MILLIMAN REPORT

The Part VII Transfer of the Business of Phoenix Life Assurance Limited, Standard Life Assurance Limited and Standard Life Pension Funds Limited to Phoenix Life Limited

The Report of the Independent Expert

18 April 2023

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1. Purpose and scope

THE BACKGROUND TO THE SCHEME AND PURPOSE OF THIS REPORT

1.1 It is proposed to transfer the long-term insurance business from Phoenix Life Assurance Limited ("**PLAL**"), Standard Life Assurance Limited ("**SLAL**") and Standard Life Pension Funds Limited ("**SLPF**") to Phoenix Life Limited ("**Phoenix**").

1.2 Phoenix, PLAL, SLAL and SLPF (together, the "**Companies**") are proprietary insurance companies operating in the UK and are ultimately owned by Phoenix Group Holdings plc ("**PGH**"). The "**Phoenix Group**" or the "**Group**" are the names given for PGH and all of its subsidiaries.

1.3 Under UK law, a transfer of long-term insurance business must be carried out in accordance with Part VII of the Financial Services and Markets Act 2000 ("**FSMA**") and an application must be made to the High Court of Justice, Business and Property Courts of England and Wales, Companies Court (the "**High Court**") or in Scotland, to the Court of Session for approval under Section 111 of the FSMA. Such transfers of insurance business are referred to in this report as "**Part VII Transfers**".

1.4 I refer to the proposed Scheme providing for the transfer to Phoenix of the long-term insurance business of PLAL, SLAL and SLPF as "**the Scheme**" or "**this Scheme**".

1.5 Under Section 109 of the FSMA the application to the High Court for approval of the Scheme must be accompanied by a report (the "**Scheme Report**") by an Independent Expert on the terms of the proposed transfer Scheme. The Scheme Report consists of this Report and any subsequent Supplementary Reports issued by me covering the Scheme.

1.6 As well as transferring the long-term insurance business of PLAL, SLAL and SLPF to Phoenix, the Scheme will be a consolidating scheme, in that it will supersede the existing Phoenix Group schemes that effected previous consolidations within the Companies. There will however be some changes and updates made to some of the provisions within these existing Phoenix Group schemes, which I describe in Section 8. As noted in paragraph 1.7, one existing scheme will remain in force but will be subject to a variation.

1.7 The existing schemes to which SLAL is a party were sanctioned by the Court of Session in Scotland. Therefore, these schemes require approval or consent (as set out in the relevant scheme document) from the Court of Session to the variations brought about by the Scheme. These variations apply to two schemes that are proposed to be superseded and one scheme (the transfer of euro-denominated business from SLAL to Standard Life International DAC ("**SL Intl**") in 2019 ("**the SLAL Brexit Scheme**"), covered in more detail in Section 6) that will need to be varied to permit the transfer of business from SLAL to Phoenix. Applications for these variations (the "**Existing SLAL Schemes Variations**") will be sought from the Court of Session prior to the High Court hearing at which this Scheme will be considered and this Scheme will not become operative unless the consent and approval of these variations is obtained.

MY APPOINTMENT AS INDEPENDENT EXPERT

1.8 I have been appointed by the Companies to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert, on the terms of the Scheme.

1.9 I am a Fellow of the Institute of Actuaries and a Principal of Milliman LLP ("**Milliman**"), part of Milliman Inc., a global consulting firm. I have over 35 years' experience in the UK life insurance industry and I have fulfilled the role of Independent Expert in relation to a number of transfers of long-term insurance business that have subsequently been approved by the High Court, including transfers involving with-profits business. I hold Chief Actuary and With-Profits Actuary practising certificates issued by the Institute and Faculty of Actuaries. I currently act as Chief Actuary for a unit-linked UK life company, and I have previously undertaken the equivalent roles for several other UK life companies. I have undertaken the role of With-Profits Actuary on several occasions. I have also acted on several occasions as a Skilled Person for the PRA/FCA and its predecessor organisations, and have acted on several occasions as an expert witness in insurance company related disputes. I have additionally carried out a wide variety of consulting actuarial assignments, both in the UK and overseas, including solvency and capital, asset-liability management, mergers and acquisitions, treating customers fairly, product and unit-pricing, and independent review and opinions.

1.10 My appointment was approved by the Prudential Regulation Authority ("**PRA**") after consultation with the Financial Conduct Authority ("**FCA**") and was confirmed in a letter dated 6 June 2022. My terms of reference have been reviewed by the PRA and the FCA.

1.11 I submitted a statement of independence to the PRA and the FCA for review prior to their approval of me as the Independent Expert. I confirm that neither I nor Milliman have or have had any direct or indirect interest in any of Phoenix, PLAL, SLAL, SLPF or other related firms that could influence my independence. I do not hold any policies with Phoenix, PLAL or SLPF, but I do hold two paid-up unit-linked pensions policies with SLAL both of which have external investment managers. I have set out my independence considerations, as discussed and agreed with the PRA and the FCA, in Section 3 of this Report.

1.12 As with other costs of the Scheme, my firm's fees will be borne by Phoenix as described in Section 8 of this Report.

MY REPORT AS INDEPENDENT EXPERT

1.13 This Report is produced for the High Court, the Court of Session, the Royal Court of Jersey and the Royal Court of Guernsey to assist in their deliberations in respect of the Scheme. I explain the involvement of the latter two courts in paragraph 1.22 below. This Report and an overall summary of it will be made available to policyholders via the Phoenix Group websites and policyholders may also request copies from Phoenix. Summaries of this Report (appropriately tailored) will be included in the tailored communications packs that will be sent to the appropriate policyholders. The groups of policyholders who will receive a communications pack, and the reasons why, are set out in Section 15 of this Report.

1.14 This report has been prepared in accordance with the approach and expectations of the PRA, as set out in PS1/22: "The PRA's approach to insurance business transfers" dated January 2022 (the "**PRA Statement of Policy**"), as well as Chapter 18 of the Supervision Manual ("**SUP 18**") contained in the FCA Handbook, and the FCA's Final Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated February 2022 (the "**FCA Final Guidance**"). Appendix G summarises how this Report complies with this guidance.

1.15 I confirm that the comments and conclusions in this Report apply to all policyholders of the Companies irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued.

THE INDEPENDENT EXPERT'S CERTIFICATES IN RESPECT OF MODIFICATIONS TO PREVIOUS SCHEMES

1.16 In conjunction with my appointment as Independent Expert in respect of the Scheme, I have also been appointed to fulfil the role of independent expert/actuary in respect of the variations to the previous Phoenix Group schemes described in paragraphs 1.6 and 1.7 above. The previous Phoenix Group schemes are described in more detail in Sections 5 to 6 but in terms of the proposed variations:

- The provisions of the Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the PLAL 2012 Scheme, the PLAL 2015 Scheme, the SLAC Demutualisation Scheme and the SLAL 2011 Scheme will be varied, and these varied provisions will be consolidated in the Scheme that is the subject of this Report such that these previous schemes are superseded.

  To vary the provisions, each of these previous schemes requires a certificate from an independent expert/actuary, with the exception of the SLAL 2011 Scheme. However, for completeness I have also considered the variations to the SLAL 2011 Scheme in my role as Independent Expert.

- The provisions of the SLAL Brexit Scheme will be varied but the SLAL Brexit Scheme will remain in-force. To vary its provisions, the SLAL Brexit Scheme requires a certificate from an independent expert.

1.17 Where an independent expert/actuary is required to provide a certificate, the previous schemes also state that his/her appointment must also be approved by the Board of the relevant company, and by the PRA (after consultation with the FCA) in the UK, and (in respect of the variations to the SLAL Brexit Scheme) by the Central Bank of Ireland ("**CBI**") in Ireland. My appointment in respect of these variations has been approved by the required parties. I note that the scope of my appointment in respect of the SLAL Brexit Scheme extends to the consideration of all current SL Intl policyholders, including those who were not transferred from SLAL to SL Intl under the SLAL Brexit Scheme. For completeness I note that neither the Scheme nor the variations to the SLAL Brexit Scheme require the approval of any court in Ireland.

1.18 All of the modifications to the previous Phoenix Group schemes are closely interlinked with the Scheme under consideration, and much of the Scheme under consideration is derived directly from the previous Phoenix Group schemes. I have therefore incorporated my consideration of these modifications within this Report. I have produced the required certificates in the capacity of independent expert/actuary for each of these scheme modifications, and these certificates are included in Appendix C to this Report.

THE JERSEY AND GUERNSEY SCHEMES

1.19 It is proposed that the transfer of any business carried on in or from within Jersey by PLAL or SLAL (or any predecessor firms) (the "**Jersey Business**"), or which comprises policies issued by PLAL or SLAL (or any predecessor firms) to persons resident in Guernsey (the "**Guernsey Business**") will be effected following the approval of separate schemes in Jersey and Guernsey (referred to respectively as the "**Jersey Scheme**" and the "**Guernsey Scheme**"). These schemes will provide for the transfer of policies on the same terms as the Scheme and are expected to have the same transfer date as the Scheme. I understand that SLPF has no Jersey business or Guernsey business.

1.20 The Jersey Scheme and the Guernsey Scheme will be on substantially the same terms as the Scheme and implementation of the Scheme is not conditional on the approval of the Jersey Scheme or the Guernsey Scheme.

1.21 For the avoidance of doubt, references to the Scheme should be taken to include the Jersey Scheme and the Guernsey Scheme unless otherwise stated. This Report and its conclusions apply equally to the Jersey Business, the Jersey Scheme, the Guernsey Business and the Guernsey Scheme.

1.22 This Report will be provided to the Royal Court of Jersey and the Royal Court of Guernsey to assist in their deliberations in respect of the Jersey Scheme and the Guernsey Scheme, respectively.

MY SUPPLEMENTARY REPORT

1.23 I will prepare a further report (my "**Supplementary Report**") prior to the Sanction Hearing to provide an update for the High Court, the Court of Session, and the Royal Courts of Jersey and Guernsey on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events subsequent to the date of the finalisation of this Report. My Supplementary Report will contain updates based on the latest available financial information. I will also respond in my Supplementary Report in general terms to any themes emerging from any objections or other feedback from policyholders.

1.24 My Supplementary Report will be available to policyholders via the Phoenix Group websites.

1.25 I will prepare further reports on the Scheme, should the need arise.

THE PARTIES FOR WHOM MY REPORT HAS BEEN PREPARED

1.26 This Report and the summaries of it have been prepared for the use of:

- The High Court;
- The Court of Session;
- The Royal Courts of Jersey and Guernsey;
- The policyholders of the Companies;
- The PRA and the FCA;
- The regulators in Jersey and Guernsey;
- The CBI;
- The Directors and senior management of the Companies;
- The Phoenix With-Profits Committee (the "**Phoenix WPC**"), the PLAL With-Profits Committee (the "**PLAL WPC**") and SLAL With-Profits Committee (the "**SLAL WPC**"), all of which have separate responsibilities but common membership and which in practice operate as a single committee; and
- The professional advisers of any of the above.

I am not aware of any courts or regulators which need to approve or give consent to the Scheme or the variations to the SLAL Brexit Scheme other than those included in the list above.

1.27 In accordance with the legal requirements under the FSMA, copies of my report will be made available to the policyholders of the Companies and to other interested parties (which could include employees of the Companies and any insurance intermediaries which have relationships with the Companies).

NOTE ON REPORT TERMINOLOGY

1.28 I note that any technical terms, including those in relation to the UK Solvency Regime, are set out in capital letters, and are defined in the Glossary of Terms in Appendix D. I set out a general overview of the life insurance market and regulatory environment in the UK in Appendix A.

1.29 As is common practice for various UK life company groups, policies held within a fund can have their benefits "internally reinsured" to another fund within the same company. The term "allocation" can also be used to describe this arrangement. These terms are both used throughout this Report.

RELIANCES AND LIMITATIONS

1.30 In preparing my report, I have had access to certain documentary evidence provided by the Companies, the key items of which are listed in Appendix E. I have also had access to, and discussions with, senior management of the Companies. My conclusions depend on the substantial accuracy of this information and I have relied on this information without full independent verification. However, I have considered, and am satisfied with, the reasonableness of this information based upon my own experience across the UK life insurance industry.

1.31 I have relied on the work of the external auditors of the Companies in gaining confidence in the financial information as provided by the Companies throughout this Report. I note that not all of the financial information is subject to external audit, and hence this reliance is limited to that information which is subject to external audit Where the financial information has been subject to external audit, I note that this in general means that the relevant results are in compliance with applicable rules and guidance, in particular those in relation to Solvency II.

1.32 The Companies have been advised by their own legal advisers, Linklaters LLP ("**Linklaters**") and Burness Paull LLP ("**Burness Paull**"). I have reviewed the legal input provided by Linklaters and Burness Paull following their reviews of drafts of this report and have taken into account that input in reaching my conclusions on the basis set out from paragraph 3.49. I have described in Section 3 why I think it is reasonable to use legal input in that way. For the avoidance of doubt, Linklaters and Burness Paull have no liability to me or Milliman in respect of that input.

1.33 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose. I have provided a number of tailored summaries of this Report for inclusion in the various tailored communications with the policyholders (and where relevant distribution to any persons requesting a copy of it). I have also provided an overall summary of this Report for inclusion on the relevant Part VII section of the Phoenix website. Any other purported summary of this Report or elements of this Report should not be treated as having been approved or authorised by me.

1.34 This Report has been prepared on a basis agreed with the PRA and the FCA and must not be relied upon for any other purpose. No liability will be accepted by Milliman, or me, for any application of this Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.35 There are no documents or other information that I have requested and that have not been provided.

1.36 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing this Report, but that nonetheless should be drawn to the attention of policyholders in their consideration of the terms of the Scheme.

1.37 I have considered the terms of the Scheme proposals presented to me and I have not considered alternative proposals.

REGULATORY AND PROFESSIONAL GUIDANCE

1.38 This Report has been prepared subject to the terms of the Technical Actuarial Standards ("**TASs**") applicable to Insurance transformations ("**TAS 200: Insurance**") issued by the Financial Reporting Council. In my opinion, this Report complies with the TAS 200: Insurance.

1.39 This Report is compliant with TAS 100: Principles for Technical Actuarial Work, and in particular those aspects that are applicable to transformations.

1.40 In complying with these requirements, I note that a number of the key documents listed in Appendix E have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.

1.41 Actuarial Profession Standard X2, as issued by the Institute and Faculty of Actuaries ("**IFoA**"), requires members to consider whether their work requires an independent peer review.

1.42 In my view this Report does require independent peer review and this has been carried out by an appropriate senior actuary in Milliman LLP who has not been part of my team working on this assignment (the "**Peer Reviewer**").

2. Executive summary

Introduction and the role of the Independent Expert

2.1 Phoenix, PLAL, SLAL and SLPF are proprietary long term insurance companies within the Phoenix Group. Under the Scheme, the entire long-term insurance business of PLAL, SLAL and SLPF will be transferred to Phoenix. The Scheme will be a consolidating Scheme in that it will consolidate a number of current schemes governing the operation of Phoenix, PLAL, SLAL and SLPF. The SLAL Brexit Scheme involving SL Intl will remain in place but subject to variation (see below).

2.2 I have been appointed by Phoenix, PLAL, SLAL and SLPF to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert on the terms of the Scheme. It is my role as the Independent Expert to consider the effects of the Scheme on policyholders, including on their reasonable benefit expectations and their security of benefits, and on the standards of service, administration, management and governance applicable. I have been approved to carry out the role of Independent Expert by the PRA in consultation with the FCA.

2.3 The current schemes that will be either varied or superseded by the Scheme (including the variation to the SLAL Brexit Scheme) require an independent expert to give a certificate as to the impact of those changes on policyholders. I have been appointed as the independent expert for each such current scheme to provide the relevant certificate. These certificates have been provided within Appendix C.

Current position regarding The Phoenix Group

2.4 The Phoenix Group is a large UK insurance group. Following its recent (April 2023) acquisition of Sun Life Assurance Company of Canada (U.K.) Limited ("**SLOC**"), it now has seven UK life insurance companies with retirement, long-term savings and protection business. The Phoenix Group also includes two Irish life insurance companies, Standard Life International DAC ("**SL Intl**") and Phoenix Life Assurance Europe DAC ("**PLAE**"). Two of the UK companies within the Phoenix Group, Phoenix and SLAL, are open to new business, and the other UK companies are closed to new business.

2.5 The Phoenix Group is subject to the UK version of Solvency II, and also (in respect of SL Intl and PLAE) to the version of Solvency II that applies within the EEA. The Phoenix Group and the Companies calculate their Solvency II capital requirements using a PRA approved Internal Model. The Companies also have various commonly used approvals from the PRA in relation to the application of Solvency II in the UK.

2.6 The Phoenix Group and the Companies have extensive governance arrangements and capital management policies. The arrangements for SLPF are more straightforward due to the small size and nature of this company.

Current position regarding Phoenix

2.7 Phoenix is a UK regulated life insurance company within the Phoenix Group. The entire business of PLAL, SLAL and SLPF will be transferring into Phoenix under the Scheme.

2.8 Phoenix has ten ring-fenced with-profits funds (also referred to as **WPF**s), and these are: the 100% WPF, the 90% WPF, the Alba WPF, the Britannic Industrial Branch WPF ("**BIB WPF**"), the Britannic WPF, the Phoenix WPF, the SAL WPF, the Scottish Mutual WPF, the SPI WPF and the National Provident Institution WPF ("**NPI WPF**"). Phoenix also has a shareholder fund and a non-profit fund (the "**Phoenix NPF**"), which for Solvency II purposes are combined and are therefore collectively referred to in this Report as the Phoenix NPF. Phoenix has written various types of business, including conventional with-profits, unitised with-profits, with-profit annuities, unit-linked and non-profit business.

2.9 As at 31 December 2022, Phoenix had 3.7 million policies in force. As at 31 December 2022, Phoenix had £53 billion of assets and £49 billion of Technical Provisions and Other Liabilities. Phoenix maintains its own capital policy (known as the Phoenix Capital Policy or "**PCP**"), under which Phoenix must hold sufficient capital to be able to meet its regulatory capital requirements after the more onerous of a 1-in-10 year all risks event over a one-year period, and a 1-in-20 severe market risk scenario arising over a three-month period. The PCP thus requires a capital buffer to be held in addition to the 1-in-200-year capital requirements underlying the Solvency II rules. The PCP includes various other aspects including capital quality tests (which includes the consideration of liquidity), and it also sets out the support available to the with-profits funds should assets be insufficient to support their liabilities or Solvency Capital Requirement ("**SCR**"). In these cases, capital can be provided by the Phoenix NPF to cover the shortfall. As at 31 December 2022, with the exception of the Britannic WPF and the SAL WPF, none of the Phoenix WPFs required any support. The Britannic WPF and the SAL WPF both however required support to cover some aspects of their applicable capital requirements under current schemes and/or the PCP.

2.10 As at 31 December 2022, the Solvency Coverage Ratio as per the regulatory returns for Phoenix is 157%, and the Solvency Coverage Ratio – Shareholder is 173%. The definitions of these terms can be found from paragraph 5.50 onwards. This latter ratio exceeds the 138% which corresponds to the current required capital buffer under the PCP.

2.11 On 1 January 2023, Phoenix and another Phoenix Group life company (one not involved in the Scheme, ReAssure Life Limited ("**RLL**") transferred their business written in the EEA to PLAE, with much of this business being reinsured back to Phoenix and RLL. This is known as the Phoenix Brexit Scheme.

Current position regarding PLAL

2.12 PLAL is a UK regulated life insurance company within the Phoenix Group.

2.13 PLAL currently has four ring-fenced WPFs, and these are: the Pearl WPF, the SERP WPF, the London Life WPF and the National Provident Life WPF ("**NPL WPF**"). PLAL also has a shareholder fund and a non-profit fund (the "**PLAL NPF**"), which for Solvency II purposes are combined and are therefore collectively referred to in this Report as the PLAL NPF. PLAL has written various types of business, including conventional with-profits, unitised with-profits, with-profit annuities, unit-linked and non-profit business.

2.14 As at 31 December 2022, PLAL had approximately 682,000 policies in force. As at 31 December 2022 PLAL had £11 billion of assets and £9 billion of Technical Provisions and Other Liabilities. PLAL maintains its own capital policy (the "**PLAL CP**") which has the same capital quantity requirement as the PCP, i.e. that PLAL must hold capital to cover the more onerous of a 1-in-10 year all risks event over a one year period and a 1-in-20 year severe market risk scenario arising over a three-month period. Various other aspects of the PLAL CP are aligned to the PCP, including the capital quality tests and the support available to with-profits funds. The SERP WPF, London Life WPF and NPL WPF all require capital support from the PLAL NPF as at 31 December 2022 as a result of these WPFs having insufficient assets to meet their liabilities. The loans from the PLAL NPF were £313 million, £95 million and £287 million, respectively.

2.15 As at 31 December 2022, the Solvency Coverage Ratio as per the regulatory returns for PLAL is 181%, and the Shareholder Solvency Coverage Ratio is 253%. This latter ratio exceeds the 144% which corresponds to the current quantitative required capital buffer under the PLAL CP. In addition to this, as at 31 December 2022 PLAL, was holding additional capital due to its requirements in relation to quality of capital.

Current position regarding SLAL and SLPF

2.16 SLAL is a UK regulated life insurance company within the Phoenix Group. SLAL currently has four WPFs, and these are: the Heritage WPF, the UK Smoothed Managed WPF ("**UKSMWPF**"), the German WPF and the German Smoothed Managed WPF. SLAL has a Proprietary Business Fund (the "**SLAL PBF**"), also known as SLAL's non-profit fund. SLAL has written various types of business, including conventional with-profits, unitised with-profits, with-profit annuities, unit-linked and non-profit business.

2.17 As at 31 December 2022, SLAL had approximately 4.27 million customers. As at 31 December 2022, SLAL had £128 billion of assets and £124 billion of Technical Provisions and Other Liabilities. SLAL maintains its own capital policy (the "**SLAL CP**") which has the same capital quantity requirement as the PCP and the PLAL CP, i.e. that SLAL must hold capital to cover the more onerous of a 1-in-10 year all risks event over a one year period and a 1-in-20 severe market risk scenario arising over a three-month period. Various other aspects of the SLAL CP are aligned to the PCP and PLAL CP, including the capital quality tests and the support available to with-profits funds. As at 31 December 2022, none of the SLAL with-profits funds required such support. Arising from the SLAC Demutualisation Scheme, SLAL is also subject to an additional protection for with-profits policyholders, which is known as the Capital Events requirement. This is mainly applicable to the with-profits policyholders in the Heritage WPF.

2.18 In March 2019, the euro-denominated business of SLAL (which was sold in Ireland, Germany and Austria by either SLAL or by Standard Life prior to its demutualisation), was transferred to SL Intl, a Phoenix Group company based in Ireland, under the SLAL Brexit Scheme. The transferred business was comprised of the euro-denominated unit-linked, annuity and with-profits business that was written pre-demutualisation and allocated to the Heritage WPF upon demutualisation and the euro-denominated policies written post-demutualisation in the SLAL PBF, including the with-profits investment element allocated to the German WPF or the German Smoothed Managed WPF. The majority of the business transferred to SL Intl under the SLAL Brexit Scheme was simultaneously reinsured back to SLAL.

2.19 As at 31 December 2022, the Solvency Coverage Ratio as per the regulatory returns for SLAL (including SLPF) is 159%, and the Shareholder Solvency Coverage Ratio is 193%. This latter ratio exceeds the 131% which corresponds to the current required capital buffer under the SLAL CP.

2.20 SLPF is a wholly owned subsidiary of SLAL and is allocated to (and thus effectively owned by) the Heritage WPF. As at 31 December 2022, SLPF had 364 non-profit in-payment and deferred annuities. As at 31 December 2022, SLPF had £17.1 million of assets (gross of reinsurance) and £6.4 million of Technical Provisions (gross of reinsurance). All of the SLPF liabilities are reinsured back to SLAL – either to the SLAL PBF or to the Heritage WPF. Due to SLPF being a subsidiary of SLAL with all its liabilities reinsured to SLAL, it is not necessary for SLPF to have a capital policy akin to that maintained by SLAL.

The Scheme

2.21 The Scheme will transfer all of the business of PLAL, SLAL and SLPF into Phoenix, and thus simplify the corporate structure of the Phoenix Group and allow PLAL, SLAL and SLPF in due course to be de-authorised. Having fewer UK life companies will result in greater operational and capital efficiency and reductions in certain expenses through more efficient financial reporting, governance and administration. The Scheme will come into effect on the Transfer Date which is expected to be 27 October 2023. However for financial and regulatory reporting purposes the Effective Date of the Scheme will be backdated to 30 September 2023.

2.22 Under the Scheme, the policies, associated liabilities and assets in the WPFs of PLAL and SLAL will transfer into identical new WPFs in Phoenix. New Linked Funds will be created in Phoenix corresponding to the current Linked Funds of PLAL and SLAL, with the same asset pools. The policies, associated liabilities, and assets in the PLAL NPF and in the SLAL PBF will transfer into the Phoenix NPF. Policies currently in the Phoenix NPF with their with-profits investment element allocated to the NPI WPF (within Phoenix) and reinsured on to the Pearl WPF (within PLAL) will have their with-profits investment element allocated directly to the newly created Pearl WPF in Phoenix, and the NPI WPF will cease to exist post-Scheme.

2.23 SLPF will become a subsidiary of Phoenix, allocated to the newly created Heritage WPF in Phoenix ("**Phoenix Heritage WPF**"). The SLPF policies currently reinsured to the Heritage WPF will be transferred into the Phoenix Heritage WPF, and the SLPF policies currently reinsured to the SLAL PBF will be transferred into the Phoenix NPF. The current reinsurance between SLPF and SLAL will therefore fall away on implementation of the Scheme.

2.24 Other than the SLAL Brexit Scheme and the Phoenix Brexit Scheme which will both remain in force, the remaining in force schemes (the "**Currently Applicable Schemes**") which are applicable to Phoenix, PLAL and SLAL will be superseded and disapplied by the Scheme, with the provisions of the Currently Applicable Schemes materially consolidated into this Scheme, but with some amendments and updates as described below. The SLAL Brexit Scheme will be varied in the Court of Session in Scotland such that Phoenix will assume the responsibilities of SLAL in respect of the SLAL Brexit Scheme, including taking over from SLAL as the reinsurer of the relevant SL Intl business. Sanction of the Scheme is conditional on the approval by the Court of Session of the amendments to the SLAL Brexit Scheme. No changes are necessary in respect of the Phoenix Brexit Scheme.

2.25 The Scheme introduces various amendments and updates to provisions from the Currently Applicable Schemes, and I now cover the material changes within this Executive Summary.

2.26 There will be changes to the clauses that allow for the eventual termination of most of the WPFs once they have reduced below a certain size (commonly referred to as "**sunset clauses**"). For the current Phoenix and PLAL WPFs, the changes involve updating the threshold definitions to allow for Solvency II metrics (consistent with the actual definitions currently applying in practice), changing from having a "must terminate" requirement to only a "may terminate" requirement, and increasing the range of options for the type of benefits which can be applied when a WPF is terminated. For SLAL, only the Heritage WPF has a sunset clause and there are no changes proposed. I note that the current sunset clause provisions for this WPF already only include a "may terminate" requirement, are already based on Solvency II metrics, and currently allow for appropriate alternatives to conversion to non-profit after the threshold has been met. The changes to the sunset clauses for the current Phoenix and PLAL WPFs will increase consistency across the sunset clauses and introduce greater flexibility to the benefit of policyholders. I am satisfied that the changes are appropriate and that appropriate policyholder protection processes are included.

2.27 Under the Scheme, the existing termination and merger clauses for the Linked Funds of Phoenix, PLAL and SLAL will be harmonised, with some exceptions for specific types and past business sources of unit-linked policies. The Scheme will extend to most Linked Funds Phoenix's power to close the funds to new or additional investments, modify investment objectives, and to merge, divide or terminate the Linked Funds if certain conditions are met (including being in line with policy terms and conditions). I am satisfied that the changes are appropriate and that appropriate policyholder protection processes are included.

2.28 An updated PCP will be included within Schedule 1 of the Scheme and will apply to the enlarged Phoenix post-Scheme. The key components of the updated PCP are unchanged from the current PCP, including the 1-in-10 capital quantity test, and the updated PCP brings together within the Scheme aspects from the Currently Applicable Schemes as well as other aspects of the current PCP. Some aspects of the updated PCP included within Schedule 1 of the Scheme are based on principles, leaving Phoenix flexibility to amend its practice as circumstances change.

2.29 As already noted, the SLAL CP has an additional aspect arising from the SLAC Demutualisation Scheme. This relates to Capital Events, and requires that the SLAL Board, typically after having taken into account the advice of the SLAL WPA and Chief Actuary, should form a 'reasonable opinion' that SLAL is carrying out its business in a manner which does not unduly expose it to the risk of being unable to meet its SCR or its capital needs and this resulting in the Heritage WPF not being managed in accordance with the "**Core Principles**" (which define how the fund should be managed by the SLAL Board). The updated PCP contains a similar Capital Events requirement, but it will apply to the whole of the enlarged Phoenix post-Scheme, including all of the WPFs. In taking any actions to cease a Capital Event should one arise, there are certain restrictions (based on the Currently Applicable Schemes) which apply to the management actions in the various WPFs and these restrictions differ according to the WPF in question.

2.30 A further key change as a result of the updated PCP applying to the enlarged Phoenix is that, for the Phoenix Heritage WPF, assets will need to be held within this WPF to cover the liabilities of the WPF plus a buffer equal to the greater of 0.5% of with-profits policy liabilities and £5 million. This buffer is an additional requirement which does not currently apply to the SLAL Heritage WPF, and it brings this aspect into line for this WPF with the other WPFs post-Scheme. Additionally, the Scheme requires any future capital support for the Phoenix Heritage WPF to be on arm's length terms following advice from the relevant WPA, again bringing this aspect into line for this WPF with the other WPFs post-Scheme.

2.31 The Scheme removes the annual certification requirements which were required under some of the Currently Applicable Schemes, namely the Phoenix 2009 Scheme, the PLAL 2015 Scheme and the SLAC Demutualisation Scheme. I am satisfied that the testing and work carried out to produce these certificates will continue under Phoenix's business as usual processes and that the removal of these certification requirements will not be to the detriment of policyholders.

2.32 There are two technical updates in respect of the Heritage WPF under the Scheme. These consist of modifications to the calculation of the Reference Period Transfer Amount ("**RPTA**") and clarifications around a commonly used industry technique (known as unit matching) for the unit-linked business within the Heritage WPF. The Scheme will also update some outdated terminology (i.e. no longer in use under UK Solvency II) used within some of the provisions in the Current Existing Schemes. These technical updates are being made for practical reasons and for increased clarity, and I am satisfied that there will be no material detriment to policyholders.

2.33 The terms of reference for the WPCs of Phoenix, PLAL and SLAL will be combined and updated to reflect the operation of a single WPC after the Scheme has been implemented. I note that the WPCs have the same membership and already operate as a single WPC in practice.

2.34 Following the implementation of the Scheme, part of the current SLAL business is expected to be transferred from Phoenix to abrdn Life and Pensions Limited ("**ALPL**"), a subsidiary of abrdn, through a separate Part VII Transfer process. I have made all my assessments based on the Scheme only, without any presumption that this expected subsequent Part VII Transfer to ALPL will actually take place. Additionally, I have considered the implications for the policyholders involved of being subject to two Part VII Transfers, and I am satisfied as to the rationale for including these policyholders within the scope of the Scheme.

2.35 The current reinsurance arrangements in place for the Companies, consisting of internal (i.e. arrangements between funds within the same company), intra-group (i.e. between the Companies) and external reinsurance, will fall away in cases where the reinsurance is no longer required (as the business will be transferred to the relevant fund), or (where all the business has transferred to Phoenix but allocated to different funds within Phoenix), they will be replicated between funds, with the relevant Phoenix fund taking over as the reinsurer or cedant where applicable.

Where either inwards or outwards reinsurances (including reinsurances of unit-linked funds to/from other insurers) operate in conjunction with security arrangements, such security arrangements will be transferred to Phoenix.

2.36 I also note that, although not part of the Scheme, around the same time as the implementation of the Scheme the Heritage WPF will be formally closed to new business. Limited types of new business (for example increments on existing policies) will still be allowed to be written as is the common approach for closed funds.

Financial Impact of the Scheme

2.37 I have considered the financial impact of the Scheme, which forms a key part of my considerations, primarily in relation to the impact on the security of benefits for policyholders. Table 2.1 below shows the pro-forma impact of the Scheme and the post-Scheme financial position of the enlarged Phoenix. The table in particular shows how the final post-Scheme Phoenix position compares with a straightforward sum of the parts.

2.38 The figures are shown on a UK Solvency II basis as at 31 December 2022. Definitions of the Solvency Coverage Ratios shown in Table 2.1 below are provided in paragraphs 9.5 onwards. I note that the results for SLPF are incorporated into SLAL, as SLPF is a subsidiary of SLAL and the business of SLPF is fully reinsured into SLAL. SLPF is relatively small and it is not necessary to show it separately within Table 2.1.

Table 2.1 Phoenix, SLAL and PLAL UK Solvency II balance sheet as at 31 December 2022

£m	Pre-Scheme				Post-Scheme	Difference
	Phoenix	PLAL	SLAL	Total	Phoenix	
Own Funds (**A**)	3,996	1,560	4,385	9,942	9,905	(37)
RFF Restriction (**B**)	401	346	1,225	1,973	1,914	(59)
SCR **(C)**	2,293	666	1,985	4,945	4,433	(512)
Excess Own Funds (**D**=**A**-**B**-**C**)	1,302	547	1,175	3,024	3,558	534
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C)						
	157%	**182%**	**159%**	**N/A**	**180%**	**N/A**
Solvency Coverage Ratio – Shareholder (Actual)						
	173%	**255%**	**193%**	**N/A**	**225%**	**N/A**
Solvency Coverage Ratio – Shareholder (Actual, Adjusted for Comparison with Capital Policy Target)*						
	173%	**255%**	**168%**	**N/A**	**215%**	**N/A**
Solvency Coverage Ratio – Shareholder (Capital Policy Target)*						
	138%	**144%**	**131%**	**N/A**	**136%**	**N/A**

Source: Phoenix information summarised by Milliman.

* The Capital Policy Target ratios are the current ratios based on Phoenix's analysis as at 31 December 2021. These are in the process of being updated based on analysis as at 31 December 2022 as part of Phoenix's regular annual Capital Policy refresh, and the updated values will be given in my Supplementary Report. The Capital Policy Target ratios are considered *excluding* the Group Loan capital which exists in SLAL pre-Scheme (see paragraph 7.85) and, as a result, in Phoenix post-Scheme. The Shareholder (Actual) Solvency Coverage Ratios adjusted to exclude the Group Loan capital, and to compare with the Capital Policy Target Ratios, are shown in the row above the Capital Policy Target Ratios.

2.39 Table 2.1 shows that, if the Scheme had been implemented on 31 December 2022, the post-Scheme capital resources of Phoenix would have covered its SCR with a ratio of 180% on a Reported basis and 225% on a

Shareholder basis. Both forms of the post-Scheme Solvency Coverage Ratio for Phoenix are higher than the pre-Scheme values for Phoenix and SLAL, but lower than the pre-Scheme values for PLAL. Post-Scheme, the Adjusted Shareholder Solvency Coverage Ratio for Phoenix of 215% is materially above the estimated revised capital policy target of 136%. It is this latter aspect which is key, and the post-Scheme reduction in the coverage ratios in respect of PLAL is thus not of any concern. I note that post-Scheme there are no additional quality related capital requirements which bite.

2.40 Table 2.1 also shows that as a result of Scheme there would have been a reduction in Own Funds of £37 million across all companies. This arises mainly from the project costs associated with the Scheme, all of which are being borne by the Phoenix shareholder, plus some minor technical adjustments arising to the post-Scheme liabilities. The reduction of £59 million in the RFF Restriction arises from the discontinuance post-Scheme (for reasons of simplification and materiality) of the Volatility Adjustment in the Phoenix Heritage WPF. There would be a material reduction in the SCR of £512 million, which primarily arises from additional diversification benefits generated through the consolidation of the Companies, as well as through an increase in the loss absorbing capacity of deferred taxes (which essentially relates to lower future tax being payable in the SCR stress scenario). I have satisfied myself as to the detailed technical reasons for and the appropriateness of this material reduction in the post-Scheme SCR. I note also that most of this increased level of diversification benefit is already recognised (as is standard industry practice) within the PGH consolidated group Solvency II SCR. Therefore the post-Scheme Group position will not be materially impacted as a result of the Scheme, and the Scheme will thus remove a level of capital inefficiency whereby capital which must be held within the Companies does not have to be held at the Group level. The amount of capital which will need to be retained post-Scheme within the enlarged Phoenix will be governed by the post-Scheme PCP as described above.

The effect of the Scheme on the reasonable benefit expectations of policyholders

2.41 I have considered the impact of the Scheme on the reasonable benefit expectations of all types and all groups of policyholders of the Companies, including those policyholders whose benefits have been reinsured into the Companies from other insurers (both within and outside of the Phoenix Group). I have considered the impact of the Scheme on with-profits policyholders (both conventional with-profits ("**CWP**") and unitised with-profits ("**UWP**") types), unit-linked policyholders and non-profit policyholders (both annuities and non-annuities), regardless of which of the Companies and which fund within a company these policyholders sit.

2.42 I am satisfied that the Scheme will not have a material adverse impact on the reasonable benefit expectations of any type or any group of policyholders. In reaching this conclusion I have taken into account:

- the replication of the each of the transferring WPFs within the enlarged Phoenix;
- the cessation of the NPI WPF;
- the proposed changes to the PPFM documents governing the operation of the WPFs;
- the changes proposed to sunset clauses of certain WPFs;
- the changes proposed to termination and merger clauses for Linked Funds, and changes to allow modifications to investment objectives;
- the removal of annual certification requirements within the Currently Applicable Schemes;
- the technical changes for the Heritage WPF (i.e. the RPTA changes and the unit matching clarification);
- the changes to allow non-profit policies to be reallocated from the Heritage WPF to the Phoenix NPF;
- changes to and in respect of the terms of reference for the WPCs; and
- the closure to future new business of the Heritage WPF (although I note that this is not part of the Scheme and is expected to occur around the same time as the Scheme).

The effect of the Scheme on the security of benefits for policyholders

2.43 I have considered and analysed the impact of the Scheme on the security of benefits of all types and all groups of policyholders of the Companies, including those policyholders whose benefits have been reinsured into the Companies from other insurers (both within and outside of the Phoenix Group. I have considered the impact of the Scheme on with-profits policyholders (both CWP and UWP types), unit-linked policyholders and non-profit policyholders (both annuities and non-annuities), regardless of which of the Companies and which fund within a company these policyholders sit.

2.44 I am satisfied that the Scheme will not have a material adverse impact on the security of benefits for any type or group of policyholders. In reaching this conclusion I have taken into account:

- the financial impact of the Scheme as described in paragraph 11.10 onwards, including the impact on the Solvency Coverage Ratios and the demonstration that the enlarged Phoenix will be able to meet the PCP post Scheme;
- the potential additional contagion risk arising between the WPFs within the enlarged Phoenix post Scheme (this being the risk that an adverse event affecting one or more WPFs will give rise to an adverse impact on one or more other WPFs);
- the change in the risk profile as a result of the Scheme, which is allowed for in determining the amount of capital held post-Scheme, both for the SCR requirement and the buffer required under the PCP;
- the results of stress and scenario testing carried out by the Companies;
- the updated PCP that will apply post Scheme, including the incorporation (and the extension to the whole of the enlarged Phoenix) of the Capital Event requirement which currently applies to SLAL, and including the updated arrangements for the provision of capital support where needed to the WPFs; I note that (as is also the case for the Companies pre-Scheme), any capital held in Phoenix in excess of the PCP may (subject to the point below) be transferred out or otherwise utilised and thus cannot be relied upon in considering the security of policyholder benefits, and I have taken this into account in my analyses and considerations; I note further that aside from the application of the Capital Event requirement to the whole of the enlarged Phoenix post-Scheme, the key elements of the capital policy are already aligned between the Companies;
- the additional amounts of capital being retained whilst certain modelling enhancements are being implemented;
- other considerations arising as a result of the Scheme, including the clarification of unit matching within the Heritage WPF, and the treatment of the loan between PGH and SLAL.

I will provide an update to the above considerations and conclusions based on the latest available financial analyses within my Supplementary Report. This is expected to include updated results and financial analyses as at 30 June 2023, including the updated Capital Policy Target ratios referred to above.

The effect of the Scheme on the standards of service, administration, management and governance applicable to the policies

2.45 I have considered the impact of the Scheme on the standards of service, administration, management and governance applicable for all policyholders of the Companies. I have considered both the temporary impact of the Scheme (i.e. of enquires arising from the Scheme communications) on the customer service provided to policyholders (and the provisions put in place to mitigate this impact), as well as the impact of the Scheme on the longer term administration and servicing arrangements. I have considered the operational readiness plans of the Companies in relation to the processes for implementing the Scheme.

2.46 I have also considered the impact on the governance processes applicable to all policyholders post-Scheme, including the proposed changes to the PPFMs, the removal of annual certification requirements within the Currently Applicable Schemes and the changes to the terms of reference for the WPCs.

2.47 I am satisfied that the implementation of the Scheme will not have a material adverse impact on the standards of service, administration, management and governance applicable for any types or groups of policyholders of the Companies. I am further satisfied that the operational readiness plans of the Companies are suitably progressed, and I will provide an update on this in my Supplementary Report.

My considerations in respect of SL Intl Policyholders

2.48 In parallel with my role as the Independent Expert for this Scheme, I am required to consider the impact of amendments to the SLAL Brexit Scheme on all SL Intl policyholders, including those policyholders transferred from

SLAL under the SLAL Brexit Scheme and those policyholders of SL Intl who took out their policies directly with SL Intl both before and after the SLAL Brexit Scheme.

2.49 My considerations and conclusions in this Report apply equally to the policyholders of SL Intl whose benefits are reinsured to SLAL. I also conclude that I see no material adverse effect on the benefit expectations, benefit security, or any other aspect in relation to the other direct SL Intl policyholders. I have provided the relevant certificate in relation to the amendments to the SLAL Brexit Scheme in Appendix C.

My other considerations arising from the Scheme

2.50 I have considered a number of other additional aspects not covered above, that may have a bearing on the impact of the Scheme and the policyholders of the Companies. These aspects include:

- the future practical operation of the Scheme;
- the impact of the Scheme on policyholders of companies other than those directly involved in the Scheme (i.e. other than Phoenix, PLAL, SLAL and SLPF), including on SL Intl, PLAE, ReAssure Limited ("**ReAssure**"), RLL and SLOC;
- the effect on reinsurers;
- the consequences of the Scheme on taxation issues;
- the ongoing review of various aspects of the UK Solvency II regime;
- access to the Financial Services Compensation Scheme and the Financial Ombudsman Service;
- the newly introduced FCA Consumer Duty Rules; and
- any emerging risks, including further volatility in financial markets and the ability of the enlarged Phoenix to deal with such risks.

I have concluded that these matters do not have any material impact on my conclusions in respect of the Scheme.

The approach to communications with policyholders

2.51 I have considered the proposed communications strategy and the letters and documentation to be issued to the various classes of policyholders of the Companies. I have also considered the dispensations being sought by the Phoenix in relation to certain classes of (non-transferring) Phoenix policyholders. I am satisfied that the proposed approaches in each of these areas is reasonable and that the communications themselves are clear, fair and not misleading.

2.52 I have provided appropriate tailored summaries of this Report and my conclusions for inclusion within the communications for the various classes of policyholders, and I have provided an overall summary of this Report for inclusion on the relevant parts of the Phoenix and SLAL websites.

My conclusions

2.53 I have considered and analysed the effects and the impact of the Scheme on all of the policyholders of Phoenix, PLAL, SLAL and SLPF as set out in relevant sections of this Report. My consideration has covered all of the different types and classes of policyholders within the Companies.

2.54 In my opinion, the implementation of the Scheme will not have any material adverse effect on any of the following:

- The reasonable benefit expectations of the policyholders of Phoenix, PLAL, SLAL and SLPF.
- The security of the benefits of the policyholders of Phoenix, PLAL, SLAL and SLPF.
- The levels of administration, customer service and governance that apply to the policyholders of Phoenix, PLAL, SLAL and SLPF.

2.55 I have provided in Appendix C the relevant certificates in relation to the modifications to the Currently Applicable Schemes which will no longer remain in force following the implementation of the Scheme. I have also provided in Appendix C the relevant certificate in respect the amendments to the SLAL Brexit Scheme which will remain in force following the implementation of the Scheme. Appendix C also sets out some additional considerations for me in providing these certificates.

2.56 In addition to considering the effects of the Scheme, I am also required (as set out from paragraph 8.18) to consider the effects of the amendments to the SLAL Brexit Scheme on all the policyholders of SL Intl and of SLAL.

2.57 In my opinion, the amendments to the SLAL Brexit Scheme will not have any material adverse effect on the reasonable benefit expectations or the security of the benefits of any of the policyholders of SL Intl. My certificate in Appendix C in respect of the amendments to the SLAL Brexit Scheme applies to all policyholders of SL Intl and of SLAL.

3. The role of the independent expert

INTRODUCTION

3.1 Policyholders involved in UK insurance business transfers have four main layers of protection provided by the legal and regulatory system in the UK. These layers of protection are provided by:

- The obligations placed on the Companies to give notice of the proposed transfer to policyholders and other interested parties. Any person who considers they may be adversely affected may make a representation to the relevant court (in the case of the Scheme to the High Court, or for any person who considers they may be adversely affected by the Existing SLAL Schemes Variations being approved by the Court of Session, to that court).
- The Independent Expert. He/she produces the (publicly available) Scheme Report assessing the Scheme, including its impact on policyholders, and (usually) a Supplementary Report for the Final Hearing.
- The UK regulators (the PRA and the FCA) as they:
  - Approve the appointment of the Independent Expert and the form of the Scheme Report;
  - Produce their own reports on the Scheme for consideration by the High Court;
  - Are entitled to appear in or make a representation to the High Court; and
  - Approve the form of the notices that are published and sent to policyholders.
- The High Court. There are two High Court Hearings: the Directions Hearing and the Final (or Sanction) Hearing. The proposed plan for notification of policyholders is considered at the Directions Hearing. The High Court reviews the Scheme at the Final Hearing where the High Court also takes into account the views of the regulators, the Independent Expert, various statements by the parties to the transfer, and any objections raised by policyholders and other interested parties.

3.2 My role as Independent Expert is to assess the Scheme and to report on this via the Scheme Report (this Report and any Supplementary Reports) to the High Court. I set out below my significant areas of consideration in discharging this role.

THE CONSIDERATIONS OF THE INDEPENDENT EXPERT

The regulatory requirements in respect of my role

3.3 The requirements in respect of the Scheme Report are set out in:

- The PRA Statement of Policy (Paragraphs 2.27 to 2.40);
- Paragraphs 31 to 41 of Section 2 of SUP 18 of the FCA Handbook; and
- The FCA Final Guidance.

3.4 This Report complies with these documents.

3.5 In considering the Scheme, the concept of treating customers fairly should be applied. From the policyholders' perspective, the successful implementation of the Scheme must be on the basis that they are treated fairly during the process and will be treated fairly in the future.

3.6 The Scheme concerns four life insurance companies: Phoenix, PLAL, SLAL and its subsidiary SLPF. I need to consider the terms of the Scheme generally and how the different types and groups of policyholders (both within and across the Companies) and the different generations of policyholders within the different types and groups are likely to be affected by the implementation of the Scheme. In particular I need to consider:

- The effect of the implementation of the Scheme on the reasonable expectations of policyholders in respect of their benefits;
- The effect of the implementation of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer; and

- The effect of the implementation of the Scheme on the standards of service, administration, management and governance applicable to the policies.

3.7 My considerations in respect of each of these areas are set out in more detail below.

3.8 In this Report I have not restricted my assessment of the Scheme to adverse effects.

3.9 I am only required to comment on the effects of the Scheme on policyholders who enter into contracts with the Companies prior to the Transfer Date of the Scheme. I am not required to consider the effects of the Scheme on new policyholders entering into contracts after this date. Further details on the definition of the Transfer Date of the Scheme and of its practical implementation are given in paragraph 8.5.

3.10 I am not required to consider possible alternative Schemes and I have therefore only considered the terms of the Scheme presented to me.

Policyholders' reasonable expectations in respect of their benefits

3.11 As part of my role as Independent Expert for the Scheme, I need to consider the proposals in the context of the FCA's regulatory objectives and in particular the effect of the implementation of the Scheme on policyholders' reasonable expectations.

3.12 This includes considering the effect of the implementation of the Scheme on areas where the Board of the relevant insurance company has discretion with regard to the charges applied to a policy and the benefits (including with-profits bonuses) granted to the policyholder.

3.13 Policyholders' reasonable benefit expectations relate to expectations that are applicable in the context of the normal course of events and non-extreme scenarios. Therefore this consideration differs to the assessment of the financial security of policyholders' benefits, in that the latter assessment considers the security of benefits under extreme scenarios. In other words, it assesses the extent to which the policyholder has the same security of benefits under adverse risk events pre-Scheme and post-Scheme.

The security of policyholder benefits

3.14 As noted above, as Independent Expert, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their benefits when these are due, and in particular consideration of this in adverse circumstances.

3.15 The UK version of the Solvency II regulations ("**UK Solvency II**") requires insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic or best estimate of their liabilities to policyholders. This amount of capital is based on the risks being taken on by the insurance company. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios. I describe the UK regulatory regime in more detail in Appendix A.

3.16 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the benefits, and security is also provided by other capital resources in the insurance company. As well as the amount of available capital, the quality of that capital is also an important consideration in the context of security of benefits.

3.17 The four life insurance companies involved in the Scheme have a different mix of policies and policyholders and the type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholders' risk exposure will be the characteristics of the company in which the policy is held such as the size of the company, the mix of different types of business and risk, the amount and quality of capital resources available, the investment strategy, and the internal capital policy and risk appetite of the company.

3.18 Within this Report I make various references to the capital policies of Phoenix, PLAL and SLAL. I note that, pre-Scheme, these capital policies include elements from currently applicable Phoenix, PLAL and SLAL schemes which are sometimes based on Solvency I (the solvency regulation prior to Solvency II) terminology. These elements have been supplemented by additional aspects to form the current capital policies. Post Scheme, all of the key aspects of the capital policy are incorporated in Schedule 1 of the Scheme, with an appropriate mixture of principles and detail on the various aspects, and with all relevant terminology updated to Solvency II.

Standards of service, administration, management and governance applicable to the policies

3.19 As Independent Expert, I also need to consider the proposals in the context of the effect of the implementation of the Scheme on the quality of the levels of administration, servicing, management and governance in respect of the policies.

THE FRAMEWORK FOR THE INDEPENDENT EXPERT'S CONSIDERATION OF THE SCHEME

3.20 The framework for my work and for my conclusions is a consequence of the High Court's consideration of many prior schemes over previous years. A particular case worthy of note is the relatively recent transfer of a portfolio of annuities from The Prudential Assurance Company Limited ("**Prudential**") to Rothesay Life Plc ("**Rothesay Life**"). An appeal was brought to the Court of Appeal by Prudential and Rothesay Life, following the initial High Court ruling of Snowden J who, on 16 August 2019, declined to sanction the transfer.

3.21 In the judgement issued by the Court of Appeal some clarity was provided on the principles that a judge should consider when deciding whether to approve a Part VII Transfer. It clarified that:

- The crucial question for the High Court remains whether the transfer results in a material adverse effect on policyholders, employees or other stakeholders.
- An adverse effect will only be material if it is:
  - a possibility that cannot sensibly be ignored, given the nature and gravity of feared harm in the particular case;
  - a consequence of the scheme in question; and
  - material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.
- In some cases it may also be necessary for the High Court to consider whether there would be a material adverse effect in the event that the scheme in question was not sanctioned.
- Should a transfer result in a material adverse effect on some group(s) of policyholders, there may still be reasons to approve the scheme. However, if the impact of the scheme differs for different group(s) of policyholders then the High Court will need to consider whether the scheme as a whole is fair.
- In reaching a decision, and determining the key factors for consideration, the High Court must consider the nature of the business concerned (both transferring and non-transferring) as well as the circumstances surrounding the transfer.
- Whilst the High Court has discretion over whether to sanction a transfer, in exercising this discretion, it must take into account and give proper weight to matters that ought to be considered and ignore matters that ought not properly to be taken into account. The decision as to what matters to consider will depend on the particular circumstances of the transfer.
- The High Court scrutinises the reports of the Independent Expert, PRA and FCA, and the evidence of any person required to be heard by the High Court. The High Court is entitled to ask questions as is necessary to ensure that the opinions presented are fully understood and with a view to identifying any "errors, omissions, or instances of inadequate or defective reasoning". However, in the absence of such defects the High Court should place "full weight" on the opinions of the Independent Expert, PRA and FCA and only depart from their conclusions if there are "significant and appropriate reasons" for doing so.
- Following the High Court's evaluation, it will decide whether or not to sanction the scheme if it is appropriate in all the circumstances to do so. The High Court cannot explicitly request for a scheme to be altered, although alterations may occur as a result of the High Court expressing concerns in relation to certain aspects of the scheme.

3.22 In the particular case of the Prudential to Rothesay Life transfer, the Court of Appeal judgement also drew the following conclusions:

- It is justifiable for the Independent Expert, PRA and FCA to rely on the Solvency II metrics at a specific date to support their opinions that there was a remote chance of parental support being needed in the future as Rothesay would continue to be regulated under these same rules for the foreseeable future.

- The possibility of non-contractual parental support being available in the future was not a relevant factor for consideration.
- Given the extensive financial and actuarial evidence available to the High Court, the subjective factors raised by the policyholders (such as the age, venerability and reputation of Prudential) are not relevant.

3.23 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately and necessarily a matter of expert judgement regarding the likelihood and impact of future possible events. However, the analytical approaches and tools available to me to carry out my work (as set out in this Report) enable me to exercise this judgement in an objective and explainable manner. I confirm that my work has been carried out and my conclusions developed consistently with the principles arising (as summarised above) from the Court of Appeal judgment in the Prudential and Rothesay Life case.

3.24 Given the judgements involved, it is well-established (and reconfirmed by the Prudential and Rothesay Life Court of Appeal judgement as referred to above) that the Independent Expert can take into account the concept of materiality in carrying out his or her work and forming his or her conclusions. Without this concept, an otherwise acceptable scheme (including a scheme which ultimately benefits policyholders) might not be able to proceed due to aspects or issues which are clearly immaterial. For example, in relation to benefit expectations there might be the possibility of immaterial changes in either direction, where immaterial is considered both in relation to the total expected benefits and in relation to changes in total expected benefits which can occur in the normal course of events absent the scheme in question. In relation to benefit security, the level of coverage for capital requirements immediately pre-scheme and post-scheme may be different, but still comfortably in excess of regulatory minimums. In both of these cases an Independent Expert might reasonably conclude that there are no material adverse effects on the policyholders concerned. Given that (as explained above) benefit expectations take into account both the normal course of events and non-extreme scenarios, in my view it is appropriate for an Independent Expert to take particular care in assessing materiality for any potential changes in benefit expectations.

3.25 I confirm that I have taken materiality into account in carrying out my work and in forming my conclusions, and wherever I have made use of the concept of materiality in forming my conclusions I have highlighted and explained this in the relevant sections of this Report. My working definition of and my approach to materiality is consistent with that set out by the Court of Appeal in paragraph 3.21.

3.26 The above is the framework for my work and my consideration of the Scheme.

THE INDEPENDENCE OF THE INDEPENDENT EXPERT

Policies held by the Independent Expert and Peer Reviewer

3.27 I do not hold any policies with Phoenix, PLAL or SLPF. I hold two pension policies with SLAL, allocated to the SLAL Proprietary Business Fund ("**SLAL PBF**", also known as the non-profit fund of SLAL), which would be transferred to the Phoenix Non-Profit Fund ("**Phoenix NPF**") if the Scheme were to be implemented.

3.28 The features of these two policies are:

- They arose from my employment with KPMG LLP prior to 2001 as part of KPMG's then staff pension arrangements.
- Both policies are unit-linked with no guaranteed benefits.
- Both policies are 100% invested in external funds managed by BlackRock Life Ltd and not by SLAL or Phoenix themselves.
- No further premiums can be paid into either policy.

3.29 These policies form a very small part of my overall pension arrangements. I do not intend to take the benefits from these policies before my normal retirement age of 65 (which is well after the Transfer Date). I have not made any changes to the selected investment funds since the process commenced to appoint me as Independent Expert for this Scheme, and I will not make any such changes prior to the Transfer Date.

3.30 The proposed transfer will not change my policies. In particular there are no changes to policy terms and conditions or the way the policies are invested. Should the transfer go ahead, my policies will be treated in the same way as all other unit-linked policies in the SLAL PBF, and like all other policies they will have the same value after the transfer as before. The group of policyholders into which my policies fall is identified in Section 6 of this Report.

3.31 Given the above, I am confident that holding these two policies does not affect my independence or objectivity in carrying out my role as Independent Expert. As a Fellow of the Institute of Actuaries, I am bound by a professional code of conduct, which requires me to act with integrity and impartiality.

3.32 My work as Independent Expert will be reviewed by another senior actuary who is independent of the Companies, known as the Peer Reviewer. The Peer Reviewer does not hold any policies with any of the companies involved in the transfer, but holds a policy with ReAssure (specifically an ex-Guardian Royal Exchange personal pension which was transferred to ReAssure), which is part of the Phoenix Group. As ReAssure is not involved in any way in the proposed transfer, the Peer Reviewer and I are of the view that the holding of this policy does not affect the Peer Reviewer's independence or objectivity in carrying out her role.

Previous work carried out for the Phoenix Group by the Independent Expert and the Peer Reviewer

3.33 I provided an independent review and recommendations for some aspects of the Phoenix and PLAL regular actuarial processes in 2016. It is common for life insurers to request such reviews from external consultants from time to time.

3.34 I carried out work for ReAssure, including acting as the With-Profits Actuary ("**WPA**"), prior to ReAssure becoming part of the Phoenix Group in 2020. Essentially, the WPA advises on the fair treatment of with-profits policyholders. As explained above, although ReAssure is part of the Phoenix Group, it is not involved in the transfer.

3.35 I am of the view that none of the above work, which ceased over seven years ago for Phoenix and PLAL, affects my independence or objectivity in carrying out the role of Independent Expert.

3.36 I have not carried out any previous work for SLAL or SLPF.

3.37 The Peer Reviewer has not carried out any previous work for Phoenix, PLAL, SLAL or SLPF.

RELIANCES OF THE INDEPENDENT EXPERT IN THIS REPORT

The financial information in this Report

3.38 The current regulatory solvency framework for the European Economic Area ("**EEA**") insurance and reinsurance industry came into effect on 1 January 2016; this regime is known as Solvency II. The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021, the UK has been free to determine an appropriate regulatory regime for insurance companies, which I refer to throughout this Report as "**UK Solvency II**".

3.39 UK Solvency II is applicable to the UK entities of the Phoenix Group, including Phoenix, PLAL, SLAL and SLPF. Solvency II is applicable to SL Intl as it is based in the EEA.

3.40 A few changes have been made to date to the Solvency II regime as it is now applied in the UK, including a change to the yield curves used to discount the components of the Solvency II balance sheet, which came into force during 2021.

3.41 The UK Government published a full consultation document on proposed reforms to UK Solvency II in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. In November 2022, the UK Government and the PRA published responses to the consultation. The proposed reforms include:

- a substantial reduction in the Risk Margin;
- a potential requirement for additional attestation in relation to the matching adjustment ("**MA**");
- a potential expansion of the scope of the MA; and,
- a reduction in the level of regulatory reporting.

3.42 Consideration on the potential impact of the proposed reforms to UK Solvency II are covered in more detail in Section 14.

3.43 I note that Solvency II is currently under review in the EEA. This review is now completely separate to the UK review referred to above and is only relevant to SL Intl as noted in paragraph 3.39 above.

