent applicable, the co-dependent UK Scheme) on RLI DAC's policyholders and in preparing this report.

This report is based on information made available to me by RLMIS and RLI DAC on or prior to 10 June 2022. It takes no account of information provided after that date.

In performing my review and preparing this report, I have relied without independent verification on the accuracy and completeness of data and information provided to me, both written and oral, by RLMIS and RLI DAC. I have reviewed the information for consistency and reasonableness, but I have not audited or otherwise validated it. I have reviewed the financial information supplied for RLMIS and RLI DAC. The written information and data, upon which I have relied, including financial information, are summarised in **section 1.4**.

In arriving at my conclusions, in particular with respect to the security of policyholders' benefits and their reasonable expectations, I have reviewed the various items of data provided and I have also considered the differences in the regulatory regimes between the UK and ROI as they pertain to RLMIS and RLI DAC. I have relied on the information and opinions provided by tax specialists within RLMIS (including opinions on Irish tax). I have relied on legal advice provided to RLI DAC by legal specialists.

I have considered the CBI's guidance for Head of Actuarial Function⁴, the general requirements of ASP PA-2⁵ and APS X2⁶ and I have complied with them in all applicable aspects.

This report has been prepared solely for the use of RLI DAC in connection with the Irish Scheme and must not be used for any other purpose. This report should be read in conjunction with the terms of the Irish Scheme and the associated reinsurance and Collateral Agreements.

Users of this report must not rely on it for any purpose other than in connection with the Irish Scheme. Neither Deloitte nor I owe or accept any duty to any party other than to RLI DAC. Neither Deloitte nor I shall be liable for any loss, damage, or expense (including interest) of whatever nature that is caused by any party's reliance on representations in this report.

This report has been prepared in accordance with agreed terms of reference and for a specific purpose. No liability will be accepted for the use of this report for a purpose for which it was not intended or for the results of any misunderstandings by any user of this report.

⁴ [https://www.centralbank.ie/docs/default-source/regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-for-\(re\)insurance-undertakings-on-head-of-actuarial-function-role.pdf?sfvrsn=4](https://www.centralbank.ie/docs/default-source/regulation/insurance-reinsurance/solvency-ii/requirements-and-guidance/guidance-for-(re)insurance-undertakings-on-head-of-actuarial-function-role.pdf?sfvrsn=4)

⁵ Actuarial Standard of Practice PA-2, [General Actuarial Practice](#)

⁶ APS X2: [Review of Actuarial Work \(Version 1.0\)](#)

2. Executive Summary

2.1 Background and context

RLMIS is conducting a significant legacy simplification project (the “Legacy Simplification Project”). One element of this is the consolidation of the Liver Fund into the RL Open Fund which necessitates the distribution of the Liver Fund Estate. This affects policyholders of RLI DAC as the liabilities of the Liver Ireland Sub-Fund are currently reinsured within RLMIS through the Liver Reinsurance Agreement.

Under the Irish Scheme and the corresponding UK Scheme (which are co-dependent), it is proposed that RLMIS will move the assets and liabilities of all Eligible Policies from the Liver Fund to the RL Open Fund post the distribution of the Liver Fund Estate (less certain deductions to cover cost of capital financing and project costs) via the Uplift applied to Eligible Policyholders. The Uplift will be applied by RLMIS and RLI DAC for the Liver UK and Liver Ireland Eligible policyholders respectively. The Schemes are expected to take effect from the Implementation Date, currently expected to be 31 December 2022.

Separately from the two Schemes, the Sunset provision within the IoT will be triggered as a result of the re-allocation of Liver UK Included Policies to the RL Open Fund pursuant to the terms of the UK Scheme and therefore RLMIS will also reallocate the Non-Eligible Liver UK Policies from the Liver Fund to the RL Open Fund. As a result of the amendments to be made to the LRA, the RL Open Fund will assume the reinsurance liabilities of RLMIS to RLI DAC in respect of Liver Ireland Policies pursuant to the LRA.

After the consolidation, the Liver Fund will cease to exist and the RL Open Fund will assume responsibility for meeting the capital requirements of all policies consolidated from the Liver Fund which includes the reinsured Liver Ireland Policies within the Liver Ireland Sub-Fund.

For clarity, RLI DAC will continue to meet its own capital requirements on a Standard Formula basis in respect of its ring-fenced Liver Ireland Sub-Fund and these will also continue to be fully funded by RLMIS (via the RL Open Fund) through the Liver Reinsurance Agreement.

2.2 The purpose of this report and the role of the HoAF

This report has been prepared for the Board of Directors of Royal London Insurance DAC (“RLI DAC” or the “Company”) in my capacity as Head of Actuarial Function (“HoAF”) of RLI DAC to assist them in reaching a decision on whether to proceed with the Irish Scheme and the proposed Liver Fund Consolidation.

2.3 Governance around the Scheme

The key design and key assumption considerations underpinning the Schemes have been discussed in detail and agreed with myself as the RLI DAC Head of Actuarial Function as well as with the RLMIS With-Profits Actuary, the Legacy Simplification Project's Steering Group, the LSC and the With-Profits Committee (WPC).

The WPC has confirmed its unanimous support for the Scheme and considers the proposals fair for both the Liver and RL Open Fund Policyholders. The LSC also supports the proposals but by a majority, rather than unanimously.

The Irish Scheme is also subject to external governance from, the IE appointed by RLI DAC; the Regulators (e.g. the CBI); the Irish High Court and the policyholders who will be invited to vote on the Irish Scheme, i.e. the Liver Ireland Eligible Policyholders. These policyholders will receive detailed information about the proposals from RLI DAC and they will be invited to vote on the proposals.

2.4 HoAF Conclusion

It is proposed under the Irish Scheme that the LRA (albeit amended) remains in place. On the basis that it remains in place, I am satisfied that:

- the implementation of the Schemes does not have a material adverse effect on the security of benefits payable to Liver Ireland Policyholders;
- the implementation of the Schemes does not have a material adverse effect on the financial benefit expectations of Liver Ireland Policyholders;
- the implementation of the Schemes does not have a material adverse effect on the servicing and governance expectations of the Liver Ireland Policyholders;
- the Scheme Terms have been set in such a way that supports fair outcomes for the Liver Ireland Policyholders;
- the Scheme Terms have been executed in a way that continues to ensure fair outcomes for the Liver Ireland Policyholders (i.e. Scheme Conduct).

If the Liver Reinsurance Agreement (LRA) were to cease at some future date:

- I believe that there would potentially be a materially adverse impact on the benefit security of Liver Ireland Policyholders post-Schemes versus pre-Schemes. Nonetheless, as it is very unlikely that the LRA would be terminated, I am comfortable that the Schemes do not have a material adverse impact on the security of the benefits of the Liver Ireland Policyholders.
- I am satisfied that there would not be a material adverse effect on the financial benefit expectations of Liver Ireland Policyholders;
- I am satisfied that there would not be a material adverse effect on the servicing and governance expectations of the Liver Ireland Policyholders;

- I am satisfied that the Scheme Terms have been set in such a way that supports fair outcomes for the Liver Ireland Policyholders;
- I am satisfied that the Scheme Terms have been executed in a way that continues to ensure fair outcomes for the Liver Ireland Policyholders (i.e. Scheme Conduct).



Ciara Regan FSAI

RLI DAC Head of Actuarial Function

10 June 2022

3. Background to RLMIS, RLI DAC and the Liver Ireland Business

3.1 Background History: Pre July 2011

Royal Liver Assurance Limited (“**Royal Liver**”) was an incorporated Friendly Society originally established in 1850. Royal Liver was authorised in both the United Kingdom (“**UK**”) and the Republic of Ireland (“**ROI**”) having an Irish branch operation and sold a mix of ordinary branch (“**OB**”) and industrial branch (“**IB**”) business in both jurisdictions.

Royal Liver acquired Caledonian Insurance Company and GRE Life Ireland (“**GRELI**”) in 2000. GRELI (an Irish authorised subsidiary) remained a subsidiary of Royal Liver whereas the long-term business of Caledonian Insurance Company, which ceased trading in 2000, was transferred into Royal Liver. GRELI, at this time, remained a wholly owned subsidiary of Royal Liver closed to new business.

Royal Liver also acquired the IB business written by Irish Life Assurance plc, the London and Manchester IB (“**L&M**”) business previously acquired by Friends Provident Life Office (in the UK only) and the business written by the Civil Servants’ Annuities Assurance Society (also written in the UK only), all of which was transferred into Royal Liver.

Up to 30 June 2011, Royal Liver wrote new business in the ROI within an Irish Branch of Royal Liver using the brand name Caledonian Life. Almost all new business was OB protection business sold through an IFA distribution channel.

3.2 Background History: July 2011 and beyond

RLMIS acquired Royal Liver (including GRELI) in 2011. On 1 July 2011, the life and pensions business and related assets and liabilities of Royal Liver, excluding GRELI, were transferred into the Liver Fund (which was a ring-fenced fund) within RLMIS, by way of a transfer under an **Instrument of Transfer (“IoT”)** pursuant to section 86 of the Friendly Societies Act 1992.

The business of GRELI was transferred from GRELI into the Liver Fund within RLMIS on 1 July 2012 under a scheme of transfer (“**GRELI Scheme**”) pursuant to section 13 of the Assurance Companies Act 1909, section 36 of the Insurance Act 1989 and Article 35 of the European Communities (Life Assurance) Framework Regulations 1994. The authorisation licence for the GRELI subsidiary was handed back in 2012 post all assets and liabilities being transferred out.

Following the UK’s referendum on membership of the EU (“**Brexit**”), RLMIS decided to apply for authorisation to establish an insurance subsidiary in Ireland in order to be able to continue with certainty to sell business to ROI policyholders post-Brexit. To this end, RLI DAC was established and, in parallel, an application was made to the UK High Court to transfer three blocks of business from RLMIS to RLI DAC via a Part VII Transfer (the “**RLI DAC Transfer Scheme**”), which took place on the 7 February 2019.

The three blocks of business transferred into RLI DAC from RLMIS were:

- Protection business written in the ROI by RLMIS through its Irish branch since 1 July 2011 – this was transferred into the RLI DAC Open Fund.
- Business comprising conventional with-profits, unitised with-profits and non-profit life and pensions business written into the ROI by Royal Liver, Caledonian Life, Irish Life and GRELI and allocated to the ring-fenced Liver Fund within RLMIS – this business, the Liver Ireland Business, was transferred into the ring-fenced Liver Ireland Sub-Fund within RLI DAC and simultaneously, through the Liver Reinsurance Agreement, 100% quota-share reinsured back into the Liver Fund.
- Business comprising unitised with-profits and unit-linked bond business written into Germany on a freedom of services basis by RLMIS and allocated to the RL Open Fund within RLMIS – this business, the German Bond Business, was transferred into the ring-fenced German Bond Sub-Fund within RLI DAC and simultaneously, through the German Bond Reinsurance Agreement, 100% quota-share reinsured back into the RL Open Fund.

The RLI DAC Transfer Scheme and the associated Liver Reinsurance Agreement (“**LRA**”) also included provisions aligned with the IoT in order to ensure that the Liver Ireland Business (see **section 3.5**) was governed similarly pre and post transfer. Further details on relevant elements are included in the sub-sections that follow.

3.3 Overview of Liver Fund

The Liver Fund, which has evolved as a result of various merger and acquisition activities, includes both directly written business in the UK (“**Liver UK Business**”) and reinsured business from RLI DAC through the LRA in place between RLMIS and RLI DAC (i.e. the Liver Ireland Business).

The Liver UK and Liver Ireland Business comprise similar types of life and pensions business as follows:

- Whole of Life (“**WOL**”) – Conventional With Profits (“**CWP**”) and “Non-Profit” (“**NP**”);
- Endowment – CWP and NP;
- Term Assurance – NP only;
- Critical Illness – NP only;
- Annuities – NP only;
- Investment Plans & Bonds – Unit-Linked (“**UL**”) and Unitised With-Profits (“**UWP**”);
- Annuities (in payment and deferred and some with guaranteed annuity rates).

The Liver Fund is responsible for providing support to the former Royal Liver Assurance defined benefit pension schemes, one for each of the former UK and Irish employees of Royal Liver Assurance (see **section 3.3.1**).

A key document in the context of the governance and management of the Liver Fund is the IoT. This is the legal document that sets out the terms upon which Royal Liver's business was transferred to RLMIS with effect from the 1 July 2011, and governs how the business of the Liver Fund is managed. It includes:

- Expense arrangements, including exceptional costs.
- The Core Principles of Financial Management ("**CPFM**") which includes guidance on bonus setting and estate distribution (in particular, those who would be entitled to share in estate distributions if triggered) and sets out the capital target for the Liver Fund (it should hold sufficient capital to withstand a 1-in-20 year event over the next year and still meet the Internal SCR for the Liver Fund), which also represents the level above which distributions must be made.
- The Liver Supervisory Committee ("**LSC**"), a committee of the RLMIS Board, established and maintained pursuant to the IoT. The responsibility of the LSC is to monitor the management of the Liver Fund for the benefit of both the Liver Ireland and Liver UK Business. The LSC operates in compliance with the IoT including the CPFM, the Royal Liver Policy and Principles of Financial Management ("**Royal Liver PPFM**") and the Liver Ireland With-Profits Operating Principles ("**Liver Ireland WPOP**"). Under the RLI DAC Transfer Scheme, the LSC must be consulted and approval obtained by RLMIS in relation to any material changes to, or termination of, the LRA.
- Capital support arrangements for the Liver Fund from the RL Open Fund.
- Minimum service standards for the business of the Liver Fund.
- Provisions for the cessation of the Liver Fund when the total asset shares of with-profits policies in the Liver Fund fall below a certain value.

All with-profits policies with the exception of the L&M policies are entitled to estate distributions if triggered. In addition, non-profit Contingent Bonus policies are entitled to bonuses paid from the estate whenever an estate distribution is triggered.

3.3.1 Occupational Pension Scheme Business in the Liver Fund

The Liver Fund is responsible for providing support to the former Royal Liver Assurance defined benefit schemes, one for each for the former UK and Irish employees of Royal Liver Assurance (the "**Staff Pension Schemes**"). In practice, this means that any contributions due to these Staff Pension Schemes would come from the Liver Fund.

The Staff Pension Schemes are the:

- Royal Liver Assurance Limited Superannuation Fund established in 2000;
- Royal Liver Assurance Limited Superannuation Fund (ROI) established in 2003.

For clarity, both pension schemes are now closed.

The Staff Pension Schemes benefit from two guarantees (each) from RLMIS:

- An unconditional guarantee to cover contributions limited to the amount that is recoverable from the Liver Fund.
- A conditional guarantee (requiring that the Trustee consults with the RLMIS on planned changes to key issues such as investment strategy and funding strategy) which has no upper limit recoverable from the RL Open Fund.

The triennial valuation at year-end 2018 (i.e. the most recent full funding valuation) showed the following:

	UK Pension Scheme	Ireland Pension Scheme
Assets	£363.1m	€259.8m
Liabilities	£310.6m	€213.6m
Funding Level	117%	122%

Table 1: Triennial pension valuation

The funding levels have been reported as 112% (UK) and 118% (Ireland) at year-end 2021.

The funding levels at year-end 2021 provide surpluses of comfortably more than the cost of providing discretionary increases (of broadly CPI) in perpetuity, and it is the expectation of both the Trustees and RLMIS that any future increases should be funded from surplus, and not from any additional contributions.

The power to grant discretionary increases rests with the Trustees but requires approval from RLMIS (i.e. increases cannot be awarded without RLMIS agreement) and, therefore, RLMIS can manage its exposure to future contributions being required by controlling the level of future increases in years that they are not affordable. Modelling on the Irish Staff Pension Scheme, performed on behalf of the Trustees, showed that controlling the level of discretionary increases in years when future increases were not affordable in perpetuity reduced the likelihood of that pension scheme being in deficit for two or more consecutive years to negligible levels.

Both Staff Pension Schemes' Trustee boards are currently considering their longer-term strategy and, in particular, are considering if "buy-in" or "buy-out" might form part of that strategy. However, there is no expectation on the part of the Trustees that RLMIS will provide any contributions to fund this, and so they are developing strategies that do not require contributions.

The surplus is considered recoverable for the purposes of RLMIS's financial statements. However, in practice, the expectation is that any surplus cannot be recovered from the pension schemes (i.e. transfer of surplus asset from the pension trusts to RLMIS) as it would be needed to fund de-risking activities such as a buy-in or buy-out. It could also be used to fund discretionary increases but this would require RLMIS's approval and, therefore, does not impact considerations of recoverability.

3.4 Overview of RL Open Fund

All new policies issued by RLMIS, with the exception of increments or options on some existing policies of the closed funds, are written in the RL Open Fund. The RL Open Fund is comprised life and pensions' with-profits business, non-profits, unit-linked and unitised with-profits business.

The RL Open Fund Estate provides capital to support the business activities of RLMIS, including writing new business. In return, the RL Open Fund Estate receives profits (or incurs losses) from these business activities.

The operation of the RL Open Fund is governed by the applicable PPFM ("**RLMIS PPFM**") and the RLMIS Capital Management Framework.

The RLMIS Capital Management Framework sets out the capital target for the RL Open Fund, which is set at the midpoint of the target capital range as that required such that the fund could withstand a 1-in-20-year event over the next year and still have sufficient Internal Own Funds to be able to meet its Internal SCR, where:

- "**Internal Own Funds**" are calculated in a similar way to regulatory Own Funds. In particular, allowance is made for the Transitional Measure on Technical Provisions ("**TMTP**").
- The "**Internal SCR**" represents the RLMIS view of the capital required to meet a 1-in-200-year event and is calculated in accordance with the internal model developed by RLMIS and approved by the PRA (the "**RLMIS Internal Model**").

3.5 Overview of the Liver Ireland Business

The Liver Ireland Business within the Liver Ireland Sub-Fund in RLI DAC is reinsured into the Liver Fund within RLMIS through the LRA. Consequently, the Liver Fund has liabilities in respect of direct Liver UK Policyholders and reinsured Liver Ireland Policyholders. The liabilities are therefore, split over two territories (UK and Ireland).

As described in **sections 3.1** and **3.2**, the Liver Ireland Business in RLI DAC was written prior to July 2011 and is closed to new business other than new business generated because of honouring options available on existing policies. It comprises a mix of product types, all written originally in companies within the ROI or ROI branches of UK companies and acquired through a number of prior acquisitions. As at 31 March 2022, there were 360,951 policies in the Liver Ireland Sub-Fund, of which only 6,003 were pension unit-linked and unitised with-profits policies.

The Liver Ireland Business is comprised of:

- **Life:** whole of life ("**WOL**") and Endowment with-profits and non-profit business, non-profit term assurance and critical illness business and unit-linked and unitised with-profits investment plans and bonds sold as Ordinary branch ("**OB**") as well as Industrial Branch ("**IB**") policies. By far the majority of the policies are WOL, which make up 86% of all Liver Ireland Sub-Fund life policies as at 31 March 2022. A large subset of the WOL and Endowment non-profits policies are the Contingent Bonus ("**CB**") IB business policies. As of 31 March 2022, there were 67,970 Irish CB policies.

- **Pensions:** unit-linked and unitised with-profits pension policies and in-payment and deferred annuities. All Liver Ireland pension policies are OB and originate from Royal Liver Assurance or Caledonian. Around 1,230 of these policies are entitled to a guaranteed annuity rate (“GAR”), which enables the holders of these policies to convert their pension savings into a retirement income at a guaranteed rate that is currently favourable compared to standard annuity rates.

The CB policies are non-profit IB policies that were paid bonuses in the same manner as a full with-profits policy prior to March 2011. However, in March 2011, such policyholders were informed that:

- for the foreseeable future, no discretionary bonuses would be paid when surrender, maturity or death claims arose;
- when excess surplus arises in the Liver Fund (as defined in the IoT CPFM), a contingent bonus equal to that declared for full participating Liver Fund with-profits policies (as a proportion of benefits) would be credited to CB policies’ claims amounts. For the sake of clarity, CB policies are, therefore, entitled to benefit from future Liver Fund Estate distributions.

3.5.1 Liver Ireland Reinsurance Arrangements between RLMIS and RLI DAC

As outlined in **section 3.2**, simultaneous with the transfer of the Liver Ireland Business from RLMIS to RLI DAC in 2019, a reinsurance arrangement was effected between RLI DAC and RLMIS such that the liabilities of the Liver Ireland Sub-Fund were reinsured to RLMIS through a 100% quota share reinsurance arrangement. The Liver Reinsurance Agreement (“**LRA**”) was put in place in order to:

- keep the Liver Fund economically intact;
- enable RLMIS and RLI DAC maintain the expectations of policyholders under the Royal Liver PPFM and the Liver Ireland WPOP; and
- ensure that the Liver UK Policyholders and Liver Ireland Policyholders could continue to be treated consistently as per the terms of the IoT and RLI DAC Transfer Scheme.

The second and third points above include the policyholder’s entitlement to a share of the Liver Fund Estate which was protected under paragraph 31 of the RLI DAC Transfer Scheme. The establishment of the LRA gave effect to this paragraph of the RLI DAC Transfer Scheme.

Under the LRA, the retained BEL and capital requirements of RLI DAC are held in the Liver Ireland Sub-Fund to cover the capital requirements of RLI DAC that are not removed through the LRA. These asset requirements have been funded by the Liver Fund (and within that the Liver Fund Estate) since the inception of the LRA. The net of reinsurance asset requirements are:

- the adjustment to the Solvency II BEL to take into account expected losses due to the default of the reinsurance counterparty (RLMIS);
- the net of reinsurance Solvency II risk margin (assuming a SCR determined on a Solvency II Standard Formula basis);

- the net of reinsurance Solvency II Standard Formula SCR plus capital buffer, which is calibrated to a 1-in-20 probability of failing to cover the SCR.

The majority of the asset requirements above are Solvency II capital requirements so, for simplicity, I have referred to the sum of the above and RLI DAC's capital requirements throughout this report. At inception of the LRA, the initial reinsurance premium was such as to leave sufficient assets in the Liver Ireland Sub-Fund to cover the above capital requirements. Under the LRA, any changes to RLI DAC's capital requirements within the Liver Ireland Sub-Fund are financed through an experience adjustment mechanism within the LRA.

The RLI DAC Transfer Scheme, approved in 2019, in respect of the Liver Fund business requires that the Liver Fund and Liver Ireland Sub-Fund (including the Liver Fund Estate), in aggregate, be split and assets allocated between the Liver Ireland Sub-Fund in RLI DAC and the remaining UK Liver Fund in RLMIS (i.e. the UK policyholders in the Liver Fund), **before** the LRA can be terminated and a termination payment under the LRA can be determined.

Once the Liver Fund and Liver Ireland Sub-Fund (including the Liver Fund Estate) in aggregate have been allocated between RLI DAC and RLMIS, the LRA can be terminated. The termination clauses within the LRA provide for a termination payment to be made from RLMIS to RLI DAC equal to the best estimate liabilities plus any outstanding amounts applicable to the Liver Ireland Policies with the best estimate liabilities determined on a basis to be agreed between RLMIS and RLI DAC at the date of termination.

3.5.2 **Liver Ireland Termination Arrangements between RLMIS and RLI DAC**

The various legal agreements (IoT, RLI DAC Transfer Scheme, LRA) applicable to the Liver Ireland Business contemplate:

- termination of the LRA and the need to split the assets and liabilities allocated to the Liver Fund and Liver Ireland Sub-Fund and the subsequent consolidation of the Liver Ireland Sub-Fund into the RLI DAC Open Fund when the fund reaches certain defined thresholds, known as sunset points;
- consolidation of the Liver Fund into the RL Open Fund when the fund reaches certain defined thresholds, known as sunset points.

As outlined in **section 3.5.1**, in relation to the termination of the LRA, this requires that the realistic aggregate value of the assets and liabilities contained within the Liver Fund and Liver Ireland Sub-Fund (excluding any capital support provided to the Liver Fund) be split between the UK Liver Fund and Liver Ireland Sub-Fund. The determination of the split or proportion must be done:

- with due regard to the provisions of this RLI DAC Transfer Scheme, the Instrument of Transfer, the Liver Reinsurance Agreement, the Royal Liver PPFM and the Liver Ireland WPOP.

- give due regard the opinion of each of the RLMIS Chief Actuary, the Royal London With-Profits Actuary, the RLMIS Board, the Liver Supervisory Committee, the RLMIS With-Profits Committee, the RLI DAC HoAF and the RLI DAC Board.

The RLI DAC Transfer Scheme also requires that each party who opines must consider the interests of all policyholders (direct and reinsured) within RLMIS' Liver Fund in reaching their respective opinions. In addition, an independent expert must be appointed to opine on the fairness of the split of the total assets of the Liver Fund and the Liver Ireland Sub-Fund between the different groups of policyholders.

In relation to the consolidation or collapsing of the Liver Fund into the RL Open Fund, the IoT CPFM prescribes that once assets fall below two specific trigger limits, the Liver Fund 'may' (higher limit, the "**Liver Sunset May Limit**") or 'must' (lower limit, the "**Liver Sunset Must Limit**") be collapsed and, on doing so, the remaining Liver Fund Estate must be distributed to the asset shares, or claim amounts as applicable of Liver Ireland and Liver UK policies. The RLI DAC Board is responsible for determining the manner and timing of any distributions of surplus in respect of RLI DAC policyholders (paragraph 11 of the RLI DAC Transfer Scheme). However, prior to the termination of the LRA, the distribution of the Liver Fund Estate is subject to the approval of the RLMIS Board (as well as the RLI DAC Board) with regard to the advice of the RLMIS WPA and the RLI DAC HoAF and due consideration for the security of the benefits of all RLMIS policyholders (direct and reinsured). The purpose of the 'sunset' clause is to avoid the situation where the size of the ring-fenced fund reduces to such a point that it becomes very difficult to manage the portfolio of investments and to distribute surpluses fairly and smoothly amongst the remaining direct and reinsured policies.

The sunset point where the Liver Fund Estate may be distributed is expected to be reached in 2031 and the sunset point where the Liver Fund Estate must be distributed is expected to be reached in 2041. In absence of the proposed Irish and UK Schemes which are the subject of this report, once the Liver Fund sunset clause had been triggered, the Liver Fund Estate would have been distributed and policies invested in, or reinsured to, the Liver Fund would have been consolidated into the RL Open Fund, with the RL Open Fund expected to cover the capital requirements of these policies (both direct and reinsured).

To ensure compliance with "UK Solvency II", which was not anticipated in the IoT, the Liver Fund is currently required to hold an increased level of capital (in absolute terms) compared to when the IoT became effective. As a result, if the Liver Sunset May Limit was breached, but the value of the Liver Fund's assets were still significantly higher than the value required to breach the Liver Sunset Must Limit, RLMIS would not voluntarily consolidate the Liver Fund under the Liver Sunset May Limit clause without compensation from the Liver Fund Estate to the RL Open Fund, in return for supporting the ongoing capital requirements of the fund. However, the Liver Fund would be collapsed and the Liver Fund Estate distributed in full to entitled policies, if the Liver Sunset Must Limit was breached (without compensation to the RL Open Fund as the IoT does not allow for compensation). RLMIS, therefore, considers the date the Liver Sunset Must Limit is triggered to be the point at which

RLMIS expects that the RL Open Fund would no longer expect to be compensated for the additional capital requirements associated with the Liver Fund Business (direct and reinsured).

3.5.3 Liver Ireland Sub-Fund Sunset Point

Under the terms of the RLI DAC Transfer Scheme, there exists two thresholds that form part of the Liver Ireland Sub-Fund sunset clause. The thresholds are points at which RLI DAC either may or must cease to maintain the Liver Ireland Sub-Fund as a separate sub-fund. These thresholds are referred to as the “**Liver Ireland Sub-Fund Sunset May Limit**” and the “**Liver Ireland Sub-Fund Sunset Must Limit**”.

The Liver Ireland Sub-Fund sunset clause can only be triggered if the LRA is no longer in place (which would have meant that the Liver Fund was split between RLI DAC and RLMIS). It should be noted that the thresholds for the Liver Ireland Sub-Fund sunset clauses are not dependent on the thresholds for the Liver Fund sunset clauses being reached and vice versa.

RLI DAC **may** cease to maintain the Liver Ireland Sub-Fund when the total asset shares of the Liver Ireland Sub-Fund fall below €334 million indexed with the Irish Consumer Price Index annually from 31 December 2018 (this limit is €356million as at 31 December 2021), or at any time after this threshold is passed. This is expected to be reached in the next few years.

RLI DAC may also cease to maintain the Liver Ireland Sub-Fund when the total asset shares of that sub-fund are higher than the amount set out above, if the RLI DAC Board, having regard to the advice of the RLI DAC HoAF, considers: (i) the continued maintenance of the Liver Ireland Sub-Fund to be materially adverse to the interests of policyholders of any of RLI DAC's funds; and, (ii) the cessation of the Liver Ireland Sub-Fund would not be materially adverse to the interests of policyholders of any other of RLI DAC's funds.

RLI DAC **must** cease to maintain the Liver Ireland Sub-Fund when the total assets shares of that sub-fund fall below €134 million indexed with the Irish Consumer Price Index annually from 31 December 2018 (this limit is €143 million as at 31 December 2021), or at any time after this threshold is passed. This is expected to be reached in 2030.

When RLI DAC ceases to maintain the Liver Ireland Sub-Fund under either of the thresholds above, the RLI DAC Transfer Scheme prescribes that:

- The excess assets of the Liver Ireland Sub-Fund will be allocated as enhancements to the with-profits and CB policies of the fund in a manner determined to be fair by the RLI DAC Board, having regard to the advice of the RLI DAC HoAF and with due consideration for the security and reasonable expectations of all RLI DAC policyholders (i.e. including those in the RLI DAC Open Fund); and
- The Liver Ireland Sub-Fund would be consolidated into the RLI DAC Open Fund.

3.5.4 Collateral Agreements between RLMIS and RLI DAC

Tier 1 and Tier 2 Security Agreements, supported by a Collateral Framework Agreement, were established between RLMIS and RLI DAC, along with a deed of Floating charge covering an Insolvency Floating Charge. These agreements (collectively the “**Collateral Agreements**”) were all entered into simultaneously with the LRA and form part of the conditions for its continuance (i.e. RLI DAC has the right to cancel the LRA if the Collateral Agreements terminate).

The Collateral Agreements in place provide collateral to support RLMIS’s obligations under the LRA. There exists one Collateral Framework Agreement which covers two fixed charge deeds (Security Agreements), a first tier and second tier. The fixed charges are structured such that, in the event of a breach of the terms of the LRA by RLMIS (such breach including the insolvency of RLMIS), RLI DAC can make a collateral call. There is also an insolvency floating charge over most of the assets of RLMIS⁷ included within the Collateral Agreements which ensures that the RLI DAC reinsured policyholders of RLMIS have the same entitlement priority on wind-up as the direct policyholders of RLMIS to all of the assets available for distribution in the event of the insolvency of RLMIS.

In relation to the fixed charges, the first tier (Tier 1) provides a priority fixed charge call on RLMIS’s Liver Fund assets equal to 50% of the Solvency II BEL applicable to the Liver Ireland Policies. The priority call means that, in the event of the insolvency of RLMIS, this charge ranks ahead of the other policyholder liabilities of the Liver Fund within RLMIS and would be expected to be paid in short order, thus ensuring RLI DAC has sufficient assets to continue to trade and meet its liabilities in respect of the Liver Ireland Business whilst RLMIS’s insolvency proceedings (which could take a number of years) are being concluded.

The second tier, Tier 2, provides a fixed charge call on RLMIS’s Liver Fund assets equal to the remaining 50% of the Solvency II BEL applicable to the Liver Ireland Policies. The Tier 2 collateral takes into account amounts already recovered under the Tier 1 collateral and the insolvency floating charge. The Tier 2 collateral includes equalization provisions which ensure that, in the event of the insolvency of RLMIS, the Liver Ireland policyholders reinsured into the Liver Fund would not receive any more or less than they would be entitled to receive were they direct policyholders of RLMIS. The equalisation provisions were required to maximise RLI DAC’s security interests whilst also ensuring equity and fair treatment between the policyholders of RLMIS and RLI DAC should the Tier 1, Tier 2 and, if relevant the Insolvency Floating Charge, be enforced.

The effect of the Tier 1 and Tier 2 collateral together was to maximize RLI DAC’s ability to recover 100% of the Solvency II BEL and no less than 50% of the Solvency II BEL in respect of the Liver Ireland reinsured policyholders.

⁷ Due to pre-existing charges in favour of Skandia Life Assurance Company Limited and Mobius Life Limited, there are a small number of exclusions from the RLMIS assets which are subject to the floating charge (c.£3bn in 2019).

3.5.5 Liver Ireland Expense Arrangements between RLMIS and RLI DAC

Under the various legal agreements (those being a combination of the IoT, the RLI DAC Transfer Scheme and LRA), the Liver Fund and Liver Ireland Sub-Fund cannot be charged any more or less than **pre-defined expense fees** plus a **basic service fee** plus **exceptional expenses**.

