



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

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1 Executive summary

Introduction

- 1.1 The Royal London Mutual Insurance Society Limited (“RLMIS”) is a mutual life insurance company incorporated and domiciled in the United Kingdom (“UK”). RLMIS operates under the UK Companies Act 2006, is authorised in the UK by the Prudential Regulation Authority (“PRA”) and is regulated by both the PRA and UK Financial Conduct Authority (“FCA”) (together the “UK Regulators”). The principal activity of RLMIS is the transaction of long-term insurance business.
- 1.2 RLMIS currently sells protection business in Ireland through its Irish branch, and services euro-denominated insurance policies written in Ireland and Germany. Under European Union (“EU”) regulations, UK insurance companies can sell policies and service business written in European Economic Area (“EEA”) countries on a Freedom of Services or Freedom of Establishment basis (commonly referred to as “EU passporting rights”).
- 1.3 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK government officially notified the European Council of the UK’s intention to withdraw from the EU (“Brexit”). It is uncertain whether UK insurance companies will continue to be able to sell policies and service business written in the EEA countries outside of the UK, under EU passporting rights, after 29 March 2019. Therefore, unless suitable transitional or grandfathering arrangements between the UK and the EU are agreed prior to 29 March 2019, it is expected that it will become illegal for RLMIS to continue to sell protection business in Ireland and service its policies written in Ireland and Germany.
- 1.4 RLMIS has created a new subsidiary, Royal London Financial Services Designated Activity Company, which is incorporated in Ireland and is expected to be authorised by the Central Bank of Ireland (“CBI”) as a life insurance company before the end of 2018. Upon authorisation, the name of the subsidiary will be changed to Royal London Insurance Designated Activity Company (“Royal London DAC”).
- 1.5 Once authorised, Royal London DAC will sell protection business in Ireland, replacing the RLMIS Irish branch, which will be closed. In addition, Royal London DAC will be able to sell and service insurance policies in the EEA under EU passporting rights. RLMIS intends to transfer those policies it has written in Ireland and Germany to Royal London DAC.

Business being transferred

- 1.6 I have classified the business being transferred (“Transferring Business”) into three categories:
 - RL Post-2011 Business – business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 until the date on which Royal London DAC starts writing new business (expected to be shortly after the date of authorisation of Royal London DAC)
 - Ireland Liver Business – business written in Ireland by Royal Liver Assurance Limited (“RLA”), Caledonian Insurance Company Limited (“Caledonian Life”), Irish Life Assurance plc, and GRE Life Ireland Limited. All of this business now resides in RLMIS following various previous transfers of insurance business, and
 - German Bond Business – business written in Germany on a Freedom of Services basis by RLMIS.

- 1.7 The table below sets out the policy count and Best Estimate Liabilities (“BEL”) for the Transferring Business as at 31 December 2017.¹

Transferring Business	Policy Count	Gross BEL (£m)
RL Post-2011 Business	49,878	(62)*
Ireland Liver Business	469,289	755
German Bond Business	1,342	120

* The Gross BEL for the RL Post-2011 Business is a negative amount. This is because, for this business, the value of future premiums is expected to exceed the values of future benefit payments, which is typical for protection business.

- 1.8 Immediately following the transfer of the Transferring Business to Royal London DAC, the German Bond Business and the Ireland Liver Business will be 100% reinsured back to RLMIS through two new reinsurance agreements (the “German Bond Reinsurance Agreement” and the “Liver Reinsurance Agreement”, together the “New Reinsurance Agreements”). To provide security for each of the New Reinsurance Agreements, RLMIS will enter into fixed and floating charges supported by collateral framework agreements (the “Security Arrangements”) with Royal London DAC.

Legal process

- 1.9 The proposed transfer of business will be carried out using a legal process known as a Part VII transfer of insurance business under the Financial Services and Market Act 2000 (as amended) (“FSMA”). The terms of the proposed transfer are set out in a document known as the Scheme.
- 1.10 It is a requirement that when the Scheme is submitted to the High Court of Justice of England and Wales (the “High Court”) for approval, it is accompanied by a report from an independent expert. The High Court will consider the contents of the independent expert’s report (the “Report”) when deciding whether to sanction the Scheme. RLMIS has nominated me, Tim Roff, to act as independent expert (the “Independent Expert”) and to provide the Report in respect of the Scheme. The PRA has approved my appointment in consultation with the FCA. I owe a duty to the High Court, which overrides any duties I owe to RLMIS.
- 1.11 The Scheme will be submitted for sanction by the High Court under Section 111 of Part VII of FSMA. If approved, it is expected that the Scheme will take effect from 7 February 2019. However, for accounting purposes, it will be assumed that the Transfer took place on 1 January 2019. Therefore, the “Effective Date” is 1 January 2019 for accounting purposes and 7 February 2019 for all other purposes.

The purpose of the Report

- 1.12 The Report describes the likely impact of the Scheme, New Reinsurance Agreements and Security Arrangements (together referred to as the “Transfer”) on the policyholders whose policies will be transferred as a result of the Scheme (“Transferring Policyholders”), and the policyholders of RLMIS whose policies will not transfer (“Remaining Policyholders”). As it is proposed that Royal London DAC will sell policies after authorisation and prior to the Effective Date, I have also considered the likely impact of the Transfer on those policyholders of Royal London DAC (“Existing Policyholders”). In each case, I have considered the security of the benefits, benefit expectations and contractual rights of the policyholders. I have also considered how the Transfer will impact policyholder protection, service

¹ Best Estimate Liabilities is a measure of an insurance company’s liabilities. BEL is defined in the EU’s Solvency II Directive (“Solvency II”) as the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract’s run-off period, taking into account all up-to-date financial market and actuarial information.

levels and any other factors (e.g. governance, tax and expenses) that might result in a material adverse effect for any group of policyholders.

- 1.13 In addition to the above, I also consider in the Report whether the proposed amendments to the Royal Liver Instrument of Transfer (“Royal Liver IoT”)² materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the Royal Liver IoT on those policyholders to which the Royal Liver IoT relates. As required by the Royal Liver IoT, I provide a certificate stating my opinion in Appendix H. The proposed amendments to the Royal Liver IoT are subject to the approval of the PRA.
- 1.14 The Report also describes the likely impact of the Transfer on the current reinsurers of RLMIS whose treaties cover the risks associated with the policies of the Transferring Business.

Key dependencies

- 1.15 I have prepared the Report on the assumption that a number of actions take place in advance of either the Effective Date or 1 January 2019 (when the Scheme is deemed to take effect for accounting purposes). If these actions are not completed by the required date, the conclusions in the Report may not be valid. Accordingly, I consider these actions to be key dependencies. These dependencies are:
- Royal London DAC receives authorisation from the CBI by 1 January 2019. Without the relevant authorisations, it would not be possible for the Scheme to be implemented
 - Royal London DAC receives a capital injection from RLMIS by 1 January 2019, and this is sufficient to capitalise Royal London DAC at its target level
 - the PRA approves the proposed changes to the Royal Liver IoT by the Effective Date
 - Royal London DAC and RLMIS enter into the New Reinsurance Agreements and Security Arrangements by the Effective Date

Summary of my conclusions

- 1.16 I am satisfied that the implementation of the proposed Scheme with the New Reinsurance Agreements and Security Arrangements will not have a material adverse effect on the security of benefits or the future benefit expectations of Transferring Policyholders, Remaining Policyholders or Existing Policyholders.
- 1.17 It is also my opinion that the Transfer will have no material adverse effect on the governance or service standards experienced by the Transferring Policyholders, the Remaining Policyholders, or the Existing Policyholders.
- 1.18 In forming these conclusions, I have taken into account the loss of the Financial Services Compensation Scheme (“FSCS”) protection that many of the policyholders in the Transferring Business benefit from. The FSCS provides protection to policyholders in the event of insolvency or default of UK based insurers or EEA branches of UK based insurers. After the Transfer, the policyholders of the Transferring Business will hold policies with an Irish based insurance company and therefore those that are currently entitled to FSCS protection will lose this entitlement. There is no equivalent to the FSCS in Ireland for long-term insurance business. The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. receiving premiums and paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with the Solvency II Directive (“Solvency II”) in EU law, the likelihood of default or insolvency of Royal

² The Royal Liver IoT is the document that sets out the terms under which the business of RLA was transferred to RLMIS on 1 July 2011.

London DAC is, in my opinion, remote. I will provide an update in my Supplementary Report on the status of the relevant negotiations.

- 1.19 The New Reinsurance Agreements and Security Arrangements form an important part of the Transfer as they are being put in place to ensure that the Scheme does not result in the need to split the Royal Liver Sub-Fund or manage the German Bond Business in a way which is materially different to the current management of these policies. It is my opinion that the New Reinsurance Agreements allow the with-profit policyholders in the German Bond Business and Ireland Liver Business to continue to benefit from the funds to which their policies are currently allocated. Further, the Security Arrangements provide appropriate security for Royal London DAC in the unlikely event that RLMIS fails to meet its obligations under the Reinsurance Agreements or becomes insolvent. The New Reinsurance Agreements also largely align Royal London DAC's interests with those of the direct policyholders of RLMIS in relation to the distribution of assets in the extremely unlikely event that RLMIS becomes insolvent.
- 1.20 In the event that the New Reinsurance Agreements are terminated in future, I am satisfied that the Scheme, the New Reinsurance Agreements and the Security Arrangements provide adequate protection to policyholders, to ensure that they will be treated fairly.
- 1.21 I am also satisfied that there will be no material adverse effect as a result of the Transfer on the reinsurers of RLMIS whose contracts cover the Transferring Business.

Regulatory background

- 1.22 The transfer of business from a PRA authorised entity to a CBI authorised entity means that there is a change in the regulatory regime for the Transferring Business. The UK and Ireland are, at present, both subject to Solvency II. Solvency II harmonises solvency requirements across EU member states using an economic risk-based approach for determining solvency requirements. Following Brexit, it is expected that the UK will continue to comply with Solvency II or rules similar to Solvency II. However, it is possible that UK solvency rules will depart from those in Ireland in the future.
- 1.23 In Section 3 I set out a summary of the current UK and Irish regulatory regimes as well as the main differences between them.

Background to RLMIS and Royal London DAC

- 1.24 RLMIS is the largest mutual life, pensions and investment company in the UK, with funds under management of £114bn at 31 December 2017. The RLMIS long-term business fund consists of the open fund ("RL Main Fund") and nine other closed funds (the "RLMIS Closed Funds").
- 1.25 Since its formation in 1861, RLMIS has grown in the UK through acquisitions and organic expansions. The acquisition of RLA and its associated businesses by RLMIS in 2011 is of particular relevance to the Scheme, as part of this business will be transferred out of RLMIS as a result of the Scheme. Prior to its acquisition by RLMIS, RLA had itself acquired businesses from Caledonian Life, GRE Life Ireland Limited and Irish Life Assurance plc.
- 1.26 As a mutual, RLMIS is owned by Members, who are customers of the business (although not all customers are Members). All Members have voting rights (one vote per Member, all ranking equally).
- 1.27 The RL Post-2011 Business and German Bond Business is currently allocated to the RL Main Fund and the Ireland Liver Business is currently allocated to the Royal Liver Sub-Fund (which is one of nine RLMIS Closed Funds).
- 1.28 In Section 4, I set out the background to RLMIS and its current fund structure.
- 1.29 Royal London DAC currently has no policyholders, but expects to write approximately 2,000 new protection policies following authorisation by the CBI and before the Effective Date. Initially, prior to the Effective Date, Royal London DAC anticipates having just one fund, the Royal London DAC Open Fund.

1.30 In Section 5, I set out the background to Royal London DAC.

Outline of the Scheme

1.31 Under the terms of the Scheme, all of the liabilities associated with the Transferring Business (except those that are specifically excluded under the Scheme) will be transferred to Royal London DAC.

1.32 The Scheme specifies two new funds that are to be established and maintained in Royal London DAC from the Effective Date, namely:

- the Liver Ireland Sub-Fund, and
- the German Bond Sub-Fund.

1.33 There will be no sharing of profits or losses between these sub-funds, or between the sub-funds and the Open Fund of Royal London DAC.

1.34 The Scheme specifies that on the Effective Date:

- the RL Post-2011 Business will transfer from the RL Main Fund to the Royal London DAC Open Fund
- the Ireland Liver Business will transfer from the Royal Liver Sub-Fund to the Liver Ireland Sub-Fund
- the German Bond Business will transfer from the RL Main Fund to the German Bond Sub-Fund.

1.35 In Section 6, I provide a more detailed outline of the Scheme.

Challenges associated with the Scheme

1.36 RLMIS has identified that there are challenges associated with the Scheme. I briefly summarise the main challenges below, and I discuss them in further detail in Section 8.

1.37 In the case of the Royal Liver Sub-Fund, only a proportion of the policies allocated to this fund are to be transferred under the Scheme. To identify and transfer a fair share of the assets in respect of these policies would be a complex and time-consuming process (a "Fund Split"). The process would need to take account of the Transferring Policyholders' interest in the Estate (that part of the with-profits fund that is not allocated to policyholders liabilities) of the Royal Liver Sub-Fund, as well as the policy liabilities. There is insufficient time ahead of 29 March 2019 to complete the Fund Split in a fair and controlled manner, as it requires complex analysis and the approval of a large number of stakeholders. To address this challenge, the Ireland Liver Business will be 100% reinsured back to RLMIS immediately following its transfer to Royal London DAC on the Effective Date.

1.38 The German Bond Business currently allocated to the RL Main Fund is only a relatively small block of business, which is projected to reduce significantly over the next few years, as policies mature. In my opinion, the German Bond Sub-Fund would be too small to operate economically as a with-profits fund, in the absence of participation in, and support from, the RL Main Fund. To address this challenge, the German Bond Business will be 100% reinsured back to RLMIS immediately following its transfer to Royal London DAC on the Effective Date.

1.39 Prior to the Effective Date, Royal London DAC expects to write only protection business. The introduction of two new with-profits funds would mean that new risks would need managing in Royal London DAC. These new risks could have the potential to create more volatility in Royal London DAC's SCR Cover than if only protection business were written. The New Reinsurance Agreements described above, together with the Security Arrangements, help to address this challenge.

New Reinsurance Agreements and Security Arrangements

- 1.40 On the Effective Date, the German Bond Business and Ireland Liver Business will be reinsured back to RLMIS in their entirety via the New Reinsurance Agreements. The initial premium for each of the New Reinsurance Agreements will be satisfied by the offset and retention of some of the assets that would otherwise have been transferred to Royal London DAC by RLMIS under the Scheme. Subsequently, monthly net payments will be made between Royal London DAC and RLMIS, broadly representing the difference between any policyholder premiums received³ and expense allowances, tax and claims paid. Additionally, on a quarterly basis, a positive or negative adjustment to maintain capital coverage of the Liver Ireland Sub-Fund and the German Bond Sub-Fund will be made as necessary.
- 1.41 As a result of the New Reinsurance Agreements, Royal London DAC is exposed to the financial position of RLMIS. Additionally, without further steps, Royal London DAC would not be treated in the same way as the RLMIS direct policyholders in the unlikely event of RLMIS becoming insolvent. This is because Royal London DAC would be an unsecured creditor of RLMIS and it would rank behind the direct policyholders of RLMIS. This would be a worse position for Transferring Policyholders than before the Transfer, when they would have ranked equally with other direct policyholders of RLMIS. To address this, Royal London DAC and RLMIS will enter into the Security Arrangements. The Security Arrangements provide insolvency protection and additional security to Royal London DAC in the event that RLMIS fails to honour its obligations under the New Reinsurance Agreements. The Security Arrangements mean that Royal London DAC would rank equally with the Remaining Policyholders, in terms of a distribution of assets, on RLMIS becoming insolvent, subject to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business.
- 1.42 Either of the New Reinsurance Agreements may be terminated by mutual agreement between RLMIS and Royal London DAC, however there are no plans to terminate the New Reinsurance Agreements. The New Reinsurance Agreements may also be terminated by either RLMIS or Royal London DAC if certain exceptional events have occurred (e.g. if either RLMIS or Royal London DAC fail to make payments due under the New Reinsurance Agreements). Upon termination of either of the New Reinsurance Agreements, a termination amount will be calculated based on the policy liabilities reinsured.
- 1.43 In the event that the Liver Reinsurance Agreement is terminated the Royal Liver Sub-Fund would need to be split. The Scheme sets out the methodology for the Fund Split of the Royal Liver Sub-Fund in the event of termination of the Liver Reinsurance Agreement.
- 1.44 In Section 9, I provide a description of the New Reinsurance Agreements and Security Arrangements.
- 1.45 The following table summarises the potential challenges and the proposed mitigants described above.

³ There are no future policyholder premiums for the German Bond Business.

Potential challenges	Proposed mitigant
Ensuring that RLMIS policies sold or serviced under EU passporting rights can continue to be serviced post Brexit.	The Scheme
Identifying and transferring a fair share of the assets in respect of the Ireland Liver Business in a fair and controlled manner. Changes to the risk profile of Royal London DAC, which could result in more volatility in SCR Cover. Maintaining a with-profits fund for the German Bond Business.	The Scheme, New Reinsurance Agreements and Security Arrangements
Royal London DAC's exposure to the financial position of RLMIS as a result of the New Reinsurance Agreements. Royal London DAC policyholders being disadvantaged in the unlikely event of RLMIS insolvency.	The Security Arrangements
Ensuring that policyholders are treated fairly in the event of termination of either or both of the New Reinsurance Agreements	The Scheme, New Reinsurance Agreements and Security Arrangements

- 1.46 I have considered the New Reinsurance Agreements and Security Arrangements in detail, including the circumstances under which they can be terminated. I have also consulted with legal advisers in respect of the Security Arrangements, and independent legal counsel in respect of the floating charge, in particular, to confirm that the legal mechanisms within them will work as intended.
- 1.47 I am satisfied that the New Reinsurance Agreements and Security Arrangements have been designed to achieve their purpose of avoiding the need for a Fund Split of the Royal Liver Sub-Fund at the Effective Date, maintaining a with-profits fund for the German Bond Business, and limiting the additional risks to which Royal London DAC is exposed as a result of the Scheme. Additionally, the New Reinsurance Agreements allow the Royal Liver Sub-Fund and the RL Main Fund to be managed in the same way after the Transfer as they are currently. In Section 9, I set out my analysis and conclusions on the terms, security, capital implications and governance of these New Reinsurance Agreements and Security Arrangements.
- 1.48 Having concluded that the New Reinsurance Agreements and Security Arrangements have been designed to address the challenges identified, I then analysed the risk profiles of RLMIS and Royal London DAC, before and after the Transfer. I also considered their capital positions. The risk profiles and capital positions of RLMIS and Royal London DAC are key considerations, because any significant changes would potentially have an impact on policyholder security.

Security of policyholder benefits

- 1.49 Security of policyholder benefits is provided by insurance companies holding a higher level of assets than is needed to cover their liabilities (after allowing for any reinsurance). The difference between the value of the assets and the liabilities is a measure of the insurer's solvency. My analysis of the impact of the Transfer on policyholder security considers the level of capital available to RLMIS and Royal London DAC, their ability to satisfy their solvency requirements, their capital management policies and their internal assessment of their current and projected capital positions.
- 1.50 Across the EU, insurance companies must satisfy the same solvency standards (under Solvency II), by maintaining a level of capital at or above what is known as their Solvency Capital Requirement ("SCR"). Using the information provided to me by RLMIS, I have reviewed the level of assets and liabilities and the extent to which the SCR is covered for RLMIS as at 31 December 2017, had the Transfer occurred at that time. This is the most recent date at which this information was available. I have also used information provided to me by RLMIS to review the projected SCR for Royal London DAC immediately after the Effective Date. These calculations show that both RLMIS and Royal London DAC expect to hold capital well above their SCR.
- 1.51 An insurance company's solvency position can change over time. This can be due to changes in market conditions that may affect the value of assets and liabilities. Insurers generally seek to control their solvency position by having agreed management policies aimed at safeguarding the solvency

cover. These include a risk framework and an agreed risk appetite within which insurers operate. I have been provided with internal management information regarding the governance arrangements, risk appetite, risk limits and capital management framework for RLMIS and those proposed for Royal London DAC. I am satisfied that these represent a sensible approach to safeguarding solvency cover.

- 1.52 In addition to considering the current solvency position, I have reviewed projections of the SCR cover on a best estimate basis and in stress scenarios. I have concluded that the level of capitalisation of both RLMIS and Royal London DAC is projected to remain in line with or above the target SCR cover set out in the actual and proposed capital management frameworks respectively.
- 1.53 Therefore, overall, I am satisfied that the Transfer will not have any material adverse effect on the security of benefits of the policyholders of RLMIS and Royal London DAC, comprising Transferring Policyholders, Remaining Policyholders and Existing Policyholders.
- 1.54 In Section 10, I set out my analysis of the capital positions of RLMIS and Royal London DAC.

The impact of the Transfer on the Transferring Policyholders

- 1.55 In Section 11, I set out my detailed analysis and conclusions in respect of the impact of the Transfer on the Transferring Policyholders. I consider separately the:
- RL Post-2011 Business transferring to the Royal London DAC Open Fund
 - Ireland Liver Business transferring to the Liver Ireland Sub-Fund
 - German Bond Business transferring to the German Bond Sub-Fund.
- 1.56 I summarise below my main findings for each of these.

RL Post-2011 Business

- 1.57 For the RL Post-2011 Business, the Scheme has the effect of transferring the policies into the Royal London DAC Open Fund. The RL Post-2011 Business will not be reinsured to RLMIS following the Transfer. This is because the RL Post-2011 Business consists of protection business only, and this can be transferred without the challenges described above for the Ireland Liver Business and the German Bond Business. The RL Post-2011 Business will not be reinsured to RLMIS following the Transfer.
- 1.58 There are five external reinsurance arrangements covering the RL Post-2011 Business and it is proposed that these will be amended and novated to Royal London DAC with effect from the Effective Date, subject to the consent of the reinsurers. The amendment and novation of the external reinsurance arrangements are not a requirement of the Scheme. I will provide an update on this matter in the Supplementary Report.
- 1.59 I have summarised below my conclusions on the effect of the Transfer on the RL Post-2011 Business.

Policyholder benefit expectations

- 1.60 There will be no change to any of the terms and conditions for the policies of the RL Post-2011 Business under the Scheme, except the changes necessary to reflect the Transfer (e.g. updating the policy references to Royal London DAC, from RLMIS), and that benefits will be paid by Royal London DAC rather than RLMIS.
- 1.61 Overall, I am satisfied that there is no material adverse effect on policyholder benefit expectations for policyholders of the RL Post 2011 Business as a result of the Transfer.

External bodies providing further policyholder protection

FSCS

- 1.62 The RL Post-2011 Business is currently covered by the FSCS, which is a compensation scheme of last resort in the UK and protects policyholders if an insurer were to fail. The FSCS provides protection to eligible policyholders of UK based insurers or EEA branches of UK based insurance companies. After the Scheme is implemented, the policyholders of the RL Post-2011 Business will hold policies with an Irish insurance company and will lose entitlement to this form of protection. There is no equivalent to the FSCS covering protection insurance in Ireland.
- 1.63 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. receiving premiums and paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that the policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote.

Ombudsman

- 1.64 RL Post-2011 Business policyholders currently have access to the Financial Services and Pensions Ombudsman Service ("FSPO"), an independent body in Ireland that considers unresolved complaints from consumers about their individual dealings with all financial services providers. These policyholders will continue to have access to this service after the Transfer. Therefore, I am satisfied that the Transfer will not affect the access to ombudsman protection of the policyholders of the RL Post-2011 Business.

Conduct of business regulations

- 1.65 The CBI is the regulatory authority for both the authorisation and ongoing supervision of Irish insurers. The General Good Requirements ("Irish Good Requirements"), including the Consumer Protection Code 2012, apply to insurers operating in the Irish market and all such insurers must comply with them. I explain these requirements further in Section 3 of the Report. The policies of the RL Post-2011 Business are currently subject to the Irish Good Requirements, as they were sold by the Irish branch of RLMIS to customers in Ireland, and they will continue to be subject to these standards after the Transfer. Therefore, there will be no change in the conduct of business standards applying to the policyholders of RL-Post 2011 Business as a result of the Transfer.
- 1.66 Overall, I am satisfied that there is no material adverse effect on policyholder protection for policyholders of the RL-Post 2011 Business as a result of the Transfer.

Membership rights

- 1.67 Policyholders of the RL Post-2011 Business are not Members of RLMIS and therefore these policyholders do not have membership rights. There will be no change to this position as a result of the Transfer.

Company level governance

- 1.68 Royal London DAC's governance structure has been designed to be in line with RLMIS' governance framework and to comply with Irish regulations. Overall, I am satisfied that the Transfer will not result in the weakening of governance applicable to the policyholders of the RL Post-2011 Business.

Tax

- 1.69 I consider the tax implications of the Transfer on the policyholders of the RL Post-2011 Business in Section 11. Overall, I am satisfied that there are no material adverse tax effects on the policyholders of the RL Post-2011 Business as a result of the Transfer.

Service standards

- 1.70 The RL Post-2011 Business is currently administered by Royal London Management Services Limited ("RLMS"), a service company that is a wholly owned subsidiary of RLMIS. After the Transfer, RLMS will continue to administer these policies through its Irish branch, with the same teams performing the administration, in the same location, and the administration will be subject to the same target standard of service. Therefore, I am satisfied that policyholders of the RL Post-2011 Business should not experience any change in service standards as a result of the Transfer.

New Reinsurance Agreements

- 1.71 The RL Post-2011 Business will not be reinsured back to RLMIS (see paragraph 1.57). However, as business of Royal London DAC after the Transfer, the RL Post-2011 Business is indirectly affected by the New Reinsurance Agreements, insofar as the capital position of Royal London DAC is affected by the New Reinsurance Agreements. I am satisfied that the Security Arrangements provide an appropriate level of protection to the RL Post-2011 Business in the event that RLMIS fails to honour its obligations under the New Reinsurance Agreements. Additionally, I am satisfied that the terms of the Scheme and the New Reinsurance Agreements provide appropriate protection to Royal London DAC, and hence to the RL Post-2011 Business, in the event of termination of the New Reinsurance Agreements.

Conclusion

- 1.72 Overall, I am satisfied that there is no material adverse effect on policyholders of the RL Post-2011 Business as a result of the Transfer.

Ireland Liver Business

- 1.73 The Ireland Liver Business makes up a significant proportion (44% based on BEL, as at 31 December 2017) of the Royal Liver Sub-Fund. The Scheme has the effect of transferring this business out of the Royal Liver Sub-Fund in RLMIS into the new Liver Ireland Sub-Fund in Royal London DAC. Ordinarily, a transfer such as this would require the assets of the Royal Liver Sub-Fund to be split between transferring and remaining policyholders of the Royal Liver Sub-Fund. This would require a calculation of the Ireland Liver Business' interest in the Estate of the Royal Liver Sub-Fund, which would be a complex process and one not likely to be completed before the date of Brexit, 29 March 2019. The Liver Reinsurance Agreement (as discussed in Section 9) negates the need to split the Royal Liver Sub-Fund at the Effective Date and allows the Royal Liver Sub-Fund to be managed materially in the same way after the Transfer as it is currently.
- 1.74 In Section 11 I consider the effect of the Transfer on the Ireland Liver Business in further detail. I have summarised my conclusions below.

Policyholder benefit expectations

- 1.75 The Scheme contains provisions to ensure that the Ireland Liver Business' interests in the Estate of the Royal Liver Sub-Fund are preserved while the Liver Reinsurance Agreement is in place. There will be a number of changes to the Estate of the Royal Liver Sub-Fund as a result of the Transfer that, overall, will lead to a reduction in the surplus emerging in the Royal Liver Sub-Fund, as described in Section 10. I consider this to be an unavoidable consequence of the Transfer. It is estimated that the reduction in surplus will lead to a reduction of approximately 2.0% in the distribution of the Estate at year-end 2018 when compared to the current run-off plan for the Royal Liver Sub-Fund, which does not allow for the Transfer. After this point, the distribution of the Estate is projected to be broadly unchanged.

- 1.76 Implementing the Scheme without the Liver Reinsurance Agreements would require the Fund Split to be carried out in respect of the Royal Liver Sub-Fund. This is a complex process and there is insufficient time to perform the calculation and to obtain the required approval from the various stakeholders to implement a Fund Split in a fair and controlled manner ahead of Brexit. The Liver Reinsurance Agreement will be implemented on the Effective Date to mitigate this impact. Under the terms of the Liver Reinsurance Agreement, 100% of the Ireland Liver Business will be reinsured from Royal Liver DAC to RLMIS.
- 1.77 The Royal Liver IoT governs how the Royal Liver Sub-Fund is maintained and operated. As a result of the Transfer, the Royal Liver IoT will be updated to ensure it remains applicable to both the policies remaining in the Royal Liver Sub-Fund and policies of the Ireland Liver Business, from the Effective Date. Importantly, the Royal Liver IoT requires that the treatment of the policyholders of the Ireland Liver Business and the Remaining Policyholders in the Royal Liver Sub-Fund is consistent.
- 1.78 The Scheme incorporates relevant provisions from the Royal Liver IoT, some of these are effective from the Effective Date and others are effective if and when the Liver Reinsurance Agreement is terminated. The aim of including these provisions within the Scheme is to ensure that, even in the event that the Liver Reinsurance Agreement is terminated, those provisions of the Royal Liver IoT with ongoing relevance would continue to apply to the Ireland Liver Business. Therefore, the Scheme preserves the material protections provided by the Royal Liver IoT for policyholders of the Ireland Liver Business.
- 1.79 The overall effect of the Liver Reinsurance Agreement, together with the amendments to the Royal Liver IoT, means that the policyholders of the Ireland Liver Business will continue to benefit from the Royal Liver Sub-Fund in materially the same way as they would have expected to do so before the Transfer. This position continues while the Liver Reinsurance Agreement is in place.
- 1.80 The Liver Reinsurance Agreement may only terminate if the Fund Split process in the Scheme has been undertaken. This requires the interest in the Estate of the policies allocated to the Royal Liver Sub-Fund to be allocated between the Royal Liver Sub-Fund and the Liver Ireland Sub-Fund. The Scheme contains a methodology and process that must be followed to reach this determination. The process involves the CBI, the UK Regulators and an independent actuarial expert as well as the boards of RLMIS and Royal London DAC, the RLMIS With-Profits Actuary (“WPA”), RLMIS Chief Actuary and Royal London DAC Head of Actuarial Function (“HoAF”).
- 1.81 The Security Arrangements mean that Royal London DAC would rank equally with the Remaining Policyholders, in terms of a distribution of assets, on RLMIS becoming insolvent, subject to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business. As such, the Security Arrangements provide policyholders of the Ireland Liver Business with protection in the unlikely event of RLMIS insolvency, as the structure of the first fixed charge ensures that Royal London DAC is able to continue paying claims to policyholders during any insolvency proceedings.
- 1.82 Overall, I am satisfied that there is no material adverse effect on policyholder benefit expectations of policyholders of the Ireland Liver Business as a result of the Transfer.

External bodies providing further policyholder protection

FSCS

- 1.83 Some of the Ireland Liver Business is currently covered by the FSCS. The policies in the Ireland Liver Business that are currently covered by the FSCS are listed in Section 11. After the Scheme is implemented, the policyholders of the Transferring Business will hold policies with an Irish insurance company and those who are currently entitled to FSCS protection will lose this entitlement. There is no equivalent to the FSCS covering protection insurance in Ireland.
- 1.84 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. receiving premiums and paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well

capitalised and will be required to comply with the Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote.

Ombudsman

- 1.85 Currently the policyholders of the Ireland Liver Business can contact the UK Financial Ombudsman Services ("FOS") or the FSPO in Ireland if there is a dispute regarding their policy. Currently, the majority of these policyholders raise their disputes with the FSPO rather than the FOS. After the Transfer, the policyholders of the Ireland Liver Business will lose access to the FOS, unless the complaint relates to activities carried out by RLMIS prior to the Transfer.
- 1.86 The FOS and the FSPO fulfil similar roles in the UK and Ireland respectively. The main difference is that the decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law, whilst decisions made by the FOS are only final and binding on the business if they are accepted by the complainant. Further details on the differences between the FOS and FSPO can be found in Section 11. There is nothing, however, to indicate that the outcome of a complaint will be different for a policyholder having to raise it with the FSPO, rather than the FOS, notwithstanding the legal differences between the two.
- 1.87 Policyholders of the Ireland Liver Business will still be able to bring complaints to the FOS for any activities carried out by RLMIS that occurred prior to the Transfer.

Conduct of business regulations

- 1.88 Before the Transfer, the UK conduct of business regulations (as detailed in the FCA's Conduct of Business Sourcebook "COBS"), and the Irish Good Requirements, apply to the Ireland Liver Business. After the Transfer, as the Transferring Business becomes business of Royal London DAC, the Irish Good Requirements will apply. The Irish Good Requirements place an emphasis on a consumer focused culture for firms, with the intention of delivering positive outcomes for customers. The CBI has a role in ensuring firms meet the published requirements and standards. I consider that this regime provides adequate consumer protection and is of no lesser standing than COBS for non-profit and unit-linked business. For with-profits business, UK COBS 20 has more onerous requirements than the Irish Good Requirements.
- 1.89 The Ireland Liver Business will be reinsured from Royal London DAC to RLMIS and will indirectly participate in the Royal Liver Sub-Fund as a result. The Royal Liver Sub-Fund is operated in accordance with UK COBS 20 and so the operation of the Ireland Liver Business will benefit from UK COBS, albeit indirectly through the reinsurance. In addition, the Ireland Liver Business will remain subject to the requirements of the existing Principles and Practices of Financial Management of the Royal Liver Sub-Fund ("Royal Liver PPFM") and the Royal Liver IoT, albeit indirectly. Therefore, in my opinion policyholders will not be adversely affected by any loss of policyholder protection with respect to the prevailing conduct of business regulation as a result of the Transfer. Further detail on conduct of business regulations in the UK and Ireland can be found in Section 3.
- 1.90 Overall, I am satisfied that there is no material adverse effect on policyholder protection for policyholders of the Ireland Liver Business as a result of the Transfer.

Membership rights

- 1.91 The Ireland Liver Business policyholders are not Members of RLMIS, and therefore do not currently have membership rights. The Transfer will not result in any change to this position.

Company level governance

- 1.92 Royal London DAC's governance structure has been designed to be in line with RLMIS' governance framework and to comply with Irish regulations. Overall, I am satisfied that the Transfer will not result in the weakening of governance applicable to the Ireland Liver Business.

Tax

- 1.93 I consider the tax implications of the Transfer on the policyholders of the Ireland Liver Business in Section 11. Overall, I am satisfied that there are no material adverse tax effects on the policyholders of the Ireland Liver Business as a result of the Transfer.

Costs of the Scheme and incremental ongoing expenses

- 1.94 I consider the cost implications of the Transfer on policyholders of the Ireland Liver Business in Section 11. Some of the one-off costs incurred to implement the Scheme will be allocated to the Royal Liver Sub-Fund. In my opinion, these costs are an unavoidable consequence of the Transfer and will be allocated fairly in line with the policy set out in the Royal Liver PPFM, the Royal Liver IoT and past practice. The costs will be borne by the Estate of the Royal Liver Sub-Fund.
- 1.95 The Royal Liver Sub-Fund will meet the additional ongoing expenses in respect of the Ireland Liver Business while the Liver Reinsurance Agreement is in place. The policyholders of the Ireland Liver Business will ultimately bear some of these costs. In my opinion, the allocation of ongoing costs is in line with the policy set out in the Royal Liver PPFM, the Royal Liver IoT and past practice.
- 1.96 I am satisfied that there will be no material adverse effect on the policyholders of the Ireland Liver Business due to the additional costs that arise as a result of the Transfer.

Service standards

- 1.97 Some of the Ireland Liver Business was originally written by Caledonian Life, and, after the acquisition of Caledonian Life by RLA, RLA continued to sell Caledonian Life branded policies (together, "Legacy Caledonian Life Business"). Some of the Ireland Liver Business was originally written by GRE Life Ireland Limited ("Legacy GRE Life Business"). The Legacy Caledonian Life Business and Legacy GRE Life Business are currently serviced in Ireland. After the Transfer, this will continue to be the case. The Legacy Caledonian Life Business and Legacy GRE Life Business will be managed by the same staff, in the same location and will be subject to the same target standards of service as those that currently apply. Therefore, these policyholders should not experience any changes in service standards as a result of the Transfer.
- 1.98 The rest of the Ireland Liver Business is currently administered by RLMS in the UK. On the Effective Date, the administration of these policies will be transferred to the Irish branch of RLMS and will be administered in Dublin. The service standards that apply to this business are set out in the Liver Service Standards document. These standards will not change as a result of the Transfer. The RLMS team will recruit staff in Dublin to administer these policies. The project to move the administrative operations to Dublin is on course to deliver its objectives. I consider the plans (including staff levels and training) to be appropriate. Moreover, Royal London DAC will adopt the existing target standards of service for these policies. Therefore, I am satisfied that these policyholders should not experience adverse changes in service standards as a result of the Transfer.

Liver Reinsurance Agreement

- 1.99 I am satisfied that the Liver Reinsurance Agreement allows the Ireland Liver Business' interests to be managed in materially the same way after the Transfer as they were before. I am also satisfied that the Security Arrangements provide an appropriate level of financial protection to the Ireland Liver Business in the event of RLMS failing to honour its obligations under the Liver Reinsurance Agreement.
- 1.100 I am also satisfied that the Scheme and the Liver Reinsurance Agreement together contain adequate provisions to protect policyholders in the event that the Liver Reinsurance Agreement is terminated. More information can be found on the new Liver Reinsurance Agreement and Security Arrangements in Section 9.

Conclusion

- 1.101 Overall, I am satisfied that there is no material adverse effect on the policyholders of the Ireland Liver Business as a result of the Transfer.

German Bond Business

- 1.102 As a result of the Transfer, the German Bond Business will be transferred out of the RL Main Fund in RLMIS into the new German Bond Sub-Fund in Royal London DAC. The German Bond Business is a relatively small block of business that is projected to reduce significantly over the next few years, as policies run-off. In my opinion, the German Bond Sub-Fund would be too small to operate economically as a with-profits fund in the absence of participation in, and support from, the RL Main Fund. The German Bond Reinsurance Agreement helps to mitigate this. Further, the German Bond Reinsurance Agreement helps to maintain the risk profile of Royal London DAC in line with its pre-Transfer position as discussed in Section 10.
- 1.103 In Section 11, I discuss the effect of the Transfer on the German Bond Business in further detail. I have summarised my conclusions below.

Policyholder benefit expectations

- 1.104 The overall effect of the German Bond Reinsurance Agreement means that the policyholders of the German Bond Business will continue to benefit from the RL Main Fund materially in the same way as they would have expected to before the Transfer. This position continues while the German Bond Reinsurance Agreement is in place.
- 1.105 The termination of the German Bond Reinsurance Agreement requires RLMIS to pay a termination amount to Royal London DAC. The calculation of this termination amount includes consideration of whether any compensation is required for eligible with-profits German Bond Policyholders in respect of the loss of any future ProfitShare⁴ payments, and if so the amount of such compensation. There is a methodology and process contained in the German Bond Reinsurance Agreement that must be followed to determine the termination amount. The process involves the CBI, the UK Regulators and an independent actuarial expert.
- 1.106 The Security Arrangements mean that Royal London DAC would rank equally with the Remaining Policyholders, in terms of a distribution of assets, on RLMIS becoming insolvent, subject to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business. As such, the Security Arrangements provide policyholders of the German Bond Business with protection in the unlikely event of RLMIS insolvency, as the structure of the first fixed charge ensures that Royal London DAC is able to continue paying claims to policyholders during any insolvency proceedings.
- 1.107 Overall, I am satisfied that there is no material adverse effect on benefit expectations for the policyholders of the German Bond Business as a result of the Transfer.

External bodies providing further policyholder protection

FSCS

- 1.108 The German Bond Business is currently covered by the FSCS. After the Scheme is implemented, the policyholders of the German Bond Business will hold policies with an Irish insurance company and will lose entitlement to this form of protection. There is no equivalent to the FSCS covering protection insurance in Ireland.

⁴ Within RLMIS, "ProfitShare" is the marketing term used to describe the ability of policyholders to participate in profits; in simple terms it is an allocation of part of the operating profits of RLMIS by means of a discretionary enhancement to eligible policies. Customers qualifying for ProfitShare derive access to ProfitShare from actual investment in the Royal London With-Profits Fund or through a profit share offered for certain specific products.

- 1.109 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote.

Ombudsman

- 1.110 Currently, policyholders of the German Bond Business are able to raise a complaint to the UK ombudsman, the FOS, as well as to the German regulator, Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”). After the Transfer, this category of policyholders will fall outside the jurisdiction of the FOS and will instead fall within the jurisdiction of the Irish ombudsman, the FSPO. Policyholders of the German Bond Business will still be able to raise complaints to BaFin after the Transfer.
- 1.111 Additionally, the German Bond Policyholders will still be able to bring complaints to the FOS for any activities carried out by RLMIS that occurred prior to the Transfer.
- 1.112 The FOS and FSPO fulfil similar roles in the UK and Ireland respectively. The main difference is that the decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law, whilst decisions made by the FOS are only final and binding on the business if it is accepted by the complainant. There is nothing, however, to indicate that the outcome of a complaint will be different for a policyholder having to raise it with the FSPO, rather than the FOS, notwithstanding the legal differences between the two. In my opinion, therefore, the ombudsman service that policyholders of the German Bond Business are able to access after the Transfer is not materially different to that which they are currently able to access.

Conduct of business regulations

- 1.113 Before the Transfer, the UK COBS apply to the German Bond Business and are overlaid with the German General Good Requirements (the main rules and regulations which insurers operating in Germany are required to consider). After the Transfer, certain regulations within the Irish Good Requirements will apply and certain regulations within the German General Good Requirements, as determined necessary by BaFin, will apply to this business.
- 1.114 As discussed in Section 11, given that BaFin is able to impose the application of certain provisions of the German General Good Requirements as it deems necessary, I am satisfied that policyholders will not be adversely affected by any loss of policyholder protection with respect to the prevailing conduct of business regulation as a result of the Transfer.
- 1.115 The German Bond Business will be reinsured from Royal London DAC to RLMIS and will indirectly participate in the RL Main Fund as a result. The RL Main Fund is operated in accordance with UK COBS 20 and so the management of the German Bond Business will benefit from UK COBS 20, albeit indirectly through the reinsurance. In addition, the German Bond Business will remain subject to the requirements of the existing Principles and Practices of Financial Management of the RL Main Fund (“RL Main Fund PPFM”), albeit indirectly. In my opinion, therefore, policyholders will not be adversely affected by any loss of policyholder protection with respect to the prevailing conduct of business regulation as a result of the Transfer. Further detail on conduct of business regulations in the UK and Ireland can be found in Section 3.
- 1.116 Overall, I am satisfied that there is no material adverse effect on policyholder protection for policyholders of the German Bond Business as a result of the Transfer.

Membership rights

- 1.117 The with-profits policyholders of the German Bond Business are currently entitled to RLMIS membership rights. The membership rights entitle the policyholders to voting rights, among other

things. The policyholders of the German Bond Business will lose their membership rights as a result of the Transfer. There will not be any compensation payable to policyholders for loss of membership rights at the time of the Transfer. I discuss the benefits of membership in Section 4 and I discuss the impact of the loss of membership rights in Section 11. Overall, I am of the view that it is reasonable to not provide any financial compensation for the loss of membership rights to the eligible German Bond Policyholders at the time of the Transfer because:

- membership rights provide little in the way of realisable financial value since RLMIS has no foreseeable plans to demutualise
- having certainty about being able to service these policies legally post-Brexit is more important than membership rights.

1.118 However, if RLMIS demutualises prior to the fifth anniversary of the Effective Date then the with-profits German Bond Policyholders, who at the time of the demutualisation still hold German Bond Policies with Royal London DAC, will be entitled to receive compensation made as a consequence of the demutualisation. This compensation will be on the same basis as any compensation proposed for the Members of RLMIS holding with-profits policies in the RL Main Fund, and if no such compensation is due to Members of RLMIS holding with-profits policies in the RL Main Fund then no compensation will be due to the with-profits German Bond Policyholders.

Company level governance

1.119 Royal London DAC's governance structure has been designed to be in line with RLMIS' governance framework and to comply with Irish regulations. Overall, I am satisfied that the Transfer will not result in the weakening of governance applicable to the German Bond Business.

Tax

1.120 I consider the tax implications of the Transfer on the policyholders of the German Bond Business in Section 11 of the Report. Overall, I am satisfied that there are no material adverse tax effects on the policyholders of the German Bond Business as a result of the Transfer.

Costs of the Scheme and incremental ongoing expenses

1.121 I consider the cost implications of the Transfer on the German Bond Policyholders in Section 11. Some of the one-off costs incurred to implement the Scheme will be allocated to the RL Main Fund. In my opinion, these costs will be allocated fairly and in line with the policy set out in the RL Main Fund PPFM and past practice. The costs will be borne by the Estate of the RL Main Fund.

1.122 While the German Bond Reinsurance Agreement is in place, the RL Main Fund will meet the additional ongoing expenses in respect of the German Bond Business. In my opinion, the allocation of costs is in line with the policy set out in the RL Main Fund PPFM and past practice. In addition, these additional ongoing expenses are not of a material size relative to the size of the RL Main Fund.

1.123 In my opinion, as set out in Section 11, I am satisfied that the policyholders of the German Bond Business will not be materially adversely affected by the additional costs that arise as a result of the Transfer.

Service standards

1.124 The German Bond Business administration is currently outsourced to Royal London 360° Management Services Limited ("RL 360°") in the Isle of Man. RL 360° was a subsidiary of RLMIS until November 2013, when RL 360° was sold, and ceased to be part of the Royal London Group. RL 360° has continued to provide administration services to RLMIS for the German Bond Business and RL 360° will continue to administer the German Bond Business after the Transfer. Therefore, the German Bond Business will continue to be serviced by the same staff, in the same location as was the case prior to the Transfer, and will be subject to the same target standards of service. Therefore, I am satisfied that these policyholders should not experience adverse changes in service standards as a result of the Transfer.

German Bond Reinsurance Agreement

- 1.125 I am satisfied that the German Bond Reinsurance Agreement allows the German Bond Business' interests to be managed in materially the same way after the Transfer as they are now. I am also satisfied that the Security Arrangements provide an appropriate level of financial protection to German Bond Business in the event of RLMIS failing to honour its obligations under the German Bond Reinsurance Agreement.
- 1.126 I am also satisfied that the Scheme and the German Bond Reinsurance Agreement together provide appropriate protection to policyholders of the German Bond Business in the event that the German Bond Reinsurance Agreement is terminated. More information can be found on the German Bond Reinsurance Agreement and Security Arrangements in Section 9.

Conclusion

- 1.127 Overall, I am satisfied that there is no material adverse effect on the policyholders of the German Bond Business as a result of the Transfer.

The impact of the Transfer on the Remaining Policyholders of RLMIS

- 1.128 In Section 12, I set out my analysis and conclusions in respect of the impact of the Transfer on the Remaining Policyholders. For these policyholders, the Transfer will not change:
- their insurer
 - the administration of their policies
 - the expense policy applied to their policies
 - the tax applied to their policies
 - the terms and conditions of their policies
 - the way their policy benefits are determined
 - the capital management framework of RLMIS that applies to their policies, or
 - the governance arrangements in respect of their policies.
- 1.129 The New Reinsurance Agreements and Security Arrangements which are put in place on the Effective Date contain provisions which aim to largely equalise the recovery to which Royal London DAC is entitled, in the unlikely event of RLMIS insolvency, with that of the Remaining Policyholders. Therefore, the New Reinsurance Agreements and Security Arrangements do not materially adversely affect the Remaining Policyholders.
- 1.130 Remaining Policyholders who are not in the RL Main Fund or the Royal Liver Sub-Fund ("Other Remaining Policyholders") are essentially unaffected by the Transfer. I am therefore satisfied that, for those policyholders, the Transfer does not have a material adverse effect.
- 1.131 The Transfer does impact policyholders of the RL Main Fund and the Royal Liver Sub-Fund. I summarise below my main findings for the Remaining Policyholders with policies in the RL Main Fund ("Remaining RL Main Fund Policyholders") and Remaining Policyholders with policies in the Royal Liver Sub-Fund ("Remaining Royal Liver Sub-Fund Policyholders").

Remaining RL Main Fund Policyholders

- 1.132 The RL Post-2011 Business and the German Bond Business make up only a small proportion (0.3% based on BEL, as at 31 December 2017) of the RL Main Fund. There are a number of factors arising as a result of the Transfer that act to reduce the value of the Estate of the RL Main Fund. The reduction in value is small, however, when considering the overall size of the Estate, and therefore will not materially affect the capital position of the RL Main Fund. The Transfer is not expected to impact the ProfitShare rates payable to eligible Remaining RL Main Fund Policyholders.

- 1.133 The termination of the German Bond Reinsurance Agreement requires RLMIS to pay a termination amount to Royal London DAC. The calculation of this termination amount includes consideration of whether any compensation is required for eligible with-profits German Bond Policyholders in respect of the loss of any future ProfitShare payments, and if so the amount of such compensation. There is a process set out in the German Bond Reinsurance Agreement that must be followed to determine the termination amount. The process involves the boards of RLMIS and Royal London DAC, the CBI, the UK Regulators and an independent actuarial expert, and is designed to ensure that the outcome is fair to policyholders, including those remaining in the RL Main Fund.
- 1.134 I am satisfied that the Remaining RL Main Fund Policyholders will not suffer a material adverse effect as a result of the Transfer.

Remaining Royal Liver Sub-Fund Policyholders

- 1.135 The Ireland Liver Business makes up a significant proportion (44% based on BEL, as at 31 December 2017) of the Royal Liver Sub-Fund. Following the Transfer, the Ireland Liver Business will be fully reinsured back to the Royal Liver Sub-Fund.
- 1.136 The benefits for non-profit and unit-linked Remaining Royal Liver Sub-Fund Policyholders will not be affected by the Transfer. The benefits for the non-profit policies are generally fixed by the policy terms and conditions. The unit-linked policies will continue to be invested in the same unit-linked funds after the Effective Date as they were prior to the Effective Date, and the number and type of units held by unit-linked policyholders will be unchanged as a result of the Transfer.
- 1.137 The impact that the Transfer will have on the benefits of with-profits Remaining Royal Liver Sub-Fund Policyholders will be driven by any changes to the Estate of the Royal Liver Sub-Fund or the distribution of the Estate. At 31 December 2017, the total Royal Liver Sub-Fund Estate had an estimated value of £499m.
- 1.138 There will be a number of changes to the Estate of the Royal Liver Sub-Fund as a result of the Transfer which, overall, will lead to a reduction in the surplus emerging in the Royal Liver Sub-Fund, as described in Section 10. It is estimated that the reduction in surplus will lead to a reduction of approximately 2.0% in the distribution of the Estate at year-end 2018 when compared to the current run-off plan for the Royal Liver Sub-Fund, which does not allow for the Transfer. After this point, the distribution of the Estate is projected to be broadly unchanged. In my opinion, the changes made to the Estate as a result of the Transfer are in line with the PPFM, the Royal Liver IoT, and past practice.
- 1.139 Ongoing expenses will be met by the Royal Liver Sub-Fund. Therefore, any change in ongoing expenses as a result of the Transfer will ultimately be borne by both the Remaining Royal Liver Sub-Fund Policyholders and the policyholders of the Ireland Liver Business. In my opinion, the allocation of ongoing costs is in line with the policy set out in the Royal Liver PPFM, the Royal Liver IoT and past practice.
- 1.140 There will be no change in the investment strategy of the Royal Liver Sub-Fund as a result of the Transfer.
- 1.141 In the event of the termination of the Liver Reinsurance Agreement, a termination amount would be paid from the Royal Liver Sub-Fund in respect of the Ireland Liver Business. This would be determined and calculated in accordance with the Liver Reinsurance Agreement. The Scheme also requires a Fund Split of the Royal Liver Sub-Fund upon termination of the Liver Reinsurance Agreement. The processes required in order to determine a Fund Split are set out in the Scheme. These processes include governance and oversight requirements, and are designed to ensure a fair outcome for policyholders, including those remaining in the Royal Liver Sub-Fund.
- 1.142 I am satisfied that there will be no material adverse effect on the Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer.

Conclusion

1.143 Overall, I am satisfied there will be no material adverse effect on the Remaining Policyholders as a result of the Transfer.

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

1.144 Following authorisation but prior to the Effective Date, it is expected that Royal London DAC will write new protection business in the Royal London DAC Open Fund. By the Effective Date, RLMIS has estimated that Royal London DAC will have about 2,000 policyholders.

1.145 In respect of these Existing Policyholders, the Transfer will not change:

- their insurer
- the administration of their policies
- the expense policy applied to their policies
- the tax applied to their policies
- the terms and conditions of their policies
- the way their policy benefits are determined
- the Capital Management Framework that applies to their policies, or
- the governance arrangements in respect of their policies.

1.146 The risk profile of Royal London DAC will be slightly altered as a result of the Transfer. However, all of the risks to which Royal London DAC is exposed after the Transfer are typical for life insurers and the management of these risks is not expected to cause any particular challenge within Royal London DAC.

1.147 Overall, I am satisfied there will be no material adverse effect on the Existing Policyholders as a result of the Transfer.

Communications with policyholders in relation to the Transfer

1.148 Transferring Policyholders, Remaining Policyholders allocated to the Royal Liver Sub-Fund, and the Existing Policyholders, will be sent a covering letter and a communications pack, unless a waiver has been obtained from communicating with the relevant policyholder. The communications pack includes:

- a summary of the Scheme
- a summary of the Report
- a copy of the legal notice
- questions and answers explaining the impact of the Scheme
- information related to the loss of FSCS protection (where relevant)
- changes to policy terms and conditions, Royal Liver PPFM (where relevant), and Royal London PPFM (where relevant)
- an overview of the legal process and rights that policyholders and any other person who considers that they would be adversely affected by the Scheme have to object to the Scheme.

1.149 The Scheme and the Report will also be available on request and on the websites royallondon.com/transfer, royallondon.ie/transfer and royallondongroup.de/transfer.

1.150 Any person who feels they may be adversely affected by the Scheme can raise objections to RLMIS, Royal London DAC, Pinsent Masons LLP (solicitors to RLMIS) or the High Court. I will issue a Supplementary Report where I will consider any such objections when concluding on the

appropriateness of the Scheme, as well as updated financial information or any other matter that has come to light since the issue of the Report.

- 1.151 I have reviewed the communications that will be sent in relation to the Transfer and I am satisfied that they are appropriate and not misleading.

The Impact of the Transfer on reinsurers of Transferring Business

- 1.152 RLMIS makes use of reinsurance to manage its business. This is common practice across insurance firms. In this Report, I consider whether the Transfer materially adversely affects any of the reinsurers whose contracts cover the Transferring Business. There is currently reinsurance in place in respect of the RL Post-2011 Business and the Ireland Liver Business.
- 1.153 There are five external reinsurance arrangements covering the RL Post-2011 Business and it is proposed that these will be amended and novated to Royal London DAC with effect from the Effective Date so that they can continue to operate as they do now, although the arrangements will be closed to new business upon the Transfer. The transfer of these contracts to Royal London DAC will be subject to the consent of the reinsurers.
- 1.154 The reinsurance treaties relating to the Ireland Liver Business in the Royal Liver Sub-Fund will not be transferred to Royal London DAC, they will be changed into retrocessions with effect from the Effective Date, subject to the agreement of reinsurers, and will operate in an equivalent way to the current arrangements.
- 1.155 Overall, the changes proposed to the reinsurance treaties in respect of the Transferring Business do not result in any changes to the cover provided by the reinsurers. Therefore I am satisfied that there will be no material adverse effect on the reinsurers of RLMIS whose contracts cover the Transferring Business, as a result of the Transfer.

2 Introduction

Background

- 2.1 The Royal London Mutual Insurance Society Limited (“RLMIS”) is the largest mutual life, pensions and investment company in the United Kingdom (“UK”). RLMIS currently sells protection business in Ireland through its Irish branch, and services euro-denominated insurance policies written in Ireland and Germany. Under European Union (“EU”) regulations, UK insurance companies can sell policies and service business written in European Economic Area (a free-trade zone created in 1994, composed of the states of the EU together with Iceland, Norway and Liechtenstein, the “EEA”) countries on a Freedom of Services or Freedom of Establishment basis (commonly referred to as “EU passporting rights”).
- 2.2 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK government officially notified the European Council of the UK’s intention to withdraw from the EU (“Brexit”), and Brexit is expected to take effect on 29 March 2019. It is uncertain whether UK insurance companies will continue to be able to sell policies and service business written in EEA countries outside of the UK, under EU passporting rights, after 29 March 2019. Therefore, unless suitable transitional or grandfathering arrangements between the UK and the EU are agreed prior to the 29 March 2019, it is expected that it will become illegal for RLMIS to continue to sell protection business in Ireland and service its policies written in Ireland and Germany.
- 2.3 RLMIS has incorporated a new subsidiary in Ireland, Royal London Financial Services Designated Activity Company, which is expected to be authorised by the Central Bank of Ireland (“CBI”) as a life insurance company before the end of 2018. Once authorised, the name of the subsidiary will be changed to Royal London Insurance Designated Activity Company (“Royal London DAC”) and it will sell protection business in Ireland, replacing the RLMIS Irish branch, which will be closed. In addition, Royal London DAC will be able to sell and service insurance policies written in EEA countries outside of the UK under EU passporting rights. RLMIS intends to transfer business written in Ireland and Germany to Royal London DAC.
- 2.4 The proposed transfer of business will be carried out using a legal process known as a Part VII Transfer of insurance business (under the Financial Services and Market Act 2000 (as amended) (“FSMA”). The terms of the transfer are set out in a document known as the Scheme.

What happens if the Scheme is not implemented?

- 2.5 If the Scheme is not implemented the business being transferred under the Scheme will remain with RLMIS and in the event of the UK losing EU passporting rights after Brexit, in the absence of an appropriate political agreement between the UK and the EU, there would be material concerns over the ability of RLMIS to continue to lawfully service the business originally written under EU passporting rights. For example, in the absence of suitable alternative arrangements, RLMIS may be unable to collect premiums, pay claims, or allow increments on its policies written in EEA countries outside of the UK, after Brexit.
- 2.6 If no steps are taken to mitigate the potential loss of passporting rights, there would be considerable uncertainty for RLMIS policyholders with policies written in EEA countries outside of the UK regarding the servicing of their policies after Brexit. By implementing the Scheme, RLMIS intends to provide certainty for these policyholders. RLMIS is aware that the Brexit negotiations could result in arrangements that would allow the continued servicing of RLMIS policies written in EEA countries outside of the UK. However, there is insufficient time for RLMIS to wait for the outcome of the Brexit negotiations because, if no such agreement is reached and RLMIS had not taken action when it did, it would not have been possible to implement a Part VII Transfer before 29 March 2019.

Business being transferred

- 2.7 I have classified the business being transferred under the Scheme (the “Transferring Business”) into three categories:

- RL Post-2011 Business – business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 until the date on which Royal London DAC starts writing new business (expected to be shortly after the date of authorisation of Royal London DAC)
- Ireland Liver Business – business written in Ireland by Royal Liver Assurance Limited (“RLA”), Caledonian Insurance Company Limited (“Caledonian Life”), Irish Life Assurance plc, and GRE Life Ireland Limited. All of this business now resides in RLMIS following various previous transfers of insurance business
- German Bond Business – business written in Germany on a Freedom of Services basis by RLMIS.

2.8 Throughout the Report, I refer to the policies within these categories of business as the “RL Post-2011 Policies”, “Ireland Liver Policies” and “German Bond Policies”, as appropriate. Similarly, I refer to the policyholders in respect of these policies as the “RL Post-2011 Policyholders”, “Ireland Liver Policyholders” and “German Bond Policyholders”, as appropriate.

2.9 The table below sets out the policy count and Best Estimate Liabilities (“BEL”) for the Transferring Business as at 31 December 2017.⁵

Transferring Business	Policy Count	Gross BEL (£m)
RL Post-2011 Business	49,878	(62)*
Ireland Liver Business	469,289	755
German Bond Business	1,342	120

* The Gross BEL for the RL Post-2011 Business is a negative amount. This is because, for this business, the value of future premiums is expected to exceed the values of future benefit payments, which is typical for protection business.

2.10 Immediately following the transfer of the Transferring Business to Royal London DAC, the German Bond Business and the Ireland Liver Business will be 100% reinsured back to RLMIS through two new reinsurance⁶ agreements (the “German Bond Reinsurance Agreement” and the “Liver Reinsurance Agreement”, together the “New Reinsurance Agreements”). To provide security for each of the New Reinsurance Agreements, RLMIS will enter into fixed and floating charges supported by collateral framework agreements (the “Security Arrangements”) with Royal London DAC.

The Purpose of the Report

2.11 FSMA sets out that a Part VII Transfer requires an application to be made to a relevant court for an order sanctioning the proposed transfer. FSMA further specifies that if the transferee is not a UK insurer (as is the case with Royal London DAC), the application must be made to the court which has jurisdiction in relation to the transferor concerned. RLMIS is the transferor in the proposed Part VII Transfer set out in the Scheme and is, as a company registered in England, under the jurisdiction of the High Court of Justice of England and Wales (the “High Court”). It is a requirement under FSMA that when the Scheme is submitted to the High Court for approval it is accompanied by a report from an independent expert (the “Report”). The independent expert and the form of the Report must be approved by the Prudential Regulation Authority (“PRA”), having consulted with the Financial Conduct Authority (“FCA”) (PRA and the FCA together, the “UK Regulators”).

2.12 In addition to the above, I also consider in the Report whether the proposed amendments to the Royal Liver Instrument of Transfer⁷ (“Royal Liver IoT”) materially adversely affect the reasonable

⁵ Best Estimate Liabilities is a measure of an insurance company’s liabilities. BEL is defined in the EU’s Solvency II Directive (“Solvency II”) as the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract’s run-off period, taking into account all up-to-date financial market and actuarial information.

⁶ An arrangement by which an insurer shares or passes on (i.e. reinsures) to another insurer (known as the reinsurer) the risks in one or more underlying insurance contracts that that the insurer has written or entered into.

⁷ The Royal Liver Instrument of Transfer, the document that sets out terms under which business of RLA was transferred to RLMIS on 1 July 2011.

expectations of, or materially reduce the protections conferred by the Royal Liver IoT on, the holders of Royal Liver policies. As required by the Royal Liver IoT, I provide a certificate stating my opinion in Appendix H. The proposed amendments to the Royal Liver IoT are subject to the approval of the PRA.

