

**Report of the Independent Expert on the
Proposed Scheme to Transfer Long-Term
Insurance Business from Equitable Life
Assurance Society (ELAS) to Utmost Life
and Pensions Limited**

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The image shows a handwritten signature in black ink, which appears to be 'Richard Baddon'. The signature is written in a cursive style with a long horizontal stroke at the end.

16 July 2019

Contents

1	Introduction	3
2	Summary and Conclusions	10
3	Outline of the Scheme	35
4	The Role of the Independent Expert	47
5	Capital Requirements and Capital Policies	50
6	Implications for Transferring Policyholders	63
7	Implications for Non-Transferring policyholders	70
8	Implications for Existing Utmost Life and Pensions Policyholders	81
9	Ongoing Governance, Administration and Investment Management	86
10	Tax Considerations	93
11	Policyholder Communications	96
	Appendix 1: Independent Expert Terms of Reference	103
	Appendix 2: SUP 18 and PRA Policy Statement compliance	105
	Appendix 3: Background to Equitable Life Assurance Society (ELAS)	108
	Appendix 4: Background to Utmost Life and Pensions Limited	110
	Appendix 5: ELAS Scheme of Arrangement	114
	Appendix 6: Summary Solvency II Financial Information	118
	Appendix 7: Description of Reinsurance Arrangements	124
	Appendix 8: Data and Reliances	126
	Appendix 9: Glossary	129

1 Introduction

The Independent Expert

- 1.1 When a scheme for the transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales (the "Court") for approval, it has to be accompanied by a report from an Independent Expert. This is a requirement of Section 109 of Part VII of the Financial Services and Markets Act 2000 ("FSMA") and the report must be made in a form approved by the Prudential Regulation Authority ("PRA") having consulted the Financial Conduct Authority ("FCA"), the UK regulators (together, the "Regulators").
- 1.2 I have been appointed as the Independent Expert to provide the required report on a proposed scheme for the transfer of the majority of business of Equitable Life Assurance Society ("ELAS") to Utmost Life and Pensions Limited ("Utmost Life and Pensions", or "Utmost L&P"). For this proposed scheme of transfer (the "Scheme"), I have been appointed jointly by ELAS and Utmost Life and Pensions (together, the "Companies"). My appointment has been approved by the PRA, in consultation with the FCA. For schemes of this type, the Independent Expert is required to prepare a scheme report in a form approved by the PRA having consulted the FCA and in accordance with relevant guidance, including that contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18").
- 1.3 The Scheme will be presented to the Court for sanction under Section 111 of Part VII of the FSMA on 22 and 25 November 2019. If approved, it is expected that the Scheme will become operative and take effect on 1 January 2020 (the "Implementation Date"). This report (my "Report") and a supplementary report (my "Supplementary Report" and, together with my Report, my "Reports") will be presented to the Court at a hearing (the "Sanction Hearing"). It is likely that the Court will consider the contents of these Reports in deciding whether to sanction the Scheme.
- 1.4 I am a partner in the Actuarial Insurance & Banking practice of Deloitte MCS Ltd. ("Deloitte"). I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years of experience in the UK life assurance industry, working across a wide range of advisory and transaction projects for life insurance companies. The proposed Scheme will involve consideration of a range of potential issues, some of which are likely to be complex in nature. I believe I have the skills and experience to fulfil this role. I have extensive experience in relation to Part VII transfers, and I have previously acted as the Independent Actuary on the transfer of the business from Royal Liver to Royal London. This was extremely complex and the largest transfer to be done under the Friendly Societies Act. In addition, I led the delivery of a highly complex series of Part VII transfers in relation to a number of businesses in the Phoenix (ex-Pearl) Group and Royal London. This took the form of three separate Part VII transfer schemes and two Court hearings.

Independence

- 1.5 Neither I nor my immediate family members hold any policies, investments, shareholdings or have any other financial interests in either of the Companies.
- 1.6 Partners and staff of Deloitte have advised the Companies on various assignments. However, Deloitte has not acted as external auditor or performed any regulatory roles. I have previously supported ELAS in performing due diligence on its disposal of the With-Profits Annuity and Immediate Annuity portfolios, but I have not taken part in any project involving ELAS in the past 10 years. I have not been involved in any engagements involving Utmost Life and Pensions.

- 1.7 I do not believe that any of these previous assignments compromise my independence, create a conflict of interest, or compromise my ability to report on the proposed Scheme. The assignments were disclosed to the PRA prior to its approval of me as the Independent Expert.

Regulatory and Professional Guidance

- 1.8 My Report has been prepared in accordance with relevant guidance including, but not limited to:
- the PRA Statement of Policy on Part VII Transfers;
 - the FCA's approach to the review of Part VII insurance business transfers (FG 18/4); and
 - Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") for scheme reports relating to the transfer of long-term insurance business.

I have set out in Appendix 2: SUP 18 and PRA Policy Statement compliance details of how these requirements have been met.

- 1.9 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I have prepared this Report, with the intention that it, and my actuarial work underlying it, should meet the requirements of Technical Actuarial Standards TAS 100 and TAS 200 (which cover, respectively, general principles for technical actuarial work and insurance specific principles). I believe that it does so in all material respects and I have had regard to this guidance while preparing my Report. The Report meets the requirements of the Actuarial Professional Standards ("APS") issued by the Institute and Faculty of Actuaries, specifically APS X1, and has been peer reviewed in accordance with APS X2.

The Scope of my Report

- 1.10 My terms of reference have been agreed with the Companies and seen by the Regulators and are set out in more detail in Appendix 1: Independent Expert Terms of Reference.
- 1.11 This Report considers the consequences of the Scheme for the policyholders of each of the Companies, and sets out my findings. I am not required to, and do not, consider the position of each individual policyholder, but I have considered the consequences for each key group of policyholders, which I have defined in Section 4.
- 1.12 I am required to comment on the proposed Scheme, and have not considered alternatives to the Scheme in my Report.
- 1.13 In parallel with the Part VII transfer process, ELAS is performing a Scheme of Arrangement under Part 26 of the Companies Act 2006 to convert the majority of its business currently classified as with-profits business to unit-linked business (the "Scheme of Arrangement"). This involves distributing all distributable assets in excess of the liabilities of ELAS to the with-profits policyholders of ELAS. The Scheme and Scheme of Arrangement are inter-dependent, therefore either both will be implemented or neither will be implemented. Further details on the Scheme of Arrangement can be found in Appendix 5: ELAS Scheme of Arrangement. The Scheme of Arrangement will apply to all with-profits policies sold under UK and Irish law, but will exclude those policies sold under German law. The effective date of the Scheme of Arrangement is the same as the Implementation Date, with the Scheme of Arrangement scheduled to complete immediately (one second) before the Scheme takes effect. I am not required to opine on the appropriateness or fairness of the Scheme of Arrangement in my Reports as another actuary independent of ELAS (the "Policyholder Independent Expert") has been appointed for that process. This includes the appropriateness of the post-Scheme investment strategy for the newly converted unit-linked policies and the choice of unit-linked funds available to these policyholders, as well as the

uplift applied to the with-profits policies sold under German law, which the Policyholder Independent Expert has considered in his report.

- 1.14 The conclusions set out in my Reports are based on the assumption that the Scheme of Arrangement will be sanctioned by the Court, following a vote by policyholders in scope of the Scheme of Arrangement, and implemented immediately prior to the Scheme taking effect, a condition required prior to implementation of the Scheme and transfer of the business from ELAS to Utmost Life and Pensions. It also assumes that a vote by ELAS members (the with-profits policyholders of ELAS, including those with policies sold under German law), at an Extraordinary General Meeting ("EGM") on membership rights is passed. These membership rights relate to a policyholder's right to share in the profits and losses of the Company. Should the Scheme of Arrangement not go ahead, or the EGM vote is not passed, the Scheme will not be implemented due to the legal dependency between the Scheme and the Scheme of Arrangement. In that situation, all conclusions and opinions in my Reports will no longer be relevant and my Reports will not be presented to the Court. Given this, the starting point for my analysis in my Report is the position immediately following the implementation of the Scheme of Arrangement, unless otherwise stated.
- 1.15 At the time of writing, it is unclear what the impact of the UK leaving the European Union ("EU") will be on UK insurance regulation. This process is widely referred to within the UK as "Brexit". Currently, UK insurers have passporting rights allowing them to write and manage insurance policies sold to policyholders in other European countries without having to establish subsidiaries in those countries or be subject to their respective supervisory regimes. A "soft Brexit", a widely adopted term for a Brexit where EU free movement, trade and customs continue to apply to the UK following the Brexit effective date, expected to be 31 October 2019, would see transitional arrangements in place to retain these passporting rights for a predefined amount of time. A "hard Brexit", where EU movement, trade and customs would no longer apply following Brexit, would see the passporting rights immediately removed as at the Brexit effective date.
- 1.16 Irish and German regulators, the Central Bank of Ireland ("CBI") and the Federal Financial Supervisory Authority (more commonly known by its German abbreviation, "BaFin"), have indicated a grandfathering period of 3 years and 21 months from the Brexit effective date, respectively, meaning that UK insurers can continue to receive premiums from and pay claims to non-UK policyholders in this period. Given that it is expected that this grandfathering period with the CBI and BaFin will be formalised, a view agreed by ELAS' legal advisors, and that transferring the Irish and German policyholders would not address the issues expected to arise in respect of administering these policies at the end of this grandfathering period, the Irish and German policyholders currently in ELAS will be excluded from the transfer to Utmost Life and Pensions at the Scheme Implementation Date, instead remaining in ELAS after this date. Although I consider the impact of the Scheme on this group of policyholders that will remain in ELAS (the "Non-Transferring Policyholders") in the same way in which I consider the other groups of policyholders, either directly or indirectly, involved in the Scheme, my Report does not consider the options available to Utmost Life and Pensions at the end of the grandfathering period. If there is a requirement to transfer the Non-Transferring Policyholders to a European Union domiciled entity after this point, it is likely that this transfer will be to another company within the Utmost Group of Companies. Any future transfer, the timing of which is not yet known, will be subject to a review by an Independent Expert appointed to opine on that specific transfer at that time, and is therefore outside the scope of my opinion.
- 1.17 To the best of my knowledge, I have taken account of all material facts and emerging issues (including but not exclusively market developments, the macroeconomic environment, changes to regulation, the impact of Brexit and future known restructuring plans of the firms) in assessing the impact of the Scheme and in preparing this Report. In order to reflect any updated financial information or circumstances nearer to the date of the Sanction Hearing, I will provide a Supplementary Report setting out my updated opinions in respect of the Scheme. This will include an update on Brexit, and any other regulatory or market updates

relevant to the Scheme, and will also include my consideration of any complaints or objections received from policyholders following communication of the Scheme. In addition to these standard items expected in a supplementary report of this nature, my Supplementary Report will also include my conclusions in respect of aspects of the Scheme which I have not yet been able to conclude on at the time of writing, a summary of which I have included within my conclusions in Section 2 of my Report.

- 1.18 In reporting on the Scheme as the Independent Expert, I recognise that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to the Companies from whom I have received instructions. I believe that I have complied, and confirm that I will continue to comply, with this duty. I also confirm that I am aware of the duties and requirements regarding experts set out in Part 35 of the Civil Procedure Rules, Practice Direction 35 – Experts and Assessors and the Protocol for the Instruction of Experts to give Evidence in Civil Claims.
- 1.19 Under my direction and oversight, I have been supported in preparing my Report by qualified actuaries from Deloitte with previous experience of Part VII transfers, including supporting other Partners at Deloitte in their roles as Independent Expert, and have sought subject matter expertise (for example, in the case of my considerations regarding the tax implications for the Scheme), where I considered this appropriate. My Report has also been subject to peer review by another Partner at Deloitte, with experience of the Part VII process. The opinions in this Report are, however, my own.
- 1.20 My Report can be read as a stand-alone document, although it draws on information in the terms of the Scheme, and the reports prepared by the Chief Actuaries and With-Profits Actuaries of the Companies. I have considered each of these in coming to my conclusions, but have not relied upon the opinions expressed in those reports.

Reliances and sources of information

- 1.21 In performing my review and preparing this Report, I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by the Companies. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life insurance industry but have not otherwise verified it. A version of this Report has been submitted to both Companies and their respective legal advisors for a factual accuracy review, and this Report reflects the feedback from this process.
- 1.22 In this Report, my analysis of the solvency and capital positions of each company and its respective funds is based on the estimated pre- and post-Scheme financial positions of the Companies. The Companies' results included in my Report are based on the UK regulatory requirements for measuring solvency, the Solvency II ("SII") regime, which I refer to as the "Solvency II basis". Aspects of the pre-Scheme of Arrangement position, specifically the Best Estimate Liabilities ("BEL"), the Solvency Capital Requirement ("SCR"), the Minimum Capital Requirement ("MCR") and assumptions underlying these, have been subject to external audit. While the remaining components of the pre-Scheme of Arrangement position and the estimates of the post-Scheme position have not been subject to external audit, they have been subject to a formal review process within each Company and, with reliance on this and my reasonableness-checking mentioned above, I am satisfied that it is reasonable to rely on the accuracy of these figures. Further detail on the Companies' governance process for reviewing and approving these figures is set out in Section 5.
- 1.23 The pre- and post-Scheme solvency positions shown in this Report are as at 31 December 2018 for the Companies. Although the impact of the Scheme of Arrangement is outside the scope of my Reports (as per paragraph 1.13 above), I note that it has the effect of allocating all distributable assets of ELAS to the with-profits policyholders of ELAS immediately before the Scheme. As a result, immediately after implementation of the Scheme of Arrangement, and immediately before the Scheme, ELAS will have insufficient surplus assets over Technical Provisions to cover its SCR (or MCR) under Solvency II. This situation arises due to the need

to provide those policyholders in scope of the Scheme of Arrangement with a fair uplift to their policy value which is calculated on a basis agreed between ELAS and Utmost Life and Pensions and which is not entirely consistent with the ELAS' Solvency II basis. If both the Scheme of Arrangement and Scheme of Transfer are approved, the Scheme will take effect one second after the Scheme of Arrangement does on the Implementation Date. However, this period is entirely notional and does not affect the overall transaction. It arises out of the necessity to have separate legal arrangements to re-structure the ELAS business and the need for these arrangements to take place consecutively rather than in parallel. This notional capital position, where ELAS does not have sufficient assets to cover its SCR (or MCR), is one aspect of the Scheme of Arrangement which has necessitated the interdependency of the Scheme and Scheme of Arrangement.

- 1.24 For this reason, and the fact that the Scheme and Scheme of Arrangement are inter-dependent, with either both implemented or neither implemented, I have shown the ELAS position before the Scheme of Arrangement takes effect when comparing pre- and post-Scheme solvency positions of the Companies. This is a stronger test than considering the notional position post-Scheme of Arrangement where ELAS has insufficient surplus assets to cover its SCR (or MCR) under Solvency II. Comparing the post-Scheme solvency position of Utmost Life and Pensions to this position would be artificial and potentially misleading to the readers of my Report, particularly when considering relative policyholder benefit security before and after the Scheme. For the avoidance of doubt, although the Scheme and Scheme of Arrangement are inter-dependent, and I present only the pre-Scheme of Arrangement financial position in my Report, this does not change the scope of my Reports as I am considering the Scheme on its own merits and independently from the Scheme of Arrangement.
- 1.25 The analysis in this Report is based on assumptions and economic conditions as at 31 December 2018. I note that the economic position at the Implementation Date cannot be predicted with certainty. The absolute solvency level at the Implementation Date will therefore differ from that shown in the Report, but I would not expect the impact of the Scheme to vary significantly from the estimates shown and it is this impact which is my primary consideration (alongside the Companies continuing to satisfy regulatory solvency requirements, as is currently the case). I will continue to keep the position under review in the period leading up to the Sanction Hearing, and will prepare further information in my Supplementary Report.
- 1.26 As per paragraph 1.13, I have not considered the impact of the Scheme of Arrangement in my Reports. A Policyholder Independent Expert has been assigned to opine on the fairness of this transaction to policyholders in ELAS. The report(s) produced by the Policyholder Independent Expert will be presented to and considered by the Courts prior to the Scheme of Arrangement being sanctioned and implemented. Where I have relied on conclusions made by the Policyholder Independent Expert, I have stated this and have not otherwise sought to verify the conclusions drawn within his report(s).
- 1.27 All significant financial information, data and written information which I have relied on is listed in Appendix 8: Data and Reliances

Limitations

- 1.28 This Report has been written in accordance with English law, and has been prepared solely for the use of the Companies and the Court, and solely for the purpose of assisting in determining whether the Scheme should be permitted. Policyholders, reinsurers and any others affected by the Scheme may also place reliance on my Report(s), as stated in SUP 18.2.34. It should not be used for any other purpose. The Report may not be relied upon by any other party for any purpose whatsoever. Neither I nor Deloitte, its partners and staff owe or accept any duty to any other party and shall not be liable for any loss, damage or expense (including interest) of whatever nature which is caused by any other party's reliance on representations in this Report.

1.29 This Report should be considered in its entirety, as parts taken in isolation may be misleading. A copy of the final version of my Report may be provided to the following parties:

- the Regulators, for the purposes of the performance of their statutory obligations under FSMA;
- legal advisers of the Companies in connection with the Scheme provided that the Companies inform them that i) the Report is confidential and may not be disclosed to any other party without my prior written consent or otherwise as permitted by this letter, and ii) neither Deloitte nor I accept any responsibility or liability to them in respect of any use they may make of the Report;
- tax advisers of the Companies (internal and external), subject to the external tax advisers signing an agreed release letter;
- the Court, to assist in determining whether the Scheme should be permitted;
- any other person who has or asserts a right to receive a copy of this Report, provided for under the terms of the FSMA and SUP 18.2, or any Jersey, Guernsey or other non-EEA resident policyholder who has or asserts a right to receive a copy of the Report under the terms of local legislation (an "Interested Party" and collectively the "Interested Parties");
- other insurance regulators who have a legitimate interest in the Scheme and the local schemes in Jersey and Guernsey (the "Channel Islands Schemes", see paragraphs 1.30 to 1.31 below); and
- the relevant courts in Jersey and Guernsey, solely in connection with the Scheme or the Channel Islands Schemes.

1.30 The Companies have been advised that, in order to transfer certain parts of the insurance business, local schemes will need to be effected in Jersey and Guernsey, subject to the sanction of the Royal Court of Jersey and the Royal Court of Guernsey (the "Channel Islands Courts"), respectively. The terms of the transfers under the local schemes are based on (and are in all material respects the same as) the Scheme and the local schemes are expected to take effect on the same date as the Scheme. The local schemes are each conditional upon the sanction of the Scheme by the Court. In the event that the transfer under either of the local Channel Islands Schemes is delayed, the Scheme will go ahead but the Jersey and/or Guernsey policies, as relevant, will become "Excluded Policies" under the Scheme until the relevant local scheme(s) is approved. The economic value of any of these Excluded Policies would be transferred to Utmost Life and Pensions by way of a reinsurance agreement between ELAS and Utmost Life and Pensions. They would be managed by Utmost Life and Pensions as though they had transferred, meaning that, to all intents and purposes, these policies can be treated as Transferring Policies. A subsequent legal transfer of these policies would occur when possible after approval of the relevant scheme. The treatment of Excluded Policies is covered in further detail in 3.24 and 3.25.

1.31 In writing this Report, I have also considered the effect of the Channel Islands Schemes on policyholders. My Report and conclusions apply equally to policies transferring pursuant to the Jersey and Guernsey schemes as they do to policies transferring pursuant to the Scheme, and this Report may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the local scheme in each of Jersey and Guernsey. I will, as necessary, provide additional reports or commentary in respect of Jersey and Guernsey to assist the Channel Islands Courts.

1.32 A copy of the final version of my Report may be published on the websites of the Companies and made available for inspection at the offices of the Companies. Otherwise, this Report

(or any extract from it) should not be published without the prior written consent of Deloitte. A summary of the Report, approved by me, will be provided by the Companies to the policyholders of ELAS and Utmost Life and Pensions with an interest in the Scheme. No other summary of this Report may be made without the prior written consent of Deloitte.

- 1.33 This Report has been prepared in accordance with agreed terms of reference and for a specific purpose. No liability will be accepted for the use of this Report for a purpose for which it was not intended or for the results of any misunderstandings by any user of this Report. No liability will be accepted under the terms of the Contracts (Rights of Third Parties) Act 1999.

Form of my Report

- 1.34 Section 2 is a stand-alone summary describing what the Scheme is designed to do, and setting out my conclusions.
- 1.35 Section 3 describes the companies involved in the Scheme, and how they are affected.
- 1.36 Section 4 explains the role of the Independent Expert and the approach I have taken in carrying out my analysis and reaching my conclusions.
- 1.37 Section 5 provides the key information relating to the security of policyholder benefits before and after the Scheme.
- 1.38 Section 6 deals with the ELAS policyholders that are transferring under the Scheme, Section 7 deals with the ELAS policyholders that are not transferring under the Scheme and Section 8 deals with the existing policyholders of Utmost Life and Pensions. Each section sets out my analysis and conclusions on how that particular group of policyholders is affected by the Scheme in respect of benefit security and benefit expectations. Each section is written so that a policyholder in the relevant company can understand what I consider to be the significant implications of the Scheme for them by reading it. For those reading the whole Report, there will be some repetition across these Sections.
- 1.39 Section 9 explains the effect of the Scheme on service standards and investment management services provided to policyholders.
- 1.40 Section 10 describes the impact of tax matters on the Scheme.
- 1.41 Section 11 deals with the plans for communicating the Scheme to policyholders, and my opinion on those plans.
- 1.42 Further background information, including details of the Scheme of Arrangement, is given in the appendices, which include my terms of reference and a glossary.

2 Summary and Conclusions

Introduction

- 2.1 I have been appointed as the Independent Expert to provide the required report on a proposed scheme for the transfer of business of Equitable Life Assurance Society ("ELAS") to Utmost Life and Pensions Limited ("Utmost Life and Pensions"). For this proposed scheme of transfer (the "Scheme"), I have been appointed jointly by ELAS and Utmost Life and Pensions (together, the "Companies"). My appointment has been approved by the PRA, following consultation with the FCA.
- 2.2 I am a Fellow of the Institute and Faculty of Actuaries, having qualified in 1994, and am a Partner in the Actuarial and Insurance Solutions practice of Deloitte, where I specialise in life insurance. I have experience on complex engagements, including transfers of business, and have previously acted as Independent Actuary on such engagements.
- 2.3 I am independent of the Companies involved in the Scheme, and neither I nor any partner or member of staff of Deloitte has acted for the Companies in developing any aspects of the Scheme.
- 2.4 I have considered the effect which the proposed Scheme is expected to have on the different groups of policyholders in the Companies, and whether the position of any group is, or is likely to be, "materially adversely affected". Paragraphs 4.3 to 4.9 explain how I have interpreted this. This Report sets out my findings, to assist the Court in deciding whether or not to allow the Scheme to go ahead.
- 2.5 The Scheme will be submitted to the Court at the Sanction Hearing expected to be scheduled for 22 November 2019 and 25 November 2019. If approved, it is expected to become operative on the Implementation Date of 1 January 2020. I will continue to review the implications of the Scheme for policyholders, and I will provide a Supplementary Report for the Court shortly in advance of the Sanction Hearing.

Purpose of the Scheme

- 2.6 The purpose of the Scheme is to transfer the entire business of ELAS to Utmost Life and Pensions, with the exception of the policies originally sold under Irish or German law, which will remain in ELAS. The legal transfer that would be achieved by the Scheme is intended to deliver commercial benefits to both Companies, in line with their respective strategies. Specifically, the transfer will:
- together with the Scheme of Arrangement, allow ELAS to distribute capital fairly to its with-profits policyholders as soon as possible and mitigate the risks associated with ELAS remaining in long-term run-off; and
 - expand Utmost Life and Pensions' presence within the UK life insurance industry.

Scope and Impact of the Scheme

- 2.7 The effect of the Scheme is to transfer the majority of the business of ELAS, a mutual insurance company with £6.4 billion of assets under management at 31 December 2018, to Utmost Life and Pensions, a UK insurer with £1.6 billion of assets under management at 31 December 2018. The policies transferring under the Scheme consist of a broad range of business including protection, pension (individual and group), annuity and investment products. Policies written under Irish or German law through the (now closed) branches in those territories will be excluded from the Scheme and remain in ELAS. The Scheme is not

intended to change the benefits payable under the policies transferring to Utmost Life and Pensions or the way in which the business is managed going forward (although responsibility for this management will pass to Utmost Life and Pensions under the Scheme).

2.8 As noted in 2.6, policies originally sold under Irish or German law are not in scope of the Scheme and will remain in ELAS. This business comprises of unit-linked pension, non-profit annuity, non-profit protection and with-profits products. The Scheme, if approved, is expected to effect a restructure of the remaining ELAS entity, with a new with-profits fund (the "German With-Profits Fund") being established. All "German With-Profits Policies" (with-profits policies sold under German law) in-force at the Implementation Date, will be allocated to the new German With-Profits Fund, with all other policies sold under Irish and German law remaining in the main ELAS fund (the "ELAS Main Fund"). Throughout my Report I will discuss the impact of the Scheme on the holders of the two distinct groups of German With-Profits Policies:

- UK-style German With-Profits Policies – which have benefits and features similar in nature to a UK issued with-profits policy; and
- German-style German With-Profits Policies - which are similar to non-profit policies, but whose benefits are linked to the performance of a specific pool of assets.

2.9 A diagram outlining the transfers under the Scheme is provided in Figure 2.1. Further details on the financial positions of ELAS and Utmost Life and Pensions are included later in this section, in Table 2.1.

Figure 2.1: Transfers under the Scheme



2.10 If approved, the Scheme, together with the Channel Islands Schemes, will transfer almost all of the policies, assets and liabilities of the ELAS Ordinary Long Term Fund (the "ELAS OLTf") associated with the Transferring Policies at the Implementation Date into Utmost Life and Pensions. The assets and liabilities pertaining to the Non-Transferring Policies and any Excluded Policies will remain in ELAS.

2.11 All Transferring Policies and associated assets ("Transferring Assets") and liabilities will be allocated to the Utmost Life and Pensions Non-Profit Fund (the "ULP NPF") on the Implementation Date. The change in the Articles of Association, the document which sets out the rules according to which a company must be run and administered, will make Utmost Life and Pensions the sole member of ELAS, effectively making ELAS a subsidiary of Utmost Life and Pensions, although Utmost Life and Pensions will, additionally, apply for a Change

in Control. This will be subject to the regulatory approval process required for such an application. Sufficient assets required to meet the liabilities of the Non-Transferring Policies and any Excluded Policies, plus the higher of 125% of the MCR, a value specified by the European Insurance and Occupational Pensions Authority ("EIOPA"), and 150% of the SCR, will be retained in ELAS on the Implementation Date.

- 2.12 The UK-style German With-Profits Policyholders are not included in the Scheme of Arrangement, as there is a risk that the Scheme of Arrangement will not be recognised by the German courts. However, if the Scheme of Arrangement is implemented, these policyholders will each be allocated an amount which is equivalent to the primary uplift amount which will apply to the with-profits policyholders included in the Scheme of Arrangement. This will be allocated to these policies through the Scheme, with all other with-profits policyholders of ELAS receiving this uplift through the Scheme of Arrangement. All uplifts are assumed to have been applied and are reflected in the post-Scheme financials presented in Table 2.1. Another actuary independent of the Companies (the "Policyholder Independent Expert") has been appointed to form a view of the fairness of the uplift, so the value of this uplift is not in scope of my Report.

Main Considerations

- 2.13 As the Independent Expert I am required to consider the effect of the Scheme on each group of policyholders. I have considered the implications of the Scheme for the following groups of policyholders separately, as the analysis differs in each case:
- policyholders transferring from ELAS (the "Transferring Policyholders");
 - policyholders remaining in ELAS (the "Non-Transferring Policyholders"); and
 - existing policyholders of Utmost Life and Pensions (the "Existing Utmost Life and Pensions Policyholders").

Within the groups above, I have considered unit-linked policies, with-profits policies, non-profit policies and group schemes separately, where relevant.

- 2.14 In all cases, in arriving at my opinion I have discussed the Scheme's documentation and intended operation with the management of the Companies as part of my review.
- 2.15 The Scheme does not change the terms and conditions of any policy. However, as policies move from one company or fund to another, other factors can change, such as the level of benefit security. I have considered the likely impacts of the Scheme on the security of policyholder benefits, the reasonable benefit expectations of policyholders, service standards, investment management and the governance arrangements in place to ensure policyholder interests are protected in future.
- 2.16 My consideration of the effects of the Scheme is based on the potential impact of the Scheme (in and of itself) on the different groups of policyholders, and includes consideration of any protections built into the Scheme. Where I make statements in my Report such as "will continue to", these statements refer to the effect of the Scheme in isolation and do not mean that the current situation could not be changed by the Companies' management at some point in the future as part of the normal management of the business. Such future changes will be subject to the Companies' internal governance frameworks, including in relation to regulatory obligations regarding Treating Customers Fairly ("TCF").
- 2.17 I have considered whether provisions from any previous schemes relating to any of the groups of policyholders are affected by the Scheme. These "Existing Schemes" are either replaced, transferred or maintained under the Scheme and, where applicable, I have considered whether the replacement of their provisions results in an adverse effect for policyholders. Within my analysis, I have paid particular attention to the "Reliance Mutual

Scheme" (as defined in Section 3), which was another transfer scheme and defines certain restrictions and protections on Existing Utmost Life and Pensions Policies.

Non-Scheme related considerations

- 2.18 In parallel with the Part VII transfer process, ELAS is performing a Scheme of Arrangement under Part 26 of the Companies Act 2006 to convert the majority of its with-profits business to unit-linked business. As noted in 2.12, I am not required to opine on the appropriateness or fairness of the Scheme of Arrangement in my Reports as another actuary independent of ELAS (the Policyholder Independent Expert) has been appointed to opine on that process. The conclusions set out in my Reports are based on the assumption that the Scheme of Arrangement will be sanctioned by the Court and implemented immediately prior to the Scheme taking effect, a condition required prior to implementation of the Scheme and transfer of the business from ELAS to Utmost Life and Pensions. It also assumes that a vote by ELAS policyholders at an Extraordinary General Meeting on membership rights is passed. Should the Scheme of Arrangement not go ahead, or the vote is not passed, the Scheme will not be implemented. In that situation, all conclusions and opinions in my Reports will not be relevant, and my Reports will not be considered by the Court.
- 2.19 At the time of writing, it is unclear what the impact of the UK leaving the European Union ("EU") will be on UK insurance regulation. This process is widely referred to within the UK as "Brexit". Currently, UK insurers have passporting rights allowing them to write and manage insurance policies sold to policyholders in other European countries without having to establish subsidiaries in those countries or be subject to their respective supervisory regimes. A "soft Brexit", a widely adopted term for a Brexit where EU free movement, trade and customs continue to apply to the UK following the Brexit effective date, expected to be 31 October 2019, would see (at least) transitional arrangements in place to retain these passporting rights for a predefined amount of time. A "hard Brexit", where EU movement, trade and customs would no longer apply following Brexit, would see the passporting rights immediately removed as at the Brexit effective date.
- 2.20 ELAS had initially planned to transfer all policies sold under Irish and German law to a new subsidiary, Equitable Life Ireland, by way of a separate Part VII transfer (the "Brexit Part VII Transfer"), and policyholders were notified of this proposal. This subsidiary, domiciled in Ireland, would have allowed ELAS to continue to administer the policies transferring following the Brexit effective date, which was originally planned for 29 March 2019. Due to the subsequent delay of the Brexit effective date to 31 October 2019 and indication from the Central Bank of Ireland ("CBI") and the Federal Financial Supervisory Authority (more commonly known by its German abbreviation, "BaFin") that grandfathering arrangements will be in place with the CBI and BaFin in the period immediately following the Brexit effective date, allowing UK domiciled businesses to continue to serve and administer policies issued under German and Irish law, ELAS chose not to proceed with the Brexit Part VII Transfer process, instead, making a decision to leave this business in ELAS until there is greater clarity over the regulatory and legal landscapes post-Brexit. The decision not to proceed with the Brexit Part VII Transfer has been communicated to the affected policyholders. The scope of my Report is confined to my opinions on the Scheme, and I do not consider the Brexit Part VII Transfer further within it.
- 2.21 The CBI and BaFin have indicated a grandfathering period of 3 years and 21 months from the Brexit effective date, respectively, meaning that UK insurers can continue to receive premiums from and pay claims to non-UK policyholders in this period.
- 2.22 Given the above, the policyholders with policies issued under Irish and German law currently in ELAS will be excluded from the transfer to Utmost Life and Pensions at the Scheme Implementation Date, instead remaining in ELAS after this date. Although I consider the impact of the Scheme on this group of policyholders that will remain in ELAS (the "Non-Transferring Policyholders"), my Report does not consider the options available to Utmost Life and Pensions at the end of the grandfathering period. If there is a requirement to

transfer these policies remaining in ELAS to a European Union domiciled entity after this point, this will be subject to a review by an Independent Expert appointed to opine on that specific transfer at that time, and is therefore outside the scope of my opinion. For completeness, I note that the grandfathering rules will apply in respect of these policies whether they were included or excluded from the Scheme. Transferring these policies to Utmost Life and Pensions as part of the Scheme is not expected to address the issues of a UK company administering policies issued under EU law at the end of the grandfathering period, therefore a transfer to an EU domiciled insurance company is likely to be required in advance of the end of this period whether the Non-Transferring Policies are included or excluded from the Scheme.

Benefit Security

- 2.23 Another key aspect of my considerations is the security of benefits. I would be concerned if the Scheme meant that some policies move from a financially strong company to a weak one which has a significant chance of not honouring its obligations to policyholders.
- 2.24 The Regulators are responsible, amongst other things, for the supervision of UK authorised insurance companies. Each company is managed to meet or exceed the minimum capital requirements set out in regulations. These set a common standard – for example, the purpose of the Solvency Capital Requirement or “SCR” is to ensure that a company has sufficient assets to continue to meet the best estimate of policyholder liabilities following the most onerous event or combination of events of a severity expected to occur only once in every 200 years. Based on my review, I confirm that there is expected to be assets in both ELAS and Utmost Life and Pensions in excess of the regulatory requirements relevant to the Companies immediately following the Scheme. For ELAS, the relevant regulatory requirement is the MCR, and for Utmost Life and Pensions, this is the SCR.
- 2.25 I consider the comparison of indicative solvency ratios, such as the ratio of assets less liabilities (“Own Funds”) to the higher of the Solvency Capital Requirement and the Minimum Capital Requirement (the “Capital Coverage Ratio”), to be a useful indicator of the immediate impact of the Scheme on the level of benefit security provided to policyholders. In Table 2.1, “Eligible Own Funds” is used to calculate the Capital Coverage Ratio instead of Own Funds, where Eligible Own Funds is equal to Own Funds less any assets unavailable to meet the SCR or MCR. If the Capital Coverage Ratio is higher after the Scheme, this might imply, all other things being equal, greater benefit security for the policyholders immediately following the Scheme. The Companies have estimated these ratios on a Solvency II basis, and I have considered these in forming my opinion, having reviewed significant changes for reasonableness.
- 2.26 In addition to comparing Capital Coverage Ratios, I have considered the capital policies that will apply to each group of policyholders both before and after implementation of the Scheme, and consider any changes made to these policies that could affect policyholders. I will consider the ongoing strength of the post-Scheme ELAS and Utmost Life and Pensions balance sheets by assessing the impact of different stresses and scenarios which could occur in the period immediately after the Scheme. I have discussed the sensitivities I would expect to see from Utmost Life and Pensions to gain comfort that the Utmost Life and Pensions Capital Policy can continue to be met in the short term in scenarios which could arise, albeit are unlikely to arise, in the period after implementation of the Scheme. This analysis is not available at the time of writing my Report, so I will include this in my Supplementary Report.

Overview of solvency information

- 2.27 The estimated impact of the Scheme on the Solvency II Capital Coverage Ratio is presented in the figures in Table 2.1 below, with a more detailed breakdown given in Appendix 6: Summary Solvency II Financial Information. This analysis has been undertaken on a basis referred to as Solvency II Pillar 1 that is used for both regulatory reporting and as the basis for both the ELAS and Utmost Life and Pensions Capital Policies. One feature of Pillar 1 is to

restrict the recognition of surplus assets in with-profits funds as their solvency is considered on a basis that is ring-fenced. Further detail and the background to Solvency II is discussed in detail in Section 5.

2.28 As stated in paragraph 2.25 above, I consider the use of solvency ratios, such as the Capital Coverage Ratio, "pre" and "post" the Scheme to be a useful indicator of the immediate impact of the Scheme on the level of benefit security provided to policyholders. The figures in the below table provide solvency information in each of the following scenarios:

- ELAS: Pre-Scheme of Transfer (and Scheme of Arrangement):

As per paragraph 1.13, my Report assumes that the Scheme of Arrangement will be effected immediately prior to the Scheme of Transfer, and that any alternative schemes are out of scope. However, I note that the Scheme of Arrangement has the effect of distributing all distributable assets in excess of liabilities to the ELAS with-profits policyholders and converting these to future policyholder liabilities in the process. A consequence of this is that ELAS does not have sufficient surplus assets to meet its SCR immediately prior to the Scheme. For this reason, and the fact that the Scheme and Scheme of Arrangement are inter-dependent, with either both implemented or neither implemented, I have shown the ELAS position before the Scheme of Arrangement takes effect when comparing pre- and post-Scheme solvency positions of the Companies. This is a stronger test than considering the notional position post-Scheme of Arrangement where ELAS has insufficient surplus assets to cover its SCR (or MCR) under Solvency II. Comparing the post-Scheme solvency position of Utmost Life and Pensions to this position would be artificial and potentially misleading to the readers of my Report, particularly when considering relative policyholder benefit security before and after the Scheme;

- Utmost Life and Pensions: Pre-Scheme of Transfer;
- ELAS: Post-Scheme of Transfer:

This scenario reflects the post-Scheme ELAS position i.e. the Non-Transferring Policies remaining in ELAS. I note that, for Non-Transferring Policies only, the Capital Coverage Ratio is based on the MCR, which is the biting constraint on capital for ELAS after the Implementation Date, as indicated in 2.24. The MCR has therefore only been included when considering the Non-Transferring Policyholders; and

- Utmost Life and Pensions: Post-Scheme of Transfer:

This scenario reflects the post-Scheme Utmost Life and Pensions position, i.e. including the Transferring Policies.

Table 2.1 – Estimated Impact of the Scheme on Solvency II capital position as at 31 December 2018 for ELAS and Utmost Life and Pensions

<i>£m</i>	Pre-Scheme		Post-Scheme	
	Pre-SoA ¹ ELAS	Utmost Life and Pensions	ELAS	Utmost Life and Pensions
Assets	6,004	1,627	73	7,641
Reinsurance	365	(15)	8	341
Total Assets	6,369	1,611	82	7,982
Total Liabilities	5,711	1,478	78	7,682
Own Funds²	658	134	4	300
Eligible Own Funds	658	115	4	285
Solvency Capital Requirement ³	413	65	2	190
Minimum Capital Requirement	125	21	3	63
Capital Coverage Ratio⁴	159%	178%	125%	150%

Source: Financial analysis provided by the Companies

- 2.29 The estimated impact of the Scheme on the solvency position for policyholders has been determined with reference to conditions at 31 December 2018 for the Companies, as shown in Table 2.1.
- 2.30 I have no reason to believe the impact of the Scheme will be materially different at the planned Implementation Date (being 1 January 2020) but will continue to review this position in advance of the Sanction Hearing where the Scheme will be put to the Court for approval. I will report upon any changes in my Supplementary Report.
- 2.31 While the immediate impact of the Scheme is an important consideration in my assessment, it is arguably more important to consider the expected level of capital held in the longer term. Companies will usually choose to hold a level of capital in excess of minimum regulatory capital requirements (in most cases, this is the SCR), so that they can continue to meet them after suffering losses during adverse conditions. The Companies' approaches to accepting and managing risk are set out in their capital policies which include minimum and, in the case of Utmost Life and Pensions, target levels of capital coverage which they aim to meet. These minimum and target levels exceed the regulatory minimum requirements, providing extra ongoing security for policyholders. For solvency management, these thresholds are effectively the "biting constraint" (i.e. the factor which would limit

¹ Scheme of Arrangement abbreviation

² Own Funds is the excess of assets over liabilities. Note that Utmost Life and Pensions' Technical Provisions include restrictions on the Own Funds of WPSFs so that their surplus does not count towards the overall solvency of Utmost Life and Pensions.