3.44 Section 9 shows the current (i.e. before the implementation of the Scheme) and the pro-forma post-Scheme UK Solvency II balance sheets (including capital requirements) as at 31 December 2022 for Phoenix, PLAL, SLAL and SLPF and this financial information is used in the analysis of the effects of the implementation of the Scheme as set out in Sections 10 to 14.

3.45 In addition, I have been provided with various financial and solvency projections for the Companies, which include sufficient information for me to assess and understand the expected path for the solvency position of the enlarged Phoenix post-Scheme through to end 2026. This information has been provided via the Phoenix Group Annual Own Risk & Solvency Assessment (ORSA) Report 2022 to which I also refer from paragraph 9.34.

The checks that have been carried out on the financial information

3.46 I have not carried out an independent review of the financial information provided by the Companies. However:

- The reported UK Solvency II balance sheets as at 31 December 2022 (shown in Sections 5 to 6) have been subject to an external audit and approved by the respective Chief Actuaries, Audit Committees and Boards. I note that actuarial input from the Chief Actuaries and With-Profits Actuaries is subject to TAS requirements and Actuarial Profession Standards ("**APS**").
- I have carried out a high level reconciliation of the pro-forma post-Scheme UK Solvency II balance sheets as at 31 December 2022 for the enlarged Phoenix, shown in Section 9, back to the pre-Scheme Solvency II balance sheets for Phoenix, PLAL, SLAL and SLPF.
- I have reviewed the financial information and where required sought explanation to the extent as necessary for me to gain a thorough understanding of the results.

Conclusion in respect of the financial information

3.47 Given the level of external review and internal checking and governance to which the financial information has been subject, as well as my own high-level review and reasonableness checks, I am satisfied that it is appropriate to rely upon this financial information for the purpose of this Report.

3.48 My Supplementary Report will contain more up to date financial information and will provide an update on the effect of the implementation of the Scheme based on this more up to date information.

My reliance on legal advice

3.49 This Report is prepared for the High Court as part of the process of submission of the Scheme to the High Court. I am not an expert in legal matters and hold no qualifications in UK law (insurance regulations or otherwise) and therefore take into account input from experts in UK insurance law in relation to a number of areas. In particular:

- I note that the previous Schemes involving Phoenix, PLAL, SLAL and SLPF (as described in Sections 5, 6 and 7) will have been through previous Part VII or equivalent processes, and thus these Schemes and their rationale do not need to be considered afresh by me; and
- I have taken into account the input given by legal experts following their review of drafts of this report in order to ensure that my understanding of the Scheme, and my description of its relevant features in this Report, is materially accurate.

3.50 Obtaining information where necessary in respect of the operation of the Scheme from the legal experts provides a sound basis from which to carry out my review and analysis using actuarial expertise.

3.51 In order to get a sound understanding of the legal effect of the Scheme, the options available to me are to retain my own legal adviser to carry out the relevant legal review, or to take into account the input of the legal firm retained by the Companies in respect of this Scheme, namely Linklaters. In this case, I consider that it is not necessary for me to obtain independent legal input and that it is appropriate for me to take into account the input provided by Linklaters.

3.52 Linklaters has not been retained by me and Linklaters has no liability to me or Milliman for any input that has been made available to me that I consider relevant to my assessment of the effects of the Scheme.

3.53 My reasons for taking this input into account are:

- Linklaters is a large international legal firm with a wide range of experience in UK insurance law and Part VII Transfers and it is my view that they have the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK;
- The nature of the information and input from Linklaters which I have taken into account concerns how the Scheme and the current schemes work both factually and in accordance with UK law; and
- The relevant legal matters do not appear to be contentious.

3.54 For these reasons, I am satisfied that the input or information provided to me by Linklaters would not be different if they were retained directly by me in respect of the Scheme.

3.55 In addition, I have taken into account input from Burness Paull, an independent law firm based in Scotland, in relation to certain aspects which concern Scottish law and the Court of Session court process for the Existing SLAL Scheme Variations. The basis set out above upon which I have taken into account input from Linklaters also applies to the input from Burness Paull.

3.56 I am therefore satisfied that it is appropriate for me to receive and take into account the input of Linklaters and Burness Paull in forming my view on the Scheme.

My reliance on tax advice

3.57 I have been provided with information from Price Waterhouse Coopers ("**PwC**") on the tax implications of the Scheme. I have a good working knowledge of life company taxation, but I am not an expert in detailed tax related matters, and therefore I have taken into account input from experts on UK tax law, namely PwC.

3.58 I note that PwC has no liability to me or Milliman for any input that has been made available to me in order to provide me with information that I consider relevant to my assessment of the effects of the Scheme.

3.59 I also note that there appears to be no material impacts or changes in respect of taxation arising as a result of the Scheme.

3.60 I am therefore satisfied that it is appropriate for me to receive and take into account the input of PwC in forming my view of the tax related impacts of the Scheme.

4. Current position regarding The Phoenix Group

INTRODUCTION

4.1 Phoenix, PLAL, SLAL and SLPF are proprietary insurance companies operating in the UK as part of the Phoenix Group, and are ultimately owned by PGH, which is listed on the London Stock Exchange and is a FTSE 100 company.

4.2 The Phoenix Group is a large UK Insurance group, including the following companies:

- Seven regulated UK life insurance companies at the time of finalisation of this Report;
  - Phoenix;
  - PLAL;
  - SLAL;
  - SLPF[1];
  - ReAssure**;**
  - RLL;
  - SLOC;
- Two life insurance companies authorised and regulated in Ireland, SL Intl and Phoenix Life Assurance Europe DAC ("**PLAE**"); and
- A reinsurance subsidiary company (Phoenix Re Limited) incorporated in Bermuda.

4.3 Only Phoenix, PLAL, SLAL and SLPF are directly involved in the Scheme that is the subject of this Report. ReAssure, RLL, SLOC, SL Intl and PLAE are not involved in the transfer. However, there are variations required to the Brexit Scheme between SLAL and SL Intl that arise because of the Scheme, which are described in Section 8.

4.4 Two of the UK companies within the Phoenix Group, Phoenix and SLAL, write a range of new long-term protection, savings and retirement products, referred to as "Open" business. The Open business can be split into five business units: workplace, customer savings and investments, retirement solutions, Europe, and SunLife.

4.5 One of the Phoenix Group's life insurance companies, SLAL, is a major workplace pensions provider in the UK, marketed through the Standard Life brand. The customer savings and investments unit sells individual products including self-invested personal pensions ("**SIPP**"s) and drawdown products, also through the Standard Life brand. The retirement solutions unit, which sits within Phoenix, consists of bulk purchase annuity ("**BPA**") and vesting annuity business. Additionally, Phoenix writes business through the SunLife brand including equity release, over 50s life insurance and funeral cover.

4.6 The Phoenix Group primarily operates in the UK, but one of the companies in the group, SL Intl, offers a range of products through the Standard Life brand in Ireland, Germany and Austria, which are mainly pension and savings products.

4.7 The Phoenix Group also has extensive experience in the acquisition and management of life and pension businesses and funds that are closed to new business, often referred to as "heritage" business.

4.8 The UK life insurance companies are regulated by the PRA and the FCA, and the Irish life insurance companies are regulated by the CBI.

PHOENIX GROUP HISTORY

4.9 The structure of the Phoenix Group today is the result of several past mergers and acquisitions. The full details of its history can be found on the Phoenix Group website, and a summary is provided below.

4.10 The Phoenix Group was formed by the acquisition of Resolution by the Pearl Group in 2008, and in 2010 the Pearl Group changed its name to the Phoenix Group. The Group's parent company, PGH, is listed on the London Stock Exchange.

[1] The liabilities of SLPF are wholly reinsured to SLAL.

4.11 Previously, Resolution had acquired the life business of the Royal & Sun Alliance group, the business of Britannic Plc, and the life business from Santander (including Scottish Mutual and Scottish Provident). The history of the Pearl Group is described in more detail in Section 6.

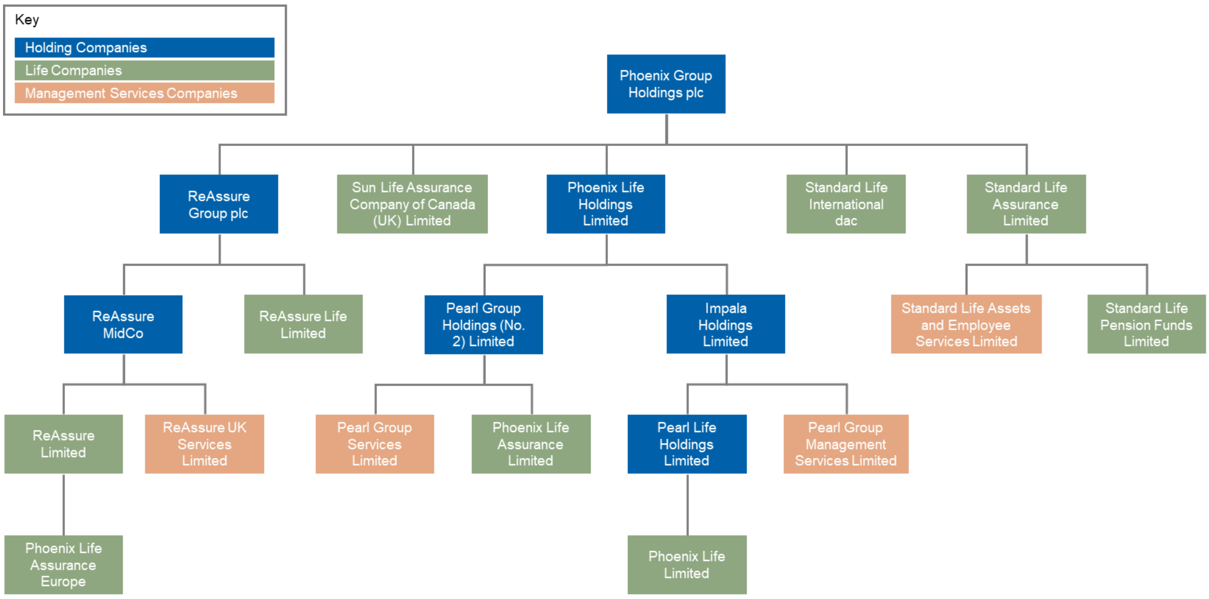
4.12 Since 2010, various further acquisitions have been made. In 2016, the Phoenix Group acquired both AXA Wealth (which included the Sun Life branded business), and Abbey Life Assurance Company Limited ("**Abbey Life**"). The Phoenix Group then acquired SLAL in 2018 from Standard Life Aberdeen plc, and later acquired Standard Life's brand in February 2021. In mid-2020, the Phoenix Group purchased ReAssure and RLL from Swiss Re.

4.13 In August 2022, the Phoenix Group announced that it had agreed, subject to regulatory consent, to acquire SLOC from Sun Life Financial. This acquisition completed in April 2023, and SLOC is now owned directly by PGH.

COMPANY STRUCTURE

4.14 The following diagram shows a simplified structure for the Phoenix Group.

Figure 4.1 Phoenix Group structure



UK SOLVENCY II APPROVALS

4.15 Detail on the approvals that can be sought under UK Solvency II can be found in Appendix A. The Phoenix Group calculates its capital requirements on a Partial Internal Model ("**PIM**") basis. On 14 September 2021, the Phoenix Group gained approval from the PRA to use a harmonised internal model that covers Phoenix, PLAL and SLAL (including SLPF), which has been in use since 30 September 2021. Such internal models are commonly used by the larger UK life insurance groups.

4.16 Phoenix, PLAL and SLAL have approval from the PRA to use the MA on certain classes of business (which is a particular technical aspect of Solvency II typically in relation to annuity in payment business). This allows them to take credit for the illiquidity premium earned within the MA asset portfolio when calculating the discount rate to be used in the Best Estimate Liability ("**BEL**") and Solvency Coverage Ratio calculation.

4.17 Phoenix, PLAL and SLAL also have the PRA's approval to use Transitional Measures on Technical Provisions ("**TMTPs**"), which have a current material beneficial impact on the capital position, but which will run off over time.

4.18 SLAL has approval to use the volatility adjustment ("**VA**") in the Heritage With-Profits Fund ("**Heritage WPF**") and the SLAL PBF (in respect of some non-MA business), described in Section 6, which works in a similar way to the MA.

4.19 UK Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are in normal circumstances managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.

4.20 The Phoenix Group (in line with many firms in the UK) has set up and maintained ring-fenced funds to reflect the arrangements applicable to its with-profits funds, as only the with-profits policyholders in a given fund participate in the surplus arising in that fund. Therefore separate calculations of the solvency position of each with-profits fund are undertaken and a restriction on the use of capital allocated to each with-profits fund is recognised (the "**RFF Restriction**"). Owing to this RFF Restriction, surplus in the with-profits funds (where no shareholder support is required) has no impact on the overall solvency position of the firm in which the fund is held. This is shown and taken into account in the financial information presented in this Report.

4.21 For completeness, I note that ReAssure Limited also has Solvency II approvals for MA, TMTPs and VA.

GOVERNANCE ARRANGEMENTS

4.22 The PGH Board has overall responsibility for the management and oversight of the Phoenix Group. The responsibilities of the PGH Board include determining and monitoring the implementation of group level strategy, setting the group level risk appetite, managing group performance and external and shareholder reporting.

4.23 The Boards of each of Phoenix, PLAL and SLAL are responsible for the management and oversight of each company. The activities of the various Boards and Board Committees (described below) have been converged such that a fully harmonised Board and Board Committee structure exists across Phoenix, SLAL and PLAL. This means in practice all of the Boards and Board Committees have the same membership and meet together concurrently to discuss the activities of all of the life companies. SLPF has a smaller Board than the Boards of Phoenix, PLAL and SLAL, as its business is fully reinsured to SLAL.

4.24 The Boards of the respective life companies within the Phoenix Group are in place to manage the operational matters for each individual company, including solvency and financial management, valuation assumptions and methodologies, new business, policyholder payments and contracts with investment managers and management services. The relevant life company Board is responsible for the management of the with-profits funds, including setting bonuses, investment policies and other aspects of discretion for the majority of the with-profits funds. One exception to this exists in that the With-Profits Committee sets the bonuses with respect to the SPI WPF and the NPL WPF, rather than the respective Board.

4.25 The Boards of Phoenix, PLAL and SLAL delegate various responsibilities to Board committees, including the Audit Committee, Nominations Committee, Risk Committee, Investment Committee, Independent Governance Committee and Model Governance Committee. The With-Profits Committees ("**WPCs**") advise the relevant Board on with-profits related matters.

4.26 There are three WPAs within the Phoenix Group that advise the with-profits funds of Phoenix, PLAL and SLAL. Phoenix has two WPAs covering different with-profits funds. One of the Phoenix WPAs is also the WPA for all of the PLAL with-profits funds, and SLAL has a separate WPA. The WPAs produce an annual paper for the relevant Board detailing the key areas where discretion has been exercised and stating whether the discretion exercised took policyholders interests into account in a reasonable and proportionate matter for each with-profits fund in line with the PPFM (see below).

4.27 There are separate WPCs for each of Phoenix, PLAL, and SLAL, which have the same Chair and membership. Each WPC has its own terms of reference, which reflects the specifics of the with-profits funds of each of Phoenix, PLAL and SLAL. The WPCs consist mostly of non-executive members. The WPCs' responsibilities include assessing bonus recommendations, reviewing the management of each of the funds in line with the applicable Principles and Practices of Financial Management ("**PPFM**"), assessing treating customers fairly related issues, and considering major transactions, including insurance business transfers. Details on the PPFMs applicable to each with-profits fund are given in Sections 5, 6 and 7.

CAPITAL & LIQUIDITY MANAGEMENT

4.28 The Phoenix Group has a Group Capital Management Framework in place that aims to maintain optimum and adequate capital levels to meet all regulatory requirements and provide security for policyholders. The framework also seeks to maintain capital ratios to hold the Phoenix Group's desired credit rating, to hold sufficient liquid capital to meet obligations to policyholders, and to distribute surplus capital to shareholders to meet their expectations as set out in the dividend policy.

4.29 The life companies of the Phoenix Group, other than SLPF, each have their own capital policies. The capital policies of Phoenix, PLAL and SLAL are broadly aligned, and these are covered in Sections 5, 6 and 7. SLPF does not have a capital policy given that all of its business is reinsured to SLAL and it is a relatively small entity. I note that the capital policies of ReAssure and RLL are also aligned with those of the other life companies within the Phoenix Group (excluding SLOC which has only recently been acquired). The capital policies cover both the quantitative and the qualitative aspects of the capital requirements.

4.30 Additionally, Phoenix Group has a liquidity and funding framework which applies to all of its life companies. This framework works in conjunction with the qualitative aspects of the capital policies as referred to above. The liquidity and funding framework considers the need for liquid assets to be held to meet cash outflows (including where collateral payments are required under derivative contracts) and sets buffer requirements in order to cover adverse circumstances.

5. Current position regarding Phoenix

INTRODUCTION

5.1 Phoenix is one of the UK regulated life companies in the Phoenix Group.

5.2 Phoenix is authorised to undertake long-term insurance business of Classes I to IV, VI and VII[2], as set out in Part II of Schedule 1 to the FSMA.

5.3 As at 31 December 2022, Phoenix had £53 billion of assets and £49 billion of Technical Provisions and Other Liabilities.

COMPANY HISTORY

5.4 Phoenix was originally incorporated in 1971 under the name Lloyd's Life Assurance Limited and changed its name to Royal Heritage Life Assurance Limited in 1986 after its acquisition by the Royal Insurance Group in 1985. The company's name was subsequently changed to Royal & Sun Alliance Linked Insurances Limited in 1998, after the formation of the Royal & Sun Alliance Insurance Group in 1996.

5.5 Resolution Life Group Limited acquired the UK life business of Royal & Sun Alliance Insurance Group in 2004, including Royal & Sun Alliances Linked Insurances Limited. Royal & Sun Alliances Linked Insurances Limited was renamed Phoenix Life Limited (i.e., Phoenix) in 2005.

5.6 From 2002 to 2017 Phoenix was closed to new business except for increments (including the acceptance of new members to existing pension arrangements and the issue of immediate annuities in respect of vesting pension policies) on existing policies. It began writing new business again after this period, and now writes BPA business using the Standard Life brand and non-profit protection business using the SunLife brand.

5.7 Phoenix provides a range of unit-linked policies under the brand Phoenix Wealth. Although Phoenix does not write new business under this brand, the business remains open to top-ups, and new members in some cases.

PREVIOUS PHOENIX SCHEMES

5.8 Phoenix has been involved in a number of Part VII Transfers of insurance business, including the Phoenix 2005, 2006, 2009, 2011, 2012, 2017 and 2018 Schemes, and the Phoenix Brexit Scheme. I am aware of the provisions contained within these previous schemes. However for the purposes of this Report it is the current position of the companies and the funds within Phoenix, PLAL and SLAL that is relevant. The current position of the Phoenix funds created by these schemes is outlined in the remainder of this section.

5.9 The interactions of the Scheme with these previous Phoenix Schemes are described in Section 8. The Phoenix 2005 Scheme was superseded and replaced by the Phoenix 2006 Scheme and in turn that scheme was superseded and replaced by the Phoenix 2009 Scheme, and therefore these schemes are not referenced in Section 8.

Phoenix Brexit Scheme

5.10 On 1 January 2023, the Phoenix Group transferred particular blocks of long-term insurance business of Phoenix and RLL to PLAE, referred to as the "**Phoenix Brexit Scheme**". The business included in the transfer consists of all business written by Phoenix and RLL in the EEA, and the purpose of the transfer is to ensure that EEA policyholders can continue to be administered by a subsidiary of PGH following the UK's withdrawal from the EU. This consists of the unit-linked and non-profit business of RLL written in the EEA, and the with-profits, unit-linked and non-profit business of Phoenix written in the EEA within the 90% With-Profits Fund ("**90% WPF**"), the Alba With-Profits Fund ("**Alba WPF**"), SPI With-Profits Fund ("**SPI WPF**"), Phoenix With-Profits Fund ("**Phoenix WPF**") and the Phoenix NPF. There are reinsurance arrangements in place to reinsure back to Phoenix the liabilities of the business transferred from the with-profits funds of Phoenix (including any non-profit business in these funds), as well as to reinsure back to Phoenix and RLL the unitised part of the unit-linked business transferred from Phoenix and RLL respectively.

[2] Class I refers to life and annuity contracts, Class II refers to marriage and birth contracts, Class III refers to linked long term contracts, Class IV refers to permanent health contracts, Class VI refers to capital redemption contracts and Class VII refers to pension fund management contracts (including those combined with insurance contracts).

5.11 PLAE does not have to produce With-Profits Operating Principles ("**WPOP**") documents for the PLAE with-profits funds, but the existing Phoenix PPFM has been adapted such that it covers the PLAE with-profits policies.

5.12 I note that the description above covers RLL as well as Phoenix. However, the full description of the Phoenix Brexit Scheme is included for completeness.

PHOENIX'S STRUCTURE

5.13 Phoenix currently has ten ring-fenced with-profits funds. These are:

- The 100% With-Profits Fund ("**100% WPF**");
- The 90% WPF;
- The Alba WPF;
- The Britannic Industrial Branch With-Profits Fund ("**BIB WPF**");
- The Britannic With-Profits Fund ("**Britannic WPF**");
- The Phoenix WPF;
- The SAL With-Profits Fund ("**SAL WPF**");
- The Scottish Mutual With-Profits Fund ("**Scottish Mutual WPF**");
- The SPI WPF; and
- The National Provident Institution With-Profits Fund ("**NPI WPF**").

5.14 These are referred to collectively as the "**Phoenix With-Profits Funds**".

5.15 The remaining long-term insurance business of Phoenix is held in the Phoenix NPF. Phoenix also maintains a shareholder fund ("**Phoenix SHF**"), comprising all the assets and liabilities not attributable to its long-term insurance business. Since the introduction of Solvency II, there has been no legal or regulatory requirement to separate the long-term insurance business from the other assets and liabilities, and so for reporting purposes, the Phoenix NPF and Phoenix SHF are combined and throughout this Report are referred to as the Phoenix NPF.

5.16 Table 5.1 below summarises the number of policies as at 31 December 2022 and the BEL (net of reinsurance) as at 31 December 2022 in each fund.

Table 5.1 Phoenix business split by fund

Fund	Policies as at 31 December 2022 (000s)	BEL (£m) as at 31 December 2022
100% WPF	0.2	22
90% WPF	193	57
Alba WPF	64	372
BIB WPF	69	69
Britannic WPF	261	2,984
Phoenix WPF	81	1,527
SAL WPF	62	1,959
Scottish Mutual WPF	67	1,098
SPI WPF	48	877
NPI WPF(*)	-	-
Phoenix NPF	2,878	33,977
Total	**3,723**	**42,942**

Source: Phoenix information summarised by Milliman.

(*) There are no policies held in the NPI WPF as this fund contains the with-profits investment element of certain policies of the Phoenix NPF, which is then reinsured to the Pearl With-Profits Fund ("**Pearl WPF**") within PLAL.

THE PHOENIX BUSINESS BY FUND

Overview

5.17 Table 5.2 below summarises the types of business written by each fund:

Table 5.2 Phoenix product types in each fund

Fund	Conventional With-Profits ("CWP")	Unitised With-Profits ("UWP")	With-profits Annuities	Unit-linked	Non-profit
100% WPF	✓				✓
90% WPF	✓*	✓*			✓*
Alba WPF	✓*	✓*			✓*
BIB WPF	✓				✓
Britannic WPF	✓	✓	✓		✓
Phoenix WPF	✓*	✓*		✓*	✓*
SAL WPF	✓	✓**		✓**	✓
Scottish Mutual WPF	✓	✓*	✓		✓
SPI WPF	✓*	✓*			✓*
NPI WPF		✓***			✓
Phoenix NPF				✓**	✓

Source: Phoenix information summarised by Milliman.

Key

* Some or all business of this type is reinsured in from another company/fund

** Some or all of this business is reinsured to another company/fund

*** All business of this type is allocated from policies within the Phoenix NPF and simultaneously reinsured out to the Pearl WPF

Note: Non-profit in this table includes policies that were written on a non-profit basis, and also includes those policies which cease participating in profits on being made paid up.

5.18 The with-profits funds are closed to new business except for increments and options on existing policies, and the Phoenix NPF is open to new business.

5.19 Key information for each of the funds within Phoenix is set out below. I note that more information on each of the funds is available on the company website.

100% WPF

5.20 Shareholders are not entitled to any of the profits from the 100% WPF. The policies in the fund transferred from Bradford Insurance Limited and Swiss Life UK are not entitled to participate in any distribution of the estate.

90% WPF

5.21 The shareholders of Phoenix are entitled to 10% of the surpluses arising from the CWP business. The UWP policies are not entitled to participate in any distribution of the estate.

5.22 The Phoenix NPF has an agreement to transfer the pensions with-profits fund portion of former Swiss Life UK personal pension plans and free standing additional voluntary contributions ("**FSAVC**") business to the 90% WPF.

The 90% WPF has an agreement to transfer some expense risks arising from policies transferred from Swiss Life UK to the Phoenix NPF.

Alba WPF

5.23 The shareholders of Phoenix do not receive any share of the surpluses arising from the Unitised Capital Guaranteed Fund business (business arising through group pension arrangements), the With-Profits Performance Fund business, the deposit administration business, the former Crusader Growth Bonus Series H business, and the With-Profits Pension Fund business. For all other types of business, shareholders are entitled to 10% of the surpluses arising.

5.24 The Phoenix NPF has an arrangement to transfer the With-Profits Performance Fund and the With-Profits Pension Fund portion of policies previously transferred from Alba Life and Crusader to the Alba WPF.

BIB WPF

5.25 The business in the BIB WPF comprises of Industrial Assurance business and home service business, where the policyholder previously made payments in cash to a collector on a regular (typically weekly) basis.

5.26 There is a memorandum account in the BIB WPF called the IB Buffer Reserve Account. Along with the Britannic WPF's equivalent WP Buffer Reserve Account, these are collectively referred to as the "**Buffer Reserve**". The Buffer Reserve is in place to support the capital requirements and liabilities of the policies in the BIB WPF and the Britannic WPF.

5.27 Shareholders are entitled to part of the profits from the fund (and the Buffer Reserve), equal to one-ninth of the value of distributed bonuses.

Britannic WPF

5.28 Shareholders are entitled to part of the profits from the fund (and the Buffer Reserve), equal to one-ninth of the value of distributed bonuses.

5.29 The smoothed return and the ex-Century Life business is not eligible for surplus distribution from the estate (so surplus in the fund or in the Buffer Reserve).

5.30 The Britannic WPF is supported by the Buffer Reserve as described in the section on the BIB WPF above. Where surpluses arise in the Buffer Reserve, policies in both the BIB WPF and Britannic WPF are entitled to receive this surplus.

5.31 The Britannic WPF has an arrangement to transfer the unit-linked liability and associated expense risk for its unit-linked business to the Phoenix NPF.

Phoenix WPF

5.32 Shareholders are eligible to a portion of the profits from the fund, which is equal to one-ninth of the bonuses paid to the CWP policies and the UWP Profit Plus Fund policies, and five ninety-fifths of the bonuses for other policy types.

5.33 The Phoenix WPF has an arrangement to transfer the liabilities and certain expense risks from its unit-linked business to the Phoenix NPF. In addition, certain mortality risks from Progressive Protection Plan, Fair Share Whole Life and Linkplan policies in the Phoenix NPF are transferred into the Phoenix WPF.

SAL WPF

5.34 Shareholders receive a share of the profits from the SAL WPF, which is equal to one-ninth of distributed bonuses for CWP policies and five ninety-fifths of the bonuses paid on UWP policies.

5.35 The SAL WPF has an agreement to transfer the risks arising from some UWP policies to the Phoenix WPF. Additionally the SAL WPF has an agreement to transfer unit-linked risk to the Phoenix NPF.

Scottish Mutual WPF

5.36 Shareholders receive a share of the profits from the fund, equal to one-ninth of the value of the bonuses paid to CWP policies sold after Scottish Mutual Assurance Limited ("**SMA**") demutualised in 1992.

5.37 UWP policies pay annual management charges ("**AMCs**"), which are paid to the Phoenix NPF, which bears the expense risks.

5.38 The Phoenix NPF has an agreement to transfer the investment and guarantee risks from hybrid unit-linked policies who have chosen the with-profits investment option and smoothed return policies who have chosen the Smoothed Income Fund or Smoothed Growth Fund investment options to the Scottish Mutual WPF. These were previously transferred from SMA into the Scottish Mutual WPF.

SPI WPF

5.39 Where surpluses arise in the fund, part of this may be used to increase terminal bonuses for all policies (where these are paid). Shareholders receive a share of the distributed profits, which is equal to one-ninth of the bonuses paid to CWP policyholders.

5.40 UWP policies pay AMCs, which are paid to the Phoenix NPF, which bears the expense risks.

5.41 The Phoenix NPF has an agreement to transfer the investment, guarantee and the guaranteed annuity option risk from hybrid unit-linked business to the SPI WPF. In addition, the SPI WPF has an agreement to transfer part of its expense risk to the Phoenix NPF.

NPI WPF

5.42 Under the Phoenix 2012 Scheme, the policies previously transferred from NPI Limited were transferred to the Phoenix NPF. The Phoenix NPF has an agreement to transfer the with-profits investment and guarantee risks from this business to the NPI WPF, and so the NPI WPF contains the with-profits investment element of these policies only.

5.43 The business in the NPI WPF is then wholly reinsured to the Pearl WPF within PLAL (described in Section 6).

5.44 The business in the NPI WPF is not entitled to participate in any distribution of the estate from the Pearl WPF, and the NPI WPF has no surplus of its own. Shareholders are not entitled to any profits from the NPI WPF.

Phoenix NPF

5.45 The Phoenix NPF has a range of products as a result of various Part VII Transfers and reinsurance arrangements within Phoenix, and a result of writing business directly.

5.46 The Phoenix NPF writes new whole of life Guaranteed Over Fifty plans under the SunLife brand, and operates in the BPA market writing business under the Standard Life brand.

5.47 Several of the products within the Phoenix NPF transfer the with-profits investment element of the policy to a with-profits fund within Phoenix, including:

- The former Swiss Life UK personal pension plan and FSAVC business to the 90% WPF;
- The with-profits performance fund and the with-profits pension fund portion of policies previously transferred from Alba Life and Crusader to the Alba WPF;
- Unit-linked policies previously transferred from SMA who have chosen the with-profits investment option and smoothed return policies who have chosen the Smoothed Income Fund or Smoothed Growth Fund investment options to the Scottish Mutual WPF;
- For unit-linked policies previously transferred from Scottish Provident Limited ("**SPL**"), the Phoenix NPF transfers the investment, guarantee and the guaranteed annuity option risk to the SPI WPF;
- For Progressive Protection Plan, Fair Share Whole Life and Linkplan policies the Phoenix NPF transfers certain mortality risks to the Phoenix WPF; and
- For former NPI Limited business the Phoenix NPF transfers the with-profits investment and guarantee risk to the NPI WPF.

5.48 Policies in all of the with-profits funds of Phoenix which are annuities coming into payment are immediately transferred to the Phoenix NPF and the Phoenix NPF is paid a consideration in respect of the transferred liabilities.

5.49 In addition, some of the Phoenix With-Profits Funds transfer risks into the Phoenix NPF, including:

- The 90% WPF, which transfers some expense risks arising from policies transferred from Swiss Life UK.
- The Britannic WPF has an arrangement to transfer the unit-linked liability and associated expense risk to the Phoenix NPF.
- The Phoenix WPF, which transfers the unit-linked liabilities from its unit-linked business and some expense risk to the Phoenix NPF.
- The SAL WPF, which transfers the property-related risk to the Phoenix NPF.
- The SPI WPF has an agreement to transfer part of its expense risks arising from CWP policies to the Phoenix NPF.

PHOENIX FINANCIAL POSITION

5.50 The financial position of Phoenix as at 31 December 2022 under the Solvency II insurance regime is shown in Table 5.3 below. A key metric is the "**Solvency Coverage Ratio**", calculated as the ratio of Own Funds (i.e., assets less liabilities) to the Solvency Capital Requirement ("**SCR**"), and this metric is a commonly used measure of the strength of a fund or entity.

5.51 In some cases, a with-profits fund is unable to support its own liabilities and SCR, and the relevant non-profit fund provides support in the form of a loan to these funds to make up any shortfall to cover liabilities, as well as providing support to cover the SCR. These are referred to as "**Supported Funds**". The funds that are able to support their own SCR are referred to as "**Unsupported Funds**". As at 31 December 2022, subject to one exception, none of the Phoenix WPFs were Supported Funds under this definition. However, the Britannic WPF includes a small capital support loan which is only required in the short-term and is expected to be removed subject to some governance processes. Additionally, for the SAL WPF, assets within the Phoenix NPF are being used to cover the additional amount required over the SCR under the PCP.

5.52 Table 5.3 shows two forms of the Solvency Coverage Ratio. "Solvency Coverage Ratio – as per regulatory returns" is the basic ratio for the whole company, as would be derived from the information submitted in the regulatory returns to the PRA. "Solvency Coverage Ratio – Shareholder" is calculated as the ratio of Total Own Funds to Total SCR where:

- For the Phoenix NPF, the value of Own Funds is included in the Total Own Funds and the value of the SCR is included in the Total SCR.
- For the Phoenix With-Profits Funds:
  - with Excess Own Funds (as derived in Table 5.3) less than zero (i.e., the Supported Funds), the value of Own Funds is included in the Total Own Funds and the value of the SCR is included in the Total SCR.
  - with Excess Own Funds (as derived in Table 5.3) greater than or equal to zero (i.e., the Unsupported Funds), the value of Excess Own Funds is included in the Total Own Funds, nothing is included in the Total SCR.

5.53 The Solvency Coverage Ratio – Shareholder is a commonly used modification to the Reported ratio, and provides a more realistic assessment of the solvency position of the company by excluding from denominator that part of the capital requirement which is in respect of Unsupported Funds (i.e., with-profits funds which can self-finance their own capital requirements). The value of any shareholder transfers from the Unsupported Funds remains within the numerator. The Solvency Coverage Ratio – Shareholder (Capital Policy Target) is the target for the Shareholder Solvency Coverage Ratio as defined under the PCP.

Table 5.3 Phoenix UK Solvency II balance sheet as at 31 December 2022

Fund	100% WPF	90% WPF	Alba WPF	BIB WPF	Britannic WPF	Phoenix WPF
Own Funds (£m) (**A**)	7	11	92	40	193	310
RFF Restriction (£m) (**B**)	5	5	40	27	0	154
SCR (£m) (**C**)	2	5	47	10	27	109
Excess Own Funds (£m) (**D=A-B-C**)	-	2	5	3	166	46
Fund	**SAL WPF**	**Scottish Mutual WPF**	**SPI WPF**	**NPI WPF(*)**	**Phoenix NPF(*)**	**Phoenix Total**
Own Funds (£m) (**A**)	182	267	98	-	2,797	**3,996**
RFF Restriction (£m) (**B**)	0	145	25	-	-	**401**
SCR (£m) (**C**)	138	112	55	-	1,788	**2,293**
Excess Own Funds (£m) (**D=A-B-C**)	44	10	17	-	1,009	**1,302**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for Phoenix Total)						
157%						
Solvency Coverage Ratio – Shareholder (Actual)						
173%						
Solvency Coverage Ratio – Shareholder (Capital Policy Target) (**)						
138%						

Source: Phoenix information summarised by Milliman. Note that the numbers shown above may not sum due to rounding.

(*) The own funds and capital requirements relating to the NPI WPF are included under the Phoenix NPF figures as this business is written in the Phoenix NPF with the with-profits investment element being internally reinsured to the NPI WPF (and then externally reinsured to the Pearl WPF within PLAL).

(**) This Capital Policy Target ratio is the current ratio based on Phoenix's analysis as at 31 December 2021. This is in the process of being updated based on analysis as at 31 December 2022 as part of Phoenix's regular annual Capital Policy refresh, and the updated value will be given in my Supplementary Report.

It is noted that all of the Phoenix With-Profits Funds are Unsupported Funds under the definition set out above. The Solvency Coverage Ratio – Shareholder is higher than the Solvency Coverage Ratio – as per regulatory returns for this reason.

CAPITAL POLICY OF PHOENIX

5.54 Phoenix maintains its own capital policy (the Phoenix Capital Policy or "**PCP**"), as prescribed by the terms of the Phoenix 2009 Scheme. Some elements of the PCP are set out in the Phoenix 2009 Scheme, and some have been added to the policy separately. The PCP seeks to ensure that Phoenix continues to meet its capital requirements, i.e., its SCR, following internally specified stress scenarios, and this is a common approach adopted by UK life companies.

5.55 The scenarios are calibrated to ensure that Phoenix holds sufficient capital to be able to meet its regulatory capital requirements after the more onerous of a 1-in-10 year all risks event over a one-year period, and a 1-in-20 severe market risk scenario arising over a three-month period. The severity of the risk event (e.g., the 1-in-10 level) and the scenarios in question are reviewed from time to time to assess whether the capital policy continues to be fit for purpose and sufficiently prudent, and any changes require the approval of the Phoenix board. The scenarios themselves do not form part of the Phoenix 2009 Scheme.

5.56 For the Phoenix With-Profits Funds, the SCR and the PCP are met in the first instance by the surplus in the relevant fund, provided the fund has sufficient surplus once management actions within the Phoenix PPFM (covered later in this section) have been allowed for.

5.57 Under UK Solvency II, the SCR for a with-profits fund can be covered either by assets within that fund, or by assets held within the non-profit fund or shareholder fund of the company. However, sufficient assets to cover the liabilities of the fund must be held within the with-profits fund. In addition, under the PCP, the with-profits funds of Phoenix must hold assets to cover the liabilities of the with-profits fund plus the greater of 0.5% of with-profits policy liabilities and five million pounds. The PCP thus adds a buffer in addition to the regulatory requirements.

5.58 Should this not be the case, the PCP states that assets would need to be made available by the Phoenix Board from the Phoenix NPF, usually in practice by means of a contingent loan repayable with interest should the position of the fund improve. The relevant WPA would need to certify to the WPC that the terms of any loan from the Phoenix NPF are no less favourable than arm's length commercial terms, and that the reasonable expectations of with-profits policyholders within the funds are not detrimentally affected by the loan.

5.59 Should a with-profits fund have insufficient assets to cover its (notional) SCR, then the Phoenix WPC can recommend (or request, in the case of the SPI WPF as a result of the relevant previous Scheme) that the Phoenix NPF would hold additional assets to meet the shortfall (which is actually the de-facto requirement under the relevant regulatory rules). Should the Phoenix NPF not (having regard to the wording in the PPFM), or be unable to, provide this support, then the with-profits fund would take actions to meet its SCR from its own capital resources. Subject to one exception, none of the Phoenix WPFs needed any such support as at 31 December 2022. The Britannic WPF required a small capital support loan, although this is expected to be required only in the short-term. The SAL WPF also required the use of assets in the Phoenix NPF to cover the additional amount required by the PCP.

5.60 Should Phoenix overall have insufficient capital to meet the PCP, then the action required depends on the size of the shortfall. For example, a small shortfall would only require that a restriction is applied to the amount of capital released from the company; however, should the shortfall be large then corrective actions would be necessary. Similar considerations apply should the capital quality metrics not be met.

5.61 It should be noted however that any excess capital above that required under the PCP can be made available to shareholders, for example through dividends, and therefore excess capital above that required under the PCP should not be relied upon for policyholder security.

5.62 Although the Phoenix With-Profits Funds are ring-fenced, it is worth noting that in extreme adverse circumstances when absolute solvency may be in question, then as a matter of law, this ring-fencing would fall away if necessary. In such extreme circumstances all of the assets of a life company become available to meet all of its liabilities regardless of whether those assets and liabilities are within a ring-fenced fund or not.

5.63 In addition, although not part of the Phoenix 2009 Scheme, Phoenix assesses the quality of capital in order to ensure that sufficient suitable assets are available under internal stress scenarios to meet policyholder claims payments, collateral requirements and dividend payments. This assessment may lead to a requirement for additional capital, and Phoenix then holds capital equal to the higher of this assessment and the quantitative assessment as set out in paragraph 5.55.

5.64 Two metrics are assessed for the quality of capital:

- An assessment against a regulatory requirement to be able to maintain Matching Adjustment compliance under SCR conditions following a 1-in-10 one year event, taking into account the timeframe over which 1-in-10 losses arise (referred to as "**Metric 1**"); and
- An internal assessment of the appropriate level of tangible assets required so that there is less than a 1-in-200 chance of having insufficient tangible assets to meet payments, potential losses and other financial requirements over a one-year period, taking into account the timeframe over which such 1-in-200 losses arise (referred to as "**Metric 2**").

PHOENIX RISK PROFILE

5.65 The split of the SCR gives an indication of the risk profile of Phoenix, excluding Unsupported Funds. Table 5.4 below shows the allocated capital (i.e., split of the total post-diversification SCR between different risk categories) for Phoenix (excluding Unsupported Funds) as at 31 December 2022.

Table 5.4 Risk Breakdown of Phoenix (excluding Unsupported Funds) as at 31 December 2022

Risk type	%
Credit Risk	**45%**
Market Risk	**22%**
– Residential Property	*12%*
*– Other**	*10%*
Insurance Risk	**19%**
– Longevity	*9%*
*– Other***	*10%*
Operational Risk	**4%**
Other Modelled Risks***	**9%**
Total	**100%**

Source: Phoenix information summarised by Milliman.

*Other Market Risk includes commercial property, equity, currency, interest rate, swap and fixed income risks.

**Other Insurance Risk includes persistency risk, morbidity risk, mortality risk and new business risk.

***Other Modelled Risks include other credit risks and expense risk.

5.66 Phoenix's risk profile is a mix of credit risk, market risk, insurance risk and operational risk. Phoenix is exposed to credit risk through its BPA business, which arises through spread risk on corporate bonds. Phoenix's primary market risk is property risk which arises mainly through assets backing its BPA business. Phoenix's primary insurance risk is longevity risk which also arises mainly through its BPA business. I note that the mix of risks as summarised above is subject to change as financial conditions change and also as Phoenix's in force business evolves over time.

5.67 The Phoenix Group manages credit risk by monitoring exposures to individual counterparties, as well as through diversification, investment mandates and the use of derivatives for certain credit risks. The Investment Risk Management Committee and Reinsurance Management Committee monitor the effectiveness of the credit risk mitigation approach. Phoenix also has policies and procedures in place for managing reinsurance counterparty default risk, as well as making use of collateral in respect of derivative and reinsurance contracts.

5.68 Phoenix manages longevity risk through reinsurance with external reinsurers. This reinsurance is managed under a Reinsurance Exposure Management framework (harmonised across the Companies), which is reviewed by the Reinsurance Management Committee. Reinsurance also contributes to the management of market risk under this framework.

PHOENIX'S REINSURANCE ARRANGEMENTS

5.69 Phoenix has some intra-group (i.e., within the Phoenix Group) reinsurance treaties with PLAL, which are described below. These treaties arose through legacy arrangements for companies that were in or acquired by the Phoenix Group.

5.70 The NPI WPF reinsures all of its business to the Pearl WPF, including life UWP (except for a small subset of business including the Market Value Adjustment and switches from UWP to unit-linked on certain Portfolio Bonds), and with-profits units of Portfolio Bond 2 and Investment Bond policies.

5.71 The Phoenix NPF cedes certain liabilities to the Pearl WPF and the PLAL Non-Profit Fund (the "**PLAL NPF**"). Guaranteed annuity options and other pension benefits are reinsured to the Pearl WPF, while term assurance rider benefits and death benefits in excess of unit values are reinsured to the PLAL NPF.

5.72 There are various inter-fund arrangements within Phoenix. More detail on these inter-fund arrangements can be found in the descriptions of the Phoenix With-Profits Funds and the Phoenix NPF earlier in this section.

5.73 As well as the internal (to the Phoenix Group) reinsurance arrangements, Phoenix has a number of external reinsurance treaties in place with third parties. Inwards and outwards reinsurances in relation to unit-linked business are covered below. For non-linked business, the most material reinsurances are outwards reinsurances in respect of annuity business in the Phoenix NPF, and these reinsurances take the form of both longevity only reinsurances and reinsurances of all risks with assets being passed to the reinsurer. Various forms of collateral arrangements are in place to limit exposure to reinsurer default. Counterparty limits are in place (both at life company and group level) which limit the exposure to individual reinsurers based on their financial security ratings as published by accepted rating agencies. Assessments of the cost of recapture or replacement cover should a reinsurer default take into account that conditions may be adverse (thus increasing the cost) and take account where relevant of the recovery of collateral. Phoenix's largest exposure to a single reinsurer arises through individual and group annuity business. Should this reinsurer default fully on all its treaties with Phoenix, Phoenix would (as at 31 December 2022) still cover its SCR.

5.74 Phoenix has inwards reinsurance arrangements with external insurance companies for unit-linked business. These are arrangements whereby the customers of external insurance companies have the ability to invest in Phoenix's unit-linked funds. There are currently four companies with these reinsurance arrangements in place with approximately £114 million reinsured in total. Aviva plc and Royal London have arrangements for their customers to invest in the Phoenix Wealth funds, and Utmost Ireland dac and PLAE have arrangements to invest in Phoenix's Irish branch funds. Phoenix has granted a floating charge in respect of its assets to the customers under the inwards reinsurance arrangements, whereby the reinsured customers of the external insurance companies under the arrangements rank equally with the direct unit-linked customers of Phoenix in the event of Phoenix winding up.

5.75 Phoenix has outwards reinsurance arrangements with external fund providers for unit-linked business. These are arrangements whereby the customers of Phoenix have the ability to invest in the unit-linked funds of external unit-linked funds. The two types of policies involved in these arrangements are retail business and corporate business, with retail business representing approximately £240 million of assets under management and corporate business representing approximately £6.31 billion of assets under management. The most material of the outwards reinsurance arrangements are with BlackRock Life Ltd with approximately £199 million reinsured, as well as with Threadneedle Pensions Limited with approximately £26 million reinsured and Legal and General Assurance (Pensions Management) Ltd with approximately £12 million reinsured. Phoenix has floating charges in place with the external fund providers in order for the customers of Phoenix to rank equally with the customers of the external unit-linked fund provider in the event of that provider winding up. For the retail business, in the event of there being a deficit on such a winding up (notwithstanding the equal ranking), the arrangements are currently such that Phoenix as an entity would bear the deficit, and such deficit would not be passed on to the relevant Phoenix policyholders. For the majority of the corporate business, the corporate customers themselves would bear the deficit.

5.76 There are a number of reinsurance arrangements in place between Phoenix and PLAE to reinsure PLAE business originally written by Phoenix for customers in the EEA, which was transferred to PLAE under the Phoenix Brexit Scheme, as described in paragraph 5.10.

THE ADMINISTRATION AND SERVICING OF PHOENIX POLICIES

5.77 The administration of Phoenix policies is carried out by Phoenix Group Management Services Limited ("**PGMS**") and Pearl Group Services Limited ("**PGS**"). Both PGMS and PGS are companies within the Phoenix Group.

5.78 PGMS and PGS sub-contract some elements of the administration as follows:

- PGMS sub-contracts the administration and servicing of the policies to a number of outsource service providers, including Capita Life & Pensions Regulated Services Limited ("**Capita**"). However, PGMS is in the process of migrating administration services currently provided by Capita to Diligenta Limited ("Diligenta"). This process is independent of the Scheme.
- PGS sub-contracts the administration and servicing of the policies, including those written originally by NPI Limited, to a number of outsource service providers. The main contract is with Diligenta which administers the majority of Phoenix policies.

GOVERNANCE IN PHOENIX

5.79 The governance of the Phoenix business principally consists of the Phoenix Board, with advice in relation to the with-profits business received through the Phoenix WPC and the two Phoenix WPAs. One WPA covers all of the funds in Phoenix other than the BIB WPF and the Britannic WPF, the other WPA covers the BIB WPF and the Britannic WPF as well as the with-profits funds of PLAL.

5.80 As set out in Section 4, the structure of the various Board and Board Committees (including WPCs) of Phoenix, PLAL and SLAL is fully harmonised with all Board and Board Committees having the same membership and meeting together.

5.81 The Phoenix Board is responsible for managing the with-profits business and has final authority in decision making, subject to certain responsibilities in respect of the SPI WPF being the responsibility of the WPC (including investment and bonus policy for this fund). The Phoenix WPC is formally named the "**With-Profits and SPI WPF Supervisory Committee**".

5.82 In addition to the typical advice and reports provided by the Phoenix WPAs, owing to the terms of the Phoenix 2009 Scheme, the Phoenix WPA appointed in respect of the SPI WPF must provide a certificate annually covering certain actuarial matters, and in addition there is a certificate from the Board stating whether, over the year, the SPI WPF has been operated in accordance with the terms of the Phoenix 2009 Scheme.

5.83 There is a single PPFM document that covers the Phoenix With-Profits Funds (the "**Phoenix PPFM**"). There is a section in the Phoenix PPFM document on guiding principles and practices that apply to all of the Phoenix With-Profits Funds, followed by sections on principles and practices specific to each with-profits fund.

ASSET MANAGEMENT IN PHOENIX

5.84 The majority of the assets held within the Phoenix funds are managed by abrdn. For the purpose of this Report, "abrdn" is the name given for abrdn plc and its subsidiaries. Other asset management firms are also used, for example specialist asset managers are used for assets invested in certain areas such as commercial real estate and infrastructure loans.

EXPENSE ARRANGEMENTS FOR PHOENIX WITH-PROFITS FUNDS

5.85 The Phoenix With-Profits Funds have "evergreen" (i.e., permanent) expense arrangements in place (including adjustments for future inflation) which ensures that the funds will not suffer material expense diseconomies of scale as they decline. These arrangements also include a so called "regulatory buy-out", which means that the with-profits funds would not bear any additional costs arising from future regulatory change.

5.86 Expenses increase annually in line with RPI plus 1%.

5.87 Ad-hoc project costs are not borne by the with-profits fund unless the project directly benefits the with-profits policyholders.

5.88 The outcome of the above is that the expense risk of the Phoenix With-Profits Funds is almost entirely borne by the Phoenix NPF. The funds themselves still bear the risk in relation to the level of future RPI inflation.

6. Current position regarding PLAL

INTRODUCTION

6.1 PLAL is one of the UK regulated life companies in the Phoenix Group. It is closed to new business, other than accepting incremental business from existing policyholders.

6.2 PLAL is authorised to undertake long-term insurance business of Classes I to IV, VI and VII[3], as set out in Part II of Schedule 1 to the FSMA.

6.3 As at 31 December 2022, PLAL had £11 billion of assets and £9 billion of Technical Provisions and Other Liabilities.

COMPANY HISTORY

6.4 The Pearl Life Assurance Loan and Investment Company was created in 1864, from the merger of the Pearl Loan Company and the Pearl Life Assurance and Sick Benefit Society. It underwent various name changes in the following years operating under the "Pearl" brand, and in 1990, the Australian company AMP Limited ("**AMP**") acquired Pearl Assurance Limited (as it was named at that time) ("**Pearl Assurance**").

6.5 AMP merged with London Life Association Limited in 1989, and stopped writing new business under the "London Life" brand in 1995. Later in 1999, AMP acquired the business of National Provident Institution ("**NPI**"), which was transferred to National Provident Life Limited ("**NPLL**") under the National Provident Demutualisation Scheme.

6.6 AMP restructured in 2003 and the life companies of Pearl Assurance, NPLL, and London Life formed a new UK insurance and fund management group called HHG plc, with Pearl Assurance and NPI Limited being closed to new business in the same year.

6.7 In 2005, Sun Capital Partners and TDR Capital acquired Pearl Assurance, NPLL and London Life, and these companies became subsidiaries of the newly formed Pearl Group Limited.

6.8 Pearl Group Limited was acquired by PGH in 2009, which was then known as Liberty Acquisitions Holdings (International) company. Pearl Assurance was renamed PLAL in 2012.

PREVIOUS PLAL SCHEMES

6.9 PLAL has been involved in a number of Part VII Transfers of insurance business, including the PLAL 2010, PLAL 2012 and PLAL 2015 Schemes. I am aware of the provisions contained within these previous schemes, however for the purposes of this Report it is the current position of the companies and the funds within Phoenix, PLAL and SLAL that is relevant. The current position of the PLAL funds created by these schemes is outlined in the remainder of this section.

6.10 The interactions of the Scheme with these previous PLAL Schemes are described in Section 8. The PLAL 2010 Scheme is superseded and replaced by the PLAL 2012 Scheme and is therefore not referenced in Section 8.

PLAL STRUCTURE

6.11 PLAL currently has four ring-fenced with-profits funds. These are:

- The Pearl WPF;
- The SERP With-Profits Fund ("**SERP WPF**");
- The London Life With-Profits Fund ("**London Life WPF**"); and
- The National Provident Life With-Profits Fund ("**NPL WPF**").

6.12 These are referred to collectively as the "**PLAL With-Profits Funds**".

6.13 The remaining long-term insurance business of PLAL is held in the PLAL NPF. PLAL also maintains a shareholder fund ("**PLAL SHF**"), comprising all the assets and liabilities not attributable to its long-term insurance business. Since the introduction of Solvency II, there has been no legal or regulatory requirement to separate the long-term

[3] Class I refers to life and annuity contracts, Class II refers to marriage and birth contracts, Class III refers to linked long term contracts, Class IV refers to permanent health contracts, Class VI refers to capital redemption contracts and Class VII refers to pension fund management contracts (including those combined with insurance contracts).

insurance business from the other assets and liabilities, and so for the reporting purposes, the PLAL NPF and PLAL SHF are combined and are referred to throughout this Report as the PLAL NPF.

6.14 Table 6.1 below summarises the number of policies as at 31 December 2022 and the BEL (net of reinsurance) as at 31 December 2022 in each fund.

Table 6.1 PLAL business split by fund

Fund	Pearl WPF	SERP WPF	London Life WPF	NPL WPF	PLAL NPF	Total
Policies as at 31 December 2022 (000s)	372	15	17	84	194	**682**
BEL (£m) as at 31 December 2022	3,862	509	305	2,038	1,497	**8,211**

Source: Phoenix information summarised by Milliman.

THE PLAL BUSINESS BY FUND

Overview

6.15 Table 6.2 below summarises the types of business written in each fund, with further details for each fund set out below the table.

Table 6.2 PLAL product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
Pearl WPF	✓*	✓*	✓*	✓**	✓
SERP WPF	✓				✓
London Life WPF	✓	✓	✓**		✓
NPL WPF	✓	✓			✓
PLAL NPF				✓*	✓

Source: Phoenix information summarised by Milliman.

* Some or all business of this type is reinsured in from another company/fund

** Some or all of this business is reinsured to another company/fund

*** All business of this type is reinsured in from another company/fund and simultaneously reinsured out to another company/fund

Note: Non-profit in this table includes policies that were written on a non-profit basis, and also includes those policies which cease participating in profits on being made paid up.

6.16 The PLAL With-Profits Funds and the PLAL NPF are closed to new business except for increments on existing policies, through policy options or where there is an established practice of accepting new business from existing customers.

6.17 Key information about each of the funds within PLAL is set out below. I am aware that more information on each of the funds is available on the funds on the company website.

Pearl WPF

6.18 There are various reinsurance arrangements between the Pearl WPF and other with-profits funds in PLAL and Phoenix covering:

- The with-profits component of some UWP bonds from the NPL WPF;
- The with-profits component of UWP bonds from the NPI WPF of Phoenix;
- The investment component of some with-profits pension products (including capital account pensions) from the NPI WPF of Phoenix; and
- Annuity payments from the London Life WPF's Secure Pension Plus product (a with-profits annuity).

6.19 Shareholders are entitled to part of the profits from the Pearl WPF, equal to 10% of the surplus arising. The reinsured business does not participate in any estate distribution.

SERP WPF

6.20 Shareholders are not entitled to any profits from the SERP WPF. Any surplus in the SERP WPF (after repayment of the loan provided by shareholders) would be allocated to the policyholders of the fund in line with the PLAL 2012 Scheme.

6.21 The SERP WPF requires shareholder support; as at 31 December 2022 the loan from shareholders was £313 million, and it is expected that the fund will always require shareholder support. This fund does not have an estate and, as the fund is currently reliant on shareholder support, it is unlikely an estate will build up in future. Therefore, no estate distribution is expected to take place in future.

London Life WPF

6.22 Shareholders are not entitled to any profits from the London Life WPF. Any surplus in the London Life WPF (after repayment of the loan provided by shareholders) would be allocated to the policyholders of the fund in line with the PLAL 2012 Scheme.

6.23 The London Life WPF requires shareholder support; as at 31 December 2022 the loan from shareholders was £95 million, and it is expected that the fund will always require shareholder support. This fund does not have an estate and, as the fund is currently reliant on shareholder support, it is unlikely an estate will build up in future. Therefore, no estate distribution is expected to take place in future.

NPL WPF

6.24 Shareholders are not entitled to any profits from the NPL WPF. Any surplus in the NPL WPF (after repayment of the loan provided by shareholders) would be allocated to the policyholders of the fund in line with the PLAL 2012 Scheme.

6.25 The NPL WPF requires shareholder support; as at 31 December 2022 the loan from shareholders was £287 million, and it is expected that the fund will always require shareholder support. This fund does not have an estate and, as the fund is currently reliant on shareholder support, it is unlikely an estate will build up in future. Therefore, no estate distribution is expected to take place in future.

PLAL NPF

6.26 The PLAL NPF contains non-profit business transferred to PLAL under the PLAL 2012 Scheme, as well as non-profit business originally written by PLAL.

6.27 The Pearl WPF reinsures the unit liability from its unit-linked policies and some expense risk to the PLAL NPF.

PLAL FINANCIAL POSITION

6.28 The financial position of PLAL as at 31 December 2022 is shown in Table 6.3 below.

6.29 A description of the calculation of the "Solvency Coverage Ratio - Shareholder" can be found in paragraph 5.52.

Table 6.3 PLAL UK Solvency II balance sheet as at 31 December 2022

Fund	Pearl WPF	SERP WPF	London Life WPF	NPL WPF	PLAL NPF	PLAL Total
Own Funds (£m) (**A**)	797	67	20	119	557	**1,560**
RFF Restriction (£m) (**B**)	346	-	-	-	-	**346**
SCR (£m) (**C**)	314	92	18	154	88	**666**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	136	(25)	2*	(36)	469	**547**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for PLAL Total)						
182%						
Solvency Coverage Ratio – Shareholder (Actual)						
255%						
Solvency Coverage Ratio – Shareholder (Capital Policy Target) (**)						
144%						

Source: Phoenix information summarised by Milliman.

(*) Although the London Life WPF shows Excess Own Funds greater than zero, it is still considered a Supported Fund as the Excess Own Funds would be less than zero without the capital support loan.

(**) This Capital Policy Target ratio is the current ratio based on Phoenix's analysis as at 31 December 2021. This is in the process of being updated based on analysis as at 31 December 2022 as part of Phoenix's regular annual Capital Policy refresh, and the updated value will be given in my Supplementary Report.

As at 31 December 2022, the capital quality requirements under the PLAL CP (see below) were causing an additional capital amount of £185 million to be held. The Capital Policy Target ratio of 144% shown above relates only to the capital quantity metric and does not include this additional quality related amount. As actions can normally be taken over a relatively short period of time to adjust the capital quality to meet the necessary metric, it is appropriate that the financial analysis in this Report focuses on the capital quantity metric.

CAPITAL POLICY OF PLAL

6.30 PLAL maintains its own capital policy (the "**PLAL CP**"), as prescribed by the terms of the PLAL 2012 Scheme. Some elements of the PLAL CP are from the PLAL 2012 Scheme itself and (as for Phoenix) some elements have been added to the PLAL CP separately. The PLAL CP seeks to ensure that PLAL continues to meet its capital requirements, i.e., its SCR, following internally specified stress scenarios. As noted in paragraph 4.29, the PLAL CP is broadly aligned with that of Phoenix, and further comment on this is given from paragraph 8.49 and from paragraph 11.21.

