OLIVER WYMAN

REPORT OF THE INDEPENDENT EXPERT ON THE PROPOSED TRANSFER OF CERTAIN LONG-TERM BUSINESS OF CANADA LIFE LIMITED TO SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED

17th June 2019

Prepared by:

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MARSH & McLENNAN COMPANIES

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Report qualifications/assumptions and limiting conditions

This report sets forth the information required by the terms of Oliver Wyman's engagement by Canada Life Limited and Scottish Friendly Assurance Society Limited and the requirements of the role of Independent Expert, as set out in section chapter 18 of the supervision manual (SUP) of the regulatory handbook, the Prudential Regulatory Authority's policy statement "The Prudential Regulatory Authority's approach to Insurance Business Transfers" dated April 2015 and the Financial Conduct Authority's guidance "FG18/4: The FCA's approach to the review of Part VII insurance business transfers" dated May 2018 and is prepared in the form expressly required thereby. This report may be used by Canada Life Limited and Scottish Friendly Assurance Society Limited, as well as the Regulators and Courts of England and Wales and the Channel Islands and the policyholders of Canada Life Limited and Scottish Friendly Assurance Society Limited, solely for the purpose of supporting the determination of whether the Transfer (as defined in section 1.1 below) should be permitted. This report is intended to be read and used as a whole and not in parts. Separation or alteration of any section or page from the main body of this report is expressly forbidden and invalidates this report.

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1. Introduction

1.1. Introduction

I have been jointly appointed by Canada Life Limited ("***CLL***") and Scottish Friendly Assurance Society Limited ("***SF***") to act as the Independent Expert in relation to the proposed transfer of certain long-term business of CLL to SF (the "***Transfer***") under a scheme (the "***Scheme***") made pursuant to Part VII of the Financial Services and Markets Act 2000 ("***FSMA***"). The purpose of this report (the "***Report***") is to set out the results of my review of the terms of the Transfer.

I am a Fellow of the Institute of Actuaries and hold a Chief Actuary (Life) certificate and a With-Profits Actuary Certificate issued by the Institute and Faculty of Actuaries. I am a Partner in Oliver Wyman Limited's European Insurance Practice and the head of the actuarial practice in the UK. Since joining Oliver Wyman in 1995, I have built up expertise in a wide area of insurance company strategic advice and risk management. I have been involved with the mutual insurance sector since starting work over thirty years ago and have performed a regulatory role as Appointed Actuary, Chief Actuary or With-Profits Actuary within the mutual sector since 1996. In 2012, I performed the role of Independent Actuary in relation to the transfer of the long-term insurance business of Tunbridge Wells Equitable Friendly Society to Forester Life Limited under Part VIII of the Friendly Societies Act 1992. In 2014, I performed the role of Independent Expert in relation to the transfer of the long-term insurance business of Marine and General Mutual Life Assurance Society to SF under Part VII of FSMA (the "Marine and General Transfer").

I do not hold any insurance policies or have any other financial interest in CLL or SF (or any of their group companies). In addition, I have not previously provided advice to either CLL or SF (or any of their subsidiaries) in any capacity other than my role as the Independent Expert in relation to the Marine and General Transfer in 2014. Furthermore, I have consulted my colleagues and believe that Oliver Wyman Limited has not previously advised CLL or SF (or any of their subsidiaries).

The Prudential Regulation Authority ("***PRA***"), having consulted the Financial Conduct Authority ("***FCA***"), has considered the skills needed to make a proper Report and approved my appointment as Independent Expert.

The cost of my work is to be jointly and equally paid for by both CLL and SF.

1.2. Regulatory and professional guidance

I have produced this Report in accordance with the guidance set out in chapter 18 of the Supervision manual ("***SUP***") of the ***Regulatory Handbook***, the PRA's policy statement "The Prudential Regulatory Authority's approach to insurance business transfers" dated April 2015 and the FCA's guidance "FG18/4: The FCA's approach to the review of Part VII insurance business transfers" dated May 2018. Relevant sections of the guidance, with reference to where I have considered each one in the Report if relevant, are set out in Appendices A and B.

I have produced this Report in accordance with the Financial Reporting Council's Technical Actuarial Standards ("TAS") – TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance). It also complies with the Actuarial Profession Standards ("***APS***") of the Institute & Faculty of Actuaries – APS X1 (Applying Standards to Actuarial Work) and APS X2 (Review of Actuarial Work).

1.3. Terms of reference

Full details of my terms of reference, which have been discussed and agreed with CLL and SF, are set out in Appendix C. The terms have been reviewed and approved by the PRA and FCA.

In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. In the context of this report, where I refer to a "material" issue in relation to the security of policyholder benefits, I define an issue as immaterial where the Transfer results in a remote likelihood of an event occurring which has a perceptible, but not significant, effect on policyholders, or where the Transfer results in an event which is likely to occur but has a small impact on policyholders. In addition, I have described some changes in financial positions and policyholder benefits as not being materially adverse. The reader should interpret this to mean that this change does not lead me to conclude that the Transfer should not take place.

Given the subject matter the Report is, in parts, technical in nature, where possible the Report has been written in non-technical language to assist the reader not familiar with the material. In addition to further help the reader in understanding the Report a Glossary has been produced which can be found in Appendix F. Finally, the first time any word defined in the Glossary is used in the Report it appears in both bold and italics both in sections 1 and 2 and the body of the report.

I have considered the impact of the Transfer against the likely position of CLL and SF if the Transfer is not completed. With respect to CLL, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the pro-forma balance sheet position of CLL under the various solvency bases as set out in CLL's Own Risk and Solvency Assessment ("***ORSA***"). While I have paid due regard for the CLL Board's stated strategy to investigate opportunities to pursue a similar transfer with other insurance companies and friendly societies, I have not considered any other possible alternative arrangements to the Transfer.

The Report assesses the likely impact of the Transfer on the existing policyholders of CLL and SF. It does not consider the impact of the Transfer on any new policies written into CLL or SF following the Transfer.

In addition to the areas of investigation listed in Appendix C, I have also considered the Transfer from the point of view of potential "conduct risk" with respect to CLL and SF policyholders. This is set out in section 9 of the Report.

1.4. Peer Review

This Report has been reviewed by Neil Reynolds who is a Principal in Oliver Wyman Limited's actuarial practice in the UK with similar experience and standing to me, and he agrees with my conclusions as set out in this Report.

1.5. Information requested and data used

In producing the Report I have relied on information provided by CLL, SF and their respective professional advisers without independent verification of the accuracy or completeness of information provided. However, wherever possible, I have reviewed the information for reasonableness and consistency and against my understanding of generally accepted market practice.

Furthermore, I have relied on the judgement and conclusions reached by the Chief Actuaries and With-Profits Actuaries for the respective funds in CLL and SF, as documented in the Chief Actuary and With-Profits Actuary reports produced in connection with the Transfer.

I consider that it is reasonable for me to rely on the information and judgements described in this section as they are provided by parties acting in the interest of their respective members and policyholders and in accordance with the regulations and guidelines set out by:

- The PRA and FCA
- The Institute and Faculty of Actuaries
- The Financial Reporting Council

In addition, I have relied on the legal advice given to SF by its legal advisers, CMS Cameron McKenna Nabarro Olswang LLP ("***CMS***"). CMS have not been retained by me and do not have any liability to me for the advice that they have provided that has been made available to me. I am comfortable in not seeking separate legal advice because CMS is a large and reputable firm with extensive expertise and experience in UK insurance law.

Finally, I have relied on tax advice given to SF by Ernst and Young LLP and am comfortable doing so because Ernst and Young LLP is a global and reputable accounting firm with extensive expertise and experience in UK tax law.

Details of the information that I have been provided with are set out in Appendix D.

1.6. Policyholders residing in Jersey or Guernsey

There are separate schemes of transfer being carried out for transferring policies issued to or held by residents of Jersey (the "Jersey Scheme") and Guernsey (the "Guernsey Scheme"), which provide for the transfer of policies on the same terms as the Scheme. The Guernsey Scheme and the Jersey Scheme are both conditional on the sanction of the Scheme by the ***Court*** and are expected to become effective on the same date.

My conclusions as set out in the Report apply equally in respect of any policies issued to or held by residents of Jersey and Guernsey.

2. Executive summary and conclusions

2.1. Context

I have been jointly appointed by CLL and SF to act as the Independent Expert in relation to the proposed transfer of certain long-term business of CLL to SF (the "***Transfer***") under a scheme made pursuant to Part VII of the Financial Services and Markets Act 2000 ("FSMA").

I am a Fellow of the Institute and Faculty of Actuaries in the UK and a partner of Oliver Wyman Limited. I have fulfilled the role of Independent Expert for other insurance business transfers that have been approved by the Court. I confirm that I do not have any direct or indirect interest in CLL, SF or any other related firms that could compromise my independence.

Before the final Court hearing I shall prepare a supplementary report to address any relevant developments after the ***Report*** has been published and provide an update on my conclusions regarding the effect of the proposed transfer on the different groups of policyholders in light of any significant events arising after the Report has been published.

In forming my views, I have taken into account all matters that I consider to be relevant and material in assessing the impact of the Transfer. I have considered the following factors:

- Terms of the transfer
- Financial position of CLL and SF pre and post Transfer
- Financial effect of the Transfer on both transferring and non-transferring CLL policyholders and SF policyholders in relation to:
    - Security of benefits
    - Investment strategy
    - Expense and charges
    - Benefit expectations and bonus prospects
    - Risk profile and capital management policy
- Administration and governance
- Membership rights and policyholder communications
- Tax

I have considered the impact of the Transfer against the likely position of CLL and SF if the Transfer is not completed. With respect to CLL, I have adopted as my primary reference point for the likely position (if the Transfer is not completed) the balance sheet position (i.e. financial position) of CLL under the various solvency bases as set out in CLL's Own Risk and Solvency Assessment ("ORSA"). While I have paid due regard to the CLL Board's stated strategy to investigate opportunities to pursue a similar transfer with other insurance companies and friendly societies, I have not considered any other possible alternative arrangements to the Transfer.

The Report assesses the likely impact of the Transfer on the existing policyholders of CLL and SF. It does not consider the impact of the Transfer on any new policies written into CLL or SF following the Transfer.

I have produced this report in accordance with the guidance set out in chapter 18 of the Supervision manual ("SUP") of the Regulatory Handbook, the PRA's policy statement "The Prudential Regulatory Authority's approach to insurance business transfers" dated April 2015 and the FCA's guidance "FG18/4: The FCA's approach to the review of Part VII insurance business transfers" dated May 2018.

2.2. Terms of the Transfer

In June 2018, CLL and SF signed an agreement setting out the proposed terms on which the transfer would be undertaken (the "Business Transfer Agreement"). It is proposed that the Transfer will become effective on 1st November 2019 (the "***Effective Date***").

The key elements of the Transfer are set out below:

- SF will assume the responsibility of meeting all insurance and financial obligations associated with the transferring policies
- SF will assume the responsibility of administering the transferring policies
- In return, CLL will transfer assets equivalent to the ***Solvency II technical provisions*** based on an agreed valuation basis plus £50m (provided that CLL's standalone ***Solvency Capital Requirement*** ("SCR") for the transferring policies at the date of transfer is between £40m and £60m[1]), less the value of unit-linked liabilities related to three unit-linked property funds[2]
- SF will establish a new ring fenced with-profits ***sub-fund*** (the "***New Manulife Fund***") into which all assets and liabilities of the CLL Manulife Fund will be transferred. All other policies will be transferring into the main operating fund for SF (the "***SF Main Fund***")
- The Scheme will replicate key provisions from the ***1999 Scheme*** which currently govern the operation of the Manulife Fund
- With respect to unit-linked policies, SF will establish internal linked funds which correspond to linked funds maintained by CLL prior to the Transfer. SF will allocate to each transferring unit-linked policy the same number, value and

[1] If CLL's standalone SCR for the transferring policies at the date of transfer is less than £40m or more than £60m, the assets will be adjusted for the difference between £50m and CLL's standalone SCR for the transferring policies

[2] The three property funds are: Canada Life Property Pension Fund (CLMF022), UK Property Life Fund (CLMF306) and Canada Life Property Life Fund (CLMF032). Associated liabilities totalled £221m as at 31st December 2018

classes of units in the new SF linked funds as were allocated to that policy in the equivalent CLL linked funds immediately prior to the Transfer. The Transfer will not result in a change to the charges on unit-linked pensions

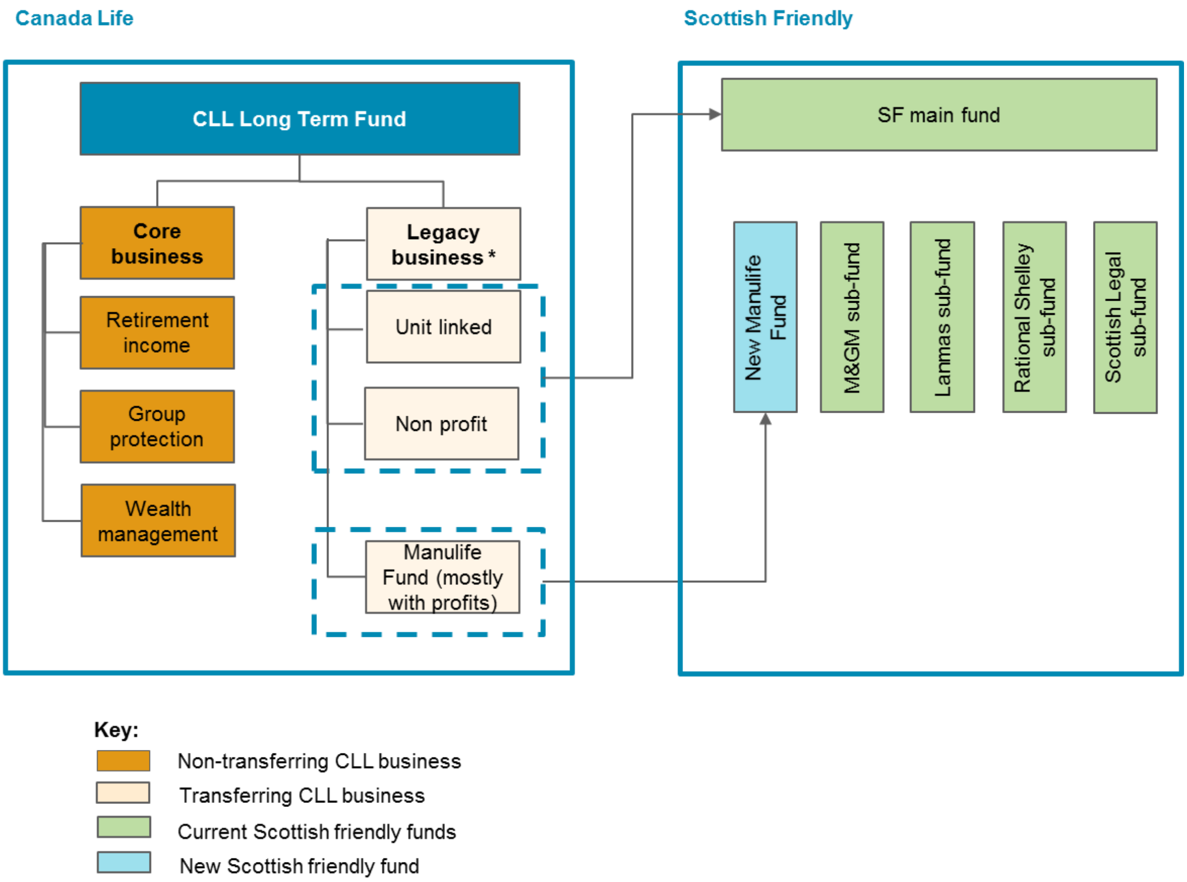
- All transferring policyholders will be granted membership rights in SF
- SF and CLL have agreed to a data migration plan which includes a plan and timetable for the migration of all policies, contracts and data, allocation of responsibilities for obtaining any third party consents required and a transition plan for all underlying assets and records. The plan will be in place before the Effective Date and will come into effect at the Effective Date
- SF and CLL have agreed a "***Transitional Services Agreement***" which will enable CLL to provide services to help SF's administration of the transferring policies on a temporary basis if necessary
- In return for administering policies in the New Manulife Fund, SF will levy charges which are identical to existing charges levied by CLL under the terms of the 1999 Scheme, currently £56.63 per policy per annum for 2019 (increasing monthly in line with RPI) plus 0.25% per annum for the first £200m of assets in the fund[3]
- Prior to the Transfer, SF and CLL will enter into an Investment Management and Services Agreement ("IMSA"). Under the terms of the IMSA, CLFIS (UK) Limited ("CLFIS") will provide administration services and Canada Life Asset Management Limited ("CLAM") will provide investment management services in respect of unit-linked funds to be established by SF (with the exception of Personal Portfolio Funds[4]) for a minimum of four years after the Effective Date. Both CLFIS and CLAM are also subsidiaries of CLG.
- CLL will retain legal ownership of unit-linked property assets, invested in units in an Authorised Contractual Scheme and four direct property investments
- However, in order to provide the transferring policies with continuing access to these funds, SF and CLL will enter into a Unit-Linked Reinsurance Agreement ("***ULRA***") under which CLL will provide reinsurance to SF in relation to these unit-linked property funds. The property assets will be reflected as a reinsurance asset on SF's balance sheet
- The ULRA and related agreements will include security provisions in relation to the property assets in order to mitigate SF's exposure to the risk of default by CLL (and consequently mitigate any associated increase in reinsurance ***counterparty default risk*** capital under Solvency II)
- CLL will be granted the exclusive right for four years to market annuities to all SF policyholders with maturing pension policies, but policyholders will be free to choose options from the open market in the normal way

[3] SF will levy a charge of 0.125% per annum for amounts in excess of £200m in the New Manulife Fund

[4] Personal Portfolio Funds are unit-linked investment policies for high net worth individuals under which the policyholder or an investment manager appointed by them selects the assets which will be comprised within the fund. CLL currently has c. 100 Personal Portfolio Funds policies

In essence the overall effect for the transferring policyholders is that, to all intents and purposes, the administration and benefits will look unchanged but will be the responsibility of SF.

An illustrative diagram of the Transfer is shown below:



* excluding Hong Kong policies, which will be retained by CLL

Both management teams and the boards of SF and CLL are supportive of the Transfer. Both recognise that the Transfer has a strong commercial rationale, while delivering an outcome that is consistent with the requirement to ensure the fair treatment of customers.

2.3. CLL's financial position pre and post Transfer

I have considered the financial impact of the Transfer on CLL's financial position under the Solvency II Pillar 1 basis, the regulatory regime under which the PRA looks at the financial strength of an insurer, as at 31 December 2018 and concluded that:

- The Transfer results in a c. £2.4bn reduction in the total assets and liabilities of CLL, which equates to reductions of 7% and 8% respectively in proportional terms
- The Transfer results in a £60m reduction in CLL's ***Own Funds*** (or 1% in proportional terms), which indicates that the Transfer has a limited impact on CLL's financial resources
- The Transfer results in a £40m reduction in CLL's SCR (or 2% in proportional terms), which indicates that the Transfer has a limited impact on CLL's risk profile
- The Transfer has a minimal impact on CLL's ***Surplus*** and ***SCR Coverage Ratio***

Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on CLL's Solvency II Pillar 1 financial position.

I am also satisfied that the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of the New Manulife Fund (relative to the financial position of the Manulife Fund in CLL prior to the Transfer).

2.4. SF's financial position pre and post Transfer

I have considered the financial impact of the Transfer on SF's financial position under the Solvency II Pillar 1 basis as at 31 December 2018 and concluded that:

- The Transfer results in c. £2.4bn increase in the total assets and liabilities of SF, which effectively doubles SF's asset and liability base
- The Transfer results in a £58m increase in SF's Own Funds (or 52% in proportional terms)
- The Transfer results in a £39m increase in SF's SCR (or 67% in proportional terms)
- The Transfer therefore results in a significant increase in SF in terms of total assets, financial resources and capital requirements
- While SF's Surplus would increase post Transfer, its SCR Coverage Ratio falls from 188% to 172%. Nevertheless, I consider a post Transfer SCR Coverage Ratio of 172% to be representative of a strong solvency position

Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on SF's Solvency II Pillar 1 financial position.