³ The Solvency Capital Requirement for both ELAS and Utmost Life and Pensions is calculated on a Standard Formula basis, based on the formula set out in the Solvency II Delegated Acts.

⁴ This is the ratio of Eligible Own Funds to the higher of the Solvency Capital Requirement and the Minimum Capital Requirement.

dividend payments) and I have placed considerable weight on these in reviewing policyholder security.

- 2.32 I note that a capital injection from Utmost Life and Pensions Holdings Limited to Utmost Life and Pensions will be required to be in place immediately prior to the Scheme. This is a condition of the Scheme of Arrangement. It is expected that this capital injection will be in the region of £100m on the Implementation Date. In order to evidence that this capital is available, a Director's Certificate is to be posted on the ELAS website confirming that this capital is in place prior to implementation of both the Scheme of Arrangement and the Scheme. Given that Utmost Life and Pensions is unable to predict exactly the level of capital that will be required immediately prior to the Implementation Date, Utmost Life and Pensions have agreed a top-up mechanism with its parent company, whereby additional capital will be injected in to Utmost Life and Pensions if it is later discovered that the 150% of SCR Capital Coverage Ratio required on the Implementation Date is greater than was expected based on estimates. Any top-up required is not expected to be material.
- 2.33 I have considered the ability of both ELAS and Utmost Life and Pensions to meet the minimum and target Capital Coverage Ratios following the Scheme and the relative strengths of the ELAS and Utmost Life and Pensions minimum capital levels applicable before and after the Scheme. The capital policies of the Companies are described in detail in Section 5. These provide protection for policyholders against the risk of their benefits not being paid.
- 2.34 I also consider any "contagion" risk, the risk that losses in part of Utmost Life and Pensions impact on benefit security of policyholders in another part of the company, introduced to Transferring Policyholders and Existing Utmost Life and Pensions Policyholders as a result of the Scheme.
- 2.35 The analysis in respect of the above considerations for each group of policyholders can be found in the following paragraphs below:
- Transferring Policyholders: 2.36 to 2.52;
 - Non-Transferring Policyholders: 2.53 to 2.59; and
 - Existing Utmost Life and Pensions Policyholders: 2.60 to 2.67.

Transferring Policyholders

- 2.36 On the basis of the analysis below, I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Transferring Policyholders.
- 2.37 Table 2.1 shows that, had the Scheme taken effect on 31 December 2018, Utmost Life and Pensions post-Scheme would have had a lower Capital Coverage Ratio than ELAS pre-Scheme of Transfer and Scheme of Arrangement, with coverage falling from 159% to 150% of SCR. As indicated in 2.31, this is achieved after a capital injection from Utmost Life and Pensions Holdings Limited, a condition of the Scheme of Arrangement, in the form of capital which is of the quality suitable for meeting the SCR, in line with the requirements of Solvency II.
- 2.38 The analysis indicates that, had the Scheme been effective as at 31 December 2018, the Transferring Policies would have continued to be held in a company with capital that represents more than that required to meet the Solvency II regulatory capital requirements and that is in line with the capital targets under both the ELAS Capital Policy and the Utmost Life and Pensions Capital Policy immediately following the implementation of the Scheme.
- 2.39 Although the Capital Coverage Ratio for Utmost Life and Pensions post-Scheme is lower than that for ELAS, pre-Scheme of Transfer and Scheme of Arrangement, I do not believe this materially adversely affects the benefit security of Transferring Policyholders. I place limited

weight on capital held above the level required by the Utmost Life and Pensions Capital Policy, as there is no requirement that such capital would be held in the future and, as a result, it would not necessarily provide any additional ongoing policyholder benefit security. Once the respective capital policy targets have been met, the primary impact of the Scheme on benefit security for the Transferring Policyholders results from the relative strengths of the ELAS and Utmost Life and Pensions capital policies. I discuss this in paragraphs 2.40 to 2.47 below.

- 2.40 The ELAS Capital Policy and the Utmost Life and Pensions Capital Policy govern the management of capital and risks within the relevant company now and in the future, as described in Section 5. As a consequence of the Scheme, the Utmost Life and Pensions Capital Policy will apply to all Transferring Policies and I consider the effect of this on the benefit security of these policyholders below.
- 2.41 The Utmost Life and Pensions target Capital Coverage Ratio, calculated on a Solvency II Pillar 1 basis, is consistent with that of ELAS: 150% of SCR. Given the Utmost Life and Pensions target Capital Coverage Ratio of 150% of SCR is the "biting constraint" on the payment of dividends and subordinated debt, I do not believe that the change from the ELAS Capital Policy to the Utmost Life and Pensions Capital Policy will adversely affect the Transferring Policyholders since the target level of capital coverage remains consistent.
- 2.42 I note that Utmost Life and Pensions has also set a minimum Capital Coverage Ratio of 135% of SCR, below which management actions may be taken to recover the level of solvency. Given the nature of this test and to avoid management actions being applied un-necessarily, the calculation of this coverage ratio is modified to recognise surplus within the ring-fenced with-profits sub-funds, which is not recognised as Eligible Own Funds under Solvency II Pillar 1 reporting.
- 2.43 In addition, I note that Utmost Life and Pensions as a proprietary company has the ability to raise capital through the issuance of debt in line with its capital policy. This can be either from external investors or through its parent company, Utmost Life and Pensions Holdings Limited, part of the Utmost Group of Companies. Further given that Utmost Life and Pensions is part of a wider insurance group it may have access directly to support from its shareholder Utmost Life and Pensions Holdings Limited.
- 2.44 In April 2018, Utmost Life and Pensions (formerly known as Reliance Life) received a loan from its parent company, Utmost Life and Pensions Holdings Limited, to maintain a Capital Coverage Ratio of over 150% of SCR following the acquisition of Reliance Mutual. The loan is subordinated debt that does not have to be repaid in the event that the Utmost Life and Pensions Capital Coverage Ratio is lower than 150% of SCR. Further details are set out in Section 5.
- 2.45 For the avoidance of doubt there are no parental guarantees or support arrangements in place and my analysis has been based on the solo operation of Utmost Life and Pensions.
- 2.46 I consider that the ability to seek such capital from external sources, in line with the capital policy, provides a further degree of security in the event of a future shortage of capital, in addition to that provided by the Capital Coverage Targets of Utmost Life and Pensions itself. ELAS currently has no external capital support arrangements in place and, given its status as a mutual insurer, is not readily able to issue debt. I do not believe the move from a mutual company to a proprietary company will have a material adverse impact on the benefit security of Transferring Policyholders and have considered this further in 5.19 to 5.20.
- 2.47 While the relative strength of these capital policies is a key factor in the consideration of the impact of the Scheme on the Transferring Policies, I have also considered other qualitative elements of the capital policies and any impact of the Scheme on the ability of Utmost Life and Pensions to meet its capital requirements on an ongoing basis. In the event that Utmost Life and Pensions was unable to meet its capital target under the Utmost Life and Pensions

Capital Policy, it would be required to consider undertaking actions to return to a position under which it could meet this target. This includes limits on the ability for capital to be removed from Utmost Life and Pensions, such as through the payment of dividends to its parent. Such protections have allowed me to place emphasis on the strength of the relevant capital targets in Utmost Life and Pensions.

- 2.48 As discussed in Section 5, any future changes to the Utmost Life and Pensions Capital Policy must be approved by the Utmost Life and Pensions Board. Pre-Scheme, ELAS follows a similar governance process, requiring capital policy updates to be approved by the ELAS Board.
- 2.49 As ELAS (pre-Scheme) is a mutual life assurance company and Utmost Life and Pensions is a wholly-owned proprietary company, there are differences in the focus of the two Boards, given ELAS' Board has a duty only to its policyholders whereas Utmost Life and Pensions' Board has a duty to both policyholders and shareholders. However, as all of the Transferring Policies will be non-profit or unit-linked in nature (after implementation of the Scheme of Arrangement), less discretion will be required of the Board to manage the Transferring Policies than before the Scheme of Arrangement is effected.
- 2.50 Given my review of the governance frameworks in both ELAS and Utmost Life and Pensions I am satisfied that any changes to the Utmost Life and Pensions Capital Policy in the future will go through a governance process which will provide review and challenge for the following reasons:
- The members of both Boards include Senior Managers (i.e. individuals who have been approved by the FCA and/or PRA to perform such a role, and are certified under the Senior Managers and Certification Regime).
 - Additionally, both Companies are overseen by the FCA, and therefore bound by the same regulations and guidance with regards to conduct related matters, including Treating Customers Fairly, therefore the approval of any changes by the Boards of ELAS and Utmost Life and Pensions would be expected to pay due regard to the fair treatment of policyholders.
 - Further, Utmost Life and Pensions has an established practice of setting and maintaining the Utmost Life and Pensions Capital Policy, and therefore has knowledge and understanding of the Board's role in managing such a policy.
- 2.51 The following key considerations relate to the level of contagion risk that the Transferring Policyholders are exposed to. Taking account of these, I am satisfied that the Scheme is not likely to materially adversely impact the benefit security of these policyholders.
- although the Scheme will lead to the Transferring Policyholders being exposed directly to the risks within Utmost Life and Pensions, benefits would only be theoretically at risk of being reduced in the extreme event of the insolvency of Utmost Life and Pensions. Such an event is of low likelihood as a result of the existence of the Utmost Life and Pensions Capital Policy and the availability of support from its parent, Utmost Life and Pensions Holdings Limited in adverse scenarios, and therefore I do not consider this to be a risk which could have a materially adverse effect on the Transferring Policyholders;
 - in accordance with the Reliance Mutual Scheme, the ULP NPF is required to provide capital support in the event that any WPSF is unable to meet its own liabilities or Solvency Capital Requirement. This capital support would only be required as a last resort, after management actions have been taken in an effort to restore the capital position of the WPSFs. Support to cover a shortfall of assets compared to liabilities would be provided in the form of a contingent loan. Support to cover a shortfall compared to the capital requirements (including SCR) will be provided in the form of a notional allocation of capital in the ULP NPF. In the event that providing such capital support

would result in the ULP NPF being unable to meet its own capital requirements, management would ensure that this did not remain the case for more than six months. This is in line with the Utmost Life and Pensions Capital Policy, detailed in Section 5. The Utmost Life and Pensions WPSFs all have sufficient assets to cover their respective Solvency Capital Requirements. The SCR represents the additional assets they would require in a 1 in 200 year extreme event, therefore the risk that this capital support is required, and that the ULP NPF is required to provide this support, is of low likelihood. I therefore believe that this capital support arrangement is unlikely to have any material adverse effect on the Transferring Policyholders; and

- the Utmost Life and Pensions WPSFs are managed to distribute all surplus, defined as assets in excess of guaranteed liabilities, in each of the WPSFs. In the event that any WPSF falls below its target capital, there are management actions that could be taken to reduce the cost of the risks borne by the fund in question, with the aim of restoring the capital position. Given that these actions would be taken before any request for support from the ULP NPF, and given the current solvency position of the funds, I consider that it is of low likelihood that a WPSF would require support from the ULP NPF and therefore I consider this to reduce the contagion risk exposure of the Transferring Policyholders.

2.52 Taking account of these, I am satisfied that the Scheme is not likely to materially adversely impact the benefit security of the Transferring Policyholders.

Non-Transferring Policyholders

2.53 For the Non-Transferring Policies, the Scheme requires a minimum of the higher of 125% of the Minimum Capital Requirement ("MCR"), a value calculated as prescribed by EIOPA, and 150% of the SCR to be retained in ELAS at the Implementation Date, in line with the proposed post-Scheme ELAS Capital Policy. Had the Scheme been implemented on 31 December 2018, 125% of the ELAS MCR (a fixed amount of €3.7m, equivalent to c.£3.3m, converted at the EIOPA specified exchange rate, which is greater than 150% of the SCR, £3.1m) would have been the biting scenario.

2.54 The analysis indicates that, had the Scheme been effective as at 31 December 2018, the Non-Transferring Policies would have continued to be held in a company with capital that is greater than the Solvency II regulatory capital requirements, in line with the capital targets under the ELAS Capital Policy immediately following the implementation of the Scheme. On an ongoing basis, ELAS will be managed in line with the revised ELAS Capital Policy, which will be updated in line with the Utmost Life and Pensions Capital Policy targets. Post-Scheme, the biting constraint on capital within ELAS is expected to be the 125% of MCR condition.

2.55 As set out in Section 5, both the ELAS Capital Policy and the Utmost Life and Pensions Capital Policy target levels of capital to be held in excess of the capital requirements under Solvency II. The Utmost Life and Pensions Capital Policy (and the proposed future ELAS Capital Policy) has a two-tiered approach:

- a minimum Capital Coverage Ratio of the higher of 125% of MCR and 135% of SCR, at which management actions may be taken to recover the level of the solvency; and
- the higher of 125% of MCR and 150% of SCR post-dividend payment.

2.56 It is worth noting that, at all times, ELAS (both pre- and post-Scheme) must hold sufficient capital to meet its MCR, the minimum level of capital an insurer must hold. As the MCR for ELAS post-Scheme is a fixed amount (€3.7m) and currently exceeds 150% of ELAS' SCR, the 125% of MCR is expected to continue to exceed 150% of the SCR going forward as the SCR will run-off as the ELAS business runs off over time. Given this, it is expected that the 125% of MCR condition will remain the biting constraint on capital going forward and will therefore be the level below which actions may be taken to restore the solvency position of

ELAS. I would expect ELAS to have assets sufficient to meet the MCR on both the Implementation Date and in the period following the Implementation Date such that the proposed post-Scheme ELAS Capital Policy and regulatory requirements continue to be met. I will provide my conclusions regarding the appropriateness of this minimum level of capital for the Non-Transferring Policyholders in my Supplementary Report.

- 2.57 In addition, and as described in 2.43, another consideration is that Utmost Life and Pensions is able to seek external capital both from its investors and through its parent company, Utmost Life and Pensions Holdings Limited, or directly by raising external debt in the capital markets. However, ELAS, as a mutual insurer, does not have access to parental support or the capital markets. This is a potential benefit to the post-Scheme ELAS entity, which will be a subsidiary of Utmost Life and Pensions from the Implementation Date.
- 2.58 As also set out in section 5, there are no changes proposed to the governance of the post-Scheme ELAS Capital Policy, which will be governed by the ELAS Board, therefore any changes to the ELAS Capital Policy in the future will be subject to the same level of governance as is currently the case for the existing ELAS Capital Policy, notwithstanding the proposed changes to the ELAS Board following the implementation of the Scheme. This provides me with comfort that arbitrary changes will not be made to the policy in the future.
- 2.59 Taking account of the points in 2.53 to 2.58, I am satisfied that the Scheme is not likely to materially adversely impact the benefit security of the Non-Transferring Policyholders, but note that my conclusions in respect of the level of assets to remain in ELAS after the Implementation Date are outstanding, and I will conclude on this in my Supplementary Report.

Existing Utmost Life and Pensions Policyholders

- 2.60 Table 2.1 shows that, had the Scheme taken effect on 31 December 2018, Utmost Life and Pensions post-Scheme would have had a lower Capital Coverage Ratio than pre-Scheme, with coverage falling from 178% to 150% of SCR. As indicated in 2.31, the 150% of SCR Capital Coverage Ratio is achieved after a capital injection from Utmost Life and Pensions Holdings Limited, a condition of the Scheme of Arrangement, in the form of capital which is of the quality suitable for meeting the Solvency Capital Requirement, in line with the requirements of Solvency II.
- 2.61 The analysis indicates that, had the Scheme been effective as at 31 December 2018, Utmost Life and Pensions would have continued to hold capital that represents an excess over the Solvency II regulatory capital requirements and can meet its capital targets under the Utmost Life and Pensions Capital Policy immediately following the implementation of the Scheme.
- 2.62 Although the Capital Coverage Ratio for Utmost Life and Pensions post-Scheme is lower than that pre-Scheme, for the same reasons as set out in paragraph 2.39, I do not believe this materially adversely affects the benefit security of Existing Utmost Life and Pensions Policyholders. The primary impact of the Scheme on benefit security for the Existing Utmost Life and Pensions Policyholders results from any changes to the Utmost Life and Pensions Capital Policy, which is discussed in paragraphs 2.63 to 2.66 below.
- 2.63 Following the Scheme, the Capital Coverage Ratio targeted under the Utmost Life and Pensions Capital Policy, as set out in Section 5, will not be changed by the Scheme. Specifically, neither the minimum or target Capital Coverage Ratio nor the governance related to changing or resolving a breach of these targets will change as a result of the Scheme. Existing Utmost Life and Pensions Policyholders will continue to have a level of ongoing security targeted above that of the regulatory requirement, the SCR. I would not expect this to change, unless the Scheme resulted in such a change in risk profile of Utmost Life and Pensions that a higher Capital Coverage Ratio should be targeted. Given that all the Transferring Business is unit-linked I do not consider that to be the case here.

- 2.64 The Scheme does not change the existing capital support mechanisms provided by the ULP NPF for the Utmost Life and Pensions WPSFs. Immediately following the Scheme, the availability of capital to support these funds is unchanged and there will be no changes to the conditions under which this capital support mechanism is made available. I would not expect the Scheme to result in any changes to the capital support arrangements available to the Existing Utmost Life and Pensions Policyholders and therefore am satisfied that the impact of the Scheme on capital support is reasonable.
- 2.65 In the event that the Scheme is approved, the Existing Utmost Life and Pensions Policyholders will be fully exposed to the risks associated with the Transferring Policies. These risks will alter the extent to which policyholders in Utmost Life and Pensions are exposed to “contagion” risk, whereby losses in another part of Utmost Life and Pensions could impact their benefit security. Based on my analysis in this Report, I expect the risk of an adverse impact on the benefit security of Existing Utmost Life and Pensions Policyholders to be of low likelihood.
- 2.66 Such an impact would only occur in the event that Utmost Life and Pensions was unable to meet its regulatory capital requirements. The purpose of the Utmost Life and Pensions Capital Policy is to maintain a level of capital in excess of the capital requirements in order to minimise this risk. The level of capital specified by the Utmost Life and Pensions Capital Policy includes a target based on a percentage of the Solvency II capital requirement, which, in turn, is based on the risks to which Utmost Life and Pensions is exposed. Changes in the risk profile resulting from the Scheme are reflected in the underlying Solvency II Solvency Capital Requirement and the Utmost Life and Pensions Capital Policy target. The extent of change in contagion risk is limited, provided Utmost Life and Pensions can meet the target under its capital policy. As discussed above, Utmost Life and Pensions is expected to be able to meet its capital target whether the Scheme is approved or not. Analysis provided by Utmost Life and Pensions indicates that the risk profile of Utmost Life and Pensions is not materially changed by the approval and implementation of the Scheme. This is, in part, due to the fact that the nature of a number of the Transferring Policies is changed as a result of the Scheme of Arrangement (that is, the conversion of with-profits policies to unit-linked policies) with risks, such as investment risk, moving from the company to the policyholder. Had the Scheme of Arrangement not been implemented prior to the Scheme, the Scheme would have had a more significant change to the risk profile of Utmost Life and Pensions.
- 2.67 On the basis of the points set out in 2.60 to 2.66, I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Existing Utmost Life and Pensions Policyholders.

Conclusion

- 2.68 I am satisfied that the Scheme will not materially adversely impact the benefit security of the Transferring and Existing Utmost Life and Pensions Policyholders. I have not yet concluded on the benefit security of the Non-Transferring Policyholders, but will include my considerations and conclusions in respect of the benefit security of these policyholders in my Supplementary Report.

Policy Benefit Expectations

- 2.69 In considering policyholder benefit expectations, I would be concerned if the Scheme was likely to materially adversely affect the level of benefits expected to be paid under any policy, but I have concluded that this is not the case.
- 2.70 I confirm that for all groups of policyholders in scope of the Scheme, the Scheme does not change the:

- value of any policy, with the exception of the UK-style German With-Profits Policies allocated to the new German With-Profits Fund, which will receive an uplift to their policy value through the Scheme, rather than the Scheme of Arrangement;
- death, maturity or other contingent benefit payable under any policy;
- surrender value of any policy;
- premiums payable under any policy;
- current or expected level of charges under any policy, with the exception of those charges applying to the UK-style German With-Profits Policies in the new German With-Profits Fund, which will change as a result of the Scheme;
- asset mix underlying any policy or the minimum range of investment choices available, with the exception of assets backing the UK-style German With-Profits Policies in the new German With-Profits Fund, which are expected to change at the Implementation Date;
- range of options available under any policy and any guarantees included in the contract (including Guaranteed Annuity Rates and Guaranteed Minimum Pensions);
- charges made for tax under any policy, or their eligibility for any favourable tax treatment; and
- terms and conditions of any policy.

As detailed in 2.83 and in Section 7, I do not consider the changes to the UK-style German With-Profits Policies to materially adversely affect the holders of these policies. The proposed creation of the new German With-Profits Fund will act as a safeguard to this group of policyholders, protecting the terms and conditions of the German With-Profits Policies, and is therefore essential to the effective (and fair) implementation of the Scheme.

I note, for completeness, that a number of these policy features will be altered as a result of the Scheme of Arrangement that will be effected immediately before the Scheme. The fairness of these changes has been considered by the Policyholder Independent Expert and is therefore not in scope of my Report.

2.71 I would be concerned if the Scheme were to lead to a change in the governance arrangements in place to protect the interests of policyholders where there is significant discretion in relation to the level of their benefits (such as the process for setting with-profits bonuses, or changing the levels of charges to unit-linked funds). In forming my conclusions, I have considered the safeguards put in place by the Scheme in respect of administration, charges and investment management, which are documented in Schedule 2 to the Scheme.

2.72 I am satisfied that the Scheme will not materially change the governance arrangements for Transferring Policyholders, Non-Transferring Policyholders or Existing Utmost Life and Pensions Policyholders, since:

- both Companies comply with FCA requirements around unit-linked and with-profits business that seek to ensure the fair treatment of policyholders and this will not change as a result of the Scheme;
- Schedule 2 to the Scheme sets out a suite of protections in place in respect of the Transferring and Non-Transferring Policyholders; and
- Utmost Life and Pensions has a policy on non-profit discretion and a Fair Customer Outcomes Governance Committee in place to ensure the fair treatment of non-profit

policyholders which will cover the Transferring and Non-Transferring Policyholders of ELAS as well as Existing Utmost Life and Pensions Policyholders.

Notwithstanding the differences in responsibilities of the ELAS and Utmost Life and Pensions Boards, as described in 2.49, the remits of the Boards of ELAS and Utmost Life and Pensions in relation to managing the Transferring Business are similar, so any changes are expected to continue to face an appropriate level of challenge prior to implementation. As noted in 2.50, the members of both Boards include Senior Managers (i.e. individuals who have been approved by the FCA and/or PRA to perform such a role, and are certified under the Senior Managers and Certification Regime). Additionally, both ELAS and Utmost Life and Pensions have an established practice of setting and maintaining their respective capital policies and other internal governance policies.

Transferring Policyholders

2.73 The majority of the Transferring Policies will be unit-linked pension policies (group and individual, some of which were with-profits policies prior to the Scheme of Arrangement) and protection policies, with the remainder constituting non-linked, non-profit annuities in payment and both unit-linked and non-linked bonds.

2.74 Taking account of the following considerations, I am satisfied that the Scheme will not materially adversely affect the benefit expectations of the holders of the Transferring Policies.

2.75 For the reasons set out below, I am satisfied that the Scheme does not have a material adverse impact on the benefit expectations of the Transferring Policyholders with **unit-linked policies**:

- the benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The Scheme does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. Schedule 2 to the Scheme sets out maximum Annual Management Charges which can be applied to the Transferring Policies following the Scheme. The Scheme also prescribes that no charges, other than the Annual Management Charges and charges currently applied to these policies in line with policy terms and conditions, will be applied to these Transferring Unit-Linked Policies in the future;
- the Scheme, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund. As part of the Scheme of Arrangement a new Investment Manager, JP Morgan Asset Management, has been appointed to provide the unit-linked funds for the policyholders in scope of the Scheme of Arrangement, in addition to ELAS' current Investment Manager, Aberdeen Standard Investments. This has been considered by the Policyholder Independent Expert as part of his considerations of the Scheme of Arrangement;
- following the Implementation Date, JP Morgan Asset Management will also be responsible for investing in new assets in respect of policies which were unit-linked prior to the Scheme of Arrangement, where cash inflows (i.e. premiums) exceed the outflow from the unit-linked funds (i.e. the claims and charges) in that period. The funds these premiums will be invested in will be similar to the existing funds available to these policyholders and will be managed in line with the existing investment mandates. These unit-linked policyholders will be notified of this change through their tailored covering letter. For the reasons set out in 2.101, I do not believe that using two Investment Managers will have an adverse impact on any group of policyholders; and

- the value of each policy's unit holdings will be unchanged by the Scheme, and the Scheme will not change the unit-pricing principles and basis for Transferring Policies.

For completeness, I note that a number of the Transferring Policyholders with unit-linked benefits previously had with-profits benefits which were converted to unit-linked as part of the Scheme of Arrangement effected immediately prior to the Scheme. Consistent with the rest of my Report, I have not considered the conversion from with-profits to unit-linked, as the fairness of this has been opined on by the Policyholder Independent Expert.

2.76 For the reasons set out below, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Transferring Policyholders with **non-profit policies**:

- non-profit policies have guaranteed benefits and specified premiums, and these do not change under the Scheme. There will also be no change to the terms and conditions of these policies; and
- some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the Scheme.

2.77 For the reasons set out below, I am satisfied that the Scheme does not have a material adverse impact on the benefit expectations of the Transferring Policyholders who are members of **group scheme policies**:

- the group schemes operate in a similar manner to unit-linked business and so the conclusions in paragraph 2.75 also apply here. There will also be no change to the terms and conditions of these schemes.

2.78 The change in the Articles of Association, effected following a positive vote at the EGM, will remove the membership rights of all with-profits policyholders of ELAS (both Transferring and Non-Transferring) prior to the Implementation Date and grant sole membership to Utmost Life and Pensions. Therefore, the Scheme, of itself, does not change the membership rights of any Transferring Policyholder. As the transfer of membership rights to Utmost Life and Pensions is a prerequisite for the Scheme of Arrangement, the fairness of this has been considered by the Policyholder Independent Expert as part of his report and is therefore out of scope of my Report.

Non-Transferring Policyholders

2.79 The c3,900 Non-Transferring Policies comprise of policies sold under Irish or German law:

- unit-linked pension policies and bonds (some of which were with-profits policies prior to the Scheme of Arrangement) and protection policies;
- non-linked, non-profit temporary assurances, deferred annuities and annuities in payment;
- a small number of the German With-Profits Policies which were originally sold under German law, and are excluded from the Scheme of Arrangement.

The proposed restructure of the remaining ELAS business is a necessity in order to adhere to the terms and conditions of the German With-Profits Policies, following receipt of legal advice by ELAS, and acts as a safeguard for these policyholders.

2.80 Taking account of the following considerations, I am satisfied that the Scheme will not materially adversely affect the benefit expectations of the holders of the Non-Transferring Policies.

2.81 For the reasons set out below, I am satisfied that the Scheme does not have a material adverse impact on the benefit expectations of the Non-Transferring Policyholders with **unit-linked policies**:

- the benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The Scheme does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. Schedule 2 of the Scheme of Transfer sets out maximum Annual Management Charges which can be applied to the Transferring and Non-Transferring Policies following the Scheme. The Scheme also prescribes that no charges, other than the Annual Management Charges and charges currently applied to these policies in line with policy terms and conditions, will be applied to these Non-Transferring Policies;
- the Scheme, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund;
- following the Implementation Date, in addition to managing the assets backing the policies converted from with-profits to unit-linked as part of the Scheme of Arrangement, JP Morgan Asset Management will be responsible for investing new assets in respect of policies which were unit-linked prior to the Scheme of Arrangement, where inflows (i.e. premiums) exceed the outflows from the unit-linked funds (i.e. the unit-linked claims and charges). These new assets will be invested in line with the same investment mandates for the funds currently available to these policyholders. The unit-linked policyholders will be notified of this change through their tailored covering letter. For the reasons set out in 2.101, I do not believe that using two Investment Managers will have an adverse impact on any group of policyholders; and
- the value of each policy's unit holdings will be unchanged by the Scheme, and the Scheme will not change the unit-pricing principles and basis for Non-Transferring Policies.

For completeness, I note that a number of the Non-Transferring Policyholders with unit-linked benefits previously had with-profits benefits which were converted to unit-linked as part of the Scheme of Arrangement effected immediately prior to the Scheme. Consistent with the rest of my Report, I have not considered the conversion from with-profits to unit-linked, as the fairness of this has been opined on by the Policyholder Independent Expert.

2.82 For the reasons set out below, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Non-Transferring Policyholders with **non-profit policies**:

- non-profit policies have guaranteed benefits and specified premiums, and these do not change under the Scheme. There will also be no change to the terms and conditions of these policies; and
- some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the Scheme.

2.83 For the reasons set out below, I am satisfied that the Scheme does not have a materially adverse effect on the benefit expectations of the Non-Transferring Policyholders with **with-profits policies**:

- following implementation of the Scheme, the UK-style German With-Profits Policyholders will share only in the distributable assets of the German With-Profits

Fund. There will be no retained surplus in the German With-Profits Fund at the outset, and no intention to build up a retained surplus. However, these policyholders will receive an uplift to their policy, which is equivalent to the primary uplift amount received by the policyholders in scope of the Scheme of Arrangement, and reflects their share of the distributable assets of ELAS (which are full distributed through the Scheme of Arrangement). This uplift is allocated to policy values on the Implementation Date. The fairness of the primary uplift amount has been opined on by the Policyholder Independent Expert and is therefore out of scope of my Report. No such uplift will be applied to the German-style German With-Profits Policies in line with their terms and conditions and past practice;

- following the Scheme, there will be limited smoothing of policy values on payout for UK-style German With-Profits Policyholders, with unsmoothed asset share being used on claim, and smoothing applied only in more extreme scenarios where paying unsmoothed asset share would be unfair to either the policyholder making the claim or the policyholders remaining in the fund. I consider this to be fair to this group of policyholders as this lack of future smoothing has enabled ELAS to maximise the primary uplift values, and the UK-style German With-Profits Policyholders have benefited from this through their uplift. There are no changes to the smoothing applied to German-style German With-Profits Policies due to the nature of their benefits;
- the 0% investment guarantees attached to some of the UK-style German With-Profits Policies will be met by the ELAS Main Fund by way of an inter-fund reinsurance arrangement between the German With-Profits Fund and the ELAS Main Fund, as set out in Schedule 3 to the Scheme. If economic conditions are such that these guarantees become more expensive to provide for, a charge may be applied to the with-profits policies to cover the cost of paying these benefits. In line with Schedule 2 (Part B) of the Scheme, any guarantee charge will be capped at 0.5% per annum, and will be agreed by the ELAS Chief Actuary and With-Profits Actuary. Given that these guarantees are not currently onerous, and that the uplift to be applied to the policies will reduce the expected cost of the investment guarantees, I consider the likelihood of this charge being applied to these policyholders as being low. I consider the inter-fund reinsurance to offer an additional layer of protection to the German With-Profits Policyholders in the unlikely scenario where the costs of these guarantees were to increase significantly in the future due to the improvement in benefit security that this arrangement provides. The Guaranteed Annuity Rate ("GAR") attached to some UK-style German With-Profits Policies will also be met by the ELAS Main Fund under the same inter-fund reinsurance arrangement, but no guarantee charge will be taken for this benefit in line with the Scheme under any conditions. The investment guarantees on the German-style German With-Profits Policies will continue to be met primarily through continuation of the existing asset and liability cash flow matching investment strategy, in line with current practice, with any mis-match being covered by the inter-fund reinsurance. No charges will be applied in respect of the investment guarantees on the German-style German With-Profits Policies, in line with current practice;
- the investment strategy underlying the UK-style German With-Profits Policies in the German With-Profits Fund is expected to change to invest the assets in a managed fund denominated or priced in Euros. At the time of writing, this is expected to be the Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies, with a currency hedge implemented to reduce the currency risk exposure of the policyholders. This asset strategy is expected to more closely match the underlying policyholder liabilities. The investment strategy for the German-style German With-Profits Policies will remain unchanged. As this strategy has not yet been finalised, I will provide my conclusions in respect of Investment Management of the Non-Transferring (with-profits) Policies in my Supplementary Report;

- the Scheme specifies a fixed expense charge of 0.75% per annum to be applied to the UK-style German With-Profits Policies. This charge can only be increased if certain conditions, specified in Schedule 2 to the Scheme, are met. In the event of any increase, the charge is capped at 1% per annum. This will help mitigate the expense risk associated with managing a very small fund in run-off and the cap on charges will protect the with-profits policyholders from any unexpected changes in the expenses of ELAS. The charge structure for the German-style German With-Profits Policies will remain unchanged;
- the German With-Profits Fund is required to have its own With-Profits Actuary and a with-profits governance arrangement. The scope of the role of the Utmost Life and Pensions With-Profits Actuary and the terms of reference of Utmost Life and Pensions' existing with-profits governance arrangements (the Utmost Life and Pensions With-Profits Committee) are expected to be extended to cover the German With-Profits Fund in ELAS. I view the move from ELAS' current With-Profits Committee (formed entirely of members of the Board) to Utmost Life and Pensions' With-Profits Committee (which includes independent members) as a strengthening of the with-profits governance arrangements in place for the Non-Transferring Policies; and
- I have taken comfort in the fact that the current With-Profits Actuary of ELAS, who is familiar with the business and the past practices regarding the treatment of the German With-Profits Policyholders, has concluded that the benefit expectations of the German With-Profits Policyholders are not materially adversely affected, though I have not placed reliance on this and have formed my own view on the impact of the Scheme on the with-profits policyholders. Her findings and conclusions are included in the ELAS With-Profits Actuary Report, a copy of which will be available on the ELAS website alongside my Report.

2.84 The change in the Articles of Association, effected following a positive vote at the EGM, will remove the membership rights of all With-Profits policyholders of ELAS (both Transferring and Non-Transferring) prior to the Implementation Date and grant sole membership to Utmost Life and Pensions. Therefore, the Scheme, of itself, does not change the membership rights of any Non-Transferring Policyholder. As the transfer of membership rights to Utmost Life and Pensions is a prerequisite for the Scheme of Arrangement, the fairness of this has been considered by the Policyholder Independent Expert as part of his report and is therefore out of scope of my Report.

2.85 I note, however, that the UK-style German With-Profits Policyholders participate in the distributions of capital from ELAS through their policy terms and conditions, rather than their membership rights. The German-style German With-Profits Policyholders do not participate in distributions of capital as their benefits are linked to the performance of a specific pool of assets. This treatment will not be changed by the Scheme. The Part VII transfer will effect the restructure of the remaining ELAS business, with the German With-Profits Policyholders being ring-fenced in a separate with-profits sub-fund in ELAS, the German With-Profits Fund. This restructure acts as a safe-guard to protect the terms and conditions of the German With-Profits Policyholders, protecting them from the risks associated with the policies allocated to the ELAS Main Fund. The German With-Profits Fund will be run such that the surplus arising in this fund is not expected to be material. As well as being a necessity in order to maintain the terms and conditions of the UK-style German With-Profits Policies sold under German law, I consider this ring-fencing to be appropriate given that the UK-style German With-Profits Policies will continue to share in the surplus arising from that cohort of policies, in addition to the uplift that they will have received on the Implementation Date in respect of their share of the distributable assets of ELAS, as described in 7.36. This will be documented in the new German With-Profits Fund PPFM.

Existing Utmost Life and Pensions Policyholders

- 2.86 The Existing Utmost Life and Pensions Policies include with-profits, unit-linked, annuities and other non-profit policies. The factors pertinent to the benefit expectations of policyholders in each category of business are substantially different, and have been considered separately in my analysis. This reflects the varying extents to which management discretion can play a part in determining the level of benefits payable.
- 2.87 Taking account of the following considerations, I am satisfied that the Scheme will not materially adversely affect the benefit expectations of the holders of the Existing Utmost Life and Pensions Policies.
- 2.88 For the reasons set out below, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Existing Utmost Life and Pensions Policyholders with **unit-linked policies**:
- immediately after the implementation of the Scheme, the unit-linked policies in Utmost Life and Pensions will remain invested in the same unit-linked funds as immediately prior to the Scheme, with the same number and value of units, and with the same range of fund choices available to them;
 - the value of each policy's unit holdings will be unchanged by the Scheme, and the pricing principles used for each unit-linked fund will be unchanged by the Scheme. The level of fund charges will also be unchanged; and
 - there will be no change to the investment mandates, charges or taxation of any unit-linked fund as a result of the Scheme. There are no planned changes to the Utmost Life and Pensions Investment Managers and any change made in future would be part of its normal course of business, and would be expected to positively benefit Existing Utmost Life and Pensions Policyholders by potentially offering them greater investment choice. This is discussed in further detail in 2.102.
- 2.89 For the reasons set out below, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Existing Utmost Life and Pensions Policyholders with **non-profit policies**:
- the benefits payable under existing non-profit policies in Utmost Life and Pensions are fixed, or escalate with respect to inflation or at a fixed rate. The Scheme will have no effect on the benefits or premiums payable under any non-profit policy. The terms and conditions of the existing non-profit policies in Utmost Life and Pensions will not be changed by the Scheme; and
 - the Scheme will not affect the current premium levels or charges of any non-profit policies with reviewable premiums or charges. Future reviews will continue in accordance with existing practice and having regard to TCF.
- 2.90 For the reasons set out below, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Existing Utmost Life and Pensions Policyholders with **with-profits policies**:
- there will be no change to the way in which discretionary benefits, such as regular and terminal bonuses, are calculated or the calculation of the "asset shares" which are as defined in the glossary;
 - the benefits payable on such with-profits policies can depend to an extent on the financial position of the fund in which they are held. As discussed in Section 5, the Scheme is not expected to have any impact on the financial position of the funds.

- the Utmost Life and Pensions WPSFs contain non-profit business. The Scheme will not change the funds in which this business is held or the ownership of profits arising on this business;
- the Scheme does not change the basis on which expenses are allocated to the Utmost Life and Pensions WPSFs. The costs of the Scheme will not be met, in any way, by these funds and therefore by the policyholders in these funds;
- the Scheme does not change the PPFM for any of the Utmost Life and Pensions WPSFs; and
- more generally, the Scheme does not change who is responsible for the management of these policies or the processes by which these policies are managed. As a result, even where the benefits payable include a significant discretionary element, the Scheme will not change the approach taken by management to set this discretionary element.

Conclusions

2.91 I am satisfied that the Scheme will not materially adversely affect the benefit expectations of any group of policyholders, but note that my conclusions in respect of the proposed investment strategy for the UK-style German With-Profits Policies are outstanding, and I will include these in my Supplementary Report.

Excluded Policies

2.92 The Scheme provides for any Transferring Policies which it is not possible to transfer to Utmost Life and Pensions at the Implementation Date (for legal, regulatory or other reasons) to be excluded from the Scheme ("Excluded Policies"). This could happen, for example, if certain required approvals from non-UK regulatory bodies are not received in time for the liabilities to transfer as planned, or if the Channel Islands Schemes are delayed. Any Excluded Policies will be fully reinsured to Utmost Life and Pensions from the Implementation Date, allowing them to be treated as far as possible in the same way as if they had transferred under the Scheme. In the event that ELAS has insufficient assets to meet its regulatory capital requirement in the case where there are Excluded Policies, capital would be injected by Utmost Life and Pensions to ELAS to maintain the Capital Coverage Ratio in line with the post-Scheme ELAS Capital Policy.

2.93 I am satisfied that the proposed treatment of Excluded Policyholders (of which there are expected to be none) is fair and that my conclusions in respect of the policyholders transferring under the Scheme apply equally to them. Many other schemes have used the same approach.

2.94 I do not believe that any delay in transferring the Excluded Policies will have an adverse impact on this group of policyholders given the reinsurance arrangements in place but note that, in the period between the Implementation Date and the subsequent transfer date, these policyholders would rank below other policyholders of Utmost Life and Pensions in the event of insolvency; however, as discussed in 5.59 to 5.64, I consider this event to be of very low likelihood.

2.95 For completeness, I note that policies sold under Irish or German law are to remain in ELAS and will be excluded from the Scheme. However, they are not Excluded Policies, as defined in my Report, as these policies will remain in ELAS for the foreseeable future, and any future transfer relating to these policies will be subject to another Part VII scheme process. Given this I have considered the fairness of the Scheme on this group of policyholders (the "Non-Transferring Policyholders") separately throughout my Report and therefore the conclusions in respect of the Transferring Policies should not be read as applying to this group of policyholders.