6.31 The scenarios are calibrated to ensure that PLAL holds sufficient capital to be able to meet its capital requirements after the more onerous of a 1-in-10 year all risks event over a one-year period and a 1-in-20 severe market risk scenario arising over a three-month period. The severity of the risk event (e.g., the 1-in-10 level) and the scenarios are reviewed from time to time to assess whether the capital policy continues to be fit for purpose and sufficiently prudent, and any changes require the approval of the PLAL board. The scenarios themselves do not form part of the PLAL 2012 scheme, although the PLAL 2012 Scheme does state the scenario applicable at the time the scheme was approved.

6.32 For the PLAL With-Profits Funds, the SCR and the PLAL CP are met in the first instance by the surplus in the relevant fund, provided the fund has sufficient surplus once management actions within the PLAL PPFM (covered later in this section) have been allowed for.

6.33 As described in paragraph 5.57, under UK Solvency II, the SCR for a with-profits fund can be covered either by assets within that fund, or by assets held within the non-profit fund or shareholder fund of the company. However, sufficient assets to cover the liabilities of the fund must be held within the with-profits fund. In addition, under the PLAL CP, the with-profits funds of PLAL must hold assets to cover the liabilities of the with-profits funds plus the greater of 0.5% of with-profits policy liabilities and five million pounds. The PLAL CP thus adds a buffer in addition to the regulatory requirements.

6.34 Should this not be the case, the PLAL CP states that assets would need to be made available by the PLAL Board from the PLAL NPF, usually in practice by means of a contingent loan repayable with interest should the position of the fund improve. Should a with-profits fund have insufficient assets to cover its (notional) SCR, then the PLAL with-profits committee can recommend that the PLAL NPF would hold additional assets to meet the shortfall (which is actually the de-facto requirement under the relevant regulatory rules). Should the PLAL NPF not (having regard to the wording in the PPFM), or be unable to, provide this support, then the with-profits fund would take actions to meet its SCR from its own capital resources. As described in paragraphs 6.21, 6.23 and 6.25, the SERP WPF, London Life WPF and NPL WPF are Supported Funds, with loans and corresponding Capital Support Agreements in place from the PLAL NPF as at 31 December 2022.

6.35 Should PLAL overall have insufficient capital to meet the PLAL CP, then the action required depends on the size of the shortfall. For example, a small shortfall would only require that a restriction is applied to the amount of capital released from the company; however, should the shortfall be large then corrective actions would be necessary. Similar considerations apply should the capital quality metrics not be met.

6.36 It should be noted however that any excess capital above that required under the PLAL CP can be made available to shareholders, for example through dividends, therefore excess capital above that required under the PLAL CP should not be relied upon for policyholder security.

6.37 Although the with-profits funds are ring-fenced, it is worth noting that in extreme adverse circumstances when absolute solvency may be in question, then as a matter of law, this ring-fencing would fall away if necessary. In such extreme circumstances all of the assets of a life company become available to meet all of its liabilities regardless of whether those assets and liabilities are within a ring-fenced fund or not.

6.38 In addition, although not part of the PLAL 2012 Scheme, PLAL assesses the quality of capital in order to ensure that sufficient suitable assets are available under internal stress scenarios to meet policyholder claims payments, collateral requirements and dividend payments. This assessment may lead to a requirement for additional capital, and PLAL then holds capital equal to the higher of this assessment of the quality of capital, and the quantity of capital assessment. The same two metrics are assessed as included in the PCP, as described in paragraph 5.64.

6.39 Overall, the PLAL CP is the same in all material respects as the PCP for Phoenix.

PLAL RISK PROFILE

6.40 The split of the SCR gives an indication of the risk profile of PLAL, excluding Unsupported Funds. Table 6.4 below shows the allocated capital (i.e., split of the total post-diversification SCR between different risk categories) for PLAL (excluding PLAL's Unsupported Funds) as at 31 December 2022.

Table 6.4 Risk breakdown of PLAL (excluding Unsupported Funds) as at 31 December 2022

Risk type	%
Credit Risk	**12%**
Market Risk	**5%**
Insurance Risk	**65%**
– Longevity	*54%*
– Financial Guarantee Persistency	*10%*
Operational Risk	**7%**
Other Modelled Risks*	**11%**
Total**	**100%**

Source: Phoenix information summarised by Milliman.

*Other Modelled Risks include other credit risks and expense risk.

**Sum is more than 100% due to rounding in the presentation shown above.

6.41 PLAL's risk profile is dominated by insurance risk. PLAL's dominant insurance risks are longevity risk and financial guarantee persistency risk. The longevity risk arises through annuity policies within PLAL. Financial guarantee persistency risk is the risk that the best estimate assumption for lapses is inappropriate as a result of changes to economic factors, and in particular this refers to the risk that there are fewer lapses from customers with valuable financial guarantees than expected. There are several policy classes within the Supported Funds of PLAL that have valuable financial guarantees. I note that the mix of risks as summarised above is subject to change as financial conditions change and also as PLAL's in force business evolves over time.

PLAL'S REINSURANCE ARRANGEMENTS

6.42 PLAL reinsures approximately £1.6 billion of unit-linked business to Phoenix under various intra-group reinsurance arrangements, which are described below.

6.43 The unit-linked liabilities of the NPL WPF are reinsured to Phoenix, with the reinsured liabilities being allocated to the Phoenix NPF. For business written prior to 31 December 1999, this reinsurance only covers the unit-linked component of the reinsured policies, with the NPL WPF being responsible for meeting the expenses and receiving the charges in respect of the business. For increments to existing policies written after this date, both the benefits and the expenses are covered by the reinsurance.

6.44 The Pearl WPF reinsures certain benefits to the Phoenix NPF, including the unit-linked benefits and in some cases the expenses, for policies which have a unit-linked component.

6.45 The London Life WPF and PLAL NPF reinsure certain benefits and expense risk relating to policies with a unit-linked component to the Phoenix NPF.

6.46 As described in paragraph 5.70, the NPI WPF of Phoenix reinsures all of its business to the Pearl WPF, including life UWP (except for a small subset of business including the Market Value Adjustment and switches from UWP to unit-linked on certain Portfolio Bonds), and with-profits units of Portfolio Bond 2 and Investment Bond policies.

6.47 As well as the internal (to the Phoenix Group) reinsurance arrangements, PLAL has a number of external reinsurance treaties in place with third parties, the most material of these treaties are with Swiss Re Europe SA (UK Branch) and RGA International DAC & RGA Atlantic Reinsurance Co Ltd. PLAL has no inwards or outwards unit-linked reinsurance with external companies.

THE ADMINISTRATION AND SERVICING OF PLAL POLICIES

6.48 The administration of policies is carried out by PGMS and PGS, companies within the Phoenix Group. PGS subcontracts the majority of the services it offers to policyholders to Diligenta.

GOVERNANCE IN PLAL

6.49 The governance of the PLAL business principally consists of the PLAL Board, with advice in relation to the with-profits business through the PLAL WPC and PLAL WPA.

6.50 As set out in Section 4, the structure of the various Board and Board Committees (including WPCs) of Phoenix, SLAL and PLAL are fully harmonised with all Board and Board Committees having the same membership and meeting together.

6.51 In addition to the typical advice and reports provided by the PLAL WPA, owing to the terms of the PLAL 2015 Scheme, the PLAL WPA must provide a certificate annually stating whether he/she believes the provisions of the PLAL 2015 Scheme have been complied with in respect of the NPL WPF, including the specifics of the investment and bonus policy detailed in that scheme.

6.52 There is a single PPFM document that covers the PLAL With-Profits Funds (the "**PLAL PPFM**"). There is a section in the PLAL PPFM document on guiding principles and practices that apply to all of the PLAL With-Profits Funds, followed by sections on principles and practices specific to each with-profits fund.

6.53 The principles that apply to all PLAL With-Profits Funds are that legal and regulatory requirements are met (e.g., meeting the terms of the PLAL 2012 Scheme and the PLAL 2015 Scheme), key concepts of the management of the funds (e.g., each fund should be operated on a standalone basis, and that customers are treated fairly).

ASSET MANAGEMENT IN PLAL

6.54 The majority of the assets held within the PLAL funds are managed by abrdn. Other asset management firms are also used, for example for assets invested in specialised areas such as commercial real estate and infrastructure loans.

EXPENSE ARRANGEMENTS FOR WITH-PROFITS FUNDS

6.55 The PLAL With-Profits Funds have "evergreen" (i.e., permanent) expense arrangements in place (including adjustments for future inflation) which ensures that the funds will not suffer material expense diseconomies of scale as they decline. These arrangements also include a so called "regulatory buy-out", which means that the with-profits funds would not bear any additional costs arising from future regulatory change.

6.56 Expenses increase annually in line with RPI plus 1%.

6.57 Ad-hoc project costs are not borne by the with-profits fund unless the project directly benefits the with-profits policyholders.

6.58 The outcome of the above is that the expense risk of the PLAL With-Profits Funds is almost entirely borne by the PLAL NPF. The funds themselves still bear the risk in relation to the level of future RPI inflation.

7. Current position regarding SLAL and SLPF

INTRODUCTION

7.1 SLAL is one of the UK regulated life companies in the Phoenix Group. SLPF is a wholly owned life company subsidiary of SLAL.

7.2 SLAL is authorised to undertake long-term insurance business of Classes I, III, IV, VI and VII[4], as set out in Part II of Schedule 1 to the FSMA. SLPF is authorised to undertake long-term insurance business of Classes I, II, III, IV, VI and VII[7], as set out in Part II of Schedule 1 to the FSMA.

7.3 As at 31 December 2022, SLAL had £128 billion of assets and £124 billion of Technical Provisions and Other Liabilities. As at 31 December 2022, SLPF had £17.1 million of assets (gross of reinsurance) and £6.4 million of Technical Provisions (gross of reinsurance) and other Technical Provisions. All of SLPF's Technical Provisions are reinsured to SLAL.

COMPANY HISTORY

7.4 The Life Insurance Company of Scotland was established in 1825, changing its name seven years later to The Standard Life Assurance Company ("**SLAC**"). SLAC was reincorporated as a mutual assurance company in 1925.

7.5 SLAC demutualised in July 2006 and the business of SLAC was transferred to SLAL under a Part VII Transfer (the "**SLAC Demutualisation Scheme**"), as described in paragraph 7.9. At this time SLAC became owned by a new parent company, Standard Life plc ("**SL plc**").

7.6 In 2017, SL plc merged with Aberdeen Asset Management plc to form Standard Life Aberdeen plc. The Phoenix Group acquired the majority of Standard Life Aberdeen plc's insurance business in 2018, including SLAL and its subsidiary SLPF. The Phoenix Group and Standard Life Aberdeen plc entered into a strategic partnership following Phoenix's acquisition of SLAL whereby Standard Life Aberdeen plc acts as the Phoenix Group's asset management partner for the SLAL business. The Phoenix Group had rights to use the Standard Life brand from 2018, and subsequently Standard Life Aberdeen plc changed its name to abrdn plc in 2021. abrdn currently has some insurance business. After this Scheme, certain business is expected to be transferred from Phoenix (currently residing in SLAL pre-Scheme) to abrdn, and this transfer is referred to as the "**abrdn Transfer**". The abrdn Transfer is described in more detail from paragraph 8.89.

PREVIOUS SLAL SCHEMES

7.7 SLAL has been involved in a number of Part VII Transfers of insurance business, including the SLAC Demutualisation Scheme (and the amendments made to the SLAC Demutualisation Scheme in 2016), the SLAL 2011 Scheme (as described in paragraphs 7.18 and 7.19) and the SLAL Brexit Scheme (as described from paragraph 7.21). Where relevant to the Scheme which is the subject of this Report (i.e., where the Scheme changes the previous schemes), the history of these previous schemes is outlined below.

7.8 The interactions of the Scheme with these previous SLAL Schemes are described in Section 8.

SLAC Demutualisation Scheme

7.9 The SLAC Demutualisation Scheme sets out the demutualisation of SLAC and the establishment of SLAL. Under the SLAC Demutualisation Scheme, the long-term business of SLAC (excluding the Canadian business) was transferred to SLAL.

7.10 The Heritage WPF was established by the SLAC Demutualisation Scheme, primarily to contain the pre-demutualisation with-profits and non-profit business. Certain new business has also been written into the Heritage WPF post demutualisation.

7.11 The SLAL PBF was also established and contains only non-profit business. Following demutualisation, UK unit-linked policies with with-profits investment content are written in the SLAL PBF and the with-profits investment

[4] Class I refers to life and annuity contracts, Class II refers to marriage and birth contracts, Class III refers to linked long term contracts, Class IV to permanent health contracts, Class VI to capital redemption contracts, and Class VII to pension fund management contracts (including those combined with insurance contracts).

content is allocated to the Heritage WPF or UK Smoothed Managed With-Profits Fund ("**UKSMWPF**") as appropriate.

7.12 The SLAC Demutualisation Scheme (which has been varied four times, including its variation by the SLAL 2011 Scheme and the SLAL Brexit Scheme) provides a framework for managing the SLAL business and sets out a number of "**Core Principles**" that defined how the SLAL Board would manage the Heritage WPF.

7.13 The SLAC Demutualisation Scheme states that SLAL should assess the financial impact of decisions (for example, bonus rates and investment policy) affecting the Heritage WPF in terms of their affordability to a "**Notional Company**". The Notional Company is defined as the Heritage WPF with some specified additional capital, including an amount referred to as the "**Further Capital Support Account**", which amount was revised following the introduction of Solvency II. As at the Effective Date, the Further Capital Support Account is expected to be approximately £11.3 million and will run off linearly each year to reach to zero by 31 December 2026 (i.e. ten years after the introduction of Solvency II). The Notional Company is therefore financially stronger than the Heritage WPF and this means that the shareholders of SLAL provide certain financial support for decisions made if they are unaffordable to the Heritage WPF on a standalone basis.

7.14 The Core Principles defined by the SLAC Demutualisation Scheme for the management of the Heritage WPF are:

- Investment and bonus policy: The investment policy must be determined as that which would be appropriate for the Notional Company, and must have regard to the nature of the liabilities and the reasonable expectations of policyholders, and regular bonuses declared should not unduly restrict investment freedom;
- The role of asset shares in the management of the Heritage WPF: Terminal bonus rates should be based on asset shares that are calculated in line with the agreed methodology, in line with policyholders' reasonable expectations and reflecting the experience of the policies and the assets underlying asset shares; and
- The role of the estate and criteria for distributing the residual estate: The primary purpose of the estate is to ensure that a prudent amount is retained in the Heritage WPF in respect of amounts which may be charged to the with-profits fund in the future. Excess above the amount the SLAL Board determine is sufficient to meet that purpose will be distributed over time as an enhancement to terminal bonuses.

7.15 The SLAC Demutualisation Scheme also defines the payments between the Heritage WPF and the SLAL Shareholder Fund ("**SLAL SHF**") (described in paragraph 7.27). This mechanism is described from paragraph 7.34.

7.16 SLAC introduced a mortgage endowment promise ("**MEP**") in 2000 with the aim that mortgage endowments were able to repay the associated loan subject to certain parameters. The MEP provides a top-up to eligible policies with the SLAC Demutualisation Scheme prescribing rules to define the amount of top-up paid, depending upon the performance of the underlying assets.

7.17 Under the SLAC Demutualisation Scheme, the SLAL Board must provide a certificate to the PRA and the FCA to confirm whether, over the year, certain provisions of the SLAC Demutualisation Scheme have been complied with. Specifically, the SLAC Demutualisation Scheme requires the SLAL Board to provide, on or before the submission of its annual return to the regulators, a certification that the SLAC Demutualisation Scheme provisions covering the operation of funds and the MEP have been complied with since the date of the last certificate. The provisions covering the operation of funds include, amongst other factors, reference to reassurance, administration, PPFMs, shareholder support and contingent loans.

SLAL 2011 Scheme

7.18 In December 2011, the business of Standard Life Investment Funds ("**SLIF**") was transferred to SLAL by means of a Part VII Transfer (the "**SLAL 2011 Scheme**").

7.19 As part of the SLAL 2011 Scheme, SLIF's inwards property-linked reassurance policies (i.e., unit-linked business) in-force at the time were transferred to SLAL. Alongside this transfer, SLIF's rights and obligations under the "**Property-Linked Floating Charge**" (described in further detail in paragraph 7.64) were transferred to SLAL. SLAL has in place a Scots Law Property-Linked Floating Charge in favour of Law Debenture Trust Corporation plc (the "**Security Trustee**"), which acts as security trustee for certain property-linked beneficiaries pursuant to a "**Security Trust Agreement**". At the same time as the SLAL 2011 Scheme, the existing Security Trust Agreement between SLIF and the Security Trustee was amended such that the parties within the Agreement became SLAL, SLPF and the Security Trustee, where SLPF is the Instructing Parties' Agent. SLPF's role under the Security Trust Agreement is described in more detail in paragraph 7.64.

Amendments to the SLAC Demutualisation Scheme

7.20 Following the introduction of the Solvency II regulatory regime, two amendments were made to the SLAC Demutualisation Scheme (via a deed effective from 1 January 2016 and amendments with consent from the Court of Session effective from 30 June 2016) so that it could continue to operate as intended by the original Scheme under the new Solvency II regulations.

SLAL Brexit Scheme

7.21 In March 2019, the euro-denominated business of SLAL, which was sold by SLAL or originally sold by SLAC, in Ireland, Germany and Austria, was transferred to SL Intl, a Phoenix Group company based in Ireland, by means of a Part VII Transfer (the "**SLAL Brexit Scheme**"). The business transferred comprised:

- All of SLAL's euro-denominated unit-linked and annuity business in the SLAL PBF;
- All of SLAL's euro-denominated policies within the Heritage WPF; and
- All of SLAL's euro-denominated policies written post-demutualisation which were written in the SLAL PBF with their with-profits investment element allocated to the German With-Profits Fund ("**German WPF**") or German Smoothed Managed With-Profits Fund ("**German Smoothed Managed WPF**").

7.22 Equivalent mirror funds of the SLAL funds were established within SL Intl as a result of the transfer, namely the "**SL Intl PBF**" in respect of the SLAL PBF business, the "**SL Intl Heritage WPF**" in respect of the Heritage WPF business, the **"SL Intl German WPF**" in respect of the German WPF business and the **"SL Intl German Smoothed Managed WPF"** in respect of the German Smoothed Managed WPF business.

7.23 The transferred business from the Heritage WPF was reinsured back from SL Intl Heritage WPF into the Heritage WPF. Under a retrocession agreement, unit-linked liabilities in respect of the transferred business from the Heritage WPF is reinsured back again from the Heritage WPF to the SL Intl PBF.

7.24 The SLAL euro-denominated policies written post-demutualisation now sit in the SL Intl PBF. The with-profits policies which previously had their with-profits elements invested in the German WPF and the German Smoothed Managed WPF were transferred to a mirror fund within SL Intl and simultaneously reinsured back to the SLAL PBF, with the with-profits investment elements allocated to the German WPF or German Smoothed Managed WPF as was the case prior to the Scheme.

SLAL STRUCTURE

7.25 SLAL currently has four ring-fenced with-profits sub-funds. These are:

- The Heritage WPF;
- The UKSMWPF;
- The German WPF; and
- The German Smoothed Managed WPF.

7.26 These are referred to collectively as the "**SLAL With-Profits Funds**".

7.27 The remaining long-term (non-profit) insurance business of SLAL is held in the SLAL PBF. SLAL also maintains a shareholder fund (the SLAL SHF), comprising all the assets and liabilities not attributable to its long-term insurance business. Since the introduction of Solvency II, there has been no legal or regulatory requirement to separate the long-term insurance business from the other assets and liabilities, and so for reporting purposes, the SLAL PBF and SLAL SHF are combined and are referred to throughout this Report as the "SLAL PBF".

7.28 Table 7.1 below summarises the number of policies as at 31 December 2022 and the BEL (net of reinsurance) as at 31 December 2022 in each fund.

Table 7.1 SLAL business split by fund

Fund	Heritage WPF	German WPF(*)	German Smoothed Managed WPF(*)	UKSMWPF (**)	SLAL PBF	Total
Policies as at 31 December 2022 (000s)	1,179	-	-	-	3,087	**4,267**
BEL (£m) as at 31 December 2022	26,723	91,362				**118,085**

Source: Phoenix information summarised by Milliman.

(*) There are no policies held in the German WPF or the German Smoothed Managed WPF as these funds only contain business reinsured into SLAL from SL Intl following the SLAL Brexit Scheme.

(**) The policies of the UKSMWPF are included in the SLAL PBF figures as this business is written in the SLAL PBF with the with-profits investment element being internally reinsured to the UKSMWPF (as described in paragraph 7.43).

Note: SLAL had Other Liabilities of approximately £6 billion as at 31 December 2022 that are not included in the table above.

THE SLAL BUSINESS BY FUND

Overview

7.29 Table 7.2 below summarises the types of business written in each fund, with further details for each fund set out below the table.

Table 7.2 SLAL business types by fund

Fund	CWP	UWP	With-profit annuities	Unit-linked	Non-profit	Reinsured business	Open to new business?
Heritage WPF	✓*	✓*	✓	✓*	✓*	✓	Yes[nb]
German WPF		✓*				✓	Increments only
German Smoothed Managed WPF		✓*				✓	Increments only
UKSMWPF		✓*					Yes
SLAL PBF				✓**	✓*	✓	Yes

Source: Phoenix information summarised by Milliman.

[nb] New business can be written into the fund under certain circumstances, see paragraph 7.31 for more details.

* Some or all business of this type is reinsured in from another company/fund

** Some or all of this business is reinsured to another company/fund. In addition, my policies fall into this category.

Heritage WPF

7.30 The Heritage WPF contains all of the remaining UK with-profits, unit-linked and non-profit business written by SLAC before it demutualised, with the exception of certain non-with-profits business held in the SLAL PBF (as described in paragraphs 7.44 and 7.45) and certain SLAC business that did not transfer to SLAL.

7.31 New business can be written into the Heritage WPF as long as it meets the following requirements (set out in the SLAC Demutualisation Scheme):

- It must not materially adversely affect the Heritage WPF's estate in terms of size, timing and manner of distribution;
- It must not materially adversely affect the Heritage WPF's policyholders' reasonable expectations; and
- It must not breach the Core Principles defined in the SLAC Demutualisation Scheme (as outlined in paragraph 7.14).

7.32 I note that increments to existing policies are not considered to be new business under the SLAC Demutualisation Scheme.

7.33 There is a SLAL Board new business limit that has been in place since demutualisation of £50 million annual premium equivalent ("**APE**"), together with a limit of £500 million on the total asset share of business written since demutualisation. APE is a common industry new business measure comprising the sum of new annual/regular premiums plus 10% of new single premiums.

7.34 The SLAC Demutualisation Scheme specifies that surplus can only be distributed to policyholders as a bonus or premium rebate. It also specifies the payments to be made to shareholder and non-profit funds of which the most material is the Reference Period Transfer Amount ("**RPTA**").

7.35 The main component of the RPTA is the Recourse Cashflow ("**RCF**"). The RPTA also included a transitional amount component upon transition to Solvency II in 2016. However, as this was a one-off payment, the SLAC Demutualisation Scheme specifies that the Transitional Measures Instrument 2015 should be ignored for the RPTA calculation. For the avoidance of doubt, this effectively means that, since 2016, the RPTA and RCF are usually one and the same thing. This is not the case where the RPTA includes contingent loan cashflows as described in paragraph 7.37. This is not expected to be a common occurrence and there has only been one such contingent loan since the SLAC Demutualisation Scheme came into effect.

7.36 The RCF is the main component of the payment made by the Heritage WPF to the SLAL PBF, to provide the shareholder with a share of the Heritage WPF profits arising on particular defined blocks of business. These defined blocks of business are conventional non-profit life and pensions business in the UK and Ireland and unitised (both unit-linked and UWP) life and pensions business in the UK and Ireland. The RCF is calculated as the cashflows arising on the business from all sources except investment return, over a particular Reference Valuation Period. For example, for conventional non-profit business, the surplus is defined as: premiums minus claims, expenses, commission and the change in reserves.

7.37 When the calculated RPTA is negative the SLAL Board must provide a contingent loan (or make assets available otherwise) to the Heritage WPF to the value of (or greater than at the SLAL Board's discretion) the RPTA.

7.38 When the proposed RPTA is positive, payment of the RPTA to the SLAL PBF is contingent on the financial position of the Heritage WPF. The RPTA is only paid upon certain conditions being met: the Heritage WPF must have a sufficient surplus to pay the RPTA, SLAL must be able to demonstrate that is it reasonable to expect continued compliance of the Heritage WPF with the FCA's Conduct of Business Sourcebook ("**COBS**") rule, COBS 20.1A.5R, and that the Notional Company must have sufficient assets to cover its Technical Provisions. COBS 20.1A.5R says that "*A Solvency II firm must ensure that it holds assets in each of its with-profits funds of a value at least sufficient to cover the "with-profits policy liabilities" defined in the PRA Rulebook: Glossary and as required by PRA Rulebook: Solvency II firms: With Profits rule 2.1, and any Other Liabilities in respect of all of the business written in, or transferred into, that with-profits fund*."

7.39 SLPF is a subsidiary of SLAL allocated to the Heritage WPF. SLPF is covered in more detail from paragraph 7.62.

German WPF and German Smoothed Managed WPF

7.40 The German WPF and the German Smoothed Managed WPF consist of unitised with-profits business written since the SLAC Demutualisation Scheme, with smoothed with-profits business written in Germany and Austria in the

German Smoothed Managed WPF and other with-profits business written in Germany and Austria in the German WPF.

7.41 The German WPF closed to new business (other than increments) in 2015. The German Smoothed Managed WPF closed to new business (other than increments) in 2012.

7.42 This post-demutualisation euro-denominated business was transferred to SL Intl as part of the SLAL Brexit Scheme, with the policies themselves transferred to the SL Intl PBF, and the with-profits investments in the German WPF and the German Smoothed Managed WPF transferred to SL Intl German WPF and the SL Intl German Smoothed Managed WPF, with these liabilities reinsured back to the original fund (the SLAL PBF and either the German WPF or the German Smoothed Managed WPF) as noted above.

UKSMWPF

7.43 Since demutualisation in 2006, new UWP stakeholder pension plans have been written in the SLAL PBF, with the with-profits investment element of these plans allocated to the UKSMWPF. The UKSMWPF continues to accept the with-profits investment element of new UWP stakeholder pension plans written in the SLAL PBF.

SLAL PBF

7.44 The SLAL PBF contains:

- Certain non-profit business transferred from SLAC prior to demutualisation that was not allocated to the Heritage WPF, namely pension contribution insurance, income protection plans and some self-invested personal pension policies; and
- All other business originated in the UK post-demutualisation, excluding the business (or elements of that business) allocated to the SLAL With-Profits Funds as described above.

7.45 The SLAL PBF is open to new business, with the with-profits investment element of UK UWP stakeholder pension policies continuing to be allocated to the UKSMWPF and the with-profits investment element of other new with-profits business being allocated to the Heritage WPF.

SLAL FINANCIAL POSITION

7.46 The financial position of SLAL as at 31 December 2022 is shown in Table 7.3 below.

7.47 A description of the calculation of the “Solvency Coverage Ratio - Shareholder” can be found in paragraph 5.52.

Table 7.3 SLAL UK Solvency II balance sheet as at 31 December 2022

Fund	Heritage WPF(*)	SLAL PBF(**) (***)	SLAL Total
Own Funds (£m) (**A**)	1,943	2,442	**4,385**
RFF Restriction (£m) (**B**)	1,225	-	**1,225**
SCR (£m) (**C**)	718	1,268	**1,985**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	-	1,175	**1,175**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for SLAL Total)			
159%			
Solvency Coverage Ratio – Shareholder (Actual)			
193%			
Solvency Coverage Ratio – Shareholder (Actual, Adjusted for Comparison with Capital Policy Target) (****)			
168%			
Solvency Coverage Ratio – Shareholder (Capital Policy Target) (****)			
131%			

Source: Phoenix information summarised by Milliman.

(*) These figures include the SLPF policies reinsured to the Heritage WPF

(**) The own funds and capital requirements relating to the German WPF, German Smoothed Managed WPF and UKSMWPF are included under the SLAL PBF figures.

(***) These figures include the SLPF policies reinsured to the SLAL PBF

(****) This Capital Policy Target ratio is the current ratio based on Phoenix's analysis as at 31 December 2021. This is in the process of being updated based on analysis as at 31 December 2022 as part of Phoenix's regular annual Capital Policy refresh, and the updated value will be given in my Supplementary Report. The Capital Policy Target ratio is considered *excluding* the SLAL Group Loan capital (see paragraph 7.85). The Shareholder (Actual) Solvency Coverage ratio adjusted to exclude the Group Loan capital, and to compare with the Capital Policy Target ratio, is shown in the row above the Capital Policy Target ratio.

7.48 I note that none of the SLAL with-profits funds are supported in the same way that some of the funds within PLAL are supported, as described in paragraphs 6.21, 6.23 and 6.25. I do note however that the SLAL PBF does have a liability in respect of supporting the SLAL with-profits funds in extreme adverse scenarios, this often being referred to as "burn-through".

CAPITAL POLICY OF SLAL

7.49 The capital policy that applies to SLAL (the "**SLAL CP**") requires SLAL to hold sufficient capital to be able to meet regulatory capital requirements after the more onerous of a 1-in-10 year all risks event over a one-year period and a 1-in-20 severe market risk scenario arising over a three-month period. The SLAL CP is therefore aligned to the PCP and the PLAL CP which have been described previously in detail. Additional aspects apply however to SLAL as described below.

7.50 Under Paragraph 27.1 of the SLAC Demutualisation Scheme, SLAL must ensure to the extent reasonably practicable that there is 'no significant foreseeable risk' of it becoming unduly exposed to the risk that it will be unable to meet its SCR or its more general capital needs (with this circumstance, if it arises, being defined as a "**Capital Event**") and this resulting in the management of the Heritage WPF not being in accordance with the Core Principles. The SLAC Demutualisation Scheme contains provision for the SLAL Board to receive advice from the SLAL WPA and SLAL Chief Actuary in this regard, and also provides for SLAL to notify the PRA if a Capital Event has occurred or is reasonably likely to occur. If a Capital Event does occur, then SLAL only has to comply with the Core Principles to the extent reasonably practicable while taking actions to ensure the Capital Event ceases.

7.51 Paragraph 27.1 of the SLAC Demutualisation Scheme thus aims to ensure that SLAL overall is sufficiently capitalised in order to continue to manage the Heritage WPF with reference to the Notional Company (described in paragraph 7.13).

7.52 I understand that it is the opinion of the SLAL WPA currently that the 1-in-10 capital quantity test under the SLAL CP may not be sufficient to satisfy the requirements of Paragraph 27.1 of the SLAC Demutualisation Scheme outlined above. However, the 1-in-10 capital quantity test is calibrated allowing for planned management actions that are expected to take place over the one-year period, but without allowance for the contingent actions that could be taken in adverse circumstances. Once these contingent actions are taken into account, Phoenix has assessed the risk of SLAL breaching its SCR cover over a one-year period as being materially less likely than the 1-in-10 level. Therefore, it is the opinion of the SLAL Board, on advice from the SLAL WPA and SLAL CA, that operating SLAL in line with the SLAL CP as operated in practice is consistent with the SLAC Demutualisation Scheme requirements under Paragraph 27.1.

7.53 To ensure quality of capital, SLAL holds sufficient tangible assets to meet capital risks arising in the business which consume tangible assets. The same two metrics are assessed as included in the PCP, as described in paragraph 5.64.

7.54 As described in Section 5, under UK Solvency II, the SCR for a with-profits fund can be covered either by assets within that fund, or by assets held within the non-profit fund or shareholder fund of the company. However, sufficient assets to cover the liabilities of the fund must be held within the with-profits fund. The with-profits funds of SLAL must hold sufficient assets to cover their liabilities in line with the UK Solvency II rules, but there are no additional buffers required under the SLAL CP or any current Scheme applying to SLAL. This buffer aspect is thus different to the position in respect of Phoenix and PLAL.

7.55 Should this not be the case, the SLAL CP states that assets would need to be made available by the SLAL Board from the SLAL PBF, usually in practice by means of a contingent loan repayable with interest should the position of the fund improve. Any contingent loan would be made on such terms as the SLAL Board sees fit. None of the SLAL with-profits funds are Supported Funds as at 31 December 2022.

7.56 The RCF/RPTA cashflows effectively provide capital support to the Heritage WPF, as assets cannot be transferred to the SLAL PBF unless affordability criteria are met, and the SLAL PBF must provide a contingent loan (or make assets available otherwise) to the Heritage WPF if the calculated RPTA is negative.

7.57 There is a capital support arrangement in place from the SLAL PBF to the German WPF, although currently this is not being utilised.

7.58 Should SLAL overall have insufficient capital to meet the SLAL CP, then the action required depends on the size of the shortfall. For example, a small shortfall would only require that no capital should be released from the company; however, should the shortfall be large then corrective actions would be necessary.

RISK PROFILE OF SLAL

7.59 The split of the SCR gives an indication of the risk profile of SLAL. Table 7.4 below shows the allocated capital (i.e., split of the total post-diversification SCR between different risk categories) for SLAL as at 31 December 2022.

Table 7.4 Risk Breakdown of SLAL (including SLPF) as at 31 December 2022

Risk type	%
Credit Risk	**12%**
Market Risk	**2%**
Insurance Risk	**50%**
– Dependent Persistency	*33%*
– Longevity	*9%*
*– Other**	*8%*
Operational Risk	**22%**
Other Modelled Risks**	**14%**
Total***	**100%**

Source: Phoenix information summarised by Milliman.

*Other Insurance Risk includes mortality risk and persistency mis-estimation risk.

**Other Modelled Risks include other credit risks and expense risk

***Sum is more than 100% due to rounding in the presentation shown above.

7.60 SLAL's risk profile is a mix of credit risk, market risk, insurance risk and operational risk. The majority of SLAL's business is unit-linked, followed by with-profits and annuity business, which drives the risk profile. SLAL's dominant risks are dependent persistency risk (which is the risk of a major shock to policy lapse rates as a result of new events over the next 12 months), operational risk, credit risk and longevity risk. I note that the mix of risks as summarised above is subject to change as financial conditions change and also as SLAL's in force business evolves over time.

7.61 The risk breakdown shown in Table 7.4 includes SLPF, however, as SLPF is small in comparison to SLAL I note that SLPF has an immaterial impact to the percentages shown in Table 7.4.

OVERVIEW OF SLPF

7.62 SLPF is a wholly-owned subsidiary of SLAL allocated to the Heritage WPF, and became part of the Phoenix Group in 2018 in conjunction with the acquisition of SLAL.

7.63 SLPF has a single long-term fund that is closed to new business and comprises 364 non-profit in-payment and deferred annuities with total assets of £17.1 million and £7.5 million of excess own funds (as at 31 December 2022). The business is fully reinsured to SLAL (split between the Heritage WPF and the SLAL PBF) on a 100% original terms basis.

7.64 SLPF acts in an administrative role as the "Instructing Parties Agent" for SLAL's property-linked reassurance, whereby other insurance companies offer SLAL's insured unit-linked funds to their customers. As the "Instructing Parties Agent" under the Security Trust Agreement, SLPF acts as a single source of instructions to the Security Trustee referred to in paragraph 7.19 that acts on behalf of the other insurers' (i.e., those investing in SLAL's unit linked funds) security. Under the Property-Linked Floating Charge, the reassurance customers have a floating charge over the SLAL assets, giving these customers equal ranking to SLAL's other unit-linked customers. As at August 2021, there are five external insurers using this reassurance, with some arrangements in place which are not currently being used. The value of this reinsurance is around £1 billion, with approximately 70% of this invested in abrdn's Global Absolute Return Strategies fund. The rights and obligations under the Property-Linked Floating Charge, and the Security Trust Agreement, were amended and transferred from SLIF to SLAL under the SLAL 2011 Scheme, along with the Property-Linked Reassurance Policies.

7.65 Prior to 2020, SLPF conducted Class VII Pension Managed business, which involved managing assets that typically belonged to trustees of pension schemes. All remaining (unterminated) contracts in this class were novated from SLPF to a Standard Life Aberdeen plc entity in 2020 and the line of business was closed in SLPF. Therefore these type of contracts no longer exist in SLPF (or SLAL).

SLPF PRE-SCHEME FINANCIAL POSITION

7.66 The financial position of SLPF as at 31 December 2022, prior to the implementation of the Scheme, is shown in Table 7.5 below.

Table 7.5 The SLPF pre-Scheme financial position as at 31 December 2022

Fund	SLPF
Own Funds (£m)	10.7
RFF Restriction (£m)	-
Minimum Capital Requirement* (£m)	3.2
Surplus (£m)	7.5
Solvency Coverage Ratio	336%

Source: Phoenix information summarised by Milliman.

*SLPF has a small book of business that is entirely reinsured to SLAL; and therefore the biting capital constraint is the Minimum Capital Requirement ("**MCR**")[5].

CAPITAL POLICY OF SLPF

7.67 Given that the SLPF business is entirely reinsured, it does not have a capital policy. However, it does typically hold a small surplus over its regulatory capital requirements. No particular significance should be attached to the high solvency coverage ratio of over 300%, given that the monetary amount of the surplus is relatively small and there would be no regulatory barriers to SLPF paying a dividend to reduce this.

SLAL AND SLPF'S REINSURANCE ARRANGEMENTS

7.68 As noted earlier in paragraphs 7.23 and 7.24, there are three reinsurance arrangements and one retrocession agreement in place between SLAL and SL Intl that were put in place when the SLAL Brexit Scheme was implemented in 2019. Much of the business that was transferred to SL Intl from SLAL is reinsured back to the original fund in SLAL, under separate reinsurance arrangements with each of the funds. These reinsurance arrangements allow the non-UK with-profits business to participate in the profits of the relevant UK with-profits fund. The operation of the reinsurance is overseen by the Reinsurance Business Committee. Additionally, SL Intl has issued a Deed Poll for each of the funds involved in the reinsurance, stating that it will pay customers no less than the amount paid by SLAL to SL Intl under the reinsurance arrangement, thus providing additional protection for holders of policies covered by these reinsurance arrangements.

7.69 There is an External Fund Linked ("**EFL**") retrocession[6] arrangement between SLAL and SL Intl, which allows the business in the SL Intl Heritage WPF (which is reinsured to SLAL) to invest back into euro-denominated unit-linked funds in the SL Intl PBF. This means that euro-denominated monies in the SL Intl Heritage WPF and the SL Intl PBF can be managed together and avoids duplication of funds. This retrocession was put in place at the same time as the SLAL Brexit Scheme to ensure that the Heritage WPF policyholders continue to be able to invest in the same funds as were available prior to the SLAL Brexit Scheme.

7.70 As well as the internal (to the Phoenix Group) reinsurance arrangements, SLAL has a number of external reinsurance treaties in place with third parties, the largest of which is an annuity reinsurance arrangement with Canada Life Re Ireland Designated Activity Company. These treaties include those where SLAL is reinsuring its risks, as well as treaties where SLAL is the reinsurer.

7.71 In addition, there are outwards unit-linked reinsurance arrangements with external parties where the unit-linked policyholders of SLAL can invest in the external insurers unit-linked funds as a 'guest fund'. The most material of these arrangements are with abrdn Life and Pensions Ltd, Aviva Investors Pensions Ltd, BlackRock Life Ltd, Schroder Pension Management Ltd and Legal and General Assurance (Pensions Management Ltd). For these

[5] Relative to the SCR, a second lower level of regulatory capital requirement under Solvency II, which is intended to represent the amount of capital required to ensure continued solvency in one year's time with a probability of at least 85%.

[6] A retrocession is an arrangement under which a reinsurer transfers risks it has reinsured to another reinsurer.

exposures, as at 31 December 2022 the 99.5th percentile risk capital is £2.3 million and the total reinsurance asset value is £2.1 billion. Under each of these 'guest fund' arrangements, there are security arrangements in place whose purpose is to allow SLAL to rank alongside other direct policyholders of each third-party insurer. Under these arrangements, in the case of the unit-linked fund provider being unable to fulfil its obligations under the reinsurance arrangement, SLAL would be on risk to cover any unrecoverable amounts.

7.72 As described in paragraph 7.63, SLPF reinsures all of its business to the Heritage WPF and the SLAL PBF on a 100% original terms basis. The business that commenced prior to the effective date of the SLAC Demutualisation Scheme is reinsured to the Heritage WPF, and the remainder of the business (which is immediate annuities arising from vesting deferred annuities) is reinsured to the SLAL PBF. SLPF does not have any external reinsurance treaties with third parties.

THE ADMINISTRATION AND SERVICING OF SLAL AND SLPF POLICIES

7.73 SLAL and SLPF currently carry out the administration and servicing of their policies through Standard Life Assets and Employee Services Limited ("**SLAESL**"), PGMS and PGS. SLAESL outsources the majority of its policy administration and servicing to Diligenta, which administers significant other business within the Phoenix Group (the majority of the PLAL and Phoenix business) under the contract with PGS. A process is underway to migrate policy records onto Diligenta's proprietary administration system. This migration is expected to be completed in 2025 and is independent of the Scheme.

GOVERNANCE IN SLAL AND SLPF

7.74 The governance of the SLAL business principally consists of the SLAL Board, with additional governance for the with-profits business through the SLAL WPC and SLAL WPA. The governance of the SLPF business principally consists of the SLPF Board.

7.75 As set out in paragraph 4.23, the structure of the various Board and Board Committees (including WPCs) of Phoenix, SLAL and PLAL are harmonised with all Boards and Board Committees having the same membership and meeting together. However, due to the relatively small size of SLPF, the SLPF Board does not have the same membership as the Boards of Phoenix, PLAL and SLAL.

7.76 There are separate PPFM documents for the Heritage WPF and the UKSMWPF, as well as internal PPFM documents ("**IPPFM**"s) for the German WPF and the German Smoothed Managed WPF. These are referred to in this Report as the "**Heritage WPF PPFM**" and the "**UKSMWPF PPFM**". There is also a separate WPOP document for the SL Intl Heritage WPF, referred to in this Report as the "**Heritage WPF WPOP**", as well as separate WPOP documents for the German WPF and German Smoothed Managed WPF. The Heritage WPF WPOP largely reflects the principles and practices in the Heritage WPF PPFM. Although not identical in all respects, the WPOP is the Irish regulatory equivalent of the PPFM in the UK. The IPPFMs of the German WPF and the German Smoothed Managed WPF are internal documents which are required under the SLAL Brexit Scheme.

ASSET MANAGEMENT IN SLAL AND SLPF

7.77 The majority of the assets of SLAL and SLPF are managed by abrdn.

7.78 SLAL assets are invested both through collective investment vehicles and direct segregated mandates. The majority of the assets of SLAL and SLPF are managed by abrdn, however other asset managers are used for specific assets. In addition, there are External Fund Links on Unit Linked policies as described in paragraph 7.69.

EXPENSE ARRANGEMENTS FOR WITH-PROFITS FUNDS

7.79 There is a Master Services Agreement ("**MSA**") in place between SLAL and SLAESL, the scope of which includes the maintenance expenses on UK business in the Heritage WPF. Therefore, these maintenance expenses are effectively fixed in per policy terms, but with an allowance for inflation. The MSA has 5-yearly review dates, and hence there is no long term expense deal agreement between the Heritage WPF and the shareholder (as there is for the Phoenix and PLAL with-profits funds).

7.80 For the remaining expenses, the Heritage WPF does not have an expense deal in place; instead expenses are calculated based on the actual costs of running the fund. The allocation of expenses is determined in line with the

SLAC Demutualisation Scheme, which sets out which expenses can be debited from the Heritage WPF. These expenses are:

- Expenses and commissions that have been (or will be) incurred in the running of the Heritage WPF.

  However, the SLAC Demutualisation Scheme also requires, through the RCF and subject to affordability, that the shareholder is paid the income less expenses arising on defined blocks of business in the Heritage WPF, which includes most UK and Irish products, and so the expense risk on these blocks is actually borne by the SLAL PBF (and thus the shareholder), not the Heritage WPF.

- Certain German 'additional expenses' (defined as 34% of unallocated premiums and 4% of initial commissions).

  These 'additional expenses' are shareholder transfers similar to the RCF, and do not depend on the actual expenses allocated to the Heritage WPF. Therefore, the expense risk on the German business is actually borne by the Heritage WPF.

7.81 The outcome of all the above aspects is that the expense risk in relation to the business in the Heritage WPF is shared between the SLAL PBF (i.e. effectively the shareholder) and the Heritage WPF, with the SLAL PBF currently bearing around two-thirds of this risk and the Heritage WPF bearing the remaining one-third.

7.82 The allocation of expenses to the Heritage WPF is determined by SLAL's Finance team, and is reviewed by the SLAL WPA and the SLAL WPC to ensure it is fair to the policyholders of the Heritage WPF. The allocation is then approved by the Finance Director (on behalf of the SLAL Board) after reviewing that these have been determined allocated appropriately, on the advice of the SLAL WPA and supported by the SLAL WPC.

7.83 Ad-hoc project costs are not borne by the Heritage WPF unless the project directly benefits the with-profits policyholders. Any allocation of project costs to the Heritage WPF would be at the discretion of the SLAL Board, having regard to the advice of the SLAL WPA and SLAL WPC.

7.84 For the other SLAL with-profits funds, the SLAL PBF meets all of the expenses for these funds (and thus bears their expense risk), and receives the annual management charges arising from these funds.

INTRA-GROUP LOAN

7.85 There is currently a loan from SLAL to PGH, the amount of which as at 31 December 2022 was £309 million including accrued interest. This was set up around the time of the change in ownership of SL Intl from being owned by SLAL to being owned by PGH. This loan constitutes an asset in SLAL's Solvency II balance sheet.

8. The Scheme

THE MOTIVATION FOR THE SCHEME

8.1 Each of Phoenix, PLAL, SLAL and SLPF are (directly or indirectly) wholly-owned subsidiaries of PGH, the holding company for the Phoenix Group. By transferring the long-term insurance business of PLAL, SLAL and SLPF into Phoenix, the Scheme will simplify the corporate structure of the Phoenix Group and allow PLAL, SLAL and SLPF to be de-authorised. Having fewer UK life companies will result in greater operational and capital efficiency and reductions in certain expenses, through more efficient financial reporting, governance and administration. Having fewer UK life companies should also result in lower expenses than would otherwise be the case to the general benefit of both shareholders and policyholders. Although many aspects of Phoenix Group's financial reporting, governance and administration processes are already common across the group, having fewer UK life companies is still likely to facilitate further improvements in efficiency.

8.2 The Scheme would improve capital efficiency under UK Solvency II with solvency benefits mainly being achieved from additional synergies and diversification benefits within the calculation of the SCR at the life company level. These technical concepts are explained in Section 9.

8.3 Although my role does not formally cover the rationale for the Scheme, it is important in my view for an Independent Expert to be aware of and to understand the rationale of the Companies in putting forward a scheme, and I am satisfied as to the rationale for this Scheme.

8.4 An additional benefit of the Scheme is that it presents an opportunity to review the schemes from previous Part VII Transfers governing the business of Phoenix, PLAL and SLAL (except the SLAL Brexit Scheme) and to update terms where appropriate to achieve greater consistency and efficiency (including to update Solvency I terminology to appropriate Solvency II terminology where this has not already been done), and to facilitate possible future management actions which may be beneficial to policyholders while still safeguarding their rights, expectations and security.

THE EFFECTIVE DATE AND TRANSFER DATE OF THE SCHEME

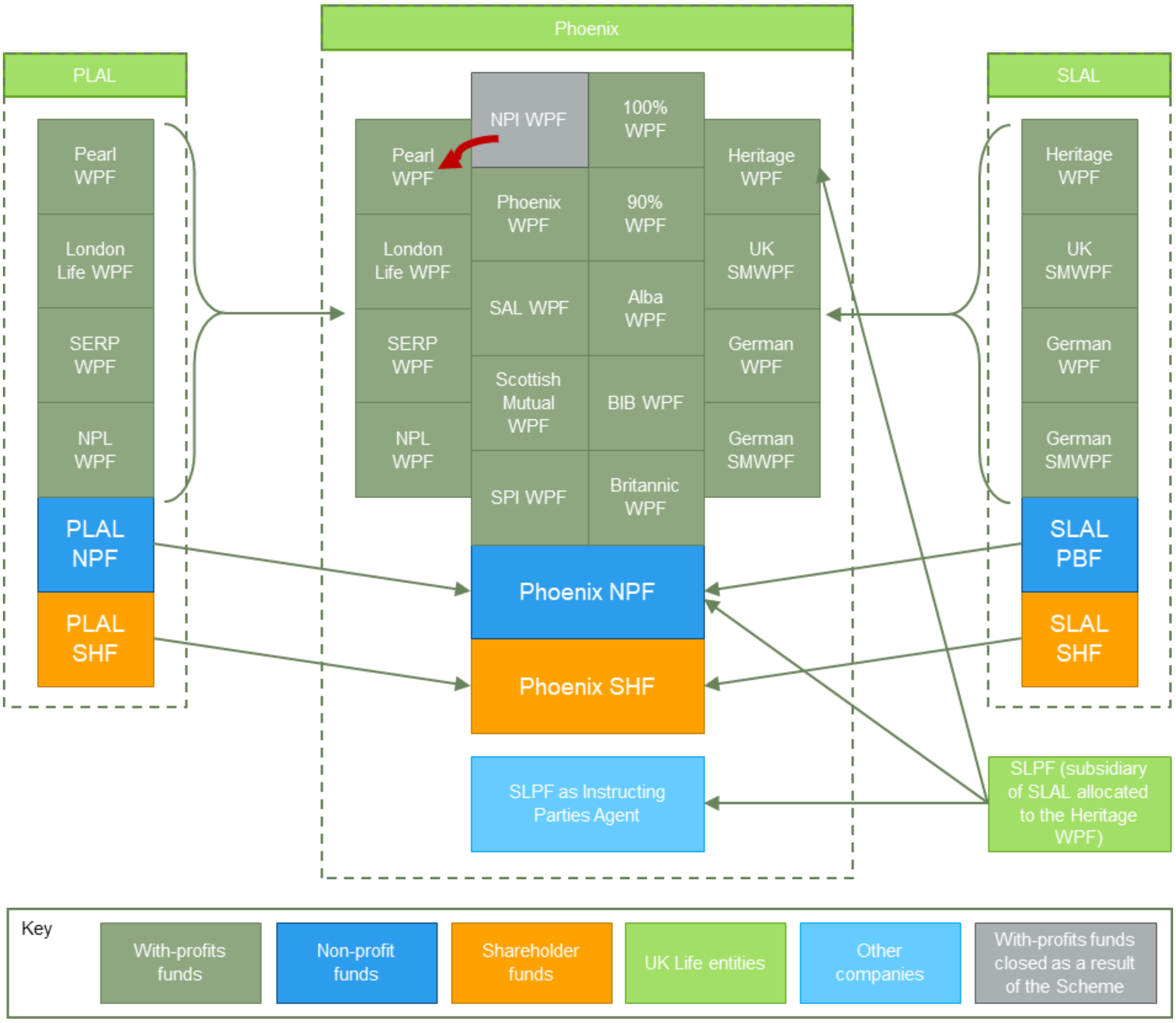
8.5 The Scheme will come into effect on the **Transfer Date**, which is expected to be 27 October 2023. For financial and regulatory reporting purposes the **Effective Date** of the Scheme will be backdated to 30 September 2023. This means that for financial and regulatory reporting purposes all of the transferring policies will be treated as being within Phoenix from 30 September 2023 and that Phoenix's accounts and regulatory returns for Q3 2023 will be on a post-Scheme basis.

8.6 For the avoidance of doubt, all policies in force as at the Transfer Date fall within my scope as Independent Expert.

A SUMMARY OF THE SCHEME

8.7 The diagram below outlines the effect of the Scheme and the subsequent fund structure of Phoenix.

Figure 8.1 Summary of the Scheme changes



Source: Phoenix information summarised by Milliman

8.8 In summary, the structural changes effected if the Scheme was implemented would be:

- Policies, their associated liabilities and the assets in the existing PLAL With-Profits Funds and SLAL With-Profits Funds would transfer into identical new funds in Phoenix. Where any new policies or increments to policies are still being written, this would continue in the new, Phoenix, funds.
- The with-profits investment element of policies in the Phoenix NPF that are currently allocated to the NPI WPF and reinsured on to the Pearl WPF within PLAL would be allocated to the newly created Pearl WPF in Phoenix ("**Phoenix Pearl WPF**"). The reinsurance arrangement in place between the NPI WPF and the Pearl WPF falls away, and because the NPI WPF would be left with no assets and liabilities it will cease to exist post-Scheme.
- Policies, their associated liabilities and the assets in the existing PLAL NPF and SLAL PBF would transfer into the Phoenix NPF, and any new business that would have been written in the PLAL NPF and the SLAL PBF would be written in the Phoenix NPF in the future. The reinsurance arrangements between the Phoenix NPF and the PLAL NPF would fall away.
- New Linked Funds[7] would be created in Phoenix that correspond to the current Linked Funds within SLAL and PLAL. The new Linked Funds will have the same asset pools and there will be no changes to the investment mandates, charges or taxation of any of the Linked Funds. Policies will hold the same number

[7] A Linked Fund is a fund maintained for the purpose of calculating benefits on unit-linked policies.

and class of units in each Linked Fund post-transfer as they did prior to the transfer, and units in the Linked Funds will be priced on the same basis as the current PLAL and SLAL Linked Funds.

- The assets and liabilities of the PLAL NPF and SLAL PBF would transfer into the Phoenix NPF. Assets will be held back in the PLAL NPF and SLAL PBF to cover the MCR of PLAL and SLAL, respectively, until these entities are de-authorised (following the implementation of the Scheme by application to the PRA), at which point the assets and any associated investment return and any related tax liability would transfer to the Phoenix NPF.
- Any remaining reinsurance arrangements between funds within Phoenix and PLAL (i.e., that would not be collapsed as described above) would be replicated as inter-fund arrangements in Phoenix. There are currently no reinsurance arrangements between SLAL (or SLPF) and either Phoenix or PLAL to be replicated. All inter-fund arrangement between funds in each of Phoenix, PLAL and SLAL would be retained in Phoenix.
- The reinsurance arrangements between SLAL and SL Intl, set up under the SLAL Brexit Scheme, would transfer from SLAL to Phoenix but would otherwise be unchanged. In addition, the external reinsurance treaties of PLAL and SLAL, i.e., with companies outside of the Phoenix Group, would transfer to Phoenix, but would otherwise remain unchanged.
- SLPF will become a wholly-owned subsidiary of Phoenix allocated to the newly created Heritage WPF in Phoenix ("**Phoenix Heritage WPF**"). The SLPF policies currently reinsured to the Heritage WPF would be transferred into the Phoenix Heritage WPF, and the SLPF policies currently reinsured to the SLAL PBF would be transferred into the Phoenix NPF. The reinsurance arrangement between SLAL and SLPF would therefore be collapsed on implementation of the Scheme.
- All assets in excess of a retained amount of £4 million would be transferred from SLPF to Phoenix and allocated to the Heritage WPF. Following the implementation of the Scheme, it is expected that SLPF will be de-authorised and in due course will cease to be the Instructing Parties Agent for SLAL's inbound property-linked reinsurance policies. The remaining assets of SLPF (including any investment income thereon and net of any related tax liability) would then transfer to the Phoenix Heritage WPF.
- SLPF would continue its role (as described in paragraph 7.64 and as noted above) as the Instructing Parties Agent for SLAL's inbound property-linked reinsurance policies. The floating charge on SLAL's assets in relation to these property-linked reassurance contracts will be replaced by a new floating charge under English Law to be granted by Phoenix effective from the Transfer Date. I understand that this avoids any legal difficulty as to whether the original Property-Linked Floating Charge can be transferred to Phoenix as it was granted by a Scottish company (SLAL) under Scottish company law. The new charge will be on the same terms as the Property-Linked Floating Charge. The Security Trust Agreement would also be terminated and replaced by a new English law security trust agreement with Phoenix on the same terms. It is not necessary for SLPF to be regulated in order to carry out this role as it is separate to its role as an insurer. I note that the property-linked reassurance policies are expected to be transferred to abrdn under the abrdn Transfer, as set out from paragraphs 8.89 onwards.

8.9 As a result of the above, the expense risk in respect of:

- The PLAL With-Profits Funds would transfer from the PLAL NPF to the Phoenix NPF;
- The SLAL With-Profits Funds (other than the Heritage WPF) would transfer from the SLAL PBF to the Phoenix NPF; and
- The Heritage WPF, where this is currently borne by the SLAL PBF (around two-thirds of the expense risk as set out in paragraph 7.81) would transfer from the SLAL PBF to the Phoenix NPF.

8.10 The following additional governance changes would also take place alongside the Scheme:

- The PLAL PPFM would be combined with the Phoenix PPFM, with a separate section for each with-profits fund in-scope. As the SLAL PPFMs have their own branding and are structured differently to the Phoenix PPFM, separate PPFMs would continue to be maintained for the newly created with-profits funds for the SLAL business. Some changes would be required to the principles and practices in all PPFMs to reflect the changes brought about by the implementation of the Scheme.

- The WPCs of Phoenix, PLAL and SLAL would be combined, as would their terms of reference. The WPCs have operated with common membership since 2019 and so there would be no change in the membership of the WPCs as a result of the Scheme.

THE EFFECT OF THE SCHEME ON PREVIOUS SCHEMES

The current schemes applicable to the Companies

8.11 Historically there have been a number of schemes to which Phoenix, PLAL or SLAL are a party, as described in Sections 5 to 7. The schemes that are currently in-force and applicable to the business of Phoenix, PLAL or SLAL are:

- The Phoenix 2009 Scheme;
- The Phoenix 2011 Scheme;
- The Phoenix 2012 Scheme;
- The Phoenix 2017 Scheme;
- The Phoenix 2018 Scheme;
- The PLAL 2012 Scheme;
- The PLAL 2015 Scheme;
- The SLAC Demutualisation Scheme (as amended, including by the SLAL 2011 Scheme, the 2016 amendments to the SLAC Demutualisation Scheme and the SLAL Brexit Scheme);
- The SLAL 2011 Scheme;
- The SLAL Brexit Scheme; and
- The Phoenix Brexit Scheme.

8.12 There are no previous schemes applicable to the business of SLPF.

The schemes to be superseded by this Scheme

8.13 The Currently Applicable Schemes would be superseded and disapplied by the Scheme that is the subject of this Report if it is implemented. The ongoing provisions of these Currently Applicable Schemes would be consolidated into the Scheme, with some changes covered later in this Section 8. For the avoidance of doubt, I note that the (amended) SLAL Brexit Scheme and the Phoenix Brexit Scheme will both remain in force.

8.14 Each of the Currently Applicable Schemes contain modification provisions, which set out the governance requirements that must be followed if any amendments are to be made to these schemes. The requirements typically include High Court approval (or Court of Session approval for the schemes applicable to the business of SLAL), notification to the PRA and the FCA, and a certificate from an independent expert/actuary that in their view the amendments do not adversely affect or materially adversely affect policyholders (depending on the certificate in question).

8.15 The exact requirements vary between the different schemes. For example:

- The SLAL 2011 Scheme allows SLAL to vary the terms of Schedule 2 of the scheme without requiring the consent of the Court of Session, providing certain conditions are met; and
- For amendments to the Phoenix 2017 Scheme and the Phoenix 2018 Scheme, the PRA and the FCA can make representations to the High Court as to the appropriate publicity in relation to the proposed amendment, and Phoenix must comply with any direction given by the High Court regarding publicity of the proposed amendment.