2.5. Financial effect of the Transfer on transferring CLL policyholders

I have assessed the impact of the Transfer on all groups of transferring CLL policyholders in terms of security of benefits. Based on the relevant factors as described in the Report, in my opinion the security of benefits for all transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo.

I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to with-profits and unit-linked policyholders. Based on the relevant factors as described in the Report, in my opinion the with-profits policyholders in the Manulife Fund and the transferring unit-linked policyholders will not be adversely affected by the Transfer in relation to investment strategy.

Furthermore, there will be no change to the expense charges for with-profits policyholders as a result of the Transfer. The charges on the relevant transferring CLL unit-linked policies will not be changed as a result of the Transfer. Additionally, I understand from SF that any reviews of charges on unit-linked policies after the Transfer are subject to the same governance arrangements that are applicable to other policies within the SF Main Fund. Therefore, in my opinion, unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges.

In addition, I have considered the implications of the Transfer for the benefit expectations and bonus prospects for with-profits policyholders. Taking into account the considerations set out in the Report, in my opinion with-profits policyholders in the Manulife Fund will not be adversely affected by the Transfer with respect to benefit expectations and bonus prospects.

Finally, I have evaluated the effect of the Transfer on the risk profile and capital management of the transferring CLL business. On balance, taking into account the analysis set out in the Report, I am satisfied that while the profile of risks to which the transferring CLL policyholders will be exposed will change in several aspects, the Transfer will not have a materially adverse effect in relation to risk profile. With the exception of the provision of capital support by the SF Main Fund, there are no planned changes to the capital management policy of the Manulife Fund as a result of the Transfer. I am also satisfied that the Transfer will not have an adverse effect on the capital management policy in relation to transferring CLL policyholders.

2.6. Financial effect of the Transfer on non-transferring CLL policyholders

I have assessed the impact of the Transfer on all groups of non-transferring CLL policyholders in terms of security of benefits. As the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of CLL, the security of benefits for all non-transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo.

The charges on the non-transferring CLL unit-linked policies will not be changed as a result of the Transfer. Furthermore, the Transfer will not have an impact on non-transferring CLL ***non-profit and unit-linked policyholders*** in relation to investment strategy.

Finally, I have evaluated the effect of the Transfer on the risk profile and capital management of the non-transferring CLL business. Taking into account the considerations set out in the Report, and the fact that the Transfer does not have a significant impact on CLL's SCR Coverage Ratio, in my opinion the Transfer will not have an adverse effect on the capital management policy in relation to non-transferring CLL policyholders.

2.7. Financial effect of the Transfer on SF policyholders

I have assessed the impact of the Transfer on all groups of SF policyholders in terms of security of benefits. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have a materially adverse effect on the security of benefits of current SF policyholders in the SF Main Fund or any of the sub-funds.

I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to current SF with-profits, unit-linked and non-profit policyholders. The Transfer will not result in any changes to the investment strategy of assets invested on behalf of the current SF with-profits, unit-linked and non-profit policyholders. Taking into account the considerations as set out in the Report, the Transfer should benefit the with-profits policyholders in the SF Main Fund and Scottish Legal Sub-Fund from reduced expense charges. The Transfer will have no impact on expenses and charges with respect to with-profits policyholders in each of the other existing sub-funds operated by SF.

Moreover, I have evaluated the effect of the Transfer on the benefit expectations and bonus prospects of current SF with-profits policyholders. Taking into account the considerations as set out in the Report, in my opinion the Transfer will not have an adverse effect on the benefits expectations and bonus prospects of current SF with-profits policyholders. In addition, the Transfer is expected to generate profits in the SF Main Fund over time, and if this occurs the with-profits policyholders in the SF Main Fund may receive a share of the profits arising in the future.

Lastly, I have considered the effect of the Transfer on SF's risk profile and capital management. Taking into account the considerations set out in the Report, in my opinion the Transfer will not have an adverse effect on the risk profile or capital management policy in the SF Main Fund or any of the sub-funds.

2.8. Administration and governance

In the Report, I have considered the governance arrangements that will be in place following the Transfer for the transferring CLL policyholders. I have taken into account that:

- The Transfer will not have a material adverse effect on the security of benefits or benefit expectations of transferring CLL policyholders
- The management of the Manulife Fund (and the New Manulife Fund post Transfer) is subject to provisions set out in the 1999 Scheme (which itself replicated certain provisions set out in the ***1995 Scheme***). I have reviewed the terms of both schemes and am satisfied that all protections and other provisions

relevant to the future management of the Manulife Fund have been replicated in the Scheme in relation to the New Manulife Fund

- The management of the Manulife Fund is governed by Principles and Practices of Financial Management ("***PPFM***") for the fund. This is a document that provides a comprehensive description of how the relevant with-profits fund is managed, including a statement of the Principles and Practices adopted by the insurer in respect of a wide range of aspects relevant to the management of the fund in question. There are no intended changes of substance to the PPFM for the New Manulife Fund
- Following the Transfer, relevant transferring CLL policyholders with workplace pensions policies will be covered by SF's Governance Advisory Arrangement ("***GAA***"). I have compared the terms of reference adopted by CLL's and SF's GAA respectively and in my opinion, there are no material differences between the two
- SF is undertaking a review of its with-profits governance framework and assessing whether those arrangements are suitably robust and whether all associated conflicts of interest are managed effectively. I am currently satisfied that SF's governance framework review and its associated action points do not have a material effect on my conclusions on the Transfer

Based on the above and my understanding that the existing governance arrangements for current SF policyholders will not be materially affected by the Transfer, in my opinion adequate safeguards are in place to ensure that the interests and rights of the policyholders of both CLL and SF will be protected post Transfer.

I have received and reviewed the agreed migration plan and regular progress updates on the plan which shows that after an initial period of alignment in terms of process and data exchange protocols between CLL and SF, good progress is being made and SF are confident that the agreed timetable will be met. In particular, the client data migration process is now complete. This will enable the first (of four scheduled over the period April to September 2019) user acceptance testing to be run. Furthermore, there are two full production readiness rehearsals scheduled before September 2019. I consider the data migration plan to be comprehensive and robust, with sufficient buffer built in to accommodate any unanticipated problems. I also consider the progress made to date to be in line with the plan.

Following the Transfer, the administration of all transferring CLL policies will be transferred to SF. There is therefore a risk that current SF and transferring CLL policyholders could experience adverse changes to the standards of service following the Transfer as:

- The in-house SF administration team will be, at least initially, relatively inexperienced in administering the transferring policies and have limited knowledge of transferring CLL products
- SF may seek to minimise the costs associated with the administration of transferring CLL policies which could also have a detrimental effect on the

servicing of all policies

Based on my investigations, I am satisfied that adequate steps have been taken to mitigate these risks as:

- Target service level standards proposed by SF for the administration of transferring CLL policies post Transfer are at least equal to those currently in place at CLL (and in many cases significantly higher) and SF has a strong record in attaining its target service levels even after other transfers of business
- SF intends to recruit a significant number of additional staff to administer transferring CLL policyholders following the Transfer
- There will be a Transitional Services Agreement which will enable CLL to continue to provide administrative services for the transferring CLL policies on a temporary basis (for up to 6 months, which can be extended by mutual agreement in writing) post Transfer if necessary. This provides a significant and credible backup option in the event of significant issues being encountered by SF in the administration of the transferring CLL business post Transfer

Furthermore, given the significant increase in the assets and liabilities of SF post Transfer, I have considered whether SF's systems, people and processes are adequate to manage both its existing business and the transferring business. Having discussed this matter with SF's Chief Risk Officer ("***CRO***") and Operations Director, I am satisfied that this is the case, taking into account that:

- SF and its senior management team (both in terms of collectively as an organisation and as individuals) can draw on extensive experience from previous transactions
- SF has recruited staffing resources based on the expected increase in activities during the "wake up period" in the lead up to and immediately after the Transfer
- Around half of the new staff have completed their training by May 2019, and the remaining new staff are expected to complete their training before the Transfer
- The CRO will maintain dedicated resources to provide oversight and challenge for the Transfer process until SF reaches a "business as usual" point in relation to the transferring business. From this point risk oversight and challenge will be continued as part of the "business as usual" risk process and governance
- While there is a significant increase in the size of assets and liabilities, the Transfer would represent an increase of less than 20% in total policy count compared to the SF Main Fund

Therefore, in my opinion, adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in standards of service experienced by both transferring CLL and existing SF policyholders following the Transfer.

There has not been any loss of membership benefits for the transferring CLL policyholders as a result of the Transfer. In my opinion, the rights of SF members will not be materially affected by the Transfer.

Under the terms of the Transfer, the New Manulife Fund will continue to be taxed as if it were a standalone mutual life insurance entity with the New Manulife Fund as its sole business and therefore there are no changes to the taxation basis for the New Manulife Fund.

Taking into account the considerations as set out in the Report, I am satisfied that the Transfer is not expected to have any significant adverse tax impact on the policyholders of CLL and SF, and that no changes are expected to the tax status of transferring CLL policies as a result of the Transfer.

2.9. Main conclusions

Based on the analysis as summarised above and described in detail in the Report, I have concluded that the Transfer will not have a material adverse effect on transferring CLL policyholders, non-transferring CLL policyholders or SF policyholders in relation to:

- Security of benefits
- Benefit expectations
- Risk profile
- Service standards and governance arrangements

I am satisfied that the Transfer is equitable to all classes and generations of CLL and SF policyholders.

3. The proposed Transfer

3.1. Background to CLL

CLL is a wholly owned subsidiary of The Canada Life Group (UK) Limited ("CLG"), which itself is a subsidiary of Canadian insurance groups The Canada Life Assurance Company and The Great-West Life Assurance Company ("Great-West"), a leading Canadian insurer with interests in life insurance, health insurance, investment, retirement savings and reinsurance business, primarily in Canada, the US and Europe, and a subsidiary of Great-West Lifeco Inc.

Great-West Lifeco Inc. and its subsidiaries, including Great-West, had approximately $1.4 trillion Canadian dollars as at 31st December 2018 in consolidated assets under administration and are members of the Power Financial Corporation Group of companies.

CLL started selling insurance business in the UK in 1903 and has since written a wide range of life insurance and pension products including with-profits contracts as well as unit-linked and non-profit protection products. In addition to the UK business, CLL has a fully owned subsidiary Irish Life Group Limited ("Irish Life") (and its main operating subsidiaries Irish Life Assurance Plc and Irish Life Health Designated Activity Company), one of Ireland's largest insurers.

Within the UK, CLL is open to new business and its current business comprises a range of non-profit life, pension, annuity and income protection policies. CLL operates a single long-term business fund, with a separate with-profits fund (the "***Manulife Fund***") which is ringfenced within the definition of Solvency II and is closed to new business, though existing customers continue to be able to exercise options under their policies, including those to increase premiums payable or to pay additional single premiums.

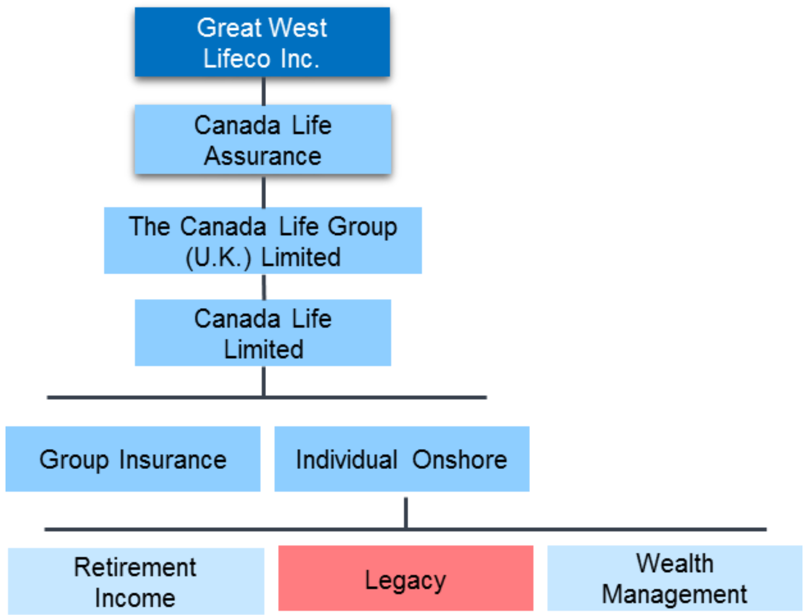
The Manulife Fund consists of with-profits policies (endowments, whole of life and pensions) and a small amount of non-profit business. It has been closed to new business since 1990, when the fund was established as part of an agreement between the UK branch of The Manufacturers Life Insurance Company and the UK Regulatory Authorities. These policies were transferred to the UK branch of Canada Life Assurance Company ("***CLACO***") in 1995 (via the ***1995 Scheme***). The Manulife Fund was then transferred from CLACO to CLL at the point of CLACO's demutualisation in 1999 (via the ***1999 Scheme***). The assets of the Manulife Fund are ring-fenced for the benefit of the policies within the ***sub-fund*** only. In return for the management and administration of policies in the Manulife Fund, CLL levies charges in accordance with the terms defined in the 1999 Scheme, currently £56.63 per policy per annum for 2019 (increasing monthly in line with RPI) plus 0.25% per annum for the first £200m of assets in the fund[5].

[5] A charge of 0.125% per annum for amounts in excess of £200m in the Manulife Fund is applied

CLL's current strategy is to be a leader in its chosen core markets (annuities, group protection and wealth management) and it has identified a portfolio of business which is no longer core to its strategy ("the Legacy portfolio"). The Legacy portfolio of around 150,000 policies has largely been closed to new business since 2003 and comprises:

- Unit-linked life and pension policies with total ***best estimate liabilities*** of £2.0bn
- Non-profit policies with total best estimate liabilities of £0.2bn. This includes policies which were previously in a former ring-fenced fund (the Canada Life With-Profits Fund) which were converted from with-profits to non-profit in 2017
- Policies in the Manulife Fund (mainly with-profits) with total best estimate liabilities of £0.2bn

Below is a simplified organisation chart illustrating where the Legacy Portfolio is situated within the company.



CLL has a large number of subsidiaries (including Irish Life). As no subsidiaries of CLL will be transferred to SF as part of the Transfer, I do not consider the subsidiaries to be relevant or material to assessing the impact of the Transfer and therefore have not separately considered them in my analysis.

Connected to the Transfer, but outside the terms of the Scheme a subsidiary of CLG, CLPMT, will be transferred to SF. CLPMT acts as a trustee for certain occupational pension schemes to which transferring policies have been issued.

A breakdown of the in-force policies for CLL at 31st December 2018 is set out in the table below:

CLL policy liabilities excluding the Legacy portfolio

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Annuities	441,799	13,731
Group Life & Health	31,635	866
Individual Life	11,531	-9
Unit-Linked Life	20,492	1,459
Unit-Linked Pension	3,864	457
Total	**509,321**	**16,505**

Policy liabilities in the Legacy portfolio, excluding policies in the Manulife Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Annuities	301	17
Individual Life	10,751	112
Individual Health	8,320	23
Unit-Linked Life	24,064	461
Unit-Linked Pensions	77,932	1,551
Total	**121,368**	**2,164**

Policy liabilities in the Manulife Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
With-profits	10,114	143
Non-profit	2,208	16
Total	**12,322**	**159**

Source: CLL ***SFCR*** as at 31st December 2018; CLL Chief Actuary Report on the Transfer

On 3rd January 2018 CLG acquired Retirement Advantage[6], which added over 30,000 pension annuity and equity release customers and around £2bn of assets under management. It is therefore currently a sister company of CLL within CLG. A

[6] Retirement Advantage is the trading name of MGM Advantage Life Limited

separate process is planned to transfer the business of Retirement Advantage to CLL under Part VII of FSMA (the "Retirement Advantage Transfer"), but the planned timetable for the Retirement Advantage Transfer means that it will not come into effect until after the Transfer. The Retirement Advantage Transfer is at an early stage in its development. The Retirement Advantage Transfer and the Transfer are also independent of each other and the implementation of each transfer does not depend on the completion of the other. Therefore, I have not considered the Retirement Advantage Transfer any further in the rest of my Report. I shall consider any further development in relation to the Retirement Advantage Transfer in my supplementary report.

3.2. Background to SF

SF was established in 1862 as the City of Glasgow Friendly Society and was renamed Scottish Friendly Assurance Society in 1992, following the transfer of business from a Scottish-based mutual. As a friendly society it is owned by its members, and all SF policyholders are members. Today SF operates as a financial services group dedicated to the efficient provision of a wide range of financial products and services and continues to be based in Glasgow. It is governed by the Friendly Societies Act 1992.

SF has a "Diversify and Grow" strategy to generate long-term value for its members by:

- **Organic growth through development of product range and distribution channels**

  – for example:

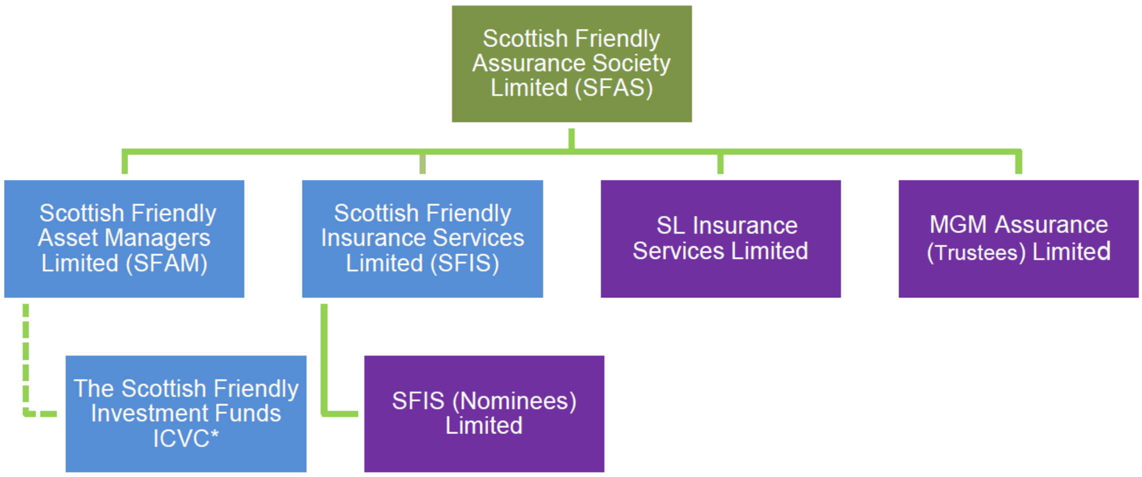
  - SF launched a new range of "My ***ISA***" products which have grown to become its flagship savings and investments product

- **Business process outsourcing for partners while leveraging its efficiencies** – for example:

  - In 2006, SF successfully launched a wrap administration business. By December 2011, the business had accumulated around £4bn in funds under administration and was bought by Citibank Global Transaction Services
  - Partnership with BGL (the group behind "comparethemarket.com") to launch Beagle Street, an online life insurance provider
  - Development of a commercial whole of life product sold through a funeral plan provider
  - Diversification into the protection market in partnership with distributor brands such as BGL, Neilsons and Sun Life, leading to significant growth in such business

- **Identifying merger and consolidation partners in the life sector.** SF has completed the following transfers of long-term insurance business in recent years:
  - On 31st December 2005, the long-term business of Rational Shelley Friendly Society Limited
  - On 31st May 2006, the long-term business of Preston Operative Assurance Collecting Society
  - On 1st July 2007, the long-term business of Pioneer Friendly Society Limited
  - On 30th September 2007, the long-term business of Scottish Legal Life Assurance Society Limited involving around 500,000 policyholders and funds of around £200m
  - On 31st December 2007, the long-term business of London Aberdeen & Northern Mutual Assurance Society Limited ("***LANMAS***") involving around 6,000 policyholders and funds of around £37m
  - On 30th November 2012, the long-term business of Royal Standard Friendly Society
  - On 1st June 2015, the long-term business of Marine and General Mutual Life Assurance Society
  - On 9th November 2018, certain long-term unit-linked business of Mobius Life Limited

The corporate structure of SF is illustrated below:



Source: SF Chief Actuary Report

The figure above shows that SF has the following fully-owned subsidiaries:

- **Scottish Friendly Asset Managers Limited**: conducts the business of asset management for transactions in Scottish Friendly ISAs and Child Trust Funds. At 31st December 2018 it had net asset value of £2.4m. It is still active but with limited new business
- **Scottish Friendly Insurance Services Limited**: provider of third party administration and other services for the wrap business (which SF sold in 2011). At 31st December 2018 it had net asset value of £0.7m. It is much reduced in activity since the sale of the wrap business
- **S.L. Insurance Services Limited**: agents for the transaction of general branch insurance. It is virtually dormant apart from some residual commission. At 31st December 2018 it had net asset value of £48k
- **SFIS (Nominees) Limited**: dormant
- **MGM Assurance (Trustees) Limited:** functions as the corporate trustee entity for the MGM Assurance Staff Pension Plan (a defined benefit pension scheme for ex-employees of ***M&GM*** which is closed to future accrual). It has an issued share capital of £1,000 and a de-minimis value which is attributed to the M&GM Sub-Fund
- **The Scottish Friendly Investment Funds ICVC:** an open-ended investment company with variable capital (authorised and regulated by the ***FCA***) and which is structured as an ‘umbrella’ company comprising a series of sub-funds with differing investment objectives and policies

Taking into account the limited or dormant activity levels associated with the subsidiaries, I do not consider the subsidiaries listed above to be relevant or material to assessing the impact of the Transfer and therefore have not included them in my analysis.