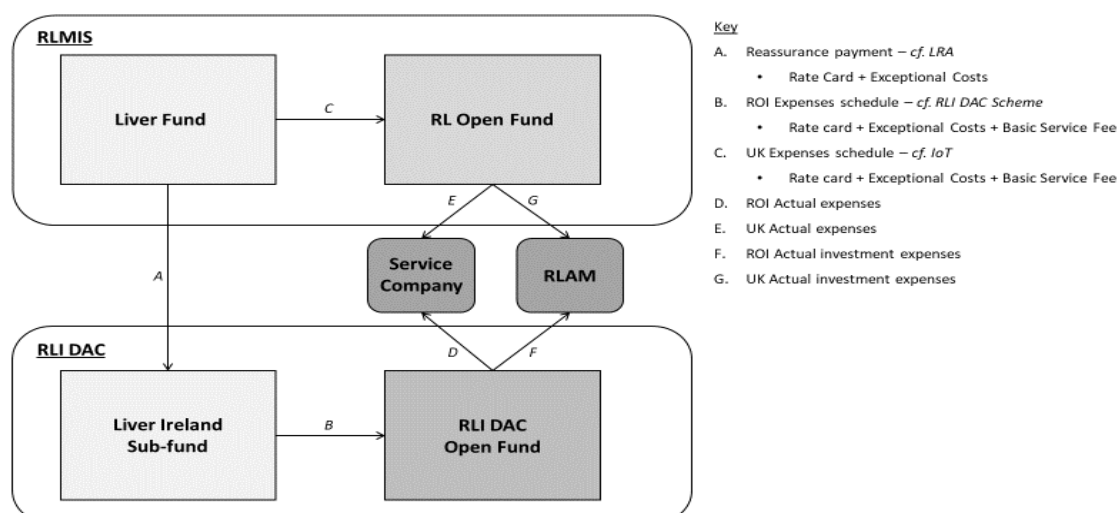
The **pre-defined expense fees** are a set of fixed rate card expenses up to 1 December 2021 and the actual expenses per policy incurred in administering the business within the Liver Fund plus a margin thereafter, subject to a comparison against the costs of managing the business through outsourcing within 12 months of the expiry of the fixed rate card.

- For the Liver UK Business, the pre-defined expense fees and exceptional costs (see below) are charged / deducted from the Liver Fund and passed to the RL Open Fund, where the actual expenses incurred in managing the Liver UK Business are deducted and any residual expense risk is managed.
- For the Liver Ireland Business reinsured into the Liver Fund through the LRA, the pre-defined expense fees and exceptional costs (see below) are charged / deducted from the Liver Fund and passed, via the LRA, to the Liver Ireland Sub-Fund. The Liver Ireland Sub-Fund then passes this charge to the RLI DAC Open Fund where the actual expenses incurred in managing the Liver Ireland Business are deducted and any residual expense risk is managed.

Under the various legal agreements, a **basic service fee** of 26 bps of the market value of the assets of the Liver Fund and Liver Ireland Sub-Fund (as relevant) is deducted from the relevant funds, and paid respectively to the RL Open Fund and RLI DAC Open Fund, who are responsible for paying the actual expenses incurred by each respective fund.

Under the various legal agreements, all **exceptional costs**, expenses, fees, and charges related to the marginal cost of implementing major legislative, regulatory or tax changes that are mandatory and reasonably attributable to the Liver Fund are permitted to be met by the Liver Fund Estate (definition of this is included within the IoT). The IoT and RLI DAC Transfer Scheme specify that the allocation of such costs to the Liver Fund Estate should be on a fair and equitable basis, as determined by RLMIS and RLI DAC, having regard to the advice of the RLMIS With-Profits Actuary and RLI DAC HoAF respectively.

The following diagram shows graphically what is outlined above in words.



3.5.6 Liver Ireland Service Standards between RLMIS and RLI DAC

Under the various legal agreements (those being a combination of the IoT, the RLI DAC Transfer Scheme and LRA), minimum service standards for policies in the Liver Fund and Liver Ireland Sub-Fund are set out.

The IoT prescribes the minimum service standards for the Liver UK Policies within the Liver Fund. The RLI DAC Transfer Scheme prescribes the minimum service standards for the Liver Ireland Policies within the Liver Ireland Sub-Fund. The RLI DAC Transfer Scheme required that the overall service standards in terms of the administration and investment management of the Liver Ireland Policies post transfer was not inconsistent with those pre transfer. The service standards applicable to the Liver Ireland Policies are set out in Schedule 6 of the RLI DAC Transfer Scheme, as amended from time to time by RLI DAC as per that schedule.

3.5.7 Liver Ireland Capital Support Arrangements between RLMIS and RLI DAC

The Liver Ireland Sub-Fund's residual capital requirements are supported 100% through an experience adjustment applied through the LRA. The residual capital requirements are determined in accordance with RLI DAC's Capital Management Framework (which is underpinned by EU Solvency II Standard Formula capital requirements).

If the Schemes are implemented, the assets that currently sit within RLI DAC's Liver Ireland Sub-Fund will need to be repaid to the Liver Fund Estate before it is distributed. This means that the RL Open Fund within RLMIS will have an initial experience refund amount payable to RLI DAC on taking over the reinsurance liabilities of the Liver Ireland Policies under the amended LRA equal to the residual capital requirements of the Liver Ireland Sub-Fund.

3.5.8 Liver Ireland Sub-Fund Principles and Practices of Financial Management

The RLI DAC Transfer Scheme requires that, in respect of any period prior to the LRA termination date, RLI DAC must have regard to the Core Principles of Financial Management as outlined in

Schedule 2 of the IoT (the “**IoT CPFM**”) in managing the affairs of the Liver Ireland Policyholders, whilst also taking into account the interests of both the Liver Ireland and Liver UK Policyholders.

The IoT CPFM is quite detailed and more accessible versions of what is contained within the IoT CPFM for the Liver Ireland Policyholders are covered within the Liver Ireland With-Profits Operating Principles (“**Liver Ireland WPOP**”) and Royal Liver PPFM. In the event of the termination of the LRA, the Liver Ireland WPOP and Royal Liver PPFM would apply.

When determining the amounts payable, the Liver Ireland WPOP aims:

- To meet the reasonable benefit expectations of all policyholders (both Liver UK and Liver Ireland), treating different classes and generations of policyholders fairly.
- To smooth payouts for CWP business to ensure that, on average, over the longer term the amount paid on maturity and death claims is the asset share subject to a minimum of the guaranteed benefit.
- To ensure that, on average, over the longer term the amount paid on maturity and death claims for UWP business is the asset share of the policy subject to smoothing.
- Asset shares may be increased by way of enhancements from time to time. These enhancements may be temporary or permanent additions to asset share and form part of the enhanced asset share on which payouts are targeted.
- To distribute the Liver Fund Estate over the lifetime of the policies invested / reinsured to the Liver Fund. Only certain policies invested / reinsured to the Liver Fund are entitled to a share of the Liver Fund Estate.

Bonuses are additions to the benefits payable on CWP and UWP policies and usually take two forms: regular bonuses that are added through the policy term; and final bonuses which, if payable, are only added at the date of a claim. In order to meet reasonable benefit expectations of certain classes of existing policyholder or to distribute the Liver Fund Estate, RLI DAC may pay in excess of the value of asset share.

The past practice in relation to the Liver Fund and Liver Ireland Sub-Fund has been to apply a uniform rate of return, in each policy's stated benefit currency, across both the Liver Ireland with-profits business (i.e. the Liver Fund reinsured policies) and the Liver UK with-profits business (i.e. the Liver Fund direct policyholders).

In relation to CB IB policies which are the only non-profit policies entitled to a share of the Liver Fund Estate, when bonuses become payable in respect of such policies, a contingent bonus equal to that declared for full participating Liver Fund with-profits policies (as a proportion of benefits) is credited to CB policies' claim amounts. No bonuses are payable to CB policies in respect of normal with-profit bonus allocations (i.e. those not related to a distribution of the Liver Fund Estate).

3.6 Overview of the Capital Management Frameworks

The table below summarises the Capital Management Frameworks (“CMF”) applicable to each of the Funds/Sub-Funds directly involved in the Schemes:

Fund	Applicable CMF	Summary of CMF
RL Open Fund	RLMIS	<p>The mid-point of the target capital buffer range is a 1-in-20-year excess capital amount above the Internal SCR.</p> <p>Permits distribution of excess capital if the fund is in the Lower Amber range or above (i.e. above the 1-in-5-year level). Estate distributions are accelerated when the fund is in the Upper Amber or Upper Red range (i.e. above the 1-in-50-year level) but there is no requirement to distribute at any level.</p> <p>In practice, RLMIS has not (to date) effected distributions that would lead to excess capital falling below the target range.</p>
Liver Fund	Liver	<p>Requires distribution of excess capital above the 1-in-20 year level to the asset share of with-profits policies. Whilst not mandatory, this has in practice typically distributed such excess capital through benefit enhancements.</p>
Liver Ireland Sub-Fund	RLI DAC	<p>Requires distribution of excess capital above the 1-in-20 year level to the asset share of with-profits policies. Whilst not mandatory, this has in practice typically distributed such excess capital through benefit enhancements.</p>

Table 2: Summary of Capital Management Framework

4. Outline of the Proposed Offer under the Schemes

4.1 The requirement for an Irish Scheme

4.1.1 Context and scope of the Irish Scheme

The aim of RLMIS's Legacy Simplification Project is to rationalise and simplify its fund structure, products and administration systems in order to generate operational efficiencies, reduce risk and improve outcomes for long-standing customers.

RLMIS has already consolidated the RAIB, UFIB, UFOB and SL Sub-funds into the RL Open Fund under Wave 1 and Wave 2 of the Legacy Simplification Project and, in Wave 3, intends to consolidate the remaining Consolidating Funds into the RL Open Fund by the end of 2022. RLI DAC is impacted by Wave 3 of the project only. As such, Wave 1 and Wave 2 were out of scope for RLI DAC.

Under Wave 3 of RLMIS's Legacy Simplification Project, the Consolidating Fund which impacts RLI DAC is the Liver Fund, as the liabilities of the Liver Ireland Policyholders are reinsured into the Liver Fund and entitled to receive distributions from the Liver Fund Estate, subject to certain conditions (described in **section 4.4.1**). The proposal is for the Liver Fund to be consolidated into the RL Open Fund.

To enable the consolidation of the Liver Fund into the RL Open Fund, Liver Ireland Eligible Policyholders and Liver UK Eligible Policyholders will be asked to vote on proposals, through the Irish Scheme and the UK Scheme, to give effect to the distribution of the Liver Fund Estate and the movement of the assets and liabilities (including reinsured liabilities) of all Eligible Policies to the RL Open Fund.

Immediately after the distribution of the Liver Fund Estate and the movement of the associated assets and liabilities (both the direct liabilities via through the Schemes and the reinsured liabilities through the revisions to the LRA), the termination of the Liver Fund will be triggered under Clause 30 of the IoT ("**Sunset Clause**") thus enabling the movement of the non-eligible liabilities (direct and reinsured) to the RL Open Fund and the cessation of the Liver Fund.

4.1.2 Overview of the Irish Scheme

The Liver Fund has (i) direct insurance policy liabilities in respect of the Liver UK Policyholders, and (ii) liabilities in respect of the Liver Ireland Policyholders that are reinsured into the Liver Fund from the Liver Ireland Sub-Fund. The direct insurance policy liabilities in the Liver Ireland Sub-Fund are reinsured from RLI DAC to RLMIS through the Liver Reinsurance Agreement under a 100% Quota Share arrangement and sit alongside the Liver UK Policyholders' liabilities, which are the subject of a proposed equivalent UK Scheme (the "**UK Scheme**") on effectively the same commercial terms.

Upon the Schemes being implemented and the distribution of the Liver Fund Estate (see **section 4.1.3** below), the Liver Fund will be collapsed into the RL Open Fund (hereinafter referred to as the “**Liver Fund Consolidation**”). Thereafter, the RL Open Fund will bear (i) the direct insurance policy liabilities of the Liver UK Policyholders, and (ii) reinsurance liabilities of RLMIS in respect of the Liver Ireland Policyholders arising under the LRA. The Liver Reinsurance Agreement will be amended, if required, to reflect the fact that the assets of the RL Open Fund will be utilised to meet the reinsurance liabilities of RLMIS to RLI DAC under the terms of the Liver Reinsurance Agreement. This is described in more detail in **section 4.5.3**.

The Irish Scheme and the associated UK Scheme provide the mechanism for the distribution of the Liver Fund Estate (less certain deductions) to Eligible Policies under each of the Irish and UK Schemes. The Schemes also result in a movement of the assets and liabilities of the Eligible Policies from the Liver Fund to the RL Open Fund.

Under the proposed Irish Scheme, RLI DAC will make an Offer to Liver Ireland Eligible Policyholders. Under the Offer within the Irish Scheme, Liver Ireland Eligible Policyholders will be asked to approve RLI DAC providing its consent (as creditor of RLMIS on foot of the LRA) to the UK Scheme pursuant to which certain payments will be made from the Liver Fund Estate to the RL Open Fund in return for the application by RLI DAC of an immediate percentage one-off Uplift to Eligible Benefits (i.e. asset shares for with-profits Eligible Policies; claim amounts for non-profit CB Eligible Policies). A payment will also be made, from the Liver Fund Estate to the RL Open Fund, to cover the value of anticipated uplifts to with-profit asset shares in respect of eligible contractual regular premiums on policies included in the Irish Scheme (the “**Premium Uplift Contribution**”). The Liver Fund Estate will fund the Uplift and the Premium Uplift Contribution.

Following the Implementation of the Schemes and the Liver Fund Consolidation, the full amount of the Liver Fund Estate (after deduction of the payments referenced in the previous paragraph) can be distributed to the Eligible Policyholders via the Uplift⁸. Once moved into the RL Open Fund, Liver Fund policies would not receive any future distributions from the inherited estate of the RL Open Fund as they have not nor will they derive an entitlement to do so.

The Offer will take effect from the Implementation Date, which is currently expected to be 31 December 2022. The Implementation Deed between RLI DAC and RLMIS will be entered into and take effect upon both Schemes being confirmed by the applicable High Court which will ensure that each party performs the necessary actions to allow the Schemes to be implemented.

Post implementation of the Liver Fund Consolidation, the RL Open Fund will assume responsibility for meeting the direct capital requirements of the Liver UK Policies (Eligible and Non-Eligible) and the reinsured capital requirements of the Liver Ireland Policies (Eligible and Non-Eligible) as set out in the Liver Reinsurance Arrangement, consolidated from the Liver Fund. The Liver Ireland Sub-

⁸ The Schemes, the triggering of the Liver Fund Sunset clause and the Liver Fund Consolidation are expected to occur simultaneously. Consequently, for simplicity, I have referred to the Liver Fund Estate being distributed in full throughout this report. In practice, the majority of the Liver Fund Estate will be distributed via the Uplift under the Schemes with the residual Liver Fund Estate distrusted to the HITM policies (with no impact on expected benefits) under the Sunset clause.

Fund, a ring-fenced fund of RLI DAC, will continue to hold sufficient capital on an EU Solvency II Standard Formula basis for the counterparty and operational⁹ risks held by RLI DAC given the reinsurance arrangements in place.

I note that the UK Scheme mirrors the above but in respect of the Liver UK Policyholders.

4.1.3 Process for the implementation of the Irish Scheme

In order to implement the Schemes, RLMIS and RLI DAC will need the sanction of the UK High Court and Irish High Court respectively. The high-level process for the Irish Scheme is as follows:

- An Appetite Mailing Pack (see **section 5.1**) was sent to Liver Ireland Eligible Policyholders in February 2022 to introduce the Irish Scheme and to invite them to provide feedback on the proposals. The response window closed on 1 April 2022 and as at 4 May 2022, 85% by count and 88% by value, of the Liver Ireland Eligible Policyholders that have responded¹⁰ have been in favour of the Irish Scheme. There have been a small number of complaints and objections to date (1 complaint, 3 objections). RLI DAC has, or is in the process of, responding to each objection and complaint individually. I have considered the objections received and I note the concerns of the individual policyholders relate to points already considered in this report and I am comfortable that the objections raised do not alter the conclusions set out in this report. The complaint relates to the clarity of the language used in the policyholder communications. At the date of this report, this complaint is still under review within RLI DAC and I will not pre-empt the outcome. Nonetheless, I note that the communications were tested on a pool of policyholders to help ensure that the information presented was clear. Pending the conclusion of the ongoing review of this complaint, I am comfortable that it does not alter the conclusions set out in this report.
- After the appetite mailing, RLI DAC will seek a court order convening a meeting (the “**Policyholder Meeting**”) in order to vote on the Irish Scheme. This request will take place at a Convening Hearing of the Irish High Court which is scheduled for 21 June 2022.
- Once the court order is granted, Liver Ireland Eligible Policyholders will be sent further communications in a Voting Pack (see **section 5.1**).
- The Policyholder Meeting will take place on 1 November 2022 which will be more than eight weeks after the Voting Pack has been sent out.

Once the Irish Scheme has been approved, RLI DAC will request that the Irish High Court sanctions the Irish Scheme. The Sanction Hearing for Ireland is scheduled for 29 November 2022. A similar process will be followed by RLMIS in respect of the Liver UK Eligible Policyholders and we note that

⁹ RLI DAC uses the Standard Formula to calculate its SCR. Under Article 204 of the Delegated Acts, the operational risk is subject to a floor of 30% of the Basic Solvency Capital Ratio. The Liver Ireland Fund's operational risk is therefore floored at this level plus a small amount of unit-linked expenses

¹⁰ Liver Ireland policyholder response rate c.12.4%

as at 4 May 2022, 86% by count and 87% by volume, of the Liver UK Eligible Policyholders that have responded¹¹ have been in favour of the UK Scheme.

The UK and Irish Schemes are co-dependent and so will become effective only once both the UK and Irish High Courts have delivered the relevant sanction orders to the Registrar of Companies in England and Wales and to the Companies Registration Office in Ireland, respectively.

4.2 Eligibility and rights of policy groups

4.2.1 Policy groups

4.2.1.1 Liver Ireland Eligible Policies

A **“Liver Ireland Eligible Policy”** is a with-profits policy (**excluding Heavily-in-the-Money or “HITM” policies – see section 4.2.1.3**) or a contingent bonus policy, invested in the Liver Ireland Sub-Fund which is not an Excluded Policy (see section 7.2 for definition of Excluded policy) and will not have reached its scheduled maturity or retirement date prior to 11:59pm 31 December 2022, and:

- (a) which has not been claimed in full (or come into payment in full) on maturity, retirement, surrender, transfer or death, in each case in accordance with the terms of the policy as at the **“Calculation Date”** or as at the date of the **“Policyholder Meeting”** (both defined below); and
- (b) in respect of which the Liver Ireland Eligible Policyholder (i.e. holder of a Liver Ireland Eligible Policy) has not, in accordance with the terms of the policy, ceased to be entitled to receive benefits as at the Calculation Date or as at the date of the Policyholder Meeting.

The date of the Policyholder Meeting is defined as the date the meeting is convened by the Irish High Court for the purpose of considering and, if thought fit, approving (with or without modification) the Irish Scheme.

The Calculation Date is defined as the date at which RLMIS will calculate the Offer, subject to RLI DAC approval and is 31 March 2022.

Liver Ireland Eligible Policies have a collective entitlement to a share of the Liver Fund Estate. In the absence of the Schemes, RLI DAC would expect to continue to gradually increase the asset shares or claim amounts (as relevant) of the Liver Ireland Eligible Policies, having due regard to the fairness of that distribution across all Eligible Policies in the Liver Fund, by the sharing out of the Liver Fund Estate. Estate Distribution is only permissible while the excess capital in the Liver Fund Estate is above a stated level, as described in **section 3.6**.

¹¹ Liver UK policyholder response rate c.17.8%

4.2.1.2 **Liver Ireland Non-Eligible Policies**

A **“Liver Ireland Non-Eligible Policy”** is a policy invested in the RLI DAC Liver Ireland Sub-Fund that is not a Liver Ireland Eligible Policy as it is not entitled to receive distributions from the Liver Fund Estate. In practice, this is all non-profit policies in the Liver Ireland Sub-Fund, with the exception of Contingent Bonus IB policies.

4.2.1.3 **Liver Ireland Heavily-In-The-Money (HITM) Policies**

Under the Irish Scheme, a Liver Ireland Policy invested in the Liver Ireland Sub-Fund, and reinsured under the LRA into the Liver Fund, immediately prior to the Calculation Date is a **“Heavily In-The-Money”** or **“HITM”** policy if, based on RLI DAC’s best estimate view of assumptions applied at the Calculation Date, the projected value of the benefits payable under the with-profits policy as at the expected date of claim is not expected to be increased by the application of the Uplift to the Eligible Benefits, as proposed under the Irish Scheme i.e. the guarantees are always expected to bite under the projection. As terminal bonuses are awarded on a grouped basis, any policy which is eligible for a terminal bonus will benefit from the Uplifted asset share of their group through the award of higher terminal bonuses and therefore, by definition, cannot be a HITM policy. Consequently, only zero-terminal bonus policies which also meet the projected claims criteria above are HITM policies.

HITM policies are non-Eligible policies (i.e. they are not covered by/included in the Schemes). However, as the holders of HITM policies have a collective entitlement to a share of the Liver Fund Estate, the relevant share of the Liver Fund Estate (defined as the amount required to award HITM policies with the same percentage Uplift as Eligible Policyholders) will be retained in the Liver Fund Estate. The application of the Uplift to the Eligible Policies and the movement of the Eligible Policies from the Liver Fund to the RL Open Fund will reduce the Liver Fund to such a level that the Sunset clause will be triggered and the retained Liver Fund Estate will be distributed to the HITM policies. The interdependent nature of these transactions are such that the Uplift will be applied to the HITM policies simultaneously with the Eligible Policies.

The Uplift will be potentially irrelevant to the HITM policies as they are heavily in the money but it will nonetheless be applied to the asset shares of the HITM policies, as per their entitlement. With-profits HITM policies will, therefore, not lose out on the possible increase on surrender at any point after the Implementation Date.

As at March 2022, there were 5,396 HITM policies invested in the Liver Ireland Sub-Fund with a combined asset share of £46.3m, which represents c.1.5% by policy count of all Liver Ireland Sub-Fund policies.

4.2.1.4 **Liver Ireland Included Policies**

“Liver Ireland Included Policies” are Liver Ireland Eligible Policies which remain in-force at the Implementation Date. That is, Eligible Policies excluding any unscheduled claims between the appetite mailing date and the Implementation Date.

4.2.1.5 RLI DAC German Bond Policies

“RLI DAC German Bond Policies” are RLI DAC UWP and Unit-linked policies invested in the German Bond Sub-Fund and are 100% quota share reinsured through the German Bond Reinsurance Agreement by RLMIS and are therefore reinsured liabilities of the RL Open Fund.

4.2.1.6 RLI DAC Open Fund Policies

“RLI DAC Open Fund Policies” are RLI DAC non-profit policies invested in the RLI DAC Open Fund.

4.2.1.7 Liver UK Eligible Policies

A **“Liver UK Eligible Policy”** is a with-profits policy (**excluding Heavily-in-the-Money or “HITM” policies – see section 4.2.1.3**) or a contingent bonus policy, which is not a L&M policy, invested in the Liver Fund which will not have reached its scheduled maturity or retirement date prior to 31 December 2022, and:

- (a) which has not been claimed in full (or come into payment in full) on maturity, retirement, surrender, transfer or death, in each case in accordance with the terms of the policy as at the Calculation Date or as at the date of the Policyholder Meeting; and
- (b) in respect of which the Liver UK Eligible Policyholder (i.e. holder of a Liver UK Eligible Policy) has not, in accordance with the terms of the policy, ceased to be entitled to receive benefits as at the Calculation Date or as at the date of the Policyholder Meeting.

4.2.1.8 Liver UK Non-Eligible Policies

A **“Liver UK Non-Eligible Policy”** is a policy invested in the Liver Fund that is not a Liver UK Eligible Policy as it is not entitled to receive distributions from the Liver Fund Estate. In practice, this is the L&M policies plus all non-profit policies in the Liver Fund, with the exception of Contingent Bonus IB policies.

4.2.1.9 Liver UK Included Policies

“Liver UK Included Policies” are Liver UK Eligible Policies which remain in-force at the implementation date. That is, Eligible policies excluding any unscheduled claims between the appetite mailing date and the implementation date.

4.2.1.10 Liver UK London & Manchester (“L&M”) Policies

L&M policies are with-profits IB policies that were transferred to Royal Liver as part of the Friends Provident acquisition. As specified in the IoT (Schedule 2 of the CPFM paragraphs 19-25), they are not eligible to participate in estate distributions and so are excluded from the Schemes. The L&M policies are written in the UK only. For clarity, the transfer of L&M policies to the RL Open Fund will be triggered by the Sunset Clause following Implementation of the Schemes.

4.2.2 Policyholder approval of the scheme

4.2.2.1 Requirement for policyholder approval

In order to obtain the sanction of the Irish High Court to the Irish Scheme and for the Irish Scheme to become binding on all Liver Ireland Eligible Policyholders, a creditor / Policyholder meeting or meetings must be arranged at which the requisite statutory majority of Liver Ireland Eligible Policyholders approve the Irish Scheme.

The statutory majority required at the Policyholder meeting(s) is that more than 50% of policyholders by number, representing at least 75% in value, of affected creditors or members present and voting at the Policyholder Meeting (either in person or by proxy, including votes cast by post or online) vote in favour of the Irish Scheme.

Given the co-dependency between the Irish Scheme and the UK Scheme, both Schemes must be approved by a sufficient majority and subsequently by the relevant High Court before the respective Schemes can be implemented. If both are approved, then the Schemes will be implemented on the Implementation Date 31 December 2022.

The value of a vote cast within the Irish Scheme (and similarly within the UK Scheme in relation to its relevant policyholders and policies) is the sum of the following two components, each calculated as at the Calculation Date (31 March 2022):

- The sum of the amounts payable on a claim across all of the policyholder's Liver Ireland Eligible Policies at the Calculation Date; plus
- For with-profits Liver Ireland Eligible Policies only, the sum of future premiums on all of the policyholder's Liver Ireland Eligible Policies from the Calculation Date until their contractual end-point. These future premiums are limited to regular premiums only, limited to the level of annual premium being paid as at 31 December 2021,

where the amount payable on claim is the transfer value if the policy is a pension policy, the cash-in value if the policy is an endowment policy, and the death value if the policy is another type of life policy (e.g. a whole of life policy), each in respect of the benefits invested in under the policy only.

The contractual end-point is identified as the point at which the policyholder will reach the retirement date on the policy if the policy is a pension policy, the point at which the policy matures if the policy is an endowment policy, or the point at which the policy becomes fully free-paid if the policy is another type of life policy.

The outcome of the votes will be binding on all of the Liver Ireland Eligible Policyholders, including those that vote "for", those that vote "against", those that choose not to vote and those that cannot be traced ("**gone-aways**"). If the required majority vote in favour of the Irish Scheme (and the corresponding majority vote in favour of the UK Scheme), the RL Open Fund will assume the reinsurance liabilities of RLMIS to RLI DAC in respect of the Liver Ireland Eligible Policyholders.

Under the proposed terms, the policyholders eligible to vote, the Liver Ireland Eligible Policyholders, will not be presented with the option to opt out of the Irish Scheme (similar proposed terms exist under the UK Scheme for its relevant policyholders). Opting out is not a practical option for either the UK or Irish Schemes as if policyholders choose to opt out, it would leave some direct UK policyholders and RLI DAC reinsured liabilities in the Liver Fund and, therefore, prevent the consolidation into the RL Open Fund, which is a fundamental aim of the project.

Those who do not engage with the voting process do not count for the voting tests. Only those who vote “for” or “against” the Scheme are counted in the simple majority by number and three quarters by value tests. There is no absolute number of votes required, although it is desirable to have a sample that is considered representative of the population as a whole.

4.2.2.2 Voting rights

All Liver Ireland Eligible Policyholders will be invited to vote on the Irish Scheme.

All Liver UK Eligible Policyholders will be invited to vote on the UK Scheme.

Under both the Irish and UK Schemes, HITM policyholders will not be invited to vote (unless they are also Eligible Policyholders) as they are not covered by/included in the Scheme. The proposed distribution of the Liver Fund Estate and associated policy uplifts are expected to have no impact on the benefits paid out on HITM policies.

Under the UK Scheme, L&M policyholders will not be invited to vote as they are not covered by/included in the Scheme. They are not entitled to share in the distribution of the Liver Fund Estate.

4.2.2.3 Minimising those who do not engage with the voting process

In order to minimise the proportion of those who do not engage with the voting process, and thus maximise the proportion of Liver Ireland and Liver UK Eligible Policyholders who vote:

- Both RLI DAC and RLMIS have implemented a robust system for tracing Gone-Aways for the Liver Ireland Sub-Fund and the Liver Fund respectively in order to reduce the number of Gone-Aways.
- All practical steps are being taken as part of the tracing efforts, allowing for differences in the tracing services, mail services and news outlets in the UK and ROI.
- Both RLI DAC and RLMIS have a comprehensive Communications Plan in place with the aim of maximising engagement with the voting process, through a number of different mailings (detailed further in **section 5**).

4.2.2.4 Voting Classes

All Liver Ireland Eligible Policyholders will be treated as one voting class. Votes are assigned at policyholder rather than policy level so whether an individual holds one policy or multiple policies, they will only be assigned one vote. However, the statutory majority for the vote is defined in respect

of both count and value where the value of the vote will reflect a policyholder's multiple Eligible Policies.

The Liver Ireland Eligible Policyholders will vote on the Irish Scheme while the Liver UK Eligible Policyholders will vote on the UK Scheme. A conditional contract between RLI DAC and RLMIS will be entered into, shortly before the Schemes being sanctioned, which will ensure each party performs the necessary actions to allow the Schemes to be implemented.

4.3 Scheme Contribution

4.3.1 Overview of the Scheme Contribution

In exchange for the Uplift to policies from the distribution of the Liver Fund Estate, the Liver Ireland Eligible Policyholders will be asked to give up part of the Liver Fund Estate to cover the **"Scheme Contribution"**.

The Scheme Contribution is made up of:

- a Closed Fund Contribution (**"CFC"**) payment from the Liver Fund to the RL Open Fund, which covers the cost of the RL Open Fund's capital requirements in respect of the business consolidated from the Liver Fund;
- a Project Costs Allowance in respect of the Liver Fund's share of the costs of the Legacy Simplification Project; and
- a Premium Uplift Contribution from the Liver Fund to the RL Open Fund, to cover the value of anticipated uplifts to asset shares when future regular premiums are paid (**"Eligible Contractual Regular Premiums"**) as assessed at the Calculation Date of 31 March 2022.

The Scheme Contribution will be paid to the RL Open Fund in a form which is expected to minimise the asset trading required post payment to align with the asset mix of the RL Open Fund.

4.3.2 Closed Fund Contribution ("CFC")

The CFC will be paid from the Liver Fund Estate to the RL Open Fund to compensate the RL Open Fund for taking on the responsibility for meeting the capital requirements associated with the UK and Irish Schemes:

- in the case of the UK Scheme, for the Liver UK Policies (Eligible and Non-Eligible) invested in the Liver Fund, up to the Liver Sunset Must Limit (defined in the sub-section below); and
- in the case of the Irish Scheme, for the Liver Ireland Policies (Eligible and Non-Eligible) invested in the Liver Ireland Sub-Fund and, through the LRA, reinsured into the Liver Fund with the reinsured capital requirements of RLMIS being met by the Liver Fund, up to the Liver Sunset Must Limit.

For the sake of clarity, in relation to the retained capital requirements of RLI DAC, these are held in the Liver Ireland Sub-Fund to cover the capital requirements of the Liver Ireland Policies that are not

removed through the LRA. They have been funded since the inception of the LRA by the Liver Fund (and within that by the Liver Fund Estate) through the experience adjustment within the LRA. The Liver Ireland Sub-Fund capital requirements include the BEL Counterparty Default Adjustment in respect of the exposure to RLMIS and the risk margin, the Solvency Capital Requirement and the capital buffer required under the RLI DAC Capital Management Framework (all after allowing for the reinsurance to RLMIS).

To ensure a full distribution of the Liver Fund Estate to the Liver Ireland and Liver UK Eligible Policies, it is proposed under the Irish Scheme that the retained capital amount sitting within the Liver Ireland Sub-Fund will be repaid back into the Liver Fund Estate. Then, the corresponding amount post-Schemes will be provided by the RL Open Fund which will also, going forward, provide the necessary adjustments to retained capital requirements in the RLI DAC Liver Ireland Sub-Fund through the post-Schemes LRA. As outlined further below, it is proposed that the RL Open Fund will not charge for the capital support that it will provide to the Liver Ireland Sub-Fund through the LRA, as is the case currently in the context of the Liver Fund capital support provided to the Liver Ireland Sub-Fund through the LRA.

I understand that, in practice, all payments due under the Schemes will be treated as happening simultaneously and only net balances will be physically transferred. As the RLI DAC retained capital is c. €13.3m pre-Schemes and c.€15.2m post-Schemes and the CFC is c. £43.2m, the net payments are the CFC net of the pre-Schemes RLI DAC retained capital, payable from the Liver Fund to the RL Open Fund and the change in the RLI DAC retained capital payable from RLMIS (via the RL Open Fund) to RLI DAC. Consequently, there will be a physical payment from RLMIS to RLI DAC but no physical payment from RLI DAC to RLMIS is required and there is no point at which RLI DAC will be without its required capital.

The RL Open Fund will allow for the cost of capital charge for the support outlined above (except where specified) through the CFC.