8.16 To comply with the requirements of the modification provisions in the Currently Applicable Schemes:

- The amendments to the Currently Applicable Schemes applying to Phoenix and PLAL will be considered by the High Court as part of the process to sanction this Scheme;

- The amendments to the Currently Applicable Schemes applying to SLAL will be considered by the Court of Session, in advance of the consideration by the High Court as part of the process to sanction this Scheme. Sanction of this Scheme is conditional on the consent to the amendments to these Currently Applicable Schemes being granted by the Court of Session;
- The Companies have notified the PRA and the FCA of the proposed amendments to the Currently Applicable Schemes; and
- I have produced the required certificates in my capacity of independent expert/actuary for each of the Currently Applicable Schemes. These certificates are included in Appendix C to this Report, together with a summary of how I have approached the giving of these certificates where the required certificate wording does not include the word “material”.

8.17 I note that the approval of the Scheme that is the subject of this Report is conditional on the approval by the High Court and the Court of Session of the amendments to the Currently Applicable Schemes as described above, as well as to the SLAL Brexit Scheme as described below.

The SLAL Brexit Scheme and the Phoenix Brexit Scheme

8.18 Unlike the Currently Applicable Schemes, the SLAL Brexit Scheme and the Phoenix Brexit Scheme would remain in-force if the Scheme is implemented.

8.19 The implementation of the Scheme would not result in any changes to the purpose or substance of the provisions of the SLAL Brexit Scheme. However, the simplification of the corporate structure of the Phoenix Group, and in particular the transfer of the business of SLAL to Phoenix under the Scheme, would require the SLAL Brexit Scheme to be varied in the Court of Session to reflect that Phoenix will assume the rights and obligations of SLAL (as the Transferor under the SLAL Brexit Scheme) and become the reinsurer of the relevant SL Intl business.

8.20 The variations to the SLAL Brexit Scheme are not intended to change the rights or obligations of the policyholders of SL Intl (or, for the avoidance of doubt, the policyholders of any of the Companies).

8.21 As with the Currently Applicable Schemes, the SLAL Brexit Scheme contains modification provisions, which set out the governance requirements that must be followed if any amendments are to be made to this scheme. To comply with these provisions:

- SLAL has notified the CBI of the proposed amendments to the SLAL Brexit Scheme and has requested the CBI’s non-objection to these; and
- The SL Intl Board has appointed me as the Independent Expert (and this appointment has been approved by the CBI) to provide the required certificate concluding that the proposed amendments to the SLAL Brexit Scheme do not materially adversely affect the interests of holders of those policies transferred to SL Intl from SLAL under the SLAL Brexit Scheme, or other policyholders of SLAL or SL Intl. Section 13 of this Report sets out my considerations in relation to this, and I have produced the required certificate in Appendix C to this Report.

8.22 The amendments to the SLAL Brexit Scheme will be considered by the Court of Session in advance of the consideration by the High Court as part of the process to sanction this Scheme. Sanction of this Scheme is conditional on the approval of the amendments to the SLAL Brexit Scheme being granted by the Court of Session.

8.23 After this change, the SLAL Brexit Scheme (as amended) would become binding on Phoenix, as well as SL Intl (as currently). As part of this process, the following changes would also be required:

- Under the SLAL Brexit Scheme, SLAL granted a Scottish company law floating charge to SL Intl (“**Brexit Floating Charge**”). Phoenix would grant a new English law floating charge (the "**New Brexit Floating Charge**") to SL Intl effective from the Transfer Date pursuant to the Court of Session Consent to the variation of the Brexit Scheme. I understand this approach of granting a new floating charge avoids the legal difficulty as to whether the original Brexit Floating Charge can be transferred to Phoenix, as it was granted by a Scottish company (SLAL) under Scottish company law. Other than the change to the relevant parties, and the change in governing law to English law, the new charge would be on substantially the same terms as the Brexit Floating Charge. SL Intl also has a fixed charge over certain of SLAL’s assets, and this will transfer under the Scheme to become fixed over the relevant Phoenix assets. Broadly, the fixed charge relates to the assets held as collateral under the reinsurance arrangements with SLAL, and the floating charge relates to other SLAL assets, such that both charges would enable SL Intl to achieve the maximum possible recovery of assets in the event of a default by SLAL of its obligations under the reinsurance arrangements.

- At the time the SLAL Brexit Scheme was implemented, SL Intl provided three deed polls (one in respect of each reinsurance arrangement for each of the with-profits funds of SL Intl described from paragraph 7.22) and an undertaking to the Court of Session that SL Intl will continue to pay benefits to with-profits customers as if they were direct customers of SLAL. The existing deed polls would be amended to correspond to the reinsurance with Phoenix rather than SLAL, and SL Intl would need to provide a new undertaking to the Court of Session to confirm that it will continue to pay benefits to with-profits customers as if they were direct customers of Phoenix (rather than SLAL as currently).

8.24 There will be a minor wording amendment to the SLAL Brexit Scheme for the definition of EEA State, to specify that this is defined in Schedule 1 of the Interpretation Act 1978 (amended by the European Union (Withdrawal) Act 2018), rather than referring solely to Paragraph 8, Part 1 of Schedule 3 to FSMA as although these two documents currently have equivalent definitions, there is the potential for the FSMA definition to change in future.

8.25 There will be some amendments to the definition of "charged assets", in order to clarify the wording used. However this will not change the scope of the Brexit Floating Charge. There will also be other amendments made to correct typographical errors and reflect the changes to English law that have taken place since the end of the Brexit transition period.

8.26 I understand that there will be no changes needed to any collateral arrangements. The implementation of the Scheme would have no effect on the provisions of the Phoenix Brexit Scheme, and no modifications to the Phoenix Brexit Scheme are required.

The other in-force schemes applicable to business of the Phoenix Group

8.27 The Scheme would have no effect on the in-force schemes applicable to the remaining UK life companies in the Phoenix Group, i.e., ReAssure and RLL.

PROPOSED CHANGES TO THE PROVISIONS OF THE CURRENTLY APPLICABLE SCHEMES

Introduction

8.28 The Phoenix Group is not seeking to make material changes to the way in which the funds and business operate as part of this Scheme. Nevertheless, the Phoenix Group does plan to make a number of changes to allow greater consistency of approach, to address known issues (such as reflecting developments in the Companies or the wider regulatory environment) and to give greater flexibility with regard to future actions.

8.29 The Phoenix Group, supported by Linklaters, has produced a detailed mapping setting out how the clauses of the Currently Applicable Schemes have been carried over to this Scheme. In most cases, the clauses have been carried over unchanged, or with alignment in the wording between previous schemes but with no change to the substance of the clauses. However, there are a number of changes proposed that could have an impact on the policyholders of the Companies.

8.30 The most significant of the proposed changes to be made if the Scheme is implemented are:

- Changes to clauses in the previous schemes that allow for the eventual termination of with-profits funds once they have reduced below a certain size (commonly referred to as "**sunset clauses**"), this is not applying to the Heritage WPF;
- Changes to termination and merger clauses for Linked Funds;
- The harmonisation of capital policies between the Companies;
- Removal of the annual certification requirements within the Currently Applicable Schemes;
- Changes to the operation of the Heritage WPF, these being changes to the RPTA and RCF, and changes that would clarify that Phoenix can carry out "unit matching" on the unit-linked business in the Heritage WPF (the "**Heritage WPF Unit-Linked Business**");
- Changes to and in respect of the WPC Terms of Reference;
- Changes to reflect updates or clarifications for UK Solvency II; and

- Changes to allow non-profit policies in the Heritage With-Profits Fund to be reallocated to the Phoenix Non-Profit Fund.

8.31 The remainder of this section sets out in more detail each of the proposed changes made as a result of the implementation of the Scheme.

Changes proposed to sunset clauses

8.32 Court-approved schemes covering with-profits business require the with-profits fund (or funds) to be maintained separately from the rest of the company, and to be managed in line with the provisions of the scheme. This requirement is for the protection of the with-profits policyholders in those funds; however, as the fund decreases in size, there is a risk that the fund can no longer be run economically, such as where fixed costs of managing the fund lead to increasing per-policy costs as the policies run off, or where the number of policies in certain policy classes and sub-groups falls to a level where the inherent with-profits pooling and smoothing process become difficult to operate fairly.

8.33 Therefore, it is typical for previous court-approved schemes to contain a sunset clause for any with-profits funds, which sets out the threshold at which the with-profits fund either can or must cease to be maintained as a separate fund of the company (i.e., the fund is terminated), without the need for further court approval. The thresholds in sunset clauses can vary between schemes and with-profits funds, as well as the prescriptiveness of the actions that should be taken when the thresholds are reached.

8.34 Table 8.2 below sets out the sunset clauses for each of the Phoenix With-Profits Funds, PLAL With-Profits Funds and SLAL With-Profits Funds, as contained in the relevant previous scheme.

Table 8.2 Current sunset provisions for the with-profits funds

With-profits fund	Threshold	Actions at threshold
Phoenix: 100% WPF, 90% WPF	Must terminate when statutory liabilities (gross of reinsurance) fall below £10 million.	Convert to non-profit.
Phoenix: Alba WPF, Britannic WPF, Phoenix WPF, SAL WPF, Scottish Mutual WPF, SPI WPF, NPI WPF	Must terminate when statutory liabilities (gross of reinsurance) fall below £50 million.	Convert to non-profit.
Phoenix: BIB WPF	Must terminate when statutory liabilities (gross of reinsurance) fall below £50 million.	Policies remain as with-profits and transfer to the Britannic WPF. Policies will have the right to participate in the profits of the Britannic WPF, and future bonus policy will have regard to the former bonus policy for the BIB WPF.
PLAL: Pearl WPF, SERP WPF, London Life WPF, NPL WPF	Must terminate when statutory liabilities (gross of reinsurance) fall below £50 million. Policies may be transferred to another with-profits fund at any time, on terms that the relevant Board considers appropriate at that time having obtained appropriate actuarial advice, together with: • Regulatory approval; and • A certificate from an independent actuary that the transfer will not adversely affect the reasonable expectations of the policyholders, with subsequent termination of the fund.	If the fund is terminated, convert to non-profit. If the policies are transferred, remain as with-profits.
SLAL: Heritage WPF	May terminate when with-profits policy liabilities (other than future policy related liabilities) falls below: • £500 million with regulatory approval; or • £100 million otherwise; in each case, adjusted annually with RPI from the date of demutualisation. The threshold will not be rounded. No must terminate threshold, the discretion for timing of conversion remains with the SLAL Board.	Convert to non-profit or any alternative approach that is approved by the WPA and the regulator.
SLAL: German WPF, German Smoothed Managed WPF, UKSMWPF	None	None

Source: Phoenix information summarised by Milliman

8.35 As part of the Scheme, the Companies are seeking to introduce (for the benefit of policyholders) more flexibility in the actions that may be taken and the timing of when these actions may be taken after the thresholds are met.

8.36 The changes proposed to the definition of the thresholds for the sunset clauses only apply to the Phoenix With-Profits Funds and PLAL With-Profits Funds (and not to the SLAL With-Profits Funds), and are as follows:

- Moving the threshold definitions from statutory liabilities to a measure of with-profits policy liabilities calculated in accordance with 3.2 of the Surplus Funds section of the PRA Rulebook but including future policy-related liabilities in Paragraphs 1 to 6 of the definition of future policy-related liabilities in the Glossary of the PRA Rulebook ("**With-Profits Policy Liabilities**"). The future policy-related liabilities referenced in the definition cover planned and future deductions for cost of contractual guarantees, financial options and smoothing, planned deductions for life and other benefits, and future liabilities to repay financing costs.

  For the avoidance of doubt, there will be no change to the stated nominal amounts of the thresholds set out in Table 8.2 above.

- Changing the "must terminate" requirement to "may terminate".

  The Scheme includes a provision by which, should the Board (having regard to the advice of the WPA and the Phoenix WPC) determine that a with-profits fund should be closed and converted, then Phoenix must effect this closure and conversion within 12 months of the date that the regulator is notified of the change, and that notification to the regulator must take place as soon as reasonably practicable.

- Introducing indexation of the thresholds, in line with RPI, from the Transfer Date. This would allow the thresholds to maintain their size in real terms, and would bring forward the time at which the trigger point is reached as the fund declines, noting this change is inter-linked with the change from a "must close" to a "may close" threshold.

8.37 As well as the changes to the thresholds, it is proposed to allow for an increased range of options for actions that could be taken after the thresholds have been met. These options would apply to the sunset clauses for the Phoenix With-Profits Funds and PLAL With-Profits Funds, and are as follows:

- Conversion to non-profit, possibly but not necessarily with guaranteed future bonus rates, with these non-profit policies being allocated to the Phoenix NPF;
- Conversion to unit-linked by converting the policy value to units in the Linked Funds of Phoenix, with these unit-linked policies being allocated to the Phoenix NPF;
- Remaining as with-profits, with these with-profits policies being transferred to another with-profits fund within Phoenix; or
- A combination of any or all of the approaches above.

Whilst the Scheme sets out general principles to be followed in carrying out any of the above options, the exact details of any conversion or transfer to another with-profits fund would be for determination at the time, subject to actuarial advice.

8.38 For the SLAL With-Profits Funds, there are no changes proposed to the sunset clause provisions. The existing measure for the Heritage WPF is defined as with-profits policy liabilities (other than future policy-related liabilities) calculated in accordance with 3.2 of the Surplus Funds section of the PRA Rulebook ("**SLAL With-Profits Policy Liabilities**") and this is not being changed. I note that the £500 million and £100 million values referred to in Table 8.2 have been updated for RPI inflation since the date of demutualisation to £875 million and £175 million respectively as at July 2022, and these values are included the Scheme. These updated values will continue to be adjusted with RPI inflation going forwards. Thus, other than updating these values to July 2022, the Scheme maintains the current RPI indexation approach.

8.39 The SLAL With-Profits Policy Liabilities measure equates to aggregate asset share fund, or where use of asset shares is impracticable for some or all of a fund's policyholder liabilities, the equivalent prospective liability. Asset share is a measure of the true value of the policy based on actual premiums received, investment returns and expenses incurred by the fund. The equivalent prospective liability can be used as a proxy for the true value of the policy; instead of looking at actual payments made or received, it calculates the net present values of the cashflows associated with with-profits policies (premiums, expenses, benefits etc.). The definition of With-Profits Policy Liabilities for SLAL is consistent with the definition currently used for the sunset clause for the Heritage WPF.

8.40 For the Heritage WPF, in terms of actions that can be taken, while the SLAC Demutualisation Scheme only explicitly allows for conversion to non-profit upon closure, it does also allow (with approval of the regulators and the relevant WPA) for other appropriate alternatives, which could include conversion to unit-linked or transfer to another with-profits fund.

8.41 There are no proposals to introduce sunset clauses for the remaining with-profits funds of SLAL (German WPF, German Smoothed Managed WPF and UKSMWPF). The German WPF and German Smoothed Managed WPF only contain reinsured business from SL Intl and hence do not have any closure provisions under the Scheme. The UKSMWPF only contains the with-profits element of UK stakeholder pension policies where these policies have chosen this fund. Under the existing rules for these policies the UKSMWPF can be closed. As the UKSMWPF policies are hybrid policies and already have unit-linked options, the closure approach would be to move the with-profits elements to unit-linked benefits.

8.42 I consider the impact of the changes to sunset clauses on policyholders in Section 10.

Harmonisation of termination and merger clauses for Linked Funds

8.43 Under the Scheme, the existing termination and merger clauses for the Linked Funds of Phoenix, PLAL and SLAL would be harmonised. Phoenix would have the power to close Linked Funds to new or additional investment, modify their investment objectives and to merge, divide or terminate the Linked Funds. This could only happen if the following conditions are met:

- It is in compliance with applicable regulation and laws;
- The change is not prohibited by the policy terms and conditions of the underlying unit-linked policies; and
- The change is determined to be on terms which the Phoenix Board considers to be fair and equitable between policyholders, having received advice from either the Phoenix Chief Actuary or the Customer Director (defined in the Scheme as the officer of Phoenix with responsibility for customers having that or a similar title and approved by the FCA to fulfil a senior management function under its Senior Managers and Certification Regime ("**SM&CR**")).

8.44 The provisions for terminating or merging Linked Funds within some of the Currently Applicable Schemes include that the relevant Linked Fund should have reduced below a certain minimum size or such other amount below which the relevant Board, having regard to the advice of the Chief Actuary, considers maintenance of the Linked Fund is no longer to be administratively feasible. The Scheme does not include any continuance of such minimum sizes for any of the Linked Funds post-Scheme.

8.45 If a Linked Fund is terminated or changed as described above, the affected policyholders would have the right to a free switch to another Linked Fund should they then prefer another Linked Fund.

8.46 The Scheme has been updated for the introduction of the SM&CR by permitting the Board to seek the advice of the Customer Director as an alternative to the Chief Actuary. Otherwise, the extent of the changes made to the termination and closure clauses depends on the wording of the current provisions which differs slightly for different policyholder groups. However, in carrying out the harmonisation there has not been any reduction in policyholder protections.

8.47 In the event that the termination or merger of any Linked Fund results in any financial disadvantage to any of the policyholders involved, the Scheme requires (based on the advice of the Chief Actuary or the Customer Director) that appropriate compensation is made to the relevant policyholders. Each case would be determined based on the merits of that case, and there is adequate precedent for the determination of suitable compensation with appropriate actuarial advice.

8.48 The only exceptions to the harmonisation of the rules described above are for those Linked Funds linked to external collective investment schemes, reinsured to other insurers, or the former Hill Samuel Linked Funds and the former Target Life Linked Funds. In the case of the former Hill Samuel and Target Life Linked Funds, there are existing provisions within the Phoenix 2018 scheme which will be incorporated unchanged in the Scheme. As these provisions are quite restrictive, they will not be subject to updating through the current Scheme. For externally linked cases and those reinsured to other insurers, any changes to the linked funds would be for the external party to consider and where appropriate initiate as opposed to Phoenix.

Updates to the capital policy

8.49 Schedule 1 of the Scheme contains an updated PCP, which will apply to the enlarged Phoenix post-Scheme. The updated PCP is essentially the same as the capital policy tests that are currently carried out by Phoenix, PLAL and SLAL as described previously in this Report. The updated PCP however incorporates and formalises into the Scheme certain detailed aspects which are not included in all of the relevant Currently Applicable Schemes. In addition, the Capital Event provisions, which currently only apply to SLAL, will post-Scheme apply to the entirety of the enlarged Phoenix.

8.50 The key components of the updated PCP can be summarised as follows:

- A capital quantity test based on Phoenix intending to be able to meet the SCR and provide any required support to the with-profits funds following a 1-in-10 one year all risks adverse event.
- A capital quality test based on Phoenix intending to hold appropriate assets in the Phoenix Non-Profit Fund and the Phoenix Shareholder Fund, including maintaining compliance with the Matching Adjustment rules, and meeting liquidity requirements including being able to provide any required support to the with-profits funds (referred to as Metric 1 and Metric 2).
- A Capital Events requirement (similar to that which currently applies to SLAL), and which requires Phoenix to take action should a Capital Event arise - see further comment in paragraph 8.54.
- Provision of capital support to the with-profits funds. Various details are included consistent with the current arrangements, with the policy now including the requirement across all with-profits funds for the relevant WPA to advise on the terms of the support.

8.51 Phoenix may make changes to the capital quantity and quality tests. However, any change to the underlying risk appetite (i.e. the use of the 1-in-10 capital quantity test), which results in a lower level of assets being required under the capital quantity test requires a certificate from an independent actuary that, the proposed change is unlikely to have a material adverse effect on the interests of Phoenix policyholders.

8.52 I note that the PCP as set out in Schedule 1 of the Scheme constitutes intended minima to the capital policy and higher levels of capital or more specific capital quality tests may be applied in practice as previously referred to in this Report. An example of this is the 1-in-20 severe market risk scenario occurring over a 3 month period.

8.53 As the updates in respect of Capital Events and the support for with-profits funds are more material I comment further on them below.

Capital events

8.54 As outlined in paragraphs 7.50 and 7.51, the SLAC Demutualisation Scheme requires that the SLAL Board, typically after having taken into account the advice of the SLAL WPA and SLAL Chief Actuary, should form a 'reasonable opinion' that SLAL is carrying out its business in a manner which does not unduly expose it to the risk of being unable to meet its SCR or its capital needs and this resulting in the Heritage WPF business not being managed in accordance with the Core Principles.

8.55 This requirement has effectively been included in the updated PCP post-Scheme, so that it applies to the whole of the enlarged Phoenix, whereas previously it was only present in the SLAL capital policy as a result of the SLAC Demutualisation Scheme. The responsibility post-Scheme to form a reasonable opinion as to whether a Capital Event has arisen will lie with the Phoenix Board, with advice being provided by the Phoenix Chief Actuary. Should a Capital Event arise, Phoenix will have to identify and take actions to cease the Capital Event. In taking such actions, there are restrictions post-Scheme on the management actions which may be taken within the with-profits funds (see below) and these restrictions derive from the Currently Applicable Schemes and the current PPFMs. A Capital Event is defined as Phoenix being unduly exposed to a risk of being unable to meet its SCR or its capital needs. If a Capital Event has occurred, or is reasonably likely to occur, Phoenix must notify the PRA.

8.56 The restrictions on the management actions referred to above are as follows (with advice being given where applicable from the Phoenix Chief Actuary and the relevant WPAs):

- In the first instance, no management actions can be taken if this results in any with-profits fund not being conducted in accordance with the **Principles of Financial Management** set out in the Scheme, which describe how the fund should be managed;

- If the above approach is insufficient to cease the Capital Event, then additional actions may be taken provided that:
    i. the actions treat policyholders fairly in the circumstances and are only taken to the extent necessary;
    ii. other than for the Heritage WPF, such actions are limited to changing the asset mix in the relevant with-profits fund; and
    iii. no additional actions as a result of the Scheme are applicable to the German Smoothed Managed WPF, the German WPF, the London Life WPF, the NPL WPF, the SPI WPF and the UKSMWPF.

Support for with-profits funds

8.57 The updated PCP continues to make provision for capital support to be made available (normally through a contingent loan) to the with-profits funds should they be unable to meet their liabilities plus where applicable the buffers previously described. Post-Scheme, in respect of the former SLAL Heritage WPF, the updated PCP wording means that any contingent loan to this fund would also now need to be made on such terms that the relevant WPA believes are no less favourable than arm's length commercial terms and will not adversely affect the reasonable expectations of with-profits policyholders in this fund. This requirement has thus been extended from applying to the former Phoenix and PLAL with-profits funds to also applying to the former SLAL Heritage WPF.

Other changes

8.58 Under the updated PCP, the Phoenix Heritage WPF will hold assets to cover the liabilities of the with-profits fund plus the greater of 0.5% of with-profits policy liabilities and five million pounds. The updated PCP thus includes the addition of a buffer, in excess of the assets to cover the liabilities of the with-profits fund, making the position in respect of the Phoenix Heritage WPF the same as the former Phoenix and PLAL with-profits funds as far as this aspect is concerned.

Consideration of updated capital policy

8.59 I consider the impact of the updates to the capital policy on the security of policyholder benefits in Section 11.

Removal of annual certification requirements within the Currently Applicable Schemes

8.60 There are currently three annual certification requirements in the Currently Applicable Schemes:

- Under the Phoenix 2009 Scheme, the Phoenix Board must provide a certificate to the Phoenix WPC to confirm whether, over the year, the SPI WPF has been operated in accordance with the terms of the Phoenix 2009 Scheme. The Phoenix WPA appointed in respect of the SPI WPF must also provide a certificate covering certain actuarial matters in respect of the Phoenix 2009 Scheme;
- Under the PLAL 2015 Scheme, the PLAL Board must provide a certificate to the PLAL WPC to confirm whether, since the date of the last Board Certificate, in the opinion of the PLAL Board having obtained appropriate actuarial advice, the terms of the PLAL 2015 Scheme have been complied with (which are regarding the operation of the NPL WPF). In addition, the WPA for the NPL WPF in PLAL must provide a certificate annually stating whether he/she believes the provisions of the PLAL 2015 Scheme have been complied with in respect of the NPL WPF, including the specifics of the investment and bonus policy detailed in that scheme; and
- Under the SLAC Demutualisation Scheme, the SLAL Board must provide a certificate to the PRA and the FCA with each annual regulatory return to confirm whether, over the year, certain provisions of the SLAC Demutualisation Scheme have been complied with (covered in paragraph 7.17).

8.61 In each case, the certificates must also detail any respects in which such provisions have not been complied with.

8.62 These certification requirements are not replicated in the Scheme and thus following the implementation of the Scheme the requirement for these certifications will fall away.

Changes to the RPTA and the RCF

8.63 The RPTA payment provides the shareholder with a share of the profits in the Heritage WPF. Other than in 2016 when there was a transitional allowance included in the RPTA, and the (uncommon) situation of there being contingent loan cashflows between the Heritage WPF and shareholder, the RPTA is equal to the RCF. The RCF is proposed to be modified under the Scheme. The RCF calculation is split into two components:

- Part A, which is based on cashflows, such as premiums, claims, charges, expenses and commission; and
- Part B, which is based on the change in BEL.

8.64 The terms "Part A" and "Part B" are not contained within the SLAC Demutualisation Scheme itself but have been introduced by the Scheme and are as set out above for ease of reference.

8.65 Currently, the calculation of the RCF within the SLAC Demutualisation Scheme is defined in terms of a Reference Valuation Period, meaning that the RCF is not restricted to only being calculated (and paid) annually. Under recent practice, the RCF has been calculated and paid half-yearly. However, Part B (as now defined above) has caused practical issues in the RCF calculation other than for a full calendar year as it requires the use of certain approximations. Phoenix would like to ensure that these approximations are no longer required in order to have a more simple and robust half-yearly process.

8.66 The proposed modification via the Scheme would result in:

- The RCF for all business apart from the UK unitised pensions business only being calculated and paid annually;
- Part B of the RCF for the UK unitised pensions business only being calculated and paid annually; and
- Part A of the RCF for the UK unitised pensions business could continue to be calculated and paid for any Reference Valuation Period (in practice it is expected this will continue to be half-yearly).

8.67 Phoenix's rationale for this change is that most of the RCF payment is in respect of the UK unitised pensions business and that for such business Part A is straightforward to determine without approximation on a half-yearly basis.

8.68 Other than effectively in respect of interest over a calendar year, the proposed amendment would not change the total amount paid by the Heritage WPF over that calendar year, it would only change the timing of the cashflows, with part of the cash flow previously paid at the half year now being deferred to the year end. In the event that under the new approach, the cash flow at the half year was overstated (as compared with the current approach, which could for example be due to negative components which will now only emerge at the end of the year), this will be allowed for in the payment made at the end of the year.

8.69 The Scheme specifies the approach for calculating the RPTA and hence the RCF for each valuation period ending in 2023 for which the Scheme is operative notwithstanding the fact that the business transferred from SLAL was owned by SLAL for the period in 2023 that falls prior to the Transfer Date. The Scheme also allows for the fact that the use of the VA within the Heritage WPF and the SLAL PBF will cease on implementation of the Scheme

Unit matching in relation to the Heritage WPF

8.70 Under the previous Solvency I regime, UK life companies had to hold unit-linked assets to match closely the value of the units allocated to policyholders for unit-linked business. Under UK Solvency II, UK life companies have much greater freedom to match unit-linked assets and liabilities in totality, taking into account the full policy liabilities, including the non-unit component of the liabilities (i.e. that part other than the policyholder's unit account). This latter component is often negative and represents the future AMCs which will be received over and above the future renewal expenses. UK Solvency II allows this negative component to be taken into account in order (and subject to certain ongoing monitoring) to achieve better matching of total unit-linked assets and total unit-linked liabilities. This approach, known as "unit matching", is not used by all UK life companies, but it is now used by several (mainly the larger) UK life companies in managing their unit-linked business.

8.71 Under the unit matching approach, some of the unit-linked assets are encashed upfront instead of being encashed when AMCs are charged to the policyholder linked funds. These encashed assets are surplus assets which, under UK Solvency II regulations, effectively belong to the fund in which the business sits and thus usually to the shareholder. Hence the company is electing to receive some of the value of future AMCs immediately rather than waiting for these to be paid over time, consistent with the Solvency II valuation of such AMCs. This removes the risk that the value of these future AMCs will be different from that expected due to investment market variations, which is generally preferable to the company. Phoenix and SLAL (but not currently PLAL) both carry out unit matching in this way on certain blocks of unit-linked business.

8.72 Unit matching typically requires monitoring and re-balancing of the unit-linked assets periodically to ensure that the target level of unit matching is maintained as actual experience unfolds. The re-balancing process involves comparing the current value of the unit-linked funds and the target value of the unit-linked fund, and adding or removing unit-linked assets to ensure that the target level and the actual level are equivalent. SLAL currently carries out this exercise on a quarterly basis (subject to materiality thresholds) for the unit-linked business in the SLAL PBF. Monitoring of unit matching is important as although market risk is reduced, other risks (for example, lapse/surrender risk) are increased.

8.73 Carrying out unit matching has no impact on policyholder benefits or the amount and timing of when charges (including AMCs) are borne by policyholders. It is a technical mechanism whereby risks can be better managed to the benefit of both shareholders and policyholders.

8.74 The proposed changes under the Scheme relate to the Heritage WPF Unit-Linked Business of SLAL, for which no unit matching currently applies. This business resides in the Heritage WPF, but the unit-linked assets and unit-linked liabilities are actually reported in the SLAL PBF. This means that the investment element of any premiums paid on this business is transferred to the SLAL PBF to purchase unit-linked assets, and units are encashed in the SLAL PBF when claims are made, with the value of the units being transferred back to the Heritage WPF from which claims are paid. In other words, this unit-linked business formally resides within the Heritage WPF, but (subject to the protection referred to below) the surpluses and risks fall to the SLAL PBF via the RCF.

8.75 As noted above, the SLAL PBF (and so the shareholder of SLAL) is entitled to the value of the AMCs less the expenses incurred on this business. However, the Heritage WPF Unit-Linked Business contributes to the protections given to the Heritage WPF and so in practice the SLAL PBF receives this value through the following mechanism:

- The value of AMCs are debited daily (at an equivalent daily rate to the annual charge) from the SLAL PBF and credited back to the Heritage WPF; and
- The AMCs less expenses can then only be paid from the Heritage WPF to the SLAL PBF through the RCF (annually or semi-annually), provided that the affordability criteria (as described in paragraph 7.38) relating the Heritage WPF's financial strength are met.

8.76 While the SLAC Demutualisation Scheme does not explicitly prohibit unit matching on the Heritage WPF Unit-Linked Business, it is not completely clear that the inter-fund cashflows allowed by the SLAC Demutualisation Scheme provide a means of releasing the proceeds to the shareholder.

8.77 Under the Scheme, additional wording is introduced to clarify that unit matching on the Heritage WPF Unit-Linked Business can take place whilst not otherwise affecting any other aspect of this business. The change being made is essentially thus one of timing in relation to the emergence of the shareholder entitlement and there is no change to the respective interests of the shareholder and the policyholders of the Heritage WPF. Given that (as noted above) the concept of unit matching did not exist when the SLAC Demutualisation Scheme was effected, it is not unexpected that some clarification is now necessary in relation to how any unit matching would interact with certain other provisions of that scheme. The Scheme includes appropriate additional wording to recognise the concept of unit matching and to allow the transfer of the initial release of assets to the SLAL PBF as referred to above.

8.78 It should be noted that the changes under the Scheme are to clarify that unit matching can be carried out, and not actually to implement unit matching on the Heritage WPF Unit-Linked Business immediately. Any new unit matching must go through the appropriate governance processes within Phoenix, and therefore would need to be approved by the Phoenix Board, with support from the post-Scheme Heritage WPF WPA and the post-Scheme single WPC. As part of these governance committee requirements, any decision taken by the Board must not negatively impact the policyholders of the Heritage WPF (or, for the avoidance of doubt, any other policyholders).

Changes to and in respect of the terms of reference for the WPCs

8.79 The terms of reference for the WPCs of Phoenix, PLAL and SLAL would be combined and updated to reflect the operation of a single WPC after the Scheme has been implemented. The current powers and responsibilities of each WPC would be retained.

8.80 However, it is proposed that the WPC terms of reference would not be included in the Scheme, in contrast to some of the Currently Applicable Schemes. The WPC terms of reference are included on the website for the relevant company, and will continue to be included (as required by FCA rules) on the Phoenix Life and Standard Life customer websites post-Scheme.

8.81 The Scheme would amend the requirement in some of the previous schemes to refer changes to the WPC terms of reference to the PRA and the FCA, so that not all changes will need the approval of the PRA and the FCA. Where the Phoenix Board and WPC consider the amendments to the terms of reference to be immaterial, or necessary to correct an error or omission, the FCA and the PRA will not be notified.

Changes to reflect updates or clarifications for UK Solvency II

8.82 There are references within some of the previous Schemes to terminology no longer in use under UK Solvency II. This includes references to 'Statutory Liabilities' in the Currently Applicable Schemes. These references have been amended to clarify that this now refers to Solvency II technical provisions. This normally includes the Risk Margin but in some cases where relevant the Risk Margin component is excluded.

Changes to allow reallocations of non-profit policies in the Heritage WPF

8.83 The Currently Applicable Schemes in respect of Phoenix and PLAL contain provisions for non-profit policies to be reallocated from a with-profits fund to the applicable non-profit fund, subject to certain conditions being satisfied. The Scheme maintains these provisions for non-profit policies in the with-profits funds currently within Phoenix and PLAL (with reallocation into the enlarged Phoenix NPF), and extends these provisions to include non-profit policies in the Heritage WPF (where no such scheme provision currently exists).

8.84 The conditions which need to be satisfied for a reallocation to take place are that there is no inconsistency with policy terms, the reallocation has been approved by the WPC, and that (taking into account appropriate actuarial advice) the market value of the assets to be transferred along with the non-profit policies is fair and equitable or (where applicable) consistent with the amount which Phoenix would have required in respect of a new policy (appropriately adjusted in respect of expenses or commission incurred). Certain existing scheme provisions in respect of the SPI WPF also continue to apply.

8.85 In respect of the extension of these provisions to include non-profit business in the Heritage WPF, the reallocation would also have to be consistent with certain existing general provisions which relate to transactions in relation to the Heritage WPF, including advice from the relevant With-Profits Actuary that the transaction would be unlikely to have a material adverse effect on the interests of the with-profits policyholders in the Heritage WPF.

8.86 For the purpose of the reallocation provisions set out above, non-profit policies also includes unit-linked policies (i.e. effectively all policies which are not with-profits policies).

THE PROCESS AND TIMETABLE OF THE SCHEME

8.87 In order to implement the Scheme, there are various steps as follows:

- **Directions Hearing and equivalent hearings at the Court of Session and in the Channel Islands**

  The Directions Hearing for the Scheme is due to take place on 5 May 2023 and this Report will be submitted to the High Court for that hearing.

  There will be a Directions Hearing for the Jersey Scheme held in the Royal Court of Jersey due to take place on 15 May 2023. There will be no Directions Hearing for the Guernsey Scheme. Both the Jersey and the Guernsey regulators will be sent the Scheme, this Report, and the relevant policyholder communications at least six weeks before the relevant policyholder mailings commence.

  There will also be an equivalent hearing to the Directions Hearing at the Court of Session due to take place on 25 April 2023 for the Existing SLAL Schemes Variations.

- **Notification to policyholders**

  The Companies will send communications to the policyholders (subject to the dispensations detailed in Section 15). The details of these communications are covered in Section 15.

- **The review of the Independent Expert**

In advance of the Sanction Hearing, I will undertake a final review of the Scheme and the Existing Scheme Variations, any policyholder or other objections raised, and produce a Supplementary Report as a follow up to this Report, stating my conclusions. This Supplementary Report will contain updated financial information as appropriate.

- **The Sanction Hearing and equivalent hearings at the Court of Session and in the Channel Islands**

The Sanction Hearing for the Scheme is expected to take place on 5 October 2023 and I will submit my Supplementary Report to the High Court for that hearing.

There will be an equivalent hearing to the Sanction Hearing at the Court of Session expected to take place on 3 October 2023.

There will also be Sanction Hearings for the Jersey and Guernsey Schemes held in the Royal Courts of Jersey and Guernsey respectively. These are expected to take place on 17th October 2023 and 20th October 2023 respectively.

- **The Effective Date and Transfer Date**

If the Scheme is approved by the High Court, the Transfer Date is expected to be 27 October 2023. For financial and regulatory reporting purposes the Effective Date of the Scheme will be backdated to 30 September 2023. I am satisfied that there will be no adverse impact on benefit expectations or policyholder security as a result of having a separate Effective Date and Transfer Date, as the dates differ purely for the practicality of aligning with the Phoenix Group's reporting dates.

THE COSTS OF THE SCHEME

8.88 All of the direct costs of the Scheme (including my firm's fees for my work) will be met by Phoenix, directly from the Phoenix NPF. None of the costs will be borne by policyholders, including by with-profits and unit-linked funds. Allowance for the expected costs of the Scheme have been incorporated into the financial analysis set out in Section 9.

THE PROPOSED TRANSFER OF CERTAIN BUSINESS FROM PHOENIX TO ABRDN

8.89 It is proposed that, following the implementation of this Scheme, a subset of the (current) SLAL business will be transferred from Phoenix to abrdn Life and Pensions Limited ("**ALPL**"), a subsidiary of abrdn, through a separate Part VII Transfer process. The abrdn Transfer forms part of a wider 2021 agreement entered into by the Phoenix Group and abrdn regarding their strategic partnership.

8.90 If approved by the High Court, the abrdn Transfer would transfer the following (current) SLAL unit-linked business (the "**abrdn Transfer Policies**") from Phoenix to ALPL:

- All Wrap Onshore Bonds (approximately 3,000 unit-linked single premium bonds maintained on abrdn's Wrap platform);
- The Wrap SIPP master insurance policy through which Wrap SIPP members are able to access the SLAL insured unit-linked funds (approximately 127,600 customers, approximately 18,700 of which invest in insured unit-linked funds);
- UK Trustee Investment Plans, other than those which invest in with-profits and the corporate fund investment policies (approximately 500 policies); and
- Inbound property-linked reinsurance policies (c. £538 million Assets Under Management) where (currently) SLAL acts as reinsurer and other insurance companies offer SLAL's insured property-linked funds to their customers (see paragraph 7.64 for more detail on these policies). The abrdn Transfer would result in ALPL becoming the reinsurer for these inbound property-linked reinsurance policies.

8.91 The total funds under management for the abrdn Transfer Policies was £8.5 billion as at 31 December 2022.

8.92 It is planned that the abrdn Transfer will be implemented after this Scheme, with the transfer date yet to be agreed.

8.93 SLPF currently acts as the Instructing Parties Agent for the inbound property-linked reinsurance policies, a subset of the abrdn Transfer Policies, and this will remain the case until the abrdn Transfer is implemented. Further reference to SLPF is given in paragraph 8.8.

8.94 Should the abrdn Transfer take place, then the floating charge described in paragraph 7.64, which is to be replaced with a floating charge granted by Phoenix in connection with this Scheme, would be expected to be replaced by an equivalent charge over ALPL's assets on the effective date of the abrdn Transfer.

8.95 Throughout this Report, I have made my assessments based on the Scheme only, without any assumption that the further changes proposed under the abrdn Transfer will actually take place. These changes would be subject to a separate process, including consideration by an independent expert, scrutiny by the PRA and the FCA, and sanction of the High Court, and so I have not considered them further. Therefore, my work and conclusions effectively and necessarily assume that the position arrived at following the Scheme is permanent. I have however considered further one particular possible aspect of the proposed abrdn Transfer. In order to transfer the Wrap SIPP business, it may be necessary or desirable to use what is known as a "deemed consent bulk transfer" to transfer the non-insurance based assets from one SIPP scheme to another. This could be used in advance of or alongside a Part VII Transfer in respect of the insurance based assets. All of these aspects would be for consideration at the time should the proposed abrdn Transfer proceed. I am however aware of no aspects of the current Scheme or its associated arrangements which would act as or imply any constraint on the future mechanisms for effecting the proposed abrdn Transfer or which would require the detailed consideration of such mechanisms as part of the current Scheme and its associated arrangements.

8.96 I note that, under the Scheme, in addition to the transfer of the individual insurance policies and inbound reinsurance policies from SLAL to Phoenix, the administrator of the SIPP scheme would become Phoenix in place of SLAL, and the trustee of the SIPP scheme (Standard Life Trustee Company Limited) which is currently a subsidiary of SLAL (and which holds the SIPP assets in trust) would transfer to become a subsidiary of Phoenix. The master insurance policy under the SIPP scheme would transfer from SLAL to Phoenix. The self-invested (i.e. non-insurance based) assets would remain within the current SIPP scheme itself and would not be subject to any transfer. Thus the implementation of the Scheme will not leave any SIPP policyholders with arrangements which are split as between Phoenix and SLAL. I note further that the Wrap arrangements, through which holders of Onshore Bonds and SIPP policies can access their plans, are currently maintained by abrdn and will remain with abrdn post-Scheme.

8.97 Notwithstanding the above considerations, I have nevertheless considered in Section 10 the question of whether it is reasonable for the above groups of policyholders to be subject to a double transfer process assuming that the abrdn Transfer will proceed.

REINSURANCE ARRANGEMENTS

8.98 Table 8.3 below summarises the internal and intra-group reinsurance arrangements both pre- and post-Scheme.

Table 8.3 Internal and intra-group reinsurance arrangements pre- and post-Scheme

No	Pre-Scheme reinsurance arrangement	Post-Scheme reinsurance arrangement
Intra-group reinsurance between SL Intl and SLAL		
1	**SL Intl** reinsures the **Heritage WPF, German WPF and German Smoothed Managed WPF** business back to its original fund in SLAL. This is under three separate reinsurance arrangements and a retrocession arrangement.	The existing reinsurance arrangements will be transferred by the Scheme and the SLAL Brexit Scheme to Phoenix from SLAL i.e., Phoenix will reinsure the SL Intl with-profits business. The retrocession arrangement will also transfer to Phoenix.
Intra-group reinsurance from Phoenix Funds to PLAL Funds		
2	**NPI WPF** reinsures all its business to the **Pearl WPF.** (one exception is noted in point 3 below)	▪ **NPI WPF** will cease to exist ▪ Reinsurance arrangement terminated ▪ With-profits investment element of ex-NPI with-profits policies in the **Phoenix NPF** is re-allocated to the **Phoenix Pearl WPF**
3	**Phoenix NPF** reinsures some guaranteed annuity options and other pension benefits to the **Pearl WPF**.	Replaced by an equivalent inter-fund arrangement between the newly created **Phoenix Pearl WPF** and the existing **Phoenix NPF**.
4	**Phoenix NPF** reinsures term assurance rider benefits and death benefits in excess of unit values to the **PLAL NPF.**	Reinsurance arrangement collapsed because the **PLAL NPF** business is transferred to the **Phoenix NPF**.
Internal reinsurance between Phoenix Funds		
5	**NPI WPF** reinsures the expenses of its UWP and Capital account business to the **Phoenix NPF.** (benefits associated with these policies are reinsured as per point 2 above)	As the **NPI WPF** ceases to exist under the Scheme and the with-profits investments in that fund will be reallocated to the **Phoenix Pearl WPF**, a new inter-fund reinsurance arrangement between the **Phoenix Pearl WPF** and the **Phoenix NPF** will be put in place.
6	Various internal reinsurance arrangements exist between the Phoenix Funds.	No change from pre-Scheme arrangements.
Intra-group reinsurance from PLAL Funds to Phoenix Funds		
7	**NPL WPF** reinsures its unit-linked liabilities to the **Phoenix NPF**. **NPL WPF** retains some of the expense risk for a sub-set of these policies.	Replaced by an equivalent inter-fund arrangement between the newly created **Phoenix NPL WPF** and the existing **Phoenix NPF**.
8	**Pearl WPF** reinsures some of its unit-linked benefits and expenses to the **Phoenix NPF**.	Replaced by an equivalent inter-fund arrangement between the newly created **Phoenix Pearl WPF** and the existing **Phoenix NPF**.
9	**London Life WPF** reinsures some of its unit-linked benefits and expenses to the **Phoenix NPF**.	Replaced by an equivalent inter-fund arrangement between the newly created **Phoenix London Life WPF** and the existing **Phoenix NPF**.
10	**PLAL NPF** reinsures some of its unit-linked benefits and expenses to the **Phoenix NPF**.	Reinsurance arrangement collapsed because the **PLAL NPF** business is transferred to the **Phoenix NPF**.

No	Pre-Scheme reinsurance arrangement	Post-Scheme reinsurance arrangement
Internal reinsurance between SLAL funds		
11	**Heritage WPF** reinsures the longevity risk on annuities sold prior to the SLAC demutualisation Scheme to the **SLAL PBF**.	Replaced by an equivalent inter-fund arrangement between the **Phoenix Heritage WPF** and **Phoenix NPF**. This will include the annuities transferred from **SLPF** to the **Phoenix Heritage WPF**.
12	Unit-linked policies within the **Heritage WPF** have their investment content allocated to the **SLAL PBF**.	Replaced by an equivalent inter-fund arrangement between the **Phoenix Heritage WPF** and **Phoenix NPF**.
Intra-group reinsurance from SLPF Funds to SLAL Funds		
13	The **SLPF** annuity business is all reinsured to the **Heritage WPF** and the **SLAL PBF.**	Assets and liabilities associated with these policies will be transferred to the **Phoenix NPF** and the newly created **Phoenix Heritage WPF,** and the reinsurance arrangement will cease.
Intra-group reinsurance between PLAE and Phoenix		
14	There are various reinsurance arrangements in place between **PLAE** and **Phoenix,** in order to reinsure back to **Phoenix** the business transferred to **PLAE** under the Phoenix Brexit Scheme.	No change from pre-Scheme arrangements.

Source: Milliman summary of Phoenix, PLAL, SLAL and SLPF information.

OUTWARDS REINSURANCE OF UNIT LINKED BUSINESS

8.99 As described in paragraph 7.71, SLAL has outwards reinsurance arrangements for its unit-linked funds to allow certain SLAL customers to invest in external unit-linked funds (known as ‘guest funds’). There are security arrangements in place in order for SLAL customers to rank equally with direct policyholders of the external unit-linked fund provider in the event of that external provider winding-up. These reinsurance arrangements and the corresponding security arrangements will transfer to Phoenix under the Scheme.

8.100 Phoenix similarly has outwards reinsurance arrangements for its unit-linked funds, with corresponding security arrangements that allow the Phoenix customers to rank equally with direct policyholders of the relevant external unit-linked fund provider in the event of that external provider winding-up. These reinsurance arrangements will not be affected by the Scheme.

8.101 For completeness, I note that PLAL has no outwards (excluding intra-group) unit-linked reinsurance.

INWARDS REINSURANCE OF UNIT LINKED BUSINESS

8.102 As described in paragraph 8.8, SLAL has inwards unit-linked reinsurance arrangements with external companies i.e., where SLAL provides ‘guest funds’ to other companies. In addition, these companies have been granted a floating charge over the assets of SLAL which means they rank equally with SLAL’s direct customers in the event of SLAL being wound up. These unit-linked inwards reassurance policies along with the floating charge will be transferred to Phoenix under the Scheme. I understand that these policies are expected to be transferred to abrdn under the abrdn Transfer as described above.

8.103 As described in paragraph 5.74, Phoenix has inwards unit-linked reinsurance arrangements with external companies. These companies have been granted a floating charge over the assets of Phoenix which means they rank equally with Phoenix’s other customers in the event of Phoenix being wound up. These arrangements, and the floating charges, will not be affected by the Scheme.

8.104 For completeness, I note that PLAL has no inwards unit-linked reinsurance.

OTHER REINSURANCE ARRANGEMENTS

8.105 In addition to the above reinsurance arrangements, PLAL and SLAL both have reinsurance arrangements with a number of external parties, mainly specialist reinsurance companies. For example SLAL has an annuity reinsurance arrangement with Canada Life Re Ireland Designated Activity Company. These reinsurance arrangements would be novated under the Scheme from PLAL and SLAL to Phoenix, but otherwise would continue under the same terms as previously.

EXCLUDED POLICIES

8.106 The Scheme contains commonly used and standard provisions in respect of Excluded Policies. These are policies which for any reason cannot be transferred by the Scheme. The Scheme provides for such policies to be fully reinsured to Phoenix, and reinsured to that part of Phoenix into which they would have been transferred had transfer been possible. The reinsurance would include all benefits and rights to which the relevant policy is entitled, and thus these policies would be treated in all material respects the same as it they had been transferred. The Scheme contains provisions for these policies to be subsequently transferred or novated to Phoenix should the relevant impediment to transfer fall away.

8.107 The Excluded Policy provisions also apply under the equivalent Jersey Scheme and the equivalent Guernsey Scheme.

8.108 Subject to possible exceptions in relation to three individuals who hold policies/plans within SLAL, it is not at present expected that there will be any Excluded Policies. Given this, and given that the above provisions are standard in a Part VII Transfer of long term business, I do not need to consider Excluded Policies any further in this Report. The possible exceptions are in respect of sanctioned individuals arising from the conflict between Ukraine and Russia, which is further covered from paragraph 14.36. I will provide an update in my Supplementary Report in relation to Excluded Policies in general and in relation to these three individuals and their policies/plans within SLAL.

OTHER CHANGES OCCURING AT THE SAME TIME AS THE SCHEME

8.109 Although not part of the Scheme I note that some changes will be taking place in parallel with the Scheme and will be covered in the same communications of the Scheme.

8.110 In particular, the Heritage WPF is expected be closed to new business (following the process under the FCA's COBS rules) around the same time as the Scheme is implemented (but separate to the Scheme). The Heritage WPF would continue to accept limited volumes of additional business such as new members of existing group schemes, increments on existing policies and policies resulting from the exercise of options, this being a common practice for closed with-profits funds.

9. Financial impact of the Scheme

INTRODUCTION

9.1 In this section I have set out the financial impact of the Scheme. This financial impact of the Scheme forms part of my conclusions in respect of the impact of the Scheme, primarily on the security of benefits for policyholders of the Companies, covered in Section 11.

9.2 Table 9.1, Table 9.2 and Table 9.3 below show the pre-Scheme financial position of Phoenix, PLAL and SLAL respectively. The figures are shown on a UK Solvency II basis as at 31 December 2022.

9.3 Table 9.4 and Table 9.5 below show the post-Scheme financial position of the enlarged Phoenix. The figures are shown on a UK Solvency II basis as at 31 December 2022.

9.4 Table 9.6 below shows the Phoenix Group financial position as at 31 December 2022.

9.5 Within this section, two Solvency Coverage Ratios have been calculated, a Solvency Coverage Ratio as per regulatory returns and a Shareholder Solvency Coverage Ratio. The Shareholder Solvency Coverage Ratio is the ratio that is compared to the capital policy target.

9.6 The Solvency Coverage Ratio as per regulatory returns is calculated by dividing the Own Funds, less the RFF Restriction, by the SCR, and it is included in published annual reports and SFCRs. A description of the calculation of the Own Funds and the "Solvency Coverage Ratio – Shareholder" can be found in paragraph 5.52.

9.7 Both types of Solvency Coverage Ratio are relevant, the Shareholder Solvency Coverage Ratio focusses on the position excluding the capital requirements of any Unsupported Funds which, by definition, are able to cover their (notional) SCR and therefore gives a more useful assessment of the solvency position from the shareholder perspective.

The tables below also show the capital policy target ratios, which is the minimum level of the Shareholder Solvency Coverage Ratio for the capital policy to be met. These Capital Policy Target ratios (including the estimated post-Scheme ratio) are the current ratios based on Phoenix's analysis as at 31 December 2021. These are in the process of being updated based on analysis as at 31 December 2022, and the updated values will be given in my Supplementary Report.

Table 9.1 Phoenix pre-Scheme UK Solvency II balance sheet as at 31 December 2022

Fund	100% WPF	90% WPF	Alba WPF	BIB WPF	Britannic WPF	Phoenix WPF
Own Funds (£m) (**A**)	7	11	92	40	193	310
RFF Restriction (£m) (**B**)	5	5	40	27	0	154
SCR (£m) (**C**)	2	5	47	10	27	109
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	-	2	5	3	166	46
Fund	**SAL WPF**	**Scottish Mutual WPF**	**SPI WPF**	**NPI WPF(*)**	**Phoenix NPF (*)**	**Phoenix Total**
Own Funds (£m) (**A**)	182	267	98	-	2,797	**3,996**
RFF Restriction (£m) (**B**)	0	145	25	-	-	**401**
SCR (£m) (**C**)	138	112	55	-	1,788	**2,293**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	44	10	17	-	1,009	**1,302**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for Phoenix Total)						
157%						
Solvency Coverage Ratio – Shareholder (Actual)						
173%						
Solvency Coverage Ratio – Shareholder (Capital Policy target)						
138%						

Source: Phoenix information summarised by Milliman.

(*) The own funds and capital requirements relating to the NPI WPF are included under the Phoenix NPF figure as this business is written in the Phoenix NPF with the with-profits investment element allocated to the NPI WPF and then externally reinsured to the Pearl WPF within PLAL.

Table 9.2 PLAL pre-Scheme UK Solvency II balance sheet as at 31 December 2022

Fund	Pearl WPF	SERP WPF	London Life WPF	NPL WPF	PLAL NPF	PLAL Total
Own Funds (£m) (**A**)	797	67	20	119	557	**1,560**
RFF Restriction (£m) (**B**)	346	-	-	-	-	**346**
SCR (£m) (**C**)	314	92	18	154	88	**666**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	136	(25)	2	(36)	469	**547**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for PLAL Total)						
182%						
Solvency Coverage Ratio – Shareholder (Actual)						
255%						
Solvency Coverage Ratio – Shareholder (Capital Policy target)						
144%						

Source: Phoenix information summarised by Milliman.

9.8 As described in paragraphs 6.21, 6.23 and 6.25, in PLAL the SERP WPF, London Life WPF and NPL WPF are Supported Funds.

Table 9.3 SLAL pre-Scheme UK Solvency II balance sheet as at 31 December 2022

Fund	Heritage WPF(*)	SLAL PBF (*) (**)	SLAL Total
Own Funds (£m) (**A**)	1,943	2,442	**4,385**
RFF Restriction (£m) (**B**)	1,225	-	**1,225**
SCR (£m) (**C**)	718	1,268	**1,985**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	-	1,175	**1,175**
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for SLAL Total)			
159%			
Solvency Coverage Ratio – Shareholder (Actual)			
193%			
Solvency Coverage Ratio – Shareholder (Actual, Adjusted for Comparison with Capital Policy Target)* **			
168%			
Solvency Coverage Ratio – Shareholder (Capital Policy target)			
131%			

Source: Phoenix information summarised by Milliman.

(*) SLPF is included in these figures.

(**) The own funds and capital requirements relating to the German WPF, German Smoothed Managed WPF and UKSMWPF are included under the SLAL PBF figure.

(***) The Capital Policy Target ratio is considered *excluding* the SLAL Group Loan capital (see paragraph 7.85). The Shareholder (Actual) Solvency Coverage ratio adjusted to exclude the Group Loan capital, and to compare with the Capital Policy Target ratio, is shown in the row above the Capital Policy Target ratio.

9.9 Table 9.4 shows the pro-forma, post-Scheme financial position of Phoenix. The figures are shown on a UK Solvency II basis as at 31 December 2022.

Table 9.4 Pro-forma, post-Scheme Phoenix UK Solvency II balance sheet as at 31 December 2022

Fund	100% WPF	90% WPF	Alba WPF	BIB WPF	Britannic WPF	Phoenix WPF
Own Funds (£m) (**A**)	7	11	92	40	193	310
RFF Restriction (£m) (**B**)	5	5	40	27	0	154
SCR (£m) (**C**)	2	5	47	10	27	109
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	-	2	5	3	166	46

Fund	SAL WPF	Scottish Mutual WPF	SPI WPF	Pearl WPF	SERP WPF	London Life WPF
Own Funds (£m) (**A**)	182	267	98	797	67	20
RFF Restriction (£m) (**B**)	0	145	25	346	-	-
SCR (£m) (**C**)	138	112	55	314	92	18
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	44	10	17	136	(25)	2

Fund	NPL WPF	Heritage WPF(*)	Phoenix NPF(*)	Post-Scheme Phoenix Total
Own Funds (£m) (**A**)	119	1,943	5,759	**9,905**
RFF Restriction (£m) (**B**)	-	1,166	-	**1,914**
SCR (£m) (**C**)	154	777	2,572	**4,433**
Excess Own Funds (£m) (**D**=**A**-**B**-**C**)	(36)	-	3,187	**3,558**

Solvency Coverage Ratio – as per regulatory returns ((A-B)/C for post-Scheme Phoenix Total)
180%
Solvency Coverage Ratio – Shareholder (Actual)
225%
Solvency Coverage Ratio – Shareholder (Actual, Adjusted for Comparison with Capital Policy Target)
215%
Solvency Coverage Ratio – Shareholder (Capital Policy target)
136%

Source: Phoenix information summarised by Milliman. *SLPF is included in these figures.

9.10 The pro-forma, post-Scheme financial position has been calculated under the following assumptions:

- That the TMTP is recalculated as at 31 December 2022. The TMTP is actually expected to be next recalculated as at 30 September 2023 (which is the Effective Date of the Scheme).

- That the PLAL and SLAL Matching Adjustments will be transferred to Phoenix and will continue to apply to the same business, with the exception of a small amount of business in the SLAL PBF.
- That SLAL's Volatility Adjustment (both in its Heritage WPF and in its PBF) is not transferred to Phoenix, this being a simplification which Phoenix is choosing to implement given the immateriality of this to the solvency position of Phoenix after the Scheme has been implemented.

9.11 Comparing Table 9.1, Table 9.2 and Table 9.3 with Table 9.4 shows that, as a result of the Scheme, the Own Funds, RFF Restriction, SCR and hence the Excess Own Funds of each of the PLAL With-Profits Funds and SLAL With-Profits Funds are unchanged post-Scheme as a result of transferring to Phoenix.

9.12 Table 9.5 shows the pro-forma pre- and post-Scheme financial positions of the Companies as at 31 December 2022, on a UK Solvency II basis.

Table 9.5 Phoenix, SLAL and PLAL UK Solvency II balance sheet as at 31 December 2022

£m	Pre-Scheme				Post-Scheme	Difference
	Phoenix	PLAL	SLAL	Total	Phoenix	
Own Funds (**A**)	3,996	1,560	4,385	9,942	9,905	(37)
RFF Restriction (**B**)	401	346	1,225	1,973	1,914	(59)
SCR **(C)**	2,293	666	1,985	4,945	4,433	(512)
Excess Own Funds (**D**=**A**-**B**-**C**)	1,302	547	1,175	3,024	3,558	534
Solvency Coverage Ratio – as per regulatory returns ((A-B)/C)						
	157%	**182%**	**159%**	**N/A**	**180%**	**N/A**
Solvency Coverage Ratio – Shareholder (Actual)						
	173%	**255%**	**193%**	**N/A**	**225%**	**N/A**
Solvency Coverage Ratio – Shareholder (Actual, Adjusted for Comparison with Capital Policy Target)						
	173%	**255%**	**168%**	**N/A**	**215%**	**N/A**
Solvency Coverage Ratio – Shareholder (Capital Policy target)						
	138%	**144%**	**131%**	**N/A**	**136%**	**N/A**

Source: Phoenix information summarised by Milliman

9.13 Table 9.5 shows that, if the Scheme had been implemented on 31 December 2022, the capital resources of the enlarged Phoenix would have covered its SCR with a ratio of 180% on a Reported basis and 225% on a Shareholder basis. This represents an increase to both forms of the Phoenix and SLAL pre-Scheme Solvency Coverage Ratio, but a decrease for the ratios for PLAL. The post-Scheme Adjusted Solvency Coverage Ratio – Shareholder of 215% is materially in excess of the revised post-Scheme capital policy target, which has been estimated by Phoenix to be 136%. I note that the pre-Scheme additional capital quality requirement being held in respect of PLAL falls away on combining the businesses of the Companies into Phoenix, and as at 31 December 2022 post-Scheme there was no additional quality related capital requirement biting.