SF currently operates a single long-term business fund, which consists of the ***SF Main Fund*** and the following notional sub-funds:

- ***The M&GM Sub-Fund***
- ***The Scottish Legal Sub-Fund***
- ***The Rational Shelley Sub-Fund***
- ***The LANMAS Sub-Fund***

All sub-funds are closed to new business. Each sub-fund has a separate pool of assets, investment strategy, bonus rates and Principles and Practices of Financial Management (“***PPFM***”). The assets of each sub-fund are ring-fenced for the benefit of the policies within the sub-fund only. The SF Main Fund levies charges against each notional fund in line with the specified terms of the relevant transfers except for the Scottish Legal Sub-Fund, where the expense charges reflect the actual administration costs incurred. Any profits emerging from administering the business within the notional funds accrue to the SF Main Fund. A breakdown (by fund and business type) of the in-force policies for SF at 31st December 2018 is set out in the table below:

SF Main Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Conventional with-profits	99,346	231
Unitised with-profits	49,547	85
Unit-linked	80,506	489
Whole of life	270,302	22
Non-profit	272,356	6
Total	**772,057**	**833**

M&GM Sub-Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Conventional with-profits	11,423	66
Unitised with-profits	4,682	84
MGMI	366	13
Whole of Life	1,674	3
Non-profit	12,658	25
Total	**30,803**	**191**

Scottish Legal Sub-Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Conventional with-profits	106,640	48
Unitised with-profits	296	2
Unit-linked	863	6
Whole of life	346,128	8
Non-profit	4,027	2
Total	**457,954**	**66**

Rational Shelley Sub-Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance)

		£m
Conventional with-profits	1,030	3
Whole of Life	1,744	1
Non-profit	586	1
Total	**3,360**	**5**

LANMAS Sub-Fund

Type of business	Number of policies	Solvency II best estimate liabilities (after reinsurance) £m
Unitised with-profits	848	12
Unit-linked	650	6
Non-profit	105	0
Total	**1,603**	**18**

Source: SF SFCR as at 31st December 2018, SF Chief Actuary report on the Transfer

As shown in the table above, the SF Main Fund and M&GM sub-fund (with combined best estimate liabilities of over £1bn) are significantly larger than the other three sub-funds (with aggregate best estimate liabilities of around £90m).

SF has confirmed that other than the Transfer, there are no material planned transactions that I should be aware of when performing my review on the Transfer.

3.3. Overview of the Transfer

In June 2018, CLL and SF signed an agreement setting out the proposed terms on which the transfer of CLL's Legacy portfolio to SF would be undertaken under Part VII of ***FSMA*** (the “Business Transfer Agreement”). The Legacy portfolio consists of c. 130,000 policies and c. £2.3bn in best estimate liabilities (further details of the portfolio composition can be found in section 3.1). It is proposed that the Transfer will become effective on 1st November 2019 (the “***Effective Date***”).

The key elements of the Transfer are set out below:

- SF will assume the responsibility of meeting all insurance and financial obligations associated with the policies in the Legacy portfolio
- SF will assume the responsibility of administering the policies in the Legacy portfolio
- In return, CLL will transfer assets equivalent to the ***Solvency II technical provisions*** based on an agreed valuation basis (excluding transitional measures) plus £50m (provided that CLL’s standalone Solvency Capital Requirement (“SCR”) for the transferring policies at the date of transfer is between £40m and £60m[7]), less the value of unit-linked liabilities related to three unit-linked property funds[8]
- SF will establish a new ring fenced with-profits sub-fund (the “***New Manulife Fund***”) into which all assets and liabilities of the CLL Manulife Fund will be transferred. All other policies will be transferring into the main operating fund for SF (the “SF Main Fund”)
- With the establishing of the New Manulife Fund, SF will also create a new PPFM as it cannot use the current one. The new PPFM will substantially replicate the current PPFM and any future changes will have to go through the appropriate SF governance
- The Scheme will replicate key provisions from the 1999 Scheme which currently govern the operation of the Manulife Fund
- With respect to unit-linked policies, SF will establish internal linked funds which correspond to linked funds maintained by CLL prior to the Transfer. SF will allocate to each transferring unit-linked policy the same number, value and classes of units in the new SF linked funds as were allocated to that policy in the equivalent CLL linked funds immediately prior to the Transfer. The Transfer will not result in a change to the charges on unit-linked pensions
- All transferring policyholders will be granted membership rights in SF

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[7] If CLL’s standalone SCR for the transferring policies at the date of transfer is less than £40m or more than £60m, the assets will be adjusted for the difference between £50m and CLL’s standalone SCR for the transferring policies

[8] The three property funds are: Canada Life Property Pension Fund (CLMF022), UK Property Life Fund (CLMF306) and Canada Life Property Life Fund (CLMF032). Associated liabilities totalled £221m as at 31st December 2018

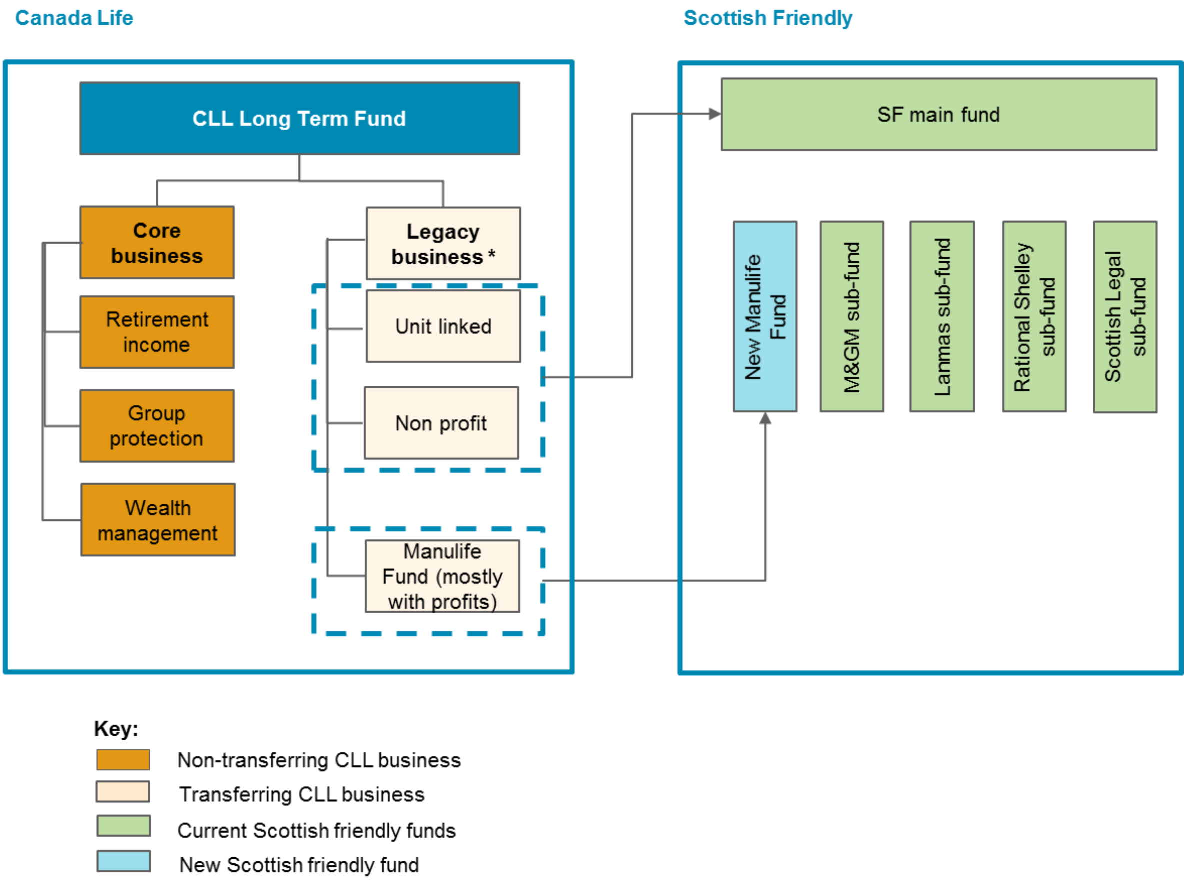
- SF and CLL have agreed to a data migration plan which includes a plan and timetable for the migration of all policies, contracts and data, allocation of responsibilities for obtaining any third party consents required and a transition plan for all underlying assets and records. The plan will be in place before the Effective Date and will come into effect at the Effective Date
- SF and CLL have agreed a "***Transitional Services Agreement***" which will enable CLL to provide services to help support SF's administration of the transferring policies on a temporary basis if necessary
- In return for administering policies in the New Manulife Fund, SF will levy charges which are identical to existing charges levied by CLL under the terms of the 1999 Scheme, currently £56.63 per policy per annum for 2019 (increasing monthly in line with RPI) plus 0.25% per annum for the first £200m of assets in the fund[9]
- Prior to the Transfer, SF and CLL will enter into an Investment Management and Services Agreement ("IMSA"). Under the terms of the IMSA, CLFIS (UK) Limited ("CLFIS") will provide administration services and Canada Life Asset Management Limited ("CLAM") will provide investment management services in respect of unit-linked funds to be established by SF (with the exception of Personal Portfolio Funds[10]) for a minimum of four years after the Effective Date. Both CLFIS and CLAM are also subsidiaries of CLG.
- CLL will retain legal ownership of unit-linked property assets, invested in units in an Authorised Contractual Scheme ("***ACS***") and four direct property investments
- However, in order to provide the transferring policies with continuing access to these funds, SF and CLL will enter into a Unit-Linked Reinsurance Agreement ("***ULRA***") under which CLL will provide reinsurance to SF in relation to these unit-linked property funds. The property assets will be reflected as a reinsurance asset on SF's balance sheet
- The ULRA and related agreements will include security provisions in relation to the property assets in order to mitigate SF's exposure to the risk of default by CLL (and consequently mitigate any associated increase in reinsurance ***counterparty default risk*** capital under Solvency II). This is discussed further in section 3.4
- CLL will retain around 300 policies which were originally sold in Hong Kong ("the ***Hong Kong policies***"), but outsource the administration of these policies to Scottish Friendly Insurance Services Limited, a subsidiary of SF, the terms of which are governed by a separate outsourcing agreement
- CLL will be granted the exclusive right for four years to market annuities to all SF policyholders with maturing pension policies, but policyholders will be free to choose options from the open market in the normal way

[9] SF will levy a charge of 0.125% per annum for amounts in excess of £200m in the New Manulife Fund

[10] Personal Portfolio Funds are unit-linked investment policies for high net worth individuals under which the policyholder or an investment manager appointed by them selects the assets which will be comprised within the fund. CLL currently has c. 100 Personal Portfolio Funds policies

- CLL will indemnify SF against the cost of any compensation due to mis-selling or administrative errors relating to the transferring CLL policies (subject to certain time caps and monetary limits)

An illustrative diagram of the Transfer is shown below:



* excluding Hong Kong policies, which will be retained by CLL

Both management teams and the boards of SF and CLL are supportive of the Transfer. Both recognise that the Transfer has a strong commercial rationale, while delivering an outcome that is consistent with the requirement to ensure the fair treatment of customers.

I have reviewed the reports of the Chief Actuary and With-Profits Actuary of both CLL and SF and taken into account their conclusions as set out in the respective reports. Furthermore, I have discussed the Transfer with the Chief Actuary and With-Profits Actuary of CLL and SF and performed my own analysis and reasoning on the security and reasonable benefit expectations of all relevant groups of policyholders and the service standards for those policyholders. My considerations and own conclusions are summarised in sections 5 to 10.

3.4. Collateral arrangements for unit-linked property funds

The transferring business includes liabilities associated with three unit-linked property funds. However, in order to avoid the triggering of stamp duty land tax upon a transfer to SF of the units of the ACS which support these funds, CLL is to retain legal ownership of the relevant ACS units with the liabilities relating to these funds reinsured to CLL under the ULRA. This reinsurance will remain in force for four years or, if earlier and at the option of SF, until such time that they can be transferred without triggering the tax liability. The ULRA and related agreements grant SF security over the ACS and protect against the risk of a default by CLL.

Given the manner in which ACS units are established there is some legal uncertainty as to how a fixed security interest can be created and for this reason CLL will enter into a security agreement which according to its terms creates a fixed and a floating security interest in favour of SF. The floating security will crystallise into a fixed interest with SF being entitled to take the relevant charged ACS units in the event of CLL's insolvency as well as on the occurrence of other pre insolvency triggers.

I have been provided with and have reviewed the terms of the ULRA as well as detailed legal advice that SF have obtained from its legal advisers ***CMS*** relating to the efficacy of the collateral arrangement in mitigating any associated reinsurance counterparty default risk capital within the context of Solvency II, which concluded that:

"the security created in favour of SF, together with the contractual rights granted by CL in favour of SF …, are such that the requirements necessary for the recognition by SF of the ACS Collateral Arrangements when calculating its Basic SCR should be satisfied."

I have relied on the legal advice described above and am comfortable that it is not necessary for me to obtain my own independent legal advice because CMS is a large and reputable legal firm with extensive expertise and experience in UK insurance law. In addition, whilst I am not an expert in insurance law, I understand and agree with the thought process and conclusions reached by CMS in its advice. Furthermore, the terms of the ULRA and security arrangement have been reviewed by CLL's legal advisers, ***Hogan Lovells***, who have arrived at the same conclusion.

In addition to the ACS, the unit-linked property funds are invested in several direct property investments. As the unit-linked property funds do not have full ownership of the direct property investments (and there would therefore be practical difficulties in those properties being transferred to SF), CLL intends to sell the properties in question before the Effective Date. In the event that the properties are not sold before the Effective Date, CLL will retain legal ownership of the direct property investments (for the benefit of the unit-linked properties funds under the ULRA).

Under such a scenario, CLL and SF will work together to put in place suitable security arrangements to mitigate the Solvency II counterparty risk capital requirements for SF associated with the direct property investments. Based on a review of materials provided to me by CLL and SF, I am satisfied that even if suitable security arrangements are not in place for the direct property investments, the effect on SF's solvency position post Transfer would be limited and would not change any of my conclusions as set out in the Report.

I am therefore comfortable that the arrangements described in this section adequately mitigate any risks associated with the potential exposure of SF to the risk of default by CLL under the ULRA (and consequently mitigate any associated increase in reinsurance counterparty default risk capital under Solvency II).

3.5. Existing Reinsurance Arrangements

CLL has a large number of reinsurance agreements in place with respect to the transferring portfolio (although not in relation to any liabilities of the Manulife Fund). Under the terms of the Transfer, all of CLL's existing reinsurance arrangements associated with the transferring business will be transferred across to SF under the terms of the Scheme. CLL will give all of these reinsurers notice of the Scheme and they will be entitled to raise any objections they might have in relation to the Transfer with the ***Court***.

SF also has several existing reinsurance agreements in place. Further details can be found in Appendix E.

SF has confirmed that no existing reinsurance treaty (or collateral arrangement) will be affected by the Transfer. I have reviewed materials provided by SF related to its reinsurance arrangements and am satisfied that this is the case.

I have noted that SF has an existing reinsurance treaty with Retirement Advantage, which is undergoing a separate process to transfer its business to CLL (the Retirement Advantage Transfer). I consider the Retirement Advantage Transfer to be fully independent of this Transfer and therefore do not view this reinsurance as material to my assessment in this report.

3.6. Policy Loans

The transferring business includes policy loan assets totalling c. £2m in value. These assets relate to loans historically advanced in the past by CLL to its policyholders which are secured against the value of the associated policies. Following a change in law, CLL policyholders no longer have the facility to request policy loans since 2011. SF has obtained legal advice from CMS to assess whether there are any legislative restrictions under the 1992 Friendly Societies Act that could prevent it from accepting the policy loans from CLL as part of the Transfer. The legal advice concluded that *"there is no incompatibility between the 1992 Friendly Societies Act and the transfer of the policy loans"*.

Having reviewed the act and taking into account my experience in this area I am in agreement with the legal advice obtained by SF and am currently satisfied that there are no relevant issues in relation to the transfer of policy loans that are material to my assessment in this report.

4. The UK insurance regulatory environment

4.1. Regulatory bodies

UK insurance companies are currently regulated by the ***PRA*** and the FCA. The PRA is responsible for promoting the safety and soundness of financial services firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The FCA's aim is to protect consumers, ensure the industry remains stable and promote healthy competition between providers.

The PRA's regulatory regime aims to protect policyholders and ensure that insurance companies are adequately capitalised. The risk of insurers failing to meet their obligations is minimised as far as possible, while recognising that it is not practicable to operate a "zero failure" regime.

4.2. Solvency II

An ***EU***-wide regulatory regime for the insurance industry, known as "Solvency II" came into force on 1st January 2016. The regime is enforced by the PRA, which played a significant role in terms of helping to develop the standards. Both SF and CLL are required by law to comply with the requirements of Solvency II.

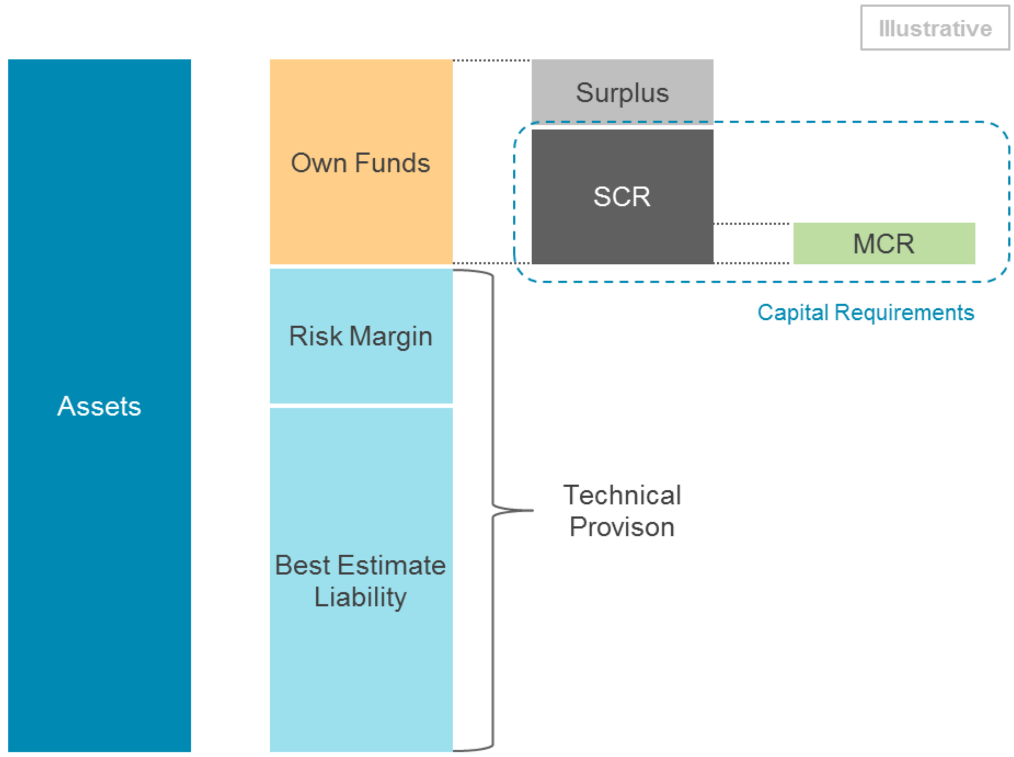
The Solvency II regulatory framework has three main "pillars":

- **Pillar 1: Quantitative Requirements**. This sets out the minimum amount of capital that insurers must hold, primarily by specifying the qualitative and quantitative requirements for the calculation of Technical Provisions and Solvency Capital Requirement
- **Pillar 2: Governance and risk management.** As part of Pillar 2 requirements, insurers are required to have in place an effective system of governance with documented policies related to, inter alia, risk management systems, internal controls, governance and key functions. Pillar 2 also requires insurers to develop an "Own Risk and Solvency Assessment", which takes into account the insurer's own view of the risks faced
- **Pillar 3: Disclosure and transparency.** This sets out the disclosure requirements and the quantitative and qualitative information that insurers must report to the regulators and the public

Further details of Pillar 1 and Pillar 2 requirements are set out in the following sections.