Service standards

- 2.96 Under the Scheme, all policies, including both Transferring and Non-Transferring Policies, will continue to be administered on the same underlying systems as now, by staff from the same company as currently. The staff of ELAS will transfer to Utmost Life and Pensions Services under the Transfer of Undertakings (Protection of Employment) ("TUPE") Regulations. They will be seconded to either ELAS or Utmost Life and Pensions, according to the needs of the business, providing continuity of service to both the Transferring and Non-Transferring Policyholders. The service level standards to be provided by Utmost Life and Pensions post-Scheme are set out in Schedule 2 to the Scheme. Accordingly, I am satisfied that there will not be any impact on the quality of administration services for any group of policyholders as a consequence of the Scheme, or to the costs they bear in this respect.
- 2.97 In the 12 month period following the Implementation Date, Utmost Life and Pensions intends to continue to provide the same level of service to the Transferring Policies as was provided by ELAS in the 12 months prior to implementation of the Scheme. Following this 12 month period, Utmost Life and Pensions endeavours to administer the business in line with good industry practice and applicable laws including Treating Customers Fairly. The standard of service provided will be at least equivalent to the level Existing Utmost Life and Pensions policyholders receive. Capacity and resourcing plans are in the process of being drafted to ensure sufficient resource is available to continue to meet these policy servicing standards in the period immediately following the Implementation Date, and I will provide an update on these plans in my Supplementary Report; however, I note that these plans are unlikely to impact my conclusions in respect of the service standards immediately after the Implementation Date. I am satisfied that the proposed approach is suitable following the Scheme and will not result in an adverse impact on the services provided to Transferring and Non-Transferring Policyholders of ELAS and Existing Utmost Life and Pensions Policyholders in this period.
- 2.98 Following the Scheme, correspondence to Transferring Policyholders will use the Utmost Life and Pensions brand and the payee name on future payments to these policyholders will be changed. Transferring Policyholders will be directed to the Utmost Life and Pensions website which will be updated to include details relevant to transferring ELAS business. I consider this to be a reasonable approach.
- 2.99 It is expected that correspondence with Non-Transferring Policyholders will continue to use the ELAS brand, therefore these policyholders should see no change to their communications.

Investment management

- 2.100 The Scheme, of itself, will not change the investment management of the unit-linked funds for any policyholders. Immediately following the Scheme, investment management activities will continue to be performed by the same fund managers, using the same processes as are in place at the Implementation Date, and the funds will have the same investment mandates and objectives as now.
- 2.101 I note that, as part of the Scheme of Arrangement, the majority of with-profits policies will be converted to unit-linked and a new fund Investment Manager, JP Morgan Asset Management, will be used to manage the new fund range set up for the Transferring and Non-Transferring Policyholders that are in scope of the Scheme of Arrangement, in addition to ELAS' current Investment Manager, Aberdeen Standard Investments. This will not change following the Scheme. The range of funds available to these policyholders has been considered by the Policyholder Independent Expert and is therefore out of scope of my Report. Following the Implementation Date, JP Morgan Asset Management will also be responsible for investing new assets in respect of the Transferring and Non-Transferring Policies which were unit-linked prior to the Scheme of Arrangement, where cash inflows (i.e.

premiums) exceed the outflows from the unit-linked funds (i.e. the unit-linked claims and charges). The funds these premiums will be invested in are similar to the existing funds available to these policyholders and will be managed in line with the existing investment mandates. These unit-linked policyholders will be notified of this change through their tailored covering letter. Given that the Investment Managers will be subject to the same level of governance within Utmost Life and Pensions and that there is not expected to be any increased operational complexity associated with introducing another Investment Manager, I do not believe that using two Investment Managers for the Transferring Policies will have an adverse impact on policyholder benefits.

- 2.102 Utmost Life and Pensions has no immediate plans to change its own investment management provider over the short term and I understand from discussions with management that there are no planned changes to investment strategy or the range of funds available to Transferring Policyholders and Existing Utmost Life and Pensions Policyholders. Any changes to investment strategy or management would be made under the normal course of business, and through existing Utmost Life and Pensions governance processes, with ultimate sign-off from the Utmost Life and Pensions Board. As part of this, the impact of any changes on policyholders would be considered. For this reason, I do not believe that any changes would materially adversely affect policyholders as any changes will be subject to a similar level of rigour and challenge had this change been made by ELAS. I see no reason for this not to be the case given the level of experience and expertise of those concerned.
- 2.103 The investment strategy for the Non-Transferring Policies will be in line with that for the Transferring Policyholders, with the exception of the UK-style German With-Profits Policies allocated to the newly established German With-Profits Fund, which is expected to change after the Implementation Date. Prior to the Scheme, the surplus in ELAS is invested consistently across ELAS in sterling denominated assets. However, the UK-style German With-Profits liabilities in the new German With-Profits Fund will all be Euro denominated, therefore a change is expected to more accurately match the assets to the liabilities. At the time of writing, ELAS is expecting to invest the assets backing the UK-style German With-Profits Policies in the German With-Profits Fund in the Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies, with a currency hedge implemented to mitigate the currency risk exposure. The investment strategy for the German-style German With-Profits Policies will remain unchanged. I will include my considerations in respect of the proposed investment strategy in my Supplementary Report.

Tax considerations

- 2.104 I have discussed the potential tax implications of the Scheme with the Companies and, with support from Deloitte tax accounting colleagues, have reviewed the clearances and confirmations that they are seeking from HMRC. I summarise my conclusions in Section 10 of this Report and will provide a further update in my Supplementary Report. I am not aware of any likely material adverse tax effects of the Scheme to any groups of policyholders or of any reasons why such confirmations that remain outstanding should not be forthcoming.

Policyholder Communications

- 2.105 The Companies will inform all groups of policyholders (subject to certain dispensations being sought as part of the Court process for the Scheme) about the Scheme through a direct mailing. All ELAS policyholders will receive the same detailed pack, with a tailored covering letter directing them to the sections of the detailed pack relevant to them.
- 2.106 Utmost Life and Pensions Policyholders will receive a less detailed mailing that will instead guide policyholders to specific website content where further technical information can be easily obtained, and a contact for requesting additional printed material, free of charge.
- 2.107 I have reviewed the proposed approach by which each of the Companies will communicate the Scheme in Section 11 and am satisfied that it is reasonable.

Objections

2.108 Any policyholder or other person who feels they would be adversely affected by the Scheme may put their objections to the Company and/or the Court. I will consider these in coming to my view on the appropriateness of the Scheme, and will report as appropriate on the issues that are raised in my Supplementary Report.

Costs of the Scheme

2.109 The ELAS OLTF will bear ELAS' share of the Scheme costs. These costs will be met prior to the distributable assets being distributed through the Scheme of Arrangement and as a result shared across all policyholders. The ULP NPF will bear Utmost Life and Pensions' share of the Scheme costs. I consider this to be a reasonable and fair approach given the costs and benefits to each party of completing the transfer.

2.110 As a company in run-off, with no plans for future acquisitions, ELAS is subject to the future risks and issues associated with long-term run-off, such as loss of economies of scale, with per policy costs therefore increasing. As a result, if the Scheme is not approved, the financial position of ELAS would be impacted by the costs incurred in preparing for the Scheme; however, analysis produced by ELAS indicates that this impact is not expected to materially adversely affect policyholder benefits or security. ELAS is regularly monitoring the cost of rolling back from the Scheme against its risk appetite framework and I have taken this into account when forming the conclusions in my Report.

Conclusions

2.111 For the reasons set out above, I am satisfied that the Scheme will not materially adversely affect the Transferring Policyholders in ELAS or the Existing Utmost Life and Pensions Policyholders.

2.112 From the analysis documented in my Report, I do not believe the Scheme will have a material adverse effect on the Non-Transferring Policyholders; however, I have not yet concluded on the following important aspects of the Scheme for this group of policyholders as these have not yet been finalised by the Companies at the time of writing my Report:

- The impact of proposed changes to investment management strategy; and
- The benefit security of ELAS after implementation of the Scheme, in particular, the appropriateness of the proposed minimum level of capital of 125% of MCR at the Implementation Date to ensure that the MCR will continue to be met going forward and therefore the level of assets to remain in ELAS on the Implementation Date.

2.113 I will provide my conclusions in respect of the outstanding points in 2.112 in my Supplementary Report.

2.114 I will keep all matters documented in my Report under review until the date of the Sanction Hearing and will draw any significant developments or changes that may affect policyholders to the attention of the Court in my Supplementary Report.

2.115 For completeness, in addition to those items mentioned in 2.112, my Supplementary Report will provide an update on the following items, which are not expected to impact my conclusions:

- The outcome of the stress and scenario testing performed by Utmost Life and Pensions on the post-Scheme Utmost Life and Pensions and ELAS financial positions;

- Confirmation of the approval of governance policies referred to throughout my Report, following completion of internal governance. These include the Utmost Life and Pensions Non-Profit Discretion Policy and the Service Standards Policy;
- Confirmation of governance arrangements in respect of the German With-Profits Fund, specifically the extension of the terms of reference of the Utmost Life and Pensions With-Profits Committee and the scope of the role of the Utmost Life and Pensions With-Profits Actuary; and
- Confirmation of my opinion on final policyholder letters.

3 Outline of the Scheme

Background and Purpose of the Scheme

- 3.1 In June 2018, ELAS agreed to sell all of its business to Utmost Life and Pensions (formerly known as Reliance Life). The commercial agreement between the Companies included provisions requiring the Companies to prepare for and pursue the legal transfer of this business under Section 109 of Part VII of the FSMA. If approved, the Scheme will complete the legal transfer anticipated by this agreement.
- 3.2 The effect of the Scheme is to transfer the majority of the business of ELAS, consisting of a broad range of business including protection, pension (individual and group), annuity and investment products, with the exception of policies sold under Irish or German law which will be excluded from the Scheme and remain in ELAS. The Scheme is not intended to change the benefits payable under the policies transferring to Utmost Life and Pensions or the way in which the business is managed going forward (although some changes will be made to the management of the UK-style German With-Profits business and overall responsibility for management of all policies will pass to Utmost Life and Pensions under the Scheme).
- 3.3 The Part VII transfer will also effect a restructure of the remaining ELAS entity, with a new with-profits fund, the "German With-Profits Fund", being established. All German With-Profits Policies in-force at the Implementation Date, will be allocated to the new German With-Profits Fund, with all other policies sold under Irish and German law remaining in the main ELAS fund (the "ELAS Main Fund". This allows the terms and conditions of these policies to continue to be met after the Scheme, and follows legal advice received by ELAS. Separate to and independent of the Scheme, the legal ownership of the ELAS entity is expected to transfer to Utmost Life and Pensions through a change in the Articles of Association of ELAS following a vote at the Extraordinary General Meeting ("EGM") of ELAS members to make Utmost Life and Pensions the sole member of ELAS.
- 3.4 The legal transfer that would be achieved by the Scheme is intended to deliver commercial benefits to both Companies, in line with their respective strategies:
- together with the Scheme of Arrangement, allow ELAS to distribute capital fairly to its with-profits policyholders (those that hold with-profits policies prior to the Scheme of Arrangement) as soon as possible and mitigate the risks associated with ELAS remaining in long-term run-off; and
 - expand Utmost Life and Pensions' presence within the UK life insurance industry.
- 3.5 The effect of the Scheme is illustrated in Figure 3.1.

Figure 3.1: Transfers under the Scheme



In addition, the majority of the assets of ELAS will transfer to the Utmost Life and Pensions NPF at the Implementation Date, with the exception of assets required to cover ELAS' capital requirements and the liabilities in respect of the Non-Transferring Policies or any Excluded Policies. I include, in the remainder of this section, a more detailed outline of the Scheme, its purpose and its key features. The ELAS entity, including the Non-Transferring Policies will transfer to Utmost Life and Pensions as a subsidiary, following a Change in Control being effected.

- 3.6 On implementation of the Scheme, the Scheme will also effect the restructure of the remaining business. This will involve the creation of a new with-profits sub-fund within ELAS called the German With-Profits Fund, which will contain all of the German With-Profits policies, which are out of scope of the Scheme of Arrangement.
- 3.7 The UK-style German With-Profits Policyholders are not included in the Scheme of Arrangement, as there is a risk that the Scheme of Arrangement will not be recognised by the German courts. However, if the Scheme of Arrangement is implemented, these policyholders will each be allocated an amount which is equivalent to the primary uplift amount which will apply to the with-profits policyholders included in the Scheme of Arrangement. This will be allocated to these policies through the Scheme. All other with-profits policyholders of ELAS will receive this uplift through the Scheme of Arrangement. Another actuary independent of the Companies (the Policyholder Independent Expert) has been appointed to form a view of the fairness of the uplift, so the value of this uplift is not in scope of my Report.

Background to the Companies

- 3.8 ELAS is a mutual life assurance company, currently owned by its members, with £6.4 billion of assets under management as at 31 December 2018. It has been closed to new business since December 2000, writing only small amounts of incremental business since then. ELAS' strategy is to distribute capital to its members as fairly and as soon as possible, something which will become increasingly difficult as the company runs off and proportionally more capital remains locked-in to meet capital requirements. The Scheme is the consequence of a strategic decision by the Society to allow the business to be run-off by another insurer that will not be subject to the future risks and issues associated with long-term run-off.
- 3.9 Utmost Life and Pensions is a wholly-owned, indirect subsidiary of the Utmost Life and Pensions Holdings Limited, part of the Utmost Group of Companies, with assets under management of £1.6 billion as at 31 December 2018. The business strategy of Utmost Life and Pensions is to acquire long-term insurance business from other insurers, and it currently

does not write new business other than with respect to incremental business for existing policies. The future growth of Utmost Life and Pensions is anticipated to be by means of further purchases and transfers of business similar to the transactions underlying the Scheme. Utmost Life and Pensions has permissions to effect and carry on long-term insurance business in the United Kingdom for classes I, II, III, IV, VI and VII set out in Part II of Schedule 1 to The Insurance Distribution (regulated Activities and Miscellaneous Amendments) (2018). Utmost Life and Pensions has confirmed, following legal advice, that these permissions will be suitable to cover the Transferring Policies.

3.10 The financial positions of the Companies are presented in Table 5.1

External Environment

3.11 Prior to considering the key aspects of the Scheme, I consider it important to set the scene with regards to external factors which could have an impact on the businesses of both ELAS and Utmost Life and Pensions.

3.12 Interest rates in the UK, set by the Bank of England, remain at near record lows, with the Bank of England Base Rate, remaining at 0.75% for almost 12 months, following the last increase from 0.50% on 3 August 2018. This is, in part, driven by the economic uncertainty relating to Brexit.

3.13 As stated in 1.15, there remains uncertainty over the legal, political and regulatory landscape following Brexit, with depreciation of the Sterling currency observed as a direct result. This has been considered by the Companies and their legal advisors, and has been reflected in the decision not to transfer the policies sold under Irish and German law to Utmost Life and Pensions.

3.14 The theme of political and economic uncertainty is prevalent across the globe, in part driven by ongoing matters such as the US-China trade deal, and expectations over future changes to US government interest rates, set by the Federal Reserve. Given that both ELAS and Utmost Life and Pensions are domiciled in the UK, with predominantly Sterling denominated assets and liabilities, there is less of an impact from this global uncertainty than there is from matters closer to home, such as Brexit; however, the global uncertainty is expected to have a direct impact on equity markets, giving rise to greater volatility in equity returns, and a heightened exposure to currency risk when combined with the depression of Sterling.

3.15 Climate change risk is an area of recent focus by the Regulators, with the PRA issuing a supervisory statement on the management of the financial impacts of climate change risk in April 2019⁵ (SS3/19), which included a requirement to consider this risk in an insurer's Own Risk and Solvency Assessment ("ORSA"). Both ELAS and Utmost Life and Pensions have confirmed that they intend to include this in the next update to their ORSA, and have plans to meet the other requirements set out in this statement.

3.16 I have considered these factors when reaching my conclusions regarding the fairness of the Scheme.

Existing Schemes

Existing schemes for ELAS

3.17 ELAS has been the transferor in three Part VII transfers since 2007, as outlined in Appendix 3: Background to Equitable Life Assurance Society (ELAS). As the transferor in each of these

⁵ SS3/19: Enhancing Banks' and Insurers' approaches to managing the financial risks from climate risk

schemes, these schemes have not imposed any restrictions or protections on the transferring business in ELAS.

Existing schemes for Utmost Life and Pensions

3.18 In April 2018, the Utmost Group of Companies (formerly known as LCCG) acquired Reliance Mutual Insurance Society ("Reliance Mutual") and transferred the acquired business to Utmost Life and Pensions Limited (formerly known as Reliance Life Limited) by way of a Part VII transfer. In the remainder of my Report this will be referred to as the 'Reliance Mutual Scheme'. I have outlined below any restrictions or protections that this scheme has imposed that I believe to be relevant for my consideration of the Scheme's impact on the Transferring Policies:

- terms relating to the future closure and amalgamation of the existing Utmost Life and Pensions With-Profits Sub-Funds ("WPSF"s) when they fall below a certain size. This is £10 million for WPSF 2 and £25 million for any other WPSF. When a WPSF has fallen below that size, terms also allow Utmost Life and Pensions to convert with-profits policies in that WPSF into non-profit policies;
- the basis on which administration and investment management expenses are charged to the WPSFs within Utmost Life and Pensions;
- restrictions on direct costs which can be shared with each of the WPSFs;
- there will be no recourse to capital from any of the WPSFs to support other funds and businesses within Utmost Life and Pensions. Any such capital support will be provided from the Utmost Life and Pensions Non-Profit Fund ("ULP NPF");
- no new business is to be written in any of the WPSFs other than contractual options for policies already within these funds which cannot be written in the ULP NPF, or other automatic increases to premiums or benefits; and
- adherence to the principles of investment management set out within the Reliance Mutual Scheme.

3.19 Reliance Mutual was the transferee of a number of Part VII transfers since 2003, as outlined in Appendix 4: Background to Utmost Life and Pensions Limited. Any restrictions and protections introduced by these schemes are encompassed within the Reliance Mutual Scheme described above.

3.20 Additionally, in 2012 Reliance Mutual underwent a Scheme of Arrangement to clarify the interests of with-profits policyholders and members and convert some with-profits policies to non-profit. As a result, the WPSF 1 was created as well as two non-profit ordinary sub-funds ("OSF"). The Reliance Mutual Scheme superseded certain terms of the 2012 Scheme of Arrangement and amalgamated the OSFs into the ULP NPF. The terms of the 2012 Scheme of Arrangement that are still applicable are encompassed within the Reliance Mutual Scheme described above.

Changes to the Existing Schemes

3.21 The Scheme will not change any of the rights or provisions created by Existing Schemes for either ELAS or Utmost Life and Pensions.

Policies and liabilities transferring under the Scheme

3.22 If approved, the Scheme, together with the Channel Islands Schemes, will transfer all of the policies, assets and liabilities of the ELAS Ordinary Long Term Fund associated with the Transferring Policies at the Implementation Date into Utmost Life and Pensions. Table 3.1

sets out the policies transferring under the Scheme. The information presented assumes that the Scheme of Arrangement has been effected. The effect of the Scheme is to transfer the entire business of ELAS, consisting of a broad range of business including protection, pension (individual and group), annuity and investment products, with the exception of policies sold under Irish or German law, which will be excluded from the Scheme and remain in ELAS.

Table 3.1: Transferring business of ELAS as at 31 December 2018 assuming Scheme of Arrangement has been effected

Product type	Number of policies
<i>Unit-linked</i>	157,556
<i>Other Non-profit</i>	23,133
<i>Group Schemes</i>	144,265 ⁶
Total	324,954

Source: ELAS

Allocation of Assets and Liabilities

- 3.23 All Transferring Policies and associated assets (“Transferring Assets”) and liabilities will be allocated to the Utmost Life and Pensions Non-Profit Fund (the “ULP NPF”) on the Implementation Date. Assets required to meet the liabilities of the Non-Transferring Policies, plus the capital requirements of ELAS, will be retained in ELAS.

Excluded Policies

- 3.24 The Scheme provides for any Transferring Policies which it is not possible to transfer to Utmost Life and Pensions at the Implementation Date (for legal, regulatory or other reasons) to be excluded from the Scheme (“Excluded Policies”). This could happen, for example, if certain required approvals from non-UK regulatory bodies are not received in time for the liabilities to transfer as planned, or if the Channel Islands Schemes are delayed. Any Excluded Policies will be fully reinsured to Utmost Life and Pensions from the Implementation Date, allowing them to be treated as far as possible in the same way as if they had transferred under the Scheme. In the event that the Capital Coverage Ratio of ELAS post-Scheme falls below that set out in the ELAS Capital Policy, sufficient capital will be left in ELAS on the Implementation Date such that the level of capital held is at least equal to the higher of 125% of the MCR and 150% of the SCR at the Implementation Date. I have not yet concluded on the appropriateness of this minimum level of capital in ELAS on the Implementation Date, but will include this in my Supplementary Report. I am satisfied that the proposed treatment is fair to all other Excluded Policyholders and that my conclusions in respect of the policyholders transferring under the Scheme apply equally to them. Many other schemes have used the same approach.
- 3.25 For completeness, I note that policies sold under Irish or German law are to remain in ELAS and will be excluded from the Scheme. However, they are not Excluded Policies, as defined in my Report, as these policies will remain in ELAS for the foreseeable future, and any future transfer relating to these policies will be subject to another Part VII scheme process. Given this I have considered the fairness of the Scheme on this group of policyholders (the Non-Transferring Policyholders) separately throughout my Report and therefore the conclusions in respect of the Transferring Policies should not be read as applying to this group of policyholders.

⁶ For group schemes, the policy count represents the number of members, rather than the number of policies.

Overseas Policies

Table 3.2: Transferring Policies of ELAS by country governing policy as at 31 December 2018

Country	Number of
	contracts
UK	323,528
Channel Islands	1,426
Total	324,954

Source: ELAS Post-Scheme of Arrangement policy counts

- 3.26 It is proposed that the transfer of any business written by ELAS in Jersey and Guernsey (the “Channel Islands Policies”) will be effected by way of separate Channel Islands Schemes in those jurisdictions. The Channel Islands Schemes provide for the transfer of policies on the same terms as the Scheme and are expected to have the same Implementation Date as the Scheme.
- 3.27 The sanction of the Scheme is not dependent on the sanction of the Channel Islands Schemes. As noted in 3.24, in the event that the Channels Islands Schemes are not sanctioned, then the Scheme can still be sanctioned, with Channel Islands Policies then treated as Excluded Policies.
- 3.28 There are also c3,900 policies written under German and Irish law which will be excluded from the Scheme and remain in ELAS, and are not included in Table 3.2. Assets required to meet the liabilities of the Non-Transferring Policies, which were sold under Irish or German law, plus the capital requirements of ELAS, will be retained in ELAS.
- 3.29 I note that, of the 324,954 Transferring Policies currently in-force which were originally sold in the UK and Channel Islands, c5,400 of the holders of these policies now reside in non-European Economic Area (“EEA”) countries. I am not required to and do not consider these policyholders as a separate group of policyholders in my Report. My conclusions relating to the Transferring Policyholders apply equally to those policyholders now residing in a Non-EEA country.

Changes to the Capital Policies

ELAS Capital Policy

- 3.30 The ELAS Capital Policy currently applies to the Transferring and Non-Transferring Policies. Following the implementation of the Scheme, the Utmost Life and Pensions Capital Policy will apply to the Transferring Policies. Since ELAS will become a subsidiary of Utmost Life and Pensions, the Non-Transferring Policies remaining in ELAS will be subject to the ELAS Capital Policy, but this policy will be aligned to the Utmost Life and Pensions Capital Policy capital targets. At the time of writing, the ELAS Capital Policy hasn’t yet been updated, but is expected to be available in advance of my Supplementary Report. I discuss the proposed changes to capital policies in more detail in Section 5.

Utmost Life and Pensions Capital Policy

- 3.31 The Scheme does not change the Utmost Life and Pensions Capital Policy, which will continue to apply to the Existing Policyholders in Utmost Life and Pensions and will be extended to apply to the Transferring Policies from the Implementation Date.

Reinsurance arrangements

- 3.32 As set out in Appendix 7, there are a number of external reinsurance agreements in place relating to the Transferring and Non-Transferring Policies:
- Where these relate solely to the Transferring Policies, these will be transferred in full under the Scheme, with the same protections apply to the Transferring Policies both pre- and post-Scheme.
 - Where these cover both Transferring and Non-Transferring Policies, the agreements will transfer in part, with the reinsurance continuing to apply to the same policies and same risks as immediately prior to the Scheme.
 - Any contracts relating solely to the Non-Transferring Policies will remain with ELAS, offering the same protections to those policyholders as immediately prior to the Scheme.
- 3.33 Whether these arrangements transfer, remain in ELAS or transfer in part, there are no changes expected to the nature of these reinsurance arrangements, in their expected recoverability or in their coverage, and therefore no impact on policyholder benefit expectations or security for any group of policyholders.
- 3.34 The effect of the Scheme on the reinsurance arrangements is reflected in the pre- and post-Scheme financials, and in my considerations and conclusions relating to benefit security, in sections 5 to 8.

Unit Pricing

- 3.35 At the Implementation Date, ELAS and Utmost Life and Pensions use different unit pricing methodologies, both of which are widely used approaches within the industry. The Scheme will not change the methodology or governance around unit pricing for Transferring or Non-Transferring Policies in ELAS or Existing Utmost Life and Pensions Policies. Although unusual to administer two different unit pricing policies, these policies will initially continue to be administered by the same, separate, teams as before the Implementation Date. There are no plans to align these unit-pricing approaches in the short term; however, any future changes to align these policies will be subject to the "business as usual" unit-linked governance processes in Utmost Life and Pensions to mitigate any adverse implications for unit-linked policyholders.
- 3.36 As there are no changes to the unit-pricing principles, there are no material adverse effects on policyholders expected as a result of unit pricing related matters. My detailed conclusions in respect of unit pricing on the different groups of policyholders are set out in my considerations of the impact of the Scheme on unit-linked policyholders in Sections 6, 7 and 8.

Changes to terms and conditions

- 3.37 The Scheme will not alter the terms and conditions of any Transferring Policies, Non-Transferring Policies or Existing Utmost Life and Pensions Policies.

Changes to PPFMs

- 3.38 Following the Scheme of Arrangement, which will convert the majority of with-profits policies in ELAS to unit-linked, the only with-profits business remaining in ELAS is a small number of German With-Profits Policies. The PPFM for the new German With-Profits Fund will replicate the current PPFM of ELAS, subject to the following changes to allow for effective management of the newly created, much smaller, ring-fenced fund:

- all available capital in ELAS pre-Scheme of Arrangement will be distributed to with-profits policyholders on the Implementation Date through an uplift to policy value. For the UK-style German With-Profits Policies, which are excluded from the Scheme of Arrangement but, instead, will have the primary uplift amount allocated to their policy value through the Scheme, the new asset share will be used as the target payout following the Implementation Date;
- going forward, asset shares will be increased or decreased in line with: actual investment returns net of transaction costs and tax; actual premiums net of any charges; and actual withdrawal experience;
- the extent of smoothing of the asset share will reduce for the UK-style German With-Profits Policies, as unsmoothed asset share will be targeted for payouts post-Scheme. There will be no retained surplus in the German With-Profits Fund at the outset, and no intention to build up a retained surplus. There is no change proposed to the smoothing for German-style German With-Profits Policies due to the nature of their benefits;
- the investment strategy for the UK-style German With-Profits Policies is expected to be changed such that the assets more closely match the policyholder liabilities. This is still under discussion but, at the time of writing, it is expected that these assets will be invested in the Euro denominated/priced Multi-Asset Moderate Fund, the same fund in which the Irish unit-linked policies are invested. The investment strategy for the German-style German With-Profits Policies will remain unchanged. See paragraph 3.44 below for further information;
- a fixed charge of 0.75% per annum will be applicable to UK-style German With-Profits Policies to cover administration costs, which will be capped at 1% per annum, with increases only permitted if certain conditions, set out in Schedule 2 to the Scheme, are met. The charge structure for the German-style German With-Profits Policies will remain unchanged;
- the cost of any 0% investment guarantees attached to the UK-style German With-Profits Policies will be borne by the ELAS Main Fund, by way of an inter-fund reinsurance arrangement between the German With-Profits Fund and the ELAS Main Fund as set out in Schedule 3 to the Scheme, but a charge for these guarantees (capped at 0.5% per annum) may be levied in the future if expected experience isn't borne out in practice. The ELAS Chief Actuary and With-Profits Actuary must agree on a guarantee charge in advance of this being applied. No such charge will be applied in respect of any Guaranteed Annuity Rates attached to UK-style German With-Profits Policies, which will be reinsured to the ELAS Main Fund through the same inter-fund reinsurance arrangement. The investment guarantees on the German-style German With-Profits Policies will continue to be met primarily through continuation of the existing asset and liability cash flow matching investment strategy, in line with current practice, with any mis-match being covered by the inter-fund reinsurance arrangement described above. No charges will be applied in respect of the investment guarantees on the German-style German With-Profits Policies, in line with current practice; and
- the Non-Transferring With-Profits Policyholders will no longer have the right to share in the distributable assets of the full pre-Scheme ELAS entity, including the profits from the Transferring Business of ELAS. Instead, the Non-Transferring With-Profits Policyholders will have the right to share only in the distributable assets arising within the ring-fenced German With-Profits Fund, noting that the German-style German With-Profits Policies have not previously received discretionary capital distributions and there is no intention to change this going forward.

Changes to investment management

3.39 Immediately post-Scheme, for Transferring Policyholders, Non-Transferring Policyholders (excluding the UK-style German With-Profits Policies in the newly formed German With-Profits Fund) and Existing Utmost Life and Pensions Policyholders:

- there will be no change to the operation of unit-linked business;
- there will be no change in the funds available to unit-linked policyholders;
- there will be no change to investment strategy or investment manager, with the exception of new unit-linked asset investments in respect of existing unit-linked policies in ELAS (pre-Scheme of Arrangement), which will be invested with JP Morgan Asset Management, rather than Aberdeen Standard Investments; and
- charges will remain as-is for unit-linked policyholders subject to the conditions set out in the paragraph below.

3.40 I note that for Transferring and Non-Transferring Unit-Linked Policyholders, the Scheme outlines that annual management charges in respect of the unit-linked funds in which they are invested will not exceed 75 basis points, except where:

- pre-Scheme annual management charges already exceeded 75 basis points for that policy;
- regulatory action results in material increases in costs across the insurance industry; or
- there is an increase in third party investment management, custody, trading or unit-pricing costs where such costs are higher than those incurred pre-Scheme.

In no circumstances will annual management charges paid by Transferring and Non-Transferring Unit-Linked Policyholders exceed 100 basis points. In addition to the annual management charge, only charges currently applied to unit-linked policies in line with the policy terms and conditions will be applied to these policies after implementation of the Scheme.

3.41 As part of the Scheme of Arrangement, the Companies have agreed on the post-Scheme of Arrangement default asset strategies for the newly converted unit-linked policies and policyholders also have a choice in terms of both the funds in which they will be invested and the timing of this investment. The appropriateness of the default asset strategies in matching the needs of the policyholders and in meeting fairness requirements, and the choices available to customers who wish to make an active decision, is considered by the Policyholder Independent Expert as part of the Scheme of Arrangement process and is therefore not in scope of my Reports.

3.42 The annual management charge for the policies newly converted into unit-linked where a policyholder has not made an investment choice at least 10 days in advance of the Implementation Date will not exceed 50 basis points immediately following implementation of the Scheme of Arrangement as those policies will be invested in secure cash funds. These funds will be gradually moved into non-cash default funds (which, for pensions policyholders, are dependent on age, with 100% cash for those policyholders aged 85 and over) following the Scheme and charges will be consistent with those set out in paragraph 3.40 above. Further detail of this strategy can be found in Appendix 5: ELAS Scheme of Arrangement. As stated in paragraph 1.13 this has been considered by the Policyholder Independent Expert and is therefore not in the scope of my Reports.

- 3.43 The Scheme, of itself, does not change the investment management of the Transferring, Non-Transferring (with the exception of the UK-style German With-Profits Policies allocated to the German With-Profits Fund, as described in 3.44) or Existing Utmost Life and Pensions Policies. As part of the Scheme of Arrangement, a new Investment Manager, JP Morgan Asset Management, has been appointed to manage the new funds set up for the policies in scope of the Scheme of Arrangement. Following the Implementation Date, future premiums paid in respect of Transferring and Non-Transferring policies in ELAS that were unit-linked before the Scheme of Arrangement will also be invested in JP Morgan Asset Management, rather than Aberdeen Standard Investments, where these cash inflows exceed cash outflows from the fund (i.e. the unit-linked claims and charges). Should Utmost Life and Pensions choose to change its investment strategy or its investment manager in the future, this decision would be made under the normal course of business and in line with Utmost Life and Pensions governance processes, with ultimate sign-off from the Utmost Life and Pensions Board.
- 3.44 The Scheme is expected to change the investment strategy of the UK-style German With-Profits Policies allocated to the newly formed German With-Profits Fund, such that the assets more closely match the liabilities in the fund, reducing the expected cost of guarantees arising from the fund. At the time of writing, ELAS is expecting to invest the assets backing the UK-style German With-Profits Policies in the German With-Profits Fund in the Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies, with a hedge implemented to reduce currency risk exposure to these policyholders.
- 3.45 My conclusions in respect of the changes to investment management are set out in 9.31 to 9.41. For completeness, I note that I have yet to conclude on the investment management strategy of the UK-style German With-Profits Policyholders, and will provide an update on this in my Supplementary Report.

Changes to service arrangements

- 3.46 Under the Scheme, all policies, including both Transferring and Non-Transferring Policies, will continue to be administered on the same underlying systems as now, by staff from the same company as currently. The staff of ELAS will transfer to Utmost Life and Pensions Services Limited under the Transfer of Undertakings (Protection of Employment) ("TUPE") Regulations. They will be seconded to either ELAS or Utmost Life and Pensions, according to the needs of the business, providing continuity of service to both the Transferring and Non-Transferring Policyholders. The service level standards to be provided by Utmost Life and Pensions post-Scheme are set out in Schedule 2 to the Scheme.
- 3.47 In the 12 month period immediately after the Implementation Date, Utmost Life and Pensions intends to continue to provide the same level of service as was provided by ELAS in the 12 months prior to implementation of the Scheme. Following this 12 month period, Utmost Life and Pensions endeavours to administer the business in line with good industry practice and applicable laws including Treating Customers Fairly. The standard of service provided will be at least equivalent to the level Existing Utmost Life and Pensions policyholders receive. Capacity and resourcing plans are in the process of being drafted to ensure sufficient resource is available to continue to meet these policy servicing standards in the period immediately following the Implementation Date, and I will provide an update on these plans in my Supplementary Report.
- 3.48 Following the Scheme, correspondence to Transferring Policyholders will use the Utmost Life and Pensions brand and the payee name on future payments to these policyholders will be changed. Transferring Policyholders will be directed to the Utmost Life and Pensions website which will be updated to include details relevant to transferring ELAS business. Non-Transferring Policyholders are expected to continue to receive communications using the ELAS branding, and relevant information pertaining to their policies will remain on the ELAS website.

3.49 My conclusions in respect of the changes to service standards are included in 9.15 to 9.30.

Conditions of the Scheme

3.50 It is a condition of the Scheme that the ELAS Scheme of Arrangement has taken place before the Scheme can be implemented, that all tax clearances have been received and that the Scheme has been sanctioned. The Scheme of Arrangement is dependent on ELAS members voting in favour of the proposal made at the EGM to appoint Utmost Life and Pensions as the sole member of ELAS. In the event that the Scheme of Arrangement does not proceed or tax clearances are not received, the Companies will terminate the Scheme. Should the Scheme of Arrangement be delayed, the Implementation Date would move congruently, as per paragraph 3.52, below.

3.51 Following sanctioning and implementation of the Scheme, any changes to the Scheme can only be achieved by means of an application to the Court and on the proviso that certain conditions are met to help ensure that the change is suitably publicised and that policyholder interests are protected. These conditions include the requirement for a certificate from an Independent Expert on the impact of the amended Implementation Date on policyholder benefits and allow for the Regulators to make a submission to the Court. These provisions are included in paragraph 21.2 of the Scheme to help minimise the risk that the Companies are not able to complete the migration effectively at the original Implementation Date, which could adversely impact the service standards of the Transferring Policyholders.

Flexibility in the Implementation Date

3.52 As set out in paragraph 1.3, the Scheme is expected to become operative on the Implementation Date of 1 January 2020, immediately after implementation of the Scheme of Arrangement or, in the event of a delay to the implementation of the Scheme of Arrangement, immediately following the later implementation of the Scheme of Arrangement.

Scenario where the Scheme is not sanctioned

3.53 As the Scheme of Arrangement and Scheme are dependent on each another, they will both be implemented or neither will go ahead. For this reason, there is no scenario where the Scheme of Arrangement is sanctioned or delayed, and the Scheme is not sanctioned, or doesn't move congruently. For this reason, I have considered only the scenario where both the Scheme and the Scheme of Arrangement are not sanctioned.

3.54 In this scenario, the financial position of ELAS would be impacted by the costs incurred in preparing for the Scheme; however, based on analysis provided by ELAS, this impact is not expected to materially adversely affect policyholder benefits or security. In addition, ELAS is regularly monitoring the cost of rolling back from the Scheme and has set out its risk appetite, which it is using to track the likelihood and the impact of the Scheme and Scheme of Arrangement not proceeding. ELAS will consider these costs, in addition to a number of other factors set out in its risk appetite, when making any decisions that could impact policyholders.

3.55 I have discussed the financial impact on ELAS if the Scheme and Scheme of Arrangement are not implemented and have taken this into account when forming the conclusions in my Report.

Costs of the Scheme

3.56 The Companies will meet their own costs incurred in preparing for the Scheme. The exception to this is certain costs associated with the legal transfer process (such as the Court fees, my fees as Independent Expert and any fees levied by the Regulators). Such costs will be split equally between the Companies.

- 3.57 The ELAS OLTF will bear ELAS' share of the Scheme costs, with the costs applied to the fund prior to the Scheme of Arrangement. These costs will be met by the distributable assets in ELAS, which is ultimately where all indirect costs are met, which I consider to be a fair approach to the Transferring and Non-Transferring Policyholders.
- 3.58 The ULP NPF will bear Utmost Life and Pensions' share of the Scheme costs. I consider this to be the most fair and reasonable approach in apportioning the costs as this is the same approach adopted for all other costs incurred by Utmost Life and Pensions.

Brexit Part VII Transfer

- 3.59 For completeness, I note that ELAS had initially planned to transfer all policies sold under Irish and German law to a new subsidiary, Equitable Life Ireland, by way of a separate Part VII transfer (the "Brexit Part VII Transfer"), and policyholders were notified of this proposal. This subsidiary, domiciled in Ireland, would have allowed ELAS to continue to administer the policies transferring following the Brexit effective date, which was originally planned for 29 March 2019. The Brexit effective date was subsequently delayed to 31 October 2019, and, in that time, the Central Bank of Ireland ("CBI") and the Federal Financial Supervisory Authority (more commonly known by its German abbreviation, "BaFin") indicated that grandfathering arrangements will be in place with the CBI and BaFin in the period immediately following the Brexit effective date, allowing UK domiciled businesses to continue to serve and administer policies issued under German and Irish law. At the time of writing, the CBI and BaFin have indicated a grandfathering period of 3 years and 21 months from the Brexit effective date, respectively, meaning that UK insurers can continue to receive premiums from and pay claims to non-UK policyholders in this period.
- 3.60 Given this, ELAS chose not to proceed with the Brexit Part VII Transfer process, following consultation with Utmost Life and Pensions and the UK and Irish regulators, instead, making a decision to leave this business in ELAS until there is greater clarity over the regulatory and legal landscapes post-Brexit. The decision not to proceed with the Brexit Part VII Transfer has been communicated to the affected policyholders. The scope of my Report is confined to my opinions on the Scheme, and I do not consider the Brexit Part VII Transfer further within it.