9.14 While the impact of the implementation of the Scheme on the excess assets of Phoenix is useful to understand, as noted in paragraph 5.61 Phoenix does not need to maintain assets in excess of the buffer required by the PCP and these assets are potentially available either for distribution (subject to the PRA rules) or to be used for other purposes (e.g. financing new business). This means that any excess assets should only be relied on for benefit security to the extent that those assets are required to meet the PCP. Therefore, a key consideration for benefit security is the PCP and how this may be affected by the implementation of the Scheme. Capital management policies are covered in more detail in Section 11 below.

9.15 The post-Scheme Adjusted Solvency Coverage Ratio for Phoenix is above the Solvency Coverage Ratio required by the PCP of 136%. Therefore, in line with the PCP and current practice, Phoenix may seek to distribute (or otherwise utilise) some Excess Own Funds to the shareholder post-Scheme. However, this would only be permitted should the Adjusted Solvency Coverage Ratio – Shareholder after such a transfer of assets to PGH (or other utilisation) be above the Capital Policy target as set out in the PCP. Excess assets held in PGH can be released to shareholders as dividends, if the requirements of the PGH Capital Policy have been met, otherwise they will be held within PGH. Any decision by Phoenix to transfer excess assets to PGH, and for PGH to release excess assets as dividends is part of the normal operation of the post-Scheme PCP and PGH Capital Policy. It is for these reasons that the reduction referred to above in the Solvency Coverage Ratio (both forms) in respect of the PLAL business is not of any concern.

9.16 I am satisfied that the assumptions used, including the PRA approvals as described in paragraph 9.10 to determine the pro-forma post-Scheme financial position (in Table 9.4 and Table 9.5), are reasonable.

9.17 Table 9.5 shows that, on a Solvency II Pillar 1 basis, if the Scheme had been implemented on 31 December 2022:

- Combined Own Funds decrease by £37 million post-Scheme mainly as a result of the project costs associated with the Scheme net of the applicable tax relief. This value also includes a number of minor technical adjustments to the liabilities which arise as a result of the consolidation of the three main companies, including the reduction in the Risk Margin which arises from the reduction (see below) in the SCR.
- The RFF Restriction falls by £59 million. As noted in paragraph 9.10, Phoenix is electing post-Scheme not to continue with the Volatility Adjustment in the post-Scheme Phoenix Heritage WPF. This increases the SCR for this WPF by £59 million and reduces the RFF Restriction by the same amount. As this WPF has a large RFF Restriction pre-Scheme, these changes are essentially just changes of presentation.
- The combined SCR reduces by £512 million as a result of diversification benefits generated through the consolidation of the three main companies and through an increased loss absorbing capacity of deferred taxes ("**LACDT**"), which is explained in more detail below. Of this £512 million, £418 million is a reduction in respect of the basic diversification of risks arising on combining the Companies, £153 million is a reduction in respect of the additional LACDT and £59 million is the increase due to the Volatility Adjustment change explained above.

9.18 When companies with differing risk profiles are combined, it is possible that stresses can partially or fully offset one another and result in an SCR lower than the sum of the SCR for each company separately. This is a type of diversification benefit and is a tried and tested risk management concept resulting in a reduction in capital requirements. For example, if for one company the assets less liabilities increases when interest rates rise and another company the assets less liabilities decreases when interest rates rise, then overall for both companies combined if interest rates were to rise then there would be some offsetting effect, i.e., a diversification benefit.

9.19 Diversification benefits can also arise if companies with differing risk profiles are combined, so that the combined company is less exposed to one particular risk. For example, if one company was exposed to risk X but not to risk Y, and another company was not exposed to risk X but was instead exposed to risk Y, then the level of diversification benefit achieved in the combined SCR would depend on the relationship between risk X and risk Y.

9.20 A straightforward example of how a diversification benefit can arise when companies with differing risk profiles are combined is provided in Appendix F. This example is hypothetical, but has been constructed to show that a diversification benefit of some £425 million is plausible in the circumstances of the companies in question taking into account their features as summarised below.

9.21 The diversification benefits arise in this case as the post-Scheme risk profile is more evenly spread due to the differing risk profiles of the three companies. For example:

- Dependent Persistency risk (the risk of a major shock to policy lapses as a result of new events over the next 12 months) is a more significant risk in SLAL compared to Phoenix and PLAL.
- Financial Guarantee Persistency risk is a more significant risk in PLAL compared to Phoenix and SLAL.
- Residential property risk is a more significant risk in Phoenix, compared to PLAL and SLAL.
- The Companies have opposing directions of currency risk exposure.

9.22 There is also a benefit from increased synergies arising from the LACDT. The Solvency II balance sheet contains provisions for the future tax payable as profits arise (known as deferred tax), after allowing for any carried forward tax losses. When an adverse scenario is evaluated (for example for SCR purposes), the amount of future profits and hence future tax payable will generally be lower, and this gives rise to an offsetting factor in the outcome of the scenario. This offsetting factor is known as LACDT and serves to reduce the SCR. Like many other UK life companies, each of the Companies adopts the principle of restricting the LACDT so as to avoid having a net deferred tax asset position in the SCR scenario, as the recovery of such an asset can be difficult to justify. This restriction is currently applying for Phoenix and PLAL, but not for SLAL which has unused capacity to recognise further LACDT based on its deferred tax position, but which it cannot currently do so based on the size of its own SCR. SLAL has unused deferred taxable profits of circa £1,000 million within its own LACDT calculation as at 31 December 2022. Post-Scheme, some £612m of these deferred tax profits effectively become utilised within the enlarged Phoenix, giving rise to an increased LACDT benefit of £153 million (applying the relevant corporation tax rate of 25%) and hence a lower SCR. Combining this figure with the £418 million benefit arising through the basic diversification benefits as referred to above, and with the £59 million increase due to removal of the Volatility Adjustment, gives the net total SCR reduction of £512 million as shown in Table 9.5.

9.23 I have carried out high level assessments on the diversification benefit assumed to be achieved as a result of the Scheme, considering a range of different correlations between risks, and I have carried out high level assessments on the additional LACDT arising. Based on these high level assessments I am satisfied that the size of the reduction in the SCR as a result of the Scheme is plausible. Further details are given in Appendix F.

9.24 Table 9.6 below shows the Solvency II balance sheet (shareholder view, post planned dividends) for PGH as at 31 December 2022. I note that this PGH balance sheet includes the Companies as well as other companies that are not part of the Scheme, including (as at 31 December 2022) Reassure, RLL, PLAE, and SL Intl. SLOC is not included as it was not part of PGH as at 31 December 2022.

Table 9.6 PGH Solvency II balance sheet as at 31 December 2022

£bn	PGH
Own Funds (**A**)	9.3
SCR (**B**)	4.9
Excess Own Funds (**C**=**A**-**B**)	4.4
Solvency Coverage Ratio – Shareholder (actual) (%) (**A / B**)	189%
Solvency Coverage Ratio – Shareholder (Capital Policy target range)	140% to 180%

Source: PGH published full year 2022 results

9.25 Although the increase in diversification benefit reduces the overall amount of capital which Phoenix, SLAL, PLAL and SLPF (via the enlarged Phoenix post-Scheme) are required to hold in aggregate, PGH already benefits from this diversification between risks, and the Group SCR of £4.9 billion already includes the diversification benefits of £418 million described in paragraph 9.17 above. I note that the Group SCR does not include the benefit of £153m arising through additional LACDT as described in paragraph 9.17. This is because the Group LACDT position is based on the individual entity LACDT positions. The post-Scheme Group position will therefore not be materially impacted as a result of the Scheme. The size of the diversification benefit is thus already well-established and accepted within PGH, and this has been the case since the adoption of a combined SCR internal model in Q3 2021. It is noted that as at 31 December 2022 the PGH solvency coverage ratio was actually above the upper end of its target range.

9.26 The implementation of the Scheme will remove a level of inefficiency whereby PGH is required to hold excess capital at the company level (Phoenix, SLAL and PLAL) but the Group itself is not required to hold this additional capital. As described in paragraph 9.15, should the excess capital post-Scheme be transferred out of the enlarged Phoenix to PGH, it will then be up to PGH and the PGH capital policy whether the excess capital is retained within PGH or transferred out of PGH through dividends. This is part of the normal operation of PGH and the PGH capital policy, as is the case for any life company group.

STRESS AND SCENARIO TESTING

9.27 In addition to my considerations based on the latest available financial information as set out above, I also need to consider the ability of the Companies to withstand adverse stress and scenario circumstances, and whether the Scheme will have any material impact on this aspect. The regulatory SCR requirements cover severe adverse 1-in-200 year circumstances, but it is also necessary to consider the position following less severe but plausible adverse events. There is a similarity here with the PCP which covers the Companies being able to cover their SCRs and capital requirements following a plausible adverse event. In order to consider this aspect I have considered the following three sources of information and analysis provided to me by the Companies:

- The results of the stress testing exercise which the PRA required most major life companies to carry out in 2022, this being known as LIST 2022 (for Life Insurance Stress Test).
- The latest available regular Management Information which the Companies produce in relation to sensitivity testing.
- The Phoenix Group Annual Own Risk & Solvency Assessment (ORSA) Report 2022.

LIST 2022

9.28 This was a structured stress testing exercise specified by the PRA as follows:

- Stage 1 – An initial market shock covering a fall in interest rates of 0.5%, a fall in equity values of 33%, increases in various volatilities of 7%, and a stress to corporate credit spreads. Companies were not allowed to assume any management actions at Stage 1.
- Stage 2 – A developing market shock from the above covering a fall in property values of 33%, plus downgrades and increased spreads on credit assets and reinsurance. Firms required to reassess certain internal ratings. Only limited management actions allowed.
- Stage 3 – A protracted market shock with the above stresses remaining effective for 12 months. A wider range of management actions is allowed.
- Stage 4 – As for Stage 3, but with the addition of a worsening of longevity assumptions equal to 7.5% of the relevant mortality table.

Overall, LIST 2022 can be characterised as a significantly adverse set of scenarios, though not as adverse as a 1-in-200 scenario equivalent to that underling the SCR. The effective date for the LIST 2022 exercise was 31 December 2021.

9.29 The LIST 2022 results show that both PLAL and SLAL are still able to cover both their SCR and their respective capital policy requirements at all four stages as set out above. For Phoenix, the SCR is still covered at all four stages, but the additional PCP requirement is not fully met at Stage 2 prior to management actions. This position reverses at Stage 3 post management actions to cover the PCP, and this remains the case at Stage 4. Given the severity of the LIST 2022 stresses, it is not unexpected that some management actions will be needed to fully cover both the SCR and the PCP requirements. I note that the position of SLPF under the LIST 2022 is incorporated into that of SLAL.

9.30 Had the LIST 2022 exercise been carried out on a pro-forma post-Scheme basis for the Companies combined, the combined results would have been at least as strong as the sum of the parts referred to above. Further, given the diversification benefits arising as already referred to above, it is likely that the combined results would have been materially better than the sum of the parts referred to above.

Regular Management Information

9.31 The Companies carry out a suite of regular sensitivity tests which are included within the Management Information packs for the Chief Actuaries and Finance Directors of the Companies, in order to assess the impact of the stresses on the excess over the relevant capital policy requirements. Table 9.7 below sets out the sensitivity tests run by the Companies.

Table 9.7 Sensitivities on the excess over the relevant capital policy requirement

Type of sensitivity	Description of sensitivity
Market risk	Yield fall of c70bps (varies by term)
	Euro yield fall of c70bps (varies by term)
	Yield rise of c90bps (varies by term)
	Euro yield rise of c80bps (varies by term)
	Yield twist down at the long end
	Yield twist up at the long end
	Credit spreads widen, average increase of around 135bps (with downgrades)
	Equities fall 20%
	Equities rise 33%
	Residential property falls 12%
	Commercial property on average falls 15%
	Inflation 15 year fall -50 bps (varies by term)
	Inflation 15 year rise +60 bps (varies by term)
	GBP appreciates 10% on average vs USD
	GBP appreciates 10% on average vs EUR
	GBP depreciates 15% on average vs USD
	GBP depreciates 15% on average vs EUR
Insurance Risk	Longevity 6% reduction in base annuitant mortality
	Longevity trend, 50% of 1-in-200 stress
	Persistency mis-estimation, 25% change in lapse rates
	Financial Guarantee persistency, 50% of 1-in-200 stress
	Dependent persistency (mass lapse)
	Assurance mortality increase 6%
Additional Sensitivities	Residential property fall + volatility
	Residential property falls 20%
	Commercial property, on average falls 12%
	Commercial property, on average falls 20%
	Dependent persistency, 10% change in lapse rates
Quarterly downgrades	Downgrades without spreads 15%
	Downgrades of 15% with credit spreads widening
	Downgrades without spreads 20%
	Credit spreads widen, average increase of around 135bps (no downgrades)

9.32 In my view, this represents a reasonable set of plausible sensitivity tests. I have reviewed the results based on the tests carried out as at 31 December 2022, separately for each of Phoenix, PLAL and SLAL (incorporating SLPF). Other than in one specific case in respect of Phoenix, each of Phoenix, PLAL and SLAL still have a positive excess of assets over their SCR and their additional capital policy requirement for all of the sensitivities. For Phoenix, the test of a residential property price fall combined with a property price volatility increase does result in Phoenix having insufficient capital to cover its additional PCP requirement, although Phoenix remains able to cover its SCR. However, I note that the test in question is relatively severe. I note that SLAL is not affected at all by this risk and that PLAL is affected by this risk to a much smaller degree. Hence at a combined level the impact of this stress will be less severe (see also below). In any sensitivity test exercise, it is to be expected that some tests are likely show a deficit against the base position, and it is the purpose of the exercise to identify these so that the risks may be managed accordingly.

9.33 As previously noted, the risk profiles of the Companies differ. For example some of the Companies are not as exposed to particular stresses in Table 9.7 as the others, or in some cases the Companies have exposure to the same stress but in opposite directions. There are therefore expected to be diversification benefits for the enlarged Phoenix post-Scheme. As a result, it is likely that the impact of these stress tests post-Scheme would not be worse than the combined impacts of the stress tests on the Companies pre-Scheme, and indeed this position is expected to improve as a result of the diversification benefits achieved under the Scheme.

Phoenix Group ORSA

9.34 The Phoenix Group Annual ORSA Report 2022 is an extensive document covering all aspects of the risks and business issues faced by the Phoenix Group and its operating life companies. In additional to numerical stress and scenario testing on various bases this report also covers:

- Emerging risks of all types, both financial and non-financial, and potential actions, mitigations and responses.
- Reverse stress testing (i.e. identification of sufficiently severe scenarios to cause various breaches).
- Updates on risk appetites, and where the current position lies in relation to these.
- Updates on business controls.
- Use of RAG statuses (Red, Amber, Green) to indicate the impacts of various risks.
- Both combined and separate (as appropriate) analyses and statistics in relation to the Companies involved in the Scheme.

9.35 This ORSA report covers all the areas I would expect for group of Phoenix's size and complexity and clearly demonstrates that Phoenix is aware of its risks and the actions needed to monitor and manage those risks.

Stress and Scenario Testing Summary

9.36 Overall, I am satisfied that the Companies carry out extensive stress and scenario testing, and I have reviewed a key selection of the latest available results and documentation. I note in particular that, due to the diversification benefits that will arise as a result of the Scheme, it is likely that results of the stress and scenario testing carried out on a post-Scheme basis would be an improvement on the combined pre-Scheme position. I note further that the results of the stress and scenario testing takes into account the assets held within the Companies in excess of the relevant capital policy requirements, and this is the standard industry approach when considering stress and scenario testing.

CONSIDERATIONS ARISING FROM SEPTEMBER/OCTOBER 2022

9.37 The financial analyses set out previously in this section are as at 31 December 2022. However, around the end of September 2022 and the start of October 2022, UK long term interest rates (as measured by UK government bond yields) were subject to a sudden and significant increase, the likes of which have not been seen for some time. For example, the 15-year UK government bond yield increased from 3.2% at the end of August 2022 to 4.1% at the end of September 2022.

9.38 Although this increase was of similar magnitude to the relevant sensitivity tests as set out in Table 9.7, Phoenix Group did identify as a result of this increase a number of necessary and desirable enhancements to its modelling approaches and to its interest rate hedging management information. A project has been commenced to deliver these enhancements, and I have reviewed and discussed with Phoenix Group the specifications of and the implementation timescales for these enhancements. A number of the enhancements are due to be implemented by 30 June 2023. I note that other UK life companies and groups also identified the need for enhancements as a result of these financial events.

9.39 The increase in interest rates referred to above also gave rise to requirements for Phoenix Group to make additional collateral payments on its interest rate hedging assets. Phoenix Group's liquidity and funding framework operated as intended and its liquidity needs were met. Given the unusual circumstances, however, Phoenix Group is undertaking a review to ascertain if any enhancements to its liquidity and funding framework are necessary.

9.40 Pending the full implementation of these enhancements, Phoenix Group has established a framework to retain additional capital over and above its capital management policy requirements within each of Phoenix, PLAL and SLAL (including SLPF). The additional amounts retained are intended to cover potential differences arising between the proxy solvency assessments which are carried out in between full quarterly valuations and the actual solvency position that would be reported were a full valuation to be carried out. The determination of the additional amounts being retained takes into account the possibility of unexpected hedging losses since the last full quarterly valuation, as well as other sources of mis-estimation inherent in the proxy solvency assessment process. Allowance is made for those enhancements which have been implemented, and it is expected that the magnitude of the additional retained capital amounts will be reduced as the various enhancements come into operation.

9.41 Phoenix Group has shared with me the additional retained amounts currently in place for each of Phoenix, PLAL, and SLAL (including SLPF). The highest additional amount is in Phoenix, reflecting that the enhancements have greater relevance to Phoenix than to PLAL or SLAL (including SLPF). Phoenix Group has also provided me with an assessment of the retained amount for the enlarged Phoenix post-Scheme, this being based on the pro-forma 31 December 2022 position. This post-Scheme amount is lower than the sum of the current pre-Scheme amounts and allows for the benefit of the offsetting of risks once the Companies are combined. Based on my consideration and review of the issues in question, of the relevant internal Phoenix Group papers which I have been provided with, and on the answers I have received to questions raised, I am satisfied that this framework deals adequately with the potential differences in question and that the amount to be retained post-Scheme is appropriate. I note that this amount will be reviewed from time to time taking into account up to date conditions and progress in relation to the enhancements referred to above.

9.42 I will provide an update in my Supplementary Report on this area, including in relation to progress made on the implementation of the enhancements.

RESOLUTION PLANS

9.43 Most major UK insurance companies and groups are required by the PRA to produce a Resolution Plan. Such a plan considers and sets out how the insurance company or group would run off and ultimately close itself down (this being referred to as "resolution") in as orderly a manner as possible and with the minimum adverse impact on policyholders should extreme events make it impossible for the company or group to carry on as normal. The resolution process would be commenced once it is concluded that no recovery of an adverse position is likely.

9.44 I have been provided with and have reviewed the most recent (December 2022) Phoenix Group Resolution Plan. The contents of this plan are as I would generally expect for a group such as Phoenix Group, and I note that many aspects of the plan are set out and are considered on a group basis and therefore includes consideration of the Companies involved in the Scheme. I note in particular that a section of the plan considers whether the effect of the Scheme, and the combination of the Companies into a single legal entity, might make a future resolution exercise more onerous. This question arises because one common and valid route for resolution involves the disposal of blocks of business to other insurers, and sometimes this can be achieved quicker via the sale of an entire subsidiary, as opposed to disposing of blocks of business through a Part VII Transfer process. However, although this may be the case from a theoretical viewpoint, in practice the following has to be taken into account:

- There is already an extensive degree of operational integration between Phoenix, PLAL, and SLAL/SLPF, and achieving a sale out of the Phoenix Group of any one of these three would require extensive separation activities which would take time.
- Sales of books of business via Part VII Transfers are often executed first on an economic basis through a full reinsurance of the book followed up by the Part VII Transfer, and the reinsurance part can generally be executed relatively quickly.
- Potential buyers may well be interested in business of particular types (for example all unit-linked business or all protection business) and the combination of the Companies into a single legal entity via the Scheme may actually increase the attractiveness of the various types of business to potential buyers (as the blocks will be larger) and make it easier to achieve a disposal of various blocks of

business. Acquiring an entire subsidiary could mean that some buyers would have to accept types of business that they do not desire – hence potentially reducing the pool of possible buyers.

9.45 Taking all the above into account, there are clearly factors which apply in both directions, and overall I am satisfied that the implementation of the Scheme and the consolidation of the four life companies into one would not have any material adverse impact on the ability of Phoenix Group carry out a resolution process should the need arise. If anything, my view would be that on balance the effecting of the Scheme would make it marginally easier to carry out a resolution process due to the simplified structure which will exist post-Scheme and due to having larger blocks of similar types of business in a single entity. I note that Phoenix's Group Resolution Plan acknowledges that it would require some updating and refreshing following implementation of the Scheme, but this does not invalidate any of the facts and arguments set out above.

9.46 In considering the issue of the potential impact of any Part VII Transfer on the options available to the companies involved in a resolution situation, it must be borne in mind that resolution would only take place in the most extreme circumstances when capital resources had become severely depleted and once all reasonable recovery efforts had been exhausted. There must therefore in my view be a high bar set before any such potential impacts should influence whether a Part VII Transfer should proceed.

9.47 The International Association of Insurance Supervisors ("**IAIS**") has issued guidance via an Application Paper (dated 23 June 2021) on Resolution Powers and Planning. Phoenix Group has been designated as an Internationally Active Insurance Group ("**IAIG**") by the IAIS/PRA, and its resolution planning is thus subject to this guidance. I also note that HM Treasury is currently carrying out a consultation exercise in relation to the next stage of the development of the UK resolution framework for financial services firms.

10. The effect of the Scheme on the reasonable benefit expectations of policyholders

INTRODUCTION

10.1 In this section I have set out my consideration of the impact of the Scheme on the reasonable benefit expectations of policyholders of the Companies. My considerations apply equally to policyholders of other companies (i.e. SL Intl, PLAE, and companies outside of the Phoenix Group) whose benefits have been reinsured to Phoenix or SLAL. I have considered the impact of the Scheme for the following groups of policyholders:

- **With-profits policyholders**

  For with-profits policyholders (whether CWP or UWP), their reasonable benefit expectations will be that they receive:

  - Their guaranteed benefits, subject to any adjustments on surrender, early retirement, or transfer;
  - Annual bonuses that increase their guaranteed benefits (although noted that for some classes in some funds these have been zero for several years with no expectation of future annual bonuses being declared); and
  - A terminal bonus applied on claim, which may allow for some distribution of the estate of the with-profits fund.

  I note that in some cases no future bonuses may be payable if the guaranteed minimum benefits are applying. In addition, I note that not all with-profits business has guaranteed benefits, and not all payouts are split into these components.

  For with-profits annuities, the above also fundamentally applies, but there may be some practical differences due to the particular bonus structures used on with-profits annuities.

- **Unit-linked policyholders**

  For unit-linked policyholders, their reasonable benefit expectations will be that:

  - They receive the value of their underlying units based on the current unit price of the Linked Funds they are invested in;
  - That the number of units underlying their policy or the price of those units is net of the charges set out in their policy terms and conditions; and
  - If applicable, they receive an additional amount on particular claim types (e.g., on death, critical illness, etc.) in respect of additional life or illness/sickness cover under their policy terms and conditions.

- **Non-profit policyholders**

  For non-profit policyholders (both annuities and non-annuities), their reasonable benefit expectations will be that they receive their guaranteed benefits, the value of which may change over time in line with their policy terms and conditions. This value may be subject to adjustments on surrender, early retirement or transfer.

10.2 For the avoidance of doubt, I note that my consideration of unit-linked policyholders and non-profit policyholders as set out above applies regardless of whether such policies sit within a with-profits fund or sit within the relevant non-profit fund.

10.3 I have considered the effect of the Scheme on the reasonable benefit expectations for each group of policyholders of Phoenix, PLAL and SLAL as set out in Table 10.1, Table 10.2 and Table 10.3, respectively, below. Consideration of the policyholders within SLPF is set out in paragraphs 10.82 and 10.83.

Table 10.1 Phoenix product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
100% WPF	✓				✓
90% WPF	✓*	✓*			✓*
Alba WPF	✓*	✓*			✓*
BIB WPF	✓				✓
Britannic WPF	✓	✓	✓		✓
Phoenix WPF	✓*	✓*		✓*	✓*
SAL WPF	✓	✓**		✓**	✓
Scottish Mutual WPF	✓	✓*	✓		✓
SPI WPF	✓*	✓*			✓*
NPI WPF		✓***			✓
Phoenix NPF				✓**	✓

Source: Phoenix information summarised by Milliman.

Note: this table is a copy of the table included in Section 5. The key is excluded here for brevity.

Table 10.2 PLAL product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
Pearl WPF	✓*	✓*	✓*	✓**	✓
SERP WPF	✓				✓
London Life WPF	✓	✓	✓**		✓
NPL WPF	✓	✓			✓
PLAL NPF				✓*	✓

Source: Phoenix information summarised by Milliman.

Note: this table is a copy of the table included in Section 6. The key is excluded here for brevity.

Table 10.3 SLAL product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
Heritage WPF	✓*	✓*	✓	✓*	✓*
German WPF		✓*			
German Smoothed Managed WPF		✓*			
UKSMWPF		✓*			
SLAL PBF				✓**	✓*

Source: Phoenix information summarised by Milliman.

Note: this table is a copy of the table included in Section 6. The key is excluded here for brevity.

10.4 In this section I will describe the impact of the Scheme on the reasonable benefit expectations of with-profits, unit-linked and non-profit policyholders separately, regardless of the fund in which these individuals sit, as the analysis and my conclusions are the same for these policy groupings.

10.5 For with-profits policyholders, their reasonable benefit expectations also takes into account the expenses and charges which are applied to their policies and to the with-profits fund in which their policy sits. For unit-linked policyholders their reasonable benefit expectations also takes into account how unit prices are determined, expenses charged directly to unit-linked funds, and how discretion is exercised in relation to reviewable policy charges.

10.6 For the avoidance of doubt, these groups cover both the existing policyholders of Phoenix and those policyholders transferring from PLAL, SLAL and SLPF to Phoenix. Where there are additional considerations in respect of any subset of these policyholders, I have addressed these within the analysis set out in this section.

10.7 The impact of the Scheme on policyholders' reasonable benefit expectations in adverse circumstances will depend on the impact of the Scheme on the security of benefits for policyholders, and I have considered this security aspect in Section 11.

10.8 In terms of other potential impacts on policyholders' reasonable benefit expectations, in Section 8 I have set out:

- The structural and governance changes arising from the transfer of PLAL, SLAL and SLPF policies to Phoenix in Figure 8.1, and in paragraphs 8.8 and 8.9; and
- The proposed changes to the Currently Applicable Schemes as the provisions are harmonised and updated in the Scheme that is the subject of this Report. These changes are listed in paragraph 8.30 and described in detail throughout the remainder of Section 8.

10.9 I set out my considerations below in respect of each of the areas of impact. For each area, I have indicated the groups and types of policies affected. I have set out my considerations in this format in order to avoid the significant duplication which would arise from setting out all aspects for all groups and types of policies separately.

THE STRUCTURAL AND GOVERNANCE CHANGES EFFECTED BY THE SCHEME

Introduction

10.10 This area applies generally to all groups and types of policies, with some of the points below being clearly applicable to either with-profits, unit-linked or non-profit policies as set out below.

10.11 In summary, the structural changes taking place under the Scheme would lead to the following transfers of the policies with the Companies:

- The policies (of all types) in the existing PLAL With-Profits Funds and SLAL With-Profits Funds would transfer into identical new with-profits funds in Phoenix;
- The policies in the PLAL NPF and in the SLAL PBF would transfer into the Phoenix NPF and, in respect of the unit-linked policies, identical new Linked Funds would be created in Phoenix that correspond to the current Linked Funds within SLAL and PLAL;
- The policies of SLPF which are currently fully reinsured to the Heritage WPF would transfer to the newly created Phoenix Heritage WPF, and the remaining non-profit policies in SLPF, which are reinsured to the SLAL PBF, would transfer to the Phoenix NPF; and
- For the avoidance of doubt, the policies of Phoenix would remain in the same funds they currently reside in.

10.12 The assets backing the funds and policies as set out above will be transferred to the relevant funds in Phoenix, with no sales and repurchases being needed.

10.13 Although there are some changes proposed to the provisions of the Currently Applicable Schemes (which I have covered later in this section), on the whole the structural and governance changes would have no impact on the operation of the policies of the Companies and the determination of benefit, and so would have no impact on policyholders' reasonable benefit expectations. This includes that there would be no change to any of the following aspects:

- The terms and conditions of any policies of the Companies;
- The existing guaranteed benefits of the policies of the Companies, and the right (or otherwise) to guaranteed benefits in respect of future premiums;
- The basis for determining the tax charged to the with-profits funds;
- The methodologies used to calculate surrender, early retirement, or transfer values for any policies of the Companies;
- The rights of the with-profits policies of the Companies to any future distributions from the estates of those funds where they exist;
- The methodologies used to calculate asset shares (or any equivalent alternative approaches) of the with-profits policies of the Companies;
- The bonus and pay-out methodologies (including in respect of estate distribution) applied to the with-profits policies of the Companies;
- The investment strategy applicable to the with-profits funds of the Companies, including any amounts of capital outside of the with-profits fund taken into account in reviewing the investment strategy;
- The charges and expenses that apply to the policies and funds of the Companies, or the discretionary policy and practices for reviewing charges and expenses which are not fixed;
- The expense agreements in place for the with-profits funds, which determine the expenses borne by those funds. For the avoidance of doubt, the Heritage WPF does not have an expense deal covering all of its expenses in place currently (unlike the other with-profits funds in scope of the Scheme) and this will be unchanged by the Scheme. Expenses for this fund will continue to be determined as set out in paragraphs 7.79 to 7.83, including the MSA in place with SLAESL, although following the implementation of the Scheme this will transfer from SLAL to Phoenix; or
- The charges or expenses borne by with-profits policyholders/funds and unit-linked policyholders/funds for asset management.

10.14 There are no changes to the unit pricing practices for any of the unit-linked policies as a result of the Scheme, including no changes under the Scheme to:

- asset pools;
- investment mandates;
- unit-linked policy charges;
- rounding of unit prices and when prices are set on expanding or contracting fund bases; or
- taxation of unit linked policies.

10.15 For the avoidance of doubt, I note that the current approaches and practices in relation to the above items could be subject to review or evolution in future, and this would be the case even if the Scheme did not take place. The key point is that no changes in the above will arise as a result of the implementation of the Scheme. I am also satisfied that, given the intra-group nature of Scheme, and the degree of common management across the Companies, implementation of the Scheme should not give rise to any change in how discretion is exercised in relation to those aspects of the above items which involve discretion. I note that in considering how discretion in these areas is exercised, Phoenix will post-Scheme need to take into account the FCA Consumer Duty Rules (see paragraph 14.29).

10.16 However, there are a few specific structural and governance changes that could have an impact on the reasonable benefit expectations of policyholders, and I have set out my considerations of these below.

The cessation of the NPI WPF

10.17 This area and proposed change would only affect the holders of hybrid policies in the Phoenix NPF initially issued by NPI Limited that can invest in both unit-linked and UWP. This proposed change is outlined in paragraph 8.8.

10.18 Under the Phoenix 2012 Scheme, all of the policies of NPI Limited and certain NPLL policies were transferred into the Phoenix NPF. Some of the NPI Limited policies were hybrid, and the UWP investments were reinsured (prior to the Phoenix 2012 Scheme) to the Pearl WPF. Under the Phoenix 2012 Scheme, this reinsurance remained in place but with the cedant (i.e., the reinsuring party) being changed from NPI Limited to Phoenix.

10.19 The NPI WPF was created within Phoenix under the 2012 Scheme and the UWP element of the NPI policies internally reinsured to it, as it was deemed that the UWP elements of policies of the Phoenix NPF could not remain in the Phoenix NPF. As the UWP elements of policies could not be directly reinsured from the Phoenix NPF to the with-profits fund of another company, i.e., from the Phoenix NPF to the Pearl WPF of PLAL, the NPI WPF was created to reinsure the UWP element of policies to that with-profits fund within Phoenix and then reinsure to the Pearl WPF.

10.20 Under the Scheme that is the subject of this Report, a new but identical Pearl WPF would be created in Phoenix (the Phoenix Pearl WPF), and the UWP element of the NPI policies will be reallocated from the NPI WPF to the Phoenix Pearl WPF. The reinsurance arrangement currently in place between the NPI WPF within Phoenix and the Pearl WPF in PLAL as well as the inter-fund arrangement between the NPI WPF and the Phoenix NPF (both within Phoenix), would both collapse as a result. A new inter-fund arrangement would be established between the Phoenix NPF and the Phoenix Pearl WPF to reflect the reallocation of the UWP element from the NPI WPF to the Phoenix Pearl WPF by the Scheme. This arrangement would replicate the previous arrangement between the Phoenix NPF and the NPI WPF. The NPI WPF itself would be left with no assets and liabilities and therefore effectively cease to exist.

10.21 Overall, this change is purely structural and a consequence of the consolidation of PLAL into Phoenix, and will not give rise to any further changes that could impact policyholder benefit expectations. In particular:

- *For the policies in the Phoenix NPF with their UWP element allocated to the NPI WPF currently*: As this element is already reinsured to the Pearl WPF, the direct allocation to the Pearl WPF following implementation of the Scheme will not result in any changes in areas such as charges, bonus methodology, and investment strategy that could affect benefit expectations.
- *For the policies in the Pearl WPF*: The UWP element of the NPI policies is already reinsured to the Pearl WPF and so there will be no financial impact on the Pearl WPF from the direct reallocation and the reinsurance arrangement ceasing to exist.

10.22 Therefore, I am satisfied that this change would have no adverse effect on the reasonable benefit expectations of policyholders.

Proposed changes to the PPFM documents

10.23 The proposed change to combine the PPFMs of PLAL and Phoenix would only affect the holders of with-profits policies in the Phoenix With-Profits Funds and PLAL With-Profits Funds. This proposed change is outlined in paragraph 8.10. This change is not formally part of the Scheme itself, but arises as a result of the Scheme.

10.24 The PLAL PPFM document would be combined into a single document with the Phoenix PPFM, with a separate section for each with-profits fund. Therefore, the principles and practices applying to different funds would continue to be easily identifiable to the relevant policyholders. I am satisfied that this combination into a single document will not have any adverse impact on policyholder expectations.

10.25 A separate PPFM or IPPFM document would be maintained in respect of each of the former SLAL With-Profits Funds. The PPFM documents for the Heritage WPF and the UKSMWPF, and the IPPFM documents for the German WPF and German Smoothed Managed WPF will remain as separate documents, with changes only to reflect that post-Scheme these funds will sit within Phoenix as opposed to SLAL.

10.26 Some amendments to the PPFM documents are being made to reflect that all of the funds would be within the enlarged Phoenix. For the combined Phoenix/PLAL PPFM document, new wording has been introduced to reflect the Scheme's provisions including the updated Sunset clause provisions (as described in paragraph 8.32 onwards) and Capital Event provisions (as described in paragraph 8.49) which will apply post-Scheme to all the with-profits funds within Phoenix. There are however no changes proposed to the actual principles and practices by which any of the with-profits funds are managed day to day.

10.27 I have reviewed the updated PPFM documents and the changes as compared with the current versions. I note that the updated PPFM documents will be available on the relevant websites (or on request) as part of the communications of the Scheme, and I note that this process will provide with-profits policyholder with the requisite regulatory notification of change in respect of the changes to the PPFM Principles.

10.28 I note that the applicable Principles of Financial Management (which are typically a higher level form of the key parts of the PPFM) in the Currently Applicable Schemes have been transferred across into this Scheme without material amendment.

THE PROPOSED CHANGES TO THE PROVISIONS OF THE CURRENTLY APPLICABLE SCHEMES

Introduction

10.29 Phoenix is not seeking to make material changes to the way in which the funds and business operate as part of this Scheme. Nevertheless, Phoenix does plan to make a number of changes to allow a greater consistency of approach, to address known issues (such as reflecting developments in the Companies or the wider regulatory environment) and to give greater flexibility with regard to future actions.

10.30 I have reviewed the mapping of the Currently Applicable Schemes' clauses produced by Phoenix, supported by Linklaters, and I am satisfied that these clauses have been carried forward appropriately without any material adverse impacts on the policyholders of the Companies, subject to my consideration of the proposed changes set out below. This includes the relevant Principles of Financial Management as referred to above. However, the Scheme and the Currently Applicable Schemes are long and complex legal documents, and I have relied on Phoenix and Linklaters that no relevant provision has been inadvertently omitted. I have set out the basis of my reliance on Linklaters in Section 3.

Proposed changes to sunset clauses of with-profits funds

10.31 These proposed changes would affect the holders of with-profits policies in the Phoenix With-Profits Funds and the PLAL With-Profits Funds. No changes are proposed to the sunset clause for the Heritage WPF, and it is not proposed to introduce a sunset clause for any of the three remaining SLAL With-Profits Funds. These proposed changes are outlined from paragraph 8.32.

10.32 As part of the Scheme, the Companies are seeking to introduce more flexibility in the actions that may be taken and the timing of when these actions may be taken after the thresholds are met.

10.33 Changing the sunset clause criteria from "must terminate" to "may terminate", as outlined from paragraph 8.36, provides Phoenix with greater flexibility over the timing of the termination of a with-profits fund. This is a significant change which I have considered carefully.

10.34 Fundamentally, I see this change as being in the best interests of the with-profits policyholders as Phoenix will not be obliged to terminate a fund immediately regardless of whether this is in the policyholders' best interests. It may be the case that the relevant fund is able to continue as a with-profits fund, with policyholders continuing to be treated fairly and in line with their expectations as with-profits policyholders.

10.35 I note that the Phoenix With-Profits Funds and PLAL With-Profits Funds all have "evergreen" (i.e., permanent) expense arrangements in place which ensure that the funds will not suffer material expense diseconomies of scale as they decline. I also note that the practice within the Phoenix Group is for the (largely) fixed cost of termination, as and when it arises, to be borne by the Phoenix NPF (i.e., by shareholders), and not by the (declining) with-profits fund in question. The exception to this is that the with-profits fund would cover any costs relating to the determination of the proposal to terminate. However, this is expected to be small in comparison to the cost of the actual termination. Had it been the case that the policyholders (as opposed to the Phoenix NPF) paid the fixed cost of fund termination, the removal of the "must terminate" clause would mean that the longer the termination is delayed, the greater the cost per policyholder, given the declining number of policyholders. Termination costs borne by the shareholder include all costs associated with the exercise including tracing the holders of unclaimed policies, policyholder communications, administration costs and the costs of any independent actuary, but may exclude some costs related to the determination of a proposal. These factors allow the Phoenix With-Profits Funds and PLAL With-Profits Funds to continue without potential policyholder detriment for longer than would otherwise be the case.

10.36 However, the removal of the "must terminate" requirement means there is no longer a mechanism under any scheme or under any current regulatory requirements by which Phoenix is required to terminate a with-profits fund at any point. In considering whether this presents any detriment or loss of protection to any with-profits policyholders, I have taken into account the following aspects:

- The Scheme contains a provision to require Phoenix to commence carrying out a termination within 12 months of the regulators being notified of a closure of the fund, following a decision by the Board (having regard to the advice of the WPC and the relevant WPA) that a termination should be undertaken. This provision thereby ensures that suitable business priority will be given to a termination when the time comes, and I note that the Scheme provides for the regulator to be notified as soon as reasonably practicable following the decision by the Board.
- The updated termination provisions are included in the updated post-Scheme PPFM for each relevant with-profits fund. Once a "may terminate" point has been passed for any with-profits fund where the decision is taken not to terminate, the Board of Phoenix will need to state this fact along with any relevant explanation in its annual (and public) report to with-profits policyholders on compliance with the PPFM and the discretions exercised by the Board following the advice of the relevant WPA.

10.37 I am satisfied that the above two aspects afford suitable alternative protection to the with-profits policyholders and thus that the change to remove the "must terminate" requirement is in the interests of with-profits policyholders.

10.38 The introduction of indexation to the termination thresholds ensures that they are maintained in real terms. This change means that the new "may terminate" point will be reached sooner than the existing "must terminate" point now. I am satisfied that this is an improvement with no potential detriment to policyholders.

10.39 While indexation will be introduced, the stated nominal amounts of the thresholds set out in Table 8.2 will not be amended by the Scheme. Phoenix intends to manage the funds as standalone with-profits funds for as long as they can be managed in this way while still achieving good customer outcomes. At this time, there is no reason to believe that there is a risk of policyholder detriment if the funds were to reduce in size to the current stated levels, and so it is not proposed that the levels should be increased under the Scheme (other than to allow for indexation to maintain the levels in real terms). The change from "must terminate" requirements to "may terminate" means that there is no compelling argument to reduce the current levels, as the funds could continue to be managed as standalone with-profits funds below these levels while it is still reasonable to do so.

10.40 I note that the proposed change to the closure threshold definitions from statutory liabilities to With-Profits Policy Liabilities including future policy-related liabilities for Phoenix and PLAL (as described in paragraph 8.36) would not be a change to current practice for Phoenix and PLAL. "Statutory liabilities" is terminology from a previous Scheme which is in line with the previous UK solvency regime Solvency I, following the introduction of Solvency II this term was interpreted as With-Profits Policy Liabilities including future policy-related liabilities.

10.41 For SLAL, there is no proposed change to the closure threshold definition of With-Profits Liabilities excluding future policy-related liabilities. I note that SLAL's closure threshold definition differs from the proposed closure threshold definition for Phoenix and PLAL, however the proposed definitions are in line with current practice for each of Phoenix, PLAL and SLAL and have a basis in the PRA rules (being calculated in accordance with 3.2 of the Surplus Funds section of the PRA Rulebook). I am satisfied that both forms of the definition used are robust to any emerging methodology changes which may need to take place within the with-profits funds.

10.42 The Scheme provides flexibility with respect to the action to be taken once the termination threshold is met and the decision to terminate is taken. Possible post termination forms include conversion to non-profit benefits in the Phoenix NPF, either fixed or with guaranteed future increases in the Phoenix NPF, conversion to unit-linked benefits in the Phoenix NPF or transfer into another with-profits fund within Phoenix. Additionally, a combination of these three approaches is possible. This flexibility provides Phoenix with the ability to adopt the most appropriate solution for the terminating with-profits fund in question, rather than being committed to a course of action now that may not be appropriate in the future. The flexibility includes options which could maintain policyholder investment in growth seeking assets, as opposed to being limited to fixed interest type assets.

10.43 The terms for any termination of a with-profits fund (under whichever of the options set out above applies) are subject to the advice of the WPC and the relevant WPA. Additionally, for any transfer or merger into another with-profits fund within Phoenix, the terms are subject to obtaining a certificate from an Independent Actuary which will (effectively) require consideration of fairness from the perspective of both sets of with-profits policyholders (i.e., those transferring in and those already in the receiving fund). I note also that the transfer under the Scheme of the PLAL With-Profits Funds into Phoenix widens the available pool of with-profits funds into which mergers of terminating with-profits funds can be made.

10.44 I note that I have considered the proposed changes to the sunset clauses in combination, as a package. I have therefore considered the removal of the "must terminate" requirement in combination with the other changes, including the change to introduce indexation of the current termination thresholds (as outlined in paragraph 8.36).

The proposed changes to sunset clauses would mean that these termination thresholds are expected to increase over time with inflation and the with-profits fund may terminate at that point, which can be compared to the current sunset clause rules of the termination threshold remaining the same regardless of inflation and the fund must terminate at this point.

10.45 Overall I am satisfied that the changes in relation to the with-profits sunset clauses are sensible and are in policyholders interests and that the Scheme contains appropriate protections in the implementation of the sunset clauses. Hence in my view there is no detriment to the reasonable benefit expectations of policyholders.

Changes to termination and merger clauses for Linked Funds

10.46 These proposed changes would only affect the holders of unit-linked policies in Phoenix, PLAL and SLAL. For the avoidance of doubt, this includes any hybrid policies that can have unit-linked investments held in the Linked Funds of Phoenix, PLAL and SLAL, as well as UWP investments in the with-profits funds. This proposed change is outlined from paragraphs 8.43 onwards.

10.47 Under the Scheme, the existing termination and merger clauses for the Linked Funds of Phoenix, PLAL and SLAL would be harmonised (other than for those exceptions listed in paragraph 8.48). Phoenix would have the power to close Linked Funds to new or additional investment, modify their investment objectives and to merge, divide or terminate the Linked Funds, subject to the conditions set out in paragraph 10.50.

10.48 I note that the existing termination and merger clauses for the Linked Funds of Phoenix, PLAL and SLAL already permit many of these powers (implicitly in some cases) and therefore the harmonisation of these clauses is not a material change. However the Scheme will set out these powers more explicitly.

10.49 With the exception of unit-linked funds in the Phoenix Wealth, Abbey Life, Target Life and Hill Samuel fund ranges, the Scheme would give the Phoenix Board the following additional powers:

- Powers to close Linked Funds to new or further investment, which are not explicitly contained in the SLAL and PLAL Currently Applicable Schemes and certain of the Phoenix Currently Applicable Schemes; and
- Powers to modify the investment objectives of Linked Funds at any time, which are not explicitly contained in the SLAL Currently Applicable Schemes; and
- Increased flexibility to terminate Linked Funds, by removing the de-minimis winding-up thresholds that exist in the PLAL Currently Applicable Schemes and certain of the Phoenix Currently Applicable Schemes.

The exceptions in respect of Phoenix Wealth and Abbey Life are due to Phoenix already having the powers referred to above. The exceptions in respect of Target Life and Hill Samuel arise as the existing provisions for these fund ranges are regarded as entirely satisfactory and thus do not need to be amended.

10.50 Although, in some cases, the changes would give Phoenix some additional powers in managing the Linked Funds, any future changes to the Linked Funds would be subject to the following conditions (which have been largely maintained from the Currently Applicable Schemes):

- It is in compliance with applicable regulation and laws;
- The change is not prohibited by policy terms and conditions of the underlying unit-linked policies (which would also be unchanged by the Scheme); and
- The change is determined to be on terms which the Phoenix Board considers to be equitable between policyholders, having received advice from either the Phoenix Chief Actuary or the Customer Director (as defined in the Scheme document and set out in paragraph 8.43).

10.51 In giving advice on this aspect, the Phoenix Chief Actuary or Customer Director would need to cover all aspects which affect reasonable expectations of the affected policyholders. This means taking into account any changes to the investment objectives in relation to the funds being merged or alternatives offered in relation to terminations. It also means taking into account charges and expenses being applied under the new arrangements as opposed to the old arrangements, as well as assessing these in line with value for money expectations under the FCA Consumer Duty Rules.

10.52 I am satisfied that it is reasonable for the Customer Director to provide advice regarding changes to Linked Funds as an alternative to the Phoenix Chief Actuary. The person undertaking this Customer Director role must (by definition in the Scheme document) be approved under the SMCR and have responsibility for the position and needs of customers within their role.

10.53 I note that Phoenix could not make any changes to Linked Funds that are prohibited by existing policy terms and conditions, and any proposed changes would be subject to governance processes within Phoenix with due consideration to the interests of policyholders including the provisions set out above.

10.54 I note further that the proposed changes under the Scheme are to the termination and merger clauses for Linked Funds only, with no changes being made to the investment managers, asset selection processes or investment strategies of the Linked Funds other than potentially when funds are subject to termination or merger. The unit prices and the AMCs would also be unchanged by the Scheme and there would be no changes to the unit pricing practices as a result of the Scheme.

10.55 I am therefore satisfied that the proposed changes to the termination and merger clauses for Linked Funds would not have any adverse impact on policyholders.

Harmonisation of the capital policies between the Companies

10.56 This area affects all policies within the Companies.

10.57 The capital policies predominantly provide for the security of benefits for policies, and so my detailed considerations in respect of the harmonisation and update of capital policies between the Companies are set out in Section 11.

10.58 In considering the reasonable benefit expectations of policyholders, the three WPAs have confirmed that the capital policies do not influence aspects of benefit expectations such as bonuses, estate distribution or investment decisions for any of the Phoenix With-Profits Funds, the PLAL With-Profits Funds and the SLAL With-Profits Funds. Therefore, I am satisfied that the harmonisation and update of the capital policies would not affect the reasonable benefit expectations of the policyholders of the Companies.

Removal of annual certification requirements within the Currently Applicable Schemes

10.59 These proposed changes would potentially affect the holders of with-profits policies in the SPI WPF, the NPL WPF, and the SLAL With-Profits Funds. This proposed change is outlined from paragraphs 8.60 onwards.

10.60 The removal of the annual certification requirements would not, in isolation, have any effect on the reasonable benefit expectations of policyholders. However, there is a risk that benefit expectations could be affected if these changes had a material adverse effect on the governance applying to policies. I have considered this aspect of the change in Section 12, and concluded that the absence of the certification requirements within the Scheme would not have a material adverse effect on the governance applying to the affected policies.

Changes to the RPTA and the RCF

10.61 These proposed changes would potentially affect the holders of with-profits policies in the Heritage WPF, in terms of the operation of the protections provided by the SLAC Demutualisation Scheme. These proposed changes are outlined from paragraph 8.63 onwards.

10.62 I have been provided by Phoenix with a numerical analysis of the effect of the proposed change over 2020 and 2021, and I have discussed the proposed change and this analysis with Phoenix. I note that:

- Part A for the UK unitised pensions business is by far the largest component of the RCF and so it is unlikely to be offset materially by any negative RCF payments in respect of any other blocks of business;
- Part B for the UK unitised pensions business is significantly smaller than Part A, and so it would not materially offset the Part A payment (if it were to be negative);
- Across all blocks of business considered under the RCF calculations, the proposed change would amend the timing of the payments over a calendar year but not materially change the total payments, and so in the event that the cashflow at the half year is overstated as compared with the current approach, then this would be allowed for in the payment made at the end of the year; and In the event that the payment at half year is overstated as compared with the current approach, given the financial analysis which I have undertaken, the risk of the Phoenix NPF not having sufficient funds to allow for the cashflow at the year end to reflect the overstated payment at half year is remote.

10.63 Whilst the timing of the RCF payments over a calendar year is proposed to be changed, the affordability criteria outlined in paragraph 7.38 would be unchanged, and therefore the payments out of the Heritage WPF would only be made under the circumstances that the same criteria (pre- and post-Scheme) are met. Furthermore, the Phoenix

NPF would continue to provide a contingent loan as capital support if the calculated RCF is negative (as the SLAL PBF would do pre-Scheme). There is therefore the same fundamental level of protection for the Heritage WPF policyholders in this respect.

10.64 Overall, I am thus satisfied that the proposed changes to the RPTA and RCF would not have a material adverse impact on the reasonable benefit expectations of the with-profits policyholders in the Heritage WPF.

Unit matching in relation to the Heritage WPF

10.65 This change is described from paragraphs 8.70 onwards above and could potentially affect the holders of unit-linked and with-profits policies in the Heritage WPF.

10.66 The unit matching process (if actually implemented in respect of the unit-linked business in the Heritage WPF) would not affect in any way the amounts or the timings of the charges levied on unit-linked policies. There would thus be no effect on the benefits or the benefit expectations of the unit-linked policyholders.

10.67 Similarly, the determination of bonuses and benefits of holders of with-profits policies in the Heritage WPF would not be affected in any way by any commencement of unit matching in this fund as there will be no change to any cashflows to and from the Heritage WPF. Hence there is no change to the reasonable benefit expectations of with-profits policyholders from this change under the Scheme.

10.68 As noted from paragraphs 8.70 onwards above, the changes in the Scheme to clarify that unit matching can be used in respect of the unit-linked business in the Heritage WPF is linked with the protections given to the Heritage WPF in relation to that unit-linked business. There is one further aspect to consider in relation to this as regards financial security, and that is considered from paragraphs 11.70 onwards below.

Changes to and in respect of the terms of reference for the WPCs

10.69 These proposed changes are described in paragraph 8.79 and would affect the holders of with-profits policies in the Phoenix With-Profits Funds, PLAL With-Profits Funds and SLAL With-Profits Funds.

10.70 Following the implementation of the Scheme, there will be one WPC covering all of the Phoenix With-Profits Funds including the new funds established by the Scheme. The terms of reference for the current Phoenix, PLAL and SLAL WPCs would therefore be combined and updated to reflect the operation of a single WPC.

10.71 It is proposed that the terms of reference for the WPC would not be included in the Scheme, as is the case with certain Currently Applicable Schemes. However, the Scheme would retain information on how the WPC terms of reference can be amended. Material changes would continue to require certification by the Chief Actuary and relevant With-Profits Actuary and be referred to the FCA and PRA. There will be a change (in respect of some of the Currently Applicable Schemes) to remove the requirement to refer immaterial changes or corrections of errors in WPC terms of reference to the FCA and the PRA.

10.72 In any case, these changes would not have any effect on the reasonable benefit expectations of policyholders directly. There is a risk that benefit expectations could be affected if these changes had a material adverse effect on the governance applying to policies, and I have considered this aspect of the change in Section 12. Hence overall I am content with the Scheme position in relation to changes in the WPC terms of reference.

Changes to allow reallocations of non-profit policies in the Heritage WPF

10.73 The proposed changes are set out from paragraph 8.83. The currently applicable provisions and protections for reallocations of non-profit policies from the current Phoenix and PLAL with-profits funds are being maintained, and extended to the Heritage WPF, whilst also maintaining the relevant more general provisions which currently apply in respect of the Heritage WPF. I am thus content with these changes.

THE CLOSURE OF THE HERITAGE WPF TO NEW BUSINESS

10.74 This proposed change is described in paragraph 8.110 and would only affect the holders of with-profits policies in the Heritage WPF.

10.75 The Heritage WPF would continue to accept increments on existing policies and also new members to existing schemes, this being the usual approach when a with-profits fund is closed to brand new business under the relevant FCA rules.

10.76 I note that new business volumes in the Heritage WPF have been low for a number of years, and in such circumstances it is common to then close the fund as a matter of efficiency and good management, whilst still allowing increments on existing policies and some new policies for specific purposes.

10.77 When a firm closes a with-profits fund to new business, under the FCA's COBS rules, the firm must submit a run-off plan to the FCA as soon as reasonably practical. A run-off plan must show how the fund will be managed as a closed fund and demonstrate how the firm will ensure a fair and full distribution of the estate. Owing to the recent low new business volumes in the Heritage WPF, SLAL has already developed a plan akin to a formal run-off plan for the Heritage WPF. Therefore, the formal closure of the Heritage WPF to new business would not have a material impact on the management of the fund.

10.78 The decision to close the Heritage WPF is not within the scope of the Scheme and so it is not strictly within the scope of my role as Independent Expert. However, the rationale for closing the fund alongside the Scheme is to allow SLAL to communicate details of both the Scheme and the fund closure to with-profits policyholders in the Heritage WPF in one mailing. This will reduce the costs of the notifications, and it will also reduce the number of mailings policyholders receive over a relatively short timeframe, and hence the potential for policyholder confusion. I am thus satisfied that that there is a sound policyholder-related reason for carrying out the closure in tandem with the Scheme and having a single mailing to the Heritage WPF policyholders.

THE PROPOSED TRANSFER OF CERTAIN BUSINESS FROM PHOENIX TO ABRDN

10.79 The transfer of certain blocks of business from Phoenix to abrdn is described in paragraphs 8.89 onwards above and could potentially affect the holders of SLAL Wrap Onshore Bonds, UK Trustee Investment Plans (other than those investing in with-profits), the Wrap SIPP master insurance policy between SLAL and the relevant SIPP scheme members, and the cedants of the property linked reassurance policies, these groups being referred to as the abrdn Transfer Policies.

10.80 Although I have made my assessments based on the Scheme only, without any assumption that the further changes proposed under the abrdn Transfer will take place, I have nevertheless considered the rationale for the proposal to transfer the abrdn Transfer Policies twice, namely once under this Scheme and then again under the expected abrdn Transfer. An alternative would be to leave the abrdn Transfer Policies within SLAL, and then following this Scheme, transfer them to ALPL in a single step.

10.81 The alternative of leaving the abrdn Transfer Policies within SLAL would result in the nature of SLAL being completely different to currently. The abrdn Transfer Policies would be SLAL's only business, and the position would be akin to setting up a completely new and tailored unit-linked company within the Phoenix Group for these policies. It would be necessary in my view for the Phoenix Group to tailor the governance and management arrangements for SLAL in these circumstances to the different nature of its business as compared with the enlarged Phoenix post Scheme. Although this would be possible, it could lead to various uncertainties arising for the abrdn Transfer Policies, and I understand that it could also potentially involve changes to the SLAL Internal Model and complex changes to reinsurance arrangements. I also note that one cannot say for certain that any future Part VII Transfer will take place, and the interim position may thus be in place for some time or potentially permanently. I am thus of the view that it would be more certain, more operationally straightforward, and thus generally beneficial for the abrdn Transfer Policies to transfer to Phoenix with the rest of the SLAL business under the Scheme.

SLPF POLICIES

10.82 I noted in paragraph 10.11 that the policies of SLPF are fully reinsured in to SLAL. The policies of SLPF which are currently reinsured to the Heritage WPF would transfer to the newly created Phoenix Heritage WPF, and the remaining non-profit policies in SLPF, which are reinsured to the SLAL PBF, would transfer to the Phoenix NPF.

10.83 I can confirm that my consideration of the policyholders of SLPF is covered by the considerations as described previously in this section, and that I am satisfied that the implementation of the Scheme would not have any material impact on the reasonable benefit expectations of the SLPF policyholders. In particular, I note that the SLPF policies which are currently reinsured to the Heritage WPF would actually sit within the newly created Phoenix Heritage WPF post-Scheme (i.e. they would transfer from a non-profit fund to a with-profits fund). Given the non-profit nature of their benefits, this aspect will have no effect on the benefits or benefit expectations of the policyholders.

NON-LINKED NON-PROFIT POLICIES

10.84 The position of non-linked non-profit policies is covered by my considerations as described previously in this section. I note that the benefits of all non-linked non-profit policies across the Companies are either fixed in absolute terms or fixed subject to, for example, inflation adjustments. All such benefits will be unchanged as a result of the Scheme and thus the Scheme will not have any impact on the reasonable benefit expectations of these policyholders.

CONSIDERATION OF CHANGES TAKEN TOGETHER

10.85 I have summarised above a number of different changes arising from the Scheme. I am satisfied that there is a clear rationale for each of these changes. Moreover, I am satisfied that taken together these changes do not constitute any weakening of policyholder protection. Several of them have been included within the Scheme specifically with the aim of increasing the available options in order to better meet policyholder expectations and treat them fairly in the future.

CONCLUSIONS BY GROUPS OF POLICYHOLDERS

10.86 In the proceeding paragraphs within this section, I have considered the reasonable expectations of policyholders in general, including with-profits, unit-linked and non-profit policyholders of the Companies. I have considered the specific additional aspects in relation to the with-profits policyholders in each of the with-profits funds involved, together with specific additional considerations where relevant for with-profits policyholders in particular with-profits funds. I have also considered the specific additional aspects which apply to unit-linked policyholders. I have thus covered all of the applicable groups and types of policyholders in the Companies.

10.87 It is sometimes the case within Independent Expert reports that separate sections are set out to consider the effect on reasonable benefit expectations for each relevant group of policyholders. For this Scheme, the number of different groups of policyholders (taking into account the various with-profits funds and the various types of policy) is extremely large. For this reason, I believe it to be clearer and more helpful to readers of this Report to identify the various groups of policyholders via the tables set out above and to comment on each type of policyholder as I have done within this section.

OVERALL CONCLUSION

10.88 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the reasonable benefit expectations of any of the policyholders of the Companies.

11. The effect of the Scheme on the security of benefits for policyholders

INTRODUCTION

11.1 In this section I have set out my consideration of the impact of the Scheme on the security of benefits for policyholders of the Companies.

11.2 I am aware of the various groups of policyholder within the Companies and have considered the effect of the Scheme on the security of benefits for each of the classes of policyholders of Phoenix, PLAL and SLAL as set out in Table 11.1, Table 11.2 and Table 11.3 respectively, below. Consideration of the policyholders within SLPF is set out in paragraphs 11.75 and 11.76.