4.2.1. Pillar 1 requirements

The diagram below shows a simplified illustration of the Solvency II balance sheet. At all times, an insurer is required to have assets that exceed its Technical Provisions and Solvency Capital Requirement ("SCR"):



Technical Provisions are the reserves held by insurers to meet their insurance obligations to policyholders and represent the amount that would have to be paid to another insurer to take on the same liabilities, which are made up of:

- **Best Estimate Liability** – the present value of future liability cash flows on a realistic basis (i.e. with no prudence margins)
- **Risk Margin** – an additional amount which broadly reflects the cost of "unhedgeable risks" (such as operational, counterparty credit and longevity risks) which an external buyer of the business would theoretically require

The SCR is the minimum level of capital that a firm must hold in addition to the Technical Provisions, and its calculations are underpinned by the principle that an insurer's assets should exceed its technical provisions with a probability of at least 99.5% (i.e. 1 in 200) over a one year timeframe. It effectively represents the formal regulatory intervention point for an insurer. There is a further measure of capital requirement under Solvency II called the Minimum Capital Requirement ("MCR"). The MCR is normally lower than the SCR and represents the point at which regulatory intervention would be increased further.

An insurer's assets in excess of its Technical Provisions and non-insurance liabilities is known under Solvency II as its "***Own Funds***"[11], or in other words the available

[11] Some insurers hold subordinated debt capital which qualifies as Own Funds, and hence is an addition to Own Funds

capital that the insurer has to meet its regulatory capital requirements. A commonly used yardstick for comparing financial strength between companies in the UK life insurance market is the "***SCR Coverage Ratio***", which I have defined as the ratio of Own Funds over SCR.

Own Funds are classified by their quality and ability to absorb losses. These classifications are Tier 1, Tier 2 and Tier 3. Tier 1 is the highest quality, with Tier 2 and Tier 3 being lower quality, but still having some loss absorbency ability.

For the purpose of the Solvency II balance sheet, insurers with one or more with-profits fund must treat each individual with-profits fund as "ring-fenced", which means that any excess capital in a with-profits fund is not recognised as transferable outside of the fund.

For the purpose of calculating the SCR, most insurers adopt a "Standard Formula" methodology as prescribed under the Solvency II Regulations. However, insurers are also permitted to develop their own "Internal Model" or "Partial Internal Model" (subject to regulatory approval) to calculate their SCR. The primary benefit of an "Internal Model" to the insurer would be that it enables the calculation of capital requirements which accurately reflect its internal view of the risks. It could also potentially, but not necessarily, reduce capital requirements. However, the process for obtaining approval from the PRA for the use of an "Internal Model" or "Partial Internal Model" is a highly complex and expensive exercise. Both SF and CLL currently adopt the "Standard Formula" methodology for calculation of the SCR. While CLL has informed me that it is currently undergoing the process of applying for approval by the PRA to develop a Partial Internal Model, I am satisfied that the application (and its outcome) does not affect either the Transfer or my assessment of the Transfer.

4.2.2. Transitional measures, Matching Adjustment and Volatility Adjustment under Solvency II

There are transitioning provisions under Solvency II to allow insurers the option of "phasing-in" the impact of Solvency II over a period of up to 16 years from the inception of Solvency II in 2016 ("Transitional Measures for Technical Provisions", or "***TMTP***"). CLL currently applies TMTP to its liability calculations, including the transferring portfolio. SF does not currently apply TMTP to its liability calculations but has the option to do so in the future, subject to regulatory approvals.

The Solvency II rules also include a clause which permits the potential use of a "Matching Adjustment" ("***MA***") for certain types of insurance liabilities (such as annuities) [12]. Under the MA, the relevant insurance liability cash flows would be discounted at asset yields less an allowance for expected credit default and deterioration risk, subject to regulatory approval. By using a MA, insurers would be

[12] Under Solvency II, insurers are required to value their insurance liabilities by discounting the liability cash flows using applicable "risk-free" interest rates, in the absence of Matching Adjustment or Volatility Adjustment. "Risk-free" interest rates are broadly defined as swap rates in the relevant currency in a deep and liquid market less a credit risk adjustment in the range from 10 bps to 35 bps.

able to partially offset the impact of applying “risk free” discount rates under Solvency II.

The underlying theoretical principle behind the MA is that part of the additional yield in corporate bonds represents a “liquidity premium”– i.e. to compensate investors for the risk that they are unable to sell the asset prior to maturity (this is distinct from “credit risk”, which is the risk that a borrower defaults on the bond). However, if the assets’ cash flows closely match the liabilities’ cash flows, an insurer would not need to sell the assets before maturity and therefore the use of the MA allows credit to be taken for the liquidity premium. CLL currently applies a MA to the liability calculations with respect to its annuity business (but not to the transferring portfolio, which has only a minimal amount of annuity business). SF does not currently apply a MA to its liability calculations but has the option to do so in the future, subject to regulatory approvals.

For liabilities that are not eligible for a MA, insurers may apply for the use of a “Volatility Adjustment” (“***VA***”), which is designed to mitigate the effect of short-term volatility of bond spreads on their solvency position. CLL currently applies a VA to its liability calculations, including the transferring portfolio. SF does not currently apply a VA to its liability calculations but has the option to do so in the future, subject to regulatory approvals.

4.2.3. Pillar 2 requirements

A critical part of the Pillar 2 requirements is the requirement for each insurer to develop an ***ORSA***, which is intended to continuously assess an insurer’s solvency needs and act as a tool for decision making and strategic assessment. As part of developing an ORSA, an insurer is required to, inter alia, project its expected future solvency position, consider its risk profile and assess how the business is likely to change based on its business strategy.

As the Pillar 2 solvency requirements take into account the insurer’s own view of the risks faced, there often can be significant differences between an insurer’s Pillar 1 and Pillar 2 solvency positions. An insurer’s Pillar 2 capital position is not publicly disclosed and contains commercially sensitive information.

Another critical part of the Pillar 2 requirements is the need for the board of each insurer to set and regularly review its:

- Risk appetite, which defines the level and type of risks that an insurer is prepared to take on or be exposed to
- Capital management policy, which defines the target ranges of capital that the insurer needs to hold, which is aligned to its risk appetite. Insurers typically hold a significant capital buffer in excess of the minimum amount of regulatory capital (SCR)

4.2.4. Governance requirements

The governing body of an insurer, typically its board of Directors (the "Board"), is responsible for setting its strategy and business culture, having oversight of its day-to-day management and approving its financial statements.

The applicable governance regime for insurers in the UK is set out in the "Senior Managers and Certification Regime" ("***SMCR***") which came into force for UK insurers on 10 December 2018 as part of a regulatory drive to improve culture, governance and accountability. It aims to deter misconduct by improving individual accountability and awareness of conduct issues across firms, and consists of three parts:

- The Senior Managers Regime ("***SMR***"), which focuses on individuals who hold key roles or have overall responsibilities for whole areas of relevant firms
- The Certification Regime, which applies to other staff who could pose a risk of significant harm to the firm or any of its customers
- The Conduct Rules, which are high level requirements that hold individuals to account

The SMR also defines the minimum set of senior management functions including:

- Chief Executive Officer ("***CEO***"), responsible for carrying out the management of the conduct of the whole of the business
- Chief Financial Officer ("***CFO***"), responsible for the management of the financial resources and reporting to the board in relation to its financial affairs
- Chief Risk Officer ("***CRO***"), responsible for overall management of the risk management system
- Chief Actuary, responsible for the operation of the insurer's ***actuarial function***
- ***With-Profits Actuary*** ("***WPA***") – for ***with-profits business*** only, responsible for advising the board on the exercise of discretion affecting the with-profits business

Each individual performing a senior management function must be approved by the regulators and must demonstrate the requisite skills and experience to act in that particular capacity.

4.2.5. Management of with-profits policies

Additional governance requirements also apply to with-profits business, which are set out in section 20 of the FCA's Conduct of Business Sourcebook ("***COBS***"). These include:

- **Governance arrangements:** firms are required to appoint either a ***with-profits committee*** ("***WPC***") or a ***with-profits advisory arrangement*** ("***WPAA***"), to act as a means by which the interests of with-profits policyholders are appropriately considered within the insurer's governance structure. The WPC or WPAA also assists the board in its decision making with respect to with-profits business, working closely with the WPA but providing an independent advisory input

- **Principles and Practices of Financial Management** ("***PPFM***")**:** firms are required to produce and make publicly available a PPFM for each with-profits fund which describes how the firm manages the with-profits business, including the exercise of discretion, smoothing policy, estate distribution (if applicable), bonus declaration approach and investment strategy
- **Run-off plan**: for with-profits funds which are closed to new business, firms must develop a board-approved run-off plan which includes an up-to-date plan to demonstrate how the firm will ensure a fair distribution of the closed with-profits fund, and its ***inherited estate*** (if any)

4.2.6. Financial Services Compensation Scheme and Financial Ombudsman Service

The Financial Services Compensation Scheme ("***FSCS***") is the UK's statutory fund of last resort for customers of authorised financial services firms. It was created under FSMA to provide compensation when an authorised financial firm cannot pay money it owes. The FSCS covers investments, deposits and insurance.

In the event that an eligible insurance compensation claim arises, the FSCS would first seek to protect policyholders by arranging continuity of insurance via the transfer of the business to another insurer. This is the most likely scenario provided that a willing and solvent replacement insurer is available at the time. Any benefits falling due in the period that the FSCS is seeking continuity will be paid by the FSCS in the meantime.

If the FSCS is unable to secure continuity of insurance then cash compensation would be paid to eligible claimants under the rules. The amount of compensation would be determined in accordance with the terms of the contract as valued in a liquidation of the failed insurer. The basis would be determined by a Court, with the amount of compensation provided equal to 100% of the policy value. There is no limit to the overall amount payable.

The Financial Ombudsman Service ("***FOS***") is an independent and impartial public body established by the UK Parliament to resolve disputes between individuals and UK financial services firms, including insurers. Where deemed appropriate, it has legal powers to award compensation payments in favour of policyholders.

As a transfer between UK-based insurers, I have no reason to believe that the Transfer will affect the rights of CLL's or SF's policyholders to access the FSCS or FOS.

5. Financial position pre and post Transfer

In this section, I consider the impact of the Transfer on the Solvency II Pillar 1 and Pillar 2 financial positions of SF and CLL.

5.1. Financial impact of the Transfer on CLL

The table below compares the actual reported Solvency II Pillar 1 balance sheet position of CLL as at 31st December 2018 with the pro-forma position post Transfer.

£m	Actual reported	Pro Forma Post-Transfer
A. Assets	32,468	30,057
B. Liabilities	28,322	25,971
C. Impact of ring-fencing restrictions	0	0
D. Available Capital ("Own Funds") [A - B - C]	4,146	4,086
E. Solvency Capital Requirement ("SCR")	2,608	2,568
F. Surplus [D - E]	1,538	1,518
SCR Coverage Ratio [D / E]	**159%**	**159%**

Source: CLL SFCR as at 31st December 2018, CLL Chief Actuary Report on the Transfer

In performing these calculations, CLL has made the following key assumptions:

- Transitional Measure on Technical Provisions ("TMTP") associated with the transferring business have been excluded from the post Transfer liabilities
- Post Transfer assets have been reduced for CLL's project expenses relating to the Transfer
- Post Transfer liabilities have been adjusted to allow for release of contingencies which are no longer required and minor data corrections identified during the data audit period and to allow for the impact of the Scheme on CLL's ongoing expenses

In my opinion this is not an unreasonable basis on which to draw my conclusions concerning the relative financial position of CLL before and after the Transfer.

The following observations and comments are relevant in relation to the impact of the Transfer on the Solvency II Pillar 1 financial position of CLL:

- The Transfer results in a c. £2.4bn reduction in the total assets and liabilities of CLL, which equates to reductions of 7% and 8% respectively in proportional terms
- The Transfer results in a £60m reduction in CLL's Own Funds (or 1% in proportional terms), which indicates that the Transfer has a limited impact on CLL's financial resources

- The Transfer results in a £40m reduction in CLL's SCR (or 2% in proportional terms), which indicates that the Transfer has a limited impact on CLL's risk profile. This is discussed further in section 7
- The Transfer has a minimal impact on CLL's Surplus and SCR Coverage Ratio

Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on CLL's Solvency II Pillar 1 financial position.

5.1.1. Financial impact of the Transfer on the Manulife Fund

In this section, I have separately considered the financial position of the Manulife Fund and the impact of the Transfer.

The table below shows the actual pre-Transfer Solvency II Pillar 1 balance sheet position of the Manulife Fund as at 31st December 2018.

£m	
A. Assets	168
B1. Liabilities related to guaranteed benefits	120
B2. Liabilities related to discretionary benefits	39
B3. Current liabilities	9
B. Total liabilities (B1 + B2 + B3)	168
C. Available Capital ("Own Funds") [A – B]	0
D. SCR (net of loss absorbing capacity of technical provisions)	**0**
E. Surplus [C – D]	**0**

Source: CLL WPA Report on the Transfer

The following observations and comments are relevant in relation to the Manulife Fund and the impact of the Transfer on the Solvency II Pillar 1 financial position:

- The actual financial position of the Manulife Fund shows an SCR of zero because CLL is permitted by regulations to offset the SCR against liabilities which are "loss absorbing" in the event of a stress scenario. In the case of the Manulife Fund, this relates to the £39m liabilities related to discretionary benefits
- In the absence of "loss absorbing" liabilities, the gross SCR would have been £14m as at 31st December 2018
- CLL has not provided a post Transfer financial position for the Manulife Fund but has confirmed that the current financial position is substantially similar to the position as at 31st December 2018 as presented above
- SF has confirmed that the expected financial position of the New Manulife Fund post Transfer will be the same as the position of the Manulife Fund in CLL pre Transfer

Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of the New Manulife Fund (relative to the financial position of the Manulife Fund in CLL prior to the Transfer).

5.2. Financial impact of the Transfer on SF

The table below compares the Solvency II Pillar 1 balance sheet position of SF as at 31st December 2018 before and after Transfer:

£m	Actual Reported	Pro Forma Post Transfer
A. Assets	2,633	5,005
B. Liabilities	2,447	4,761
C. Impact of ring-fencing restrictions	75	75
D. Available Capital (“Own Funds”) [A - B - C]	111	169
E. Solvency Capital Requirement (“SCR”)	59	98
F. Surplus [D - E]	52	71
SCR Coverage Ratio [D / E]	**188%**	**172%**

Source: SF Chief Actuary Report on the Transfer

In performing these calculations, SF has made the following key assumptions:

- The liabilities have not been adjusted for TMTP, VA or MA (as they are not currently used by SF and are not expected to be used following the transfer)
- The liabilities associated with the transferring business have been calculated based on the expected expense basis that SF intends to apply for the transferring policies post Transfer
- Post Transfer liabilities have been increased to reflect small expected increases in tax liabilities for SF
- Post Transfer assets have been reduced for SF’s project expenses relating to the Transfer

In my opinion this is not an unreasonable basis on which to draw my conclusions concerning the relative financial position of SF before and after the Transfer.

Note that I have been provided with and have reviewed additional material from SF outlining the individual financial position of the SF Main Fund and each of its closed with-profits sub-funds (i.e. the Rational Shelley sub-fund, the LANMAS Sub-Fund, the Scottish Legal Life Sub-Fund and the M&GM Sub-Fund), which showed that each sub-fund was comfortably solvent on a standalone basis. As the financial position of SF’s closed with-profits sub-funds are unchanged by the Transfer, except to the extent of any change in financial strength of the SF Main Fund acting as a source of capital support in the event that the sub-funds require a capital injection, I have not considered them further in the rest of this Report.

The following observations and comments are relevant in relation to the impact of the Transfer on the Solvency II Pillar 1 financial position of SF:

- The Transfer results in a c. £2.4bn and c. £2.3bn increase in the total assets and liabilities of SF respectively, which effectively doubles SF's asset and liability base
- The Transfer results in a £58m increase in SF's Own Funds (or 52% in proportional terms)
- The Transfer results in a £39m increase in SF's SCR (or 67% in proportional terms). The increase in SCR is lower than the corresponding decrease in CLL's SCR because SF benefits from greater diversification in its SCR calculations
- The Transfer therefore results in a significant increase in SF in terms of total assets, financial resources and capital requirements
- While SF's Surplus would increase post Transfer, its SCR Coverage Ratio falls from 188% to 172%. I do not consider such a change in SCR coverage in this range to be materially adverse. In addition, the post Transfer SCR Coverage Ratio of 172% remains above the trigger point of 150% as set out in SF's capital management policy which is discussed further in section 8.6. To put this into further context, an SCR Coverage Ratio of higher than 150% can be taken to mean that SF has an additional buffer to ensure that there is less than a 1-in-10 chance of not covering the SCR after one year. Furthermore 172% is significantly in excess of SF's Risk Tolerance of 130% as defined in the Risk Appetite Framework and the point at which require management to take action in order to bring the risk exposure back into appetite
- I have also noted that while SF does not currently use permitted adjustments to Solvency II calculations (e.g. TMTP, MA and VA) to increase its reported Pillar 1 financial position, it has the option to do so in the future (subject to regulatory approvals).

Taking into account the information and analysis set out above, I am satisfied that the Transfer will not have a material adverse effect on SF's Solvency II Pillar 1 financial position.

5.3. Financial impact of the Transfer on Pillar 2 basis

An insurer's Pillar 2 capital position is not publicly disclosed and contains commercially sensitive information. Due to this commercial sensitivity I have avoided quoting the full detailed Pillar 2 analysis in my Report. However, the following observations and comments are relevant in relation to the impact of the Transfer on the Solvency II Pillar 2 financial position of SF and CLL:

- The SF Chief Actuary has stated in his report that SF's Pillar 2 solvency basis *"is similar in nature to the Pillar 1 calculation, but includes an allowance for certain* *risks excluded from the Pillar 1 and allows for the measurement of certain risks in a way that is more in line with SF's assessment of those risks"*. He has also noted that SF's Pillar 2 solvency ratio is higher than its Pillar 1 solvency ratio

- The SF Chief Actuary has indicated that the impact of the Transfer on SF's Pillar 2 solvency position is similar to the Pillar 1 impact, with consistent underlying drivers (see section 5.2)
- CLL has confirmed that the Transfer will have a minimal impact on its Pillar 2 available capital and capital requirements (similar to the Pillar 1 impact as shown in section 5.1). I have not requested further detailed analysis of the impact of the Transfer on CLL's Pillar 2 solvency position because, on the basis of my experience of other UK insurance companies, there is no reason to doubt this confirmation

5.4. Conclusions

In relation to the Solvency II Pillar 1 financial impact, I have concluded that:

- The Transfer will not have a material adverse effect on CLL's financial position
- The Transfer results in a significant increase for SF in terms of total assets, financial resources and capital requirements
- While SF's SCR Coverage Ratio falls from 188% to 172%, the post Transfer SCR Coverage Ratio of 172% remains above the trigger point of 150% as set out in SF's capital management policy and does not involve a significant decrease in the probability of SF remaining solvent over a one-year time frame. Furthermore 172% is significantly in excess of SF's Risk Tolerance of 130% as defined in the Risk Appetite Framework and the point at which require management to take action in order to bring the risk exposure back into appetite
- The financial position of SF's existing sub-funds is unchanged due to the ring-fenced nature of the funds
- The Transfer will not have a material adverse effect on the financial position of the New Manulife Fund (relative to the financial position of the Manulife Fund in CLL prior to the Transfer)

6. Financial effect of the Transfer on transferring CLL policyholders

6.1. Overview

In this section, I have considered the financial effect of the Transfer on the following groups of transferring CLL policyholders:

- Transferring with-profits policyholders
- Transferring unit-linked policyholders
- Transferring non-profit policyholders

I have assessed the impact of the Transfer on all groups of transferring CLL policyholders in terms of security of benefits. I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to transferring CLL with-profits and unit-linked policyholders. Finally, I have considered the implications of the Transfer for the benefit expectations and bonus prospects for transferring CLL with-profits policyholders. It should be noted that there are no proposed changes to the policy terms and conditions for the transferring CLL policies, and consequently the Transfer will not result in any changes to the benefit expectations of ***non-profit and unit-linked policyholders***.