4 The Role of the Independent Expert

Overview

- 4.1 For schemes of this type, the Independent Expert is required to prepare a scheme report in a form approved by the PRA having consulted the FCA and in accordance with relevant guidance, including that contained in SUP 18. Its purpose is to assist the Court in deciding whether to sanction the Scheme. This Report is the Independent Expert scheme report for the Scheme described in paragraph 1.2.
- 4.2 As Independent Expert, I need to consider the effect that the Scheme may have on the various classes of policyholders in the Companies which are affected by the Scheme. In doing so, I consider separately:
- Transferring Policyholders, who, in the case of the Scheme, are the holders of all policies in ELAS at the Implementation Date with the exception of policies sold under Irish or German law, and who will transfer to Utmost Life and Pensions at the Implementation date;
 - Non-Transferring Policyholders, who, in the case of the Scheme, are the policies in ELAS at the Implementation Date that were sold under Irish or German law, and will remain in ELAS after the Implementation Date; and
 - Existing Utmost Life and Pensions Policyholders, whose policies are currently administered by Utmost Life and Pensions and do not move under the Scheme.

The framework for my conclusions

- 4.3 For any group of policyholders affected by a scheme of transfer, there may be some changes for the better and some for the worse. If there are some changes for the worse, this does not necessarily mean that the Scheme is unfair or unreasonable, as these adverse changes might be outweighed by other benefits, or they might be extremely small. The test I have applied in considering this Scheme is whether the position of any group is, in the round, “materially adversely affected”.
- 4.4 My definition of “materially adversely affected” is a consequence of the Court’s consideration of prior Part VII transfers. In particular, principles stated by Evans-Lombe J. in *Re Axa Equity & Law Life Assurance Society plc and AXA Sun Life plc (2001)* (based on principles outlined by Hoffman J. in *Re London Life Association Ltd (1989)*) are often used as the basis for the consideration of insurance business transfers by the Independent Expert and by the Court.
- 4.5 Evans-Lombe J. stated in *Re AXA Equity & Law* that “the court is concerned whether a policyholder, employee or other interested person or any group of them will be adversely affected by the scheme”. He went on to state: “That individual policyholders or groups of policyholders may be adversely affected does not mean that the scheme has to be rejected by the court. The fundamental question is whether the scheme as a whole is fair as between the interests of the different classes of persons affected”. The most common interpretation of these (and other relevant) statements has been that a conclusion that “no group of policyholders is materially adversely affected by the Scheme” provides a sufficient condition to conclude that the fairness of the Scheme as a whole has been demonstrated.

- 4.6 As Independent Expert, my assessment of the impact of the Scheme on the various affected policies is ultimately a matter of actuarial judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 4.7 In order to acknowledge this inherent uncertainty, and to be consistent with the statements by the Court noted above, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.
- 4.8 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' guaranteed benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.
- 4.9 Given the above, where there are adverse changes, I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

Considerations in my Reports

- 4.10 In considering the effect of the Scheme on any group of policyholders and as required by SUP 18, I have reviewed in particular the likely effect on:
- policyholders' benefit expectations, including the level of guaranteed benefits, charges, tax effects and preservation of any options available under a policy. In opining on the effect on policyholders' "benefit expectations", I have in mind what would happen in normal conditions, and typical variations in those conditions. It may be that in very extreme conditions, a fund may be forced to take unexpected actions that could change benefit levels. My opinions are not given in that context. However, I am not aware of anything in the Scheme which would cause a systematic reduction in benefit expectations in such circumstances relative to what would have happened in its absence;
 - the security of policyholders' benefits, including a review of the levels of financial support available to the different groups;
 - for unit-linked policies, the level of charges, the approach to unit pricing and any changes to the investment fund mandates or the range of choice of funds; and
 - service levels.
- 4.11 I have also considered:
- the adequacy of safeguards in the Scheme to protect the ongoing interests of different groups of policyholders;
 - the effect of the Scheme on reinsurance contracts;
 - the adequacy of the communications made to policyholders concerning the Scheme; and
 - any other matters drawn to my attention by the Regulators or required by the Regulators to be addressed within the Report.

- 4.12 The effect of the Scheme on policyholders will depend on the type of policy held at the Implementation Date and I have considered the following groups separately:
- unit-linked policyholders;
 - other non-profit policyholders; and
 - with-profits policyholders.
- 4.13 I have considered whether there are any previous Court schemes that created particular rights or protections for any group of policyholders which might be lost as a result of the Scheme.

Exclusions

- 4.14 In my role as the Independent Expert to the Scheme I am not required to consider the possible effects on new policyholders (if any) entering into contracts after the Scheme Implementation Date, and I do not do so in this Report.
- 4.15 I am not required to consider the fairness of the Scheme of Arrangement. A separate report by another actuary independent of ELAS has been prepared covering this process.
- 4.16 All of my considerations are made in the context of the current UK regulatory regime for life insurance companies.
- 4.17 I have considered the Scheme only in the form in which it is to be presented to the Court. I am not required to, and do not, consider any possible alternative schemes or arrangements.
- 4.18 As the Independent Expert I have discussed aspects of the Scheme with both ELAS and Utmost Life and Pensions as it was being developed; however, I was not involved in the formulation of the proposed Scheme.

5 Capital Requirements and Capital Policies

Introduction

- 5.1 In this section, I explain the capital requirements that the Companies must satisfy under current UK regulations and the internal capital policies and capital support arrangements that are in place within each company.
- 5.2 As the Independent Expert, I am required to consider the effect of the Scheme on policies transferring from ELAS and those currently in the receiving company, Utmost Life and Pensions. I also consider the impact of the Scheme on those policies remaining in ELAS. A central part of my considerations is the security of policyholder benefits and the effect of the Scheme on this security. For example, I would be concerned if the Scheme moved some policies from a financially strong fund to a weak one which might not be able to honour its obligations to policyholders.
- 5.3 My analysis of the effect of the Scheme on policyholder security depends on the level of capital available to the Companies, and their ability to satisfy their respective solvency requirements now and in the future. In addition to holding assets sufficient to meet expected claims and payments on policies, life insurance companies maintain additional assets, known as available capital or capital resources. These resources provide additional security to policyholders by acting as a buffer against losses. If the experience of a company is worse than expected, for example due to investment losses or claims experience differing to the level expected, the available capital is intended to be sufficient to absorb the resultant losses whilst still leaving sufficient assets to meet expected policyholder liabilities. The capital policy of an insurer specifies the level of capital resources that are expected to be retained in the company and, as such, is an important determinant of ongoing policyholder security and a key focus of my analysis.
- 5.4 To protect policyholders, the UK supervisory system (“Solvency II”, described in 5.10 to 5.12, below) mandates certain minimum levels of capital that are required to be held at all times. This results in restrictions on the use of such capital (for example, it is unlikely to be permissible to distribute such capital in the form of dividends). In addition, the regulations require insurers to consider other restrictions on their capital resources, including where there are with-profits funds in which discretionary benefits are expected to be paid beyond the minimum policy guarantees.
- 5.5 I provide analysis on these matters in this Section of the Report, with my overall conclusions in respect of each different group of policyholders set out in Sections 6, 7 and 8.

Governance around production of financial information

- 5.6 The pre-Scheme of Arrangement and Scheme of Transfer financial information provided by ELAS, and used as the basis for the pre-Scheme financials included in my Report, was based on audited figures as at 31 December 2018 and has been through governance procedures equivalent to those for a quarterly valuation process. The pre-Scheme financial information provided by Utmost Life and Pensions is as at 31 December 2018, and has also been subject to external audit.
- 5.7 Post-Scheme financial information has been estimated by Utmost Life and Pensions using the expected post-Scheme of Arrangement and pre-Scheme of Transfer balance sheet provided by ELAS and its own pre-Scheme balance sheet. The post-Scheme ELAS balance

sheet reflects the assets and liabilities in ELAS associated with the Non-Transferring Policies, which includes the capital requirements in respect of these policies.

- 5.8 The ELAS financial information, which feeds into Utmost Life and Pensions' post-Scheme financials, includes a more complex analysis of how the Scheme of Arrangement impacts the balance sheet. Reflective of this complexity, the results have been subject to scrutiny and checking within ELAS, in addition to that which would be undertaken for a regular valuation process.
- 5.9 In light of the governance undertaken by the Companies, I am satisfied that it is appropriate for me to rely on the results prepared. Where relevant, I have queried aspects of the results to support my understanding.

Background to the Current Supervisory Regime

- 5.10 The Regulators are responsible for, amongst other things, the supervision of UK-authorized insurance companies. A key aim of the PRA's supervisory regime is to contribute to the securing of an appropriate degree of protection for policyholders, ensuring that there is a sufficiently high probability that an insurer is able to meet claims from, and material obligations to, policyholders as they fall due. Since life insurance business can be very long-term with some contracts lasting for 30 years or more, it is necessary to set solvency standards and monitor insurance companies regularly against those standards. No supervisory regime can ensure that every company will remain solvent in all possible circumstances, but a good one will ensure that the chance of an insurance company becoming insolvent is remote. Furthermore, a good regime acts as an early warning system, permitting remedial action to be taken if a company gets into financial difficulty.
- 5.11 On 1 January 2016, a new European solvency regime for insurance companies, known as "Solvency II" or "SII", became applicable in the UK. This regulatory regime is intended to improve oversight of risks, and to ensure strong minimum standards for the capital that must be held against each risk, giving policyholders protection against the risk of an insurer failing. Its introduction also involved operational changes – for example, reporting and governance changes. For the purposes of my Report, I have assumed that Solvency II remains the solvency regime applicable to UK insurance companies following Brexit and that the regulations also remain unchanged following the Brexit effective date. The PRA has not communicated any proposed changes to the UK solvency regime after Brexit, so I believe that this is the most appropriate assumption to make at this time. Should I be made aware of any changes before the Sanction Hearing, I will provide an update on these changes in my Supplementary Report.
- 5.12 Solvency II is based on three guiding principles (pillars):

- Pillar 1 – quantitative assessment and requirements

Pillar 1 sets out how an insurer's assets and liabilities should be valued using the principles of market consistency to reflect the price that the market would put on those items. For example, for a listed equity held as an asset, the value would be based on the quoted market value at the valuation date. Insurance liabilities are called Technical Provisions under Solvency II. The excess of assets over liabilities are referred to as the Own Funds.

Technical Provisions are made up of two components:

- 1) The Best Estimate Liabilities ("BEL"), constructed as a best-estimate of the cost that will be incurred in meeting the obligations to policyholders; and

- 2) The Risk Margin, which is a margin designed to ensure that the value of Technical Provisions is sufficient to provide compensation for another insurer to take over and meet the insurance obligations of that company.

For some types of business, Solvency II led to an increase in insurance liabilities. Solvency II permits the use of certain “transitional” measures which were intended to phase-in the impact of the move to Solvency II from the previous regulatory regime. In particular, companies can use the Transitional Measure on Technical Provisions (“TMTP”) to reduce the overall level of a company’s liabilities to be closer to those held under the previous regime, with this reduction in liabilities reducing year-on-year for a period of 16 years from 2016. The Companies both recognise such a transitional in their Solvency II position and I have considered how this might change in my assessment of the financial impact of the Scheme. In addition, the Equity Transitional allows a company to use a lower equity stress in its calculation of its Solvency Capital Requirement (the “SCR”, described below) for equities held before Solvency II came in to force. This is used by Utmost Life and Pensions.

There are also long term measures to help mitigate the volatility in the Own Funds caused by the valuation of long-term insurance products under Solvency II: the Matching Adjustment (“MA”) and the Volatility Adjustment (“VA”). In order for a company to include these in the valuation of its Technical Provision, an application must be submitted to the PRA, and certain requirements must be met on an ongoing basis in order to maintain the benefit achieved by these measures.

- Under the MA, a portfolio of assets is held to back a specified portion of predictable liability cash flows, and the MA adjusts the discount rate which is used to value these liabilities, ensuring that exposure to short term price movements is limited. The ULP NPF has two MA portfolios.
- The VA is an adjustment to the yield curve (used for discounting under Solvency II), available to protect insurers from the impact of market volatility on the solvency position. ELAS currently has permission to use this adjustment; however, I note that this has not been used from September 2018 onwards, following the sale of the majority of ELAS’ corporate bond portfolio and is therefore not reflected in the results presented in my Report.

I have considered how the use of such measures might change in my assessment of the financial impact of the Scheme. The primary capital requirement under the Solvency II regime is known as the Solvency Capital Requirement (“SCR”). It is risk-based in nature and set at a level that is expected to be sufficient to cover losses arising from an event or combination of events over a one year time horizon that is of a severity that is expected to happen only once every 200 years. This amount can be calculated using a Standard Formula, prescribed by the European Insurance and Occupational Pensions Authority (“EIOPA”), one of the European supervisory authorities responsible for macro-prudential oversight at the European Union level, or by an Internal Model which, for UK insurers, is subject to approval by the PRA. The Companies both currently use the Standard Formula. The excess of a firm’s Own Funds over the SCR is referred to as Excess Capital, with the ratio of Own Funds (or, in the case of the Tables presented in this report, Eligible Own Funds) to SCR referred to as the Capital Coverage Ratio. The Capital Coverage Ratio is a key metric for life insurance companies as it shows the extent to which a company covers its regulatory capital requirements (i.e. the higher of the MCR and SCR).

The SCR is underpinned by the Minimum Capital Requirement (“MCR”), a minimum level of capital that must be held by an insurance company at all times, calculated in line with the Solvency II Directive, and with an absolute floor of €3.7m. Where the SCR is lower than the MCR (for example, in the case of an insurance company with a small number of policyholders), the MCR must be met at all times.

- Pillar 2 - governance

Pillar 2 addresses the qualitative element of Solvency II and requires insurers to prepare an Own Risk & Solvency Assessment (ORSA) and submit this to the PRA. The purpose of this pillar and the ORSA is to demonstrate that risk and capital management is embedded in the everyday management of the entity, and integrated in business planning and strategic decision making. The ORSA is required to include a forward looking assessment of capital requirements and stress and scenario testing.

- Pillar 3 – disclosure and reporting

Pillar 3 outlines the reporting format that insurers should adopt as part of Solvency II. Firms are required to complete quarterly Quantitative Reporting Templates (“QRTs”) for private disclosure to the PRA. These templates contain key financial and solvency information. Narrative information is provided in the form of an annual Solvency and Financial Condition Report (“SFCR”) which is made available to the public. Additional quantitative and qualitative reporting is required under Solvency II but as I have not relied upon these, further information is not included in this Report.

Comparing policyholder benefit security and capital policies

5.13 The security of policyholder benefits is primarily supported by the capital available within the Companies to meet policyholder obligations as they fall due.

5.14 Throughout my Report, my focus is on the Pillar 1 position of the Companies as this is used for both regulatory reporting and as the basis for both the ELAS and Utmost Life and Pensions Capital policies. The respective ORSA of each of the Companies includes an assessment of the appropriateness of the Standard Formula for calculating the regulatory capital requirements, with both Companies concluding that it is appropriate for their respective business. Overall, having considered the differences between the Pillar 1 and Pillar 2 capital positions of the Companies and how the figures are used within the businesses, I am satisfied that it is appropriate to base my analysis on the Pillar 1 position. Notwithstanding this, I have considered the contents of the ORSA as background to my assessment of the impact of the Scheme on policyholder security.

5.15 Companies will usually choose to hold a level of capital in excess of their Solvency II capital requirements, to help ensure that they can continue to meet their solvency requirements following an adverse event, or in order to satisfy rating agency requirements, or their own internal capital standards. This minimum level of capital that a company wishes to hold is often set out in an internal capital policy. The capital policies of Utmost Life and Pensions and ELAS are explained later in this section.

5.16 I consider the use of solvency ratios, such as the Capital Coverage Ratio on a Solvency II basis, “pre” and “post” the Scheme to be a useful indicator of the immediate impact of the Scheme on the benefit security provided to policyholders. Where these ratios increase, it might imply, other things being equal, greater security for the policyholders immediately following the Scheme. The Companies have estimated these ratios and I have considered these in forming my opinion, having reviewed significant changes for reasonableness.

5.17 Whilst the impact of the solvency position at the time of the Scheme is important, I would be concerned if the subsequent actions meant that the solvency positions of ELAS and Utmost Life and Pensions could be weakened in future to the extent that the reduction constituted a material adverse impact on the security of policyholder benefits. This could happen, for example, through the payment of excessive dividends to shareholders or payments to members. The constraint on the extent of such action is the capital policy, as it represents a requirement to hold capital in excess of the applicable regulatory requirements. For ELAS post-Scheme this is the MCR, and for Utmost Life and Pensions this is the SCR. Hence, in considering the ongoing level of benefit security afforded to

policyholders, I have placed emphasis on the relative strength of the capital policies of ELAS and Utmost Life and Pensions in addition to the immediate impact of the Scheme.

- 5.18 My assessment of the relative strength of the capital policies includes consideration not only of the level of capital targeted under each policy, but also the governance around potential future changes to the capital policies, particularly where such a change would result in a reduction in the amount of capital held.
- 5.19 When considering the relative strength of the capital policies, it is also important to consider the differences in the corporate structures of the Companies and, particularly, the difference between mutual and proprietary companies. In particular:
- in a mutual, such as ELAS, all assets are ultimately expected to be distributed to policyholders (noting that, in practice, sufficient assets would have to be retained to cover any capital requirements until the mutual is de-authorised). ELAS achieves this distribution by means of an enhancement to the claim value, a bonus that is only paid out when a policyholder claims. Until that point, the assets remain within ELAS and it has the ability to amend the expected level of future bonuses should it need to improve its solvency position. This flexibility of distribution could be considered to provide additional benefit security to the policyholders. However, as a mutual, ELAS is unlikely to be readily able to raise capital from external sources.
 - in contrast, in a proprietary company, such as Utmost Life and Pensions, assets over and above the target Capital Coverage Ratio have the potential to be distributed by the company in the form of dividends. If such a dividend were to be paid, these assets would no longer be available to support policyholder benefits. This could be interpreted as representing a lower level of policyholder security than were the assets to be retained in the company. However, this needs to be balanced by the fact that a proprietary has a relatively greater ability to raise capital, for example through issuing debt or equity, which is not an option available to a mutual.
- 5.20 I am satisfied that these differences are partly offsetting, and that it is appropriate to focus my analysis on the relative strengths of the targets specified in the capital policies of the Companies.
- 5.21 Whilst having capital in excess of the required capital policy is helpful, where it could be removed at a future point in time I have placed limited weight on it in my assessment of the impact of the Scheme on the security of benefits for individual policyholders. If policyholders move to a company with a lower solvency ratio which is still well in excess of the applicable regulatory requirements and the new company has an equivalent or stronger capital policy, I would not consider this to be "materially adverse", if the capital policy cannot be weakened arbitrarily in the future.

Capital Policies

ELAS Capital Policy

- 5.22 The ELAS Capital Policy objectives are to:
- manage solvency to enable capital distribution;
 - maximise returns in advance of the Scheme being implemented (noting that, in the period to the Scheme of Arrangement effective date, the focus has been on minimising uncertainty, rather than maximising returns); and
 - distribute assets amongst with-profits policyholders as fairly and as soon as possible.

- 5.23 The ELAS Capital Policy seeks to maintain a minimum Capital Coverage Ratio of 120% of SCR on a Pillar 1 basis. ELAS is managed with the aim that the Capital Coverage Ratio does not fall below 150%. Should this position be in danger of being breached, consideration would be given to reducing policy values and the capital distribution amount to restore the solvency position. Should the Capital Coverage Ratio fall below 120% of SCR, such management actions would be almost certain.
- 5.24 The ELAS Capital Policy is reviewed by ELAS at least annually, with any changes being agreed by the ELAS Board.
- 5.25 As at 31 December 2018, and prior to the Scheme of Arrangement, ELAS held c£4bn of liquid assets, such as gilts and cash, to back its with-profits liabilities. This strategy was taken because ELAS is in run-off and is highly unlikely to revert to less liquid assets as outflows are greater than inflows. Given this, no explicit liquidity buffer is held by ELAS. Immediately following the Scheme of Arrangement and prior to the Scheme, the majority of the with-profits liabilities will have been converted to unit-linked liabilities, therefore no liquidity buffer is expected to be required in this period.
- 5.26 The ELAS Capital Policy will be updated after implementation of the Scheme in line with the changes described in 5.34. The proposed ELAS Capital Policy targets are described in 7.14.

Utmost Life and Pensions Capital Policy

- 5.27 The Utmost Life and Pensions Capital Policy seeks to maintain a Capital Coverage Ratio in excess of 135% of SCR at all times on an adjusted Pillar 1 basis, where the Pillar 1 basis is adjusted to allow for surplus in the ring-fenced funds which can't be taken credit for under Solvency II Pillar 1 reporting. In practice, in order to ensure that this level is not breached, Utmost Life and Pensions aims to have a Capital Coverage Ratio of 150% immediately after the payment of any dividends.
- 5.28 In the event Utmost Life and Pensions fails to satisfy its minimum target Capital Coverage Ratio of 135% of SCR, management will either:
- allow the Capital Coverage Ratio to recover organically if it is expected to recover within a six month period; or
 - implement appropriate actions to ensure a recovery to this level of solvency within six months if the Capital Coverage Ratio is not expected to recover organically within the six month period. Examples of such actions include raising additional capital from investors.
- 5.29 Any capital in excess of the level required to cover a Capital Coverage Ratio of 150% of SCR would be available to pay interest on debt raised to meet regulatory capital requirements ("regulatory debt") or to pay dividends (subject to maintaining an appropriate level of liquidity).
- 5.30 Interest on regulatory debt would only be paid if this would not result in the Capital Coverage Ratio falling below 150%. If paying interest would result in the Capital Coverage Ratio falling below 150%, then the interest will be accrued until such a time as it could be paid without the Capital Coverage Ratio falling below 150% of SCR.
- 5.31 The Utmost Life and Pensions Capital Policy is reviewed annually, with any changes being agreed by the Utmost Life and Pensions Board.
- 5.32 Utmost Life and Pensions maintains a liquidity buffer of at least £10 million in cash or gilts at all times in relation to its non-Matching Adjustment portfolio. A liquidity buffer of £14.5 million is maintained for the Matching Adjustment portfolios. The PRA has approved the portfolio framework, which sets out the approach used to determine the liquidity buffer; this

is reviewed and, if required, updated quarterly and recommended to the ULP Risk & Compliance Committee for approval. No changes to this are proposed as a result of the Scheme.

Capital Policy applicable to Transferring Policies

- 5.33 Following the implementation of the Scheme, the Utmost Life and Pensions Capital Policy and its governance processes will apply to the Transferring Policies. This policy is in the process of being updated to extend the scope to cover the Transferring Policies, and is expected to be taken through internal governance by the end of September 2019.

Capital Policy applicable to Non-Transferring Policies

- 5.34 Post-Scheme, ELAS will become a subsidiary of Utmost Life and Pensions and as such the ELAS Capital Policy will be updated to bring this in line with the two tiered Utmost Life and Pensions Capital Policy target structure, with the same targets relevant to ELAS but an additional condition that ELAS must hold at least 125% of MCR. This additional lower bound condition has been specified given that the MCR is likely to be the capital constraint for ELAS at the Implementation Date and going forward, given the size of the post-Scheme ELAS business. This policy is expected to be taken through internal governance by end of September 2019.

Capital Policy applicable to Existing Utmost Life and Pensions Policies

- 5.35 There will be no changes to the Utmost Life and Pensions Capital Policy, which will continue to apply to the Existing Utmost Life and Pensions Policies in its current form, with updates to the policy made only to extend the scope such that relevant sections of the policy apply equally to the Transferring Policies.

Capital support mechanisms

ELAS capital support mechanisms

- 5.36 As a mutual with one shared long term fund, no capital support mechanisms are in place for ELAS prior to the implementation of the Scheme.

Utmost Life and Pensions capital support mechanisms

- 5.37 Under the terms of the Reliance Mutual Scheme, the ULP NPF is required to provide capital support in the event that any WPSF is unable to meet its liabilities or the Solvency Capital Requirement. Support to cover a shortfall of assets to cover liabilities would be provided in the form of a contingent loan. Support to cover a shortfall relating to the Solvency Capital Requirement would be provided in the form of a notional allocation of capital in the ULP NPF.
- 5.38 If support is provided to a WPSF, the sub-fund receiving the support would pay a charge to the ULP NPF of:
- 0% if the support is not provided as a contingent loan and relates to capital requirements associated with operational risks and liabilities;
 - 4% annual equivalent rate ("AER") for support that is not provided as a contingent loan and is associated with other capital requirements; and
 - 4% AER + the prevailing yield on 10 year gilts for support provided as a contingent loan to reflect the fact that any interest on the loaned assets would accrue to the with-profits sub-fund that receives the loan.

- 5.39 The assets of each WPSF are ring-fenced and cannot be used to meet a shortfall outside of that WPSF unless in the event of legal insolvency.
- 5.40 I note that a £35m subordinated loan is currently in place between UUG Holdings (No 1) Limited (UK) (as lender) and Utmost Life and Pensions (as borrower) via a chain of loans with the holding companies that sit between the ultimate parent and insurance subsidiary. The loan is “subordinated” because in the event that Utmost Life and Pensions becomes insolvent or there is a breach of the Utmost Life and Pensions Capital Policy or capital requirements, both the capital and interest repayments would be deferred until the breach is resolved. The maturity date upon which Utmost Life and Pensions is due to repay the loan is 2028. Interest accrues on the loan at a rate of 7% per annum and is payable every six months. Given the subordinated nature of this loan, I do not believe that this has an impact on the policyholder benefit security of the Existing Utmost Life and Pensions Policyholders or the Transferring Policyholders, therefore I have not considered or referred to this further in my Report. For the avoidance of doubt there are no parental guarantees or support arrangements in place and my analysis has been based on the solo operation of Utmost Life and Pensions.
- 5.41 Capital support arrangements are owned by the Board with advice from the With-Profits Actuary (“WPA”) and review from the With-Profits Committee (“WPC”) and are reassessed quarterly.

Capital support mechanisms applicable to Transferring Policies

- 5.42 Following the implementation of the Scheme, the Transferring Policies will move to the Utmost Life and Pensions NPF, which has no agreed capital support arrangements. No capital support is currently available to these policyholders in ELAS, therefore, as I would not expect a non-profit fund to have access to a formal capital support mechanism, as, in practice, the Utmost Life and Pensions NPF will have access to all of the capital resources that are not ring-fenced. For this reason, I do not consider the lack of capital support to have a materially adverse effect on the Transferring Policyholders.

Capital support mechanisms applicable to Non-Transferring Policies

- 5.43 No capital support mechanisms apply to the Non-Transferring Policies post-Scheme including the German With-Profits Fund. No capital support is currently available to these policyholders in ELAS, therefore I do not consider the lack of capital support after the Implementation Date to have a materially adverse effect on the Non-Transferring Policyholders.

Capital support mechanisms applicable to Existing Utmost Life and Pensions Policies

- 5.44 There are no changes to the Utmost Life and Pensions capital support arrangements as a result of the Scheme, therefore no changes to the capital support mechanisms applicable to the Existing Utmost Life and Pensions Policies.

Estimated impact of the Scheme on solvency

- 5.45 The estimated impact of the Scheme on the Solvency II Capital Coverage Ratio is shown in Table 5.1 below, with a more detailed breakdown given in Appendix 6: Summary Solvency II Financial Information.
- 5.46 As stated in paragraph 5.16 above, I consider the use of solvency ratios, such as the Capital Coverage Ratio, “pre” and “post” Scheme to be a useful indicator of the immediate impact of the Scheme on the level of benefit security provided to policyholders. The figures in the below table provide solvency information in each of the following scenarios:

- ELAS: Pre-Scheme of Transfer and Scheme of Arrangement:

As per paragraph 1.13, my Report assumes that the Scheme of Arrangement will be effected immediately prior to the Scheme of Transfer, and that any alternative schemes are out of scope. However, I note that the Scheme of Arrangement has the effect of distributing all distributable assets in excess of liabilities to the ELAS with-profits policyholders and converting these to future policyholder liabilities in the process. A consequence of this is that ELAS does not have sufficient surplus assets to meet its SCR immediately prior to the Scheme. For this reason, and the fact that the Scheme and Scheme of Arrangement are inter-dependent, with either both implemented or neither implemented, I have shown the ELAS position before the Scheme of Arrangement takes effect when comparing pre- and post-Scheme solvency positions of the Companies. This is a stronger test than considering the notional position post-Scheme of Arrangement where ELAS has insufficient surplus assets to cover its SCR (or MCR) under Solvency II. Comparing the post-Scheme solvency position of Utmost Life and Pensions to this position would be artificial and potentially misleading to the readers of my Report, particularly when considering relative policyholder benefit security before and after the Scheme;

- Utmost Life and Pensions: Pre-Scheme of Transfer;

- ELAS: Post-Scheme of Transfer:

This scenario reflects the post-Scheme ELAS position i.e. the Non-Transferring Policies remaining in ELAS. I note that, for Non-Transferring Policies only, the Capital Coverage Ratio is based on the MCR, which is the biting constraint on capital for ELAS after the Implementation Date, as indicated in 2.24. The MCR has therefore only been included when considering the Non-Transferring Policyholders; and

- Utmost Life and Pensions: Post-Scheme of Transfer:

This scenario reflects the post-Scheme Utmost Life and Pensions position i.e. including the Transferring Policies from ELAS.

- 5.47 The figures in Table 5.1 reflect the overall position of ELAS and of Utmost Life and Pensions excluding the impact of the WPSFs in surplus. In practice, the funds within Utmost Life and Pensions are ring-fenced which means that capital can only move from one of these funds to another in extremis (i.e. in the event of insolvency).

Table 5.1 – Estimated Impact of the Scheme on Solvency II capital position as at 31 December 2018 for ELAS for Utmost Life and Pensions

<i>£m</i>	Pre-Scheme		Post-Scheme	
	Pre-SoA ⁷ ELAS	Utmost Life and Pensions	ELAS	Utmost Life and Pensions
Assets	6,004	1,627	73	7,641
Reinsurance	365	(15)	8	341
Total Assets	6,369	1,611	82	7,982
Total Liabilities	5,711	1,478	78	7,682
Own Funds⁸	658	134	4	300
Eligible Own Funds	658	115	4	285
Solvency Capital Requirement	413	65	2	190
Minimum Capital Requirement	125	21	3	63
Capital Coverage Ratio⁹	159%	178%	125%	150%

Source: Financial analysis provided by the Companies

5.48 The analysis of the impact of the Scheme on ELAS and Utmost Life and Pensions, as at 31 December 2018, set out in Table 5.1, shows a reduction in the Capital Coverage Ratios for each group of policyholders. I note that the Capital Coverage Ratio for ELAS pre-Scheme is driven by the MCR, rather than the SCR, which is the biting constraint for all other results presented above.

5.49 I note that, based on the financials presented in Table 5.1, a capital injection will be required to be in place immediately prior to the Scheme from Utmost Life and Pensions Holding Limited to Utmost Life and Pensions in order for Utmost Life and Pensions to maintain a Capital Coverage Ratio of at least 150% of SCR. This is a condition of the Scheme of Arrangement. It is expected that this capital injection will be in the region of £100m at the Implementation Date. The capital will be in the form of assets of a sufficient quality to meet Solvency II standards for assets required to cover the Solvency Capital Requirement. The highest quality of assets held by an insurance company to cover its SCR is described as Tier 1 capital, and the second highest level of capital is described as Tier 2 capital. When the capital injection is combined with the capital transferring into Utmost Life and Pensions under the terms of the Scheme, it is expected that the majority of Own Funds will be categorised as Tier 1 and a small percentage as Tier 2. The level of Tier 1 capital injected will be set so that it is unlikely that Tier 2 capital will be required to cover more than 50% of the SCR, a restriction imposed by Solvency II, over the next 5 years allowing for potential adverse lapse scenarios. The analysis to support the split of Tier 1 and Tier 2 capital had the Scheme been implemented at 31 December 2018 is not available at the time of writing my Report, but I will include this in my Supplementary Report.

5.50 In order to evidence that this capital is available, a Director's Certificate is to be posted on the ELAS website confirming that this capital is in place prior to implementation of both the

⁷ Scheme of Arrangement abbreviation

⁸ Note that Utmost Life and Pensions' Technical Provisions include restrictions on the Own Funds of WPSFs such that their surplus does not count towards the overall solvency of Utmost Life and Pensions.

⁹ This is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

Scheme of Arrangement and the Scheme. Given that Utmost Life and Pensions is unable to predict exactly the level of capital that will be required immediately prior to the Implementation Date, Utmost Life and Pensions has agreed a top-up mechanism with its parent company, whereby additional capital will be injected in to Utmost Life and Pensions if it is later discovered that the 150% of SCR Capital Coverage Ratio required on the Implementation Date is greater than was expected based on estimates. Any top-up required is not expected to be material.

- 5.51 Had the Scheme been approved and implemented on 31 December 2018, there would have been a reduction in the solvency position from 178% to 150% of SCR for Existing Utmost Life and Pensions Policyholders. The 150% of SCR coverage is achieved by way of the capital injection referred to in 5.49. I do not regard this to be a material reduction in the Capital Coverage Ratio, since this still meets the Utmost Life and Pensions Capital Policy.
- 5.52 For Transferring Policyholders, the Capital Coverage Ratio also decreases from 159% to 150% of SCR. As described in 5.49, this post-Scheme capital coverage position is achieved following a capital injection in the form of capital which is of a suitable quality to meet the Solvency II requirements for covering the Solvency Capital Requirement
- 5.53 The Technical Provisions for Utmost Life and Pensions post-Scheme are greater than the sum of the pre-Scheme ELAS position and the pre-Scheme Utmost Life and Pensions position. This is primarily due to the loss of the TMTP, which has been recalculated as a result of the Scheme.
- 5.54 The Scheme is not expected to have any impact on the financial position of the Utmost Life and Pensions WPSFs. This is in line with my expectations given my understanding of the Scheme.
- 5.55 For the Non-Transferring Policies, the Scheme requires a minimum of the higher of 125% of the MCR and 150% of the SCR to be retained in ELAS at the Implementation Date to bring ELAS in line with the proposed ELAS Capital Policy. Had the Scheme been implemented on 31 December 2018, the 125% of ELAS MCR (a fixed amount of €3.7m, equivalent to c.£3.3m, converted at the EIOPA specified exchange rate, which is greater than 150% of the SCR, £3.1m) condition would have been the biting scenario. All capital remaining in ELAS at the Implementation Date will be Tier 1 capital. I note that I have not yet concluded on the impact of this minimum level of capital on benefit security for the Non-Transferring Policyholders at the Implementation Date, and will include this in my Supplementary Report.
- 5.56 Although the above analysis has been performed on financials as at 31 December 2018, I have no reason to believe the impact of the Scheme on the Capital Coverage Ratios would be materially different at the planned Implementation Date (being 1 January 2020). I will continue to monitor the expected impact of the Scheme on the financial positions of the Companies in advance of the Sanction Hearing and will provide an update in my Supplementary Report.
- 5.57 As well as considering the pre- and post-Scheme balance sheets of the Companies, I have also considered stresses and scenarios associated with the Scheme of Arrangement and the Scheme which I consider could have an impact on the post-Scheme Utmost Life and Pensions balance sheet presented in Table 5.1. Of particular interest is the Utmost Life and Pensions balance sheet after the Scheme, both in terms of the overall solvency position of Utmost Life and Pensions, and the contagion risk associated with the Utmost Life and Pensions WPSFs. I am also interested in the ELAS balance sheet post-Scheme, in particular to justify the proposed target level of 125% of the MCR to ensure that the MCR is met on an ongoing basis going forward. I have discussed the sensitivities I would expect to see from Utmost Life and Pensions to gain comfort that the ELAS Capital Policy and Utmost Life and Pensions Capital Policy can continue to be met in the short term in scenarios which could arise in the period after implementation of the Scheme, and that policyholder benefit security is not materially adversely affected. This analysis is not available at the time of writing my Report, but I will

include my conclusions with respect to this additional information in my Supplementary Report.

5.58 I note that the ORSAs prepared by the Companies do contain a selection of balance sheet sensitivities that I have taken into account in my considerations of the financial impacts of the Scheme but I have not explicitly referred to these results in my Report. This is for the following reasons:

- The stresses in the ORSA are not directly comparable between ELAS and Utmost Life and Pensions, as they are of a different severity reflecting each company's risk appetite and the nature of the business. This could potentially be misinterpreted by a reader of my Report, and could be misleading for that reason;
- The ELAS ORSA scenarios relate only to the pre-Scheme of Arrangement ELAS business, which is very different in nature to the Transferring Policies. This introduces an additional layer of complexity and interpretation; and
- As noted in 5.23 and 5.27, both ELAS and Utmost Life and Pensions are managed primarily on a Pillar 1 basis, whereas the ORSA reflects the balance sheet on a Pillar 2 basis. Although the Pillar 2 results are of use for information purposes, they do not necessarily drive the management of the business, although I note that they would be considered when taking management actions to improve the solvency of Utmost Life and Pensions.

Protection in the event of insolvency

5.59 In my review of policyholders' benefit security I have also considered what might happen in the unlikely event of insolvency. This is influenced by the current Financial Services Compensation Scheme and the Insurers (Winding Up) Rules 2001 and the Insurers (Reorganisation and Winding-up) Regulations 2004.

5.60 In the event of insolvency of an insurance company, the current Financial Services Compensation Scheme (FSCS) covers 100% of claims relating to long-term insurance benefits, such as annuities in payment and protection policies. The Scheme does not impact the existing cover provided by FSCS for Transferring Policies, Non-Transferring Policies or Existing Utmost Life and Pensions Policies, or any future changes to this coverage as it concerns a UK to UK company transfer, therefore this safeguard remains in place.

5.61 In a winding up scenario, the claim in respect of each type of business would be set out in line with the Insurers (Winding Up) Rules 2001. These rules set out the policy value definitions to be used for different types of business, which are summarised below.

- for non-linked policies the value of the policy is the sum of the present value of guarantees including the accrued bonus; the present value of any bonus expectations; and the present value of any options, less the present value of future premiums;
- for with-profits policies, it is unclear whether bonus expectations would be considered to extend to likely distributions of the surplus assets of a particular fund. If so, any surplus assets within the fund are unlikely to be available to support payouts to policies in other funds; and
- for linked policies, the value of the policy is the sum of the unit value and any non-linked liabilities (for example, reserves in respect of expense or any additional risk cover that applies to the policy and the present value of any guarantees), less the present value of expected future unit fund deductions.

5.62 The changes to the ELAS Articles of Association, described in 3.3, will remove the membership rights of all policyholders who were previously members of ELAS, therefore the

policy value classification may change as a result meaning that all policyholders in ELAS are expected to rank equally in an insolvency event immediately prior to the Implementation Date. However, the Scheme, of itself, does not change any aspect of the policy value classification, therefore policyholder protection under this regulation would not change for the Transferring and Non-Transferring Policyholders of ELAS due to the Scheme. For completeness, I note that there are also no changes to the membership rights of the Existing Utmost Life and Pensions Policyholders, therefore no change to their relative ranking in the event of an insolvency.

- 5.63 In addition, should any policies be excluded from the Scheme (with the exception of the Non-Transferring Policies), these policyholders will be reinsured to Utmost Life and Pensions. I recognise that this means that these Excluded Policyholders will rank below other policyholders in Utmost Life and Pensions in the event of insolvency; however, as I expect any delay to be for a short period only, and that I consider the event of insolvency of Utmost Life and Pensions to be very low, I do not believe that this will have a materially adverse effect on those Excluded Policyholders in the period to the subsequent transfer date.
- 5.64 For this reason, I do not believe that the Scheme will materially adversely affect the benefit security or expectations of any group of policyholders in the event of insolvency of ELAS or Utmost Life and Pensions due to the continuity of the existing protections in place for each group of policyholders.

6 Implications for Transferring Policyholders

Introduction

- 6.1 In this section I consider the likely impact of the Scheme on the Transferring Policyholders, with particular reference to any changes in their benefit expectations and benefit security.
- 6.2 As discussed in Section 3, the intention of the Scheme is to transfer the entire business of ELAS to Utmost Life and Pensions, with the exception of policies sold under Irish or German law which will be excluded from the Scheme and remain in ELAS.
- 6.3 I consider the impact of the Scheme on unit-linked, other non-profit, and group scheme policyholders separately as part of my analysis of the potential effect in policyholder benefit expectations. This reflects the different extent to which management discretion can impact the benefits payable or charges taken.