- 2.13 The Report also describes the impact of the Transfer on the current reinsurers of RLMIS whose treaties cover the risks associated with the policies of the Transferring Business.
- 2.14 RLMIS has appointed me, Tim Roff, as independent expert (the “Independent Expert”) to provide the Report in respect of the Scheme. The PRA has approved my appointment [and the form of the Report] in consultation with the FCA. I owe a duty to the High Court, which overrides any duties I owe to RLMIS.
- 2.15 The Scheme will be submitted to the High Court for sanction under Section 107 of Part VII of FSMA. The Report and the supplementary report (“Supplementary Report”)⁸ I will issue (together “Reports”) will be presented to the High Court, which will consider the contents of the Reports when considering whether to sanction the Scheme. If approved, it is expected that the Scheme will take effect from 7 February 2019, at which point the business will legally transfer from RLMIS to Royal London DAC. However, for accounting purposes, it will be assumed that the Transfer took place on 1 January 2019. Therefore, the “Effective Date” is 1 January 2019 for accounting purposes and 7 February 2019 for all other purposes.
- 2.16 The reason that the date used for accounting purposes is different to the Effective Date is that a lengthy process is required before legally transferring the business from RLMIS to Royal London DAC, and the Effective Date is the earliest time at which RLMIS is comfortable that this can be completed. Deeming the Scheme to be effective from 1 January 2019 for accounting purposes allows for consistency with RLMIS’ regular financial reporting, for which 1 January is the first day of the reporting cycle. This avoids the need for RLMIS to carry out a separate valuation of the Transferring Business, and allows it to use the valuation carried out for reporting purposes immediately prior to 1 January 2019. This will not affect the benefits payable nor the rights of any policyholders or third parties in relation to the policies of the Transferring Business, which will continue to be policies of RLMIS up to the Effective Date and Royal London DAC thereafter.
- 2.17 The Report considers and describes the impact of the Scheme, New Reinsurance Agreements and Security Arrangements (together referred to as the “Transfer”) on the policyholders whose policies will be transferred as a result of the Transfer (“Transferring Policyholders”), and the policyholders of RLMIS whose policies will not transfer (“Remaining Policyholders”). As it is proposed that Royal London DAC will sell policies after authorisation and prior to the Effective Date, I have also considered the impact of the Transfer on those policyholders of Royal London DAC (“Existing Policyholders”). In each case, I have considered the security of the benefits, benefit expectations and contractual rights of the policyholders. I have also considered how the Transfer will impact policyholder protection, service levels and any other factors (e.g. governance, tax and expenses) that might result in a material adverse effect (defined in paragraph 2.33) for any group of policyholders.
- 2.18 Where relevant, I consider the different policyholder subgroups as follows:
- Transferring Policyholders
 - RL-Post 2011 Policyholders
 - Ireland Liver Policyholders
 - German Bond Policyholders
 - Remaining Policyholders
 - the policyholders of RLMIS whose policies will not transfer under the Scheme, and are allocated to the Royal London Main Fund (“Remaining RL Main Fund Policyholders”)
 - the policyholders of RLMIS whose policies will not transfer under the Scheme, and are allocated to the Royal Liver Sub-Fund (“Remaining Royal Liver Sub-Fund Policyholders”)

⁸ In order to reflect any updated financial information or any other matter that has come to light since the issue of the Report, nearer the date of the High Court sanction hearing I will provide a Supplementary Report to update my opinions in respect of the Scheme.

- the policyholders of RLMIS whose policies will not transfer under the Scheme, and are not allocated to either the Royal London Main Fund or the Royal Liver Sub-Fund (“Other Remaining Policyholders”)
 - Existing Policyholders.
- 2.19 Throughout the Report I refer to the policies in respect of the above policyholders as “Transferring Policies”, “Remaining Policies” and “Existing Policies”, as appropriate. Likewise, I refer to the business composed of these policies as the “Transferring Business”, “Remaining Business” and “Existing Business”, as appropriate.
- 2.20 Similarly to the above, throughout the Report I refer to the policies in respect of the above Remaining Policyholders as the “Remaining RL Main Fund Policies”, “Remaining Royal Liver Sub-Fund Policies” and “Other Remaining Policies”, as appropriate. Likewise, I refer to the business composed of these policies as the “Remaining RL Main Fund Business”, “Remaining Royal Liver Sub-Fund Business” and “Other Remaining Business”, as appropriate.
- 2.21 The Report also considers and describes the impact of the Transfer on the current reinsurers of RLMIS whose treaties cover the risks associated with the Transferring Policies.
- 2.22 In preparing my Report, I have considered the terms of the Scheme, New Reinsurance Agreements and Security Arrangements only and have not considered whether any other scheme might provide a more efficient or effective outcome in relation to the proposed transfer of business. In reaching my conclusions, I have considered to what extent there may be a material adverse effect on policyholders as a result of the Transfer.
- 2.23 To the best of my knowledge, all material facts have been considered when assessing the impact of the Transfer when preparing my Report.
- 2.24 In the Supplementary Report, I will consider any objections to the Scheme by any persons who feel the Scheme will adversely affect them, as well as updated information or any other matter that has come to light since the issue of the Report.

The Independent Expert

- 2.25 I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years' experience in the life insurance industry. I am a Partner in Grant Thornton UK LLP (“Grant Thornton”). I joined Grant Thornton as a partner in October 2014. Prior to this, I held senior roles at a number of firms including partner roles at EY and KPMG. Appendix A sets out more details of my experience. Appendix B is an extract from the letter of engagement between Grant Thornton and RLMIS, setting out the agreed scope of my work.

Independence

- 2.26 I confirm that, in my opinion, I have no conflict of interest that would compromise my ability to perform my role as the Independent Expert. In reaching this opinion, I have considered the factors set out below and confirm that to the best of my knowledge and belief:
- I am not and never have been a director or employee of RLMIS or Royal London DAC
 - I have not provided any material consulting services or acted in any advisory capacity to RLMIS in the last 3 years that create a conflict with me acting as the Independent Expert
 - I have never invested in RLMIS or Royal London DAC through commercial loans or as a policyholder
 - I have never been part of an external audit to either of RLMIS or Royal London DAC
 - I do not hold any directorships in common with any of the directors or advisers of RLMIS or Royal London DAC, and
 - I do not have any family ties with the directors, senior employees or advisers of RLMIS or Royal London DAC.

- 2.27 I have considered the most recent guidance issued by the Actuarial Profession regarding conflicts of interest and have identified no conflict of interest that might compromise my independence. In addition, I confirm that I am of independent character and judgement.
- 2.28 Grant Thornton is a large accountancy and consulting firm and has advised RLMIS on various assignments. My involvement in any of these past assignments has been declared to RLMIS. These assignments were disclosed to the UK Regulators prior to my approval as the Independent Expert. I am satisfied that none of the assignments carried out by Grant Thornton for RLMIS or Royal London DAC compromise my independence, create a conflict of interest or compromise my ability to report on the proposed Scheme.

Regulatory and professional guidance

- 2.29 The Report has been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") and the Statement of Policy: The PRA's approach to insurance business transfers, dated April 2015. See Appendix C for details of how the PRA requirements have been met.
- 2.30 I have also paid regard to the FCA's guidance FG18/4: The FCA's approach to the review of Part VII Transfers (last updated 31 May 2018). See Appendix D for details of how this guidance has been followed.
- 2.31 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared the Report with the intention that it, and the work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance).
- 2.32 I confirm that I have also complied with the Actuarial Practice Standard X2: Review of actuarial work and considered Actuarial Practice Standard L1: Duties and Responsibilities of Life Assurance Actuaries, issued by the Institute and Faculty of Actuaries.

Materiality

- 2.33 The Report, and the analysis undertaken in order to produce the Report, apply the concept of materiality. The test I have applied is whether the position of any group of policyholders is, in the round, "materially adversely affected". This phrase is used in the context of considering policyholder security in SUP 18. For any group of policyholders, there may be some changes for the better and some for the worse as a result of the Transfer. If there are some changes for the worse this does not necessarily mean that the Transfer is unfair or unreasonable, as they might be outweighed by other benefits and/or they might be extremely small. The word "material" is not defined in SUP 18, so where there are adverse changes I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

Key dependencies

- 2.34 I have prepared the Report on the assumption that a number of actions take place in advance of the Effective Date. If these actions are not completed by the Effective Date, the conclusions in the Report may not be valid. Accordingly, I consider these actions to be key dependencies. These dependencies are:
- Royal London DAC receives authorisation from the CBI. Without the relevant authorisations, it would not be possible for the Scheme to be implemented
 - Royal London DAC receives a capital injection from RLMIS and this is sufficient to capitalise Royal London DAC at its target level
 - the PRA approves the proposed changes to the Royal Liver IoT
 - Royal London DAC and RLMIS enter into New Reinsurance Agreements and Security Arrangements.

Reliance

- 2.35 In preparing the Report I have relied on the accuracy and completeness of data and information provided to me, both in writing and orally, by RLMIS. Reliance has been placed upon, but not limited to, the information detailed in Appendix E. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life insurance industry but have not otherwise verified it. RLMIS has been advised by its own legal advisers, in England and Ireland, in respect of certain matters and I have reviewed some of the advice provided and have relied on some of that advice in reaching certain conclusions. For the avoidance of doubt, RLMIS' legal advisers have no liability to me in respect of that advice. Additionally, I have sought the opinion of Independent Counsel (Barry Isaacs QC, South Square) on matters relating to the Floating Charge Deed⁹ associated with the New Reinsurance Agreements that are being put in place alongside the Scheme. I have discussed these further in Section 9.
- 2.36 A copy of the Report will be sent to the UK Regulators, and will accompany the Scheme application to the High Court.
- 2.37 The Report is not suitable for any other purpose than as set out in paragraph 2.11 above. No liability is accepted or assumed for any use of the Report for any purpose other than that set out in paragraph 2.11 above.
- 2.38 The Report must be considered in its entirety, as individual sections, if considered in isolation, may be misconstrued.
- 2.39 The findings contained in the Report and any Supplementary Report are based on current data and current financial information. Future results could be affected by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, changes in management and changes in law or regulation. Therefore, I accept no responsibility for future results or future unforeseen events that might have a bearing on my conclusions.

Legal jurisdiction

- 2.40 The Report is governed by and should be construed in accordance with English Law. The English courts shall have exclusive jurisdiction in connection with all disputes and differences arising out of, under or in connection with the Report.

Duty to the High Court

- 2.41 In reporting on the Scheme as the Independent Expert, I understand that I owe a duty to the High Court to assist on matters within my expertise. This duty overrides any obligation to RLMIS. I confirm that I have complied with this duty.
- 2.42 I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules: The Practice Direction and Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I confirm that I have understood my duty to the High Court.

Statement of truth

- 2.43 I confirm that I have made clear which facts and matters referred to in the Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The

⁹ The floating charge is a charge that results in Royal London DAC ranking equally to direct policyholders of RLMIS in the event of RLMIS insolvency. The Security Arrangements taken together result in Royal London DAC being entitled to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business.

opinions I have expressed represent my true and complete professional opinions on matters to which they refer.

- 2.44 The Report has been seen by RLMIS and it has agreed that it is factually correct in relation to the references to RLMIS and Royal London DAC.
- 2.45 The Report has been peer reviewed by a fellow actuary, Derek Smith, who has over 25 years of experience in the insurance industry and specialises in reviewing insurance transactions.

Exchange rate

- 2.46 Throughout the Report, I will refer to numbers measured in pound sterling and euros with the use of an exchange rate of 1.126541 observed on 29 December 2017 (the last working day of the year). The exchange rate is not materially different at the date of authoring of the Report.

My approach

- 2.47 My approach to assessing the likely effects of the Transfer has been to:
- understand the nature and scope of the RLMIS business
 - understand the nature and scope of the Royal London DAC business
 - understand the nature, structure and terms of the Scheme
 - understand the nature and effect of the New Reinsurance Agreements and Security Arrangements that are being put in place alongside the Scheme
 - identify the groups of policyholders that are likely to be affected by the Transfer
 - assess the financial positions of the companies involved before and after the Transfer takes effect
 - consider whether, as a result of the Transfer, there is any material adverse effect on the security of benefits provided to the affected policyholders
 - consider whether, as a result of the Transfer, there is any material adverse effect on the level of benefits and contractual rights provided to the affected policyholders
 - consider whether, as a result of the Transfer, there is any material adverse effect in relation to the level of customer service and policyholder protection for affected policyholders
 - consider any other factors (e.g. regulation, governance, tax and expenses) that could result in a material adverse effect for any group of affected policyholders, and
 - consider the implications of the Transfer on the current reinsurers of RLMIS whose treaties cover the risks associated with the Transferring Policies.
- 2.48 I have reviewed all relevant information I have received. This is supplemented by desktop reviews, face-to-face meetings, challenge and questioning of information and additional research where required. In addition, I have discussed relevant issues with executives within RLMIS and RLMIS's legal advisers. I have consulted with Independent Counsel where required. I have also considered the RLMIS Chief Actuary's report on the Transfer and the RLMIS With-Profits Actuary's ("WPA") report on the Transfer. At the time of authoring the Report, Royal London DAC has not been authorised by the CBI, Royal London DAC has not written any policies and the Royal London DAC Head of Actuarial Function ("HoAF")¹⁰ is not in place. As a result of this a Royal London DAC HoAF report on the Transfer had not been prepared. I intend to consider any report on the Transfer prepared by the Royal London DAC HoAF, or any discussions I have had with the Royal London DAC HoAF in relation to the Transfer, when I prepare the Supplementary Report.
- 2.49 In forming my opinions, I have taken into account a number of different factors. These include:
- the appropriateness of the methods used by each of RLMIS and Royal London DAC to calculate the estimates of capital requirements

¹⁰ Insurance and reinsurance entities that are subject to Solvency II and supervised by the CBI are required to appoint a HoAF, which is a controlled function under the CBI's Fitness and Probity Standards.

- the relative capital strength of RLMIS and Royal London DAC immediately before and after the Transfer
- the absolute capital strength of RLMIS and Royal London DAC immediately before and after the Transfer, and based on projections from this, into the future
- the difference in the expected risk profile of RLMIS and Royal London DAC
- the likelihood of specific adverse events happening, and
- the difference in the regulatory regimes in the UK and Ireland.

Layout of the Report

2.50 The Report is structured as follows:

- Section 1 provides a summary of the Report
- Section 2 sets out an introduction to the Transfer and the Report
- Section 3 describes the regulatory background for both countries relevant to the Scheme (the UK and Ireland)
- Section 4 and Section 5 describe the background of the entities involved in the Transfer
- Section 6 describes the purpose and terms of the Scheme
- Section 7 describes a number of operational matters resulting from the Transfer
- Section 8 describes the structure of the Transfer
- Section 9 describes the operation of the New Reinsurance Agreements and the Security Arrangements
- Section 10 considers the risk profiles and capital projections of the entities involved in the Transfer as well as the impact of these considerations on the security of policyholders' benefits
- Section 11 considers the impact of the Transfer on Transferring Policyholders
- Section 12 describes the impact of the Transfer on the Remaining Policyholders of RLMIS
- Section 13 describes the impact of the Transfer on the Existing Policyholders of Royal London DAC
- Section 14 describes the impact of the Transfer on the reinsurers of the Transferring Business of RLMIS.

2.51 The following table summarises the policyholder groups and sub-groups considered in the Report, the entities and funds to which they are connected and where in the Report my consideration and conclusions in relation to risks that could potentially materially adversely affect them can be found.

Policyholder Group Policyholder sub-group	Transferring Policyholders						Remaining Policyholders			Existing Policyholders
	RL Post-2011	Ireland Liver			German Bond		Remaining Royal London Main Fund	Remaining Royal Liver Sub-Fund	Other Remaining Policyholders	
Policy type(s)	Non-profit	With-profits	Unit-linked	Non-profit	With-profits	Unit-linked	Non-profit, with-profits, unit-linked	Non-profit, with-profits, unit-linked	Non-profit, with-profits, unit-linked	Non-profit
Entity pre-transfer	RLMIS						RLMIS			Royal London DAC
Entity post-transfer	Royal London DAC						RLMIS			Royal London DAC
Fund(s) pre-transfer	RL Main Fund	Royal Liver Sub-Fund			Royal London Main Fund		Royal London Main Fund	Royal Liver Sub-Fund	Various other funds	Royal London DAC Open Fund
Fund(s) post-transfer	Royal London DAC Open Fund	Liver Ireland Sub-Fund			German Bond Sub-Fund		Royal London Main Fund	Royal Liver Sub-Fund	Various other funds	Royal London DAC Open Fund
New reinsurance agreement	N/A	Liver Reinsurance Agreement			German Bond Reinsurance Agreement		German Bond Reinsurance Agreement	Liver Reinsurance Agreement	N/A	N/A ¹¹
Consideration of potential adverse effects										
Security of policyholder benefits	10.29 - 10.59						10.8 - 10.28			10.29 - 10.59
Balance sheet movements	10.68						10.61 - 10.62	10.63 - 10.67	N/A	10.68
Capital support	10.69 - 10.71									
New R/I Agreements –Management	9.58	9.30 - 9.37, 9.43	9.38 - 9.41, 9.43	9.42 - 9.43	9.44-9.52, 9.57	9.53 - 9.57	9.63 - 9.66	9.59 - 9.62	9.67	9.58
–Termination	9.117 - 9.121	9.102 - 9.104, 9.109	9.105 - 9.107, 9.109	9.108 - 9.109	9.110 - 9.112, 9.116	9.113 - 9.116	9.110 - 9.116	9.102 - 9.109	9.122	9.117 - 9.121
–Floating Charge Deed		9.127 - 9.131						9.132 - 9.134		9.127 - 9.131
– Reinsurance Security Agreement		9.147 - 9.151						9.152 - 9.154		9.147 - 9.151
–Residual counterparty default		9.157 - 9.161						9.156		9.157 - 9.161
Policyholder benefit expectations	11.28 - 11.34	11.67 - 11.83			11.145 - 11.163		12.7 - 12.20	12.60 - 12.71	12.112 - 12.115	13.4 - 13.5
FSCS policyholder protection	11.37 - 11.39	11.92 - 11.96			11.181 - 11.183		12.30	12.81	12.124	13.15
Ombudsman protection	11.36	11.85 - 11.91			11.174 - 11.180		12.29	12.80	12.123	13.14
Conduct of business regs	11.40	11.97 - 11.102			11.184 - 11.187		12.31	12.82	12.125	13.16
Membership rights	11.35	11.84			11.164 - 11.173		12.55	12.104	12.144	N/A
Governance	11.43 - 11.49	11.103 - 11.119			11.192 - 11.204		12.37 - 12.41	12.86 - 12.90	12.129 - 12.132	N/A
Tax	11.52 - 11.60	11.123 - 11.133			11.208 - 11.219		12.42 - 12.48	12.91 - 12.96	12.133 - 12.138	13.19
Costs of the Scheme	11.61	11.134-11.137			11.220 - 11.222		12.49 - 12.51	12.97 - 12.100	12.139 - 12.140	13.20 - 13.21
Service standards	11.62 - 11.64	11.138 - 11.142			11.223 - 11.225		12.52 - 12.54	12.101 - 12.103	12.141 - 12.143	13.22 - 13.23
Communications		11.227 - 11.238					12.57 - 12.58	12.106 - 12.108	12.146	13.25 - 13.29

¹¹ The impact of the New Reinsurance Agreements on managing the Royal Liver Sub-Fund and RL Main Fund is not applicable to the Existing Policyholders or the RL Post-2011 Business, other than in relation to any counterparty risk that Royal London DAC as a whole is exposed to as a result of the New Reinsurance Agreements.

3 Regulatory background

Introduction

- 3.1 In this section, I describe the current UK and Irish prudential and consumer regulatory regimes that govern RLMIS and Royal London DAC respectively. This section provides the broad regulatory context against which I have assessed the impact of the Transfer. I detail in later sections when these regulations apply.
- 3.2 Insurers selling business in Germany must comply with the German General Good Requirements. To some extent, the German General Good Requirements apply to the German Bond Business both before and after the Transfer. I therefore do not consider the German General Good Requirements any further within this section.

Overview of the UK regulatory regimes

- 3.3 In the UK, the financial services industry is regulated by both the PRA and the FCA using a system of dual regulation that covers insurance companies. The FCA is a statutory body set up under the Financial Services Act 2012, while the Bank of England (the central bank of the United Kingdom) exercises its functions as the PRA through its Prudential Regulation Committee.
- 3.4 The PRA is part of the Bank of England and is responsible for:
- prudential regulation of banks, building societies and credit unions, insurers and major investment firms
 - promoting the safety and soundness of the firms it regulates, seeking to minimise the adverse impacts that they can have on the stability of the UK financial system, and
 - contributing to ensuring that insurance policyholders are appropriately protected.
- 3.5 The FCA is a separate institution with a strategic objective of ensuring that regulated markets function well, and is responsible for:
- conduct regulation of all financial firms
 - prudential regulation of those financial services firms that are not supervised by the PRA.
- 3.6 A Memorandum of Understanding has been established between the UK Regulators, which sets out the high-level framework under which the two regulatory bodies will co-ordinate their activities. In particular, the UK Regulators are required to co-ordinate with each other in advance of insurance business transfers under Part VII of FSMA.

Solvency framework overview

- 3.7 Firms are required to assess solvency under and comply with the Solvency II Directive ("Solvency II") which came into effect from 1 January 2016. Solvency II is a European-wide framework that harmonises solvency requirements across EEA countries and sets out an economic risk-based approach for adoption by businesses operating in member states.
- 3.8 Solvency II is a principles-based regime, based on three pillars:
- under Pillar I, quantitative requirements define a market consistent framework for valuing the company's assets and liabilities, and determining the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"¹²)
 - under Pillar II, insurers must meet certain standards for their corporate governance and their risk and capital management controls. There is a requirement for permanent internal audit,

¹² A regulatory minimum amount of capital that must be held under the Solvency II regime.

compliance, risk management and actuarial functions. Insurers must regularly carry out an Own Risk and Solvency Assessment (a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile, the "ORSA")

- under Pillar III, there are explicit requirements governing disclosures to local regulators and public disclosure.
- 3.9 Under Solvency II, firms may choose either to calculate the SCR using a Standard Formula, a standardised calculation for the SCR prescribed in the Solvency II rules, or to develop their own Internal Model. Where a Standard Formula approach is used, there is a requirement for both the firm and the local regulator to assess the appropriateness of using the Standard Formula. Where an Internal Model is used, the model must be approved by the local regulator.
- 3.10 When using the Standard Formula, the local regulator may require an insurer to hold additional capital (a "Capital Add-on") to cover risks specific to the insurer that are not adequately captured by the Standard Formula.
- 3.11 Subject to the approval of the local regulator, firms may make a number of adjustments to their Solvency II results. Permitted adjustments include:
- Transitional Measures on Technical Provisions ("TMTP"). This is calculated as the difference between the Technical Provisions calculated under the previous regulatory regime (Solvency I) and the Solvency II Technical Provisions¹³, and decreases linearly over a 16 year period
 - Transitional Measures on the Risk-Free Interest Rate. This allows firms to phase in any reduction in the discount rate¹⁴ used under Solvency II compared to that permitted under Solvency I
 - Matching Adjustment ("MA¹⁵") / Volatility Adjustment ("VA"). These are adjustments to the risk free interest rates used to discount insurance obligations. The main difference between the MA and VA is that the MA is calculated by firms based on a specifically identified portfolio of assets and liabilities whereas the VA is set in accordance with the Solvency II Directive on the basis of technical information published by the European Insurance and Occupational Pensions Authority ("EIOPA").
- 3.12 Under Solvency II Pillar II, the ORSA captures the insurer's own assessment of its risk profile and capital position, which provides a more company-specific assessment compared to the prescribed methods under Pillar I. As part of an insurer's risk management procedures, firms are required to set a Risk Appetite, which quantifies the amount and level of risk an insurer is prepared to take in order to meet its strategic objectives. Insurers must also have a capital policy to help ensure the company is managed in line with its Capital Risk Appetite.

Conduct principles

- 3.13 The FCA is responsible for conduct regulation of all financial firms, including insurers. Rules and guidance for firms are set out in the FCA Handbook. The FCA Handbook includes 11 principles for businesses that all firms regulated by the FCA are expected to follow and apply equally to domestic or overseas policyholders. These are:
- Integrity – a firm must conduct its business with integrity
 - Skill, care and diligence – a firm must conduct its business with due skill, care and diligence
 - Management and control – a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems
 - Financial prudence – a firm must maintain adequate financial resources
 - Market conduct – a firm must observe proper standards of market conduct
 - Customers' interests – a firm must pay due regard to the interests of its customers and treat them fairly

¹³ The amount of TMTP is subject to certain overall limits as set out in the Solvency II regulations.

¹⁴ A discount rate is the interest rate used in discounted cashflow analysis to determine the present value of future cashflows.

¹⁵ The matching adjustment is an adjustment to the risk-free interest rates used to discount insurance obligations, calculated by firms based on a specifically intended portfolio of assets and liabilities.

- Communications with clients – a firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading
- Conflicts of interest – a firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client
- Customers: relationships of trust – a firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement
- Clients' assets – a firm must arrange adequate protection for clients' assets when it is responsible for them
- Relations with regulators – a firm must deal with its regulators in an open and co-operative way and must disclose to the appropriate regulator anything relating to the firm of which the regulator would reasonably expect notice.

External bodies providing further policyholder protection

- 3.14 In addition to the PRA's solvency framework and the FCA's conduct principles, policyholders in the UK are also protected through the Financial Services Compensation Scheme ("FSCS") and the Financial Ombudsman Service ("FOS").

FSCS

- 3.15 The FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency or default of insurers authorised in the UK or EEA insurers with a UK branch. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) when an insurer is unable to meet its liabilities fully. For long-term insurance policies, the FSCS will ensure 100% of any successful eligible claim is paid. The policyholder protection provided under the FSCS applies to direct policyholders of the insurer only. The FSCS is funded by levies on those firms authorised by the UK Regulators.

FOS

- 3.16 The FOS is an independent body set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves. Decisions made by the FOS are final and binding on the relevant firm if it is accepted by the consumer.

Governance of long-term insurers

- 3.17 Under usual circumstances, a long-term insurer will have a board of directors (the "Board"), which governs the firm. They will be responsible for strategy, culture, day-to-day management, capital management and approval of the insurer's financial statements.
- 3.18 On 7 March 2016, the PRA introduced the Senior Insurance Managers Regime which defines and details the responsibilities of Senior Insurance Management Functions ("SIMF"), including:
- SIMF1 – Chief Executive Officer
 - SIMF2 – Chief Financial Officer
 - SIMF4 – Chief Risk Officer
 - SIMF5 – Head of Internal Audit
 - SIMF20 – Chief Actuary
 - SIMF21 – With-Profits Actuary (firms containing with-profits business)
 - SIMF22 – Chief Underwriting Officer (general insurance firms only).
- 3.19 Individuals fulfilling each of the above roles must be approved by the PRA. This regime aims to ensure that individuals performing the above roles have the required skills and experience to act in that particular capacity.

Risk Appetite and capital policy

- 3.20 The Board is responsible for setting the firm's Risk Appetite and capital policy, which ultimately drives the entity's exposure to risk.
- 3.21 It is usual for firms to express their Capital Risk Appetite in terms of a target capital level, which will be set in excess of the SCR. This helps to ensure that day-to-day fluctuations do not lead to a breach of the capital requirements under Solvency II. The buffer above the SCR will be set out in the insurer's capital policy. This policy will be set by the Board and any changes are subject to Board approval, with consultation with the UK Regulators also required.
- 3.22 In addition, an entity will typically keep a buffer above the regulatory minimum to demonstrate the financial strength of the entity to internal and external stakeholders, for example credit rating agencies.

Management of with-profits business within the UK

- 3.23 Chapter 20 of the FCA's Conduct of Business Sourcebook ("COBS") sets out the FCA's rules in relation to managing with-profits¹⁶ business, including the governance and management of with-profits funds, treating with-profits customers fairly, the Principles and Practices of Financial Management ("PPFM") and communications with with-profits policyholders.
- 3.24 In particular, chapter 20.3 of COBS sets out the requirement for all firms that conduct with-profits business in the UK to define, and make publically available, the PPFM applied in the management of their with-profits funds.
- 3.25 In managing with-profits business, firms rely on their use of discretion, particularly in relation to the investment strategy followed, the application of smoothing and determination of any Bonuses¹⁷. The purpose of the PPFM is to explain the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.
- 3.26 COBS¹⁸ also sets out the governance arrangements that must be put in place for with-profits business. This includes a requirement to appoint a with-profits committee ("WPC") or a with-profits advisory arrangement. A WPC is required to have a majority of members independent of the firm or, where there is an equal number of independent and non-independent members, to be chaired by an independent member.
- 3.27 Ultimate responsibility for managing a with-profits fund rests with the Board. The role of the WPC or with-profits advisory arrangement is, in part, to act in an advisory capacity to inform the decision-making of a company's governing body. The WPC or with-profits advisory arrangement also acts as a means by which the interests of with-profits policyholders are appropriately considered within a company's governance structures.
- 3.28 Under the PRA's rules,¹⁹ a firm carrying on with-profits business must appoint one or more actuaries to perform the role of WPA. The duties of the WPA include a requirement to advise the firm's management on key aspects of discretion affecting those classes of with-profits insurance business of the firm to which he or she has been appointed. A WPC or with-profits advisory arrangement is usually expected to work closely with the WPA and obtain his or her opinion and input, as appropriate.
- 3.29 When a firm ceases to effect new contracts in a with-profits fund it must submit a run-off plan to the UK Regulators within three months of closure of the with-profits fund to new business²⁰. The run-off

¹⁶ With-profits is a pooled investment arrangement whereby certain profits and losses of the pool are shared fairly amongst the participating investors. Typically these investments offer a minimum guaranteed return plus some stability in payouts through smoothing out the effects caused by the short-term movements in investment markets.

¹⁷ For with-profits policies, profits shared with policyholders via incremental additions to guaranteed benefits referred to as Bonuses.

¹⁸ FCA Handbook COBS 20.5

¹⁹ PRA Rulebook/Solvency II Firms/Actuaries/Appointment of Actuaries/2.2

²⁰ COBS 20.2.53

plan should include an up-to-date plan to demonstrate how the firm will ensure a fair distribution of the closed with-profits fund and its inherited Estate²¹ (if any). The up-to-date plan must be approved by the firm's Board.

Management of unit-linked business within the UK

- 3.30 There are fewer regulations around the management of unit-linked business within the UK compared to those for with-profits business. The main source of regulation for unit-linked business is within COBS.
- 3.31 Chapter 21 of COBS sets out the FCA's rules in relation to managing unit-linked business, including the fair and accurate determination of unit values, policyholder notification of a unit fund's risk profile, the use of reinsurance for unit-linked business and restrictions on unit-linked assets.

Overview of the Irish regulatory regimes

- 3.32 In Ireland, financial services organisations, including insurance companies, are regulated by the CBI.
- 3.33 Under the Insurance Act, 1989, the CBI has extensive powers to request a wide range of information from insurers and to carry out investigations of the business of an insurer and of connected persons, as well as powers of intervention where it considers an insurer is or may be unable to meet its liabilities or provide the required level of solvency. In cases requiring intervention, the CBI can direct the insurer to take such measures as it deems appropriate. Similar powers of intervention arise in other circumstances such as failure to comply with insurance legislation.
- 3.34 The CBI has a statutory code, the Fitness and Probity Standards, which was introduced by the CBI under the Central Bank Reform Act 2010. This applies to individuals in senior positions, referred to as controlled functions and pre-approval controlled functions, within financial services providers, including insurers.
- 3.35 The CBI has produced the General Good Requirements for Insurance and Reinsurance Undertakings ("Irish General Good Requirements"), which summarise some of the main requirements to which insurers and reinsurers operating in the Irish market must adhere. Included within these requirements are summaries and details of:
 - the Consumer Protection Code 2012 ("CPC")
 - the Minimum Competency Code ("MCC")
 - the CBI funding levy.
- 3.36 The CBI has also put in place a set of "Principles of best practice applicable to the distribution of life insurance products on a cross border basis within the EU or a third country". These non-binding principles set out a broad range of standards it expects firms to follow in respect of product design, distribution, errors and complaints handling and communications with customers.
- 3.37 The CBI operates the Probability Risk and Impact System ("PRISM"), its risk-based framework for supervising Irish regulated firms. Depending on the rating awarded to the regulated entity, the CBI's approach to supervision may differ, and the entity will be subject to different levels of supervision and regulatory engagement.

²¹ Estate is a general term used to describe the excess of the assets realistically required to meet the current expectations of with-profits policyholders and to settle other liabilities within a with-profits fund.

Solvency framework overview

- 3.38 The solvency framework applicable to insurance entities in Ireland is the same European Solvency II framework as described above and was implemented into Irish law through the European Communities (Insurance and Reinsurance) Regulations 2015.
- 3.39 In addition, there is a Domestic Actuarial Regime within Ireland, relating to the actuarial function and governance arrangements, which is applicable to all insurance undertakings subject to Solvency II. This is discussed further in paragraph 3.52 below.

Conduct principles

- 3.40 The CBI is responsible for conduct-of-business regulation of regulated firms, including insurers. Rules and guidance for firms are set out in the CBI's CPC. The CPC contains 12 general principles, which apply to the conduct of regulated activities of regulated entities operating in Ireland and apply equally to domestic and overseas policyholders. These require that a regulated firm:
- acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market
 - acts with due skill, care and diligence in the best interests of its customers
 - does not recklessly, negligently or deliberately mislead a customer as to the real or perceived advantages or disadvantages of any product or service
 - has and employs effectively the resources, policies and procedures, systems and control checks, including compliance checks, and staff training that are necessary for compliance with this code
 - seeks, from its customers, information relevant to the product or service requested
 - makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer
 - seeks to avoid conflicts of interest
 - corrects errors and handles complaints speedily, efficiently and fairly
 - does not exert undue pressure or undue influence on a customer
 - ensures that any outsourced activity complies with the requirements of this code
 - without prejudice to the pursuit of its legitimate commercial aims, does not, through its policies, procedures, or working practices, prevent access to basic financial services
 - complies with the letter and spirit of this code.
- 3.41 The MCC sets out further requirements in relation to the conduct of business, in particular the minimum professional standards to which staff of insurance companies must adhere when dealing with consumers in the Irish market.

External bodies providing further policyholder protection

- 3.42 For long-term insurance business, there is no equivalent to the FSCS in Ireland.

Financial Services and Pensions Ombudsman

- 3.43 The Financial Services and Pensions Ombudsman ("FSPO") in Ireland is an independent body funded by levies on financial services providers and by a government grant. It considers unresolved complaints from consumers about their individual dealings with all financial services providers, including insurers. Decisions made by the FSPO are legally binding and can be appealed on points of law only to the High Court in Ireland.

Governance of long-term insurers

- 3.44 The Board of any insurance entity in Ireland is responsible for corporate governance. However, it is necessary that senior management provide governance oversight consistent with Board policy.

- 3.45 As mentioned in paragraph 3.34 above, individuals in senior positions are subject to the CBI's Fitness and Probity Standards.
- 3.46 The Board should contain a combination of Independent Non-Executive Directors and Executive Directors. The Board is led by a Chairman, who should promote effective communication amongst the Board members.
- 3.47 The Board is also responsible for oversight of the committees of the Board. At a minimum, these should include an Audit Committee and a Risk Committee (although entities deemed to be high impact by the CBI under the PRISM framework must also establish Remuneration and Nomination Committees, unless they are part of a group which already has these committees).
- 3.48 In addition to the Board, the CBI expects an insurance entity to appoint appropriate individuals to a range of senior executive roles, including the following:
- Chief Executive Officer – has ultimate responsibility for the insurance undertaking's operations, compliance and performance. The Chief Executive Officer should not be the Chairman.
 - Chief Risk Officer – responsible for the risk management function, and for maintaining and monitoring the risk management system.
- 3.49 The CBI requires insurance entities to have a clear organisational structure, with well-defined lines for reporting and oversight, exercised by the Ireland-based executive. It also expects that there are effective processes in place to identify, manage, monitor and report risks and adequate internal control mechanisms that promote effective risk management.

Role of the Head of Actuarial Function

- 3.50 Insurance and reinsurance entities that are subject to Solvency II and supervised by the CBI are required to appoint a HoAF which is a pre-approved controlled function under the CBI's Fitness and Probity Standards.
- 3.51 The HoAF role is defined by the CBI in its Domestic Actuarial Regime and Related Governance Requirements under the Solvency II document of 2015. The CBI has also issued Guidance for (Re) Insurance Undertakings on the HoAF Role document of 2016, which provides an overview of the issues the CBI expects to be considered by the HoAF when completing certain tasks. In addition, CP122 describes additional governance requirements related to with-profits business. This is covered in detail in 3.58.
- 3.52 In addition to the Solvency II requirements, the HoAF must comply with the requirements set out in the Domestic Actuarial Regime and Related Governance Requirements under Solvency II produced by the CBI. This requires the HoAF to:
- prepare an annual Actuarial Function Report which addresses the following areas:
 - Technical Provisions²²: co-ordination of the calculation of Technical Provisions, the quality of data, the assumptions and methodology used, a comparison of best estimate versus actual experience and informing the Board of the reliability and adequacy of the calculations
 - opinions: opinions are required on the underwriting policy and the adequacy of the reinsurance arrangements
 - risk management: comment on the risk modelling underlying the SCR and MCR and contribute to the ORSA.
 - provide an opinion on each ORSA process carried out, with the opinion being provided to the Board with the ORSA results
 - provide an Actuarial Opinion on Technical Provisions, an Actuarial Report on Technical Provisions and arrange a peer review of the Technical Provisions (a peer review of the HoAF's opinion and report will also need to be arranged)
 - for life insurance companies:

²² Under Solvency II, Technical Provisions are the sum of the insurers BEL plus Risk Margin.

- recommend an allocation of the profits for with-profits business
- provide an opinion where there is any discretion in policy conditions
- document the HoAF's interpretation of policyholders' reasonable expectations and detail how this has been considered.

Risk Appetite and capital policy

- 3.53 Similarly to the UK, the Board is responsible for setting the insurer's Risk Appetite and capital policy.
- 3.54 It is also usual for firms in Ireland to hold assets in excess of the SCR. This helps to ensure day-to-day capital fluctuations do not lead to solvency breaches. The size of this buffer will also be set by the Board and communicated to the CBI.

Management of with-profits business within Ireland

- 3.55 At the date of the Report, there is no Irish equivalent to the UK regulations around the management of with-profits business. In particular:
- firms are not required to produce a PPFM for with-profits funds
 - there is no requirement to appoint a WPC or a WPA
 - there is no requirement to submit a run-off plan for with-profits funds closed to new business.
- 3.56 In Ireland, the HoAF is responsible for the oversight of the with-profits funds, and will advise the Board on any matters relating to such funds as mentioned in 3.52.
- 3.57 In the management of with-profits business, regard must be paid to the policyholders' reasonable expectations, as mentioned in the Domestic Actuarial Regime and Related Governance Requirements.
- 3.58 On 22 June 2018, the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II. This consultation paper proposes further amendments to the actuarial regime in Ireland relating to the governance of with-profits business. In particular, it proposes the following additional requirements relating to with-profits business:
- (re)insurance undertakings will be required to produce a With-Profits Operating Principles ("WPOP") document, which will be available to members of the respective with-profits funds
 - (re)insurance undertakings will be required to send an annual report to with-profits policyholders on the compliance of the fund with the principles of the WPOP
 - the HoAF will be required to report to the Board and with-profits policyholders on the compliance of the with-profits funds with the principles in the WPOP
 - the HoAF will be required to provide an opinion to the Board on compliance of the Technical Provisions with the WPOP in the actuarial report on Technical Provisions.
- 3.59 It is proposed that these additional requirements will not apply to currently authorised insurers with existing with-profits policies until 1 January 2020.

Management of unit-linked business within Ireland

- 3.60 The guidelines around the management of unit-linked business within Ireland are not extensive.
- 3.61 Actuarial Standard of Practice LA-4 – Additional Guidance for Appointed Actuaries on Policyholders' Reasonable Expectations ("ASP LA-4") is mandatory guidance issued by the Society of Actuaries in Ireland on the management of policyholders' reasonable expectations. Section 3.3 of ASP LA-4 states that a HoAF must have regard to the following when exercising discretion for unit-linked business: determination of fund objectives and investment guidelines, unit pricing and deductions and adjustments to unit prices for actual and contingent tax and other liabilities.

Main differences between UK and Irish regulations

3.62 The main differences between UK and Irish regulations are summarised below:

- the conduct of business rules in Ireland are more principles-based than the UK's, although the principles are likely to achieve broadly similar outcomes
- there are some differences in the operation and governance of with-profits policies:
 - within the UK it is necessary for firms with with-profits policies to appoint a WPA, whereas this is not a requirement in Ireland
 - there is no requirement in Ireland for with-profits funds to maintain a PPFM
 - there is no requirement in Ireland for firms to have a WPC or any with-profits advisory arrangements
 - there is no requirement in Ireland for firms to have a run-off plan for closed with-profits funds
 - there is no equivalent to the FSCS within Ireland for long-term insurance business
- whilst the FOS and FSPO fulfil similar roles in the UK and Ireland respectively, there are some differences. In particular, decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law, whilst decisions made by the FOS are only final and binding on the relevant firm if they are accepted by the consumer.

3.63 Currently, the UK and Ireland follow the same solvency regulations (Solvency II). Following Brexit, it is possible that UK solvency rules will depart from those in Ireland in the future.

4 Background on RLMIS

Introduction

- 4.1 RLMIS is a mutual life insurance company incorporated and domiciled in the UK. RLMIS operates under the UK Companies Act 2006 and is authorised by the PRA and regulated by the UK Regulators. The principal activity of RLMIS is the carrying on of long-term insurance business.
- 4.2 In this section, I look at the history of RLMIS and how it has come to be in its current form. This information is relevant to later sections of the Report. I also detail the structure of RLMIS and provide particular details related to the funds and sub-funds of RLMIS that are relevant to this Scheme, namely the Royal Liver Sub-Fund and the Royal London Main Fund (“RL Main Fund”).

History

- 4.3 RLMIS was formed in 1861 as a friendly society and became a mutual life insurance company in 1908.
- 4.4 Since its formation, RLMIS has grown in the UK through acquisitions and organic expansion. A summary of some of the transactions which form the current structure of RLMIS is given below:
- In 2000, RLMIS acquired United Assurance Group plc and its subsidiaries. United Assurance Group plc was formed in 1996 through a merger of Refuge Assurance plc and United Friendly plc.
 - In 2001, RLMIS acquired the Scottish Life Assurance Company, which was founded as a proprietary company in Edinburgh in 1881. It was mutualised in 1968, and then demutualised in 2001 prior to acquisition.
 - In 2003, RLMIS launched the brand Bright Grey, specialising in protection business.
 - In 2007, RLMIS acquired Investment Funds Direct Limited and Investment Sciences Limited, a platform through which independent financial advisers can manage their clients’ long-term savings and investments. This business is known as Ascentric.
 - In 2008, RLMIS acquired from Pearl Group Limited parts of the business of Scottish Provident and Scottish Mutual Assurance Limited, along with businesses of Scottish Provident International Life Assurance and PLAL.
 - In 2008, Royal London 360° Management Services Limited (“RL 360°”) was formed as a result of the merger of Scottish Life International and Scottish Provident International Life Assurance.
 - In 2011, RLMIS acquired the business of RLA and its subsidiaries.
 - In 2013, RLMIS acquired the life, pensions and asset management business of the Co-Operative Group.
- 4.5 In 1988, RLMIS established Royal London Asset Management Limited (“RLAM”) to look after the investment management of all of its funds.
- 4.6 During the course of its history, Royal London has disposed of some of its operations, for example, RL 360° in 2013.
- 4.7 In 2014, the entire business of the Royal London Group (the “Group”) started moving to a single Royal London brand, except for Ascentric, which retained its brand and name. A limited amount of Scottish Provident business has also retained its brand name.
- 4.8 The Transferring Policies are allocated to either the RL Main Fund or the Royal Liver Sub-Fund. The Royal Liver Sub-Fund was formed following the acquisition of RLA (detailed in paragraph 4.4 above). Therefore, I provide a summary of the history of the Royal Liver Sub-Fund below:
- RLA was incorporated as a friendly society in 1850 and was authorised in the UK and Ireland
 - in 2000, RLA acquired Caledonian Life and GRE Life Ireland Limited

- in 2001, RLA acquired the long-term business of the Civil Servants' Annuities Assurance Society, the industrial branch of Friends Provident Life Office and the industrial branch business of Friends Provident
- in 2002, RLA acquired the long-term business of Irish Life Assurance plc
- on 1 July 2011 the business of RLA, including the businesses RLA acquired (as detailed above), was transferred to the Royal Liver Sub-Fund, and
- in 2012, the business of GRE Life Ireland Limited (which was acquired in 2000) was transferred to RLMIS, into the Royal Liver Sub-Fund.

Membership

- 4.9 RLMIS is a mutual life insurance company, and as a mutual is considered to be owned by its Members who are customers of the business (although not all customers are Members). All Members have voting rights (one vote per Member, all ranking equally).
- 4.10 The main benefits of membership of RLMIS are:
- The right to vote at the Annual General Meeting ("AGM") or an Extraordinary General Meeting ("EGM") of RLMIS
 - The right to requisition a resolution to call an EGM of RLMIS which requires a minimum of 500 Members to provide such support
 - The right to requisition the inclusion of a resolution in the notice of an AGM which requires a minimum of 500 Members to support such a requisition
 - The potential for compensation in the event of a demutualisation of RLMIS.
- 4.11 Generally, Members will be customers who have purchased policies directly from RLMIS which allow them to participate in the profits of RLMIS. Customers whose policies have been transferred to RLMIS as a result of past corporate acquisitions have not gained membership.
- 4.12 The rules of membership are contained in RLMIS' Articles of Association.

ProfitShare

- 4.13 Within RLMIS, ProfitShare is the marketing term used to describe the ability of policyholders to participate in the profits of RLMIS; in simple terms, it is an allocation of part of the profits of RLMIS by means of a discretionary enhancement to Asset Share²³ and unit fund values of eligible policies. Customers qualifying for ProfitShare derive access to ProfitShare from actual investment in the RL Main Fund or through a profit share offered for certain specific products, although not all policies allocated to the RL Main Fund are eligible for ProfitShare.

Company structure

The Group comprises a number of non-trading companies and investment vehicles – property trusts, unit trusts, open-ended investment companies and nominee companies. RLMIS is the ultimate parent company for the Group.

²³ For a with-profits policy, the Asset Share is the accumulation of past premiums at the rate of return earned on the assets backing the policy, after allowing for charges less expenses, cost of risk benefits, cost of guarantees, cost of smoothing and tax. Asset Shares may also include an allowance for miscellaneous profits or losses on the inherited estate.

- 4.14 An abbreviated Group structure is shown below. This illustrates the structure of the entities which are of particular interest for the Scheme (the diagram does not illustrate the full company structure).

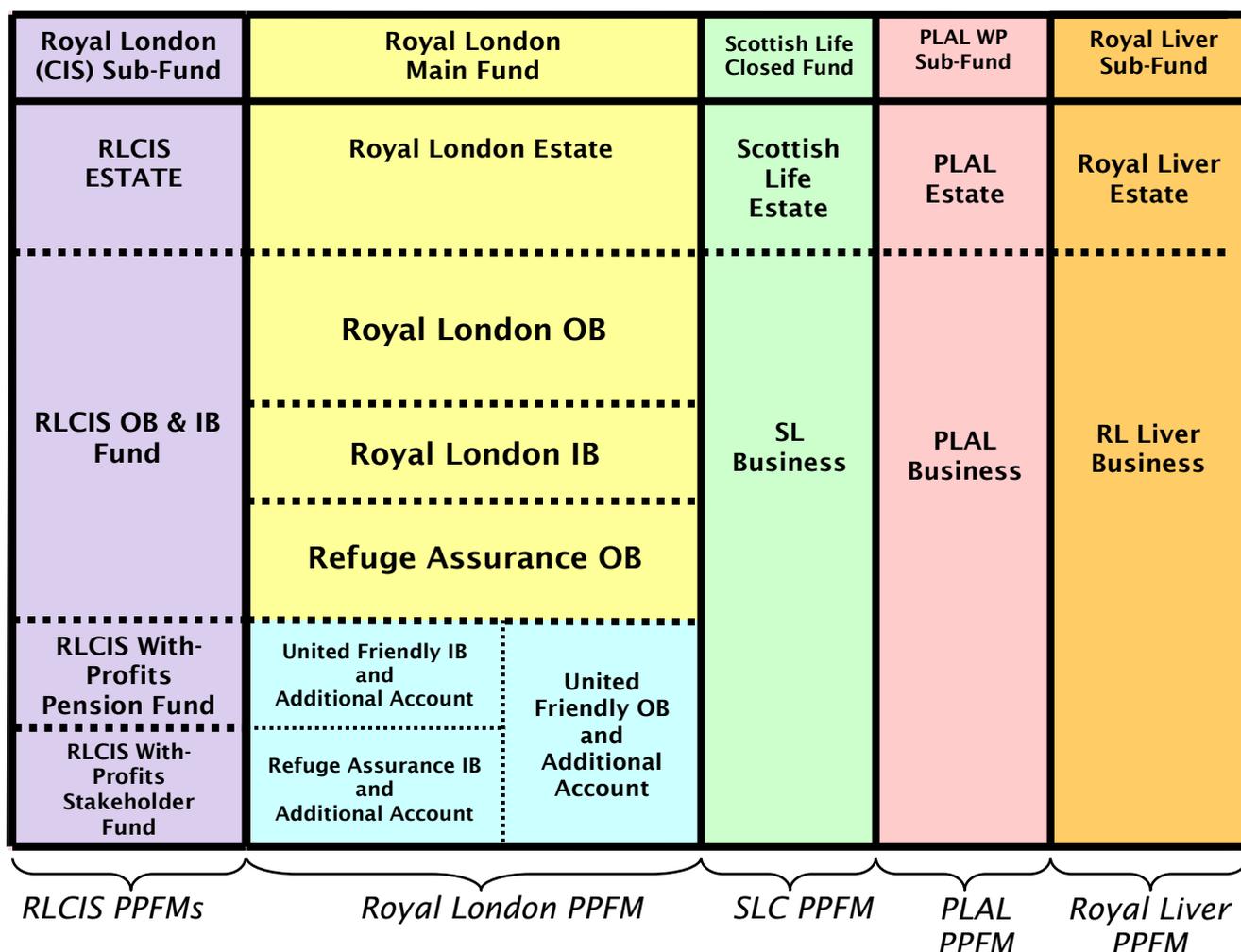


- 4.15 Within the Group, there exists a UK based service company, Royal London Management Services Limited (“RLMS”), which is currently responsible for servicing the policies of RLMIS’ UK-based policyholders and some of the Irish policyholders of the Royal Liver Sub-Fund.

Fund structure

- 4.16 RLMIS’ current fund structure comprises the RL Main Fund and nine other closed funds (the “RLMIS Closed Funds”) formed following acquisition of businesses by RLMIS. In general, all the RLMIS Closed Funds are managed in a way that enables them to run off and be funded by their own assets without requiring support from elsewhere in the Group, though the RL Main Fund can provide capital support, if required. All of RLMIS’ new business, except increments or options on existing policies, is written in the RL Main Fund.

4.17 The diagram below summarises the current fund structure of RLMIS. Each of the funds is described in more detail in Appendix F.



4.18 The abbreviations detailed above are included within the glossary.

4.19 The German Bond Business and the RL Post-2011 Business is allocated to the RL Main Fund. The Ireland Liver Business is allocated to the Royal Liver Sub-Fund. The other funds, including the United Friendly IB, Refuge Assurance IB and United Friendly OB, do not contain any of the Transferring Business.

Financial position

4.20 RLMIS has prepared its Solvency II results using a Standard Formula approach. RLMIS also uses its own Internal Model for the purposes of managing the capital of the business and results of the Internal Model are used to assess the appropriateness of the Standard Formula. The Standard Formula SCR has previously been assessed as not fully appropriate to assess the capital requirements of RLMIS. The PRA has issued RLMIS with a Capital Add-on, increasing the SCR capital requirement, largely due to additional longevity and interest rate risk not captured in the Standard Formula SCR calculation. RLMIS is currently in the process of applying for Internal Model approval from the PRA, and this pre-application is being considered by the PRA. My analysis of the impact of the Transfer will not be affected by the outcome of the application for Internal Model approval.

4.21 For with-profits business, unit-linked business with Guaranteed Annuity Options (“GAO”), and annuities in payment, the application of a VA by RLMIS has been approved by the PRA. The use of

TMTP has also been approved by the PRA. RLMIS does not use the MA or Transitional Measures on the Risk-Free Interest Rate.

Solvency II Pillar I

- 4.22 The following table sets out the assets and liabilities as at 31 December 2017 of RLMIS as a whole together with the Solvency II Pillar I results for the two RLMIS funds in which the Transferring Business is currently allocated to (the Royal Liver Sub-Fund and the RL Main Fund), and the other RLMIS funds as at 31 December 2017:

(£m)	Royal Liver Sub-Fund	RL Main Fund	Other RLMIS funds	Total RLMIS
Total Assets	2,311	49,749	39,272	91,332
Total Liabilities	1,812	46,330	34,499	82,640
Surplus Funds	499	3,420	4,773	8,692
Subordinated Debt	-	883	-	883
Own Funds²⁴	499	4,303	4,773	9,575
SCR	181*	1,933*	2,081	4,196
SCR Cover	275%	223%	229%	228%

*includes a Capital Add-on

- 4.23 The SCR Cover (calculated as Own Funds divided by SCR) shown in the above table is based on an investor reporting view which does not restrict RLMIS Closed Fund surpluses. The regulatory reporting view of SCR Cover for Total RLMIS stands at 156% because this considers the surpluses in the RLMIS Closed Funds to be restricted, under the investor reporting view this was 228% (as shown in the table above).

Capital support arrangements

- 4.24 Within RLMIS, there exist general inter-fund agreements between the RL Main Fund and the RLMIS Closed Funds. These are set out either in the relevant PPFMs or scheme documents. The Royal Liver IoT sets out a legally binding capital support agreement between the RL Main Fund and Royal Liver Sub-Fund. The PPFM for the RL Main Fund ("RL Main Fund PPFM") also sets out the following:
- the Estate of the RL Main Fund is available in extreme circumstances to provide capital support to the RLMIS Closed Funds should this be required. Any such payment to the funds (besides the United Friendly IB, Refuge Assurance IB and United Friendly OB) will be refunded to the RL Main Fund Estate once the support is no longer required, and
 - the Estates of the RLMIS Closed Funds are available in extreme circumstances to provide capital support to the RL Main Fund should this be required. Any such payment will be refunded to the relevant Estate once the support is no longer required.
- 4.25 In accordance with the co-operative insurance scheme²⁵, a legally binding capital support arrangement exists that provides that in the event of a capital shortfall, the Estate of the RL Main Fund will maintain and allocate capital support to the Royal London (CIS) Sub-Fund ("RLCIS") in exchange for a charge.

²⁴ Own Funds is the excess of an insurer's admissible assets over its liabilities calculated in accordance with Solvency II.

²⁵ The co-operative insurance scheme transferred the life and pensions business of the Co-Operative Group to RLMIS (see paragraph 4.4)

RL Main Fund

Management of the Estate

- 4.26 The Estate of the RL Main Fund is used to provide capital to write new non-participating and with-profits policies and to support the other business activities of RLMIS. In return, the Estate will receive profits or losses from writing the new business and from the business activities undertaken.
- 4.27 As detailed in the RL Main Fund PPFM, the RL Main Fund will be managed in such a way so as to ensure that the size of the Estate in relation to the with-profits liabilities, calculated on a realistic basis, is maintained while having regard to the fair treatment of with-profits policyholders. The level of the Estate is assessed and managed with the aim of maintaining it, where possible, within an agreed range around the target level determined by the Board of RLMIS – the target being typically a multiple of the SCR subject to other considerations.
- 4.28 The RL Main Fund is open to new business and so there is no plan to distribute the Estate over the lifetime of the existing policies. Instead, profits arising on business allocated to the RL Main Fund will, upon RLMIS Board approval, either be used to maintain the Estate or declare ProfitShare to qualifying policyholders.

Taxation

- 4.29 Within the Asset Share calculation, an allowance is made for tax. The actual tax paid by the RL Main Fund is calculated in a much more detailed and granular way than the allowance within the Asset Shares. The actual tax paid by the RL Main Fund includes the corporation tax due by RLMIS, minus any amounts allocated to the other funds within RLMIS. Any difference in the tax charged to Asset Shares and the actual calculation of tax for the RL Main Fund is met by the Estate of the RL Main Fund.

Expenses and charges

- 4.30 The expenses charged to Asset Share may be a flat amount per policy, or related to the size of the premium, fund or sum assured, or some combination of these. Since January 2001, the expenses for acquisition and maintenance of with-profits policies (other than certain unitised with-profits (“UWP”) policies) are taken into account when calculating Asset Shares. The PPFM relevant to each of the funds of RLMIS details how the expenses are determined and applied.
- 4.31 For the UWP Personal Pension Plan sold by RLMIS, no explicit allowance for expenses is made in the calculation of Asset Shares, with the exception of an annual management charge and other explicit policy charges. The charges for investment management, including investments in collective investment schemes, are determined under the terms of the Investment Management Agreement between RLMIS and RLAM.
- 4.32 The Estate of the RL Main Fund is being used to meet the expenses of management of certain classes of with-profits policy, where the expense levels are higher than those charged to policyholders. The Estate of the RL Main Fund will also cover expenses which are not allocated to the RLMIS Closed Funds.
- 4.33 There are a number of intra-group expense agreements covering the expenses of the RLMIS Closed Funds. Policy charges are applied to the RLMIS Closed Funds and are attributed to the RL Main Fund. The actual expenses incurred by the RLMIS Closed Funds are met by the RL Main Fund.

Royal Liver Sub-Fund

- 4.34 Regarding the Royal Liver Sub-Fund, all policies allocated to the Royal Liver Sub-Fund, including the Ireland Liver Business, are managed in the same way and are subject to the same principles and practices. For example, they are credited or debited with the equivalent share of investment returns,

charges and Estate Distribution²⁶. The Royal Liver Sub-Fund has its own PPFM (the “Royal Liver PPFM”).

Management of the Estate

- 4.35 The Royal Liver Sub-Fund is closed to new business, other than that arising on the exercise of rights or options attaching to existing policies, as allowed for by the existing Royal Liver IoT and policy terms and conditions. The Estate is managed with the aim of ensuring that it enables the Royal Liver Sub-Fund to at least meet the following purposes:
- to enable smoothing of payouts on with-profits policies
 - to allow the desired degree of investment freedom
 - to provide the capital to cover its SCR.
- 4.36 The Estate of the Royal Liver Sub-Fund will be distributed to existing eligible policies over their remaining lifetime in the form of enhanced payouts. The Royal Liver IoT sets out a prescriptive approach to Estate Distribution such that it is only made when the Royal Liver Sub-Fund is capitalised beyond a level where it can withstand a 1 in 20 year event in the next 12 months and still meet its SCR.
- 4.37 RLMIS may cease to maintain the Royal Liver Sub-Fund as a separate sub-fund of RLMIS when the total Asset Shares of with-profits policies in the Royal Liver Sub-Fund fall below a certain level (£296 million (as at 31 December 2017) increased annually on 31 December in line with the Retail Price Index (“RPI”). Furthermore, when the Asset Shares fall below another threshold (£118 million increased annually in line with RPI), then the sub-fund must be closed. The definition of “Asset Shares” in these provisions includes the Asset Shares of direct and reinsured policies. This means, that, while the Liver Reinsurance Agreement is in place, the Asset Shares of the Ireland Liver Business will continue to be included when considering the Royal Liver Sub-Fund’s Asset Shares against the threshold.

Taxation

- 4.38 Regarding Asset Share calculations, the amounts in respect of tax relief on expenses and the tax incurred on the investment return reflect the rates of tax applicable in each year and the tax position of the fund. Under the terms of the Royal Liver IoT, the amount representing tax charged to the fund is calculated as if the fund were a stand-alone mutual insurance company. The Estate meets the difference between the tax charged to the fund and the tax charged to Asset Shares.

Expenses and charges

- 4.39 Policy administration, investment management and other aspects of the management of the fund are provided to the Royal Liver Sub-Fund by RLMIS in return for fees charged to the Royal Liver Sub-Fund, as determined in accordance with the Royal Liver IoT. As provided for in the Royal Liver IoT, costs arising from operational issues occurring before the date of the transfer of business from RLA to RLMIS will be charged to the Royal Liver Sub-Fund.
- 4.40 Currently, to cover administration expenses, the Royal Liver Sub-Fund pays an amount specified via an expense tariff arrangement (the “Rate Card”) in the Royal Liver IoT, to the RL Main Fund, which is responsible for paying the actual expenses incurred by the Royal Liver Sub-Fund. The rate card expires on 1 December 2021. After that point, Asset Shares of policies allocated to the Royal Liver Sub-Fund will be charged with the actual expenses plus a margin. For the allocation of the charges and expenses between policy types beyond what is set out in the rate card, the aim is to ensure that each policy is charged, implicitly or explicitly, an amount which represents a fair proportion of the total charges and expenses incurred, using accepted actuarial techniques (as set out in the Royal Liver PPFM).

²⁶ Distribution of some of the Estate to the eligible with-profits policyholders of the applicable with-profits fund.

- 4.41 Within 12 months of the expiry of the rate card, RLMIS will review the charges being made against what would have been charged had the relevant services been provided by a relevant third party provider. Based on this test, if it is found that services could be provided more cost-effectively by a third party, they would either be outsourced or the charges would be lowered to meet market rates.
- 4.42 As specified in the Royal Liver IoT, the Royal Liver Sub-Fund pays a separate investment management charge of 26 bps to the RL Main Fund, which is responsible for paying the actual expenses incurred by the Royal Liver Sub-Fund.
- 4.43 The Royal Liver IoT allows 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 Royal Liver Sub-Fund to be met by the Estate of the Royal Liver Sub-Fund. The allocation of such costs should be on a fair and equitable basis, as determined by the RLMIS Board, having regard to the advice of the RLMIS WPA and the RLMIS Chief Actuary.