4.3.2.1 Required Return on Capital

Post both Schemes' implementation, as the RL Open Fund of RLMIS will need to fund the capital requirements associated with the direct and reinsured liabilities moving from the Liver Fund to the RL Open Fund, it will require a rate of return on the capital being tied-up (the **"Required Return on Capital"**).

RLMIS have used a Required Return on Capital of 9% gross per annum in excess of the UK Solvency II prevailing GBP risk-free curve as at the Calculation Date. In order to establish an appropriate rate on an arms' length basis, a number of factors were considered by RLMIS:

- RLMIS's target return for external ventures which has, amongst other factors, been informed by past experience of the return sought by other firms in similar conditions;

- rates applied on precedent schemes of arrangement e.g. Sun Life of Canada's 2017 scheme of arrangement (11% p.a.)¹²; and
- rates underlying recent bulk annuity deals that RLMIS have acquired;
- rates based on market comparisons.

4.3.2.2 **Liver Sunset Must Limit**

Clause 30 of the IoT deals with the provisions for the cession of the Liver Fund within RLMIS. In particular, it specifies that:

- if the aggregate value of the asset shares within the Liver Fund falls below £296m indexed with RPI annually from 31 December 2018 ("**Liver Sunset May Limit**"), it may cease to maintain the Liver Fund separate from its other funds and, if it does, it must allocate the assets and liabilities of the Liver Fund to the RL Open Fund;
- if the aggregate value of the asset shares within the Liver Fund falls below £118m indexed with RPI annually from 31 December 2018 ("**Liver Sunset Must Limit**"), it must cease to maintain the Liver Fund separate from its other funds and it must allocate the assets and liabilities of the Liver Fund to the RL Open Fund.

The Liver Fund's capital requirements (in respect of its direct liabilities and the retained and reinsured liabilities of RLI DAC through the LRA) are currently notionally met by the Liver Fund Estate, which does not charge for the capital support provided. To the extent capital support was at any stage required from the RL Open Fund, the IoT provides for a charge for same to be deducted from the Liver Fund and passed to the RL Open Fund.

At the Liver Sunset Must Limit, in accordance with the IoT, the RL Open Fund would have to accept responsibility (without charging) for the capital requirements of the Liver Fund. The same is true at the Liver Sunset May Limit but, as this would cost RLMIS a significant amount, the assumption is that it would not choose to do this.

Consequently, the proposal under the Schemes is that the Required Return on Capital be charged up to the estimated Liver Sunset Must Limit (i.e. the point at which RLMIS estimates the Liver Sunset Must Limit will be reached) but not thereafter.

4.3.2.3 **Calculation of the CFC**

The net balance sheet strain ("**NBSS**") is defined as the net reduction in excess capital to the RL Open Fund that results from taking on the Liver Fund (direct and reinsured liabilities) plus the Liver Ireland Sub-Fund (retained liabilities that are financed through the LRA).

¹² A scheme of arrangement between Sun Life Assurance Company of Canada (UK) Limited and their policyholders in the SLFC Assurance UK With-Profits Fund under which policies in that fund were converted from with-profits to non-profit with guaranteed future benefits. The scheme was implemented on 1 April 2017. Under this scheme of arrangement, a gross rate of 11% pa was used when risk-free rates were of the order of 2% pa.

The CFC is calculated by, at each point in time over the run-off period up to the Liver Sunset Must Limit, multiplying the NBSS by the Required Return on Capital rate and discounting the result at the UK Solvency II GBP risk-free rate as at the Calculation Date. The discount rate used is the risk-free curve specified by UK Solvency II regulations (without the Volatility Adjustment but allowing for a credit risk adjustment) and which RLMIS uses to calculate its risk margin for the purposes of UK Solvency II reporting.

The NBSS calculation uses RLMIS's internal model ("**IM**") to determine its capital requirements. In contrast, RLI DAC does not have permission to use an IM and, as such, is required to calculate its capital requirements under the EU Solvency II Standard Formula ("**SF**"). Further, RLMIS has permission to use the Volatility Adjustment ("**VA**") on the liabilities that are approved for the VA to be applied, and also to use the Transitional Measures on Technical Provisions ("**TMTP**") where appropriate, whereas RLI DAC does not.

If the Schemes are successful, the Liver Fund business (direct and reinsured) will be held in perpetuity (while the LRA is in-force) within the RL Open Fund in RLMIS. Therefore, it is proposed that the NBSS should allow for the UK specific reserving and capital requirements that exist and not those that could apply if the LRA was terminated and, therefore, the business was recaptured by RLI DAC. Consequently, the calculation of the NBSS uses RLMIS's internal model, volatility adjustment and TMTP.

The NBSS comprises the following elements:

- The Liver Fund SCR (excluding non-pension market risk and some aspects of counterparty default, net of the value of management actions which apply in that fund); plus
- The target Capital Buffer under RLMIS's internal capital management framework; plus
- The Liver Fund Risk Margin (less any TMTP); less
- The Liver Fund business's share of diversification benefit (shared 50% each with the RL Open Fund); less
- The CFC itself (the inclusion of the CFC in the NBSS creates some circularity in the calculation needing an iterative approach) and is subject to an overall floor of zero.

Each of these is described further below.

4.3.2.3.1 Liver Fund SCR

The SCR will be calculated using RLMIS's UK Solvency II basis (i.e. IM with VA and TMTP). However, some elements of the SCR will be excluded because it is either unnecessary or inappropriate for the RLMIS RL Open Fund to charge for taking the responsibility for these elements of the capital requirements:

- **Non-pension scheme market risk**

Non-pension scheme market risk is proposed to be **excluded** as the RL Open Fund is receiving assets equal to the BEL, which is calculated on a market consistent basis and includes the cost of the guarantees. The assets moving to the RL Open Fund in respect of these cost of guarantees should, in theory, be sufficient to obtain market hedges which could be used to remove / minimise the market risk from the business.

- **Pension scheme market risk**

The Liver Fund has the liabilities for any losses under the former defined benefit Staff Pension Schemes, one each for the former UK and Ireland employees of Royal Liver Assurance. As the Pension Scheme valuation does not include market consistent liabilities, the argument for ignoring market risk within the NBSS does not hold. Therefore, pension scheme market risk is proposed to **be included** in the calculation of the SCR for the NBSS.

As any surplus in the pension scheme is not expected to be recovered by RLMIS, the pension scheme surplus under all SCR stresses is zeroised but pension scheme deficits (to the extent there are any) under the SCR stresses are recognised in full as RLMIS would be expected to provide support in these scenarios. Both of the defined benefit Staff Pension Schemes are closed to future accrual and are well capitalized, with no expectation of being required to make further employer contributions to either Scheme. The surplus figures in both funds are comfortably more than the cost of providing discretionary increases (of broadly CPI) in perpetuity. In addition, RLMIS approval is required for any discretionary increases which significantly limits the risk of future contributions being required. RLMIS and the Pension Trustees of the Defined Benefit Staff Pension Schemes have no expectation of future pension contributions being required and, consequently, **no allowance will be made** in the NBSS for any future pension contributions.

- **RLI DAC's counterparty default exposure to RLMIS**

As the Liver Ireland Sub-Fund is reinsured to RLMIS under a 100% quota share arrangement, the only risks that remain in the Liver Ireland Sub-Fund are in respect of Counterparty Default in respect of RLMIS, and Operational risk. These are calculated on the EU Solvency II Standard Formula basis, and as such the Operational Risk itself is broadly limited to be a function of the Counterparty Default risk. Under the terms of the LRA, the Liver Fund provides the capital associated with these risks plus a buffer to RLI DAC. Following the Schemes, the RL Open Fund will provide this capital.

Including this capital in the calculation of the NBSS would result in RLMIS charging the Liver Fund for the risk of itself becoming insolvent, in respect of the Liver Ireland Sub-Fund liabilities only. This would not be consistent with the charges applied to other consolidating funds under the Legacy Simplification Project. Therefore, the RLI DAC capital requirements in respect of counterparty default risk and operational risk are proposed to be **excluded** from the calculation of the NBSS.

The counterparty default SCR in respect of Liver Fund outward reinsurance arrangements is included in the calculation of the NBSS.

4.3.2.3.2 Target Capital Buffer

The Target Capital Buffer is a 1-in-20-year additional capital amount of capital above the Internal SCR and is calculated based on the RLMIS' Capital Management Framework.

4.3.2.3.3 Liver Fund Risk Margin

The Liver Fund direct and reinsured liabilities' Risk Margin (per UK Solvency II) will be calculated based on the projected non-hedgeable SCR at each required point in time excluding the Staff Pension Scheme SCR. The projection period is between the Calculation Date and the Liver Must Sunset Limit. There is no requirement to hold a risk margin against pension liabilities so this is excluded from the calculation.

The cost of capital and discount rate used will be those RLMIS uses to calculate its Risk Margin for the purposes of UK Solvency II reporting.

4.3.2.3.4 Diversification Benefit

The RL Open Fund is a significantly larger fund than the Liver Fund and is exposed to a wider and more diverse range of risks. The Consolidation will therefore result in the generation of additional diversification benefits which, post Liver Fund Consolidation, will be reflected in the capital requirements of the RL Open Fund. It is proposed that the diversification benefits generated through consolidation of the Liver Fund into the RL Open Fund will be shared 50:50 between the RL Open Fund and the Liver Fund.

The sharing of the benefit is achieved through the element in the calculation of the NBSS entitled '*the Liver Fund's share of diversification benefit*' (see above), this being 50% of the additional diversification benefit arising in the RL Open Fund's capital requirements post Liver Fund Consolidation relative to the capital requirements arising pre Liver Fund Consolidation, measured at each point in time over the run-off period.

4.3.3 Project Costs Allowance

The RLMIS Legacy Simplification Project covers a number of in-scope funds, including the Liver Fund. The Legacy Simplification Project incurs costs. These costs include but are not limited to the costs of internal project resource, external fees paid to external advisors and to the Independent Experts. Some of these costs have already been incurred (for example, the costs of implementing the fund consolidations in Wave 1 and Wave 2 of the project) and are therefore known, whereas other costs are expected to be incurred in the future.

As at the "**Project Costs Calculation Date**" (the date at which the overall project costs associated with all the consolidations under the Legacy Simplification Project were determined), RLMIS has estimated the cost of implementing the consolidations under the Legacy Simplification Project to be

£38.1m. This includes all costs incurred up to that date, and all projected future costs. This estimate was calculated based on RLMIS's previous recent experience of undertaking schemes of arrangement and Part VII transfers. It has also considered the cost synergies that RLMIS expects to achieve from implementing the Legacy Simplification Project in a short timeframe, utilising largely the same internal and external resources versus doing each consolidation in isolation. Project costs were determined on a best estimate basis plus an indemnity loading on certain expenses which is covered within the next sub-section.

RLMIS has proposed that, under the Legacy Simplification Project, the project costs be charged wholly to the Consolidating Funds. In the context of the Irish and UK Schemes, it is proposed that project costs will be charged to the Liver Fund Estate thus impacting the estate entitlements of the Liver Ireland and Liver UK Eligible Policyholders.

As one of the aims of the Legacy Simplification Project was to ensure that each Consolidating Fund benefits in broadly the same measure, RLMIS proposed that the project costs associated with the overall Legacy Simplification Project which involves the consolidation of all the Consolidating Funds, be used as the starting basis for the allocation of costs to each Consolidating Fund, rather than allow the timing of each specific scheme to influence the cost allocated. The rationale for this was that if each Consolidating Fund within the Legacy Simplification Project was charged the costs incurred in relation to that fund's consolidation directly, this would result in the funds that are consolidated earlier being charged more than the funds that are consolidated later due to the synergies and efficiencies that will have developed over time.

Within the Legacy Simplification Project to date, the total project costs determined at the Project Costs Calculation Date (i.e. 31 March 2021) were allocated across the Consolidating Funds covered by the Legacy Simplification Project on a pro-rata basis in proportion to the projected expected value of the total eligible benefits plus the estate value in each Consolidating Fund at their respective expected calculation dates, but as determined at the Project Costs Calculation Date. In other words, the project costs allocated to the Liver Fund Consolidation were fixed in value when the first consolidations occurred in 2021. RLMIS' rationale for the pro-rata basis chosen of eligible benefits plus the estate value (which will be used to uplift eligible benefits) was that it deemed it an appropriate measure of the benefits gained by the relevant business from the Legacy Simplification Project and, therefore, an appropriate metric by which to allocate estimated project costs between Consolidating Funds.

The Project Costs Allowance proposed to be paid by the Liver Fund Estate under the Schemes is £7.2m, including an indemnity loading of £0.3m.

4.3.3.1 Indemnity Loading

As the Legacy Simplification Project has not yet completed and the projected costs expected to be incurred are based on estimates, there is a risk that the actual project costs will be higher than the estimated costs allocated to the Consolidating Funds.

RLMIS has proposed that the RL Open Fund will absorb any such cost overrun in return for the inclusion of an explicit indemnity loading in the amount charged to each Consolidating Fund.

The rationale for applying an indemnity loading is as follows:

- It provides certainty to the holders of Eligible Policies either directly invested or with liabilities reinsured into the Consolidating Fund, over the amount they will be charged.
- It avoids having to leave any scheme of arrangement 'open' for over a year after the implementation date of the scheme of arrangement in order to effect any true-up at the completion of the Legacy Simplification Project.
- Applying any 'true-up' would not be straightforward as the relevant estate of the Consolidating Fund would no longer exist and true-ups would, therefore, have to be applied directly to asset shares.
- Any policies that exit in the interim would not be required to bear the true-up, raising fairness concerns.

For the Liver Fund, it is proposed that the Project Costs Allowance includes an indemnity margin of 15% on best estimate future variable costs which was set at the point that the Project Costs of the Legacy Simplification Project were fixed in 2021. RLMIS has specified that the 15% was set to align with market rates for similar transactions. No indemnity margin was included in the Projects Cost Allowance for any known, fixed costs at that point.

4.3.4 Premium Uplift Contribution

The Liver Fund Estate (less the Scheme Contribution) will be used to uplift the Eligible Benefits of the Liver Ireland and Liver UK Eligible Policies.

The Uplift, described in **section 4.4.2**, will also be applied to the Eligible Policies, excluding CB policies, in respect of any future contractual regular premiums ("**Eligible contractual regular premiums**") that are paid into these policies as and when these premiums are paid. This reflects the expectation of the holders of any such policies that their eligible contractual regular premiums would share in the distribution of the Liver Fund Estate in the absence of the UK and Irish Schemes. The CB policies, while holding a right to share in the distribution of the Liver Fund Estate, accrue no additional rights through their future premiums because the claim amounts on CB policies already implicitly allow for all eligible contractual regular premiums being paid.

As described further in **section 4.4.4**, future premiums eligible for the Uplift will be limited to regular premiums only and limited to the level of annual premium being paid as at 31 December 2021, allowing for any future contractual increases applicable to such annual premiums as at that date. For the avoidance of doubt, the UK and Irish Schemes will not affect the premium amounts that any policyholder pays.

In order to allow for the application of the Uplift in respect of eligible contractual regular premiums after the Implementation Date, a “**Premium Uplift Contribution**” will be paid from the Liver Fund Estate to the RL Open Fund on the Implementation Date as part of the Scheme Contribution.

The Premium Uplift Contribution will be held as a provision by the RL Open Fund and has been calculated, as at the Calculation Date, as the best estimate present value of the uplifts that will be made to the Eligible Benefits of the Liver Ireland Eligible Policies and Liver UK Eligible Policies (excluding CB policies) under the Schemes in respect of any eligible contractual regular premiums paid into these policies after the Implementation Date (limited as described in **section 4.4.4** and assuming the Schemes are implemented). The Premium Uplift Contribution is based on best estimate assumptions and allows for decrements that would reduce the expected eligible contractual regular premiums paid by the relevant policyholders.

The Premium Uplift Contribution proposed to be paid out of the Liver Fund Estate to the RL Open Fund under the Irish and UK Schemes is £3.3m at 31 March 2022. I understand that this figure includes relevant Eligible Policies and HITM policies (i.e. to the extent that they have contractual regular premiums).

4.3.5 Exceptional Costs

Historically, any exceptional costs allocated to the Liver Fund would have been fully charged to the Liver Fund Estate (directly or indirectly through the LRA) within the boundaries set out by the IoT and the RLI DAC Transfer Scheme. The deduction of the exceptional costs from the Liver Fund Estate reduces the amount in the Liver Fund Estate that is available to fund bonuses applied to the policies directly invested and the reinsurance liabilities of the Liver Fund.

Following the implementation of the Irish and UK Schemes, there will no longer be a Liver Fund Estate to which exceptional costs can be charged as the Eligible Benefits of the Included Policies will have been uplifted due to the distribution of the Liver Fund Estate (less certain deductions outlined earlier). It is, therefore, proposed under the Irish and UK Schemes that RLI DAC and RLMIS respectively, recover such exceptional costs by charging them to the asset shares (with-profits) or declared contingent bonuses of Liver Ireland and Liver UK Policies¹³ over the full run-off period of these policies.

For the sake of clarity, exceptional costs will not be charged to the asset shares or claim amounts / maturity values of Liver Ireland and Liver UK Non-Eligible Policies as these policies would not have been entitled to share in the Liver Fund Estate in the absence of the Schemes.

¹³ After the implementation of the Schemes and the Liver Fund Consolidation, exceptional expenses will be charged to the asset shares of all with-profits policies including HITM policies but excluding L&M policies (as they are not eligible for a share of the Liver Fund Estate and therefore will not receive an Uplift) and the declared contingent bonuses of CB policies.

4.4 Distribution of Estate

4.4.1 Proposal for Distribution of Liver Fund Estate

The entitlement of the Liver Ireland Policyholders to participate in distributions of the Liver Fund Estate was preserved in the RLI DAC Transfer Scheme and through the LRA.

In the normal course of events, distributions of the Liver Fund Estate to entitled policyholders occurs when, in accordance with Schedule 2 of the IoT, the realistic value of assets exceeds the realistic value of liabilities plus UK Solvency II capital requirements plus a capital buffer equivalent to a 1-in-20 chance of such capital requirements being exceeded over the next 12 months. When this occurs, a distribution is made to policyholders (and reinsured liabilities) through asset share enhancements to with-profits policies (excluding L&M policies) and increases to the declared contingent bonuses (calculated based on total claim amounts) of CB policies, both direct and reinsured.

In terms of enabling the distribution of the Liver Fund Estate in the short term, the proposed Irish and UK Schemes provide the mechanism for its distribution (less the Scheme Contribution), to all Included Policies (direct or reinsured) in the Liver Fund, through an Uplift to Eligible Benefits described in **section 4.4.2** as at the proposed Implementation Date of 31 December 2022 and without triggering the termination of the LRA (which subject to some amendments would continue in place). Without the Schemes, it would be necessary to either wait for the Liver Sunset May or Must Limits to be reached or for there to be a termination of the LRA (which was contemplated within the RLI DAC Transfer Scheme) for the Liver Fund Estate to be split between the Liver Ireland and Liver UK Eligible Policyholders.

The Legacy Simplification Project considers that distributing the Liver Fund Estate in the shorter term, rather than waiting until the Liver Sunset Must Limit is reached (which RLMIS estimates will occur in 2041), or distributing at any point in the interim period by way of a scheme of arrangement, the triggering of the Liver Sunset May Limit or other mechanism in the future, would have the following benefits to those policyholders who are entitled to a share of the Liver Fund Estate:

- (a) accelerating the distribution of the Liver Fund Estate by way of uplifts to the Eligible Benefits of Included policies would smooth the potential tontine and would ultimately lead to more equitable distributions of the Liver Fund Estate; and
- (b) generating significant capital diversification benefits which can be shared with the holders of policies directly invested in, or reinsured to, the Liver Fund through an increase to the Uplift.

4.4.2 Mechanism for Distribution of the Liver Fund Estate

Under the Schemes, once the Scheme Contribution has been paid from the Liver Fund Estate to the RL Open Fund, the remaining Liver Fund Estate will be used to uplift the Eligible Benefits of the Liver Ireland and Liver UK Included Policies.

The Uplift will be applied to the Eligible Benefits of each Liver Ireland and Liver UK Included Policy on the Implementation Date. The Uplift is proposed to be a uniform percentage uplift applied to

eligible with-profits asset shares or to eligible non-profit CB claim amounts / maturity values, and will not vary by policy type.

The Uplift that will be applied to the Liver Ireland and Liver UK Included Policies is determined as (A) divided by (B), where:

(A) is the value of the Liver Fund Estate, less the Scheme Contribution; and

(B) is the value of the Eligible Benefits (including eligible contractual regular premiums) of the Liver Ireland and Liver UK Eligible Policies,

and (A) and (B) are both calculated as at the Calculation Date of 31 March 2022 and projected to the expected Implementation Date of 31 December 2022.

The assumptions used to determine the financial position of the Liver Fund (immediately after the Liver Ireland Sub-Fund has transferred its capital support requirements back to the Liver Fund Estate) for the purposes of determining the value of the Liver Fund Estate and the Eligible Benefits of Liver Ireland and Liver UK Eligible Policies as at the expected Implementation Date of the Schemes but based on projections from the Calculation Date, will be unchanged from those used for RLMIS's audited UK Solvency II balance sheet as at 31 December 2021. These assumptions reflect RLMIS's best estimate view of future outcomes.

Based on the methodology outlined above, the Uplift has been calculated as 23.1% (to the nearest 0.1%¹⁴). It should be noted that the in scope with-profits and contingent bonus policies will also receive an uplift of 3.6% to asset shares and contingent bonus benefits in respect of the excess surplus in the Liver Fund at 31 December 2022. The distribution of the excess surplus is a requirement under the CPFM defined in Schedule 2 of the IoT and will be applied at 1 July 2022. The total value of this distribution is determined by the IoT as the realistic value of assets less the realistic value of liabilities less the SCR less a buffer equal to the amount required to withstand an adverse event of up to 1-in-20 probability over the next year and still cover the SCR.

The appetite mailing (outlined in **section 4.1.3**) sent to policyholders in early 2022 stated an estimated uplift of 25% under the Scheme. This did not anticipate the distribution mandated at year-end 2021 by the CPFM.

Summary of the Calculation of the Distributable Estate

£m	Liver
Available capital before adjustments	373
Less Occupational Pension Scheme Surplus	140
Total Distributable Estate Value	233

Table 3:Distributable Estate

¹⁴ The Uplift will be calculated to a high degree of accuracy, targeting a full depletion of the remaining Liver Fund Estate (net Scheme Contribution) on completion of the Liver Fund Consolidation.

The table below sets out the Uplift as at 31 March 2022. As the Liver Fund Estate is distributable to both UK and ROI Eligible Policyholders, the numbers below allow for Liver policies owned by both sets of policyholders.

Eligible Benefits Uplift as at 31 March 2022

£m	Liver
Distributable Estate Value	233
Plus Release in Future Policy-related Liabilities (FPRL) from Uplift ⁽¹⁾	26
Less CFC	42
Less Insurance Risk Premium on CFC ⁽²⁾	1
Less Project Costs (net of tax) ⁽³⁾	8
Less Premium Uplift Contribution	3
Available for distribution (A)	204
Asset Share Value	782
Plus Value of Uplift-eligible CB policy benefits ⁽⁴⁾	62
Less London & Manchester policy asset shares ⁽⁵⁾	35
Eligible Benefits Value for Distribution (B)	808
Uplift (C = A/B)	25.3%

Table 4: Uplift as at 31 March 2022

- (1) FPRL represent the value of potential payments to with-profits policyholders above asset share. Through the Liver Fund Consolidation the asset shares of Liver with-profits policies will be uplifted. The FPRL will therefore reduce, reflecting the lower likelihood of policy guarantees exceeding the value of asset shares on exit.
- (2) This reflects the opportunity cost incurred by the RL Open Fund during the Uplift Guarantee period, over which it will be required to bear the Liver Fund and Liver Ireland Sub-Fund non-market risk capital requirements. Further detail on this cost was provided in section 4.3.2. **Error! Reference source not found.**
- (3) This amount is comprised of the Project Costs Allowance payable by the Liver Fund (as described in section 4.3.3) and other costs pertaining to the wider Legacy Simplification Project which are allocated to the Liver Fund outside of the two Schemes but are expected to be incurred before the Implementation Date.
- (4) As explained in section 4.2.1.10, CB policies are non-profit but are eligible for distributions from the Liver Fund Estate
- (5) As explained in section 4.3, London & Manchester policies are ineligible for distributions from the Liver Fund Estate under the Scheme

The Uplift value shown in Table 4 is different from the Uplift of 23.1% (to the nearest 0.1%) that would be applied under the two Schemes and which has been determined by projecting the financial position of the Liver Fund to the expected Implementation Date, which will include allowance for the 3.6% uplift payable in respect of the excess surplus at 31 December 2021 as described earlier in this section. Table 5 below shows the projection:

Projected Uplift at 31 December 2022

Liver £m	Q1 22	YE21 Asset Share Enhancement	Q2-Q4 2022 Run off	Final Uplift
Assets (A) ⁽¹⁾	1,848		-61	1,787
Liabilities (B) ⁽²⁾	1,588	+29	-64	1,553
Scheme Contribution (C) ⁽³⁾	55			55
Distributable Surplus (D = A-B-C)	204	-29	4	179
Eligible Benefits Value for Distribution (E)	808	+29	-62	775
Uplift (F= D/E)	25.3%			23.1%

Table 5: Projected Uplift at 31 December 2022

- (1) Net of Pension Scheme surplus.
- (2) Net of FPRL release.
- (3) CFC, including insurance risk premium, Project Costs and Premium Uplift Contribution.

4.4.3 Uplift Guarantee

The Uplift, calculated as at the Calculation Date, will be based on a projection at that point of the value expected to apply at the Implementation Date. There is a risk that market movements over the interim period result in the actual supportable Uplift at the Implementation Date being different to that originally quoted which, in principle, would necessitate a recalculation of the Uplift at that point.

A recalculation, however, would create uncertainty for the Liver Ireland and Liver UK Eligible Policyholders who are voting on the Irish and UK Schemes respectively. Therefore, to address this issue, the Uplift has instead been guaranteed once calculated at the Calculation Date and will not be subject to any subsequent recalculation. The CFC includes a charge in respect of the non-market risks that the RL Open Fund is taking on in providing this guarantee. Market risks are assumed to be hedgeable and, therefore, no charge will be made in respect of these. The charge for the provision of the guarantee is £1.3m of the £43.2m CFC.

4.4.4 Carpetbagging

Certain pension policies and pension reinsured liabilities from RLI DAC within the Liver Fund include within their terms and conditions the ability to increase existing with-profits' premiums and pay new with-profits' premiums. Switches from unit-linked to UWP are also permitted for certain pension policies and certain life policies. Within the Eligible Policies, these features apply to with-profits policies only, the CB policies are all fixed premium contracts.

Since the Irish Scheme was made public through the Appetite Mailing in early 2022, there is a risk that policyholders could 'artificially' pay high levels of additional premiums, switch to UWP to exploit the planned Liver Fund Consolidation, i.e. purely to benefit from the planned Uplift over and above the level of Liver Fund Estate distribution due, through their existing asset shares and expected future with-profits' premiums or through fund switches. This course of action is often referred to as "**carpetbagging**".

To address this risk, the Uplift in respect of future premiums for with-profits' policies will be limited to the level of regular premiums set (or contractually committed in the case of inflation/index-linked premiums) prior to a certain cut-off date. It is proposed that this cut-off date is set at 31 December 2021. Any lump sum premiums (including switches or transfers in) paid or regular premium increases started after that date will not receive the Uplift, when they are credited to asset shares.

The Schemes include an anti-carpetbagging clause which effects the cut-off date and restrictions outlined above.

4.4.5 Deferral of retirement

Liver Ireland Sub-Fund pension policies have the option to change their scheduled retirement date. There is a risk that policyholders might defer their scheduled retirement date purely to benefit from the planned Uplift. However, as deferrals in the Liver Ireland Sub-Fund are passive (i.e. the policyholder does not have to inform RLI DAC in advance), there is no way to distinguish between opportunistic deferrals and policyholders deferring their retirement date because it is the appropriate choice for their retirement plans.

Policies which would be otherwise Eligible Policies but are due to retire prior to the Implementation Date and which normally have the option to defer this date, will be included in the Appetite Mailing. This may trigger some additional deferrals by policyholders looking to benefit from the Offer but this risk is accepted in order to ensure that business-as-usual deferrals are not disadvantaged.

4.5 Reinsurance Arrangements

4.5.1 Overview

As described in **section 3.5.1**, a reinsurance arrangement was effected between RLI DAC and RLMIS at the time of the RLI DAC Transfer Scheme such that the liabilities of the RLI DAC Liver Ireland Sub-Fund were reinsured to RLMIS through a 100% quota share reinsurance arrangement, the LRA. Under the LRA, the retained capital requirements of the Liver Ireland Sub-Fund were also financed by the Liver Fund (and within that, the Liver Fund Estate).

Under the proposed Irish Scheme, the Liver Ireland Sub-Fund will be retained. The Liver Ireland Business will also continue to be fully reinsured to RLMIS. However, the LRA will be amended (if required) to reflect the fact that the assets of the RL Open Fund will be used to meet the reinsurance liabilities under the LRA, including the retained capital requirements determined on the basis set out in the LRA, rather than the Liver Fund.

After the implementation of the Schemes, the RL Open Fund of RLMIS (and within that the RL Open Fund Estate) will support the capital requirements of the RLI DAC Liver Ireland Sub-Fund through the experience adjustment mechanism within the LRA.

4.5.2 Impact on RLI DAC's retained capital requirements

Under the LRA, the Liver Ireland Sub-Fund within RLI DAC must have sufficient assets to cover the BEL Counterparty Default Adjustment, the risk margin, the SCR requirements and the capital buffer (all after allowing for the reinsurance to the Liver Fund within RLMIS), all determined using EU Solvency II SF and RLI DAC's Capital Management Framework.

The Counterparty Default Adjustment is an adjustment that is applied to the BEL to take account of the expected losses due to the default of the counterparty (i.e. RLMIS) in RLI DAC after the reinsurance was effected. It is calculated as follows:

$$(Reinsurance Premiums - Claim recoveries) * Probability of Default * Recovery \% \\ \text{at each future time point.}$$

Following the Liver Fund Consolidation and implementation of the Schemes, as outlined above, RLMIS will continue to support the capital requirements of the Liver Ireland Sub-Fund in accordance with the LRA but through the RL Open Fund (rather than the Liver Fund). RLMIS is not proposing to charge RLI DAC for the cost of providing these capital requirements and, in addition, it does not propose to charge the Liver Fund Estate for taking on their provision due to the fact that RLMIS is itself the counterparty.

4.5.3 Impact on the LRA

Under the current RLI DAC Transfer Scheme and the existing LRA, the LRA cannot be terminated with a termination payment made under the LRA until such time as a Liver Fund split has been performed which would split the Liver Fund (including the Liver Fund Estate) between the Liver UK and Liver Ireland Policies.

As the Schemes propose that the Liver Fund Estate (including the realistic value of assets in excess of the realistic value of liabilities within the Liver Ireland Sub-Fund which will be transferred to the Liver Fund in RLMIS) will be distributed in full at the point of consolidation, it means that the Liver Fund Estate post consolidation, will have been distributed in full and will have zero value. Thus, as defined in Clause 31 of the RLI DAC Transfer Scheme, RLI DAC's proportion of the excess of the Liver Fund and Liver Ireland Sub-Fund's realistic value of assets over its realistic value of liabilities (i.e. the Liver Fund Estate), will be zero.

It is proposed that the reinsurance arrangement between RLMIS and RLI DAC will continue, subject to an amendment and restatement agreement. The main changes to the LRA under the amendment and restatement agreement (i.e. as a consequence of the Schemes or to enable them) are expected to be:

- to remove reference(s) to the Liver Fund Estate given it will have been distributed;
- to amend reference(s) to the Liver Fund to reflect that post-implementation of the Schemes and the consequent actions (e.g. the triggering of the Sunset clause and the consolidation of the Funds), this will be the RL Open Fund along with any relevant updates to associated documents and frameworks as necessary;
- to make it clear that the RL Open Fund will provide the necessary funding for RLI DAC's Experience Adjustment (which is RLI DAC's measure of its retained capital requirements in respect of the Liver Ireland Policies, including Eligible and Non-Eligible policies);
- to make it clear that both parties waive any termination right that is triggered by the Schemes themselves (e.g. RLMIS ceasing to operate the Liver Fund as a separate fund) without waiving any other termination rights;
- to amend the LRA termination terms to reflect the calculation of the RLI DAC proportion of the Scheme Contribution which would need to be rebated by RLMIS to RLI DAC were the LRA to be terminated.

4.5.4 Reinsurance termination and the rebate of the Scheme Contribution

As described in **section 4.3.1**, the Scheme Contribution that will be paid from the Liver Fund Estate to the RL Open Fund will comprise the Closed Fund Contribution, the Premium Uplift Contribution and the Project Costs Allowance. In the event of the termination of the LRA, the capital requirements for the reinsured business and the responsibility for enhancing asset shares to reflect future contractual premium uplifts will become the responsibility of RLI DAC rather than the RL Open Fund. Consequently, a rebate of the Closed Fund Contribution and Premium Uplift Contribution will be made. The Project Costs Allowance will not be rebated as it is expected to have been incurred by the Schemes' Implementation Dates.