Scope of Transferring Policies

- 6.4 In advance of the Scheme (and following a separate legal process), ELAS intends to convert the majority of its business currently classified as with-profits business to unit-linked business (the "Scheme of Arrangement"). Further details on the Scheme of Arrangement, including the approval process, can be found in Appendix 5: ELAS Scheme of Arrangement. This is scheduled to complete immediately before the Scheme takes effect and is out of scope of my Reports. This Report assumes that the Scheme of Arrangement has successfully been approved by the Courts, has been effected and implemented, and is concurrent with the Scheme.
- 6.5 The majority of the Transferring Policies will be unit-linked pension and protection policies following the Scheme of Arrangement, with the remainder constituting non-linked, non-profit, annuities in payment, group schemes, whole of life business and bonds.
- 6.6 All Transferring Policies and associated assets and liabilities will be allocated to the ULP NPF on the Implementation Date. Assets required to meet the liabilities of the Non-Transferring Irish and German policies, plus the capital requirements of ELAS, will be retained in ELAS.

Benefit Security for Transferring Policyholders

- 6.7 In considering the effect of the Scheme on the benefit security of the Transferring Policyholders, there are a number of aspects that I need to consider. First, I compare the pre- and post-Scheme solvency positions of the Companies applicable to Transferring Policyholders. Within my consideration of the post-Scheme position, I have assessed the solvency position of the fund under the scenarios where the Scheme is approved or not approved. It is also necessary to consider ongoing benefit security, in particular whether the Scheme has a material impact on the capital available to support the Transferring Policies and any "contagion" risk introduced from exposure to the existing business held within Utmost Life and Pensions.

Estimated Impact of the Scheme on the SII Solvency Position

- 6.8 The estimated impact of the Scheme on the solvency position for the Transferring Policyholders has been determined with reference to conditions at 31 December 2018, as shown in Table 6.1 below. I have no reason to believe the impact of the Scheme would be

materially different at the planned Implementation Date (being 1 January 2020), but will continue to review this position in advance of the Sanction Hearing where the Scheme will be put to the Court for approval. I will report upon any changes in my Supplementary Report.

Table 6.1 – Estimated Impact of the Scheme on Solvency II capital position of Transferring Policies as at 31 December 2018

<i>£m</i>	Pre-Transfer				Post-Transfer		
	Pre-SoA ¹⁰ ELAS	Utmost Life and Pensions			Utmost Life and Pensions		
		NPF	WPSFs	Total	NPF	WPSFs	Total
Assets	6,004	1,366	260	1,627	7,381	260	7,641
Reinsurance	365	(10)	(5)	(15)	346	(5)	341
Total Assets	6,369	1,356	255	1,611	7,727	255	7,982
Total Liabilities	5,711	1,240	237	1,478	7,444	237	7,682
Own Funds	658	116	18	134	283	18	300
Eligible Own Funds¹¹	658	113	2	115	283	2	285
Solvency Capital Requirement	413	63	2	65	188	2	190
Capital Coverage Ratio	159%	179%	100% ¹²	178%	150%	100%	150%

Source: Financial information provided by the Companies

- 6.9 In my analysis, I focus on comparing the pre-Scheme (pre-Scheme of Arrangement) financial position with the post-Scheme position, since both the Scheme and the Scheme of Arrangement are linked and dependent on one another.
- 6.10 Table 6.1 shows that, had the Scheme taken effect on 31 December 2018, Utmost Life and Pensions post-Scheme would have had a lower Capital Coverage Ratio than ELAS pre-Scheme (pre-Scheme of Arrangement), with coverage falling from 159% to 150% of SCR.
- 6.11 The analysis indicates that, had the Scheme been effective as at 31 December 2018, the Transferring Policies would have continued to be held in a company with capital that represents an excess over the Solvency II regulatory capital requirements that is in line with the capital targets under the Utmost Life and Pensions Capital Policy immediately following the implementation of the Scheme.
- 6.12 Although the Capital Coverage Ratio for Utmost Life and Pensions post-Scheme is lower than that for ELAS pre-Scheme of Transfer and pre-Scheme of Arrangement, I do not believe this materially adversely affects the benefit security of Transferring Policyholders given the strength of the Utmost Life and Pensions Capital Policy on a standalone basis. Once the respective capital policies have been met, the primary impact of the Scheme on benefit security for the Transferring Policyholders results from the relative strengths of the ELAS

¹⁰ Scheme of Arrangement abbreviation

¹¹ Eligible Own Funds are the amount of Own Funds after the ring-fencing restriction of the With-Profits Sub-funds and the restriction of Tier 2 capital available to cover the Solvency Capital Requirement.

¹² The Capital Coverage Ratio for the WPSFs both before and after implementation of the Scheme is 213% when ignoring the ring-fencing restriction and calculating the Capital Coverage Ratio for each WPSF on a standalone basis.

and Utmost Life and Pensions capital policies. I discuss this in paragraphs 6.14 to 6.20 below.

- 6.13 If the Scheme is not approved, and therefore the Scheme of Arrangement is also not implemented, the financial position of ELAS would be impacted by the costs incurred in preparing for the Scheme. ELAS is monitoring regularly the cost of rolling back from the Scheme and I have taken this into account when forming the conclusions in my Report. Under this scenario, ELAS would continue to hold sufficient capital to meet its capital policy, but this will be kept under review. I will provide an update on this in my Supplementary Report.

Changes to the applicable capital policy

- 6.14 While the analysis of the immediate impact on solvency ratios is helpful, some of the Transferring Policies could remain in force for 10 years or more, and so I have also considered future solvency. The ELAS Capital Policy and the Utmost Life and Pensions Capital Policy govern the management of capital and risks within the relevant company now and in the future, as described in Section 5. They set a minimum level of capital to be maintained (expressed as a Capital Coverage Ratio), including a minimum solvency requirement that is higher than that required under the UK regulations. For solvency management, it is effectively the “biting constraint” (which would limit dividend payments, for example) and I have placed considerable weight on it in reviewing policyholder security. As a consequence of the Scheme, the Utmost Life and Pensions Capital Policy will apply for all Transferring Policies and I consider the effect of this on the benefit security of these policyholders below.
- 6.15 As set out in Section 5, both the ELAS Capital Policy and the Utmost Life and Pensions Capital Policy target levels of capital to be held in excess of the regulatory Solvency II Solvency Capital Requirement. The Utmost Life and Pensions Capital Policy has a two-tiered approach:
- a minimum Capital Coverage Ratio of 135% of SCR, at which management would have to consider the actions to be taken to recover the level of solvency in a relatively short period of time; and
 - a target Capital Coverage Ratio of 150% of SCR post-dividend payment.
- 6.16 Given the difference in structure of the Companies, as set out in 5.19 and 5.20, I have considered the impact of the difference in the minimum and target Capital Coverage Ratios of the Companies on the Transferring Policyholders and considered the strength of the Utmost Life and Pensions Capital Policy. While the Utmost Life and Pensions target Capital Coverage Ratio is consistent with the ELAS Capital Policy of 150%, both on a Pillar 1 basis, I note that the point at which Utmost Life and Pensions would use management actions to restore the level of solvency is 135% of SCR, whereas ELAS is required to intervene if the Capital Coverage ratio falls below 150% of SCR. Given the Utmost Life and Pensions target Capital Coverage Ratio of 150% of SCR is the “biting constraint” on the payment of dividends and interest on (and repayment of) regulatory debt, and considering the points set out in 5.19, as well as the differing points of intervention in respect of the capital position, I do not believe that the change from the ELAS Capital Policy to the Utmost Life and Pensions Capital Policy will materially adversely affect the Transferring Policyholders.
- 6.17 Unlike ELAS, which is a mutual insurer, owned by its members, Utmost Life and Pensions is a proprietary company, owned by the shareholders of the Company. This allows Utmost Life and Pensions to raise debt or draw on sources of capital outside the company. In April 2018, Utmost Life and Pensions (formerly known as Reliance Life) received a subordinated loan from its parent company, Utmost Life and Pensions Holdings Limited (formerly known as LCCG), to maintain a Capital Coverage Ratio of over 150% of SCR following the acquisition of Reliance Mutual. The resultant debt is subordinated and both capital and interest repayments may not have to be paid in the event that Utmost Life and Pensions’ Capital Coverage Ratio is lower or, following such a payment, would become lower than 150% of

SCR. Further details are set out in Section 5. As a result, I do not believe that this subordinated debt would adversely impact Utmost Life and Pensions' ability to meet its Capital Coverage targets. Indeed, I consider that, although not guaranteed, access to such capital support, in line with the Utmost Life and Pensions Capital Policy, provides a further degree of security in the event of a future shortage of capital, in addition to that provided by the Capital Coverage targets of Utmost Life and Pensions itself.

6.18 While the relative strength of these capital policies is a key factor in the consideration of the impact of the Scheme on the Transferring Policies, I have also considered other qualitative elements of the capital policies and any impact of the Scheme on the ability of the Companies to meet their capital requirements on an ongoing basis. In the event that Utmost Life and Pensions was unable to meet its capital target under the Utmost Life and Pensions Capital Policy, it would be required to consider actions necessary to return to a position under which it could meet this target in a relatively short period of time. This includes limits on the ability for capital to be removed from Utmost Life and Pensions, such as through the payment of dividends to its parent. Such protections have allowed me to place heavy emphasis on the level of the relevant capital targets in each company.

6.19 As discussed in Section 5, any future changes to the Utmost Life and Pensions Capital Policy must be approved by the Utmost Life and Pensions Board. Pre-Scheme, ELAS follows a similar governance process, requiring capital policy updates to be approved by the ELAS Board. I consider Board approval to be an important safeguard to the ongoing level of capital resources in Utmost Life and Pensions which protects against changes to the capital policy in the future which are not justified and could lead to an adverse impact on policyholders. I am satisfied that the change in governance of the policy applying to the Transferring Policies will not have a material impact on the Transferring Policyholders for the following reasons:

- the members of both Boards include Senior Managers (i.e. individuals who have been approved by the FCA and/or PRA to perform such a role, and are certified under the Senior Managers and Certification Regime);
- both Companies are overseen by the FCA, and therefore bound by the same regulations and guidance with regards to conduct related matters, including Treating Customers Fairly, therefore the approval of any changes by the Boards of ELAS and Utmost Life and Pensions would be expected to pay due regard to the fair treatment of policyholders; and
- Utmost Life and Pensions has an established practice of setting and maintaining the Utmost Life and Pensions Capital Policy, and therefore has knowledge and understanding of the Board's role in managing such a policy.

6.20 Overall, I am satisfied that these changes do not represent a materially adverse effect on benefit security for the Transferring Policyholders.

Contagion risk

6.21 The following key considerations relate to the level of contagion risk that the Transferring Policyholders are exposed to. Taking account of these, I am satisfied that the Scheme is not likely to materially adversely impact the benefit security of these policyholders:

- following the Scheme of Arrangement, the Transferring Policies are no longer exposed to the risks associated with with-profits business, as all with-profits business in Utmost Life and Pensions is in a ring-fenced sub-fund. The fund to which the Transferring Policies are being transferred contains only non-profit and unit-linked business, which is similar in nature to the Transferring Policies, and I believe that this does, in fact, reduce the contagion risk that the Transferring Policies are exposed to.

- although the Scheme will lead to the Transferring Policyholders being exposed directly to the risks within Utmost Life and Pensions, which, as noted above, are similar in nature to their own risk profile, benefits would only be theoretically at risk of being reduced in the extreme event of the insolvency of Utmost Life and Pensions. Such an event is of very low likelihood as a result of the existence of the Utmost Life and Pensions Capital Policy and the ability to raise debt from external investors through its parent, Utmost Life and Pensions Holdings Limited. In such an insolvency event, Utmost Life and Pensions would be able to draw upon the surplus in the Utmost Life and Pensions WPSFs, as the current ring-fencing would break down under this scenario.
- in accordance with the Reliance Mutual Scheme, the ULP NPF is required to provide capital support in the event that any WPSF is unable to meet its own liabilities or its Solvency Capital Requirement. Support to cover a shortfall of assets compared to liabilities would be provided in the form of a contingent loan. Support to cover a shortfall compared to the capital requirements (including SCR) would be provided in the form of a notional allocation of capital in the ULP NPF. In the event that providing such capital support would result in the ULP NPF being unable to meet its own capital requirements, management would ensure that this did not remain the case for more than six months. This is in line with the Utmost Life and Pensions Capital Policy, detailed in Section 5.
- the Utmost Life and Pensions WPSFs are managed to distribute all surplus, defined as assets in excess of guaranteed liabilities, in each of the WPSFs. In the event that any WPSF falls below its target capital then there are management actions that could be taken to reduce the cost of the risks borne by the fund in question, with the aim of restoring the capital position. These actions would be taken before capital support is provided by the ULP NPF, thereby reducing the likelihood that a WPSF would require support from the ULP NPF.

6.22 I view the scenarios above, in particular those relating to the Utmost Life and Pensions WPSFs requiring support from the ULP NPF, as unlikely, as the Utmost Life and Pensions WPSFs are all well capitalised at 31 December 2018 (213% of SCR Capital Coverage Ratio across the four sub-funds, prior to application of the ring-fencing adjustment). For this reason, I do not believe that Transferring Policyholders will be materially adversely affected by contagion risk following the Implementation Date.

6.23 As noted in 5.57, I have requested sensitivity testing to support my conclusions in respect of the ongoing capital strength of Utmost Life and Pensions but this is not available at the time of writing of my Report. I will provide an update on the outcome of this testing in my Supplementary Report.

Conclusion on benefit security

6.24 For the reasons discussed above, I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Transferring Policyholders.

Benefit Expectations for Transferring Policyholders

General Considerations

6.25 As noted above, the Transferring Policies include unit-linked, other non-profit, and group scheme policies. The factors pertinent to the benefit expectations of policyholders in each category of business are substantially different, and I consider them separately below. This reflects the varying extents to which management discretion can play a part in determining the level of benefits payable.

6.26 Before considering those three categories of policies in turn, I have received confirmation that the Scheme will not change the:

- value of any policy;
- death, maturity or other contingent benefit payable under any policy;
- surrender value of any policy;
- premiums payable under any policy;
- current or expected level of charges under any policy;
- asset mix underlying any policy or the minimum range of investment choices available;
- range of options available under any policy and any guarantees included in the contract (including Guaranteed Annuity Rates and Guaranteed Minimum Pensions);
- charges made for tax under any policy, or their eligibility for any favourable tax treatment; and
- terms and conditions of any policy.

I note, for completeness, that a number of these policy features will be altered as a result of the Scheme of Arrangement that will be effected immediately before the Scheme. The fairness of these changes has been considered by the Policyholder Independent Expert and is therefore not in scope of my Report.

Unit-linked Policyholders

- 6.27 The benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The Scheme does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. These are the key determinants of benefit expectations for the unit-linked policies.
- 6.28 The Scheme, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund. As part of the Scheme of Arrangement, in addition to Aberdeen Standard Investments, a new Investment Manager, JP Morgan Asset Management, has been appointed to provide the unit-linked funds for the policyholders in scope of the Scheme of Arrangement. This has been considered by the Policyholder Independent Expert as part of his considerations of the Scheme of Arrangement. I have considered Investment Management in further detail in Section 9 of my Report.
- 6.29 Following the Implementation Date, JP Morgan Asset Management will also be responsible for investing new premiums in respect of Transferring Policies which were unit-linked prior to the Scheme of Arrangement, where these premiums exceed the outflows from the unit-linked funds (i.e. the unit-linked claims and charges). The funds these premiums will be invested in are similar to the existing funds available to these policyholders, and the unit-price will reflect the mix of funds, therefore the expectations of the unit-linked policyholders continue to be met. Where outflows exceed inflows in unit-linked investments, premiums will continue to be invested in the existing Aberdeen Standard Investments funds. These unit-linked policyholders will be notified of this change through their tailored covering letter.
- 6.30 The value of each policy's unit holdings will be unchanged by the Scheme, and the Scheme will not change the unit-pricing principles and basis for Transferring Policies.
- 6.31 I am satisfied that none of these changes represent a materially adverse impact on policyholder benefit expectations of Transferring Unit-Linked Policyholders.

Other Non-Profit Policyholders

- 6.32 Non-profit policies have guaranteed benefits and specified premiums, and these do not change under the Scheme. There will also be no changes to the terms and conditions of these policies.
- 6.33 Some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the Scheme.
- 6.34 For the reasons set out above, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Transferring Policyholders with non-profit policies.

Group Scheme Policyholders

- 6.35 The group schemes are unit-linked savings vehicles for group occupational pension schemes. The policyholders of these schemes are the Trustees and the schemes operate in a similar manner to unit-linked business. There will also be no change to the terms and conditions of these schemes.
- 6.36 For the reasons set out above, I am satisfied that the Scheme does not have any material effect on the benefit expectations of the Transferring Policyholders who are members of group scheme policies.

Conclusion on Benefit Expectations

- 6.37 Based on the factors discussed above, I am satisfied that the Scheme, of itself, does not materially adversely affect the benefit expectations of any group of the Transferring Policyholders.

Equitability of the Scheme

- 6.38 As I have concluded that the Scheme will not have a material effect on any group of the Transferring Policyholders, I am satisfied that the Scheme is equitable to all classes of policyholders.

Membership rights

- 6.39 The change in the Articles of Association, effected following a positive vote at the EGM, will remove the membership rights of all with-profits policyholders of ELAS prior to the Scheme of Arrangement and grant sole membership to Utmost Life and Pensions. Therefore, the Scheme, of itself, does not change the membership rights of any Transferring Policyholder. As the transfer of membership rights to Utmost Life and Pensions is a prerequisite for the Scheme of Arrangement, the fairness of this has been considered by the Policyholder Independent Expert as part of his report and is therefore out of scope of my Report.

7 Implications for Non-Transferring policyholders

Introduction

- 7.1 In this section I consider the likely impact of the Scheme on the Non-Transferring Policyholders, with particular reference to any changes in their benefit expectations and benefit security.
- 7.2 As discussed in Section 3, the intention of the Scheme is to transfer the entire business of ELAS to Utmost Life and Pensions, with the exception of policies sold under Irish or German law, which will be excluded from the Scheme and remain in ELAS. The Non-Transferring Policyholders will remain in ELAS until there is more certainty over the legal and regulatory landscape following Brexit, at which point it is likely that they will be transferred to another, European Union domiciled, legal entity in the Utmost Group of Companies. An actuary independent of Utmost Life and Pensions will be required to provide an opinion on the fairness of that transfer, and therefore I have not considered this further in my Report.
- 7.3 I consider the impact of the Scheme on unit-linked, other non-profit, and with-profits policyholders separately as part of my analysis of the potential effect on policyholder benefit expectations. This reflects the different extent to which management discretion can impact the benefits payable or charges taken.

Scope of Non-Transferring Policies

- 7.4 In advance of the Scheme (and following a separate legal process), ELAS intends to convert the majority of its business currently classified as with-profits business to unit-linked business through a Scheme of Arrangement, with the exception of the with-profits business sold under German law, the German With-Profits Policies. Further details on the Scheme of Arrangement, including the approval process, can be found in Appendix 5: ELAS Scheme of Arrangement. This is scheduled to complete immediately before the Scheme takes effect and is out of scope of my Reports. This Report assumes that the Scheme of Arrangement has successfully been approved by the Courts, has been effected and implemented, and is concurrent with the Scheme.
- 7.5 The majority of the Non-Transferring Policies will be unit-linked policies following the Scheme of Arrangement, with the remainder constituting non-linked, non-profit policies, and a small number of with-profits policies which were excluded from the Scheme of Arrangement. They are similar in nature to a number of the Transferring Policies (pre-Scheme of Arrangement) but were sold through (now closed) branches of ELAS in Ireland and Germany under Irish and German law.
- 7.6 A breakdown of the policy counts is included in Table 7.1, below.

Table 7.1: Non-Transferring business of ELAS as at 31 December 2018

Policy type	Number of policies
Non-Profit	863
Unit-Linked	2,571
With-Profits ¹³	480
Total	3,914

Source: Financial information provided by the Companies

- 7.7 All Non-Transferring Policies and associated assets and liabilities will remain in ELAS on the Implementation Date, with the German With-Profits Policies allocated to the newly created German With-Profits Fund, and all other policies remaining in the ELAS Main Fund.

Benefit Security for Non-Transferring Policyholders

- 7.8 In considering the effect of the Scheme on the benefit security of the Non-Transferring Policyholders, there are a number of aspects that I need to consider. First, I compare the pre- and post-Scheme solvency positions of ELAS applicable to Non-Transferring Policyholders. It is also necessary to consider ongoing benefit security, in particular whether the Scheme has a material impact on the capital available to support the Non-Transferring Policies in the future.

Estimated Impact of the Scheme on the Solvency II Solvency Position

- 7.9 The estimated impact of the Scheme on the solvency position for the Non-Transferring Policyholders has been determined with reference to conditions at 31 December 2018, as shown in Table 7.2 below. I have no reason to believe the impact of the Scheme would be materially different at the planned Implementation Date (being 1 January 2020), but will continue to review this position in advance of the Sanction Hearing where the Scheme will be put to the Court for approval. I will report upon any changes in my Supplementary Report.

¹³ 327 UK-style German With-Profits Policies and 153 German-style German With-Profits Policies at 31 December 2018

Table 7.2 – Estimated Impact of the Scheme on Solvency II capital position of Non-Transferring Policies as at 31 December 2018

<i>£m</i>	Pre-Scheme	Post-Scheme		
	Pre-SoA ¹⁴ ELAS	ELAS		
		Main Fund	German WPF	Total
Assets	6,004	60	13	73
Reinsurance	365	8	0	8
Total Assets	6,369	68	13	82
Total Liabilities	5,711	65	13	78
Own Funds	658	3	0	4
Eligible Own Funds	658	3	0	4
Solvency Capital Requirement	413	2	0	2
Minimum Capital Requirement	125	-	-	3
Capital Coverage Ratio¹⁵	159%	155%	-	125%

Source: Financial information provided by the Companies

- 7.10 In my analysis, I focus on comparing the pre-Scheme (pre-Scheme of Arrangement) financial position with the post-Scheme position, since both the Scheme and the Scheme of Arrangement are linked and dependent on one another.
- 7.11 For the Non-Transferring Policies, the Scheme requires a minimum of the higher of 125% of the MCR and 150% of the SCR to be retained in ELAS at the Implementation Date, in line with the proposed ELAS Capital Policy. Had the Scheme been implemented on 31 December 2018, the 125% of the ELAS MCR (a fixed amount of €3.7m, equivalent to c£3.3m, converted at the EIOPA specified exchange rate, which is greater than 150% of the SCR, £3.1m) would have been the biting scenario. As ELAS holds only the highest quality of capital ("Tier 1" capital) prior to the Scheme, all capital held in ELAS after the Implementation Date will be of the same quality capital. I would expect ELAS to have assets sufficient to meet the MCR on both the Implementation Date and in the period following the Implementation Date such that the proposed post-Scheme ELAS Capital Policy and regulatory requirements continue to be met. I will consider this in the context of the stress and scenario testing performed by Utmost Life and Pensions, as described in 5.57, and provide an opinion on the appropriateness of the proposed minimum level of capital to be retained in ELAS in my Supplementary Report.
- 7.12 The analysis indicates that, had the Scheme been effective as at 31 December 2018, the Non-Transferring Policies would have continued to be held in a company with capital that meets the Solvency II regulatory capital requirements (in this case, given the size of ELAS, the MCR), in line with the capital targets under the proposed post-Scheme ELAS Capital Policy immediately following the implementation of the Scheme. On an ongoing basis, ELAS will be managed in line with the revised ELAS Capital Policy, details of which are included in 7.13 to 7.19. I note that the capital requirement for the German With-Profits Fund is held

¹⁴ Scheme of Arrangement abbreviation

¹⁵ This is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

in the ELAS Main Fund, therefore no Capital Coverage Ratio is presented for this fund in Table 7.2.

Changes to the applicable capital policy

- 7.13 While the analysis of the immediate impact on solvency ratios is helpful, some of the Non-Transferring Policies could remain in force for 10 years or more, and so I have also considered future solvency. The ELAS Capital Policy currently governs the management of capital and risks within the relevant company now and in the future, as described in Section 5. This sets a minimum level of capital to be maintained (expressed as a Capital Coverage Ratio). I have placed considerable weight on this in reviewing policyholder security. As a consequence of the Scheme, the ELAS Capital Policy will be updated to bring this in line with the Utmost Life and Pensions Capital Policy targets and I consider the effect of this on the benefit security of these policyholders below. As noted in 5.34, the post-Scheme ELAS Capital Policy is expected to be taken through governance by the end of September 2019, therefore I will document any changes between the proposed Draft ELAS Capital Policy, on which the below analysis is based, and the final ELAS Capital Policy, in my Supplementary Report.
- 7.14 As set out in Section 5, both the ELAS Capital Policy and the Utmost Life and Pensions Capital Policy target levels of capital to be held in excess of the regulatory Solvency II Solvency Capital Requirement. The ELAS Capital Policy will be updated to the two-tier approach to capital targets adopted by the Utmost Life and Pensions Capital Policy, with the following targets:
- a minimum Capital Coverage Ratio of the higher of 125% of MCR and 135% of SCR, at which management actions may be taken to recover the level of the solvency; and
 - a target Capital Coverage Ratio of the higher of 125% of MCR and 150% of SCR immediately after a dividend payment.
- 7.15 I have considered the difference in the minimum and target Capital Coverage Ratios of ELAS before and after the Scheme on the Non-Transferring Policyholders and considered how the proposed ELAS Capital Policy compares relative to the existing ELAS Capital Policy. While the proposed ELAS target Capital Coverage Ratio is consistent with the existing ELAS Capital Policy, of 150% of SCR on a Pillar 1 basis, I note that the point at which the new ELAS Capital Policy would use management actions to restore the level of solvency is 135% of SCR, whereas ELAS is currently required to intervene if the Capital Coverage Ratio falls below 150%. Given the proposed ELAS Capital Coverage Ratio of 150% of SCR is the "biting constraint" on the payment of member payments and interest on (and repayment of) regulatory debt, and considering the points set out in 5.19, had the SCR been higher than the MCR after the Implementation Date, I would have concluded that the changes to the ELAS Capital Policy would not have been likely to materially adversely affect the Non-Transferring Policyholders. However, given the size of ELAS after the Implementation Date, the MCR condition is the minimum level of capital which must be held in ELAS.
- 7.16 It is worth noting that, at all times, and under both the existing and proposed ELAS Capital Policy, ELAS must hold sufficient capital to meet the minimum MCR, both pre- and post-Scheme. The MCR which applies to ELAS is the MCR absolute floor, a fixed amount (€3.7m) which currently exceeds 150% of ELAS' post-Scheme SCR. The 125% of MCR condition is therefore the minimum level of capital that must be held in ELAS under the proposed ELAS Capital Policy and the point below which actions would have to be taken to restore ELAS' solvency position. The 125% of MCR is expected to continue to exceed 150% of the SCR going forward, as the SCR will run-off as the ELAS business runs off over time, therefore this is likely to remain the biting constraint going forward. Given this is the minimum level of regulatory capital, I would expect ELAS to hold at least assets sufficient to cover this value; however, I have not yet concluded on the proposed minimum level of capital to be retained in ELAS on the Implementation Date and will provide my conclusions in my Supplementary

Report. For this reason, and those set out in 7.15, I do not believe the changes proposed to the ELAS Capital Policy in respect of the Non-Transferring Policies will materially adversely affect the benefit security of these policyholders immediately after the Scheme is implemented, acknowledging that I expect sufficient assets over the MCR to remain in ELAS in order that the ELAS Capital Policy and the minimum regulatory requirements continue to be met on an ongoing basis following the Implementation Date.

- 7.17 While the relative level of capital targets in these capital policies is a key factor in the consideration of the impact of the Scheme on the Non-Transferring Policies, I have also considered other qualitative elements of the capital policies and any impact of the Scheme on the ability of ELAS to meet its capital requirements on an ongoing basis. In the event that ELAS was unable to meet its capital target under the proposed ELAS Capital Policy, it would be required to undertake actions to return to a position under which it could meet this target. This includes limits on the ability for capital to be removed from ELAS, such as through member payments to its parent. Such protections have allowed me to place heavy emphasis on the level of the relevant capital targets before and after the Scheme.
- 7.18 As discussed in Section 5, any future changes to the ELAS Capital Policy must be approved by the ELAS Board. Pre-Scheme, ELAS follows a similar governance process, requiring capital policy updates to be approved by the current ELAS Board.
- 7.19 As ELAS (pre-Scheme) is a mutual life assurance company and post-Scheme it is a subsidiary of a proprietary company, I would not expect this to have a materially adverse effect on the Non-Transferring Policyholders since ELAS will be expected to comply with FCA requirements around unit-linked and with-profits business that seek to ensure the fair treatment of policyholders and this will not change as a result of the Scheme.
- 7.20 Overall, I am satisfied that these changes do not represent a materially adverse effect on benefit security for the Non-Transferring Policyholders.

Conclusion on benefit security

- 7.21 For the reasons discussed above, I am satisfied that the Scheme will not have a materially adverse effect on the benefit security of the Non-Transferring Policyholders, with the exception of the level of capital in ELAS on and after the Implementation Date, which I have yet to provide my conclusions on. My conclusions in respect of the level of capital to remain in ELAS under the proposed ELAS Capital Policy will be included in my Supplementary Report.

Benefit Expectations for Non-Transferring Policyholders

General Considerations

- 7.22 As noted above, the Non-Transferring Policies include unit-linked, other non-profit, and with-profits policies. The factors pertinent to the benefit expectations of policyholders in each category of business are substantially different, and I consider them separately below. This reflects the varying extents to which management discretion can play a part in determining the level of benefits payable.
- 7.23 Before considering those three categories of policies in turn, I have received confirmation that the Scheme will not change the:
- value of any policy, with the exception of the UK-style German With-Profits Policies allocated to the German With-Profits Fund, which will be allocated their primary uplift amount to their policy value through the Scheme, rather than the Scheme of Arrangement, further details of which are included in 7.36;
 - death, maturity or other contingent benefit payable under any policy;

- surrender value of any policy;
- premiums payable under any policy;
- current or expected level of charges under any policy, with the exception of those applying to the UK-style German With-Profits Policies in the new German With-Profits Fund, which will change as a result of the Scheme, further details of which are included in 7.41;
- asset mix underlying any policy or the minimum range of investment choices available, with the exception of assets backing the UK-style German With-Profits Policies in the new German With-Profits Fund, which are expected to change on the Implementation Date, further details of which are included in 7.42;
- range of options available under any policy and any guarantees included in the contract (including Guaranteed Annuity Rates and Guaranteed Minimum Pensions);
- charges made for tax under any policy, or their eligibility for any favourable tax treatment; and
- terms and conditions of any policy.

The proposed creation of the new German With-Profits Fund will act as a safeguard to the German With-Profits Policyholders, protecting the terms and conditions of their policies, and limiting their exposure to the risks associated with the policies allocated to the ELAS Main Fund, and is therefore essential to the effective (and fair) implementation of the Scheme.

I note, for completeness, that a number of these policy features will be altered as a result of the Scheme of Arrangement that will be effected immediately before the Scheme. The fairness of these changes has been considered by the Policyholder Independent Expert and is therefore not in scope of my Report.

Unit-linked Policyholders

- 7.24 The benefits payable under unit-linked policies are dependent on the value of the underlying unit-linked funds and the charges taken from the funds. The Scheme does not change the assets underlying any of the unit-linked funds or the investment strategy for these funds. Nor will it change the level of investment management charges or other discretionary charges that are taken from the policies. These are the key determinants of benefit expectations for the unit-linked policies.
- 7.25 The Scheme, of itself, will not change the investment mandates, charges or taxation of any unit-linked fund. As part of the Scheme of Arrangement, a new Investment Manager, JP Morgan Asset Management, has been appointed to provide the unit-linked funds for the policyholders in scope of the Scheme of Arrangement, in addition to the existing ELAS Investment Manager, Aberdeen Standard Investments. This has been considered by the Policyholder Independent Expert as part of his considerations of the Scheme of Arrangement. I have considered investment management in further detail in Section 9 of my Report.
- 7.26 Following the Implementation Date, JP Morgan Asset Management will also be responsible for investing new assets in respect of Non-Transferring Policies which were unit-linked prior to the Scheme of Arrangement, where cash inflows (i.e. premiums) exceed the outflows from the unit-linked funds (i.e. the unit-linked claims and charges). The funds these premiums will be invested in are similar to funds of the existing funds available to these policyholders, and the unit-price will reflect the mix of funds, therefore the expectations of the unit-linked policyholders continue to be met. Where outflows exceed inflows in unit-linked investments, premiums will continue to be invested in the existing Aberdeen Standard Investments funds. These unit-linked policyholders will be notified of this change through

their tailored covering letter. As discussed in further detail in 9.33, I do not believe that using two Investment Managers for the management of the assets associated with the Non-Transferring Policies will have an adverse impact on the Non-Transferring Policyholders.

7.27 The value of each policy's unit holdings will be unchanged by the Scheme, and the Scheme will not change the unit-pricing principles and basis for Non-Transferring Policies.

7.28 I am satisfied that none of these changes represent a materially adverse impact on policyholder benefit expectations of Non-Transferring Unit-Linked Policyholders.

Other Non-Profit Policyholders

7.29 Non-profit policies have guaranteed benefits and specified premiums, and these do not change under the Scheme. There will also be no changes to the terms and conditions of these policies.

7.30 Some non-profit policy terms have reviewable premiums, triggered by certain conditions. These conditions and the decision-making process for these reviews will not be changed by the Scheme.

7.31 For the reasons set out above, I am satisfied that the Scheme does not have any effect on the benefit expectations of the Non-Transferring Policyholders with non-profit policies.

With-Profits Policyholders

7.32 There are a small number of German With-Profits Policies not transferring under the Scheme, as ELAS' legal advice indicated that the conversion to unit-linked policies under the Scheme of Arrangement may not be recognised by the German courts.

7.33 These German With-Profits Policies are split into two distinct groups:

- UK-style German With-Profits Policies – which have benefits and features similar in nature to a UK issued with-profits policy; and
- German-style German With-Profits Policies - which are similar to non-profit policies, but whose benefits are linked to the performance of a specific pool of assets.

7.34 There will be no changes to any aspect of the German-style German With-Profits Policies as a result of the Scheme.

7.35 Many of the key considerations relevant to the UK-style German With-Profits Policies will not change as a result of the Scheme, including the terms and conditions, the basis on which asset shares are determined and the level of guaranteed benefits. This is in line with my expectations given my understanding of the Scheme and I do not consider this to have an adverse impact on these policyholders. ELAS has sought legal advice in both Germany and the UK to confirm that the proposed treatment of the UK-style German With-Profits Policies does not give rise to the creation of a new contract from a legal perspective. This avoids the tax implications of establishing such a new contract.

7.36 The pre-Scheme asset shares attached to each UK-style German With-Profits Policy will be allocated their primary uplift amount through the Scheme. This is effected through the Scheme, rather than the Scheme of Arrangement, since the German With-Profits Policyholders do not participate in the Scheme of Arrangement. The value of the uplift to be applied, and the fairness of this uplift, including its impact on overall level of expected payout and policyholder benefit expectations, has been considered by the Policyholder Independent Expert, as part of his considerations with regards to the fairness of the Scheme of Arrangement. Following the Implementation Date, the pre-Scheme asset share plus the primary uplift amount is referred to as the UK-style German With-Profits Policy Asset Share.

This is reflected in the financials included in Table 7.2. I note that any new distribution of surplus (in the form of bonuses) will be minimal and will not be guaranteed, reducing the likelihood of any charge for guarantees borne on the ELAS Main Fund. This is a natural consequence of the new German With-Profits Fund in ELAS being much smaller than ELAS pre-Scheme and the fact that all distributable assets in ELAS are to be distributed in full to the with-profits policyholders in ELAS through the Scheme of Arrangement. In addition, less surplus is expected to emerge due to the size of the fund and the close matching of assets and liabilities. I still consider these policies to be with-profits as they will continue to participate in the distribution of distributable assets of the German With-Profits Fund and, importantly, the terms and conditions of the policies are unchanged, with ELAS having sought a legal opinion on this.

- 7.37 At the same time, all German With-Profits Policies will be allocated to a new with-profits sub-fund within ELAS, the German With-Profits Fund, which is established through the Scheme. As described and concluded on in 7.39, this is designed to safeguard the benefits of these policyholders.
- 7.38 There will be limited smoothing of the UK-style German With-Profits Policy benefits post-Scheme, with smoothing only being applied in extreme scenarios where paying unsmoothed asset shares would either be considered unfair to the policyholder making the claim or to the policyholders remaining in the fund. Benefits will target 100% of UK-style German With-Profits Policy Asset Share on exit which will create more volatility in payouts for the UK-style German With-Profits Policyholders and reduces the risk of the Tontine effect. I consider this to be fair to this group of policyholders, as this lack of future smoothing has enabled ELAS to maximise the primary uplift values, and the UK-style German With-Profits Policyholders have benefited from this through their uplift. Given this, I am satisfied that a lower level of smoothing will not materially adversely impact the benefit expectations of the Non-Transferring With-Profits Policyholders. There are no changes proposed to the smoothing applied to the German-style German With-Profits Policies due to the nature of their benefits.
- 7.39 Following the Scheme, the UK-style German With-Profits Policyholders will participate only in the distribution of distributable assets from the German With-Profits Fund, rather than the whole of ELAS, in line with the new ELAS PPFM. The Scheme will not result in any changes to how the distributable assets will be shared, although the new German With-Profits Fund will be managed to minimise any surplus arising. The extent to which UK-style German With-Profits Policyholders have a contingent interest in the profits and losses of the Transferring Policies of ELAS will be removed by the Scheme of Arrangement. The German-style German With-Profits Policyholders do not currently participate in distributions of the distributable assets of ELAS as their benefits are linked to the performance of a specific pool of assets and there is no change proposed to this as a result of the Scheme. I do not consider the Non-Transferring German With-Profits Policyholders to be materially adversely affected by such a change, given:
- the proposed restructure is intended to safeguard the German With-Profits Policyholder benefits, as well as maintain their terms and conditions, limiting their exposure to the risks associated with the policies allocated to the ELAS Main Fund;
 - although policyholders may not have expected to end up in such a significantly smaller fund, they will have greater clarification of their benefits, following allocation of the uplift, and will continue to have appropriate governance arrangements in place offering protection to their policy benefits, described in further detail in 7.43. The new ELAS PPFM, a publicly available document, details of which were included in Section 3 and on which my considerations and conclusions in this Section of my Report are based, will provide principles and practices for the management of the new German With-Profits Fund. In addition, ELAS will now have the added security of a proprietary parent company from which capital support may be sought in extreme scenarios;

- the Scheme of Arrangement will effectively accelerate the distribution of all distributable assets to the UK-style German With-Profits Policyholders by giving those policyholders an uplift to their policy value, which will be allocated on the Implementation Date. The adequacy and fairness of the uplift has been opined on by the Policyholder Independent Expert and is not in the scope of my Report. No such uplift will be applied to the German-style German With-Profits Policies in line with their terms and conditions and past practice;
- the 0% investment guarantees attached to some of the UK-style German With-Profits Policies will be met by the ELAS Main Fund, by way of an inter-fund reinsurance arrangement between the German With-Profits Fund and the ELAS Main Fund, as set out in Schedule 3 to the Scheme. If economic conditions are such that these guarantees become more expensive to provide for, a charge may be applied to the UK-style German With-Profits Policies to cover the cost of paying these benefits. In line with Schedule 2 (Part B) to the Scheme, any guarantee charge will be capped at 0.5% per annum, and will be agreed on by the ELAS Chief Actuary and With-Profits Actuary. I have discussed this with the Companies and, given that I consider this to be a remote risk, due to the small expected cost of providing for these guarantees given the financial position of these policies after allocation of the uplift, I am satisfied that this does not materially adversely affect the benefit expectations of these policyholders. I consider the inter-fund reinsurance to offer an additional layer of protection to the German With-Profits Policyholders in the unlikely scenario where the costs of these guarantees were to increase significantly in the future due to the improvement in benefit security that this arrangement provides. No such charge will be applied in respect of any Guaranteed Annuity Rates attached to UK-style German With-Profits Policies, which will be reinsured to the ELAS Main Fund through the same inter-fund reinsurance arrangement. The investment guarantees on the German-style German With-Profits Policies will continue to be met primarily through continuation of the existing asset and liability cash flow matching investment strategy, in line with current practice, with any mis-match being covered by the inter-fund reinsurance described above. No charges will be applied in respect of the investment guarantees on the German-style German With-Profits Policies, in line with current practice; and
- assets will remain in ELAS at the Implementation Date such that the solvency position of ELAS is at least the higher of 125% of the MCR and 150% of the SCR at the Implementation Date. The exact amount of capital to remain in ELAS at the Implementation Date is expected to be equal to 125% of the MCR. I will provide an update on my conclusions in respect of this in my Supplementary Report.