The level of premiums payable for all policies will not be affected by the Transfer. Due to the contractual nature of non-profit business, the benefit expectations of non-profit policies will not be affected by the Transfer and therefore will not be covered further in the rest of this chapter.

A very small proportion of transferring CLL policies have additional guarantees and options (i.e. guaranteed annuity options, settlement options, underwriting guarantees on renewable protection products) and there are loyalty bonuses on certain unit-linked policies. All existing guarantees, options and loyalty bonuses will not be affected by the Transfer.

6.2. Security of benefits

Following the Transfer, the assets and liabilities of the transferring policies (excluding those relating to the Manulife Fund) will be transferred to the SF Main Fund. The assets and liabilities of the transferring policies in the Manulife Fund will be transferred to the newly established New Manulife Fund in SF.

In order to assess the impact of the Transfer on the benefit security of transferring policies (including those relating to the Manulife Fund), I have compared the Solvency II Pillar 1 financial position of CLL pre Transfer with the financial position of SF post Transfer, as at 31st December 2018, as summarised in the following table:

£m	CLL Actual Pre Transfer	SF Pro Forma Post Transfer
A. Assets	32,468	5,005
B. Liabilities	28,322	4,761
C. Impact of ring-fencing restrictions	0	75
D. Available Capital (“Own Funds”) [A - B - C]	4,146	169
E. Solvency Capital Requirement (“SCR”)	2,608	98
F. Surplus [D - E]	1,538	71
SCR Coverage Ratio [D / E]	**159%**	**172%**

Source: CLL SFCR, SF Chief Actuary Report on the Transfer

The table shows that:

- The SCR Coverage Ratio for SF post Transfer is higher than the SCR Coverage Ratio for CLL pre Transfer, which represents a strengthening of financial position compared to the status quo for transferring policies
- However, the Surplus in absolute terms for SF post Transfer is significantly lower than the Surplus for CLL pre Transfer. Whilst this may appear at first sight to be a weakening of financial position, I have taken into account that CLL’s Surplus pre Transfer was intended to support all of CLL’s business and not just the transferring policies. In addition, CLL has a significantly larger book of liabilities than SF, and adverse movements of an equal probability would result in a larger reduction in CLL’s Surplus. I have further taken into consideration that while there are differences in the risk profile of CLL pre Transfer and SF post Transfer (as discussed in section 6.6), the Transfer will not have a materially adverse effect in relation to the profile of risks that transferring policyholders will be exposed to. Finally, I have drawn comfort from the stress testing conducted by SF as part of its most recent ORSA which includes the CLL business. I therefore do not consider this to represent a material weakening of financial position compared to the status quo for transferring policies.

100% of SF’s Own Funds as at 31st December 2018 are classified as Tier 1, whereas 91% of CLL’s Own Funds as at 31st December 2018 are classified as Tier 1, with the remainder being classified as Tier 2. I am satisfied that the quality of Own Funds for both SF and CLL is sufficiently high.

Following the Transfer, the assets and liabilities of the Manulife Fund will be transferred to the New Manulife Fund, which is ring-fenced from the other long-term funds maintained by SF. My analysis in section 5.1.1 indicates that the Transfer will not have a material adverse effect on the financial position of the New Manulife Fund (relative to the financial position of the Manulife Fund in CLL prior to the Transfer).

Although SF intends to manage the New Manulife Fund on a self-sufficient basis, there are provisions under the PPFM for the sub-fund to be provided with capital support by the SF Main Fund if necessary (for example during periods of adverse financial or other conditions). This would provide an additional layer of security for the guaranteed benefits in the New Manulife Fund (which replaces a similar arrangement with CLL pre Transfer). I consider both CLL and SF to have sufficient financial resources to provide any necessary capital support to the Manulife Fund. However, as the New Manulife Fund will be comfortably solvent post Transfer, I consider the likelihood of it requiring additional capital support to be extremely low.

In extremis, in the event of SF becoming insolvent, the New Manulife Fund may no longer be ring-fenced and assets in the fund may be required to support the benefits of other SF policies. However, I consider this to be a very remote possibility.

When considering the financial security of benefits, I have also taken into account SF's and CLL's respective capital management policies, which are discussed further in section 6.7 below.

Based on the relevant factors as described in this section, in my opinion the security of benefits for transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo.

6.3. Investment strategy

6.3.1. With-profits policies

The Transfer will not immediately result in any changes to the investment of assets in the New Manulife Fund and I understand that SF does not currently have plans to make any changes to the investment strategy (as documented in the PPFM) for the fund in the short term. Any future changes will be subject to appropriate governance, including consideration of the PPFM. This would have been the case within CLL in the absence of the Transfer.

Therefore, in my opinion, transferring CLL with-profits policyholders in the New Manulife Fund will not be adversely affected by the Transfer in relation to investment strategy.

6.3.2. Unit-linked policies

Under the terms of the Transfer, SF will establish new unit-linked funds in the SF Main Fund corresponding to those maintained by CLL prior to the Effective Date and the benefits of transferring policies which are unit-linked policies will become linked to those new funds, with the same number, value and classes as they had immediately prior to the Effective Date.

The assets and liabilities in respect of each transferring CLL unit-linked fund in CLL (other than the property funds) will be transferred to the new corresponding unit-linked fund in the SF Main Fund. The new corresponding unit-linked funds will initially be established with the same investment objectives, investment restrictions and investment policies as applied by CLL prior to the Transfer. In addition, the investment mandate will be retained by CLAM for a minimum of four years. The exceptions to this are the Personal Portfolio Funds, where the investment management is performed by the policyholders themselves (or their appointed fund manager).

In my opinion, transferring unit-linked policyholders will not be adversely affected by the Transfer in relation to investment strategy.

6.3.3. Non-profit policies

As the benefits payable are guaranteed, investment strategy has no bearing on benefits due under non-profit policies. Hence, the Transfer will not have an impact on transferring CLL non-profit policyholders in relation to investment strategy.

6.4. Expenses and charges

6.4.1. With-profits policies

The Scheme will replicate restrictions on the charges which can be applied to the Manulife Fund under the terms of the 1999 Scheme and SF will therefore levy charges to the New Manulife Fund which are identical to existing charges levied by CLL. This means there will be no change to the expense charges for with-profits policyholders as a result of the Transfer.

6.4.2. Unit-linked policies

I have been informed by CLL and SF that the charges on the relevant transferring CLL unit-linked policies will not be changed as a result of the Transfer. Furthermore, I understand from SF that any reviews of charges on unit-linked policies after the Transfer are subject to the same governance arrangements that are applicable to other policies within the SF Main Fund. As further discussed in section 9 below, I am satisfied that SF's governance arrangements, although different from CLL's, will not involve any material adverse change for transferring policyholders.

Therefore, in my opinion, unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges.

6.5. Benefit expectations and bonus prospects

The focus of this section is on the benefit expectations and bonus prospects of transferring CLL with-profits policyholders.

For CLL with-profits policies in the Manulife Fund, the status quo as specified within the PPFM is as follows:

- ***Annual bonuses*** are distributed using the "Contribution Method", which is a common approach adopted by Canadian insurers for declaring bonuses for with-profits business, based on an adjusted sum of the "interest surplus" and the "loading surplus", where:
  - The "interest surplus" is based on the excess of smoothed investment income (excluding capital gains) on the assets backing the with-profits liabilities over

that assumed in the computation of the ***Contribution Reserve*** (which is the value, based on assumptions at the time of policy issue, of the cost of paying the sum assured and attaching bonuses on death and maturity, less future valuation premiums)

  - The "loading surplus" is based on mortality, lapse and expense surplus arising from the with-profits business over the year

- Annual bonuses are computed as a cash amount which the policyholder can choose to convert to an additional sum assured, if the option is chosen
- ***Terminal bonuses*** distribute any additional surpluses arising from experience in the fund
  - A realistic valuation of the assets and liabilities is used to assist in deriving a terminal bonus scale whereby the present value of the liabilities approximately equates to the value of assets
  - Any surplus or deficit at the date of valuation is reduced by changing the terminal bonus by calendar year of claim in this projection, and/or the interest surplus component of the annual bonus such that the total value of the liabilities is within 5% of the total assets.
- On surrender of a policy the amount paid out is computed by applying a "Cash Value Factor" to the sum assured and attaching bonuses and this is enhanced by a terminal bonus, if appropriate
- It is expected that the investment income used to compute the interest surplus will reflect a smoothed investment income and will not change by more than 1% from one year to the next
- The with-profits policyholders benefit from any surplus or suffer any losses arising from the non-profit policies in the fund
- The fund is established with the aim of fully distributing the fund, and all the surplus arising in the fund to the with-profits policyholders and therefore there is no inherited estate in this fund

In addition, the following principles or practices set out in the PPFM are enshrined in the provisions of the 1999 Scheme and equivalent provisions will be replicated in the new Scheme:

- The tax charged to the fund is equal to the charge that the fund would be liable for if it was a standalone mutual life company
- The charges for ongoing policy servicing will be applied monthly to the fund and were fixed in 1995 at £29.05 per policy per annum, rising in line with the Retail Price Index
- Investment management charges were fixed by the 1995 Scheme (and again by the 1999 Scheme) at 0.25% of the first £200m of assets and 0.125% of the balance. Investment dealing charges will be paid directly out of the fund as these are incurred

SF and CLL have both confirmed that there are no planned changes of substance to the PPFM. SF cannot adopt the CLL PPFM directly, however a new PPFM will be adopted for the New Manulife Fund which will substantially replicate the existing PPFM, and all key aspects will remain unchanged. Compliance with the PPFM must be reviewed, at least once a year, in a report made by the WPA to the policyholders.

There is no expectation of additional profit participation rights among transferring CLL with-profits policyholders as a result of the Transfer.

In my opinion, transferring policyholders in the Manulife Fund will be no worse off than if the Transfer did not take place.

6.6. Risk profile

The risk profile in relation to transferring CLL policyholders will change following the Transfer as SF and CLL operate different business models and are therefore exposed to different types of risk.

The following table compares the components of undiversified SCR for CLL pre Transfer and for SF post Transfer. The below details the impact of the Transfer on the components of SCR for SF as at 31st December 2018.

Proportion of total undiversified SCR	Actual CLL Pre Transfer	Pro forma SF Post Transfer
Market Risk	66%	37%
Counterparty default risk	1%	7%
Life Underwriting risk	22%	46%
Health Underwriting risk	6%	3%
Operational Risk	5%	7%

Source: CLL Chief Actuary Report on the Transfer, SF Chief Actuary Report on the Transfer

The table shows that the broad mix of risk exposure is similar in terms of high level risk types between CLL pre Transfer and SF post Transfer. However, there is significant variation in the underlying components of risk within ***market risk*** and ***life underwriting risk***:

- Within market risk, the dominant risk component for CLL pre Transfer relates to spread risk (or credit risk) associated with its fixed interest investments (for example corporate bonds). In contrast, equity risk is the largest component of market risk for SF post Transfer
- Within life underwriting risk, CLL is mainly exposed to longevity risk associated with its annuity business whereas for SF post Transfer, the components of life underwriting risk are more evenly spread across lapse risk, longevity risk and expenses

In my opinion, neither risk profile is inherently superior to the other, as long as they:

- Are appropriately managed by the insurer and in line with the risk appetite as articulated by the Board in accordance with its governance process
- Are appropriately managed within the context of the capital management framework adopted by the insurer

In my opinion, the profile of risks to which the transferring policyholders in the Manulife Fund will be exposed to within the fund will not be materially different. There are changes in terms of the risk profile of the business outside the fund, as discussed above, but I do not consider these changes to be material to the Manulife Fund.

On balance, taking into account the analysis set out above, I am satisfied that while the profile of risks to which the transferring CLL policyholders will be exposed will change in several aspects, the Transfer will not have a materially adverse effect in relation to risk profile.

6.7. Capital management policy

In relation to capital management policy associated with the transferring policyholders, I have compared CLL's policy (which applies pre Transfer) to SF's policy (which will apply post Transfer). Note that my separate analysis of the impact of the Transfer for non-transferring CLL policyholders and for existing SF policyholders in terms of capital management can be found in sections 7.6 and 8.6.

The impact of the Transfer on capital management policy associated with the transferring policyholders is a nuanced consideration as it can be over simplistic to directly compare the capital management policy of two insurers. This is because the capital management policy is only a single component of the overall risk management framework (including risk appetite and exposures as a result of each insurer's chosen business strategy) which is unique to each insurer. I have therefore compared CLL's and SF's capital management policies and trigger levels at a broad level, with due regard for both insurers' inherent financial position, group structures, risk management policies and business strategies.

I have concluded from my review that:

- Both CLL's and SF's capital management policies are reasonable and appropriate for their respective businesses
- I am satisfied that SF's capital management policy is at least as strong as CLL's capital management policy

In arriving at the conclusions set out above, I have also taken into account SF's ongoing review of its governance framework, which is discussed further in section 9.3.

Taking into account the considerations set out in this section, in my opinion the Transfer will not have an adverse effect on the capital management policy in relation to transferring CLL policyholders.

6.8. SF run-off scenario

It is possible that in the future, the SF Main Fund may stop writing new business and enter into run-off. Under such a scenario, the business of SF may eventually be transferred to another insurer, although I consider that it is extremely unlikely that SF opts to transfer the New Manulife Fund (or any of its other sub-funds) in isolation to another insurer as I do not believe that it would be either commercially or operationally attractive to do so. In the event that all (or parts) of SF's business was transferred to another insurer in the future, it would be subject to similar regulatory and legal processes that apply to the Transfer.

6.9. Conclusions

Based on the analysis set out in this section, I have concluded that:

- The security of benefits for all transferring CLL policyholders will not be materially adversely affected by the Transfer
- The level of premiums payable for all policies will not be affected by the Transfer
- Due to the contractual nature of non-profit business, the benefits of transferring CLL non-profit policies will not be affected by the Transfer
- The with-profits policyholders in the New Manulife Fund will not be adversely affected by the Transfer in relation to investment strategy
- Transferring CLL with-profits policyholders and unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges
- Transferring CLL with-profits policyholders will not be adversely affected by the Transfer with respect to benefit expectations and bonus prospects
- The Transfer will not have a materially adverse effect on the profile of risks to which the transferring CLL policyholders will be exposed
- The Transfer will not have a materially adverse effect on the capital management policy in relation to transferring CLL policyholders

7. Financial effect of the Transfer on non-transferring CLL policyholders

7.1. Overview

I have considered the financial effect of the Transfer on the following groups of non-transferring CLL policyholders:

- Non-transferring unit-linked policyholders (Wealth Management business)

- Non-transferring non-profit policyholders (Retirement Income and Group Protection business)
- Hong Kong policyholders

I have assessed the impact of the Transfer on all groups of non-transferring CLL policyholders in terms of security of benefits. I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to non-transferring CLL unit-linked policyholders.

It should be noted that there are no proposed changes to the policy terms and conditions for the non-transferring CLL policies, and consequently the Transfer will not result in any changes to the benefit expectations of non-transferring non-profit and unit-linked policyholders.

The level of premiums payable for all policies will not be affected by the Transfer. Due to the contractual nature of non-profit business, the benefit expectations of non-profit policies will not be affected by the Transfer and therefore will not be covered further in the rest of this chapter.

7.2. Security of benefits

My analysis in section 5.1 indicates that the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of CLL, with only minimal impact on its Surplus and SCR Coverage Ratio.

When considering the financial security of benefits, it is also instructive to consider the insurer’s capital management policy, which is discussed further in section 7.6 below.

Based on the relevant factors as described in this section, in my opinion the security of benefits for non-transferring CLL policyholders will be not be materially adversely affected by the Transfer compared to the status quo for those policies.

7.3. Expenses and charges

The charges on the non-transferring CLL unit-linked policies will not be changed as a result of the Transfer. Therefore, in my opinion, non-transferring CLL unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges.

7.4. Investment strategy

The Transfer will not have an impact on non-transferring CLL non-profit and unit-linked policyholders in relation to investment strategy.

7.5. Risk profile

The table below details the impact of the Transfer on the components of SCR for CLL as at 31st December 2018.

£m	Actual Pre Transfer	Pro forma Post Transfer	Impact of Transfer	% change
Market Risk	2,214	2,194	(20)	(1%)
Counterparty default risk	29	29	(0)	0%
Life Underwriting risk	740	713	(27)	(4%)
Health Underwriting risk	183	177	(6)	(3%)
Diversification benefits	(591)	(573)	18	(3%)
Basic Solvency Capital Requirement	**2,576**	**2,541**	**(36)**	**(1%)**
Operational Risk	156	152	(4)	
Loss absorbency adjustments	(125)	(125)	0	
Solvency Capital Requirement	**2,608**	**2,568**	**(40)**	**(2%)**

Source: CLL Chief Actuary Report on the Transfer

The table shows that the impact of the Transfer on CLL's capital requirements is very small, with an overall reduction in SCR of 2%. The largest change by risk type in percentage terms and absolute terms is life underwriting risk with a 4% reduction (£27m) in pre-diversified risk capital.

The table below details the impact of the Transfer on the components of the SCR for CLL as at 31st December 2018.

Proportion of total undiversified SCR	Actual Pre Transfer	Pro forma Post Transfer
Market Risk	66%	67%
Counterparty default risk	1%	1%
Life Underwriting risk	22%	22%
Health Underwriting risk	6%	5%
Operational Risk	5%	5%

The above shows minimal change to the risk profile of CLL post Transfer, with market risk remaining the dominant risk.

Taking into account the considerations set out in this section, in my opinion the Transfer will not have an adverse effect on the risk profile of CLL.

7.6. Capital management policy

In relation to CLL's capital management policy:

- CLL operates a formal Capital Management Operating Policy that sets out at a high level:
  - The approach taken to managing capital to ensure consistency with CLL's approach to risk management and its business plans
  - The items required to form a Capital Management Plan
  - The process for classification of Own Funds items into tiers and for determination of their eligibility for the purposes of meeting required capital under the Solvency II regime
  - The approaches to identify, measure, manage, monitor and report risks associated with capital management
- CLL's policy states that it manages its capital levels to the more onerous of the Solvency II Pillar 1 SCR Coverage Ratio and the ***LICAT***[13] Ratio, with different target ranges applicable to each basis
- I have reviewed the CLL's target solvency ranges on both bases and consider them to be reasonable and within the range of acceptable industry practices. However, CLL considers the target ranges to be commercially sensitive and I have therefore not quoted them in the Report, except to note that CLL's SCR Coverage Ratio as at 31 December 2018 was within its target range
- I understand that the Solvency II Pillar 1 target range is the biting constraint for CLL by a significant margin, and this is expected to continue for the foreseeable future. CLL does not have an explicit target range for Solvency II Pillar 2
- There are no expected changes to CLL's capital management policy as a result of the Transfer

Taking into account the considerations set out in this section, and the fact that the Transfer does not have a significant impact on CLL's SCR Coverage Ratio, in my opinion the Transfer will not have an adverse effect on the capital management policy or CLL's ability to meet its capital management policy, in relation to non-transferring CLL policyholders.