Table 11.1 Phoenix product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
100% WPF	✓				✓
90% WPF	✓*	✓*			✓*
Alba WPF	✓*	✓*			✓*
BIB WPF	✓				✓
Britannic WPF	✓	✓	✓		✓
Phoenix WPF	✓*	✓*		✓*	✓*
SAL WPF	✓	✓**		✓**	✓
Scottish Mutual WPF	✓	✓*	✓		✓
SPI WPF	✓*	✓*			✓*
NPI WPF		✓***			✓
Phoenix NPF				✓**	✓

Source: Phoenix information summarised by Milliman.

Note: table is a copy of the table included in Section 5. The key is excluded here for brevity.

Table 11.2 PLAL product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
Pearl WPF	✓*	✓*	✓*	✓**	✓
SERP WPF	✓				✓
London Life WPF	✓	✓	✓**		✓
NPL WPF	✓	✓			✓
PLAL NPF				✓*	✓

Source: Phoenix information summarised by Milliman.

Note: table is a copy of the table included in Section 6. The key is excluded here for brevity.

Table 11.3 SLAL product types in each fund

Fund	CWP	UWP	With-profits Annuities	Unit-linked	Non-profit
Heritage WPF	✓*	✓*	✓	✓*	✓*
German WPF		✓*			
German Smoothed Managed WPF		✓*			
UKSMWPF		✓*			
SLAL PBF				✓**	✓*

Source: Phoenix information summarised by Milliman.

Note: table is a copy of the table included in Section 7. The key is excluded here for brevity.

11.3 Unless otherwise stated, the analysis in this section of the impact of the Scheme on the financial security of policyholders applies for all classes of policyholders in Phoenix, PLAL and SLAL (including its subsidiary SLPF). The impact on the Companies overall, in terms of the impact on the balance sheet including the Solvency Coverage Ratios and the capital policies, affects all policyholders of the Companies regardless of whether they are within a with-profits fund or held in the non-profit and shareholder fund.

11.4 Currently, the Phoenix, SLAL and PLAL policyholders derive security for their guaranteed and non-guaranteed benefits from:

- The assets held to cover:
  - The Technical Provisions and SCR calculated in accordance with the Solvency II regulatory regime; and
  - The additional financial strength required in excess of its SCR in line with the Companies' capital management policies including the strength of the governance around the risk appetite statements and the governance around any future changes to them.
- The wider aspects of the capital policy (other than the financial strength requirements outlined above).

11.5 Additional security is provided by the Phoenix Group, for Phoenix, SLAL and PLAL, through:

- meeting the Solvency II regulatory capital requirements for insurance groups;
- the additional financial strength required by the Phoenix Group capital management policy; and
- the group policy for injecting capital into the life companies to restore compliance with the capital policy if the life companies are unable to meet their capital policy for a period of four months.

11.6 After the implementation of the Scheme, the security of the guaranteed and non-guaranteed benefits of the existing and transferring policyholders in Phoenix will continue to be provided by the elements discussed in paragraphs 11.4 and 11.5.

11.7 In my assessment of the impact on policyholders' security of benefits, I have considered the following:

- The financial impact of the Scheme on the solvency position of the Companies; that is, the surplus capital in each of the Companies and their funds pre-Scheme compared to the surplus capital in Phoenix and its funds post-Scheme, as well as any potential contagion risk arising as a result of the Scheme (covered in Section 9);
- The results of stress and scenario testing;
- The capital management policies applicable for the Companies;
- The SLAC Demutualisation Scheme requirements;
- The impact of the Scheme on the capital support currently provided between funds of the Companies, and the availability of this capital support going forward;

- The differences in risk profile between the non-profit funds of the Companies and the impact of the Scheme on the risks to which policyholders would be exposed;
- Any other key differences between the Companies, including any differences in size, risk appetite and investment strategy;
- The impact of the Scheme on the reinsurance arrangements in place for the Companies;
- The impact of the Scheme on the policyholders of SLPF; and
- Other considerations as a result of the Scheme, including the additional capital retained amounts being held, and the position should it become necessary to implement a Resolution Plan.

11.8 I note that the risk profile of the with-profits funds is not covered in detail, as these funds remain ring-fenced and there is not expected to be any change in the risk profile of the with-profits funds as a result of the Scheme. For the sake of completeness, I note that the UKSMWPF and GSMWPF are not actually considered as formal ring-fenced funds under Solvency II but this same point still applies to them given the nature of these funds.

11.9 I set out my considerations in respect of each of these below.

FINANCIAL IMPACT OF THE SCHEME

11.10 The financial impact of the Scheme at a company and fund level is covered in Section 9. I will now consider the financial impact of the Scheme for each group of policyholders.

11.11 As shown in Table 9.5, the policyholders of Phoenix and SLAL (including for this purpose SLPF) see an increase in coverage ratio as a result of the Scheme. For Phoenix and SLAL, there is an increase in the Solvency Coverage Ratio - Shareholder from 173% and 193% respectively pre-Scheme to 225% post-Scheme. The Solvency Coverage Ratio - Shareholder for PLAL reduces from 253% pre-Scheme to 225% post-Scheme. This reduction is not of concern as the post-Scheme coverage ratio is materially above the post-Scheme requirement under the updated PCP.

11.12 Table 9.4 shows the position of the funds in Phoenix post-Scheme on a pro-forma basis. Post-Scheme, there are more with-profits funds in Phoenix than prior to the Scheme. There is therefore an increase in potential contagion risk as a result of this. Contagion risk is the risk that a with-profits fund will require either temporary or permanent support from the rest of the company including (potentially) one or more other with-profits funds.

11.13 I also note that some of the funds which are transferring into Phoenix require shareholder support and are thus in a weaker position than others, i.e., the Supported Funds in PLAL (SERP WPF, NPL WPF and London Life WPF). As neither Phoenix nor SLAL currently have any Supported Funds, the consideration of this potential contagion risk is important. There could be seen to be potential contagion risks between each with-profits fund, between these weaker funds and the stronger funds, and also between each with-profits fund and the enlarged post-Scheme Phoenix NPF. For example, should the supported funds require further support from the Phoenix NPF, this may in adverse circumstances lead to the Phoenix NPF becoming depleted. In extremis, should the Phoenix NPF become fully depleted and any of the with-profits funds be unable to cover its liabilities, the ring fencing between with-profits funds would fall away and all assets of the company become available to meet all guaranteed liabilities. In this scenario actual contagion risk would crystallise.

11.14 However, each with-profits fund of PLAL and SLAL will transfer to Phoenix under the Scheme along with the assets to back its capital requirements and its capital policy requirements (whether these are held within the fund or in the NPF). In addition, the Supported Funds are being transferred along with the capital of the shareholder support loans, and the assets held in the non-profit funds and the capital buffers of PLAL and SLAL are also transferring to Phoenix. Therefore, despite the increase in potential contagion risk as a result of the Scheme, the assets will be in place post-transfer to cover the capital requirements (including the capital policy requirements).

11.15 I am therefore satisfied that the contagion risk is not materially greater post-Scheme than pre-Scheme within the three companies. This risk will continue to be mitigated through the holding of capital in line with the Phoenix capital policy going forwards.

11.16 Furthermore, it should be noted that Phoenix will be a larger company post-Scheme with a larger NPF, which is able to provide greater resources to support any with-profits funds which may require it in future than any of the Companies were able to individually prior to the Scheme.

11.17 It is acknowledged under the principle of limited liability that no group is legally obliged to put capital into subsidiaries. However, it is nevertheless the case that insurance groups are regulated by the PRA on a group basis, with a group SFCR and group capital requirements in order to ensure the amount distributed to shareholders via dividends or transferred out of the group is consistent with the group's risk profile.

11.18 Therefore, the consideration of group supervision and the need for the group to put extra capital into a subsidiary should the subsidiary run into difficulty is a valid part of insurance regulation, and both entities and groups must be solvent on their own bases. Therefore, should Phoenix run into financial difficulties post-Scheme, then it is likely that the Phoenix Group would wherever possible provide capital support to Phoenix. Under the PGH Capital Policy, the group will (assuming it has the resources) inject capital into the life companies to restore compliance with the capital policy if the life companies are unable to meet their capital policy for a period of four months. Whilst it is both important and relevant to note this, I do not need to place any actual reliance on it in order to form my conclusions in respect of the Scheme's impact on the security of policyholders' benefits.

11.19 I am therefore satisfied that there is no material adverse effect on the security of benefits for policyholders as a result of the financial impact of the Scheme.

STRESS AND SCENARIO TESTING

11.20 This area has been analysed in Section 9. Overall, I am satisfied that the Scheme would not have an adverse impact on the extent or the outcome of the stress and scenario testing carried out by the Companies. In particular, due to the diversification benefits that will arise as a result of the Scheme, it is likely that the results of the stress and scenario testing being carried out on a post-Scheme basis would show an improvement on the combined pre-Scheme position. Hence my conclusion as set out above in relation to the financial impact of the Scheme on the security of benefits for policyholders remains the case after considering this aspect.

POST SCHEME CAPITAL POLICY

11.21 As described in Sections 5, 6 and 7, each of Phoenix, PLAL, and SLAL currently has a capital policy which forms a key part of the security for policyholder benefits. The respective capital policies are already harmonised in all material respects, with additional requirements in relation to Capital Events currently applying to SLAL as a result of the SLAC Demutualisation Scheme.

11.22 As described in Section 8, post Scheme there will be an updated PCP which is set out in Schedule 1 of the Scheme. This incorporates all the current capital policies and makes them fully consistent across the entirety of the post Scheme Phoenix business. There is no change to the fundamental strength or nature of either the capital quantity test or capital quality test in the updated PCP. The outcome of applying these same tests to the enlarged Phoenix post-Scheme will take account of the nature of and the interactions between the various risks within the enlarged Phoenix. Thus although the outcome of applying the updated PCP post-Scheme may result in different percentages of SCR needing to be held from time to time as compared with the pre-Scheme position, fundamentally the same level of security for policyholder benefit is being provided.

11.23 The Capital Events requirement within the updated PCP is of a similar construct to that which currently applies to SLAL. However, I note that this requirement now applies to the whole of the enlarged Phoenix post-Scheme, including all of the with-profits funds and all of the policies in the Phoenix NPF. Should a Capital Event arise (regardless of which part or parts of Phoenix may be giving rise to this), Phoenix will need to identify and take actions necessary to cease the Capital Event. Any actions so taken are subject to certain provisos in respect of the various with-profits funds. In respect of the Heritage WPF, the provisos are consistent with those which currently apply via the existing Capital Events requirement for SLAL. I can thus conclude that the existing Capital Events protection afforded to Heritage WPF will remain in place and moreover that this protection will be extended by the Scheme to cover the whole of Phoenix. The provisos on the actions to be taken in respect of the various with-profits funds is set out in paragraph 8.56.

11.24 As described in paragraph 8.58, post-Scheme the Heritage WPF will need to hold a buffer in addition to assets covering the liabilities of the fund, equal to the greater of 0.5% of with-profits policy liabilities and five million pounds. In my view, the requirement for Phoenix to hold this buffer in respect of the Heritage WPF post-Scheme will provide the policyholders within the Heritage WPF with additional security in respect of their benefits. The UKSMWPF, German WPF and German Smoothed Managed WPF will continue to hold assets to cover the liabilities of the fund only, as there is no estate for these policies, I am satisfied that this is not to the detriment of policyholders within these funds.

11.25 As described in paragraph 8.57, the capital support mechanisms provided to the with-profits funds of the Companies fundamentally continue in the same way both pre- and post-Scheme. The Scheme wording on capital support provided to the with-profits funds has been taken in the first instance from the SLAC Demutualisation Scheme, and has been supplemented from wording from the Phoenix 2009 Scheme. This means that whereas previously for SLAL the SLAL Board could make a contingent loan available on terms it saw fit, in the post-Scheme PCP the Phoenix Board can make a loan on terms it sees fit, but only provided that the relevant WPA has certified to the WPC that the terms are no less favourable than arm's length commercial terms and will not detrimentally affect the reasonable expectations of with-profits policyholders within the with-profits fund. There is therefore an additional level of protection post-Scheme for the former SLAL with-profits policyholders, consistent with that which previously applied to former Phoenix and PLAL with-profits policyholders.

11.26 As shown in Table 9.4, Phoenix continues to meet the quantitative requirements of its capital management policy post-Scheme. As at 31 December 2022, on a post-Scheme pro-forma basis, Phoenix has a shareholder solvency coverage ratio of 225% which is materially above its capital management policy requirement post-Scheme of 138%. As already noted, any capital in excess of the relevant capital policy requirement can be transferred out of the company as dividends or otherwise utilised, and therefore cannot be relied upon for the security of policyholders' benefits. I note further that this post-Scheme capital management policy requirement of 136% is currently a 31 December 2021 based estimate, and that this will be updated to 31 December 2022 and covered in my Supplementary Report.

11.27 As already noted in paragraph 8.51, the Phoenix Board can change the Capital Quantity Test or the Capital Quality test within the PCP should this be deemed appropriate. However, should any change in the underlying risk appetite result in a reduction in assets held under the Capital Quantity Test, then this would require a certificate from an independent actuary to state that, in their opinion, the proposed change is unlikely to have a material adverse effect on the interests of policyholders of Phoenix overall. This certificate is currently a requirement of the PLAL 2012 Scheme, and therefore post-Scheme this additional requirement will be applicable to all policyholders of the enlarged Phoenix. I further note that, post-Scheme the Phoenix Board does not have the power to amend the requirements regarding Capital Events (as referred to above) incorporated in the PCP.

11.28 In summary, in my view, the updated PCP maintains and combines the key elements and protections for the policyholders of Phoenix, PLAL and SLAL as they apply pre-Scheme. This results in certain additional protections applying for policyholders who didn't have these protections previously. Overall, I am satisfied that there is no material adverse impact on the security of policyholder benefits as a result of the updates and changes to the PCP. I am also satisfied that the latest available financial analysis demonstrates that the key quantitative capital requirement element of the PCP is met post-Scheme.

ADDITIONAL CAPITAL RETAINED AMOUNTS AND RESOLUTION PLANS

11.29 As covered in paragraphs 9.37 to 9.42 above, I have considered the additional capital retained amounts being held as a result of the financial events arising around September/October 2022, and the enhancements planned to Phoenix Group's models and management information following these financial events. I am satisfied that there is no material adverse financial effect on any policyholders as a result of these aspects.

11.30 I have also considered the effect of the Scheme on Phoenix Group's ability to execute its Resolution Plan, and I am satisfied that there will be no material adverse effect.

SLAC DEMUTUALISATION SCHEME REQUIREMENT

11.31 As described in paragraphs 8.54 and 8.55, under the SLAC Demutualisation Scheme there is a key requirement for the SLAL Board to form a 'reasonable opinion' that SLAL is carrying out its business in a manner which does not expose it to the risk of a Capital Event (full definitions within paragraph 7.50) happening and resulting in the Heritage WPF not being managed in accordance with the Core Principles.

11.32 As noted previously, this requirement has been incorporated into the updated post-Scheme PCP and thus there is no loss of protection post-Scheme for the former SLAL policyholders.

CAPITAL SUPPORT

11.33 There are currently a number of inter-fund capital support arrangements within Phoenix, PLAL and SLAL. These are summarised, pre-Scheme and post-Scheme, below.

Table 11.4 Capital support arrangements pre- and post-Scheme within Phoenix, PLAL and SLAL

Support arrangement	Related to	Pre-Scheme capital support	Post-Scheme capital support
The Contingent nature of the RCF	SLAL	Payment of the RCF is contingent on the financial position of the Heritage WPF; when the proposed RCF is negative the SLAL Board provide a contingent loan (or make assets available otherwise) to the Heritage WPF to the value of the RCF transfer amount.	Fundamentally as per pre-Scheme position. Some practical amendments as covered from paragraphs 8.63 onwards.
Support for the Heritage WPF	SLAL Heritage WPF	SLAL assesses the financial impact of decisions affecting the Heritage WPF in terms of their affordability to a Notional Company. As a result, shareholders of SLAL provide financial support for decisions made if they are unaffordable to the Heritage WPF on a standalone basis.	Unchanged. The same approach to be adopted within Phoenix for the Phoenix Heritage WPF. In addition, the Further Capital Support Account will be unchanged by the Scheme.
General support	SLAL German WPF	Capital support arrangement from the SLAL PBF in force (although not currently utilised). Investment decisions for the SLAL German WPF take into account an amount of notional shareholder support.	Unchanged. The same approach to be adopted within Phoenix for the Phoenix German WPF.
Provided by the PLAL NPF to the Phoenix London Life WPF, the Phoenix NPL WPF and the Phoenix SERP WPF	PLAL with-profits funds	Capital support loans are currently in place between these funds.	Unchanged. The same support to be provided by the Phoenix NPF.
General support	PLAL/Phoenix with-profits funds	All with-profits funds within PLAL/Phoenix have support arrangements in force, even if not currently utilised.	Unchanged. Support for PLAL with-profits funds will apply within Phoenix to be provided by the Phoenix NPF where required.

Source: Phoenix information summarised by Milliman

11.34 Under the Scheme the existing shareholder support provided to the Heritage WPF by SLAL will be provided by Phoenix. The Phoenix NPF may make a contingent loan (or otherwise make assets available) to the Phoenix Heritage WPF.

11.35 The capital support available for the German WPF will continue unchanged. Should the Phoenix German WPF require shareholder support in future, this support will be provided by the Phoenix NPF.

11.36 The capital support provided by the PLAL NPF to the supported with-profits funds of PLAL will continue. However the support arrangements will be between the Phoenix NPF and the newly created with-profits funds in Phoenix that are identical to those that are in PLAL.

11.37 The Phoenix and PLAL WPF support arrangements are being combined into a single document, albeit with no change to the underlying terms. This will cover all of the with-profit funds of the enlarged Phoenix, except for the SLAL German WPF and the Heritage WPF. The SLAL German WPF has a separate document covering its capital support arrangements. Neither of these documents cover the Heritage WPF as this fund does not require support currently and is not expected to require any support in the foreseeable future.

CHANGE IN RISK PROFILE

11.38 The change in the Phoenix risk profile as a result of the Scheme is shown below, as well as the risk profiles of PLAL and SLAL, pre-Scheme. I note that the post-diversification SCR pre- and post-Scheme for Phoenix, PLAL and SLAL shown in the table below are based on the Phoenix NPF, PLAL NPF and SLAL PBF respectively, as well as the PLAL supported with-profits funds (for PLAL only) and any 'burn-through' cost from the remaining with-profits funds (as described in paragraph 7.48). The risk profiles shown below are indicative as they do not necessarily allow for any final adjustments that Phoenix makes to the outputs from its models.

Table 11.5 The percentage breakdown of the post-diversification SCR of the Companies (excluding Unsupported Funds) pre- and post-Scheme as at 31 December 2022

Risk Type	Pre-Scheme				Post-Scheme
	Phoenix	PLAL	SLAL	Total	Phoenix
Credit Risk	**45%**	**12%**	**12%**	**29%**	**32%**
Market Risk	**22%**	**5%**	**2%**	**13%**	**6%**
– Residential Property	*12%*	*1%*	*0%*	*6%*	*5%*
– Other	*10%*	*4%*	*2%*	*6%*	*1%*
Insurance Risk	**19%**	**64%**	**50%**	**36%**	**37%**
– Longevity	*9%*	*54%*	*9%*	*13%*	*16%*
– Financial Guarantee Persistency	*0%*	*10%*	*0%*	*1%*	*1%*
– Dependent Persistency	*3%*	*0%*	*33%*	*15%*	*14%*
– Other	*6%*	*0%*	*8%*	*7%*	*6%*
Operational Risk	**4%**	**7%**	**22%**	**11%**	**12%**
Other Modelled Risks	**9%**	**11%**	**14%**	**11%**	**14%**
Total*	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Phoenix information summarised by Milliman.

*Some sums are not equal to 100% due to rounding in the presentation shown above.

11.39 Post-Scheme, Phoenix will be much larger than it is currently, and the risk profile of Phoenix will change. I note that for the Companies pre- and post-Scheme, the overall risk categories of Credit, Market, Insurance and Operational risk are the same, however the subcategories of risks differ between the Companies.

11.40 I note that PLAL and SLAL are exposed to insurance risk to a greater extent than Phoenix, in particular PLAL's most material risks are longevity and financial guarantee persistency risk as described in paragraph 6.41, while SLAL's most material risk is dependent persistency risk as described in paragraph 7.60. As a result, post-Scheme there is a greater proportion of capital allocated to Insurance risk post-Scheme for Phoenix, but there is also some diversification within the sub-categories post-Scheme.

11.41 Phoenix is exposed to credit risk to a greater extent than SLAL and PLAL which results in a reduction in the proportion of capital allocated to credit risk post-transfer. There is also a reduction in the proportion of capital allocated to market risk post-Scheme, as a result of greater diversification and directional synergies within the enlarged Phoenix.

11.42 Although there is some change in risk profile as a result of the Scheme, it will be allowed for in determining the amount of capital that is required to be held. In addition, the risk mitigations that are in place pre-Scheme for the Companies as described in paragraph 5.67, and the approach to managing reinsurance counterparty risk as described in paragraph 5.73, will continue to be in place post-Scheme, suitably updated to reflect the enlarged post-Scheme Phoenix. The approach to managing liquidity, which is already harmonised in all material respects across the Companies, will continue in the enlarged post-Scheme Phoenix. Hence all risk management aspects are addressed, covering those aspects which are mitigated by the holding of capital and those aspects which are mitigated by appropriate risk management policies.

11.43 Taking the above into account, I am satisfied that the change to the Phoenix risk profile arising from the Scheme would not have a material adverse effect on the security of benefits of the policyholders of the Companies.

OTHER DIFFERENCES BETWEEN THE COMPANIES

11.44 This section sets out my consideration of other key differences between the Companies that could impact the security of benefits of policyholders, and my conclusions in respect of these differences.

11.45 In terms of assets and liabilities, the Companies are each of different sizes. SLAL is the largest of the Companies involved in the transfer (as measured by asset value), followed by Phoenix and then PLAL. In terms of investment strategy, this is determined at a granular level for the business lines and the policies in question, and this aspect will remain the same post-Scheme. The risk appetites of the Companies are additionally consistent in all material respects, and target being able to continue to meet the SCR after the more onerous of the 1-in-10 capital quantity test and a 1-in-20 severe market risk scenario arising over a three-month period. The PGH board will also continue to set the group level risk appetite post-Scheme.

11.46 Therefore, although the Companies are of different sizes, in practice this actually has no real impact when they are combined via the Scheme. The key considerations are that the capital requirements (arising from the SCR and PCP) continue to be met (taking into account the combined risks) and that the governance processes (covering both the solvency and the policyholder benefits and fairness aspects) continue to be operated in the same way. If anything, having all of the business in a single entity provides greater flexibility for Phoenix to cope and deal with adverse events when they arise. I am therefore satisfied that there will be no material adverse effect on the security of benefits of policyholders as a result of the larger company (SLAL) transferring to the smaller company (Phoenix) along with another smaller company (PLAL) under the Scheme.

11.47 I note that Phoenix and SLAL are both open to certain types of new business, while PLAL is closed to new business. In my view, there will not be any material issues relating for the policyholders of PLAL becoming policyholders within a company that is open to new business (i.e. Phoenix). This is because the new business written within Phoenix (including that previously written within SLAL) still needs to be adequately capitalised under the requirements for the SCR and the PCP. Further, the liquidity requirements for the Companies will also be unchanged by the Scheme, and will continue to be applied consistently post-Scheme taking into account the new business being written.

REINSURANCE

11.48 This section sets out my conclusions in respect of the implications of changes to the reinsurance arrangements on policyholders' benefit security, including internal and intra-group reinsurance arrangements, outwards and inwards reinsurance of unit-linked business, and other reinsurance arrangements.

Internal and Intra-group Reinsurance Arrangements

11.49 The internal and intra-group reinsurance arrangements are described in Table 8.3. At a high level, the Scheme maintains the existing internal and intra-group reinsurance arrangements within and between the Companies by:

- Collapsing the existing intra-group reinsurance arrangements between Phoenix and PLAL, and between SLPF and SLAL. These reinsurance arrangements are replaced by internal arrangements where the Scheme does not result in the transferring business being allocated to the same fund as the fund which bears the ultimate risk.

- Novation of the existing intra-group reinsurance arrangements between SLAL and SL Intl. These arrangements will novate from SLAL to Phoenix.
- Maintaining the internal reinsurance arrangements of Phoenix, which will be unaffected by the Scheme.

11.50 There is therefore in my opinion no adverse impact on policyholders' benefit security as these internal and intra-group reinsurance arrangements are effectively being replicated (with some exceptions as described below) as internal and intra-group arrangements within Phoenix. If anything, the falling away of some of the intra-group reinsurances improves the position as it removes an element of intra-group counterparty risk.

11.51 There are a few variations to the replication arrangements summarised above. Firstly, the closure of the NPI WPF (within Phoenix) and the termination of the internal reinsurance arrangement between the Pearl WPF (in PLAL) and the NPI WPF. This will not have an adverse impact on policyholders' benefit security because currently there is an internal reinsurance arrangement from the Phoenix NPF to the NPI WPF, which is then simultaneously reinsured to the Pearl WPF. Ultimately, the risk for the UWP component of these policies lies with the Pearl WPF, and this will be unchanged post-Scheme. The Pearl WPF will effectively move from PLAL to Phoenix, and this aspect is covered by analysis of the effects of the Scheme.

11.52 A further notable change is the transfer of the assets and liabilities of SLPF to the Phoenix Heritage WPF and the Phoenix NPF. This will not have an adverse impact on policyholders' benefit security because SLPF currently has an intra-group reinsurance arrangement covering all of its policies with the Heritage WPF and the SLAL PBF. As a result of the Scheme, the SLPF policies will transfer to the newly created Phoenix Heritage WPF and the Phoenix NPF and the reinsurance arrangements will cease. There is therefore no adverse impact for the affected policyholders' benefit security as a result of this change. The relevant policies will post Scheme actually sit within the funds to which they are currently reinsured, and the effective move of these funds to from SLAL to Phoenix is covered by analysis as previously set out.

Outwards Reinsurance of Unit-Linked Business

11.53 As described in paragraph 8.99, SLAL has outwards reinsurance arrangements which allow SLAL unit-linked policyholders to invest in external unit-linked 'guest funds' i.e., funds in other third-party insurers. Security arrangements are in place which mean that such SLAL policyholders would rank equally with direct policyholders of each such third-party insurer in the event of that third-party insurer being wound up. This reinsurance is transferring under the Scheme along with the associated security arrangements. As a result, Phoenix will become the policyholder and the secured party.

11.54 The security arrangements referred to above relate to the situation when the third-party insurer is subject to a winding up, and the arrangements (which are commonplace in the market) would ensure that the SLAL reinsured policyholders rank equally with the other policyholders of the third-party insurer on a winding up. In the event however of there being a deficit on such a winding up (notwithstanding the equal ranking), the arrangements are currently such that SLAL as an entity would bear the deficit, and such deficit would not be passed on to the relevant SLAL policyholders. This risk would be passed from SLAL to Phoenix by the Scheme. I note that Phoenix already has this risk in respect of its own outwards unit-linked reinsurance, some of which is borne by the relevant policyholders and some of which is borne by Phoenix as an entity. I note that the third-party insurers in question are themselves regulated by the PRA to the same standards as Phoenix, and I note that the third-party insurers are generally specialist unit-linked insurers where assets and liabilities move together. I note that Phoenix will hold capital for this risk, and that such capital has been included in the relevant post Scheme Phoenix results set out in Table 9.4. I am therefore satisfied that the residual risk to Phoenix (and PLAL) policyholders as a result of this risk moving from SLAL into Phoenix is remote.

11.55 I note that the two SLAL unit-linked policies which I hold (as described in paragraph 3.27) fall into this category,

Inwards Reinsurance of Unit-Linked Business

11.56 As described in paragraph 8.102, SLAL has inwards unit-linked reinsurance arrangements with external companies which will be transferred to Phoenix under the Scheme along with the relevant floating charge. The replacement of the Property-Linked Floating Charge will mean that these companies will have a charge over the assets of Phoenix as a result of the Scheme. I note that Phoenix currently has similar inwards unit-linked arrangements in place with other external companies, which also have a floating charge over the assets of Phoenix. These floating charges ensure that the relevant inwards reinsured policyholders rank equally in the event of SLAL or Phoenix winding up.

11.57 In my view, as these policies are transferring to Phoenix along with the relevant reinsurance assets, and given that the appropriate capital requirements are being established post-Scheme within Phoenix, there is no material adverse effect arising on the security of benefits for any policyholders of the Companies.

Other reinsurance arrangements

11.58 Under the Scheme, all external third-party reinsurance treaties of each of the transferring companies (PLAL and SLAL) will be transferred to Phoenix. This includes any custody and security arrangements associated with the reinsurance treaties.

11.59 These treaties will thus continue to operate and provide the same protection in relation to the relevant business in the same way as they did before the Transfer Date. Therefore, I conclude that there are no material implications for the security of policyholder benefits once Phoenix becomes party to the external reinsurance treaties.

Summary in relation to reinsurance

11.60 In summary, I am satisfied that the transfer of the various reinsurance arrangements as described above from SLAL and PLAL to Phoenix, together with the changes arising to the internal and intra-group reinsurance arrangements, will not have any material adverse effect on the security of any of the policyholders' benefits.

OTHER CONSIDERATIONS

Applications for regulatory approval

11.61 Phoenix, SLAL and PLAL hold a number of UK Solvency II regulatory approvals from the PRA as detailed in Section 4. The Scheme will impact the use of the MA, VA, TMTP[8] and internal model and thus re-applications for certain UK Solvency II approvals will be required.

11.62 On implementation of the Scheme Phoenix intends to combine the three non-profit funds currently within Phoenix, SLAL and PLAL with MA approval into a single MA fund within Phoenix. Firms with existing MA approvals may use their existing MA approval to cover future assets and liabilities provided that:

- the future obligations and assets have the same features as the assets and liabilities included in the MA portfolio for which the approval was granted; and
- the MA portfolio continues to meet the relevant conditions of the Solvency II Regulations 2015 (2015/575)[9].

11.63 Phoenix has provided evidence to the PRA that all of the assets and liabilities included within the post-Scheme MA portfolios within the PLL NPF are covered by its original MA applications. Phoenix is therefore using the same features assessment in order to combine the non-profit MA funds. I understand that the PRA has no further queries in relation to this evidence and thus in my view and experience there is minimal risk of the PRA not being content with this combination of the three non-profit funds for MA purposes.

11.64 The Heritage WPF requires PRA approval for the use of the MA in the equivalent Phoenix fund post-transfer. This will be an exact replication of the MA that exists within SLAL Heritage WPF currently. This approval may not be obtained prior to the Transfer Date, but this will not give rise to any impact on Phoenix overall or on any policyholder benefits because of the ring fencing under Solvency II of the Heritage WPF and the use of the Notional Company approach, which will not be affected by the timing of this approval, in determining policyholder benefits.

11.65 The Heritage WPF and the SLAL PBF (in respect of some non-MA business) currently also use the VA, but this will be discontinued post-Scheme on the grounds of immateriality to Phoenix post-Scheme.

11.66 Phoenix has submitted to the PRA its proposed methodology to harmonise the calculation of TMTP post-Scheme, and is currently awaiting feedback from the PRA. Subject to this feedback, Phoenix expects to take a formal proposal to its Board in June 2023 for a recalculation of the TMTP under its proposed methodology as at 30 September 2023 (this being the Effective Date of the Scheme). The key principle being adopted is that the proposed methodology should be neutral to the level of unrestricted TMTP on the balance sheet post-Scheme. The proposed methodology has been incorporated into the financial analyses set out in this Report and effectively amounts to the post-Scheme TMTP being the sum of the previous parts. As the approach essentially amounts to a continuation of

[8] Definitions for these terms can be found in the glossary

[9] Directive 2009/138/EC

the current approach, and as the post-Scheme change in Phoenix's risk profile is material (albeit supported by appropriate capital), there is in my view and experience minimal risk of the PRA not being content with this approach and approving the proposed methodology and the TMTP recalculation prior to the Transfer Date. Furthermore, there is no obvious alternative approach to the one which Phoenix is following and it is thus not practically possible to quantify the effect of any different approach. I note however that approval of the proposed methodology and the TMTP recalculation is entirely at the discretion of the PRA, and I will provide an update in this area in my Supplementary Report.

11.67 The financial analyses set out in Section 9 have assumed that the applications as described above will be granted, and that the VA will no longer be used within the Phoenix Heritage WPF and the SLAL PBF post-Scheme. Given the non-contentious nature of these applications (due essentially to them being continuations of the Companies' current approaches, or a discontinuance in the case of the VA), I am satisfied that these approvals should be forthcoming and that it is reasonable and appropriate to take account of them within the financial analysis set out in Section 9. Furthermore, considering the financial analysis taking these approvals into account (and including an updated recalculation of TMTP as at 31 December 2022) is in my view the most appropriate analysis to consider as it represents the underlying true position, as opposed to a temporary position.

11.68 I understand that there will be no major changes to Phoenix's internal model as a result of the Scheme, and that the same internal model will be applied to the business of the enlarged Phoenix post-Scheme. As described in Section 9, the post-Scheme SCR reduction is due to an increase in diversification benefits rather than an internal model change. In other words, the additional diversification benefit arising is an outcome of applying the same internal model to the enlarged Phoenix post-Scheme as opposed to a change in that model. The increase in LACDT is not part of the internal model itself, and comes through as a separate item within the SCR.

11.69 I am thus satisfied that the Scheme should not have a material impact on the PRA approvals granted to Phoenix, PLAL and SLAL, and their use within the enlarged Phoenix post-Scheme and I am therefore satisfied that the approvals assumed in calculating the pro-forma post-Scheme financial position in Table 9.5 above are reasonable.

Unit Matching in the Heritage WPF

11.70 Should unit matching be carried out in the future, the determination of charges levied on policyholders and the cashflows from the Heritage WPF to the Phoenix NPF via the RCF would remain unchanged. Additionally, there will be:

- An initial encashment of assets, reflecting the value of the future AMCs taken credit for in advance on implementation of unit matching. This value would become immediately available to the Phoenix NPF because the relevant units are allocated to the Phoenix NPF.
- Any additional encashment of assets, or reinvestment back into linked assets as part of the (normally) quarterly unit matching rebalancing exercise required under unit matching. The value would become immediately available to the Phoenix NPF, or would be supplied by the Phoenix NPF. The Phoenix NPF might have available the RCF cashflow from the Heritage WPF, but if that RCF cashflow was insufficient, any unit matching deficit would need to be rectified from other Phoenix NPF resources.

11.71 One of the protections provided for the Heritage WPF under the SLAC Demutualisation Scheme is that payment out of the Heritage WPF of the AMCs less expenses on unit-linked business within the fund can be held back via the RCF/RPTA process. With unit matching in place, this protection would still apply as noted above. The potential risk arising from the unit matching is a risk to the Phoenix NPF of having to use its own resources to rebalance the unit matching in circumstances where the Heritage WPF protection comes into play as a result of the RCF cashflows being restricted. I am satisfied however that the risk of the Phoenix NPF having to use its own resources, and thus potentially adversely affecting the overall financial security of Phoenix to a material extent is remote given that the Phoenix NPF has to hold capital to cover its SCR (including that of any supported with-profits funds) together with the required excess over the SCR in line with the Phoenix capital management policy. The risk in question is thus, in my view, well beyond the 1-in-200 level.

11.72 I can thus conclude that the changes in the Scheme to facilitate future unit matching in respect of the unit-linked business in the Heritage WPF do not give rise to any material adverse effect for the with-profits policyholders in this fund, or in fact for any other policyholders.

11.73 A reasonable question that arises is why would the Phoenix NPF and the Phoenix shareholder wish to carry out unit matching on the unit-linked business in the Heritage WPF, and why such unit matching should be allowed in respect of this fund. As noted above from paragraph 8.70 onwards, the future surpluses on this unit-linked business fall (under the terms of the SLAC Demutualisation Scheme) to the Phoenix shareholder, other than in highly adverse circumstances where the protection in the SLAC Demutualisation Scheme comes into play. Unit matching under UK Solvency II is now an established approach to managing the risks under unit-linked business, not only for the benefit of shareholders but also for the benefit of the company overall and its policyholders via a more efficient use of capital and a lesser likelihood of increased charges. Given these facts, I am satisfied that it is reasonable for the Phoenix NPF and the Phoenix shareholder to wish to have the facility to carry out unit matching on this business in future.

The loan between PGH and SLAL

11.74 As noted in paragraph 7.85, there is currently a loan from SLAL to PGH of £309 million (as at 31 December 2022), which was set up around the time of the change in ownership of SL Intl from being owned by SLAL to being owned by PGH. This loan will transfer from SLAL to Phoenix, along with SLAL's rights under the related share floating charge granted by PGH over the shares of SL Intl. Therefore, post-Scheme, the loan will be from Phoenix to PGH and PGH will have a liability to repay Phoenix, rather than SLAL. Post-Scheme the loan will thus constitute an asset in Phoenix's Solvency II balance sheet. If post-Scheme PGH were to default on the loan, then Phoenix would be granted the shares of SL Intl under the share floating charge.

THE EFFECT OF THE SCHEME ON THE SECURITY OF BENEFITS FOR SLPF POLICYHOLDERS

11.75 As described in Section 7, SLPF is a subsidiary of SLAL and the policies of SLPF are currently fully reinsured to the Heritage WPF and the SLAL PBF. In addition, in terms of BEL, SLPF is relatively small in comparison with the other Companies. Under the Scheme, the assets and liabilities held within SLAL in respect of these policies (through the intra-group reinsurance arrangement) will be transferred as appropriate to the Phoenix Heritage WPF and the Phoenix NPF. The SLPF policies themselves will transfer to these two Phoenix funds as appropriate.

11.76 I can confirm that consideration of the policyholders of SLPF is covered by my previous considerations in this section, and thus that the Scheme will not have any material adverse effect on the security of benefits of the SLPF policyholders. In particular, I note that the SLPF policies which are currently reinsured to the Heritage WPF would actually sit within the newly created Phoenix Heritage WPF post-Scheme (i.e. they would transfer from a non-profit fund to a with-profits fund). Given the non-profit nature of their benefits, this aspect will have no material effect on the security of benefits of the policyholders.

CONCLUSIONS FOR EACH GROUP OF POLICYHOLDERS

11.77 As previously mentioned, the analysis in this section of the impact of the Scheme on the financial security of policyholders applies for all classes of policyholders in Phoenix, PLAL and SLAL. The impact on the Companies overall, in terms of the impact on the balance sheet including the Solvency Coverage Ratios and the capital policies affects all policyholders of the Companies regardless of whether they are within a with-profits fund or held in the non-profit and shareholder fund.

11.78 In my opinion, there is no material adverse impact on policyholders in relation to the security of benefits as a result of the implementation of the Scheme. My reasoning for reaching this conclusion is as follows:

- The Solvency Coverage Ratio for Phoenix post-Scheme remains above the target Solvency Coverage Ratio as set out in the PCP.
- PLAL and SLAL policyholders will move from the PLAL and SLAL Capital Policy being applicable to them, to the updated PCP being applicable to them. I note that various key aspects of the pre-Scheme capital policies of the Companies were harmonised prior to the Scheme, and I note that the updated PCP within the Scheme covers aspects which were included in the PLAL and SLAL capital policies, but not actually in the previous Scheme requirements. For Phoenix and PLAL policyholders, the addition of the Capital Event requirement provides additional protections in respect of the security of policyholder benefits.
- The risk profile of Phoenix does change as a result of the Scheme, but the regulatory capital requirements (i.e. the SCR) combined with the PCP requirements takes this into account.
- There are no changes to the protections for with-profits policyholders or to the capital support arrangements in place. The contagion risk as a result of supported funds and the Heritage WPF moving to Phoenix is managed through the transfer of the capital support loans additionally transferring to Phoenix as a result of the Scheme.

- There are additionally no material changes to internal or external reinsurance arrangements that impact the security of benefits for policyholders, as they are in general being replicated in Phoenix post-Scheme, other than closure of the NPI WPF and the collapse of this reinsurance arrangement as it is redundant.
- There is some additional security provided by the PGH Capital policy, which would provide support to subsidiaries by injecting capital into its subsidiary to restore compliance with the capital policy if the subsidiary was unable to meet their capital policy for a period of four months. However, for the avoidance of doubt, I confirm it is not necessary for me to place any reliance on this aspect in forming my conclusions and I have not done so.

11.79 Taking into account all of the above, I am satisfied that the implementation of the Scheme would not have a material adverse impact on the security of benefits for the policyholders of the Companies. In relation to the regulatory approvals which Phoenix is seeking from the PRA (in particular in relation to TMTP), I am satisfied that there is minimal risk of these not being granted due to them being essentially a continuation of the current approaches.

12. The effect of the Scheme on the standards of service, administration, management and governance applicable to the policies

INTRODUCTION

12.1 In this section I have set out my consideration of the impact of the Scheme on the standards of service, administration, management and governance applicable to the policies of the Companies.

12.2 I set out my considerations in respect of each of these below.

ADMINISTRATION AND SERVICING

12.3 In assessing the impact of the Scheme on the standards of administration and servicing of the policies of the Companies, I need to consider both:

- The temporary impact of the Scheme on the customer service provided to policyholders of the Companies, due to expected increased activity in relation to the transfer; and
- The impact of the Scheme on the administration and servicing arrangements in place.

12.4 Phoenix has put in place various provisions to meet the anticipated temporary increase in demand on customer service as a result of customers contacting it about the Scheme. This covers both additional demand for customer service regarding the Scheme and Scheme communications, and additional business-as-usual queries triggered by receipt of the Scheme communications. These provisions include the following:

- Temporary staff have been recruited into the primary business-as-usual call centres covering Phoenix, PLAL and SLAL;
- Diligenta will recruit additional staff to handle Scheme queries for Phoenix and PLAL policyholders;
- Phoenix Group, through its ReAssure call centre will provide temporary capacity to handle Scheme queries for most of SLAL and SLPF with Diligenta dealing with the remainder of SLAL and SLPF. I note that it will actually be ReAssure UK Services Limited ("RUKSL") which will provide the services, as opposed to ReAssure itself; and
- Demand for customer services will be controlled through staggered Scheme mailings, provision of information via websites and use of contact forms on the website.

12.5 Both Diligenta and RUKSL have modelled their expected additional demand over this period (and hence their additional staffing requirements) based on the expected mailing populations, the length of the mailing period, and their experience of response rates. These estimates have been reviewed and agreed with Phoenix, and Diligenta and RUKSL's recruitment plans have been implemented.

12.6 Phoenix, Diligenta and RUKSL, both separately and collectively, have significant experience in handling schemes such as the one in question, and I am satisfied that they are well-placed to estimate appropriate staffing levels for both Scheme and business-as-usual type queries triggered by the communications. Based on the enquires and challenges which I have put to Phoenix, and the responses I have received, I am satisfied that the provisions in place will minimise the risk of disruptions to customer service over the communication period for the Scheme.

12.7 The arrangements in place between the service companies within the Phoenix Group, as well as the oversight process and governance for these arrangements, would not change as a direct result of the Scheme. Specifically, subject to the plans outlined in 12.14, following the implementation of the Scheme:

- Administrative services in respect of the current Phoenix policies will continue to be provided by PGMS and PGS, under the same terms;
- Administration services in respect of the former PLAL policies will continue to be provided by PGMS and PGS, under the same terms;
- SLAESL will continue to provide administrative service for the former SLAL policies; and
- SLAESL will continue to provide administrative services for the SLPF annuity policies that are currently reinsured to SLAL (and which would be transferred to Phoenix under the Scheme).

12.8 A change in administration arrangements is planned outside of the terms of the Scheme. PGMS sub-contracts some administration and servicing of Phoenix policies to Capita, and this is in the process of being migrated to Diligenta.

12.9 This planned change in administration is independent of the Scheme. Therefore, the Scheme itself would not have an impact on the quality of administration and servicing for the Phoenix, SLAL or SLPF policies.

12.10 PGS's arrangement with Diligenta to provide administration services for the PLAL policies (as well as the policies in the Phoenix) will be unaffected by the Scheme. The management oversight and risk and control reporting associated with the arrangement will also be unchanged.

12.11 Furthermore, the implementation of the Scheme would not have any direct effect on:

- The systems on which the policies of the Companies are stored and administered;
- The processes by which the policies of the Companies are serviced;
- The personnel in the teams that currently administer the policies;
- The standards and levels of service that the Companies require; or
- The metrics against which the Companies measure their success or otherwise in customer servicing.

12.12 In light of the consistency of administration and servicing arrangements applying pre- and post-Scheme, I am satisfied that the implementation of the Scheme would not have an adverse effect on the standards of service and administration applicable to the policies of the Companies.

12.13 Although not relevant to the administration of the policies of the Companies, I note that SLPF would continue its role (as described in paragraph 7.64) as the Instructing Parties Agent for SLAL's inbound property-linked reinsurance policies. It is planned that SLPF will cease to hold this administrative role as and when these policies are transferred to ALPL under the abrdn Transfer (described in paragraphs 8.89 onwards).

12.14 I note that Phoenix Group is planning to merge PGS and SLAESL into PGMS to form a single service company. This may occur prior to the Transfer Date or after the Transfer Date. I am satisfied that this change should not have any impact on policyholder servicing.

MANAGEMENT AND GOVERNANCE

Introduction

12.15 Following the implementation of the Scheme, there would be no changes arising from the Scheme to the teams managing the business of the Companies once all of the relevant business resides in Phoenix.

12.16 The governance frameworks of the Companies are already harmonised and so there will be no material changes to governance arrangements under the Scheme.

12.17 In particular, the Boards and Board committees of Phoenix, PLAL and SLAL (including the WPCs of Phoenix, PLAL and SLAL) currently have the same membership and structure, and in practice operate concurrent Board and committee meetings. Therefore, while these Board and committees would technically be combined under the Scheme to form a single Board and set of committees; in practice, the same Board and Committee members would be governing the same business as is currently the case.

12.18 SLPF currently has a separate Board and this will continue following the implementation of the Scheme. The SLPF Board does not have the same membership as the Boards of Phoenix, PLAL and SLAL, and there will be no changes to the SLPF Board membership and structure as a result of the Scheme. I note that, post Scheme, SLPF will not have any actual insurance business within it, and thus that consideration of its governance is less material than for Phoenix. Post-Scheme, the former SLPF policyholders will be covered by the full governance processes of Phoenix.

12.19 The structural changes effected by the Scheme would therefore have no adverse impact on the governance applying to the policies of the Companies.

12.20 However, there are some changes proposed either to the provisions of the Currently Applicable Schemes or alongside the Scheme that could impact the governance applying to these policies. These are:

- The PLAL PPFM being combined with the Phoenix PPFM in a single PPFM document;

- Removal of the annual certification requirements within the Currently Applicable Schemes; and
- Changes to the WPC Terms of Reference.

12.21 I set out my consideration of each of these proposed changes in relation to the governance applying to the policies below.

The proposed changes to the Phoenix, PLAL and SLAL PPFMs

12.22 Contemporaneously with the Scheme, the PLAL PPFM document would be combined as a single document with the Phoenix PPFM document. However, separate sections would remain in the Phoenix PPFM for each in-scope with-profits fund, including the newly created with-profits funds for the former PLAL business. Therefore, the principles and practices applying to different funds would continue to be easily identifiable to policyholders. Separate PPFM documents would be maintained in respect of the former SLAL With-Profits Funds which have UK policyholders, i.e., the Heritage WPF, and the UKSMWPF. The German WPF and the German Smoothed Managed WPF will continue to be managed via IPPFMs as currently, with the requirement under the SLAL Brexit Scheme to maintain IPPFMs in respect of the German WPF and German Smoothed Managed WPF passing from SLAL to Phoenix.

12.23 Furthermore, while some changes would be required to the PPFMs to reflect the changes brought about by the implementation of the Scheme, such as to reflect the transfer of PLAL and SLAL policies to Phoenix, to reflect updates to the sunset clauses for Phoenix and PLAL as already covered within this Report, to reflect the closure of the Heritage WPF to new business, and to extend the Capital Events protection to the enlarged Phoenix post-Scheme, there are no changes proposed to the substance of the principles and practices by which the Phoenix With-Profits Funds, PLAL With-Profits Funds or SLAL With-Profits Funds are managed.

12.24 Therefore, I am satisfied that combining the Phoenix and PLAL PPFMs into a single document, and amending the wording across all four current PPFMs to reflect the implementation of the Scheme, would not have an adverse effect on the governance applying to the with-profits policies in Phoenix, PLAL and SLAL.

12.25 Notice of the PPFM changes will be given in the Scheme communications, covered in Section 15, and the post-Scheme PPFM documents will be available to policyholders via the relevant websites or on request.

12.26 In reaching the above conclusions, I confirm that I have seen and reviewed the post-Scheme PPFM documents.

Removal of annual certification requirements within the Currently Applicable Schemes

12.27 The certification requirements in the Phoenix 2009 Scheme, the PLAL 2015 Scheme and the SLAC Demutualisation Scheme (as set out in paragraph 8.60) will not be replicated in the Scheme. These certification requirements are in respect of only certain with-profits funds, and broadly relate to whether Phoenix, PLAL and SLAL have operated the relevant funds in line with the schemes in which these certification requirements sit.

12.28 I have considered the extent and nature of these annual certification requirements (and reviewed the annual certificates themselves) and I am content that they do not contain any material certifications that are not otherwise required by the existing internal governance and regulatory compliance processes. In particular, the Boards (on the advice of the WPAs) already need to consider compliance with the relevant PPFMs and the FCA’s COBS 20 rules, as well as considerations in respect of treating customers fairly, and these requirements will continue to apply irrespective of the certification requirements in the Scheme.

12.29 Furthermore, I note that:

- All funds should be operated in accordance with any schemes that apply to them as a matter of law, regardless of whether or not a certificate is issued (and this applies to all funds within Phoenix post Scheme).
- Phoenix has operated its business in accordance with the historical schemes for many years, and so scheme compliance is well-established both in respect of those areas covered by certifications and those that are not.
- In particular for the SLAC Demutualisation Scheme, a number of elements are now formulaic with few elements of discretion, including the operation of the MEP as described in paragraph 7.16, and for areas where there is some discretion in the decisions, such as the allocation of expenses to the SLAL With-

Profits Funds, these are reviewed by the SLAL WPA and this practice would continue post-Scheme in line with FCA rules.

12.30 It is understandable as to why the certification requirements were introduced when the schemes in question were new. Having these certifications would have helped to ensure that processes were in place to check and monitor that the schemes were being followed. However, with the passage of time, and with governance processes having generally improved across the industry (partly in response to new regulatory requirements), it is also understandable that these certification processes no longer add any real additional value. In my view, the absence of these certification requirements within the Scheme would not have a material adverse effect on the governance applying to the affected policies.

Changes to the terms of reference for the WPCs

12.31 This area has already been covered by previous sections within this report – from paragraph 8.79 in terms of a description of the changes, and from paragraph 10.69 in terms of my analysis of and conclusions on the changes.

12.32 In relation to the governance aspects, the Scheme proposes a change in that immaterial or minor changes, or changes to correct errors or omissions in the WPC Terms of Reference would no longer need to be notified in advance to the FCA and PRA, provided that the Phoenix Board and WPC are in agreement that the change falls into this category. In practice, I would expect the Phoenix Board and WPC to seek and take into account the views of the Phoenix Chief Actuary and the relevant With-Profits Actuaries on this aspect. There is an overhead involved in notifying the FCA and PRA in advance and seeking a response, and in my experience it would normally be clear as to whether any proposed change falls into the category of immaterial/minor, or is to correct an error or omission.

12.33 I am thus satisfied that this change to the WPC Terms of Reference process will not result in any material detriment to policyholder interests.

OVERALL CONCLUSION

12.34 Overall I am satisfied that the implementation of the Scheme would not have any material adverse impact on the standards of service, administration, management and governance applicable to policyholders of the Companies. This conclusion applies both to the period when the Scheme process is underway (i.e. from the time of the policyholder mailings through to the Transfer Date), and to the period following the Transfer Date.

13. My considerations in respect of SL Intl policyholders

INTRODUCTION

13.1 As already noted previously in this Report, under the SLAL Brexit Scheme:

- The liabilities under the policies transferred from the Heritage WPF to the SL Intl Heritage WPF were reinsured back to the Heritage WPF, and the unit-linked benefits of certain policies so reinsured to the Heritage WPF were retroceded back to SL Intl; and
- The policies transferred from SLAL to the SL Intl PBF, with the with-profits investment liabilities transferred from the German WPF and German Smoothed Managed WPF to the SL Intl German WPF and the SL Intl German Smoothed Managed WPF respectively, were reinsured back to the original fund within SLAL.

13.2 Under the Scheme and the variations to the SLAL Brexit Scheme, these reinsurance arrangements will be transferred across to the newly created German WPF in Phoenix ("**Phoenix German WPF**"), the German Smoothed Managed WPF in Phoenix ("**Phoenix German Smoothed Managed WPF**") and the Phoenix Heritage WPF.

13.3 In addition to the above groups of policyholders transferred to SL Intl under the SLAL Brexit Scheme, I also (see paragraph 8.21) have to consider the position of the other SL Intl policyholders, i.e. those policies written by SL Intl both before and after the SLAL Brexit Scheme, and (for the avoidance of doubt) those policies transferred to SL Intl and not reinsured back to SLAL. I refer to these policyholders below as the "other" SL Intl policyholders.

13.4 As set out in paragraph 8.23, I note that the floating charge and the deed poll arrangements currently in place between SL Intl and SLAL will be replaced with equivalent arrangements between SL Intl and Phoenix, and that SL Intl will give a new undertaking to the Court of Session which will be in favour of Phoenix instead of SLAL. The fixed charge will transfer to Phoenix under the Scheme. These changes are relevant to my considerations below.

TRANSFERRED SL INTL POLICYHOLDERS

13.5 The changes to the provisions of the Currently Applicable Schemes and the updated and new provisions of the Scheme (as described in Section 8) all also affect the SL Intl policies reinsured into the SLAL With-Profits Funds. My considerations and conclusions on the impact of the Scheme and of the variations to the SLAL Brexit Scheme on the benefit expectations and on the security of benefits of the direct policyholders of the SLAL With-Profits Funds (set out in Section 10 and Section 11) equally apply to the reinsured policyholders of SL Intl.

13.6 I have commented in Section 15 on the policyholder communications aspects in relation to the transferred SL Intl policyholders.

OTHER SL INTL POLICYHOLDERS

13.7 I can see no reason why the Scheme or the modifications to the SLAL Brexit Scheme would have any effect on the determination of the benefits for any of the other SL Intl policyholders.

13.8 In order to consider any effect on the security of benefits of the other SL Intl policyholders, I have considered the effects of the Scheme on the SL Intl EEA Solvency II position. The summary Solvency II position as at 31 December 2022 is set out below.

Table 13.1 SL Intl EU Solvency II position as at 31 December 2022

€m	SL Intl total
Own Funds (€m) (**A**)	766
SCR (€m) (**B**)	329
Excess Own Funds (€m) (**C**=**A**-**B**)	437
Solvency Coverage Ratio – as per regulatory returns (**A/B**)	**233%**

Source: Phoenix / SL Intl

13.9 SL Intl have informed me that, as a result of the Scheme, there would be a number of changes arising to the above solvency position which have been estimated as follows:

- The SCR would increase by approximately €4 million. This is as a result of Phoenix becoming the reinsurer as opposed to SLAL, and the fact that the post-Scheme Phoenix solvency balance sheet is different to that of SLAL. The Solvency II balance sheet of the reinsurer affects certain aspects of SL Intl's SCR calculation under its internal model approach.
- The Own Funds would reduce by approximately €5 million. This comprises a reduction of €4 million as an increase in Risk Margin due to the above increase in SCR, and €1 million due to an increase in the counterparty default adjustment (this being a formulaic allowance within the Solvency II balance sheet for the expected defaults on a reinsurance asset).

13.10 In combination, the Excess Own Funds would reduce by approximately €10 million (allowing for rounding, which is a reduction of 2%) and the Solvency Coverage Ratio would reduce from 233% to 229%. SL Intl has a Capital Target Framework approach to its level of solvency which includes a certain minimum Solvency Coverage Ratio. I can confirm that the Solvency Coverage Ratio as set out in Table 13.1 above is materially in excess of the minimum under the SL Intl Capital Target Framework, and that this will, based on the above analysis, remain the case following the implementation of the Scheme.

13.11 The changes set out above to the SL Intl solvency position are not material, which is in line with my expectations given the nature of the reinsurance between SL Intl and SLAL/Phoenix. I can thus conclude that there will be no material adverse effect on the other SL Intl policyholders as a result of the Scheme and the modifications to the SLAL Brexit Scheme. I note that this conclusion also applies to the transferred SL Intl policyholders in relation to their direct relationship with SL Intl.

13.12 In addition to benefit expectations and benefit security, I can see no reason why the Scheme and the modifications to the SLAL Brexit Scheme would have any adverse effect on the servicing, administration, management and governance applying to the other SL Intl policyholders.

13.13 I understand there is no requirement to notify SL Intl policyholders of the Scheme, as they are not being transferred under the Scheme. However, the proposed changes that will affect SL Intl, including the changes to the SLAL Brexit Scheme, WPOP and Deed Polls, will be advertised via the press and through news alerts, with further information available on the SL Intl website. I am satisfied that this approach is reasonable.

SUMMARY

13.14 My considerations and conclusions in this Report apply to the transferred policyholders of SL Intl in relation to their benefits which are reinsured back to SLAL (currently) and PLL (post-Scheme).

13.15 I can also conclude that I see no material adverse effect on benefit expectations, benefit security, or any other aspect in relation to the other SL Intl policyholders

13.16 I have provided the relevant certificate in relation to the above conclusions in Appendix C.

14. My other considerations arising from the Scheme

INTRODUCTION

14.1 In this section, I have set out other considerations not covered in earlier sections of this Report that might nonetheless have a bearing on the Scheme and its impact on policyholders. I have also set out my considerations in respect of other parties who may be affected by the implementation of the Scheme, including policyholders of companies other than those directly involved in the Scheme (i.e., other than Phoenix, PLAL, SLAL and SLPF).

THE FUTURE OPERATION OF THE SCHEME

14.2 If the Scheme were to be sanctioned by the High Court (and subject to any subsequent amendment of the Scheme, as considered below), the Scheme would be legally binding. The Phoenix Board would be expected to implement the Scheme in accordance with its fiduciary duties under UK company law and its regulatory responsibilities under PRA and FCA rules, as well as its obligations to the High Court.

14.3 This Scheme would be sanctioned when a High Court Judge has made an Order to that effect and would become effective on the Transfer Date. However, if the Scheme did not become operative in its entirety on or before 1 January 2024, the Scheme would lapse and none of its terms would take effect.

14.4 At any time after the High Court's approval of the Scheme, Phoenix would be required to apply to the High Court for sanction of any amendments to it, except in cases where either the amendment is considered to be minor or technical, the Scheme explicitly permits the variation of the provision, or where the amendment is required to ensure the provisions of the Scheme operate in the intended manner (after obtaining approval of the relevant Phoenix WPA and the PRA and the FCA). The amendment may be applied for through the High Court, provided that certain conditions are met by Phoenix, including notifications to the PRA and the FCA, accompanying the application with a certificate from an independent actuary stating that in their opinion, the proposed amendment does not materially adversely affect the security or reasonable expectations of the policyholders, and compliance with the High Court's directions regarding publicity of the proposed amendment.

14.5 Should Phoenix obtain approval from the High Court to amend the Scheme, then the Scheme can be amended in accordance with the consent.

14.6 If in the future the reinsurance arrangements for the German Smoothed Managed WPF, German WPF, or the Heritage WPF with SL Intl are terminated, then the Scheme will automatically be varied to reflect this.

14.7 As described in Section 5, Phoenix is subject to a number of previous schemes, and is therefore experienced in ensuring that the provisions of those schemes are adhered to.

14.8 In my opinion there are reasonable safeguards in place to ensure that, if approved by the High Court, the Scheme will be operated as presented to the High Court.