7.40 As a fund in run-off, ELAS is exposed to expense risk, particularly as a result of loss of economies of scale, as there are fewer policies each year over which to split the fixed overhead costs associated with running an insurance company. The sale of the majority of the ELAS business to Utmost Life and Pensions exacerbates this issue, with significantly fewer policies over which to cover costs. ELAS will continue to administer the Non-Transferring Policies using ELAS' existing licensing and authorisations and staff seconded from Utmost Life and Pensions Services Limited on a pro-rata basis. This is expected to reduce the overhead costs associated with running a small fund and therefore the risk of expenses increasing to unaffordable levels, which could have a detrimental effect on policyholder benefit expectations.

7.41 The Scheme specifies a fixed charge of 0.75% per annum which will be applicable to UK-style German With-Profits Policies to cover administration costs. Prior to the Scheme, a charge of 1% per annum was taken to cover these expenses. Utmost Life and Pensions reserves the right to increase the charge in future, up to a maximum of 1% per annum, but only if certain conditions are met, as set out in Schedule 2 to the Scheme. I believe that this protects policyholders from the rising costs associated in managing a small business in run-off, which could be a significant risk for such a small fund. I am satisfied that this does

not materially adversely impact the Transferring With-Profits Policyholders. The charge structure for the German-style German With-Profits Policies will remain unchanged.

- 7.42 The investment strategy is being changed for the UK-style German With-Profits Policies to hold assets denominated in Euros, with assets expected to be invested in a Euro denominated managed fund. At the time of writing, ELAS is expecting to invest the assets in the German With-Profits Fund in the Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies with a currency hedge implemented to reduce the currency risk exposure. I will provide an update on my considerations and conclusions on the final agreed investment strategy in my Supplementary Report. I note that, prior to the Scheme, surplus assets are pooled across the ELAS business, and therefore invested in Sterling denominated assets. The proposed investment strategy will also reflect the guarantees on the business and the small size of the fund, which I view as a reasonable, and necessary, approach to manage the fund in a sustainable way going forward.
- 7.43 The key elements relating to the ongoing management of the new German With-Profits Fund in ELAS will be set out in the new PPFM for this fund. The German With-Profits Fund is required to have its own With-Profits Actuary and its own with-profits governance arrangements. The scope of the role of the Utmost Life and Pensions With-Profits Actuary, and the terms of reference of Utmost Life and Pensions' existing With-Profits Committee are expected to be extended to cover ELAS to meet these requirements. I view this as a potential benefit to the German With-Profits Policyholders, as I view the move from ELAS' current With-Profits Committee (formed entirely of members of the Board) to Utmost Life and Pensions' With-Profits Committee (which includes independent members), to be a strengthening in the governance of the with-profits business. In addition, the existing Utmost Life and Pensions governance policies are expected to be extended to cover ELAS (and the German With-Profits Fund), providing continuity of governance for the Transferring Policies.
- 7.44 In addition to my own considerations and conclusions, I have taken comfort from the fact that the current With-Profits Actuary of ELAS, who is familiar with the business and the past practices regarding the treatment of the German With-Profits Policyholders, has concluded that the benefit expectations of the German With-Profits Policyholders are not materially adversely affected, though I have not placed reliance on her conclusions and have formed my own view on the impact of the Scheme on the with-profits policyholders. Her findings and conclusions are included in the ELAS With-Profits Actuary Report, a copy of which will be available on the ELAS website alongside my Report.
- 7.45 For the reasons set out above, I am satisfied that the Scheme does not have any materially adverse effect on the benefit expectations of the Non-Transferring Policyholders who hold with-profits policies, with the exception of the changes in respect of the proposed investment management strategy for the UK-style German With-Profits Policyholders which I have not yet concluded on. I will provide my conclusions in respect of the investment management of the UK-style German With-Profits Policies in my Supplementary Report.

Conclusion on Benefit Expectations

- 7.46 Based on the factors discussed above, and noting my outstanding conclusions in respect of the impact of the proposed investment strategy on the UK-style German With-Profits Policyholders, I am satisfied that the Scheme, of itself, does not materially adversely affect the benefit expectations of the Non-Transferring Policyholders. I will include my conclusions in respect of the impact of investment management on the UK-style German With-Profits Policyholders in my Supplementary Report.

Equitability of the Scheme

- 7.47 As I have concluded that the Scheme will not have a material effect on any of the Non-Transferring Policyholders, I am satisfied that the Scheme is equitable to all classes of policyholders.

Membership rights

- 7.48 The change in the Articles of Association, effected following a positive vote at the EGM, will remove the membership rights of all with-profits policyholders of ELAS prior to the Scheme of Arrangement and grant sole membership to Utmost Life and Pensions. Therefore, the Scheme, of itself, does not change the membership rights of any Non-Transferring Policyholder. As the transfer of membership rights to Utmost Life and Pensions is a prerequisite for the Scheme of Arrangement, the fairness of this has been considered by the Policyholder Independent Expert as part of his report and is therefore out of scope of my Report.

8 Implications for Existing Utmost Life and Pensions Policyholders

Introduction

- 8.1 In this Section I consider the likely effect of the Scheme on Existing Utmost Life and Pensions policyholders, with particular reference to any changes in their benefit expectations and benefit security.
- 8.2 As described in Section 3, the effect of the Scheme will be to transfer the entire business of ELAS to Utmost Life and Pensions with the exception of policies sold under Irish or German law, which will remain in ELAS, without materially affecting the policy benefits or changing how the Existing Utmost Life and Pensions Policies are managed.
- 8.3 I consider in turn the likely effect of the Scheme on the following different groups of policyholders:
- the Existing Utmost Life and Pensions With-Profits Policyholders, whose policies are held in the Utmost Life and Pensions with-profits sub-funds ("WPSF") 1, 2, 4 and 6; and
 - the Existing Utmost Life and Pensions Policyholders Non-Profit and Unit-Linked policyholders, whose policies are held within the Utmost Life and Pensions WPSF 1, 2, 4 and 6 or the ULP NPF. Most of the technical provisions are attributable to non-profit annuities in payment and unit-linked policies. However, I note that there is also a large number of very small "Industrial Branch" policies within this fund. Altogether, such policies make up <1% of the ULP NPF's technical provisions.

Benefit Security for Existing Utmost Life and Pensions Policyholders

- 8.4 Consistent with my approach to assessing the effect of the Scheme on Transferring and Non-Transferring Policyholders of ELAS in Sections 6 and 7, respectively, in considering the effect of the Scheme on the benefit security of the Existing Utmost Life and Pensions Policyholders, there are a number of aspects that I need to consider. First, I compare the pre- and post-Scheme solvency positions of Utmost Life and Pensions. Within my consideration of the post-Scheme position, I have assessed the solvency position of Utmost Life and Pensions under the scenarios where the Scheme is approved or not approved. It is also necessary to consider ongoing benefit security, in particular whether the Scheme has a material impact on the capital available to support the Existing Utmost Life and Pensions Policies and any "contagion" risk introduced from exposure to the transferred business from ELAS.

Estimated Impact of the Scheme on the Solvency II Solvency Position

- 8.5 The estimated impact of the Scheme on the solvency position for the Existing Utmost Life and Pensions Policyholders has been determined with reference to conditions as at 31 December 2018, as shown in Table 8.1 below. I do not expect the impact of the Scheme to be materially different at the planned Implementation Date (being 1 January 2020), but will continue to monitor this position in advance of the Sanction Hearing where the Scheme will be put to the Court for approval. I will report upon any changes in my Supplementary Report.

Table 8.1 – Estimated Impact of the Scheme on the Utmost Life and Pensions Solvency II capital position as at 31 December 2018

<i>£m</i>	Pre-Scheme			Post-Scheme		
	NPF	WPFs	Total	NPF	WPFs	Total
Assets	1,356	255	1,611	7,727	255	7,982
Technical Provisions	1,240	237	1,478	7,444	237	7,682
Own Funds	116	18	136	283	18	300
Eligible Own Funds¹⁶	113	2	115	283	2	284
Solvency Capital Requirement	63	2	65	188	2	190
Capital Coverage Ratio	179%	100% ¹⁷	178%	150%	100%	150%

Source: Financial information provided by Utmost Life and Pensions

- 8.6 Table 8.1 shows that, had the Scheme taken effect on 31 December 2018, Utmost Life and Pensions post-Scheme would have had a lower Capital Coverage Ratio than pre-Scheme, with coverage falling from 178% to 150% of SCR. The post-Scheme Capital Coverage Ratio is achieved after allowing for a capital injection from Utmost Life and Pensions Holdings Limited, the parent company to Utmost Life and Pensions, as described in 5.49.
- 8.7 On this date, Utmost Life and Pensions would have continued to hold capital that represents a significant excess over the Solvency II regulatory capital requirements and would have been able to meet its capital targets under the Utmost Life and Pensions Capital Policy immediately following the implementation of the Scheme.
- 8.8 Although the Capital Coverage Ratio for Utmost Life and Pensions post-Scheme is lower than that pre-Scheme, I do not believe that this materially adversely affects the benefit security of Transferring Policyholders. As noted in paragraph 5.21, I place limited weight on capital held above the level required by the Utmost Life and Pensions Capital Policy, as such capital can be relatively easily removed by Utmost Life and Pensions in the form of dividends and, as a result, would not provide any ongoing policyholder benefit security. As a result, once the target Capital Coverage Ratio has been met, the primary impact of the Scheme on benefit security for the Existing Utmost Life and Pensions Policyholders results from any changes to the Utmost Life and Pensions Capital Policy which is discussed in paragraphs 8.9 to 8.10 below.

Capital Policy changes

- 8.9 Following the Scheme, the Existing Utmost Life and Pensions Policies will continue to be supported by the capital targeted under the Utmost Life and Pensions Capital Policy, as set out in Section 5, which will not be changed by the Scheme. Specifically, neither the minimum and target Capital Coverage Ratios nor the governance related to these targets will change as a result of the Scheme. Existing Utmost Life and Pensions Policyholders will continue to have a level of ongoing security, both immediately after implementation of the Scheme and in the future, targeted significantly above that of the regulatory requirement, the SCR. Had the risk profile of the Utmost Life and Pensions business changed significantly as a result of

¹⁶ Eligible Own Funds are the amount of Own Funds after the ring-fencing restriction of the With-Profits Sub-funds and the restriction of Tier 2 capital available to cover the Solvency Capital Requirement.

¹⁷ The Capital Coverage Ratio for the WPSFs both before and after implementation of the Scheme is 213% when ignoring the ring-fencing restriction and calculating the Capital Coverage Ratio for each WPSF on a standalone basis.

the Scheme, it could have been argued that the level of Capital Coverage Ratio targeted could have been increased or, indeed, reduced, to reflect any change in the risk appetite of the Utmost Life and Pensions Board; however, I do not believe that the actual change in risk profile expected as a result of the Scheme is significant enough to warrant a change in the buffer over the regulatory capital requirement. For this reason, I do not consider that maintaining the existing capital targets will materially adversely affect the benefit security of the Existing Utmost Life and Pensions Policyholders.

- 8.10 The Scheme does not change the existing capital support mechanisms in place for the Utmost Life and Pensions WPSFs. Immediately following the Scheme, there will be no change to the availability of capital to support these funds and there will be no changes to the conditions under which this capital is available. I would not expect this capital support to change given that there is no change in the Utmost Life and Pensions WPSFs as a result of the Scheme (as is reflected in the Capital Coverage Ratio for the Utmost Life and Pensions WPSFs, which remains unchanged after the Scheme), therefore there is no change in their likelihood to require access to this capital support in the future.

Contagion risk

- 8.11 In the event that the Scheme is approved, the Existing Utmost Life and Pensions Policyholders will be fully exposed to the risks associated with the Transferring Policies. The Scheme of Arrangement, which will be implemented immediately prior to the Scheme, reduces some of the more material risks associated with the Transferring Policies, such as investment risk, which is passed to the Transferring Policyholders following conversion of their policies from with-profits to unit-linked, reducing the Existing Utmost Life and Pensions Policyholders' potential exposure to these risks. The remaining risks associated with the Transferring Policies will alter the extent to which policyholders in Utmost Life and Pensions are exposed to "contagion" risk, whereby losses in another part of Utmost Life and Pensions impact their benefit security.
- 8.12 Such an impact would only occur in the event that Utmost Life and Pensions was unable to meet its regulatory capital requirements. The purpose of the Utmost Life and Pensions Capital Policy is to maintain a level of capital in excess of the capital requirements in order to minimise this risk. The level of capital specified by the Utmost Life and Pensions Capital Policy includes a target based on a percentage of the Solvency II Solvency Capital Requirement, which, in turn, is based on the risks to which Utmost Life and Pensions is exposed. Changes in the risk profile resulting from the Scheme are reflected in the underlying Solvency II Solvency Capital Requirement and the Utmost Life and Pensions Capital Policy target. The extent of change in contagion risk is limited, provided Utmost Life and Pensions can meet the target under its capital policy. As discussed above, Utmost Life and Pensions is expected to be able to meet its capital target whether the Scheme is approved or not. Analysis provided by Utmost Life and Pensions indicates that the risk profile of Utmost Life and Pensions is not significantly changed by the approval of the Scheme.
- 8.13 For these reasons, I expect the risk of an adverse impact on the benefit security of Existing Utmost Life and Pensions Policyholders due to contagion risk to be of low likelihood.

Conclusion on benefit security

- 8.14 Given the reasons stated above, I am satisfied that the Scheme will not materially adversely affect the benefit security of the Existing Utmost Life and Pensions Policyholders.

Benefit Expectations for Existing Utmost Life and Pensions Policyholders

General Considerations

- 8.15 The Existing Utmost Life and Pensions Policies include with-profits, unit-linked and other non-profit. The factors pertinent to the benefit expectations of policyholders in each

category of business are substantially different, and I consider them separately below. This reflects the varying extents to which management discretion can play a part in determining the level of benefits payable.

8.16 Before considering those three categories of policies in turn, I have received confirmation from Utmost Life and Pensions that the Scheme will not change the:

- value of any policy;
- death, maturity or other contingent benefit payable under any policy;
- surrender value of any policy;
- premiums payable under any policy;
- current or expected level of charges under any policy;
- asset mix underlying any policy or the range of investment choices available;
- range of options available under any policy and any guarantees included in the contract;
- charges made for tax under any policy, or their eligibility for any favourable tax treatment; and
- terms and conditions of any policy.

Unit-linked Policyholders

8.17 On the basis of the analysis below, I am satisfied that the Scheme will not have a materially adverse effect on the benefit expectations under existing unit-linked policies in Utmost Life and Pensions:

- immediately after the implementation of the Scheme, the unit-linked policies in Utmost Life and Pensions will remain invested in the same unit-linked funds as previously, with the same number and value of units, and with the same range of fund choice available to them;
- the value of each policy's unit holdings will be unchanged by the Scheme, and the pricing principles used for each unit-linked fund will be unchanged by the Scheme. The level of fund charges will also be unchanged; and
- there will be no change to the investment mandates, charges or taxation of any unit-linked fund as a result of the Scheme. If Utmost Life and Pensions were to change its investment manager in the future, this would be as part of normal course of business and would be expected to positively benefit Existing Utmost Life and Pensions Policyholders by potentially offering them greater investment choice.

With-Profits Policyholders

8.18 The following key considerations apply to Existing Utmost Life and Pensions Policyholders with with-profits policies in the Utmost Life and Pensions WPSFs (1, 2, 4 and 6). Taking account of these, I am satisfied that the Scheme will not have a materially adverse impact on the benefit expectations of those policies:

- there will be no change to the way in which discretionary benefits (such as regular and terminal bonuses) are calculated or the calculation of the "asset shares" (as defined in the glossary);

- the benefits payable on such with-profits policies can depend to an extent on the financial position of the fund in which they are held. As discussed in Section 5, the Scheme is not expected to have any impact on the financial position of the funds;
- the Utmost Life and Pensions WPSFs contain non-profit business. The Scheme will not change the funds in which this business is held or the ownership of profits arising on this business;
- the Scheme does not change the basis on which expenses are allocated to the Utmost Life and Pensions WPSFs. The costs of the Scheme will not be met, in any way, by these funds; and
- the Scheme does not change the PPFM for any of the Utmost Life and Pensions WPSFs.

8.19 More generally, the Scheme does not change who is responsible for the management of these policies or the processes by which these policies are managed. As a result, even where the benefits payable include a significant discretionary element, the Scheme will not, of itself, change the approach taken by management to set this discretionary element.

Other Non-Profit Policyholders

8.20 I am satisfied that the Scheme will have no effect on existing non-profit policyholders in Utmost Life and Pensions based on the following analysis:

- the benefits payable under existing non-profit policies in Utmost Life and Pensions are fixed, or escalate with respect to inflation or at a fixed rate. The Scheme will have no effect on the benefits or premiums payable under any non-profit policy. The terms and conditions of the existing non-profit policies in Utmost Life and Pensions will not be changed by the Scheme; and
- the Scheme will not affect the current premium levels or charges of any non-profit policies with reviewable premiums or charges. Future reviews of these elements will continue in accordance with existing practice and having regard to regulatory guidance around the fair treatment of policyholders.

Conclusion on Benefit Expectations

8.21 Based on the analysis above, I am satisfied that the Scheme will not have any material effect on the benefit expectations of any of the Existing Utmost Life and Pensions Policyholders.

Equitability of the Scheme

8.22 As I have concluded that the Scheme will not have a material effect on any of the Existing Utmost Life and Pensions Policyholders, I am satisfied that the Scheme is equitable to all classes and generations of those policyholders.

Membership

8.23 The Scheme does not affect the membership rights of any of the Existing Utmost Life and Pensions Policies.

8.24 No policies transferring from ELAS will have membership rights in Utmost Life and Pensions, therefore there is no loss or dilution of the existing membership rights or benefits of those Existing Utmost Life and Pensions Policyholder who are currently members of Utmost Life and Pensions, or of one of WPSF 1, 2, 4 or 6.

9 Ongoing Governance, Administration and Investment Management

Introduction

- 9.1 In this Section, I consider the effect of the Scheme on the ongoing governance, administration and investment management of the Transferring and Non-Transferring Policies of ELAS and the Existing Utmost Life and Pensions Policies.
- 9.2 The Scheme will result in Utmost Life and Pensions having responsibility for the administration and ongoing management of the Transferring Policies. The Scheme will not change who is responsible for the administration and ongoing management of the Non-Transferring Policies and Existing Utmost Life and Pensions Policies.

Governance

Transferring Policies

- 9.3 The ELAS Board is responsible for the members of ELAS and meets on average six times a year to monitor and manage ELAS. The ELAS Board carries ultimate responsibility for the governance of unit-linked funds including oversight of both investment management and operations, along with ensuring fair treatment of customers. The ELAS Board also carries out the duties of the With-Profits Committee ("WPC") in relation to the management of with-profits business and acts as a means by which the interests of with-profits policyholders are appropriately considered.
- 9.4 Following completion of the Scheme of Arrangement immediately prior to the implementation of the Scheme, all of the Transferring Policies of ELAS will be unit-linked or non-profit in nature. There will be limited scope for management discretion in relation to the level of their benefits.
- 9.5 Discretion can be applied in the management of unit-linked business, which makes up the majority of the Transferring Policies, for example, in the level of charges to unit-linked policyholders and the range of funds available to policyholders to invest in. As a result of the Scheme, the Transferring Unit-Linked Policyholders will be subject to the unit-linked governance arrangements of Utmost Life and Pensions, including the Non-Profit Discretionary policy, the scope of which is expected to be updated to include the Transferring Policies. I have reviewed the current version of this policy and, subject to the completion of the internal governance to extend this policy to the Transferring Policies, I am satisfied that the principles and practices set out within it will support the fair management of the Transferring Policies post-Scheme. I will provide confirmation that the governance has been completed as part of my Supplementary Report.
- 9.6 As a result of the Scheme, the ELAS Board will cease to govern the Transferring Policies and the Utmost Life and Pensions Board will have overall responsibility for the management of these policies. Education and training is planned for the Utmost Life and Pensions Board to help them better understand the nature of the Transferring Policies and allow them to provide challenge to management in respect of these policies and any decisions made in respect of them in the future. Additionally, the members of both Boards include Senior Managers (i.e.

individuals who have been approved by the FCA and/or PRA to perform such a role, and are certified under the Senior Managers and Certification Regime).

Non-Transferring Policies

- 9.7 As described in 9.3, the ELAS Board carries ultimate responsibility for the governance of unit-linked funds including oversight of both investment management and operations, along with ensuring fair treatment of customers. The ELAS Board also carries out the duties of the With-Profits Committee ("WPC") in relation to the management of with-profits business and acts as a means by which the interests of with-profits policyholders are appropriately considered.
- 9.8 Following the Scheme, the ELAS Board will continue to manage the business in ELAS. However, the Utmost Life and Pensions With-Profits Committee, one of whose members is not a Board member, is expected to replace the ELAS Board in carrying out the duties of the With-Profits Committee in respect of the German With-Profits fund and will consider the interests of such policyholders appropriately. I consider the use of a With-Profits Committee with a non-Board member as an improvement to the governance structure for the with-profits policies, a change which is in line with the direction of travel implied by the FCA in its recent thematic review of the fair treatment of policyholders¹⁸. The German With-Profits Fund will be managed in line with the newly established German With-Profits Fund PPFM.
- 9.9 Existing ELAS governance policies and procedures are expected to be updated and extended to cover the Non-Transferring Policies only, therefore the Non-Transferring Policies should see limited change to their governance, with the exception of the changes noted above in respect of the German With-Profits Fund.
- 9.10 I note that the governance arrangements for the Non-Transferring Policies are still under discussion between the Companies at the time of writing of my Report. The Utmost Life and Pensions policies are in the process of being updated and are expected to be presented to and approved by the Utmost Life and Pensions Board over the course of 2019. I will provide an update on the progress of these updates, in particular if any changes are not in line with expectations, in my Supplementary Report.

Existing Utmost Life and Pensions Policies

- 9.11 Similarly to the ELAS Board, the Board of Utmost Life and Pensions has overall responsibility for the governance and management of all aspects of unit-linked and non-profit business and the With-Profits Committee carries out the duties in respect of the management of with-profits business. In addition:
- Utmost Life and Pensions maintains a policy on non-profit discretion which sets standards around how changes can be made in relation to non-profit business over which the company has discretion. This was created to ensure the fair treatment of non-profit policyholders. A Fair Customer Outcomes Governance Committee is responsible for analysing Utmost Life and Pensions' products and processes to ensure, at an operational level, that fair outcomes are achieved for all policyholders, making recommendations to the Board as appropriate;
 - the rights and provisions introduced by Existing Schemes for Utmost Life and Pensions (set out in paragraph 3.18) will not change as a result of the Scheme; and
 - the WPSFs are managed in line with Utmost Life and Pensions' PPFMs.

¹⁸ TR19/3: Review of the fair treatment of with-profits policyholders

9.12 The governance arrangements relating to the Existing Utmost Life and Pensions Policies will not change as a result of the Scheme. These governance arrangements were set up in the knowledge of the imminent nature of the Scheme, and therefore I consider these to be more fit for purpose than other, similarly sized, companies with a strategy less focussed on acquisition. For this reason, I would not expect the governance arrangements in respect of the Existing Utmost Life and Pensions Policies to change following the Implementation Date.

Conclusion

9.13 I would be concerned if the Scheme were to lead to a change in (and, in particular, a weakening of) the governance arrangements in place to protect the interests of policyholders where there is significant discretion in relation to the level of their benefits (such as the process for setting with-profits bonuses, or changing the levels of charges to unit-linked funds).

9.14 I am satisfied that the Scheme will not materially change the governance arrangements for Transferring Policyholders, Non-Transferring Policyholders or Existing Utmost Life and Pensions Policyholders, since:

- Existing Utmost Life and Pensions governance policies are not dissimilar to those in ELAS, and are subject to similar governance processes as those in ELAS. These policies will be extended to the Transferring Policyholders, providing continuity to Transferring Policyholders;
- in addition, the Utmost Life and Pensions Board will receive training on the business transferring from ELAS, allowing them to carry out their duties effectively, and in a manner relative to current duties in respect of the Existing Utmost Life and Pensions Policies;
- Utmost Life and Pensions has a policy on non-profit discretion and a Fair Customer Outcomes Governance Committee in place to ensure the fair treatment of non-profit policyholders which will be extended to cover the Transferring Policyholders as well as Existing Utmost Life and Pensions Policyholders;
- both the Companies comply with FCA requirements in relation to unit-linked and with-profits business that seek to ensure the fair treatment of policyholders and this will not change as a result of the Scheme; and
- the extension of Utmost Life and Pensions existing with-profits governance arrangements (including the terms of reference of the With-Profits Committee) to cover the ELAS German With-Profits Fund is expected to provide suitable governance processes and procedures which I consider to be more in line with the direction of travel of with-profits governance than the existing ELAS processes and procedures.

Service Standards and Administration

9.15 I have discussed with Utmost Life and Pensions management the plans in place to provide the same level of service to policyholders in the period immediately after implementation of the Scheme, when call levels and customer enquiries are expected to rise temporarily. Utmost Life and Pensions is in the process of preparing capacity plans in order to demonstrate that any increased demands can be met, without material detriment to any group of policyholders, which I will comment on in my Supplementary Report.

Transferring Policies

9.16 Following the implementation of the Scheme, the administration of the Transferring Policies will become the responsibility of Utmost Life and Pensions.

- 9.17 The Scheme will not change the administration arrangements for the Transferring Policyholders. All staff and infrastructure of ELAS are transferring to Utmost Life and Pensions Services Limited under "TUPE" Regulations, including the customer services team. They will be seconded to either ELAS or Utmost Life and Pensions, such that Transferring Policyholders will continue to be serviced by the same teams, using the same systems. I note that I have not considered what the "right" level of staffing is that is required by Utmost Life and Pensions to service the Transferring Policies, and believe that is a consideration for the Companies; however, given that moving all staff will result in staffing being at least at the levels immediately prior to the Implementation Date, I would expect this to have less of an impact (if any impact at all) than if fewer staff were transferred, and therefore of less likelihood of having any impact on the Transferring Policyholders.
- 9.18 The service level standards to be provided by Utmost Life and Pensions post-Scheme are set out in Schedule 2 (Part A) to the Scheme. In the 12 month period immediately after the Implementation Date, Utmost Life and Pensions intends to continue to provide the same level of service as was provided by ELAS in the 12 months prior to implementation of the Scheme. Following this 12 month period, Utmost Life and Pensions endeavours to administer the business in line with good industry practice and applicable laws including Treating Customers Fairly. The standard of service provided will be at least equivalent to the level Existing Utmost Life and Pensions policyholders receive, which is in line with the Utmost Life and Pensions Service Standards Policy. This policy is due to be updated to cover the Transferring Policies and is expected to be taken through internal governance in Utmost Life and Pensions by the end of September 2019.

Non-Transferring and Excluded Policies

- 9.19 The Scheme will not change the administration arrangements for the Non-Transferring Policyholders. Utmost Life and Pensions Services Limited will second staff in to ELAS in line with the business needs, as per 9.17. This will provide continuity of service to the Non-Transferring Policyholders. It is expected that the same staff who previously administered or serviced these policyholders will continue to perform these roles immediately post-Scheme.
- 9.20 The service level standards to be provided by ELAS to the Non-Transferring Policies and any other Excluded Policies post-Scheme are set out in Schedule 2 (Part B) to the Scheme. In the 12 month period immediately after the Implementation Date, ELAS intends to continue to provide the same level of service as was provided by ELAS in the 12 months prior to implementation of the Scheme. Following this 12 month period, ELAS endeavours to administer the business in line with good industry practice and applicable laws including Treating Customers Fairly. The standard of service provided will be at least equivalent to the level Existing Utmost Life and Pensions policyholders receive.

Existing Utmost Life and Pensions Policies

- 9.21 The Scheme will not change Utmost Life and Pensions' responsibility for the administrative services of the Existing Utmost Life and Pensions Policies. The policies will continue to be serviced by Utmost Life and Pensions Services, a service company owned by Utmost Life and Pensions Limited, using the same underlying systems by the same staff, immediately following the Scheme.
- 9.22 The Scheme is expected to reduce the per-policy costs of administering the Utmost Life and Pensions business as a result of economies of scale, which is expected to provide greater policyholder benefit security to all policyholders in Utmost Life and Pensions after the Scheme. All administration costs are charged to the Utmost Life and Pensions NPF. The administration costs charged to the Utmost Life and Pensions WPSFs are governed by the Reliance Mutual Scheme, described in 3.20, and will therefore not change as a result of the Scheme.

- 9.23 Utmost Life and Pensions has a Service Standards Policy, overseen and reviewed annually by the Risk and Compliance Committee under authority delegated by the Board. The standards are monitored to ensure that they meet internal and external regulatory and best practice requirements. The policy sets detailed standards for the level of access policyholders have to customer services, including by phone, email and letter and the inclusion of contact details on the Utmost Life and Pensions website. The policy sets out requirements for the timeliness, tracking and quality of responses to customers. The policy will be updated to apply equally to the Transferring Policyholders and is expected to be taken through Utmost Life and Pensions internal governance in September 2019.
- 9.24 Given that all staff of ELAS are expected to transfer to Utmost Life and Pensions, I understand that there are not expected to be any role changes for the Utmost Life and Pensions staff in the short term, therefore I do not consider there to be any reason why the standards set out in the Utmost Life and Pensions Service Standards Policy will not be met or why any changes would be required to this policy in respect of the Existing Utmost Life and Pensions policyholders.

Conclusion

- 9.25 Given that there are no changes proposed to the servicing or administration of the Transferring, Non-Transferring or Existing Utmost Life and Pensions Policies, I am satisfied that the Scheme will not have any effect on the quality of service standards or administration experienced by policyholders.
- 9.26 I will provide an update on continuity of service immediately after implementation of the Scheme in my Supplementary Report.

Branding

- 9.27 Following the Scheme, correspondence to Transferring Policyholders will use the Utmost Life and Pensions brand and the payee name on future payments to these policyholders will be changed. Transferring Policyholders will be directed to the Utmost Life and Pensions website which will be updated to include details relevant to transferring ELAS business. The change in branding will not affect the quality or timeliness of customer services for Transferring Policyholders, and will bring the branding for these policyholders into line with that for Utmost Life and Pensions' other long-term policyholders.
- 9.28 It is expected that the branding for Non-Transferring Policyholders will remain as ELAS to avoid confusion and to reflect that those policyholders still have policies with ELAS.
- 9.29 Existing Utmost Life and Pensions Policies will retain the Utmost Life and Pensions branding.
- 9.30 I am satisfied that the changes in branding for the Transferring Policyholders should not materially affect the interests of any group of policyholders.

Investment Management

Transferring Policies

- 9.31 Immediately prior to the Scheme, the Scheme of Arrangement, as detailed in paragraph 1.13, is proposed to take place. Under the Scheme of Arrangement, the with-profits policies of ELAS, with the exception of the German With-Profits Policies, will be converted to unit-linked policies and policyholders will choose a fund in which to invest their policy value. Where a policyholder does not choose a unit-linked fund, they will be allocated by default to a cash fund that will not fall below its value at the Implementation Date. Between 6 and 12 months after the Implementation Date, these policies will migrate into a long-term, age-related (for pension products only) fund structure that differs for each policyholder group and is designed to meet the anticipated needs and risk appetite of the policyholders. Opining

on the appropriateness of the available funds and default fund strategy under the Scheme of Arrangement is out of scope of my review and has been considered by the Policyholder Independent Expert.

- 9.32 The funds available to policyholders in scope of the Scheme of Arrangement will be managed by a new Investment Manager, JP Morgan Asset Management, in addition to the existing ELAS Investment Manager, Aberdeen Standard Investments. The considerations with respect to the choice of new Investment Manager have been considered by the Policyholder Independent Expert. The assets backing the Transferring Policies which are not in scope of the Scheme of Arrangement will continue to be managed by Aberdeen Standard Investments, ELAS' current Investment Manager, with the exception of new unit-linked assets.
- 9.33 Following the Implementation Date, JP Morgan Asset Management will also be responsible for investing in new unit-linked assets in respect of Transferring Policies which were unit-linked prior to the Scheme of Arrangement, where cash inflows (i.e. premiums) exceed the outflows from the unit-linked funds (i.e. the unit-linked claims and charges). The funds these premiums will be invested in are similar to the existing funds available to these policyholders, and the unit-price will reflect the mix of funds, therefore the expectations of the unit-linked policyholders continue to be met. Where outflows exceed inflows, net outflows will be redeemed from the assets invested with Aberdeen Standard Investments. These unit-linked policyholders will be notified of this change through their tailored covering letter. Given that the unit-price will be weighted by the investments, and that there are no changes to charges or investment mandates, I do not believe that this will have a material impact on the investment management for the unit-linked policies and therefore on the benefit expectations of the Transferring Policies with unit-linked policies. If this approach is maintained going forward, we would expect the investments in Aberdeen Standard Investments to run off over time. Given that the Investment Managers will be subject to the same level of governance within Utmost Life and Pensions and that there is not expected to be any increased operational complexity associated with introducing another Investment Manager, I do not believe that using two Investment Managers will have an adverse impact on any group of policyholders.
- 9.34 The Scheme does not change the value of each policyholder's unit holding and the pricing principles and pricing bases are not changed by the Scheme itself. Similarly, the investment mandates and the principles governing the setting of investment strategies of each fund are unchanged by the Scheme itself.
- 9.35 Annual management charges in respect of the unit-linked funds in which they are invested will not exceed 75 basis points, except where:
- pre-Scheme annual management charges already exceeded 75 basis points for that policy;
 - regulatory action results in material increases in costs across the insurance industry; or
 - there has been an increase in third party investment management, custody, trading or unit-pricing costs where such costs are higher than those incurred pre-Scheme.

In no circumstances will annual management charges paid by Transferring Unit-Linked Policyholders exceed 100 basis points.

Non-Transferring Policies

- 9.36 The investment management of the Non-Transferring Policies is consistent with the Transferring Policies described in 9.31 to 9.35, with the exception of the assets allocated to the German With-Profits Fund in respect of the UK-style German With-Profits Policyholders.

- 9.37 The Scheme is expected to change the investment strategy of the UK-style German With-Profits Policies in the German With-Profits Fund, such that the underlying assets more closely match the Euro denominated liabilities in the funds invested with JP Morgan Asset Management. At the time of writing, ELAS is expecting to invest the assets in the German With-Profits Fund in the Multi-Asset Moderate Fund, the same fund as for the Irish unit-linked policies, with a currency hedge implemented to reduce the currency risk exposure. I will provide my considerations and conclusions in respect of the investment management of these assets in my Supplementary Report. The investment strategy for the German-style German With-Profits Policies will remain unchanged.
- 9.38 I note that the proposed investment strategy for the UK-style German With-Profits Policyholders is still to be confirmed, but the proposed strategy is expected to balance both policyholder and shareholder interests, providing policyholders with exposure to the upside and downside of the equity markets, while trying to minimise the risk of any guarantee costs being borne by the policyholders in the future. The proposal to use a currency hedge will reduce the currency risk that these policyholders are exposed to, which I see as a benefit to the UK-style German With-Profits Policyholders. I will provide an update on my considerations in respect of the final investment strategy in my Supplementary Report.

Existing Utmost Life and Pensions Policies

- 9.39 The Scheme does not, of itself, change the investment management agreements, principles, available funds or charges and, therefore, I am satisfied that there will be no impact on the management of the assets backing the Existing Utmost Life and Pensions policies as a result of the Scheme.
- 9.40 Over the longer term, Utmost Life and Pensions may make changes to its investment manager; however, the investment strategy, and the range of funds available to Existing Utmost Life and Pensions Policyholders would either remain unchanged or be expanded. This decision would be made under the normal course of business, with ultimate sign-off from the Utmost Life and Pensions Board. This would be as part of the normal course of business and not as a direct impact of the Scheme, therefore I have not considered this any further in my Report.

Conclusion

- 9.41 Based on the above, I am satisfied that there will not be any materially adverse effect on policyholders in respect of investment management as a result of the Scheme.

Overall conclusion

- 9.42 Overall, I am satisfied that none of the changes discussed above in relation to ongoing governance, administration or investment management will have a material adverse impact on Transferring and Non-Transferring Policyholders of ELAS or Existing Utmost Life and Pensions Policyholders.

10 Tax Considerations

Introduction

- 10.1 In this Section, I consider the effect of the Scheme on the tax borne by policyholders, and whether any group of policyholders might be materially adversely affected by any changes in tax charged, or likely to be charged. As with the rest of my Report, my considerations assume that policies sold under Irish or German law will remain in ELAS.
- 10.2 I am not an expert in tax, and have therefore relied on input from experienced tax colleagues with experience in Part VII transfers from Deloitte in forming my view as to the tax implications of the Scheme. As noted in 1.6, all Deloitte colleagues who have assisted me in reaching the conclusions set out in my Report, including those from tax, are independent of the Companies. In addition, they have acted under my guidance and oversight.
- 10.3 I have received information from the Companies, setting out the expected tax implications of the Scheme, insofar as they may affect policyholders. I have considered whether there are any tax considerations that could have a materially adverse impact on policyholder benefit expectations or security.
- 10.4 Although my review has not identified any material adverse tax impacts for Transferring Policyholders, Non-Transferring Policyholders or Existing Utmost Life and Pensions Policyholders, there will always be some risk of an adverse tax effect due to changes to tax legislation between now and the Implementation Date, or in relation to execution risks (for example, the obtaining of tax clearances and notification requirements). I am not aware of any proposed legislative or tax changes that would have an adverse effect at the time of writing my Report.

Company Taxation – Corporation tax

- 10.5 I have considered whether the taxation position of the Companies could be changed by the Scheme so as to adversely affect policyholders, either directly as a result of policyholders bearing extra costs or indirectly if the capital position of Utmost Life and Pensions were to be significantly weakened.
- 10.6 Both Companies are UK tax resident. ELAS is taxed as a mutual life insurance company. Utmost Life and Pensions as a proprietary life insurance company. In addition, ELAS files a corporation tax return in Ireland in respect of its Irish policyholders. The filing of this tax return will remain with ELAS following the Scheme. No such additional tax reporting is submitted in respect of those policyholders with policies issued by the old German branches.
- 10.7 ELAS is not regarded as having any overseas branches for tax purposes, so this means that neither ELAS nor Utmost Life and Pensions will be subject to any overseas corporation tax charge after the Implementation Date other than UK corporation tax, and the tax in respect of its Irish business.
- 10.8 Neither company has identified any significant tax charges that would arise as a result of the Scheme so as to materially adversely affect policyholders.
- 10.9 The Companies intend to request clearance from HMRC that the anti-avoidance provision specific to transfers of life business (which is in section 132 of the Finance Act 2012) will not apply. I will provide an update on the outcome of this in my Supplementary Report.

Policyholder Taxation

- 10.10 I have considered the impact of the Scheme on the tax charged to individual policyholders.
- 10.11 For policies which constitute Basic Life and General Annuity Business ("BLAGAB"), there should be no change to the operation of the current system under which tax is paid on investment returns, therefore no impact on policyholders.
- 10.12 Life policies that meet certain conditions are exempt from the requirements of the chargeable event regime. This means that no gain will arise in the hands of the policyholders upon the surrender of these policies. The Companies have considered whether this qualifying policy status may be affected by the Scheme, and have concluded that it will not be. I agree with this conclusion based on my understanding of the Scheme and the relevant tax regimes.
- 10.13 For all other policies, the Scheme should not result in any changes to the tax status of these. Specifically, there will be no chargeable events which should be triggered in respect of these policies.
- 10.14 Pension policies with scheme-specific lump sum protection will retain entitlement to the protection. The Scheme will not adversely affect the UK tax status of these policies or policyholders, and will not result in any unauthorised payments. The Scheme should not cause any of ELAS' existing registered pension schemes to be de-registered. ELAS has received confirmation from HMRC that HMRC agrees with these points.
- 10.15 I have considered the draft policyholder taxation analysis and, based on this, and the above, I am satisfied that the Scheme should have no materially adverse effect on any group of policyholders in this respect.