Under the Schemes, the Closed Fund Contribution which is designed to compensate the RL Open Fund for taking on the responsibility for meeting RLMIS' capital requirements associated with the Schemes for the policies directly invested in, or reinsured to, the Liver Fund up to the Liver Sunset Must Limit, will be determined on the basis of RLMIS' view of capital requirements and cost of capital and not RLI DAC's. However, in the event of a termination of the LRA, RLI DAC will have a different view of capital requirements (lower diversification benefits in RLI DAC versus RLMIS; RLI DAC subject to an EU Solvency II Standard Formula basis rather than an internal model, the application of VA and TMTPs in RLMIS and not in RLI DAC) and cost of capital. Thus, it is proposed that RLI DAC would propose its view of capital requirements and cost of capital and that the parties would agree upon a basis for calculation at the date of termination of the LRA.

The amended LRA will also provide for RLI DAC's due proportion of the Premium Uplift Contribution to be paid to cover anticipated uplifts to with-profit asset shares when future Eligible Contractual Regular Premiums are paid, on a basis agreed between RLI DAC and RLMIS at the date of termination of the LRA.

The amended LRA will not provide for a rebate of the Project Costs Allowance as all costs will have been incurred by the Implementation Date and paid by the relevant RLMIS fund or Fund Estate (including the Liver Fund Estate) under the Legacy Simplification Project.

The amended LRA will also provide as it does currently for a rebate of the best estimate reinsured liabilities on a basis agreed between the parties, RLI DAC and RLMIS. This includes an agreed basis at the date of termination of the LRA for the rebate of the Closed Fund Contribution and an agreed basis for the rebate of the Premium Uplift Contribution.

4.6 Impact on Assets backing Liabilities

As a result of the Liver Fund Consolidation, assets backing the UK direct and Irish reinsured business being moved to the RL Open Fund from the Liver Fund will be pooled with the assets backing the UK direct and German reinsured business within the RL Open Fund.

This pooling will not significantly change the asset mix backing the existing business liabilities in the Liver Fund.

In particular, the Eligible Benefits of the with-profits business invested in the Liver Fund were backed by assets with an Equity Backing Ratio (“**EBR**”) of around 68% at 31 December 2021. The EBR of the with-profits business invested in the RL Open Fund is currently also around 68% and, therefore, it is not expected that, in respect of EBRs, the pooling of assets will significantly affect the assets backing the consolidated business invested in the RL Open Fund.

There are not distinct EBRs for the Liver Ireland and Liver UK liabilities within the fund as they are backed by the same pool of assets.

The Liver Fund utilises a series of hedges to manage its capital position against market risks. Through the Liver Fund Consolidation, these hedges will move to the RL Open Fund and will be subject to ongoing review as part of the wider RL Open Fund hedging strategy.

The Liver Fund Consolidation will not affect the assets backing the non-profit business move from the Liver Fund to the RL Open Fund. The non-profit business will continue to be backed by mainly fixed-interest assets following the implementation of the Liver Fund Consolidation.

The rebalancing of assets backing the policies invested in the Liver Fund and RL Open Fund will take place after the Implementation Date. The Schemes themselves will not affect the terms and conditions of any of the assets invested in the RL Open Fund.

4.7 Impact on Capital Support

Following the Implementation of the Schemes, there would be no change to the capital support arrangements set out in the RLI DAC Transfer Scheme, under which the RLI DAC Open Fund would provide capital support to the Liver Ireland Sub-Fund should this be required. The capital support arrangements are set out in more detail below.

While the LRA is in place, in the event that RLMIS becomes insolvent or fails to meet its payment obligations under the LRA, the RLI DAC Transfer Scheme sets out the circumstances in which the RLI DAC Open Fund will provide capital support to the Liver Ireland Sub-Fund. The circumstances are as follows:

- If the Liver Ireland Sub-Fund has insufficient assets to cover its BEL plus SCR, then the RLI DAC Open Fund will hold sufficient assets to cover the deficit in the Liver Ireland Sub-Fund; or
- If the Liver Ireland Sub-Fund has insufficient assets to cover BEL, then the RLI DAC Open Fund will transfer assets to the Liver Ireland Sub-Fund sufficient to eliminate the deficit in the Liver Ireland Sub-Fund.

Equivalent capital support provisions are set out in the RLI DAC Transfer Scheme between the RLI DAC German Bond Sub-Fund and the RLI DAC Open Fund.

There will be no obligation to provide this capital support (to either the Liver Ireland Sub-Fund or the RLI DAC German Bond Sub-Fund) if the RLI DAC Board, having consulted with the RLI DAC HoAF, is of the opinion that the assets of the RLI DAC Open Fund are insufficient to meet the minimum regulatory requirements of the RLI DAC Open Fund.

4.8 Impact on Collateral Agreements

The Collateral Agreements associated with the LRA, and outlined in **section 3.5.4**, between RLMIS and RLI DAC will continue to be provided by RLMIS. As such, RLMIS will continue to ensure that the relevant Charged Accounts contain the relevant collateral amount for the reinsurance arrangement as per the terms of the Collateral Framework Agreement.

The Schemes will not directly impact the Collateral Agreements. However, at the request of RLI DAC, Collateral Agreements will be updated for immaterial changes e.g. some amendments will be made to the level of reductions to be applied to attributable collateral (“Collateral Haircuts”) in respect of collateral held in risky asset classes (broadly to better align with capital treatment under the EU Solvency II regulations applicable to RLI DAC).

4.9 Impact on RLI DAC Transfer Scheme

If the Schemes are implemented, the Liver Ireland Policyholders will remain in the Liver Ireland Sub-Fund of RLI DAC. Consequently, the majority of the RLI DAC Transfer Scheme remains unchanged and applicable. However, the RLI DAC Transfer Scheme includes a number of clauses in respect of the Liver Fund Estate and its future distribution. As the Schemes will result in the Liver Fund Estate being fully distributed, these clauses will no longer be relevant.

The RLI DAC Transfer Scheme will be amended to remove reference(s) to the Liver Fund Estate given it will have been distributed. Some administrative/hygiene changes will also be made as part of the update process but no other significant changes will be made to the RLI DAC Transfer Scheme.

I have reviewed the proposed changes to the RLI DAC Transfer Scheme and I am satisfied that the proposed changes are reasonable and do not have a material adverse impact on the RLI DAC policyholders.

4.10 Impact on future bonuses & distributions

4.10.1 With-profit bonuses

Currently, the Liver Fund Estate meets the costs of smoothing the with-profit bonus payouts in Liver Fund and, if the Schemes were to be implemented, these costs would instead be met by the RL Open Fund.

The implementation of the Schemes will not result in any change to the smoothing practices applied to with-profits policies, which are aligned with that set out in the Liver Ireland WPOP and the RLMIS PPFM (which supersedes the Royal Liver PPFM following the implementation of the Scheme). The exception to this is in the first year following the implementation of the Schemes. For the first year, the smoothing approach would be applied to the claim value before the addition of the asset share uplift. This approach is taken to avoid the distributions under the Schemes being reduced by the effects of smoothing due to the increase in asset shares following the application of the Uplift.

The implementation of the Schemes would not directly result in any changes to the process for setting annual or final bonuses for with-profits policies. However, bonuses would be set with reference to the Uplifted asset shares of the with-profits policies following the implementation of the Schemes.

4.10.2 Contingent bonuses

Following the implementation of the Schemes, the CB policies will not receive any future contingent bonuses as the Liver Fund Estate (less the Scheme Contribution) would have been fully distributed and the relevant uplift applied in full to these policies.

For clarity, as described in **section 4.3.4**, the Premium Uplift Contribution is not applicable and therefore is not paid in respect of CB policies (i.e. future premiums for CB policies are not included in the calculation of the Premium Uplift Calculation).

4.10.3 ProfitShare

ProfitShare is the mechanism that RLMIS uses to distribute part of its operating profit by means of discretionary enhancements to the asset shares and unit fund values of the policies that qualify for ProfitShare (primarily with-profits and unit-linked policies written by RLMIS into the RL Open Fund). ProfitShare is allocated at the sole discretion of the RLMIS Board.

RLMIS generally does not allocate ProfitShare to investments in its closed funds as these investments are generally not entitled to distributions of the RL Open Fund Estate.

RLMIS considers that the holders of the with-profits policies in the Liver Fund do not have any reasonable expectation of a distribution of ProfitShare as they benefit from distributions of the Liver Fund Estate and do not currently have the option to move their benefits into the RL Open Fund in order to start receiving ProfitShare. Furthermore, distributing ProfitShare to Liver Ireland and Liver UK Policyholders would dilute the level of ProfitShare received by the holders of existing with-profits' investments in the RL Open Fund. Based on these considerations, RLMIS does not currently expect to distribute ProfitShare to any Liver Ireland or Liver UK Policies after the Liver Fund Consolidation has been implemented.

4.11 Impact on Pension Schemes

As described in **section 3.3.1**, currently the two pension schemes (one Irish and one UK) benefit from two guarantees from RLMIS:

- An unconditional guarantee to cover contributions limited to the amount that is recoverable from the Liver Fund; and
- A conditional guarantee from the RL Open Fund which has no upper limit.

The two guarantees will be replaced by a single unconditional guarantee from the RL Open Fund. The pension fund risks will be allowed for in the RL Open Fund SCR but the Closed Fund

Contribution allows for the risks (albeit that the charge is small or zero due to the presence of projected surplus in the scheme as described in **section 4.3.2.3**).

4.12 Impact on IoT

A review was carried out, with the support of UK Counsel to determine which provisions would remain relevant following the proposed Liver Fund Consolidation. As a result, the IoT will be largely disbanded, although the key provisions that remain relevant post closure of the Liver Fund, as well as provisions regarding safeguarding the Liver Ireland policyholders on future expense levels will be retained in a modified and shortened “stub” IoT.

I am of the opinion that the latest version of proposed amendments to the IoT will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the IoT, on Liver Ireland policyholders.

I am satisfied that maintaining a “stub” IoT will not result in a material loss in policyholder protection.

4.13 Financial Implications

The table below summarises the expected impact on the solvency position of RLI DAC.

Cover ratio	Pre-Schemes	Post-Schemes	Difference
Reinsurance Asset	875.3	1,070.5	195.2
Other Assets	151.1	153.3	2.2
Total Assets	1026.5	1223.8	197.4
Best estimate liabilities	727.7	923.1	195.4
Risk Margin	37.4	37.5	0.1
Other liabilities	99.2	99.3	0.0
Total Liabilities	864.3	1,059.9	195.6
Basic Own Funds before adjustment	162.2	163.9	1.8
Standard Formula SCR	80.2	81.2	1.1
Adjustment for RFF restrictions	4.8	5.5	0.7
Basic Own Funds after adjustment	157.3	158.4	1.1
Basic own funds in excess of SCR	77.2	77.2	0.0
Surplus funds	199.5	201.4	1.9
Cover ratio	202.31%	201.81%	-0.51%
Regulatory Cover Ratio	196.27%	195.00%	-1.27%

Table 6: Financial position of RLI DAC

Table 6 above shows a small decrease in the overall SCR of RLI DAC due to the increase in the relative size of the Liver Ireland Sub-Fund as a proportion of RLI DAC and therefore its contribution to the overall SCR. The solvency ratios of the three underlying funds are unchanged as expected but, as the Liver Ireland Sub-Fund solvency ratio is lower than the total RLI DAC solvency ratio, the increase in size caused by the allocation of the Uplift results in a reduction in the total RLI DAC solvency ratio. Table 8 in section 6.1.1.1 shows that the solvency ratio of the Liver Ireland Sub-Fund is unchanged at 164%.

4.14 Governance

4.14.1 Internal Governance of the Schemes

The key design and key assumption considerations underpinning the Schemes have been discussed in detail and agreed with myself, the RLI DAC Head of Actuarial Function, the RLMIS With-Profits Actuary, the Legacy Simplification Project's Steering Group, the LSC and the With-Profits Committee.

The **WPC** has confirmed its unanimous support for the Scheme and considers the proposals fair for both the Liver and RL Open Fund Policyholders.

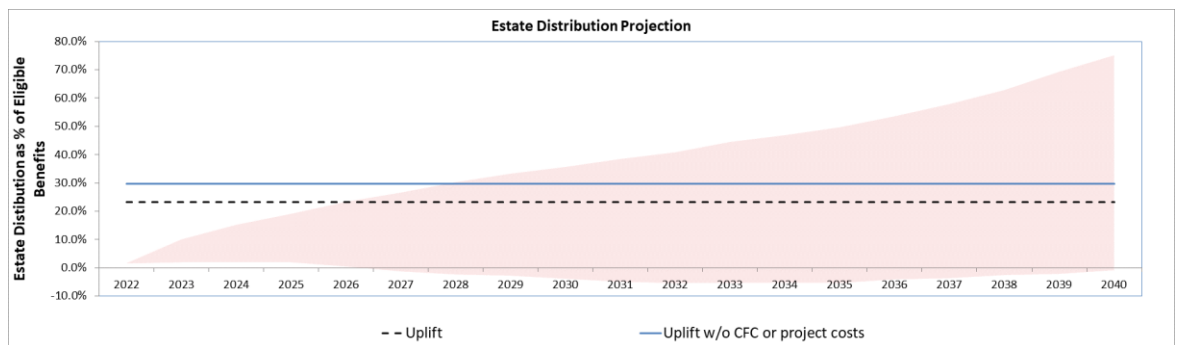
The **LSC** also supports the proposals but by a majority, rather than unanimously. The LSC is comprised of 3 independent members and 2 RLMIS staff members of which, 1 of the independent members of the Committee were not able to support the proposals as currently set out and 1 of the independent members is neither for or against the proposals. The reasons set out for this by the LSC were:

- The proposed Scheme Contribution and the underlying cost of capital for taking on the risks of the Liver business are felt to be too high;
- There appears to be no pressing need for the Liver Fund to be merged into the RL Open Fund for the foreseeable future;
- There is no clear tontine effect and the Sunset clause is designed to avoid the adverse outcomes associated with a tontine emerging in the future; and
- That the treatment of different generations of policyholder envisaged by the IoT was felt to be intrinsically fairer than a uniform uplift to all irrespective of outstanding term.

I have been informed of the conversations between the LSC, WPC and the RL Executive and, in particular, I have been provided with the full written concerns of the independent members of the LSC. I understand and appreciate the concerns that have been raised by the independent members of the LSC. I have reviewed the responses made to these queries from the RL Executive and I note that the concerns are also addressed in the WPA and IE reports and the RLMIS Chief Actuary report.

Within this report, the issues raised above are discussed in the following sections:

- My reasons for being comfortable with the size of the Scheme Contribution, including the appropriateness of the cost of capital, are discussed in sections 6.2.1.1.2 - 6.2.1.1.5.
- My views on the timing of the Scheme are linked to my consideration of tontines (section 6.2.1.1.6.1.) and policyholder expectations (section 6.2) as well as the cost/operational benefits of leveraging the knowledge and efficiencies gained from earlier waves of the Legacy Simplification Project (sections 4.3.3 and 6.2.1.1.5).
- I have considered the potential tontine effects in distribution of the Liver Fund Estate in section 6.2.1.1.6 and
-



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- Figure 1. I have also considered the fairness of the Scheme in the context of tontines and policyholder expectations in section 6.2.1.1.6.1. and concluded that the Scheme has no material impact on policyholder expectations.
- My consideration of the fairness of a uniform uplift that recognises the removal of future risks discussed in section 6.2.1.1.6.

Furthermore, I note that the IoT was established prior to Solvency II and therefore did not envisage the need to hold capital at the current level. This potentially causes a greater intergenerational imbalance that the IoT foresaw and requires a revised approach, such as the Scheme.

Given the profile of the Liver Ireland policyholders and the faster expected run-off, they will not benefit from any potential tontine which may emerge to the same extent as the overall Liver Fund projection might suggest. The Liver Ireland Policyholders have contributed to the Liver Fund in the same way as the other Liver policyholders and consequently would have the same benefit expectations. However, as the majority of the Liver Ireland policyholders are projected to have exited prior to the realisation of the tontine and even fewer are projected to remain at the Liver Fund Sunset point, they would not benefit from either of these events even if the higher potential distributions (shown in

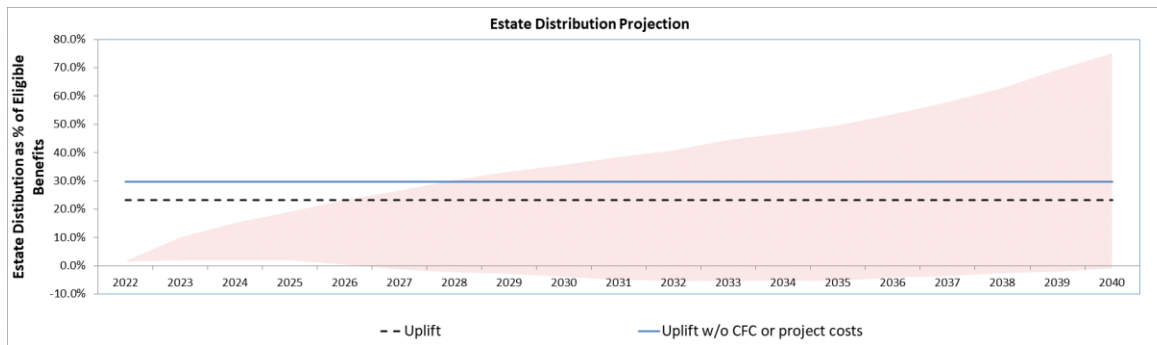


Figure 1 later in this report) emerged.

The RLI DAC Board has approved the implementation of the Irish Scheme, supported in its review by the RLMIS LSC and the RLMIS WPC, who closely scrutinised the proposals for the Irish Scheme, the UK Scheme and the Liver Fund Consolidation, with a particular focus on the fairness of the proposals.

The “tactical model” used to calculate the Uplift and the Scheme Contribution has been subject to numerous levels of internal review within RLIMIS and RLI DAC. Additionally, it has been subject to formal second line review by RLMIS’ Internal Risk team. I understand that this review did not highlight any significant concerns.

The model was subject to further internal review following the assumption updates required to calculate the final Uplift and Scheme Contribution as at 31 March 2022. I understand that this review did not highlight any concerns with the final model. Additionally, the model was subject to independent external review by Hymans Robertson, a reputable actuarial consultancy. I have been provided with a copy of the report in respect of the Hymans Robertson review and I note that this review did not highlight any concerns with the final model.

4.14.2 External governance of the Irish Scheme

The Irish Scheme is also subject to external governance from:

- The **IE** appointed by RLI DAC.
- The **Regulators**. The principal focus of the CBI’s review of the Irish Scheme is expected to be:
 - to assess the extent to which the Offer being made to Eligible Policyholders is fair to all relevant groups of policyholders and whether RLI DAC will continue to provide an appropriate degree of protection for customers.
 - the impact of the Liver Fund Consolidation on the reinsurance arrangement that is in place and the financial strength and soundness of RLI DAC and RLMIS.
- The **Irish High Court**. The role of the Irish High Court will be to assess the extent to which the Offer being made is fair to all relevant groups of policyholders, taking account of the views of the IA and the Regulators, and to ratify that the proposal is conducted in compliance with the relevant legal framework.

- The **policyholders** who will be invited to vote on the Irish Scheme, i.e. the Liver Ireland Eligible Policyholders. These policyholders will receive detailed information about the proposals from RLI DAC and they will be invited to vote on the proposals at the Policyholder Meeting.

5. Communications

5.1 Communications Strategy

RLI DAC has produced a detailed communications strategy that seeks to ensure all Liver Ireland Eligible Policyholders are adequately informed of the nature and likely effect of the Irish Scheme.

Pensions policies which are due to retire before the Implementation Date would not be Eligible Policies. However, as discussed in **section 4.4.5**, these policies have the option to defer their retirement. If they defer their retirement date beyond the Implementation Date, they will become Eligible Policyholders. Consequently, in order to ensure all Eligible Policyholders are adequately informed, all pension policies due to retire before the Implementation Date (but not already retired at the mailing date) will be included in the Eligible Policyholder population for the purposes of the communications.

The communication plan is fully aligned to RLI DAC's Vulnerable Customer Policy and RLI DAC has completed a number of key activities ahead of issuing the Appetite Mailing Pack to enhance further the approach to vulnerable customers.

RLI DAC's communications strategy involves issuing four customer mailings in relation to the Scheme:

- A notification pack about the Irish Scheme that RLI DAC sent to Eligible Policyholders for whom a validated address was held over a seven-week period from 14 February 2022 to 1 April 2022. This pack comprised a covering letter, a booklet providing a high-level guide to the proposed Irish Scheme, a leaflet providing a reminder about how with-profits policies work, a feedback form, and a reply envelope with pre-paid postage (the **"Appetite Mailing Pack"**).
- Assuming the Irish High Court and the UK High Court (due to the interdependency with the UK Scheme) grant the necessary permission at the respective Convening Hearings, RLI DAC will proceed with the Irish Scheme and send the **"Voting Pack"** to Eligible Policyholders, asking them to vote on the proposed Irish Scheme. The Voting Pack comprises a covering letter, an Explanatory Booklet (split into two parts), a personalised illustration, a voting form, and a reply envelope with pre-paid postage.
- To promote customer engagement with the Voting Pack and, in particular, to encourage Eligible Policyholders to vote on the Irish Scheme, a **"Reminder Mailing"** (postcard or brief letter referring to the Voting Pack) will be issued during the voting period to an Eligible Policyholder if RLI DAC has not received their vote within four weeks of mailing their Voting Pack.

- Finally, assuming the required voting thresholds are passed, the Irish High Court will sanction the Irish Scheme at the Sanction Hearing and, assuming the UK Scheme has also been sanctioned by the UK High Court, the Irish Scheme will be implemented on the Implementation Date. After the implementation date, RLI DAC will send a letter to the holder of each policy reinsured through the LRA shortly after the Implementation Date, confirming that the Liver Fund Consolidation has been implemented (the “**Confirmation Mailing**”).

I note RLMIS expects to take a similar approach in respect of the UK Scheme at the same time as the Irish process outlined above.

RLI DAC has produced a number of variants of each of the four mailings above so that the content of each mailing is tailored to reflect the policies held by RLI DAC Eligible Policyholders.

In respect of the Eligible Policyholders, the Voting Pack also satisfies the requirements to notify the Liver Ireland policyholders of changes to the principles of the Liver Ireland WPOP (see **section 5.3**) used to manage their policies. However, as HITM policies are not Eligible policies, they will not receive a Voting Pack. If the Scheme results in changes to the WPOP which require notification to policyholders (it is not expected that this will be the case), a separate communication of the WPOP changes will be sent to all with-profits policyholders who did not receive the voting pack (e.g. the HITM policies). Where possible, any such communication will be included with the annual with-profits statements.

5.2 Maximising the reach of communications

I have reviewed RLI DAC’s approach to engage with policies classed as ‘Gone-Aways’ (i.e. uncontactable) and to reduce the number of policies classed as uncontactable (‘Gone-Aways’) and believe that all practical steps are being taken as part of the tracing efforts, allowing for differences in the tracing services, mail services and news outlets in the UK and ROI, to reduce the numbers of Gone-Aways.

As of 31 March 2022, current addresses are not held for 37,250 Eligible Policyholders in the Royal Liver Sub-Fund and 15,967 Eligible Policyholders in the RLI DAC Liver Ireland Sub-Fund. These policy records are marked as gone-away.

5.3 Liver Ireland WPOP and RLMIS PPFM Changes

The Liver Ireland WPOP sets out the key points in respect of the management of the Liver Ireland Sub-Fund. The Liver Ireland WPOP refers policyholders to the Royal Liver PPFM for additional detail on the management of the Liver Ireland Sub-Fund. If the Schemes are implemented, the Liver Fund will cease and therefore the Royal Liver PPFM will no longer be applicable, and the management of the Liver Ireland Sub-Fund will thereafter be linked to the RLMIS PPFM (i.e. the PPFM for the RL Open Fund).

Liver Ireland’s WPOP and the RLMIS PPFM will be amended post the implementation of the Irish Scheme to:

- reflect the fact that the LRA means the management of the Liver Ireland Sub-Fund is linked to the management of the RL Open Fund rather than the Liver Fund;
- reflect the fact that additional detail and information on the management of the Liver Ireland Sub-Fund can be found in the RLMIS PPFM rather than the Royal Liver PPFM;
- reflect the fact that there will no longer be a Liver Fund Estate and therefore there will be no further Estate distributions to Liver Fund policies;
- reflect the fact that neither the Liver Ireland policyholders nor the Liver UK policyholders are eligible to share in the Estate of the RL Open Fund and will not become eligible as a result of the Schemes.
- reflect how costs, including exceptional costs will be managed given that there will no longer be a Liver Fund Estate;
- reflect those aspects of management and expenses which are aligned to the stub-IoT.

I have reviewed the proposed changes to the WPOP and the RLMIS PPFM in respect of the points above and I am satisfied that the information presented is clear and appropriate. Other than the above, no other changes will be made to the Liver Ireland WPOP and RLMIS PPFM in respect of the Liver Ireland Policies.

I have reviewed the Royal Liver PPFM and the RLMIS PPFM and I am satisfied that the differences will not have a material adverse impact on the RLI DAC policyholders.

6. Fairness Assessment of the Proposed Schemes

RLI DAC developed a set of four internal Fairness Principles from which a set of sixteen Fairness Criteria were developed (see **appendix 7.1**). The Fairness Principles and Criteria should be applied ensure the *outcomes* of the Schemes are fair on all policyholders or other relevant stakeholders and that the mechanics of the scheme *processes* are similarly supportive of these fair outcomes.

In assessing the impact of the implementation of the Schemes on policyholders of RLI DAC, and whether those policyholders are being treated fairly as a result of the implementation of the Schemes, I have considered the extent to which the Schemes meet the Fairness Criteria. In this report, I use the term “**Fairness Tests**” to describe the tests applied to test adherence to the Fairness Criteria. The Fairness Tests that I have considered are set out in the table below.

Test No.	Test name	RLI DAC Fairness Principle	Description
1	Security of Policyholders' Benefits	Principle 1: Financial Benefit Expectation: Quantitative Outcomes	<p>This test considers the effect that the implementation of the Schemes would have on the security of policyholders' guaranteed benefits under their policies with RLI DAC.</p> <p>In order for the Schemes to pass this test, I would need to be satisfied that the implementation of the Schemes would not lead to a material adverse effect on the security of the benefits of the RLI DAC policies.</p>
2	Financial Benefit Expectations of Policyholders		<p>This test considers whether the implications of the proposals are fair and reasonable in respect of outcomes for different groups of policyholders in RLI DAC. The following are considered:</p> <ul style="list-style-type: none"> • Policyholders' reasonable benefit expectations (including future bonuses); • Fairness of the underlying assumptions used and methodology applied to calculate the Liver Fund Estate for distribution; • Fairness of the Uplift and the methodology of application of the Uplift; • Fairness of the Scheme Contribution (including the Premium Uplift Contribution); • Fairness of the allocation of the costs associated with the Schemes between the Consolidating Funds. <p>The potential impact of the future risk and investment profile and how this might impact bonus expectations in the future is considered in the context of the above.</p> <p>In order for the Schemes to pass the test, I would need to be satisfied that the Schemes would not have a materially adverse effect on the financial benefit expectations of the RLI DAC policyholders.</p>

Test No.	Test name	RLI DAC Fairness Principle	Description
3	Servicing & Governance Expectations	Principle 2: Financial Benefit Expectation: Qualitative Outcomes	<p>This test considers whether the qualitative implications of the proposals are fair and reasonable in respect of outcomes for different groups of policyholders in RLI DAC. The following are considered:</p> <ul style="list-style-type: none"> The standards of servicing, administration, management, and governance experienced by the policyholders. Tax and Legal rights <p>In order for the Schemes to pass the test, I would need to be satisfied that the Schemes would not have a materially adverse effect on the service, governance and legal rights of the RLI DAC policyholders.</p>
4	Scheme Terms	Principle 3: Scheme Terms	<p>This test considers the mechanics of the Schemes and the aim to ensure that the scheme terms have been set in such a way that supports fair outcomes to policyholders. These considerations include:</p> <ul style="list-style-type: none"> Scheme Eligibility; The requirements for the proposals to be approved; Voting Eligibility; The composition of the voting classes; The calculation of the value given to each vote. <p>In order for the Schemes to pass this test, I would need to be satisfied that the scheme terms have been set in a way that supports fair outcomes to RLI DAC policyholders.</p>
5	Scheme Conduct	Principle 4: Scheme Conduct	<p>This test considers whether the Scheme terms have been executed in a way that continues to ensure fair outcomes to policyholders. This includes:</p> <ul style="list-style-type: none"> The appropriateness of Customer Communications; The tracing and treatment of Gone-Aways; The compulsion involved if the Irish Scheme is sanctioned. <p>In order for the Schemes to pass this test, I would need to be satisfied that the Schemes are executed in a way that continues to ensure fair outcomes to RLI DAC policyholders.</p>

Table 7: Fairness Tests

I have applied each of the Fairness Tests (as appropriate) to:

- Liver Ireland Policyholders: Eligible and Non-Eligible (including HITM);
- RLI DAC Non-Life Ireland Policyholders (German Bond Sub-Fund and RLI DAC Open Fund policyholders);
- Liver UK Eligible Policyholders.

My primary responsibility is to the RLI DAC policyholders. However, consideration of all Policyholders of the Liver Fund (i.e. both Ireland and UK) in respect of the fairness of the distribution of the Liver Fund Estate and future bonus declarations is consistent with my responsibilities under paragraphs 29, 30 and 31 of the RLI DAC Transfer Scheme. Therefore, the Liver UK Eligible policyholders are considered in respect of the fairness of the distribution of the Liver Fund Estate (criteria 2 above).

In my consideration of most of the fairness criteria, I have considered the Schemes (i.e. both UK and Ireland) as they are co-dependent and both Schemes impact the Liver Fund which therefore impacts the policyholders in the Liver Ireland Sub-Fund.

As outlined in **section 3.5.1**, there exists an LRA between RLMIS and RLI DAC whereby the liabilities of the Liver Ireland Sub-Fund are reinsured to RLMIS through a 100% quota share reinsurance arrangement. In the sections below, I consider the scenario where the LRA remains in-force in perpetuity (i.e. the expected scenario) and the scenario where the LRA ceases at some future date.

6.1 Fairness Criteria 1 - Security of Benefits

In this section, I consider the likely impact of the Schemes on the RLI DAC policyholders as it relates to the security of their guaranteed benefits.

6.1.1 Liver Ireland Policyholders (Eligible and Non-Eligible)

The policyholders of the Liver Ireland Sub-Fund comprise:

- Liver Ireland Eligible Policyholders (i.e. with-profits and CB policies excluding HITM policies).
- Liver Ireland Non-Eligible Policyholders, (i.e. non-profit policies excluding CB policies plus HITM policies).

Each category of policy above has guarantees that are different in nature and, therefore, the implementation of the Schemes will affect each group differently. However, they will all remain as policyholders of the Liver Ireland Sub-Fund following the implementation of the Schemes and their policies will continue to be covered by the LRA. Therefore, I have considered the security of their benefits together in this section.

6.1.1.1 Assessment of the security of benefits where the LRA continues

In assessing the security of benefits, I consider the solvency of:

- RLI DAC which is responsible for the Liver Ireland Sub-Fund liabilities.
- RLMIS which is responsible for the LRA liabilities including the provision of capital to meet RLI DAC's residual capital requirements (i.e. operational risk and counterparty default risk). As a consequence of the application of the Uplift, the quantum of capital and collateral support

required under the LRA and associated Collateral Agreements will increase (as a result of the increase to liabilities driven by the Uplift).

Solvency of RLI DAC

Following approval of the Schemes, the Liver Fund Estate will have been fully distributed including the portion in RLI DAC and, therefore the RL Open Fund will instead provide the necessary quantum of capital to the Liver Ireland Sub-Fund through the post-Schemes LRA.

The table below shows the following (as at end of March 2022):

- The pre-Schemes financial position of the Liver Ireland Sub-Fund.
- The pro-forma post-Schemes financial position of the Liver Ireland Sub-Fund.

Liver Ireland Sub-Fund (€m)	Pre-Schemes	Post-Schemes	Change
Assets (A)	785.5	982.9	197.4
Liabilities (B)	772.2	967.6	195.5
Available capital before adjustments (C = A - B)	13.3	15.2	1.9
Risk margin (D)	2.1	2.3	0.1
Own Funds (E = C - D)	11.2	13.0	1.8
SCR (F)	6.8	7.9	1.1
Excess capital (E - F)	4.4	5.1	0.7
SCR Cover (E / F)	164%	164%	No change

Table 8: Financial position of the Liver Ireland Sub-Fund

The table shows that the implementation of the Schemes will have the following effect on the Liver Ireland Sub-Fund:

- The liabilities will increase as a result of the Uplifts applied.
- The BEL Counterparty Default Adjustment will increase as a result of the increased liabilities.
- The SCR and the corresponding risk margin will increase to reflect the increase in liabilities.
- Through the LRA, the assets will be increased so that the Liver Ireland Sub-Fund will continue to have sufficient assets to cover the BEL Counterparty Default Adjustment in respect of the counterparty exposure of the Liver Ireland Sub-Fund's exposure to RLMIS, the risk margin, the SCR and a capital buffer as required under RLI DAC's Capital Management Framework. As capital requirements change over time, the experience adjustment within the LRA will ensure the retained capital requirements of the Liver Ireland Sub-Fund continue to be met, as is the case currently.