Capital Management Framework

- 4.44 The governance system which sets out how RLMIS measures, manages, monitors and reports capital is the RLMIS Capital Management Framework. The capital in each of RLMIS' funds is managed on a standalone basis.
- 4.45 The Capital Management Framework sets out the Target SCR Cover for all funds, except the Royal Liver Sub-Fund, as being able to withstand a 1 in 20 year event over the next year and still have sufficient internal Own Funds to meet its capital requirements calculated on its own view ("Internal Capital Requirements"). The Target SCR Cover for the Royal Liver Sub-Fund is defined as being able to withstand a 1 in 10 year event over the next year and still have sufficient internal Own Funds to meet Internal Capital Requirements. The Target SCR Cover for the Royal Liver Sub-Fund is detailed in the Royal Liver IoT, and is set at this level due to the fixed Estate distribution methodology for the Royal Liver Sub-Fund (as described in paragraph 4.36 above).
- 4.46 In this context:
- Internal Own Funds are calculated in a similar way to regulatory Own Funds; however, no allowance is made for the TMTP in the RL Main Fund. (The TMTP is allowed for in the calculation of internal Own Funds for the RLMIS Closed Funds), and
 - Internal Capital Requirements are calculated in accordance with the Group's Internal Model rather than the Standard Formula.
- 4.47 The RLMIS Capital Management Framework defines a RAG²⁷ status, as defined in the bullets below, to reflect the level of capitalisation of a fund at a point in time. The RAG classifications for all funds except the Royal Liver Sub-Fund, are as follows:
- Upper Red: Sufficient capital to withstand a 1 in 100 year event over the next year and still meet its Internal Capital Requirements
 - Upper Amber: Sufficient capital to withstand between a 1 in 100 event and a 1 in 50 year event over the next year and still meet its internal Capital Requirements
 - Green: Sufficient capital to withstand between a 1 in 50 year event and a 1 in 20 year event over the next year and still meet its Internal Capital Requirements. As outlined in paragraph 4.45, this is the target level of capital RLMIS aims to hold
 - Light Green: Sufficient capital to withstand between a 1 in 20 year event and a 1 in 10 year event over the next year and still meet its Internal Capital Requirements
 - Lower Amber: Sufficient capital to withstand between a 1 in 10 year event and a 1 in 5 year event over the next year and still meet its Internal Capital Requirements
 - Lower Red: Capital falls below the level required to meet a 1 in 5 year event and still meet its Internal Capital Requirements

²⁷ A status that uses the colours Red, Green and Amber to signal whether something is bad, good, or in between the two, respectively.

- 4.48 As shown above, the appetite for holding a higher level of capital is not unlimited, and there are “Upper Red” and “Upper Amber” bands at which RLMIS considers that it is holding surplus capital. RLMIS aims to distribute surplus capital to policyholders and also to retain some surplus capital to further invest in the business. The RLMIS Capital Management Framework also sets out the management actions that may be taken should the capital position of a fund move outside a defined range. The management actions vary according to the fund, and the management actions taken when capital is above the target capital, are different to those taken when capital is below the target capital. The management actions include varying the distribution of profits or surpluses, or engaging in de-risking strategies.
- 4.49 The RAG classifications for the Royal Liver Sub-Fund are as follows:
- Upper Red: Sufficient capital to withstand an over 1 in 100 year event over the next year and still meet its Internal Capital Requirements
 - Upper Amber: Sufficient capital to withstand between a 1 in 100 event and a 1 in 20 year event over the next year and still meet its internal Capital Requirements
 - Green: Sufficient capital to withstand between a 1 in 20 year event and a 1 in 10 year event over the next year and still meet its Internal Capital Requirements
 - Lower Amber: Sufficient capital to withstand between a 1 in 10 year event and a 1 in 5 year event over the next year and still meet its Internal Capital Requirements
 - Lower Red: Capital falls below the level required to meet a 1 in 5 year event and still meet its Internal Capital Requirements.
- 4.50 The Estate Distribution of the Royal Liver Sub-Fund is described in paragraphs 4.35 to 4.37 above. The RLMIS Capital Management Framework sets out the management actions that may be taken should the capital position of a fund move outside a defined range, and these include varying the distribution of profits or surpluses, or engaging in de-risking strategies.
- 4.51 Governance processes are in place should RLMIS wish to amend its Capital Management Framework in the future. This involves consideration by the RLMIS Capital Management Committee and the RLMIS Board Risk Committee, followed by RLMIS Board approval.

External reinsurance arrangements

- 4.52 As is common across insurance firms, RLMIS makes use of reinsurance arrangements to manage its business. RLMIS currently has external reinsurance arrangements covering some of the Transferring Business. There are 15 external agreements in relation to certain Transferring Business; ten covering the Ireland Liver Business and five covering the RL Post-2011 Business. A list of external reinsurance treaties that are held by RLMIS relevant to the Scheme is included in Appendix G.
- 4.53 There are no reinsurance arrangements between the funds of RLMIS.

Governance arrangements

Company level governance

- 4.54 The RLMIS Board is composed of the Chairman, six independent non-executive directors and three executive directors.
- 4.55 It is supported by the Board Risk Committee (responsible for ensuring that the interests of the Members and customers are properly protected) and the Audit Committee. Both committees are solely composed of independent non-executive directors.
- 4.56 Other Board committees include:
- **With-Profits Committee** – The purpose of this committee is to consider the interests of all policyholders in RLMIS with an entitlement to share in the profits of the Group and help to

safeguard fair treatment of those policyholders. This committee consists of four independent members of a total of five members, and the chair is independent.

- **Liver Supervisory Committee** – The purpose of this committee is to ensure that the Royal Liver Sub-Fund is managed in line with the Core Principles of Financial Management (the principles underlying the management of policies within the Royal Liver Sub-Fund that are set out in the Royal Liver IoT, the “IoT CPFM”) and the Royal Liver PPFM.
- **Investment Committee** – The purpose of this committee is to assist the RLMIS Board in the discharging of its responsibilities in respect of investment matters, including investment strategy, and in its oversight of the investment assets, including investment performance. This committee consists of three independent members of a total of five members, and the chair is independent.
- **Nomination Committee** – Among other things, the purpose of this committee is to regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes. This committee consists of seven independent members, and the chair is also the chair of RLMIS Board.
- **Remuneration Committee** – Among other things, the purpose of this committee is to determine the remuneration policy for the Group and specific remuneration arrangements for designated executives and the chair of the RLMIS Board. This committee consists of three independent members of a total of four members, and the chair is independent.
- **Independent Governance Committee** - The Royal London Independent Governance Committee (“RLIGC”) assesses the ongoing value for money of relevant workplace pension schemes, reports and escalates issues which are identified; and provides annual reporting. This is done in accordance with FCA rules relating to Independent Governance Committees and in particular, the RLIGC must act at all times solely in the interests of relevant policyholders. This committee consists of four independent members of a total of six members, and the chair is independent.

With-Profits business governance

- 4.57 The governance of with-profits business within RLMIS consists of the RLMIS WPA, the WPC, the RLMIS Board and the Liver Supervisory Committee for the Royal Liver Sub-Fund. (There is also a Scottish Life Supervisory Committee for the Scottish Life Closed Fund, although this is not relevant to this Transfer.) The day-to-day management of the with-profits business is performed by the RLMIS with-profits management team.
- 4.58 The RLMIS WPA and WPC are responsible for recommending payouts to with-profits policyholders to the RLMIS Board. As noted above, the Liver Supervisory Committee is responsible for ensuring that the Royal Liver Sub-Fund is managed in line with the IoT CPFM and the Royal Liver PPFM.
- 4.59 One of the key areas of governance for managing with-profits business is the Bonus setting process, including declaring Estate Distributions and calculating the annual and final Bonus Rates (the rate of Bonuses declared, typically applied as a percentage of sum assured, guaranteed benefits or annual bonuses). The proposed Bonus Rates are calculated once a year, or more frequently if deemed appropriate by the RLMIS WPA and reviewed by the WPC (and the Liver Supervisory Committee for Royal Liver Sub-Fund policies). The proposed rates are then subject to final approval by the RLMIS Board. For UWP business the Bonus Rates are calculated more frequently, the approval of the Bonus Rates is delegated by the RLMIS Board to the RLMIS WPA, subject to particular exceptions, such as where there has been a material change to calculation methodology, and in volatile economic conditions.
- 4.60 Under the FCA’s COBS 20, firms operating with-profits funds in the UK must have a PPFM for each with-profits fund that sets out how the with-profits business is conducted. There is a PPFM in place for each of the Royal Liver Sub-Fund and the RL Main Fund as well as the other with-profits sub-funds of RLMIS (see diagram in paragraph 4.17). The PPFMs set out how with-profits business within each of the funds is managed, including the requirements for Bonus setting, the investment strategy, the application of charges and the management of the Estate.

Non-Profit and unit-linked business governance

- 4.61 The benefits of non-profit policies are generally fixed, whereas benefits for unit-linked business are determined in relation to the value of units. However, there are a small number of areas of discretion in the management of non-profit and unit-linked business. The application of discretion by RLMIS is governed by its conduct risk policy, the Customer Value Statements (which articulate RLMIS' approach to managing conduct risk) and the FCA's Principles of Treating Customers Fairly.²⁸ The Customer Value Statements describe the outcomes that RLMIS aims to provide for its customers, and RLMIS, in turn, aims for these outcomes to underpin its organisational culture.
- 4.62 For non-profit business, there are a small number of areas for which RLMIS is able to exercise discretion, including claims' assessment for critical illness, terminal illness and healthcare products, fast-tracking bereavement claims for small value claims and reviewable premiums for certain products.
- 4.63 For unit-linked business, areas for which RLMIS is able to exercise discretion include investment and fund selection, pricing of units, the management of the additional units in the unit-linked fund in excess of those allocated to policyholders and reviewable charges. Governance of unit-linked investments is overseen by the RLMIS Investment Performance Committee (a sub-committee of the RLMIS Board Investment Committee). The RLMIS Investment Performance Committee reviews the performance of unit-linked funds and has a process for changing the holdings of the underlying assets in cases of consistent underperformance.

Policy administration

- 4.64 RLMIS has a number of relationships with outsourcers and service providers.
- 4.65 Currently, the policy administration arrangements are as follows:
- the RL Post-2011 Business is administered by RLMS in Dublin
 - for the Ireland Liver Business, a subsection of the business was originally written by Caledonian Life, and after the acquisition of Caledonian Life by RLA, RLA continued to sell Caledonian Life branded policies together, ("Legacy Caledonian Life Business"). RLMIS also holds business originally sold by GRE Life Ireland Limited ("Legacy GRE Life Business"). The Legacy Caledonian Life Business and the Legacy GRE Life Business is administered by RLMS in Dublin
 - the remainder of the business within the Royal Liver Sub-Fund is administered by RLMS in Wilmslow, UK
 - the administration of German Bond Business is outsourced to RL 360° in the Isle of Man
 - the majority of the Remaining Policies are administered by RLMS in the UK.
- 4.66 Service level agreements are in place for each of the administration arrangements listed above.

Other

Vesting annuities

- 4.67 Annuities vesting in any sub-fund of RLMIS are retained within the same sub-fund if the policyholder chooses to purchase their annuity from RLMIS.

²⁸ The FCA has outlined six core consumer outcomes that firms should strive to achieve to ensure fair treatment of customers.

Defined benefit pension schemes

- 4.68 Within RLMIS, any deficit funding associated with defined benefit pension schemes is allocated to the fund to which the pension scheme relates. There are two defined benefit pension schemes supported by the Royal Liver Sub-Fund and one supported by the RL Main Fund.

Mis-selling liabilities

- 4.69 Any expenses associated with mis-selling or litigation in connection with a policy would be met by either the RL Main Fund or by the fund of RLMIS in which the policy is allocated. Any mis-selling or litigation expenses relating to policies in the Royal Liver Sub-Fund arising from actions taken by RLA would be met by the Royal Liver Sub-Fund and those arising from the actions of RLMIS would be met by the RL Main Fund.

5 Background on Royal London DAC

Introduction

- 5.1 Royal London Financial Services Designated Activity Company is a designated activity company incorporated and domiciled in Ireland and is expected to be authorised as a life insurance company by the CBI before the end of 2018. Once authorised, Royal London Financial Services Designated Activity Company will change its name to Royal London DAC. Royal London DAC will be regulated by the CBI. This section provides background information on Royal London DAC prior to the Transfer based on the business plan submitted to the CBI to achieve authorisation. It also sets out the proposed structure of Royal London DAC immediately after the Transfer
- 5.2 This background information is useful in detailing what the structure of Royal London DAC will be and where it sits within the Group. This information, in particular the Capital Management Framework, is relevant to later sections of my Report.

Structure

Company structure

- 5.3 Royal London DAC is a wholly owned subsidiary of RLMIS.

Fund structure prior to Transfer

- 5.4 Once authorised, and until the Effective Date of the Scheme, Royal London DAC will have one fund known as the Royal London DAC Open Fund from which it will sell new business.
- 5.5 Upon the Transfer, Royal London DAC will have two new sub-funds: the Liver Ireland Sub-Fund and the German Bond Sub-Fund.

Types of business to be written

- 5.6 Royal London DAC proposes to write the following types of life insurance products in the Royal London DAC Open Fund:
- term assurance
 - specific serious illness cover
 - income protection
 - mortgage protection
 - whole of life.

External reinsurance arrangements

- 5.7 Royal London DAC plans to make use of external reinsurance arrangements to manage its business.

Financial position

- 5.8 It is planned that Royal London DAC will receive funding from RLMIS of €40m prior to the authorisation of Royal London DAC. This will take the form of a €1m subscription for ordinary shares and a €39m capital contribution.

Capital Management Framework

- 5.9 The draft Royal London DAC Capital Management Framework follows the RLMIS Capital Management Framework (see 4.45) and details the SCR Cover which Royal London DAC aims to maintain. Royal London DAC's Capital Management Framework sets the Target SCR Cover as an amount sufficient to withstand a 1 in 20 year event and still meet Internal Capital Requirements. The Royal London DAC Capital Management Framework will apply to each fund within Royal London DAC separately.
- 5.10 The Royal London DAC Capital Management Framework, once implemented, will allow for dividends to be paid from the Royal London DAC Open Fund to the RL Main Fund when:
- the SCR Cover is in excess of the Target SCR Cover
 - there is estimated to be sufficient liquidity within Royal London DAC to meet claims payments over the planning period, and
 - when the Royal London DAC ORSA does not indicate that paying dividends to RLMIS would reduce the SCR Cover below the target level under plausible risk scenarios, subject to the agreement of the Royal London DAC Board
- 5.11 In the projection period of the current ORSA, no dividends are expected to be paid.
- 5.12 Royal London DAC will also follow the same RAG classification used by RLMIS (see 4.47 to 4.48).
- 5.13 Governance processes will be put in place should Royal London DAC wish to amend its Capital Management Framework. These will include approval by both the Royal London DAC Board and RLMIS Board.

Governance arrangements

- 5.14 It is proposed that the Royal London DAC Board will be composed of five directors: two executive directors, one non-executive director and two independent non-executive directors. This is compliant with Section 7.2 of the Ireland Corporate Governance Requirements for Insurance Undertakings 2015, which requires there to be at least two independent directors on the board of an insurance undertaking that is a subsidiary of a group.
- 5.15 It is also proposed that the Royal London DAC Board will be supported by the Board Risk Committee and the Board Audit Committee of Royal London DAC. Both committees will be solely composed of the three non-executive directors of the Royal London DAC Board and chaired by one of the non-executive directors.
- 5.16 It is proposed that the day-to-day management of Royal London DAC will be overseen by two executive committees as follows, both of which will be chaired by an executive director:
- Executive Committee – established as a forum for Royal London DAC's senior executives and managers to discuss and review all such matters as they consider necessary and prudent in connection with delivering the medium term plan of Royal London DAC.
 - Regulatory Risk Committee – established to provide oversight for all significant risk and compliance issues relating to Royal London DAC.
- 5.17 Royal London DAC will have a HoAF who will perform their role in line with the CBI requirements set out in paragraphs 3.50 to 3.52 above.
- 5.18 Following the authorisation of Royal London DAC, the Customer Value Statements will be adopted by Royal London DAC.

Application of discretion

- 5.19 The Royal London DAC Board will be responsible for the application of discretion in relation to the determination of policy benefits for policies sold by, and transferred to, Royal London DAC.

Policy administration

- 5.20 The Group's UK-based service company, RLMS, already provides services to the RLMIS Irish branch. From the point at which Royal London DAC sells new business, policy administration services will be provided by an established branch of RLMS. Service level agreements will be established to cover these arrangements.
- 5.21 I detail the administration of the Transferring Policies in Section 7.

6 Outline of the proposed Scheme

Introduction

- 6.1 This section provides an outline of the proposed Scheme. The Scheme determines the policies that will be transferring and the funds to which they will transfer. The Scheme also sets out the protection that will be provided to Transferring Policyholders and provides details of how the funds will be operated and managed after the Transfer. The section is structured as follows.
- **Background and purpose of the Scheme** – this part provides a summary of why the Scheme is necessary.
 - **Business to be transferred** – this part provides a summary of the different categories of business transferring and the funds within Royal London DAC to which they are proposed to be transferred. It also covers residual policies (those which cannot be transferred on the Effective Date together with the Transferring Policies), and the treatment of pensions and other liabilities attributable to Transferring Policies.
 - **Fund structure post Transfer** – this part provides details of the Royal London DAC funds to which the Transferring Business will transfer.
 - **Interaction with previous schemes and Royal Liver IoT** – this part provides details of changes being made by the Scheme to previous schemes and the Royal Liver IoT.
 - **Maintenance and operation of the Liver Ireland Sub-Fund and the German Bond Sub-Fund** – this part provides details of the requirements under the Scheme to maintain and operate the two new sub-funds in Royal London DAC.
 - **Costs of the Scheme** – this part sets out how the costs of the Scheme will be met.
 - **Modification of the Scheme** – this part summarises the process to be followed where it is desired to amend the Scheme.
- 6.2 Each of the above considerations is relevant to understanding whether the Scheme will have a material adverse effect on policyholders. This Section is factual, my opinions on the impact of the Scheme as a component of the Transfer on the various policyholder groups can be found in Sections 11 to 13.

Background and purpose of the Scheme

- 6.3 Following the UK government officially notifying the European Council of the UK's intention to withdraw from the EU, there is uncertainty whether UK insurance companies will continue to be able to sell policies and service business written in EEA countries outside of the UK, under EU passporting rights, after Brexit occurs on the 29 March 2019. Therefore, unless suitable transitional or grandfathering arrangements between the UK and the EU are agreed prior to the 29 March 2019, it is expected that it will become illegal for RLMIS to continue to sell protection business in Ireland and service its policies written in Ireland and Germany.
- 6.4 RLMIS has incorporated a new subsidiary in Ireland, Royal London Financial Services Designated Activity Company, which is expected to be authorised by the CBI as a life insurance company before the end of 2018. I understand that the process is on schedule to secure authorisation from the CBI prior to the end of 2018, and so it is expected that the authorisation will be in place in advance of the Sanctions Hearing. If, however, the authorisation is not in place by the Effective Date, then it is likely that the Sanctions Hearing will be postponed until authorisation is completed. Once authorised, the name of the subsidiary will be changed to Royal London Insurance Designated Activity Company and will sell protection business in Ireland, replacing the RLMIS Irish branch, which will be closed. In addition, Royal London DAC will be able to sell and service insurance policies written in EEA countries outside of the UK under EU passporting rights. RLMIS intends to transfer business written in Ireland and Germany to Royal London DAC.

Policies to be transferred

- 6.5 The Scheme states that the business to be transferred is:

- RL Post-2011 Business - business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 until the date on which Royal London DAC starts writing new business (expected to be shortly after the date of authorisation of Royal London DAC)
- Ireland Liver Business - business written in Ireland by RLA, Caledonian Life, Irish Life Assurance plc, and GRE Life Ireland Limited. All of this is currently allocated to RLMIS, and
- German Bond Business - business written in Germany on a Freedom of Services basis by RLMIS.

6.6 The table below shows the types of business included in these three blocks of Transferring Business, and the corresponding number of policies and the BEL as at 31 December 2017. The table also shows the fund in RLMIS to which the policies were allocated prior to the Transfer, and the Royal London DAC Fund to which they are proposed to be transferred.

Block of Transferring Business	RLMIS Fund	Royal London DAC Fund	Type of Business ²⁹	Gross BEL (£m)	Number of Policies
RL Post-2011 Business	RL Main Fund	Royal London DAC Open Fund	Protection	(62)	49,878
Ireland Liver Business	Royal Liver Sub-Fund	Liver Ireland Sub-Fund	Protection	41	49,272
			UWP	254	7,772
			Conventional with-profits	250	62,481
			Conventional Life & Pensions	109	347,481
			Unit-linked	13	1,014
			Annuities	70	1,269
			Adjustments	19	0
		Total		755	469,289
German Bond Business	RL Main Fund	German Bond Sub-Fund	UWP	118	1,307
			Unit-linked	2	35
			Total	120	1,342

6.7 As indicated in the table above, the Ireland Liver Business is, by gross BEL, largely composed of with-profits business (UWP and conventional with-profits, including contingent bonus policies), and it also includes some protection, unit-linked and annuity business. The conventional with-profits business includes a large number of contingent bonus policies, which are particular industrial branch policies as specified within the Scheme that are entitled to share in the Estate, the German Bond Business is composed of mostly UWP business and also includes a small proportion of unit-linked business. The RL Post-2011 Business is all protection business.

6.8 Under the terms of the Scheme, all liabilities associated with the Transferring Policies will be transferred from RLMIS to Royal London DAC. Assets will be transferred in respect of the German Bond Business and the Ireland Liver Business, sufficient to match the sum of the BEL, the Risk Margin³⁰, the SCR and the Capital Buffer (the amount of capital above the SCR required to capitalise the Liver Ireland Sub-Fund and German Bond Sub-Fund at 164%, that is a capital buffer of 64% of the

²⁹Protection; Conventional Life & Pensions; and Annuities are all non-profit business.

With-profits business is composed of: UWP; conventional with-profits, including contingent bonus policies.

³⁰ An amount, under Solvency II, which insurers are required to hold in addition to their BEL. It is the amount an insurance company would require to take over and meet the insurance obligations.

SCR as per the Royal London DAC Capital Management Framework). Assets will not be transferred in respect of the RL Post-2011 Business, as the total liability for this business is negative.

- 6.9 Following the Transfer, the German Bond Business and the Ireland Liver Business will be 100% reinsured by RLMIS and initial reinsurance premiums will be payable by Royal London DAC to RLMIS. The initial reinsurance premiums are to be met by offsetting a portion of the assets that would otherwise be transferred from RLMIS to Royal London DAC under the Scheme. The New Reinsurance Agreements and Security Arrangements are discussed further in Section 9.

Residual policies and excluded liabilities

- 6.10 Policies that would fall within the population of Transferring Policies but cannot be validly transferred on the Effective Date are classed as Residual Policies. There are not expected to be any Residual Policies. If there are Residual Policies, these will not be transferred to Royal London DAC on the Effective Date and will remain within RLMIS until they can transfer. All liabilities attributable to such policies will be fully reinsured to Royal London DAC, with effect from the Effective Date for RL Post-2011 Business, the date of termination of the Liver Reinsurance Agreement for Ireland Liver Business, and the date of termination of the German Bond Reinsurance Agreement for German Bond Business.
- 6.11 Liabilities in respect of the RLA staff pension schemes will be excluded from the Transfer and will, therefore, be retained by RLMIS.
- 6.12 All other liabilities attributable to Transferring Policies will be transferred from RLMIS to Royal London DAC under the Scheme, with the exception of liabilities attributable to certain contracts (including the New Reinsurance Agreements and third party reinsurance agreements)

Fund structure post-transfer

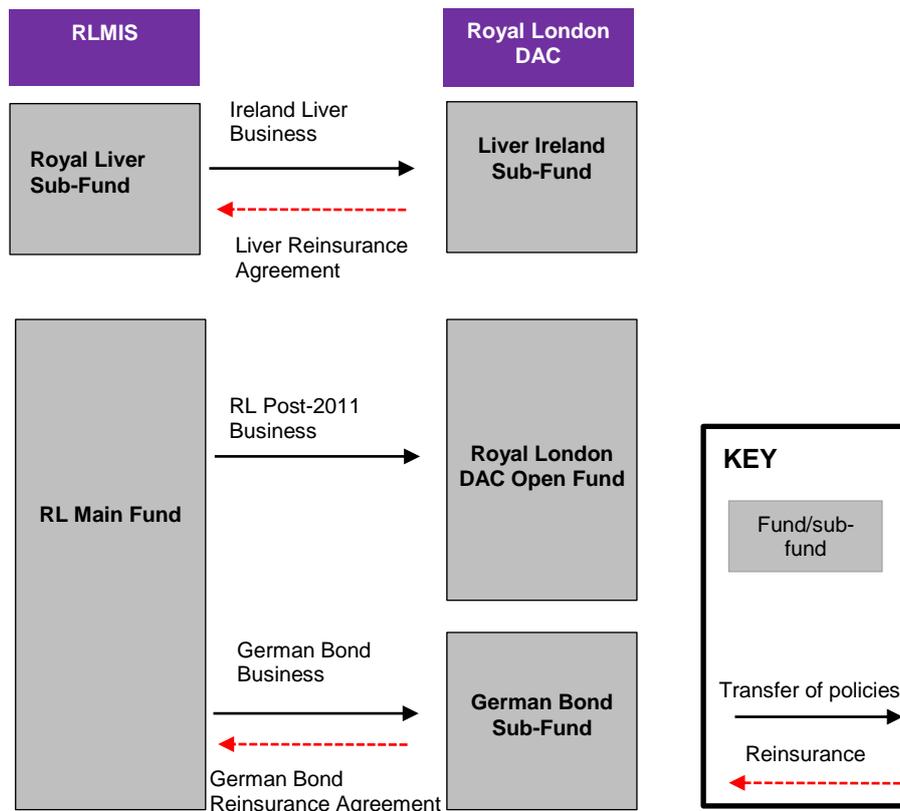
- 6.13 The Scheme specifies new funds that are to be established and maintained in Royal London DAC from the Effective Date, and sets out to which of those funds the Transferring Policies are to be allocated. The funds that must be established in Royal London DAC are:
- the Liver Ireland Sub-Fund, and
 - the German Bond Sub-Fund.
- 6.14 These funds will be ring-fenced funds under Solvency II. There will be no sharing of profits or losses between these funds, or between other funds of Royal London DAC. I discuss the requirements under the Scheme for maintaining these funds in paragraphs 6.23 to 6.48 below.

Linked business

- 6.15 RLMIS maintains linked funds within the Royal Liver Sub-Fund and the RL Main Fund in respect of unit-linked business. Under the Scheme, corresponding linked funds will be established by Royal London DAC within the Liver Ireland Sub-Fund and the German Bond Sub-Fund in respect of the Transferring Business.

Mapping of Transferring Business

- 6.16 The diagram below shows the fund structure in RLMIS and Royal London DAC following the Transfer, with arrows showing where the Transferring Business is to be transferred, where it originates, and the reinsurance of policies back to the respective funds in RLMIS, under the New Reinsurance Agreements.



6.17 In summary and as illustrated above, the Scheme, in conjunction with the New Reinsurance Agreements, will:

- transfer the RL Post-2011 Business to the Royal London DAC Open Fund
- transfer the German Bond Business to the German Bond Sub-Fund, and reinsure it back to the RL Main Fund under the German Bond Reinsurance Agreement
- transfer the Ireland Liver Business to the Liver Ireland Sub-Fund, and reinsure it back to the Royal Liver Sub-Fund under the Liver Reinsurance Agreement.

6.18 The German Bond Reinsurance Agreement and the Liver Reinsurance Agreement are important because they enable the Transferring Policies to continue to be managed within the Group broadly as they are now. I discuss the New Reinsurance Agreements further in Section 9.

Liver Ireland Sub-Fund

Royal Liver IoT

6.19 The Royal Liver IoT is the document that governs how the Royal Liver Sub-Fund is maintained and operated. It is not legally possible to make Royal London DAC a party to the Royal Liver IoT. The Scheme incorporates relevant provisions from the Royal Liver IoT, some of these are effective from the Effective Date and others are effective if and when the Liver Reinsurance Agreement is terminated. The aim of including these provisions within the Scheme is to ensure that, even in the event that the Liver Reinsurance Agreement is terminated, those provisions of the Royal Liver IoT with ongoing relevance would continue to apply to the Ireland Liver Business. Therefore, the Scheme preserves the material protections provided by the Royal Liver IoT for policyholders of the Ireland Liver Business.

6.20 Whilst the Liver Reinsurance Agreement is in place, the Scheme requires Royal London DAC to manage the Ireland Liver Business having regard to the IoT CPFM, taking into account the interests of

both the Ireland Liver Policyholders and the Remaining Royal Liver Sub-Fund Policyholders. The IoT CPFM principles are replicated within the Scheme (the “CPFM”) and will apply directly to the management of the Liver Ireland Sub-Fund if the Liver Reinsurance Agreement were to be terminated and the Liver Ireland Sub-Fund maintained.

Previous schemes

- 6.21 On and with effect from the Effective Date, the principles of financial management that are set out in the following documents will not apply to the management and operation of the Liver Ireland Sub-Fund:
- Schedule 1 of the scheme of transfer of business between Caledonian Life and RLA
 - Appendix 1 of the Irish Life Assurance PLC and RLA scheme
 - Schedule 1 of the scheme of transfer of business from Friends Provident (London & Manchester) Assurance Limited to Friends Provident Life Office Life
 - Schedule 1 of the scheme of transfer of business from Friends Provident Life Office Life to RLA.
- 6.22 The provisions contained in the above which are not already covered in the Royal Liver IoT are to be incorporated in either the Royal Liver PPFM or the Royal Liver IoT, which means the provisions of these schemes will continue to apply to the Ireland Liver Business and Remaining Royal Liver Sub-Fund Business. Therefore, the above schedules and appendices are no longer required.

Maintenance and operation

Whilst the Liver Reinsurance Agreement is in place

- 6.23 Royal London DAC must maintain the Liver Ireland Sub-Fund whilst the Liver Reinsurance Agreement is in place. Following the termination of the Liver Reinsurance Agreement, Royal London DAC can only cease to maintain the Liver Ireland Sub-Fund in certain scenarios (see paragraphs 6.28 to 6.32).
- 6.24 Irish regulations do not require PPFM documents for with-profits funds. After the Transfer takes effect, the with-profits Ireland Liver Policies will be managed according to a Liver Ireland PPFM Guide, which will be aligned to the Royal Liver PPFM (while the Liver Reinsurance Agreement is in place). Any changes to the Liver Ireland PPFM Guide are subject to the following governance procedures:
- approval by the Royal London DAC Board, having paid regard to the advice of the Royal London DAC HoAF, and
 - notification of the relevant policyholders within a reasonable time.
- 6.25 If RLMIS notifies Royal London DAC of changes to the with-profits principles in Royal Liver PPFM which necessitate a change to the Liver Ireland PPFM Guide, then Royal London DAC must notify the relevant policyholders:
- not less than three months in advance of making such changes, or
 - to the extent practicable, such shorter period of notice as is given by RLMIS in respect of such changes to holders of with-profits policies allocated to the Royal Liver Sub-Fund.
- 6.26 No notification is required if the changes are necessary to correct an error or omission, the change improves the clarity of presentation without materially changing the substance of what is being said, or is immaterial.
- 6.27 Royal London DAC will no longer be required to maintain the Liver Ireland PPFM Guide if regulatory requirements come into effect requiring Royal London DAC to maintain documents that the Royal London DAC Board, having consulted with the Royal London DAC HoAF, consider to be materially equivalent.

Following termination of the Liver Reinsurance Agreement

- 6.28 On or after the termination of the Liver Reinsurance Agreement, it is possible for the Royal London DAC Board to cease to maintain the Liver Ireland Sub-Fund as a separate sub-fund if either:
- the value of Asset Shares falls below €334 million (as at 1 January 2019) adjusted annually in line with the Irish Consumer Price Index (“Irish CPI”), or
 - the Royal London DAC Board considers maintenance of the Liver Ireland Sub-Fund materially adversely affects the interests of any of the policyholders of the other funds or sub-funds of Royal London DAC and ceasing to maintain the Liver Ireland Sub-Fund does not materially adversely affect the interests of policyholders of the Liver Ireland Sub-Fund itself, or
 - the Royal London DAC Board considers maintenance of the Liver Ireland Sub-Fund materially adversely affects the interests of the policyholders of the Liver Ireland Sub-Fund itself and ceasing to maintain the sub-fund does not materially adversely affect the interests of the policyholders of any other funds or sub-funds of Royal London DAC.
- 6.29 On or after the termination of the Liver Reinsurance Agreement Royal London DAC Board must cease to maintain the Liver Ireland Sub-Fund as a separate fund if the value of Asset Shares falls below €134m (as at 1 January 2019) adjusted annually in line with the Irish CPI.
- 6.30 As explained above, the IoT CPFM that apply to the financial management of the Royal Liver Sub-Fund are replicated within the Scheme and apply directly to the Liver Ireland Sub-Fund if the Liver Reinsurance Agreement terminates.
- 6.31 Following the termination of the Liver Reinsurance Agreement, Royal London DAC is still required to maintain the Liver Ireland PPFM Guide. Any changes to the Liver Ireland PPFM Guide are subject to the governance procedures detailed in paragraph 6.24 and 6.26 above.
- 6.32 Additionally, if the Liver Ireland Sub-Fund ceased to be maintained as a separate fund, there will be no requirement to maintain the Liver Ireland PPFM Guide.

Capital support

- 6.33 While the Liver Reinsurance Agreement is in place, the Scheme sets out that the circumstances in which the Royal London DAC Open Fund will provide capital support to the Liver Ireland Sub-Fund in the event that the Liver Ireland Sub-Fund is in deficit. These circumstances include the period following RLMIS insolvency and following RLMIS failing to meet its key payment obligations under the Liver Reinsurance Agreement.
- 6.34 If a deficit arises in the Liver Ireland Sub-Fund, and in addition, whilst the Liver Reinsurance Agreement is in place, RLMIS becomes insolvent or RLMIS fails to meet its key payment obligations under the Liver Reinsurance Agreement, then:
- if the Liver Ireland Sub-Fund has insufficient assets to cover BEL plus SCR, then the Royal London 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 Royal London DAC Open Fund will transfer assets to the Liver Ireland Sub-Fund sufficient to eliminate the deficit in the Liver Ireland Sub-Fund.
- 6.35 There will be no obligation to provide this capital support if the Royal London DAC Board, having consulted with the Royal London DAC HoAF, are of the opinion that the value of the assets in the Royal London DAC Open Fund are insufficient to meet minimum regulatory requirements of the Royal London DAC Open Fund.

Expenses

- 6.36 The rate card applicable to the Royal Liver Sub-Fund is a schedule to the Scheme. Following the Transfer, the Liver Ireland Sub-Fund will pay the amount specified under the rate card (see paragraph

4.40), which relates to the Ireland Liver Business, to the Royal London DAC Open Fund rather than the RL Main Fund. The Royal London DAC Open Fund will therefore become responsible for the ongoing annual administration costs in respect of the Ireland Liver Business rather than the Estate of the Royal Liver Sub-Fund.

Taxation

- 6.37 The Liver Ireland Sub-Fund will be taxed as if it is an Irish standalone insurance company.

German Bond Sub-Fund

Maintenance and operation

Whilst the German Bond Reinsurance Agreement is in place

- 6.38 At all times following the Transfer, Royal London DAC must maintain the German Bond Sub-Fund whilst the German Bond Reinsurance Agreement is in place.
- 6.39 Similar to the Liver Ireland Sub-Fund, after the Transfer takes effect, the with-profits German Bond Business will be managed according to the German Bond PPFM Guide, which will be aligned to the RL Main Fund PPFM (whilst the German Bond Reinsurance Agreement is in place). Any changes to the German Bond PPFM Guide are subject to the following governance:
- approval by the Royal London DAC Board, having paid regard to the advice of the Royal London DAC HoAF, and
 - notification of the relevant policyholders within a reasonable time.
- 6.40 If RLMIS notify Royal London DAC of changes to the with profits principles in the RL Main Fund PPFM which necessitate a change to the German Bond PPFM Guide, then Royal London DAC must notify the relevant policyholders:
- not less than three months in advance of making such changes, or
 - to the extent practicable, such shorter period of notice as is given by RLMIS in respect of such changes to holders of with-profits policies allocated to the German Bond Sub-Fund.
- 6.41 No notice is required if the changes are necessary to correct an error or omission, the change improves the clarity of presentation without materially changing the substance of what is being said, or is immaterial.
- 6.42 Royal London DAC will no longer be required to maintain the German Bond PPFM Guide if regulatory requirements come into effect that require Royal London DAC to maintain a document which the Royal London DAC Board, having consulted with the Royal London DAC HoAF, considers to be materially equivalent.

Following termination of the German Bond Reinsurance Agreement

- 6.43 On the termination of the German Bond Reinsurance Agreement, Royal London DAC shall cease to maintain the German Bond Sub-Fund as a separate sub-fund and therefore Royal London DAC will no longer be required to maintain a German Bond PPFM Guide.

Capital support

- 6.44 While the German Bond Reinsurance Agreement is in place, the Scheme sets out that the circumstances in which the Royal London DAC Open Fund will provide capital support to the German Bond Sub-Fund in the event that the German Bond Sub-Fund is in deficit. These circumstances include the period following RLMIS insolvency and following RLMIS failing to meet its key payment obligations under the German Bond Reinsurance Agreement.

- 6.45 If a deficit arises whilst the German Bond Reinsurance Agreement is in place, and either RLMIS becomes insolvent or fails to meet its key payment obligations under the German Bond Reinsurance Agreement, then:
- if the German Bond Sub-Fund has insufficient assets to cover BEL plus SCR, then the Royal London DAC Open Fund will hold sufficient assets to cover the deficit in the German Bond Sub-Fund, or
 - if the German Bond Sub-Fund has insufficient assets to cover BEL, then the Royal London DAC Open Fund will transfer assets to the German Bond Sub-Fund sufficient to eliminate the deficit in the German Bond Sub-Fund.
- 6.46 There will be no obligation to provide this capital support if the Royal London DAC Board, having consulted with the Royal London DAC HoAF, are of the opinion that the value of the assets in the Royal London DAC Open Fund are insufficient to meet minimum regulatory requirements of the Royal London DAC Open Fund.

Expenses

- 6.47 The German Bond Business is subject to fixed charges, and these charges are detailed in a Schedule to the Scheme. Following the Transfer, the charges applicable to the German Bond Business will be paid by the German Bond Sub-Fund to the Royal London DAC Open Fund, and the Royal London DAC Open Fund will become responsible for the ongoing annual administration costs in respect of the German Bond Business.

Taxation

- 6.48 The German Bond Sub-Fund will be taxed as if it is an Irish standalone insurance company.

Costs of the Scheme

- 6.49 There will be one-off administration costs as a result of the preparation and implementation of the Scheme. These costs will be allocated to one of the three blocks of Transferring Business, and will be borne by the corresponding fund in RLMIS. Therefore, costs and expenses relating to the transfer of the Ireland Liver Business will be borne by the estate of the Royal Liver Sub-Fund, and costs and expenses relating to the RL Post-2011 Business and the German Bond Business will be borne by the estate of the RL Main Fund.
- 6.50 The total one-off costs resulting from the Scheme that will be attributable to the Royal Liver Sub-Fund are estimated to be £10.3m. This will be charged to the Estate of the Royal Liver Sub-Fund. For reference, the Own Funds of the Royal Liver Sub-Fund are valued at approximately £499m as at 31 December 2017, and the share of one-off costs expressed as a percentage of this number stands at around 2.1%.
- 6.51 For the German Bond Business and the RL Post-2011 Business, the allocated one-off costs resulting from the Scheme are expected to be approximately £10.7m. This will be borne by the Estate of the RL Main Fund. For reference, the Own Funds of the RL Main Fund at 31 December 2017 is £4.3bn so the share of the one-off costs expressed as a percentage of this number stands at around 0.25%.

Modification of the Scheme

- 6.52 Prior to the Scheme being sanctioned, Royal London DAC and RLMIS may agree to any modification or addition to the Scheme, which will be reflected in the version of the Scheme that the High Court may approve prior to its sanctioning of the Scheme.
- 6.53 After the Scheme is sanctioned, Royal London DAC may apply to the High Court for consent to amend the Scheme, provided that certain conditions are met. These conditions include notification to the CBI and provision of a certificate from a suitably qualified independent actuarial expert that the proposed

amendment will not have a materially adverse effect on reasonable benefit expectations or security of benefits.

6.54 High Court consent will not be required if:

- specific provisions in the Scheme make allowance for these amendments, provided these provisions are fully complied with
- the change is minor and/or a technical amendment to the provisions, provided that the CBI is notified by Royal London DAC and no objection is received by the CBI within 30 days of notification; and the Royal London DAC Board has taken appropriate actuarial or legal advice, as required, or
- the change is considered by the Royal London DAC Board to be necessary to take account of regulatory requirements, provided that the CBI is notified by Royal London DAC and no objection is received by the CBI within 30 days of notification and a certificate has been provided by a suitably qualified actuary to certify that, in their opinion, the proposed amendments do not materially adversely affect the security or reasonable expectations of the relevant policyholders.

7 Operational matters

Introduction

- 7.1 This section considers operational matters that are needed to effect or are a consequence of the Transfer. This section considers the following:
- **Policy servicing** – this part details the changes to the provision of administration services for the Transferring Policies as a result of the Transfer
 - **Ongoing costs** – this part outlines the anticipated increase in ongoing costs as a result of the Transfer, by whom these costs are borne, and how these costs are to be allocated
 - **Taxation** – this part details the Value Added Tax (“VAT”) and corporation tax impacts of the Transfer and details, where there is an impact, by whom it will be borne
 - **External reinsurance arrangements** – this part details the current external reinsurance arrangements which RLMIS has in place to cover risks associated with the Transferring Business, and whether the Transfer alters any of these arrangements
 - **Vesting Annuities** – this part outlines whether the Transfer affects vesting annuities in relation to the Ireland Liver Business
 - **Terms and conditions** – this part outlines any changes to the terms and conditions for the Transferring Policyholders
 - **Membership** – this part outlines the loss of membership rights for German Bond Policyholders
 - **With-profits governance** – this part outlines the changes to the with-profits governance as a result of the Transfer, including the changes to governance within the Bonus Setting process
 - **PPFM amendments** – this part summarises the changes necessary to update the PPFMs of the Royal Liver Sub-Fund and RL Main Fund in order to ensure they remain applicable to the Ireland Liver Business and the German Bond Business, and to ensure that they take account of the New Reinsurance Agreements
 - **Royal Liver IoT** – this part outlines the main amendments which are proposed to be made to the Royal Liver IoT, which are required as a result of the Transfer and to reflect the Liver Reinsurance Agreement
 - **Non-profit business governance** – this part outlines the circumstances where the use of discretion may be currently applied and the governance processes that will apply to non-profit business after the Transfer
- 7.2 It is necessary to consider these operational matters in order for me to opine on whether the Transfer will have a material adverse effect on policyholders.

Policy servicing

- 7.3 The Irish branch of RLMS (the UK based service company subsidiary of RLMIS) will provide administration services for Royal London DAC, in Dublin, in respect of the RL Post-2011 Business and the Ireland Liver Business. RL 360°, a third party service provider in the Isle of Man, will continue to provide administration services for Royal London DAC in respect of the German Bond Business.
- 7.4 The RL Post-2011 Business will continue to be administered by the same Dublin-based team as prior to the Transfer. There will, therefore, be no change to the servicing of these policies as a result of the Transfer.
- 7.5 All of the Ireland Liver Business that is currently administered by RLMS in Wilmslow, UK, will be administered by the Irish branch of RLMS after the Transfer. It is anticipated that around 13 additional staff will be hired to accommodate this change.
- 7.6 The Legacy Caledonian Life Business and Legacy GRE Life Business (both being part of the Ireland Liver Business) is currently administered by RLMS, and will continue to be so, largely by the same team, after the Transfer. There will, therefore, be no change to the servicing of these policies as a result of the Transfer.

- 7.7 The German Bond Business administration will continue to be outsourced to RL 360°. The service level agreement with that provider in relation to the administration of these policies will be novated to Royal London DAC with effect from the Effective Date.
- 7.8 It is intended that the same documented service standard policies and targets that applied before the Transfer will apply in Royal London DAC from the Effective Date for the German Bond Business and the Ireland Liver Business. For the Royal London DAC protection business, which includes the RL Post-2011 Business and any new protection policies sold by Royal London DAC in the Royal London DAC Open Fund, current service standards will apply.
- 7.9 RLMIS has sought legal advice from both UK and Irish legal firms as to the potential regulatory issues arising from the proposed policy servicing arrangements outlined above. Overall, this advice did not raise any potential regulatory issues in relation to the provision of policy administration services by an Irish branch of RLMS, as regulated activities performed by Irish-based RLMS staff for Royal London DAC will be on a secondment basis and will remain the responsibility of Royal London DAC.

Ongoing costs

- 7.10 Based on the latest estimate, the ongoing annual administration costs in respect of the Ireland Liver Business are expected to be approximately €2.0m higher than currently. The additional costs arise because of items such as additional regulatory fees, risk and compliance function costs, and higher property and infrastructure costs. The additional costs will be charged to the Estate of the Royal Liver Sub-Fund up until the expiry of the current rate card on 1 December 2021. After this date, and whilst the Liver Reinsurance Agreement is in force, an activity based costing allocation methodology will be used to charge actual expenses plus a margin to all of the policies (including the Ireland Liver Business) in the Royal Liver Sub-Fund. As such, these additional costs will be shared between the Remaining Royal Liver Sub-Fund Business and the Ireland Liver Business.
- 7.11 Following the Transfer, the Royal Liver Sub-Fund will remain responsible for the payment of the separate investment management charge of 26 bps to the RL Main Fund for assets held through the reinsurance of the Transferring Business and the RL Main Fund will continue to be responsible for paying the actual expenses incurred in managing the relevant assets by the Royal Liver Sub-Fund.
- 7.12 Following the Transfer, the ongoing annual administration costs in respect of the German Bond Business is expected to be less than €0.1m higher than currently. The ongoing expenses of the German Bond Sub-Fund are offset against the German Bond Reinsurance Agreement cashflows. In this way, the ongoing additional costs are borne by the Estate of the RL Main Fund.
- 7.13 The additional costs associated with the RL Post-2011 Business as a result of the Transfer are expected to be immaterial. These costs will be borne by the Royal London DAC Open Fund.

Taxation

VAT

- 7.14 Prior to the Effective Date, an application will be made for a group VAT registration for the Irish branch of RLMIS, Royal London DAC and the Irish branch of RLMS. This means that the transfer of the business from RLMIS to Royal London DAC will take place within the same corporate group for VAT purposes, and therefore is not expected to crystallise a VAT charge.
- 7.15 A small amount of additional VAT may arise on some services provided between the UK and Ireland. Any additional VAT deemed to be arising from the transfer of the Ireland Liver Business and the German Bond Business will be charged, via the New Reinsurance Agreements, to the Estates of the Royal Liver Sub-Fund and the RL Main Fund, respectively.
- 7.16 Any additional VAT deemed to be arising from the transfer of the RL Post-2011 Business will be met by the Royal London DAC Open Fund.

Corporation tax

- 7.17 No trading profits are expected to arise from the Ireland Liver Business. However, there will be a change to the taxation calculation for Ireland Liver Business as a result of the Liver Reinsurance Agreement. This will change the allocation of the amount and type of assets held to be supporting the UK and Ireland businesses for tax purposes in RLMIS. The impact is expected to be a reduction in tax of less than £0.1m per year. This benefit will be shared amongst the with-profits policyholders (including those in respect of the Ireland Liver Business) of the Royal Liver Sub-Fund via the Estate of the Royal Liver Sub-Fund.
- 7.18 No trading profits are expected to arise from the German Bond Business within Royal London DAC because of the New Reinsurance Agreements.
- 7.19 Trading profits are expected to arise, and therefore be subject to Irish corporation tax at 12.5%, from the RL Post-2011 Business. This additional taxation, expected to be less than €0.1m in 2019, will be charged to the Royal London DAC Open Fund. This will not affect the RL Post-2011 Policyholder benefits, as the policies are all non-profit. The additional tax will result in a small reduction in potential dividend distributions to the RL Main Fund and so the cost of the increased tax will be indirectly borne by the Estate of the RL Main Fund. Prior to the Transfer, a concessionary treatment for profits emerging in a mutual with-profits fund applied, effectively meaning that they were not liable for tax.

External reinsurance arrangements

- 7.20 Any external reinsurance arrangements RLMIS has in place that cover the Ireland Liver Business will stay in force. The contracts will become retrocessions³¹, subject to the consent of the reinsurers, with effect from the Effective Date. This is because they will be reinsurance arrangements of reinsured liabilities, but the net effect of the arrangements for RLMIS will be the same as they currently are.
- 7.21 The five external reinsurance arrangements for the RL Post-2011 Business will be amended and novated to Royal London DAC with effect from the Effective Date, subject to the consent of the reinsurers, to reflect the transfer of the underlying reinsured business to Royal London DAC.
- 7.22 There is no external reinsurance in place for the German Bond Business.

Vesting Annuities

- 7.23 For vesting annuities in relation to the Ireland Liver Business, Royal London DAC will be responsible for providing the annuities from the Liver Ireland Sub-Fund, using the annuity rates provided by RLMIS. This process will follow the same governance processes as before the Transfer. However, the Royal London DAC Board will be required to approve the outsourcing arrangement for setting the annuity rates currently in place within RLMIS.

Terms and conditions

- 7.24 For all Transferring Policies, the policy terms and conditions will be updated to reflect the change of insurer from RLMIS to Royal London DAC via the Scheme.
- 7.25 In addition, following the Transfer, German Bond Policies terms relating to taxation that can be withheld from policy proceeds in certain circumstances will change so that they refer to Royal London DAC having the ability to withhold Irish taxation rather than RLMIS having the ability to withhold UK taxation. With exception to these points, there will not be any other material changes to the terms and conditions of the German Bond Policies as a result of the Transfer, and therefore no impact on the

³¹ An arrangement by which a reinsurer shares or passes on (i.e. reinsures) to another reinsurer (known as the retrocessionaire) the risks in one or more underlying reinsurance contracts that the reinsurer has written or entered into.

contractual rights of the policyholders. I consider whether these changes materially adversely affect the German Bond Policyholders in Section 12.

Membership rights

- 7.26 As a result of the Transfer, the with-profits German Bond Policyholders will lose their RLMIS membership rights. The unit-linked German Bond Policyholders are not Members. I consider the impact of the loss of membership rights on the with-profits German Bond Policyholders in paragraphs 11.164 to 11.173.

With-profits governance

- 7.27 The Royal London DAC Board will be responsible for managing the with-profits business and for the setting of Bonus Rates for with-profits Ireland Liver Business and with-profits German Bond Business. (The RL Post-2011 Business is all non-profit business and therefore the following paragraphs in this part do not apply to it.)
- 7.28 The with-profits regime in Ireland is not equivalent to that in the UK, as described in paragraphs 3.55 to 3.57, and in particular, there is not currently a requirement in Ireland to appoint a WPA. Therefore, there will be no WPA within Royal London DAC. Instead, the Royal London DAC HoAF will advise the Royal London DAC Board on matters associated with the with-profits Ireland Liver Business and German Bond Business, and will have regulatory responsibilities in respect of with-profits policyholders within Royal London DAC, as outlined in paragraph 3.58. This will include advice on any charges which may be allocated to the with-profits funds, as described in paragraphs 6.50 and 6.51. As set out in paragraph 3.58, the CBI is currently consulting on with-profits governance in Ireland. Royal London DAC will engage with this consultation, and will comply with the requirements of the resulting governance regime.
- 7.29 The responsibilities of the Liver Supervisory Committee, which are set out in paragraph 4.58, will be extended through amendments to the Royal Liver IoT to ensure that Ireland Liver Policies are managed in line with the IoT CPFM, the Royal Liver PPFM and the Royal Liver IoT. The RLMIS WPC is responsible for considering issues relating to the whole of the Royal Liver Sub-Fund and therefore, as a result of the Liver Reinsurance Agreement, will continue to consider issues relating to with-profits Ireland Liver Policies.
- 7.30 As detailed in paragraph 6.23 and 6.39, Royal London DAC will maintain a Liver Ireland PPFM Guide and a German Bond PPFM Guide that detail how the Liver Ireland Sub-Fund and the German Bond Sub-Fund should be managed.

Principles for exercising discretion for Bonus setting and Estate Distribution

- 7.31 After the Transfer, the same governance model will be followed for Bonus setting and Estate Distribution in relation to the with-profits Ireland Liver Business and with-profits German Bond Business. The following changes, for both the setting of bonus principles and bonus rates, will be introduced by the New Reinsurance Agreements, each of which are additional steps to the current process:
- i. the RLMIS WPA will provide proposed bonus rates and bonus principles to the Royal London DAC HoAF who will have the opportunity to discuss and raise any concerns, and
 - ii. the Royal London DAC Board will be given the opportunity to raise concerns regarding the proposed bonus and bonus principles rates after taking into consideration the views of RLMIS WPA, and the Royal London DAC HoAF
 - iii. the Board of Royal London DAC will then approve the Bonuses due to Ireland Liver Policyholders and German Bond Policyholders

- 7.32 In accordance with the above process, the RLMIS WPA and the Royal London DAC HoAF are expected to work closely together in determining the principles for exercising discretion for Bonus setting and Estate Distribution.
- 7.33 If RLMIS and Royal London DAC cannot come to an agreement on the Bonus rates or principles, a dispute process, including the appointment of an independent actuarial expert to determine the matter in dispute, is provided for in the New Reinsurance Agreements.
- 7.34 Any resolution would be binding on both sides and, in relation to the Royal Liver Sub-Fund would be applicable in an equivalent way to both Ireland Liver Policies and the Remaining Royal Liver Sub-Fund Policies, unless the disagreement arises for a regulatory reason such that the principles for discretion must be different for the two sets of policies. In relation to the RL Main Fund the resolution would be binding on both sides, but only applicable to the German Bond Policies, and not the Remaining RL Main Fund Policies.
- 7.35 The Scheme will not alter the calculation of or eligibility for with-profits German Bond Policyholders for ProfitShare, however the distribution of ProfitShare will remain at the discretion of the RLMIS Board, and Royal London DAC will not have the right to dispute ProfitShare distributions to German Bond Policyholders
- 7.36 In addition, the same Principles of Treating Customers Fairly derived from the Customer Value Statements would govern the application of discretion to Royal London DAC policyholders.

PPFM amendments

- 7.37 As a result of the Transfer, amendments will need to be made to the Royal Liver PPFM with effect from the Effective Date. The key changes can be summarised as follows:
- the application of the Royal Liver PPFM will be extended to indirectly include with-profits Ireland Liver Policyholders as a result of the Liver Reinsurance Agreement unless otherwise stated (this will not impact Royal London DAC's responsibilities in relation to the management of the Ireland Liver Business). This will continue while the Liver Reinsurance Agreement is in place
 - a guiding principle will be added that requires RLMIS to manage the Royal Liver Sub-Fund in line with the Scheme and the Liver Reinsurance Agreement, whilst the Liver Reinsurance Agreement is in place
 - any changes to the methods used to determine payouts to with-profits policyholders must be approved by the Royal London DAC Board, in addition to the directors of RLMIS, whilst the Liver Reinsurance Agreement is in place
 - a new principle will be added to ensure that the Royal Liver Sub-Fund and the Liver Ireland Sub-Fund are managed consistently, whilst the Liver Reinsurance Agreement is in place. The RLMIS Board and Royal London DAC Board will be required to consult on material decisions impacting the Royal Liver Sub-Fund. If agreement cannot be reached, such matters will be referred to an independent actuarial expert, whose decision will be binding
 - a new principle will be added to ensure that a fair proportion of the Estate of the Royal Liver Sub-Fund is allocated to Royal London DAC, for the benefit of with-profits Ireland Liver Policies, upon termination of the Liver Reinsurance Agreement
 - aspects of the principle relating to the cessation of the Royal Liver Sub-Fund will be amended to exclude Ireland Liver Policyholders
 - under the principle for charges and expenses, it will stipulate that Royal London DAC will provide administration services and apply the associated charges for the Ireland Liver Policies.
- 7.38 With effect from the Effective Date, minor amendments are proposed to be made to the RL Main Fund PPFM, which applies to with-profits German Bond Policies. The main amendment is to ensure that the application of the RL Main Fund PPFM is extended to indirectly include German Bond Policyholders.

Royal Liver IoT

- 7.39 As outlined in paragraph 6.19 to 6.20, the Royal Liver IoT is applicable to all policies currently allocated to the Royal Liver Sub-Fund.
- 7.40 As a result of the Transfer and the Liver Reinsurance Agreement, a deed of amendment and reinstatement of the Royal Liver IoT is required to ensure ongoing application of the Royal Liver IoT to Ireland Liver Policies. The main aspects of the deed of amendment and reinstatement of the Royal Liver IoT are as follows, which will apply whilst the Liver Reinsurance Agreement is in place:
- the policies captured under the Royal Liver IoT have been extended, in certain circumstances, to the Ireland Liver Business whilst the Liver Reinsurance Agreement is in place
 - the manner and timing of the distribution of surplus within the Royal Liver Sub-Fund involves both RLMIS in respect of non-transferring Liver policies and Royal London DAC in respect of Ireland Liver Policies, whilst the Liver Reinsurance Agreement is in place with equivalent distributions to both groups. The RLMIS Board and Royal London DAC Board are required to determine the manner and timing of the distribution of surplus in accordance with the IoT CPFM and the Liver Reinsurance Agreement
 - the credits to the Royal Liver Sub-Fund have been extended to include all premiums and other amounts received by RLMIS in connection with the Liver Reinsurance Agreement
 - the debits to the Royal Liver Sub-Fund have been extended to include all claims and other amounts payable by RLMIS to Royal London DAC in connection with the Liver Reinsurance Agreement
 - whilst the Liver Reinsurance Agreement is in place, any amendment to the Royal Liver IoT requires RLMIS to consult with Royal London DAC and, if having discussed with the Royal London DAC HoAF, the amendments are deemed to materially affect Ireland Liver Policyholders, then written consent from Royal London DAC will be required. In addition, RLMIS is required to provide any details of comments made by Royal London DAC in relation to the proposed amendments to the RLMIS Chief Actuary, the RLMIS WPA, the RLMIS WPC and, if required by the Liver Supervisory Committee, an independent actuarial expert
 - the IoT CPFM has been updated to include the Ireland Liver Business whilst the Liver Reinsurance Agreement is in place
 - the terms of reference of the Liver Supervisory Committee expands the committee's role whilst the Liver Reinsurance Agreement is in place to ensure the Royal Liver Sub-Fund is managed in compliance with: the Scheme, the Liver Reinsurance Agreement together with both the Reinsurer Security Agreements³² and the Collateral Framework Agreement³³ which are applicable to the Ireland Liver Business in respect of the Liver Reinsurance Agreement.

Non-profit governance

- 7.41 With respect to the management of RLMIS non-profit business, including protection business and non-profit and unit-linked business within with-profits funds, discretion is currently applied in a number of administrative processes, such as the determination of surrender values. No changes have been planned regarding the application of such discretion. In the case of the transfer of these processes to the Irish branch of RLMS, there will be training and support provided by the current processing team.
- 7.42 Any discretion currently applied for the unit-linked business is around the actions to take for any poorly performing funds, unit pricing bases and reviewable charges. The unit-linked Ireland Liver Business and unit-linked German Bond Business will be fully reinsured back to RLMIS. After the Transfer, any discretion will continue to go through the same governance processes as before but including oversight from Royal London DAC.
- 7.43 The same Principles of Treating Customers Fairly derived from the Customer Value Statements will govern the application of discretion for Royal London DAC policyholders.

³² The four deeds of fixed charge granted by RLMIS in respect of the New Reinsurance Agreements.

³³ The document which governs the collateral held under the fixed charges.

Communications strategy

- 7.44 All Transferring Policyholders and Remaining Royal Liver Sub-Fund Policyholders, except those subject to the waivers detailed in paragraph 7.56 below, will be sent a letter and a communication pack by post. The communication pack includes:
- a summary of the Scheme
 - a summary of my Report
 - a copy of the legal notice, including contact details should the policyholder wish to raise any questions regarding the Transfer
 - questions and answers explaining the impact of the Scheme
 - where relevant, information related to the loss of FSCS protection
 - where relevant, changes to policy terms and conditions, the Royal Liver PPFM and the RL Main Fund PPFM, and
 - an overview of the legal process and the rights that policyholders and any other person who considers that they would be adversely affected by the Scheme has to object to the Scheme.
- 7.45 The communications pack will be tailored to different customer groups, and will be translated into German for any communications packs being sent to German Bond Policyholders in Germany.
- 7.46 From the point at which data is extracted from RLMIS' systems for the purposes of the mailing, any new Transferring Policyholders will be sent details of the Transfer as part of the new business process (there will only be new RL Post-2011 Transferring Policyholders as this is the only group of Transferring Policyholders that is open to new business). Prior to the policy being issued, new Transferring Policyholders will receive information on the Transfer, including an outline of the aspects of their policy that will not change as a result of the Transfer, an outline of the legal process that is to be followed to implement the Transfer and guidance on where more information on the Transfer can be found. It is not expected that there will be a material volume of new Transferring Policyholders.
- 7.47 RLMIS has already liaised with the Trustees³⁴ of the two staff pension schemes supported by the Royal Liver Sub-Fund, notwithstanding that liabilities of these pension schemes will not be transferred under the Scheme. It is expected that the Trustees will be responsible for any communication to their members about the Scheme.
- 7.48 Supplementing the written communications, information will be posted on Royal London Group's websites in the UK and Ireland. This information will include:
- a sample of the letters and information booklets sent to policyholders;
 - the Scheme document;
 - the Report;
 - the RLMIS Chief Actuary Report;
 - the Royal London DAC HoAF Report;
 - the RLMIS WPA Report
 - the legal notice
 - the amended Royal Liver PPFM and RL Main Fund PPFM, and
 - the Liver Ireland PPFM Guide and the German Bond PPFM Guide.
- 7.49 In addition, legal notices will be published in a variety of newspapers in the UK, Ireland and Germany, and four call centres will be established to deal with telephone enquiries related to the Scheme. A full copy of the Report, a summary of the Report and a statement setting out the terms of the Scheme (i.e. the variants of the policyholder booklet) will be available on request (in writing or by phone).
- 7.50 Royal London Group's websites in the UK and Ireland will be updated with the outcome of the Sanctions Hearing and any other relevant additional documents produced after the mailing of the

³⁴ The trustees are responsible for ensuring the pension scheme is run appropriately and that members' benefits are secure.

communication pack, such as my Supplementary Report. This will be explained to policyholders in the communications that they will be sent.

Dispensations and waivers

Paragraph 3(2)(a)

- 7.51 Paragraph 3(2)(a) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 requires a notice of the Transfer to be published in:
- the London, Edinburgh and Belfast Gazettes;
 - in two national newspapers in the United Kingdom; and
 - in certain circumstances, in two national newspapers in certain EEA states other than the United Kingdom.
- 7.52 The legal notice of the Scheme will be published in the London, Edinburgh and Belfast Gazettes, the Iris Oifigiúil in Ireland, in five national newspapers in the United Kingdom, in six national newspapers in Ireland and in three leading regional newspapers in Germany.
- 7.53 RLMIS has sought specific dispensations from the Court with regards to the requirement contained in the aforementioned regulations to publish the legal notice in two national newspapers in each EEA country where there is a state of commitment at policy inception in respect of a Transferring Policyholder.