Stamp Duty and VAT

- 10.16 ELAS has confirmed that the assets backing overseas business in ELAS are either gilts, bonds or investments in UK collectives immediately prior to the Scheme. Therefore, it is not anticipated that any stamp duty will arise in respect of these assets as a result of the Scheme.
- 10.17 Based on investments held immediately prior to the Scheme, the Companies do not expect the Scheme to give rise to any other UK Stamp Duty or transaction taxes outside the UK. This is in line with my expectations based on my tax colleagues' experience of similar Part VII transfer processes.
- 10.18 The Companies have reviewed the Value Added Tax ("VAT") treatment of the transfer, and formed the view that no VAT should arise as the transfer should be a Transfer of a Going Concern ("TOGC"). The Companies have been declined a tax clearance from HMRC as there is not considered to be any uncertainty over this. This is in line with the approach taken by HMRC on other Part VII transfers I, and my tax accounting colleagues, have been involved with, and therefore in line with my expectations. I will keep this under review and provide an update in my Supplementary Report; however, as noted above, I do not believe there to be any reason that VAT would be payable and this has not been identified as a cause for concern.

Tax Clearances

- 10.19 As noted above, the Companies have requested a number of clearances from HMRC regarding the tax implications of the Scheme. To date, clearance has been granted by HMRC in respect of the following:

- pension policies with scheme-specific lump sum protection will retain entitlement to the protection. The Scheme will not adversely affect the UK tax status of these policies or policyholders, and will not result in any unauthorised payments;
- there is no reason why the Scheme should result in any unauthorised payments from pension policies; and
- if there are no variations to the policies in scope of the Scheme, then these policies would not be regarded as 'new' policies within the meaning of paragraph A2(3) Sch 15 ICTA 1988.

10.20 As noted in paragraph 10.9, ELAS and Utmost Life and Pensions will both apply for clearance that the targeted anti-avoidance rule in section 132 of the Finance Act 2012 will not apply. Utmost Life and Pensions will also request non-statutory clearance that even if stampable assets are transferred, no stamp duty will be payable. I will provide an update on these clearances in my Supplementary Report.

Conclusion

10.21 On the basis of the information above, I believe that there should be no material adverse tax effects on Transferring Policyholders, Non-Transferring Policyholders or Existing Utmost Life and Pensions Policyholders as a result of the implementation of the Scheme. This is subject to the clearances referred to above being received and other confirmatory matters being satisfactorily concluded and based on internal advice as noted in paragraph 10.2. I will provide an update on Tax in my Supplementary Report.

10.22 The Companies have confirmed that any unexpected tax charges arising as a result of the Scheme (of which there are expected to be none) will not be borne by policyholders.

11 Policyholder Communications

Introduction

- 11.1 Parties to a Scheme made pursuant to Part VII of FSMA must comply with the notice requirements set out in the relevant regulations ("Transfer Regulations"). SUP18.2.42 – 18.2.50 provides further guidance on the form and content of policyholder communications with respect to the Scheme.
- 11.2 The UK Transfer Regulations require notice to be sent to all policyholders of the involved parties and for notice of the application to be published in, inter alia, the official gazettes and two national newspapers. The form of the notice must be approved by the PRA.
- 11.3 The Companies also intend to comply with the communications requirements of the Channel Islands Schemes and EU requirements in terms of notification of EU regulators.
- 11.4 I summarise below the Companies' communications plans and my view on whether these are appropriate.
- 11.5 For completeness, I have referred to those policyholders in scope of the Scheme of Arrangement as With-Profits Policyholders, as they will hold with-profits policies at the time of the communications. This helps differentiate these policyholders from the ELAS policyholders with unit-linked benefits prior to the Scheme of Arrangement.

Notification to Transferring Policyholders

Overview

- 11.6 Notice of the Part VII application will be published in the London, Edinburgh, Belfast, Jersey and Guernsey Gazettes and three UK newspapers: The Times, the Daily Telegraph and the Daily Mail, as well as the international edition of the Financial Times, the Times and the Daily Mail. There will also be advertising in two national newspapers in Spain and France, where there are 150 or more affected policyholders, and two in Germany and Ireland, where the majority of overseas policyholders reside. The international edition of the Financial Times is circulated more widely, including in the United States and Australia, where c.3,000 of the c.5,400 Non-EEA policyholders currently reside. These newspapers were identified as being the most read publications through ELAS' own customer research, and therefore considered to be the most appropriate in which to publish this notice.
- 11.7 The communications approach to achieve direct contact with different policyholder groups is based around a cover letter and explanatory booklet informing policyholders of the Scheme and providing them with a short summary of what it does, the potential impact on their policies and my views, a summary of my Report, as well as an explanatory booklet containing the legal notice for the Scheme. There will also be a question and answer section and details of what to do if the policyholder wants to obtain additional information or to object.
- 11.8 The letter will direct policyholders to further information on the Companies' websites, where full versions of: the communications pack detailed in paragraph 11.7; the legal notice; this Report; the Scheme; the ELAS CA and WPA reports; and the documentation in relation to the Channel Islands Schemes will be available. Information in relation to the Scheme of Arrangement will also be made available.

- 11.9 Policyholders will be able to telephone a call centre if they have questions about the Scheme. They will also be provided with relevant details to enable them to write to or email ELAS.
- 11.10 The main communications pack will be sent to policyholders in late July/August 2019 and will use the ELAS branding. At the time of writing, ELAS has issued various business-as-usual mailings and press release letters which have alerted policyholders to the Scheme of Transfer, the Scheme of Arrangement and the members' vote.
- 11.11 All Transferring Policyholders will receive the same detailed explanatory pack, with a tailored covering letter directing them to the sections of the explanatory booklet that are most relevant to them. The content of the policyholder mailing differs from the material that has typically been sent out for such transfers in the past. This is due to the need to notify the policyholders of several complex changes, including the Scheme, the Scheme of Arrangement and the EGM vote to appoint Utmost Life and Pensions as the sole member of ELAS. Further information on non-Scheme related matters that will be communicated within the pack and how this might affect policyholder understanding can be found in paragraphs 11.22 to 11.26.
- 11.12 Policyholders in the Channel Islands will be provided with specific information about their local court procedures in a tailored letter that will also include the items in paragraphs 11.7 and 11.8.
- 11.13 ELAS has a number of group schemes, where the client relationship is with Trustees of the group schemes, as policyholder and member, rather than the individuals within each of the schemes. A different approach is being taken for this business, and is described in paragraphs 11.17 to 11.21.
- 11.14 ELAS has systems in place to identify vulnerable policyholders and to provide them with appropriate help and support. This is in line with ELAS' Vulnerable Customers Framework, which has been designed to meet the Association of British Insurer's ("ABI") guidance with respect to vulnerable customers.
- 11.15 There will be some policies for which ELAS does not have a current address for the policyholder and these policyholders are referred to within this Report as "gone-aways". Paragraphs 11.35 to 11.44 below set out the Companies approaches to tracing and contacting such policyholders, including ELAS' request to the Court for a dispensation from notifying such policyholders.
- 11.16 ELAS is also seeking dispensation from the Court from notifying groups of policyholders who would not normally be contacted directly by ELAS (such as named beneficiaries of a policy who are not the policyholder). I note that, although a waiver is being sought, there are practical procedures in place to help ensure that every effort is made to contact the groups of policyholders for which a dispensation is being sought. The Company is also intending to communicate with second lives on annuity policies where an address is known for these lives. I have reviewed the rationale behind seeking this dispensation and I am satisfied that the request is reasonable and does not adversely affect policyholders.

Group schemes

- 11.17 For group schemes, the Transferring Policyholders are the group scheme Trustees. The group schemes are part of the Transferring Policies.
- 11.18 ELAS is seeking dispensation from the Court from notifying the individual members of the group schemes (the "Beneficiaries"), but will notify each of the Transferring Policyholders. Assuming this dispensation is granted, ELAS will approach each of the Trustees of the Transferring Policies and invite them to give notice of the Scheme to the Beneficiaries – ELAS will not communicate directly with the Beneficiaries. If the Trustees believe this is

appropriate in light of their duties under their scheme then ELAS will bear any reasonable costs incurred in the process.

11.19 As well as the standard communications pack, ELAS will offer tailored support to the Trustees of group schemes in the form of:

- a Trustee telephone helpline;
- specific webpages which will provide information on the proposal, the process and information in a format that can be shared with group scheme Beneficiaries; and
- offering face-to-face or telephone meetings with Trustees and Employee Benefit Consultants where appropriate.

11.20 I support this approach because:

- the group scheme policies that ELAS has entered into are contracts between ELAS and the group scheme Trustees, rather than a contract between ELAS and the underlying Beneficiaries. It is the Trustees, rather than the Beneficiaries, who are parties to the contract;
- the Trustees are responsible for ensuring the fair treatment of the Beneficiaries. The proposed approach is consistent with this;
- previous communications received by the Beneficiaries regarding the group schemes have come from the Trustees;
- ELAS does not have current addresses for a significant proportion of the Beneficiaries, so would not be able to communicate effectively. Any addresses that ELAS does possess were provided by the Trustees for the purpose of conducting actuarial analysis, rather than communication purposes. Using the information for a different purpose could give rise to various privacy and Data Protection Act issues; and
- if the Trustees wish to communicate the Scheme to their Beneficiaries then ELAS will pay any reasonable costs and provide such key information and messages as the Trustees may require, including details on where their Beneficiaries can go for further information.

11.21 I am satisfied that the proposed approach to communicating with group scheme Beneficiaries and group scheme Transferring Policyholders is reasonable.

Communication of non-Scheme related matters

11.22 As noted in paragraph 11.11, the main communications pack informing Transferring and Non-Transferring Policyholders of the Scheme will also contain information in relation to other activities that ELAS is carrying out relating to the transfer of business to Utmost Life and Pensions that are not in the scope of my Report. These activities include:

- the Scheme of Arrangement;
- an extraordinary general meeting ("EGM") at which members of ELAS will vote on a proposal that Utmost Life and Pensions be made ELAS' only member; and
- unit fund selection for policies affected by the Scheme of Arrangement.

11.23 The appropriateness of the communication strategy regarding the above activities is not in the scope of my Report. However, in this section I consider whether the inclusion of these

topics within the same communications pack as that informing Transferring and Non-Transferring Policyholders of the Scheme is appropriate.

11.24 Further information on the details of the communications pack and other material which will be sent to policyholders can be found in Appendix 5: ELAS Scheme of Arrangement.

11.25 The volume of information that ELAS intends to share in the main communication pack could be overwhelming to the policyholders and result in a lower level of engagement with the Scheme than might be seen in similar transactions. ELAS has taken a number of steps to reduce the likelihood of this, which are set out below:

- the tailored covering letter sent to each policyholder will highlight the key points and actions relevant to that particular policyholder based on their policy type. This will also signpost where in the detailed pack they can find further information that is relevant to them;
- a third party provider with expertise in marketing and behavioural economics was commissioned to enhance the aesthetics and readability of the communications pack; and
- ELAS is monitoring policyholder engagement and opinion on the Scheme and other related transactions via telephone interviews and focus group sessions with policyholders. To date, more than 1,000 interviews have been carried out and engagement appears reasonable, with 94% of people recalling receiving communication to date and 68% understanding at least some of the detail. The communications have since been updated to reflect the feedback from these interviews, as well as feedback gathered through additional "in home" interviews conducted in early 2019, feedback from ELAS' legal advisors, and from a third-party advisor with recent experience of providing advice and guidance to a Scheme of Arrangement.

11.26 I am satisfied that ELAS has taken sufficient actions to maximise policyholder engagement under the circumstances. The alternative option would be to mail policyholders separately regarding each activity which would be more costly, with costs met by the distributable assets of ELAS, and could reduce policyholder engagement, the opposite effect to that desired. As a result, I am satisfied that including non-Scheme related information in the content of the main communications pack is appropriate, but I note that covering letter and signposting will be key in ensuring the effectiveness of these communications. I have been provided with a draft of the policyholder letter, but will provide my opinion on the final version of this in my Supplementary Report.

Conclusion

11.27 I am satisfied that the overall approach proposed to communicating with Transferring Policyholders is reasonable.

Notification to Non-Transferring Policyholders

11.28 The policyholder communication approach in respect of the Non-Transferring policyholders is consistent with that for the Transferring Policyholders documented above, with communications sent to Irish and German policyholders being tailored to their respective situations.

11.29 In addition to the considerations and conclusions documented in 11.6 to 11.26, the following points are also relevant to Non-Transferring Policyholders:

- for Irish policyholders holding with-profits policies prior to the Scheme of Arrangement, they will receive a cover letter that explains that they are directly impacted by the Scheme of Arrangement, but their policies will remain with ELAS which will become a

subsidiary of Utmost Life and Pensions. My considerations and conclusions in respect of the communication of non-Scheme related matters, specifically, the notification of the Scheme of Arrangement, details of the EGM and communication of investment choices, detailed in 11.22 to 11.26, apply equally here; and

- UK-style German With-Profits Policyholders will receive a cover letter which will include a detailed explanation of the uplift they may receive and all German With-Profits Policyholders will receive details of how the With-Profits fund will be managed going forward, as well as a copy of the revised PPFM for the German With-Profits Fund. At the time of writing, this letter is still in the process of being drafted so I have not had an opportunity to review this, but will provide an update on this in my Supplementary Report to the Court.

Conclusion

11.30 I am satisfied that the overall approach proposed to communicating with Non-Transferring Policyholders is reasonable.

Notification to Existing Utmost Life and Pensions Policyholders

11.31 Utmost Life and Pensions will mail all policyholders about the Scheme with the exception of:

- gone-aways and policyholders who are greater than 100 years old (see paragraphs 11.42 to 11.44 below); and
- groups of policyholders who would not normally be contacted directly by Utmost Life and Pensions (such as second lives on annuity policies or members of group policies where there is no individual contractual relationship).

11.32 The mailing will be made up of an explanatory letter and will signpost policyholders to the legal notice, the Scheme document, the CA and WPA reports and my Report on the Utmost Life and Pensions website. All policyholders will be able to request, without charge, a summary of the Scheme, a copy of the full Scheme document, the CA and WPA reports and my Reports. The communications in respect of the Scheme will be shorter than those to be distributed by ELAS, but I believe this is commensurate with the impact of the Scheme on this policyholder group.

11.33 Policyholders will be able to telephone a call centre if they have questions about the Scheme. They will also be provided with relevant details to enable them to write to or email Utmost Life and Pensions.

11.34 I am satisfied that this is an appropriate and proportionate approach for the following reasons:

- I have concluded in Section 8 that there will be no materially adverse effect on the benefit expectations or benefit security of any of the Existing Utmost Life and Pensions Policyholders;
- as part of the Reliance Mutual Scheme, Utmost Life and Pensions has already communicated to Existing Utmost Life and Pensions Policyholders its intended strategy to acquire new business. Policyholders will therefore be more informed than is normally the case in such transactions, and therefore are expecting to receive communications of this nature;
- practical procedures are in place to ensure that groups of policyholders for which a dispensation is being sought are contacted where possible (such as requesting that a pension scheme Trustee contacts the individual scheme members); and

- relevant information about the Scheme, including my Reports, is being made publicly available on the website and through advertising in the media.

Uncontactable policyholders

- 11.35 The Transfer Regulations require all policyholders of the Companies, which includes anyone with an indirect or beneficial interest in a policy, to be notified of this Scheme unless a dispensation is granted by the Court.
- 11.36 In some cases, the Companies do not hold a current address for some of the Transferring Policyholders and Existing Utmost Life and Pensions Policyholders to be mailed. These are “gone-away” policyholders who are by definition not contactable by mail.

ELAS uncontactable policyholders

- 11.37 I understand from ELAS that around 11% of Transferring Policyholders were gone-aways (approximately 18,000 individual policyholders, and 21 group schemes, with a total of 116 members) at 31 December 2018. These are policies for which ELAS does not hold valid contact details for the policyholder. In the case of group schemes, there are no valid contact details held for the Trustee of the group scheme.
- 11.38 ELAS has a Business as Usual tracing process for gone-aways which is in line with best practice set out by the ABI. This process includes:
- upon first being reported as a gone-away, attempting to trace the policyholder through various means, including email and telephone, third party tracing tools, their Bank or Building Society and using the DWP letter forwarding service; and
 - periodically (typically every two years) undertaking a further tracing process for existing gone-aways using a third party tracing service.
- 11.39 ELAS has taken additional measures to reduce the number of gone-aways before sending policyholders the main communications pack in late July/August 2019. These measures include:
- using social media avenues to identify individuals;
 - appointing a dedicated manager to the tracing project; and
 - using different communication approaches to encourage policyholders to reconnect.

Through the external tracing, c.6,500 of the c.18,000 individual policyholders have been identified for which the same address has been found through tracing at least twice, and therefore it is likely that ELAS now has the current address. ELAS has since written to these policyholders and has also used a third party system to verify evidence of identity electronically, and has now resolved approximately 4,500 of these c.6,500 cases in advance of issuing the communication packs and voting forms. This, combined with the other ongoing tracing activities, has reduced the number to approximately 12,500 (8%).

- 11.40 ELAS intends to seek a waiver from the requirement to send a notice to gone-away policyholders. I am satisfied that, given the procedures already in place to contact gone-aways and the public advertising that might bring the Scheme to their attention, this is an appropriate approach to use.
- 11.41 Given that tracing activities are ongoing, I will provide a further update on the progress of the gone-aways exercise in my Supplementary Report; although, for completeness, I note that this will not change my conclusions in respect of the fairness of the communications strategy.

Utmost Life and Pensions uncontactable policyholders

- 11.42 Utmost Life and Pensions has identified a significant number of gone-aways or policyholders that are greater than 100 years old. These policyholders have been considered together, as they are, on average, less likely to claim than other in-force policyholders, therefore other approaches to communication may be required for them. As at 31 December 2018, around 45% or c.90,000 policies were marked as either gone-aways or were aged over 100. Over 80% of these policyholders relate to Industrial Branch business and make up less than 1% of the total Utmost Life and Pensions policy values. The remaining 20% relate to Ordinary Branch business and make up c.6.7% of the total Utmost Life and Pensions policy values.
- 11.43 Since 2016, Utmost Life and Pensions (formerly as Reliance Mutual, then Reliance Life) has carried out significant tracing exercises to reduce the number of policies for which they did not hold accurate contact details. Given that this exercise was carried out so recently, no further specific tracing exercise has been proposed for the purposes of the Scheme.
- 11.44 Utmost Life and Pensions is seeking dispensation from notifying gone-aways and uncontactable policyholders of the Scheme. I am satisfied that, given the nature of such policyholders, the procedures already in place to contact them and the advertising that might bring the Scheme to their attention, this is an appropriate approach to use in this situation of a transfer of business that does not materially adversely affect the policyholders concerned.

Reinsurers

- 11.45 ELAS will notify all of its reinsurers of the Scheme and will transfer, transfer in part or leave the reinsurance in ELAS' name depending on the policies and risks to which the contracts apply.
- 11.46 Utmost Life and Pensions will send notice of the Scheme to the reinsurers who are considered material to its business.
- 11.47 Given that all reinsurance arrangements will remain in place in respect of the policies they currently cover, I would not expect any impact on the Transferring, Non-Transferring or Existing Utmost Life and Pensions Policyholders as a result of any change to the party to the reinsurance contract following implementation of the Scheme.

Objections and Queries

- 11.48 Transferring Policyholders, Non-Transferring Policyholders or Existing Utmost Life and Pensions Policyholders who feel they will be adversely affected by the Scheme may put their objections to the Court either in writing, by attending the Sanction Hearing or by asking a representative to raise their objection. In deciding whether to sanction the Scheme, the Court will consider any objections. I will also consider the objections that have been made in writing (or orally to the Companies) sufficiently in advance of the Court date in coming to my view on the appropriateness of the Scheme, and will report as appropriate in my Supplementary Report.

Conclusion

- 11.49 I am satisfied that the proposed approach to communicating the Scheme to Transferring and Non-Transferring Policyholders of ELAS and Existing Utmost Life and Pensions Policyholders is reasonable and that the proposed communication pack will help to explain the material effects of the Scheme with respect to their policies.

Appendix 1: Independent Expert Terms of Reference

Scope of the work of the Independent Expert in relation to the proposed scheme (the "Scheme")

The Scheme Reports are to consider the terms of the Scheme generally and the effect which the Scheme will have on the holders of long-term policies of the Companies.

In preparing the Scheme Reports, the Independent Expert must have regard to the duty that he owes to assist the High Court on those matters within his expertise. This duty overrides any obligations to the Companies. The Scheme Reports apply equally to business written by the Companies in Jersey and Guernsey as they do to business written in the UK, and may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the local schemes in those jurisdictions (to the extent that any such local schemes are required).

In particular the Scheme Reports should consider the following specific matters:

- The matters listed in SUP 18.2.33G, 18.2.36G and 18.2.39G.
- The impact of the Scheme on the security of the different groups of policyholders involved in the Scheme.
- The impact of the Scheme on the benefit expectations of the different groups of policyholders involved in the Scheme.
- Consideration of any change in tax that may be charged to policies or policyholder funds, or other loss of favourable tax status.
- A review of, and opinion on the adequacy of, the communications made to policyholders concerning the Scheme.
- The impact of the Scheme on the level of service (including administration and investment management services) provided to the different groups of policyholders involved in the Scheme.
- The adequacy of any safeguards in the Scheme to protect the ongoing interests of different groups of policyholders.
- Any other matters drawn to the attention of the Independent Expert by the Regulators or required by the Regulators to be addressed within the Scheme Reports.

The Scheme Reports will be prepared with due regard to the guidance set out in SUP 18.32G, 18.34G, 18.35G, 18.37G, 18.40G and 18.41G and other relevant guidance.

The review and Scheme Reports will address generally the way in which the Companies have conducted their long-term business but taking into account the particular circumstances of the class of business to be transferred. It will consider inter alia the following aspects of each Company:

- The Memorandum and the Articles of Association, at least insofar as these affect the rights, expectations and interests of policyholders.
- To the extent potential concerns arise, consideration of the terms of policies issued by each Company or otherwise held by policyholders of each Company.

Appendix 1: Independent Expert Terms of Reference

- The existing and proposed internal working arrangements relating to the financial management of the long-term business funds of each Company, including the operational and administrative arrangements which will apply to the policies to be transferred under the terms of the Scheme.
- The terms and conditions expected to be imposed by the Scheme to be presented to the Court and the terms and conditions of any other schemes or arrangements in overseas jurisdictions which may be required to transfer certain policies, including the views expressed by the governing body or management of each Company.
- The terms of any previous schemes of transfer that created particular rights or protections for a class of policyholders within one or more of the Companies.

The above list is not intended to be exclusive of any other aspects which may be identified during the completion of the project and which are considered to be relevant.

The Independent Expert shall not be directly involved in the formulation of the proposed transfer although he will be expected to give guidance during the evolution of the detailed proposals on those issues which are of concern to him, or which he considers unsatisfactory.

Appendix 2: SUP 18 and PRA Policy Statement compliance

The Regulators' requirements relating to the transfer of long-term insurance business are set out in the PRA Statement of Policy, Chapter 18 of the Supervision Manual of the Regulators' Handbook of Rules and Guidance ("SUP 18") and also the FCA's approach to the review of Part VII insurance business transfers (FG18/4). In particular, SUP 18.2 sets out the requirements of a scheme report in relation to the transfer of insurance business within the UK. The following tables set out these details, along with cross-references to the sections in the main body of the Report which cover the required scope. Except where highlighted, the requirements in the PRA Statement of Policy are covered within SUP 18.2.

Table A2.1 – SUP 18 and PRA Statement of Policy Cross Reference

SUP 18.2 item number and details	Corresponding Paragraph in the PRA Statement of Policy	Section and paragraph reference in this Report
SUP 18.2.33G	2.30	
The scheme report should comply with the applicable rules on expert evidence and contain the following information:		
(1) Who appointed the independent expert and who is bearing the costs of that appointment;	(1)	1.2, 2.1, 3.49
(2) Confirmation that the independent expert has been approved or nominated by the appropriate regulator;	(2)	1.2, 2.1
(3) A statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;	(3)	1.4
(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) Also includes the employer of the independent expert.	1.5 to 1.7, 2.3
(5) The scope of the report;	(5)	1.10 to 1.20
(6) The purpose of the scheme;	(6)	2.6, 3.1 to 3.7
(7) A summary of the terms of the scheme in so far as they are relevant to the report;	(7)	Section 3
(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)	1.21 to 1.27, Appendix 8 & where otherwise relevant throughout the Report
(9) The extent to which the independent expert has relied on:	(9)	
(a) Information provided by others; and	(a)	1.21 to 1.27, Appendix 8 & where otherwise relevant throughout the Report
(b) The judgment of others;	(b)	1.21, 1.25, 1.26 & where otherwise relevant throughout the Report
(10) The people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;	(10)	As relevant throughout the Report
(11) His opinion on the likely effects of the scheme on policyholders (this term is defined to include persons	(11)	Sections 6 to 10

SUP 18.2 item number and details	Corresponding Paragraph in the PRA Statement of Policy	Section and paragraph reference in this Report
with certain rights and contingent rights under the policies), distinguishing between:		
(a) Transferring policyholders;	(a)	Sections 6, 9 and 10
(b) Policyholders of the transferor whose contracts will not be transferred; and	(b)	Sections 7, 9 and 10
(c) Policyholders of the transferee;	(c)	Sections 8 to 10
(11A) His opinion on the likely effects of the scheme on any reinsurance of the transferor, or any whose contracts of reinsurance are to be transferred by the scheme;	(12)	3.32 to 3.34
(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	(13)	1.13 to 1.16, 2.18 to 2.22
(13) For each opinion that the independent expert expresses in the report, an outline of his reasons.	(14)	Stated throughout the Report
SUP 18.2.35G	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	(1)	3.32 to 3.34, Appendix 7
(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)	N/A
SUP 18.2.36G	2.33	
The independent expert's opinion of the likely effects of the scheme on policyholders should:	2.33	
(1) Include a comparison of the likely effects if it is or is not implemented;	(1)	Stated throughout the Report
(2) State whether he considered alternative arrangements and, if so, what;	(2)	Not considered – 1.12, 4.17
(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)	4.2, 4.10 to 4.13 and Sections 5 to 8
(4) Include his views on:	(4)	
(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;	(a)	Sections 5 to 8
(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:	(b)	
(i) The security of policyholders' contractual rights;	(i)	Sections 5 to 8
(ii) Levels of service provided to policyholders; or	(ii)	Section 9
(iii) For long-term insurance business, the reasonable expectations of policyholders; and	(iii)	Sections 5 to 8
(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.	(c)	2.104, 2.109, 2.110, 3.56 to 3.59, Section 10

SUP 18.2 item number and details	Corresponding Paragraph in the PRA Statement of Policy	Section and paragraph reference in this Report
SUP 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;		6.39, 7.48, 8.23
(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and		n/a – not in scope of my Report(s), as per paragraphs 6.39, 7.48 and 8.23
(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 – not in scope of my Report(s), as per paragraphs 6.39, 7.48 and 8.23
SUP 18.2.39G	2.36	
For a scheme involving long-term insurance business, the report should:	2.36	
(1) Describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;	(1)	7.32 to 7.45, 7.48, 8.18, 8.23
(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)	7.32 to 7.45
(3) Describe the likely effect of the scheme on the approach used to determine:	(3)	
(a) The amounts of any non-guaranteed benefits such as bonuses and surrender values; and	(a)	a) 7.32 to 7.45, 8.18 to 8.19
(b) The levels of any discretionary charges;	(b)	b) 7.39, 8.16
(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)	Section 9 (specifically 9.14, 9.41), and where relevant throughout the Report
(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)	Sections 6 to 8
(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)	6.38, 7.48, 8.22
(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)	Section 9 (specifically 9.14, 9.41)

Appendix 3: Background to Equitable Life Assurance Society (ELAS)

Introduction

Equitable Life Assurance Society (ELAS) is the first and oldest mutual life assurance company in the UK. ELAS is a savings, investment and pensions company, established in 1762 and was closed to new business on 8th December 2000. ELAS has over 300,000 policyholders and around £6.4bn funds under management.

Current Structure

ELAS has no parent company and consists of a standalone fund, the Ordinary Long Term Fund (the "ELAS OLTFF"), with no sub-funds. It is owned by its members, the with-profits policyholders.

Nature of Business of ELAS

Following the Scheme of Arrangement (detailed in Appendix 5: ELAS Scheme of Arrangement), ELAS' business will be made up of a range of non-profit and unit-linked products, and a small number of with-profits policies issued in Germany, summarised in the table below:

Table A3.1: Breakdown of post-Scheme of Arrangement ELAS business by product type as at 31 December 2018

Type of business	Policy Count
Unit-linked	160,617
Other Non-profit	23,133
Group Schemes ¹⁹	144,265
With-profits	480
Total	328,495

Source: ELAS post-Scheme of Arrangement policy count

ELAS no longer writes any new business and is therefore in run-off. The vast majority of ELAS' business has been written in the UK, with a small amount written internationally.

¹⁹ For Group Schemes, the policy count represents the number of Group Scheme members, rather than the number of Group Scheme policies.

Table A3.2: Breakdown of ELAS policy count by country as at 31 December 2018

Country of origin	Number of contracts at the end of the year
UK	323,528
Ireland	2,806
Channel Islands	1,426
Germany	735
Total	328,495

Source: ELAS post-Scheme of Arrangement policy counts

I note that, of the 328,495 policies currently in-force which were originally sold in the UK, Ireland, Channel Islands and Germany, c.5,400 of these now reside in non-European Economic Area ("EEA") countries.

Previous Schemes

Table A3.3: History of previous Part VII schemes involving Equitable Life

Year Scheme Effective	Transferor	Transferee	Assets transferred (£m)	Type of business transferred
2007	ELAS	Canada Life Ltd	4,608	Non-profit pension annuity
2008	ELAS	The Prudential Assurance Company Ltd	1,700	With-profits annuity
2016	ELAS	Canada Life Ltd	875	Unit-linked annuity and non-profit annuity

Appendix 4: Background to Utmost Life and Pensions Limited

Introduction

In April 2018 the Life Company Consolidation Group (“LCCG”) acquired Reliance Mutual Insurance Society (“Reliance Mutual”) and transferred the acquired business to Reliance Life Limited (“Reliance Life”). In February 2019, LCCG was re-branded as Utmost Group of Companies. As at 4 March 2019 Reliance Life Limited has been renamed as Utmost Life and Pensions Limited (“Utmost Life and Pensions”). This brought the branding in line with the Utmost Group of Companies.

In 1911, Farringdon Reliance Friendly Collecting Society was established. It was renamed as Reliance Mutual and became a mutual society in 1951. In recent years, Reliance Mutual moved its focus to buying closed books and made seven acquisitions of portfolios and other life insurers’ businesses since 2003. Utmost Life and Pensions intends to continue this strategy.

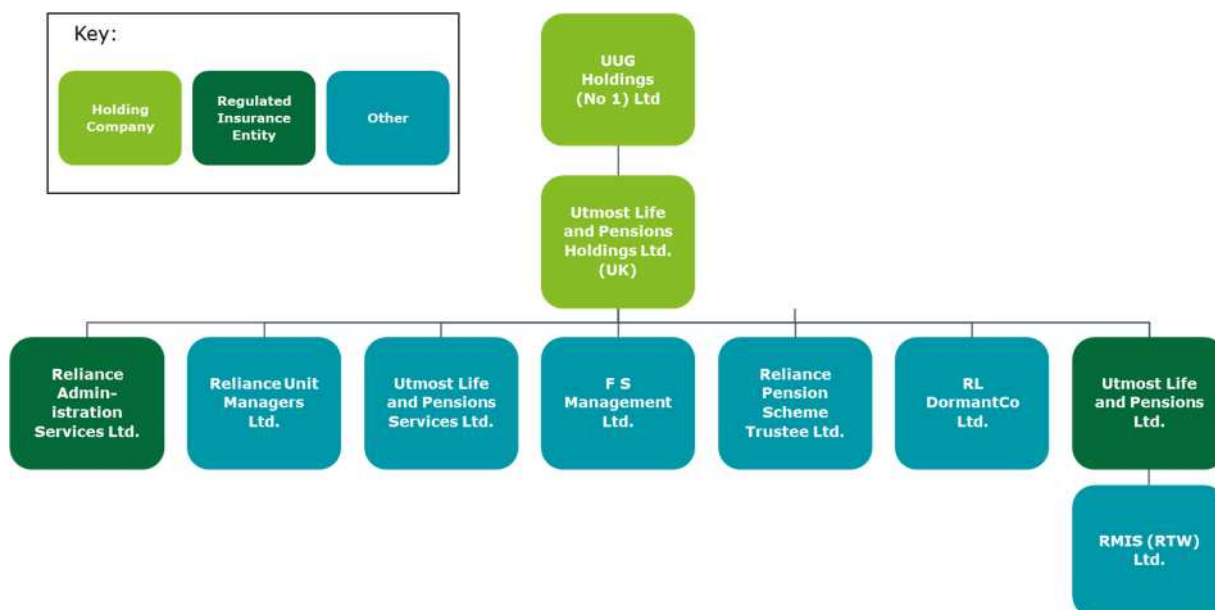
Utmost Life and Pensions has approximately 200,000 policies and manages assets of £1.6 billion as at 31 December 2018. Utmost Life and Pensions’ business model is the acquisition and administration of traditional portfolios of life insurance and pensions business in the UK.

The Utmost Group of Companies is a specialist European life assurance group. Its principal businesses are Utmost Wealth Solutions and Utmost Corporate Solutions, and Utmost Life and Pensions, which are responsible for, in aggregate, £24bn of assets for more than 240,000 customers. Utmost Wealth Solutions is a specialist wealth manager offering international savings, protection and investment solutions in the UK, Continental Europe and Asia markets, Ireland and the Isle of Man. Utmost Corporate Solutions is a provider of employee benefits and group risk solutions. The Utmost Group of Companies (formerly known as LCCG) was founded in 2013 and is backed by funds managed by Oaktree Capital Management, a leading investment management firm which is listed on the New York Stock Exchange.

Current Structure

Utmost Life and Pensions is owned by UUG Holdings (No 1) Limited which is a private parent company forming part of the group under Life Company Consolidation Group (No 1) Limited in Guernsey. Utmost Life and Pensions’ corporate structure is set out in Figure A4.1 below.

Figure A4.1: Corporate Structure of Utmost Life and Pensions Limited



The majority of Utmost Life and Pensions’ in-force business has been written in the UK, either directly or by other UK life insurance companies which have subsequently been acquired by the entity. Utmost Life and Pensions’ fund structure is shown below:

Figure A4.2: Fund Structure of Utmost Life and Pensions Ltd



The Non-Profit Fund (“ULP NPF”) contains the majority of Utmost Life and Pensions’ non-profit business while the With-Profits Sub-Funds (“WPSF”) 1, 2, 4 and 6 primarily consist of with-profits business. The ULP NPF consists of two matching adjustment (“MA”) portfolios, immediate annuities and funeral plans. Other business within the non-profit fund includes unit-linked and conventional Ordinary Branch business as well as conventional Industrial Branch business.

Nature of Business of Utmost Life and Pensions

The restructure to Reliance Life was effective in April 2018, and the profile of business has not materially changed. Reliance Life was renamed as Utmost Life and Pensions in March 2019. The following table summarises Utmost Life and Pensions’ material lines of business as at 31 December 2018.

Table A4.1: Breakdown of Utmost Life and Pensions business by product type

Product Type	Number of policies ²⁰	SII BEL (£m)
With-Profits Funds	21,500	237.4
Unit-Linked	43,600	613.4
Annuities	29,000	492.1
Other Non-Profit	106,100	137.8
Total	200,200	1,480.8

Source: YE18 financial information provided by Utmost Life and Pensions

Previous Schemes

As mentioned above, Reliance Life was created following a Part VII of the entire business of Reliance Mutual in April 2018, and was renamed as Utmost Life and Pensions in March 2019.

The previous transfers that involved Reliance Mutual are described in table A4.2 below.

Table A4.2: History of previous Part VII schemes involving Utmost Life and Pensions (previously Reliance Mutual)

Year Scheme Effective	Transferor	Transferee	Type of business transferred	Currently in fund
2003	Criterion Life Assurance Limited	Reliance Mutual Insurance Society	Non-profit With-profits	NPF WPSF 2
2004	Family Assurance Friendly Society	Reliance Mutual Insurance Society	Unit-linked With-profits (life business subsequently converted to non-profit)	NPF NPF or WPSF 4
2005	Eurolife Assurance Company Limited	Reliance Mutual Insurance Society	Non-profit, including unit-linked	NPF
2006	SEV Trygg (UK) Life Assurance Company Ltd	Reliance Mutual Insurance Society	Non-profit	NPF
2007	University Life Assurance Society	Reliance Mutual Insurance Society	With-profits (subsequently converted to non-profit)	NPF
2007	Hearts of Oak Friendly Society	Reliance Mutual Insurance Society	Non-profit, unit-linked and unitised with-profits Conventional with-profits	NPF WPSF 6
2008	Time Assurance	Reliance Mutual Insurance Society	Non-profit (converted from with-profits on transfer)	NPF

Source: RMIS Chief Actuary Report on Proposed Transfer to Reliance Life

Additionally, in 2012 Reliance Mutual underwent a Scheme of Arrangement to clarify the interests of with-profits policyholders and members and convert some with-profits policies to non-profit. As

²⁰ WPSF 1 contains a mixture of Industrial Branch and Ordinary Branch business for which the with-profit / non-profit policy count is not available. As a result, policy count for this fund has been apportioned in proportion with the with-profits / non-profit BEL split.

a result, the WPSF 1 was created as well as two non-profit ordinary sub-funds ("OSF"). The terms of this scheme set out:

- business from which the WPSF 1 would receive a share of profits; and
- capital support that could be provided by WPSF 1 and the OSF.

The Reliance Mutual Scheme superseded certain terms of the 2012 Scheme of Arrangement and amalgamated the OSFs into the ULP NPF. The terms of the 2012 Scheme of Arrangement that are still applicable to the Transferring Policyholders are encompassed within the Reliance Mutual Scheme described above.

Appendix 5: ELAS Scheme of Arrangement

Introduction

ELAS has proposed that a "Scheme of Arrangement" be effected, under the terms of Part 26 of the Companies Act 2006 (the "Act"), with the intention of removing investment guarantees attached to some with-profits policies ("Investment Guarantees") and converting the majority of with-profits policies in ELAS to unit-linked policies, distributing the excess assets in ELAS in the process. This will apply to over 99%²¹ of with-profits policyholders and if the Scheme of Arrangement proceeds it will apply to all policies in its scope. The exception to this is the German With-Profits policies.

This conversion is a key condition in the acquisition of ELAS' business by Utmost Life and Pensions. Should it not go ahead, the Companies would terminate the Part VII process.

The Scheme of Arrangement must also be approved by the Court at a Convening Hearing, by required statutory minimum majorities in a meeting of policyholders convened for the purpose, and sanctioned at a subsequent Sanction Hearing. The Sanction Hearing has been scheduled for 22 November 2019 and 25 November 2019, the same dates as for the Scheme. Should it be approved by the Court (subject to the processes described below), it would take effect at 00:01 on 1 January 2020, immediately before the Scheme of Transfer is effected (00:02 on 1 January 2020).

Purpose of the Scheme of Arrangement

The Scheme of Arrangement constitutes a compromise between ELAS and its with-profits policyholders (the "Scheme of Arrangement Policyholders"). The terms of all ELAS with-profits policies, excluding the German With-Profits Policies, will be amended to remove any Investment Guarantees and those policies will be converted to unit-linked policies, allocating the excess assets in ELAS in the process through an uplift to policy values. Other guarantees such as Guaranteed Minimum Pensions or Guaranteed Annuity Rates will be retained.

The uplift that the Scheme of Arrangement Policyholders will receive will reflect the full distribution of the excess assets in the fund, less the German With-Profits Policyholders' share of these assets, which would have been distributable to with-profits policyholders in the future (the "ELAS distributable assets").

As part of the agreement between ELAS and Utmost Life and Pensions, the Scheme of Arrangement must be completed before the proposed Scheme to transfer long-term insurance business can go ahead.

Operation of the Scheme of Arrangement

Under Part 26 of the Companies Act 2006, a meeting ordered by the Court under section 896 of the Act is scheduled to be held on 1 November 2019, assuming approval at the Convening Hearing. The Act requires that, at this meeting, a majority by number, representing at least 75% in value, of affected creditors present and voting at the Scheme Meeting (either in person or by proxy, including votes cast by post or online) vote in favour of the Scheme of Arrangement. In the context of the

²¹ See the 'Excluded Policies' section below for details of ELAS policies that will not be subject to the Scheme of Arrangement

Scheme of Arrangement, the creditors are all ELAS with-profits policyholders, with the exception of the German With-Profits Policyholders.

If the Scheme of Arrangement proceeds it will apply to all policies in its scope.

The Scheme of Arrangement must also be sanctioned by the Court at a Sanction Hearing, similar to the Scheme of Transfer. The Court will consider, amongst other things, non-objection by the Regulators and the Policyholder Independent Expert’s confirmation of the continued fairness of the Scheme of Arrangement when deciding whether to approve the scheme.