There would, therefore, be no change to the solvency coverage ratio of the Liver Ireland Sub-Fund within RLI DAC as a result of the Schemes. As explained in **section 2**, as RLI DAC's overall solvency coverage ratio is a weighted average of the coverage ratios of the Liver Ireland Sub-Fund, German Bond Sub-Fund and the Open Fund, the overall solvency coverage ratio of RLI DAC decreases minimally.

Solvency of RLMIS

If the Irish Scheme is implemented, the LRA will remain in place between RLMIS and RLI DAC, which will also finance Liver Ireland Sub-Fund's retained capital requirements. The LRA will be amended (as required) to reflect the fact that the assets of the RL Open Fund will be utilised to meet the liabilities of RLI DAC under the terms of the LRA. In addition, the Collateral Agreements between RLMIS and RLI DAC will also remain in place. However, I understand that internally to RLMIS, the required collateral will be notionally provided by the RL Open Fund Estate (i.e. excess of realistic assets over realistic liabilities in the RL Open Fund) instead of the Liver Fund Estate.

The ultimate provider of collateral (RLMIS) does not change as a result of the implementation of the Schemes. However, it is important in considering the relative security provided by the LRA and the associated Collateral Agreements pre and post the Schemes, to consider the financial positions of the Liver Fund and the RL Open Fund.

The financial position of these two funds are summarised in the table below.

	Liver Fund Pre-Schemes	RL Open Fund Post-Schemes
Assets (A)	1,987	91,492
Liabilities (B)	1,615	87,263
Available capital before adjustments (C = A - B)	373	4,229
Risk margin (D)	62	1,172
TMTP (E)	67	975
Sub-debt (F)	0	1,446
Internal Own Funds (G = C - D + E + F)	378	5,478
Internal SCR (H)	216	2,619
Excess capital (G - H)	162	2,859
Internal SCR Cover (G / H)	175%	209%

Table 9: Financial position of the RLMIS fund providing collateral under the LRA

The table compares the pre-Schemes financial position of the Liver Fund with the pro-forma post-Schemes financial position of the RL Open Fund as at 31 March 2022 (i.e. assuming that the Scheme had implemented as at 31 March 2022). The RL Open Fund financials include the impact of the receipt of the CFC and the additional diversification benefits achieved. The table shows that if the Schemes had been implemented at 31 March 2022, the RL Open Fund would have had excess capital of £2.9bn and an internal solvency coverage ratio of 209% on a Pillar II basis, which is within the target range of the RLMIS Capital Management Framework. Thus, post-Schemes, the RL Open Fund is expected to have sufficient capital to support financing the retained capital requirements of RLI DAC under the LRA and to 'notionally' support through the RL Open Fund Estate the collateral required to support the reinsurance asset held in RLI DAC.

Whilst the current situation is demonstrating sufficiency and no material adverse impact, a key aspect to consider in terms of security of benefits going forward is whether there is a requirement to maintain

solvency ratios and capital strength at this level going forward. Consequently, I need to compare the relative strength of the capital management frameworks. In that regard, the Liver Capital Management Framework requires distribution of excess capital above the 1-in-20 year level to the asset shares of with-profit policies. Furthermore, whilst not mandatory, the Liver Fund and the Liver Ireland Sub-Fund have in practice typically distributed such excess capital through benefit enhancements. However, the RLMIS Capital Management Framework permits distribution of excess capital above the 1-in-5 year level although its mid-point target capital level is at the 1-in-20 level. Whilst in practice, the RL Open Fund maintains its capital level within the target range, a risk does exist that it could make distributions in excess of the 1-in-20 level and, therefore, reduce the level of excess capital available than would otherwise be the case thus impacting the ability to 'notionally' support the reinsurance asset held in RLI DAC from the RL Open Fund Estate. However, this risk is considered remote because RLMIS aims to maintain its capital within the target range and thus, in practice, does not intend to effect distributions that would lead to excess capital falling below the target range.

Of relevance also in considering the pre and post-Schemes situation is that, in the extreme event of the insolvency of RLMIS, the Liver Fund would have been collapsed automatically into the RL Open Fund after mitigating management actions were taken within the Liver Fund so in both the pre and post-Schemes situation, RLI DAC's ultimate security was always derived from the RL Open Fund.

A further related aspect to consider in terms of security of benefits is whether the risk profile of the RL Open Fund is significantly different from that of the Liver Fund. Whilst the RL Open Fund is subject to a wider and more diverse range of risks than the Liver Fund, the capital requirements and target levels of capital held take this into account. Consequently, from a security of benefits perspective, RLI DAC still derives its security from the strength of the RL Open Fund and the fact that the Collateral Agreements in place still work to ensure that:

- 50% of the Liver Ireland reinsured best estimate liabilities will be available in short order should RLMIS go insolvent through the Tier 1 collateral which provides for a priority call over other RL Open Fund policyholders (post-Schemes including the Liver UK policyholders) on such assets in the RL Open Fund; and
- the remaining 50% is available through the Tier 2 collateral which provides for an equal call alongside other RLMIS policyholders.

Therefore, having considered that:

- Liver Ireland Sub-Fund's solvency cover ratio is unchanged pre and post-Schemes, although due to the aggregation approach, there is a small change in the overall RLI DAC solvency coverage ratio (see **section 2**). The RL Open Fund is expected to have sufficient capital to fund the retained capital requirements under the LRA;
- The practice to date and that expected to continue into the future has been to maintain the RL Open Fund capital levels within the target range in accordance with the RLMIS Capital

Management Framework which is the same as is currently the case within the Liver Fund in accordance with the Liver Capital Management Framework; and

- Ultimately RLI DAC derives its primary security in relation to its reinsurance asset held from the Collateral Agreements in place with RLMIS which are not changing as a consequence of the Schemes, excepting that the collateral will be provided by the RL Open Fund rather than the Liver Fund;

I conclude that the security of benefits of the Liver Ireland Sub-Fund policyholders within RLI DAC are not expected to be materially adversely impacted by the Schemes and, within that, specifically the Irish Scheme.

6.1.1.2 Assessment of security of benefits where the LRA ceases

The existing LRA and associated Collateral Agreements were constructed to ensure that, in the event of the insolvency of RLMIS, the liabilities of the Liver Ireland Sub-Fund, which are 100% reinsured into RLMIS, would be ranked at the same level or better (in the case of 50% of the reinsured best estimate liabilities under the Tier 1 collateral) as the UK policyholders written directly into the Liver Fund. This ranking in the event of insolvency will not change under the Schemes.

Pre-Schemes, if the existing LRA had ceased as a result of a management decision or another reason which did not involve the insolvency of RLMIS, the existing LRA provided for the two parties to agree a termination payment. This termination payment was the best estimate liabilities determined on an agreed basis between the parties. However, the termination of the LRA would have required firstly the splitting of the Liver Fund (including the Liver Fund Estate), with a payment of the RLI DAC's due proportion of the Liver Fund (including the Liver Fund Estate) being made. Whilst RLI DAC would likely have had capital requirements determined on a different basis to RLMIS in respect of the same business and the parties would have needed to come to agreement on an appropriate split of the Liver Fund, nonetheless it would have been expected that RLI DAC would have had assets to meet its best estimate liabilities plus some or all of the capital requirements within the Liver Ireland Sub-Fund.

Post-Schemes, as the Liver Fund Estate will have been fully distributed, if the amended LRA ceases as a result of a management decision or another reason which does not involve the insolvency of RLMIS, the amended LRA provides for the two parties to agree a termination payment. This termination payment, as outlined earlier, will comprise:

- the best estimate liabilities (including uplifted future eligible premiums) determined on an agreed basis between the parties; and
- RLI DAC's due proportion of the Closed Fund Contribution ("**CFC rebate**") determined on an agreed basis between the parties.

However, in the post-Schemes situation, the impacts to RLI DAC in the event the LRA terminates would be:

- no impact relative to the pre-Schemes situation on best estimate liabilities where there could have been a shortfall, albeit best estimate liabilities are now relatively higher due to the uplift in benefits as a result of the Schemes;
- whilst RLI DAC will receive some funding towards financing the Liver Ireland Sub-Fund capital requirements supporting the best estimate liabilities through the CFC rebate, it will:
 - a) need to source the actual capital required to support same as there is no Liver Fund Estate post-Schemes and, therefore, have appropriate plans in place to do so in such an event; and
 - b) the cost of capital refunded through the CFC rebate would not be expected to be sufficient because:
 - the capital that will be required to be held in RLI DAC will likely be higher than that allowed for within the CFC calculation because it does not have permission for TMTs, VAs or an internal model and diversification benefits will differ;
 - the cost of capital rate assumed within the calculation of the CFC may not be sufficient in the context of the fact that RLI DAC may find it more difficult given its size to obtain capital from third party sources if it was not available for RLMIS and this may cost them more in relative terms versus RLMIS.
- potentially some impact relative to the pre-Schemes situation where the estate would sit within the Liver Ireland Sub-Fund and would be distributed recognising premium uplifts over time and where subsequent distributions from the estate would mitigate any shortfalls; versus the post-Schemes situation where any shortfall that ultimately unfolds because of differences between the Premium Uplift Contribution rebate and the cost of its required application would need to be met by the RLI DAC Open Fund.
- to the extent that any funding is required for capital or other strains arising e.g. due to exceptional expenses, this will need to be provided by the RLI DAC Open Fund whereas in the pre-Schemes LRA cessation situation, some or all could have been provided by the Liver Ireland Sub-Fund.

The table below shows the expected impact of the LRA ceasing after the implementation of the Scheme. Note these scenarios were performed in line with the ORSA process at half-year 2021 in line with the assumptions at that time. There is no evidence to invalidate the outcomes outlined in the table.

Scenario description		2022	2023	2024	2025	2026
Base	Scheme not implemented	206%	191%	180%	172%	164%
1	Scheme implemented	206%	191%	180%	172%	164%
2	LRA ceases (no Scheme)	192%	182%	175%	169%	163%
3	LRA ceases (post Scheme)	137%	139%	141%	143%	143%
4	RLMIS defaults (no Scheme)	99%	104%	108%	113%	116%

5	RLMIS defaults (post Scheme)	90%	96%	101%	107%	111%
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Table 10: Expected impact of the LRA ceasing after the implementation of the Scheme

RLI DAC, per their risk appetite statement, aims to keep the capital coverage ratio above the target of 164% which has been calibrated to a '1-in-20' risk event. The table above shows that the LRA ceasing immediately after the Scheme is implemented would cause RLI DAC's solvency coverage to drop below its target level. However, RLI DAC's solvency coverage remains above the minimum required levels throughout the projection period and the solvency coverage recovers over time.

In the scenarios where RLMIS defaults, the impact on the solvency and liquidity of RLI DAC is mitigated by the regularity of the collateralisation and settlement processes (i.e. the collateral arrangements are to be organised such that RLI DAC would have access to sufficient capital to be able to support the liabilities in such an event). Nonetheless, the default of the primary reinsurer which is also the parent company, would be a significant event and would cause RLI DAC's solvency coverage to drop below the minimum required level. As scenario 4 shows, this is not a consequence of the Scheme but time taken to recover is longer after the implementation of the Scheme.

Overall, in the event that the LRA was terminated for whatever reason, I expect that RLI DAC would be in a materially worse position than if it stays in place. It is not in RLI DAC's best interests to choose to terminate the LRA so my assumption is that RLI DAC would act rationally and would not terminate voluntarily. Therefore, the conditions under which RLMIS can terminate the LRA are:

- if either RLMIS or RLI DAC are prevented from fulfilling its obligations under the LRA because of a law or regulation;
- if either RLMIS or RLI DAC cease to hold registration, permission, authorisation, consent or licence that therefore prevents it from fulfilling its obligations under the LRA;
- if RLI DAC fails to pay amounts due under the LRA;
- if RLI DAC is in material breach of the LRA where this has not been remedied within a specific timeline;
- if RLI DAC disposes of a material proportion of the Liver Ireland Sub-Fund Policies;
- if RLI DAC ceases to maintain the Liver Fund as a separate fund;
- if RLI DAC goes insolvent.

Considering each of the conditions above and in the context that the Schemes require the LRA to continue post the Liver Fund cessation, I consider it highly unlikely that the first two conditions will occur in relation to RLMIS. The payments from RLI DAC to RLMIS under the LRA are in respect of the receipt of regular premiums from policyholders so there is an incoming cash flow to RLI DAC for every outgoing cash flow due and therefore, it is very unlikely that RLI DAC would fail to make the payments due under the LRA. The other conditions in the list above are primarily within RLI DAC's control subject to remaining well capitalised as is currently the case and expected to remain the case following the Schemes. I have been provided with ORSA scenario testing which demonstrates that, while the LRA ceasing immediately after the Scheme is implemented, would cause RLI DAC's

solvency coverage to drop below its target level, RLI DAC's solvency coverage remains above the minimum required levels throughout the projection period and the solvency coverage recovers over time with coverage being close to the target level by 2025. As it is not in RLI DAC's best interests to terminate the LRA, it is highly unlikely that these conditions will occur.

Overall, I conclude that it is very important that the LRA remains in place in order to protect the security of benefits of the Liver Ireland Policyholders, as without it, I believe there would potentially be a materially adverse impact on their benefit security post-Schemes versus pre-Schemes. Nonetheless, as it is very unlikely that the LRA would be terminated, I am comfortable that the Schemes do not have a material adverse impact on the security of the benefits of the Liver Ireland Policyholders.

6.1.1.3 Conclusion on the security of benefits for Liver Ireland policyholders

It is proposed under the Irish Scheme that the LRA (albeit amended) remains in place. On the basis that it remains in place, I am satisfied that the implementation of the Schemes does not have a material adverse effect on the security of benefits payable to Liver Ireland Policyholders.

If the LRA were to cease at some future date, I believe there would potentially be a materially adverse impact on the benefit security of Liver Ireland Policyholders post-Schemes versus pre-Schemes. Nonetheless, as it is very unlikely that the LRA would be terminated, I am comfortable that the Schemes do not have a material adverse impact on the security of the benefits of the Liver Ireland Policyholders.

6.1.2 RLI DAC Non-Liver Ireland Policyholders (German Bond Sub-Fund and Open Fund)

6.1.2.1 Assessment of the security of benefits where the LRA continues

The implementation of the Schemes would only impact policyholders in the other RLI DAC funds if the Schemes were to have a material impact on:

- The financial position of the RLI DAC Open Fund, which provides capital support to the German Bond Sub-Fund and the Liver Ireland Sub-Fund.
- The German Bond Reinsurance Agreement between RLMIS and RLI DAC.

The implementation of the Schemes will not move or transfer any assets or liabilities into or out of either the German Bond Sub-Fund or the RLI DAC Open Fund and thus the Schemes have no impact on the financial strength of these funds.

Under the German Bond Reinsurance Agreement, the required collateral would continue to be 'notionally' provided by the RL Open Fund. As set out in **section 6.1.1**, following the implementation of the Schemes, the RL Open Fund will have remained comfortably within the target range of the RLMIS Capital Management Framework.

Therefore, the implementation of the Schemes would not have a material adverse impact on the ability of the RL Open Fund to continue to provide capital and collateral under the German Bond

Reinsurance Arrangement and associated Collateral Agreements respectively and, therefore, I conclude that their security of benefits is not materially adversely impacted.

6.1.2.2 Assessment of security of benefits where the LRA ceases

No changes are proposed under the Schemes in relation to the policyholders of the German Bond Sub-Fund within RLI DAC, which are subject to separate reinsurance and Collateral Agreements. Therefore, their security of benefits from the point of view of the capital and Collateral Agreements provided in relation of the reinsurance asset, through the various legal agreements with RLMIS, by RL Open Fund are not expected to be materially impacted.

However, the RLI DAC Open Fund (and indirectly the German Bond Sub-Fund) are impacted if the LRA ceases at some future point for whatever reason. This is because RLI DAC becomes responsible for the gross capital requirements of the Liver Ireland Sub-Fund; in particular, to the extent that the Liver Ireland Sub-Fund requires capital support, this will need to come from the RLI DAC Open Fund. The assessment regarding security of benefits if the LRA were to cease in **section 6.1.1.2** are, therefore, relevant to the RLI DAC Non-Liver Ireland policyholders as their security of benefits could be potentially adversely impacted were the LRA to terminate.

In addition to the points made within **section 6.1.1.2**, it is also worth noting that, to the extent exceptional expenses were to occur in respect of the Liver Ireland Sub-Fund, these will be paid out of the RLI DAC Open Fund. The RLI DAC Open Fund can recover these from the Liver Ireland Sub-Fund who will charge these to the asset shares of the Included Policies within the Liver Ireland Sub-Fund over time. However, a strain may arise between paying such exceptional expenses now and recouping them from the asset shares over time. The strain would now need to be met by the RLI DAC Open Fund. In the pre-Schemes situation, RLI DAC would have had their due proportion of the Liver Fund Estate within the Liver Ireland Sub-Fund available to fund these.

Thus, similar to the conclusion under the **section 6.1.1.2**, I conclude that it is very important that the LRA remains in place in order to protect the security of benefits of the Non-Liver Ireland Policyholders, as without it, I believe there would potentially be a materially adverse impact on their benefit security post-scheme versus pre-Schemes. Nonetheless, as it is very unlikely that the LRA would be terminated, I am comfortable that the Schemes do not have a material adverse impact on the security of the benefits of the Non-Liver Ireland Policyholders.

6.1.2.3 Conclusion on the security of benefits for RLI DAC Non-Liver Ireland policyholders

It is proposed under the Irish Scheme that the LRA (albeit amended) remains in place. On the basis that it remains in place, I am satisfied that the implementation of the Schemes does not have a material adverse effect on the security of benefits payable to Non-Liver Ireland Policyholders.

If the LRA were to cease at some future date, I believe there would potentially be a materially adverse impact on the benefit security of Non-Liver Ireland Policyholders post-Schemes versus pre-Schemes. Nonetheless, as it is very unlikely that the LRA would be terminated, I am comfortable

that the Schemes do not have a material adverse impact on the security of the benefits of the Non-Liver Ireland Policyholders.

6.2 Fairness Criteria 2 – Financial Benefit Expectations

In this section, I consider the likely impact of the Schemes on the RLI DAC policyholders as it relates to their Financial Benefit Expectations. In doing so, I consider the impact on:

- Liver Ireland Eligible Policyholders who will remain as policyholders of the Liver Ireland Sub-Fund if the Schemes is implemented (i.e. with-profits and CB policies);
- Liver Ireland Non-Eligible Policyholders, for example holders of HITM policies and non-profit policies (except CB policies); and
- Other RLI DAC policyholders, namely the German Bond Sub-Fund and the RLI DAC Open Fund.

6.2.1 Liver Ireland Policyholders (Eligible and Non-Eligible): assessment of financial benefit

6.2.1.1 Assessment of the financial benefit expectations where the LRA continues

Currently, the Liver Ireland Eligible Policyholders have a reasonable expectation:

- that their policies will be allocated a fair and equitable proportion of the Liver Fund Estate;
- that regular and terminal bonuses will be determined in line with the existing principles and policies of financial management, which covers investment strategy;
- exceptional costs subsequently charged will be fair and equitable (see **section 6.2.1.1.7**).

When considering the impact of the Schemes on the Liver Ireland Eligible Policyholders in the context of their benefit expectations in relation to the Liver Fund Estate, I have considered the following:

- The size of the Liver Fund Estate for distribution via the Uplift that has been calculated (see **section 6.2.1.1.1**).
- The components of the Scheme Contribution that will be deducted from the Liver Fund Estate before the Uplift is calculated (see **section 6.2.1.1.3, 6.2.1.1.4 and 6.2.1.1.5**).
- The Uplift that will be calculated and how it compares with the expected future enhancements to policies in the absence of the Schemes (see **section 6.2.1.1.6**).

When considering the impact of the Schemes on the Liver Ireland Eligible Policyholders in the context of their future benefit expectations in relation to regular and terminal bonuses, I have considered the following:

- any changes to the Liver Ireland WPOP and the Royal Liver PPFM impacting future bonus expectations (see **section 5.3** and **section 6.2.1.1.9**);

- any investment strategy impacts impacting future bonus expectations (see **section 6.2.1.1.8**).

These are considered in turn below.

6.2.1.1.1 Size of the Liver Fund Estate

If the Schemes are implemented, the Liver Fund Estate will be calculated at the Calculation Date as the difference between the realistic value of assets and the realistic value of liabilities in the Liver Fund and the Liver Ireland Sub-Fund, excluding the assets and liabilities in respect of the Staff Pension Schemes. I understand that, as at 31 March 2022, the Liver Fund Estate using the above methodology is approximately £233m and as this is the value at the Calculation Date it was part of the derivation of the Uplift.

The assets held in respect of liabilities the Staff Pension Schemes are held in trust. The Staff Pension Schemes are expected to have sufficient assets to cover their respective liabilities. I have queried management on whether the Staff Pension Schemes are over-capitalised and a surplus could therefore accrue to the RL Open Fund in the future post-Schemes, and therefore should be taken into account now in the determination of the Liver Fund Estate. However, I understand that management is of the view that it cannot recover any such surplus that could arise as it would require a release of same by the pension fund trustees and it is expected that, were such a situation to arise in the future, such surplus would be used to fund discretionary increases and/or enable the buyout of the pension schemes in the future. I am satisfied, therefore, that it is appropriate to exclude the assets and liabilities associated with the Staff Pension Schemes from the determination of the Liver Fund Estate.

The realistic value of liabilities (excluding the Staff Pension Schemes) will be calculated using best estimate assumptions about expected future experience discounted at the UK Solvency II risk free rate plus a volatility adjustment (where relevant) at the Calculation Date. The realistic value of assets is calculated as the market value of the assets.

The most material assumptions for the Liver Fund are those in respect of longevity and expenses. Longevity comprises two elements, a base table which is assessed each year as part of RLI DAC's annual assumptions review and follows the experience data; and an improvements table which is based on a bespoke RLI DAC calibration of the Continuous Mortality Investigation model. Expenses also have two elements: unit costs and expense inflation. Unit costs are based on historic actual experience, adjusted where necessary to reflect long-term expectations. Expense inflation is based on macro-economic inflation which reflects how general price and salary inflation affects RLI DAC's expenses in aggregate and RLI DAC's fixed overhead expenses.

Allowance for 'Gone-Aways' in the calculation of the Liver Fund Estate and Uplift

One of the key areas of uncertainty in the best estimate assumptions relates to the number of uncontactable policyholders (referred to as 'Gone-Aways') and the likelihood that they will make a claim under their policy in the future. Assets that are not expected to be claimed by policyholders in

the future are added back to the Liver Fund Estate¹⁵ and therefore available for distribution to other policyholders. Consequently, it is important that every effort is made to trace 'Gone-Aways' in order that this assumption can be as best estimate as possible. As described in **section 5.2**, RLI DAC and RLMIS have implemented a robust system for tracing Gone-Aways in both the Liver Ireland Sub-Fund and the Liver Fund in order to reduce the number of Gone-Aways prior to the Calculation Date. Based on my analysis of the process, I believe that robust efforts have been made to reduce the number of Gone-Aways. For the policyholders that remain uncontactable, a best estimate assumption will be made about the proportion of Eligible Policyholders that will eventually make a claim on their policies.

Making an allowance for unclaimed assets (i.e. the expected proportion of uncontactable policies which will never make a claim are therefore available for distribution) is part of the established process for the Liver Fund and Liver Fund Estate. In this case, the assumption used has a more immediate consequence as it influences the size of the Liver Fund Estate used in the calculation of the Scheme Contribution, the Premium Uplift Contribution and the Uplift itself. The steps taken by RLI DAC and RLMIS to trace Gone-Aways will reduce the significance of the unclaimed assets.

I note that the assumption that a proportion of the uncontactable policies are unclaimed assets available for distribution impacts the best estimate valuation of the assets and liabilities and therefore, the Liver Fund Estate. However, it does not change RLI DAC or RLMIS's obligation to policyholders. If the policyholder of an uncontactable Eligible Policy subsequently makes a claim on their policy, they are entitled to the claim amount including the Uplift applicable at the implementation of the Scheme. In other words, the Uplift will be applied to all Eligible Policies regardless of contact status such that the correct value is known in the case of future claims. The RL Open Fund accepts the risk of actual claim experience differing from the expected level and the cost of funding Uplifts in excess of the expected level should claims be higher than expected. The RL Open Fund will also benefit from ultimate release of the Uplifts if the claims are lower than expected.

Allowance for Dormant policies in the calculation of the Liver Fund Estate and Uplift

In Ireland, if a policy has shown no activity for a certain period, then the policy is classified as "Dormant" and the value is transferred to a fund managed by the National Treasury Management Agency (NTMA). However, if a Dormant policy subsequently claims, then RLI DAC will request a refund of the reserves paid to the NTMA in order to pay such a claim. If such a Dormant policy is also an Eligible policy (i.e. not beyond its maturity date at the end of 2022 or not deceased at the end of 2022), then the Uplift will be applied at the point of any future claim. In addition, where such a Dormant and Eligible policy is not also confirmed as a Gone-Away, the mailings in relation to the Scheme will be sent to their listed address.

¹⁵ Liver Ireland policies will always be "claimed" as policies which remain inactive for 15 years are classified as Dormant policies and the value of the policy is transferred to the NTMA. There is no corresponding requirement in the UK so unclaimed assets are available for distribution as part of the Liver Fund Estate. The best estimate claim assumption used in the calculation of the Liver Fund Estate and the Uplift reflects the impact of the NTMA "claim" on the overall assets.

In the situation where reserves for such Dormant and Eligible policies were transferred to the NTMA after end-2022, then these will already have been increased for the Uplift. If the reserves were transferred prior to end-2022, then there would be a shortfall between the claim amount and the funds received from the NTMA. The RL Open Fund, through the LRA, is taking on the risk of meeting this shortfall in cases where policies transferred to the NTMA prior to end-2022 but claim their benefits in respect of a claim date beyond end-2022. This risk is expected to be minimal and of the order of c. €50-100k p.a. based on past claim rate experience and the current level of Dormant policy reserves transferred to the NTMA.

Given the very low level of claims experienced in respect of Dormant policies, the best estimate assumption is that these policies will not claim. Consequently, they do not impact the calculation of the Uplift. Similar to the approach adopted for the 'Gone-Aways', the RL Open Fund accepts the risk of actual claim experience differing from the expected level and the cost of funding the associated Uplifts. There is no potential benefit to the RL Open Fund in this case as claims cannot be lower than zero.

Allowance for expense margins in the calculation of the Liver Fund Estate and Uplift

Under the various legal agreements, the expense margin (a percentage applied over and above the relevant actual costs of the entity) applicable following the end of the fixed rate card period (see **section 3.5.5**), is constant over the lifetime of the business although an assumption is required as to whether this means the lifetime of the policies or the Liver Fund itself (i.e. as a separate Fund). For the Liver UK business, the expense margin was also subject to approval by the regulator at the point the Liver Fund was established and this expense margin was time-bound. Historically, this assumption was not expected to have a significant impact on the business but as it impacts the calculation of the Liver Fund Estate and therefore the Uplift, it is a significant assumption for the Schemes. Similarly, if the Schemes go ahead, the Liver Fund Estate will be distributed, effectively locking in the impact of this assumption.

The WPC has considered this assumption in detail and has concluded that the best estimate assumption is that the expense margin applies until the date the Liver Fund would have merged into the RL Open Fund had the Schemes not been proposed (i.e. the date the Sunset Must clause bites). Although the regulatory time-bound date is earlier than the expected Sunset Must date, it is possible that the approval would have been extended and, therefore, the WPC considered what the likely original intention of the IoT was. The IoT and the related documents from the 2011 court submission indicated that, in the absence of the Schemes, the expense margin would continue until the date the Liver Fund would have merged into the RL Open Fund. The Sunset Must clause removes most of the terms of the IoT and the WPC considers it likely that the original intention/expectation of the IoT was that, at the Sunset Must date, the size of the remaining Liver business would be such that maintaining different charging structures would have been operationally impractical and, therefore, no expense margin would have been applied from that date.

Considering the legal constraints of the IoT, the date the Sunset Must clause would bite if nothing else changed is expected to be 2041. However, in practice RLMIS would likely undertake the merger

in advance of the expected date to avoid inadvertently breaching the Sunset Must clause due to delays or market volatility. Consequently, the WPC has determined that the best estimate is that the expense margin applies until 2039.

The RLI DAC Transfer Scheme includes the same clauses with respect to the expense margin but these do not cease unless the LRA terminates and the RLI DAC Transfer Scheme Sunset clauses are triggered (the latter cannot happen before the former). Additionally, the approval granted by the UK regulator is not binding for RLI DAC as it is not a UK company. As RLI DAC's best estimate assumption is that the LRA will remain in-force for the duration of the business (i.e. until all policies in the Liver Ireland Sub-Fund have ceased), it follows that RLI DAC's best estimate assumption is that the expense margin will similarly apply for the duration of the business.

Notwithstanding the potential differences in the best estimate assumptions in respect of the duration for which the expense margin should be applied for RLMIS and RLI DAC, the intent of both entities and the aim of the various legal documents, is that the Liver UK and Liver Ireland policyholders are treated consistently and subject the same charges/bonuses as they would have been had they all remained as direct policyholders of RLMIS. I consider it appropriate and consistent with treating all Liver Fund policyholders in the same way, for a single assumption to be used for the calculation of the Liver Fund Estate and the Uplift. I am comfortable that the best estimate for the Liver Fund as a whole is 2039 and this date is reflected in the proposed amendments to the IoT. Furthermore, the Financial Conduct Authority (the UK Regulator) has recently considered this point in the context of the distribution of the Liver Fund Estate under the Schemes and the determination of future charges to asset shares and has confirmed that it has no objection to the 2039 assumption for this purpose. Therefore, I consider this to be the appropriate date for the calculation of the Liver Fund Estate and the Uplift. This assumption increases the Uplift percentage relative to assuming there is no limit to the application of the margin. Therefore, if it turns out that the expense margin is applied for the duration of the policies, the higher Uplift will offset the impact for the proportion of policies remaining at that point and will have been a direct benefit to those policies which have exited prior to that date.

The size of the Liver Fund Estate depends on the best estimate assumptions outlined above. As the RL Open Fund will, after the implementation of the Schemes, either benefit from an undervaluation of the Liver Fund Estate or would be required to make up any shortfall as a result of an overvaluation of the Liver Fund Estate, it is important that the best estimate assumptions used are appropriate. I note that the methodology and assumptions used are subject to RLI DAC standard internal governance and external audit processes.

I have reviewed RLMIS's proposed assumptions as well as the approach to setting the assumptions and I am satisfied that they are reasonable.

Therefore, I can conclude that I am satisfied that the Liver Fund Estate that is being used in the calculation of the Uplift under the Schemes has been calculated based on a reasonable set of best estimate assumptions.

6.2.1.1.2 **Scheme Contribution – deducted from the Liver Fund Estate**

As described in **section 4.4**, if the Irish and UK Schemes are approved, all the Liver Ireland and Liver UK Eligible Policyholders whose policies remain in force (i.e. Liver Ireland Included Policyholders) will be given an immediate Uplift to their respective Eligible Benefits, through earlier distribution of the Liver Fund Estate. All Included Policyholders will receive the same percentage Uplift. Policyholders who are still paying contractual regular premiums will also receive an Uplift to their asset share in respect of future Eligible Contractual Regular Premiums as they are paid. The Uplift applied to eligible premiums will be at the same rate as applied to the asset shares at the Implementation Date.

In exchange for the Uplift, the Liver Ireland Eligible Policyholders (in the Irish Scheme) and the Liver UK Eligible Policyholders (in the UK Scheme) will be asked to give up part of the Liver Fund Estate to cover the Scheme Contribution (see **section 4.3**). The Scheme Contribution will be deducted from the Liver Fund Estate before its distribution and will be paid to the RL Open Fund. The Scheme Contribution comprises:

- The CFC payable from the Liver Fund to the RL Open Fund;
- The Premium Uplift Contribution payable from the Liver Fund to the RL Open Fund; and
- The Project Costs Allowance.

The table below summarises the values of each component and the total Scheme Contribution.

	£M
Closed Fund Contribution (CFC)	43.2
Project Costs Allowance	7.2
Premium Uplift Contribution	3.3
Total Scheme Contribution	53.7

Table 11: Summary of components of the scheme contribution

I cover each element in turn below, as well as my considerations in respect of the total Scheme Contribution.

6.2.1.1.3 **Closed Fund Contribution**

If the Irish and UK Schemes are implemented, the RL Open Fund will take on the responsibility for meeting the capital requirements associated with the Schemes, those within RLI DAC and RLMIS in respect of the Liver Ireland and Liver UK Policyholders respectively up to the Liver Sunset Must Limit 2041.

As a result of taking on this responsibility, the RL Open Fund will experience a net balance sheet strain (“**NBSS**”). To compensate the RL Open Fund for the NBSS, a Closed Fund Contribution (“**CFC**”) will be made from the Liver Fund Estate to the RL Open Fund, calculated as a ‘cost of capital’ amount that is based on a Required Return on Capital for RLMIS. The CFC will also compensate the RL Open Fund for taking on the responsibility for meeting the capital requirements

associated with the Non-Eligible Liver Ireland and Liver UK Policies that are currently invested in, or reinsured to, the Liver Fund.

The proposed calculation of the CFC is described in **section 4.3.2**. In this section, I consider each element of the calculation of the CFC and my agreement or otherwise with the proposed methodology and assumptions underpinning it.