Paragraph 3(2)(b)

- 7.54 Paragraph 3(2)(b) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 requires a notice of the application for the Scheme is to be sent to every policyholder of both the transferor and the transferee (i.e. RLMIS and Royal London DAC). However, it is common practice for firms to seek a waiver so that they do not have to comply with this requirement in full, and instead send a communications pack only to certain policyholders.
- 7.55 RLMIS is to seek a waiver from this requirement. In determining whether a certain group of policyholders should be subject to a waiver, RLMIS has considered whether any of the following factors apply:
- impossibility
 - practicality
 - utility to the policyholder and the Court
 - availability of other information channels
 - proportionality
 - the object of the Transfer, and
 - the impact of the Transfer on policyholders.
- 7.56 Based on a detailed assessment into whether any of the above factors are applicable to the various groups of policyholders, RLMIS is seeking a waiver for any policyholders of RLMIS meeting the following criteria, and as such these policyholders will not be mailed:
- Remaining RL Main Fund Policyholders and Other Remaining Policyholders
 - policyholders for whom there is insufficient or invalid address data
 - deceased policyholders
 - policyholders known to be aged over 100
 - members of trust based pension schemes
 - assignees of Transferring Policies
 - the second life on joint life policies, where the address held on the database is the same for both lives
 - beneficiaries of Transferring Policies
 - trustees-in-bankruptcy

- receivers and administrative receivers
- pension orders in relation to pension payments to former spouses, and
- contingent annuitants.

7.57 I provide my opinion of the communication strategy in respect of the different groups of policyholders in sections 11, 12 and 13.

Rights of policyholders and others to object to the Scheme

7.58 Any Transferring Policyholder, or any other person (including any Remaining Policyholder or Existing Policyholder), who feels they may be adversely affected by the Scheme may put their objections to RLMIS, Royal London DAC, Pinsent Masons LLP or the High Court. In the Supplementary Report, I will consider any such objections received prior to the Sanctions Hearing when concluding on whether the Scheme materially adversely affects any policyholder group.

8 Structure of the Transfer

Introduction

- 8.1 The Scheme transfers the Transferring Business to Royal London DAC. Immediately following the transfer of the Transferring Business to Royal London DAC, the German Bond Business and the Ireland Liver Business will be 100% reinsured back to RLMIS through the New Reinsurance Agreements. To provide security for each of the New Reinsurance Agreements, RLMIS will enter into the Security Arrangements with Royal London DAC.
- 8.2 The Scheme, New Reinsurance Agreements, and the Security Arrangements, together present a complex set of interrelated legal documents. The High Court is only required to sanction the Scheme. The purpose of this Section is to highlight some of the ways in which the transfer of business under the Scheme may impact policyholders, and how the New Reinsurance Agreements and the Security Arrangements are intended to address this.
- 8.3 This Section considers the potential effects of the Scheme in the absence of the New Reinsurance Agreements. This analysis is to demonstrate why the New Reinsurance Agreements and Security Arrangements are necessary. In practice, RLMIS would not implement the Scheme in isolation.
- 8.4 I first consider some of the potential effects of the Scheme, and how the New Reinsurance Agreements (described in Section 9) address these. I then outline some other consequences of the New Reinsurance Agreements, before considering the associated Security Arrangements. Finally, I discuss the position on termination of either of the New Reinsurance Agreements.

The potential effects of the Scheme and how the New Reinsurance Agreements address these

Potential effects of the Scheme

- 8.5 I have considered where implementing the Scheme without the New Reinsurance Agreements could be challenging. I have identified three main challenges, as discussed below.

Splitting the Royal Liver Sub-Fund

- 8.6 In the case of the Royal Liver Sub-Fund, only a proportion of the policies allocated to this fund are to be transferred under the Scheme. To identify and transfer a fair share of the assets in respect of these policies would be a complex and time-consuming process (a "Fund Split"). The process would need to take account of the Transferring Policyholders' interest in the Estate (that part of the with-profits fund that is not allocated to policyholder liabilities) of the Royal Liver Sub-Fund, as well as the policy liabilities. Typically, based on my experience, this process would take between 18 and 24 months, as it requires complex analysis and the approval of a large number of stakeholders. This means there is insufficient time ahead of 29 March 2019, which is the date of Brexit to complete the Fund Split in a fair and controlled manner.

The management of a small with-profits fund

- 8.7 The German Bond Business represents a very small percentage of the RL Main Fund (approximately 0.3%). The BEL of the German Bond Business is only c. £120m. After the Transfer, the new German Bond Sub-Fund would not be of sufficient size to be managed effectively as a with-profits fund. In practice, the with-profits German Bond Policies would most likely have to be converted to non-profit or unit-linked policies in the absence of participation in, and support from, the RL Main Fund.

The change in risk profile of Royal London DAC

- 8.8 Prior to the Effective Date, Royal London DAC is expected to have written only protection business. The introduction of two new with-profits funds would mean that new risks would need to be managed in Royal London DAC. These new risks could have the potential to create more volatility in Royal London DAC's SCR Cover than if only protection business were written.

With-profits governance

- 8.9 Royal London DAC will manage the Liver Ireland Sub-Fund in line with the Liver Ireland PPFM Guide, which the Scheme requires to be consistent with the Royal Liver PPFM and give consideration to the IoT CPFM, while the Liver Reinsurance Agreement is in place. This means that, for the with-profits Ireland Liver Policyholders, there will be no material change to the way their policies are managed, as Royal London DAC must adhere to -similar requirements to RLMIS. In particular, the current principles and practices applicable to investment strategy and Estate distribution will be followed.
- 8.10 Similarly, the German Bond Sub-Fund will be managed in line with the German Bond PPFM Guide, which the Scheme requires to be consistent with the RL Main Fund PPFM, while the German Bond Reinsurance Agreement is in place. This means that, for the with-profits German Bond Policyholders, there will be no material change to the way their policies are managed, as Royal London DAC must adhere to similar requirements to RLMIS. In particular, the current principles and practices applicable to investment strategy and ProfitShare will continued to be followed by RLMIS. The distribution of ProfitShare will remain at the discretion of the RLMIS Board, and Royal London DAC will not have the right to dispute ProfitShare distributions to German Bond Policyholders

The effect of the New Reinsurance Agreements

- 8.11 The Ireland Liver Business and German Bond Business will both be fully reinsured on the basis of 100% quota share³⁵ agreements, as described in Section 9. I briefly set out below how these New Reinsurance Agreements aim to address the potential effects of the Scheme identified above.

Splitting with-profits funds

- 8.12 The Liver Reinsurance Agreement has the effect that a Fund Split of the Royal Liver Sub-Fund between the Ireland Liver Business and the Remaining Royal Liver Sub-Fund Business becomes unnecessary. The Liver Reinsurance Agreement also enables the with-profits Ireland Liver Policies to continue to participate in the Royal Liver Sub-Fund. This is discussed further in Section 9.
- 8.13 The policies that are proposed to be reinsured under the Liver Reinsurance Agreement include unit-linked and non-profit policies that are allocated to the Royal Liver Sub-Fund. These policies are included in the Liver Reinsurance Agreement because excluding them would change the composition of the policies in the Royal Liver Sub-Fund and would change the way in which the fund operates. In particular, with-profits policyholders within the Royal Liver Sub-Fund benefit from the profit earned on non-profit and unit-linked business, and would therefore need to be compensated for the loss of any future profit on the non-profit and unit-linked Ireland Liver Business.

The management of a small with-profits fund

- 8.14 While the German Bond Reinsurance Agreement is in place, the German Bond Sub-Fund in Royal London DAC will participate in the RL Main Fund. In this way, policyholders in the German Bond Business will continue to benefit from participation in a large with-profits fund.
- 8.15 The policies that are proposed to be reinsured under the German Bond Reinsurance Agreement include a small number of unit-linked policies that are invested in the German Bond Sub-Fund. The

³⁵ A type of reinsurance arrangement where the reinsuring party and the reinsured party share premiums and losses according to a fixed percentage.

number of these unit-linked policies is small (there are fewer than 50 policies) and so for practical reasons, RLMIS intends to reinsure this business with the rest of the German Bond Business.

The change in risk profile of Royal London DAC

- 8.16 While the New Reinsurance Agreements are in place, the intention is that RLMIS will bear most of the risks associated with the Liver Ireland Sub-Fund and the German Bond Sub-Fund. This means that the risk profile of Royal London DAC remains broadly unchanged following the Transfer, although there is an increase in counterparty default risk and operational risk associated with the New Reinsurance Agreements.

Other consequences of the New Reinsurance Agreements

- 8.17 In addition to the effects of the New Reinsurance Agreements that are described above, there are some other consequences of having the New Reinsurance Agreements in place, which I describe below.

With-profits governance

- 8.18 The New Reinsurance Agreements enable the with-profits Ireland Liver Business and the with-profits German Bond Business to continue to indirectly benefit from the protection of COBS and from RLMIS' expertise in managing with-profits funds.

ProfitShare

- 8.19 In the absence of the German Bond Reinsurance Agreement, in order to transfer the assets associated with the with-profits German Bond Business, a fair allowance for the loss of future ProfitShare (if any) to which policyholders may be eligible, would need to be considered. This is not necessary while the German Bond Reinsurance Agreement is in place.

Counterparty default risk

- 8.20 As a result of the New Reinsurance Agreements, Royal London DAC is exposed to the financial position of RLMIS. Without further steps, Royal London DAC would not be treated in the same way as the RLMIS direct policyholders in the unlikely event of RLMIS becoming insolvent. This is because Royal London DAC would be an unsecured creditor of RLMIS and it would rank behind the direct policyholders of RLMIS. This would be a worse position for Transferring Policyholders than before the Transfer, when they would have ranked equally with other direct policyholders of RLMIS. To address this, Royal London DAC and RLMIS will enter into the Security Arrangements (described briefly below, and in more detail in Section 9).

Counterparty risks mitigated by the Security Arrangements

- 8.21 The New Reinsurance Agreements expose Royal London DAC to the financial position of RLMIS. As a counterparty of the New Reinsurance Agreements and in absence of the Security Arrangements, Royal London DAC would be treated as an unsecured creditor of RLMIS and therefore, under UK insolvency legislation, would rank below direct policyholders of RLMIS in the event of RLMIS insolvency. The Security Arrangements ensure that Royal London DAC, in the event of RLMIS' insolvency, will rank equally with direct policyholders of RLMIS, subject to a minimum recovery of 50% of BEL. Further, the Security Arrangements have been structured to provide Royal London DAC with access to liquidity through the Tier 1 charges so that it can continue to make payments whilst any insolvency proceedings take place.

Termination of the New Reinsurance Agreements

- 8.22 The New Reinsurance Agreements can be terminated in very limited circumstances. The Scheme and the New Reinsurance Agreements set out the procedures that must be followed prior to the termination of either of the New Reinsurance Agreements (see Section 9).

Termination of the Liver Reinsurance Agreement

- 8.23 If the Liver Reinsurance Agreement were to be terminated, there would need to be a Fund Split of the Royal Liver Sub-Fund. The Scheme sets out the methodology for the Fund Split of the Royal Liver Sub-Fund in the event of termination of the Liver Reinsurance Agreement. An independent actuarial expert, the UK Regulators and the CBI would be involved in ensuring that the Fund Split of the Royal Liver Sub-Fund is fair to the Remaining Royal Liver Sub-Fund Policyholders and the Ireland Liver Policyholders.

Termination of the German Bond Reinsurance Agreement

- 8.24 If the German Bond Reinsurance Agreement were to be terminated, a fair allowance for the loss of future ProfitShare (if any) to which some policyholders may be eligible, would need to be considered. In addition, terms would need to be determined for the transfer of the policies to the Royal London DAC Open Fund as a result of the closure of German Bond Sub-Fund
- 8.25 The termination of the German Bond Reinsurance Agreement involves an independent actuarial expert, the UK Regulators and the CBI.

Summary

- 8.26 The German Bond Business and Ireland Liver Business will be reinsured back to RLMIS in their entirety via the New Reinsurance Agreements. The initial premium for each of the New Reinsurance Agreements will be satisfied by the offset and retention of some of the assets that would otherwise have been transferred to Royal London DAC by RLMIS under the Scheme. Subsequently, monthly net payments will be made between Royal London DAC and RLMIS, broadly representing the difference between any policyholder premiums received³⁶ and expense allowances, tax and claims paid. Additionally, on a quarterly basis, an Experience Adjustment to maintain capital coverage of the Liver Ireland Sub-Fund and the German Bond Sub-Fund will be made as necessary.

³⁶ There are no future policyholder premiums for the German Bond Business.

8.27 The following table summarises some of the challenges that arise as a consequence of the Scheme, and the proposed mitigants, described in this Section.

Potential challenges	Proposed mitigant
Ensuring that RLMIS policies sold or serviced under EU passporting rights can continue to be serviced post Brexit.	The Scheme
Identifying and transferring a fair share of the assets in respect of the Ireland Liver Business in a fair and controlled manner. Changes to the risk profile of Royal London DAC, which could result in more volatility in SCR Cover. Maintaining a with-profits fund for the German Bond Business.	The Scheme, New Reinsurance Agreements and Security Arrangements
Royal London DAC's exposure to the financial position of RLMIS as a result of the New Reinsurance Agreements. Royal London DAC policyholders being disadvantaged in the unlikely event of RLMIS insolvency.	The Security Arrangements
Ensuring that policyholders are treated fairly in the event of termination of either or both of the New Reinsurance Agreements	The Scheme, New Reinsurance Agreements and Security Arrangements

9 New Reinsurance Agreements and the Security Arrangements

Introduction

- 9.1 In this Section, I provide a description of the New Reinsurance Agreements and the Security Arrangements and I provide my analysis and opinion on the impact of these on the various policyholder groups.
- 9.2 The Security Arrangements consist of the Collateral Framework Agreements, Reinsurer Security Agreements and the Floating Charge Deed. Each of the New Reinsurance Agreements has two associated Reinsurer Security Agreements and one associated Collateral Framework Agreement, and the Floating Charge Deed applies to both New Reinsurance Agreements.
- 9.3 The Reinsurer Security Agreements and Collateral Framework Agreements help to manage counterparty risk and liquidity risk within Royal London DAC and protect Royal London DAC's policyholders in the event of insolvency of RLMIS or a material breach of certain clauses in the New Reinsurance Agreements. Additionally, in the event of RLMIS insolvency, the Floating Charge Deed also provides protection to Royal London DAC's policyholders.
- 9.4 This section considers the Transferring Policyholders, Remaining Policyholders and Existing Policyholders in turn, and is structured as follows:
- **Impact of the New Reinsurance Agreements** – this part considers the impact of the New Reinsurance Agreements on the management of the Royal Liver Sub-Fund and RL Main Fund
 - **Impact of termination of the New Reinsurance Agreements** – this part considers the termination process for each of the New Reinsurance Agreements and the implications of termination for each group of policyholders
 - **Floating Charge Deed, Collateral Framework Agreements and Reinsurer Security Agreements** – this part considers how the Floating Charge Deed, collateral and fixed charges³⁷ operate to provide protection to Royal London DAC policyholders in the event of insolvency of RLMIS or a material breach of certain clauses in the New Reinsurance Agreements
 - **Residual counterparty default risk exposure** – this part considers the counterparty default risk introduced as a result of the New Reinsurance Agreements, the mitigation via the Security Arrangements and any impact of the increased counterparty default risk on Royal London DAC policyholders.
- 9.5 Each of the areas above is relevant to understanding whether the New Reinsurance Agreements and the Security Arrangements will have a material adverse effect on the various policyholder groups.
- 9.6 The New Reinsurance Agreements will be effective from the Effective Date. The aim of the New Reinsurance Agreements is to mitigate the challenges that implementing the Scheme in isolation would present, as detailed in paragraphs 8.5 to 8.16 above. The New Reinsurance Agreements are the:
- Liver Reinsurance Agreement, and
 - German Bond Reinsurance Agreement.
- 9.7 As a result of the Scheme, the Ireland Liver Business will be transferred from the Royal Liver Sub-Fund in RLMIS to the Liver Ireland Sub-Fund in Royal London DAC. As a result of the Liver

³⁷ Security interests held over specific assets.

Reinsurance Agreement, the Ireland Liver Business will be reinsured back to the Royal Liver Sub-Fund.

- 9.8 As a result of the Scheme, the German Bond Business will be transferred from the RL Main Fund in RLMIS to the German Bond Sub-Fund in Royal London DAC. As a result of the German Bond Reinsurance Agreement, the German Bond Business will be reinsured back to the RL Main Fund.
- 9.9 I consider each of the New Reinsurance Agreements in further detail below, including:
- a description of the initial and subsequent cashflows
 - the circumstances in which they can be terminated, and
 - the governance process that must be followed in order for them to be terminated.
- 9.10 Each of the New Reinsurance Agreements require Royal London DAC and RLMIS to have entered into the associated Collateral Framework Agreements and the associated Reinsurer Security Agreements. Each Collateral Framework Agreement stipulates that RLMIS grant two deeds of fixed charge to Royal London DAC in respect of the associated New Reinsurance Agreement. The Reinsurer Security Agreements set out the terms of the security that RLMIS grants to Royal London DAC.
- 9.11 RLMIS and Royal London DAC will also enter into a Floating Charge Deed, which will put in place a floating charge over all the assets of RLMIS aside from those subject to other charges already in existence.
- 9.12 The Reinsurer Security Agreements are designed to protect all policyholders within Royal London DAC from the risk of RLMIS defaulting and to maintain equity between the Transferring and Remaining Policyholders, subject to a minimum recovery of 50% of BEL for Transferring Policyholders. This is discussed further in paragraphs 9.140 to 9.144 below.
- 9.13 Further descriptions of the Security Arrangements can be found later in this section.

New Reinsurance Agreements

- 9.14 The New Reinsurance Agreements set out the governance processes that must be followed when setting Bonuses for the with-profits Ireland Liver Business and the with-profits German Bond Business respectively. The process of Bonus setting requires the involvement of both RLMIS and Royal London DAC, with Royal London DAC having ultimate responsibility in relation to the Bonuses for Ireland Liver Business and German Bond Business. Any disputes with regard to this process, which Royal London DAC and RLMIS fail to reach agreement on, are referred to an independent expert for resolution.
- 9.15 For UWP and unit-linked Transferring Policies, Royal London DAC is required to maintain notional units and linked funds for the purposes of calculating benefits payable. RLMIS must ensure that, for allocations made to such policies, the same number and class of units are allocated to the unit-linked funds in RLMIS as those determined by Royal London DAC and similarly that the cancellation of units and policy charges follow those determined by Royal London DAC.
- 9.16 The initial and subsequent cash flows associated with the New Reinsurance Agreements are described below.

Initial cashflows

- 9.17 At the Effective Date, Royal London DAC will pay to RLMIS an initial premium in relation to each of the New Reinsurance Agreements, determined separately, and paid from the Liver Ireland Sub-Fund in respect of the Liver Reinsurance Agreement and from the German Bond Sub-Fund in respect of the German Bond Reinsurance Agreement.
- 9.18 The initial premiums for each of the New Reinsurance Agreements are determined as follows:

- the gross BEL less a counterparty default adjustment (to allow for counterparty default risk), plus
- the value of the Risk Margin, SCR and Capital Buffer for the applicable Transferring Business (i.e. either the Ireland Liver Business or the German Bond Business), gross of the New Reinsurance Agreements, less
- the value of the Risk Margin, SCR and Capital Buffer for the applicable Transferring Business, net of the New Reinsurance Agreements.

- 9.19 The New Reinsurance Agreements specify that the obligation on Royal London DAC to make the payment of the initial premium will be offset against RLMIS' obligation to transfer the relevant transferred assets to Royal London DAC under the Scheme. The amount of initial premium due by Royal London DAC under each of the New Reinsurance Agreements will be lower than the amount of assets to be transferred under the Scheme, with the result that, on the Effective Date, Royal London DAC will be provided with assets (pursuant to the Scheme) which are sufficient to ensure Royal London DAC meet its capital requirements and its capital buffer but RLMIS will retain some of the assets in respect of the initial premium.
- 9.20 The net effect of the payment of the initial premium is that the assets remaining within the Liver Ireland Sub-Fund and the German Bond Sub-Fund are sufficient to cover the counterparty default adjustment to the BEL, and the SCR, Risk Margin and Capital Buffer of the Ireland Liver Business and the German Bond Business, after allowing for the New Reinsurance Agreements.
- 9.21 The table below sets out the initial cashflows under the Scheme and New Reinsurance Agreements from the applicable RLMIS fund to the Liver Ireland Sub-Fund and German Bond Sub-Fund, based on Standard Formula figures as at 31 December 2017 and assuming the Transfer took place at that point.

£m	Liver Ireland Sub-Fund	German Bond Sub-Fund
Assets transferring into fund	907	131
BEL	755	121
Risk Margin	20	2
SCR	80	5
Capital Buffer	52	3
Initial premium transferring to RLMIS	(897)	(128)
BEL	(755)	(121)
Counterparty default adjustment	2	1
Risk Margin, SCR and Capital Buffer, gross of reinsurance	(152)	(10)
Risk Margin, SCR and Capital Buffer, net of reinsurance	8	2
Assets remaining in fund	10	3

Subsequent cashflows

- 9.22 After the initial cashflows, the New Reinsurance Agreements require Royal London DAC to produce a monthly report, for each New Reinsurance Agreement, setting out the monthly net payments due under each of the New Reinsurance Agreements. The monthly net payments are calculated as:
- the premiums received by Royal London DAC from policyholders in connection with the policies in the relevant Royal London DAC fund (zero for the German Bond Sub-Fund as all policies are single premium), less
 - the aggregate policy charges, Irish taxes paid in respect of the relevant Royal London DAC fund and any exceptional costs and expenses arising (as defined in the Scheme), less
 - claims arising in respect of the policies allocated to the relevant Royal London DAC fund, plus
 - any positive or negative adjustments in the event of a miscalculation of a previous monthly net payment, plus
 - any additional payment amount arising from the resolution of disputes, as specified within the New Reinsurance Agreements, between RLMIS and Royal London DAC.
- 9.23 In addition, for each of the New Reinsurance Agreements, Royal London DAC is required to produce a quarterly report. The quarterly report will include the calculation of the quarterly net payment that is due to be paid by RLMIS to Royal London DAC under each of the New Reinsurance Agreements. The quarterly net payments are Experience Adjustments, which act to maintain the Capital Buffer within the Liver Ireland Sub-Fund and German Bond Sub-Funds. The quarterly net payment in respect of the German Bond Reinsurance Agreement will be met by the RL Main Fund, and the quarterly net payment in respect of the Liver Reinsurance Agreement will be met by the Royal Liver Sub-Fund.
- 9.24 The monthly net payments and quarterly net payments will be determined and paid separately in respect of the Liver Reinsurance Agreement and the German Bond Reinsurance Agreement. Where the monthly or quarterly net payment is positive Royal London DAC shall pay the amount of the monthly or quarterly net payment to RLMIS. Where the monthly or quarterly net payment is negative, RLMIS shall pay the absolute amount of the monthly or quarterly net payment to Royal London DAC.
- 9.25 If RLMIS disagrees with the calculation of either the monthly net payment or the quarterly net payment determined by Royal London DAC under either of the New Reinsurance Agreements, the New Reinsurance Agreements set out a dispute process that must be followed. If the dispute cannot be resolved between RLMIS and Royal London DAC within ten business days then the New Reinsurance Agreements require an independent actuarial expert to be appointed to resolve the dispute.

Impact of the New Reinsurance Agreements on management of the Royal Liver Sub-Fund and the RL Main Fund

- 9.26 This section outlines how the New Reinsurance Agreements impact the management of the various groups of policies within the Royal Liver Sub-Fund and the RL Main Fund.
- 9.27 In order to ensure the appropriate management of the Royal Liver Sub-Fund and RL Main Fund in respect of the Remaining Royal Liver Sub-Fund Policyholders, Remaining RL Main Fund Policyholders, Ireland Liver Policyholders and German Bond Policyholders, the New Reinsurance Agreements set out the processes which must be followed when declaring Bonuses, allocating units or determining unit prices. These processes require the involvement of both Royal London DAC and RLMIS, with Royal London DAC having ultimate responsibility in relation to the Bonuses, allocating units or determining unit prices for the Ireland Liver Business and German Bond Business. There is a dispute process that requires resolution by an independent expert, in the event that RLMIS and Royal London DAC fail to reach an agreement.
- 9.28 The Liver Reinsurance Agreement sets out the process that must be followed, prior to any material amendments being made to the terms and conditions of policies allocated to the Royal Liver Sub-Fund, the Royal Liver IoT or the Royal Liver PPFM. Royal London DAC must be notified of any such

changes, and unless the change is a permitted change under the Liver Reinsurance Agreement, Royal London DAC must provide written consent. RLMIS must consider any comments Royal London DAC may have on any proposed changes. If a potential dispute arises, in relation to the impact on the Liver Reinsurance Agreement, which Royal London DAC and RLMIS fail to reach agreement on, an actuarial expert will be asked to conclude on the matter.

- 9.29 The German Bond Reinsurance Agreement sets out the process that must be followed prior to any material amendments being made to the RL Main Fund PPFM. Royal London DAC must be notified by RLMIS of any changes to the RL Main Fund PPFM, and unless the change is a permitted change under the German Bond Reinsurance Agreement, Royal London DAC must provide written consent. RLMIS must consider any comments Royal London DAC may have on any proposed changes.

Ireland Liver Business

With-profits

- 9.30 Following the Transfer, the Ireland Liver Business will be allocated to the Liver Ireland Sub-Fund. The Scheme and the Liver Reinsurance Agreement are structured to allow the Ireland Liver Business to continue to share in the Estate of the Royal Liver Sub-Fund in RLMIS in materially the same way before and after the Transfer. In this subsection, I consider whether the terms of the Liver Reinsurance Agreement achieve this and whether the Liver Reinsurance Agreement alters the management of the with-profits business allocated to the Royal Liver Sub-Fund.
- 9.31 The Liver Reinsurance Agreement requires that all premiums associated with the Ireland Liver Business are onward paid from Royal London DAC to RLMIS and, likewise, all claims payments associated with Ireland Liver Business are paid by RLMIS to Royal London DAC. As a result of these cashflows, the Royal Liver Sub-Fund will be in receipt of the premium amounts and will pay the claim amounts before and after the Transfer.
- 9.32 The operation of the Liver Ireland Sub-Fund will follow the Liver Ireland PPFM Guide, which is required by the Scheme to be consistent with the Royal Liver PPFM, whilst the Liver Reinsurance Agreement is in place. The Royal Liver PPFM will be amended to ensure that its application is extended to indirectly include the Ireland Liver Business (see paragraph 7.37). The Scheme also details that the Liver Ireland Sub-Fund must be managed with consideration of the IoT CPFM, whilst the Liver Reinsurance Agreement is in place, and the CPFM following the termination of the Liver Reinsurance Agreement. This means that there is no material change for the with-profits Ireland Liver Policyholders to the way their policies are managed, as regards investment strategy and Estate Distribution, since essentially the same principles and practices will be followed immediately after the Transfer as before.
- 9.33 The process regarding Bonus calculations in the Royal Liver Sub-Fund will not be altered as a result of the Transfer, except that any Bonuses which are calculated by RLMIS in respect of the Ireland Liver Business and due to be paid to Royal London DAC under the Liver Reinsurance Agreement will require the agreement of both Royal London DAC and RLMIS. The Bonuses due to the Ireland Liver Business should not diverge from those due to the Remaining Royal Liver Sub-Fund Business, unless there is a regulatory reason for divergence. The Royal London DAC Board, after consultation with the Royal London DAC HoAF and the WPA of RLMIS, will be responsible for the calculation and approval of the Bonuses due to the Ireland Liver Policyholders. This means that there is no material change to the principles for determining the Bonuses in the Royal Liver Sub-Fund as a result of the Transfer and the process set out in the Liver Reinsurance Agreement ensures that neither Royal London DAC or RLMIS can act in a manner which benefits one group of policyholders at the expense of a different group of policyholders.
- 9.34 If Royal London DAC and RLMIS are unable to agree on the Bonuses for the Ireland Liver Business then the Liver Reinsurance Agreement sets out the dispute process that must be followed. This requires the involvement of an independent actuarial expert, whose decision would be binding on both RLMIS and Royal London DAC.
- 9.35 There are additional costs and tax impacts (VAT and corporation tax) as a result of the Transfer on the Estate of the Royal Liver Sub-Fund (discussed further in paragraphs 7.14 to 7.19). In my view, these costs are unavoidable and a direct consequence of the Transferring Policies being transferred out of the UK to Ireland in order to make it possible to continue to service these policies legally post-Brexit.

Similar impacts are likely to arise regardless of the EEA country the Transferring Policies are moved to.

- 9.36 The cost and tax impacts are effectively shared between all with-profits policyholders within the Royal Liver Sub-Fund, as is permitted by the Royal Liver PPFM and the Royal Liver IoT. There are also additional ongoing costs as a result of the Transfer (discussed further in paragraph 7.10) and those relating to the management of the Ireland Liver Business will be met by the Estate of the Royal Liver Sub-Fund. This is permitted by the Royal Liver PPFM and Royal Liver IoT.
- 9.37 Overall I am satisfied that the Liver Reinsurance Agreement allows with-profits Ireland Liver Business to be managed materially in the same way before and after the Transfer. This is because:
- the Liver Reinsurance Agreement means the cashflows for claims, premiums and expense charges associated with Ireland Liver Business are ultimately met by the same fund before and after the Transfer
 - the Ireland Liver Business will be allocated to a fund which is managed in accordance with the Liver Ireland PPFM Guide which, while the Liver Reinsurance Agreement is in place, is required by the Scheme to be consistent with the Royal Liver PPFM
 - the Liver Ireland Sub-Fund will be managed in accordance with the IoT CPFM, prior to the termination of the Liver Reinsurance Agreement, and the CPFM thereafter
 - the Royal Liver PPFM will be updated to ensure it indirectly continues to apply to the Ireland Liver Business, whilst the Liver Reinsurance Agreement is in place
 - the governance surrounding the operation and management of the with-profits Ireland Liver Business, including the governance surrounding the distribution of the Estate of the Royal Liver Sub-Fund to with-profits Ireland Liver Policyholders and the Remaining Policyholders, is at least equivalent to that prior to the Transfer
 - there are relatively minor impacts on the size of the Estate of the Royal Liver Sub-Fund as a result of the initial and ongoing cost and tax implications of the Transfer, but these are unavoidable and are shared between the relevant with-profits policyholders within the Royal Liver Sub-Fund and the Ireland Liver Policyholders, as is permitted by the Royal Liver PPFM and the Royal Liver IoT.

Unit-linked

- 9.38 The Liver Reinsurance Agreement is structured so that the unit-linked Ireland Liver Business will continue to participate in the same unit-linked funds to which they were allocated prior to the Transfer. There will be no change to the investment mandates for these unit-linked funds and they will therefore continue to be managed in the same way before and after the Transfer.
- 9.39 The charges applicable to unit-linked Ireland Liver Business will continue to be determined in accordance with the same policies that are currently in place, and Royal London DAC will provide oversight to this process, therefore the charges applicable to the unit-linked Ireland Liver Business will not change as a result of the Transfer.
- 9.40 If either Royal London DAC or RLMIS become aware of a potential error in the allocation or pricing of units then, in the first instance, Royal London DAC and RLMIS will endeavour to resolve this error. If no resolution can be reached, then an independent expert will be appointed to conclude the matter. The independent expert's conclusion will be binding on both Royal London DAC and RLMIS.
- 9.41 Overall, I am satisfied that the Liver Reinsurance Agreement allows the unit-linked Ireland Liver Business to be managed in the same way before and after the Transfer, if a dispute were to arise which could not be resolved by Royal London DAC and RLMIS, the involvement of an independent expert in the dispute process protects the interests of the unit-linked Ireland Liver Policyholders.

Non-profit

- 9.42 The benefits due under non-profit policies are generally fixed by the policy terms and conditions. There are a small number of occasions where benefit payments are subject to discretion, decisions related to such occasions are governed by the Customer Value Statements. Following the Transfer,

Royal London DAC will be responsible for the application of discretion and these decisions will continue to be guided by the Customer Value Statements, which Royal London DAC will adopt.

Conclusion

- 9.43 Taking into account my comments above in relation to with-profits, unit-linked and non-profit Ireland Liver Business, overall, I am satisfied that the Liver Reinsurance Agreement allows Ireland Liver Policyholders' interests to be managed in materially the same way before and after the Transfer.

German Bond Business

With-profits

- 9.44 Following the Transfer, the German Bond Business will be allocated to the German Bond Sub-Fund in Royal London DAC. The German Bond Reinsurance Agreement is structured to allow the with-profits German Bond Business to continue to participate in the RL Main Fund in RLMIS in materially the same way before and after the Transfer. In this subsection, I consider whether the structure of the German Bond Reinsurance Agreement achieves this and whether the German Bond Reinsurance Agreement alters the management of the RL Main Fund.
- 9.45 The German Bond Reinsurance Agreement requires that all claims payments associated with the German Bond Business are paid by RLMIS to Royal London DAC. As a result of these cashflows, the RL Main Fund will pay the same claim amounts before and after the Transfer.
- 9.46 The operation of the German Bond Sub-Fund will follow the German Bond PPFM Guide, which is required by the Scheme to be consistent with the RL Main Fund PPFM while the German Bond Reinsurance Agreement is in place. The RL Main Fund PPFM will be amended to ensure that it continues to apply to the German Bond Business (see paragraph 7.38), albeit indirectly, following the Transfer. This means that there is no material change for the with-profits German Bond Policyholders to the way their policies are managed, as regards investment strategy and ProfitShare since essentially the same principles and practices will be followed immediately after the Transfer as before.
- 9.47 The process regarding Bonus calculations in the RL Main Fund as a result of the Transfer will not be altered except that any Bonuses, which are calculated by RLMIS in respect of the German Bond Business and due to be paid to Royal London DAC under the German Bond Reinsurance Agreement will require the agreement of both Royal London DAC and RLMIS. The Royal London DAC Board, after consultation with the Royal London DAC HoAF and WPA of RLMIS, will be responsible for the calculation and approval of the Bonuses due to the German Bond Policyholders. This means that there is no material change for the with-profits German Bond Business to the principles for determining the Bonuses that are allocated to the German Bond Policies as a result of the Transfer.
- 9.48 If Royal London DAC and RLMIS were unable to agree on the Bonuses for the German Bond Business, and no agreement could be reached, then the German Bond Reinsurance Agreement sets out the dispute process that must be followed. This requires the involvement of an independent actuarial expert, whose decision would be binding on both RLMIS and Royal London DAC.
- 9.49 The Scheme will not alter the eligibility for with-profits German Bond Policyholders for ProfitShare, however the distribution of ProfitShare will remain at the discretion of the RLMIS Board, and Royal London DAC will not have the right to dispute ProfitShare distributions to German Bond Policyholders.
- 9.50 There are additional costs and tax impacts (VAT and corporation tax) as a result of the Transfer on the Estate of the RL Main Fund (discussed further in paragraphs 7.14 to 7.19). In my view, these costs are unavoidable and a direct consequence of the Transferring Policies being transferred out of the UK to Ireland in order to enable the continued legal servicing of these policies post-Brexit. Similar impacts are likely to arise regardless of the country the Transferring Policies are moved to.
- 9.51 The cost and tax impacts are effectively shared between all with-profits policyholders within the RL Main Fund as is allowed within the RL Main Fund PPFM. There are also some very small additional ongoing costs as a result of the Transfer (discussed further in paragraph 7.11 to 7.13) which will be

met by the Estate of the RL Main Fund. This is allowed within the RL Main Fund PPFM. The impact of this on Remaining RL Main Fund Policyholders is considered in paragraphs 12.12.

- 9.52 Overall I am satisfied that the German Bond Reinsurance Agreement allows with-profits German Bond Business to be managed materially in the same way before and after the Transfer. This is because:
- the German Bond Reinsurance Agreement means the cashflows for claims and expenses associated with German Bond Business are ultimately met by the same fund before and after the Transfer
 - the German Bond Business will be allocated to the German Bond Sub-Fund which is managed in accordance with the German Bond PPFM Guide which, while the German Bond Reinsurance Agreement is in place, the Scheme requires to be consistent with the RL Main Fund PPFM
 - the RL Main Fund PPFM will be updated to ensure it continues to apply to the German Bond Business, albeit indirectly
 - the governance surrounding the operation and management of the with-profits German Bond Business, including the governance surrounding ProfitShare for with-profits German Bond Business, is equivalent to that prior to the Transfer
 - there are relatively minor impacts on the Estate of the RL Main Fund as a result of the initial and ongoing cost and tax implications of the Transfer, but these are unavoidable and are shared between the relevant with-profits policyholders within the RL Main Fund and the German Bond Policyholders, as is permitted by the RL Main Fund PPFM.

Unit-linked

- 9.53 The German Bond Reinsurance Agreement has the effect that the unit-linked German Bond Business will continue to participate in the same unit-linked funds to which they were allocated prior to the Transfer. There will be no change to the investment mandates for these unit-linked funds and they will continue to be managed in the same way before and after the Transfer.
- 9.54 The charges applicable to unit-linked German Bond Business will continue to be determined in accordance with the same policies that are currently in place, and Royal London DAC will provide oversight to this process, therefore the charges applicable to the unit-linked funds will not change as a result of the Transfer.
- 9.55 If either Royal London DAC or RLMIS become aware of a potential error in the allocation or pricing of units then, in the first instance, Royal London DAC and RLMIS will endeavour to resolve the error. If no resolution can be reached, then an independent expert will be appointed to conclude the matter. The independent expert's conclusion will be binding on both Royal London DAC and RLMIS.
- 9.56 Overall I am satisfied that the German Bond Reinsurance Agreement allows the unit-linked German Bond Business to be managed in the same way before and after the Transfer. If a dispute were to arise, which Royal London DAC and RLMIS fail to reach agreement on, the involvement of an independent expert in the dispute process protects the interests of the unit-linked German Bond Policyholders.

Conclusion

- 9.57 Taking into account my comments above in relation to with-profits and unit-linked German Bond Business, I am satisfied that the German Bond Reinsurance Agreement allows the interests of policyholders of German Bond Business to be managed in materially the same way before and after the Transfer.

RL Post-2011 Business and Existing Policyholders

- 9.58 The Existing Policyholders and, upon Transfer, the RL Post-2011 Business will be allocated to the Royal London DAC Open Fund. Therefore, the impact of the New Reinsurance Agreements on the management of the Royal Liver Sub-Fund and RL Main Fund is not applicable to the Existing Policyholders or the RL Post-2011 Business, other than in relation to any counterparty risk that Royal London DAC as a whole is exposed to as a result of the New Reinsurance Agreements. This is considered further in paragraphs 9.157 to 9.160 below.

Remaining Policyholders

Remaining Royal Liver Sub-Fund Policyholders

- 9.59 The Liver Reinsurance Agreement allows the Royal Liver Sub-Fund to, in effect, continue to operate as a whole fund, with broadly the same management arrangements, as it did before the Transfer. The Royal Liver Sub-Fund will continue to be managed in accordance to the Royal Liver PPFM, which is to be amended as a result of the Transfer (see paragraph 7.37) and IoT CPFM.
- 9.60 There are additional costs and tax impacts (VAT and corporation tax) as a result of the Transfer on the Estate of the Royal Liver Sub-Fund (detailed in paragraphs 7.14 to 7.19). In my view, these costs are unavoidable and a direct consequence of the Transferring Policies being transferred out of the UK to Ireland in order to make it possible to continue to service these policies legally post-Brexit. Similar impacts are likely to arise regardless of the EEA country the Transferring Policies are moved to.
- 9.61 The cost and tax impacts are effectively shared between all with-profits policyholders within the Royal Liver Sub-Fund, as are permitted by the Royal Liver PPFM and the Royal Liver IoT. There are also additional ongoing costs as a result of the Transfer (discussed in 7.10) and those relating to the management of the Ireland Liver Business will be met by the Estate of the Royal Liver Sub-Fund. This is permitted by the Royal Liver PPFM and Royal Liver IoT.
- 9.62 Taking into account my comments above in relation to Remaining Royal Liver Sub-Fund Business, I am satisfied that the Liver Reinsurance Agreement allows the interests of the Remaining Royal Liver Sub-Fund Policyholders to be managed in materially the same way before and after the Transfer.

Remaining RL Main Fund Policyholders

- 9.63 The RL Main Fund will continue to operate in the same way both before and after the Transfer, the German Bond Reinsurance Agreement does not alter the management of the RL Main Fund. It will continue to be managed in accordance with the RL Main Fund PPFM, which is to be non-materially amended as a result of the Transfer (see paragraph 7.38).
- 9.64 There are additional costs and tax impacts (VAT and corporation tax) as a result of the Transfer on the Estate of the RL Main Fund (discussed further in paragraphs 7.14 to 7.19). In my view, these costs are unavoidable and a direct consequence of the Transferring Policies being transferred out of the UK to Ireland in order to enable to continue to legally service these policies post-Brexit. Similar impacts are likely to arise regardless of the country the Transferring Policies are moved to.
- 9.65 The cost and tax impacts are effectively shared between all with-profits policyholders within the RL Main Fund as is allowed within the RL Main Fund PPFM. There are also some very small additional ongoing costs as a result of the Transfer (discussed further in paragraph 7.11 to 7.13) which will be met by the Estate of the RL Main Fund. This is allowed within the RL Main Fund PPFM.
- 9.66 Taking into account my comments above in relation to Remaining RL Main Fund Business, I am satisfied that the German Bond Reinsurance Agreement does not result in a material change to the way in which the interests of the Remaining RL Main Fund Policyholders are managed.

Other Remaining Policyholders

- 9.67 The funds in which the Other Remaining Policyholders are allocated will not be directly affected by the Transfer and there will be no change to the way in which they are managed.

Termination of the New Reinsurance Agreements

Liver Reinsurance Agreement

Scenarios in which the Liver Reinsurance Agreement can be terminated

- 9.68 There are a number of scenarios in which the Liver Reinsurance Agreement may be terminated and these are considered below, together with a description of what happens on termination.
- 9.69 The scenarios in which the Liver Reinsurance Agreement may be terminated by either RLMIS or Royal London DAC are summarised below:
- by mutual written agreement between RLMIS and Royal London DAC
 - if the performance of the Liver Reinsurance Agreement becomes prohibited or not possible as a consequence of any law or regulation
 - if either RLMIS or Royal London DAC cease to hold the required registration, permissions, authorisations, consents or licences to perform their material obligations under the Liver Reinsurance Agreement, and fails to obtain them within 60 Business Days³⁸
 - if either RLMIS or Royal London DAC fails to make payments due under the Liver Reinsurance Agreement by the due date plus one month, or
 - if either RLMIS or Royal London DAC is in material breach of certain clauses in the terms of the Liver Reinsurance Agreement, and such breach is not remedied within 20 Business Days.
- 9.70 The scenarios in which the Liver Reinsurance Agreement can be terminated by RLMIS are summarised below:
- RLMIS ceases to maintain the Royal Liver Sub-Fund as a separate fund due to the value of Asset Shares falling below £118m (as at 1 January 2019, and adjusted annually for RPI), as required under the Royal Liver IoT
 - if Royal London DAC disposes of all or a material part of the Ireland Liver Business, any of the with-profits Ireland Liver Business or any of the contingent bonus policies, or
 - if Royal London DAC ceases to ring-fence the assets and liabilities of the Liver Ireland Sub-Fund as a result of the insolvency of Royal London DAC.
- 9.71 The scenarios in which the Liver Reinsurance Agreement can be terminated by Royal London DAC are summarised below:
- RLMIS proposes to cease to maintain the Royal Liver Sub-Fund as a separate fund in accordance with the Royal Liver IoT, either because the value of Asset Shares³⁹ fall below £118m (as at 1 January 2019, and adjusted annually for RPI) in which case the Royal Liver IoT states that RLMIS must cease to maintain the Royal Liver Sub-Fund or because the value of Asset Shares³⁹ falls below £296m (as at 1 January 2019, and adjusted annually for RPI) in which case RLMIS may cease to maintain the Royal Liver Sub-Fund, having considered the advice of the RLMIS WPA
 - RLMIS purports to make an amendment to the Royal Liver IoT that is in breach of the requirements of the Royal Liver IoT, and which in RL DAC's reasonable opinion results in, or is likely to result in, a material change under the terms of the Liver Reinsurance Agreement
 - if RLMIS fails to post the required amount of collateral under the Collateral Framework Agreement in respect of the Ireland Liver Business (subject to correction for administrative errors)
 - if the Collateral Framework Agreement, Reinsurer Security Agreements in respect of the Ireland Liver Business or the Floating Charge Deed are terminated or cease to be fully

³⁸ A Business Day is any day other than a Saturday, Sunday or public holiday in England and Wales or Ireland.

³⁹ The definition of Asset Shares in this case includes asset shares of direct and reinsured policies, and so the Transfer does not reduce the Asset Shares (as the transferring Ireland Liver Policies are proposed to be reinsured back to the Royal Liver Sub-Fund)

operative, and this is not remedied within 30 Business Days of Royal London DAC informing RLMIS

- if an insolvency event has occurred in relation to RLMIS, or
- if the credit rating of RLMIS falls below BBB.

9.72 The Liver Reinsurance Agreement will also terminate automatically when Royal London DAC has no further liabilities in respect of the final remaining Ireland Liver Policy.

Termination of the Liver Reinsurance Agreement: governance

9.73 Therefore, subject to the scenario (detailed above), either RLMIS, Royal London DAC or RLMIS and Royal London DAC together could decide to terminate the Liver Reinsurance Agreement. However, in accordance with the Scheme, prior to termination, unless the termination is urgent or the requirements below would be contrary to regulatory requirements, it is necessary for:

- RLMIS to obtain advice from the Chief Actuary and WPA
- Royal London DAC to obtain advice from the Royal London DAC HoAF
- RLMIS to consult with and obtain approval from the Liver Supervisory Committee
- RLMIS to consult with the WPC of RLMIS, and
- RLMIS to provide no less than 30 days' notice to the UK Regulators and Royal London DAC to provide no less than 30 days' notice to the CBI.

9.74 Before it is possible to terminate the Liver Reinsurance Agreement it is necessary for the amount due to Royal London DAC following the Fund Split to have been determined and paid, see paragraphs 9.78 to 9.85 for further detail.

Determining the termination amount

9.75 The process for determining the termination amount to be paid in respect of the Ireland Liver Business on termination, and the calculation basis, is set out in the Liver Reinsurance Agreement. The termination amount to be paid will be determined as:

- the BEL of the Ireland Liver Business in force as at the date of the termination and calculated on a basis agreed between Royal London DAC and RLMIS, plus
- any outstanding payments due from RLMIS to Royal London DAC, or vice versa, in respect of the Liver Reinsurance Agreement.

9.76 Where the termination amount is a positive amount, such amount will be paid by RLMIS to Royal London DAC. Likewise, where the termination amount is a negative amount, the absolute value of such amount will be paid by Royal London DAC to RLMIS.

9.77 Broadly, the process for determining this amount involves RLMIS and Royal London DAC agreeing on the basis on which the termination amount is to be calculated and the termination amount itself. If RLMIS and Royal London DAC are unable to agree the termination amount or the basis of the calculation, an independent actuarial expert is required to resolve the disagreement.

Fund Split of the Royal Liver Sub-Fund

9.78 The termination of the Liver Reinsurance Agreement will not be effective unless the Fund Split amount due to the Liver Ireland Sub-Fund has been paid.

9.79 The amount determined under the Fund Split reflects the interests that the with-profits Ireland Liver Policyholders have in the Estate of the Royal Liver Sub-Fund. The transfer of assets due to Royal London DAC under the Fund Split is defined in the Scheme to be a proportion (the "RL DAC Proportion"), as agreed between RLMIS and Royal London DAC, of:

- the excess of the realistic value of assets over liabilities in the Royal Liver Sub-Fund, less

- any capital support provided to the Royal Liver Sub-Fund, plus
 - the excess, if any, of the realistic value of assets over liabilities in the Liver Ireland Sub-Fund.
- 9.80 If the above was calculated as a positive amount then the proportion due to Royal London DAC would be calculated in accordance with paragraph 9.82, if the amount is negative, then no payment is due by either RLMIS or Royal London DAC.
- 9.81 The process of performing the Fund Split is set out in the Scheme, which requires:
- the RLMIS WPA and Chief Actuary to prepare a report for the RLMIS Board
 - the Royal London DAC HoAF to prepare a report for the Royal London DAC Board, and
 - a third party actuary, independent of both RLMIS and Royal London DAC, to provide a certificate confirming that the RL DAC Proportion represents a fair proportion of the Fund Split amount.
- 9.82 The Scheme also sets out that in determining the RL DAC Proportion of the Fund Split amount (see paragraph 9.79), the Boards of RLMIS and Royal London DAC and the third party actuary must consider the following:
- any capital support provided to the Royal Liver Sub-Fund must be ignored
 - the reasonable expectations of Remaining Royal Liver Sub-Fund Policyholders and Ireland Liver Policyholders
 - provisions of the Scheme, the Royal Liver IoT, the Liver Reinsurance Agreement, Royal Liver PPFM and the Liver Ireland PPFM Guide
 - consider the opinion of the RLMIS Chief Actuary, RLMIS WPA, RLMIS WPC, RLMIS Board, Royal London DAC HoAF and the Royal London DAC Board, and
 - consider the opinion of the third party actuary, who is independent of RLMIS and Royal London DAC.
- 9.83 The reports and certificates, referred to above, must be provided to the UK Regulators and the CBI. The Scheme also allows the Ireland Liver Policyholders to enforce the Fund Split provisions in the Scheme if either Royal London DAC or RLMIS fail to comply with them. The Ireland Liver Policyholders can make an application to hold Royal London DAC and RLMIS in contempt of the Court's Order.
- 9.84 Under the terms of the Liver Reinsurance Agreement, the payments due to Royal London DAC as a result of the Fund Split would be the proportion (see paragraph 9.82) of the Fund Split amount (see paragraph 9.79) less the excess, if any, of the realistic value of assets over liabilities in the Liver Ireland Sub-Fund.
- 9.85 In accordance with the terms of the Liver Reinsurance Agreement, the termination of the Liver Reinsurance Agreement will not be effective until the process outlined above has been completed, including the payment of the Fund Split amount due to Royal London DAC. Once the process has been completed, the Ireland Liver Policyholders will have no further interest in the Estate of the Royal Liver Sub-Fund.

German Bond Reinsurance Agreement

Scenarios in which the German Bond Reinsurance Agreement can be terminated

- 9.86 There are a number of scenarios in which the German Bond Reinsurance Agreement may be terminated and these are considered below, together with a description of what happens on termination.
- 9.87 The scenarios in which the German Bond Reinsurance Agreement may be terminated by either RLMIS or Royal London DAC are summarised below:

- by mutual written agreement between RLMIS and Royal London DAC
- if the performance of the German Bond Reinsurance Agreement becomes prohibited or not possible as a consequence of any law or regulation
- if either RLMIS or Royal London DAC cease to hold the required registrations, permissions, authorisations, consents or licences to perform their material obligations under the German Bond Reinsurance Agreement, and fail to obtain them within 60 Business Days
- if either RLMIS or Royal London DAC fails to make payments due under the German Bond Reinsurance Agreement by the due date plus one month, or
- if either RLMIS or Royal London DAC is in material breach of certain clauses in the terms of the German Bond Reinsurance Agreement and such breach is not remedied within 20 Business Days.

9.88 The scenarios in which the German Bond Reinsurance Agreement can be terminated by RLMIS are summarised below:

- if Royal London DAC ceases to ring-fence the assets and liabilities of the German Bond Sub-Fund as a result of the insolvency of Royal London DAC, or
- if Royal London DAC disposes of all or a material part of the German Bond Business.

9.89 The scenarios in which the German Bond Reinsurance Agreement can be terminated by Royal London DAC are summarised below:

- if RLMIS fails to post the required amount of collateral under the Collateral Framework Agreement in respect of the German Bond Reinsurance Business, unless this is rectified within 15 Business Days
- if the Collateral Framework Agreement, Reinsurer Agreements in respect of the German Bond Business or the Floating Charge Deed are terminated or ceases to be fully operative, and this is not remedied within 30 Business Days of Royal London DAC informing RLMIS
- if an insolvency event has occurred in relation to RLMIS, or
- if the credit rating of RLMIS falls below BBB.

9.90 The German Bond Reinsurance Agreement will also terminate automatically when Royal London DAC has no further liabilities in respect of the final remaining German Bond Policy.

Termination of the German Reinsurance Agreement: governance

9.91 Therefore, subject to the scenario (detailed above), either RLMIS, Royal London DAC or RLMIS and Royal London DAC together could decide to terminate the German Bond Reinsurance Agreement. However, in accordance with the Scheme, prior to termination, unless the termination is urgent or the requirements below would be contrary to regulatory requirements, it is necessary for:

- RLMIS to obtain advice from the Chief Actuary and WP Actuary
- Royal London DAC to obtain advice from the Royal London DAC HoAF
- a certificate from an independent expert to confirm the termination amount includes a compensation amount, if any is due, for the loss of future ProfitShare which represents the reasonable expectations of the German Bond Policyholders (on the assumption that the German Bond Reinsurance Agreement not been terminated and that the German Bond Policyholders have the same expectations, with regard ProfitShare, as Remaining RL Main Fund Policyholders holding equivalent policies)
- RLMIS to consult with the WPC of RLMIS, and
- RLMIS to provide no less than 30 days' notice to the UK Regulators and Royal London DAC to provide no less than 30 days' notice to the CBI.

Determining the termination amount

9.92 The process for determining the termination amount to be paid to Royal London DAC in respect of the German Bond Business on termination is set out in the German Bond Reinsurance Agreement. The termination amount to be paid will be determined as:

- the BEL of the German Bond Business in force as at the date of the termination and calculated on a basis agreed between Royal London DAC and RLMIS, plus
 - an amount representing the reasonable expectations, if any, that those with-profits German Bond Policyholders who are eligible for ProfitShare have to future payments of ProfitShare at the date on which the German Bond Reinsurance Agreement terminates, had the termination not occurred, plus
 - any outstanding payments due from RLMIS to Royal London DAC, or vice versa, in respect of the German Bond Reinsurance Agreement.
- 9.93 Where the termination amount is a positive amount, such amount will be paid by RLMIS to Royal London DAC. Likewise, where the termination amount is a negative amount, the absolute value of such amount will be paid by Royal London DAC to RLMIS.
- 9.94 Broadly, the process for determining this amount involves RLMIS and Royal London DAC agreeing on the basis on which the termination amount is to be calculated and the termination amount itself. If RLMIS and Royal London DAC are unable to agree the termination amount or the basis of the calculation, an independent actuarial expert is required to resolve the disagreement.
- 9.95 RLMIS and Royal London DAC are also required to obtain certification from an appropriately qualified independent actuarial expert that the amount, if any, in respect of future payments of ProfitShare, as referred to in paragraph 9.92, represents:
- the reasonable expectations that eligible with-profits German Bond Policyholders have to future payments of ProfitShare on and after the date on which the German Bond Reinsurance Agreement terminates had the termination not occurred, and
 - on the basis that the German Bond Policyholders have the same expectations as holders of equivalent Remaining RL Main Fund Policyholders.
- 9.96 Under the Scheme, the payments to Royal London DAC following the termination of the German Bond Reinsurance Agreement would be:
- the termination amount, calculated in line with paragraph 9.92, and
 - the GBSF Transfer Amount, which is calculated as the GBSF Collapse Amount (see paragraph 9.98) less the excess, if any, of the realistic value of assets over the liabilities in the German Bond Sub-Fund.
- 9.97 If the GBSF Transfer Amount is a positive amount then, on the termination date of the German Bond Reinsurance Agreement, RLMIS will pay to the Royal London DAC Open Fund the GBSF Transfer Amount. If the GBSF Transfer Amount is negative then no payment will be made by either Royal London DAC or RLMIS.

Determining the GBSF Collapse Amount

- 9.98 The GBSF Collapse Amount is defined in the Scheme as an additional amount, if any, required to be held by Royal London DAC in the Royal London DAC Open Fund, as at the date on which Royal London DAC ceases to maintain the German Bond Sub-Fund as a separate fund, in respect of the German Bond Policies:
- the BEL
 - the SCR multiplied by the Target SCR Cover, and
 - the Risk Margin.
- 9.99 The GBSF Collapse Amount will also consider the termination amount due under the German Bond Reinsurance Agreement (see paragraph 9.92).

- 9.100 If Royal London DAC and RLMIS cannot agree on the GBSF Collapse Amount, then it shall be determined by a third party actuary, and the third party actuary's calculation shall be binding on Royal London DAC and RLMIS.
- 9.101 I now consider the impact of termination of one or both of the New Reinsurance Agreements on different groups of policyholders.

Impact of Termination of the New Reinsurance Agreements

Ireland Liver Business and Remaining Royal Liver Sub-Fund Business

With-profits

- 9.102 As described in paragraphs 9.75 to 9.77, the Liver Reinsurance Agreement specifies how the termination amount is determined and as described in paragraphs 9.78 to 9.85 the Scheme specifies how the Fund Split is to be determined. The calculation of the Fund Split allows for the Estate of the Royal Liver Sub-Fund to be shared appropriately between the Ireland Liver Policyholders and the Remaining Royal Liver Sub-Fund Policyholders. The determination of the termination amount, due under the Liver Reinsurance Agreement, and the Fund Split amount, to be paid under the Scheme, requires agreement from both RLMIS and Royal London DAC, unless it is determined by an independent expert.
- 9.103 The processes for terminating the Liver Reinsurance Agreement and performing the Fund Split of the Royal Liver Sub-Fund have the key protections of the involvement of the UK Regulators, the CBI and an independent actuarial expert (see paragraph 9.73 and 9.81). Whilst the Fund Split does not involve seeking the views of the High Court, the Ireland Liver Policyholders will have had the opportunity to raise any concerns or objections in relation to the termination process and Fund Split process as part of the Scheme approval process.
- 9.104 As part of the termination process for the Liver Reinsurance Agreement, consideration will need to be given to ensure the Ireland Liver Business continues to be managed in a materially consistent way before and after the termination of the Liver Reinsurance Agreement. Upon termination of the Liver Reinsurance Agreement, Royal London DAC may continue to maintain the Liver Ireland Sub-Fund as a separate ring-fenced fund subject to the relevant merger and closure provisions in the Scheme. On the assumption that the Liver Ireland Sub-Fund is maintained as a separate ring-fenced fund, then the fund will be managed in accordance with the provisions of the CPFM. This helps ensure that the Ireland Liver Business is managed in a materially consistent manner both before and after the termination. The termination of the Liver Reinsurance Agreement requires the involvement of the UK Regulators, the CBI and an independent actuarial expert, I am satisfied this provides appropriate protection to ensure the Fund Split amount is fair to the with-profits Ireland Liver Business.

Unit-linked

- 9.105 Under the Scheme, new notional unit-linked funds will be established in Royal London DAC, mirroring the unit-linked funds of RLMIS in which the unit-linked Ireland Liver Policyholders currently invest.
- 9.106 Following the termination of the Liver Reinsurance Agreement, these notional unit-linked funds will continue to be managed in accordance with the provisions of the Scheme. The Scheme also sets out the actions which can be taken to alter these funds, and prior to making any alterations the Royal London DAC Board must obtain the advice of the Royal London DAC HoAF.
- 9.107 As part of the termination process of the Liver Reinsurance Agreement, it will be necessary to ensure the unit-linked Ireland Liver Business notional funds will be run in an equivalent way to the unit-linked funds of RLMIS which they mirror. Royal London DAC will be ultimately responsible for the governance of the unit-linked funds in Royal London DAC, and this will not be altered by the termination of the Liver Reinsurance Agreement. Given the involvement of the Chief Actuary of RLMIS, HoAF of Royal London DAC, UK Regulators and the CBI in the termination of the Liver Reinsurance Agreement, I am satisfied this will be given appropriate consideration.

Non-profit

9.108 The termination of the Liver Reinsurance Agreement does not impact the benefits of non-profit business. Prior to the termination of the Liver Reinsurance Agreement, RLMIS may have some indirect input into the governance of these policies, however Royal London DAC will be ultimately responsible for the management of the non-profit Ireland Liver Policies. Following the termination, Royal London DAC will continue to be responsible for the governance of the non-profit Ireland Liver Policies, however RLMIS will no longer have any input into the governance process. Given the involvement of the Chief Actuary of RLMIS, HoAF of Royal London DAC, UK Regulators and the CBI in the termination of the Liver Reinsurance Agreement, I am satisfied the governance of the non-profit Ireland Liver Policies will be given appropriate consideration.

Conclusion

- 9.109 Overall, I am satisfied that provisions governing the termination of the Liver Reinsurance Agreement provide suitable protection for the Ireland Liver Policyholders and the Remaining Royal Liver Sub-Fund Policyholders in the context of their interest in the Royal Liver Sub-Fund. This is because:
- the events under which the Liver Reinsurance Agreement can be terminated are reasonable, since they are either based on reasonably objective measures, or are based on mutual agreement, so they do not allow one party to arbitrarily terminate the agreement, undermining proper risk transfer
 - the basis for determining the termination amount appears reasonable, requires agreement from both RLMIS and Royal London DAC and where RLMIS and Royal London DAC cannot reach agreement the New Reinsurance Agreements detail the process for resolving any disputes, and the dispute process includes the involvement of an independent expert
 - the governance procedures detailed in the Scheme in relation to the process to perform the Fund Split of the Royal Liver Sub-Fund include regulatory and independent actuarial expert involvement and are designed to ensure a fair outcome, and
 - whilst the termination process of the Liver Reinsurance Agreement does not involve seeking the views of the High Court, Royal London DAC and RLMIS will need to comply with any applicable regulatory requirements and the Ireland Liver Policyholders will have had the opportunity to raise any concerns or objections in relation to the termination process as part of the Scheme approval process. Also, the Scheme requires that Ireland Liver Business will be managed in line with the CPFM following termination of the Liver Reinsurance Agreement.