If both the Scheme and the Scheme of Arrangement are approved by the Court, the Scheme of Arrangement can be implemented as soon as an office copy of the Court Order is delivered by ELAS to the Registrar of Companies for registration, and the vote is passed by the Members of ELAS appointing Utmost Life and Pensions as the sole member of ELAS (and the Articles of Association updated accordingly).

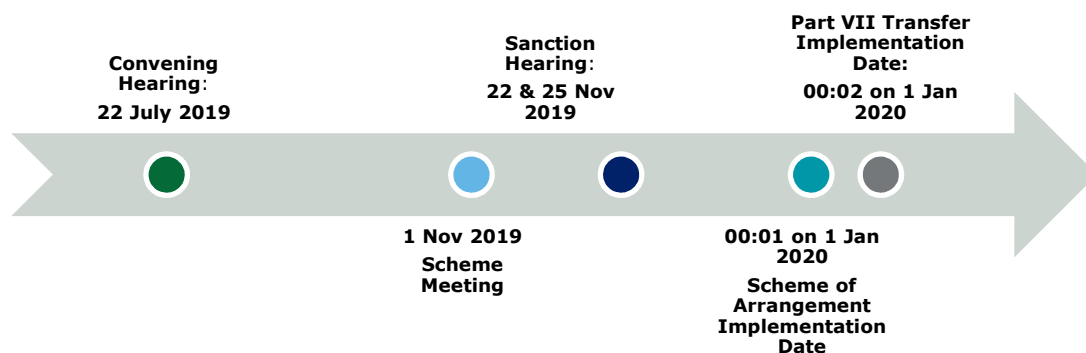
The date on which the Scheme of Arrangement Court Order is delivered to the Registrar of Companies is referred to as the Scheme Effective Date. This is currently expected to be in the week commencing 25 November 2019.

The Scheme of Arrangement will then be implemented at 00:01 on the Implementation Date. Upon implementation of the Scheme of Arrangement on this date:

- the terms of the Scheme of Arrangement Policies will be amended, so as to remove any Investment Guarantees;
- the policy value of each Scheme of Arrangement Policy will be increased by the amount of the specified uplift; and
- conversion will take place and the with-profits policies of the Scheme of Arrangement Policyholders will be converted into unit-linked policies and the Scheme of Arrangement Policyholders shall cease to participate in the profits of ELAS.

Timeline

Figure A5.1: Timeline of Scheme of Arrangement and transfer of policies to Utmost Life and Pensions



Asset strategy changes

As part of the Scheme of Arrangement, the ELAS With-Profits Policyholders which are converted to unit-linked policies will choose a fund in which to invest their policy value. These funds will be provided by a new fund Investment Manager, JP Morgan Asset Management. The Scheme of

Arrangement will not change the funds in which the existing ELAS Unit-Linked Policyholders invest. Policyholders will be given a choice of the period of time to move into their chosen investment fund:

- over a three week period from the Implementation Date;
- over a three month period from the Implementation Date; or
- over a six month period from the Implementation Date.

If a policyholder does not specify a time period, they will be moved into their chosen fund over a six month period from the Implementation Date. If no investment choice is made, the policy will be invested in a Secure Cash Investment for the first six months after which there will be a gradual transition into a default investment fund.

Under the Scheme of Arrangement, the unit funds of Transferring and Non-Transferring Policyholders who do not make an investment choice are placed into a default cash fund which will not reduce below the value on the Implementation Date. Between 6 and 12 months after the Implementation Date, these funds will migrate into a fund structure that differs for each policyholder age group, as shown below. A maximum annual management charge of 0.75% is applicable to each of the above and is intended to be in line with acceptable market practice.

Table A5.1: Post-Scheme default fund allocation for Transferring and Non-Transferring Unit-Linked Policyholders who have not made an investment choice

Policyholder group	Age	Fund Allocation	
		At Implementation Date	At Implementation Date + 6 – 12 months
UK and International Sterling Pension Policyholders	<55	Secure Cash Investment (no reduction in unit price below value at Implementation Date)	Multi-Asset Moderate Fund
	55 – 65		Gradual transition to Multi-Asset Cautious Fund
	65 – 75		Multi-Asset Cautious Fund
	75 – 85		Gradual transition to Money Market Fund
	Over 85		Money Market Fund
UK and International Sterling Life Policyholders	All	Secure Cash Investment (no reduction in unit price below value at Implementation Date)	Multi-Asset Moderate Fund
International Dollar Policyholders	All	Secure Cash Investment (no reduction in unit price below value at Implementation Date)	Gradual transition to 60% US Dollar Equity Fund and 40% US Dollar Bond Fund
Irish Life and Pensions Policyholders	All	Secure Cash Investment (no reduction in unit price below value at Implementation Date)	Gradual transition to Irish Managed Fund

Source: *Diamond Investment Proposition –February 2019.pptx*

The above asset migration strategy aims to ensure that the funds invested in meet the anticipated needs and risk appetite of the policyholder. Changing the assets over a prolonged period will maintain liquidity so that claims can be met as they fall due and minimise the cost and risks of any asset transition, while ensuring the migration can be operationally supported by Utmost Life and Pensions. The age-defined fund allocation for pension policies will also move gradually over time, rather than a binary movement as policyholders hit the boundary age (e.g. 55, 65).

Communication with Scheme of Arrangement Policyholders

ELAS has identified c.261,000 Scheme of Arrangement Policyholders who will be in scope of the Scheme of Arrangement and will be directed to the materials relevant to them in the detailed pack

through their covering letter. Below is a simple timetable of communications that ELAS intends to provide:

Table A5.2: Timeline of communication with Scheme of Arrangement Policyholders

Communications		
2018	September	Policyholder letter, providing current policy value and update on Scheme of Arrangement and Part VII
2019	January	Policyholder letter, providing current policy value and update on Scheme of Arrangement and Part VII
	April	Annual Statement Issued
	May	AGM invitation pack issued
	May	Practice Statement letter issued
	Late July / Early August (after Directions Hearing)	Press notices published Part VII and Scheme of Arrangement decision pack (cover letter, explanatory booklet, personal illustration and voting forms) issued
	August	Investment choice pack issued
	November	Chairman's Report on Vote
	Q1 2020	Utmost Life and Pensions Welcome Letter

Source: *Communications Approach.pdf*

Excluded Policies

The only category of with-profits policy to be excluded from the Scheme of Arrangement is the German With-Profits Policies, policies sold under German law.

Appendix 6: Summary Solvency II Financial Information

Introduction

This Appendix provides a fund-level breakdown of the estimated Solvency II financial impact of the Scheme had it been implemented as at 31 December 2018 for both ELAS and Utmost Life and Pensions, as summarised in Section 5. It also sets out how the make-up of the SCR will change as a result of the Scheme.

Summary Solvency II Financial Information

Pre-Scheme Solvency II balance sheet

Table A6.1: ELAS pre-Scheme, pre-Scheme of Arrangement Solvency II balance sheet as at 31 December 2018

£m	ELAS
Invested Assets	6,004
Reinsurance Recoverables	365
Assets	6,369
Best Estimate Liability	5,371
Risk Margin	191
Transitional Measure on Technical Provisions (TMTP)	(65)
Technical Provisions (Post-TMTP)	5,497
Total liabilities	5,711
Own Funds	658
Solvency Capital Requirement	413
Minimum Capital Requirement	125
Capital Coverage Ratio	159%

Table A6.2: Utmost Life and Pensions pre-Scheme Solvency II balance sheet as at 31 December 2018

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Net Assets	1,366.3	29.7	12.3	118.9	99.4	1,626.6
Reinsurance	(10.1)	0.0	0.0	(5.2)	0.0	(15.3)
Assets	1,356.3	29.7	12.3	113.7	99.4	1,611.3
Best Estimate Liability	1,243.3	12.1	12.3	113.7	99.4	1,480.7
Risk Margin	30.6	0.0	0.0	0.0	0.0	30.6
Transitional Measure on Technical Provisions (TMTP)	(33.6)	0.0	0.0	0.0	0.0	(33.6)
Technical Provisions	1,240.3	12.1	12.3	113.7	99.4	1,477.7
Own Funds restrictions	(2.7)	(15.9)	0.0	0.0	0.0	(18.6)
Eligible Own Funds	113.3	1.7	0.0	0.0	0.0	115.0
Solvency Capital Requirement	63.0	1.7	0.0	0.0	0.0	64.6
Capital Coverage Ratio						178%

Note that the above presentation differs from publicly available information on the Utmost Life and Pensions pre-Scheme balance sheet as the Risk Margin and Operational Risk component of the Solvency Capital Requirement have been moved from the ring-fenced with-profits sub-funds (WPSF2, 4 and 6) to the Non-Profit Fund.

Post-Scheme Solvency II balance sheet

Table A6.3: ELAS post-Scheme Solvency II balance sheet as at 31 December 2018

£m	ELAS
Invested Assets	73
Reinsurance Recoverables	8
Assets	82
Best Estimate Liability	77
Risk Margin	1
Transitional Measure on Technical Provisions (TMTP)	0
Technical Provisions (Post-TMTP)	78
Own Funds	4
Solvency Capital Requirement	2
Minimum Capital Requirement	3
Capital Coverage Ratio	125%

Table A6.4: Utmost Life and Pensions post-Scheme Solvency II balance sheet as at 31 December 2018

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Net Assets	7,380.8	29.7	12.3	118.9	99.4	7,641.3
Reinsurance	346.3	0.0	0.0	(5.2)	0.0	341.1
Assets	7,727.2	29.7	12.3	113.7	99.4	7,982.3
Best Estimate Liability	7,363.2	12.1	12.3	113.7	99.4	7,600.6
Risk Margin	81.3	0.0	0.0	0.0	0.0	81.3
Transitional Measure on Technical Provisions (TMTP)	0.0	0.0	0.0	0.0	0.0	0.0
Technical Provisions	7,444.5	12.1	12.3	113.7	99.4	7,681.9
Own Funds restrictions	0.0	(15.9)	0.0	0.0	0.0	(15.9)
Eligible Own Funds	282.7	1.7	0.0	0.0	0.0	284.3
Solvency Capital Requirement	187.9	1.7	0.0	0.0	0.0	189.6
Capital Coverage Ratio						150%

Comparison of SCR elements

Table A6.5: ELAS pre-Scheme, pre-Scheme of Arrangement SCR components as at 31 December 2018

£m	ELAS
Market Risk	26.5
Counterparty Default Risk	14
Life Underwriting Risk	383.5
Diversification	(29.1)
Basic SCR	394.9
Operational Risk	18.4
Total SCR	413.3

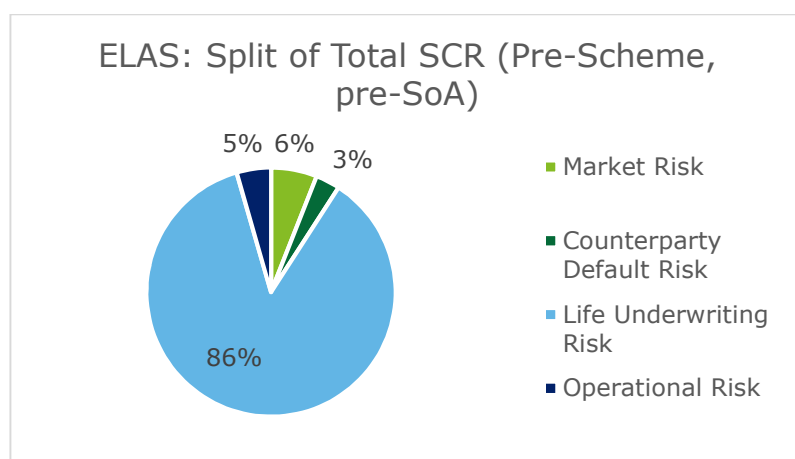
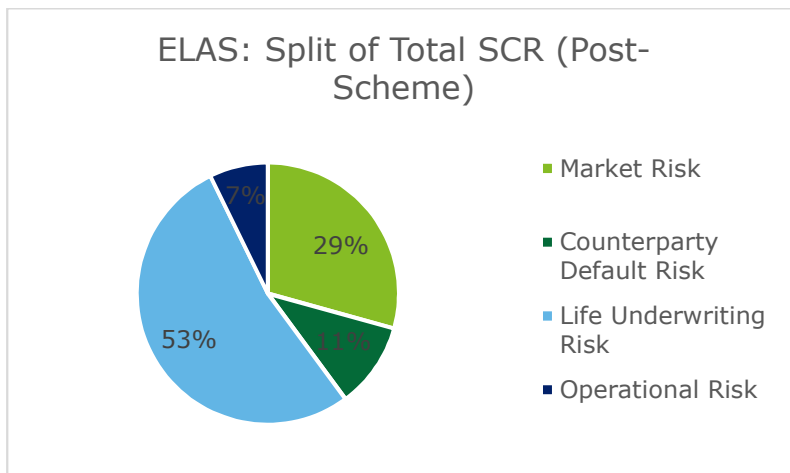


Table A6.6: ELAS (entity) post-Scheme SCR components as at 31 December 2018

£m	ELAS
Market Risk	0.8
Counterparty Default Risk	0.3
Life Underwriting Risk	1.5
Diversification	(0.6)
Basic SCR	2.0
Operational Risk	0.2
Total SCR	2.1



The change in the ELAS SCR split by risk is in line with my expectations given the nature of the business in ELAS both pre- and post-Scheme. The dominance of “life underwriting risk” before the Scheme is driven by the with-profits business in ELAS before the Scheme of Arrangement. After the Scheme, this component is driven by both the lapse risk and expense risk of the ELAS fund.

Table A6.7: Utmost Life and Pensions (entity) pre-Scheme SCR components as at 31 December 2018

£m	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Market Risk	46.4	8.7	2.3	8.4	11.0	76.9
Counterparty Default Risk	3.7	0.0	0.0	0.1	0.4	4.3
Life Underwriting Risk	32.8	0.0	0.1	3.2	6.5	42.6
Diversification	(16.8)	(0.1)	(0.1)	(2.0)	(3.6)	(22.6)
TMTTP	(8.6)	(7.1)	(2.4)	(9.8)	(14.2)	(42.0)
Basic SCR	66.1	8.8	2.4	9.8	14.2	101.2
Operational Risk	4.4	0.1	0.1	0.5	0.4	5.4
Adjustment for ring-fencing	-	(7.1)	(2.4)	(9.8)	(14.2)	(33.4)
Adjustment for Deferred Tax	(8.6)	-	-	-	-	(8.6)
Total SCR	61.9	1.7	0.1	0.5	0.4	64.6

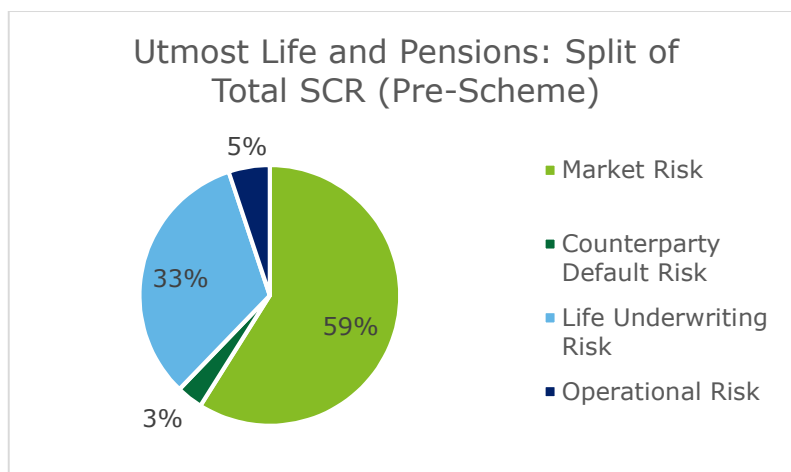
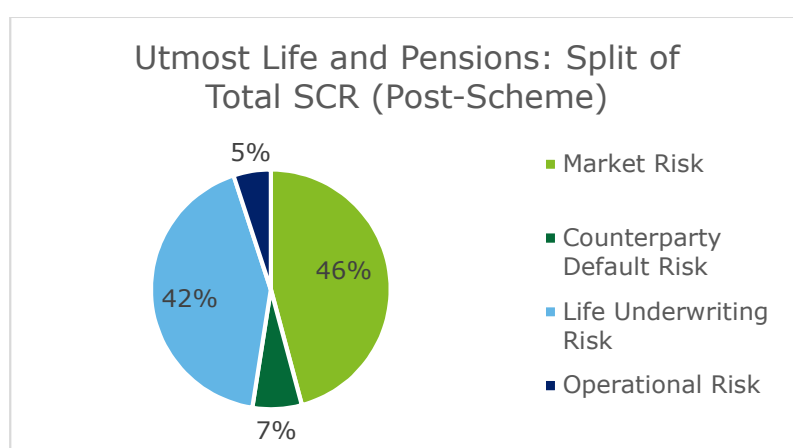


Table A6.8: Utmost life and Pensions (entity) post-Scheme SCR components as at 31 December 2018

<i>£m</i>	NPF	WPSF1	WPSF2	WPSF4	WPSF6	Total
Market Risk	69.6	8.7	2.3	8.4	11.0	100.0
Counterparty Default Risk	61.8	0.0	0.0	0.1	0.4	62.4
Life Underwriting Risk	119.4	0.0	0.1	3.2	6.5	129.2
Diversification	(60.8)	(0.1)	(0.1)	(2.0)	(3.6)	(66.7)
TMTF	-	-	-	-	-	-
Basic SCR	189.9	8.8	2.4	9.8	14.2	225.0
Operational Risk	10.7	-	-	-	-	10.7
Adjustment for ring-fencing	-	(7.1)	(2.4)	(9.8)	(14.2)	(33.4)
Adjustment for Deferred Tax	(12.7)	-	-	-	-	(12.7)
Total SCR	187.9	1.7	0.0	0.0	0.0	189.6



Following the Scheme, “life underwriting risk” makes up a greater proportion of the Utmost Life and Pensions SCR than before the Scheme. This is due to the nature of the business transferring over from ELAS, which has a significant proportion of unit-linked business, which drives, in particular, an increase in the lapse risk component of the Life underwriting risk sub-module.

The change in the SCR split is in line with my expectations given the nature of the business transferring over from ELAS.

Appendix 7: Description of Reinsurance Arrangements

Description of Existing Material Reinsurance Arrangements

Reinsurance for Equitable Life Assurance Society

The table below details all of the internal and external reinsurance treaties that relate to the ELAS business and confirmation of their treatment under the Part VII:

Table A7.1: Table of ELAS internal and external reinsurance treaties

Reinsurer	Country of origin	Principal classes of business reinsured	Nature of cover	Commencing date	Amount of reserves ceded (£m)	Treatment
Kölnische Rückversicherungs-Gesellschaft	Germany	Mortality, disability and accident	Surplus	1994	<1	Not transferring
Kölnische Rückversicherungs-Gesellschaft	Germany	Mortality, disability and accident	Quota share	1994	<1	Not transferring
Swiss Re Deutschland	Germany	Mortality, disability and accident	Surplus	1998	<1	Not transferring
Swiss Re Deutschland	Germany	Mortality, disability and accident	Quota share	1998	<1	Not transferring
Swiss Re Life & Health	UK	Critical illness	Quota share plus Surplus	1993	<1	Transferring in full
Permanent Insurance Company Ltd	UK	Critical illness	Quota share	1995	<1	Transferring in full
Swiss Re Life & Health	UK	Medical expenses	Quota share	1993	<1	Transferring in part
Permanent Insurance Company Ltd	UK	Medical expenses	Quota share	1995	<1	Transferring in part
Swiss Re Europe SA	UK	Mortality	Quota share	2016	3.6	Transferring in full
Victory Reinsurance Company Ltd	UK	Mortality	Quota share	1982	<1	Transferring in full
Clerical Medical Investment Group Limited	UK	Investment links to unitised funds	Quota share	2001	8.9	Transferring in full
Halifax Life Ltd	UK	Mortality and Longevity	Quota share	2011	384.0	Transferring in part
Swiss Re Life & Health	UK	Mortality risks for ELAS group scheme life cover	Surplus	1981	<1	Transferring in part

Appendix 7: Description of Reinsurance Arrangements

Swiss Re Life & Health	UK	Mortality risks for individual assurances	Surplus	1988	<1	Transferring in part
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In addition, ELAS has accepted inwards reinsurance covering all individual life assurance business written by Permanent Insurance between February 1998 and January 2000. This amounts to around £1 million. Other inwards reinsurance accepted by ELAS is historic (pre-1970) and negligible.

Appendix 8: Data and Reliances

This section lists the items of information that I have received, reviewed and relied upon in relation to the preparation of this Report. This includes various emails and documents received from management of the Companies, regulatory correspondence and publicly available information.

Document description	Date of document	Company relating to
Scheme documents		
Draft of legal Scheme document	26/06/2019	ELAS
High level timeline for Part VII and Scheme of Arrangement	25/04/2019	ELAS
Proposed Brexit strategy in relation to the Scheme of Arrangement and the Part VII transfer	13/05/2019	ELAS
Draft Witness Statement	20/06/2019	ELAS
Scheme of Arrangement		
Draft Scheme of Arrangement Scheme Document	17/05/2019	ELAS
Scheme of Arrangement (Diamond) Investment Proposition	20/02/2019	ELAS
Company Background		
ELAS Memorandum and Articles of Association	May 2018	ELAS
Memorandum and Articles of Association of LCCG New Lifeco Limited (now Utmost Life and Pensions Limited)	20/03/2018	Utmost Life and Pensions
Summary of policy counts and reserves	20/05/2019	Both
Utmost Life and Pensions corporate structure	01/02/2019	Utmost Life and Pensions
Scheme Related Financials		
YE2018 SII balance sheet and SCR breakdown for Utmost Life and Pensions - both by fund (pre-and post-Scheme)	23/05/2019	Utmost Life and Pensions
YE2018 SII balance sheet and SCR breakdown for ELAS - both by fund (pre-and post-Scheme)	23/05/2019	ELAS
Commentary around changes in the SII balance sheet as a result of the Scheme of Arrangement	23/05/2019	ELAS
Capital policies and capital support mechanisms		
Reliance Life Capital Policy	2018	Utmost Life and Pensions
Reliance Life Liquidity Policy	2017	Utmost Life and Pensions
ELAS Group Capital Policy	June 2018	ELAS
Draft post-Scheme ELAS Capital Policy	03/07/2019	ELAS / Utmost Life and Pensions
£35m faculty arrangement between LCCG Holdings and LCCG UK (RL) Limited	23/03/2018	Utmost Life and Pensions

Document description	Date of document	Company relating to
£35m faculty arrangement between LCCG UK (RL) Limited and Reliance life Holdings Limited	23/03/2018	Utmost Life and Pensions
£35m faculty arrangement between Reliance life Holdings Limited and Reliance Life Limited	23/03/2018	Utmost Life and Pensions
Unit-linked management and pricing		
Guide to Reliance Life's approach to unit pricing and management of UL funds	2018	Utmost Life and Pensions
Unit-Linked Box Management and Fund Pricing framework	27/09/2017	ELAS
Existing Schemes		
Scheme document for the Part VII transfer of full business of Reliance Mutual to LCCG	2017	Utmost Life and Pensions
Chief Actuary report for the transfer of Reliance Mutual to Reliance Life	Oct-2017	Utmost Life and Pensions
Chief Actuary supplementary report for the transfer of Reliance Mutual to Reliance Life	Mar-2018	Utmost Life and Pensions
With-Profits Actuary report for the transfer of Reliance Mutual to Reliance Life	Oct-2017	Utmost Life and Pensions
With-Profits Actuary supplementary report for the transfer of Reliance Mutual to Reliance Life	Mar-2018	Utmost Life and Pensions
Witness statements from Reliance Mutual scheme - contains information on gone-aways	2017	Utmost Life and Pensions
Information on 2007 Part VII to Canada Life	2007	ELAS
Information on 2007 Part VII transfer to Prudential	2007	ELAS
Information on 2016 Part VII transfer to Canada Life	2016	ELAS
Public reports and financial disclosures		
Utmost Life and Pensions SFCR	May 2019	Utmost Life and Pensions
ELAS SFCR	May 2019	ELAS
ELAS Report & Accounts	March 2019	ELAS
Chief Actuary and With-Profit Actuary reports on the Scheme		
With-Profits Actuary report (Final Draft)	July 2019	Both
Chief Actuary report (Final Draft)	July 2019	Both
Reinsurance Agreements		
Reinsurance information	25/01/2018	Utmost Life and Pensions
External reinsurance treaty information	17/05/2019	ELAS
Tax		
Application to the HMRC regarding VAT tax clearances	05/10/2018	ELAS
Application to the HMRC regarding pension scheme tax clearances	28/09/2018	ELAS
Tax clearances update	08/07/2019	ELAS
Customer Information / Policyholder Communication		

Document description	Date of document	Company relating to
Policyholder Communications strategy	12 July 2019	Both
ELAS' policy for vulnerable policyholders	05/12/2017	ELAS
Detail of dispensations applied for	October 2018	Both
Draft policyholder letter	2018	Utmost Life and Pensions
Draft policyholder communications	30 May 2019	ELAS
Other		
ELAS 2018 ORSA	2018	ELAS
Utmost Life and Pensions 2018 ORSA	2018	Utmost Life and Pensions
Service Standards Policy of Reliance Life	01/04/2018	Utmost Life and Pensions
Policy on non-profit discretion in policy terms & conditions, charges and unit-linked pricing and fund changes	2017	Utmost Life and Pensions
Draft PPFM for the new German With-Profits Fund	June 2019	ELAS

Appendix 9: Glossary

Annual Equivalent Rate (AER) is interest that is calculated under the assumption that any interest paid is included in the principal payments balance, and that the next interest payment will be based on the slightly higher account balance.

Articles of Association is a document which sets out the rules according to which a company must be run and administered.

Asset Shares are assessments of the fair value of a policy's share of the gains and losses of the fund in which they are written.

Association of British Insurers (ABI) is the leading trade association for insurers and providers of long term savings.

BaFin is better known abbreviation for the financial service regulatory for Germany, the Federal Financial Supervisory Authority.

BEL refers to Best Estimate Liabilities, calculated under Solvency II Pillar 1 quantitative requirements, and is equal to the best estimate of the cost that will be incurred in meeting the obligations of policyholders.

Beneficiaries are members of the Group Schemes from whom ELAS is seeking dispensation from the Court.

Board means the board of directors of the relevant entity from time to time.

Brexit is the term commonly used to describe the impending withdrawal of the United Kingdom from the European Union, due to take effect on 31 October 2019.

Capital Coverage Ratio (CCR) refers to the ratio of assets less liabilities to the higher of the Minimum Capital Requirement and Solvency Capital Requirement. Within this Report, this is the ratio of Eligible Own Funds to the higher of the Minimum Capital Requirement and Solvency Capital Requirement.

Central Bank of Ireland (CBI) is the Irish financial services regulator, responsible for safeguarding monetary and financial stability in Ireland

Channel Islands Courts refers to the Royal Court of Jersey and the Royal Court of Guernsey.

Channel Islands Policies refers to business written by ELAS in Jersey and Guernsey.

Channel Islands Schemes are the local Schemes which will be subject to sanction of the Channel Islands Courts.

Chief Actuary (CA) is responsible for performing the actuarial function specified in the "PRA Rulebook: Conditions Governing Business" which includes contributing to the effective implementation of the risk management system, coordinating the calculation of technical provisions, and ensuring the appropriateness of the methodologies and underlying models used.

Civil Procedure Rules are the rules of civil procedure used by the High Court of Justice in civil cases in England and Wales.

Companies means Utmost Life and Pensions Limited and ELAS.

Companies Act 2006 is the main piece of legislation which governs company law in the UK.

Contracts (Rights of Third Parties) Act allows third parties to enforce terms of contracts that benefit them in some way, or which the contract allows them to enforce. It also grants them access to a range of remedies if the terms are breached. The Act also limits the ways in which a contract can be changed without the permission of an involved third party.

Conventional With-Profits Policy is a policy where a policyholder pays a premium or a series of premiums in return for the insurance company providing a benefit after a specified event or date. The basic benefit is usually increased throughout the policy term with the addition of regular bonuses.

Court is the High Court of Justice in England and Wales.

Deloitte is Deloitte MCS Limited, a subsidiary of Deloitte LLP. Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 3311052.

ELAS is Equitable Life Assurance Society, incorporated in England in Wales with registered number AC000063.

ELAS Main Fund is the remaining ELAS fund post-Scheme, which includes the German With-Profits Fund.

ELAS OLTF is the Ordinary Long Term Fund of ELAS. This is often referred to as the ELAS With-Profits Fund, or "ELAS WPF".

Eligible Own Funds is the value of Own Funds less any assets not available to meet the Solvency Capital Requirement or the Minimum Capital Requirement under Solvency II Pillar 1 reporting.

European Economic Area (EEA) comprises the European Union and Iceland, Lichtenstein and Norway.

European Insurance and Occupational Pensions Authority (EIOPA) is one of the European supervisory authorities responsible for macro-prudential oversight at the European Union level.

European Union (EU) comprises of the political and economic union of 28 member states (prior to Brexit), mostly located within Europe.

Excluded Policies are Transferring Policies which cannot be transferred to Utmost Life and Pensions at the Implementation Date.

Existing Utmost Life and Pensions Policies are the policies in the Utmost Life and Pensions long-term insurance fund prior to the Implementation Date.

Existing Utmost Life and Pensions Policyholders are the existing policyholders of Utmost Life and Pensions.

Extraordinary General Meeting (EGM) refers to a meeting of members, shareholders, or employees of an official body that occurs at an irregular time.

FCA is the Financial Conduct Authority, the conduct regulator for the UK financial services industry, with objectives to protect consumers of financial services, enhance market integrity and promote healthy competition between financial services providers.

FRC is the Financial Reporting Council, the UK's independent regulator who is responsible for setting standards for corporate reporting and actuarial practice and monitoring and enforcing accounting and auditing standards.

FSMA is the Financial Services and Markets Act 2000, as amended.

GAR refers to Guaranteed Annuity Rate, a guaranteed conversion basis for the conversion of savings to an annuity at maturity.

German With-Profits Fund is a ring-fenced fund within ELAS that will be created as part of the Scheme and to which both the UK-style and German-style German With-Profits Policies will be allocated after the Implementation Date.

German With-Profits Policies are policies sold under German law, and are described as either "UK-Style" or "German-Style", depending on their feature and the nature of their benefits.

German With-Profits Policyholders are the holders of German With-Profits Policies.

German-style German With-Profits Policies are policies which are similar to non-profit policies, but whose benefits are linked to the performance of a specific pool of assets.

German-style German With-Profits Policyholders are the holders of the German-style German With-Profits Policies.

Hard Brexit is a widely adopted term for a Brexit where EU movement, trade and customs would no longer apply following the Brexit effective date.

HMRC is Her Majesty's Revenue and Customs, the government department responsible for collecting and administering taxes.

Implementation Date is 1 January 2020, the date on which the Scheme is expected to become operative (subject to the approval of the Court), although this can be extended congruently with the Scheme of Arrangement.

Independent Expert refers to Richard Baddon of Deloitte MCS Limited whose appointment, which has been approved by the PRA following consultation with the FCA, involves producing a scheme report under the requirements of the FSMA, reflecting the guidance provided by SUP 18.2 of the Regulators' Handbooks.

The **Insurance Distribution (regulated Activities and Miscellaneous Amendments) 2018** is the UK insurance legislation which sets out, amongst other things, the required permissions for insurance companies to conduct business, updated to reflect Brexit.

Interested party is any person who has or asserts a right to receive a copy of any of the Reports, as relevant under the terms of FSMA, or any non-EEA resident policyholder who has or asserts a right to receive a copy of such relevant Reports under the terms of local legislation.

LCCG refers to the Life Company Consolidation Group. Since February 2019, it has now been renamed the Utmost Group of Companies.

Liquidity buffer is excess liquid assets which can help protect against liquidity stress.

Matching Adjustment is one of the long term measures used to mitigate the artificial volatility caused by Solvency II.

Minimum Capital Requirement (MCR) is the regulatory minimum level of capital an insurer must hold under Solvency II. The MCR is calculated with reference to a company's SCR, and has an absolute floor of €3.7m, the level of which is determined by EIOPA.

Non-Profit Policy is a policy (including any unit-linked policy unless stated otherwise) which is not entitled to share in the profits of the company in which it is located, including term assurance and income protection policies where specified benefits are payable on death or incapacity.

Non-Transferring Policies are the policies which will not transfer to Utmost Life and Pensions by way of a Part VII transfer. In the case of the Scheme, these are the policies sold under Irish or German law.

Non-Transferring Policyholders are the holders of the Non-Transferring Policies.

OLTF is the Ordinary Long Term Fund within ELAS.

Ordinary Sub Fund (OSF) refers to the additional non-profit sub funds which were created within Reliance Mutual by a Scheme of Arrangement in 2012.

Own Funds are excess assets over liabilities, as defined by the Solvency II directive.

Pillar 1 is one of three reporting requirements set by Solvency II regulation, covering quantitative assessment and requirements. It sets out how an insurer's assets and liabilities should be valued using the principles of market consistency to reflect the price that the market would put on those items.

Pillar 2 addresses the qualitative element of Solvency II and requires insurers to prepare an Own Risk & Solvency Assessment (ORSA) and submit to the PRA.

Pillar 3 outlines the reporting format that insurers should adopt as part of Solvency II, such as quarterly QRTs and annual SFCRs.

Policyholder Independent Expert is the independent actuary appointed by ELAS to assess the fairness of the Scheme of Arrangement.

PRA is the Prudential Regulation Authority, the body responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms.

Primary uplift amount is the uplift to be allocated to ELAS with-profits policyholders following the Scheme of Arrangement. In the case of the UK-style German With-Profits Policyholders, this uplift will be allocated to policies through the Scheme.

Principles and Practices of Financial Management (PPFM) is a document describing how a with-profits fund is managed. Each with-profits fund is required to make its PPFM publicly available.

QRTs are the quarterly Quantitative Reporting Templates which firms are required to complete for private disclosure to the PRA. These templates contain key financial and solvency information.

Regulator(s) means the applicable regulator(s) of the UK insurance industry, the Prudential Regulation Authority and Financial Conduct Authority.

Regulators' Handbook of rules and guidance is issued by the Regulator(s) from time to time made pursuant to the FSMA together with the rules and regulations implemented pursuant thereto.

Reliance Mutual refers to Reliance Mutual Insurance Society, which was acquired by LCCG in April 2018 and subsequently renamed "Reliance Life" and later "Utmost Life and Pensions".

Reliance Mutual Scheme refers to the 2018 Part VII transfer of Reliance Mutual to LCCG.

Report is this Report, as required under the terms of FSMA, Chapter 8 (Section 109).

Reserves are determined by performing a calculation, in respect of a policy or group of policies, of the present value of future benefits and expenses less premiums or charges, using specified assumptions for future experience.

Risk Margin (RM) is a margin which reflects the cost of holding regulatory capital in excess of the BEL, within the Solvency II Pillar 1 assessment.

Sanction Hearing is the hearing at the High Court of Justice of England and Wales at which the final decision to approve or disapprove the Scheme is made.

Scheme is the proposed transfer of business from ELAS to Utmost Life and Pensions under Part VII of the FSMA.

Scheme of Arrangement is the proposed conversion of the majority of ELAS' with-profits business to unit-linked business, under Part 26 of the Companies Act 2006.

Scheme Effective Date is the date on which the Scheme of Arrangement Court Order will be submitted to the Registrar of Companies in England and Wales for registration.

Senior Managers are, as defined by the Senior Managers & Certification Regime, senior people in key roles of responsibility within the UK financial services industry, who require approval from the PRA and/or the FCA (as required) to perform their role.

Senior Managers & Certification Regime (SM&CR) is the regime for approval of senior persons in key roles of responsibility within the UK financial services industry, and, for insurers, is overseen by both the PRA and FCA.

SFCR refers to the annual Solvency and Financial Condition Report, containing narrative information, which is made available to the public.

Soft Brexit is a widely adopted term for a Brexit where EU free movement, trade and customs continue to apply to the UK following the Brexit effective date.

Solvency II is the solvency regime for all EU insurers and reinsurers, which came into effect on 1 January 2016.

Solvency Capital Requirement (SCR) is the primary capital requirement under the Solvency II regime and is set at a level that is expected to be sufficient to cover losses arising from an event or combination of events that is of a severity that is expected to happen only once every 200 years over a one year time horizon.

SUP 18 refers to Chapter 18 of the Supervision Manual of the Regulators' Handbooks of Rules and Guidance. It sets out the Regulators' requirements relating to the transfer of long-term insurance business.

Supplementary Report is a report produced in advance of the Sanction Hearing, to consider the impact of the Independent Expert's conclusions of events that have happened subsequent to the release of the initial Report.

TAS 100 is the Technical Actuarial Standard 100: Principles for Actuarial Work, containing generic principles and provisions for actuarial work, as defined in the Scope and Authority of Technical Standards of the FRC.

TAS 200 is the Technical Actuarial Standard 200: Insurance, containing insurance related principles and provisions for actuarial work, as defined in the Scope and Authority of Technical Standards of the FRC.

Tax Clearance is when an entity pays all its tax liabilities prior to its closure or transferral to a new owner.

Tier 1 capital is the highest quality of capital, as defined by EIOPA. Assets in this tier must be both permanently available and rank below other insurance liabilities in the event of a winding-up

scenario. At least 50% of the assets held to cover the Solvency Capital Requirement must be Tier 1.

Tier 2 capital is a lower quality of capital, which is less liquid than Tier 1 capital. Tier 2 capital can cover at most 50% of the Solvency Capital Requirement.

Transfer of a Going Concern (TOGC) is a widely used VAT term to refer to the treatment of a business transfer, with the implication of not suffering VAT.

Transferring Policies are all transferring ELAS Policies.

Transferring Policyholders are the holders of the Transferring Policies.

Transferor is ELAS.

Transitional is a widely adopted term used to describe the transitional measures which allow firms to move to full implementation of Solvency II over a period of time.

Transitional Measure on Technical Provisions ("TMTP") is a transitional arrangement permitted by the PRA and used by firms to reduce the overall level of a company's liabilities to be closer to those held under the previous regime over a period during which the impact reduces year-on-year.

Treating Customers Fairly (TCF) is the framework under which the Regulator will assess whether financial services firms treat their retail customers fairly.

TUPE refers to the Transfer of Undertakings (Protection of Employment) regulations which apply to organisations of all sizes and protect employees' rights when the organisation or service they work for transfers to a new employer.

UK-style German With-Profits Policies are the German With-Profits Policies with benefits and features similar in nature to a UK issued with-profits policy.

UK-style German With-Profits Policyholders are the holders of the UK-style German With-Profits Policies.

Utmost Group of Companies refers to the Utmost Group of Companies, the group of companies under the "Utmost" brand.

Utmost Life and Pensions is Utmost Life and Pensions Limited; a wholly-owned, indirect subsidiary of Utmost Life and Pensions Holdings Limited, incorporated in England and Wales with registered number 10559664. Until 4 March 2019, Utmost Life and Pensions Limited was known as Reliance Life Limited.

Utmost Life and Pensions Non Profit Fund (ULP NPF) refers to the non-profit sub fund within Utmost Life and Pensions Limited, to which all Transferring Policies and associated assets and liabilities will be allocated, and that will bear Utmost Life and Pensions' share of the Scheme costs.

Utmost Life and Pensions Services Limited is the staff employer under the Utmost Life and Pensions structure. All employees are seconded fully to Utmost Life and Pensions Limited and, after the Scheme, will also be seconded to provide services to ELAS.

Unitised With-Profits Policy is any policy under which the value of the benefits is or may be measured in whole or in part by reference to the number and price of with-profits units (a notional unit whose value varies by reference to bonuses declared by the company) allocated to that policy.

With-Profits Actuary (WPA) is the actuary responsible for advising the directors of a company on discretionary aspects of with-profits business.

With-Profits Committee (WPC) assesses, reports on and advises the Board on all matters that affect with-profits policyholders with the primary aim of ensuring with-profits policyholders are treated fairly.

With-Profits Fund (WPF) is a fund where holders of with-profits policies have a right to share in the profits of the company or part thereof.

With-Profits Policy is a policy which is entitled to share in some of the profits of the company or part thereof.

With-Profits Sub Funds (WPSFs) are specifically the with-profits funds within Utmost Life and Pensions, known as WPSF 1, WPSF 2, WPSF 4 and WPSF 6.



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