THE EFFECT OF THE SCHEME ON OTHER COMPANIES IN THE PHOENIX GROUP NOT DIRECTLY AFFECTED BY THE SCHEME

Introduction

14.9 Although the position of other companies in the Phoenix Group is not directly part of my scope, I have for the sake of completeness considered the effect of the Scheme on the other companies within the Phoenix Group.

Additional considerations for SL Intl policyholders

14.10 I consider the effect of the Scheme on SL Intl policyholders in Chapter 13.

Additional considerations for PLAE policyholders

14.11 Under the Phoenix Brexit Scheme, certain with-profits, unit-linked and non-profit policies of RLL and Phoenix were transferred to PLAE. There are reinsurance arrangements in place to reinsure back to Phoenix the business transferred from the Phoenix With-Profits Funds (including any non-profit business in these funds), as well as to reinsure back to Phoenix and RLL the unit-linked component of unit-linked business transferred from Phoenix and RLL respectively.

14.12 Owing to this reinsurance, the changes to the provisions of the Currently Applicable Schemes (described in Section 8) would also affect the PLAE policies that were originally Phoenix policies. However, my conclusions on the impact of the Scheme on the benefit expectations of direct policyholders of the Phoenix With-Profits Funds and on direct unit-linked policyholders (set out in Section 10) equally apply to the reinsured policyholders of PLAE.

14.13 As RLL is not a party to the Scheme, none of the changes under the Scheme would affect the PLAE policies that were originally RLL policies.

14.14 The Scheme would not have any effect on the servicing, management, administration or governance applying to the PLAE policyholders.

14.15 I note that there is no requirement to notify PLAE policyholders transferred to PLAE under the Phoenix Brexit Scheme as they are no longer policyholders of Phoenix. As already noted above, some of the changes to the provisions of the Currently Applicable Schemes (such as those in relation to with-profits sunset clauses and unit-linked fund termination and merger provisions) would also affect the PLAE policies which are reinsured back to Phoenix. However, the relevant policyholders were notified of similar or equivalent changes being possible as part of the policyholder communications under the Phoenix Brexit Scheme. Furthermore, PLAE will update its website to inform its policyholders of the existence of the Scheme to transfer PLAL and SLAL/SLPF into Phoenix. I am thus content that an appropriate approach to communication with the PLAE policyholders has been and is being undertaken.

Additional considerations for ReAssure, RLL and SLOC policyholders

14.16 None of the changes proposed under the Scheme would impact ReAssure or RLL, and there are no reinsurance arrangements between the Companies and either ReAssure or RLL. Therefore the implementation of the Scheme will not affect the policyholders of ReAssure or RLL. The same is true in relation to the policyholders of SLOC following its recent acquisition into the Phoenix Group.

Position of The Phoenix Group

14.17 For the sake of completeness and as noted in paragraph 9.25 above I note that there is no material change in the solvency position of The Phoenix Group, which is relevant to all companies within The Phoenix Group.

THE EFFECT OF THE SCHEME ON REINSURERS

14.18 As described in Sections 5, 6 and 7, the Companies have various external reinsurance arrangements. These arrangements will be unchanged by the Scheme, other than the current PLAL and SLAL arrangements that will be transferred to Phoenix. The relevant company will contact the reinsurer giving them notice of the Scheme.

14.19 In addition, there are unit-linked investment only reinsurance arrangements with external parties where the unit-linked policyholders of SLAL can invest in the external insurers unit-linked funds as a ‘guest fund’ (as described in Section 7). These ‘guest fund’ arrangements, including the associated security arrangements, will be transferred from SLAL to Phoenix under the Scheme, but will otherwise be unchanged.

TAX

14.20 PwC have produced a report which described the consequences of the Scheme on tax issues. I refer to this report as the “PwC tax report”. In forming my view on the Scheme, I have taken this report into account as expert opinions on the tax implications of the Scheme on the Companies, including policyholders. In addition, Phoenix are seeking confirmation from His Majesty’s Revenue and Customs (“**HMRC**”) in respect of the impact of the Scheme on taxation matters affecting the companies.

14.21 The PwC tax report concludes that the Scheme is expected to be UK tax neutral for policyholders. In particular:

- There are no significant changes expected in respect of tax paid by the with-profits funds of Phoenix, PLAL and SLAL;
- There is not expected to be a negative impact on the UK tax position of policyholders;

- The corporate tax treatment of the Scheme is expected to be broadly neutral overall, and the transfer of the reinsurance treaties from SLAL to Phoenix should not incur any additional UK corporate tax;
- The corporate tax profile of Phoenix post-Scheme is similar to the combined tax profile of the Companies;
- There are not expected to be any losses of value in respect of tax related attributes; and
- There is expected to be a tax related charge of €6 million in respect of German Real Estate Transfer Tax arising from German property assets within the German WPF of SLAL. This charge will be paid by shareholders of PGH. There are no other significant UK or overseas transfer taxes that are expected to be crystallised under the Scheme, however any non-trivial taxes which arise on policyholder assets in with-profit funds or in unit-linked funds would be covered by the shareholders of PGH.

14.22 In addition, the Phoenix Group's tax team have concluded that there are also not expected to be any VAT related charges. I understand that PwC have confirmed to Phoenix that they agree with this position.

14.23 In summary, after taking into account the analysis carried out by PwC and the Phoenix Group's tax team, I am satisfied that the Scheme will not materially adversely affect any policyholders of the Companies.

UK SOLVENCY II REVIEW

14.24 The current regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II, and it imposes solvency requirements that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are subject to Solvency II, and as a result are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.

14.25 The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021 the UK has been free to determine an appropriate regulatory regime for insurance companies, which is referred to in this Report as "UK Solvency II". A few changes have been made to date to the Solvency II regime as it is applied to UK incorporated and authorised insurers, including a change to the yield curves used to discount the components of the Solvency II balance sheet, which came into force during 2021.

14.26 The UK Government published a full consultation document on proposed UK reforms to Solvency II in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. In November 2022, the UK Government and the PRA published responses to the consultation. The proposed reforms include:

- A substantial reduction in the Risk Margin;
- A requirement for additional attestation in relation to the MA;
- A potential expansion of the scope of the MA; and
- A reduction in the level of regulatory reporting.

14.27 The precise specification, and therefore impact, of these proposed reforms is not yet known. However, any changes that arise from the UK reforms to Solvency II will impact the Companies whether the Scheme is implemented or not, and there is not currently any reason to believe that the impact would materially differ due to the implementation of the Scheme.

ACCESS TO THE FINANCIAL SERVICES COMPENSATION SCHEME AND THE FINANCIAL OMBUDSMAN SERVICE

14.28 As Phoenix is a UK-regulated company like PLAL, SLAL and SLPF, the access for the transferring policyholders to the Financial Services Compensation Scheme and the Financial Ombudsman Service would be unaffected by the Scheme. I note that for policies held by trustees as opposed to directly by individuals (such as Trustee Investment Plans), these schemes/services have detailed rules as to whether such policies are covered, and the position here would not be affected by the Scheme.

THE FCA CONSUMER DUTY RULES

14.29 In July 2022, the FCA published its Policy Statement and Finalised Guidance for the new Consumer Duty, which will set higher and clearer standards of consumer protection across financial services in the UK and require firms to put their customers' needs first. The Consumer Duty includes a new Consumer Principle that requires firms to act in a way that delivers good outcomes for retail customers. These rules will come into force on 31 July 2023 for new and existing products or services that are open to new business, and on 31 July 2024 for closed products or services. I note that the Scheme includes provisions for the new FCA Consumer Duty Rules to come into effect. At the time of finalising this Report, the Companies (as is the case for the UK life insurance industry generally) are in the process of determining the exact extent, implications and practical implementation needs of these new rules. I note, however, that the new rules go a step further than the principle of treating customers fairly and require firms to look at all aspects of the running of their business. I note that any impacts arising from this process will be the same whether or not the Scheme is implemented. In particular, the same standards under the FCA Consumer Duty Rules will apply to all of the Companies and policyholders, regardless of the fund in which the customers' policies reside. I am not aware of any aspect of the Scheme or its implementation which would form any impediment to the enlarged Phoenix post-Scheme implementing the requirements of the new FCA Consumer Duty Rules. If anything, having all of the business within the same entity may make it easier to achieve consistency of implementation across all of the business involved.

EMERGING RISKS & VOLATILITY

14.30 When considering the impact of the implementation of the Scheme, I have continued to review emerging risks in the wider operating environment and whether these affect my conclusions in relation to the Scheme. In light of recent and ongoing events, such as the Covid-19 pandemic and the war in Ukraine, I have considered a range of scenarios that, in my view, are the most plausible and relevant to the Scheme, including:

- The potential for further volatility in financial markets;
- The potential for operational disruption within the Companies;
- The potential for disruption to third parties that play a role in the implementation of the Scheme; and
- The wider societal impacts that may affect policyholders' ability to engage with the Scheme.

14.31 I note that the impact of climate change is a key emerging risk for all insurance companies and will affect both the assets and liabilities of insurance companies. The Bank of England has particularly emphasised that assessing and managing the risks arising from climate change are a key priority for insurers. However, this risk will apply regardless of the Scheme and the Scheme will not impact the emergence of this risk.

14.32 In the event that I considered that any emerging risks were to render it inappropriate for the Companies to proceed with the Scheme within the planned timeframes, I would make my views on this known to the Companies. Based on current conditions, in my view it remains appropriate for the Companies to continue to pursue the Scheme. However, I will continue to monitor this and I will provide an update in my Supplementary Report. My Supplementary Report is expected to include updated financial information and analysis as at 30 June 2023. The effect of any significant market volatility arising between 30 June 2023 and the date of my Supplementary Report will be covered in my Supplementary Report, and I will if necessary further update the Court of Session and the Court prior to the relevant Sanction Hearings.

OPERATIONAL READINESS FOR THE SCHEME

14.33 Implementation of the Scheme process, from the commencement of the policyholder mailings, through to the final processes which take place on the Transfer Date and immediately thereafter, clearly constitutes a major operational exercise for the Companies. Although this is a significant Part VII Transfer involving four companies and many policyholders, it remains the case that:

- There are no migrations of policy administration systems, either internally within the Phoenix Group or externally with any outsourcers, that need to take place or are planned to take place as a result of this Part VII Transfer. A number of migrations have been referred to in this Report for completeness, but all will progress independently of the implementation of the Scheme.
- For all of the policies in each of the Companies, the operations and the processes for collecting premiums, investing assets, determining policy benefits, and paying claims will remain unchanged at the implementation of the Scheme. The changes referred to in this Report (such as in respect of with-

profits sunset clauses and unit-linked fund mergers) are changes which will have their effect over time as opposed to immediately.

If present, either of the above features would add significantly to the degree of operational risk in relation to the Scheme and would significantly increase the extent of operational readiness testing that would be necessary. The fact that neither is present in this case does mean that the consideration of operational risk and operational readiness in relation to this Scheme is at the more straightforward end of the spectrum.

14.34 I have been provided with the latest operational readiness progress report for the Scheme (dated March 2023), and I have reviewed this and raised questions and challenges on it with the Companies. The progress report is comprehensive and indicates that overall the operational readiness planning is on track with a “green” status, albeit with a small number of tasks and issues still to be fully resolved, as may be expected at this stage of the process.

14.35 I will continue to monitor the state of operational readiness for the implementation of the Scheme, including the outstanding tasks and issues, and provide an update in my Supplementary Report.

SANCTIONED INDIVIDUALS

14.36 I have been informed by Phoenix that there are three customers of SLAL who are subject to UK sanctions as a result of the conflict between Ukraine and Russia. They hold policies/plans which are small to medium sized unit-linked pension type products, and therefore represent a very small part of SLAL’s liabilities.

14.37 If it is legally possible to transfer these policies/plans to Phoenix under the Scheme, then in my opinion this would be preferable to leaving them within SLAL and reinsuring their liabilities to Phoenix as Excluded Policies. If they cannot be transferred then their liabilities would be reinsured to Phoenix as Excluded Policies, and assets would need to be retained within SLAL to meet minimum regulatory capital requirements until such time as they could be transferred to Phoenix. I can confirm that this would not be a material issue and would not affect any of my conclusions as set out in this Report.

14.38 I understand that there are no policies subject to sanctions in PLAL or SLPF.

14.39 I will provide any relevant update in relation to this issue in my Supplementary Report.

EFFECTS OF SCHEME NOT PROCEEDING

14.40 For the sake of completeness, I have considered the likely effects on all policyholders of the Companies if for any reason the Scheme were not to be put into effect.

14.41 In such a scenario, all arrangements would continue as currently and there would be no immediate effects (adverse or beneficial) on any policyholders. However, the benefits of the Scheme as set out from paragraph 8.1 in terms of simplification and greater operational, capital, and expense efficiency would not be realised.

14.42 Additionally, were the Scheme not to proceed, the medium and longer term benefits to policyholders from the greater flexibility and options which the Scheme provides for in relation to the changes to with-profits sunset clauses (for most of the with-profits funds) and changes to unit-linked fund merger and closure provisions (for most of the unit-linked policyholders) would not be realised.

OTHER REGULATORY MATTERS

14.43 My considerations in respect of the relevant Solvency II regulatory approvals post-Scheme are set out from paragraph 11.61. I consider here certain other regulatory applications and approvals.

14.44 Phoenix post-Scheme will require additional regulatory permissions in respect of pensions and investments, each covering dealing in investments as agent and managing investments. These arise from the administration of the SLAL SIPP business transferring to Phoenix. An application for these additional permissions has been made by Phoenix.

14.45 Phoenix has undertaken a review of all current rule waivers across the Companies, and is currently of the view that it needs to apply for only one waiver in connection with the Scheme. This is a waiver under the FCA COBS rules (currently granted to SLAL) in relation to the benefit illustrations which are provided to policyholders under what is commonly known as the “statutory money purchase” basis. Phoenix will apply for this waiver in April 2023. Phoenix is continuing its work to confirm that no other waivers will be required.

14.46 Phoenix will need to submit “change of control” applications to the regulators in respect of the change of ownership of SLPF and Standard Life Lifetime Mortgages Limited (which is another subsidiary of SLAL) from SLAL to Phoenix.

The relevant notice is expected to be submitted by the end of May 2023. If regulatory consent to these changes of control is not received by the Transfer Date then use will be made of the Residual Asset facility within the Scheme and the shares of the relevant subsidiary will be held on trust for Phoenix until the change of control consent is received, at which point the relevant subsidiary will transfer to Phoenix.

14.47 It will be for the PRA/FCA as applicable to consider the above applications and changes of control. In relation to the regulatory permissions and waiver applications, I note that these are already granted to SLAL and the applications are to replicate them within Phoenix. In relation to the changes of control, I note that these are a direct consequence of the Scheme. I am therefore of the view that it is reasonable to assume that these additional permissions, waiver and changes of control will be forthcoming from the regulators. My understanding is that, of these, only the additional permissions for Phoenix are a pre-requisite of the Scheme proceeding, and in my view and experience there is minimal risk of these not being granted by the Transfer Date given that SLAL already has these permissions. In the event that the Scheme is implemented without these additional permissions being in place, then Phoenix would be in breach of the relevant PRA/FCA rules. Such a situation would not in my opinion give rise to any material adverse impact on any policyholder benefits or policyholder security, but there would likely be some regulatory and potential reputational consequences for Phoenix as a result of such a breach.

14.48 I will provide an update on these matters in my Supplementary Report.

CONTRACTUAL CONSENTS

14.49 There are some contracts held by PLAL, SLAL, or SLPF (not being long term insurance policies) which are not subject to the laws of England and Wales, Scotland, Jersey and Guernsey, and where the sanction of the Scheme by the High Court may not be effective in transferring the contracts to Phoenix. Phoenix will seek to agree with the relevant counterparties to novate these contracts to Phoenix. In the event that this is not possible by the Transfer Date, I understand that arrangements will be made (via the Residual Asset facility within the Scheme) to transfer the economic benefits of the contracts to Phoenix pending full legal transfer. Similar or equivalent arrangements will apply in relation to any overseas subsidiary companies which will transfer to Phoenix under the Scheme.

14.50 I understand that this is a common situation which arises in relation to Part VII Transfers and that the approach being adopted by Phoenix is the usual approach in such situations. I will provide any applicable update on this matter in my Supplementary Report.

EXPOSURE TO CREDIT SUISSE

14.51 During March 2023, the Swiss authorities co-ordinated an all-stock takeover of Credit Suisse by another Swiss bank, UBS. There was a material reduction in value to Credit Suisse shareholders, and the Additional Tier 1 bonds issued by Credit Suisse became valueless.

14.52 Phoenix Group has assessed its exposure to Credit Suisse, in particular as regards to the Companies. Shareholder funds contained certain Credit Suisse bond holdings (which have now become UBS bond holdings), but contained none of the Additional Tier 1 bonds. Phoenix held certain derivatives with Credit Suisse, which have now become derivative holdings with UBS. Exposure to Credit Suisse within policyholder investment funds (both unit-linked and with-profits) was minimal, with no exposure to the Additional Tier 1 bonds in any of the policyholder investment funds managed by abrdn. Phoenix is awaiting confirmation in respect of the Additional Tier 1 bonds from its other major investment managers.

14.53 I am satisfied based on the information available to date that the situation in relation to Credit Suisse is not material for the Companies or for any of their policyholders, and I note further that the position in relation to Credit Suisse is effectively the same both pre-Scheme and post-Scheme. I will provide any further relevant update in my Supplementary Report.

15. The approach to communications with policyholders

INTRODUCTION

15.1 Regulations under the FSMA require a communication regarding the Scheme to be sent to every policyholder of the parties under the Scheme. However, this requirement may be modified via dispensations at the discretion of the High Court, which will give consideration to issues such as the impact of the Scheme on each group of policyholders. The proposed communications regarding the Scheme can be split into two broad groups:

- Communications to PLAL, SLAL and SLPF policyholders (who are actually transferring under the Scheme); and
- Communications to Phoenix policyholders (who are not transferring under the Scheme).

TRANSFERRING POLICYHOLDERS

15.2 Subject to certain minor proposed dispensations (set out later in this section), PLAL, SLAL and SLPF will send a version of a pack of information setting out the details of the Scheme (the "**Mailing Pack**") to their policyholders. The variant of the Mailing Pack received will depend on the policyholder group and will also vary by company, brand and product type. In addition the communications will be provided using branding that the customer is familiar with. The details of the Mailing Pack are set out from paragraph 15.26. Hence all policyholders actually transferring under the Scheme will receive a Mailing Pack.

THE PROPOSED DISPENSATION APPLICATIONS

Policyholders of Phoenix

15.3 The policies of Phoenix will not be transferring to a different company (unlike the policies of PLAL, SLAL and SLPF) and so Phoenix intends to seek a dispensation from the requirement to directly contact all of its policyholders. Instead, it proposes to send a letter to policyholders if the Scheme would (in Phoenix's view) result in changes that are relevant to them. In particular:

- All with-profits policyholders of Phoenix would be notified as there are various changes to the Currently Applicable Schemes, such as changes to sunset clauses, which will affect the with-profits policyholders.
- Most unit-linked policyholders of Phoenix would be notified, as there are various changes to the Currently Applicable Schemes, such as changes to termination and merger clauses for Linked Funds, which will affect the unit-linked policyholders. The exception to this is holders of policies that invest in unit-linked funds in the Phoenix Wealth, Hill Samuel, Target Life and Abbey Life fund ranges. It is proposed that these policyholders are not notified as there are no significant changes under the Scheme that impact their unit-linked policies.
- None of the non-profit policyholders (including those within with-profits funds, excluding unit-linked policyholders) would be notified as Phoenix believes it would be disproportionate to the effect of the Scheme on these policyholders.

15.4 Allowing for these proposed dispensations, approximately 60% of the policyholders of Phoenix (holding approximately 2 million policies) would not be notified of the Scheme.

15.5 I note that Scheme guides and Q&A leaflets will be available on the Phoenix websites, and printed copies of these documents will be provided to policyholders on request, including those who do not receive a Part VII letter as set out above.

15.6 Although the basic FSMA requirement is to contact all policyholders within the companies involved in a Part VII Transfer, it is accepted and established practice that dispensations may be sought for the lesser affected policyholders. This balances the desire to inform policyholders against the cost of so doing, and against the possibility of causing policyholders to worry unnecessarily. I am satisfied that it is reasonable not to notify the non-profit policyholders and certain unit-linked policyholders of Phoenix for the following reasons:

- These policies are not transferring to a different company. Although there is the possibility of a change in the security of benefits from the transfer of the PLAL, SLAL and SLPF business, and from the consolidation of the non-profit funds of the Companies, I have concluded in Section 11 that I am satisfied that the implementation of the Scheme would not have a material adverse impact on the security of benefits for the policyholders of the Companies;

- The Scheme would not result in any changes to the benefits or terms and conditions for these policies, and so benefit expectations for these policyholders would be unchanged in all circumstances; and
- The Scheme would not result in any changes to the servicing, administration, management and governance arrangements applicable to these policies.

15.7 In addition, there is the risk that notification of the Scheme could be more detrimental than beneficial given the minimal impact of the Scheme on these policyholders. The notifications could cause unnecessary concern for some policyholders, including older policyholders and those with annuities who rely on the income from their Phoenix policy, when their position under the Scheme is straightforward as noted in the previous paragraph.

15.8 I am thus satisfied that the application for a dispensation from the regulatory requirement to send a written notice to certain Phoenix policyholders as set out above is reasonable.

Policyholders of PLAL

15.9 As the policyholders of PLAL will be transferring to a different company (i.e., Phoenix) as a result of the Scheme, other than the overarching dispensations described from paragraphs 15.11 onwards, the Companies do not intend to seek any dispensations from notifying the policyholders of PLAL.

Policyholders of SLAL

15.10 The policyholders of SLAL will be transferring to a different company (i.e., Phoenix) as a result of the Scheme. Dispensations from notifying these policyholders are limited to the following:

- For external Property-Linked Reinsurance Reassurance Policies, the relevant external insurance company will be notified, rather than the customers of these external insurers who then invest in SLAL funds. It will fall to the external insurers to determine whether and if so how to notify their policyholders. I note that SLAL unit-linked policyholders that invest in external unit-linked funds (which category includes my own policies) will receive the mailing pack directly; and
- The dispensations described in paragraphs 15.11 onwards.

Definition of policyholder

15.11 The definition of policyholder has a wide scope under the FSMA, and the FCA Final Guidance states that the FCA's definition of "policyholder" is broad.

15.12 The Companies intend to seek a dispensation from the wide scope of the definition of policyholder as specified in the FSMA as it would not be possible to identify every person who may have a beneficial or underlying interest in every policy. For example:

- Persons may have become "policyholders" without the Companies having been notified (for example if a policy is sold on the traded endowment or second-hand market).
- The operational records used by the Companies may not always identify every policyholder.
- The contact details of some policyholders may not be known; for example, ex-spouses that are a beneficiary under a policy following a divorce settlement.

15.13 In line with the examples set out above, I am satisfied that the definition of policyholder proposed by the Companies is appropriate, and in line with normal practice for similar schemes.

Goneaways

15.14 **Goneaways** are policies where the company does not have a valid address for the policyholder, and subsequent reasonable attempts to trace the policyholder or scheme have been unsuccessful. This also includes policies where the address is held in a non-electronic form or the details are incomplete. The Companies intend to seek dispensation from sending a written notice of the Scheme to goneaways, as it will not be possible for the Companies to notify these policyholders.

15.15 Where an address is held for a customer that the Companies are reasonably confident is correct but is not validated, a generic letter (without any policyholder or policy specific information) will be sent to notify these customers and to direct them to the Companies' websites for more information.

15.16 The proportion of goneaways varies in each of the Companies:

- For SLAL, after a goneaway tracing exercise in 2021, the goneaway rate is now relatively low at approximately 5% of customers. For SLPF, there are no goneaway cases.
- For PLAL and Phoenix (excluding the Phoenix Wealth, PCIS and SunLife branded business, but including industrial branch business), the overall goneaway rate is approximately 23%.
- For the Phoenix Wealth and SunLife branded business the overall goneaway rate is approximately 3.5%, and for the PCIS branded business there are no goneaway cases.

15.17 These proportions of goneaways are in line with those which I have seen for other UK life insurance companies, including those who are at the more advanced end of the spectrum in terms of the management of goneaways. For industrial branch business in particular, goneaway rates are often relatively high as these policyholders can be very difficult to trace owing to the high age of the policyholder, the long duration in-force, and limited data. Policyholder records for this business were often originally paper based and incomplete, with for example the full name and address of the policyholder never having been recorded right from the original sale. Discussions which I have had with specialist life industry tracing companies confirm that it can be almost impossible to trace these cases. The goneaway rate referred to above of approximately 23% for the category which includes the industrial branch business is thus not unexpected.

15.18 To seek to bring the Scheme to the attention of goneaway customers, the Companies will include news alerts on their customer facing websites and will include additional advertising in UK national newspapers. Additionally for goneaway industrial branch customers, the Companies propose to advertise in a number of regional newspapers where they believe the industrial branch business was sold. For other material pockets of goneaways branded Phoenix Life, if any, that will not fall under a business-as-usual tracing exercise, there will be additional policyholder tracing carried out prior to the commencement of the Scheme mailing.

15.19 I have reviewed and discussed with the Companies' their strategy for re-engaging with goneaways, both as part of the business-as-usual processes, and the additional steps in respect of advertising the Scheme as set out above. I am satisfied that the steps that have been taken to minimise the number of goneaways are reasonable and proportionate, and in line with normal practice for similar schemes. I am also satisfied that the steps taken to minimise the number of goneaways are reasonable in relation to any approaching sunset clauses.

Group pension schemes and Trustee Investment Plans

15.20 In respect of group pension schemes and trustee investment plans it is proposed that the Companies will notify the pension scheme trustees only, requesting that trustees notify their members, with support from the Companies to communicate with their members as required, and to direct the members to the Companies' websites for more information on the Scheme. Members will also be made aware of the Scheme through the proposed advertising program (consistent with FSMA requirements) and via the Companies' websites.

15.21 The exception to this is where the relevant company sends business-as-usual communications to members of the schemes directly; in this case the company will send notification to both the Trustees and to the members of the relevant group pension scheme.

15.22 I am satisfied that this proposed approach is reasonable as it is in line with the business-as-usual approach to communications with these policyholders.

Other proposed dispensations

15.23 There are various other dispensations proposed by the Companies including:

- Where the legal title to a policy has passed to a trustee in bankruptcy in England, or a trustee in the case of sequestration in Scotland, then information on the trustee may not be held on the system, potentially because it has not been provided to the relevant company. Therefore, only trustees whose details are recorded can be notified. The mailing pack will also be sent to the bankrupt policyholder if recorded as an addressee on the Companies' records. The Companies will also write to Insolvency Service (in England

and Wales), the Accountant in Bankruptcy (in Scotland) and the Insolvency Service (in Northern Ireland) to inform them of the Scheme in general terms.

- Some policies sold by the Companies allow the nomination of a beneficiary to receive the accrued fund value, or regular payment in the case of an annuity, on the death of the named policyholder. For these policies the named policyholder will be contacted about the Scheme, and they will be asked to notify their beneficiaries themselves directly.
- For joint life policies, only the main policyholder for the policy would be notified, unless the second policyholder has registered a different address with the Companies, in which case the second policyholder would also be notified.
- For assignees and persons nominated under a Power of Attorney, where a valid address is held these would be notified instead of the named policyholder.
- For second-hand traded endowments, the person whose address is currently held would be notified.

15.24 I have reviewed these additional dispensations and I am satisfied that these are appropriate and in line with normal practice for similar schemes.

CONTENTS OF COMMUNICATIONS WITH POLICYHOLDERS

Introduction

15.25 Having set out the dispensations sought and their corresponding rationales, I now consider in more detail the structure and content of the direct written communication with the relevant policyholders. I note that the Companies have designed the structure and content of the communications in order to provide policyholders with the relevant information in an efficient and logical manner and in line with the communication methods and styles which the various classes of policyholders are accustomed to seeing.

The Mailing Packs for policyholders of PLAL

15.26 The Mailing Packs will vary by policyholder grouping. These groups are:

- Policyholders holding a with-profits policy (including a with-profits annuity policy);
- Policyholders holding a non-profit annuity only; and
- Policyholders holding a non-profit policy (other than an annuity) or a unit-linked policy.

15.27 The Mailing Packs for these policies will contain:

- A Part VII letter, for which there is a variant for those customers holding a non-profit annuity only, and a variant for all other PLAL customers. This will include key messages, signposting of relevant information including on the website, and providing details of the court processes for policyholders residing in Guernsey and Jersey. For non-profit annuity policies, the Part VII letter will include Q&As;
- A detailed guide to the Scheme, with a variant for non-profit annuity only cases and a main guide for all other PLAL policies, which will contain:
  - A summary of the terms of the Scheme and a summary of this Report (which has been drafted by me), which will differ depending on whether the policy is a non-profit annuity or another type of policy; and
  - A copy of the legal notice to the High Court.
- For with-profits policies only, a with-profits leaflet setting out the changes relevant to them including changes to the PPFM; and
- For with-profits and non-profit (excluding annuity) policies, a Q&A leaflet with answers to key questions regarding the Scheme.
- The above will contain details of how policyholders can contact Phoenix, raise objections, and/or attend the final Court hearing.

15.28 Trustees will also receive a Mailing Pack, including a variant of the Part VII letter, the main Scheme guide, the with-profits leaflet, and a Q&A leaflet.

The Mailing Packs for policyholders of SLAL and SLPF

15.29 The Mailing Packs will vary by policyholder grouping. For SLAL, the main groups are:

- Policyholders holding a with-profits policy;
- Policyholders holding a non-profit policy or a unit-linked policy;
- Policyholders within a master trust;
- Trustees of an own trust, including those with an own trust investing in with-profits;
- Policyholders who are expected to transfer to abrdn under the abrdn Transfer.

15.30 The Mailing Packs for these SLAL policies will contain:

- A Part VII letter, for which there are variants by type of product including with-profits and non-profit (including annuities and unit-linked), master trusts and own trust (including those invested in with-profits), as well as a variants for customers with a Fidelity branded product and customers whose policies are expected to transfer to abrdn. Customers expected to transfer to abrdn will receive two letters, one from abrdn and a letter from SLAL. There will be two variants of these letters, one tailored to TIP products and one tailored to Wrap SIPP and Wrap Onshore Bonds. The letters make clear that it is proposed that the policies will transfer to abrdn post-Scheme. The Part VII letter will include Q&As, key messages, signposting relevant information including on the website, and providing details of the Scottish court process to vary the existing SLAL schemes and the court processes for policyholders residing in Guernsey and Jersey;
- A detailed guide to the Scheme, with variants for Wrap SIPP and Wrap Onshore Bonds, TIPs and a main guide for all other SLAL policies, which will contain:
  - A summary of the terms of the Scheme and a summary of this Report (which has been drafted by me), which will differ depending on whether the policy is a TIP, Wrap SIPP or Wrap Onshore bond, or another type of policy;
  - Q&As; and
  - A copy of the legal notice to the High Court.

15.31 Trustees will also receive a Mailing Pack, including a variant of the Part VII letter and the main Scheme guide. Own Trust Trustees will also be directed to a sample letter on the SLAL website which they can adapt to inform their members as to the existence of the Scheme and to the changes it will make.

15.32 For master trust customers, SLAL will contact these customers directly to inform them of the Scheme. This is because they receive their regular communications from SLAL directly.

15.33 For SLPF, all policyholders hold either an immediate or a deferred annuity. The policyholders of SLPF will receive a Part VII letter and an SLPF Scheme guide.

15.34 For new policies sold by SLAL after the direct mailing process for existing policyholders has begun, a flyer will either be included in the new policy pack sent to new customers or will be provided by their adviser with the pre-sales information. This will inform them of the Scheme. SLAL will ensure that all policyholders whose policy commenced after the mailing cut-off date in mid-August 2023 and before 2nd September will be sent the relevant mailing pack. These packs will be issued in monthly batches, and the final batch is expected to be delivered to policyholders by 22nd September. Policyholders whose policy commences on or after 2nd September will receive a flyer notifying them of the transfer, their right to object and signposting further information on the website and available from the helpline.

15.35 Many SLAL policyholders receive their regular communications via email, rather than by post. Where this is the case, the relevant Mailing Pack will be sent to the policyholders via email, rather than in hard copy by post. This aligns with the policyholders' preferred method of communication with SLAL and the process is well-established. Customers will receive an email notification that differentiates this from a business-as-usual email, highlights the importance of the communication, and provides key content from the covering letter. Policyholders can then view a digital copy of the full communication via an online document store. Policyholder email addresses are checked regularly to ensure they remain up-to-date and there is an established bounce-back process to manage undelivered emails. A paper reminder will be sent where emails remain unopened, and a paper copy of the Mailing Pack will be sent to customers where the emails bounce back. SLAL has prepared and I have reviewed a detailed check-list and analysis as to how this procedure for email communications compares with the FCA guidance on this matter as set out in the FCA Final Guidance. This shows that all the aspects of the FCA requirements are satisfied in this case. I note that this analysis also covers a small proportion of SLAL policyholders who receive communications by text message. I am thus satisfied that using email (or text message) communications for these policyholders is appropriate and that the communication approach will be effective.

The Part VII Letter (and other materials) for policyholders of Phoenix

15.36 There are several variations of the Part VII letter, including a main customer letter, a letter for trustees, a letter for BPA trustees, and a letter for Phoenix Corporate Investment Service ("**PCIS**") branded trustees.

15.37 The Part VII Letter will notify the existing Phoenix policyholders of the Scheme, who hold with-profits or certain unit-linked policies, and will cover the changes relevant to them; in particular:

- For with-profits policyholders, a with-profits sheet will also be provided alongside the letter to cover with-profits related aspects, including changes to the PPFM, sunset clauses, the closure of the NPI WPF and the other relevant changes; and
- For unit-linked policyholders, the letter will cover the proposed changes to the termination and merger provisions for Linked Funds.

15.38 The Part VII Letter will also inform the policyholder that guides to the Scheme are available on the Phoenix websites, and that printed copies can be provided on request. The Phoenix main Scheme guide is suitable for the majority of Phoenix policyholders, and there are additionally separate Scheme guides for holders of Phoenix Wealth branded, PCIS branded and SunLife branded policies. The main Scheme guide will include a summary of the terms of the Scheme, a summary of this Report (which has been drafted by me) and a copy of the legal notice to the High Court. The summary of this Report will differ depending on whether the policy is branded Phoenix Life, Phoenix Wealth, PCIS or SunLife.

15.39 There will also be a Phoenix Life branded Q&A leaflet, as well as a Phoenix Wealth Q&A leaflet and a SunLife Q&A leaflet available on the Phoenix microsite (described from paragraphs 15.45 onwards) and available as a printed copy on request. This will be referred to in the Part VII letter.

Communications for policyholders holding more than one policy

15.40 Policyholders holding more than one policy may receive separate communications for each policy. This is because the communications have been tailored to each of the entities, product types and brands as described above.

15.41 Each of the Companies will however seek to de-duplicate to the maximum extent practically possible and send a single communication for policyholders holding more than one policy of the same company, brand and product type grouping.

My review of the direct communications with policyholders

15.42 I confirm that I have reviewed the draft Mailing Packs as set out above. I have raised queries which have been answered to my satisfaction, and I have suggested drafting clarifications which have been incorporated.

The timetable for direct communications

15.43 Both the PRA Statement of Policy and the FCA Final Guidance state that, in respect of insurance business transfers, companies are required to notify the policyholders, or interested persons, at least six weeks before the date of the High Court hearing at which the application to sanction the Scheme will be heard (the Sanction Hearing). The Companies propose to notify their policyholders over the period from 10th May to mid-August to ensure that policyholders will have at least six weeks' notice prior to the Sanction Hearing.

15.44 The mailing schedule has been developed so as to manage the demand on the customer contact centres, both for Scheme-related queries and for business-as-usual queries. Furthermore, the schedule allows for mailings to with-profits customers to be dispatched first, with the aim of giving these policyholders sufficient time to digest the proposed changes, as well as providing at least the required three months' notice of changes to the principles in the PPFM documents.

FURTHER PUBLICATION OF THE SCHEME AND DISTRIBUTION OF INFORMATION IN RESPECT OF THE SCHEME

15.45 The Phoenix Life website will have a microsite that contain information on the Scheme for Phoenix and PLAL customers with pages that vary by entity and brand. There will be a link to the relevant Phoenix microsite pages from each of the websites of the brands of Phoenix and PLAL. The SLAL website will contain information on the Scheme relevant for SLAL, SLPF and signpost the SL Intl website for SL Intl customers. The SL Intl website will contain information relevant for SL Intl customers.

15.46 The Phoenix microsite and the SLAL website will contain the following information:

- My report (this Report), and any Supplementary Reports;
- A summary of my report applicable to policyholders of all the Companies (that has been drafted by me);
- The Scheme Guides including the statement, as required by Regulation 3(4) of the FSMA Regulations, setting out the terms of the Scheme, and including a summary of my report (that has been drafted by me);
- The full Scheme document;
- A copy of the legal notice of the High Court hearing, the legal notice of the Court of Session Hearing and other legal documents relating to the variation of the SLAL Schemes;
- A sample of the letters sent to policyholders;
- The with-profits policyholder booklet;
- The reports of the Phoenix, PLAL and SLAL Chief Actuaries and WPAs on the Scheme;
- Q&As regarding the transfer;
- An enquiry form, through which policyholders are able to request copies of documents and ask questions to a dedicated email address; and
- The PPFMs and WPC terms of reference that would apply after the implementation of the Scheme.

15.47 On the adviser websites for Phoenix Wealth and Standard Life, and on the Standard Life workplace employer’s website, there will be messages regarding the Scheme and links to information on the relevant Phoenix microsite or SLAL website as appropriate.

15.48 Enquiries received by the Companies through social media pages will be routed either to the SLAL website, for SLAL maintained social media pages, or to an internal team within Phoenix otherwise. This is because SLAL writes new business and has a greater presence on social media than Phoenix or PLAL, and therefore a greater proportion of the queries coming through on social media are expected to be from SLAL customers.

15.49 For all policyholders, a copy of this Report, the Scheme and the Scheme Guide will be made available by post on request.

15.50 The Companies will publish a notice in a form approved by the PRA in the following publications in the UK and Ireland:

- In the London, Edinburgh and Belfast Gazettes (as per the legal requirement[10]);
- In all national newspapers in the United Kingdom that take legal notices: the Daily Express, the Daily Mail, the Daily Mirror, the Daily Star, the Financial Times, the Guardian, the "i", the Metro and the Sun, as well as the Daily Record and The Scotsman (published in Scotland). This more than satisfies the legal requirement[11] to publish in two national newspapers in the United Kingdom;
- In the following local newspapers in England, Scotland and Northern Ireland: the Express & Star, the Evening Standard, the Liverpool Echo and the Manchester Evening News (published in England), the Press & Journal and the Courier (published in Scotland), and the Irish News (published in Northern Ireland); and
- One national newspaper in Ireland (the Irish Times).

[10] In accordance with regulation 3(2)(a)(i) and (ii) of the FSMA.
[11] In accordance with regulation 3(2)(a)(i) and (ii) of the FSMA.

15.51 Regarding the approval of the amendments being made to the SLAL Brexit Scheme and superseding of the SLAC Demutualisation Scheme and SLAL 2011 Scheme, which are being applied for separately in the Court of Session, I understand that further notices will be published in relation to the Existing SLAL Scheme variations including to the SLAL Brexit Scheme in the following publications (in the relevant local language):

- In England and Wales and Scotland: in the Times, the Daily Telegraph, the London Gazette, the Edinburgh Gazette, the Belfast Gazette, the Daily Record and the Scotsman;
- In Ireland: in the official Irish Gazette, the Irish Times and the Irish Independent;
- In Germany: in Handelsblatt and the Süddeutsche Zeitung; and
- In Austria: in Die Presse and Der Standart.

15.52 I also note that the Companies will publish a notice in respect of the Jersey Scheme in the Jersey Gazette and in respect of the Guernsey Scheme in the Guernsey Gazette and the Sark noticeboard.

THE ROUTE FOR POLICYHOLDER RESPONSES, ENQUIRIES AND OBJECTIONS

15.53 Policyholder responses, enquiries and objections following the notifications outlined above will be received via phone, email, and post.

15.54 There will be two primary policyholder contact teams; one for PLAL and most of the Phoenix policies, and one for most of the SLAL and the SLPF policies. The contact team covering PLAL and most of Phoenix will be provided by Diligenta, which currently administers the majority of the Phoenix and PLAL business and has significant experience as a helpline provider for Part VII Transfers. A subset of the Phoenix business will have bespoke response handling solutions; for example for the PCIS policies where the customers are corporate trustees, the business-as-usual relationship manager will be trained to manage Scheme queries with the support of the technical response handling team.

15.55 The contact teams for SLAL and SLPF will be provided by RUKSL and abrdn. The contact team at RUKSL will be covering most of the SLAL and SLPF policies, except for the policies expected to transfer to abrdn under the abrdn Transfer. As noted in paragraph 4.3, RUKSL is part of the Phoenix Group and is not directly involved in the Scheme. Other than in relation to some particular classes of business, RUKSL currently does not outsource its customer service and administration and has its own in-house administration centre. As a former consolidator company itself, RUKSL has significant experience in providing policyholder contact teams for a Part VII process. I understand that the contact team at RUKSL will have sufficient capacity to carry out this role for this Part VII Transfer, having already recruited staff above its normal level to deal with the expected demand. In addition, the staff assigned to these Part VII related activities will be ring-fenced from the staff assigned to business-as-usual activities. The contact team at RUKSL will commence training allowing sufficient time to ensure that they have the appropriate knowledge of the SLAL and SLPF business in time for the commencement of the mailing of relevant policyholders.

15.56 abrdn will be providing a contact team for policies expected to transfer to abrdn under the abrdn Transfer. These policies are currently administered by abrdn customer contact teams, either by the Wrap customer team and the TIP customer team depending on the type of policy. These customer contact teams will be trained to manage and respond to enquiries regarding the Scheme.

15.57 The contact teams will receive training in order to answer queries satisfactorily, including on the Scheme process and timeline, the frequently asked questions, dealing with vulnerable customers, the impact of the Scheme and the objections process. If the contact teams in Diligenta or RUKSL are unable to answer a query, or if an objection is raised, it will be referred to a dedicated technical response handling team within the Companies to be resolved. I note that the same approaches will apply regardless of which call centre deals with the query.

15.58 The Phoenix Group has experience from a number of previous schemes that it believes provide a reasonable indication of the likely response rate to the communications packs and the likely average length of calls. This analysis includes consideration of scheme-specific questions, as well as business-as-usual questions resulting from policyholder "wake ups", where the Scheme notification reminds policyholders of their policy. This analysis has helped to inform the size of the contact teams required.

15.59 As set out in Section 12, Phoenix has put in place various provisions to meet the anticipated temporary increase in demand on customer service as a result of the Scheme. This covers both additional demand for customer service regarding the Scheme and Scheme communications, and additional business-as-usual queries triggered by receipt of the Scheme communications.

15.60 All potential objections will be referred to a technical response handling team established within Phoenix. Response handling information and statistics will be provided to me, as well as to the PRA, the FCA, and senior management within Phoenix. In conjunction with the Companies, I will review analyses of any complaints and/or objections received, and comment on these in my Supplementary Report. All policyholder objections will be presented to the High Court, the Court of Session, the Royal Court of Jersey and the Royal Court of Guernsey as appropriate and policyholders will have the right to make representations to the relevant Court should they wish to do so. Full details of the routes to object to the Scheme and/or make representations to the relevant Court are clearly set out in the Mailing Packs.

SUPPORT FOR VULNERABLE CUSTOMERS

15.61 As part of business-as-usual processes, the Companies record when a customer expresses a requirement to receive communication in a different format (such as large print, audio or braille), and these requests will be reflected automatically in the original notifications.

15.62 The Scheme communication has also been designed and drafted with vulnerable customers in mind. The Mailing Pack will be made available on request in alternative formats, for example in large print, braille or audio. The Mailing Pack contains wording to reassure vulnerable customers that their accessibility needs will be supported.

15.63 Furthermore, the Companies will provide a helpline number that customers may call if they have difficulties reading the relevant documents.

15.64 Digital communications (for example, email) and web pages will be prepared to an AA-rated standard under the Web Content Accessibility Guidelines.

15.65 The policyholder contact teams will receive specific training in relation to the Scheme, including training on how to identify and to properly treat vulnerable policyholders. The approach taken will be in line with the Phoenix Group's Customer Vulnerability Framework. Additionally, Phoenix will monitor calls to ensure that this approach is followed through, and it will further check that vulnerable policyholders are correctly identified and their queries answered clearly in line with the training received.

15.66 I note that the Phoenix Group's and RUKSL's past extensive experience in managing Part VII processes also includes identifying and dealing properly with vulnerable customers].

CONCLUSION

15.67 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the dispensations, and including the approach to vulnerable customers, is fair, clear and not misleading. I note specifically that this conclusion applies to the communications to the customers who are subject to the proposed future transfer to abrdn and to the parts of their communications which deal with that proposed future transfer.

16. My conclusions

MY CONCLUSIONS IN RESPECT OF THE SCHEME

16.1 I have considered and analysed the effects and the impact of the Scheme on all of the policyholders of Phoenix, PLAL, SLAL and SLPF as set out in previous sections of this report. My consideration has covered all of the different types and classes of policyholders within the Companies.

16.2 In my opinion, the implementation of the Scheme will not have any material adverse effect on any of the following:

- The reasonable benefit expectations of the policyholders of Phoenix, PLAL, SLAL and SLPF.
- The security of the benefits of the policyholders of Phoenix, PLAL, SLAL and SLPF.
- The levels of administration and customer service that apply to the policyholders of Phoenix, PLAL, SLAL and SLPF.

16.3 I have provided in Appendix C the relevant certificates in relation to the modifications to the Currently Applicable Schemes which will no longer remain in force following the implementation of the Scheme. I have also provided in Appendix C the relevant certificate in respect of the amendments to the SLAL Brexit Scheme which will remain in force following the implementation of the Scheme. Appendix C also sets out some additional considerations for me in providing these certificates.

MY CONCLUSIONS IN RESPECT OF SL INTL

16.4 In addition to considering the effects of the Scheme, I am also required (as set out in paragraph 8.21) to consider the effects of the amendments to the SLAL Brexit Scheme on all the policyholders of SL Intl.

16.5 In my opinion, the amendments to the SLAL Brexit Scheme will not have any material adverse effect on the reasonable benefit expectations or the security of the benefits of any of the policyholders of SL Intl. My certificate in Appendix C in respect of the amendments to the SLAL Brexit Scheme applies to all policyholders of SL Intl.

John A. Jenkins.

John A Jenkins

Fellow of the Institute and Faculty of Actuaries

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18 April 2023

Appendix A – The UK life insurance market and regulatory environment

INTRODUCTION

A.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and are summarised in this section.

THE UK REGULATORS

A.2 Prior to 1 April 2013, regulation of insurance companies was the responsibility of the Financial Services Authority. Since 1 April 2013, responsibility for the regulation of such companies has been split between the PRA and the FCA.

A.3 The PRA is a part of the Bank of England and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms.

A.4 The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms they regulate, and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.

A.5 The FCA regulates the conduct of all financial services firms with the strategic objective to make sure the relevant markets function well. The FCA has operational objectives in relation to consumer protection, industry stability and the promotion of healthy competition between providers.

THE SOLVENCY II REGULATORY REGIME

Introduction

A.6 The current regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II, and it imposes solvency requirements that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are subject to Solvency II, and as a result are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.

A.7 The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021 the UK has been free to determine an appropriate regulatory regime for insurance companies, which is referred to in this Report as "UK Solvency II". A few changes have been made to date to the Solvency II regime as it is applied to the UK, including a change to the yield curves used to discount the components of the Solvency II balance sheet, which came into force during 2021.

A.8 The UK Government published a full consultation document on proposed UK reforms to Solvency II in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. In November 2022, the UK Government and the PRA published responses to the consultation. The proposed reforms include:

- a substantial reduction in the Risk Margin;
- a requirement for additional attestation in relation in the MA;
- a potential expansion of the scope of the MA; and
- a reduction in the level of regulatory reporting.

A.9 Other than the changes (and proposed changes) outlined above, UK Solvency II remains aligned to Solvency II, and so the remainder of this Appendix focuses on the Solvency II requirements.

The Solvency II three pillars

A.10 Solvency II is based on three pillars:

- Under Pillar 1, quantitative requirements define a market consistent[12] framework for valuing the company's assets and liabilities, the results of which will be publicly disclosed.
- Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of capital resources, called the Own Risk and Solvency Assessment, and senior management must demonstrate that this actively informs business planning, management actions and risk mitigation.
- Under Pillar 3, there are explicit requirements governing disclosures to supervisors and to the public. Firms produce private reports to supervisors (the PRA in the UK) and a publicly available solvency and financial condition report.

The Pillar 1 requirements

A.11 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the BEL. The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and using best estimate actuarial assumptions, and the BEL represents the present value of these projected cashflows, discounted at risk-free interest rates.

A.12 Under Solvency II, a company's Pillar 1 liabilities are called the "Technical Provisions" which consist of the sum of the BEL and the "Risk Margin". The Risk Margin is an adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm's length transaction.

A.13 Insurers are permitted to apply to their regulator (the PRA in the UK) to make use of the TMTP, which allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm's insurance liabilities under the previous Solvency I Pillar II regime. In the UK, the TMTP is subject to a mandatory recalculation every two years, and additionally, firms are permitted to seek approval from the PRA to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.

A.14 Under Pillar 1, the assets of the insurer are, broadly speaking, recognised at their market value.

A.15 The SCR under Solvency II is the capital requirement under Pillar 1 and is intended to be the amount required to ensure that the firm's assets continue to exceed its Technical Provisions over a one year time frame with a probability of 99.5%.

A.16 The MCR, which is lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.

A.17 In calculating the SCR, the majority of firms use the "Standard Formula", as prescribed by the European Insurance and Occupational Pensions Authority. However, Solvency II also permits firms to use their own internal models (or a combination of a "partial internal model" and the standard formula) to derive the SCR. These internal models and partial internal models are subject to approval by the relevant regulator. In the UK, this is the PRA.

Own Funds and capital resources

A.18 Under the Solvency II regime, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital resources available in the company to cover capital requirements.

A.19 Under Solvency II, companies are required to classify their Own Funds into three tiers, which broadly represent the quality of the Own Funds in relation to their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must exhibit both of the following:

[12] A market-consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.

- Permanent availability, i.e., the item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up.
- Subordination, i.e., in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.

A.20 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

Ring-fenced funds

A.21 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.

A.22 In the UK, many firms have established ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business allocated to such with-profits funds.

THE LONG-TERM FUND AND SHAREHOLDERS' FUND IN THE UK

A.23 Prior to the implementation of Solvency II, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund (the "**LTF**"). The other assets of a proprietary company were typically allocated to the shareholders' fund. Under the PRA rules, the assets in the LTF were only available to be used to support the firm's long-term insurance business and firms were required to maintain assets in the LTF sufficient in value to cover the fund's mathematical reserves.

A.24 Following the implementation of Solvency II, the requirement to maintain a separate LTF has been removed and therefore a firm's "fund structure" now consists of the ring-fenced funds and the business outside of the ring-fenced funds. This business outside the ring-fenced funds is often called the "non-profit fund" (if it is all long-term business) or the "shareholder-backed fund" (this could include short-term or general insurance business) but whatever the name, it includes the assets and liabilities of what were, under the previous regime, called the non-profit fund (in the LTF) and the shareholders' fund (outside of the LTF).

A.25 Although not required to do so for regulatory purposes, some firms continue to maintain a notional fund for accounting purposes in respect of long-term business outside of the ring-fenced funds. Such a notional fund is sometimes referred to as the non-profit fund.

REGULATORY APPROVALS UNDER SOLVENCY II

A.26 Any UK firms intending to use an internal model, transitional measures, a matching adjustment or a volatility adjustment (as described from paragraph A.29) must apply to the PRA for approval. The PRA has the right to remove approvals for the use of any of these measures if the firm is found to be in breach of the restrictions and conditions on which the original approval was based.

A.27 Firms must apply to the PRA if they wish to make changes to the terms of their existing approvals. For example, firms would seek approval from the PRA to make a major change to their internal model and would not be expected to submit more than one major change application per year. A major change can comprise a single change or an accumulation of minor changes that, in aggregate, comprise a major change.

A.28 Additionally, firms are permitted to seek approval to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.

The matching adjustment

A.29 In calculating the BEL, the Solvency II regulations permit firms to apply to their regulator to make use of the "matching adjustment". The matching adjustment is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk free rate that they expect to earn from a “hold to maturity” investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in-payment annuity liabilities.

A.30 Firms using the matching adjustment are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cashflows is permitted.

The volatility adjustment

A.31 Where insurers have liabilities that are not eligible for use of the matching adjustment, the Solvency II regulations permit firms to apply to their regulator to make use of the “volatility adjustment”. The volatility adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the matching adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.

A.32 The volatility adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the volatility adjustment are published by the PRA in the UK.

The transitional measures

A.33 Insurers are also permitted to apply to their regulator to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:

- The TMTP allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen year period. In the UK, the increase is measured relative to the firm’s Solvency I Pillar II liabilities.
- The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen year period.

A.34 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e., 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm’s Technical Provisions under Solvency II and the firm’s insurance liabilities under the previous Solvency I Pillar II regime.

A.35 The final calculated TMTP is deducted from the firm’s Technical Provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen year period.

A.36 The Solvency II Directive provides for firms’ TMTPs to be subject to recalculation every two years, with more frequent recalculations permitted if the firm’s risk profile has materially changed, as described above.

THE PRODUCTS AND LONG-TERM BUSINESS RELEVANT TO THIS REPORT

A.37 The Companies have a wide variety of in-force long-term insurance policies, covering both with-profits and non-profit life and pension policies.

A.38 Non-profit business refers to insurance business whose policyholders do not share in the profits of the insurer and all surplus is typically attributable to the providers of capital, for example the company’s shareholders or holders of with-profits policies issued by the company. Non-profit business typically refers to the following classes of insurance business:

- Conventional non-profit business;
- Unit-linked business; and
- Index-linked business.

A.39 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount, for example a life insurance policy that pays a fixed death benefit or a pension annuity that pays a fixed annuity amount each year whilst the policyholder remains alive. Insurance companies aim to make a profit from conventional non-profit business by setting premium amounts that, in conjunction with the investment returns earned on invested policyholder premiums, are expected to be more than sufficient to cover the benefits payable and any associated expenses.

A.40 Unit-linked business is principally a type of investment product where policyholders' premiums are used to buy units in investment funds. The value of the policyholder's units is generally updated on a daily basis, such that it moves in line with the performance of the investments in the fund, net of any charges levied on the policy. Insurance companies' profits from unit-linked contracts are determined by the extent to which the income they receive from these charges exceeds the expenses they incur in incepting and maintaining the business.

A.41 Index-linked business is an insurance product where the policyholder's benefits are determined by reference to an index, such as an inflation index, rather than being a fixed monetary amount. An annuity providing payments linked to changes in the RPI is an example of an index-linked contract.

A.42 With-profits business refers to insurance business where policyholders are entitled to share in the profits of a specified pool of assets and liabilities. It typically refers to both of the following:

- CWP business; and
- UWP or accumulating with-profits, business.

A.43 CWP business typically refers to policies where policyholders' premiums are fixed, and they have a benefit that is guaranteed at the outset in monetary terms if the policy is held to maturity. This benefit can subsequently be increased by annual bonuses that are awarded at the discretion of the insurer, depending upon the amount of surplus emerging in the insurance fund in which the policies are invested. Once they have been awarded, bonuses are typically guaranteed, and insurers are not able to take them away. A final bonus may also be awarded at claim.

A.44 UWP and accumulating with-profits business typically refers to policies where policyholders' premiums are used to buy units whose value is then increased through bonuses that are awarded at the discretion of the insurer, again depending on the surplus emerging in the relevant insurance fund. On claim, policyholders typically receive the value of their units, which again may be adjusted by a final bonus amount or a Market Value Reduction[13].

A.45 For with-profits business, it is typical for insurers to target policyholder pay-outs to be relatively close to the policy's "asset share", which is a measure of the true value of the policy based on actual investment returns and expenses incurred by the fund. Therefore, where final bonuses are paid, it is typical for these to be calibrated in order to target something close to asset share, subject often to a degree of smoothing, as well as being subject to honouring any guaranteed benefits to which the policyholder is entitled.

The inherited estate of a with-profits fund

A.46 Within a ring-fenced with-profits fund, the excess of assets of the fund over the fund's Solvency II BEL (plus any Other Liabilities of the fund) is known as the fund's "inherited estate".

A.47 The inherited estate is available to be used in a number of ways, such as to support:

- The smoothing of claim pay-outs over time;
- The capital requirements and any associated capital buffers of the with-profits fund;
- Increased investment freedom within the with-profits fund; and
- The capital requirements associated with writing profitable new business within the fund.

A.48 For a with-profits fund that is closed to new business, the insurer must put in place a run-off plan that includes consideration of how the inherited estate will be distributed fairly.

THE GOVERNANCE OF UK LONG-TERM INSURERS

A.49 For most UK long-term insurers, the Board of Directors is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management, and approving the firm's financial statements.

A.50 Under Solvency II, all insurers are required to establish the following key functions:

[13] A Market Value Reduction is a reduction to the amount paid out from a unitised with-profits policy when investment returns are lower than expected or following a large or sustained fall in the market value of the assets the policy.

- **Actuarial function**: The actuarial function is responsible for, *inter alia*, coordinating the calculation of the Technical Provisions and providing an opinion on the firm's underwriting policy and the adequacy of the firm's reinsurance arrangements.
- **Compliance function**: This function is required, *inter alia*, to advise the insurer on compliance with the Solvency II regulations.
- **Internal audit function**: This function is required, *inter alia*, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.
- **Risk management function**: This function is required, *inter alia*, to facilitate the implementation of the insurer's risk management system.

A.51 These functions are not defined by the Solvency II regulations as being performed by an individual; however, in the UK, the PRA and FCA have introduced a governance regime for UK insurers called the Senior Managers and Certification Regime ("**SM&CR**"), which became effective on 10 December 2018 and defines a set of senior management functions ("**SMF**"), including:

- SMF 1 – Chief Executive Officer;
- SMF 2 – Chief Financial Officer;
- SMF 4 – Chief Risk Officer;
- SMF 5 – Head of Internal Audit;
- SMF 6 – Head of Key Business Area;
- SMF 15 – Chair of the WPC;
- SMF 20 – Chief Actuary; and
- SMF20a – WPA.

A.52 Under the SM&CR, the persons having responsibility for the actuarial function, internal audit function and risk management under Solvency II are the Chief Actuary, Head of Internal Audit and Chief Risk Officer respectively, and the individuals responsible for these functions are subject to PRA approval.

A.53 In addition, those firms with with-profits business must appoint an actuary (or actuaries) to perform the WPA function (also subject to PRA approval). This individual's responsibilities include advising the firm's management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which they have been appointed.

A.54 Under the SM&CR, SMF holders are subject to a 'Duty of Responsibility'. If a firm breaches a regulatory requirement, the regulators can take action directly against the SMF holder responsible for the area relevant to the breach if the regulators can show that the SMF holder had failed to take reasonable steps to prevent or stop the breach.

A.55 In relation to each with-profits fund, firms must appoint a WPC (or a "with-profits advisory arrangement" if appropriate given the size, nature, and complexity of the fund in question). The role of the WPC is to advise and provide recommendations to the firm's governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures. The Chair of the WPC is one of the SMFs defined under the SM&CR.

A FIRM'S RISK APPETITE AND INTERNAL CAPITAL POLICY

A.56 The Board of a firm is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept not being able to pay policyholder liabilities as they fall due and/or meet regulatory requirements.

A.57 In order to ensure that day-to-day fluctuations in markets and other experience do not lead to a breach of their risk appetite and regulatory capital requirements, insurers usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's capital management policy.