[13] LICAT is the Life Insurance Capital Adequacy Test, the capital standards operated by Office of the Superintendent of Financial Institutions (OSFI), the Canadian regulator of insurance companies (including CLL's parent companies)

7.7. Conclusions

Based on the analysis set out in this section, I have concluded that:

- The security of benefits for all non-transferring CLL policyholders will not be materially adversely affected by the Transfer
- The level of premiums payable for all policies will not be affected by the Transfer
- Due to the contractual nature of non-profit business, the benefits of non-transferring CLL non-profit policies will not be affected by the Transfer
- Non-transferring CLL unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges
- The Transfer will not have a materially adverse effect on the profile of risks to which the non-transferring CLL policyholders will be exposed
- The Transfer will not have a materially adverse effect on the capital management policy in relation to non-transferring CLL policyholders

8. Financial effect of the Transfer on SF policyholders

In this section, I have considered the financial effect of the Transfer on the following groups of SF policyholders:

- With-profits policyholders in the SF Main Fund
- With-profits policyholders in each of the SF sub-funds
- All SF non-profit policyholders
- All SF unit-linked policyholders

I have assessed the impact of the Transfer on all groups of policyholders in terms of security of benefits. I have also assessed how the Transfer would affect the investment strategy and expense charges with respect to each separate group of with-profits and all unit-linked policyholders. Finally, I have considered the implications of the Transfer for the benefit expectations and bonus prospects for each separate group of with-profits policyholders.

The level of premiums payable for all policies will not be affected by the Transfer. Due to the contractual nature of non-profit business, the benefits of non-profit policies will not be affected by the Transfer.

8.1. Security of benefits

My analysis in section 5.2 indicates that the Transfer will not have a material adverse effect on the Solvency II Pillar 1 financial position of SF.

SF will manage the New Manulife Fund such that its assets are able to cover its liabilities and its capital and solvency requirements. However, it is possible that during periods of adverse financial or other conditions, temporary capital support will be needed to be available to the New Manulife Fund from the SF Main Fund.

As shown in section 5.1.1, the New Manulife Fund is expected to be comfortably solvent on the Pillar 1 basis, with a £39m discretionary benefit reserve and gross SCR of £14m. Furthermore, additional management actions can be taken to improve its solvency position if required (for example, there is scope to reduce the proportion of assets invested in equities from current levels whilst adhering to the PPFM). Therefore as the New Manulife Fund is comfortably solvent I consider the likelihood of it requiring additional capital support to be extremely unlikely.

It should also be noted that the SF Main Fund is in a strong financial position with expected post Transfer Own Funds of £137m[14] as at 31st December 2018. In my opinion, in the unlikely event that the New Manulife Fund requires capital support, the SF Main Fund has sufficient financial capacity to provide the required support without adversely affecting the security of the policyholders in the SF Main Fund or

[14] Source: SF Chief Actuary Report

the sub-funds. Nevertheless, it should be noted that whereas capital support for the Manulife Fund is currently provided by CLL's shareholders, post Transfer any capital support would be provided by the SF Main Fund to the New Manulife Fund and as SF is a mutual friendly society without shareholders, any provision of capital support would be subject to a balanced consideration of the different groups of policyholders.

As the assets and liabilities of the ***M&GM***, Scottish Legal, Rational Shelley and LANMAS Sub-Funds are ring-fenced, the security of benefits for policies in those funds will be not be directly affected by the Transfer. To the extent that the sub-funds potentially have access to capital support from the SF Main Fund, the Transfer could in theory result in a reduction in the strength of that capital support. However, it needs to be taken into account that all the sub-funds are comfortably solvent on a standalone basis. Furthermore, as discussed above, in my opinion the SF Main Fund has sufficient financial capacity to provide any required support to the New Manulife Fund without adversely affecting the security of the policyholders in the SF Main Fund.

As part of SF's due diligence in relation to the Transfer, it considered the potential impact of a range of scenarios on the value of the Transfer to SF, including:

- Persistency shock
- Increase in counterparty default risk related to property assets held in ACS
- Loss of anticipated diversification benefits
- Expense shock
- Mortality shock relating to transferring annuities
- Significant changes to the risk profile of the transferring business resulting in its SCR falling below £40m (and consequently a reduction in assets received as part of the Transfer)
- Combinations of stresses described above

I have reviewed these scenarios and consider them to be reasonable. Under all the scenarios tested, SF remained comfortably solvent with the most extreme adverse scenario tested resulting in SF's projected 2019 SCR Coverage Ratio being 37% lower than the base case.

When considering the financial security of benefits, it is also instructive to consider the insurer's capital management policy, which is discussed further in section 8.6 below.

Taking into account the considerations set out above, in my opinion the Transfer will not have an adverse effect on the security of benefits of current SF policyholders in the SF Main Fund or any of the sub-funds.

8.2. Expenses and charges

The expense charges applicable to the M&GM, Rational Shelley and LANMAS sub-funds and associated with-profits ***asset shares*** are fixed. Therefore, the Transfer will have no impact on expenses and charges with respect to with-profits policyholders in each of the existing sub-funds operated by SF.

Going forward, the Scottish Legal Sub-Fund will be charged for actual expenses. Therefore, as the overheads will be shared with a larger group of policyholders following the transfer, there may be a slight reduction in expense charges.

With-profits policyholders in the SF Main Fund are charged a fair share of SF's overall expenses. As discussed in section 3, SF expects the Transfer to result in improvements in the economies of scale. Consequently, with-profits policyholders in the SF Main Fund should benefit from reduced expense charges to their asset shares over time.

Taking into account the considerations as set out above, in my opinion the Transfer is unlikely to have a materially adverse impact on expense charges for with-profits policyholders in the SF Main Fund relative to the scenario in absence of the Transfer. Moreover, the Transfer should benefit the with-profits policyholders in the SF Main Fund from reduced expense charges.

8.3. Investment strategy

Since the Scheme will not have a materially adverse impact on Scottish Friendly's financial position, it will not necessitate a change in investment strategy. Therefore the Transfer will not result in any changes to the investment strategy of assets invested on behalf of the current SF with-profits, unit-linked and non-profit policyholders.

8.4. Benefit expectations and bonus prospects

The Transfer will not result in any changes to the benefit expectations and bonus prospects of the with-profits policyholders of SF in so far as they are related to the respective asset shares of the policies in question.

In addition, the Transfer is expected to result in a £58m increase in the Solvency II Own Funds of the SF Main Fund (which can also be considered as the working capital of the fund) as at 31st December 2018. At present, the expected benefits described above are attributable to the working capital of the SF Main Fund and do not directly affect the benefit expectations and bonus prospects of with-profits policyholders in the SF Main Fund. However, the Transfer is expected to generate profits in the SF Main Fund, and if this occurs the with-profits policyholders in the SF Main Fund may receive a share of the profits arising in the future.

Taking into account these considerations, in my opinion the Transfer will not have an adverse effect on the benefits expectations and bonus prospects of current SF with-profits policyholders.

8.5. Risk profile

The status quo with respect to SF's risk profile is as follows:

- Market risk and life underwriting risk are currently the largest risk components for SF, making up 41% and 42% of its undiversified SCR as at 31st December 2018 respectively
- The remaining components of its SCR are counterparty default and ***operational risk***
- As the primary operating fund of SF, the SF Main Fund (alongside the M&GM Sub-Fund) also bears the most risks in the business. That said, my analysis of the solvency positions (as shown in section 5.2) indicates that the SF Main Fund was strongly capitalised as at 31st December 2018
- According to SF's Risk Appetite Framework, it has "medium" appetite for the following risks, meaning that it will accept the risks as they are necessary to deliver against the company's strategic goals and objectives based on a risk versus reward consideration, supported by appropriate controls:
  - Strategic risk
  - Market risk
  - Underwriting risk (Life and Health)
  - Distribution risk
- Each of SF's sub-funds is expected to be self-sufficient, which means that in the normal course of events the sub-fund is expected to meet its capital requirements from capital resources within the sub-fund, which is reflected in the respective PPFMs. My analysis of the solvency positions indicates that all the sub-funds were comfortably capitalised as at 31st December 2018

The table below details the impact of the Transfer on the components of SCR for SF as at 31st December 2018:

Proportion of total undiversified SCR	Actual Pre Transfer	Pro forma Post Transfer
Market Risk	41%	37%
Counterparty default risk	10%	7%
Life Underwriting risk	42%	46%
Health Underwriting risk	0%	3%
Operational Risk	7%	7%

Following the Transfer:

- The transferring CLL unit-linked and non-profit business will be transferred to the SF Main Fund. This will result in a substantial increase in the size of the SF Main

Fund, and consequently results in a 67% increase in SF's SCR from £59m to £98m as at 31st December 2018, while the M&GM Sub-Fund was also comfortably solvent on a standalone basis as at 31st December 2018

- As a proportion of the overall undiversified SCR, market risk will fall from 41% to 37% while life insurance risk will increase from 42% to 46%. This means that while life underwriting risk will be the dominant risk for SF, this increase does not result in any breaches in SF's appetite for life underwriting risk.
- As a result of transferring income protection business, ***health underwriting risk*** increases from de minimis levels to 3% of the overall undiversified SCR for SF. While it represents exposure to a new type of risk to SF, it remains only a small component of the overall risk profile. I have also noted that this increase does not result in any breaches in SF's appetite for health underwriting risk
- Under the terms of the Transfer, the New Manulife Fund is intended to be managed as a self-sufficient sub-fund of SF. However, the SF Main Fund may be required to provide capital support to the New Manulife Fund if required but this is a highly unlikely scenario taking into account the relatively high proportion of liabilities related to discretionary benefits which provides loss absorption in the event of a stress scenario (see section 5.1.1.). Nevertheless, if capital support is provided, there remains a remote risk that any capital provided by the SF Main Fund could become permanently trapped in the New Manulife Fund (i.e. a "burn through" risk)

Taking into account the considerations set out in this section, in my opinion the Transfer will not have an adverse effect on the risk profile of SF.

8.6. Capital management policy

A paper describing the solvency capital risk appetite of SF was approved by the Board on 27 March 2019.The paper includes a description of how SF sets its capital targets, triggers and tolerances in respect of capital management including the Transfer. In particular in respect of SF's capital management policy going forward:

- SF primarily manages itself to internal tolerances around capital coverage on a Pillar 2 basis. The lower limit is set to ensure that SF can withstand a 1-in-10 shock, which is currently calibrated to a 150% solvency ratio on a Pillar 2 basis. There is a trigger point 30 percentage points above this lower limit, at 180%, below which SF would consider options to restore its solvency position (for example making changes to investment strategy)
- In addition, SF operates and manages itself to capital coverage tolerances on a Pillar 1 basis as a secondary measure, also to withstand a 1-in-10 shock. These are currently calibrated to a lower limit of 130% and a trigger point of 150%. The lower ratios (relative to Pillar 2 tolerances) reflect ring-fencing requirements for sub-funds that apply under Pillar 1, which also means that SF's Pillar 1 SCR Coverage Ratio is less volatile compared to its Pillar 2 solvency ratio
- Both measures are outlined in the risk appetite within the Risk Appetite Framework, which feeds into its ORSA

- The SF Chief Actuary has stated in his report on the Transfer that the Pillar 2 solvency ratio was higher than the corresponding Pillar 1 SCR Coverage Ratio as at December 2018, and I understand that this is expected to continue to be the case for the foreseeable future
- As noted in section 5.3, the impact of the Transfer on SF's Pillar 2 solvency position is similar to the Pillar 1 impact, with consistent underlying drivers (see section 5.2), the SF Chief Actuary has also indicated in his report that the post Transfer Pillar 2 ratio would be above than the trigger point of 180% based on the position as at 31st December 2018
- In addition, there are 9 scenarios examined in the ORSA which look at the solvency capital ratio under Pillar 1 and Pillar 2. As the ORSA is not a public document and contains commercially sensitive information I am unable to disclose full details of those scenarios. However, I have had a discussion with SF's Chief Actuary and Chief Risk Officer on the process and governance around the choice of scenarios, the assumptions underlying those scenarios, the challenge from the Board and what mitigating actions, if any, SF would take to recover the Pillar 2 solvency capital ratio above 180% (for example making changes to investment strategy). I am satisfied there is an appropriate process involving the senior executives, Board Risk Committee and full Board to allow challenge of the choice of scenarios and assumptions and in particular ample opportunity to discuss any use of mitigating actions

Taking into account the considerations set out in this section, in my opinion the Transfer will not change the capital management policy in the SF Main Fund or any of the sub-funds or have an adverse effect on SF's ability to meet its capital management policy, in relation to existing SF policyholders.

8.7. Conclusions

Based on the analysis set out in this section, I have concluded that:

- The security of benefits for all SF policyholders will not be materially adversely affected by the Transfer
- The level of premiums payable for all policies will not be affected by the Transfer
- Due to the contractual nature of non-profit business, the benefits of SF non-profit policies will not be affected by the Transfer
- All SF with-profits policyholders will not be adversely affected by the Transfer in relation to investment strategy
- SF with-profits policyholders and unit-linked policyholders will not be adversely affected by the Transfer in relation to expenses and charges
- SF with-profits policyholders will not be adversely affected by the Transfer with respect to benefit expectations and bonus prospects
- The Transfer will not have a materially adverse effect on the profile of risks to which SF policyholders will be exposed
- The Transfer will not have a materially adverse effect on the capital management policy in relation to SF policyholders

9. Administration and governance

9.1. Overview

In this section, I consider the administrative and governance arrangements that will be in place following the Transfer. My review focuses on the assessment of whether adequate provisions have been made under the terms of the Transfer:

- to mitigate any possible risk of deterioration in standards of service experienced by transferring CLL policyholders following the Transfer
- to ensure adequate protections are in place so that the Transfer operates as presented
- to consider whether sufficient safeguards are in place against a subsequent change of approach that could act to the detriment of any policyholders

9.2. Service levels

Following the Transfer, the administration of all the transferring CLL policies will be transferred to SF. There is therefore a risk that both transferring CLL and current SF policyholders could experience adverse changes to the standards of service following the Transfer as:

- The in-house SF administration team will be, at least initially, relatively inexperienced in administering the transferring CLL policies and have limited knowledge of the CLL products
- SF may seek to minimise the costs associated with the administration of transferring CLL policies which could also have a detrimental effect on the servicing of all policies

I have reviewed the target service level standards proposed by SF for the administration of transferring CLL policies post Transfer and compared them with CLL's current target service level standards. I have found that SF's target service levels are at least equal to those currently in place at CLL for all metrics, and in many cases significantly higher (for example, SF has a target service level of 1 day for maturity processing in comparison to CLL's of 5 days). SF has also provided me with monthly reporting statistics on the attainment of these service levels in 2018, which showed it has a strong track record in attaining its target service levels, and has met its target levels in the vast majority of categories and months.

I also understand that SF has a general policy to apply the same target service level standards for all existing policies, and if target service level standards were higher for a group of policies following an acquisition, it would also be applied to all other policies.

Following the Transfer, the administration of transferring CLL policies will be migrated to ***Sonata***, the insurance administration IT platform currently adopted by

SF for all of its existing business. Whilst I am not an expert in insurance administrative systems, I have undertaken due diligence and in addition consulted with colleagues who are experts in this field and I understand that Sonata is a well respected IT system which is currently used by several significant insurers in the UK, with a reputation for strong scalability and adaptability. I also understand that a number of UK insurers have completed successful data migrations to Sonata in recent years.

As part of my investigations into the quality of SF's service capabilities and its ability to manage the transition as part of the Transfer, I have conducted an interview with the Operations Director at SF, and found that:

- SF currently has around 1.2m policyholders covering around 150 product variations
- The Transfer will involve SF taking over the administration of around 150,000 additional policies with similar product features to SF's existing portfolio
  - The only exception is the transfer of standalone income protection policies, where SF has limited administrative experience. However, SF is able to draw on some experience administering income protection rider policies. In addition, SF has several in-house staff members with previous experience in standalone income protection. From an IT perspective, Sonata has in-built capability to incorporate income protection policies. Following discussions with SF's senior management I am satisfied that adequate plans are in place to mitigate any potential risks associated with the administration and management of the transferring income protection policies. I have also in reaching this conclusion taken into account that both SF and CLL have recognised and highlighted this area as one of high priority during the knowledge transfer process in the run up to the Transfer. I shall comment further on progress in my supplementary report.
- SF has already conducted extensive operational due diligence on CLL's product suite and a detailed IT and operational project plan is currently in place following a comprehensive data audit phase over the second half of 2018, during which SF worked closely with CLL to understand the different products and verify that the data are as expected
- Drawing on the experience of previous transfers, SF has made preparations for a likely spike in the level of customer interactions for a period in the run up to and after the Transfer due to "woken up" customers prompted by communications relating to the Transfer
- SF intends to recruit a significant number of additional staff to its Client Services team to administer transferring CLL policyholders following the Transfer. The number of planned additional staff has been estimated conservatively, with the percentage increase in staff being substantially more than the percentage increase in policies and some of the new hires have already joined SF
- To date, SF has substantially met its target service level standards for existing policies

- SF has an extensive track record of product development (either on its own or in partnership with third parties) with typically lead time from product inception to product launches of 6 months (including with-profits business)

I have received and reviewed the agreed migration plan and regular progress updates on the plan which shows that after an initial period of alignment in terms of process and data exchange protocols between CLL and SF, good progress is being made and SF are confident that the agreed timetable will be met. In particular, the client data migration process is now complete. This will enable the first (of four scheduled over the period April to September 2019) user acceptance testing to be run. Furthermore, there are two full production readiness rehearsals scheduled before September 2019. I consider the data migration plan to be comprehensive and robust, with sufficient buffer built in to accommodate any unanticipated problems. I also consider the progress made to date to be in line with the plan.

In addition, I have taken comfort from the existence of the Transitional Services Agreement which will enable CLL to continue to provide administrative services for the transferring CLL policies on a temporary basis (for up to 6 months, which can be extended by mutual agreement in writing) post Transfer if necessary. This provides a significant and credible backup option in the event of significant issues being encountered by SF in the administration of the transferring CLL business post Transfer (for example, in a scenario where the data migration does not progress as planned, or if an unforeseen operational event were to occur at SF). It should be noted that the Transitional Services Agreement is not intended to be operational, but functions primarily as a back-up plan. I have reviewed the draft terms for the Transitional Services Agreement, which states that the services to be provided are intended to reflect the same type, scope and level of service that CLL applied prior to the Transfer. I also understand that CLL and SF plan to agree on the final terms of the Transitional Services Agreement by August 2019 (including the level of charges that would be levied by CLL), to reflect the status of the migration at that point. I shall therefore revisit the matter and provide an update in my supplementary report.

Following the Transfer, SF will also be responsible for the administration of policy loan assets historically issued by CLL which are included as part of the transferring business. SF has indicated that it is familiar with the administration of policy loans and its features, and following my discussions with them and supporting material I am satisfied that SF will have the capability to administer the policy loans, taking into account its relatively simple features and the small number of loans (c. 500) that will be transferred.

In my opinion, adequate provisions have been made under the terms of the Transfer to mitigate the risk of deterioration in standards of service being experienced by both transferring CLL and existing SF policyholders following the Transfer. It is also my opinion that SF operates to a high level of service standard and has the necessary experience and ability to manage the transition of transferring CLL policies into SF. In my opinion, taking into account factors described in this section, SF will have sufficient resources and IT capability to apply the service level it proposes for the Transfer.

9.3. Governance of transferring CLL policies

Following the Transfer, the governance framework adopted by SF will be applicable to transferring CLL policyholders, who will be granted membership rights in SF.

SF's foundation of membership is based on a Delegate based system of governance which is common in the friendly society movement. Therefore, SF is structured such that its members elect Delegates who are responsible for representing the interests of all of the members to the Board. Delegates are members that are elected in accordance with rules outlined in the Memorandum and Rules of SF. The powers and responsibilities of Delegates to represent the interests of the membership are also outlined in the Memorandum and Rules of SF.

SF is managed by its Board by authority of the Delegates. The Board meets with Delegates annually at ***AGMs,*** where the Delegates put forward the views of the members that they represent. It is also a governance requirement of SF that for the transfers of insurance business, the transfer must be approved by the Delegates on behalf of all SF members by way of a Special Resolution. If the Delegates were to vote against the Transfer, it would not proceed. The Delegate voting on the Transfer will be held at a Special General Meeting on 16 July 2019.

In addition, SF has committed to the principles of the UK Corporate Governance Code (as annotated for Mutual Insurers) to ensure best practice in corporate governance and evidence this effectively.