- **Required Return on Capital** (*see section 4.3.2.1 for description*):

- The Required Return on Capital rate that has been proposed of 9% gross per annum plus the rate of return on interest rate swaps at the Calculation Date has been selected based on market comparisons of rates available on alternative investments and de-risking transactions (e.g. reinsurance).
- An appropriate rate of return should be set by considering both the Liver Fund (i.e. the party removing risk) and the RL Open Fund (i.e. the party accepting risk). I have reviewed the market analysis, which considers the required return that the Liver Fund and the RL Open Fund could expect to pay or receive respectively for a similar transaction with a third party in the UK market, which is the relevant market in the context of the LRA remaining in place. Publicly available data for YE2014 – YE2020 indicates a required return on equity in the range of:
 - 6% - 13% for reinsurers or 9% - 13% if the volatile, COVID-impacted 2020 is excluded (i.e. the Liver Fund should reasonably be willing to pay this to transfer the risks out)
 - 10% - 13% for insurers (i.e. the RL Open Fund should reasonably expect to earn this for accepting the risks)

The above analysis overlaps with 10% - 13% being the common range which might be considered reasonable for both the Liver Fund and the RL Open Fund. However, some additional considerations apply for this specific transaction:

- The RL Open Fund is familiar with the risks in the Liver Fund and therefore should reasonably seek a return at the lower end of the range.
- The Liver Fund includes risks which are not commonly accepted by reinsurers/third parties and are therefore less competitively priced in the market (e.g. expense risk) and therefore would be expected to generate higher returns for the party accepting the risk.
- Under the terms of the Schemes and the Legacy Simplification Project, the project costs are met by the Liver Fund rather than the RL Open Fund and therefore it is reasonable for the RL Open Fund to reduce its required return to reflect this.

I have also been advised that RLMIS's target return on capital is 12% or c.10.5% above the risk-free rate. Analysis provided indicates that 10.5% combined with the Liver Fund paying 50% of the project costs is equivalent to 9% combined with the Liver Fund paying 100% of the project costs. Therefore, it is reasonable for the RL Open Fund to reduce its

required return to 9% and it is reasonable for the Liver Fund to accept a cost of capital at this level.

- The following table shows the sensitivity of the CFC applicable across the Irish and UK Schemes to changes in the Required Return on Capital rate.

Cost Of Capital Rate	CFC (£m)
6%	37
9%	43
12%	48

Table 12: CFC Scenario testing

The lower and upper Cost of Capital scenarios shown above would have approximately +1% and -1% impact on the Uplift percentage respectively.

- I believe it is reasonable to charge a 'cost of capital' amount from the Liver Fund Estate to the RL Open Fund as compensation for the additional capital requirements taken on by the RL Open Fund.
- I believe that the risks associated with the Schemes are known and well understood as no new business or product feature is introduced through the Schemes. Therefore, it is reasonable for the Required Return on Capital to be towards the lower end of the range.
- Based on the above analysis, I am satisfied that the proposed Required Return on Capital rate is within a reasonable range based on the market data available and, therefore, is appropriate from an Irish Scheme perspective.
- **Liver Sunset Must Limit** (see section 4.3.2.2 for description):
 - The run-off period for use in calculating the cost of capital to allow for in the CFC calculation encompasses the period from the Calculation Date to the Liver Sunset Must Limit (expected to be reached in 2041).
 - At the Liver Sunset Must Limit, in accordance with the IoT, the RL Open Fund must accept responsibility (without charging) for the capital requirements of the Liver Fund. The rationale for this was that the cost of capital would be immaterial at that point.
 - Consequently, the proposed run-off period for the CFC calculation and charging for capital is the Liver Sunset Must Limit. I understand that in practice, the projected NBSS is zero before the Liver Sunset Must Limit is reached.
- **Calculation of the CFC: Overview** (see section 4.3.2.3 for description):
 - The CFC is calculated by, at each point in time over the run-off period up to the Liver Sunset Must Limit, multiplying the NBSS by the Required Return on Capital rate and discounting the result at the UK Solvency II GBP risk-free rate as at the Calculation Date.
 - The NBSS is comprised of the increased SCR, the increased risk margin, the capital buffer under the RLMIS Capital Management Framework, an allowance for post-consolidation diversification benefits and the CFC itself (i.e. the derivation of the CFC is iterative). The

NBSS will be calculated using RLMIS's Solvency II methodology (i.e. Internal Model with allowance VA and TMTP), subject to some exclusions – my analysis of each specific component is included in more detail below. However, I am satisfied that the components that are included within the calculation of the CFC are reasonable.

- The key area of judgment here overall is in relation to the proposed use of UK and RLMIS specific reserving and capital requirements to determine the NBSS. The rationale for this is that, if the Schemes are successful, then the expectation is that the Liver Fund business (direct and reinsured) will be held in perpetuity (while the LRA is in-force) in RLMIS within the RL Open Fund. This rationale is not unreasonable assuming the LRA remains held in perpetuity. This is a key assumption as the expectation would be if one were to allow for the equivalent capital requirements that would need to be held in RLI DAC were the LRA to terminate, these would be higher due to the fact that RLI DAC does not have approval to use an internal model, VA, TMTPs, economic assumptions would differ as capital would be held in the Eurozone rather than in the UK and diversification benefits would be very different in RLI DAC versus RLMIS. However, allowing for a potentially higher cost of capital without an expectation that this will actually happen on a best estimate basis would not be reasonable. Therefore, I am satisfied that the proposed use of UK and RLMIS specific reserving and capital requirements to determine the NBSS is reasonable.
- **Calculation of the CFC: Discount rate** *(see section 4.3.2.3 for description):*
 - It is proposed that the cost of capital will be discounted at the UK Solvency II GBP risk-free rate as at the Calculation Date, with no VA adjustment.
 - In my analysis, I considered the appropriateness of the interest rates derived from swap rates used in discounting the CFC calculation and whether the Solvency II Ultimate Forward Rate (“UFR”) was a factor to consider. While Solvency II aims to use market-consistent rates derived from swap rates as the basis for discounting future liabilities, this can only be done up to the Last Liquid Point (“LLP”). Rates beyond the LLP are extrapolated from the UFR and due to the current low interest rate environment translate into a lower discount rate.
 - In the calculation of the CFC, UK risk discount rates are used as the capital requirements will be met by the RL Open Fund. The LLP in the UK is currently 50 years and, therefore, market consistent data is used up until this point. As the cost to the RL Open Fund of meeting the capital requirements of the Liver Fund is expected to become immaterial at the Liver Sunset Must Limit in 2041, which is before the LLP, the UFR has no impact on this calculation.
 - I also considered the appropriateness of not adjusting for the VA and I note that the approach is in line with the cost of capital approach used under Solvency II, where risk-free discount rates are used.

- In conclusion, I am satisfied that discounting the cost of capital at the UK Solvency II GBP risk-free rate as at the Calculation Date, with no VA adjustment, is reasonable.
- **Calculation of the CFC: Liver Fund SCR** *(see section 4.3.2.3.1 for description):*
 - It is proposed that the SCR will be calculated using RLMIS's UK Solvency II basis (i.e. IM with VA and TMTP). However, some elements of the SCR will be excluded because it is either unnecessary or inappropriate for the RLMIS RL Open Fund to charge for taking the responsibility for these elements of the capital requirements, those being non-pension scheme market risk and RLI DAC's counterparty default risk capital.
 - Non-pension scheme market risk: is proposed to be excluded as the RL Open Fund is receiving assets equal to the BEL, which is calculated on a market consistent basis and includes the cost of the guarantees. The assets moved in respect of these cost of guarantees should, in theory, be sufficient to obtain market hedges which could be used to remove / minimise the market risk from the business. I have considered this proposal and I am satisfied that it is reasonable to assume that it would be possible to reduce the current level of market risk to an immaterial level by entering into suitable hedging arrangements.
 - Pension scheme market risk: is proposed to be included in the calculation of the SCR for the NBSS. This is on the basis that the pension scheme valuation does not include market consistent liabilities and, therefore, the argument for ignoring market risk within the NBSS does not hold. I have considered this proposal and I am satisfied that it is reasonable.
 - RLI DAC capital requirements in respect of counterparty default risk: are proposed to be excluded. As the Liver Ireland Sub-Fund is reinsured to RLMIS under a 100% quota share arrangement, the only risks that remain in the Liver Ireland Sub-Fund are in respect of Counterparty Default risk (to RLMIS) and Operational risk. Under the terms of the LRA, the Liver Fund provides the capital associated with these risks to RLI DAC. Following the Schemes, the RL Open Fund will provide this capital. Including this risk in the NBSS calculation would result in RLMIS charging the Liver Fund Estate for the risk that RLMIS became insolvent. I understand that this would not be consistent with the charges applied to other consolidating funds under the Legacy Simplification Project. I have considered the rationale behind this proposal and I am satisfied that it is reasonable.
- **Calculation of the CFC: Target Capital Buffer** *(see section 4.3.2.3.2 for description):*
 - The target capital buffer within the RLMIS Capital Management Framework (capital buffer held to support a 1-in-20 capital event) is calculated on the UK Solvency II basis (including TMTP, VA etc.) as the Liver Fund business is expected to be continued to be managed in the same way following the Liver Fund Consolidation. While the LRA is in force, it is appropriate that the NBSS should allow for the RLMIS specific reserving and capital requirements that exist rather than those that could apply if the LRA was terminated.

- **Calculation of the CFC: Liver Fund Risk Margin** *(see section 4.3.2.3.3 for description)*:
 - The Liver Fund direct and reinsured liabilities' risk margin, determined on a UK Solvency II basis, will be calculated based on the projected non-hedgeable SCR at each required point in time (i.e. to the end of the policies) excluding the Staff Pension Schemes' SCR. There is no requirement to hold a risk margin against such pension liabilities so this is excluded from the calculation. I have considered the rationale and I am satisfied that it is reasonable.
- **Calculation of the CFC: Diversification Benefit** *(see section 4.3.2.3.4 for description)*:
 - Diversification benefits are generated from consolidating the Liver Fund into the RL Open Fund. It is proposed that these benefits are shared 50:50 between the Liver Fund and the RL Open Fund. As such, the CFC calculation allows for this.
 - I have considered the appropriateness of the 50:50 split in diversification benefits proposed. I am satisfied that it is appropriate that the Liver Fund and the RL Open Fund share the diversification benefits equally as both funds are entering into the transaction willingly and, because each fund needs each other in equal measure to achieve the diversification benefits, neither fund is contributing to a greater diversification of risks. Based on the information available to me, I do not believe that either fund is in a position whereby they require the Schemes (and the Irish and UK Schemes are co-dependent on each other) and, therefore, neither are in a weaker negotiation position which would result in a different split of diversification benefits.
- **Overall Conclusion on the Closed Fund Contribution Methodology and Assumptions**
 - Overall, I am satisfied that the calculation of the CFC is reasonable. I am satisfied that the assumptions and methodology are reasonable and it represents an appropriate and fair assessment of the additional capital requirements that the RL Open Fund is taking on as a result of the Liver Fund Consolidation and that the cost of this additional capital has been determined on an appropriate and reasonable basis.

6.2.1.1.4 Premium Uplift Contribution

As described in **section 4.3.4**, in addition to the immediate asset share Uplift, all with-profits policies included in the Schemes, where contractual regular premiums are payable, will also be entitled to an uplift to their asset shares in respect of eligible contractual regular premiums as they are paid. For clarity, the Uplift will be at the same level as that applied to asset shares at the implementation date and will only apply to contractual regular premiums that had commenced on or prior to 31 December 2021 (i.e. before details of the Schemes have been made public).

In order to allow for the application of the Uplift in respect of eligible contractual regular premiums after the Implementation Date, a Premium Uplift Contribution will be paid from the Liver Fund Estate to the RL Open Fund on the Implementation Date as part of the Scheme Contribution. If the Premium Uplift Contribution was not implemented as part of the Scheme Contribution, the Liver Fund Estate

would be distributed through a single immediate enhancement to asset shares and this would not be applied to eligible contractual regular premiums yet to be paid.

Under the Schemes' proposals, the Uplift will be applied to the Included Policies in respect of any eligible contractual regular premiums that are paid into these policies as and when those premiums are paid. This ensures that they are not unfairly disadvantaged by the immediate distribution of the Liver Fund Estate under the Schemes.

In the absence of the Irish and UK Schemes, the holders of with-profits policies in the Liver Ireland Sub-Fund and Liver Fund that pay regular premiums would receive distributions from the Liver Fund Estate through enhancements to the asset share, whenever the Liver Fund has excess capital above its Liver Capital Management Framework (currently a 1 in 20-year capital target).

For clarity, the Premium Uplift Contribution does not apply to CB policies as future premiums on these policies would not lead to any enhancement to the sums assured or declared contingent bonuses on these policies as the sums assured on these policies already implicitly allow for all eligible contractual regular premiums being paid.

The Premium Uplift Contribution will be held as a provision by the RL Open Fund. It has been calculated based on best estimate assumptions of future contractual premium payments. The uplifts that are expected to be made are the value of each expected future premium multiplied by the Uplift (percentage). For the avoidance of doubt, the uplift applied to asset shares when eligible contractual regular premiums are received is in line with that granted to asset shares at the Implementation Date. The actual premiums payable in the future remain unchanged in the calculation of the best estimate.

Having considered the foregoing, I am satisfied:

- that the Liver Ireland Scheme with-profits' policyholders who will pay eligible contractual regular premiums are entitled to receive an Uplift as, in the absence of the Schemes, the future premiums would be entitled to share in the distribution of the Liver Fund Estate.
- that it is reasonable to exclude the CB policyholders from the Premium Uplift Contribution as, while they are non-profit policies with a right to a share of the Liver Fund Estate, they accrue no additional rights through future premiums. Future premiums on these policies would not lead to any enhancement to the sums assured or declared contingent bonuses on these policies.
- that it is appropriate for the Premium Uplift Contribution to be calculated on a best-estimate basis. This basis provides the most appropriate view of the future at the Calculation Date and appropriately takes account of assumptions such as the rate of decrement which impacts expected total premium.
- that it is appropriate that the premium uplift should only apply to contractual regular premiums at the level in-force as at 31st December 2021 before details of the Schemes are shared via the appetite mailing and not to future increases in regular premiums or to any future single premiums that may be paid.

6.2.1.1.5 Project Costs Allowance

Section 4.3.3 outlines the methodology of calculating the Projects Costs Allowance and the corresponding rationale.

The Project Costs Allowance covers an estimate of the total costs of all consolidations to be made by schemes of arrangement under the Legacy Simplification Project. If the UK and Irish Schemes are implemented, a Projects Costs Allowance will be deducted from the Liver Fund Estate to cover the Liver Fund's (including the Liver Ireland Sub-Fund) share of the costs incurred in relation to the Legacy Simplification Project. These costs include but are not limited to the costs of internal project resource, external fees paid to external advisors and to the Independent Expert and Independent Actuary.

In this section, I consider the project costs allowance for all the consolidations, the allocation methodology of costs to each Consolidating Fund and appropriateness thereof, the proposed indemnity loading to variable costs expected to be incurred from the 31st March 2021 and the process if the Irish (and co-dependent UK) Scheme(s) were not to be implemented.

- **Project Costs Allowance for all Consolidating Funds**

- The estimate of total costs of the Legacy Simplification Project was calculated to be £38.1m and fixed as at 31st March 2021, i.e. at the date that the Uplifts for the previous fund consolidations were finalised.
- The costs were fixed in value when the first consolidations occurred and include a mixture of known costs at that time and expected costs calculated on a best estimate basis. The majority of project costs are known at the calculation date.
- I have reviewed a breakdown of the total costs incurred at the 31st March 2021 and also the expected future costs at that time. The incurring of costs to date have been subject to robust internal controls and governance processes, with the spending overseen by the RLMIS WPA, the RLMIS With-Profits Committee, the RLMIS Board and the LSC in respect of the Liver Fund. This governance process gives comfort over the appropriateness of the level of costs incurred to date.
- The expected future costs to be incurred were assessed based on RLMIS's experience of similar projects and the expected achievement of synergies and are a best estimate view.
- As such, I am satisfied that the estimates reflect a best estimate assumption.

- **Project Costs Allocation Methodology**

- Within the Legacy Simplification Project, it is proposed to allocate the total costs of consolidating all of the Consolidating Funds to the Consolidating Funds and not the RL Open Fund. RLMIS is of the view that this approach is consistent with an arm's length transaction, under which the cedent of risk in a reinsurance transaction would be liable for

development expenses incurred. I would also note that all previous RLMIS consolidations that have occurred to date have allocated costs in this manner. Consequently, I am of the view that a change in approach here would be not be appropriate in the context of what has already occurred.

- In relation to the total costs across all the Consolidating Funds, it is proposed to allocate these in proportion to the value of the total eligible benefits plus the estate value in each fund (i.e. the value of the asset share and the CB claim value).
- Various alternative methodologies to allocate project costs across the Consolidating Funds were considered in an effort to ensure a fair and equitable apportionment before deciding that the fairest methodology to use would be to allocate costs in proportion to the eligible benefits plus estate value of each Consolidating Fund. For the sake of transparency, the alternative methodologies considered were:
 - **Policy Count:** Under this allocation methodology, each policy under each Consolidating Fund would bear the same cost. Under this methodology, the Consolidating Funds with the larger policy counts would incur proportionally larger costs than the Consolidating Funds with smaller policy counts. This would not take into account the magnitude of the benefits and could therefore lead to an unfair distribution of costs as a proportion of benefits.
 - **Consolidating Fund:** Under this allocation methodology, each Consolidating Fund would bear an equal cost of £6.4m. The implications of this allocation for policyholders invested in the Consolidating Funds would vary significantly, with larger Consolidating Funds' policyholder asset shares benefiting at the expense of smaller ones. This outcome was not considered appropriate, given that the policyholders invested in the Consolidating Funds would stand to receive broadly the same benefits from the Legacy Simplification Project, but would be bearing significantly different costs.
 - **Estate Value:** Under this allocation methodology, each Consolidating Fund would bear a cost that reflects the benefits policyholders invested in the fund are likely to receive from the distribution of the fund's estate. This allocation would result in greater costs being allocated to Consolidating Funds that have held back greater shares of their estates and lower costs being allocated to Consolidating Funds that have distributed more of their estates in the past. This would not represent a fair outcome for all policyholders.
- Having considered the alternatives, I am satisfied that the allocation of costs between the Consolidating Funds in the wider Legacy Simplification Project in proportion to the eligible benefits plus estate value is a fair methodology to adopt as it is in line with the degree to which the policyholders in each Consolidating Fund are expected to benefit from the consolidation via the eligible benefits Uplifts applied on Implementation Date. It is also

consistent with the basis of the Uplifts which are to be applied to the policies in scope of the Uplift.

- I also note that the Uplift is not significantly sensitive to the Project Costs Allowance payable from the Liver Fund Estate under the Schemes. Increasing or decreasing the Project Costs Allowance by up to 50% changes the Uplift by under 0.6% (in additive terms).

- **Indemnity Loading**

- The Legacy Simplification Project has not yet completed and some of the project costs expected to be incurred are based on estimates that were set on 31st March 2021 as outlined earlier.
- Under the Liver Fund Consolidation, it is proposed that the RL Open Fund absorbs any such cost overrun in return for the inclusion of an explicit indemnity loading in the amount charged to the Liver Fund Estate for best estimate future variable costs. The proposed indemnity loading is a 15% loading on future variable costs which was quantified on a best estimate basis at 31st March 2021. No indemnity loading is proposed on fixed costs or any variable costs that were known as at 31st March 2021. For the sake of clarity, to the extent that expenses eventually incurred are aligned to the best estimate view determined as at 31st March 2021, the RL Open Fund will benefit from any expense underruns that may occur.
- The total additional costs as a result of the indemnity loading are therefore £1.8m for the total Legacy Simplification Project. Of this, the cost to the Liver Fund is £0.3m.
- In relation to the application of an indemnity loading, I am satisfied that it is fair that the RL Open Fund receives a compensation for the risk it will bear in relation to variable costs and charging this margin to the Liver Fund Estate in addition to the expected project costs to fund this is an appropriate mechanism to provide this compensation. The Legacy Simplification Project is a very significant project and, as with any large-scale project, there is an uncertainty in costs that will ultimately be incurred. As such, I am satisfied that it is appropriate that an indemnity margin is applied.
- I am satisfied that the fixed known costs are excluded from the indemnity loading as these relate to fixed fee schedules that were agreed at the outset of the project e.g. the external legal fees.
- I am satisfied that the indemnity loading assumption of 15% is appropriate based on:
 - RLMIS analysis of premiums charged by external suppliers to undertake fixed price contracts indicated that an indemnity loading of 10% to 30% would be typical.
 - My own experience in relation to large scale transformation programmes would suggest loadings also of between 10% and 30%, with 30% typically added at the outset of a programme moving towards 10% as the funnel of doubt decreases as experience and knowledge increases.

- As the project costs were set part way through the Legacy Simplification Project, a 15% loading does not seem unreasonable.
- I am satisfied that an indemnity loading is more appropriate than a 'true-up' option whereby a 'true-up' would be applied to the Liver Fund policy asset shares at the end of the Legacy Simplification Project. Applying a 'true-up' and, therefore, deferring the application of cost overruns would mean that policyholders who exited in the interim would not have to bear the true-up, raising fairness concerns.
- **Process in the event the Schemes are not implemented**
 - In the event that the Schemes are not implemented prior to the appetite mailing or due to a negative response to the appetite mailing, the costs associated with the Scheme will be met by the RLMIS Open Fund. I consider this appropriate as the driver of the Schemes is RLMIS's Legacy Simplification Project and the Schemes have received no support from the Liver Fund policyholders.
 - In the event that the Schemes are not implemented at any point after the appetite mailing (assuming a positive response to the appetite mailing), the costs deemed attributable to the Liver Fund and incurred up until the point at which the implementation was stopped would be split between the Liver Fund Estate and the RL Open Estate. The approach to sharing the costs would be decided in line with the IoT, with the final allocation of costs being subject to review by the RLI DAC HoAF, RLMIS WPA and the RLIMIS WPC. I consider this to be a fair and reasonable approach given the high proportion of positive responses received from the initial mailing in relation to the planned Irish and UK Schemes.
- **Overall conclusion on the Project Costs Allowance**
 - Overall, I am satisfied that the methodology used to calculate the Projects Cost Allowance and the underlying assumptions used in the calculation are reasonable.

6.2.1.1.6 Liver Fund Estate distribution Uplift

In the absence of the Schemes, RLI DAC and RLMIS would expect to gradually increase the asset shares of with-profits' policies and the claim amounts (via declared contingent bonuses) of non-profit CB policies in distributing the Liver Fund Estate (through the LRA).

As described in **section 4.4**, if the Schemes are implemented, an Uplift will be applied to all Included policies to effect the distribution of the Liver Fund Estate. The chart below shows the projected distribution of the Liver Fund Estate under two scenarios (i) in the absence of the Schemes (shown as a 90% confidence interval) assuming no other management actions are taken; and (ii) following the implementation of the Schemes. The solid line shows the potential Uplift if no CFC or project costs are applied (c. 29.6%) and the dotted line shows the proposed Uplift under the Schemes (23.1%). The projected distribution is shown as a percentage of asset share/CB claim amounts.

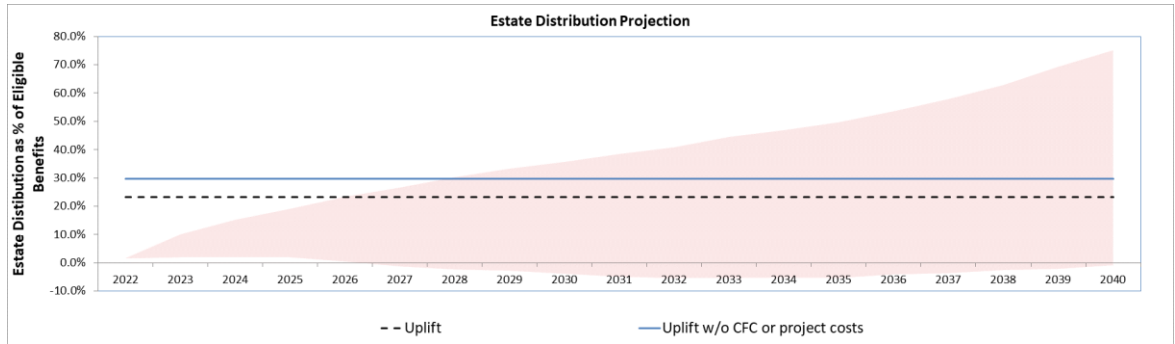


Figure 1: Projected Liver Fund Estate Distribution

The trend of the projected estate distribution in the absence of the Schemes reflects the enhancements to the asset shares of with-profits policies and to the contingent bonuses of CB policies over the run-off of the Liver Fund whenever the fund has an excess above the 1-in-20-year capital buffer, as prescribed in the IoT. The estate distributions are, therefore, limited by the capital requirements and capital buffer required to be held in the Liver Fund.

Under best estimate assumptions, it would be expected that these capital requirements and the capital buffer could be released over time for distribution to policyholders. The central estimate of the aggregate distribution in the absence of the Schemes therefore increases over time for those policies in the fund the longest. However, as this projection is based on best estimate assumptions, there is also some uncertainty in how the distributions will change over time. The shaded area in

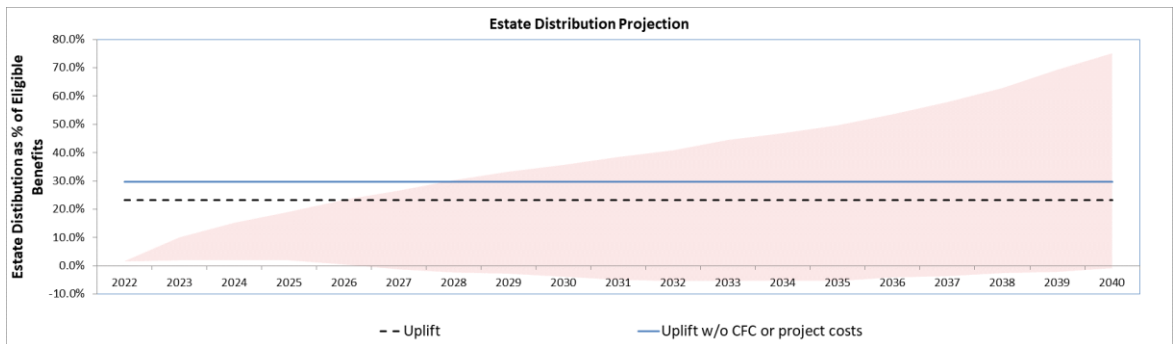


Figure 1 therefore shows the 90% confidence interval for the (uncertain) pattern of distributions in the absence of the Scheme. A particular point worth noting from the figure above is that this confidence interval includes the potential for negative distributions, that is, reductions to the asset shares and contingent bonuses. Such reductions would only occur if the Liver Fund cannot meet its capital requirements but it is clear from the chart above that such reductions could be required over the run-off of the business within the 90% confidence interval.

The Liver Fund Estate will be reduced by the Scheme Contribution prior to calculating the Offer Uplift percentage under the Schemes and so the total amount distributed to policyholders if the Schemes were to be implemented would (under best estimate assumptions) be lower than the total amount distributed in the absence of the Schemes. However, one of the aims of the Schemes is to improve the fairness of the distribution across policyholders (this is discussed further below) and to achieve

this it is necessary to make the Estate available for distribution by transferring the capital liability outside of the Liver Fund or reducing the capital liability. There is more than one way to achieve this but the only way which would not incur some costs is to wait for the Sunset Must point. I note that only 20% of Liver Ireland policyholders are expected to remain in-force at this point. I have considered the appropriateness of the Scheme Contribution calculation and assumptions in section 6.2.1.1.

It is clear from

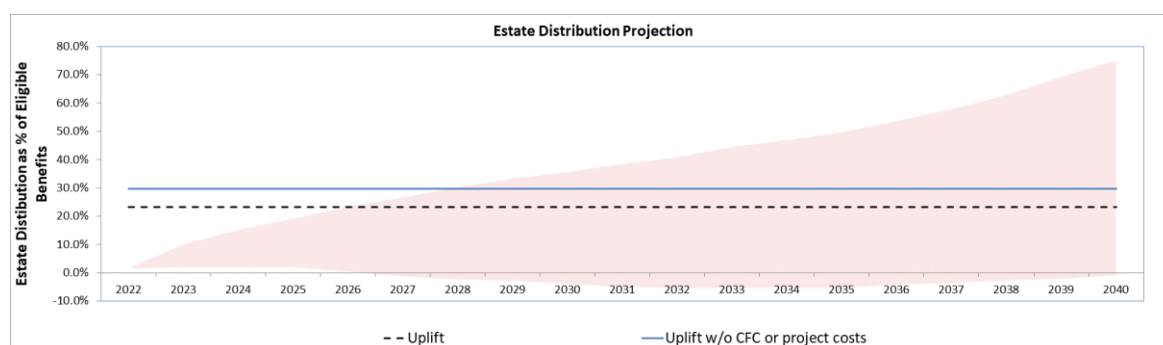


Figure 1 above that implementation of the Schemes results in an Estate distribution which is the same percentage of asset share (or claim amount) for all Eligible Policies. In the absence of the Schemes, the distribution of the Liver Fund Estate increases over time as the capital required to support the business falls. In particular, the rate of change in the confidence interval increases more rapidly overtime (i.e. a tontine occurs). Consequently, those who exit the fund last receive an unfairly large portion of the profits available to be distributed to all relevant policyholders (i.e. a tontine occurs – see **section 6.2.1.1.6.1** below).

Under the Schemes, it is expected that policyholders with shorter terms remaining will receive a higher distribution of the Liver Fund Estate than they would have been expected to receive in the absence of the Schemes. It is expected that the opposite will be true for policyholders with longer remaining terms. On best estimate assumptions the cross-over point between these two groups is expected to occur in around 12-15 years' time. Approximately a third of the current Liver Ireland Policyholders are projected to remain in force beyond cross-over point and therefore potentially receive higher distributions in the absence of the Schemes. However, exactly how future estate distribution would have occurred in the absence of the Schemes is significantly uncertain.

In my view, accelerating the distribution of the Liver Fund Estate by way of Uplifts to the Eligible Benefits of Included Policies will smooth the potential tontine and ultimately lead to more equitable distributions of the Liver Fund Estate. This is considered further in **section 6.2.1.1.6.1** below.

Certain UWP Eligible Policies are 'open-ended' contracts, which means that the contract can be lapsed at any point, with the target pay out being the policyholders' asset share at the date of lapse. This differs from CWP contracts and UWP contracts with set maturity dates, whereby the target pay-out is asset share at the point of maturity of the contract. Thus, an Eligible Policyholder of a UWP

open-ended contract could wait for the Uplift to be applied under the Schemes and then immediately lapse, receiving their full Uplift immediately, whilst Eligible Policyholders of CWP and UWP contracts with set maturity dates would have to wait until maturity of their contract to receive the full benefit of the Uplift. I have considered the fairness of the distribution of the Liver Estate via Uplift and I note that this particular nuance is not a consequence of the Schemes but rather a feature of the contracts purchased by the relevant UWP Eligible Policyholders. I am therefore comfortable that the distribution of the estate via Uplift is a fair and equitable approach in this context.

6.2.1.1.6.1 Treatment of Tontines in the assessment of policyholder reasonable expectations

In my view, the expectation to receive a tontine should not form part of policyholders' reasonable benefit expectations. This supported by the UK's Financial Conduct Authority (FCA) and the UK High Court in a number of recent public statements including:

- The FCA's 2019 Thematic Review of the Fair treatment of With-Profits Policyholders¹⁶

The report from this review clearly sets out that tontines should be minimised, with "good practice" examples including minimising of tontines and "poor practice" examples giving insufficient attention to the potential for tontines.

- December 2019 UK High Court ruling on a scheme of arrangement involving The Equitable Life Assurance Society¹⁷.

Justice Zacaroli stated that:

"I consider that Equitable is indeed facing a problem that requires a solution – namely the emergence of a tontine which can properly be characterised as leading to an unfair distribution of capital among remaining policyholders. The FCA, whose statutory objectives include securing an appropriate degree of protection for consumers and ensuring that the relevant markets function well, is of the view that a tontine is not a desirable outcome and should not form part of policyholders' reasonable expectations."

Notwithstanding the above points, there are some additional considerations in respect of the Schemes due to the proscriptive nature of the IoT and, consequently, the Capital Management Framework under which the Liver Fund operates.

As specified in **section 3.6**, the Liver Fund Capital Management Framework does not permit distribution of the Liver Fund Estate unless the excess capital (over the required SCR capital) is at or above the 1-in-20 year level. This significantly limits management's ability to smooth the potential tontine through higher levels of distribution in the earlier years. Given the clear regulatory and legal view that tontines should be minimised, it is reasonable to assume that in the absence of the Scheme, other actions to minimise the tontine would be taken, such as:

¹⁶ <https://www.fca.org.uk/publication/thematic-reviews/tr19-03.pdf>

¹⁷ <https://www.equitable.co.uk/media/66949/uk-high-court-judgment.pdf>

- Mitigating or hedging actions would be taken to reduce SCR risks (e.g. reinsurance, market risk hedges). This would reduce the capital required and therefore increase the excess capital, allowing more of it to be distributed earlier in the projection period; or
- Another scheme would be proposed at a later date which reduced the tontine or changed the ability to distribute to a lower threshold from 1-in-20 where it is currently.