A.58 The capital management policy of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to this policy usually require Board approval and appropriate consultation with the prudential regulator (the PRA in the UK).

A.59 The capital management policy is typically stated in terms of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example, for the Solvency II regulatory regime it is a 99.5% probability of remaining solvent over a one-year time horizon. By requiring additional capital to be held on top of the regulatory requirements, adherence to the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to that policy.

A.60 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

Financial Services Compensation Scheme

A.61 As well as through the PRA and FCA regulations, consumer protection is also provided by the Financial Services Compensation Scheme ("**FSCS**"). This is a statutory "fund of last resort", which compensates customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or FCA.

A.62 The FSCS provides compensation (100% of the policyholder's entitlement) to individual holders of long-term insurance policies issued by UK insurers in the UK or another EEA state in the event of the insolvency of an insurer (the failure of that insurer to pay benefits). In the event of an insolvency, a call on the FSCS is covered by levies on the insurers in the UK insurance industry.

Financial Ombudsman Service

A.63 The Financial Ombudsman Service ("**FOS**") is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the FOS. The FOS may direct UK financial services companies to pay compensation up to a maximum limit of:

- £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by firms on or after 1 April 2019;
- £350,000 for complaints referred to the FOS between 1 April 2019 and 31 March 2020 about acts or omissions by firms on or after 1 April 2019; and
- £160,000 for complaints referred to the FOS on or after 1 April 2019 about acts or omissions by firms before 1 April 2019.

A.64 The "Dispute Resolution: Complaints" section of the FCA Handbook sets out the jurisdiction and scope of the FOS in the UK.

FCA Conduct Principles

A.65 Within its document "Fair treatment of customers", the FCA sets out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:

- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
- Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
- Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and

- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.

A.66 These outcomes, which are often summarised as "Treating Customers Fairly", apply even for firms that do not have direct contact with retail customers. The FCA's rationale is that risks and poor conduct can be carried from wholesale to retail markets.

A.67 The FCA has supplemented its Fair Treatment of Customers document with guidance, published in January 2018, entitled The Responsibilities of Providers and Distributors for the Fair Treatment of Customers ("**RPPD**"). This provides the FCA's view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:

- Principle 2: A firm must conduct its business with due skill, care and diligence;
- Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly; and
- Principle 7: A firm must pay due regard to the information needs of its clients, and communicate information to them in a way that is clear, fair and not misleading.

The Insurers (Reorganisation and Winding-Up) Regulations 2004

A.68 Under UK law, the winding-up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding-Up) Regulations 2004 (as amended, including under the Solvency II Regulations 2015). Under these regulations, insurance claims have precedence over any claim on the insurance undertaking with the exception of certain preferential claims (e.g., claims by employees, etc.) with respect to the whole of the insurance undertaking's assets. Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

RISK CATEGORIES RELEVANT TO THE COMPANIES

A.69 It is common for insurers to divide the risks to which they are exposed into categories. Categories of risk to which the Companies are exposed are:

- **Market risk**: The risk of adverse changes in the price, level or volatility of financial instruments and market variables such as interest rates, inflation, and equity prices.
- **Expense level risk**: The risk of the insurer underestimating the level of its expense base, resulting in higher than expected expense outgoings.
- **Persistency risk**: The risk of higher or lower than expected surrenders of life insurance policies or transfers of pension policies.
- **Mortality risk**: The risk of higher than expected deaths amongst holders of life insurance policies.
- **Longevity risk**: The risk of greater than expected longevity amongst holders of annuities and other products.
- **Operational risk**: the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

Appendix B – Certificate of compliance

I understand that my duty in preparing my report is to help the High Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

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 the Guidance for the Instruction of Experts in Civil Claims 2014 produced by the Civil Justice Council, and have complied with and will continue to comply with them. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the High Court and have complied with and will continue to comply with this duty.

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

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

John A. Jenkins.

John A Jenkins 18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix C – Independent Expert's / Actuary's certificates in respect of modifications to previous schemes of the Companies

C.1 As described in paragraph 8.14, I am required to produce a certificate in respect of modifications to previous schemes of the Companies. This Appendix includes the certificates I have produced in my capacity as the Independent Expert for the Scheme in relation to the modification and abrogation of the Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the PLAL 2012 Scheme, the PLAL 2015 Scheme, the SLAC Demutualisation Scheme, the SLAL 2011 Scheme and the SLAL Brexit Scheme.

C.2 I note that the required opinion wording in the certificates varies for each of these schemes. Of particular note is that some of these schemes require an opinion that there is no material adverse effect on policyholders, while others require the opinion that there is no adverse effect on policyholders. The modification provisions of the Phoenix 2009 Scheme, the Phoenix 2012 Scheme, the PLAL 2012 Scheme, and the PLAL 2015 Scheme all require the latter form of the opinion excluding the "material" qualifier.

C.3 As set out in paragraph 3.24 of this Report, it is standard practice for independent experts to take into account the concept of materiality in carrying out their work and forming their conclusions. Furthermore, there is precedent from the exercise of modification provisions from other insurance business transfer schemes that the approach of assessing "no adverse effect" is considered in practice to be unduly restrictive. It is almost inevitable that in any proposal there will be some advantages and some disadvantages, and that such advantages and disadvantages will be given different weighting according to their materiality and the likelihood of their occurring. A key consideration is whether those advantages and disadvantages are equally balanced.

C.4 Therefore, I have provided the certificates for the Phoenix 2009 Scheme, the Phoenix 2012 Scheme, the PLAL 2012 Scheme, and the PLAL 2015 Scheme in the required form excluding the "material" qualifier, but I note that in providing my opinion in these certificates, I have considered the impact on policyholders "in the round". This consideration is in line with the approach adopted throughout this Report where I have sought to assess whether policyholders would be materially adversely affected.

C.5 In respect of the amendments to the SLAL Brexit Scheme (which remains in force), I have considered the amendments via a tracked changes version of the updated scheme compared with the current scheme. I am satisfied that all the changes are connected with or consequential on the Scheme under consideration.

C.6 The wording provisions within the various Currently Applicable Schemes in respect of several of the certificates set out below includes reference to the certificate covering any policies which were Excluded Policies at the time of the relevant scheme. My understanding is that there have never actually been any such Excluded Policies in respect of any of the Currently Applicable Schemes, and thus it has not been necessary to include any references to Excluded Policies within the certificates set out below.

PHOENIX 2009 SCHEME

C.7 I certify that, in my opinion, the proposed amendments to the Phoenix 2009 Scheme will not adversely affect the reasonable expectations of the policyholders of Phoenix, including those whose policies transferred from SMA or SPL under the Phoenix 2009 Scheme.

C.8 Additionally, I certify that, in my opinion the proposed variation to the Phoenix 2009 Scheme will not reduce the protections conferred by the Phoenix 2009 Scheme on the holders of the policies transferred from SPL under the Phoenix 2009 Scheme.

C.9 Accordingly, this certificate complies with paragraph 42.2(B) of the Phoenix 2009 Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

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PHOENIX 2011 SCHEME

C.10 I certify that, in my opinion, the proposed amendments to the Phoenix 2011 Scheme will not materially adversely affect the reasonable expectations of the policyholders of Phoenix, including those whose policies transferred from Phoenix & London Assurance Limited under the Phoenix 2011 Scheme.

C.11 Accordingly, this certificate complies with paragraph 32.2(B) of the Phoenix 2011 Scheme.

John A Jenkins

18 April 2023

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PHOENIX 2012 SCHEME

C.12 I certify that, in my opinion, the proposed amendments to the Phoenix 2012 Scheme will not adversely affect the reasonable expectations of the policyholders of Phoenix, including those whose policies were transferred from NPI Limited and NPLL under the Phoenix 2012 Scheme.

C.13 Accordingly, this certificate complies with paragraph 31.2(b) of the Phoenix 2012 Scheme.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

PLAL 2012 SCHEME

C.14 I certify that, in my opinion, the proposed amendments to the PLAL 2012 Scheme will not adversely affect the reasonable expectations of the policyholders of PLAL, including those whose policies were transferred from London Life under the PLAL 2012 Scheme.

C.15 Accordingly, this certificate complies with paragraph 40.2(b) of the PLAL 2012 Scheme.

John A Jenkins

18 April 2023

Principal, Milliman LLP

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PLAL 2015 SCHEME

C.16 I certify that, in my opinion, the proposed amendments to the PLAL 2015 Scheme will not adversely affect the reasonable expectations of the policyholders of PLAL, including those whose policies were transferred from NPLL under the PLAL 2015 Scheme.

C.17 Additionally, I certify that, in my opinion, the proposed amendment to the PLAL 2015 Scheme will not reduce the protections conferred by the PLAL 2015 Scheme on the holders of policies allocated to the NPL WPF.

C.18 Accordingly, this certificate complies with paragraph 35.2(b) of the PLAL 2015 Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

PHOENIX 2017 SCHEME

C.19 I certify that, in my opinion, the proposed amendments to the Phoenix 2017 Scheme will not materially adversely affect the security or reasonable expectations of the policyholders of Phoenix, including those who were transferred from AXA Wealth Limited under the Phoenix 2017 Scheme.

C.20 Accordingly, this certificate complies with paragraph 23.2(c) of the Phoenix 2017 Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

PHOENIX 2018 SCHEME

C.21 I certify that, in my opinion, the proposed amendments to the Phoenix 2018 Scheme will not materially adversely affect the interests of the policyholders of Phoenix, including those whose policies were transferred from Abbey Life Assurance Company Limited, including in respect of the security or reasonable expectations of or level of service provided to such policyholders.

C.22 Accordingly, this certificate complies with paragraph 23.2(c) of the Phoenix 2018 Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

SLAC DEMUTUALISATION SCHEME

C.23 I certify that, in my opinion, the proposed amendments to the SLAC Demutualisation Scheme will not materially and adversely affect the reasonable expectations of those SLAL policyholders whose policies were transferred from SLAC under the SLAC Demutualisation Scheme.

C.24 Accordingly, this certificate complies with paragraph 70.2(D) of the SLAC Demutualisation Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

SLAL 2011 SCHEME

C.25 I certify that, in my opinion, the proposed amendment to the SLAL 2011 Scheme will not materially and adversely affect the reasonable expectations of those SLAL policyholders whose policies were transferred from SLIF under the SLAL 2011 Scheme.

C.26 This certificate is not required by the SLAL 2011 Scheme, but has been included for completeness.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

SLAL BREXIT SCHEME

C.27 I certify that, in my opinion, the proposed amendments to the SLAL Brexit Scheme will not materially and adversely affect the interests (including the security or reasonable expectations) of the SL Intl policyholders whose policies were transferred from SLAL under the SLAL Brexit Scheme or other SLAL policyholders or SL Intl policyholders.

C.28 Accordingly, this certificate complies with paragraph 63.2(d) of the SLAL Brexit Scheme.

John A. Jenkins.

John A Jenkins

18 April 2023

Principal, Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix D – Glossary of terms

A glossary of the abbreviations used throughout the report is given below.

100% WPF	The 100% With-Profits Fund. A Phoenix ring-fenced with-profits fund, established under the Phoenix 2005 Scheme and containing business transferred from Phoenix Assurance Limited, Bradford Insurance Company Limited, and Swiss Life (UK) plc.
90% WPF	The 90% With-Profits Fund. A Phoenix ring-fenced with-profits fund, established under the Phoenix 2005 Scheme and containing business transferred from by Swiss Life (UK) plc and Britannic Unit-Linked Assurance Limited, which were policies originally sold by Allianz Cornhill.
	A
Abbey Life	Abbey Life Assurance Company Limited. A company acquired by the Phoenix Group in 2016.
Alba WPF	The Alba With-Profits Fund. A Phoenix ring-fenced with-profits fund, established under the Phoenix 2006 Scheme and containing fully participating and smoothed business transferred from Alba Life Limited.
AMCs	Annual management charges. These are fees charged by the company to the policyholders annually in proportion to the level of funds invested.
ALPL	abrdn Life and Pensions Limited, a company and subsidiary of abrdn.
AMP	AMP Limited. An Australian company that acquired Pearl Assurance Limited in 1990.
APE	Annual premium equivalent. A measure of new business sales, equal to total regular premiums written during the year, plus 10% of single premiums written during the year.
abrdn	abrdn plc and its subsidiaries (previously known as Standard Life Aberdeen plc and rebranded in 2021).
abrdn Transfer Policies	Policies that would be transferred under the abrdn Transfer.
abrdn Transfer	A scheme that proposes to transfer long-term insurance business from SLAL to ALPL, following completion of this Scheme through a separate Part VII Transfer process.
	B
BEL	Best Estimate Liabilities. One of the components of the Technical Provisions under Solvency II (including UK Solvency II). The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cashflows.
BIB WPF	The Britannic Industrial Branch With-Profits Fund. A Phoenix ring-fenced with-profits fund, containing industrial branch endowments and whole of life assurance policies originally sold by Britannic Assurance plc.
BPA	Bulk Purchase Annuity. A method of de-risking pension plans. Either an insurance policy is purchased by pension scheme trustees to secure all or part of all future pensions and benefits due to be paid to members (buy-in) or an insurance company buys all the liabilities from a pension scheme thus removing all risk for the scheme and employer (buy-out).

Britannic WPF	The Britannic With-Profits Fund. A Phoenix ring-fenced with-profits fund, established under the Phoenix 2006 Scheme and containing Ordinary Branch business originally sold by Britannic Assurance Plc, as well as former Century Life policies originally sold by National Employers Life, Sentinel Life and Prosperity Life.
Buffer Reserve	This specific term is used to refer to the BIB WPF IB Buffer Reserve Account and Britannic WPF's equivalent WP Buffer Reserve Account. These accounts are held as a result of previous schemes which apply to these with-profits funds.
Buffer	This general term refers to an amount of capital held in addition to the regulatory capital requirements. The purpose of this additional capital is to seek to ensure that regulatory capital requirements can still be met after an adverse event.
Burness Paull	Legal adviser, Burness Paul LLP.

C

Capita	Capita Life & Pensions Regulated Services Limited. A pension fund administrator company.
Capital Event	This relates to a particular aspect of the SLAC Demutualisation Scheme which is being incorporated into the Scheme applying to the whole of Phoenix post-Scheme. See paragraph 7.50 for full details.
CBI	The Central Bank of Ireland, responsible for central banking and financial regulation in Ireland.
COBS	The Financial Conduct Authority's Conduct of Business Sourcebook, which applies to firms with respect to designated investment business and long-term insurance business carried out in the United Kingdom.
COBS 20	Section 20 of COBS that covers the management of with-profits business.
Core Principles	Core principles setting out how SLAL board should manage the Heritage WPF business as defined by the SLAC Demutualisation scheme. The principles include its investment and bonus policy, the role of asset shares in the management of the fund and the role of the estate and criteria for distribution of residual estate.
Court of Session	The supreme civil court in Scotland.
CWP	Conventional With-Profits. CWP business typically refers to policies where policyholders' premiums are fixed, and they have a benefit that is guaranteed at the outset in monetary terms if the policy is held to maturity. This benefit can subsequently be increased by annual bonuses that are awarded at the discretion of the insurer, depending upon the amount of surplus emerging in the insurance fund in which the policies are invested. Once they have been awarded, bonuses are typically guaranteed, and the insurer is not able to take them away. A final bonus may also be awarded at the time of claim.
Companies	Phoenix, PLAL, SLAL and SLPF collectively.
Currently Applicable Schemes	The in-force schemes that would be superseded and disapplied by the Scheme that is the subject of this Report if it is implemented. The schemes are the Phoenix 2009 Scheme, the Phoenix 2011 Scheme, the Phoenix 2012 Scheme, the Phoenix 2017 Scheme, the Phoenix 2018 Scheme, the PLAL 2012 Scheme, the PLAL 2015 Scheme, the SLAC Demutualisation Scheme and the SLAL 2011 Scheme.

D

Diligenta	Diligenta Limited. A UK based FCA regulated entity that specialises in the provision of business process services for the Life and Pensions Industry.
Directions Hearing	An initial court hearing at which the Companies' plans for notifying policyholders are considered.

E

EEA	The European Economic Area. An international agreement which enables the extension of the European Union's single market to member states of the European Free Trade Association. The EEA comprises the EU together with Iceland, Liechtenstein and Norway.
Effective Date	The date from which the Scheme will be effective for the purposes of financial and regulatory reporting. Expected to be 30 September 2023. See also Transfer Date.
EFL	External fund link. An arrangement (normally via reinsurance) which allows the policyholders in the company in question to invest in the linked funds of an external company.
EIOPA	The European Insurance and Occupational Pensions Authority.
EU	The European Union.
Excluded Policies	Policies which for any reason cannot be transferred under a Part VII Transfer and which are thus instead fully reinsured to the receiving company in order than the Part VII Transfer can take place in all material respects as if the policies had been transferred. There is normally provision for such policies to be formally transferred as and when the impediment falls away.

F

FCA	Financial Conduct Authority. A financial regulatory body in the United Kingdom, but operates independently of the UK Government, and is financed by charging fees to members of the financial services industry.
FCA Consumer Duty Rules	New FCA rules which come into force from 31 July 2023 and 31 July 2024 and which require financial firms to seek good outcomes for their customers. See paragraph 14.29.
FCA Final Guidance	Guidance provided by the FCA, FG22/1: The FCA's approach to the review of Part VII insurance business transfers.
FSAVC	Free standing additional voluntary contributions business. Formally a Swiss Life block of business, which was transferred to the 90% WPF.
FSCS	Financial Services Compensation Scheme. A Scheme which provides compensation to holders of long-term insurance policies in the event of the insolvency of a UK or an EEA or other overseas insurer in respect of its UK customers.
FSMA	Financial Services and Markets Act 2000. An Act that makes provision about the regulation of financial services and markets, provides for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies.

G

German Smoothed Managed WPF	The German Smoothed Managed With-Profits Fund. A SLAL ring-fenced with-profits fund, containing the with-profits investment element of the SLAL euro-denominated policies written post-demutualisation, that are reinsured from the SL Intl German Smoothed Managed WPF.

German WPF	The German With-Profits Fund. A SLAL ring-fenced with-profits fund, containing the with-profits investment element of the SLAL euro-denominated policies written post-demutualisation, that are reinsured from the SL Intl German WPF.
Guernsey Scheme	The Guernsey court-approved Scheme process that, together with the Scheme, will affect the transfer of certain policies issued to residents of the Bailiwick of Guernsey.
	H
Heritage WPF	The Heritage With-Profits Fund. A SLAL ring-fenced with-profits fund, established under the SLAC Demutualisation Scheme, which contains all of the UK with-profits, unit-linked and non-profit business written by SLAC before it demutualised, with the exception of certain non-with-profits business held in the SLAL PBF.
Heritage WPF PPFM	The PPFM for the Heritage WPF.
Heritage WPF Unit-Linked Business	Unit-linked business allocated to the Heritage WPF.
Heritage WPF WPOP	A separate WPOP for the SL Intl Heritage WPF. It largely reflects the principles and practices in the Heritage WPF PPFM.
High Court	The High Court of Justice of England and Wales.
	I
IFoA	Institute and Faculty of Actuaries, the UK chartered professional body which is responsible for regulating actuaries.
IPPFM	Internal PPFM. An internal document outlining how a with-profits fund is managed.
Internal Model	An approach to calculating the SCR under Solvency II or UK Solvency II where the Standard Formula is not used. Use of and the nature of an Internal Model must be approved by the appropriate regulator.
IAIG	Internationally Active Insurance Group, as defined by the IAIS.
IAIS	International Association of Insurance Supervisors.
Ireland	The Republic of Ireland.
	J
Jersey Scheme	The Jersey court-approved scheme document for the transfer of any business carried on by PLAL and SLAL in or from within Jersey.
	L
LACDT	Loss absorbing capacity of deferred tax. A balance sheet item under UK Solvency II that represents to the fact that, in a stressed situation, a deferred tax asset would arise, and therefore the Own Funds are increased.
Life Company Board	The Boards of Phoenix, PLAL and SLAL.
Linked Fund(s)	These are funds of assets maintained separately within a life company, with the value of these funds being used to determine the benefits under unit-linked policies.
Linklaters	Legal adviser, Linklaters LLP.

LLP	Limited Liability Partnership.
London Life	London Life Limited. A subsidiary of AMP, to which the London Life sub-funds of AMP were transferred.
London Life WPF	The London Life With-Profits Fund. A PLAL ring-fenced with-profits fund established by the PLAL 2012 Scheme, which contains a range of CWP and UWP policies that were originally written by London Life and AMP.
LTF	Long-term insurance fund. Prior to the implementation of Solvency II, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term insurance fund.

M

Market Value Adjustment	A deduction that may be made to a withdrawal from a unitised with-profits fund when market conditions are unfavourable, designed to protect the interests of remaining policyholders.
Matching Adjustment or MA	The Matching Adjustment or MA is an upwards adjustment to the risk-free rate sometimes used to discount long-term liabilities, where those liabilities are well-matched by long-term assets and the intention is to hold those assets to maturity. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL. MA is a more extensive form of the Volatility Adjustment with consequently more onerous requirements.
MCR	Minimum Capital Requirement. The MCR is lower than the SCR, and defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.
Metric 1	A metric to assess the quantity of capital. This metric looks at the company's ability to comply with the matching adjustment criteria over a 1 in 10-year event, taking into account how long a 1 in 10-year event would take to arise.
Metric 2	A metric to assess the quantity of capital. This metric looks at the level of tangible assets required to meet a 1-in-200-year event, taking into account how long a 1-in-200-year event would take to arise.
Milliman	Milliman Limited Liability Partnership registered in England and Wales.

N

Notional Company	A hypothetical company to compare against as if the Heritage WPF itself was a stand-alone company with some specified additional capital.
NPI WPF	The NPI With-Profits Fund. A with-profits fund established under the Phoenix 2012 Scheme in order to hold the with-profits element of the policies transferred from NPI Limited.
NPI Limited	A company that wrote capital accounts, socially responsible bonds and pensions, UWP bonds and UWP individual and group pensions policies. The policies were transferred to Phoenix under the Phoenix 2012 Scheme.
NPL WPF	The National Provident Life With-Profits Fund. A PLAL ring-fenced with-profits fund established under the PLAL 2015 Scheme, contains the long-term business of NPLL that was transferred to PLAL.
NPLL	National Provident Life Limited. A company created to receive the business of National Provident Institution when it demutualised, which occurred during its acquisition by AMP.

O

ORSA	Own Risk and Solvency Assessment. A requirement under UK Solvency II whereby insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of their capital resources.
Other Liabilities	These are liabilities under Solvency II (and UK Solvency II) other than Technical Provisions which need to be added to the Technical Provisions in arriving at the total liabilities. For example, accounting liabilities such as tax due.
Own Funds	The excess of an insurer's assets over its liabilities on a UK Solvency II basis.

P

PIM	Partial Internal Model. A combination of an internal model and the EIOPA-prescribed Standard Formula method for calculating the SCR that requires approval from the relevant regulator (the PRA in the UK).
Part VII Transfer	The transfer of long-term insurance business under UK law in accordance with Part VII of the FSMA.
PCP	The Phoenix Capital Policy. This is Phoenix's own capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR.
Pearl Assurance	Pearl Assurance Limited. A subsidiary company of Pearl Group Limited that was acquired by PGH in 2009 and renamed PLAL in 2012.
Pearl WPF	The Pearl With-Profits Fund. A PLAL ring-fenced with-profits fund, originally named the 90:10 With-Profits Fund and renamed under the PLAL 2012 Scheme.
Peer Reviewer	A senior consultant at Milliman who has independently reviewed this Report.
PGMS	Phoenix Group Management Services Limited. PGMS provides administration services to the Phoenix With-Profits Funds (excluding the NPI WPF). PGMS was called Pear Group Management Services Limited prior to January 2023.
PGS	Pearl Group Services Limited. A management services company that provides administration services to the NPI WPF.
Phoenix	Phoenix Life Limited. A life insurance subsidiary of PGH that was renamed from Royal & Sun Alliance Linked Insurances Limited in 2005.
Phoenix 2005 Scheme	A scheme that transferred long-term insurance business from Phoenix Assurance Limited, Bradford Insurance Company Limited and Swiss Life (UK) plc into Phoenix in 2005 via a Part VII Transfer.
Phoenix 2006 Scheme	A scheme that transferred long-term insurance business from Alba Life Limited, Britannic Assurance plc, Britannic Retirement Solutions Limited, Britannic Unit Linked Assurance Limited, Century Life plc and Phoenix Life & Pensions Limited into Phoenix in 2006 via a Part VII Transfer.
Phoenix 2009 Scheme	A scheme that transferred long-term insurance from SMA and SPL to Phoenix in 2009 via a Part VII Transfer.
Phoenix 2011 Scheme	A scheme that transferred long-term insurance business from Phoenix & London Assurance Limited to Phoenix in 2011 via a Part VII Transfer.
Phoenix 2012 Scheme	A scheme that transferred long-term insurance business from NPI Limited and certain long-term insurance business of NPLL to Phoenix in 2012 via a Part VII Transfer.

Phoenix 2017 Scheme	A scheme that transferred long-term insurance business from AXA Wealth Limited to Phoenix in 2017 via a Part VII Transfer.
Phoenix 2018 Scheme	A scheme that transferred long-term insurance business from Abbey Life to Phoenix in 2018 via a Part VII Transfer.
Phoenix Brexit Scheme	A scheme that transferred particular blocks of long-term insurance business from Phoenix and RLL to PLAE in 2023 via a Part VII Transfer.
Phoenix Group	PGH along with all of its subsidiaries.
PGH	Phoenix Group Holdings plc. A UK holding company and the ultimate parent undertaking of the companies within the Phoenix Group.
Phoenix NPF	The Phoenix Non-Profit Fund. This comprises all assets and liabilities attributed to the non-profit business of Phoenix.
Phoenix PPFM	Phoenix's PPFM. This covers all ten of Phoenix's ring-fenced with-profits funds (the Phoenix With-Profits Funds).
Phoenix SHF	The Phoenix Shareholder Fund. This comprises all assets and liabilities not attributed to long-term insurance business of Phoenix.
Phoenix WPC	The Phoenix With-Profits Committee. Responsible for advising the Phoenix Board on with-profits related matters.
Phoenix WPF	The Phoenix With-Profits Fund. A with-profits fund established under the Phoenix 2006 Scheme that comprises the business that was transferred into Phoenix from the long-term business fund of Phoenix Life & Pensions Limited.
Phoenix With-Profits Funds	The collective name for Phoenix's ten ring-fenced with-profits funds (the 100% WPF, the 90% WPF, the Alba WPF, the BIB WPF, the Britannic WPF, the Phoenix WPF, the SAL WPF, the Scottish Mutual WPF, the SPI WPF and the NPI WPF).
PLAE	Phoenix Life Assurance Europe DAC. An insurance holding company and subsidiary of ReAssure.
PLAL	Phoenix Life Assurance Limited. A life insurance subsidiary of PGH that was renamed from Pearl Assurance in 2012.
PLAL 2010 Scheme	A scheme that transferred the SERP business from NPLL to PLAL in 2010 via a Part VII Transfer. This was superseded and replaced by the PLAL 2012 Scheme.
PLAL 2012 Scheme	A scheme that transferred the entire long-term insurance business of London Life to PLAL in 2012 via a Part VII Transfer.
PLAL 2015 Scheme	A scheme that transferred the entire long-term insurance business of NPLL to PLAL in 2015 via a Part VII Transfer.
PLAL CP	PLAL capital policy. This is PLAL's own capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR.
PLAL PPFM	PLAL's PPFM. This covers all four of PLAL's ring-fenced with-profits funds (the PLAL With-Profits Funds).
PLAL NPF	The PLAL Non-Profit Fund. This comprises all assets and liabilities attributed to the non-profit business of PLAL.
PLAL SHF	The PLAL Shareholder Fund. This comprises all assets and liabilities not attributed to long-term insurance business of PLAL.
PLAL With-Profits Funds	The collective name for PLAL's four ring-fenced with-profits funds (the Pearl WPF, the SERP WPF, the London Life WPF and the NPL WPF).
PLAL WPC	The PLAL With-Profits Committee. Responsible for advising the PLAL Board on with-profits related matters.

PRA	Prudential Regulation Authority. Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
PRA Statement of Policy	"The Prudential Regulation Authority's approach to insurance business transfers", dated January 2022, updating the April 2015 version.
Property-Linked Floating Charge	A charge over the assets of SLAL that ensures policyholders reinsured through external property-linked reinsurance rank equally with SLAL's direct unit-linked policyholders in case of default or wind-up of SLAL.
PPFM	Principles and Practices of Financial Management. A public document outlining how a with-profits fund is managed.
	R
RCF	Recourse cashflow. One of the components of the RPTA. It is calculated broadly as the cashflows arising on the business from all sources except investment return, over a particular Reference Valuation Period.
ReAssure	ReAssure Limited. A life insurance subsidiary of PGH that was acquired from Swiss Re in 2020.
Resolution Plan	A plan which sets out how the insurance company or group would run off and ultimately close itself down (this being referred to as "resolution") in as orderly a manner as possible and with the minimum adverse impact on policyholders should extreme events make it impossible for the company or group to carry on as normal.
RFF Restriction	Ring-fenced Fund Restriction. The restriction on the use of capital allocated to each with-profits fund within the Phoenix Group.
Risk Margin	The amount held under Solvency II as part of Technical Provisions which is based on the cost of holding capital in relation to the non-hedgeable components of the SCR.
RLL	ReAssure Life Limited. A life insurance subsidiary of PGH that was acquired from Swiss Re in 2020.
RPTA	Reference Period Transfer Amount. The means by which surpluses can be distributed to shareholder and non-profit funds under the SLAC Demutualisation Scheme.
	S
SAL WPF	The SAL With-Profits Fund. A with-profits fund established under the Phoenix 2011 Scheme that comprises the business that was transferred into Phoenix from the long-term business fund of Phoenix & London Assurance Limited.
Sanction Hearing	A hearing of the High Court to approve the terms of the Scheme prior to the Transfer Date of the Scheme.
Scheme	The Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation.
Scheme Report	A report on the terms of the Scheme by an Independent Expert.

Scottish Mutual WPF	The Scottish Mutual With-Profits Fund. A with-profits fund established under the Phoenix 2009 Scheme that comprises the business that was transferred to Phoenix from the With-Profits Sub-Fund of SMA and the Smoothed Investment Fund business that was transferred to the Phoenix NPF under the Phoenix 2009 Scheme and then reassured to the Scottish Mutual WPF.
SCR	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II (and UK Solvency II). Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%.
Security Trustee	Law Debenture Trust Corporation plc. The entity holding the various security interests created on trust for the various parties in relation to the Property-Linked Floating Charge.
SERP	Self-Employed Retirement Plan. This comprises the business of NPLL that was transferred to Pearl Assurance into the Pearl SERP Fund.
SERP WPF	The SERP With-Profits Fund. A PLAL ring-fenced with-profits fund previously named the Pearl SERP Fund. This comprises SERP business originally written by NPI and subsequently managed by NPLL.
SLAC	The Standard Life Assurance Company. A life insurance entity, now a subsidiary of SLAL, that demutualised in July 2006 and transferred its long-term insurance business to SLAL under a Part VII Transfer.
SLAC Demutualisation Scheme	A scheme that transferred the long-term insurance business of SLAC to SLAL via a Part VII Transfer in 2006.
SLAESL	Standard Life Assets and Employee Services Limited. A management services company and subsidiary of SLAL that carries out administrative and servicing on SLAL and SLPF policies.
SLAL	Standard Life Assurance Limited. A life insurance subsidiary of PGH that was founded to facilitate the demutualisation of SLAC.
SLAL 2011 Scheme	A scheme that transferred the business of SLIF to SLAL in 2011 via a Part VII Transfer.
SLAL Brexit Scheme	A scheme in 2019 where the euro-denominated business of SLAL, which was originally sold in Ireland, Germany and Austria, was transferred to SL Intl, a Phoenix Group company based in Ireland, by means of a Part VII Transfer.
SLAL CP	The SLAL Capital Policy. This is SLAL's own capital policy and can be seen as the company's view of the capital it will aim to hold so that all funds have sufficient assets to cover their SCR.
SLAL PBF	The SLAL Proprietary Business Fund. This comprises all assets and liabilities attributed to the non-profit business of SLAL.
SLAL SHF	The SLAL Shareholder Fund. This comprises all assets and liabilities not attributed to long-term insurance business of SLAL.
SLAL With-Profits Funds	The collective name for SLAL's four ring-fenced with-profits funds (the Heritage WPF, the UKSMWPF, the German WPF and the German Smoothed Managed WPF).
SLAL WPC	The SLAL With-Profits Committee. Responsible for advising the SLAL Board on with-profits related matters.
SLIF	Standard Life Investment Funds Limited. A wholly owned subsidiary of SLAL whose long-term business was transferred to SLAL in 2011 under a Part VII Transfer.
SL Intl	Standard Life International DAC. A life insurance subsidiary of PGH based in Ireland.

SL Intl German WPF	The Standard Life International German With-Profits Fund. Following the SLAL Brexit Scheme, versions of the SLAL funds were established within SL Intl. The SL Intl German WPF was created in respect of the German WPF business transferred from SLAL.
SL Intl German Smoothed Managed WPF	The Standard Life International German Smoothed Managed With-Profits Fund. Following the SLAL Brexit Scheme, versions of the SLAL funds were established within SL Intl. The SL Intl German Smoothed Managed WPF was created in respect of the German Smoothed Managed WPF business transferred from SLAL.
SL Intl Heritage WPF	The Standard Life International Heritage With-Profits Fund. Following the SLAL Brexit Scheme, versions of the SLAL funds were established within SL Intl. The SL Intl Heritage WPF was created in respect of the Heritage WPF business transferred from SLAL.
SL Intl PBF	The Standard Life International Proprietary Business Fund. Following the SLAL Brexit Scheme, versions of the SLAL funds were established within SL Intl. The SL Intl PBF was created in respect of the SLAL PBF business transferred from SLAL.
SLOC	Sun Life Assurance Company of Canada (U.K.) Limited. The Phoenix Group acquired SLOC in April 2023.
SLPF	Standard Life Pension Funds Limited. A wholly owned life insurance subsidiary of SLAL.
SM&CR	Senior Managers and Certification Regime. This is the FCA UK governance regime that replaced the Approved Persons Regime. It aims to reduce harm to customers and strengthen market integrity by making individuals working within the financial services industry accountable for their conduct and competence.
SMA	Scottish Mutual Assurance Limited. A life insurance company that received the business of Scottish Mutual when it demutualised in 1992. Under the Phoenix 2009 Scheme, business was transferred to Phoenix from the With-Profits Sub-Fund of SMA.
SMF	Senior Management Function. A component of the SM&CR that allocates specific responsibilities to Senior Managers for key conduct and prudential risks.
Solvency II	The regulatory solvency framework for the European Economic Area insurance and reinsurance industry. See also UK Solvency II.
SPI WPF	The SPI With-Profits Fund. A with-profits fund established under the Phoenix 2009 Scheme that comprises the business that was transferred to Phoenix from the SPI Fund and the Special Fund of SPL.
SPL	Scottish Provident Limited. A life insurance company within PGH. Under the Phoenix 2009 Scheme, business was transferred to Phoenix from the with-profits fund, non-profit fund and special fund of SPL.
Standard Formula	EIOPA’s or the PRA’s (according to context) prescribed method for calculating the SCR where an approved Internal Model is not used. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model.
SUP	The Supervision Manual contained in the FCA Handbook. This addresses the day-to-day relationship between the FCA, authorised persons (firms), key individuals within them, their appointed representatives and tied agents, and those who own or control them.
SUP 18	Chapter 18 of SUP, covering transfers of business.

Supplementary Report	A further report produced prior to the Sanction Hearing to provide an update for the High Court on the Independent Expert's conclusions in the light of any significant events subsequent to the date of the finalisation of this Report.
	T
TAS	Technical Actuarial Standards. The TASs are standards issued by the Financial Reporting Council which apply to work in the UK involving the use of actuarial principles and/or techniques and the exercise of judgement. Compliance with the TASs for work in their scope is required for members of the IFoA.
TAS 200: Insurance	The Technical Actuarial Standards applicable to Insurance transformations (such as the Scheme that is the subject of this Report), issued by the Financial Reporting Council.
Technical Provisions	The value of the technical insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II (and UK Solvency II), the Technical Provisions comprise the BEL and the Risk Margin. There are also Other Liabilities which need to be added to the Technical Provisions in arriving at the total liabilities.
TMTP	Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016. Insurers must apply to the regulator (the PRA in the UK) to use a TMTP.
Transfer Date	The date from which the Scheme if sanctioned will be implemented and will become operational. Expected to be 27 October 2023. See also Effective Date.
	U
UK Solvency II	The regulatory solvency framework for insurance and reinsurance companies in the UK since 1 January 2021 when Brexit became fully effective.
UKSMWPF	The UK Smoothed Managed With-Profits Fund. A SLAL ring-fenced with-profits fund, containing the with-profits investment element of all new Stakeholder pension plans written in the UK by SLAL post-demutualisation.
UKSMWPF PPFM	The PPFM for the UKSMWPF.
Unit Matching	A practice by unit-linked providers, whereby some unit-linked assets are encashed upfront that would otherwise be encashed when AMCs are charged to the Linked Funds. The Companies are therefore choosing to receive some of the value of future AMCs immediately rather than waiting for these to be paid over time.
UWP	Unitised With-Profits. UWP business typically refers to policies where policyholders' premiums are used to buy units whose value is then increased through bonuses that are awarded at the discretion of the insurer, depending on the surplus emerging in the relevant insurance fund. At maturity, policyholders typically receive the value of their units, which may be adjusted by a final bonus amount.
	V

Volatility Adjustment	An increase to the discount rate sometimes used in the calculation of the BEL (other than for liabilities that are subject to the Matching Adjustment) based on the rationale of avoiding forced sales of assets in the event of extreme bond spread movements. Its effect is to reduce the market value of the assets that must be held by an insurer to cover the relevant BEL.
	W
With-Profits and SPI WPF Supervisory Committee	The former name for the Phoenix WPC.
WPA	With-Profits Actuary. The person or persons fulfilling the With-Profits Actuary function. A regulated role in the UK with a responsibility for advising a firm's Board on the key areas of discretion exercised in managing its with-profits business.
WPC	With-Profits Committee. A committee that provides oversight of the management of a with-profits fund. The role of the WPC is to act in an advisory capacity to a firm's Board on decisions affecting with-profits policyholders, to ensure the interests of with-profits policyholders are appropriately considered within the firm's governance structures.
WPOP	With-Profits Operating Principles. A document setting out the principles and enduring standards adopted in all aspects of the management of a company's with-profits funds. It is a requirement for all insurance companies supervised by the Central Bank of Ireland.

Appendix E – Documents and data relied on

E.1 In addition to discussions (comprising face-to-face meetings, video and telephone calls, and emails) with the staff of the Companies, I have relied upon the information shown in the list below in formulating my conclusions. The list below comprises the main items of information and is not a complete list of all items:

- Scheme document and the Schedules rider to the Scheme as at 17 April 2023;
- Witness statement of Brid Mary Meaney as at 17 April 2023;
- The documents of the Currently Applicable Schemes, namely:
    - The Phoenix 2009 Scheme;
    - The Phoenix 2011 Scheme;
    - The Phoenix 2012 Scheme;
    - The Phoenix 2017 Scheme;
    - The Phoenix 2018 Scheme;
    - The PLAL 2012 Scheme;
    - The PLAL 2015 Scheme;
    - The SLAC Demutualisation Scheme (as amended, including by the SLAL 2011 Scheme, the 2016 amendments to the SLAC Demutualisation Scheme and the SLAL Brexit Scheme);
    - The SLAL 2011 Scheme;
    - The SLAL Brexit Scheme; and
    - The Phoenix Brexit Scheme.
- Destinations table analysis produced by Linklaters;
- Financial results spreadsheets, the latest being as at 31 December 2022, including the split of the SCR pre and post-Scheme and explanation of the sources of diversification benefit arising under the Scheme;
- Pillar 1 results reports as at 31 December 2022 for each entity;
- Draft reports of the Chief Actuaries and WPAs of the Companies on the Scheme
- Draft Report from the Head of the Actuarial Function of SL Intl on the Scheme;
- Current and post-Scheme PPFM documents applicable for the with-profits funds of the Companies;
- Various Board and Committee papers, including:
    - Papers in relation to volatility in the Q3 2022 financial results around capital and hedging strategies, and enhancements planned to Phoenix Group's models and management information (as at end February 2023);
    - Valuation Board reports setting out the movements between quarterly financials, as at Q1 2022, Q2 2022 and Q3 2022;
    - Life Company H2 dividend board paper (as at 14 December 2022);
    - Life Company Capital Policy refresh (as at 16 June 2022);
    - With-Profits Committee reports containing details on movements in financials between year-end 2021 and Q2 2022, and stress results as at Q2 2022 and Q3 2022;
- Explanatory note provided on the Phoenix Capital Policy post-Scheme as at 6 October 2022;
- List of reinsurance treaties in place for the Companies;
- Phoenix's Resolution Plan as at December 2022;
- Phoenix Group Risk Policy as at March 2021;
- Phoenix Group Risk Policy – Liquidity and Funding Policy – Version 11;

- Group ORSA report for 2022;
- Results of the LIST 2022 exercise for each of the Companies;
- Stress testing MI results as at 31 December 2022;
- Draft Mailing Packs for each policyholder group;
- Drafts of postal and email communications and document analysing the compliance with FCA guidance;
- New Business notification strategy document and the flyer to be provided to new customers (the New Business flyer) regarding the Scheme;
- An advice note prepared by Linklaters in relation to the interpretation of the form of certificate from the independent actuary required under certain of the current Phoenix and PLAL schemes (which require a view that there is no adverse effect without a materiality qualifier) in relation to their modification under the Scheme;
- Operational readiness review pack as at March 2023; and
- Paper to Phoenix Group Enterprise Asset Management Committee in relation to Credit Suisse (dated 20 March 2023).

Appendix F – Diversification benefit example

F.1 This appendix demonstrates, using hypothetical companies and figures, how an additional diversification benefit can arise when companies with differing risk profiles are combined. A large proportion (circa £418 million based on the 31 December 2022 position) of the diversification benefit arising from the Scheme occurs because each of the three main Companies is significantly exposed to one risk type.

F.2 Table F.1 below shows three separate companies and three risks to which the business of each company is exposed. A different risk type dominates within each company. As shown in Table F.1:

- Company 1 is primarily exposed to Risk 1.
- Company 2 is primarily exposed to Risk 2.
- Company 3 is primarily exposed to Risk 3.

Table F.1 Risk profile and diversification benefit for Company 1, 2 and 3 assuming there is a 50% correlation between the three risks

£m	Company 1	Company 2	Company 3	Simple Sum
Risk 1	1,850	75	175	2,100
Risk 2	350	575	175	1,100
Risk 3	350	75	1,750	2,175
Undiversified Total Capital (A)	**2,550**	**725**	**2,100**	**5,375**
Diversified Total Capital (B) (50% correlation)	**2,255**	**659**	**1,941**	**4,854**
Diversification Benefit (A – B)	**295**	**66**	**159**	**521**
Diversification Benefit as a % of the Undiversified Total Capital ((A - B) / A)	**12%**	**9%**	**8%**	**10%**

F.3 Under UK Solvency II, companies allow for the correlation and interaction between the components of the capital requirements they hold in respect of each of the risks they are exposed to, rather than holding the sum of the capital requirements in respect of all risks. The effect of allowing for this correlation between the risk types can be termed the "Diversification Benefit". The capital requirement for each individual risk is determined based on a 1-in-200 year stress for that risk. If the resulting capital requirements were simply added together across all risks, the overall result would be a capital requirement corresponding to something more onerous than the intended overall 1-in-200 year Solvency II requirement, given that the risks are unlikely to occur at the same time. Allowing for the diversification benefit ensures that the final capital requirement corresponds to the intended 1-in-200 year Solvency II capital requirement.

F.4 The risk types in Table F.1 have been combined assuming a 50% correlation between each risk type, i.e., if one risk occurs it is likely to mean that the other risks occur to some degree at the same time.

F.5 As each company is primarily exposed to a single risk type there is a relatively low level of diversification benefit arising within each separate company, as illustrated by the percentages in the final row of Table F.1. The "Simple Sum" column in Table F.1 is calculated by summing the results for each company.

F.6 Although Company 1, Company 2, and Company 3 above are hypothetical companies with three risks each (one of which dominates in each company), the diversified capital requirements (labelled B) in this example are broadly similar to the actual values for Phoenix, PLAL, and SLAL/SLPF respectively as at 31 December 2022. This has been done in order to make the example broadly consistent with the actual positions of the Companies as at 31 December 2022.

F.7 Table F.2 below shows the diversification benefit assuming a 50% correlation between the risk types once the three companies are combined into a single company.

Table F.2 Risk profile and diversification benefit for Company 4 (combined company) assuming there is a 50% correlation between the three risks

£m	Simple Sum	Company 4 (combined company)	Effect of Combination
Risk 1	2,100	2,100	n/a
Risk 2	1,110	1,100	n/a
Risk 3	2,175	2,175	n/a
Undiversified Total Capital (A)	**5,375**	**5,375**	**n/a**
Diversified Total Capital (B) (50% correlation)	**4,854**	**4,430**	**-425**
Diversification Benefits (A – B)	**521**	**945**	**+425**
Diversification Benefit as a % of the Undiversified Total Capital ((A - B) / A)	**10%**	**18%**	**+8%**

F.8 As can be seen in Table F.2, once the companies are combined, the diversification between risks increases from £521 million (under the "Simple Sum" calculation) to £945 million. The combined company (Company 4) is exposed to a broader spread of risks than any one of Company 1, Company 2 and Company 3. This results in an "Additional Diversification Benefit", £425 million as shown in Table F.2. The diversification benefit as a percentage of the undiversified capital requirement increases materially by 8%, from 10% to 18%.

F.9 As demonstrated above, it is thus plausible that Phoenix could achieve a circa £425 million additional diversification benefit based on the relative proportions and approximate values of the risks outlined in this example, assuming that all the risks are correlated with one another at 50%. It should be noted that whilst this example has been specifically constructed to illustrate this aspect and demonstrate the plausibility of an additional diversification benefit of circa £425 million, the example remains a hypothetical one and it should not be taken as representing any simplified version of the actual capital models of the Companies.

F.10 In arriving at the total reduction in SCR of approximately £512 million expected as a result of the Scheme as at 31 December 2022, Phoenix has included the further synergies arising from the LACDT. The additional LACDT benefit arising is described in more detail paragraph 9.22. SLAL has unused deferred taxable profits of circa £1,000 million within its LACDT calculation as at 31 December 2022. Broadly, some £612 million of these deferred tax profits effectively become usable post-Scheme, and applying the corporation tax rate of 25% gives an additional LACDT of some £153 million. Combining this £153 million with the £425 million derived in the hypothetical example figures above, and applying the reduction of £59 million due to the removal of the SLAL Volatility Adjustment, gives a total of £519 million which is very similar to the value shown in Table 9.5 of £512 million.

F.11 In summary, the example and analyses set out in this appendix explain how a material additional diversification (including LACDT) benefit can arise when companies are combined, and show that the amounts in question in this case are plausible based on the position of the Companies (including in relation to deferred tax and LACDT) as at 31 December 2022.

Appendix G – Compliance of this Report with Guidance

FCA HANDBOOK (SUPERVISION CHAPTER) [14]

Table G.1 Compliance of this Report with the SUP 18.2 of the FCA Handbook

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
18.2.31	A scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the appropriate regulator.	Yes.
18.2.31A	When the appropriate regulator has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect from that regulator.	Information only, no requirements.
18.2.32	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators.	Yes – we have had regular meetings with PRA and FCA and have dealt with their queries and where applicable updated the report accordingly.
18.2.33	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)Yes - paragraph 1.8 and1.12.
	(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;	(2) Yes - paragraph 1.10.
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	(3) Yes - paragraph 1.9.
	(4) whether the independent expert 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;	(4) Yes - paragraph 3.27 onwards.

14 https://www.handbook.fca.org.uk/handbook/SUP/18/?view=chapter#:~:text=SUP%2018.1%20Application&text=This%20chapter%20provides%20guidance%20in%20relation%20to%20business%20transfers.&text=SUP%2018.2%20applies%20to%20any,to%20accept%20such%20a%20transfer.

	(5) the scope of the report;	(5) Yes – section 1.
	(6) the purpose of the scheme;	(6) Yes – section 1, paragraph 2.21 and paragraphs 8.1 to 8.4.
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	(7)Yes – Section 8.
	(8) what documents, reports and other material information the independent expert has considered in preparing his report and whether any information that he requested has not been provided;	(8)Yes – appendix E.
	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgment of others;	(9)Yes – paragraphs 1.30 onwards and 3.49 onwards.
	(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	(10)Yes - 1.30 onwards covering reliance and limitations, and section 3.
	(11) his 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; (b) policyholders of the transferor whose contracts will not be transferred; and (c) policyholders of the transferee;	(11)Yes – sections 10 – 14.
	(11A) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme;	(11A)Yes – paragraph 14.18 and paragraph14.19.
	(12) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in his opinion, be relevant to policyholders' consideration of the scheme; and	(12)None – see paragraph 1.36.
	(13) for each opinion that the independent expert expresses in the report, an outline of his reasons.	(13)Yes – included throughout.
18.2.34	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the	Yes.

	scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	
18.2.35	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and	(1)Yes – Table 8.3
	(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.	(2)Yes – Table 8.3
18.2.36	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;	(1)Yes - paragraph 14.40 onwards,
	(2) state whether he considered alternative arrangements and, if so, what;	(2) Yes - paragraph 1.37. For completeness see also paragraph 10.81 covering the possible future abrdn transfer.
	(3) where different groups of policyholders are likely to be affected differently by the scheme, include comment on those differences he considers may be material to the policyholders; and	(3)Yes – Sections 10 to 14.
	(4) include his 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;	(4)(a) Yes – Section 11.
	(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect: (i) the security of policyholders' contractual rights; (ii) levels of service provided to policyholders; or (iii) for long-term insurance business, the reasonable expectations of policyholders; and	(4)(b) Yes - Section 12.
	(c) the cost and tax effects of the scheme, in so far as they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	(4)(c)Yes - paragraph 14.20 onwards and paragraph 8.88.
18.2.37	The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.	Yes – as stated in paragraph 3.9.

18.2.38	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 those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	N/A.
18.2.39	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;	(1)Yes – sections 10 to 12.
	(2) if any such rights will be diluted by the scheme, 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;	(2)N/A.
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	(3)(a)Yes – section 10.
	(b) the levels of any discretionary charges;	(3)(b)Yes – section 10.
	(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;	(4)Yes – section 10.
	(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;	(5)Yes – section 10.
	(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	(6)Yes – section 10.
	(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	(7)Yes – section 10, section 11 and paragraph 14.8.

	holder) to ensure that the scheme operates as presented.	
18.2.40	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 him to understand the wider picture. Likewise he will 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 him to understand in broad terms how the business will be run.	Yes – Scheme is standalone and not linked to any other Scheme; but for completeness see paragraph 8.89 onwards and paragraph 10.70 onwards on proposed future abrdn transfer.
18.2.41	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 he considers ought to be made, unless either: (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 (2) otherwise, he is unable to report on this aspect in the time available.	N/A - No benefits reduced.

STATEMENT OF POLICY: THE PRA'S APPROACH TO INSURANCE BUSINESS TRANSFERS[15]

Table G.2 Compliance of this report with the PRA'S approach to insurance business transfers (Paragraphs 2.27 to 2.40)

Paragraph	Statement	IE report complies (and relevant sections/paragraphs of this IE report)?
2.27	Under section 109 of FSMA, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the PRA (following consultation with the FCA).	Yes
2.27A	2.27A The PRA's assessment of whether to approve the form of the scheme report considers if the report is in an appropriate form to be submitted to the court to assist its assessment of the scheme. The PRA expects to take into consideration whether the report: (1) covers in sufficient detail all the issues that appear to the PRA to be relevant; and (2) incorporates appropriate reasoning.	(1) Yes - all relevant issues covered in detail. (2) Yes - appropriate reasoning used and explained in reaching conclusions.

15 https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2022/the-pras-approach-to-insurance-business-transfers-sop-jan-2022.pdf

2.27B	The PRA would generally expect a scheme report to contain at least the information specified in 2.30 and 2.32–2.33 below before it would be able to consider approving the form of the report	See below.
2.28	When the PRA has approved the form of a scheme report, the scheme promoter(s) may expect to receive written confirmation to that effect.	Information only, no requirements.
2.29	There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert would therefore be expected to contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form their own opinion on such issues, which may differ from the opinion of the regulators.	Yes – we have had regular meetings with PRA and FCA and have dealt with their queries and where applicable updated the report accordingly.
2.30	The scheme report should comply with the applicable rules on expert evidence and should as a minimum contain the following information: (1) who appointed the independent expert and who is bearing the costs of that appointment;	(1) Yes – paragraphs 1.8, 1.12.
	(2) confirmation that the independent expert has been approved or nominated by the PRA;	(2) Yes – paragraph 1.10.
	(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	(3) Yes – paragraph 1.9.
	(4) whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	(4) Yes - paragraph 3.27 onwards.
	(5) the scope of the report;	(5)Yes – section 1.
	(6) the purpose of the scheme;	(6) Yes – section 1, paragraph 2.21 and paragraphs 8.1 to 8.4.
	(7) a summary of the terms of the scheme in so far as they are relevant to the report;	(7) Yes – section 8.
	(8) what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	(8) Yes - Appendix E.
	(8A) any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	(8A) Yes – sections 5 -7 and 9.

	(9) the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	(9)Yes – paragraph 1.30 onwards and paragraph 3.49 onwards.
	(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	(10) Yes – paragraph 1.30 onwards covering reliances and limitations, section 3.
	(11) 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; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	(11)Yes – sections 10 – 14.
	(12) their opinion on the likely effects of the scheme on any reinsurer of a transferor, whose contracts of reinsurance are to be transferred by the scheme;	(12) Yes - paragraphs 14.18 and 14.19.
	(12A) their definition of 'material adverse' effect;	(12A) Yes - paragraphs 3.24 and 3.25.
	(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' consideration of the scheme;	(13) None – paragraph 1.36.
	(14) for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	(14) Yes – included throughout.
	(15) an outline of permutations if a scheme has concurrent or linked schemes, and analysis of the likely effects of the permutations on policyholders.	(15) None applicable, but for completeness see paragraph 8.89 onwards and paragraph10.79 onwards (covering the proposed future abrdn transfer) and paragraph 8.110 (covering the closure to new business of Heritage WPF).
2.31	The purpose of the scheme report is to inform the court and the independent expert, therefore, has a duty to the court. However reliance will also be placed on it by policyholders, reinsurers, and others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.	Yes.

2.31A	The independent expert is ultimately responsible and accountable for the opinions and conclusions expressed in the scheme report, including where reliance has been placed on others. Therefore where the independent expert has placed reliance on others, they must be clear why they are content to do so.	Yes – paragraph 1.30 onwards and paragraph 3.49 onwards.
2.32	The summary of the terms of the scheme should include: (1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and (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.	(1) Yes -Table 8.3. (2) Yes, Table 8.3
2.33	The independent expert's opinion of the likely effects of the scheme should be assessed at both firm and policyholder level and should: (1) include a comparison of the likely effects if it is or is not implemented;	(1) Yes - paragraph 14.40 onwards.
	(2) state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	(2) Yes - paragraph 1.37. For completeness see also paragraph 10.81 covering the possible future abrdn transfer.
	(2A) analyse and conclude on how groups of policyholders are affected differently by the scheme, and whether such effects are material in the independent expert's opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	(2A) Yes, section 10 and section 11.
	(3) include the independent expert's views on: (a) the likely effect of the scheme at firm and policyholder level on the ongoing security of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing ;	(3)(a)Yes – section 11.Stress and scenario testing, including available management actions, covered in paragraph 9.27 and paragraph 11.20. Possible further / own stress and scenario testing covered in paragraph 9.32.
	(aa) the transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;	(3) (aa) Yes - covered in various places as appropriate, including paragraph 9.27 onwards, paragraph 11.38 onwards and paragraph 12.15 onwards.
	(aaa) the likely effects of the scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any	(3)(aaa) Yes - section 11.

	other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	
	(aaaa) whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the scheme;	(3)(aaaa) Yes - paragraph 11.68.
	(b) the likely effects of the scheme on matters such as investment management, capital management, new business strategy, claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights, (ii) levels of service provided to policyholders, (iii) for long-term insurance business, the reasonable expectations of policyholders;	(b)Yes - section 10 and section 11.
	(c) the likely 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; and	(c)Yes - paragraph 3.57 and paragraph 14.20 onwards.
	(d) the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the scheme or related transactions.	(d) Yes – section 11 and Table 11.5.
2.34	The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.	Yes.
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 those members to secure or prevent further changes which could affect their entitlements as policyholders; (2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and The PRA's approach to insurance business transfers January 2022 10 (3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	N/A.
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;	(1)Yes – sections 10-12.
	(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;	(2)N/A.
	(3) describe the likely effect of the scheme on the approach used to determine: (a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and	(3)(a) Yes - section 10.
	(b) the levels of any discretionary charges;	(3)(b) Yes - section 10.
	(4) describe what safeguards are provided by the scheme against a subsequent change of approach to these matters (in 2.36(1)–(3)) that could act to the detriment of existing policyholders of either firm;	(4)Yes - section 10.
	(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;	(5)Yes – section 10.
	(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	(6)Yes – section 10.
	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 holder) to ensure that the scheme operates as presented.	(7) Yes – section 10, section 11 and paragraph 14.8.
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. The PRA expects the independent expert to comment on how any such plans (including other insurance business transfers involving the parties to the scheme) would impact the likely effects of the scheme at firm and policyholder level.	Yes – Scheme is standalone and not linked to any other Scheme; but for completeness see paragraph 8.89 onwards and paragraph 10.70 onwards on proposed future abrdn transfer.

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: (1) the information required is not available and will not become available in time for their report, for instance it might depend on future events; or (2) they are unable to report on this aspect in the time available. 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 having regard to its statutory objectives. Section 113 of FSMA allows the court, on the application of the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	N/A - No benefits reduced.
2.39	The PRA expects the independent expert to provide a supplementary report for the final court hearing. Any supplementary reports will form part of the scheme report required to be produced under section 109 of FSMA and must also comply with 2.30-2.37.	Supplementary Report to be produced in due course.
2.40	The purpose of the supplementary report is for the independent expert to provide an update on any relevant new information or events that have occurred since the date of the scheme report and to provide an opinion on whether they have affected the transfer. Matters that should be considered include, but are not limited to: (1) the most recent audited and unaudited available financial information in respect of the transferor and transferee, which the PRA would expect to have been internally validated; (2) any recent economic, financial or regulatory developments; and (3) any representations made by policyholders or affected persons that raise issues not previously considered in the scheme report.	Supplementary Report to be produced in due course.
2.30A	In circumstances where there has been a duration between the directions hearing and the final court hearing of six months or more, it may be appropriate for the independent expert to produce an updated scheme report rather than a supplementary report. The PRA would assess this report as set out in 2.27A.	Noted.

FINALISED GUIDANCE FG22/1: THE FCA'S APPROACH TO THE REVIEW OF PART VII INSURANCE BUSINESS TRANSFERS[16]

G.2 The FCA Guidance in FG22/1 is more general than the items listed in SUP 18.2 and in the PRA Statement of Policy, both as covered above. It sets out extensively the FCA's expectations in general terms, including examples for consideration, examples of good practice, and examples of where the FCA have thought that reports could be better. The FCA Guidance also sets out the level of detail into which the FCA expects an Independent Expert to go in various areas. I have reviewed this guidance and I believe that this Report complies with it and goes into the required level of detail, explanation, and justification in all of the various areas. I also note that there is a degree of overlap between the FCA Guidance and SUP 18.2 and the PRA Statement of Policy.

16 https://www.fca.org.uk/publication/finalised-guidance/fg22-1.pdf