SF's internal control system for managing and mitigating risk is summarised below:

- The Board has overall responsibility for risk management and implementing strategic controls, as well as setting the strategic framework and objectives. The Board reviews the effectiveness of its financial, operational and compliance controls and risk management systems regularly. It has delegated a number of responsibilities and powers to the Chief Executive of SF (and by them onto the Executive Management and other members of SF's staff) and to Board committees
- Board committees such as a Risk Committee and Audit Committee have been established and appropriate powers have been given to them. The committees and control functions of SF are responsible for providing ongoing oversight and challenge of the risk exposures and internal control environment. In particular:
    - The Risk Committee provides focused support and advice on risk governance, assisting the Board in reviewing the internal control systems for managing all aspects of business risk
    - The Audit Committee reviews SF's internal control systems and ensures that they continue to be effective. It also advises the Risk Committee in relation to the effectiveness of the current control framework
- SF has an Executive Risk Committee ("ERC") which is the primary forum for executive oversight and challenge of the risk and control environment across the business and is chaired by the Head of Risk at SF. All executives are responsible

for the identification, assessment, management and control of risks in their respective areas, delegating such parts of this responsibility to appropriate managers or other individuals where practical

- Risk management is embedded in the duties and responsibilities of all employees and it is the responsibility of managers to ensure that this approach is maintained, and the responsibility of the ERC to ensure that this is effectively monitored
- SF's internal audit function provides regular audits covering all aspects of work undertaken by the business and Board committees

SF has appointed an external consultant to undertake a review of its with-profits governance framework and assess whether those arrangements are suitably robust and whether all associated conflicts of interest are managed effectively. This includes an assessment of the effectiveness of its existing with-profits advisory arrangements.

In addition, SF has engaged the external consultancy to support its investigations into certain historic practices with respect to one of the sub-funds, focussing on whether the recent approach to distributing the estate of that fund is fully equitable to all generations of policyholders.

This work was completed in March 2019 and the findings were presented and discussed with SF's Board. The main conclusions from the Report are:

- There is a strong customer-centric culture within SF, but change is required to aspects of the with-profits governance to continue to ensure fair treatment of these policyholders
- The quality of information to support decision making presented to the Board is targeted at more technical members of the Board.
- The roles and responsibilities of the With-Profits Actuary and SF's with-profits advisory arrangement need to be redefined and formalised
- The current structure of the with-profits advisory arrangement should be considered and a with-profits committee, rather than an independent person, would be in line with comparable peers

The Board discussed the paper in March 2019 and agreed the recommendations including the proposal to establish a with-profits committee. In my experience of with-profits governance these recommendations are in line with what I would have expected but I have also discussed the findings of the paper with the senior management of SF to challenge the conclusions. This confirmed my initial thoughts and I am comfortable that the recommendations are sensible and reasonable.

Furthermore, given the significant increase in the assets and liabilities of SF post Transfer, I have considered whether SF's systems, people and processes are adequate to manage both its existing business and the transferring business. Having discussed this matter with SF's CRO and Operations Director, I am satisfied that this is the case, taking into account that:

- SF and its senior management team (both in terms of collectively as an organisation and as individuals) can draw on extensive experience from previous transactions
- SF has recruited staffing resources based on the expected increase in activities during the "wake up period" in the lead up to and immediately after the Transfer
- Around half of the new staff have completed their training by May 2019, and the remaining new staff are expected to complete their training before the Transfer
- The CRO will maintain dedicated resources to provide oversight and challenge for the Transfer process until SF reaches a "business as usual" point in relation to the transferring business. From this point risk oversight and challenge will be continued as part of the "business as usual" risk process and governance
- While there is a significant increase in the size of assets and liabilities, the Transfer would represent an increase of less than 20%[15] in total policy count compared to the SF Main Fund

Finally in certain historic practices with respect to one of SF's sub-funds a remediation exercise will take place with limited cost which will not have a material adverse effect on SF.

Based on this input, I have concluded that the recommendations accepted by the Board will result in a strengthening of SF's governance framework in relation to its with-profits policyholders.

SF has confirmed that the action points are expected to be completed in advance of the Transfer. Having discussed this matter with SF's CRO and Chief Actuary and based on my relevant experience in the UK insurance industry I am comfortable with their assessment of the expected timeline and its achievability, and the suitability of the proposed points.

Therefore, I am currently satisfied that SF's governance framework review and its associated action points does not have a material effect on my conclusions on the Transfer, as set out in this Report. I shall revisit the matter and provide an update to the Court in my supplementary report on the Transfer.

9.3.1. Governance of unit-linked policies

CLL currently manages its unit-linked business in accordance with its policy as set out in the document "Principles and Practices of Financial Management (Unit-Linked Funds)". SF does not currently have a corresponding formal policy but intends to establish a similar document which will formalise its current approach to managing

[15] Based on information as at 31st December 2018 there were c. 130,000 transferring policies and c. 770,000 existing policies in the SF Main Fund resulting in a 130,000 / 770,000 = 17% increase

all of its unit-linked business. I understand that SF intends to substantially replicate the relevant principles adopted by CLL and, where relevant and practicable, adopt the practices. To the extent that there are any practices which SF is unable to adopt for operational reasons (although it is not currently aware of any), a revised practice will be proposed with the intention of avoiding any potential customer detriment. Furthermore, I understand that as part of its ongoing work to strengthen governance, SF is currently in the process of establishing a Unit-Linked Governance Committee.

Based on the situation outlined above, I am satisfied that the Transfer will not have a materially adverse effect on transferring CLL unit-linked policyholders in relation to governance, because the governance standards that currently apply in CLL will be replicated in SF post Transfer. I also understand that SF plans to finalise the document in the near future. I shall therefore revisit the matter and provide an update in my supplementary report.

9.3.2. Governance of workplace pensions policies

In accordance with the FCA's requirements for personal pension schemes and stakeholder pension schemes, CLL currently has in place a Governance Advisory Arrangement ("***GAA***") which provides an independent oversight of how those schemes are managed by CLL.

Following the Transfer, the relevant transferring CLL policyholders will be covered by SF's GAA, which was established following the transfer of certain long-term unit-linked business of Mobius Life Limited.

I have compared the terms of reference adopted by CLL's and SF's GAA respectively and in my opinion, there are no material differences between the two.

9.4. 1995 and 1999 schemes

The management of the Manulife Fund (and the New Manulife Fund post Transfer) is subject to provisions set out in the 1999 Scheme (which itself replicated certain provisions set out in the 1995 Scheme). I have reviewed the terms of both schemes and am satisfied that all protections and other provisions relevant to the future management of the Manulife Fund have been replicated in the Scheme in relation to the New Manulife Fund.

9.5. Principles and Practices of Financial Management ("PPFM")

The PPFM is a document that must be produced for every with-profits fund under the rules and guidance set out in chapter 20 of COBS. Each PPFM provides a comprehensive description of how the relevant with-profits fund is managed, including a statement of the Principles and Practices adopted by the insurer in respect of a wide range of areas relevant to the management of the fund in question.

I have compared the proposed new PPFM for the New Manulife Fund against the current PPFM for the Manulife Fund and found that most of the differences are either insubstantial or simply reflect the change in ownership following the Transfer. It is also clear to me that SF has sought to keep the number of changes to the PPFM to an absolute minimum. At this stage it is also worth noting that CLL's With-Profits Actuary is reviewing this draft and SF will address his concerns, if any, before the new PPFM is formally approved by SF's governance processes.

Two of the differences relate to the investment management:

- A change in the practice of the Investment Committee reviewing the performance and mix of assets investment from half yearly to quarterly
- A change in the practice of the reviewing the investment strategy for the fund from half yearly to annually

I do not consider the reduction in the frequency of investment strategy review to annually to be detrimental to the transferring with-profits policyholders, as I view annual reviews to be adequate for the closed nature of the fund (considering also that the performance and mix of assets will be reviewed quarterly). Furthermore, in my opinion, none of the other changes proposed will adversely affect the transferring with-profits policyholders.

I therefore do not consider any of the proposed changes in the PPFM to be detrimental to the transferring with-profits policyholders. Based on my review as set out above, I believe that the proposed new PPFM for the New Manulife Fund is reasonable and an accurate reflection of the terms of the Transfer.

9.6. Future closure of the New Manulife Fund

The terms of the Transfer include a provision for the potential future closure of the New Manulife Fund which is consistent with the equivalent provision that applies to the potential future closure of the Manulife Fund under the terms of the 1999 Scheme:

- When the aggregate number of policies declines to such a small number that, in the view of the SF Chief Actuary and the With-Profits Actuary of the fund, the continued determination of the bonus scale is likely to lead to inequitable distributions, SF may cease to maintain the fund as a separate fund, subject to the prior written approval of insurance regulators
- If approval is obtained, the SF Chief Actuary will calculate the surplus then existing in the fund on a basis that reflects the current and likely future financial and other circumstances regarded as relevant, without allowance for future bonuses or dividends
- The SF Chief Actuary will use the calculated surplus to determine a scale of guaranteed bonuses to be applied in subsequent years to remaining with-profits policies
- In this event, all assets and liabilities of the New Manulife Fund will be transferred into the SF Main Fund

I am satisfied that the Transfer will not have a materially adverse impact on transferring with-profits policyholders in terms of the existing provisions related to conditions under which a future closure of the New Manulife Fund could take place, and the basis on which surpluses in the fund would be distributed in the event of closure. I have also taken into account the duties of the prevailing SF Chief Actuary and the With-Profits Actuary of the fund to act in the interest of the relevant policyholders. Finally, I have taken comfort from the requirement to obtain written approval from the insurance regulators before a closure of the fund can take place.

9.7. PRA and FCA regulations

It is also worthwhile noting that SF is and will continue to be bound by the ***Regulatory Handbook*** in relation to the management of its business. In particular:

- Chapter 20 of COBS sets out additional requirements specific to the conduct of with-profits business. This includes a requirement for SF to *"take reasonable care to ensure that all aspects of its operating practice are fair to the interests of its with-profits policyholders and do not lead to an undisclosed, or otherwise unfair, benefit to shareholders or to other persons with an interest in the with-profits fund" (COBS20.2.1A)*
- Under chapter 4 of SUP, a With-Profits Actuary must be appointed in respect of the New Manulife Fund who will be responsible for, inter alia, advising SF on key aspects of the discretion to be exercised affecting with-profits business and producing an annual report to the SF Board on key aspects of the discretion exercised (including the application and compliance with the PPFM)

9.8. Review of risk management function and framework

SF is working with an external consultancy to help them undertake a detailed and wide-ranging review of its risk function and risk management framework including:

- the effectiveness of the risk function and risk management framework
- the role of risk management in terms of challenge, oversight and independence from the front office
- the governance structure in place at board level with respect to risk
- what SF's risk culture means in managing risk within SF

I have discussed the proposed review with both the current head of the risk function and other senior management. At this early stage I am satisfied that the Board and senior management are open to change to ensure that SF have the proper risk capabilities going forward to perform as an effective risk function in preparation for the Transfer and going forward post Transfer.

The review is expected to be completed in early June, so I shall revisit the matter and provide a further update in my supplementary report.

9.9. Conduct risk

My assessment of conduct risk aspects of the Transfer focussed primarily on the administrative and governance arrangements that will be in place post Transfer and this is discussed in detail in the rest of section 9. Furthermore, I have taken into account the impact of the Transfer on the membership rights of SF members as well as SF's and CLL's communication strategy with respect to the Transfer, which are discussed in detail in section 10.

In addition, I have considered the following relevant elements of "conduct risk" in relation to the Transfer:

- **Mis-selling:** I am not aware of any significant mis-selling issues currently faced by SF or CLL
- **SF exposure to past CLL mis-selling or other liabilities**: Under the terms of the Business Transfer Agreement, CLL will indemnify SF against the cost of any compensation due to mis-selling or administrative errors relating to the transferring CLL policies (subject to certain time caps and monetary limits). This provides a significant level of protection to existing SF policyholders from the risk of exposure to mis-selling liabilities or liabilities relating to administrative errors incurred by CLL prior to the Transfer
- **SF policyholder complaints:** I have reviewed SF's experience and management processes with respect to policyholder complaints and have noted that:
  - I have received complaint statistics covering the years 2017 and 2018, and I consider this to be a low number of complaints within the context of around 1.2m policies currently administered by SF. Furthermore, I have benchmarked SF's published complaints statistics over the period 1st January 2018 to 30th June 2018 against UK peers (as published by the FCA) and found them to be significantly below industry average levels
  - It conducts specialised training for complaints handlers and monthly root cause analyses and feedback in relation to complaints
  - It participates in a peer discussion group on complaint handling
  - It participates in industry benchmarking which provides useful comparison for how SF's complaints statistics compare with its peers

Taking into account considerations set out in this section, I am satisfied that there are no material issues relating to "conduct risk" which would adversely affect policyholders of SF and CLL as a result of the Transfer.

9.10. Hong Kong Policies

Under the terms of the Business Transfer Agreement, CLL will retain around 300 policies it sold in Hong Kong ("Hong Kong policies"), but outsource the administration to Scottish Friendly Insurance Services Limited, the terms of which are governed by a separate outsourcing agreement.

Although the Hong Kong policies are not part of the transferring CLL policies, they will be administered by SF post Transfer. Section 9.2 sets out my assessment and conclusions in relation to administrative arrangements for transferring CLL policyholders. The same analysis and conclusions also apply to the Hong Kong policies.

9.11. Conclusions

Taking into account the provisions as described in this section and my understanding that the existing governance and administrative arrangements for current SF policyholders will not be significantly affected by the Transfer, in my opinion adequate safeguards are in place to ensure that the interests and rights of the policyholders of CLL and SF will be protected post Transfer.

10. Membership rights and policyholder communications

10.1. Membership rights

As CLL does not confer any membership rights on its policyholders, the Transfer would not result in any loss of membership rights for transferring CLL policyholders.

As part of the Transfer, all transferring CLL policyholders will become members of SF, with rights prescribed in the Memorandum and Rules of SF in respect of such a member, including the right to vote and be elected as a Delegate in accordance with the Rules. This means that transferring CLL policyholders who are not currently members will benefit from having gained membership rights in SF.

The rights of SF members will not be affected by the Transfer. While there is some dilution of existing SF members' voting rights, I do not consider this to be a material detriment as I estimate that transferring CLL policyholders will only make up around 10%[16] of the SF membership following the Transfer, and therefore existing SF members will continue to have the majority of votes.

10.2. Communication to policyholders

The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 (as amended) (the "Regulations") set out the requirements that CLL and SF need to comply with regarding the communication strategy with respect to the Transfer. The FCA's Supervision Manual (the "***SUP***") sets out further guidance on this area, while the FCA has also provided additional guidance on its approach to insurance business transfers in FG18/4. In this section I summarise those requirements and set out my opinion on whether CLL's and SF's plans meet those requirements and are fair and not misleading.

The relevant requirements where action is required by SF and/or CLL under the Regulations are summarised below:

- Paragraph 3(2)(b) requires notice of the application for the Transfer to be sent to all policyholders of CLL and SF. CLL and SF will jointly apply for a waiver in relation to this requirement (discussed further below)
- Paragraph 3(2)(c) requires notice of the application for the Transfer to be sent to reinsurers whose reinsurance contracts are to be transferred. Both CLL and SF intend to fully comply with this requirement
- Paragraph 3(2)(a) requires notice of the application for the Transfer to be published in appropriate newspapers. Both CLL and SF intend to fully comply with this requirement

[16] Based on information as at 31st December 2018, there were c. 130,000 transferring CLL policies and c. 1,200,000 policies in SF. Assuming that the ratio of policies to members are similar between the two companies, I estimate transferring CLL policyholders will represent (130,000) / (1,200,000 + 130,000) = 10% of the total SF membership.

- Paragraph 3(3)(a) requires advanced regulatory approval of relevant communication materials and SUP 18.2.50 states that the regulators should be given the opportunity to comment on the communication materials. Both CLL and SF intend to fully comply with this requirement
- The combined effect of paragraph 3(2)(a)(iii) of the Regulations and paragraphs 1(2A) and 3A of Schedule 12 to FSMA is to require that for transferring policies written with residents of an ***EEA*** State other than the United Kingdom, the regulators in the relevant EEA States are notified of the Scheme and subject to any dispensations of the Court, notices of the application are published in the relevant EEA States. This is discussed further in section 11.2
- Paragraph 3(4) requires that copies of this Report are made available to the policyholders of SF and CLL upon request. Both CLL and SF intend to fully comply with this requirement and copies of this Report will be available on each organisation’s website.

SUP18.2.48 sets out guidance relating to the form and content of communication materials. CLL and SF intend to fully comply with this guidance. I have reviewed the draft communication materials to CLL’s policyholders with respect to the Transfer and consider their contents to be reasonable and appropriate. I have also reviewed the draft communication materials to SF’s Delegates with respect to the Transfer and consider their contents to be reasonable and appropriate. Furthermore, my summary of this Report will be included in the statement to policyholders in accordance with the SUP. SUP18.2.49 sets out additional requirements relevant to SF in accordance with the Friendly Societies Act 1992. SF intends to fully comply with this guidance.

In accordance with paragraph 4(2) of the Regulations, CLL intends to submit an application to the Court for a waiver from writing to:

- All non-transferring policyholders
- Transferring policyholders classified as “goneaways” (i.e. addresses where mailings have been returned as “not known at this address” or “unable to deliver”)
- Transferring members of group pension schemes
- In relation to transferring policies, trustees in bankruptcy
- In relation to transferring policies, executors and personal representatives of policyholders who have been recently deceased
- In relation to transferring policies, nominated beneficiaries
- In relation to transferring policies, spouses with the benefit of pension attachment orders (though not the main policyholder)

Also in accordance with paragraph 4(2) of the Regulations, SF intends to submit an application for a waiver to the requirement to write to each of its individual policyholders, on the basis that (inter alia) appropriate and detailed written communication will be provided to Delegates, who represent the interests of all of

SF's policyholders. This is consistent with the approach adopted in recent transfers completed by SF.

When considering whether the applications are reasonable and appropriate, I have paid due regard to the following factors which were outlined in the Court judgement in the case of Aviva International Insurance Limited [2011] EWHC 1901 (Ch) as being an appropriate list of criteria to take into account:

- The impossibility of contacting policyholders
- The practicality of contacting policyholders
- The utility of contacting policyholders
- The availability of other information channels through which notice of the application can be made available
- The proportionality of strict compliance
- The impact of collateral commercial concerns
- The object of the Transfer and its likely impact upon policyholders

I have not treated the factors as formal requirements, nor have I attached equal weighting to each factor, but instead have sought to arrive at a balanced view taking into account the set of factors listed. Furthermore, I do not believe that there are any other factors not listed that I consider relevant to my assessment.

With respect to CLL's application for a waiver from writing to all non-transferring policyholders and transferring policyholders classified as "goneaways", in my opinion:

- Whilst it is not impossible for CLL to write to every non-transferring policyholder for whom it has, or is able to attain, details on its database, to do so would involve a high level of incremental costs (estimated by CLL to be approximately £3.1m). I consider these costs to be disproportionately high, as the transferring policies constitute only around 5% of CLL's total policies and therefore represent only a small proportion of CLL's overall business
- I understand that CLL intends to dedicate a section of its website to the Transfer. This would provide an accessible channel of information which is available to interested non-transferring CLL policyholders or "goneaways" to obtain further details regarding the Transfer. Furthermore, in compliance with paragraph 3(2)(a) of the Regulations, notice of the application for the Transfer will be published in appropriate newspapers
- I have also taken into account my opinion that the Transfer does not adversely affect non-transferring CLL policyholders (as discussed in section 7)
- With respect to the "goneaways", CLL has been unable to trace such policyholders through its business-as-usual processes (including the use of external tracing systems) which I consider to be comprehensive. In my view,

additional efforts to trace these policyholders are unlikely to yield significant success

- Furthermore, I am not aware of any commercial dependencies that should be taken into account in my considerations

It is therefore my view that CLL's rationale for the waiver application is sound and appropriate.