German Bond Business and Remaining RL Main Fund Business

With-profits

- 9.110 The process for the termination of the German Bond Reinsurance Agreement will not necessitate the RL Main Fund to be split, but the calculation of the termination amount, amongst other things, will require an assessment of the level of compensation due, if any, to eligible with-profits German Bond Policyholders for their loss of future ProfitShare. The calculation of the termination amount is described in paragraph 9.92. The determination of the termination amount and any compensation that may be due to the with-profits German Bond Policyholders for loss of future ProfitShare requires agreement from both RLMIS and Royal London DAC, unless it is determined by an independent expert. In addition, a certificate is required from an independent expert as detailed in paragraph 9.95.
- 9.111 The termination process would include the involvement of the UK Regulators, the CBI and, in the event of any dispute that cannot be resolved between RLMIS and Royal London DAC, an independent actuarial expert. This level of protection is in my opinion pragmatic and proportionate for the level of issues expected to be resolved in such a situation.
- 9.112 From the date on which the German Bond Reinsurance Agreement terminates, Royal London DAC will, in accordance with the Scheme, cease to maintain the German Bond Sub-Fund as a separate sub-fund of Royal London DAC, and all German Bond Policyholders would be transferred to the Royal London DAC Open Fund. At that time it is likely that the German Bond Policies will be converted to non-profit or unit-linked policies, if this were to occur consideration would need to be given to ensure that the German Bond Policyholders are allocated their fair share of the termination amount received

as a result of the termination of the German Bond Reinsurance Agreement. The termination process will involve the RLMIS Chief Actuary, the Royal London DAC HoAF, the UK Regulators and the CBI and I am satisfied that this would be given appropriate consideration.

Unit-linked

- 9.113 Under the Scheme, new notional unit-linked funds will be established in Royal London DAC, mirroring the unit-linked funds of RLMIS in which the unit-linked German Bond Policyholders currently invest.
- 9.114 Following the termination of the German Bond Reinsurance Agreement, these notional unit-linked funds will continue to be managed in accordance with the provisions of the Scheme. The Scheme also sets out the actions which can be taken to alter these funds, prior to making any alterations the Royal London DAC Board must obtain the advice of the Royal London DAC HoAF.
- 9.115 As part of the termination process, it will be necessary to ensure the notional unit-linked funds will continue to be run in an equivalent manner to the unit-linked funds of RLMIS which they mirrored. Royal London DAC will be responsible for the governance of the unit-linked funds in Royal London DAC, and this will not be altered by the termination of the German Bond Reinsurance Agreement. Given the involvement of the RLMIS Chief Actuary, Royal London DAC HoAF, the UK Regulators and the CBI in the termination of the German Bond Reinsurance Agreement, I am satisfied this will be given appropriate consideration.

Conclusion

- 9.116 Overall, I am satisfied that provisions governing the termination of the German Bond Reinsurance Agreement provide suitable protection for the German Bond Policyholders and Remaining RL Main Fund Policyholders in the context of their interest in the RL Main Fund. This is because:
- the events under which the German Bond Reinsurance Agreement can be terminated are reasonable, since they are either based on reasonably objective measures, or are based on mutual agreement, so they do not allow one party to arbitrarily terminate the agreement, undermining proper risk transfer
 - the basis for determining the termination amount appears reasonable, and requires agreement from both RLMIS and Royal London DAC and where RLMIS and Royal London DAC cannot reach agreement the New Reinsurance Agreements detail the process for resolving any disputes, and the dispute process includes the involvement of an independent expert
 - the governance procedures on the German Bond Reinsurance Agreement termination include the involvement of the Royal London DAC Board, Royal London DAC HoAF, RLMIS Board, RLMIS WPA, RLMIS Chief Actuary, the UK Regulators and the CBI which are designed to ensure a fair outcome
 - whilst the termination process of the German Bond Reinsurance Agreement does not involve seeking the views of the High Court, Royal London DAC and RLMIS will need to comply with any applicable regulatory requirements and the German Bond Policyholders will have had the opportunity to raise concerns or objections in relation to the termination process as part of the Scheme approval process, and
 - the governance process for terminating the German Bond Reinsurance Agreement is designed to ensure consideration is given as to whether eligible with-profits German Bond Policyholders require compensation for their lost eligibility to future ProfitShare distributions, if any, this process requires a certificate from an independent expert.

RL Post-2011 Business and Existing Policyholders

- 9.117 The termination of the Liver Reinsurance Agreement would not be expected to have a direct impact on the Existing Policyholders or the RL Post-2011 Business as the Liver Ireland Sub-Fund is designed to operate on a standalone basis. As discussed in paragraph 10.71, Royal London DAC is expected to be strongly capitalised in the five year planning horizon, and the circumstances under which the Royal London DAC Open Fund would be required to provide capital support to the Liver Ireland Sub-Fund are remote. These capital support arrangements would not be expected to affect the benefit expectations of the Existing Policyholders or the RL Post-2011 Business.

- 9.118 If either of the New Reinsurance Agreements were terminated, otherwise than as a result of the insolvency of RLMIS, the New Reinsurance Agreements detail the process that must be followed in order to calculate the termination amount (see paragraphs 9.68 to 9.100). This process will help ensure that the termination amount results in a fair amount of assets being transferred to Royal London DAC from RLMIS in relation to the Ireland Liver Business and German Bond Business.
- 9.119 If the New Reinsurance Agreements were terminated due to RLMIS insolvency, the Security Arrangements would provide protection to all policyholders of Royal London DAC, including the Existing Policyholders and the RL Post-2011 Policyholders. These Security Arrangements ensure that the recovery to which Royal London DAC is entitled is aligned with the Remaining Policyholders of RLMIS, subject to a minimum recovery of 50% of the BEL of the Ireland Liver Business and German Bond Business.
- 9.120 Following the termination of the Liver Reinsurance Agreement, subject to certain provisions within the Scheme being met, Royal London DAC may cease to maintain the Liver Ireland Sub-Fund and transfer the Ireland Liver Business to the Royal London DAC Open Fund. The termination of the German Bond Reinsurance Agreement will require the German Bond Business to be transferred to the Royal London DAC Open Fund and may also result in the conversion of with-profit German Bond Business to either non-profit or unit-linked. I understand that the appropriate conversion would be assessed by Royal London DAC at the time of terminating the German Bond Reinsurance Agreement on such terms as determined by the Royal London DAC Board, in consultation with the Royal London DAC HoAF.

Conclusion

- 9.121 Overall, I am satisfied that the provisions governing the termination of the New Reinsurance Agreements provide suitable protection for Existing Policyholders and RL Post-2011 Policyholders. This is because:
- under the terms of the Scheme the Royal London DAC Open Fund may be required to provide capital support to the Liver Ireland Sub-Fund in certain circumstances, however, the circumstances under which the capital support would be required are remote, this would not be expected to affect the benefit expectations of the Existing Policyholders and RL Post-2011 Policyholders, which are non-profit
 - if the termination of either the Liver Reinsurance Agreement or German Bond Reinsurance Agreement is not as a result of insolvency of RLMIS, then the governance process which must be followed in determining the termination amounts due under the New Reinsurance Agreements and the governance process which must be followed in determining the Fund Split amount under the Scheme ensures that the amount of assets transferred in relation to the Ireland Liver Business and German Bond Business is fair, which reduces any potential impact on the Existing Policyholders and RL Post-2011 Policyholders, and
 - if the termination is a result of RLMIS insolvency (which I consider to be a remote event), the Security Arrangements provide protection to the Existing Policyholders and RL Post-2011 Policyholders as the Security Arrangements ensure that Royal London DAC ranks equally with the direct policyholders of RLMIS, subject to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business.

Other Remaining Policyholders

- 9.122 There will be no impact on the Other Remaining Policyholders as a result of the termination of either of the New Reinsurance Agreements as these policyholders are allocated to closed ring-fenced funds to which the New Reinsurance Agreements do not relate.

Security Arrangements

Floating Charge Deed

- 9.123 The Floating Charge Deed grants Royal London DAC a floating charge over all of the assets of RLMIS aside from those subject to other charges already in existence (as at 31 December 2017 c. £3bn out

of a total of £114bn of assets are linked to existing charges, the New Security Agreements will result in another c. £1bn being subject to charges). This floating charge will only crystallise into a fixed charge immediately before the occurrence of insolvency proceedings, and the floating charge remains in force until the relevant debts owed to Royal London DAC under the New Reinsurance Agreements have been settled.

- 9.124 Prior to this crystallisation, Royal London DAC is not entitled to enforce the Floating Charge Deed against RLMIS. Under the terms of the Floating Charge Deed, the amount that Royal London DAC can recover from RLMIS on insolvency is restricted to the amount that the Transferring Policyholders would have been entitled to recover if they were direct policyholders of RLMIS, and accordingly the floating charge results in Royal London DAC ranking equally with direct policyholders of RLMIS in the event of RLMIS insolvency, subject to the minimum recovery for Royal London DAC set out in paragraphs 9.142 to 9.145.
- 9.125 Under the Floating Charge Deed, aside from those already in existence at the time of the Transfer and the four fixed charges which are to be put in place under the Reinsurer Security Agreements, RLMIS is not permitted to put in place any additional charges against any of the assets secured by the Floating Charge Deed without written consent from Royal London DAC, unless the new charge is subordinate or ranks equally to the Floating Charge Deed. The Floating Charge Deed ranks alongside any previous or future floating charges put in place by RLMIS in connection with other reinsurance arrangements.
- 9.126 I now consider the effect of the Floating Charge Deed with respect to different groups of policyholders.

Transferring Policyholders and Existing Policyholders

- 9.127 The Floating Charge Deed provides security to Royal London DAC in the event of the insolvency of RLMIS. The Floating Charge Deed also has the effect of broadly aligning Royal London DAC with the direct policyholders of RLMIS in the event of RLMIS insolvency.
- 9.128 The importance and effect of the Floating Charge Deed is illustrated in the following table showing the potential impacts on the recovery to which Royal London DAC is entitled at differing levels of shortfall, following RLMIS insolvency, with and without the impact of the Floating Charge Deed.

Floating charge	With		Without	
	1%	10%	1%	10%
RLMIS policyholder recovery	99%	90%	99%	90%
Royal London DAC reinsurance recovery	99%	90%	50%	50%

- 9.129 The table shows that without the Floating Charge Deed in place, Royal London DAC would be severely disadvantaged in the event of RLMIS insolvency, even under a relatively small shortfall in RLMIS as the minimum recovery to which Royal London DAC is entitled is dramatically reduced, and will lead to a reduction in the SCR Cover of Royal London DAC. This would likely reduce the security of benefits of all Royal London DAC policyholders, which after the Transfer will include the RL Post-2011 Policyholders, Ireland Liver Policyholders, German Bond Policyholders and the Existing Policyholders of Royal London DAC.
- 9.130 I have discussed these provisions and the Floating Charge Deed with RLMIS and its legal advisers, to provide understanding and challenge on the issues. I have also consulted Independent Counsel on the operation of the Floating Charge Deed, and its effect on the protection offered. Independent Counsel has advised that, although untested in an insolvency event, he is satisfied that the provisions would operate as intended.

Conclusion

9.131 Overall, I am satisfied that the Floating Charge Deed will work as intended and help protect the position of Royal London DAC in the event of RLMIS insolvency because:

- the provisions within the Floating Charge Deed align Royal London DAC and RLMIS' direct policyholders in relation to a distribution of the assets of RLMIS in the event of an insolvency of RLMIS, and
- whilst the provision is untested in an actual insolvency event, RLMIS' legal advice and Independent Counsel concur that it will work as intended.

Remaining Policyholders

9.132 The provisions within the Floating Charge Deed align Royal London DAC policyholders and RLMIS' direct policyholders in relation to a distribution of the assets of RLMIS on the insolvency of RLMIS. Without the Floating Charge Deed, RLMIS direct policyholders would rank above the Royal London DAC policyholders on the insolvency of RLMIS.

9.133 The Reinsurer Security Agreements set a minimum recovery to which Royal London DAC is entitled following the insolvency of RLMIS as 50% of the BEL of the Ireland Liver Business and German Bond Business. The probability of RLMIS becoming insolvent is remote, and the likelihood that the recovery to which the Remaining Policyholders are entitled to being less than 50% is even more remote. Therefore, the Floating Charge Deed broadly aligns the recoveries of Royal London DAC to those to which the Ireland Liver Policies and German Bond Policies were entitled before the Transfer.

Conclusion

9.134 Overall, I am satisfied that the Floating Charge Deed will work as intended and help protect the position of Remaining Policyholders in the event of RLMIS insolvency because:

- the provisions within the Floating Charge Deed align Royal London DAC and the direct policyholders of RLMIS in relation to a distribution of the assets of RLMIS in the event of an insolvency of RLMIS, subject to Royal London DAC having a minimum recovery of 50% of BEL, therefore largely preserving the current position of the Remaining Policyholders,
- the chance of the Remaining Policyholders recovering less than Royal London DAC is remote, and
- whilst the provision is untested in an actual insolvency event, RLMIS' legal advice and Independent Counsel concur that it will work as intended.

Collateral Framework Agreements

9.135 The New Reinsurance Agreements require that RLMIS and Royal London DAC enter into a Collateral Framework Agreement in respect of each of the New Reinsurance Agreement. The Collateral Framework Agreements will become effective on the Effective Date and set out the details of operation of the collateral supporting each of the two New Reinsurance Agreements.

9.136 Under the Collateral Framework Agreements, the value of the assets held as collateral within separate segregated accounts related to each of the four Reinsurer Security Agreements (see paragraphs 9.140 to 9.144) will be calculated every quarter by RLMIS. However, the Collateral Framework Agreements also allow for ad-hoc valuations to be performed as required by either RLMIS or Royal London DAC.

9.137 For each of the Collateral Framework Agreements, where the total value of the assets held in each of the segregated accounts is less than 50% of the BEL of the relevant Transferring Policies (and the deficit is in excess of the tolerance specified within the Collateral Framework Agreements), RLMIS will top up the collateral to a value of no less than 50% of BEL of the relevant Transferring Policies. Similarly, where the total value of the assets held under the Collateral Framework Agreement in the segregated accounts exceeds 50% of BEL of the relevant Transferring Policies (and the excess exceeds the tolerance specified within the Collateral Framework Agreements), RLMIS can withdraw the excess collateral.

- 9.138 If Royal London DAC does not agree with RLMIS' calculated value of total assets that are to be withdrawn from the collateral or used to top up the collateral, the Collateral Framework Agreements set out a dispute resolution process. Under this process, if RLMIS and Royal London DAC fail to reach agreement within ten Business Days, the value given to the assets will be the value provided by the custodian (where that value is available), or will otherwise be based on independent quotations. If a dispute between RLMIS and Royal London DAC arises in relation to any other relevant aspect of the Collateral Framework Agreement, other than the calculated value of the assets held as collateral, it will be settled by a suitably qualified independent actuarial expert.
- 9.139 The Collateral Framework Agreements permit government bonds, corporate bonds and cash to be held as collateral, and the criteria that these assets must meet is as prescribed in the Investment Management Agreement in place between RLAM and Royal London DAC. Substitution of assets is allowed with RL DAC consent at any time under the Collateral Framework Agreements, provided that the replacement assets meet the criteria within the Investment Management Agreement, that RLMIS has not defaulted on any of its reinsurance obligations and that the value of the collateral is not reduced as a result of the substitution. The substitution will not change the investment strategy of the fund.

Reinsurer Security Agreements

- 9.140 There are four fixed charge Reinsurer Security Agreements, two of which relate to the Liver Reinsurance Agreement and two of which relate to the German Bond Reinsurance Agreement. The Reinsurer Security Agreements set out the terms of the fixed charges.
- 9.141 Under the Reinsurer Security Agreements, whilst the New Reinsurance Agreements are in place, collateral will be held in line with the value of the BEL for Ireland Liver Policies and German Bond Policies. The collateral will be held within four segregated accounts, two relating to each of the Reinsurer Security Agreements, and the assets held within these accounts will consist of a mixture of government bonds, corporate bonds and cash. Each of these segregated accounts will be secured by a fixed charge. Under the fixed charges, in the event of a material breach of certain clauses in either of the New Reinsurance Agreements, Royal London DAC would have the right to enforce the fixed charges against RLMIS. Royal London DAC would only be able to enforce the fixed charges associated with the New Reinsurance Agreement which has been breached, and in this event, would receive the assets in the segregated account up to the value of the obligations due, subject to the below.
- 9.142 The first fixed charge Reinsurer Security Agreement relating to each New Reinsurance Agreement secures obligations under the New Reinsurance Agreement up to an amount equal to 50% of the BEL of the business reinsured under the relevant New Reinsurance Agreement and charges assets with a value equal to 50% of BEL. This charge is over specific ring-fenced assets of the relevant fund of RLMIS to which the relevant New Reinsurance Agreement relates.
- 9.143 The second fixed charge Reinsurer Security Agreement relating to each of the New Reinsurance Agreements secures the remaining obligations under the New Reinsurance Agreement and charges assets also with a value of 50% of BEL. Again, this charge is over specific separately ring-fenced assets of the relevant fund of RLMIS to which the relevant New Reinsurance Agreement relates. However, the second fixed charge Reinsurer Security Agreement contains provisions which limit the amount recoverable by Royal London DAC in an insolvency of RLMIS (in aggregate with recoveries under the first fixed charge Reinsurer Security Agreement and the Floating Charge Deed) to the amount that Transferring Policyholders would have received as direct policyholders of RLMIS.
- 9.144 Only the second fixed charge Reinsurer Security Agreement for each New Reinsurance Agreement and the Floating Charge Deed contain the provisions which equalise the recovery to which Royal London DAC is entitled with that of the direct policyholders of RLMIS in the event of RLMIS insolvency. Therefore, the effect of the Reinsurer Security Agreements taken together is to limit the recovery to which Royal London DAC is entitled upon RLMIS insolvency to that which the Transferring Policies would have received as direct policyholders of RLMIS, subject to a minimum recovery of 50% BEL.
- 9.145 The two fixed charges under each of the New Reinsurance Agreements have been structured as outlined above in order to allow 50% of the assets held as collateral to be released to Royal London DAC in a timely manner, whilst aligning the recovery of Royal London DAC to direct policyholders of

RLMIS, except for in extreme circumstances where direct policyholders of RLMIS recover less than 50% of BEL on the insolvency of RLMIS.

- 9.146 I now consider the impact of the Collateral Framework Agreements and the Reinsurer Security Agreements on the different groups of policyholders

Transferring Policyholders and Existing Policyholders

- 9.147 The primary purpose of the Collateral Framework Agreements and the Reinsurer Security Agreements is to provide additional security to Royal London DAC in the event of RLMIS failing to meet its obligations under either or both of the New Reinsurance Agreements. The Collateral Framework Agreements and Reinsurer Security Agreements, in respect of the relevant New Reinsurance Agreement, will automatically terminate after the date on which each of the relevant New Reinsurance Agreement has terminated and the termination amount has been paid in full.
- 9.148 As described in paragraph 9.136, the assets held as collateral in the segregated accounts are regularly reviewed to ensure their value is at least equal to the BEL of the Transferring Policies.
- 9.149 The enforcement of the Reinsurer Security Agreements is linked to certain termination events under the relevant New Reinsurance Agreement. This allows Royal London DAC at any time after an enforcement event, having served notice, to access the collateral, to the extent needed to settle expected amounts due under the New Reinsurance Agreements. This offers protection to Royal London DAC and assists with liquidity in the context of RLMIS failing to honour its obligations under the New Reinsurance Agreements.
- 9.150 On insolvency of RLMIS and subsequent wind-up, the operation of the Reinsurer Security Agreements and Floating Charge Deed would put a limit on the amount of any recovery available to Royal London DAC to align this with the recovery to direct policyholders of RLMIS, subject to a minimum recovery of 50% of BEL. In this situation, the effect of the collateral is to allow better management of liquidity for Royal London DAC as the collateral would accelerate access to the assets in the first tier collateral pools. This does not elevate Royal London DAC's claim above those of the direct policyholders of RLMIS, as would occur on normal priority ranking on winding up, except in the extremely unlikely event that direct policyholders of RLMIS receive less than 50% of their BEL following the insolvency of RLMIS, given the likelihood of direct policyholders recovering less than 50% is remote, I am satisfied that the Security Arrangements do not materially elevate the ranking of Royal London DAC above the Remaining Policyholders.

Conclusion

- 9.151 I am satisfied that the Collateral Framework Agreements and Reinsurer Security Agreements are an appropriate mechanism to help mitigate the risk that RLMIS fails to honour its obligations under the New Reinsurance Agreements and therefore largely mitigates the detrimental impact on the policyholders of Royal London DAC that would result in those circumstances. This is because:
- the New Reinsurance Agreements are conditional upon both RLMIS and Royal London DAC entering into the Collateral Framework Agreements and Reinsurer Security Agreements
 - each of the Collateral Framework Agreements and Reinsurer Security Agreements will only terminate when the corresponding New Reinsurance Agreement terminates
 - the Floating Charge Deed will only terminate when both New Reinsurance Agreements have terminated
 - the amount of collateral is regularly reviewed and will be provided at a level that allows Royal London DAC to maintain support for its liabilities in the event of the insolvency of RLMIS
 - there are restrictions around the types of assets held as collateral to ensure a minimum quality
 - following a material breach of certain clauses of the New Reinsurance Agreements, the first tier collateral pool allows Royal London DAC access to assets to maintain liquidity to meet claims, and
 - the Collateral Framework Agreements and Floating Charge Deed do not elevate Royal London DAC's claim in insolvency above those of RLMIS direct policyholders, except in the extremely unlikely event that direct policyholders of RLMIS receive less than 50% of their BEL following the insolvency of RLMIS.

Remaining Policyholders

- 9.152 The collateral relating to the New Reinsurance Agreements is equal to the sum of the BEL of the German Bond Business and the BEL of the Ireland Liver Business. The collateral does not limit the investment strategy of the Royal Liver Sub-Fund or the RL Main Fund because the collateral forms part of the assets of these funds.
- 9.153 On insolvency of RLMIS and subsequent wind-up, the operation of the Reinsurer Security Agreements, together with the Floating Charge Deed, would put a limit on the amount of recovery available to Royal London DAC, the recovery to which Royal London DAC would be entitled would be limited to that of the recovery of the direct policyholders of RLMIS. The terms of the Security Arrangements also mean Royal London DAC would be entitled to a minimum recovery of 50% of BEL (see paragraphs 9.142 to 9.144). In this situation, the effect of the collateral is to allow better management of liquidity for Royal London DAC as the collateral would accelerate access to the assets in the first tier collateral pools. This does not elevate Royal London DAC's claim above those of the direct policyholders of RLMIS, as would occur on normal priority ranking on winding up, except in the unlikely event that direct policyholders of RLMIS receive less than 50% of their BEL following the insolvency of RLMIS. Therefore I am satisfied that the Reinsurer Security Arrangements, including the minimum recovery of 50% for Royal London DAC, do not materially adversely affect the Remaining Policyholders.

Conclusion

- 9.154 Given the collateral held does not limit the investment strategy of the Royal Liver Sub-Fund or the RL Main Fund and that upon RLMIS insolvency, the likelihood of Remaining Policyholders recovering less than Royal London DAC is extremely remote, I am satisfied that the Reinsurer Security Agreements will not have a material adverse effect on the Remaining Policyholders.

Residual counterparty default risk exposure

- 9.155 The New Reinsurance Agreements will introduce additional counterparty default risk within Royal London DAC. This section considers the impact of this increased counterparty default risk exposure on Royal London DAC policyholders in light of the mitigation of this risk via the Security Arrangements.
- 9.156 As the residual counterparty default risk impacts Royal London DAC, it is not applicable to the Remaining Policyholders, and they are therefore not considered in the paragraphs below.

Transferring Policyholders and Existing Policyholders

- 9.157 The Security Arrangements, discussed in paragraphs 9.123 to 9.154 above, help to mitigate Royal London DAC's counterparty default risk exposure to RLMIS on insolvency, arising from the New Reinsurance Agreements. There is residual exposure in the event of RLMIS having insufficient assets to cover all of its policyholder liabilities.
- 9.158 The Royal London DAC counterparty exposure to RLMIS is forecast to run down relatively quickly from just under €900m in 2018 to just over €555m by 2022, a 38% reduction over 4 years as shown in the table below. As such, the level of counterparty risk introduced into Royal London DAC as a result of the New Reinsurance Agreements will reduce relatively quickly.

€m	2018	2019	2020	2021	2022
Liver Ireland Sub-Fund	771.4	680.4	604.9	539.5	481.8
German Bond Sub- Fund	123.3	110.1	96.5	84.7	74.4
Total	894.7	790.5	701.4	624.2	556.2

- 9.159 The Security Arrangements mean that, in the event of RLMIS insolvency, Royal London DAC's recovery is aligned with the direct policyholders of RLMIS, subject to a minimum recovery of 50% of the BEL of the Ireland Liver Business and German Bond Business. For example, if upon the wind-up of RLMIS, there were a 10% shortfall between assets and liabilities, after paying priority charges, Royal London DAC would receive 90% of the amounts due under the New Reinsurance Agreements.
- 9.160 The probability of RLMIS winding up with insufficient assets is remote. Under Solvency II rules, RLMIS holds an SCR to cover 1-in-200 year adverse risk events. RLMIS holds additional capital via the Risk Margin and the Capital Buffer. Whilst it is difficult to model extreme events, according to the RLMIS Internal Model calculations, the probability of a risk event exhausting this capital within one year is less than 1 in 15,000. The probability of a deficit as high as 10% is less than 1 in 33,000.

Conclusion

- 9.161 Overall, I am satisfied that the Royal London DAC counterparty exposure to RLMIS will not materially adversely affect the RL Post-2011 Policyholders, Ireland Liver Policyholders, German Bond Policyholders or Existing Policyholders because:
- RLMIS' reverse stress testing modelling shows that the probability of RLMIS insolvency is remote
 - the New Reinsurance Agreements are collateralised so Royal London DAC would have access to capital to support the business in the event of reinsurance failure
 - while the counterparty exposure to RLMIS is relatively large immediately after the Transfer, it runs down relatively quickly thereafter, and
 - although the RL Post-2011 Business, Ireland Liver Business, German Bond Business and Existing Policyholders will be exposed to a residual risk that RLMIS is unable to meet its policyholder obligations, the risk of this is remote and could be expected to occur at similar probability levels as prior to the Transfer.

10 Consideration of RLMIS' and Royal London DAC's risk profile and capital projections and the impact of these on the security of policyholder benefits

Introduction

- 10.1 When discussing whether the Transfer materially adversely affects policyholders, a key part of my consideration is the security of policyholder benefits and the impact of the Transfer on this security.
- 10.2 My analysis of the impact of the Transfer on policyholder security considers the level of capital available to RLMIS and Royal London DAC, their ability to satisfy their solvency requirements and their current and projected capital position. A commonly used measure of security in the insurance industry is the SCR Cover; (Own Funds divided by the SCR). As the SCR Cover is a widely used measure, I consider that it is the appropriate tool to analyse whether the Transfer materially adversely affects the security of policyholder benefits.
- 10.3 Most insurers, including RLMIS and Royal London DAC, will have a target SCR Cover that they wish to maintain and they will actively monitor their actual position against this target (the respective targets for RLMIS and Royal London DAC are detailed in paragraphs 4.45 and 5.9). Insurers have contingency plans which they implement if their actual SCR Cover falls below their target, with the aim of restoring the SCR Cover to the target level over a period of time.
- 10.4 Therefore, in order to conclude on whether the Transfer affects the security of policyholder benefits, I will consider the following for RLMIS and Royal London DAC, both before and immediately after the Transfer:
- how the SCR is calculated (by considering the types of risk covered by the SCR and Standard Formula appropriateness (for Royal London DAC only))
 - the SCR Cover
 - capital projections of RLMIS and Royal London DAC under a range of stresses and scenarios
 - cashflows that arise as a result of the Transfer and the New Reinsurance Agreements
 - the impact of these cashflows on the Solvency II balance sheet of Royal London DAC, and
 - the impact of the financial position of RLMIS and Royal London DAC on different policyholder groups.
- 10.5 The impact of the Transfer on the financial position of RLMIS is of most interest to the Remaining Policyholders as they will be policyholders in RLMIS before and after the Transfer. It will also be relevant to the Transferring Policyholders and Existing Policyholders of Royal London DAC as the New Reinsurance Agreements expose Royal London DAC to the financial position of RLMIS.
- 10.6 The impact of the Transfer on the financial position of Royal London DAC will be of most interest to Transferring Policyholders and the Existing Policyholders as they will be policyholders of Royal London DAC after the Transfer.
- 10.7 A comparison of the financial position of RLMIS before the Transfer with the financial position of Royal London DAC immediately after the Transfer will be of most interest to the Transferring Policyholders as they will be transferred from RLMIS to Royal London DAC.

Security of benefits

RLMIS

Risk profile

- 10.8 I have reviewed the components of the SCR calculations carried out by RLMIS, using its Internal Model as at 31 December 2017, and the top five risks are shown below:

Rank	RL Main Fund	Royal Liver Sub-Fund	RLMIS total
1	Equity price	Longevity trend	Equity price
2	Persistency catastrophe	Corporate bond spread	Longevity trend
3	Corporate bond spread	Risk-free yield curve	GAO take-up
4	Persistency level	Longevity level	Persistency level
5	Expense level	Equity price	Corporate bond spread

- 10.9 The table above shows that the most material risks to RLMIS are equity prices and those risks associated with GAO, e.g. longevity and GAO take-up rates. The top five risks for RLMIS differ to the top risks in the RL Main Fund and the Royal Liver Sub-Fund, as shown in the table above; however, there are similarities; for example, corporate bond spread is a top risk for RLMIS as well as the RL Main Fund and the Royal Liver Sub-Fund. The difference in the top five risks between RLMIS and the RL Main Fund is due to the risks which are in the RLMIS Closed Funds.
- 10.10 The Transfer (after allowing for the New Reinsurance Agreements) does not result in any significant changes to RLMIS' risk profile. This is because the Transferring Business represents only a small proportion of the business of RLMIS, and a large part of the Transferring Business is reinsured from Royal London DAC to RLMIS. The SCR is expected to decrease slightly due to the transfer of risks associated with the RL Post-2011 Business, but the main risks contributing to the SCR will be the same risks as those discussed above.
- 10.11 Overall, any changes to the risk profile in RLMIS following the Transfer are expected to be small. In addition, no changes are planned to the way RLMIS currently manages its risks.

Capital

Solvency capital

- 10.12 Most insurers, including RLMIS, hold capital in excess of their SCR, to mitigate against the risk of breaching their SCR (i.e. having an SCR Cover of less than 100%). RLMIS aims to hold capital within its Green target range as expressed in RLMIS' Capital Management Framework (described in paragraph 4.47).

- 10.13 The following table shows the Solvency II, Pillar I capital position of RLMIS as at 31 December 2017, these were calculated assuming the Scheme and the New Reinsurance Agreements had taken effect on that date.

SCR Cover of RLMIS	Before the Transfer	After the Transfer
RL Main Fund	223%	217%
Royal Liver Sub-Fund	275%	264%
Total RLMIS (investor reporting view)	228%	225%
Total RLMIS (regulatory reporting view)	156%	154%

- 10.14 The table above shows the SCR Cover of RLMIS before and immediately after the Transfer, on an investor reporting view using the Standard Formula. On an investor reporting view, the surplus in the RLMIS Closed Funds is not restricted, as it is on a regulatory basis. Both before and immediately after the Transfer, RLMIS holds assets materially in excess of its SCR and its own target capital level based on Internal Capital Requirements.
- 10.15 The reduction in SCR Cover after the Transfer is mainly driven by a reduction in Own Funds. The reduction in Own Funds is as a result of the transfer of RL Post-2011 Business (which has a negative BEL), the initial capital transfers to Royal London DAC (€40m as described in paragraph 5.8) and the project costs that are being charged to the RL Main Fund and Royal Liver Sub-Fund.
- 10.16 In my opinion, RLMIS is well capitalised both before and immediately after the Transfer. Further, RLMIS has a Capital Management Framework that aims to maintain a strong capital level, to withstand adverse economic scenarios. This policy will remain in place after the Transfer. The reduction in SCR Cover following the Transfer still leaves RLMIS in a robust financial position, with capital in excess of its Target SCR Cover based on Internal Capital Requirements.

Economic capital

- 10.17 In addition to the regulatory capital requirement, firms often produce solvency information on an economic capital basis, which is intended to represent the firm's internal view of its capital requirement based on its Capital Risk Appetite.
- 10.18 RLMIS produces solvency information on a Solvency II Standard Formula basis and an Internal Model basis. RLMIS does not produce separate economic capital information. However, for the purposes of determining its Target SCR Cover within its Capital Management Framework RLMIS uses its Internal Model but excludes the credit taken for TMTP (except for the RLMIS Closed Funds). This is a reasonable approach which I have seen used elsewhere.
- 10.19 The projections of SCR Cover that I have reviewed are on an Internal Model basis and I am satisfied that these provide a good indication of how the financial position will develop in the future.

Capital projections

- 10.20 In addition to reviewing the immediate capital position before and immediately after the Transfer, I also considered the projected capital position. To do this, I have been provided with RLMIS' 2017 ORSA, which shows capital projections under base and adverse scenarios, over a five-year planning horizon (from 2018 to 2022). These projections have been prepared on an Internal Model basis.
- 10.21 Under the central projection, the internal SCR Cover remains within the Green and light Green ranges, which are the target operating ranges over the projection period. Under the adverse economic projection the SCR Cover is within the Amber range, it is stable and increasing towards target over the five-year planning period. The adverse economic projection does not allow for a number of management actions that could be taken to improve this position. The management actions include varying the distribution of profits or surpluses, or engaging in de-risking strategies. The RL Main Fund

also has the ability to raise capital via the issuance of debt or varying the growth of new business. The table below shows the projected level of SCR cover at the end of each calendar year under the central projection:

SCR Cover of RLMIS	2018	2019	2020	2021	2022
Central Projection	168%	169%	169%	171%	175%

- 10.22 Additionally, the ORSA covers other non-economic stresses including a variety of new business stresses. The doubling of new business is the most onerous of these scenarios, when this circumstance arises, the SCR Cover enters the Amber range, as defined in the Capital Management Framework. Again, there are a number of actions available to control this which include restricting the amount of new business written.
- 10.23 I have reviewed the stresses and scenarios within RLMIS' ORSA and I am satisfied that these cover the main risks to which RLMIS is exposed. Additionally, RLMIS has taken a similar approach to stress and scenario testing to what I have seen elsewhere and is adequate for an entity of RLMIS' size and complexity.
- 10.24 Following my analysis, I am satisfied that RLMIS' position over the projection period is stable and does not raise causes for concern over its future solvency. Moreover, there a number of potential management actions RLMIS could use to control its solvency in adverse economic conditions.

Conclusion

- 10.25 I am satisfied from my analysis that RLMIS is currently a well-capitalised entity and is expected to remain so both immediately after the Transfer and in the five year period following the Transfer.
- 10.26 My conclusions have been made based on capital projection information provided by RLMIS. Following the review of the capital projections, I am satisfied that they have been determined using an industry standard approach.
- 10.27 My analysis confirms that the projections and stresses cover the main risks of RLMIS. I have also carried out high level reasonableness checks of the trend in solvency ratios shown by the projections. I have not, however, reproduced the numbers. I am satisfied that the starting point for the projections are consistent with the opening Solvency II balance sheet as provided in the Report (see paragraph 4.22).
- 10.28 I am satisfied that the projection information is taken from the ORSA produced by RLMIS, which has been subject to company challenge and internal governance.

Royal London DAC

Risk profile

- 10.29 The ORSA indicates that the key risks to which Royal London DAC is expected to be exposed to prior to the Transfer are:
- lapse risk
 - expense risk
 - interest rate risk
 - mortality risk, and
 - life catastrophe.
- 10.30 These risks are typically associated with protection businesses, which is the business that Royal London DAC anticipates writing between the date it is authorised and the Effective Date.

- 10.31 Following the Transfer, the risk profile of Royal London DAC will change. The Scheme and the New Reinsurance Arrangements will increase the counterparty default risk and operational risk in the Royal London DAC Closed Funds.
- 10.32 Royal London DAC will use a number of principles for assessing its reinsurance arrangements. These include the management of the operational and credit risks associated with any reinsurance arrangements. The operational risks to which Royal London DAC is exposed will be kept under regular review. If any of the operational risk categories departs from the Green range, then there are action plans in place to correct this.
- 10.33 The following table shows the top risks for the Royal London DAC Open Fund, Liver Ireland Sub-Fund and the German Bond Sub-Fund using a Standard Formula basis as at 31 December 2017 (assuming that the Scheme and the New Reinsurance Agreements had taken effect on that date). The table below is consistent with those in the Royal London DAC Draft ORSA (March 2018).

Rank	Royal London DAC	Royal London DAC Open Fund	German Bond Sub-Fund	Liver Ireland Sub-Fund
1	Lapse risk	Lapse risk	Counterparty default risk	Counterparty default risk
2	Expense risk	Expense risk	Operational risk	Operational risk
3	Interest rate risk	Interest rate risk		
4	Mortality risk	Mortality risk		
5	Operational risk	Life catastrophe risk		

- 10.34 The risks to which the Royal London DAC Open Fund will be exposed following the Transfer are those associated with protection business, given that the only business that Royal London DAC will be selling, before and after the Transfer, is protection business. The Transfer is not expected to alter the risk profile of the Royal London DAC Open Fund.
- 10.35 The Liver Ireland Sub-Fund and German Bond Sub-Fund, which will be established upon the Transfer of the Ireland Liver Business and German Bond Business, are only exposed to counterparty default risk and operational risk as both these funds are 100% reinsured to RLMIS.
- 10.36 Overall, although there will be some changes to the risk profile in Royal London DAC following the Transfer, the new risks introduced are of the type regularly encountered by insurance firms and Royal London DAC is putting in place appropriate processes to monitor and manage the risks.

Standard Formula Appropriateness

- 10.37 The Group uses an Internal Model for its internal capital management. The Transferring Policies have previously been modelled using this methodology. Although RLMIS currently calculates its regulatory SCR using the Standard Formula, this method is not appropriate for certain specific risks of RLMIS. For this reason, RLMIS is in the process of applying for Internal Model approval. The main risks for which using the Standard Formula is not appropriate are:
- interest rate risk
 - longevity risk, including longevity risk relating to pension fund liabilities (which is not captured under the Standard Formula)
 - GAO take-up rates.
- 10.38 Royal London DAC does not have exposure to longevity risk and has limited exposure to interest rate risk as its investments are short dated. Therefore Royal London DAC is not exposed to the risks that make the Standard Formula an inappropriate method to calculate the SCR in RLMIS.

- 10.39 Additionally, I have compared the SCR, and its risk components, calculated using an estimate of the Internal Model and the Standard Formula. To consider the appropriateness of the Standard Formula for Royal London DAC, RLMIS followed insurance industry common practice and calculated the SCR and its risks components using an estimate of the Internal Model and the Standard Formula separately. The total SCR calculated on the Standard Formula basis is slightly higher than when calculated using an estimate of the Internal Model, albeit there were differences at the individual risk level. Having considered the results of my analysis, I am satisfied that the Standard Formula approach is currently a reasonable approach for Royal London DAC.
- 10.40 The risk profile of Royal London DAC may change in the long term, depending on the business written; however, it is a requirement of Solvency II that insurers utilising the Standard Formula must consider its appropriateness on a regular basis and share this analysis with the relevant regulator (in this case, the CBI). Therefore, the appropriateness of the Standard Formula for Royal London DAC will be subject to close monitoring.
- 10.41 In my opinion it is reasonable for Royal London DAC to use the Standard Formula approach when calculating its SCR at the Effective Date. Royal London DAC will have processes in place to monitor the appropriateness of the Standard Formula on a regular basis.

Capital

Solvency capital

- 10.42 The following table shows the SCR cover of Royal London DAC as at 31 December 2017, assuming that the Scheme and the New Reinsurance Agreements had taken effect on that date.

SCR Cover of Royal London DAC	After the Transfer
Royal London DAC Open Fund	449%
German Bond Sub-Fund	164%
Liver Ireland Sub-Fund	164%
Total Royal London DAC (investor reporting view)	414%
Total Royal London DAC (regulatory reporting view)	406%

- 10.43 The above table shows Royal London DAC is capitalised well above its Target SCR Cover immediately after the Transfer.
- 10.44 Immediately before its authorisation, Royal London DAC will receive a €40 million capital injection from RLMIS. This capital injection is necessary to ensure Royal London DAC is able to meet its liquidity requirements and its Target SCR Cover under the Royal London DAC Capital Management Framework. The amount of the capital injection was established after taking account of the impact of the Scheme and the New Reinsurance Agreements. The table above assumes that the capital injection of €40 million is made.
- 10.45 Overall, I am satisfied that Royal London DAC will be adequately capitalised at the Effective Date.

Capital projections

- 10.46 In addition to reviewing the capital position before and immediately after the Transfer, I also considered the projected capital position. To do this, I have been provided with extracts of Royal London DAC's draft ORSA which shows capital projections under central and adverse scenarios over a five-year period (2018-2022). These projections assume that no dividends will be paid by Royal London DAC to RLMIS.

10.47 The following table shows the SCR Cover of Royal London DAC under the central scenario projected for five years after the Transfer.

SCR Cover of Royal London DAC	2018	2019	2020	2021	2022
Royal London DAC Open Fund	317%	309%	301%	299%	302%
German Bond Sub-Fund	164%	164%	164%	164%	164%
Liver Ireland Sub-Fund	164%	164%	164%	164%	164%

10.48 The central projection shows that the Royal London DAC Open Fund remains well above the Target SCR Cover over this period, this is driven by surplus being retained in the Royal London DAC Open Fund to meet liquidity requirements as opposed to being paid out in dividends. The German Bond Sub-Fund and the Liver Ireland Sub-Fund are projected to have a SCR Cover of 164% over the whole period. This level of SCR Cover is kept constant as a result of the Experience Adjustment under the New Reinsurance Agreements (see paragraph 9.23 for more detail).

10.49 The ORSA also considers a number of stress scenarios. I have reviewed the information shown in the ORSA and although the level of SCR Cover does fall under the adverse stress scenarios the SCR Cover still remains comfortably above the Target SCR Cover over the five-year period.

10.50 The counterparty default risk associated with the New Reinsurance Agreements is calculated assuming that the collateral arrangements effectively reduce the counterparty exposure under Solvency II (as discussed in Section 9). The construct of the Security Arrangements is such that Royal London DAC expects to be allowed to take credit for these arrangements when calculating its Solvency II financial position on a Standard Formula basis, including in severe stress scenarios such as a downgrade of RLMIS to a sub-investment grade credit rating. This treatment is still subject to ongoing discussions with the CBI and the external auditors of Royal London DAC.

10.51 In addition to the stress tests contained in the ORSA, I requested analysis of how additional stress scenarios would impact Royal London DAC's financial position. The scenarios included a downgrade in the credit rating of RLMIS's financial position and, separately, the recapture of the New Reinsurance Agreements (it must be noted that this is not planned and can only happen in very limited circumstances). The additional stress scenarios information was provided to me on a confidential basis and, based on my review of that information, I have no reasons for concern over the future solvency position of Royal London DAC. Indeed, the company is forecasted to be strongly capitalised and not exposed to market risks to any material degree.

10.52 I have also reviewed the scenarios in the Royal London DAC ORSA in relation to the impact on liquidity. I am satisfied that in all scenarios, there was no material liquidity strain, this is mainly due to the level of liquidity retained by Royal London DAC.

10.53 Amounts in excess of Target SCR Cover may be distributed to RLMIS through dividends. These target levels are based on internal measures of the Own Funds and SCR as set out in the Royal London DAC Capital Management Framework (see paragraph 5.10). At the Effective Date, the Royal London DAC Open Fund will be significantly above its Target SCR Cover as set out in the Royal London DAC Capital Management Framework. This circumstance may trigger the payment of dividends from the Royal London Open Fund to the RL Main Fund. However, because of liquidity risk constraints, the excess capital is intended to be kept within the fund for ongoing support of the business over its initial period of establishment.

Economic capital

10.54 For Royal London DAC, solvency information is produced on a Solvency II Standard Formula basis and an estimated Internal Model basis. Royal London DAC does not produce solvency information on an economic capital basis. The Target SCR Cover is based on the Standard Formula, which is a reasonable approach as the Standard Formula adequately reflects the business of Royal London DAC.

10.55 The projections of SCR Cover that I have reviewed are based on the Standard Formula and I am satisfied that these provide a good indication of how the financial position will develop in the future.

Conclusion

10.56 I am satisfied that, both immediately after the Transfer and in the five year period following the Transfer, Royal London DAC will be a well-capitalised entity. The stress and scenario testing undertaken shows that Royal London DAC's SCR Cover, even in remote economic scenarios, is maintained above target.

10.57 My conclusions have been made based on capital projection information provided by RLMIS in respect of Royal London DAC. I have reviewed the capital projections provided by RLMIS and am satisfied that they have been determined using an industry standard approach.

10.58 I have checked that the projections and stresses cover the main risks of Royal London DAC as set out in paragraph 10.33, and I have carried out high level reasonableness checks of the trend in solvency ratios in the projections. I have not, however, reproduced the numbers. I am satisfied that the projections are consistent with the opening Solvency II balance sheet as provided in the Report.

10.59 I am satisfied that the projection information is taken from the ORSA produced by RLMIS, which has been subject to internal challenge and governance.

Balance sheet movements

10.60 The Transfer affects the balance sheets of both the RL Main Fund and the Royal Liver Sub-Fund, this is discussed further below.

RL Main Fund

- 10.61 The table below sets out the change in the RL Main Fund Solvency II balance sheet as at 31 December 2017 assuming the Scheme and the New Reinsurance Agreements had taken effect at that date. The table has been prepared after allowing for the capital injection of €40m from the RL Main Fund to the Royal London DAC Open Fund. This capital injection will be made immediately prior to the authorisation of Royal London DAC.

RL Main Fund £m	RL Main Fund pre Transfer	Project Costs	Transfer RL Post-2011 Business from RL Main Fund (incl. seed capital)	Transfer German Bond Business to German Bond Fund	Reinsurance between Royal London DAC and RLMIS	RL Main Fund post Transfer
Assets	49,749	-11	-64	-131	128	49,672
BEL	44,660		70	-121	121	44,730
Risk Margin	732		-7	-2	2	725
TMP	-729		0	0	0	-729
Current Liabilities	1,667		0	0		1,667
Subordinated debt	883		0	0		883
Own Funds	4,303	-11	-127	-8	5	4,163
SCR	1,933		-17	-5	5	1,917
Excess capital	2,370					2,247
SCR Cover	223%					217%

- 10.62 Overall, although the SCR Cover does reduce, the Transfer does not have a material adverse effect on the capital position of the RL Main Fund, and the RL Main Fund's ability to maintain ProfitShare is not expected to change as a result of the Transfer.

Royal Liver Sub-Fund

10.63 The table below sets out the change in the Royal Liver Sub-Fund Solvency II balance sheet as at 31 December 2017 assuming the Scheme and the New Reinsurance Agreements had taken effect on that date.

RLMIS Royal Liver Sub-Fund £m	Royal Liver Sub-Fund pre Transfer	Project costs	Transfer of Ireland Liver Business from Royal Liver Sub-Fund	Reinsurance between Royal London DAC and RLMIS	Royal Liver Sub-Fund post Transfer
Assets	2,311	-10	-907	897	2,291
BEL	1,713		-755	755	1,713
Risk Margin	44		-20	20	44
TMP	-46		0	0	-46
Current Liabilities	100		0	0	100
Subordinated debt	0		0	0	0
Own Funds	499	-10	-131	121	479
SCR	181		-80	80	181
Excess capital	318				298
SCR Cover	275%				264%

10.64 As shown in the table above, there is a relatively small change in the SCR Cover of the Royal Liver Sub-Fund as a result of the Transfer. This may have a second order impact on the Estate Distribution of the Royal Liver Sub-Fund to both Ireland Liver Business and the Remaining Royal Liver Sub-Fund Business. However, given the relatively small change to the SCR Cover, this second order impact is not expected to be material.

10.65 In addition to the small change in the SCR Cover, there are two further changes to the ongoing cashflows within the Royal Liver Sub-Fund:

- the additional ongoing expenses (as detailed in 7.10), which will reduce as the Ireland Liver Business runs off, and
- the Experience Adjustment under the Liver Reinsurance Agreement (detailed in 9.23) between the Liver Ireland Sub-Fund and the Royal Liver Sub-Fund.

10.66 The impact of the changes in paragraph 10.65 and the one off costs of the Scheme (see paragraph 6.50) on ongoing cashflows has been assessed against the current run-off plan for the Royal Liver Sub-Fund, and it is expected that these cashflows will have a short-term impact on the Estate Distribution of the Royal Liver Sub-Fund, leading to an estimated reduction of approximately 2.0% to the Estate Distribution applied to eligible with-profits policyholders' Asset Shares and sums assured for eligible contingent bonus policies at year end 2018 when compared to the current run-off plan for the Royal Liver Sub-Fund, which does not allow for the Transfer. After this point, Estate Distributions are projected to remain broadly unchanged.

10.67 Within the Royal Liver Sub-Fund Estate Distributions have not been applied regularly in recent years, and there is a defined approach to applying Estate Distributions set out within the Royal Liver IoT, as detailed in paragraph 4.36. Therefore, policyholder's expectations have not been set at a specific level. As a result, I am satisfied that the expected payouts are still in line with the reasonable expectations of both the Ireland Liver Policyholders and the Remaining Royal Liver Sub-Fund Policyholders.

Royal London DAC

10.68 The table below sets out the change in the Royal London DAC Solvency II balance sheet as at 31 December 2017 assuming the Scheme and the New Reinsurance Agreements had taken effect on that date. The table allows for the capital injection of €40m from the RL Main Fund to the Royal London DAC Open Fund. This capital injection will be made immediately prior to the authorisation of Royal London DAC.

£m	Royal London DAC pre Transfer	Transfer of RL Post-2011 Business	Transfer of Ireland Liver Business	Transfer of German Bond Business	Reinsurance of Ireland Liver Business	Reinsurance of German Bond Business	Royal London DAC post Transfer
Assets	36	28	907	131	-897	-128	76
BEL	0	-70	755	121	-753	-120	-66
Risk Margin	0	7	20	2	-18	-1	10
TMTF	0	0	0	0	0	0	0
Own Funds	36	90	131	9	-126	-7	132
SCR	0	28	80	5	-77	-4	32
Excess capital	36	62	51	3	-49	-3	100
SCR Cover	n/a						414%

Capital support

10.69 As described in paragraphs 6.33 to 6.35, under the terms of the Scheme, if the Liver Reinsurance Agreement were terminated and a deficit arose in the Liver Ireland Sub-Fund then the Royal London DAC Open Fund would be required to provide capital support to the Liver Ireland Sub-Fund. Whilst the Liver Reinsurance Agreement is in place, such capital support is only required to be provided if RLMIS is insolvent or if RLMIS has failed to meet its key payments obligations under the Liver Reinsurance Agreement. In the event of a deficit arising within the Liver Ireland Sub-Fund, sufficient assets would be transferred from the Royal London DAC Open Fund to the Liver Ireland Sub-Fund in order to eliminate the deficit. There will be no obligation to provide this capital support if the Royal London DAC Board, having consulted with the Royal London DAC HoAF, is of the opinion that the value of the assets in the Royal London DAC Open Fund is insufficient to meet minimum regulatory requirements.

10.70 As described in paragraphs 6.44 to 6.46, there are equivalent provisions in the Scheme to those above relating to the provision of capital support from the Royal London DAC Open Fund to the German Bond Sub-Fund, except that there are no capital support arrangements for the German Bond Sub-Fund after the German Bond Reinsurance Agreement is terminated. Capital support for the German Bond Sub-Fund is not necessary after this point as following the termination of the German Bond Reinsurance Agreement Royal London DAC would cease to maintain the German Bond Sub-Fund.

10.71 Royal London DAC is expected to be strongly capitalised (see paragraph 10.47) and circumstances under which the Royal London DAC Open Fund would be required to provide capital support to the Liver Ireland Sub-Fund or German Bond Sub-Fund are remote. Overall, I am satisfied that the Scheme ensures that there are arrangements in place to ensure that the provision of any capital support is subject to appropriate governance.

11 The impact of the Transfer on the Transferring Policyholders

Introduction

- 11.1 In this section, I consider the impact of the Transfer on Transferring Policyholders. Under the Scheme, all of the Transferring Policyholders will be transferred from RLMIS to Royal London DAC. Accordingly, I first consider the security of Transferring Policyholders' benefits, utilising the analysis performed in Section 10.
- 11.2 After considering the security of Transferring Policyholders' benefits, I then consider individually and set out my opinions for each of the three groups of Transferring Policyholders (RL Post-2011 Policyholders, Ireland Liver Policyholders and German Bond Policyholders) in relation to:
- **Policyholder benefit expectations and contractual rights** – in this part I consider whether the Transfer alters the benefit expectations of the Transferring Policyholders by looking at any changes to fund management and application of management discretion. I also consider any changes to the terms and conditions of the Transferring Policies and whether these alter their benefit expectations.
 - **Membership rights** – only the with-profits German Bond Policyholders are Members, and in this part I consider any change to membership rights as a result of the Transfer. I analyse the value of these membership rights for the German Bond Business.
 - **External bodies providing further policyholder protection** – in this part I compare the current external bodies and regulations that provide some form of policyholder protection, namely the UK FOS, the Irish FSPO, BaFin, the FSCS and the relevant conduct of business regulations. This analysis allows me to opine on whether there is any weakening in these aspects of policyholder protection as a result of the Transfer.
 - **Governance arrangements** – in this part I consider the changes in company level governance, with-profits governance (including the Royal Liver IoT) and non-profit governance. Following this analysis, I opine on whether the changes to the governance arrangements represent a weakening of the current position.
 - **New Reinsurance Agreements and Security Arrangements** – in this part I consider whether these materially adversely affect policyholders.
 - **Tax implications** – in this part I consider the various tax considerations and whether there is any change to taxation as a result of the Transfer. This allows me to opine on whether the tax impacts are likely to alter the benefit expectations of the Transferring Policyholders.
 - **Costs of the Scheme and incremental ongoing costs** – in this section I consider the costs of implementing the Scheme and incremental ongoing costs and their allocation to the RL Main Fund and the Royal Liver Sub-Fund. I then consider the impact of these on the benefit expectations of the Transferring Policyholders.
 - **Administration and service standards** – in this part I consider any changes to the administration of the Transferring Policyholders and whether there is any change to the service standards. I then opine on whether the Transfer will lead to a reduction in the service standards experienced by the Transferring Policyholders.
- 11.3 The above considerations, in isolation and together, allow me to come to a conclusion as to whether the Transfer materially adversely affects the Transferring Policyholders.
- 11.4 I conclude this section by considering the planned communications with the Transferring Policyholders in relation to the Transfer.

Transferring Business

Security of benefits for Transferring Policyholders

- 11.5 In this sub-section, I consider the security of the benefits of Transferring Policyholders and whether they are materially adversely affected as a result of the Transfer. In order to do this, I consider the financial strength of RLMIS and Royal London DAC, both before and immediately after the Transfer.

- 11.6 I consider all the Transferring Policyholders together, as the Transfer has the same impact on the security of benefits for each of RL Post-2011 Business, Ireland Liver Business and German Bond Business. Much of the background to these considerations is in Section 9 and Section 10 – I refer to these sections where appropriate.

Risk profile

- 11.7 In Section 10, I considered the risk profiles of RLMIS and Royal London DAC both before and immediately after the Transfer, by reference to the risk components of their SCRs. For Transferring Policyholders, the relevant consideration is the risk profile of RLMIS before the Transfer and the risk profile of Royal London DAC upon the Transfer taking effect. The top five risks for each entity are given in the table below:

RLMIS Before transfer	Royal London DAC After transfer
Equity price	Lapse risk
Longevity trend	Expense risk
GAO take-up	Interest rate risk
Persistency level	Mortality risk
Corporate bond spread	Operational risk

- 11.8 The risks to which RLMIS and Royal London DAC are exposed are typical of insurance entities. The top five risks that the Transferring Policyholders are exposed to change as a result of the Transfer, as can be seen in the table above, although no one risk dominates.
- 11.9 The New Reinsurance Agreements increase the counterparty default risk to which Royal London DAC is exposed. This is largely mitigated by the Security Arrangements between RLMIS and Royal London DAC. Royal London DAC's exposure to counterparty default risk is discussed in more detail in Section 9.
- 11.10 In addition to the increase in Royal London DAC's counterparty risk as a result of the New Reinsurance Agreements, the New Reinsurance Agreements, together with the Scheme, increase Royal London DAC's exposure to operational risk. The increase in operational risk is driven by the complexities introduced by the New Reinsurance Agreements, and the increased volume and complexity of business within Royal London DAC as a result of the Scheme.
- 11.11 There are a number of arrangements within Royal London DAC which act to manage operational risk. Royal London DAC will use similar Risk Appetite frameworks and assessment criteria to those used by RLMIS. Detailed assessment covering administration, systems, staff and data transfer requirements of the Transfer is ongoing. In order to mitigate operational risk, tests of the new administration systems will be conducted prior to the Transfer; additionally for some of the Transferring Business, the administration teams will not change as a result of the Transfer as described in paragraphs 7.3 to 7.9.
- 11.12 In my opinion, adequate arrangements have been planned and are being put in place to manage the increased operational risk as a result of the Transfer. Therefore I am satisfied that the Transferring Policyholders will not be adversely affected by the increased operational risk as a result of the Transfer.

Capital position

- 11.13 Within this subsection, I consider the capital positions of RLMIS before the Transfer and the capital position of Royal London DAC immediately after the Transfer.

- 11.14 My analysis in Section 10 concluded that Royal London DAC will be appropriately capitalised immediately after the Transfer and is projected to remain so over the five-year planning horizon and that it is able to maintain its SCR cover, even in stressed scenarios.
- 11.15 The RLMIS and Royal London DAC Boards are responsible for setting the respective capital policies and Target SCR Cover for each entity respectively. The capital policies of RLMIS and Royal London DAC are described in paragraphs 4.44 to 4.51 and 5.9 to 5.13, respectively. Both RLMIS and Royal London DAC aim to hold capital within their Green ranges. The RAG classifications used by both Royal London DAC and RLMIS are the same.
- 11.16 The following table compares the Solvency II, Pillar I capital position of RLMIS immediately before the Transfer with the capital position of Royal London DAC immediately after the Transfer, assuming that the Transfer had taken effect on 31 December 2017. These figures are calculated on an investor reporting view, which does not restrict the RLMIS Closed Fund's surpluses.

£m	RLMIS Before Transfer	Royal London DAC After Transfer
Own funds	9,575	132*
SCR	4,196	32
Excess Own Funds	5,380	100
SCR Cover	228%	414%

*includes capital injection of €40m from RLMIS to Royal London DAC.

- 11.17 The above table shows that the SCR Cover in Royal London DAC immediately after the Transfer is higher than the SCR Cover in RLMIS immediately before the Transfer. The SCR Cover is also considerably above Royal London DAC's Target SCR Cover and thus the excess capital could be distributed by Royal London DAC at any time, subject to Royal London DAC having sufficient liquidity. In the short-term, it is expected that liquidity will constrain the distribution of dividends.
- 11.18 I further note that both the UK and Ireland operate risk-based solvency regimes which require companies to hold capital specific to the risks to which they are exposed. Both RLMIS and Royal London DAC hold capital in line with their Target SCR Cover range, which is in excess of the regulatory minimum.
- 11.19 Royal London DAC is a smaller company than RLMIS with a smaller aggregate level of own funds. SCR is a measure of the capital that is needed in a 1-in-200 year scenario. Royal London DAC is proposing to hold own funds significantly in excess of this level and can therefore withstand significant adverse events. In addition, the Security Arrangements provide strong protection in respect of Royal London DAC's exposure to RLMIS.
- 11.20 For the reasons outlined above, I am satisfied that there is no material adverse effect on the security of benefits for Transferring Policyholders as a result of the Transfer.

Termination of the New Reinsurance Agreements in the event of insolvency of RLMIS

- 11.21 The analysis above has been done on the basis that the New Reinsurance Agreements remain in place during the projection period. As discussed in Section 9, there is a governance process that must be followed in order to terminate the New Reinsurance Agreements. There are no plans to terminate the New Reinsurance Agreements; however, I have considered the impact on Transferring Policyholders should the New Reinsurance Agreements terminate because of the insolvency of RLMIS. I consider the insolvency of RLMIS to be a very remote event, given its current capital position. Nevertheless, I have considered whether the Transferring Policyholders (excluding the RL Post -2011 Policyholders who are not covered by the New Reinsurance Agreements) would be materially adversely affected in this event.

- 11.22 The New Reinsurance Agreements, together with the Security Arrangements, are designed to replicate as closely as possible the pre-Transfer position of the Transferring Policyholders on insolvency of RLMIS. The New Reinsurance Agreements, together with the Security Arrangements, mean that Royal London DAC and the Remaining Policyholders would rank equally, in terms of a distribution of assets on RLMIS becoming insolvent, subject to a minimum recovery of 50% of BEL for Ireland Liver Business and German Bond Business.
- 11.23 If there was a shortfall on the amount recovered by Royal London DAC, it would be the responsibility of Royal London DAC to make good any shortfall, subject to Royal London DAC having sufficient assets to do so. As discussed in Section 10, Royal London DAC is projected to be strongly capitalised over the five-year planning horizon following the Transfer and, as the Ireland Liver Business is expected to run-off relatively quickly, the exposure to this risk of shortfall is low. It would therefore take an extreme event to reduce the SCR Cover below the Target SCR Cover.
- 11.24 Therefore, I am satisfied that the New Reinsurance Agreements, together with the Security Arrangements, ensure that the Transferring Policyholders will not be materially affected on the insolvency of RLMIS compared to their position prior to the Transfer.

Conclusion

- 11.25 Overall, I am satisfied that there is no material adverse effect on the security of the benefits of Transferring Policyholders as a result of the Transfer because:
- Royal London DAC will be appropriately capitalised immediately after the Transfer, and is projected to remain so over the five-year planning horizon. Further, Royal London DAC has an appropriate Capital Management Framework in place to manage its capital position, and
 - in the remote event of an insolvency of RLMIS, the Security Arrangements ensure Royal London DAC would be entitled to a minimum recovery of 50% of BEL. If there was any shortfall under the New Reinsurance Agreements, Royal London DAC will meet this shortfall from its own assets.
- 11.26 In forming the above opinion, I have reviewed the RLMIS Capital Management Framework of RLMIS and the proposed framework for Royal London DAC and the associated governance around changes to the capital policies. I have also interviewed the RLMIS ORSA Lead on the application of the RLMIS Capital Management Framework. Supporting my analysis of the SCR Cover, I obtained the latest available financial information (only available for RLMIS) to assess SCR Cover and reviewed the ORSA reports for both companies. I am also satisfied that the types of controls presented in the RLMIS Capital Management Framework are in line with the approach taken by other firms across the industry.

RL Post-2011 Business

- 11.27 The RL Post-2011 Business comprises the protection business written through the Irish branch of RLMIS on and from 1 July 2011 until the date on which Royal London DAC becomes operational. Upon transfer under the Scheme, these policies will be allocated to the Royal London DAC Open Fund.