The first of the two options above could be implemented by management reasonably quickly although the extent to which it would smooth the tontine will be limited by the practicality (and potentially costs) of mitigating or hedging the SCR risks. The second of the two options above would take a number of years to implement which would move the Liver Fund deeper into the rapidly widening confidence interval and reduce the number of policies that would benefit from smoothing the tontine. As the chart below shows, delaying the action to smooth the tontine by 2-3 years would reduce the number of policies benefiting from it by 15%-25%.

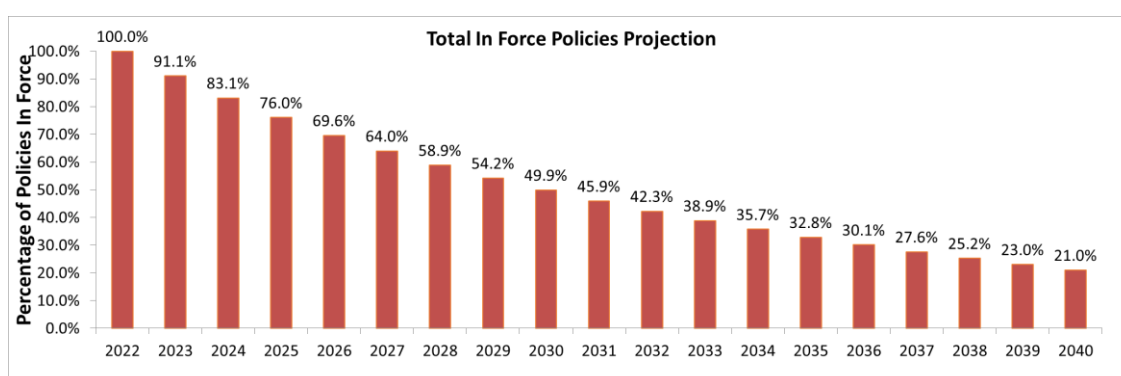


Figure 2: Projected policy run-off

RLI DAC was established in 2019 so there has been little time for it to demonstrate active management of unfair tontines or other unfair risks in its own right. However, the Liver Ireland Sub-fund was previously part of the Liver Fund (managed by RLMIS) and the distribution of the Liver Fund Estate continues to be subject to oversight by the Liver Supervisory Committee, the RLMIS WPA as well as approval from both RLI DAC and RLMIS Boards (as any distribution of the Liver Fund Estate impacts both Liver Ireland policyholders and Liver UK policyholders). Therefore, it is reasonable to consider the prior actions of RLMIS and the Liver Supervisory Committee with regard to the management of unfair tontines and other unfair risks.

- SL GAR compromise: The SL Fund had a significant emerging tontine but due to the existence of guaranteed annuity rates (GARs), the capital requirements for this Fund were high and RLMIS's ability to distribute the Estate was limited. To address this, RLMIS offered those policyholders with a GAR, a policy uplift in exchange for the GAR. The removal of the GAR in this way resulted in a significant release of both BEL and required capital. Consequently, RLMIS was able to accelerate the distribution of the Estate and mitigate the effect of the approaching tontine.

- **Liver Fund expense risk:** At the time that RLMIS acquired the Royal Liver business and established the Liver Fund (i.e. 2011), expense risk was identified as a clear issue for the fund. To address this, RLMIS established the Liver Fund rate card which fixed expenses for a 10 year period and defined how they would be managed thereafter.

Considering the above examples, I am satisfied that the Royal London Group has a record of addressing unfair tontines and other unfair risks in respect of its with-profit funds and therefore I am comfortable that in the absence of the Scheme, RLI DAC would take action to address the tontine.

I am satisfied that the receipt of a tontine is not part of policyholders' reasonable benefit expectations and therefore the implementation of the Schemes does not have a material adverse impact on the benefit expectations of RLI DAC policyholders.

Furthermore, given the regulatory and legal view that tontines should be minimised, I am comfortable that the proposed Schemes provide an effective and efficient way of meeting this expectation in the light of the distribution restrictions imposed by the IoT.

6.2.1.1.7 Expense Allocations including Exceptional Costs

As outlined in **section 3.5.5**, under the various legal agreements (those being a combination of the IoT, the RLI DAC Transfer Scheme and LRA), the Liver Fund and Liver Ireland Sub-Fund cannot be charged any more or less than pre-defined expense fees plus a basic service fee plus exceptional expenses. In relation to exceptional costs, the IoT and RLI DAC Transfer Scheme limit the circumstances under which exceptional costs can be charged to the Liver Fund and require RLMIS and RLI DAC to use reasonable endeavours to mitigate or minimise any exceptional costs attributable to the Liver Fund / Liver Ireland Sub-Fund.

Under the Schemes, there are no proposed changes to the pre-defined expense fees or the basic service fee. Thus, the Schemes have no impact on these.

As described in **section 4.3.5**, it is proposed under the Schemes that future exceptional costs will be levied on the asset shares (with-profits) or contingent bonuses (CB policies) of Liver Ireland Included Policies, rather than the situation pre-Schemes where exceptional costs would have been levied on the Liver Fund Estate. In relation to the methodology for deducting exceptional costs from the Liver Ireland Included Policies:

- Depending on the circumstances, it may be appropriate to levy a one-off immediate deduction to asset shares or declared contingent bonuses on the CB policies or alternatively to amortise the amount over the projected run-off period of the Included Policies. However, on balance, I consider that amortising exceptional costs over a projected run-off period may be more equitable to the holders of these policies than making a large one-off deduction from their asset shares as it aligns the period over which the charges are made to the period over which the benefits are received by each policyholder. In addition, amortising exceptional costs is more consistent with RLMIS' current practice under which such costs charged to the Liver Fund Estate result in reduced distributions from the Liver Fund Estate to Eligible Policies.

- In relation to the interest that should be charged on the outstanding amount assuming the amortisation method is used, I consider that a risk-free rate is the most appropriate rate for the charge to be recouped from Included Policies. I consider that using a higher rate for this purpose (e.g. a rate based on a weighted average cost of capital) would unduly increase the total amount paid by the holders of these policies.

In relation to Liver Ireland Non-Eligible Policies, I consider it appropriate that the exceptional costs would not be levied on these policies, as these policies would not have been entitled to share in the Liver Fund Estate in the absence of the Schemes.

In conclusion, I am satisfied that the way in which RLI DAC intends to charge holders of benefits invested in the Liver Fund for exceptional costs incurred after the Liver Fund Consolidation is implemented is fair to these policyholders. I am also of the opinion, supported by legal due diligence that RLMIS and RLI DAC have performed in collaboration with Pinsent Masons LLP, that the described approach will not contravene the approach to exceptional costs mandated within in the IoT.

Overall Conclusion on Expense Allocations including Exceptional Costs

Overall, I am satisfied that the implementation of the Schemes would not have a material adverse effect on the expenses that are charged to the asset shares of the with-profits' Liver Ireland Eligible Policies and, in the case of exceptional costs only, to the declared contingent bonuses for the CB Liver Ireland Eligible Policies.

6.2.1.1.8 Investment Strategy

Following the pooling of assets, and before the consideration of EBRs, the overall mix of assets backing asset shares is not expected to change in the RL Open Fund.

As described in **section 4.6**, the implementation of the Schemes is not expected to change the EBRs of the assets currently backing the asset shares of the with-profits' business invested in the Liver Fund. The EBRs of the existing business in both the Liver Fund and the RL Open Fund are both around 68% as at year-end 2021 and therefore it is not expected that there would be a significant impact on the investment potential of the Liver Ireland Policies. For clarity, there is no distinction between the EBR for the directly held UK with-profit liabilities and the Liver Ireland with-profit reinsurance liabilities as they are managed within the same pool of assets.

I consider the investment performance each of the Liver Policy groups and the Collateral Agreements in more detail in the sections below:

- ***Eligible with-profits policies***

Upon implementation of the Schemes, assets backing the asset shares of with-profits business moved from the Liver Fund (including assets backing the with-profits business reinsured under the LRA) will be pooled with the assets backing the existing business invested in the RL Open Fund.

On implementation of the Schemes and consolidation of the funds, trades to purchase additional equities would be required to ensure an asset share EBR of 68% in the pooled RL Open Fund. The trades would be required following the application of the Uplift to the asset shares of with-profits Liver Ireland (reinsured) and Liver UK Included Policies and the subsequent pooling of assets backing asset shares between the Liver Fund and the RL Open Fund. Following the Schemes' implementation, the costs of these trades would be attributed to asset shares in the RL Open Fund. I am satisfied that it is appropriate that the rebalancing of assets backing the policies invested in, or reinsured to, the Liver Fund and RL Open Fund will take place after the Implementation Date and not before.

I also note that the change in the EBR resulting from the Schemes is compliant with the Liver Ireland WPOP document that governs the management of the with-profits policies in the Liver Ireland Sub-Fund.

- ***Non-profit policies***

The benefits payable on the Liver Ireland non-profit policies (including CB Liver Ireland Eligible Policies and the Liver Ireland Non-Eligible Policies) are not linked to investment returns on the assets backing them. As such, the investment strategy following the implementation of the Schemes would not impact the reasonable benefit expectations of the Liver Ireland non-profit policies.

- ***HITM policies***

The benefits payable to HITM policies are not expected to be affected by investment returns as the guaranteed benefits are expected to be paid. As such, the investment strategy following the implementation of the Schemes would not impact the reasonable benefit expectations of the Liver Ireland HITM policies.

In the unlikely scenario where future investment performance is such that the HITM policies cease to be in the money, the considerations set out above in respect of the Eligible Policies apply.

- ***LRA Collateral Agreements***

The assets subject to the fixed charges under the Collateral Agreements are currently a proportion of the assets of the Liver Fund and are allocated to two separate ring-fenced collateral pools (one per fixed charge), by the appointed custodian. Upon implementation of the Schemes, the ring-fencing of collateral pools will continue. The assets are currently, and following the implementation of the Schemes, will continue to be managed by Royal London Asset Management (RLAM) to the relevant investment benchmarks and will be available to meet claims arising under the reinsured policies using the monthly settlement arrangements. The value of the collateral relative to the reinsured liabilities will continue to be rebalanced as part of the monthly settlement process under the LRA with quarterly restatements based on RLI

DAC's regulatory reporting figures. As such, I expect there to be no impact on the assets backing the collateral as a result of the Schemes implementation.

Overall conclusion on Investment Strategy

I am, satisfied that the implementation of the Schemes would not have a material impact on the expected return or expected volatility of return for the Liver Ireland with-profits' policies and to have no impact at all on the expected benefits of the Liver Ireland non-profit policies. As a result of this, the investment strategy following the implementation of the Schemes would not impact the reasonable benefit expectations of the Liver Ireland Policies (Eligible and Non-Eligible).

6.2.1.1.9 Future Bonuses

Following the implementation of the Schemes, bonuses for the Liver Ireland with-profits' policies will be set with reference to the uplifted asset shares. The derivation and award of regular and final bonuses will continue to be subject to the Liver Ireland WPOP. Following the implementation of the Schemes and the consolidation of the funds, the Liver Ireland WPOP will make reference to the RLMIS PPFM rather than the Royal Liver PPFM. The approach to bonus setting and the smoothing of bonuses is consistent between the RMLIS PPFM and the Liver PPFM. Therefore, other than the bonus calculation referencing the uplifted asset shares, the implementation of the Schemes will not directly result in any other changes to the process for setting regular and final bonuses.

As discussed in **section 6.2.1.1.8** above, no significant change to the investment mix or investment strategy is expected as a result of the Schemes. Therefore, the implementation of the Schemes will not have a material adverse impact on the expected magnitude of the awarded bonuses.

Following the implementation of the Schemes, the CB Ireland policies would not receive any future contingent bonuses as the Liver Fund Estate would have been fully distributed. Where a CB Ireland policy is entitled to receive periodic payments, these payments will be automatically uplifted as they are a proportion of the claim amount which will have been uplifted (i.e. this is not an additional Uplift and no additional cost is associated with it). I am satisfied that the Customer Communications are clear on this point so that policyholders fully understand the consequence of the Schemes on their future benefits.

Overall conclusion on Future Bonuses

I am satisfied that the implementation of the Schemes would not have a material adverse impact on the reasonable benefit expectations of the with-profits' or CB policyholders in respect of total bonuses.

6.2.1.1.10 Tax

The implementation of the Irish Scheme is not expected to affect the Irish tax liabilities of any policies invested in the Liver Ireland Sub-Fund. As long as the Irish Revenue approve the continuation of the non-statutory agreement (which the advice from tax specialists considers to be very likely), Liver

Ireland policies with tax efficient treatment will continue to benefit from the same treatment following the implementation of the Irish Scheme.

The Uplift to benefits on Liver Ireland policies may result in higher tax for individual policyholders, depending on their personal circumstances, but this would also be the case with any distributions of the Liver Fund Estate (i.e. it is a normal feature of the products rather than a specific consequence of the Schemes).

6.2.1.2 Assessment of the financial benefit expectations where the LRA ceases

The termination clauses of the existing LRA require the Liver Fund Estate to be split between the Liver Ireland Sub-Fund and the remaining Liver Fund (i.e. the UK policyholders in the Liver Fund). Such a split would be complex and incur costs that would need to be met by the Liver Fund Estate, reducing the amount available for distribution to policyholder. RLI DAC would also need to meet the costs of a subsequent potential consolidation into RLI DAC Open Fund at the sunset points outlined in the RLI DAC Transfer Scheme.

If the Schemes are implemented, the Liver Fund Estate will be fully distributed so no split will be required. Consequently, the costs incurred by the Liver Fund at the point the LRA ceases would be lower which increases the value of the Liver Fund Estate available for distribution to policyholders.

If the Scheme is implemented and the LRA ceases at some future date, the Liver Ireland Included Policyholders benefit from the earlier distribution of the Liver Fund Estate and other points discussed in **section 6.2.1.1** and also benefit from the reduction in costs associated with splitting the Liver Fund Estate.

6.2.1.3 Conclusion on the financial benefit expectations for Liver Ireland Policyholders

I am satisfied that the implementation of the Schemes does not have a material adverse effect on the financial benefit expectations of the Liver Ireland Policyholders.

6.2.2 RLI DAC Non-Liver Ireland Policyholders (German Bond Sub-Fund and Open Fund)

6.2.2.1 Assessment of the financial benefit expectations where the LRA continues

The policies in the RLI DAC Open Fund are non-profit policies and, therefore, their benefit expectations are contractually defined and will not change as a result of the Schemes.

The policies in the German Bond Sub-Fund are covered by German Bond Reinsurance Agreement which is entirely separate from the LRA and is not changed by the Schemes, nor is any associated documentation.

The benefit expectations of the RLI DAC Non-Liver Ireland Policyholders are not impacted by the Schemes.

6.2.2.2 Assessment of the financial benefit expectations where the LRA ceases

The policies in the RLI DAC Open Fund are non-profit policies and, therefore, their benefit expectations are contractually defined and will not change as a result of the Schemes, regardless of whether the LRA is in place or not.

The policies in the German Bond Sub-Fund are covered by German Bond Reinsurance Agreement which is entirely separate from the LRA and not changed by the Schemes. If the LRA ceased, the German Bond Reinsurance Agreement would not necessarily cease, and therefore the benefit expectations of German Bond Sub-Fund policyholders would be unchanged.

As the counterparty for the two reinsurance arrangements is RLMIS, the insolvency of RLMIS would trigger both arrangements to cease. However, this is the case regardless of the implementation of the Schemes.

The benefit expectations of the RLI DAC Non-Liver Ireland Policyholders are, therefore, not impacted by the Schemes.

6.2.2.3 Conclusion on the financial benefit expectations for RLI DAC Non-Liver Ireland policyholders

I am satisfied that the implementation of the Schemes does not have a material adverse effect on the financial benefit expectations of the RLI DAC Non-Liver Ireland policyholders.

6.3 Fairness Criteria 3 – Servicing & Governance Expectations

6.3.1 Liver Ireland Policyholders (Eligible and Non-Eligible)

6.3.1.1 Assessment of servicing & governance where the LRA continues

Currently, the policies written into the Liver Ireland Sub-Fund and reinsured into the Liver Fund under the LRA are subject to the following layers of governance:

- Liver Supervisory Committee (“LSC”): role created and defined under the IoT;
- RLMIS With-Profits Supervisory Committee (“WPC”): role created and defined by RLMIS;
- RLMIS With-Profits Actuary (“WPA”): role created and defined under UK regulation;
- RLI DAC Head of Actuarial Function (“HoAF”): role created and defined under the Domestic Actuarial Regime of the Central Bank of Ireland;
- The RLMIS Board;
- The RLI DAC Board.

If the Schemes are implemented, the LSC will no longer have a role in the governance of the policies written into Liver Ireland Sub-Fund and reinsured into the Liver Fund. However, the RLMIS WPC, the RLMIS WPA and the RLI DAC HoAF will continue to have oversight and governance

responsibilities. From an RLI DAC perspective, the RLI DAC HoAF and RLI DAC Board have ultimate responsibility for the governance and oversight of business written into the Liver Ireland Sub-Fund although both derive comfort from the governance and oversight of the WPA and WPC. Whilst the LSC will be a loss, I am satisfied that their responsibilities to the Liver Ireland Policyholders, will still be adequately covered by the governance remaining in place.

The administration and service standards of the Liver Ireland Sub-Fund policyholders will not change as a result of the implementation of the Schemes. Policy administration activities will continue to be carried out in Ireland. There will be no changes to the processes by which RLI DAC's policies are serviced, including the systems on which the RLI DAC policies are stored and administered.

In order to appropriately respond to customer queries in respect of the Irish Scheme and the Liver Fund Consolidation, RLI DAC has established a separate Irish fund consolidation call centre, made up of c.12 outsourced qualified experienced call handlers who are sufficiently trained on the Irish Scheme and the relevant products in advance of the appetite mailing. This will ensure Eligible Policyholders of the Irish Scheme receive a consistent level of service to Eligible Policyholders of the UK Scheme.

6.3.1.2 Assessment of servicing & governance where the LRA ceases

Currently, if the LRA ceases, the LSC, the RLMIS WPC and the RLMIS WPA would cease to have a role in the governance of the Liver Ireland Sub-Fund policies. The situation is no different post the implementation of the Schemes with the exception that the LSC ceases to have a role in the governance of the Liver Ireland Sub-Fund policies. From an RLI DAC perspective, as the RLI DAC HoAF and RLI DAC Board have ultimate responsibility for the governance and oversight of business written into the Liver Ireland Sub-Fund, I am satisfied that that the governance and oversight that would remain in such a circumstance is adequate.

If the existing LRA had ceased as a result of a management decision or another reason which did not involve the insolvency of RLMIS:

- the assets of the Liver Ireland Sub-Fund policies would continue to be managed by Royal London Asset Management (RLAM); and
- those elements of administration not currently managed by RLI DAC, would continue to be carried out in RLMIS. There are activities in relation to the RLI DAC policies such as, but not limited to, analysis of supportable bonuses and investment oversight of the assets backing the RLI DAC policies that are carried out by RLMIS under the LRA.

If the existing LRA ceased, the parties might agree terms for RLAM and RLMIS to continue providing the services; RLI DAC might assume responsibility for the services itself or, if it were commercially beneficial, RLI DAC may engage a third-party to carry out the services. There is no change to this as a result of the Schemes.

If the existing LRA ceased as a result of insolvency, there might be a need for immediate transfer of the administration services currently provided by RLMIS. There would also be a risk of RLAM being unable to continue offering investment services following the insolvency of its flagship/brand-linked client (i.e. RLMIS) so immediate transfer of the investment management services may also be required. However, this situation is unchanged by the Irish Scheme.

The Schemes does not impact the standard of servicing and governance provided to Liver Ireland Policyholders.

6.3.1.3 Conclusion on servicing & governance for Liver Ireland policyholders

I am satisfied that the implementation of the Schemes does not have a material adverse effect on the servicing & governance expectations of the Liver Ireland Policyholders.

6.3.2 RLI DAC Non-Liver Ireland Policyholders (German Bond Sub-Fund and Open Fund)

6.3.2.1 Assessment of servicing & governance where the LRA continues

There are no changes to the servicing & governance of the RLI DAC Non-Liver Ireland Policyholders.

6.3.2.2 Assessment of servicing & governance where the LRA ceases

Currently, if the existing LRA ceased, there might be a short-term impact on service standards due to RLI DAC's management focus on the Liver Ireland Sub-Fund where arrangements for a new administrator (for the RLMIS tasks only) or investment management might be required. However, this is unchanged by the Schemes.

There are no changes to the servicing & governance of the RLI DAC Non-Liver Ireland Policyholders.

6.3.2.3 Conclusion on servicing & governance for RLI DAC Non-Liver Ireland Policyholders

I am satisfied that the implementation of the Schemes does not have a material adverse effect on the servicing & governance expectations of the RLI DAC Non-Liver Ireland Policyholders.

6.4 Fairness Criteria 4 – Scheme Terms

In this section, I set out my assessment of the mechanics of the Schemes and the aim to ensure that the scheme terms have been set in such a way that supports fair outcomes to Eligible policyholders. In particular, I have considered the following:

- Scheme Eligibility;
- The requirements for the proposals to be approved;
- Voting Eligibility;
- The number and composition of the voting classes;
- The calculation of the value given to each vote.

6.4.1 Liver Ireland Policyholders (Eligible and non-Eligible)

6.4.1.1 Assessment of the Scheme Terms where the LRA continues

6.4.1.1.1 Scheme Eligibility

Under the proposed Schemes, RLI DAC will make an Offer to Liver Ireland Eligible Policies with RLMIS making a corresponding Offer to the Liver UK Eligible Policies.

The definition of a Liver Ireland Eligible Policy is such that the following policies are excluded from the Irish Scheme:

- Policyholders who will have reached their scheduled maturity or retirement date prior to the proposed Implementation Date of the Irish Scheme, 31 December 2022.
- Policyholders that will be claimed in full by the Calculation date (31 March 2022) by way of maturity, retirement surrender, transfer or death, or who have ceased to be entitled to receive benefits as at the Calculation Date in accordance with their policy terms and conditions as at 31st December 2022.
- All Liver Ireland HITM policies.
- All non-profit policies, except CB policies, in the Liver Ireland Sub-Fund.

If the Schemes are implemented, only policies that are currently entitled distributions of the Liver Fund Estate will be entitled to Uplifts.

I am satisfied that this is a fair and reasonable approach. Liver Ireland non-profit policies (except CB policies) are not eligible for distributions of the Liver Fund Estate (through the LRA in place) and I am satisfied that it is appropriate that these policies are excluded from the Irish Scheme.

The Liver Ireland HITM policies are entitled to a share of the Liver Fund Estate (through the LRA). However, the effect of the proposed Uplift on HITM policies is expected to be neutral due to the fact that these policies are so heavily in the money. As the inclusion or exclusion of these policies from the Scheme will not impact the expected benefits payable under these policies, I am satisfied that it is appropriate that these policies are excluded from the Irish Scheme.

In the absence of the Schemes, the policyholders that would leave the Liver Ireland Sub-Fund before 31st December 2022 (the Implementation Date of the Irish Scheme) would no longer have any entitlement to a share in the Liver Fund Estate at that point. It is, therefore, reasonable that these policies should not benefit from the Uplift Offer under the proposed Schemes.

Overall, I am satisfied that the approach to Scheme Eligibility is reasonable.

6.4.1.1.2 Requirements for the proposals to be approved

In order for the Irish Scheme to be implemented, a majority of Liver Ireland Eligible Policyholders who vote on the Offer must vote in favour of the Irish Scheme. Conditions are applied as follows:

- more than 50% of the Liver Ireland Eligible Policyholders who vote on the Offer must vote in favour of the Offer (requirement of the Irish Companies Act 2014); and
- those Liver Ireland Eligible Policyholders who vote in favour of the Offer must represent at least 75% of the total Vote Value.

RLI DAC sets out its own methodology to calculate the Vote Value and the appropriateness of this is considered in a later section.

The outcome on the vote will be binding on all Liver Ireland Eligible Policyholders.

Also, the Irish Scheme and the equivalent UK Scheme for Liver UK Eligible Policyholders of the Liver Fund are co-dependent Schemes which means that both Schemes must be sanctioned in order for either to take effect. The UK Scheme contains equivalent conditions and must be sanctioned by the UK High Court.

6.4.1.1.3 Voting Eligibility

All Liver Ireland Eligible Policyholders will be invited to vote.

I am satisfied that it is appropriate that only policyholders who have a collective entitlement to the Liver Fund Estate should be eligible to vote. For clarity, this includes the holders of non-profit CB policies. In the absence of the Schemes, RLI DAC would expect to gradually increase the asset shares of with-profit policies and the claim amounts (via declared contingent bonuses) of non-profit CB policies in distributing the Liver Fund Estate (through the LRA). As such, the Liver Ireland Eligible Policyholders are the group of policyholders impacted by the proposed Schemes and it is appropriate that they should be asked to vote.

HITM policyholders are non-Eligible policyholders and, therefore, will not be invited to vote. While Liver Ireland HITM policies (along with Eligible policies) have a collective entitlement to the Liver Fund Estate, they are not covered by the Schemes and there is no impact from the Schemes on their expected benefit. Therefore, it would not be appropriate for them to vote.

6.4.1.1.4 Voting Classes

For the purposes of voting, policyholders should be grouped into sufficiently homogeneous classes so that Liver Ireland Eligible Policyholders in each voting class are reasonably similar and have a common interest. Legal due diligence was carried out by Pinsent Masons to understand whether there are any reasons why the Liver Ireland Eligible Policyholders should be divided into more than one voting class. The legal advice from Pinsent Masons found that there was no reason that they should be divided into more than one voting class. Consequently, it is proposed that all Liver Ireland Eligible Policyholders will be treated as one voting class for the purposes of the Irish Scheme.

Under the Schemes, it is expected that policyholders with shorter terms remaining will receive a higher distribution of the Liver Fund Estate than they would have been expected to receive in the absence of the Schemes. It is expected that the opposite will be true for policyholders with longer

remaining terms (i.e. the projected tontine is smoothed/minimised). However, exactly how future estate distribution would have occurred in the absence of the Schemes is significantly uncertain.

Given the considerations set out in **section 6.2.1.1.6.1** in respect of the treatment of tontines and the legal advice obtained from Pinsent Masons, I do not consider the receipt of a tontine to be part of policyholders' reasonable benefit expectations. Consequently, it is appropriate not to segregate policyholders into different voting classes on the basis of payouts that are uncertain in the future.

6.4.1.1.5 *The calculation of the value given to each vote*

The value of a vote cast is the sum of the following two components, each calculated as at the Calculation Date (31 March 2022):

- The sum of the amounts payable on a claim across all of the policyholder's Liver Ireland Eligible Policies at the Calculation Date; plus
- For with-profits' Liver Ireland Included Policies only (i.e. not CB), the sum of future premiums on all of the policyholder's Liver Ireland Eligible Policies from the Calculation Date until their contractual end-point. These future premiums are limited to regular premiums only, limited to the level of annual premium being paid as at 31st December 2021 (as set out in paragraph 4.4.4).

I am satisfied that using the amounts payable on a claim is aligned with the Liver Ireland Eligible Policyholder's interest in the Liver Fund. By including the future premiums, the additional interest that the regular premium paying with-profits' policyholders have in the Schemes as a result of the application of the Uplift to eligible contractual regular premiums is incorporated.

Overall, I am satisfied that the approach to calculating the value given to each vote is reasonable.

6.4.1.2 *Assessment of the Scheme Terms where the LRA ceases*

My assessment of Scheme Terms is not dependent on the LRA and, therefore, my conclusion is the same in the scenario where the LRA ceases at some future time.

6.4.1.3 *Conclusion on the Scheme Terms for Liver Ireland Policyholders*

I am satisfied that the Scheme Terms have been set in such a way that supports fair outcomes for the Liver Ireland Policyholders.

6.4.2 *RLI DAC Non-Liver Ireland Policyholders (German Bond Sub-Fund and Open Fund)*

6.4.2.1 *Assessment of the Scheme Terms where LRA continues*

The Scheme Terms have no impact on the RLI DAC Non-Liver Ireland Policyholders.

6.4.2.2 *Assessment of the Scheme Terms where the LRA ceases*

The Scheme Terms have no impact on the RLI DAC Non-Liver Ireland Policyholders.

6.4.2.3 Conclusion on the scheme terms for RLI DAC Non-Liver Ireland policyholders

The Scheme Terms have no impact on the RLI DAC Non-Liver Ireland Policyholders.

6.5 Fairness Criteria 5 – Scheme Conduct

In this section, I set out my assessment on whether the scheme terms have been executed in a way that continues to ensure fair outcomes to policyholders. This includes:

- The appropriateness of Customer Communications;
- The tracing and treatment of ‘Gone-Aways’;
- Compulsion of non-responders and those who vote against the Offer.

6.5.1 Liver Ireland Policyholders (Eligible and Non-Eligible)

6.5.1.1 Assessment of Scheme Conduct where the LRA continues

6.5.1.1.1 Communications

- I have reviewed RLI DAC’s communication strategy, as described in **section 5** and I am comfortable that it is appropriate.
- I have reviewed sample/template versions of the appetite mailing and the voting pack, including the personal illustrations for the various product types. I have considered the relevant industry guidance around policyholder communications (i.e. ASP LAS-8 for the personal illustrations). I am satisfied that the communications are compliant with the requirements subject to some points in which the requirements seek disclosure of information which is not directly relevant to the Schemes. As the inclusion of such information could cause confusion for policyholders with regard to the change they are being asked to vote on, it would be contrary to the overall aim of communications being fair, clear and not misleading. Therefore, I am comfortable that the policyholder communications are appropriate and convey the relevant information to policyholders in a manner which is fair, clear and not misleading.

6.5.1.1.2 The tracing and treatment of Gone-Aways and Dormant policies

- I have reviewed RLI DAC’s approach to engage with policies classed as ‘Gone-Aways’ (i.e. uncontactable) and to reduce the number of policies classed as uncontactable (‘Gone-Aways’) and believe that significant efforts are being made to reduce the numbers of ‘Gone-Aways’.
- Given the impact on the Scheme Contribution calculation, I have also reviewed RLMIS’ approach to engage with policies classed as ‘Gone-Aways’ and believe that significant efforts are being made to reduce the numbers of ‘Gone-Aways’.
- Where a Dormant policy is potentially an Eligible Policy (i.e. not past maturity at end 2022 and not known to have died by end 2022) and is not also confirmed as a Gone-Away, the mailings in relation to the Scheme will be sent to their listed address. Given the long period of inactivity

required to be classified as a Dormant policy along with the older average age of this group and the history of very low claims, it is unlikely that a significant number of these policyholders will respond to the Scheme mailings. Nonetheless, I consider including these policies in the mailings to be an appropriate approach as these policyholders are entitled to vote on the Scheme if they are alive. Furthermore, I note that the actions taken to engage with Gone-Aways may also engage some Dormant policyholders, particularly the advertisements/announcements in the national press.

6.5.1.1.3 *Compulsion of non-responders and those who vote against the Offer*

- Under the Schemes, Eligible Policyholders who:
 - Vote against the Offer;
 - Do not Vote on the Offer (either in person or by proxy, including by post or online);
 will be bound by the Schemes if they are implemented. Under the proposed terms, policyholders do not have the option to opt out of the Schemes.
- If the Schemes are implemented, the assets and liabilities of the Included Policies (including the reinsurance liabilities in respect of the Liver Ireland Included Policies) will move from the Liver Fund to the RL Open Fund, which will reduce the Liver Fund to a level that will trigger the Liver Sunset Must Limit. Therefore, if the Schemes are implemented, the assets and liabilities of all Non-Eligible Policies (including the reinsured liabilities in respect of Liver Ireland Non-Eligible Policies) will also move to the RL Open Fund. Consequently, all Liver Ireland Sub-Fund Policyholders are bound by result of the vote. Below I consider the fairness to policyholders of the above terms of the Schemes.
- In Voting arrangements, it is common practice that those Voting against the Offer would be bound by the result of the Vote. There is no inherent evidence to suggest that the benefits for those policies for which no vote is received would be systematically any different from those policies where votes would be received. Nonetheless, even if the Vote is passed, RLI DAC would consider those that vote against the Offer, and whether these policyholders would be more likely to suffer an adverse outcome on implementation of the Schemes and take any necessary action. Under the terms of the Irish Scheme, RLI DAC has the right to withdraw it until the point that the Irish High Court approval is awarded. This would happen before the Schemes are sanctioned to ensure that the implementation is the most appropriate outcome.
- In considering those that do not vote on the Offer, I have reviewed the process employed by RLI DAC to trace uncontactable policies and conclude in an earlier section that the mechanisms being employed are robust.
- I have also reviewed the RLI DAC communications from the perspective of the customer's interpretation and understanding of the Schemes. I am satisfied that the communications are clear and give sufficient information to the customer to enable them to consider their position in respect of the Vote. The communications also clearly illustrate to the policyholders the

importance of their Vote. I note that there are some deviations from ASP LA-8¹⁸ which I understand to have been intentional and done primarily with the aim of ensuring policyholders can focus on what is changing and what they are being asked to vote on without the distraction of other, less relevant information. Such deviations may be acceptable in the context of the main aim of ASP LA-8 to provide information which is *“to provide policyholders with illustrations of projected benefits, expenses and charges which are fair, clear and not misleading”*. All deviations from this ASP have been documented and justified. I have reviewed this documentation and conclude that the deviations are reasonable and consistent with the aim of ASP LA-8.