Policyholder benefit expectations and contractual rights

- 11.28 In this sub-section, I cover the impact of the Transfer on the benefit expectations and contractual rights of the RL Post-2011 Business. In particular, I consider the policy terms and conditions and management discretion.
- 11.29 The transferring RL Post-2011 Business is composed solely of protection policies that are being transferred from the RL Main Fund to the Royal London DAC Open Fund, in which they will be retained.

Terms and conditions

- 11.30 As a result of the Transfer, the RL Post-2011 Policyholders will become direct policyholders of Royal London DAC rather than RLMIS. There will be no material changes to the terms and conditions of these policies as a result of the Transfer, and therefore there will be no impact on the contractual rights of the policyholders.
- 11.31 Under the Scheme, Royal London DAC will take on all existing rights and obligations of RLMIS in relation to the RL Post-2011 Business (unless they are specifically excluded by the Scheme, see paragraphs 6.10 to 6.12 for more information).

Discretion

- 11.32 The RL Post-2011 Policies consists solely of non-profit protection policies. The benefits of non-profit policies are generally fixed by the policy terms and conditions and these will not change as a result of the Transfer.
- 11.33 However, there may be some occasions when benefit payments are subject to discretion. Prior to the Transfer, the application of discretion relating to non-profit policies is governed by the Conduct Risk Policy of RLMIS, the Customer Value Statements of RLMIS and the FCA's Principles of Treating Customers Fairly, as outlined in paragraph 4.61. After the Transfer, the Royal London DAC Board will be responsible for the application of discretion for RL Post-2011 Policies, and Royal London DAC will adopt the Customer Value Statements. Therefore, the application of discretion for RL Post-2011 Policies will be largely unchanged following the Transfer.

Conclusion

- 11.34 Given that there is no material change to the terms and conditions of the RL Post-2011 Policies and that the Customer Value Statements will be taken into account to govern the application of discretion, if any, both before and after the Transfer, I am satisfied that the Transfer does not materially adversely affect the benefit expectations or contractual rights of the RL Post-2011 Policyholders.

Membership rights

- 11.35 None of the RL Post-2011 Policyholders are Members and therefore the Transfer does not have any impact on their membership rights.

External bodies providing further policyholder protection

Ombudsman

- 11.36 RL Post-2011 Policyholders can access the FSPO in the event of a dispute regarding their policy. Policyholders will continue to have access to this service after the Transfer. Therefore, I am satisfied that the Transfer will not affect access to ombudsman protection for RL Post-2011 Policyholders.

FSCS

- 11.37 The RL Post-2011 Business is currently covered by the FSCS. After the Scheme is implemented, RL Post-2011 Policyholders will hold policies with an Irish insurance company and will lose entitlement to this form of protection. There is no equivalent to the FSCS covering protection insurance in Ireland. The question that I must therefore address is whether this is a material loss in the context of the Scheme.
- 11.38 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. receiving premiums and paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving

this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote. Therefore, in my opinion, the likelihood of FSCS being required is remote and so I do not consider the loss of FSCS protection to have a material adverse effect on the RL Post-2011 Policyholders.

- 11.39 It is possible that the outcome of the Brexit negotiations may result in a deal with the EU which means that RLMIS would have been able to continue to service policies sold under EU passporting rights either for a transitional period, or until the end of the policy term. If this were to be the result of the Brexit negotiations, then the RL Post-2011 Policyholders will have lost their FSCS protection that they would have retained had the Transfer not been effected. However, as stated above, I consider that having certainty that the policies will be serviced lawfully after Brexit is very important. Additionally, it is my view that current circumstances dictate that there is not sufficient time to wait for the results of such negotiations, and that a response to the risk of a potential breach of legislative requirements is required ahead of Brexit to ensure servicing of the Transferring Business can continue post-Brexit. I will provide an update in my Supplementary Report on the status of the relevant negotiations.

Conduct of business regulations

- 11.40 The RL Post-2011 Policies are currently subject to the Irish General Good Requirements because they are sold by the Irish branch of RLMIS to customers in Ireland. They will still be subject to these standards after the Transfer. Therefore, there will be no change in the conduct of business standards for RL Post-2011 Policyholders after the Transfer.

Conclusion

- 11.41 Having considered all of the above, I am satisfied that there is no material adverse effect on policyholder protection for the RL Post-2011 Business as a result of the Transfer because:
- there is no change to the ombudsman protection
 - the certainty of being able to service a policy lawfully after Brexit is, in my view, more important and more valuable than the FSCS cover that will be lost
 - the value of the FSCS cover is low since the need for the protection provided by the FSCS is remote - as RLMIS and Royal London DAC both have appropriate capital and risk management policies, they are expected to be capitalised within their Target SCR Cover range and compliant with Solvency II rules and the likelihood of becoming insolvent is remote, and
 - there is no change to the conduct of business rules applying for RL Post-2011 Business.
- 11.42 In forming the above opinion, I have considered the relative value of the FSCS cover, including the likelihood of claim, and challenged RLMIS management on whether any compensation or other mitigating actions could be taken. I also reviewed the relevant sections in the WPA report and Chief Actuary report regarding the loss of FSCS protection and I agree with their conclusions.

Governance arrangements

Company level governance arrangements

- 11.43 I have reviewed the proposed and existing governance arrangements for Royal London DAC and RLMIS respectively and consulted my regulatory colleagues over the benchmark levels of competencies and independence typically found in subsidiary companies. With respect to governance of non-profit management discretion, I have considered the existing approach to applying discretion and the proposed future approach.
- 11.44 In my view, both the Board of RLMIS and the proposed Board of Royal London DAC consist of a sufficient number of independent directors to promote a high standard of corporate governance. Although Royal London DAC's proposed Board does have a lower proportion of independent members compared to the Board of RLMIS, this is, in my view, reasonable given the relative scale and complexity of the two companies. Furthermore, the Board members and senior management of both

RLMIS and Royal London DAC are approved by the relevant regulators and their competence and experience is considered in their approval.

- 11.45 The Board committees of RLMIS and the proposed Board committees of Royal London DAC are similarly independent with similar roles and areas of responsibility. This ensures that a similar level of governance will apply to the RL Post-2011 Business before and immediately after the Transfer.
- 11.46 In my view, the proposed day-to-day governance of Royal London DAC adequately reflects the nature, scale and complexity of Royal London DAC's planned operations. It has been designed to be proportionate, and compliant with regulatory requirements, and is adequate to ensure policyholders are protected.
- 11.47 With respect to the proposed Board of Royal London DAC, I have considered industry best practice for the Board composition of subsidiary companies of a similar size to that which features in Royal London DAC's plan, and I am satisfied that the level of competence and independence is comparable to its peer group and not materially less than prevails at RLMIS. Additionally, the proposed composition of the Board of Royal London DAC will comply with Irish regulations. I also note that proposed composition of the Board forms part of the authorisation process of Royal London DAC by the CBI. If there are any changes to the proposed Board as a result of that process, I will consider this in my Supplementary Report.

Non-profit governance

- 11.48 The RL Post-2011 Business is all protection business and there are no specific governance arrangements that apply to this business over and above the company level governance arrangements described above.

Conclusion

- 11.49 Overall, I am satisfied that there is no material adverse effect on the governance arrangements for the RL Post-2011 Business as a result of the Transfer because:
- the Board of Royal London DAC will consist of appropriate competencies and have an appropriate number of independent directors approved by the relevant regulator
 - the Board committee structure and scope for Royal London DAC will be similar to that for RLMIS, and
 - the composition of the Board of Royal London DAC complies with Irish regulations.

New Reinsurance Agreements and Security Arrangements

- 11.50 The RL Post-2011 Business is not covered by the New Reinsurance Agreements. However, in Section 9 I considered whether the termination of the New Reinsurance Agreements could indirectly impact the RL-Post 2011 Business.
- 11.51 Overall, I am satisfied that the New Reinsurance Agreements and Security Arrangements do not materially adversely affect the RL Post-2011 Policyholders.

Tax implications

Policyholder tax

- 11.52 I am not an expert in tax matters and, therefore, in forming my opinion on the impact of policyholder tax, I have relied on documents produced by RLMIS' in house tax experts and summary papers based on the tax advice RLMIS has received from its tax advisers. I have reviewed this information to ensure it is in line with my expectations given my understanding of the structure of RLMIS before and after the Transfer. I have also reviewed RLMIS communications to the Irish and UK tax authorities about the Transfer and considered historic practice. Additionally I have interviewed the RLMIS corporate tax manager.

11.53 I do not anticipate that there will be a change in policyholder taxation for the RL Post-2011 Business, as the Transfer does not result in a material change to the terms and conditions of the Transferring Business. I understand that RLMIS is currently in the process of confirming this with the Revenue Commissioners in Ireland ("Irish Revenue") and I will consider and comment on any contrary advice in my Supplementary Report.

11.54 Therefore, based on my analysis of advice currently available, I am satisfied that there will not be any change to any policyholder's tax liability as a result of the Transfer.

Corporation tax

11.55 The profits of the protection business written in RLMIS currently benefit from the concessionary treatment applied to the profits of businesses that emerge in a mutual with-profits fund. This effectively means that they are not taxed.

11.56 After the Transfer, any profits on this business will emerge in the Royal London DAC Open Fund and will be subject to Irish corporation tax at a rate of 12.5%. This additional taxation arising as a result of the Transfer, which is expected to be less than €0.1m in 2019, will not affect the RL Post-2011 Business because it is a non-profit business. This means that corporation tax will be indirectly borne by the Estate of the RL Main Fund, as discussed in paragraph 7.19.

VAT

11.57 As the RL Post-2011 Business is non-profit and policyholder benefits are fixed, any VAT impact of the Transfer will not impact these policies.

Transfer pricing

11.58 As the RL Post-2011 Business is non-profit, any transfer pricing⁴⁰ tax implications will not impact these policies.

Tax clearances

11.59 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

11.60 I am satisfied that the tax implications of the Transfer will not materially adversely affect the RL Post-2011 Business because:

- there is no change to policyholder tax position, and
- as the RL Post-2011 Business is non-profit, there are no other tax impacts.

Costs of the Transfer and incremental ongoing expenses

11.61 The costs of the Transfer and the incremental ongoing expenses do not impact the RL Post-2011 Business as they are non-profit policies.

⁴⁰ Transfer pricing is the setting of the price for goods and services between controlled or related entities.

Administration and service standards

- 11.62 I have reviewed the servicing elements within the Royal London DAC authorisation application.
- 11.63 As detailed in paragraph 4.65, the RL Post-2011 Business is currently administered by the Dublin office of RLMS. After the Transfer, an Irish branch of RLMS will administer these policies. In practice, these policies will continue to be administered by the same teams, in the same locations as before and will be subject to the same target standards of service. Therefore, these policyholders will not experience any change in service standards as a result of the Transfer.

Conclusion

- 11.64 Overall, I am satisfied that there will be no material adverse effect on the administration and service standards experienced by the RL Post-2011 Policyholders as a result of the Transfer because the RL Post-2011 Business will continue to be serviced by the same staff, in the same location as was the case prior to the Transfer and will be subject to the same target standards of service.

Conclusion for the RL Post-2011 Business

- 11.65 Overall, I am satisfied that the RL Post-2011 Policyholders will not suffer a material adverse effect as a result of the Transfer.

Ireland Liver Business

- 11.66 The Ireland Liver Business comprises with-profits policies, contingent bonus policies, unit-linked policies and non-profit policies (including protection policies and annuities). These policies will be transferred from the Royal Liver Sub-Fund in RLMIS to the Liver Ireland Sub-Fund in Royal London DAC. The policies will then be reinsured back to the Royal Liver Sub-Fund, under the Liver Reinsurance Agreement as described in Section 9.

Policyholder benefit expectations and contractual rights

- 11.67 In this subsection I consider the impact of the Transfer on the benefit expectations and contractual rights for the Ireland Liver Business. In particular, I consider the policy terms and conditions, fund management and the management of discretion.

Terms and conditions

- 11.68 As a result of the Scheme, the Ireland Liver Policyholders will become direct policyholders of Royal London DAC rather than RLMIS. There will be no material changes to the terms and conditions of any of these policies as a result of the Transfer, and therefore no impact on the contractual rights of the policyholders.
- 11.69 Under the Scheme, Royal London DAC will take on all existing rights and obligations of RLMIS in relation to the Ireland Liver Business (unless they are specifically excluded by the Scheme, see paragraphs 6.10 to 6.12 for more information).

Fund management and discretion

With-profits policies

- 11.70 The with-profits Ireland Liver Transferring Policies include contingent bonus, UWP and conventional with-profits business.
- 11.71 The Ireland Liver Business with-profits policies are currently managed in accordance with the IoT CPFM and the Royal Liver PPFM.

- 11.72 After the Transfer takes effect, the with-profits Ireland Liver Policies will be allocated to the Liver Ireland Sub-Fund and will be managed according to the Liver Ireland PPFM Guide, which will be aligned to the Royal Liver PPFM (whilst the Liver Reinsurance Agreement is in place). Royal London DAC will also be required to manage the Liver Ireland Sub-Fund with in line with the IoT CPFM whilst the Liver Reinsurance Agreement is in place, and the CPFM thereafter. Decisions around discretion such as Bonus declarations after the Transfer will be the responsibility of Royal London DAC, in consultation with RLMIS and, in the event that an agreement cannot be reached, there is an escalation process that must be followed, as set out in the Liver Reinsurance Agreement. This escalation process includes the appointment of an independent actuarial expert (whose opinion will be binding), to resolve the dispute, giving consideration to the fairness of the Bonus declaration on the various groups of policyholders.
- 11.73 The Scheme states that the Ireland Liver with-profits policyholders' interest in the Estate of the Royal Liver Sub-Fund shall be unaffected by the Transfer. Therefore, the with-profits Ireland Liver Policies will still be entitled to share in the Estate of the Royal Liver Sub-Fund. As detailed in paragraph 10.66, as a result of the costs associated with the Transfer, an estimated reduction of approximately 2.0% to the Estate Distribution for the Royal Liver Sub-Fund at year end 2018 is expected, when compared to the current run-off plan for the Royal Liver Sub-Fund, which does not allow for the Transfer. After this point, Estate Distributions are projected to remain broadly unchanged. The costs that result in the one-off reduction in Estate Distribution of the Royal Liver Sub-Fund will be charged to the Estate in line with the Royal Liver PPFM, the Royal Liver IoT and past practices, and will be allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner.
- 11.74 There will be no change in the investment strategy of the Royal Liver Sub-Fund as a result of the Transfer.
- 11.75 Areas of discretion, including Estate Distribution of the Royal Liver Sub-Fund are governed by the Royal Liver PPFM, the Liver Ireland PPFM Guide and the IoT CPFM. In summary, I am satisfied that the changes made to the Royal Liver PPFM as a result of the Transfer do not have a material adverse effect on the Ireland Liver Policyholders.
- 11.76 As outlined above, the IoT CPFM also governs the areas of discretion for with-profits policies in the Royal Liver Sub-Fund. The Royal Liver IoT will be updated as a result of the Transfer. I discuss the Royal Liver IoT further in paragraphs 11.108 to 11.110 below. However, I am satisfied that the changes do not result in a material weakening of the governance provided by the Royal Liver IoT.
- 11.77 Overall, I am satisfied that the with-profits fund management and exercise of management discretion in respect of the Royal Liver Sub-Fund will remain largely unchanged as a result of the Transfer and the with-profits Ireland Liver Business will continue to participate in the Royal Liver Sub-Fund.

Unit-linked policies

- 11.78 Royal London DAC will maintain notional units and linked funds for the unit-linked Ireland Liver Business. The Liver Reinsurance Agreement means that the transferring Ireland Liver unit-linked policies will effectively continue to participate in the unit funds in which they were allocated prior to the Transfer. The policies will effectively retain the same number of units in the same funds, and the investment objectives of the funds will not change as a result of the Transfer.
- 11.79 After the Transfer, Royal London DAC will become ultimately responsible for the application of discretion relating to charges for the unit-linked Ireland Liver Business. The charges applicable to unit-linked Ireland Liver Business will continue to be determined in accordance with the same policies that are currently in place, and Royal London DAC will have ultimate responsibility for this process. Therefore, the approach to determining the charges applicable to the unit-linked Ireland Liver Business will not change as a result of the Transfer.

Non-profit policies

- 11.80 The non-profit Ireland Liver Policies include protection policies and annuities. The benefits on non-profit policies are generally fixed by the policy terms and conditions and these will not change as a result of the Transfer.

11.81 However, there may be some occasions when benefit payments are subject to discretion. Prior to the Transfer, the application of discretion relating to the non-profit policies is governed by the RLMIS Conduct Risk Policy, the RLMIS Customer Value Statements and the FCA's Principles of Treating Customers Fairly, as outlined in paragraph 4.61. After the Transfer, the Royal London DAC Board will be responsible for the application of discretion for non-profit Ireland Liver Policies, and Royal London DAC will adopt the Customer Value Statements. Therefore, the application of discretion for non-profit Ireland Liver Policies will be largely unchanged following the Transfer.

Conclusion

11.82 Overall, I am satisfied that there is no material adverse effect on the fund management and application of discretion with regard to the Ireland Liver Business as a result of the Transfer. I conclude this because:

- the Royal Liver Sub-Fund will continue to be managed as it is now, and there will be no change to the underlying investment strategy of the sub-fund
- decisions such as Bonus distribution will be the responsibility of Royal London DAC, in consultation with RLMIS, and there is an appropriate escalation process if they cannot agree
- for with-profits Ireland Liver Policies the Royal Liver PPFM will be updated to ensure that it remains applicable to the Ireland Liver Business from the Effective Date, albeit indirectly, and the Liver Ireland PPFM Guide will be aligned with the Royal Liver PPFM while the Liver Reinsurance Agreement is in place
- whilst there is a reduction in the anticipated Estate Distribution of the Royal Liver Sub-Fund as a result of costs associated with the Transfer, this reduction is small and is not expected to persist beyond 2018. The charging of these costs to the Estate is in line with the Royal Liver PPFM, the Royal Liver IoT and past practices and will be allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner
- the unit-linked Ireland Liver Business will continue to participate in the same unit-linked funds and there will be no change to the management or investment strategy of these
- whilst Royal London DAC will become ultimately responsible for the application of discretion relating to unit-linked charges following the Transfer, RLMIS will continue to calculate the charges for the unit-linked Ireland Liver Business, and
- the application of discretion for non-profit Ireland Liver Policies will be largely unchanged following the Transfer, because Royal London DAC will adopt the Customer Value Statements which currently govern the application of discretion for these policies.

11.83 I will confirm that these discretion policies have been adopted by Royal London DAC in my Supplementary Report.

Membership rights

11.84 The Ireland Liver Policyholders are not Members and, therefore, the Scheme does not have any impact on their membership rights.

External bodies providing further policyholder protection

Ombudsman

11.85 Currently, the policyholders of the Ireland Liver Business have access to the FOS in the UK, or the FSPO in Ireland, should they wish to raise a dispute regarding their policy. After the Transfer, the policyholders of the Ireland Liver Business will lose access to the FOS, unless the complaint relates to activities carried out by RLMIS prior to the Transfer. I have seen advice from RLMIS' legal advisers, which confirms this position. Currently, the experience of RLMIS is that the majority of Ireland Liver Policyholders raise their disputes with the FSPO, rather than the FOS.

11.86 The FOS and the FSPO fulfil similar roles in the UK and Ireland respectively. The main difference is that the decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law, whilst decisions made by the FOS are only final and binding on the business if they are accepted by the consumer. Further details on the differences between the FOS and FSPO are discussed below.

- 11.87 The FSPO and the FOS operate on similar principles governing their independence and impartiality, their clarity of scope and powers, accessibility, effectiveness, fairness, transparency and accountability. The compensation limit for complaints relating to financial service providers is €250,000 for the FSPO. For the FOS the limit is currently £150,000, excluding any interest and costs.
- 11.88 There are also some differences in the time limits in which complaints must be made to the FOS or FSPO. Consent from the relevant firm is generally required in order for the FOS to investigate complaints that are referred more than six months after the business sends the consumer a final response to his complaint. The same condition applies for complaints that are made more than six years after the event in question (or three years from when the consumer could reasonably have known they had cause to complain). The FSPO will consider complaints relating to life assurance policies where the event that gives rise to the complaint has occurred in the six-year period before the complaint was raised, if it considers it to be 'just and equitable' to do so. However, the FSPO will not consider complaints relating to policies that terminated more than six years before the complaint is made. Similarly, it will not consider any complaints relating to conduct prior to 2002.
- 11.89 The decision to investigate complaints relating to events that occurred over six years previously lies with the relevant firm under the UK regime and with the FSPO under the Irish regime. Therefore, in this respect the Ireland Liver Business Policyholders have better protection under the FSPO than they currently do under FOS, as the decision to investigate such complaints is made independently by the ombudsman service rather than by the relevant firm.
- 11.90 The FSPO will not consider complaints relating to policies that have terminated more than six years ago, whereas the FOS will conceivably consider such complaints. As a result, following the Transfer, the Ireland Liver Policyholders will lose the ability to refer to an ombudsman a complaint more than six years after their policy terminates, if this complaint does not relate to the conduct of RLMIS prior to the Transfer. However, I understand that, prior to the Transfer, the majority of complaints made by Ireland Liver Policyholders are made through the FSPO rather than FOS. Therefore, I do not expect the loss of access to the FOS protection to have a material adverse effect on Ireland Liver Policyholders.
- 11.91 Overall, I am satisfied the Ireland Liver Policyholders will not be materially adversely affected as a result of the change in ombudsman jurisdiction for events occurring after the Transfer.

FSCS

- 11.92 Certain sub-groups of the Ireland Liver Business are currently covered by the FSCS, as summarised in the table below:

Subgroup	FSCS Cover pre-Dec 2001 business	FSCS Cover post-Dec 2001 business
Business originally written by Irish Life Assurance plc	No	No
Business originally written by RLA	No	Yes
Business originally written by Caledonian Life	No	Yes
Business originally written by GRE Life Ireland Limited	No	No

- 11.93 None of the Ireland Liver Business written prior to 1 December 2001 currently benefits from FSCS protection, since their contracts were issued by Irish insurers or through the Irish branch of a UK insurer, and so the policies were not covered by the Policyholders Protection Scheme. For Ireland Liver Business written after 1 December 2001, business which was originally written by an Irish insurer (i.e. Irish Life Assurance plc and GRE Life Ireland Limited) would not be eligible for FSCS protection. Business which was originally written by a UK insurer (i.e. RLA or Caledonian Life) relating to risks in the UK or EEA would be covered by FSCS.
- 11.94 After the Scheme is implemented, Ireland Liver Policyholders will hold policies with an Irish insurance company and will lose entitlement to this form of protection. There is no equivalent to the FSCS covering protection insurance in Ireland. The question that I must therefore address is whether this is a material loss in the context of the Scheme.

- 11.95 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. receiving premiums and paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty that policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote. Therefore, in my opinion, the likelihood of FSCS being required is remote and so I do not consider the loss of FSCS protection to have a material adverse effect on the Ireland Liver Policyholders.
- 11.96 It is possible that the outcome of the Brexit negotiations may result in a deal with the EU which means that RLMIS would have been able to continue to service policies sold under EU passporting rights either for a transitional period, or until the end of the policy term. If this were to be the result of the Brexit negotiations, then the Ireland Liver Policyholders that currently have FSCS protection will have lost this protection, that they would have retained had the Transfer not been implemented. However, as stated above, I consider that having certainty that the policies will be serviced lawfully after Brexit is very important. Additionally, it is my view that current circumstances dictate that there is not sufficient time to wait for the results of such negotiations, and that a response to the risk of a potential breach of legislative requirements is required ahead of Brexit to ensure servicing of the Transferring Business can continue post-Brexit. I will provide an update in my Supplementary Report on the status of the relevant negotiations.

Conduct of business regulations

- 11.97 For the Ireland Liver Business, both the UK COBS and the Irish General Good Requirements currently apply. Post Transfer, only the Irish General Good Requirements will apply. The with-profits Ireland Liver Business will still indirectly benefit from COBS, due to the operation of the Liver Reinsurance Agreement, as the Royal Liver Sub-Fund will continue to be managed in line with COBS 20.
- 11.98 COBS and Irish General Good Requirements differ in relation to with-profits governance in that there is no requirement for a PPFM, a WPA or WPC in Ireland. In Royal London DAC, the Royal London DAC HoAF will advise the Royal London DAC Board on matters associated with the with-profits business, and the Royal London DAC HoAF will work closely with the RLMIS WPA whilst the Liver Reinsurance Agreement is in place. Whilst there will be no separate WPC in Royal London DAC, the WPC of RLMIS will continue to consider issues related to the Ireland Liver Business indirectly, the Liver Supervisory Committee will continue to ensure that with-profits Ireland Liver Policies are managed in line with the Royal Liver PPFM (while the Liver Reinsurance Agreement is in place), and the with-profits Ireland Liver Policies will be managed in accordance with the Liver Ireland PPFM Guide. As referred to in paragraph 3.58, the CBI released a consultation paper proposing amendments to the actuarial regime in Ireland relating to the governance of with-profits business, and proposed that additional requirements will apply to currently authorised insurers with existing with-profits policies from 1 January 2020. This will include the requirement to produce a WPOP document and report on the ongoing compliance to the WPOP to with-profits policyholders, thereby expanding on the governance requirements in relation to with-profits business.
- 11.99 There are a number of elements under the Irish General Good Requirements that insurers must adhere to, with CPC being the main one. This code applies to financial services providers authorised, registered or licensed by the CBI and financial services providers authorised, registered or licensed in another EU or EEA Member State when providing services in Ireland on a branch or cross-border basis.
- 11.100 The CPC places a strong emphasis on a consumer-focussed culture for firms to deliver positive outcomes for customers. The CBI has a role in ensuring firms meet these published requirements and standards (including those derived from EU law). Regulatory action may be taken by the CBI where these compliance standards are not being met. I consider that this regime provides adequate consumer protection and is of no lesser standing than the UK regime.
- 11.101 Overall, I do not consider that there is any loss of policyholder protection due to the change of prevailing conduct of business regulation as a result of the Transfer.

Conclusion

11.102 Therefore, having considered all of the above, I am satisfied that there is no material adverse effect on policyholder protection for the Ireland Liver Business as a result of the Transfer because:

- whilst the Ireland Liver Business will no longer fall within the jurisdiction of the FOS, policyholders will continue to have access to the FSPO, and will continue to be able to use the FOS if the complaint relates to events which occurred prior to the Transfer. Therefore, there is no material loss of policyholder protection as a result
- the certainty of being able to service a policy lawfully after Brexit is, in my view, more important and more valuable than the FSCS cover that will be lost
- the value of the FSCS cover is low since the need for the protection provided by the FSCS is remote, as RLMIS and Royal London DAC both have or will have appropriate capital and risk management policies, they are expected to be capitalised within their Target SCR Cover range and will be required to comply with Solvency II rules, and therefore the likelihood of insolvency is remote
- whilst it is possible that certain Ireland Liver Policies lose FSCS protection that they would otherwise have retained had the Scheme not been implemented, there is a greater risk of a potential breach of legislative requirements in relation to the servicing of these policies post-Brexit, and therefore the Scheme is necessary to mitigate this risk
- the Irish General Good Requirements offer no less material regulation and protection for the Ireland Liver Policyholders than UK COBS, and whilst certain aspects of with-profits governance are not required under the Irish General Good Requirements, there will be adequate governance arrangements in respect of the with-profits Ireland Liver Business, and
- the with-profits Ireland Liver Business will continue to be indirectly covered by COBS 20 whilst the Liver Reinsurance Agreement is in force.

Governance arrangements

11.103 I have reviewed the proposed and existing governance arrangements for Royal London DAC and RLMIS respectively. I have consulted senior members of the Grant Thornton regulatory team about the benchmark levels of competence and independence typically found in subsidiary companies. Additionally, I have considered the Royal Liver PPFM and the Royal Liver IoT, the proposed changes to the Royal Liver PPFM and the Royal Liver IoT, the Liver Ireland PPFM Guide, the existing and proposed governance around the Bonus setting processes and how Bonus setting principles are set or changed. With respect to governance of non-profit management discretion, I have considered the existing approach to applying discretion and the proposed future approach.

Company level governance arrangements

11.104 In my view, both the Board of RLMIS and the proposed Board of Royal London DAC consist of a sufficient number of competent and independent directors to promote a high standard of corporate governance. Although Royal London DAC's proposed Board does have a lower proportion of independent members compared to the Board of RLMIS, this is, in my view, reasonable given the relative scale and complexity of the two companies. Furthermore, the Boards and senior management of both RLMIS and Royal London DAC are approved by the relevant regulators and their competence and experience is considered in their approval.

11.105 The Board committees of RLMIS and the proposed Board committees of Royal London DAC are similarly independent with similar areas of responsibility. I am satisfied that this will ensure that a similar level of governance will apply to the Ireland Liver Business before and after the Transfer.

11.106 In my view, the proposed day-to-day governance of Royal London DAC adequately reflects the nature, scale and complexity of Royal London DAC's planned operations. It has been designed to be proportionate and still be adequate to ensure policyholders are protected.

11.107 With respect to the proposed Board of Royal London DAC, I have considered industry best practice for the Board composition of subsidiary companies of a similar size to the proposed features in Royal London DAC's plan and I am satisfied that the level of competence and independence will be comparable to its peer group. Additionally, the composition of the Board of Royal London DAC will comply with Irish regulations.

Royal Liver IoT

11.108 Changes to the Royal Liver IoT are proposed to recognise the Transfer and Liver Reinsurance Agreement and ensure that the Liver Supervisory Committee continues to advise on the management of the Ireland Liver Policies whilst the Liver Reinsurance Agreement is in place. These changes are outlined in paragraphs 7.39 to 7.40. I have reviewed and am satisfied that the proposed changes to the Royal Liver IoT are appropriate, and as required by the Royal Liver IoT, I provide a certificate stating my opinion in Appendix H. Furthermore, the changes to the Royal Liver IoT require the approval of the PRA.

11.109 Relevant provisions within the Royal Liver IoT have been included in the Scheme so that if the Liver Reinsurance Agreement is terminated, these provisions will continue to apply to the Irish Liver Business (as otherwise the provisions would no longer apply to the Ireland Liver Business, because Royal London DAC is not a party, and cannot become a party, to the Royal Liver IoT). I have reviewed and am satisfied that the relevant provisions of the Royal Liver IoT, such as expense and cost allocations, have been included in the Scheme.

11.110 Overall, I am satisfied with the amendments that are proposed to the Royal Liver IoT and I have formally certified this in Appendix H.

With-profits governance

11.111 All the with-profits Ireland Liver Business will be reinsured back to RLMIS, and, whilst the Royal London DAC Board and Royal London DAC HoAF will have ultimate responsibility for the governance of with-profits Ireland Liver Business, the current with-profits governance of RLMIS will also continue to offer a level of protection to the Ireland Liver Business. The current with-profits governance includes the oversight by the WPC and the Liver Supervisory Committee. In addition, as referred to in paragraph 3.58, the CBI released a consultation paper proposing amendments to the actuarial regime in Ireland relating to the governance of with-profits business, and proposed that additional requirements will apply to currently authorised insurers with existing with-profits policies from 1 January 2020. This will include the requirement to produce a WPOP document and report on the ongoing compliance to the WPOP to with-profits policyholders, thereby expanding on the governance requirements in relation to with-profits business.

11.112 The Royal Liver Sub-Fund is managed in accordance with the Royal Liver PPFM. The Royal Liver PPFM will be updated because of the Transfer with effect from the Effective Date. This was necessary to ensure that the Royal Liver PPFM continues to apply to the Ireland Liver Policies, albeit indirectly.

11.113 In paragraph 7.40 I set out the changes which are to be made to the Royal Liver IoT as a result of the Transfer. Additionally, in paragraphs 6.19 to 6.20 I outline the provisions of the Royal Liver IoT that have been replicated in the Scheme. The main driver for these updates was to ensure that the Royal Liver IoT, including the IoT CPFM, reflect the Transfer and remain applicable to the Ireland Liver Business, whilst the Liver Reinsurance Agreement remains in place. The main driver for the replication of certain provisions of the Royal Liver IoT within the Scheme is to ensure that the relevant terms continue to apply to the Ireland Liver Business in the event that Liver Reinsurance Agreement is terminated.

11.114 When the Transfer takes effect, there will also be the following additional components of governance:

- creation of a Liver Ireland PPFM Guide for the Liver Ireland Sub-Fund, which is required to be consistent with the Royal Liver PPFM (and will remain consistent until the termination of the Liver Reinsurance Agreement)
- the involvement of the Royal London DAC HoAF and Royal London DAC Board as the principal source of governance in the application of discretion and the approval process of Bonus Rate principles and declarations, and
- if the RLMIS Board and the Royal London DAC Board cannot agree on areas of discretion or Bonus declarations, there is an appropriate and, I consider, adequate, process which includes the appointment of an independent actuarial expert, to resolve any disputes, giving consideration to the fairness between the relevant policyholder groups. The independent actuarial expert's decision will be binding.

11.115 Having considered the above, I am satisfied that there is no material adverse effect on the governance of the with-profits Ireland Liver Policies as a result of the Transfer, because:

- the Liver Ireland PPFM Guide is required to be consistent with the Royal Liver PPFM, and will remain so until the termination of the Liver Reinsurance Agreement
- the Ireland Liver Business is reinsured back to the Royal Liver Sub-Fund and the RLMIS WPC and the Liver Supervisory Committee will continue to provide a level of oversight whilst the Liver Reinsurance Agreement is in place
- the Royal Liver PPFM and Royal Liver IoT which govern the Royal Liver Sub-Fund will be updated to ensure that they remain applicable to the Ireland Liver Business, albeit indirectly, whilst the Liver Reinsurance Agreement remains in place
- the Royal London DAC Board and Royal London DAC HoAF will be ultimately responsible for the Ireland Liver Business following the Transfer, and therefore they will be ultimately responsible for the oversight of the governance process. Whilst the Liver Reinsurance Agreement is in place, Royal London DAC will consult with RLMIS on specific matters in relation to the governance of with-profits Ireland Liver Business including areas of discretion and Bonus declarations, and
- there are appropriate mechanisms in place to deal with differences of opinions between RLMIS and Royal London DAC on with-profits matters.

Unit-linked and non-profit governance

11.116 As the unit-linked and non-profit Ireland Liver Business will be reinsured back to the Royal Liver Sub-Fund, the policies will continue to be subject to the governance that currently exists in RLMIS. In particular, the discretion applied to unit-linked business relates mainly to taking actions related to poorly performing funds, changes to unit pricing bases and reviewable charges. The Royal London DAC Board and Royal London DAC HoAF will have ultimate responsibility for the governance processes following the Transfer.

11.117 Additionally, as detailed in paragraph 4.61, the Customer Value Statements, which currently apply to the unit-linked and non-profit Ireland Liver Business, will be adopted by Royal London DAC; therefore, the application of discretion will not change following the Transfer.

11.118 Therefore, I am satisfied that there will be no weakening of the governance of unit-linked and non-profit business as a result of the Transfer.

Conclusion

11.119 Overall, I am satisfied that there are no material differences in the governance arrangements of RLMIS and those planned for Royal London DAC. Therefore, I am satisfied that there will be no material adverse effect on the governance of the Ireland Liver Business as a result of the Transfer because:

- the Board of Royal London DAC will consist of appropriate competencies and a sufficient number of independent directors approved by the CBI
- the Board committee structure and scope for Royal London DAC will be similar to that for RLMIS
- the proposed composition of the Board of Royal London DAC complies with Irish regulations
- I am satisfied that the Royal Liver IoT will be adequately amended to capture the Ireland Liver Business, and the Scheme appropriately captures the relevant provisions within the Royal Liver IoT, meaning that these provisions will continue to apply to the Ireland Liver Business following the termination of the Liver Reinsurance Agreement
- there is no material adverse effect on the governance which applies to with-profits policies
- the Liver Ireland PPFM Guide will be consistent with the Royal Liver PPFM (whilst the Liver Reinsurance Agreement remains in place)
- there is no material change to the level of governance which will apply to unit-linked and non-profit policies as similar levels of oversight will continue to apply, and
- the application of discretion for unit-linked and non-profit policies in RLMIS will be adopted by Royal London DAC.

Liver Reinsurance Agreement and Security Arrangements

- 11.120 In Section 9 I considered the Liver Reinsurance Agreement and Security Arrangements and I concluded that the Liver Reinsurance Agreement results in no change to the management of the Ireland Liver Business before and immediately after the Transfer. I also concluded that the provisions governing the termination of the Liver Reinsurance Agreement provide suitable protection for the Ireland Liver Business. In addition, I concluded that the Security Arrangements are appropriate mechanisms to help mitigate the risk of RLMIS failing to honour its obligations under the Liver Reinsurance Agreement.
- 11.121 Additionally, in Section 8, I outlined how the Liver Reinsurance Agreement mitigates the potential adverse effects of the Scheme on Ireland Liver Policyholders.
- 11.122 Overall, I am satisfied that the Liver Reinsurance Agreement and Security Arrangements will not have a material adverse effect of the interests of Ireland Liver Policyholders.

Tax implications

Policyholder tax

- 11.123 I am not an expert in tax matters and, therefore, in forming my opinion on the impact of policyholder tax, I have relied on documents produced by RLMIS' in house tax experts and summary papers based on the tax advice RLMIS has received from its tax advisers. I have reviewed RLMIS communications to the Irish and UK tax authorities about the Transfer and considered the Royal Liver PPFM and historic practice. I have also interviewed the RLMIS corporate tax manager. I have reviewed this information to ensure it is in line with my expectations given my understanding of tax impacts I have observed in previous insurance company restructurings and the structure of RLMIS before and after the Scheme.
- 11.124 I do not anticipate that there will be any change in policyholder taxation for the Ireland Liver Business, as the Transfer does not result in any material change to the terms and conditions of the Ireland Liver Business. I understand that RLMIS is currently in the process of confirming this with the Irish Revenue.
- 11.125 Therefore, based on information and advice provided to me by RLMIS and its tax advisers, I am satisfied that will not be any change to any policyholder's tax liability as a result of the Transfer.

Corporation tax

- 11.126 There is a change to the taxation calculation for the Ireland Liver Business as a result of the Liver Reinsurance Agreement. This changes the allocation of the amount and type of assets held to support the UK and Ireland business for tax purposes. The impact is expected to be a reduction in tax of less than £0.1m per year. This benefit is shared amongst with-profits policyholders of the Royal Liver Sub-Fund via the Estate.
- 11.127 No trading profits are expected to arise in the Liver Ireland Sub-Fund because of the Liver Reinsurance Agreement. Based on current taxation rules, there would also be no tax arising on any future termination of the Liver Reinsurance Agreement.

VAT

- 11.128 Prior to the Transfer, all entities within the Group that have traded or will trade in Ireland will be registered for Irish VAT. This means that the transfer of assets under the Scheme is not expected to result in a tax charge.
- 11.129 I understand that it is possible that a small amount of VAT may arise due to the provision of services between the UK and Ireland. If so, any additional VAT that is deemed to arise from services provided to the Ireland Liver Business will be met by the Estate of the Royal Liver Sub-Fund and not materially adversely impact the benefits of the Transferring Policyholders.

Transfer pricing

11.130 Rules on transfer pricing require transactions between associated companies in a cross-border group to be entered into at arm's length. Where an arrangement between associated entities is made, at terms other than at arm's length basis, an adjustment could be made to the foreign company profits by the UK tax authorities.

11.131 I understand from RLMIS that, given the mutual nature of the Ireland Liver Business, it is expected that a simple cost recharge or a cost plus margin approach will be used. Therefore, the tax arrangements are not expected to be affected by these transfer pricing rules. However, any impacts that do occur, relating to the Ireland Liver Business, will be met by the Estate of the Royal Liver Sub-Fund.

Tax clearances

11.132 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

11.133 It is my opinion that there will be no material adverse tax implications for the Ireland Liver Business as a result of the Transfer because:

- there are no material policyholder tax impacts on any class of Ireland Liver Business as a result of the Transfer
- the indirect tax impacts on Ireland Liver Business via the Estate of the Royal Liver Sub-Fund are not material, and are a necessary and unavoidable cost of ensuring the continued servicing of the Ireland Liver Business, and
- the tax arrangements are not expected to be materially affected by transfer pricing rules.

Costs of the Scheme and incremental ongoing expenses

11.134 As described in 6.49 to 6.51, the one-off costs of implementing the Transfer are expected to be £21.0m and the Royal Liver Sub-Fund Estate is expected to meet £10.3m of these one-off costs, with the Estate of the RL Main Fund meeting the remainder. I have reviewed the current Royal Liver IoT and the updated Royal Liver IoT, the relevant PPFMs, and questioned members of the RLMIS WPA's team over the detail of the apportionment of expenses. In addition, I have considered the fairness of the allocation methodology, with respect to the impacts on Estate Distribution. Finally, I have also considered actuarial best practice in this area.

11.135 As described in 7.10 to 7.13, as a result of the Transfer, there will be additional ongoing costs associated with the Ireland Liver Business of approximately €2.0m per year, based on the latest estimate. As shown in paragraph 9.158, the Ireland Liver Business is expected to run-off relatively quickly, and therefore these additional on-going costs should reduce relatively quickly. The increased ongoing costs will be charged to the Estate of the Royal Liver Sub-Fund up until the expiry of the current rate card on 1 December 2021. After this date, an activity based costing allocation methodology will be used to charge actual expenses plus a margin to all policies residing in the Royal Liver Sub-Fund and Liver Ireland Sub-Fund. The charge to policyholders of the Royal Liver Sub-Fund and Liver Ireland Sub-Fund cannot exceed the price that an outsourcer would charge to provide the same service. The RL Main Fund will continue to receive the investment management charge on the assets held through the reinsurance of the Transferring Business from the Royal Liver Sub-Fund; and will continue to be responsible for the actual expenses incurred in managing the relevant assets by Royal Liver Sub-Fund.

11.136 As certain one-off and incremental ongoing costs are to be charged to the Estate of the Royal Liver Sub-Fund, they will be shared by the Remaining Royal Liver Sub-Fund Business and the Ireland Liver Business.

Conclusion

11.137 I am satisfied with the allocation of the incremental ongoing costs and one-off costs to the Estate of the Royal Liver Sub-Fund, including the sharing of costs between the Remaining Royal Liver Sub-Fund Policies and the Ireland Liver Policies because:

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

Administration and service standards

11.138 Royal London DAC will outsource policy administration, premium collection, payment of claims, servicing of customers and underwriting to the Irish branch of RLMS. Upon the Transfer taking effect, the Irish branch of RLMS will administer the Ireland Liver Business, under service agreements between RLMS and Royal London DAC, so that all administration activities, including regulated activities, are carried out in Ireland.

11.139 Some of the Ireland Liver Business was originally written by Caledonian Life and GRE Life Ireland Limited and these policies are currently administered by RLMS in Ireland. These policies will continue to be administered by this team after the Transfer. Therefore, there will be no change to the team servicing these policies and the same service target standards will continue to apply. Therefore, these policyholders will not experience any change in service standards as a result of the Transfer.

11.140 The rest of the Ireland Liver Business is currently administered by RLMS in the UK. Before Brexit the administration of these policies will transfer to the Irish branch of RLMS and be administered in Dublin. The service standards that apply to this business are set out in the Liver Service Standards document. These standards will not change as a result of the Transfer. Staff will be recruited by the RLMS team in Dublin to administer these policies. I have reviewed the plans for the transfer, the risks to the project and their mitigants. RLMIS has informed me that the project status is on course to deliver as planned.

11.141 I have reviewed the existing policyholder protections relating to service standards in the proposed updated Royal Liver IoT, the proposed protections over service standards in the Scheme, and the content on servicing within the Royal London DAC authorisation application.

Conclusion

11.142 I am satisfied that the Ireland Liver Policyholders will not experience any material adverse changes to the administration of their policies as a result of the Transfer. I have reached this conclusion because:

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

Conclusion for the Ireland Liver Business

11.143 Overall, I am satisfied that the policyholders of the Ireland Liver Business will not suffer a material adverse effect as a result of the Transfer.

German Bond Business

11.144 The German Bond Business comprises with-profits policies and unit-linked policies. These policies will be transferred from the RL Main Fund to the Royal London DAC German Bond Sub-Fund. The policies will then be reinsured back to the RL Main Fund, under the German Bond Reinsurance Agreement described in Section 9.

Policyholder benefit expectations and contractual rights

11.145 In this subsection, I cover the impact of the Transfer on the benefit expectations and contractual rights for the German Bond Business. In particular, I consider the policy terms and conditions, fund management and management discretion.

Terms and conditions

11.146 As a result of the Transfer, the German Bond Policyholders will become direct policyholders of Royal London DAC rather than RLMIS. There will be one change to the terms and conditions for the German Bond Business. The current terms and conditions refer to the potential withholding of UK taxation by RLMIS, and this will be updated to refer to the potential withholding of Irish taxation by Royal London DAC.

11.147 The update of the terms and conditions to refer to the potential withholding of Irish taxation rather than UK taxation is necessary as, following the Transfer, the German Bond Policyholders will be policyholders of Royal London DAC, which will be authorised in Ireland.

11.148 Except for the changes detailed above, there is no other material change to the terms and conditions of the German Bond Business as a result of the Transfer.

11.149 Under the Scheme, Royal London DAC will take on all existing rights and obligations of RLMIS in relation to the German Bond Business (unless they are specifically excluded by the Scheme, see paragraphs 6.10 to 6.12 for more information).

Fund management and discretion

Unitised with-profits policies

11.150 The German Bond Reinsurance Agreement enables the German Bond Business to continue to participate in the RL Main Fund, as the German Bond Business will be reinsured back into the RL Main Fund

11.151 After the Transfer, the with-profits German Bond Policies will be allocated to the German Bond Sub-Fund and will be managed according to the German Bond PPFM Guide, which will be consistent with the RL Main Fund PPFM which is being amended to include the German Bond Business, whilst the German Bond Reinsurance Agreement remains in place.

11.152 The current with-profits governance structure in RLMIS will be unchanged, and as the German Bond Business is reinsured back to the RL Main Fund, the RLMIS with-profits governance will continue to provide some level of protection to the German Bond Business. However following the Transfer, Royal London DAC will have ultimate responsibility for these policies. RLMIS will continue to calculate the Bonuses in respect of the German Bond Business that are due to be paid to Royal London DAC under the German Bond Reinsurance Agreement, and this will require the agreement of both Royal London DAC and RLMIS. The Royal London DAC Board, after consultation with the Royal London DAC HoAF and the WPA of RLMIS, will be responsible for the calculation and approval of the Bonuses due to

German Bond Policyholders. Should an agreement not be reached between RLMIS and Royal London DAC regarding the calculation of Bonuses for German Bond Policyholders, there is an escalation process, which includes obtaining the opinion of an independent actuarial expert, whose decision is binding.

11.153 The Scheme will not alter the eligibility for with-profits German Bond Policyholders for ProfitShare, and this will be communicated to German Bond Policyholders in the mailing sent to them regarding the Scheme. However, the distribution of ProfitShare will remain at the discretion of the RLMIS Board, and Royal London DAC will not have the right to dispute ProfitShare distributions to German Bond Policyholders. ProfitShare is set in accordance with a number of high level principles. These include a principle that the ProfitShare rate should not change materially year to year, and that it should be set at a level which is projected to achieve the Target SCR Cover at the end of the RLMIS medium term planning period of five years. Since the high level principles are unchanged as a result of the Transfer, and additional costs and expenses do not significantly impact the future capital coverage of RLMIS, the future ProfitShare rates for German Bond Policyholders are not expected to be materially affected as a consequence of the Transfer.

11.154 The impact that the Transfer will have on the benefits of with-profits German Bond Policyholders will be driven by any changes to the Estate of the RL Main Fund or to the distributions made under ProfitShare. The estimated value of the Estate of the RL Main Fund at 31 December 2017 was £4.3bn.

11.155 There will be a number of changes to the Estate of the RL Main Fund as a result of the Transfer which, overall, will lead to a reduction in the size of the RL Main Fund Estate. These are as follows:

- as outlined in paragraph 6.51, the Estate of the RL Main Fund will meet its proportion of the one-off costs of implementing the Scheme of approximately £10.7m, which represents c. 0.2% of the Estate as at 31 December 2017
- as outlined in paragraph 7.12, the Estate of the RL Main Fund will meet the additional ongoing administration costs of the German Bond Business of less than approximately €0.1m per year, which represents less than 0.01% of the Estate as at 31 December 2017
- as detailed in paragraph 9.23, if the Experience Adjustment under the German Bond Reinsurance Agreement is negative it will be paid from the Estate of the RL Main Fund to the German Bond Sub-Fund of Royal London DAC if the Experience Adjustment is positive it will be paid by the German Bond Sub-Fund of Royal London DAC to the Estate of the RL Main Fund, and
- as outlined in paragraph 7.19, there is additional Irish corporation tax to be paid by Royal London DAC as a result of the Transfer of less than €0.1m in 2019, which results in a small reduction in potential dividends that may be paid in the future from Royal London DAC to the RL Main Fund. This impact would not be realised immediately, as dividend distributions from Royal London DAC are not expected to be payable initially.

11.156 Additionally, the Estate of the RL Main Fund will provide a capital injection of €40m to Royal London DAC and the value-in-force of the expense tariff in place for the Ireland Liver Business will reduce by £7.5m. The reduction in the value-in-force of the expense tariff in place results from the difference between the charges and actual expenses relating to the administration of the Ireland Liver Business accruing in the Royal London DAC Open Fund rather than the Estate of the RL Main Fund. The RL Main Fund will hold the subsidiary as an asset on its balance sheet, which represents 0.9% of the Estate as at 31 December 2017.

11.157 The investment strategy of the RL Main Fund will not be altered by the Transfer.

11.158 The application of discretion for with-profits German Bond Policyholders is currently governed by the RL Main Fund PPFM. After the Transfer, this will be governed by the German Bond PPFM Guide, which will be consistent with the RL Main Fund PPFM whilst the German Bond Reinsurance Agreement is in place. Since the RL Main Fund PPFM will not be materially altered as a result of the Transfer, in my view, the application of discretion for with-profits German Bond Business will not be materially altered as a result of the Transfer. The application of discretion will continue to be performed by RLMIS, with ultimate oversight from Royal London DAC. There is a process of escalation, which can be used if Royal London DAC and RLMIS cannot agree on how discretion should be applied.

Unit-linked policies

- 11.159 The transferring unit-linked policies will be transferred to the German Bond Sub-Fund and will be 100% reinsured back to the RL Main Fund.
- 11.160 Royal London DAC will maintain notional units and linked funds for the unit-linked German Bond Business. The German Bond Reinsurance Agreement means that these transferring unit-linked policies will continue to participate in the underlying unit funds in which they invested prior to the Transfer. The policies will retain the same number of units in the same funds and the investment objectives of the funds will not be altered as a result of the Transfer.
- 11.161 After the Transfer, Royal London DAC will become ultimately responsible for the application of discretion relating to charges for the unit-linked German Bond Business. The charges applicable to unit-linked German Bond Business will continue to be determined in accordance with the same policies that are currently in place, and Royal London DAC will have ultimate responsibility for this process. Therefore, the approach to determining the charges applicable to the unit-linked German Bond Business will not change as a result of the Transfer.

Conclusion

- 11.162 Overall, I am satisfied that there is no material adverse effect on the benefit expectations and contractual rights of the German Bond Business as a result of the Transfer because:
- the proposed changes to the German Bond Business terms and conditions do not alter the benefit expectations and contractual rights of the German Bond Business,
 - whilst there are a number of factors which act to reduce the value of the Estate of the RL Main Fund, the Scheme must be implemented due to Brexit and therefore this is unavoidable, the reductions are in accordance with the RL Main Fund PPFM
 - the charges applicable to unit-linked German Bond Business will continue to be determined in accordance with the same policies as before the Transfer, with ultimate responsibility resting with Royal London DAC, and
 - for with-profits German Bond Policies, the RL Main Fund PPFM will not materially change and the German Bond PPFM Guide will be consistent with the RL Main Fund PPFM while the German Bond Reinsurance Agreement remains in place.
- 11.163 In forming the above opinion I have reviewed the proposed changes to the RL Main Fund PPFM, the German Bond PPFM Guide and the New Reinsurance Agreements, the WPA report, Chief Actuary report and the Scheme. I have also reviewed the proposed governance changes. I also had meetings with the RLMIS WPA and members of his team to understand their views on the Transfer.

Membership rights

- 11.164 Article 2 of the RLMIS Articles of Association states that any person who effects a policy which entitles the policyholder to participate in the profits of the company (RLMIS) will be a Member, for so long as they continue to hold a policy effected with the company, which entitles them to participate in the profits of the company.
- 11.165 Currently, the with-profits German Bond Policyholders are Members and as a result of the Transfer these membership rights will be lost as these policyholders will no longer hold a RLMIS policy, and will therefore not meet the criteria for membership (the unit-linked German Bond Policyholders are not currently Members).
- 11.166 The loss of membership rights is, therefore, a direct consequence of the Transfer. I note that a transfer to any entity would result in the same loss of membership rights.
- 11.167 There are two main aspects of membership which may represent potential value to the with-profits German Bond Policyholders and these are summarised below:

- the right to vote at, or include a resolution at, the AGM or right to vote at or support a resolution to call an EGM, and
- if RLMIS were to demutualise, Members might receive an additional financial benefit from this event.

11.168 The with-profits German Bond Business Policyholders comprise c. 0.1% of the total membership of RLMIS. Therefore, their power to have specific influence on the voting or decision-making at any meeting is extremely small. This implies that for the with-profits German Bond Policyholders, as a group, there is a low value associated with the individual right to vote at, or include a resolution at, an AGM or EGM, or to call an EGM.

11.169 RLMIS has no plans to demutualise. Therefore, RLMIS has concluded that there should not be any compensation payable at the time of the Transfer to this block of policyholders for loss of membership with respect to this potential discretionary benefit. I am in agreement with this conclusion. In addition, I consider that the need to be able to legally service these policies post-Brexit is more important than the membership rights.

11.170 As stated in paragraph 11.169, RLMIS has no plans to demutualise, however if RLMIS were to demutualise prior to the fifth anniversary of the Effective Date then the with-profits German Bond Policyholders, who at the time of the demutualisation still hold German Bond Policies with Royal London DAC, will be entitled to receive compensation made as a consequence of the demutualisation. This compensation will be on the same basis as any compensation proposed for the Members of RLMIS holding with-profits policies in the RL Main Fund, and if no such compensation is due to Members of RLMIS holding with-profits policies in the RL Main Fund then no compensation will be due to the with-profits German Bond Policyholders.

11.171 Some Members are also eligible for ProfitShare, and this will be unaltered as a result of the Transfer. I discuss this in paragraph 11.153 above.

Conclusion

11.172 Overall, I am satisfied that it is reasonable to not provide any financial compensation at the time of the Transfer for the loss of membership to the with-profits German Bond Policyholders because:

- membership rights provide little in the way of realisable financial value since RLMIS has no foreseeable plans to demutualise,
- as detailed in paragraph 11.169, if demutualisation occurs prior to the fifth anniversary of the Effective Date, then with-profits German Bond Policyholders that still hold German Bond Policies with Royal London DAC will be entitled to receive compensation on the same basis as any compensation proposed for Members of RLMIS holding with-profits policies in the RL Main Fund, and
- having certainty about being able to service these policies legally post-Brexit is more important than membership rights.

11.173 In forming the above opinion, I have reviewed the RLMIS Articles of Association and considered the benefits of membership. I also had a meeting with the RLMIS WPA to provide challenge on this specific issue.

External bodies providing further policyholder protection

Ombudsman

11.174 Currently, policyholders of the German Bond Business are able to raise a complaint to the UK ombudsman, the FOS, as well as to the German regulator, BaFin. After the Transfer, this category of policyholders will fall outside the jurisdiction of the FOS and will instead fall within the jurisdiction of the Irish ombudsman, the FSPO. Policyholders of the German Bond Business will still be able to raise complaints to BaFin after the Transfer.

- 11.175 Additionally, the German Bond Business will still be able to bring complaints to the FOS for any activities carried out by RLMIS that occurred prior to the Transfer. I have seen advice from RLMIS' legal advisers which confirms this position.
- 11.176 The FOS and FSPO fulfil similar roles in the UK and Ireland respectively. The main difference is that the decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law, whilst decisions made by the FOS are only final and binding on the business if it is accepted by the complainant. There is nothing, however, to indicate that the outcome of a complaint will be different for a policyholder having to raise it with the FSPO, rather than the FOS, notwithstanding the legal differences between the two. In my opinion, therefore, the ombudsman service that policyholders of the German Bond Business are able to access after the Transfer is not materially different to that which they are currently able to access.
- 11.177 There are also some differences in the time limits in which complaints must be made to the FOS or FSPO. In order to raise a complaint to the FOS, consent from the relevant firm is generally required in order to investigate complaints that are elevated more than six months after the business sends the consumer a final response to his complaint. The same condition applies for complaints that are made more than six years after the event in question occurs (or three years from when the consumer could reasonably have known they had cause to complain). The FSPO will consider complaints relating to life assurance policies where the event that gives rise to the complaint has occurred in the six-year period before the complaint was raised, if it is considered to be 'just and equitable' by the FSPO to do so. However, the FSPO will not consider complaints relating to policies that terminated more than six years before the complaint is made. Similarly, it will not consider any complaints relating to conduct prior to 2002.
- 11.178 The decision to investigate complaints relating to events which occurred over six years previously lies with the relevant firm under the UK regime and with the FSPO under the Irish regime. Therefore, in this respect the German Bond Policyholders have better protection under the FSPO than they currently do under FOS, as the decision to investigate such complaints is made independently by the ombudsman service rather than by the relevant firm.
- 11.179 The FSPO will not consider complaints relating to policies that have terminated more than six years ago, whereas the FOS will conceivably consider such complaints. As a result, following the Transfer, the German Bond Policyholders will lose the ability to elevate a complaint more than six years after their policy terminates to the FOS, if this complaint does not relate to the conduct of RLMIS prior to the Transfer. However, I understand that, prior to the Transfer, the majority of complaints made by German Bond Policyholders are made through the German regulator, BaFin, rather than FOS. Therefore, since German Bond Policyholders will continue to have access to the German regulator, BaFin, I would not expect the loss of access to the FOS protection to have a material adverse effect on German Bond Policyholders.
- 11.180 Overall, I am satisfied the German Bond Policyholders will not be materially adversely affected as a result of the change in ombudsman jurisdiction from UK to Ireland for events occurring after the Transfer.

FSCS

- 11.181 The FSCS provides protection to eligible policyholders under a contract of insurance related to a protected risk in an EEA Member State, and therefore the German Bond Business is currently covered by the FSCS. After the Scheme is implemented, German Bond Policyholders will hold policies with an Irish insurance company and will lose entitlement to this form of protection. There is no equivalent to the FSCS covering protection insurance in Ireland. The question that I must therefore address is whether this is a material loss in the context of the Scheme.
- 11.182 The purpose of the Scheme is to effect the transfer of the Transferring Business from RLMIS to Royal London DAC, in order to enable the continued servicing (e.g. paying claims) of the Transferring Business, regardless of the outcome of the Brexit negotiations. In my opinion, having certainty about how the policies in the Transferring Business can continue to be serviced lawfully after Brexit is very important. The loss of the FSCS protection is an unavoidable consequence of achieving this certainty. In addition, I have considered that the FSCS provides protection to covered policyholders following an insolvency or default event. Given that Royal London DAC will be well capitalised and will be required to comply with Solvency II in EU law, the likelihood of default or insolvency of Royal London DAC is, in my opinion, remote. Therefore, in my opinion, the likelihood of FSCS being required is remote and so I

do not consider the loss of FSCS protection to have a material adverse effect on the German Bond Policyholders.

11.183 It is possible that the outcome of the Brexit negotiations may result in a deal with the EU which means that RLMIS would have been able to continue to service policies sold under EU passporting rights either for a transitional period, or until the end of the policy term. If this were to be the result of the Brexit negotiations, then the German Bond Policyholders will have lost their FSCS protection that they would have retained had the Transfer not been implemented. However, as stated above, I consider that having certainty that the policies will be serviced lawfully after Brexit is very important. Additionally, it is my view that current circumstances dictate that there is not sufficient time to wait for the results of such negotiations, and that a response to the risk of a potential breach of legislative requirements is required ahead of Brexit to ensure servicing of the Transferring Business can continue post-Brexit. I will provide an update in my Supplementary Report on the status of the relevant negotiations.

Conduct of business regulations

11.184 For the German Bond Business, both the UK COBS and the German General Good Requirements currently apply. Post Transfer, some of the provisions contained within the Irish General Good Requirements will apply, but the CPC and MCC contained within the Irish General Good Requirements will not apply as they only apply to risks based in Ireland. The UK COBS will indirectly apply to the German Bond Business whilst the German Bond Reinsurance Agreement remains in place.

11.185 Following Royal London DAC's authorisation by the CBI, the CBI will notify BaFin of Royal London DAC's intention to service the German Bond Business. If there are provisions within the German General Good Regulations which BaFin feels it is necessary for Royal London DAC to comply with, BaFin will notify the CBI of these and these will apply in addition to the provisions of the Irish General Good Regulations which apply to the German Bond Business.

11.186 Overall, following the Transfer, Royal London DAC will comply with the applicable provisions within the Irish General Good Requirements in respect of the German Bond Business, and will also comply with any additional provisions within the German General Good Requirements in respect of the German Bond Business, as required by BaFin.

11.187 Given the fact that BaFin will be able to impose the application of certain provisions of the German General Good Requirements as it deems necessary, and since UK COBS will continue to apply to German Bond Business whilst the German Bond Reinsurance Agreement is in place, I am satisfied that there is no loss of policyholder protection with respect to the change of prevailing conduct of business standards as a result of the Transfer.

Potential litigation

11.188 The German Bond Business has similar characteristics to that sold by Clerical Medical, in relation to which there was a ruling from the Federal Court of Justice in 2012 that some of those policies were potentially mis-sold. There have been some claims made in relation to the German Bond Business which, if ruled in the German Bond Policyholders' favour, would require compensation to be paid to German Bond Policyholders who are affected. Under the Scheme, any such mis-selling liabilities, including those arising after the Transfer, will be transferred to Royal London DAC. There is, however, a separate agreement that will be put in place between RLMIS and Royal London DAC under which RLMIS agrees to indemnify Royal London DAC in relation to such liabilities. Therefore, any such indemnity payments would be met by the Estate of the RL Main Fund. A reserve is currently held within the RL Main Fund to meet any such liabilities and a further capital provision is recognised in the RLMIS Internal Model SCR calculation.

11.189 Therefore, there are no changes in respect of the allocation of potential German Bond mis-selling compensation payments as a result of the Transfer.

Conclusion

11.190 Therefore, having considered all of the above, I am satisfied that there is no material adverse effect on German Bond Policyholder protection because:

- whilst the German Bond Policyholders will no longer fall within the jurisdiction of the FOS following the Transfer, policyholders will continue to have access to the German regulator, BaFin, and will have access to the FSPC. In addition, German Bond Policyholders will continue to be able to use the FOS if the complaint relates to events which occurred prior to the Transfer
- German Bond Business will continue to fall under the jurisdiction of the German regulator, BaFin
- the certainty of being able to service a policy lawfully is, in my view, more important and more valuable than the FSCS cover that will be lost
- the value of the FSCS cover is low since the need for the protection provided by the FSCS is remote, as RLMIS and Royal London DAC both have appropriate capital and risk management policies, they are expected to be capitalised within their Target SCR Cover range and will be required to comply with Solvency II rules, and therefore the likelihood of insolvency is remote
- BaFin will be able to impose the application of certain provisions of the German General Good Requirements as it deems necessary, and
- the German Bond Business will continue to be indirectly covered by COBS whilst the German Reinsurance Agreement is in force.

11.191 In forming the above conclusion I have considered the relative value of the FSCS cover including likelihood of a claim. I also reviewed the relevant detail in the WPA report and Chief Actuary report, considered the relevant ombudsman regime applying and compared the two regulatory regimes.

Governance arrangements

11.192 I have reviewed the proposed and existing governance arrangements for Royal London DAC and RLMIS respectively and consulted my regulatory colleagues over the benchmark levels of independence typically found in subsidiary companies. Additionally, I have considered the relevant RL Main Fund PPFM and the German Bond PPFM Guide, the existing and proposed governance around the Bonus setting processes, and considered how Bonus setting principles are set or changed.

Company level governance arrangements

11.193 In my view, both the Board of RLMIS and the proposed Board of Royal London DAC consist of a sufficient number of independent directors to promote a high standard of corporate governance. Although Royal London DAC's proposed Board does have a lower proportion of independent members compared to the Board of RLMIS, this is, in my view, reasonable given the relative scale and complexity of the two companies. Furthermore, the Boards and senior management of both RLMIS and Royal London DAC are approved by the relevant regulators and their competence and experience is considered in their approval.

11.194 The Board committees of RLMIS and the proposed Board committees of Royal London DAC are similarly independent with similar areas of responsibility. This ensures that a similar level of governance will apply to the German Bond Business before and after the Transfer.

11.195 In my view, the proposed day-to-day governance of Royal London DAC adequately reflects the nature, scale and complexity of the Royal London DAC's planned operations. It has been designed to be proportionate and still adequate to ensure policyholders are protected.

11.196 With respect to the proposed Board of Royal London DAC, I have considered industry best practice for the Board composition of subsidiary companies of a similar size to what features in Royal London DAC's plan and I am satisfied that the level of independence is comparable to its peer group. Additionally, the composition of the Board of Royal London DAC complies with Irish regulations.

Unitised with-profits governance

11.197 All the with-profits German Bond Business will be reinsured back to the RL Main Fund, and these policies will continue to be subject to the with-profits governance which is currently in place, including a level of oversight from the WPC.

11.198 The with-profits German Bond Business is currently managed in accordance with the RL Main Fund PPFM. The RL Main Fund PPFM will be updated as a result of the Transfer. This is necessary to ensure that the RL Main Fund PPFM continues to apply to the German Bond Policyholders following the Transfer, albeit indirectly.

11.199 However, Royal London DAC will be ultimately responsible for the with-profits German Bond Business. Therefore, after the Transfer and from the Effective Date, there will be the following additional components of governance:

- creation of a German Bond PPFM Guide for the German Bond Sub-Fund, which is required to be consistent with the RL Main Fund PPFM (and will remain consistent until the termination of the German Bond Reinsurance Agreement)
- the involvement of the Royal London DAC HoAF and Royal London DAC Board in providing principal governance in the application of discretion and the approval process of Bonus Rate principles and declarations for German Bond Business (this does not extend to the Remaining RL Main Fund Business), and
- if the RLMIS Board and the Royal London DAC Board cannot agree on areas of discretion or Bonus declarations for the German Bond Business then there is a process, which includes an independent actuarial expert to resolve any disputes, who will be required to consider the fairness between the relevant policyholder groups, and whose decision will be binding for the German Bond Business.

11.200 Having considered the above, I am satisfied that there is no material adverse effect on the governance of the with-profits German Bond Policies because:

- the German Bond PPFM Guide is required to be consistent with the RL Main Fund PPFM while the German Bond Reinsurance Agreement remains in place
- whilst the German Bond Reinsurance Agreement is in place, the RLMIS WPC will continue to provide a level of oversight, and the RL Main Fund PPFM will continue to indirectly govern the with-profits German Bond Business
- the Royal London DAC Board and the Royal London DAC HoAF will provide oversight, and
- there are appropriate mechanisms in place to deal with differences of opinion between RLMIS and Royal London DAC on with-profits matters in relation to German Bond Business, which includes the requirement to seek the opinion of an independent actuarial expert.

Unit-linked governance

11.201 The German Bond Business will be reinsured back to the RL Main Fund under the German Bond Reinsurance Agreement and, therefore, will continue to be subject to the governance arrangements which currently exist in RLMIS. In particular, the discretion applied to unit-linked business is around taking actions related to poorly performing funds, unit pricing bases and reviewable charges. However, after the Transfer, the Royal London DAC Board and Royal London DAC HoAF will have ultimate responsibility for the governance processes. Therefore, there will be no reduction in the level of governance related to the application of discretion.

11.202 Additionally, as detailed in paragraph 4.61, the Customer Value Statements will be taken into account to govern the application of discretion and these statements will be adopted by Royal London DAC. Therefore the application of discretion will not change as a result of the Transfer.

11.203 Therefore, I am satisfied that there is no weakening of the governance of unit-linked German Bond Business as a result of the Transfer.

Conclusion

11.204 Overall, I am satisfied that there is no material adverse effect on the governance arrangements applicable to the German Bond Business as a result of the Transfer because:

- the Board of Royal London DAC will consist of appropriate competencies and a sufficient number of independent directors approved by the CBI
- the Board committee structure and scope for Royal London DAC will be similar to that for RLMIS
- the composition of the Board of Royal London DAC complies with Irish regulations
- there is no material adverse effect to the governance which applies to with-profits policies
- the German Bond PPFM Guide is required to be consistent with the RL Main Fund PPFM (whilst the German Bond Reinsurance Agreement remains in place)
- there is no material change to the level of governance which will apply to unit-linked and non-profit policies as similar levels of oversight will continue to apply, and
- the application of discretion for unit-linked policies in RLMIS will be adopted by Royal London DAC.

German Bond Reinsurance Agreement and Security Arrangements

11.205 In Section 9 I considered the German Bond Reinsurance Agreement and Security Arrangements, and I concluded that the German Bond Reinsurance Agreement results in no change to the management of the German Bond Business before and immediately after the Transfer. I also concluded that the provisions governing the termination of the German Bond Reinsurance Agreement provide suitable protection for the German Bond Business. In addition, I concluded that the Security Arrangements are appropriate mechanisms to help mitigate the risk of RLMIS failing to honour its obligations under the German Bond Reinsurance Agreement.

11.206 Additionally, in Section 8, I outlined how the German Bond Reinsurance Agreement mitigates the potential adverse effects of the Scheme on German Bond Policyholders.

11.207 Overall, I am satisfied that the German Bond Reinsurance Agreement and Security Arrangements will not have a material adverse effect on the interests of German Bond Policyholders.

Tax implications

Policyholder tax

11.208 I am not an expert in tax matters and, therefore, in forming my opinion on the impact of policyholder tax, I have relied on documents produced by RLMIS' in house tax experts and summary papers based on the tax advice RLMIS has received from its tax advisers. I have reviewed this information to ensure it is in line with my expectations given my understanding of the structure of RLMIS before and after the Transfer.

11.209 The Transfer would result in a change to policyholder taxation if any German Bond Business policyholder has become resident in Ireland since their policy was written. However, it has been confirmed that no German Bond Policyholders are resident in Ireland and therefore the Transfer is not expected to result in a change in policyholder taxation for the German Bond Business. I understand that RLMIS is currently in the process of confirming this with the Irish Revenue.

11.210 Therefore, based on the information I have reviewed, I do not expect there to be any change to any policyholder's tax liability as a result of the Transfer.

Corporation tax

11.211 The profits of the protection business written in RLMIS currently benefit from the concessionary treatment applied to the profits of such business that emerge in a mutual with-profits fund, effectively meaning that they do not suffer tax. After the Transfer, any profits on this business will emerge in the

Royal London DAC Open Fund and will be subject to Irish corporation tax at 12.5%. This additional taxation is expected to be less than €0.1m in 2019. This will be borne by the Royal London DAC Open Fund and, therefore, may possibly result in a small reduction in the future dividend distribution to RLMIS from the Royal London DAC Open Fund as a result of the Royal London DAC Capital Management Framework, which restricts the circumstances in which dividends can be paid. This impact will not be realised immediately, as dividend distributions from Royal London DAC are not expected to be payable initially.

11.212 No trading profits are expected to arise in the German Bond Sub-Fund of Royal London DAC because of the German Bond Reinsurance Agreement. My understanding, based on current taxation rules, is that there would also be no tax arising on any future termination of the German Bond Reinsurance Agreement.

VAT

11.213 Prior to the Transfer, all entities within the Group that have traded or will trade in Ireland will be registered for Irish VAT. This means that the transfer of assets under the Scheme is not expected to result in a tax charge.

11.214 I understand that it is possible that a small amount of VAT may arise on the provision of services between the UK and Ireland, and, if so, that any additional VAT deemed to arise from the transfer of the German Bond Business will be met by the Estate of the RL Main Fund.

Transfer pricing

11.215 Rules on transfer pricing require transactions between associated companies in a cross-border group to be entered into at arm's length. Where an arrangement between associated entities is made, at terms other than at arm's length basis, an adjustment can be made to the Irish company profits by the tax authorities.

11.216 I understand from RLMIS that, due to the mutual nature of the German Bond Business, which will cease upon transfer, and the relatively small sums involved, it expects that a simple cost recharge or a cost plus margin approach will be used. So the tax arrangements are not expected to be materially affected by the transfer pricing rules. Any impact relating to the German Bond Business that does occur, may be met by the RL Main Fund.

Tax clearances

11.217 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

11.218 Based on information I have reviewed, I am satisfied that there is no material adverse effect on the tax to which German Bond Business is subject as a result of the Transfer because:

- there are no material policyholder tax impacts on the German Bond Business as a result of the Transfer
- the indirect tax impacts on German Bond Business via the Estate of the RL Main Fund are not material and are a necessary and unavoidable cost of ensuring the continued servicing of the Transferring Business, and
- the tax arrangements are not expected to be materially altered by transfer pricing rules.

11.219 In forming the above opinion, I have reviewed RLMIS communications to the Irish and UK tax authorities about the Transfer and I have considered the RL Main Fund PPFM and historic practice. I have also interviewed the RLMIS corporate tax manager.

Costs of the Scheme and incremental ongoing expenses

11.220 As described in paragraphs 6.49 to 6.51, the one-off costs to implement the Transfer are expected to be £21.0m and the RL Main Fund Estate is expected to meet £10.7m of these one-off costs, with the Estate of the Royal Liver Sub-Fund meeting the remainder.

11.221 As described in paragraph 7.12, as a result of the Transfer, there will be additional ongoing costs associated with German Bond Business of less than approximately €0.1m per year, and these increased ongoing costs will be charged to the Estate of the RL Main Fund.

Conclusion

11.222 I am satisfied with the allocation of incremental ongoing costs of less than approximately €0.1m per year and estimated one-off costs of approximately £10.7m as a result of the Transfer being charged to RL Main Fund Estate because:

- the Scheme must be implemented to mitigate the risk of not being able to service the Transferring Policies due to Brexit and therefore the nature and quantum of these costs are unavoidable
- given the mutual nature of RLMIS, it is not possible to charge the costs to shareholders and therefore the costs need to be met by the Estate of one or more with-profits funds
- the costs and expenses are allocated in line with the policies set out in the RL Main Fund PPFM
- allocation of incremental administration costs between the various groups of policyholders within the RL Main Fund is applied consistently in accordance with the best principles and practices generally seen in the industry, namely to apportion costs on an activity basis, and
- the allocation of these costs is consistent with past precedents. Within the RL Main Fund all insurance, expense and investment risks are shared across the whole of the RL Main Fund and therefore it is fair to share the costs and risks as a result of the Transfer between the Remaining RL Main Fund Business and the with-profits German Bond Business.

Administration and service standards

11.223 I have reviewed the servicing elements of the Royal London DAC authorisation application.

11.224 The German Bond Business administration is currently outsourced to RL 360° in the Isle of Man. RL 360° will continue to administer the German Bond Business after the Transfer. Therefore, these policyholders will not experience any change in the target service standards as a result of the Transfer.

11.225 Overall, it is my view that the German Bond Business will not experience any material changes to the administration of their policies as a result of the Transfer. I have reached this conclusion because the German Bond Business will continue to be serviced by the same staff, in the same location as is the case prior to the Transfer, and will be subject to the same target standards of service.

Conclusion for the German Bond Business

11.226 Overall, I am satisfied that the policyholders of the German Bond Business will not suffer a material adverse effect as a result of the Transfer.

Communications with Transferring Policyholders in relation to the Transfer

RL Post-2011 Business, Ireland Liver Business and German Bond Business

11.227 I have set out a summary of the RLMIS communications strategy in paragraphs 7.44 to 7.57 above. The communications have been tailored to different groups of Transferring Policyholders. The communications pack that will be sent to German Bond Policyholders will explicitly state that with-profits German Bond Policyholders will lose their membership rights as a result of the Transfer.

11.228 I have reviewed the communications that are proposed to be sent to all Transferring Policyholders, except those subject to waivers, in relation to the Transfer and I am satisfied that they are fair, clearly worded, not misleading and are in line with my understanding of the Scheme. In addition, the communications include the key information that I would expect to see based on my experience of other schemes, including a brief, easy to understand overview of the Scheme, the options available to policyholders, responses to frequently asked questions, a means for seeking further information if required and the communications set out the policyholder's right to object to the Scheme.

Dispensations and waivers

Paragraph 3(2)(a)

11.229 As outlined in paragraph 7.53, RLMIS has sought dispensations from the Court with regards to the requirement contained in FSMA to publish the legal notice in two national newspapers in each EEA country where a Transferring Policyholder is resident.

11.230 I understand that, as at September 2018, there were 136 Transferring Policyholders that have notified RLMIS of having a current residential address in an EEA Member State other than the United Kingdom, Ireland or Germany. Of these, the maximum number of policyholders residing in one particular country was 24. Given the low volume of Transferring Policyholders known to be living outside of the United Kingdom, Ireland or Germany, and the fact that these policyholders will be sent the communications pack by post, the benefit of publishing the notice in two national newspapers for each of the countries where these policyholders are currently living would be disproportionate to the costs involved. In addition, it is noted that RLMIS has never purposefully or directly sold business in any EEA Member State other than the United Kingdom, Ireland or Germany.

11.231 Therefore, I agree with RLMIS' decision to seek specific dispensations from the requirement to publish the notice in two national newspapers within the EEA which is the state of the commitment in relation to any Transferring Policies.

Paragraph 3(2)(b)

11.232 As outlined in paragraph 7.56, RLMIS is to seek a waiver from the requirement to notify certain Transferring Policyholders of RLMIS of the Transfer. Appendix I provides an assessment of each of the groups of policyholders identified against the factors outlined in paragraph 7.55, providing rationale for excluding each of these groups of policyholders from the mailing.

11.233 I have reviewed the reasons that these dispensations and waivers have been sought in relation to all policyholders of RLMIS, including the Transferring Policyholders. It is my opinion that, in each case, it is appropriate to not send the communications pack to these policyholders. In addition, the transfer website contains the information detailed within each variant of the communications pack, enabling these policyholders to access the same level of information as they would have had if they were included in the mailing. Further, I am satisfied that full compliance with this regulation is both unnecessary and disproportionately costly.

Gone-aways and address unknowns

RL Post-2011 Business, Ireland Liver Business and German Bond Business

- 11.234 There are a number of Transferring Policyholders that RLMIS is currently unable to contact, this is either due to no address being held ("address unknowns") or an address not being valid ("gone-aways"). As at September 2018, there were 18,632 address unknown Ireland Liver Policyholders and 63 address unknown RL Post-2011 Policyholders and German Bond Policyholders combined. Likewise, as at September 2018, there were 40,374 gone-away Ireland Liver Policyholders and 7 gone-away RL Post-2011 Policyholders and German Bond Policyholders combined. These represent approximately 15% of the Ireland Liver Business and less than 1% of the Post-2011 Business and German Bond Business combined.
- 11.235 Prior to the Transfer, RLMIS will have taken reasonable steps to trace gone-aways in the UK in respect of the Ireland Liver Business. However, there will be no additional tracing exercise performed, since a one-off exercise was carried out during 2015 and 2016. Since 2015, a standard process has operated where any new UK gone-aways identified are sent for electronic tracing on a monthly basis.
- 11.236 For Irish policyholders in the Royal Liver Sub-Fund, it has not been possible to undertake electronic tracing due to lack of postcode data in Ireland.
- 11.237 A remediation exercise was commenced in 2016 in order to find correct address information for the address unknowns, and this is due to complete in 2019. This exercise involves manually reviewing scanned copies of original documentation and then conducting a tracing exercise where addresses cannot be identified.
- 11.238 Any address unknowns or gone-aways whose address is found prior to the Transfer will be sent the communications pack. All other address unknowns or gone-aways will not be sent a communication pack, subject to RLMIS obtaining an appropriate waiver from the Court.
- 11.239 I am satisfied with the approach being taken for address unknowns and gone-aways, as the legal notice will be published in significantly more newspapers in the UK, Ireland and Germany than required, which is partly to increase the likelihood of address unknowns and gone-aways being made aware of the Transfer.

12 The impact of the Transfer on the Remaining Policyholders of RLMIS

Introduction

- 12.1 The terms of the Scheme, New Reinsurance Agreements and Security Arrangements are designed to minimise disruption to the general operation and security of the Remaining Business.
- 12.2 I note that the Transferring Business represents approximately 6% of the total policies of RLMIS and 1.1% of the total liabilities of RLMIS. The Ireland Liver Business represents approximately 44% of the liabilities of the Royal Liver Sub-Fund, whereas the German Bond Business represents approximately 0.3% of the liabilities of the RL Main Fund.
- 12.3 Within this section I consider the analysis performed in earlier sections of the Report in relation to the Remaining Policyholders. In order to understand whether the Transfer will have any material adverse effect on Remaining Policyholders, it is necessary to consider various possible areas which could be affected, including:
- policyholder benefit expectations and contractual rights
 - security of benefits
 - external bodies providing further policyholder protection
 - New Reinsurance Agreements and the Security Arrangements
 - governance arrangements
 - tax implications
 - costs of the Scheme and incremental ongoing expenses
 - administration and service standards
 - membership rights
 - communications to Remaining Policyholders in relation to the Transfer.
- 12.4 In order to understand whether the Scheme, New Reinsurance Agreements and Security Arrangements will have a material adverse effect on Remaining Policyholders, each of the areas above is relevant.
- 12.5 I consider each of the areas detailed above for the following groups of the Remaining Policyholders, considering with-profits, non-profit and unit-linked business separately where relevant:
- Remaining RL Main Fund Policyholders
 - Remaining Royal Liver Sub-Fund Policyholders
 - Other Remaining Policyholders – all RLMIS policyholders that are not allocated to either the RL Main Fund or the Royal Liver Sub-Fund.

Remaining RL Main Fund Policyholders

- 12.6 Under the Scheme, the RL Post-2011 Policyholders and German Bond Policyholders who are allocated to the RL Main Fund will be transferred to Royal London DAC. The German Bond Policyholders' policies will then be fully reinsured back to the RL Main Fund. The German Bond Business makes up only 0.3% of the RL Main Fund, based on BEL, as at 31 December 2017.

Policyholder benefit expectations and contractual rights

Non-profit and unit-linked Remaining RL Main Fund Policyholders

- 12.7 The Scheme will not result in any changes to the policy terms and conditions of the non-profit and unit-linked Remaining RL Main Fund Policyholders, nor will there be any change to any options or

guarantees to which the non-profit and unit-linked Remaining RL Main Fund Policyholders are currently entitled.

- 12.8 The discretion and investment policies and supporting governance that currently exist within RLMIS for non-profit and unit-linked Remaining RL Main Fund Policyholders will not be altered as a result of the Transfer.
- 12.9 Therefore, overall, the benefits for non-profit and unit-linked Remaining RL Main Fund Policyholders will not be affected by the Transfer. The benefits for the non-profit policies are generally fixed by the policy terms and conditions. The unit-linked policies will continue to be invested in the same unit-linked funds after the Transfer as they were before, and the number and type of units held by unit-linked policyholders will be unchanged as a result of the Transfer.

With-profits Remaining RL Main Fund Policyholders

- 12.10 The Scheme will not result in any changes to the policy terms and conditions of the with-profits Remaining RL Main Fund Policyholders, nor will there be any change to any options or guarantees to which the with-profits Remaining RL Main Fund Policyholders are currently entitled.
- 12.11 The impact that the Transfer will have on the benefits of with-profits Remaining RL Main Fund Policyholders will be driven by any changes to the Estate of the RL Main Fund or to the distributions made under ProfitShare. The estimated value of the Estate of the RL Main Fund at 31 December 2017 was £4.3bn.
- 12.12 There will be a number of changes to the Estate of the RL Main Fund as a result of the Transfer which, overall, will lead to a reduction in the size of the RL Main Fund Estate. These are as follows:
- as outlined in paragraph 6.51, the Estate of the RL Main Fund will meet its proportion of the one-off costs of implementing the Scheme of approximately £10.7m, which represents c. 0.2% of the Estate as at 31 December 2017
 - as outlined in paragraph 7.12, the Estate of the RL Main Fund will meet the additional ongoing administration costs of the German Bond Business of less than approximately €0.1m per year, which represents less than 0.01% of the Estate as at 31 December 2017, and
 - as detailed in paragraph 9.23, if the Experience Adjustment under the German Bond Reinsurance Agreement is negative it will be paid from the Estate of the RL Main Fund to the German Bond Sub-Fund, if the Experience Adjustment is positive it will be paid by the German Bond Sub-Fund to the Estate of the RL Main Fund.
- 12.13 As outlined in paragraph 7.19, there is additional Irish corporation tax to be paid by Royal London DAC as a result of the Transfer of less than €0.1m in 2019, which results in a small reduction in potential dividends that may be paid in the future from Royal London DAC to the RL Main Fund. This impact would not be realised immediately, as dividend distributions from Royal London DAC are not expected to be payable initially.
- 12.14 Additionally, the Estate of the RL Main Fund will provide a capital injection of €40m to Royal London DAC and the value-in-force of the expense tariff in place for the Ireland Liver Business will reduce by £7.5m. The reduction in the value-in-force results from the difference between the charges and actual expenses relating to the administration of the Ireland Liver Business accruing in the Royal London DAC Open Fund rather than the Estate of the RL Main Fund. The RL Main Fund will hold the subsidiary as an asset on its balance sheet, which represented 0.9% of the Estate as at 31 December 2017.
- 12.15 The current governance structure in RLMIS will change as a result of the Transfer, the process regarding Bonus calculations in the RL Main Fund will continue to be performed by RLMIS, including those in respect of the German Bond Business. The Royal London DAC will have ultimate responsibility for the determination of Bonuses due to the German Bond Business.
- 12.16 If Royal London DAC and RLMIS are unable to agree on the Bonuses due to the German Bond Reinsurance Agreement, there is an escalation process which includes obtaining the opinion of an independent actuarial expert whose decision is binding. Royal London DAC will not have input into the Bonus setting process for the Remaining RL Main Fund Business.

- 12.17 The setting of ProfitShare, as described in paragraph 4.13, is currently managed by a set of high-level principles. This includes a principle that the ProfitShare rate should not change materially from year to year and that it should be set at a level which is projected to achieve the Target SCR Cover at the end of the RLMIS medium term planning period of 5 years. Since the additional costs and expenses do not significantly impact the future capital coverage of RLMIS, the future ProfitShare rates are not expected to be materially affected as a result of the Transfer.
- 12.18 In addition, the with-profits Remaining RL Main Fund Policyholders will continue to be managed in accordance with the RL Main Fund PPFM. Minor changes will be made to the RL Main Fund PPFM as a result of the Transfer, as outlined in paragraph 7.38. However, these changes will not have a material adverse effect on the Remaining RL Main Fund Policyholders.
- 12.19 Finally, there will be no change in the investment strategy of the RL Main Fund as a result of the Transfer.

Conclusion

- 12.20 Based on the comments above, I am satisfied that the Transfer will not have a material adverse effect on the benefit expectations and contractual rights of the Remaining RL Main Fund Policyholders because:
- the RL Post-2011 Business and German Bond Business represents only a small percentage of the business in the RL Main Fund
 - there are no changes to the policy terms and conditions of the Remaining RL Main Fund Policyholders
 - the Bonus setting process for the Remaining RL Main Fund Business is unchanged as a result of the Transfer
 - only minor changes will be made to the RL Main Fund PPFM, and the changes being made will not have any impact on with-profits Remaining RL Main Fund Policyholders
 - whilst there are a number of factors which act to reduce the value of the Estate of the RL Main Fund, the Scheme must be implemented due to Brexit and therefore this is unavoidable, the reductions are small as a proportion of the overall size of the Estate, and the reductions are in accordance with the RL Main Fund PPFM, and
 - the Transfer is not expected to impact the ProfitShare rates payable to Remaining RL Main Fund Policyholders.

Security of benefits

- 12.21 I have reviewed the RLMIS Capital Management Framework and the associated governance around changes to the RLMIS Capital Management Framework. I have also interviewed the RLMIS ORSA Lead on the application of the RLMIS Capital Management Framework. To support my review of the SCR Cover following the Transfer, I also obtained up to date financial information and reviewed the RLMIS ORSA.

Solvency

- 12.22 The table in paragraph 10.13 compares the Solvency II Pillar I capital position of the RL Main Fund before and after the Transfer, assuming that the Scheme had taken effect on 31 December 2017, and shows that there is little change in SCR Cover for the RL Main Fund as a result of the Transfer. Additionally I have observed that the SCR Cover remains in line with the Target SCR Cover, on an Internal Model basis, for the RL Main Fund.

Forward Looking Statements on SCR Cover

- 12.23 I conclude in Section 10 that, after taking account of the projected solvency cover levels, I am satisfied from my analysis that RLMIS is currently a well-capitalised entity and is expected to remain so for at least the subsequent five years following the Transfer.

Risk profile

- 12.24 The RL Post-2011 Business and German Bond Business are a very small proportion of the total business within the RL Main Fund, and the German Bond Business is proposed to be reinsured back to RLMIS under the German Bond Reinsurance Agreement. Therefore the Transfer does not result in any material changes to the risk profile of the RL Main Fund.

Capital Management Framework

- 12.25 There is no change to the RLMIS Capital Management Framework as a result of the Transfer.

Capital support

- 12.26 As described in paragraphs 4.24 and 4.25, there exist inter-fund agreements between the RL Main Fund and the RLMIS Closed Funds. These are either set out in the relevant PPFMs or scheme documents. There are no changes to the formal capital support arrangements.
- 12.27 There is no formal requirement for the RL Main Fund to provide capital support to any of the funds within Royal London DAC. However, whilst the German Bond Reinsurance Agreement is in place, the RL Main Fund is responsible for maintaining the SCR Cover of the German Bond Sub-Fund at the Target SCR Cover via an Experience Adjustment. This arrangement will continue until the termination of the German Bond Reinsurance Agreement. This support is expected to be small in relation to the overall size of the RL Main Fund.

Conclusion

- 12.28 Overall, I am satisfied that the Transfer does not cause a material adverse effect on the security of the benefits of the Remaining RL Main Fund Policyholders benefits because:
- there is little change in the SCR Cover for the RL Main Fund as a result of the Transfer, and the SCR remains in line with the Target SCR Cover
 - the five year projected SCR Cover for RLMIS is expected to remain in line with the Target SCR Cover
 - the risk profile of the RL Main Fund does not materially change as a result of the Transfer
 - the RLMIS Capital Management Framework does not change as a result of the Transfer
 - there is no change to the formal capital support arrangements of the RL Main Fund, and
 - any support provided from the RL Main Fund to the German Bond Sub-Fund in order to maintain the Target SCR Cover of the German Bond Sub-Fund is expected to be small in relation to the overall size of the RL Main Fund.

External bodies providing further policyholder protection

Ombudsman

- 12.29 There will be no change to the ombudsman that any of the Remaining RL Main Fund Policyholders can access in the event of a dispute regarding their policy as a result of the Transfer.

FSCS

- 12.30 There is no change to the protection under the FSCS for any of the Remaining RL Main Fund Policyholders as a result of the Transfer.

Conduct of business regulations

- 12.31 There will be no change to the prevailing COBS regulations for Remaining RL Main Fund Policyholders as a result of the Transfer.

Potential litigation

- 12.32 As outlined in paragraph 11.188, there is potential compensation that may be due to some German Bond Policyholders in relation to mis-selling. Under the Scheme, any such mis-selling liabilities, including those arising after the Transfer, will be transferred to Royal London DAC. However, a separate agreement will be put in place between RLMIS and Royal London DAC under which RLMIS agrees to indemnify Royal London DAC in relation to such cases. Therefore, any such indemnity payments would be met by the Estate of the RL Main Fund. A reserve is currently held within the RL Main Fund to meet any such liabilities and a further capital provision is recognised in the RLMIS Internal Model SCR calculation.
- 12.33 Therefore, there are no changes in respect of the allocation of potential German Bond mis-selling liabilities as a result of the Transfer.

Conclusion

- 12.34 Overall, I am satisfied that the Transfer will have no impact on the policyholder protection of Remaining RL Main Fund Policyholders, since these policyholders will continue to be covered by the same protection standards as they were prior to the Transfer.

German Bond Reinsurance Agreement and Security Arrangements

- 12.35 In Section 9 I considered the German Bond Reinsurance Agreement and Security Arrangements and I concluded that the German Bond Reinsurance Agreement results in no change to the management of the RL Main Fund. I also concluded that the provisions governing the termination of the German Bond Reinsurance Agreement provide suitable protection for the Remaining RL Main Fund Business. In addition, I concluded that the Security Arrangements do not elevate Royal London DAC's ranking on the insolvency of RLMIS above that of the Remaining RL Main Fund Policyholders, except in the unlikely event that the direct policyholders of RLMIS receive less than 50% of their BEL.
- 12.36 Overall, I am satisfied that the German Bond Reinsurance Agreement and Security Arrangements do not materially adversely affect the Remaining RL Main Fund Policyholders.

Governance arrangements

- 12.37 The RL Main Fund will continue to be managed in accordance with the current RL Main Fund PPFM, subject to the changes described in paragraph 7.38.
- 12.38 The Boards and Committees within RLMIS will be unchanged by the Transfer and there will be no material change in the responsibilities of the Boards and Committees in relation to the RL Main Fund.
- 12.39 The governance process for Bonus setting within the RL Main Fund will change as a result of the Transfer. The Bonus calculations in the RL Main Fund will continue to be performed by RLMIS, including those in respect of the German Bond Business. Royal London DAC will have ultimate responsibility for the determination of Bonuses due to the German Bond Business.
- 12.40 If Royal London DAC and RLMIS are unable to agree on the Bonuses due to the with-profits German Bond Business, an independent actuarial expert will be appointed to opine on the fairness of the Bonus declaration or Bonus setting process for the with-profits German Bond Business, taking into account a variety of background factors, on the various groups of policyholders. Unlike for the Bonus setting process, Royal London DAC will not have any input on the ongoing distribution of ProfitShare.

Conclusion

- 12.41 Overall, I am satisfied that there will be no material adverse effect on the governance arrangements for Remaining RL Main Fund Policyholders as a result of the Transfer, as there will be no material change to the arrangements in respect of these policyholders.

Tax implications

Policyholder tax

- 12.42 It is anticipated that there will be no change in policyholder taxation for Remaining RL Main Fund Policyholders as a result of the Transfer.

Corporation tax

- 12.43 The impact of the change in Irish corporation tax for Royal London DAC, as discussed in paragraph 7.19, is expected to be less than €0.1m in 2019, and this would be indirectly borne by the Estate of the RL Main Fund via reduced potential dividend distributions from Royal London DAC. This impact would not be realised immediately, as dividend distributions from Royal London DAC are not expected to be payable initially.
- 12.44 The impact of the additional corporation tax is not expected to have any material adverse effect on the ProfitShare that can be distributed to the Remaining RL Main Fund Policyholders.

VAT

- 12.45 A small amount of additional VAT may arise on the provision of services between the UK and Ireland. Any additional VAT deemed to arise as a result of the Transfer of the German Bond Business to Royal London DAC will be charged to the Estate of the RL Main Fund. This is permitted under the RL Main Fund PPFM.

Transfer pricing

- 12.46 Paragraph 11.130 outlines the rules on transfer pricing for associated companies in a cross-border group. Given the mutual nature of the Transferring Business, a simple cost recharge or a cost plus margin approach will be used. A portion of this cost will be met by the RL Main Fund.

Tax clearances

- 12.47 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

- 12.48 I have reviewed documents provided by RLMIS tax experts and the summary notes provided from RLMIS' external tax advisers to assess whether these are in line with my understanding. Overall, I am satisfied that there will be no material adverse tax implications for Remaining RL Main Fund Policyholders as a result of the Transfer because:
- there are no material policyholder tax impacts on the Remaining RL Main Fund Business as a result of the Transfer
 - the indirect tax impacts on the Remaining RL Main Fund Business via the Estate of the RL Main Fund are not material and are a necessary and unavoidable cost of ensuring the continued servicing of the Transferring Business, and
 - the tax arrangements are not expected to be materially altered by transfer pricing rules.

Costs of the Scheme and incremental ongoing expenses

- 12.49 As described in paragraphs 6.49 to 6.51, for the RL Post-2011 Business and the German Bond Business, the allocated one-off costs resulting from the implementation of the Scheme are expected to be approximately £10.7m. This will be charged to the Estate of the RL Main Fund.

12.50 As described in paragraph 7.12, additional ongoing costs are expected to increase by less than approximately €0.1m per year for German Bond Policies as a result of the Transfer. These increased ongoing costs will be charged to the Estate of the RL Main Fund.

Conclusion

12.51 Overall, I am satisfied that the allocation of the costs related to the implementation of the Scheme, including increased ongoing expenses, will not have a material adverse effect on RL Main Fund Policyholders because:

- the Scheme must be implemented to mitigate the risk of not being able to service the Transferring Policies due to Brexit and therefore the nature and quantum of these costs are unavoidable. The costs represent a small proportion of the Estate of the RL Main Fund.
- given the mutual nature of RLMIS, it is not possible to charge the costs to shareholders and therefore the costs need to be met by the Estate of one or more with-profits funds
- these costs are allocated in line with the policies set out in the RL Main Fund PPFM
- allocation of incremental administration costs between the various policyholders within the RL Main Fund is applied consistently in accordance with the best principles and practices generally seen in the industry, namely to apportion costs on an activity basis, and
- the allocation of these costs is consistent with past precedents. Within the RL Main Fund all insurance, expense and investment risks are shared across the whole of the RL Main Fund and therefore it is fair to share the costs and risks as a result of the Transfer between the Remaining RL Main Fund Business and the German Bond Business.

Administration and service standards

12.52 After the Transfer, the current administration provisions for the Remaining RL Main Fund Policyholders will continue as they do now. The Remaining RL Main Fund Policies will continue to be administered by the same staff, in the same locations, adhering to the same policies and service standards.

12.53 Therefore, the Transfer is not expected to alter the service standards experienced by the Remaining RL Main Fund Policyholders.

Conclusion

12.54 Overall, I am satisfied that there will be no material adverse effect on the administration and service standards of Remaining RL Main Fund Policyholders as a result of the Transfer, as there are no anticipated changes to either of these aspects.

Membership rights

12.55 No Remaining RL Main Fund Policyholders will lose membership rights as a result of the Transfer, provided they held such rights prior to the Transfer.

Conclusion

12.56 Overall, I have concluded that there will be no material adverse effect on Remaining RL Main Fund Policyholders as a result of the Transfer. I note that the Remaining RL Main Fund Policyholders will see a reduction in the value of the Estate due to the allocation of tax, costs and expenses, however this reduction is not expected to be material. I am satisfied that the impact on the Remaining RL Main Fund Policyholders is fair, as the reduction in the Estate is expected to be small and the allocation of these expenses is in line with the RL Main Fund PPFM.

Communications with Remaining RL Main Fund Policyholders in relation to the Transfer

- 12.57 On the basis that I have concluded that there is no material adverse effect on the Remaining RL Main Fund Policyholders, I have also concluded that there are no material issues that need to be brought directly to their attention before the Transfer. Therefore, I agree with RLMIS' decision to seek a waiver from the High Court with regard to the requirement contained in regulation 3(2)(b) of Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 to notify all policyholders of RLMIS, including those allocated to the RL Main Fund who do not have a policy in the German Bond Business or in the RL Post-2011 Business.
- 12.58 As required by the UK Regulators, Remaining RL Main Fund Policyholders will be sent notification of the changes made to the practices of the RL Main Fund PPFM.

Remaining Royal Liver Sub-Fund Policyholders

- 12.59 Under the Scheme, on the Effective Date Ireland Liver Business, which is allocated to the Royal Liver Sub-Fund, will be transferred to Royal London DAC. The Ireland Liver Business will then be fully reinsured back to the Royal Liver Sub-Fund. The Ireland Liver Business makes up 44% of the Royal Liver Sub-Fund, based on BEL, as at 31 December 2017.

Policyholder benefit expectations and contractual rights

Non-profit and unit-linked Remaining Royal Liver Sub-Fund Policyholders

- 12.60 The Scheme will not result in any changes to the policy terms and conditions of the non-profit and unit-linked Remaining Royal Liver Sub-Fund Policyholders, nor will there be any change to any options or guarantees to which these policyholders are currently entitled.
- 12.61 The non-profit and unit-linked Remaining Royal Liver Sub-Fund Policies will continue to be managed in accordance with the Royal Liver IoT. The discretion and investment policies and supporting governance, which currently exist within RLMIS for non-profit and unit-linked Remaining Royal Liver Sub-Fund Policyholders, will not be altered as a result of the Transfer.
- 12.62 Therefore, overall, the benefits for non-profit and unit-linked Remaining Royal Liver Sub-Fund Policyholders will not be affected by the Transfer. The benefits for the non-profit policies are generally fixed by the policy terms and conditions. The unit-linked policies will continue to be invested in the same unit-linked funds after the Effective Date as they did prior to the Effective Date, and the number and type of units held by unit-linked policyholders will be unchanged as a result of the Transfer.

With-profits Remaining Royal Liver Sub-Fund Policyholders

- 12.63 The Scheme will not result in any changes to the policy terms and conditions of the with-profits Remaining Royal Liver Sub-Fund Policyholders, nor will there be any change to any options or guarantees to which these policyholders are currently entitled.
- 12.64 The impact that the Transfer will have on the benefits of with-profits Remaining Royal Liver Sub-Fund Policyholders is driven by any changes to the Estate of the Royal Liver Sub-Fund or the Estate Distribution. At 31 December 2017 the total Estate had an estimated value of £499m.
- 12.65 There will be a number of changes to the Estate of the Royal Liver Sub-Fund as a result of the Transfer which, overall, will lead to a reduction in the surplus emerging in the Royal Liver Sub-Fund. These are as follows:
- as outlined in paragraph 6.50, the Estate of the Royal Liver Sub-Fund will meet its proportion of the one-off costs of implementing the Scheme of approximately £10.3m, which represents c.2.1% of the Estate as at 31 December 2017

- as outlined in paragraph 7.10, there will be an increase in administration expenses of approximately €2.0m per year as a result of the Transfer, which represents c. 0.4% of the Estate as at 31 December 2017, and
 - as detailed in paragraph 9.23, if the Experience Adjustment under the Liver Reinsurance Agreement is negative it will be paid from the Estate of the Royal Liver Sub-Fund to the Liver Ireland Sub-Fund, if the Experience Adjustment is positive it will be paid by the Liver Ireland Sub-Fund to the Estate of the Royal Liver Sub-Fund.
- 12.66 As outlined in paragraph 10.66, the impact of the above changes in ongoing cashflows has been assessed against the current run-off plan for the Royal Liver Sub-Fund, and it is expected that these cashflows will lead to an estimated reduction in the Estate Distribution to both the with-profits Remaining Royal Liver Sub-Fund Policyholders and the with-profits Ireland Liver Policyholders of approximately 2.0% at year-end 2018 when compared to the current run-off plan for the Royal Liver Sub-Fund, which does not allow for the Transfer. After this point, Estate Distributions are projected to be broadly unchanged. The costs that result in the one-off reduction in the Estate Distribution of the Royal Liver Sub-Fund is in line with the Royal Liver PPFM and past practices, and has been allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner.
- 12.67 The Royal Liver IoT sets out a prescriptive approach to Estate Distribution such that distributions are only made when the Royal Liver Sub-Fund is capitalised beyond a level where it can withstand an event equivalent to a 1-in-20 year probability in the next 12 months and still meet its SCR measured on an Internal Model basis. Whilst there have been some Estate Distributions from the Royal Liver Sub-Fund in recent years, these have not been applied regularly.
- 12.68 The governance process for Bonus setting within the Royal Liver Sub-Fund will change as a result of the Transfer, this change is detailed further in paragraph 12.88. However, I do not expect this to materially alter the Bonuses declared in the Royal Liver Sub-Fund.
- 12.69 In addition, the with-profits Remaining Royal Liver Sub-Fund Policyholders will continue to be managed in accordance with the Royal Liver PPFM and Royal Liver IoT. Changes will be made to the Royal Liver PPFM and Royal Liver IoT as a result of the Transfer, as mentioned in paragraphs 7.37 and 7.40 respectively. However, these changes will not have a material adverse effect on the Remaining Royal Liver Sub-Fund Policyholders.
- 12.70 Finally, there will be no change in the investment strategy of the Royal Liver Sub-Fund as a result of the Transfer.

Conclusion

- 12.71 Based on the comments above, I am satisfied that the Transfer will not have a material adverse effect on the benefit expectations and contractual rights of the Remaining Royal Liver Sub-Fund Policyholders because:
- there are no changes to the policy terms and conditions of these policies
 - the changes being made to the Royal Liver PPFM will not have any material impact on with-profits Remaining Royal Liver Sub-Fund Policyholders
 - whilst there is a reduction in the anticipated Estate Distribution of the Royal Liver Sub-Fund as a result of the Transfer, the Scheme must be implemented due to Brexit and therefore this is unavoidable. Further, this reduction is in line with the Royal Liver PPFM and past practices, and will be allocated between the RL Main Fund and the Royal Liver Sub-Fund in a fair manner
 - there is a prescriptive approach to distributing the Estate of the Royal Liver Sub-Fund, as set out within the Royal Liver IoT. This means that disputes between RLMIS and Royal London DAC in respect of Estate Distributions are unlikely, and
 - whilst there have been some Estate Distributions from the Royal Liver Sub-Fund in recent years, these have not been applied regularly, meaning RLMIS has not set the expectations of Remaining Royal Liver Sub-Fund Policyholders at a specified level.

Security of benefits

- 12.72 I have reviewed the RLMIS Capital Management Framework and the associated governance arrangements in relation to changes to the RLMIS Capital Management Framework. I have also interviewed RLMIS's ORSA Lead on the application of the RLMIS Capital Management Framework. To support my review of the SCR Cover following the Transfer, I also reviewed the RLMIS ORSA.

Solvency

- 12.73 The table in paragraph 10.13 compares the Solvency II Pillar I capital position of the Royal Liver Sub-Fund before and after the Transfer, assuming that the Scheme had taken effect on 31 December 2017. The table shows that there is little change in SCR Cover for the Royal Liver Sub-Fund as a result of the Transfer. Additionally, I have observed that the SCR Cover remains above the Target SCR Cover for the Royal Liver Sub-Fund.

Forward Looking Statements on SCR Cover

- 12.74 In paragraph 10.21, after taking account of the projected solvency cover levels, I am satisfied from my analysis that RLMIS is currently a well-capitalised entity and is expected to remain so for at least the subsequent five years following the Transfer.

Risk profile

- 12.75 The Ireland Liver Business is proposed to be reinsured back to RLMIS under the Liver Reinsurance Agreement. Therefore, the Transfer does not result in any material changes to the risk profile of the Royal Liver Sub-Fund.

Capital Management Framework

- 12.76 There is no change to the RLMIS Capital Management Framework as a result of the Transfer.

Capital support

- 12.77 As referred to in paragraph 4.24, currently there are provisions in the RL Main Fund PPFM that state that the RL Main Fund would provide capital support to the RLMIS Closed Funds, this includes a formalised support arrangement in place between the RL Main Fund and the Royal Liver Sub-Fund detailed in the Royal Liver IoT. This capital support arrangement will remain in place following the Transfer.
- 12.78 There is no formal requirement for the Royal Liver Sub-Fund to provide capital support to any of the funds within Royal London DAC. However, whilst the Liver Reinsurance Agreement is in place, the Royal Liver Sub-Fund is responsible for maintaining the SCR Cover of the Liver Ireland Sub-Fund at the Target SCR Cover via the Experience Adjustment. This arrangement will continue until the termination of the Liver Reinsurance Agreement.

Conclusion

- 12.79 Overall, I am satisfied that the Transfer does not cause a material adverse effect on the security of the Remaining Royal Liver Sub-Fund Policyholders benefits because:
- there is little change in the SCR Cover for the Royal Liver Sub-Fund as a result of the Transfer, and the SCR remains above the Target SCR Cover after the Transfer
 - the five year projected SCR Cover for RLMIS and the Royal Liver Sub-Fund are expected to remain in line with the Target SCR Cover
 - the risk profile of the Royal Liver Sub-Fund does not materially change as a result of the Transfer
 - the RLMIS Capital Management Framework does not change as a result of the Transfer, and

- the existing capital support arrangement between the RL Main Fund and the Royal Liver Sub-Fund will remain unchanged.

External bodies providing further policyholder protection

Ombudsman

- 12.80 There will be no change to the ombudsman that any of the Remaining Royal Liver Sub-Fund Policyholders can access in the event of a dispute regarding their policy as a result of the Transfer.

FSCS

- 12.81 There is no change to the protection under the FSCS for any of the Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer.

Conduct of business regulations

- 12.82 There will be no change to the prevailing COBS for Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer.

Conclusion

- 12.83 Overall, I am satisfied that the Transfer will have no impact on the protection of Remaining Royal Liver Sub-Fund Policyholders, since these policyholders will continue to be covered by the same protection standards as they are prior to the Transfer.

Liver Reinsurance Agreement and Security Arrangements

- 12.84 In Section 9 I considered the Liver Reinsurance Agreement and Security Arrangements and I concluded that the Liver Reinsurance Agreement allows the Royal Liver Sub-Fund to be managed in broadly the same manner before and after the Transfer. I also concluded that the provisions governing the termination of the Liver Reinsurance Agreement provide suitable protection for the Remaining Royal Liver Sub-Fund Business. In addition, I concluded that the Security Arrangements do not elevate Royal London DAC's ranking on insolvency of RLMIS above that of the Remaining Royal Liver Sub-Fund Policyholders, except in the unlikely event that the direct policyholders of RLMIS receive less than 50% of their BEL.
- 12.85 Overall, I am satisfied that the Liver Reinsurance Agreement and Security Arrangements do not materially adversely affect the Remaining Royal Liver Sub-Fund Policyholders.

Governance arrangements

- 12.86 The Royal Liver Sub-Fund will continue to be managed in accordance with its current PPFM (subject to the changes described in paragraph 7.37) and the Royal Liver IoT, and due to the Liver Reinsurance Agreement, will continue to be managed as a whole fund.
- 12.87 The Boards and Committees within RLMIS will be unchanged by the Transfer and there will be no material change in the responsibilities of the Boards and Committees in relation to the Royal Liver Sub-Fund. The roles and responsibilities of the Liver Supervisory Committee will be extended, following the Transfer, to ensure consideration is given to interests of the Ireland Liver Business.
- 12.88 The governance process for Bonus setting within the Royal Liver Sub-Fund will change as a result of the Transfer. After the Transfer, Royal London DAC will be ultimately responsible for the determination of Bonuses for Transferring Policies. The process regarding Bonus calculations in the Royal Liver Sub-Fund will continue to be performed by RLMIS, including those in respect of the Ireland Liver Business. If agreement on the Bonus declaration or Bonus setting process cannot be reached between RLMIS and Royal London DAC, an independent actuarial expert will be appointed to

conclude the dispute, whose decision will be binding on both Royal London DAC and RLMIS. The independent actuarial expert will take into account a variety of background factors and consider the fairness between the relevant policyholder groups.

Conclusion

- 12.89 Overall, I am satisfied that there will be no material adverse effect on the governance arrangements for Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer, as there will be no change to the arrangements in respect of these policyholders, subject to paragraph 7.37.
- 12.90 After analysing the amended Royal Liver IoT I have concluded that the changes that are proposed to be made to the Royal Liver IoT as a result of the Transfer are fair, reasonable and do not materially change the original provisions in respect of Remaining Royal Liver Sub-Fund Policyholders. Overall, therefore, I am satisfied with the amendments that are proposed to the Royal Liver IoT and I have formally certified this in Appendix H.

Tax implications

Policyholder tax

- 12.91 It is not anticipated that there will be a change in policyholder taxation for Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer.

Corporation tax

- 12.92 There is a change to the corporation tax calculation for the Ireland Liver Business as a result of the Liver Reinsurance Agreement. This changes the allocation of the amount and type of assets held to support the UK and Ireland business for tax purposes. This is expected to result in a reduction of taxation for the Royal Liver Sub-Fund of less than £0.1m per year, which will be realised as a benefit to the Estate of the Royal Liver Sub-Fund.

VAT

- 12.93 A small amount of additional VAT may arise on the provision of services between the UK and Ireland. However, this has been significantly mitigated by moving the administration of the Ireland Liver Business to the Irish branch of RLMIS, as outlined in paragraph 7.14. Any additional VAT deemed to arise as a result of the Transfer of the Ireland Liver Business to Royal London DAC will be charged to the Estate of the Royal Liver Sub-Fund. This is permitted under the Royal Liver PPFM.

Transfer pricing

- 12.94 Paragraph 11.130 outlines the rules on transfer pricing for associated companies in a cross-border group. Given the mutual nature of the Transferring Business, it is expected that a simple cost recharge or a cost plus margin approach will be used. A portion of these costs will be met by the Royal Liver Sub-Fund.

Tax clearances

- 12.95 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

- 12.96 I have reviewed documents provided by RLMIS tax experts and the summary notes provided from RLMIS' external tax advisers to assess whether these are in line with my understanding. I am satisfied that there will be no material adverse tax implications for Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer because:

- the indirect tax impacts on the Remaining Royal Liver Sub-Fund Business via the Estate of the Royal Liver Sub-Fund are not material, and are a necessary and unavoidable cost of ensuring the continued servicing of the Ireland Liver Business, and
- the tax arrangements are not expected to be materially affected by transfer pricing rules.

Costs of the Scheme and incremental ongoing expenses

12.97 For the Ireland Liver Business the allocated one-off costs resulting from the implementation of the Scheme are expected to be approximately £10.3m. This will be charged to the Estate of the Royal Liver Sub-Fund.

12.98 As a result of the Transfer, there will be additional ongoing costs, associated with the Ireland Liver Policies, of approximately €2.0m per year. As shown in paragraph 9.158, the Ireland Liver Business is expected to run-off relatively quickly, and therefore these additional on-going costs should reduce relatively quickly. The increased ongoing costs will, up until 1 December 2021, be borne by the Estate of the Royal Liver Sub-Fund. After this date, an activity based costing methodology will be used to charge actual expenses plus a margin to all policies residing in the Royal Liver Sub-Fund and Liver Ireland Sub-Fund. The charge to the policyholders of the Royal Liver Sub-Fund and Liver Ireland Sub-Fund cannot exceed the price that an outsourcer would charge to provide the same service.

12.99 The allocation of costs as outlined above is in line with the Royal Liver PPFM and the Royal Liver IoT. In addition, there is governance in place to ensure that such costs are fairly charged to the Royal Liver Sub-Fund which includes the involvement of the RLMIS WPA, the Liver Supervisory Committee and the RLMIS WPC.

Conclusion

12.100I am satisfied with the allocation of the incremental ongoing costs and one-off costs to the Estate of the Royal Liver Sub-Fund, including the sharing of costs between the Remaining Royal Liver Sub-Fund Policies and the Ireland Liver Policies because:

- the Scheme must be implemented due to Brexit and therefore these costs are unavoidable
- given the mutual nature of RLMIS, it is not possible to charge the costs to shareholders and therefore the costs need to be met by the Estate of a with-profits fund
- the Royal Liver PPFM and Royal Liver IoT allows these exceptional costs to be charged to the Estate of the Royal Liver Sub-Fund, as they are the result of a major legislative change
- the one-off costs and ongoing incremental costs affect both the Remaining Royal Liver Sub-Fund Business and Ireland Liver Business in the same way, and I consider that this is fair as this is in line with past practice in relation to how the Royal Liver Sub-Fund is managed, and
- there is no reason to depart from past practice by charging these costs only to the Ireland Liver Business, as this would not be in line with the current approach of sharing experience, such as investment returns, across the Royal Liver Sub-Fund.

Administration and service standards

12.101After the Transfer, the current administration provisions for the Remaining Royal Liver Sub-Fund Policyholders will continue as they do now. The Remaining Royal Liver Sub-Fund policies will continue to be administered by the same staff, in the same locations, adhering to the same policies on service standards.

12.102Therefore, the Transfer is not expected to alter the service standards experienced by the Remaining Royal Liver Sub-Fund Policyholders.

Conclusion

12.103Overall, I am satisfied that there will be no material adverse effect on the administration and services standards of Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer, as there are no anticipated changes to either of these aspects.

Membership rights

12.104 Remaining Royal Liver Sub-Fund Policyholders do not currently hold any membership rights, and this will continue to be the case after the Transfer.

Conclusion

12.105 Overall, I have concluded that there will be no material adverse effect on Remaining Royal Liver Sub-Fund Policyholders as a result of the Transfer. However, I note that the Remaining Royal Liver Sub-Fund Policyholders will see a reduction in the value of the Estate due to the allocation of tax, costs and expenses. For the reasons outlined above, I am satisfied that the allocation of these expenses is reasonable.

Communications with Remaining Royal Liver Sub-Fund Policyholders in relation to the Transfer

12.106 I have set out a summary of the RLMIS communications strategy in paragraphs 7.44 to 7.57 above.

12.107 I have reviewed the communications that are proposed to be sent to all Remaining Royal Liver Sub-Fund Policyholders, except those subject to waivers, in relation to the Transfer and I am satisfied that they are fair, clearly worded, not misleading and are in line with my understanding of the Scheme. In addition, the communications include the key information that I would expect to see based on my experience of other schemes, including a brief, easy to understand overview of the Scheme, the options available to policyholders, responses to frequently asked questions, a means for seeking further information if required and the communications set out the policyholder's right to object to the Scheme.

12.108 In forming the above opinion, I have reviewed the communications that will be sent to Remaining Royal Liver Sub-Fund Policyholders in relation to the Transfer and I can confirm that these are in line with my understanding of the Scheme.

Dispensations and waivers

Paragraph 3(2)(b)

12.109 As outlined in paragraph 7.56, RLMIS is to seek a waiver from the requirement to notify all policyholders of RLMIS, including certain Remaining Royal Liver Sub-Fund Policyholders of RLMIS of the Transfer. Appendix I provides an assessment of each of the groups of policyholders identified against the factors outlined in paragraph 7.55, providing rationale for excluding each of these groups of policyholders from the mailing.

12.110 I have reviewed the reasons that these dispensations and waivers have been sought in relation to the Remaining Royal Liver Sub-Fund Policyholders. It is my opinion that, in each case, it is appropriate to not send the communications pack to these policyholders. In addition, the transfer website contains the information detailed within each variant of the communications pack, enabling these policyholders to access the same level of information as they would have had if they were included in the mailing. Further, I am satisfied that full compliance with this regulation is both unnecessary and disproportionately costly.

Other Remaining Policyholders

12.111 The Other Remaining Policyholders are allocated to ring-fenced funds of RLMIS that are managed independently from each other, the RL Main Fund and the Royal Liver Sub-Fund. Therefore, Other Remaining Policyholders would only be affected by the Transfer in extreme circumstances, such as the insolvency of the RL Main Fund. The various aspects concerning Other Remaining Policyholders are considered below.

Policyholder benefit expectations and contractual rights

- 12.112 There will be no changes to the policy terms and conditions for non-profit, with-profits and unit-linked Other Remaining Policyholders as a result of the Transfer, nor will there be any change to any options and guarantees to which these policyholders are currently entitled. In addition, the policies in relation to discretion, investment and the management of charges and expenses will not change as a result of the Transfer.
- 12.113 For with-profits Other Remaining Policyholders, there will be no change to the Estate Distribution as a result of the Transfer, and the PPFMs covering these policyholders will be unchanged (except for the Refuge Assurance IB, United Friendly IB and United Friendly OB policyholders who are governed by the RL Main Fund which will be non-materially updated as a result of the Transfer).
- 12.114 Therefore, the benefits for Other Remaining Policyholders will not be affected by the Transfer.

Conclusion

- 12.115 Overall, I am satisfied that there will be no changes to the policyholder benefits and contractual rights of Other Remaining Policyholders as a result of the Transfer.

Security of benefits

- 12.116 I have reviewed the RLMIS Capital Management Framework and the associated governance around changes to the RLMIS Capital Management Framework. I have also interviewed the RLMIS ORSA Lead on the application of the RLMIS Capital Management Framework. To support my review of the SCR Cover following the Transfer, I also obtained up to date financial information and reviewed the RLMIS ORSA.

Solvency

- 12.117 The table in paragraph 10.13 compares the Solvency II Pillar I capital position of RLMIS before and immediately after the Transfer, assuming that the Scheme had taken effect on 31 December 2017, and shows that there is little change in SCR Cover for RLMIS as a result of the Transfer. In addition, there is no change in the SCR Cover for the ring-fenced funds which the Other Remaining Business is allocated to. I have observed that the SCR Cover remains in line with the Target SCR Cover for RLMIS and the Target SCR Cover of the ring-fenced funds to which the Other Remaining Business is allocated are not altered as a result of the Scheme.

Forward Looking Statements on SCR Cover

- 12.118 Having considered the projected solvency cover levels (as stated in paragraph 10.21), I am satisfied that RLMIS is currently a well-capitalised entity and is expected to remain so for at least the subsequent five years following the Transfer.

Risk profile

- 12.119 The Transfer does not result in any changes to the risk profile of the ring-fenced funds to which the Other Remaining Policyholders are allocated.

Capital Management Framework

- 12.120 There is no change to the RLMIS Capital Management Framework governing the funds to which the Other Remaining Policyholders are allocated as a result of the Transfer.

Capital support

12.121 As described in paragraphs 4.24 and 4.25, there exist inter-fund agreements between the RL Main Fund and the RLMIS Closed Funds. These will not be altered as a result of the Transfer.

Conclusion

12.122 Overall, I am satisfied that the Scheme does not cause a material adverse effect on the security of the Other Remaining Policyholders' benefits because:

- there is little change in the SCR Cover for RLMIS as a result of the Transfer, and the SCR remains in line with the Target SCR Cover
- the five year projected SCR Cover for RLMIS is expected to remain in line with the Target SCR Cover
- the Transfer does not result in any change in the SCR Cover for the ring-fenced funds which the Other Remaining Business are allocated to, and the SCR Cover remains in line with the Target SCR Cover for these funds
- the risk profile of the ring-fenced funds which the Other Remaining Policyholders are allocated to do not change as a result of the Transfer
- the RLMIS Capital Management Framework does not change as a result of the Transfer, and
- there is no material change to the operation of the capital support arrangements relevant to the ring-fenced funds which the Other Remaining Policyholders are allocated to as a result of the Transfer.

External bodies providing further policyholder protection

Ombudsman

12.123 The ombudsman that any of the Other Remaining Policyholders can access in the event of a dispute regarding their policy will not change as a result of the Transfer.

FSCS

12.124 There is no change to the protection under the FSCS for any of the Other Remaining Policyholders as a result of the Transfer.

Conduct of business regulations

12.125 For Other Remaining Policyholders there will be no change to the prevailing COBS, and so no change with respect to this means of policy protection.

Conclusion

12.126 Overall, I am satisfied that the Transfer will have no impact on the protection of Other Remaining Policyholders, since these policyholders will continue to be covered by the same protection standards as they were prior to the Transfer.

New Reinsurance Agreements and Security Arrangements

12.127 In Section 9 I considered the New Reinsurance Agreements and Security Arrangements and I concluded that the New Reinsurance Agreements will not alter the management of the RLMIS Closed Funds. I also concluded that the provisions governing the termination of the New Reinsurance Agreements provide suitable protection for the Other Remaining Policyholders. In addition, I concluded that the Security Arrangements do not elevate Royal London DAC's ranking above that of the Other Remaining Policyholders, except in the unlikely event that the direct policyholders of RLMIS receive less than 50% of their BEL.

12.128 Overall, I am satisfied that the New Reinsurance Agreements and Security Arrangements do not materially adversely affect the Other Remaining Policyholders.

Governance arrangements

12.129 The governance structures that are in place for all Other Remaining Policyholders will be unchanged as a result of the Transfer.

12.130 The ring-fenced funds to which the Other Remaining Policyholders are allocated will continue to be managed in accordance with their current PPFMs.

12.131 The Boards and Committees within RLMIS will be unchanged by the Transfer, and there will be no material change in the responsibilities of the Boards and Committees in relation to the ring-fenced funds to which the Other Remaining Policyholders are allocated.

Conclusion

12.132 Overall, I am satisfied that there will be no material adverse effect on the governance arrangements for Other Remaining Policyholders as a result of the Transfer, as there will be no change to the arrangements in respect of these policyholders.

Tax implications

Policyholder tax

12.133 It is not anticipated that there will be a change in policyholder taxation for Other Remaining Policyholders as a result of the Transfer.

Corporation tax

12.134 Any impacts on corporation tax as a result of the Transfer will be absorbed by the Estates of the RL Main Fund and the Royal Liver Sub-Fund and therefore do not impact the ring-fenced funds to which the Other Remaining Business is allocated.

VAT

12.135 Any impacts on VAT as a result of the Transfer will be absorbed by the Estates of the RL Main Fund and the Royal Liver Sub-Fund and therefore do not impact the ring-fenced funds to which the Other Remaining Business is allocated.

Transfer pricing

12.136 Any costs arising from transfer pricing rules as a result of the Transfer will be met by the RL Main Fund and the Royal Liver Sub-Fund and therefore do not impact the ring-fenced funds to which the Other Remaining Business is allocated.