- If the Schemes enabled policyholders to have an option to opt out of the Schemes, there would be a requirement to split the Liver Fund Estate between those that opt into the Schemes and those that opt out of the Schemes. A split of the Liver Fund Estate would be required as there would now be a cohort of Eligible Policies that were not accepting the Uplift to their policies in return for the Scheme Contribution deduction to the Liver Fund Estate. This would have the following undesirable consequences:
 - Splitting the Liver Fund Estate for this purpose would increase the project costs (splitting the Liver Fund Estate is more complex than distributing it) which would reduce the Liver Fund Estate available for distribution to policyholders.
 - Allowing some policyholders to opt out of the Schemes would require RLMIS to continue operating the Liver Fund as a separate ring-fenced fund which would be contrary to the purpose of the Legacy Simplification Project.
 - Maintaining the Liver Fund, however diminished, would reduce the diversification benefits from the consolidation which would increase the scheme contribution and reduce the Liver Fund Estate available for distribution to policyholders.
 - If the number of Eligible Policyholders who opt out of the Schemes is small, the remaining Liver Fund may, immediately or soon after the implementation of the Schemes, trigger the Liver Sunset Must Limit and compel the consolidation of the funds. This would be contrary to the policyholder’s stated choice but also potentially unfair. The RL Open Fund is not expected to charge for accepting the capital of the Liver Fund after the Liver Sunset Must Limit has been reached. Therefore, this may result in the policyholders that opted out not being charged a fee but still receiving early distribution of the Liver Fund Estate (i.e. receiving more than they would have under the Schemes).
- I am therefore satisfied that it is appropriate for all Liver Ireland Sub-Fund policyholders to be bound by the decision of the Irish High Court in relation to the Irish Scheme.

¹⁸ Actuarial Standard of Practice LA-8: Life Insurance product Information (https://web.actuaries.ie/sites/default/files/asp/ASP%20LA-8/ASP%20LA-8%20V1.16_0.pdf)

6.5.1.1.4 Continuation of the Liver Ireland Sub-Fund

If the Schemes are implemented, the Liver Ireland Sub-Fund will remain as a separate sub-fund of RLI DAC. The Uplift of benefits as a result of the Schemes will increase the level of the total asset share in the Liver Ireland Sub-Fund. This will defer the projected Liver Ireland sunset points but as the sunset points cannot be triggered while the LRA is in place, this will have no impact on Liver Ireland Sub-Fund policyholders.

6.5.1.2 Assessment of the Scheme Conduct where the LRA ceases

The increase in asset shares due to the Uplift will defer the Liver Ireland sunset point at which the Liver Ireland Sub-Fund consolidates into the RLI DAC Open Fund if the LRA ceases. In the absence of the Schemes, the ceasing of the LRA would result in the splitting of the Liver Fund Estate such that the Liver Ireland Fund would hold the relevant proportion of the Liver Fund Estate. This would not in itself defer the Liver Ireland Sunset points, the deferral would depend on the action RLI DAC took at that point:

- RLI DAC chooses to distribute the Liver Ireland Sub-Fund Estate prior to reaching the Liver Ireland Sunset point. This would result in the Liver Ireland sunset points being deferred in a similar manner to under the Scheme.
- RLIS DAC chooses not to distribute the Liver Ireland Sub-Fund Estate prior to reaching the Liver Ireland Sunset point. It is reasonable to assume that this decision would be made considering the policyholders reasonable expectations and the security of benefits, including the impact of triggering the Liver Ireland Sunset clause. The triggering of the Liver Ireland Sunset point would force the distribution of the Liver Fund Estate prior to the consolidation into the RLI DAC Liver Fund.

Considering the above scenarios, I am satisfied that the deferral of the Liver Ireland Sunset point does not have a material impact on the RLI DAC Policyholders.

With the exception of the above point, my assessment of Scheme Conduct is not dependent on the LRA and, therefore, my conclusion is the same in the scenario where the LRA ceases at some future time.

6.5.1.3 Conclusion on the scheme conduct for Liver Ireland policyholders

I am satisfied that the Scheme Terms have been executed in a way that continues to ensure fair outcomes for the Liver Ireland Policyholders.

6.5.2 RLI DAC Non-Liver Ireland Policyholders (German Bond Sub-Fund and Open Fund)

6.5.2.1 Assessment of the Scheme Conduct where the LRA continues

The Scheme Conduct has no effect on the RLI DAC Non-Liver policyholders.

6.5.2.2 Assessment of the Scheme Conduct where the LRA ceases

The Scheme Conduct has no effect on the RLI DAC Non-Liver policyholders.

6.5.2.3 Conclusion on the Scheme Conduct for RLI DAC Non-Liver Ireland policyholders

The Scheme Conduct has no effect on the RLI DAC Non-Liver policyholders.

7. Appendices

7.1 RLI DAC Fairness Principles and Criteria

Ideally, the scheme should result in an improvement in outcomes to policyholders, this is the “target” criteria. However, where this is not possible the aim should be to ensure that, as a minimum, there is no detriment to policyholders (or with appropriate justification, at least no ‘materially adverse effect’). This is the “hurdle” criteria.

Fairness Principle	Fairness Criteria	Criteria Test
Financial Benefit Expectation: Quantitative Outcomes	Closed Fund Contribution	The Closed Fund Contribution amount should be calculated on a commercial, arm’s length basis and be fair to policyholders, both direct and through reinsurance, invested in the RLMIS Liver Sub-fund and to policyholders invested in the RLOF, having due regard to the alternatives available to both parties.
	Project Costs Allowance	Project costs should be allocated between the RLMIS Liver Sub-fund and the RLOF on a basis which is fair to policyholders, both direct and through reinsurance, in the RLMIS Liver Sub-fund and the RLOF, having due regard to the alternatives available to both parties.
	Estate Distribution	<i>Target:</i> Estate distributions, including the uplift to the asset shares in respect of future contractual regular premiums are more equitable between different generations of policyholders following the scheme. <i>Hurdle:</i> Estate distributions, including the uplift to the asset shares in respect of future contractual regular premiums are no less equitable between different generations of policyholders following the scheme.
	RLOF Capital Position	The projected capital position of the RLOF should not be materially adversely affected by the scheme such that there is any detrimental impact on policyholders, including those reinsured into the Fund from RLI DAC.
	Other Stakeholder Benefit Security	<i>Target:</i> The security of benefits for other stakeholders within RLI DAC should not be adversely affected.

Fairness Principle	Fairness Criteria	Criteria Test
		<i>Hurdle:</i> Where other stakeholders are adversely affected by the scheme the magnitude of the impact is quantified and considered within the context of the scheme. Progressing with the scheme from the perspective of these stakeholders should be justified.
	Tax Considerations	<i>Target:</i> The scheme should not have any adverse effect on policyholders' tax liability. <i>Hurdle:</i> Where there are tax impacts these should be mitigated to the extent possible with the risks appropriately communicated to affected policyholders so that they can make an informed decision and seek specialist advice where appropriate.
	Investment Exposure	The investment exposure of the business of the Ireland and UK Liver Sub-funds and associated collateral arrangements which back the reinsurance arrangement for the RLI DAC Liver business, should remain appropriate following consolidation, and aligned with the current Liver WPOP and PPFM.
Qualitative Outcomes	Service Standards and Administration	The scheme should not result in an adverse impact on the level of service received by customers.
	Legal Rights	Any amendments made to policy conditions as part of the scheme should be reasonable, justified, fair and have no material adverse effect.
Scheme Terms	Voting Values	The approach used for determining voting values should be appropriate and fair to stakeholders.
	Voting Classes	Voting classes should be set in accordance with all applicable legal requirements.
	Voting Eligibility	All stakeholders whose benefit expectations are directly and materially affected by the scheme should have the opportunity to vote on the scheme. Any exclusions should be appropriately justified.

Fairness Principle	Fairness Criteria	Criteria Test
	Compulsion of Non-Voters and 'Against' Voters	The outcome of the scheme on those who are eligible to vote but choose not to, or who vote against the proposals, should be fair in the round having due regard for the information and assistance provided.
Scheme Conduct	Customer Communication	All customer communications produced should be clear, fair and not misleading, enabling customers to make informed voting decisions within an appropriate timeframe or to understand the impact of the scheme on them. Particular care should be taken in relation to vulnerable customers.
	Tracing of Gone-Aways	All reasonable endeavours should be employed to trace and minimise the number of gone-away policyholders to maximise participation in the scheme.
	Stakeholders Considered	All stakeholder groups materially impacted by the scheme have been systematically identified and fairly defined.

7.2 Glossary of terms and abbreviations

Term	Description
Address Unknowns	Policies where RLMIS or RLI DAC (as appropriate) does not currently hold a valid address.
Appetite Mailing	A notification about the Scheme sent to Eligible Policyholders prior to the Convening Hearing.
Appetite Mailing Pack	The pack for the Appetite Mailing comprises a covering letter, a booklet providing a high-level guide to the proposed Scheme, a leaflet providing a reminder of how the Eligible Policies work and a feedback form.
BEL	Best Estimate Liabilities. The liabilities determined on a UK Solvency II basis using realistic assumptions.
CA	RLMIS Chief Actuary.
Calculation Date	The date at which RLMIS calculated the Offer. This is 31 March 2022.
Capital Buffer	The target excess Own Funds over the SCR under RLMIS's internal capital management framework.
Capital Management Framework	<p>The Capital Management Framework comprises the governance, policies and procedures which set out the requirements for effective management of capital at Fund or entity level, including identification, assessment, monitoring, managing and reporting of any capital matters to relevant committees.</p> <p>The Capital Management Framework contains the basis for setting of internal capital targets and metrics to measure and manage the return on capital across the Fund or entity.</p> <p>RLI DAC, RLMIS (excluding the Liver Fund) and the Liver Fund have separate Capital Management Frameworks.</p>
CB	A Contingent Bonus policy.
CBI	The Central Bank of Ireland, the regulator for financial services firms and financial markets in the Republic of Ireland.
CFC	Closed Fund Contribution.
Closed Fund Contribution	A payment paid from the Liver Fund Estate to the RL Open Fund under the Scheme. The payment is intended to compensate the RL Open Fund for taking on the responsibility for meeting the capital requirements associated with the business being moved from the Liver Fund under the Liver Fund Consolidation.

Term	Description
Collateral Agreements	Collateral Framework Agreement and the Security Agreements and the Insolvency Floating Charge
Collateral Framework Agreement	The framework agreement, between RLI DAC and RLMIS, governing the calculation of collateral posting and certain other matters in relation to the Liver Reinsurance Agreement.
Confirmation Mailing	If the required voting thresholds are passed, the Court sanctions the Scheme at the Sanction Hearing and the Scheme is implemented on the Implementation Date, RLI DAC and RLMIS will send a letter (Confirmation Mailing) to the holder of each Irish and UK policy respectively that was consolidated into the RL Open Fund under the Liver Fund Consolidation shortly after the Implementation Date, confirming that the Liver Fund Consolidation has been implemented.
Consolidating Funds	The Consolidating Funds are the Liver Fund and the Other Closed Funds, including the RAIB Sub-fund but excluding the RLCIS Fund.
Contingent Bonus Policy	A policy that is non-profit but is entitled to share in distributions of the estate when they are declared.
Convening Hearing	A Court hearing at which RLI DAC (or RLMIS) seeks permission to convene the Policyholder Meeting to allow Liver Ireland Eligible Policyholders or Liver UK Eligible Policyholders (as appropriate) to vote on the Scheme.
CPFM	Core Principles of Financial Management as set out in the IoT
Cut-off Date	31 st December 2021
CWP	Conventional with-profits.
Dormant policy	<p>A RLI DAC policy which is classified as Dormant under rules applicable in Ireland as follows:</p> <ul style="list-style-type: none"> • if a policy has a specified term, after 5 years from either the date the policy matured or the company's last communication with the policyholder (assuming multiple efforts were made), whichever is later; • if a policy does not have a specified term, after 15 years if there has been no communication between the company and the policyholder during this time (assuming multiple efforts were made). <p>When a policy is classed as 'Dormant', the investment value is transferred to a fund managed by the National Treasury Management Agency ('NTMA'). Any insurance risk associated with the 'Dormant' policy is retained. If a policyholder or their next of kin subsequently gets back in touch with a</p>

Term	Description
	company, the company is entitled to reclaim the amount paid over to the NTMA and pay this value to the policyholder or their next of kin.
EBR	Equity Backing Ratio - the ratio of the value of equity and property investments of a fund to the total value of the investments of that fund.
Eligible Benefits	The asset share of With-Profit Eligible Policies or the claim amount of CB Eligible Policies.
Eligible Contractual Regular Premiums	The regular premiums that are payable on Eligible Policies at the level they were at the cut-off date specified in the Scheme.
Eligible Policy	<p>A With-Profit or CB policy in the Liver Fund either directly or through reinsurance which is not an excluded policy (i.e. not a HITM or L&M Policy) and:</p> <p>(a) which will not have reached its scheduled maturity or retirement date prior to 11.59pm on 31 December 2022;</p> <p>(b) which has not been claimed in full (or come into payment in full) on maturity, retirement, surrender, transfer or death, in each case in accordance with the terms of the policy as at the Calculation Date or as at the date of the Policyholder Meeting; and</p> <p>(c) in respect of which the Eligible Policyholder has not (in accordance with the terms of the policy) ceased to be entitled to receive benefits as at the Calculation Date or as at the date of the Policyholder Meeting.</p>
Eligible Policyholder	A person who is a creditor for the purposes of the UK Companies Act or the Irish Act in respect of an Eligible Policy (i.e. the holder of an Eligible Policy).
Estate	The excess of the assets over the liabilities of a given with-profits fund.
Fairness Criteria	<p>Criteria that should be applied to ensure the <i>outcomes</i> of the schemes are fair on all policyholders or other relevant stakeholders and that the mechanics of the scheme <i>processes</i> are similarly supportive of these fair outcomes.</p> <p>RLI DAC developed a set of sixteen internal fairness criteria RLI DAC against which the Schemes can be assessed.</p>
Fairness Principles	A set of principles based on consideration of the outcome of the Scheme on each affected policyholder group. The target is an improvement in outcome but, at a minimum, that policyholders should not be adversely affected (or in some limited instances and with appropriate justification not materially adversely affected).

Term	Description
	<p>A set of principles developed to ensure firstly that the <i>outcome</i> of the schemes are fair for all stakeholders and secondly that the mechanics of the scheme <i>process</i> itself similarly supports fair outcomes.</p> <p>RLI DAC developed a set of four internal fairness principles from which the Fairness Criteria were developed and against which the Schemes can be assessed.</p>
FCA	Financial Conduct Authority, the conduct regulator for financial services firms and financial markets in the United Kingdom.
GAR	Guaranteed annuity rate. A future annuity rate offered by RLMIS for purchasing an annuity upon retirement, which is determined based on current expectations of future experience, as opposed to market rates at the time of retirement.
German Bond Sub-Fund	<p>A ring-fenced fund within RLI DAC. The fund consists of two product types - single premium unitised with-profits bonds and single premium unit-linked bonds and is closed to new business.</p> <p>a closed block of German bonds, written originally into the RL Open Fund of RLMIS and transferred under the RLI DAC Transfer Scheme. The German Bond Sub-Fund is fully reinsured via the German Reinsurance Agreement into the RL Open Fund.</p>
German Reinsurance Arrangement	The reinsurance agreement entered into between RLMIS (as reinsurer) and RLI DAC (as cedant) on 1 January 2019, in relation to the 100% quota share reinsurance by RLMIS of the German Bond policies transferred to RLI DAC under the RLI DAC Transfer Scheme.
Gone-Aways	Policies where RLI DAC (or RLMIS) has had a letter returned undelivered.
GRA	The German Reinsurance Arrangement
GRELI	GRE Life Ireland, a subsidiary of Royal Liver which ceased trading in 2000.
Heavily-In-The-Money Policy	A with-profits policy is a Heavily-In-The-Money Policy if, based on RLI DAC best estimate assumptions or RLMIS's best-estimate assumptions (as applicable) applied as at the Calculation Date, the projected value of the benefits payable under the policy as at the expected date of claim is not expected to be increased by the application of the Uplift to asset share proposed under the Scheme.
HITM Policy	A Heavily-In-The-Money Policy.
HoAF	Head of Actuarial Function – a regulated role in the ROI.

Term	Description
IB	Industrial Branch.
ICC ratio	Internal Capital Cover ratio - internal Own Funds / internal SCR.
IE	Independent Expert.
Implementation Date	The date on which the Scheme will be implemented. This is also the date on which RLMIS intends to implement the wider Liver Fund Consolidation.
Included Policy	<p>An Eligible Policy that:</p> <p>(a) has not reached its scheduled maturity or retirement date;</p> <p>(b) has not been claimed in full (or come into payment in full) on maturity, retirement, surrender, transfer or death, in each case in accordance with the terms of the policy; and</p> <p>in respect of which the Eligible Policyholder has not (in accordance with the terms of the policy) ceased to be entitled to receive benefits, in each case as at 11:59pm on 31 December 2022.</p> <p>In simple terms, an Included Policy is an Eligible Policy which remains in-force at the Implementation date.</p>
Included Policyholder	Any person who is a creditor for the purposes of the UK Companies Act or the Irish Act in respect of an Included Policy (i.e. the holder of an Included Policy).
Independent Expert	The independent expert is Michael Culligan, a Principal in Milliman LLP. He has been appointed by RLI DAC and approved by the Regulators to review the Irish Scheme. His duty is to the Irish High Court rather than to RLI DAC.
Insolvency Floating Charge	The deed of floating charge granted by RLMIS in favour of RLI DAC in respect of the Liver Reassurance Reinsurance Agreement and the German Bond Reassurance Reinsurance Agreement
IoT	The Instrument of Transfer, the legal document that led to the creation of the Liver Fund and governs the management of the fund.
Irish Act	The Irish Companies Act 2014.
Irish High Court	The High Court in The Republic of Ireland
Irish Scheme	<p>A Scheme of Arrangement happening contemporaneously with the UK Scheme in the Republic of Ireland ("ROI") under Part 9 of the Irish Act.</p> <p>The scheme of arrangement whereby RLI DAC proposes to make a compromise or arrangement with the Eligible Policyholders to accelerate the distribution of the Liver Fund Estate, less certain deductions, to the Eligible Policies.</p>

Term	Description
Legacy Simplification Project	A major legacy simplification project conducted by RLMIS to rationalise and simplify its fund structure, products, and administration systems in order to generate operational efficiencies, reduce risk and improve outcomes for longstanding customers.
Liver	Royal Liver Assurance Limited.
Liver Fund	The RLMIS Liver Fund. A closed ring-fenced fund of RLMIS which holds the portion of business transferred to RLMIS from Royal Liver Assurance Limited on 1 July 2011 and from GRE Life Ireland Limited on 1 July 2012 that was not subsequently transferred to Royal London Insurance DAC on 7 February 2019.
Liver Fund Consolidation	The combination of the Scheme and the other steps involved in the consolidation of the Liver Fund into the RL Open Fund.
Liver Fund Estate	The Estate of the Liver Fund.
Liver Ireland Eligible Policy	<p>A With-Profit or CB policy in the Liver Ireland Sub-Fund (excluding HITM policies) and:</p> <p>(a) which will not have reached its scheduled maturity or retirement date prior to 11.59pm 31 December 2022;</p> <p>(b) which has not been claimed in full (or come into payment in full) on maturity, retirement, surrender, transfer or death, in each case in accordance with the terms of the policy as at the Calculation Date or as at the date of the Policyholder Meeting; and</p> <p>(c) in respect of which the Eligible Policyholder has not (in accordance with the terms of the policy) ceased to be entitled to receive benefits as at the Calculation Date or as at the date of the Policyholder Meeting.</p>
Liver Ireland Sub-Fund	The Liver Ireland Sub-fund is a closed ring-fenced fund of Royal London Insurance DAC which holds the business transferred in relation to the policies written in Ireland from RLMIS to RLI DAC on 7 February 2019.
Liver Ireland Sub-Fund	The Liver Ireland Sub-fund is a closed ring-fenced fund of RLI DAC which holds the portion of business transferred to RLI DAC on 7 February 2019 pursuant to the RLI DAC Transfer Scheme.
Liver Ireland Sunset May Clause	The provision in the RLI DAC Transfer Scheme prescribing the conditions under which the Liver Ireland Sub-Fund may be merged with the RLI DAC Open Fund and the Liver Ireland Sub-Fund Estate may be distributed.

Term	Description
Liver Ireland Sunset May Limit	The level of total aggregate asset shares within the Liver Ireland Sub-Fund under which the Liver Ireland Sunset May Clause may be invoked (€334 million indexed with CPI annually from 31 December 2018)
Liver Ireland Sunset Must Clause	The provision in the RLI DAC Transfer Scheme prescribing the conditions under which the Liver Ireland Sub-Fund must be merged with the RLI DAC Open Fund and the Liver Ireland Sub-Fund Estate must be distributed.
Liver Ireland Sunset Must Limit	The level of total aggregate asset shares within the Liver Ireland Sub-Fund under which the Liver Ireland Sunset Must Clause is automatically triggered (€134 million indexed with CPI annually from 31 December 2018).
Liver Ireland Sunset Point	The date at which the Liver Ireland Sub-Fund is projected to trigger the Liver Ireland Sub-Fund Sunset Must Limit set out in the Liver Sunset Must Clause.
Liver Ireland WPOP	The WPOP for the Liver Ireland Sub-Fund. This is the WPOP pursuant to which the with-profits benefits invested in the Liver Ireland Sub-Fund are managed.
Liver Reinsurance Agreement	The reinsurance agreement entered into between RLMIS (as reinsurer) and RLI DAC (as cedant) on 1 January 2019, in relation to the 100% quota share reinsurance by RLMIS of the Liver policies transferred to RLI DAC under the RLI DAC Transfer Scheme.
Liver Sunset May Clause	The provision in the Liver IoT prescribing the conditions under which the Liver Fund may be merged with the RL Open Fund and the Liver Fund Estate may be distributed.
Liver Sunset May Limit	The level of aggregate asset shares within the Liver Fund under which the Liver Sunset May Clause may be invoked (£296 million indexed with RPI annually from 31 December 2018)
Liver Sunset Must Clause	The provision in the Liver IoT prescribing the conditions under which the Liver Fund must be merged with the RL Open Fund and the Liver Fund Estate must be distributed.
Liver Sunset Must Limit	The level of aggregate asset shares within the Liver Fund under which the Liver Sunset Must Clause is automatically triggered (£118 million indexed with RPI annually from 31 December 2018).
Liver Sunset Point	The date at which the Liver Fund is projected to trigger the Liver Fund Sunset Must Limit set out in the Liver Sunset Must Clause.
Liver UK policyholders	RLMIS UK direct policyholders currently invested in the Liver Fund
LRA	The Liver Reinsurance Arrangement.

Term	Description
LSC	Liver Supervisory Committee
NBSS	Net Balance Sheet Strain, i.e. the net reduction in the excess capital of the RL Open Fund that results from taking on the Liver Fund at each point in time over the runoff.
Non-Eligible Policy	A policy invested in the Liver Fund that is not an Eligible Policy.
Number Test	The Number Test is passed if more than 50% of Eligible Policyholders voting in person or by proxy at the Policyholder Meeting vote in favour of the Scheme.
OB	Ordinary Branch.
Offer	The offer that RLI DAC and RLMIS are making to Eligible Policyholders of the Irish Scheme and the UK Scheme respectively regarding the terms of the Scheme, as described in section 4.
Other Closed Funds	Collectively, the PLAL Fund and the RLCIS Fund.
Own Funds	The excess of assets over liabilities on a Solvency II balance sheet basis.
Part VII Transfer	A transfer of business undertakings under Part VII of the Financial Services and Markets Act 2000.
PLAL	PLAL With-Profits Fund, a closed ring-fenced fund of RLMIS which holds the investment element of the former PLAL unitised with-profits business which was transferred to RLMIS on 29 December 2008.
Policyholder Meeting	The meeting at which Eligible Policyholders can vote on the Scheme.
PPFM	The Principles and Practices of Financial Management in relation to the respective With Profit Fund.
PRA	Prudential Regulation Authority, responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms in the United Kingdom.
Premium Uplift Contribution	The best-estimate present value of the uplifts that will be made to the asset shares of the Eligible Policies under the Schemes in respect of any future Eligible Contractual Regular Premiums paid into the asset shares after the Implementation Date (assuming the Scheme is implemented).
ProfitShare	ProfitShare is the mechanism that RLMIS uses to distribute part of its operating profit by means of discretionary enhancements to the asset shares and unit fund values of the policies that qualify for ProfitShare. ProfitShare is allocated at the sole discretion of the RLMIS Board.

Term	Description
Project Costs	The cost of implementing the consolidations (and the associated review of minor product changes to be made in respect of certain of the Consolidating Funds) under the Legacy Simplification Project.
Project Costs Allowance	The amount that RLMIS proposes to charge each Consolidating Fund in respect of the costs of implementing the consolidations (and the associated review of minor product changes to be made in respect of certain of the Consolidating Funds) that RLMIS intends to implement under the Legacy Simplification Project. This amount varies by Consolidating Fund.
Project Costs Calculation Date	31 March 2021
RAIB	Refuge Assurance Industrial Branch.
RAIB Sub-fund	The Refuge Assurance IB Sub-fund, a former closed ring-fenced fund of RL which held the RAIB business transferred on 1 January 2001 and as consolidated into the RL Open Fund on 30 th June 2021.
RAIB Sub-fund Consolidation	The consolidation of the RAIB Sub-fund into the RL Open Fund.
Rate Card	<p>An expense tariff arrangement between the Liver Fund and RL Open Fund.</p> <p>The same rate card is applied between the Liver Ireland Sub-Fund and the RLI DAC Open fund with an excess expenses being recovered from the RL Open Fund via the LRA.</p>
Reminder Mailing	To promote customer engagement with the Voting Pack and in particular to encourage Eligible Policyholders to vote on the Scheme, a reminder mailing (postcard or brief letter referring to the Voting Pack) will be issued during the voting period to an Eligible Policyholder if RLI DAC or RLMIS (as applicable) has not received their vote within four weeks of mailing their Voting Pack (the Reminder Mailing).
Required Return on Capital	The return required by the RL Open Fund to compensate it for taking on the capital requirements associated with the business moving from the Liver Fund to the RL Open Fund under the Liver Fund Consolidation.
Risk Margin	The risk margin calculated in accordance with the relevant UK Solvency II regulations. It forms part of the technical provisions required by UK Solvency II and ensures that they equal the amount that another insurer would require to take over the insurance obligations.

Term	Description
RL Open Fund	The Royal London Industrial Branch and Ordinary Branch Fund, which holds RLMIS's IB and OB business apart from that allocated to the Other Closed Funds. The fund remains open to new OB business.
RL Open Fund Estate	The Estate of the RL Open Fund.
RLCIS Fund	Royal London (CIS) Fund, a closed ring-fenced fund of RLMIS which holds the business transferred to RLMIS from Royal London (CIS) Limited on 30 December 2014.
RLI DAC	Royal London Insurance D.A.C., a designated activity company incorporated in Ireland with registered number 630146 Ireland, whose registered office is at 47-49 St Stephens Green, Dublin 2 Ireland.
RLI DAC Transfer	The transfer of business from RLMIS to RLI DAC as part of RLMIS response to Brexit through the RLI DAC Transfer Scheme.
RLI DAC Transfer Scheme	The Part VII Transfer Scheme that transferred the business held in the Liver Fund which was written in Ireland and the German Bond business from RLMIS to RLI DAC with effect from 1 January 2019.
RLMIS	The Royal London Mutual Insurance Society Limited, a company limited by guarantee and not having a share capital and incorporated in England and Wales with registered number 99064, whose registered office is at 55 Gracechurch Street, London EC3V 0RL.
RLMIS PPFM	The 'Royal London Long Term Fund Excluding the Closed Funds' PPFM. This is the PPFM pursuant to which with-profits business invested in the RL Open Fund is managed.
ROE	Return on equity.
ROI	Republic of Ireland
ROI Act	The Irish Companies Act 2014
Royal Liver PPFM	The PPFM for the 'The Royal Liver Closed Fund'. This is the PPFM pursuant to which the with-profits benefits invested in the Liver Fund are managed.
RPI	Retail Prices Index.
Sanction Hearing	A Court hearing at which RLI DAC will request that the Court sanctions the Scheme once the Scheme has been approved by the requisite majority of Eligible Policyholders.
Sanction Hearing Date	The expected date of the Sanction Hearing, which, for the UK, is 5th-6 th December 2022 and for Ireland is 29 th November 2022.

Term	Description
Scheme Contribution	A deduction made from the Liver Fund Estate under the Scheme. The Scheme Contribution comprises the CFC, the Project Costs Allowance and the Premium Uplift Contribution.
Schemes	The Irish Scheme and the UK Scheme together
SCR	Solvency Capital Requirement, a capital requirement under UK Solvency II.
Security Agreements	The Tier 1 Security Agreement and the Tier 2 Security Agreement but for the avoidance of doubt, does not include the Insolvency Floating Charge
SL	Scottish Life
SL Fund	The Scottish Life Fund, a closed ring-fenced fund of RLMIS which holds the SL business transferred on 1 July 2001 and was consolidated into the RL Open Fund on 31 December 2021.
Stub-IoT	The legal document reflecting the provisions of the IoT which remain effective after the consolidation of the Liver Fund into the RL Open Fund.
Supplementary Report	The follow-up RLI DAC HoAF report presented at the Sanction Hearing.
Target ICC Ratio	The Target ICC ratio as defined in RLI DAC and RLMIS's internal capital management framework, i.e. the level of the ICC ratio required to be able to withstand a 1 in 20 year event over the next year, and still have sufficient own funds to be able to meet the internal SCR.
Tier 1 Security Agreement	The first ranking deed of charge granted by RLMIS over the assets held in the Tier 1 Charged Accounts, in favour of RLI DAC in respect of the Liver Reinsurance Agreement.
Tier 2 Security Agreement	The first ranking deed of charge granted by RLMIS over the assets held in the Tier 2 Charged Accounts, in favour of RLI DAC in respect of the Liver Reinsurance Agreement.
TMTP	Transitional Measures on Technical Provisions. Insurers are permitted to apply to their regulator (the PRA in the UK) to make use of the TMTP, which allows firms to phase in the increase in Technical Provisions under UK Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period.
Tontine	A scheme for life assurance in which the beneficiaries are those who survive and maintain a policy to the end of a given period. In the context of with-profits, a tontine risk is that those policyholders who exit the fund last receive an unfairly large portion of the profits available to be distributed to all relevant policyholders

Term	Description
Trustees	The person or group of people, acting separately from RLMIS and RLI DAC, who holds assets in the trust for the beneficiaries of the pension schemes. Trustees are responsible for ensuring that the pension schemes are run properly and that members' benefits are secure.
UFIB	United Friendly Industrial Branch.
UFIB Sub-fund	The United Friendly IB Sub-fund, a closed ring-fenced fund of RLMIS which holds the UFIB business transferred on 1 January 2001 and was consolidated into the RL Open Fund on 31 December 2021.
UFOB	United Friendly Ordinary Branch.
UFOB Sub-fund	The United Friendly OB Sub-fund, a closed ring-fenced fund of RLMIS which holds the UFOB business transferred on 1 January 2001 and was consolidated into the RL Open Fund on 31 December 2021.
UK Companies Act	The Companies Act 2006 (as amended).
UK High Court	The High Court of Justice in England and Wales.
UK Regulators	The PRA and FCA.
UK Scheme	<p>A Scheme of Arrangement happening contemporaneously with the Irish Scheme in the United Kingdom ("UK") under Part 26 of the UK Companies Act 2006.</p> <p>The scheme of arrangement whereby RLMIS proposes to make a compromise or arrangement with the Eligible Policyholders to accelerate the distribution of the Liver Fund Estate, less certain deductions, to the Eligible Policies.</p>
UK Solvency II	A set of prudential and supervisory requirements. Prior to the expiry of the Brexit transitional period on 31 December 2020, this regime resulted from an EU Directive that set out these requirements for almost all European insurance and reinsurance companies. Following the expiry of the Brexit transitional period, the UK has its own domestic implementation of these prudential and supervisory requirements. References in this report to UK Solvency II are to those UK domestic requirements.
Uplift	The percentage increase that RLI DAC or RLMIS (as applicable) will apply to the Eligible Benefits of the Included Policies under the Scheme.
UWP	Unitised with-profits.

Term	Description
Value Test	The Value Test is passed if policies representing at least 75% or more in value of Eligible Policyholders voting in person or by proxy at the Policyholder Meeting vote in favour of the Scheme
VIF	Value of in-force business.
Voting Class	A sufficiently homogeneous class of creditors such that the rights of all creditors against RLI DAC (or RLMIS) within a particular class are sufficiently similar: (i) compared with the rights of other creditors within the same class and (ii) in terms of the impact of the Scheme on such rights.
Voting Pack	After the court order is granted, Eligible Policyholders will be sent or otherwise provided with a letter, a booklet which sets out key aspects of the proposed Scheme, a personalised illustration and a decision form which allows the individual policyholder to vote on the Scheme (together the Voting Pack).
With Profits Actuary Report	The RLMIS With Profits Actuary's Report on the Scheme.
WPA	With Profits Actuary – a regulated role in the United Kingdom.
WPC	With Profits Committee
WPOP	With Profits Operating Principles.



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