Tax clearances

12.137 RLMIS is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

12.138 Overall, I am satisfied that there will be no material adverse tax implications for Other Remaining Policyholders as a result of the Transfer because:

- any impacts on corporation tax or VAT as a result of the Transfer will be absorbed by the Estates of the RL Main Fund and the Royal Liver Sub-Fund, and
- if additional costs arise due to transfer pricing rules, this would be met by the RL Main Fund and would therefore not impact the funds which the Other Remaining Business are allocated to.

Costs of the Scheme and incremental ongoing expenses

12.139 The costs associated with the implementation of the Scheme and any resultant increased ongoing expenses will be met by the Estates of the RL Main Fund and the Royal Liver Sub-Fund, and therefore there will be no impact on the Other Remaining Policyholders.

Conclusion

12.140 Overall, I am satisfied that the allocation of the costs related to the implementation of the Scheme, including increased ongoing expenses, will not have a material adverse effect on Other Remaining Policyholders, because all such costs will be allocated to the Estates of the RL Main Fund and the Royal Liver Sub-Fund.

Administration and service standards

12.141 After the Transfer, the current administration provisions for the Other Remaining Policyholders will continue as they do now. The Other Remaining Policies will continue to be administered by the same staff, in the same locations, adhering to the same policies on service standards.

12.142 Therefore, the Transfer is not expected to alter the service standards experienced by the Other Remaining Policyholders.

Conclusion

12.143 Overall, I am satisfied that there will be no material adverse effect on the administration and service standards of the Other Remaining Policyholders as a result of the Transfer, as there are no anticipated changes to either of these aspects.

Membership rights

12.144 Other Remaining Policyholders do not currently hold any membership rights, and this will continue to be the case after the Transfer.

Conclusion

12.145 Overall, I have concluded that there will be no material adverse effect on Other Remaining Policyholders as a result of the Transfer. This is appropriate given that these policyholders are allocated to ring-fenced funds that are managed independently of each other, the RL Main Fund and the Royal Liver Sub-Fund.

Communications with Other Remaining Policyholders in relation to the Transfer

12.146 On the basis that I have concluded that there is no material adverse effect on the Other Remaining Policyholders, I have also concluded that there are no material issues that need to be brought directly to their attention before the Transfer proceeds. Therefore, I agree with RLMIS' decision to seek dispensation from the High Court with regard to the requirement contained in regulation 3(2) (b) of the Financial Services Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 to notify all Other Remaining Policyholders of RLMIS.

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

Introduction

- 13.1 The terms of the Scheme, New Reinsurance Agreements and Security Arrangements are designed to minimise disruption to the general operation and security of the Existing Policyholders.
- 13.2 Following authorisation but prior to the Effective Date, Royal London DAC expects to write new business in the Royal London DAC Open Fund. By the Effective Date, according to RLMIS estimates, Royal London DAC will have around 2,000 Existing Policyholders. All Existing Policies will be non-profit policies.
- 13.3 Within this section I consider the analysis performed in the earlier sections of the Report in relation to the Existing Policyholders. In order to understand whether the Transfer will have any material adverse effect on Existing Policyholders, it is necessary to consider various possible areas which could be affected, including:
- policyholder benefit expectations and contractual rights
 - security of benefits
 - external bodies providing further policyholder protection
 - New Reinsurance Agreements and Security Arrangements
 - tax implications
 - costs of the Scheme
 - administration and service standards, and
 - communications with Existing Policyholders in relation to the Transfer.

Policyholder benefit expectations and contractual rights

- 13.4 The Scheme will not result in any changes to the policy terms and conditions for the Existing Policyholders. In addition, the discretion policies which are to be adopted by Royal London DAC will not be altered as a result of the Transfer.
- 13.5 I do not expect that the Transfer will have any material adverse effect on the policyholder benefits or contractual rights for the Existing Policyholders, because:
- there is no change to the policy terms and conditions
 - the discretion policies and the governance related to the Existing Policyholders will be unchanged by the Transfer, and
 - all Existing Policies are non-profit and therefore the policy benefits are not affected by the Transfer.

Security of benefits

Capital Management Framework

- 13.6 There will be no change to the principles within the Royal London DAC Capital Management Framework or the governance arrangements for Royal London DAC as a result of the Transfer. However, from the Effective Date, the Royal London DAC Capital Management Framework will be extended to incorporate the Liver Ireland Sub-Fund and German Bond Sub-Fund that will be established as part of the Transfer.

- 13.7 The Royal London DAC Open Fund will be above its Target SCR Cover under its framework following the Transfer. This would usually trigger management actions to bring the SCR Cover back towards the Target SCR Cover. However, the surplus is intended to be kept within the fund in the medium-term to ensure there is sufficient liquidity to pay policyholder benefits as they arise, ensuring policyholder security. This is in line with the Royal London DAC draft ORSA.

Changes to risk profile

- 13.8 I addressed the risk profile of Royal London DAC in paragraphs 10.29 to 10.36. Following the Transfer, the main risks for the Royal London DAC Open Fund are largely unchanged.
- 13.9 There is additional counterparty default risk that arises in Royal London DAC as a result of the Transfer, which is discussed below. There is also additional operational risk within Royal London DAC that arises as a result of the Transfer.
- 13.10 All of the main risks that Royal London DAC is exposed to following the Transfer are typical for a life insurer and, therefore, the management of such risks would not be expected to cause any particular challenges within Royal London DAC. Therefore, there is no expected material adverse effect on Existing Policyholders as a result of the changes to the risk profile of Royal London DAC following the Transfer.

Risks introduced as a result of the New Reinsurance Agreements

- 13.11 A consequence of the New Reinsurance Agreements is that the Existing Policyholders are indirectly exposed to an element of counterparty credit risk that they were not exposed to prior to the Transfer via the Royal London DAC Closed Funds. However, the Security Arrangements act as a mitigant to this additional risk.
- 13.12 I have considered this additional counterparty credit exposure, and its impact on Existing Policyholders, in paragraphs 9.157 to 9.160. For the reasons I have described, I am satisfied that this does not materially adversely affect the Existing Policyholders.

Conclusion

- 13.13 I am satisfied that there will be no material adverse effect on the security of the Existing Policyholders of Royal London DAC, as:
- the Royal London DAC Capital Management Framework will be unchanged
 - Royal London DAC will continue to be capitalised at or above its Target SCR Cover, and the initial surplus of capital over the Target SCR Cover will be maintained in order to provide further policyholder security
 - the main risks within Royal London DAC following the Transfer are typical risks that life insurers are exposed to, and therefore I do not expect the management of such risks to cause any particular challenges within Royal London DAC, and
 - I am satisfied that the additional counterparty credit exposure as a result of the New Reinsurance Agreements will not materially adversely affect the Existing Policyholders, as this is adequately mitigated through the Security Arrangements.

External bodies providing further policyholder protection

Ombudsman

- 13.14 The Existing Policyholders will continue to have access to the FSPO in the event of a dispute regarding their policy after the Transfer.

FSCS

- 13.15 Prior to the Transfer, the Existing Policyholders are not covered by the FSCS. This is unchanged as a result of the Transfer.

Conduct of business regulations

- 13.16 The Existing Business is all written in Ireland, and is therefore subject to Irish General Good requirements. This will not change as a result of the Transfer.

New Reinsurance Agreements and Security Arrangements

- 13.17 I considered the operation of the New Reinsurance Agreements and Security Arrangements in Section 9.

Conclusion

- 13.18 Based on the reasons set out in Section 9, overall, I am satisfied that the New Reinsurance Agreements and Security Arrangements do not materially adversely affect the Existing Policyholders.

Tax implications of the Transfer

- 13.19 The Transfer will not impact the tax paid by Existing Policyholders on the benefits arising from their policies, as these are non-profits policies with fixed benefits.

Costs of the Transfer

- 13.20 The costs of the Transfer will not be borne by the Existing Policyholders.
- 13.21 There will be no change to the costs and expenses borne by the Existing Policyholders.

Administration and service standards

- 13.22 After the Scheme is implemented, the Existing Policies will be administered by the same people, in the same location and to the same service standards as is the case prior to the Scheme being implemented.
- 13.23 Therefore the Transfer is not expected to alter the service standards experienced by the Existing Policyholders.

Conclusion

- 13.24 Overall, I have concluded that there will be no material adverse effect on the Existing Policyholders as a result of the Transfer.

Communications with Existing Policyholders in relation to the Transfer

- 13.25 Royal London DAC will notify all Existing Policyholders, i.e. those arising from new business written prior to the Effective Date, of the Scheme. Existing Policyholders will be sent a letter and an information pack. The information pack will include a summary of the Scheme, a summary of the Report, a copy of the legal notice, answers to common questions and an overview of the legal process and the rights that Existing Policyholders, and any other person who considers they would be adversely affected by the Scheme, have to object to the Scheme.
- 13.26 The Existing Policyholders will also be able to obtain further information by written request, by telephone and via Royal London Group's website.
- 13.27 I have reviewed the communications that are proposed to be sent to all Existing Policyholders in relation to the Transfer and I am satisfied that they are fair, clearly worded, not misleading and are in line with my understanding of the Scheme. In addition, the communications include the key information that I would expect to see based on my experience of other schemes, including a brief, easy to understand overview of the Scheme, the options available to policyholders, responses to frequently asked questions, a means for seeking further information if required and the communications set out the policyholder's right to object to the Scheme.
- 13.28 From the point at which data is extracted from Royal London DAC's systems for the purposes of the mailing, any new Existing Policyholders will be sent the details of the Scheme as part of the new business process. The information sent to new Existing Policyholders will be consistent with the information sent to the Existing Policyholders, as outlined in paragraph 13.25.
- 13.29 Royal London Group's websites in the UK and Ireland will be updated with the outcome of the Sanctions Hearing and any other relevant additional documents produced after the mailing of the communication pack, such as my Supplementary Report.

14 The impact of the Transfer on reinsurers of Transferring Business of RLMIS

Introduction

- 14.1 In this section, I consider the external reinsurance arrangements in place in respect of the Transferring Business, how these arrangements are being dealt with under the Transfer and whether there will be any resulting material adverse effect on the reinsurers of Transferring Business of RLMIS.

External reinsurance arrangements

- 14.2 The five external reinsurance arrangements for the RL Post-2011 Business are proposed to be amended and novated to Royal London DAC with effect from the Effective Date to reflect the transfer of the underlying reinsured business to Royal London DAC. This will be subject to the consent of the reinsurers and the Transfer taking place. These reinsurance arrangements will be closed to new business upon the Transfer. It is not expected that any reinsurers will object, and at the date of this Report, no reinsurer has objected to the proposed changes. As the reinsurance arrangements will continue to cover the same policies before and after the Transfer it is my opinion that the change of ceding company is unlikely to have any material impact on the affected reinsurers.
- 14.3 The Ireland Liver Business in the Liver Ireland Sub-Fund is covered by reinsurance of mortality and morbidity risks under a variety of agreements with external reinsurers. The intention is that with effect from the Effective Date these arrangements will be converted into retrocession contracts between RLMIS and the external reinsurers subject to the consent of the reinsurers. Providing this consent is forthcoming, as I expect it to be, this will ensure that RLMIS will continue to have equivalent reinsurance cover in place in respect of the Ireland Liver Business that was in place prior to the Transfer.
- 14.4 There are no external reinsurance treaties that cover the German Bond Business.
- 14.5 I will provide an update on the external reinsurance arrangements outlined in paragraphs 14.2 to 14.3 above in my Supplementary Report, by which time I expect the position of the external reinsurers to have been confirmed.

Conclusion

- 14.6 It is my opinion that there is no material adverse effect on the external reinsurers of Transferring Business of RLMIS, because with effect from the Effective Date:
- the reinsurance arrangements covering the RL Post-2011 Business will be amended and novated to Royal London DAC, so they can continue to operate as they do now, although the arrangements will be closed to new business upon the Transfer, and
 - the reinsurance treaties relating to the Ireland Liver Business in the Royal Liver Sub-Fund will be converted into retrocessions subject to the agreement of reinsurers and so will operate in an equivalent way to the way they do now.



Tim Roff FIA
Partner
Grant Thornton UK LLP
08 October 2018

A Summary CV for Tim Roff

Title

Partner

Experience

Tim is partner and head of actuarial and risk services at Grant Thornton. He has previously held roles as head of global actuarial services at KPMG and EY and head of financial reporting at Tillinghast (now Willis Towers Watson).

He is a senior actuary with 20 years of experience operating at partner level. He holds UK practising certificates to act in regulatory actuarial roles.

Tim has significant experience in all aspects of actuarial work – reserving, capital and pricing. He has acted as Chief Actuary for a number of major insurers.

He is an expert in financial reporting including various regulatory systems, IFRS and embedded value. He was senior actuary on the audit of Aviva and Prudential who report under all these bases.

Tim has worked on a range of transactions, restructuring and portfolio transfers both sell side and buy side.

He has a range of expert experience including acting as expert on a scheme to release life company capital and arbitrator on a sale and purchase agreement dispute. He has acted as Skilled Person for the UK regulator on a number of occasions.

Tim has a range of international experience, he has carried out assignments in Belgium, France, Ireland, Morocco, Netherlands, Switzerland and US.

Professional qualifications and membership

- Fellow of the Institute and Faculty of Actuaries

Career outline

- 2014 joined Grant Thornton UK LLP
- Partner, KPMG
- Partner, Ernst & Young
- Partner, Tillinghast

B Extract from letter of engagement

Terms of engagement between The Royal London Mutual Insurance Society Limited (“RLMIS”) and Grant Thornton UK LLP (the “Agreement”)

Independent Expert for Part VII Transfer

We write to acknowledge your instructions to act in the above matter and set out below our understanding of the work that you wish us to perform and the terms on which we shall undertake it. This engagement letter updates our previously signed engagement letter of 25 October 2017 following the change in scope.

The Agreement is subject to the approval of the Independent Expert by the Prudential Regulation Authority (“PRA”) having consulted with the Financial Conduct Authority (“FCA”).

Scope

The following is a high level description of the blocks of business that are proposed to be transferred:

- Ireland protection business written by RLMIS - the post June 2011 Ireland policies
- Business written in Ireland by RLA, Caledonian Life, Irish Life Assurance plc and GRE Life Ireland Limited
- Business written in Germany by RLMIS

Our instructions

You have asked us to provide an Independent Expert to report on the proposed scheme of transfer of the above blocks of business from The Royal London Mutual Insurance Society Limited (“RLMIS”) to the new Irish company (“Royal London DAC”) (“Scheme”). The Independent Expert’s report (“Report”) will be prepared in accordance with and for the purposes set out in Part VII of the Financial Services and Markets Act 2000 (as amended) (“FSMA”) in relation to the Scheme which is to be submitted to the English High Court (“Court”) for approval.

The Independent Expert’s analysis and Report will follow the relevant FSMA requirements and associated supplemental guidance issued by the Prudential Regulatory Authority (“PRA”) and the Financial Conduct Authority (“FCA”). The Report will consider the Scheme as a whole and its effect on the policyholders of RLMIS and Royal London DAC. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the Scheme, namely:
 - the transferring policyholders
 - the policyholders who will remain with RLMIS after the transfer, and
 - the policyholders with the new Irish company prior to the transfer.
- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders, and
- any other information required to be included by FSMA, the PRA, the FCA and the Central Bank of Ireland (“CBI”).

The Independent Expert will prepare the Report (for the directions hearing⁴¹), a summary of the Report (for notification to all affected policyholders and other interested parties) and a Supplementary Report (for the sanction hearing containing updated information) (together the “Deliverables”) which will be filed by the Addressees with the High Court in connection with the Scheme. The Deliverables will include all information, advice, recommendations and other content of any reports, presentations or other communications provided to us by the Addressees.

We note the possibility of us being engaged as the Independent Actuary, should the need arise to review the amended Royal Liver IoT, if the Liver Supervisory Committee require it. When the scope and extent of the work required is confirmed, we will assess whether this review work can be accommodated within the agreed scope of our Part VII Transfer work, or whether additional fees will be needed reflecting any extra work and outputs.⁴²

Data reliance and limitations

In performing this assignment, the Independent Expert will rely on data and information provided by you, other third party experts such as actuaries and auditors, and industry sources of data. He will not audit or verify this data and information. If the underlying data or information is inaccurate or incomplete, the results of his analysis may likewise be inaccurate or incomplete.

In performing the services under this Agreement, we will use the skill, care, expertise and competence that could reasonably be expected from a highly reputable international consultancy firm or company providing to major multinational corporations the same or similar services to those provided under this Agreement.

The Independent Expert's ability to carry out this assignment will depend on a number of key factors:

- that the relevant and appropriate information is readily available, specifically:
 - financial data including projections
 - actuarial and audit reports
 - detailed information on reinsurance arrangements
 - detailed information on any guarantees, and
 - access to the personnel of both RLMIS and the new Irish company for the purposes of interview and discussion.
- access to third party reports (subject to the provision of hold harmless letters as necessary) and access to their authors for the purposes of interview.
- agreement of third parties to his reliance on their reports for the purpose of forming his independent expert opinion.

⁴¹ A directions hearing is a short court hearing at which the Court makes procedural orders with regard to the Transfer, in particular in relation to communications with policyholders.

⁴² Since signing the Letter of Engagement Royal London has requested me to act as an independent expert to review the amendments to Royal Liver IoT. This work is now in scope for this engagement.

C PRA's approach to insurance business transfers

The tables below cross references sections of the PRA's approach to business transfers with the relevant sections of the Report.

Reference to the PRA's approach to business transfers	Reference to relevant section within the Report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	1.10/2.14
(2) confirmation that the independent expert has been approved or nominated by the PRA;	1.10/2.14
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	2.25 and Appendix A
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	2.26, 2.28
(5) the scope of the report;	Appendix B
(6) the purpose of the Scheme;	2.1 to 2.4
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Section 6
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Appendix E
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	2.35
(b) the judgement of others;	2.35
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	2.35 and Appendix E
(11) Their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
(a) Transferring Policyholders;	Section 11
(b) policyholders of the transferor whose contracts will not be transferred; and	Section 12
(c) policyholders of the transferee;	Section 13
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Section 14
(13) what matters (if any) that the Independent Expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' considerations of the Scheme; and	No Matters
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Provided throughout
2.32 The summary of the terms of the Scheme should include:	

Reference to the PRA's approach to business transfers	Reference to relevant section within the Report
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	Section 14
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	Section 9
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if it is or is not implemented;	2.5
(2) state whether they considered alternative arrangements and, if so, what;	2.22
(3) where different groups of policyholders are likely to be affected differently by the Scheme, include comment on those differences they consider may be material to the policyholders; and	Provided Throughout
(4) include their views on:	
(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Sections 10, 11, 12, 13
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:	
(i) the security of policyholders' contractual rights;	Sections 11, 12, 13
(ii) levels of service provided to the policyholders; or	Sections 11, 12, 13
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Sections 11, 12, 13
(c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	Sections 11, 12, 13
2.35 For any mutual company involved in the scheme, the report should:	
(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of these members to secure or prevent further changes which could affect their entitlement as policyholders;	Sections 11, 12
(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and	Sections 11, 12
(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	Sections 11, 12
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	Sections 8, 9, 11, 12
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	n/a
(3) describe the likely effect of the Scheme on the approach used to determine:	
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	Sections 11, 12

Reference to the PRA's approach to business transfers	Reference to relevant section within the Report
(b) the levels of any discretionary charges;	Sections 11, 12
(4) describe what safeguards are provided by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	Sections 9, 11
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	Sections 11, 12, 13
(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and	Sections 11, 12, 13
(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holders) to ensure that the Scheme operates as presented.	Sections 11, 12, 13
<i>2.37 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the Independent Expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the Independent Expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run.</i>	n/a
<i>2.38 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the Independent Expert should report on what reductions they consider ought to be made, unless:</i>	
(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or	n/a
(2) he is unable to report on this aspect in the time available.	n/a
Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions against its statutory objectives. Section 113 of the FSMA allows the court, on application to the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	n/a

D FCA's Approach to insurance business transfers

The tables below cross references sections of the FCA's approach to business transfers with the relevant sections of the Report:

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
Overarching guidance	
6.2 The FCA expect the report to have been constructed in such a way that it is easily readable and understandable by all its users and for the IE to pay attention to the following:	
6.2.1 Technical terms and acronyms should be defined on first use.	Demonstrated throughout the report
6.2.2 There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 1
6.2.3 The business to be transferred should be described early in the report.	1.6 to 1.8
6.2.4 The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	Demonstrated throughout the report
6.2.5 IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Not explicitly demonstrable but considered in the writing of the report
6.3 IE reports should have detailed analysis, critical review and a conclusion. Plus, a sufficient consideration and comparison of:	
6.3.1 Reasonable benefit expectations (including impact of charges)	Sections 11, 12, 13
6.3.2 Type and level of service (including claims handling)	Sections 7, 11, 12, 13
6.3.3 Management, administration and governance arrangements	Sections 7, 11, 12, 13
6.4 IE reports should have good balance between factual description and supporting analysis. In many cases IE reports include a great deal of detail describing the transaction itself and the background but much less analysis of the effect on each Policyholder group's reasonable expectations.	Demonstrated throughout the report. Most of the analysis is included in Sections 11 to 14
The level of reliance on the Applicants assessments and assertions	
6.6 In some instances, IEs will rely on assessments carried out by Applicants to reach their own conclusions. In these circumstances we expect the IE to demonstrate that they have questioned the adequacy of those assessments. We may also expect the IE to have urged the Applicants to undertake additional work or produce further evidence to support their assertions to ensure that the IE can be satisfied on a particular point.	2.48
6.7 & 6.8 We would also expect the IE to explain the nature of any challenges made to the Applicants and the outcome of these within their report, rather than just stating the final position. We will question and challenge the IE where we feel that an IE has relied on assertions made by the Applicants without sufficient challenge or request for supporting detail or evidence.	2.48
6.9 The IE should challenge calculations carried out by the Applicants if there is cause for doubt on review of the Scheme	

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
and supporting documents. As a minimum, we will expect the IE to:	
6.9.1 Review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate	2.48
6.9.2 Challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	2.48
6.10 We would also expect the IE to challenge Applicants where the documents provided contain an insufficient level of detail or analysis.	2.48
6.11 Where the regulatory framework is different for the Transferor and Transferee, the IE should carry out sufficient analysis of the differences including, where appropriate, taking independent advice.	Section 3
6.12 In particular, with cross-border transfers we often see insufficiently detailed analysis of regulatory protections post-transfer. This can include:	
6.12.1 The extent to which existing regulatory requirements and protections continue, including whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme.	Sections 3, 11
6.12.3 & 6.12.4 The comparative regulatory requirements and conduct protections across any relevant jurisdictions, including but not limited to complaints or compensation bodies compared to the UK.	Sections 3, 11
6.12.4 Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential mitigations.	Section 11 - 14
6.12.5 Post UK withdrawal, non-UK EEA customers may be subject to local conduct of business rules regime, which may not include FOS or FSCS. IN these cases, we are likely to accept firms taking proportionate approaches to compare regimes.	Sections 3, 11
6.13 In these instances, we would expect to see a statement describing the two regimes as well as a considered comparison, highlighting points of significant difference that could adversely impact Policyholders. It is for the IE to use their judgement to decide on the level of detail to be included but it needs to be sufficient for the Court to be in a position to be satisfied.	Sections 3
6.14 If the IE's analysis is inconclusive or there are potential conduct risks due to differences in the regulatory framework, there should be sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	Sections 3, 11
Balanced judgements and Sufficient Reasoning	
6.15 Where certain features of the Scheme are mentioned to demonstrate the IE's satisfaction with the Scheme we would expect to see evidence and reasoning behind the IE's conclusion.	Demonstrated throughout the report
6.16 Where the IE states that there will be no material adverse impact the report should make clear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement, but lacks certainty. In these instances, we expect IEs to consider the following:	Demonstrated throughout the report
6.16.1 Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree.	2.48
6.16.2 IEs should be able to challenge the Applicants to gain the necessary level of confidence that their report's	Throughout the report

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
conclusions are robust. In addition, they will need to consider how any proposed changes/mitigations will impact all Policyholder groups.	
6.17 We expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available when finalising their report.	Appendix E
6.18 If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgement, we would expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged.	I am not aware of any significant changes in market conditions since carrying out the analysis detailed in the Report. I will issue a Supplementary Report based on the most up to date information available to me prior to the second Court hearing.
Sufficient regard to relevant considerations affecting Policyholders	
6.19 We would expect to see IE consideration of all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. Our expectations include:	
6.19.1 Current and proposed future position of each Policyholder group	Sections 6, 7, 9 to 13
6.19.2 Potential effects of the transfer on each of the different Policyholder groups	Sections 6, 7, 9 to 13
6.19.3 Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	The potential material adverse effects of the Scheme are explained in detail throughout the Report.
6.20 To support this, we expect the IE to consider whether the groups of affected Policyholders have been identified appropriately.	When considering the issues covered in my report I have given thought to the impact the issues may have on a range of policyholder group.
6.21 We would also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we would expect the IE to include:	
6.21.1 Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we would expect to see a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.21.2 The IE should consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.22 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	N/A
6.22.1 Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.22.2 If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, we believe the IE should consider the Scheme as if the reinsurance was not in place.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.23 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected.	Explained in detail throughout the Report.

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
<p>6.24 & 6.25 We would expect to see IE consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material. In these circumstances we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.</p> <p>We would expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may.</p>	Section 11
<p>6.26 & 6.27 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.</p> <p>As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer: The IE may say they are satisfied that there is no material adverse impact on Policyholders because the Transferee's capital position, and the short term nature of the liabilities, means that it is unlikely the Scheme will fail and Policyholders need recourse to the FSCS as a result. We would not be satisfied with this view without further evidence.</p>	Section 10
<p>Commercially sensitive or confidential information</p>	
<p>6.29 & 6.30 Often the IE will need to consider commercially sensitive or confidential information as part of their decision making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, particularly as this information will not be publicly available.</p> <p>In these situations we expect to see the analysis and the information relied upon. It is also possible that the Court may wish to see that information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure.</p>	We have set out in Appendix E the key information we have relied upon in our report.
<p>The level of reliance on the work of other experts</p>	
<p>6.31 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we would still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.</p>	2.35
<p>6.32 We expect the IE to have obtained a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.</p>	2.35 and Appendix E
<p>6.33, 6.34 and 6.35 Where the IE refers to factors that are outside their sphere of expertise and relies on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue. In many cases, the IE's decision to obtain independent legal advice will depend on the significance and materiality of the issue.</p> <p>The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be</p>	2.35 and Appendix E

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
<p>relevant to this consideration. Depending on how complex the legal issue is, we may challenge IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers.</p>	
<p>6.36 In deciding whether to obtain independent legal advice, we would expect the IE to consider, amongst other things, the following:</p> <ul style="list-style-type: none"> • The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice. • How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	<p>Not explicitly demonstrable but considered in the undertaking of the work</p>
<p>6.37 Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point.</p>	<p>Throughout the Report I have explained how I have reached the conclusions I have drawn.</p>
<p>6.38 The IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.</p>	<p>N/A</p>
<p>Ambiguous language or a lack of clarity</p>	
<p>6.45 & 6.46 At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.</p>	<p>2.35</p>
<p>6.47 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:</p>	
<p>6.47.1 That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert.</p>	<p>Demonstrated throughout the Report, including Sections 11, 12 and 13</p>
<p>6.47.2 How has the IE satisfied him or herself about the identified uncertainty and formed an opinion on any potential impact.</p>	<p>N/A</p>
<p>Demonstrating challenge</p>	
<p>6.48 To ensure the IE report is complete and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, particularly where they believe the IE has not fully addressed issues.</p>	<p>RLMIS and their legal advisers have all had the opportunity to challenge all aspects of the Report. In order to arrive at my conclusions I have often discussed issues with the management teams of RLMIS</p>
<p>6.49 To ensure effective two-way challenge we would expect the IE to engage with FCA or PRA approved persons of sufficient seniority at the Applicant firm, such as senior</p>	<p>As discussed in 2.48, I have engaged with key subject matter experts from RLMIS , including senior actuaries, to gain comfort on</p>

Reference to the FCA's approach to business transfers	Reference to relevant section within the report
actuarial, including possibly the Chief Actuary, the CFO, Senior Underwriters and so on.	the appropriateness of the methodology and conclusions for the most material quantitative aspects of the Scheme.
Technical actuarial guidance	
6.50 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, particularly those for compiling actuarial reports.	2.31
6.51 IEs should be particularly aware that the proposed new versions of the TAS due to come into force during 2017 specifically apply to technical actuarial work to support Part VII Transfers.	2.31
6.52 We draw specific attention to paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'.	Not explicitly demonstrable but considered in the writing of the Report
6.53 Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	2.32

E Information and documents reviewed and/or relied on

The table below sets out the key documents I have relied on in preparing the Report. Some of this information is company confidential and is not publically available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with senior management and staff at Royal London Group.

Document	Source
Liver Reassurance Agreement (28 September 2018)	Pinsent Masons
Tier 1 - Liver Reinsurance Security Agreement (25 September 2018)	Pinsent Masons
Tier 2 - Liver Reinsurance Security Agreement (25 September 2018)	Pinsent Masons
Liver CFA (24 September 2018)	Pinsent Masons
German Bond Reinsurance Agreement (28 September 2018)	Pinsent Masons
Tier 1 – German Bond Reinsurance Security Agreement (25 September 2018)	Pinsent Masons
Tier 2 – German Bond Reinsurance Security Agreement (25 September 2018)	Pinsent Masons
German Bond CFA (24 September 2018)	Pinsent Masons
RL DAC Scheme (28 September 2018)	Pinsent Masons
Insolvency Floating Charge (25 September 2018)	Pinsent Masons
Liver Fund IoT (Amended for RL DAC Transfer) (26 September 2018)	Pinsent Masons
PPFM Royal London Main Fund (December 2017)	RLMIS WPA
PPFM Royal Liver Sub-Fund (December 2016)	RLMIS WPA
PPFM Royal London Main Fund (Pelican changes) (December 2018)	RLMIS WPA
PPFM Royal Liver Sub-Fund (Pelican changes) (December 2018)	RLMIS WPA
German Bond PPFM Guide (Draft 29.06.18)	RLMIS WPA
Liver Ireland PPFM Guide (Draft 29.06.18)	RLMIS WPA
Draft Own Risk and Solvency Assessment (“ORSA”) Report Royal London DAC 2017 (March 2018)	RLMIS DAC Chief Risk Officer Designate
BUSINESS PLAN FOR APPLICATION TO THE CBI (April 2018)	RLMIS Deputy General Counsel
RLMIS 2017 ORSA Report (2017)	RLMIS Chief Risk Officer
RLMIS Capital Management Framework (January 2018)	RLMIS Chief Actuary
WPA Report Pelican Part VII transfer v7 (25 September 2018)	RLMIS WPA
Pelican Chief Actuary Report (3 October 2018)	RLMIS Chief Actuary
Communications Pack	RLMIS Deputy General Counsel
Royal London DAC Capital Framework (April 2018)	RLMIS DAC Chief Financial Officer Designate
Pelican - Draft 7 of First witness statement of Tim Harris	Pinsent Masons
Pelican - Draft 6 of First Witness Statement of Viviana Pascoletti - RL	Pinsent Masons
Pelican RLAM IMA Draft 12Mar2018	RLMIS Investment Office

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

F Description of Funds

RLMIS Funds

- 14.7 As the diagram in paragraph 4.17 sets out, RLMIS contains a number of funds each of which is further described below:

RL Main Fund

This is the fund of RLMIS into which new business is written. It includes the ring-fenced UFOB, UFIB, RAIB sub-funds.

PLAL With-Profits Fund

This is the PLAL With-Profits Fund established after the acquisition of PLAL, mentioned in paragraph 4.4. This consists of the investment element of the PLAL unitised with-profits business. It is closed to new business, other than new entrants under group schemes and increments to certain policies.

Royal Liver Sub-Fund

This fund was established under the transfer of business from RLA to RLMIS mentioned in paragraph 4.4. This consists of the industrial and ordinary branch business sold in the UK and ROI relating to RLA and its predecessor companies as described in paragraph 4.8. With the exception of increments to existing contracts, policies created as a result of options exercised under existing contracts and annuities set-up upon maturity of pension contracts, the fund is closed to new business.

Royal London (CIS) Sub-Fund

This fund was established after the acquisition of the life and pensions business of the Co-operative Group mentioned in paragraph 4.4. It contains three segregated sub-funds: the RLCIS OB & IB Fund, the RLCIS With-Profits Pension Fund and the RLCIS With-Profits Stakeholder Fund. The fund is closed to new business apart from the result of the exercise of any option granted under the terms of an existing policy.

Scottish Life Closed Fund

This is the Scottish Life Closed Fund established after the acquisition of the Scottish Life Assurance Company, mentioned in 4.4. This consists of the SL conventional with-profits business, the investment element of the unitised with-profits business, deposit administration business and a small amount of non-profit business. It also has responsibility for the liabilities in respect of guaranteed annuity options under policies sold by SL, including policies where the basic liability is allocated to the Royal London IB & OB Sub-Fund. It is closed to new business, other than new entrants under group schemes and increments up to the level of premium payable at the date of transfer.

Royal London DAC

- 14.8 Royal London DAC will contain a number of funds which will be established at the Effective Date each of which is further described below:

Royal London DAC Open Fund

This will be an open fund, into which new protection business will be written. The RL Post-2011 Business will be transferred to this fund.

German Bond Sub-Fund

This will be a ring-fenced closed fund into which the all of the German Bond Business will be transferred.

Liver Ireland Sub-Fund

This will be a ring-fenced closed fund into which all of the Ireland Liver Business will be transferred.

G Reinsurance Treaties relevant to the Transferring Business

Reinsurer	Type of business reinsured	Block of Business Transferring Applicable for	Impact of Scheme on Treaty
Gen Re	Term Assurance	RL Post-2011 Business	Will be novated
Pacific Life Re	Term Assurance, Greli	RL Post-2011 Business	Will be novated
Pacific Life Re	Whole of life	RL Post-2011	Will be novated
Pacific Life Re	Income protection	RL Post-2011	Will be novated
SCOR	Term Assurances, Mortgage Security, Family IB, Homeguard, Convertible Term Assurance	RL Post-2011 Business	Will be novated
Swiss Re (consolidates/replaces all previous treaties with Swiss Re/ M&G)	Individual Term Assurance, Maximum Investment Policies, Endowment, WoL, Mortgage Protection	Ireland Liver Business	Will become a retrocession
Swiss Re (formerly ERC Frankona)	"Critical Illness and Total Permanent Disability	Ireland Liver Business	Will become a retrocession
Munich Re	New Horizons Term Assurance with Terminal Illness, ACCI, SACI, WoP	Ireland Liver Business	Will become a retrocession
Munich Re	"Term Assurance with Critical Illness	Ireland Liver Business	Will become a retrocession
Munich Re	Family Income with Critical Illness"	Ireland Liver Business	Will become a retrocession
Munich Re	Term Assurance & MPAS	Ireland Liver Business	Will become a retrocession
Munich Re	Term Assurance	Ireland Liver Business	Will become a retrocession
Swiss Re (formerly ERC Frankona)	Caledonian Life and Critical Illness Cover	Ireland Liver Business	Will become a retrocession
Reassure (formerly Aegon and Guardian UK)	Term Assurance, Homeguard - Term and MP	Ireland Liver Business	Will become a retrocession
Swiss Re (formerly M & G)	Caledonian LTA, DTA, WoP	Ireland Liver Business	Will become a retrocession

H Certification for changes to the Royal Liver IoT

Certificate under Clause 36.2 of the Royal Liver IoT under which the long-term business of RLA was transferred to RLMIS as sanctioned by the FSA with effect from 1 July 2011.

I certify that, in my opinion the proposed amendments to the Royal Liver IoT will not materially adversely affect the reasonable expectations of, or materially reduce the protections conferred by the Royal Liver IoT, on holders of policies allocated to the RLMIS Royal Liver Sub-Fund (including those allocated by way of reinsurance). In coming to this opinion I have taken account of the proposals as a whole and their impact on holders of Royal Liver policies as a whole.



Tim Roff

Independent Expert appointed by RLMIS

08 October 2018

I Communications waivers

The communications strategy asks for waivers from two specific requirements of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (SI 2001/3625):

- 1 **Regulation 3(2) (a) (iii)**: A notice stating that the application for the Scheme has been made must be published where, as regards any policy (other than reinsurance) included in the proposed transfer, an EEA Member State other than the United Kingdom is the state of the commitment or the state in which the risk is situated, in two national newspapers in that EEA Member State (and any other relevant requirements which the applicable EEA regulator imposes).
- 2 **Regulations 3(2)(b)**: to notify every policyholder of the parties.

The table below identifies the categories of policyholder that will not be mailed including volumes as at September 2018 where available:

Relevant waiver	Summary rationale	Transferring volume	Non-Transferring Volume	Total Volume
Publication of notice in EEA states other than the UK, Ireland or Germany	<p>RLMIS does not hold residence information as at date of policy inception for each policyholder and is therefore unable to determine which policyholders have a state of commitment outside the UK, Ireland or Germany at the date of policy inception. However, RLMIS has never purposely and directly sold business in any EEA Member State other than the United Kingdom, Ireland or Germany therefore it is very unlikely that the state of commitment of any of the Transferred Policies) is an EEA Member State other than the United Kingdom, Ireland or Germany.</p> <p>The cost of publishing notices in EEA Member States other than UK, Ireland and Germany would be disproportionate (€375,000) given (i) the small number of transferring policyholders with a current address in another EEA Member State and (ii) all Transferring Policyholders with an address in the EEA will be sent a copy of the Policyholder Pack.</p>	136 (currently residing in an EEA Member State)	-	136

Relevant waiver	Summary rationale	Transferring volume	Non-Transferring Volume	Total Volume
Do not mail RL Main Fund Policyholders or policyholders in the RLMIS Closed Funds who are not transferring	The benefits of contacting policyholders in the RL Main Fund and RLMIS Closed Funds is outweighed by the cost of doing so (£3.91m). Proportionality and cost is particularly relevant given RLMIS is a mutual as the costs would ultimately fall to policyholders.	-	3.7m	3.7m
Do not mail 'Address unknown' policyholders	RLMIS does not hold a contact address for these policyholders. These address unknowns largely result from historic issues arising prior to the transfer of the Royal Liver business to Royal London in 2011. This issue has been disclosed to the FCA. Accordingly, RLMIS considers that it would be impossible and impractical to mail address unknown policyholders.	18,632	532,548	551,180
Do not mail known 'Gone-away' policyholders where no current address is held	RLMIS operates a business-as-usual process to trace these types of policyholders, meaning reasonable steps have been taken in relation to tracing such policyholders. A significant proportion of the mailing population consists of policies that were sold in Ireland, where it has not been possible to undertake electronic tracing because of the lack of available post code data and reliable tracing services. No further tracing activity has been completed ahead of the Transfer as it is not expected that it would be very successful. Accordingly, RLMIS considers that it would be impossible and impractical to attempt to mail these gone-away policyholders.	40,374 (UK & Ireland) 28 (German) and 7 (protection)	28,570	68,972
Do not mail members of Trustee Based Group Schemes	RLMIS will send the policyholder communication pack to the legal owner of all group schemes. These legal owners (trustees) will communicate with their members. RLMIS has no legal or contractual relationship with the members of these schemes and does not hold details of them. Accordingly, RLMIS considers that it would be impossible and impractical to attempt to mail these members.	5,220 (Group Pension scheme) 13,138 (Group Life Scheme)	-	18,358

Relevant waiver	Summary rationale	Transferring volume	Non-Transferring Volume	Total Volume
Do not mail assignees where no details are held	<p>RLMIS ordinarily records the names and addresses of assignees on its databases, but believes that its policyholder databases do not include the names and addresses of a small number of assignees. Only a manual search of paper policy files would identify all assignees, but such a search would not be practical given the volume of data involved. Accordingly, the mailing will be sent to the normal correspondent for the relevant policy as it would be impossible and impractical to attempt to mail assignees.</p> <p>Where policies are assigned to a Bank or Building Society, RLMIS will send details of the Scheme to the Bank or Building Society, but does not propose to write to Banks and Building Societies individually in respect of each policy on grounds of cost and utility</p>	No data	No data	No data
Do not mail every policyholder where joint policies are held	<p>RLMIS will send the policyholder communication pack jointly to the policyholders, except where the policyholders have different addresses recorded on the policyholder databases, where it will be sent to both addresses. Where joint policyholders have the same address, RLMIS considers that each of the policyholders who jointly hold a policy will have access to at least one policyholder communication pack and that this will minimise duplication in their communications with joint policyholders. Accordingly, RLMIS seeks a waiver from mailing both joint policyholders on the grounds of utility.</p>	-	-	-
Do not mail beneficiaries	<p>RLMIS has no legal or contractual relationship with any beneficiary of a policy that is written in trust and its obligations are strictly to the legal owner, the trustee. As a result RLMIS is not required to capture any details of these beneficiaries. The mailing will be sent to trustees of the relevant policy, but RLMIS does not intend to send the mailing to beneficiaries, on the grounds that it would be impossible or impractical to do so.</p>	No data	No data	No data

Relevant waiver	Summary rationale	Transferring volume	Non-Transferring Volume	Total Volume
Do not mail trustees-in-bankruptcy, receivers & administrative receivers	RLMIS does not ordinarily maintain the names and addresses of trustees-in-bankruptcy, receivers and administrative receivers who have an interest in its policies. Accordingly, RLMIS considers it would be impossible and impractical to mail trustees-in-bankruptcy, receivers, or administrative receivers.	No data	No data	No data
Do not mail pension orders	RLMIS's computer systems are not able to identify policies which are the subject of a Court order. This information is held on paper policy files. Establishing which policies have earmarking orders would involve reviewing a large number of paper policy files. RLMIS estimates that it is very unlikely that more than 100 policies in the mailing population are subject to earmarking orders. Accordingly, RLMIS considers it would be disproportionate and impractical to conduct a manual review of policy files in order to identify policies subject to earmarking orders.	No data	No data	No data
Do not mail contingent annuitants unless the contingent annuity is already in payment	A contingent annuitant is someone who receives an annuity after the death of a policy's original annuitant (usually their spouse). RLMIS would ordinarily determine the address of a contingent annuitant only after the death of the original annuitant. Original annuitants will be mailed. Accordingly, RLMIS considers that it would be disproportionate and impractical to mail contingent annuity holders.	1,518	-	1,518

Relevant waiver	Summary rationale	Transferring volume	Non-Transferring Volume	Total Volume
<p>Do not mail policyholders aged over 100</p>	<p>In the Royal Liver Sub-Fund, RLMIS has:</p> <ul style="list-style-type: none"> • 1,450 Transferring Policyholders over 119 and 8,467 Transferring Policyholders aged 110-119 who are almost certainly deceased • 20,121 Transferring Policyholders aged 100-109 where it believes only a very small number and percentage of policyholders will still be alive • 2,416 Non-Transferring Policyholders aged over 119 and 21,330 Non-Transferring Policyholders aged 110-119 who are almost certainly deceased • 83,888 Non-Transferring Policyholders aged 100-109 where it believes only a very small number and percentage of policyholders will still be alive. <p>RLMIS considers the cost of mailing these policyholders (estimated at around £83,000) would be disproportionate for other policyholders in the fund, compared to the small number of policyholders for whom the mailing would be appropriate.</p>	30,038	107,634	137,672
<p>Do not mail deceased policyholders where a claim is in progress</p>	<p>There were an estimated 70 such policies in respect of the potential mailing population. We would normally expect death claims to be settled within 5 working days of notification. On that basis we believe any such claims made by the date the data is extracted will be paid before the Effective Date of the Transfer. Accordingly, on the basis of utility (and sensitivity), RLMIS does not intend to write to executors or personal representatives where claims are in progress.</p>	29	41	70

J Glossary

Term	Definition
Address unknowns	Transferring Policyholders for which RLMIS holds no address.
AGM	Annual General Meeting.
ASP LA-4	Actuarial Standard of Practice LA-4 – Additional Guidance for Appointed Actuaries on Policyholders’ Reasonable Expectations.
Asset Share	For a with-profits policy, the accumulation of past premiums at the rate of return earned on the assets backing the policy, after allowing for charges less expenses, cost of risk benefits, cost of guarantees, cost of smoothing and tax. Asset Share may also include an allowance for miscellaneous profits or losses on the inherited estate.
Bank of England	The central bank of the United Kingdom.
BEL	Best Estimate Liabilities is a measure of an insurance company’s liabilities. BEL is defined in the EU’s Solvency II Directive (“Solvency II”) as the expected or mean value (probability weighted average) of the present value of future cash flows for current obligations, projected over the contract’s run-off period, taking into account all up-to-date financial market and actuarial information.
Board	The board of directors of a company.
Bonus	For with-profits policies, profits shared with policyholders via additions to guaranteed benefits or final additions paid on claims are referred to as Bonuses.
Bonus Rates	The rate of Bonuses declared, typically as a percentage of sum assured, guaranteed benefits or annual bonuses.
Brexit	The term used to describe the UK’s exit from the EU, expected to be on 29 March 2019, following the EU referendum vote on 23 June 2016.
Business Days	Means any day other than a Saturday or Sunday or public holiday in England and Wales or Ireland.
Caledonian Life	The Caledonian Insurance Company Limited a company which was incorporated in England and Wales with company number 03973048 and whose registered office was at the Royal Liver Building, Pier Head, Liverpool L3 1HT, and which was dissolved on 5 May 2010.
Capital Add-on	Additional capital that a regulator may require a Solvency II firm to hold.
Capital Buffer	The amount of capital above the SCR required to capitalise the Liver Ireland Sub-Fund and German Bond Sub-Fund at the target level which is expected to be 64% of the SCR i.e. an SCR Cover of 164%, as per the Royal London DAC Capital Management Framework.
Capital Management Framework	The governance system which sets out how capital is measured, managed, monitored and reported within either RLMIS or Royal London DAC.
CBI	The Central Bank of Ireland, which is responsible for regulation of insurance companies.
Chairman	The chairperson of a company Board.

Term	Definition
Chief Actuary	The head of the actuarial function within a UK life insurer.
COBS	The FCA's Conduct of Business Sourcebook.
Collateral	Assets held against default on the New Reinsurance Agreements, managed in line with the Collateral Framework Agreements and secured by the Reinsurer Security Agreements.
Collateral Framework Agreements	Documents that govern when additional Collateral is required to be provided by RLMIS, or when Collateral may be withdrawn by RLMIS.
CPC	The Consumer Protection Code 2012, that insurers (and reinsurers) operating in the Irish market must comply with.
CPFM	Core Principles of Financial Management: the principles of the IoT CPFM which are replicated within the Scheme and are applicable directly to the Liver Ireland Sub-Fund after the termination of the Liver Reinsurance Agreement.
Customer Value Statements	Statements setting out RLMIS' approach to managing Conduct Risk.
Directions Hearing	A directions hearing is a short court hearing at which the High Court makes procedural orders with regard to the Transfer, in particular in relation to communications with policyholders.
Discount rate	The discount rate refers to the interest rate used in discounted cashflow analysis to determine the present value of future cashflows.
EEA	European Economic Area: a free-trade zone created in 1994, composed of the states of the European Union together with Iceland, Norway, and Liechtenstein.
EEA Member State	A state that is a member of the EEA.
Effective Date	7 February 2019, the date at which the Transferring Business will legally transfer from RLMIS to Royal London DAC. For accounting purposes only it will be assumed that the Effective Date is 1 January 2019.
EGM	Extraordinary General Meeting.
EIOPA	The European Insurance and Occupational Pensions Authority.
Estate	A general term used to describe the excess of the assets held over the assets realistically required to meet the current expectations of with-profits policyholders and to settle other liabilities within a with-profits fund.
Estate Distribution	Distribution of some of the Estate to the eligible with-profits policyholders of the applicable with-profits fund.
EU	The European Union.
EU passporting rights	The collective term for Freedom of Establishment and Freedom of Services.
Existing Business	The business written by Royal London DAC following authorisation but prior to the Scheme Effective Date, which will be allocated by RL DAC to the Royal London DAC Open Fund.
Existing Policies / Policyholders	The policies / policyholders of the Existing Business.
Experience Adjustment	A quarterly payment under the New Reinsurance Agreements which is designed to ensure that the Capital Buffer is maintained in each of the Liver Ireland Sub-Fund and the German Bond Sub-Fund, whilst the respective New Reinsurance Agreements relating to those funds are in force.
FCA	The UK Financial Conduct Authority.

Term	Definition
Fitness and Probity Standards	These are CBI standards applicable to individuals within senior positions within financial services providers, including insurers, in Ireland.
Fixed charge	Security interests held over specific assets.
Floating charge	A security interest held over all of a company's assets, or a class of them, that becomes a fixed charge in particular circumstances.
Floating Charge Deed	The Floating Charge Deed grants Royal London DAC a floating charge over all eligible assets of RLMIS, which consists of all assets aside from those covered by other charges already in existence.
FOS	The Financial Ombudsman Service: an independent body in the UK set up to deal with individual complaints that consumers and financial businesses are not able to resolve themselves.
FRC	The Financial Reporting Council.
Freedom of Establishment	The right of an insurer located in one EEA Member State to underwrite a risk located in another EEA Member State by establishing a permanent presence in that EEA Member State. This permanent presence can be in the form of a local branch, agency or subsidiary.
Freedom of Services	The right to provide business services on a cross-border basis within the EEA. For insurance contracts, this means that the contract can be underwritten in an EEA Member State that is different from the EEA Member State where the risk is located.
FSCS	The Financial Services Compensation Scheme.
FSMA	The Financial Services and Markets Act 2000 (as amended).
FSPO	The Financial Services and Pensions Ombudsman in Ireland is an independent body. It considers unresolved complaints from consumers about their individual dealings with all financial services providers, including insurers.
Fund Split	The splitting of a with-profits fund, with particular reference in this report to the Royal Liver Sub-Fund.
GAO	Guaranteed Annuity Options: under a guaranteed annuity option, an insurer guarantees to convert a policyholder's accumulated funds to a life annuity at a fixed rate when the policy matures.
GBSF Collapse Amount	As defined in paragraph 9.98
GBSF Transfer Amount	The GBSF Collapse Amount less the excess, if any, of the realistic value of the assets over the liabilities in the German Bond Sub-Fund.
German Bond Business	Business written in Germany on a Freedom of Services basis by RLMIS, which consists of UWP and unit-linked business. The German Bond Business will transfer to Royal London DAC under the Scheme.
German Bond Policies / Policyholders	Policies / policyholders of the German Bond Business.
German Bond PPFM Guide	The PPFM Guide of the German Bond Sub-Fund of Royal London DAC which is expected to be in place on and from the Effective Date.
German Bond Reinsurance Agreement	The New Reinsurance Agreement whereby the German Bond Business will be 100% reinsured back to the RLMIS fund to which it was allocated prior to the Transfer.
German Bond Sub-Fund	The Royal London DAC fund established under the Scheme that will contain the German Bond Business.
German General Good Requirements	The requirements that an insurer operating in Germany must comply with. These are set by the German regulator, BaFin.

Term	Definition
Gone-aways	Transferring Policyholders for which RLMIS does not hold a valid address.
Grant Thornton	Grant Thornton UK LLP.
Group	The Royal London Group, which is the group of companies composed of The Royal London Mutual Insurance Society Limited and its direct and indirect subsidiaries.
High Court	The High Court of Justice of England and Wales.
HoAF	Head of Actuarial Function. Insurance and reinsurance entities that are subject to Solvency II and supervised by the CBI are required to appoint a HoAF, which is a controlled function under the CBI's Fitness and Probity Standards.
Independent Counsel	Barry Isaacs QC, South Square.
Independent Expert	Tim Roff FIA.
Internal Capital Requirement	A company's capital requirement based on its own view of its risks.
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its SCR under Solvency II. All insurers are required to calculate their SCR using either an Internal Model or the Standard Formula.
IoT CPFM	Instrument of Transfer Core Principles of Financial Management: the principles underlying the management of policies within the Royal Liver Sub-Fund that are set out in the Royal Liver IoT.
Ireland Liver Business	Business written in Ireland by RLA, Caledonian Life, Irish Life Assurance plc and GRE Life Ireland Limited. The Ireland Liver Business will transfer to Royal London DAC under the Scheme.
Ireland Liver Policies / Policyholders	Policies / policyholders of the Ireland Liver Business.
Irish CPI	The Consumer Price Index measure used in Ireland.
Irish General Good Requirements	The requirements that an insurer operating in Ireland must comply with. These are set by the CBI.
Irish Revenue	The Revenue Commissioners in Ireland.
Legacy Caledonian Life Business	Legacy insurance business written by Caledonian Life.
Legacy GRE Life Business	Legacy insurance business written by GRE Life Ireland Limited.
Liver Ireland PPFM Guide	The PPFM Guide of the Liver Ireland Sub-Fund of Royal London DAC.
Liver Ireland Sub-Fund	The Royal London DAC fund established under the Scheme that will contain the Ireland Liver Business.
Liver Reinsurance Agreement	The New Reinsurance Agreement whereby the Ireland Liver Business will be 100% reinsured back to the RLMIS fund to which it was allocated prior to the Transfer.
Liver Supervisory Committee	The committee of the RLMIS Board responsible for ensuring that the Royal Liver Sub-Fund is managed in line with the IoT CPFM, the Royal Liver PPFM and the Royal Liver IoT.
MA	Matching adjustment: this is an adjustment to the risk-free interest rates used to discount insurance obligations under Solvency II, calculated by firms based on a specifically identified portfolio of assets and liabilities.

Term	Definition
Material adverse effect	A negative change that is considered to have a material effect on policyholders. A material effect is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in company's investment portfolio, or from the reporting of a particularly large but not extreme claim to a company's liabilities. In terms of non-financial effects, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.
MCC	Minimum Competency Code: CBI requirements for insurance and reinsurance undertakings within Ireland.
MCR	Minimum Capital Requirement: a regulatory minimum amount of capital that must be held under the Solvency II regime.
Members	The eligible customers of RLMIS
Memorandum of Understanding	A framework put in place between the UK Regulators which sets out how the UK Regulators will co-ordinate their activities.
New Reinsurance Agreements	Collective term for the German Bond Reinsurance Agreement and Liver Reinsurance Agreement.
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile.
Other Remaining Business	The business that is not allocated to either the RL Main Fund or the Royal Liver Sub-Fund, and is not transferring to Royal London DAC under the Scheme.
Other Remaining Policies / Policyholders	The policies / policyholders of the Other Remaining Business.
Own Funds	The excess of an insurer's admissible assets over its liabilities calculated in accordance with Solvency II.
Quota share	A type of reinsurance arrangement where the reinsuring party and the reinsured party share premiums and losses according to a fixed percentage
Part VII Transfer	The legal process for transferring business from one insurer to another, with particular reference in this Report to the transfer of business from RLMIS to Royal London DAC.
Pillar I	The quantitative requirements under Solvency II.
Pillar II	The qualitative requirements under Solvency II.
Pillar III	The reporting requirements under Solvency II.
PPFM	Principles and Practices of Financial Management: in managing with-profits business firms rely on their use of discretion. The PPFM explains the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.
PRA	The UK Prudential Regulation Authority.
Principles of Treating Customers Fairly	The FCA has outlined six core consumer outcomes that firms should strive to achieve to ensure fair treatment of customers.
PRISM	Probability Risk and Impact System: the CBI's risk-based framework for supervising Irish regulated firms.

Term	Definition
ProfitShare	Within RLMIS, "ProfitShare" is the marketing term used to describe the ability of policyholders to participate in profits; in simple terms it is an allocation of part of the operating profits of RLMIS by means of a discretionary enhancement to Asset Shares and unit fund values of eligible policies. Customers qualifying for ProfitShare derive access to ProfitShare from actual investment in the Royal London With-Profits Fund or through a profit share offered for certain specific products.
RAG	A status that uses the colours Red, Green and Amber to signal whether something is bad, good, or in between the two, respectively.
Rate card	To cover its expenses the Royal Liver Sub-Fund currently pays an amount specified via an expense tariff arrangement, which is specified in the Royal Liver IoT, to the RL Main Fund. The RL Main Fund is responsible for paying the actual expenses incurred by the Royal Liver Sub-Fund. This expense tariff arrangement is known as the "Rate card".
Reinsurance	An arrangement by which an insurer shares or passes on (i.e. reinsures) to another insurer (known as the reinsurer) the risks in one or more underlying insurance contracts that that the insurer has written or entered into.
Reinsurer Security Agreements	The four deeds of fixed charge granted by RLMIS in respect of the New Reinsurance Agreements.
Remaining Business	The business remaining within RLMIS following the Transfer, which consists of the following groups: <ul style="list-style-type: none"> - Remaining RL Main Fund Business - Remaining Royal Liver Sub-Fund Business, and - Other Remaining Business.
Remaining Policies / Policyholders	The policies / policyholders of the Remaining Business.
Remaining RL Main Fund Business	The business allocated to the RL Main Fund that is not transferring to Royal London DAC under the Scheme.
Remaining RL Main Fund Policies / Policyholders	Policies / policyholders of the Remaining RL Main Fund Business.
Remaining Royal Liver Sub-Fund Business	The business allocated to the Royal Liver Sub-Fund that is not transferring to Royal London DAC under the Scheme.
Remaining Royal Liver Sub-Fund Policies / Policyholders	Policies / policyholders of the Remaining Royal Liver Sub-Fund Business.
Report	The Report of the Independent Expert, i.e. this report and the Supplementary Report
Retrocession	An arrangement by which a reinsurer shares or passes on (i.e. reinsures) to another reinsurer (known as the retrocessionaire) the risks in one or more underlying reinsurance contracts that the reinsurer has written or entered into.
Ring-fenced	Ring-fencing occurs under Solvency II when there are restrictions on how assets and Own Funds can be used. This can arise where certain policyholders have distinct rights relative to other business written by the undertaking. For example, with-profits business generally is managed within a separate ring-fenced sub-fund.
Risk Appetite	The amount and type of risk that a firm is willing to take in order to meet its strategic objectives.
Risk Margin	Under Solvency II insurers are required to hold a Risk Margin in addition to their BEL. This Risk Margin is the additional amount an

Term	Definition
	insurance company would require to take over and meet the insurance obligations.
RL 360°	Royal London 360° Management Services Limited.
RLA	Royal Liver Assurance Limited.
RLAM	Royal London Asset Management Limited.
RLCIS	Royal London (CIS) Sub-Fund.
RLIGC	Royal London Independent Governance Committee.
RLMIS	The Royal London Mutual Insurance Society Limited.
RLMIS Closed Funds	The nine funds within RLMIS that are not open to new business, which consists of all funds apart from the RL Main Fund.
RLMS	Royal London Management Services Limited.
RL DAC Proportion	The assets due to Royal London DAC under the Fund Split.
RL Main Fund	Royal London Main Fund of RLMIS (excluding the United Friendly IB, Refuge Assurance IB and United Friendly OB).
RL Main Fund PPFM	The PPFM of the RL Main Fund.
RL Post-2011 Business	Business written in Ireland on a Freedom of Establishment basis by RLMIS through its Irish branch on and from 1 July 2011 until the date on which Royal London DAC starts writing new business. The RL Post-2011 Business will transfer to Royal London DAC under the Scheme.
RL Post-2011 Policies / Policyholders	Policies / policyholders of the RL Post-2011 Business.
Royal Liver PPFM	The PPFM of the Royal Liver Sub-Fund of RLMIS.
Royal London DAC	RLMIS has incorporated a new subsidiary in Ireland, Royal London Financial Services Designated Activity Company, which is expected to be authorised by the Central Bank of Ireland ("CBI") as a life insurance company before the end of 2018. Once authorised, the name of the subsidiary will be changed to Royal London Insurance Designated Activity Company
Royal Liver IoT	The Royal Liver Instrument of Transfer, the document that sets out terms under which the business of RLA was transferred to RLMIS on 1 July 2011.
Royal Liver Sub-Fund	The Royal Liver Sub-Fund of RLMIS.
Royal London DAC Open Fund	The Royal London DAC fund into which all new business will be written.
RPI	Retail Prices Index.
Sanctions Hearing	A sanctions hearing is a court hearing at which the Court considers whether policyholders or any other party would be adversely affected by the Scheme, whether the Scheme is fair and decides whether to sanction the Scheme.
SCR	An amount of capital that an insurance company must hold in addition to its technical provisions under Solvency II. The SCR can be calculated using a prescribed standard formula or by using a company-specific internal model approved by the regulator.
SCR Cover	Own Funds divided by the SCR.
Scheme	The legal document which sets the terms of the transfer of insurance business from RLMIS to Royal London DAC.

Term	Definition
Security Arrangements	The collective term for the Collateral Framework Agreements, Reinsurer Security Agreements and Floating Charge Deed.
SIMF	Senior Insurance Management Functions.
Solvency II	The Solvency II Directive is a regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.
Standard Formula	A standardised calculation for the SCR of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their SCR using either the Standard Formula or an Internal Model.
SUP 18	Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance.
Supplementary Report	An additional report produced by the Independent Expert to reflect any updated financial information or any other matter which has come to light since the issue of the Report.
Target SCR Cover	The level of SCR Cover set by the RLMIS or Royal London DAC Capital Management Framework.
Technical Provisions	The sum of the BEL plus Risk Margin.
TMTP	Transitional Measures on Technical Provisions.
Transfer	The Scheme, New Reinsurance Agreements and Security Arrangements.
Transfer pricing	Transfer pricing is the setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise. For example, if a subsidiary company sells goods to a parent company, the cost of those goods is the transfer price.
Transferring Business	The RL Liver Business, German Bond Business and Post-RL 2011 Business of RLMIS that will be transferred to Royal London DAC under the Scheme.
Transferring Policies / Policyholders	Policies / policyholders of the Transferring Business
Transitional Measures on the Risk-Free Interest Rate	This allows firms to phase in any reduction in the discount rate used under Solvency II compared to that permitted under Solvency I, subject to the approval of the local regulator.
Trustees	Responsible for ensuring the pension scheme is run appropriately and that members' benefits are secure.
UK	United Kingdom.
UK Regulators	The PRA and the FCA together.
UWP	Unitised with-profits.
VA	Volatility adjustment: this is an adjustment to the risk-free interest rates used to discount insurance obligations under Solvency II. The VA is provided and updated by EIOPA.
VAT	Value Added Tax.
With-profits	With-profits is a pooled investment arrangement whereby certain profits and losses of the pool are shared fairly amongst the participating investors. Typically these investments offer a minimum guaranteed return plus some stability in payouts through smoothing out the effects caused by short-term movements in investment markets.
WPA	With-profits actuary: the WPA is responsible for advising the firm's management, at the level of seniority that is reasonably appropriate,

Term	Definition
	on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which he or she has been appointed.
WPC	With-profits committee.
WPOP	With-Profits Operating Principles.



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