With respect to SF's waiver application, in my opinion:

- Whilst it is not impossible for SF to write to every policyholder for whom it has, or is able to attain, details on its database, to do so would involve a high level of incremental costs (estimated by SF to be £600,000). In addition, there are practical issues around being able to identify certain types of policyholder (as defined for regulatory purposes) and to ensure that they receive the required notification (e.g., where a current policyholder address is not available)
- The Delegate system is a well-established, tried and tested system of governance within SF (and more generally within the friendly society sector)
- The powers and responsibilities of Delegates to represent the interests of the membership are enshrined in the Memorandum and Rules of SF. This includes an explicit requirement for all transfers of insurance business to be approved by the Delegates on behalf of all SF members by way of a Special Resolution
- For the recently completed transfer of certain business from Mobius Life Limited, SF adopted the same approach and it was accepted by the Court that it was reasonable to assume that the Delegates will represent the interests of the members of SF with respect to the Transfer, which provides legal precedence that the approach remains appropriate
- I understand that SF intends to dedicate a section of its website to the Transfer. This would provide an accessible channel of information which is available to interested SF policyholders to obtain further details regarding the Transfer. Furthermore, in compliance with paragraph 3(2)(a) of the Regulations, notice of the application for the Transfer will be published in appropriate newspapers
- I have also taken into account my opinion that the Transfer does not adversely affect SF policyholders (as discussed in section 8)
- Furthermore, I am not aware of any commercial dependencies that should be taken into account in my considerations

It is therefore my view that SF's rationale for the waiver application is sound and appropriate.

I further note that any affected policyholder or reinsurer has the right to raise their objections to the Court. Communication materials for transferring CLL policyholders clearly sets out those rights and the process by which policyholders can make their representations. I shall consider any objections made in advance of the Court hearing and where appropriate will report on those objections in my supplementary report.

Taking into account the points set out in this section, it is my opinion that CLL’s and SF’s planned communications strategies are reasonable, fair and not misleading.

11. Other considerations

11.1. Impact of the Transfer on CLL's reinsurance treaties

I have reviewed the potential impact of the Transfer on CLL's current reinsurance counterparties with respect to the transferring policyholders (as described in Appendix E) and in my opinion, the Transfer would not have any effect on those reinsurance counterparties.

11.2. Policyholders residing in an EEA State other than the United Kingdom

CLL has estimated that, based on current residency data, there are 1,110 policyholders in 25 different EEA States other than the UK in the transferring portfolio. It should be noted that all policyholders were UK residents at the point they entered into the policy contract. The supervisory authorities in each EEA State will be notified of the Transfer.

I understand that CLL and SF are applying for a waiver from the Court from the requirement to publish a notice of the application for the Transfer in two national newspapers in each State (unless specifically requested by the relevant supervisory authority). The rationale for the application is that both SF and CLL consider that it would be unduly onerous to undertake a parallel process of advertising the Scheme in all EEA States which are the State of the commitment for transferring policies (estimated by CLL to be £20,000 per EEA State (including professional costs, translating, typesetting and agency fees)).

I consider this application to be reasonable and appropriate.

11.3. Tax

I understand that CLL and SF will obtain as soon as reasonably practicable all necessary tax clearances from ***HMRC***. Under the terms of the Transfer, the New Manulife Fund will continue to be taxed as if it were a standalone mutual life insurance entity with the New Manulife Fund as its sole business and therefore there are no changes to the taxation basis for the New Manulife Fund.

In addition, I have considered in the rest of this section the following aspects in relation to potential additional tax arising as a result of the Transfer:

- Potential VAT treatment of the provision of investment management services by CLAM to SF after the Transfer
- Potential VAT treatment of the provision of investment administration services (primarily unit pricing services for unit-linked funds) by CLFIS to SF after the Transfer
- Implications for stamp duty land tax in the event that SF takes ownership of the ACS units associated with the unit-linked property funds (as described in section 3.4) before June 2021

I have been provided with and reviewed external tax advice that SF obtained from Ernst and Young LLP regarding the potential VAT treatments, which concluded that while the provision of investment management services for all unit-linked funds will be VAT exempt, there is a risk that the provision of investment administration services with respect to life unit-linked funds may attract a VAT liability[17]. In this event, the additional cost will be shared equally between SF and CLL. Furthermore, SF has confirmed that any additional costs will not be passed on to the transferring policyholders in the form of higher charges. I have been provided with estimates of the expected annual VAT costs in such an event, and I consider the amounts to be immaterial in the context of the overall Transfer. I have also noted that the situation is expected to be clarified with HMRC prior to the Transfer, and I shall revisit the matter in my supplementary report.

In the unlikely event that SF takes ownership of the ACS units associated with the unit-linked property funds (as described in section 3.4) before June 2021, there is likely to be a clawback of stamp duty land tax by HMRC. Under such an event, CLL will be liable for the cost of the stamp duty land tax, with no impact on policyholder benefits. I do not consider the cost to CLL under such an event to be material to the overall financial resources of CLL.

Taking into account the considerations as set out above, I am satisfied that the Transfer is not expected to have any significant adverse tax impact on the policyholders of SF and CLL, and that no changes are expected to the tax status of transferring CLL policies as a result of the Transfer.

11.4. Impact of Brexit

In this section I have considered the potential impact of the UK's intended withdrawal from the European Union ("Brexit") and how it would affect the transferring CLL policyholders. I also note that the impact of Brexit on non-transferring CLL policyholders and on existing SF policyholders is unchanged by the Transfer.

Post Transfer, SF would have:

- A portfolio of c. 21,000 existing policies sold to EEA residents (outside the UK). Over 90% of these policies relate to residents in the Republic of Ireland
- Approximately 1,100 policies in the transferring portfolio sold to EEA residents (apart from the UK)

While there remains considerable uncertainty around the terms of Brexit since the negotiations remain ongoing, I understand that SF has in place contingency plans to

[17] Ernst and Young LLP noted in its tax advice that provision of investment administration services with respect to pension unit-linked funds (which make up the majority of the transferring business) is likely to qualify for VAT exemption

mitigate risks related to its ability to continue to fulfil existing contracts for policyholders residing in any EEA state.

The SF Chief Actuary has stated in his report that *"…. , in the event that Brexit causes a significant operational or legal barrier to servicing these policyholders, then this would have been the case with or without the Scheme. As a result, I am satisfied that this risk does not impact my considerations on the impact of the Scheme."* I am in agreement with this opinion.

11.5. Impact of the Transfer on competition

CLL will retain the exclusive right for four years to market annuities to all policyholders of SF with maturing pension policies. I am satisfied that this does not give rise to any concerns regarding the impact of the Transfer on competition because transferring policyholders remain free to choose an annuity from any other provider in the open market in the normal way. SF will have the right to cancel this annuity agreement if the rates offered by CLL do not meet an agreed competitive benchmark.

I am also not aware of any other issues that would be a cause of concern in relation to the impact of the Transfer on competition.

Appendix A. Regulatory Handbook and PRA Guidance for the Independent Expert

The following excerpts from SUP of the Regulatory Handbook set out the relevant guidance applicable to the role of Independent Expert. (Equivalent sections of the PRA's Policy Statement: "The Prudential Regulatory Authority's approach to insurance business transfers" date April 2015 are included in brackets.) References to the relevant sections of the Report are included in italics:

18.2.31 (PRA Policy Statement 2.27)

Under section 109 of the Act, a scheme report must accompany an application to the court to approve an insurance business transfer scheme. This report must be made in a form approved by the appropriate regulator. The appropriate regulator would generally expect a scheme report to contain at least the information specified in SUP 18.2.33 G before giving its approval.

Report reference: N/A

18.2.31a (PRA Policy Statement 2.28)

When the appropriate regulator has approved the form of a scheme report, the scheme promoter may expect to receive written confirmation to that effect from that regulator

Report reference: N/A

18.2.32 (PRA Policy Statement 2.29)

There may be matters relating to the scheme or the parties to the transfer that the regulators wish to draw to the attention of the independent expert. The regulators may also wish the report to address particular issues. The independent expert should therefore contact the regulators at an early stage to establish whether there are such matters or issues. The independent expert should form his own opinion on such issues, which may differ from the opinion of the regulators.

Report reference: Section N/A

18.2.33 (PRA Policy Statement 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;

(2) confirmation that the independent expert has been approved or nominated by the appropriate regulator;

(3) a statement of independent expert's professional qualifications and (where appropriate) descriptions of the experience that fits him for the role;

(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;

(5) the scope of the report;

(6) the purpose of the scheme;

(7) a summary of the terms of the scheme in so far as they are relevant to the report;

(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;

(9) the extent to which the independent expert has relied on:

(a) information provided by others; and

(b) the judgment of others;

(10) the people on whom the independent expert has relied and why, in his opinion, such reliance is reasonable;

(11) his opinion of the likely effects of the scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:

(a) transferring policyholders;

(b) policyholders of the transferor whose contracts will not be transferred; and

(c) policyholders of the transferee;

(11a) his opinion on the likely effects of the scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the scheme

(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) for each opinion that the independent expert expresses in the report, an outline of his reasons.

Report reference: Section 1.1, 1.3, 1.5, 3.1, 3.3, 3.4, 5.2, 5.3, 6.9, 7.7, 8.7, 11.1, Appendix C, Appendix D

18.2.34 (PRA Policy Statement 2.31)

The purpose of the scheme report is to inform the court and the independent expert therefore has a duty to the court. However reliance will also be placed on it by policyholders, by reinsurers, by others affected by the scheme and by the regulators. The amount of detail that it is appropriate to include will depend on the complexity of the scheme, the materiality of the details themselves and the circumstances.

Report reference: N/A

18.2.35 (PRA Policy Statement 2.32)

The summary of the terms of the scheme should include:

(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the scheme; and

(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.

Report reference: Section 3.4, Appendix E

18.2.36 (PRA Policy Statement 2.33)

The independent expert's opinion of the likely effects of the scheme on policyholders should:

(1) include a comparison of the likely effects if it is or is not implemented;

(2) state whether he considered alternative arrangements and, if so, what;

(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

(4) include his views on:

(a) the effect of the scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;

(b) the likely effects of the scheme on matters such as investment management, new business strategy, administration, expense levels and valuation bases in so far as they may affect:

(i) the security of policyholders' contractual rights;

(ii) levels of service provided to policyholders; or

(iii) for long-term insurance business, the reasonable expectations of policyholders; and

(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.

Report reference: Section 3.4, 6, 7, 8, 10.1, 11.3

18.2.37 (PRA Policy Statement 2.34)

The independent expert is not expected to comment on the likely effects on new policyholders, that is, those whose contracts are entered into after the effective date of the transfer.

Report reference: N/A

18.2.38 (PRA Policy Statement 2.35)

For any mutual company involved in the scheme, the report should:

(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of those members to secure or prevent further changes which could affect their entitlements as policyholders;

(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and

(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.

Report reference: Section 11.3

18.2.39 (PRA Policy Statement 2.36)

For a scheme involving long-term insurance business, the report should:

(1) describe the effect of the scheme on the nature and value of any rights of policyholders to participate in profits;

(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;

(3) describe the likely effect of the scheme on the approach used to determine:

(a) the amounts of any non-guaranteed benefits such as bonuses and surrender values; and

(b) the levels of any discretionary charges;

(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;

(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;

(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

(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.

Report reference: Section 6.5, 6.9, 7.7, 8.4, 8.7, 9.3

18.2.40 (PRA Policy Statement 2.37)

Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the independent expert should seek sufficient explanations on corporate plans to enable him to understand the wider picture. Likewise he will need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow him to understand in broad terms how the business will be run.

Report reference: Section 3.1, 3.2, 3.3, 9.2, 9.3

18.2.41 (PRA Policy Statement 2.38)

A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the independent expert should report on what reductions he considers ought to be made, unless either:

(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or

(2) otherwise, he is unable to report on this aspect in the time available.

Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of the Act. Each regulator would wish to consider any such reduction against its statutory objectives and section 113 of the Act allows the court, on the application of either regulator to appoint an independent actuary to report on any such post-transfer reduction in benefits.

Report reference: N/A

Appendix B. FCA Guidance for the Independent Expert

The following excerpts from the FCA's guidance "FG18/4: The FCA's approach to the review of Part VII insurance business transfers" dated May 2018 set out the relevant guidance applicable to the role of Independent Expert. References to the relevant sections of the Report are included in italics:

6. Review of the form of the Independent Expert's report

6.1. The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been sufficiently detailed analysis and challenge of the Applicants' position, to allow us to be satisfied that it would be appropriate for the Court to rely on the conclusions.

Report reference: N/A

6.2. We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. As such, we expect the report to be easily readable and understandable by all its users and for the IE to pay attention to the following:

- Technical terms and acronyms should be defined on first use.
- There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.
- The business to be transferred should be described early in the report.
- The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.
- IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.

Report reference: Section 2, 3.3, Appendix F

6.3. We often find that IE reports lack detailed analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we often find that IE reports lack sufficient consideration and comparison of:

- reasonable benefit expectations, including impact of charges
- type and level of service, including claims handling
- management, administration and governance arrangements

Report reference: Section 6.5, 9.2, 9.3

6.4. We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.

Report reference: N/A

6.5. This Chapter sets out our expectations and gives some specific examples of the things we will consider when reviewing the IE's report. These include:

- the level of reliance on the Applicants assessments and assertions
- sufficient comparative regulatory framework analysis
- balanced judgements and sufficient reasoning

- sufficient regard to relevant considerations affecting Policyholders
- commercially sensitive or confidential information
- the level of reliance placed on the work of other experts
- examples of over-reliance on the work of other experts
- ambiguous language or a lack of clarity
- demonstrating challenge
- technical actuarial guidance

Report reference: N/A

6.6. IEs will sometimes rely on Applicants' assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of those assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a particular point.

Report reference: Throughout Report

6.7. We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants' assertions without sufficient challenge or asking for supporting detail or evidence.

Report reference: Throughout Report

6.8. An example would be where conclusions are supported solely or largely by statements such as 'I have discussed with the firm's management and they tell me that…' followed by 'I have no reason to doubt what they have told me…'. In such cases we would challenge the IE on whether they have come to their own conclusions on the matters concerned. In these circumstances:

- Where a feature of the proposed transfer forms a significant part of the IE's own assessment of the Scheme's impact, we would ask the IE to review relevant underlying material. We would not expect them to just rely on the Applicants' analysis of the material and subsequent assertions.
- If there are concerns about matters that fall outside the IE's sphere of expertise, such as legal issues, we would expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we would expect the IE to ensure the Applicants had obtained appropriate advice from a suitably qualified independent subject matter expert. We give further information below about the IE obtaining and relying on their own independent advice (6.33 onwards).

Report reference: Section 1.5, Appendix D

6.9. We would also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, we will expect the IE to:

- review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate
- challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete

Report reference: Throughout Report

6.10. We would also expect the IE to challenge Applicants where the documents provided contain an insufficient level of detail or analysis. Specific examples would include:

- Applicants' assertions that service levels will be maintained to at least the pretransfer standard. In this case, we would expect the IE to include not only details of the Applicant's plans and any gap analyses produced, but also include their view of their adequacy.

- Where there are concerns that a change in governance arrangements in the Transferee may lead to poorer customer outcomes. Applicants' analysis is often carried out at a high level. So it does not always include reviewing and comparing any of the Transferor's governance arrangements that produce good customer outcomes with the Transferee's governance arrangements. An example of these governance arrangements would be any committees with conduct responsibilities.

- Consideration of the potential post-transfer strain on resources which could affect the service standards provided to the Transferee's existing customers and/or control over conduct of business risk. We would expect to see a review of relevant management information indicators and related contingency planning.

Report reference: Section 9.3

6.11. The regulatory framework may be different for the Transferor and Transferee. In these cases, we will want to see that the IE has carried out sufficient analysis of the differences including, where appropriate, taking independent advice.

Report reference: N/A

6.12. In particular, with cross-border transfers we often see insufficiently detailed analysis of regulatory protections post-transfer. This can include:

- The extent to which existing regulatory requirements and protections continue. This includes whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme. Our expectation is that Applicants aim to preserve Financial Ombudsman Service, whether under the Compulsory or Voluntary jurisdictions, as far as it is possible to do to avoid any loss of protections. In the context of EU withdrawal we would expect this at least until the point of policy renewal. Some firms are able to continue to service contracts from UK branches to preserve continuity.

- The comparative regulatory requirements and conduct protections across any relevant jurisdictions, compared to the UK. This includes but is not limited to complaints or compensation bodies.

- Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential actions or provisions to mitigate this.

- Post EU Withdrawal, non-UK EEA customers may be subject to the local conduct of business rules regime, which may not include FOS or FSCS issues. In these cases, we are likely to accept firms taking proportionate approaches to compare regimes. For example a high level analysis may be appropriate, selecting key UK protections for consumers that are not harmonised in the EEA, and that could be relevant to servicing contracts. This could be accompanied by an explanation that a full gap analysis has not been carried out, but that policyholders can contact the Applicants if they are concerned. Some firms are able to continue to service contracts from UK branches to preserve continuity of regime at least until renewal.

Report reference: N/A

6.13. In these instances, we would expect to see a statement describing the two regimes. We would also expect to see a considered comparison, highlighting points of significant difference that could adversely affect Policyholders. It is for the IE to use their judgement to decide on the level of detail to be included but it needs to be sufficient for the Court to be in a position to be satisfied.

Report reference: N/A

6.14. The IE's analysis may be inconclusive or may highlight potential conduct risks due to differences in the regulatory framework. In such cases we expect to see sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.

Report reference: N/A

6.15. IEs will sometimes state that they are satisfied by referencing certain features of the Scheme, but will not adequately explain how those features have led to their satisfaction. In these circumstances we would expect to see both the evidence and the IE's reasoning that led to their conclusion.

Report reference: Throughout Report

6.16. We have also seen many examples of Schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement, but lacks certainty. In these instances, we expect IEs to consider the following:

- Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree.
- We accept that it is not the IE's role to suggest a different Scheme, or propose changes to a Scheme. However, we believe that they should be able to challenge the Applicants so that IE's can gain the necessary level of confidence that their report's conclusions are robust. Applicants and IEs should be aware that they will need to consider how any proposed changes/mitigations will impact all Policyholder groups.

Report reference: Section 5.4, 6.9, 7.7, 8.7

6.17. When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.

Report reference: Appendix D

6.18. Market conditions may have changed significantly since the IE's analysis was carried out and they formed their judgement. In these cases, we would expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See paragraphs 7.31-7.34 for further information on the Supplementary Report. Sufficient regard to relevant considerations affecting Policyholders

Report reference: N/A

6.19. We would expect to see IE consideration of all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the:

- current and proposed future position of each Policyholder group
- potential effects of the transfer on each of the different Policyholder groups
- potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated.

Report reference: Section 6, 7, 8, 9.10

6.20. To support this, we would expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups' services are provided by an outsourced function which is changing, but other Policyholder groups do not.

Report reference: Section 6.1, 7.1, 8.1, 9.10

6.21. We would also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we would expect the IE to include:

- Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we would expect to see a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations.
- Also, we would not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process.

Report reference: Section 9.2, 9.10

6.22. IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:

- Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.

- If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the Scheme as if the reinsurance was not in place.

Report reference: N/A

6.23. The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we would want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.

Report reference: N/A

6.24. When a loss is expected for a particular subgroup of Policyholders, we would expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.

Report reference: N/A

6.25. We would expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example where:

- some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure

- some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer

Report reference: Section 9.2, 9.3, 6.2

6.26. When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.

Report reference: N/A

6.27. As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer:

- The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee's capital position (meeting relevant requirements), and the short term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we would not be satisfied with this view without further evidence. For example, some evidence and analysis of why the size and complexity of a particular firm may make a default, before the time that policyholders have to claim on policies, extremely unlikely.

Report reference: N/A

6.28. In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE's opinion that a change due to the Part VII Transfer will not materially negatively affect a group of Policyholders.

Report reference: Throughout Report

6.29. Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, particularly as this information will not be publicly available. Examples include:

- where 'whistle-blower' information relevant to the Scheme is received and forwarded to the IE

- where we are aware of enforcement action in progress with one of the Applicants

Report reference: N/A

6.30. In these situations we expect to see the analysis and the information relied upon. It is also possible that the Court may wish to see that information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure.

Report reference: N/A

6.31. For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we would still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.

Report reference: N/A

6.32. We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.

Report reference: Section 1.5, Appendix D

6.33. The IE may refer to factors that are outside their sphere of expertise and relies on advice received by the Applicants. In these cases, the IE should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice and we discuss our expectations in further detail below.

Report reference: Section 1.5, 3.4

6.34. We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.36 below for a non-exhaustive list of factors which the IE should consider.

Report reference: Section 1.5, 3.4

6.35. The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is.

Report reference: Section 1.5, 3.4

6.36. In deciding whether to get independent legal advice, we would expect the IE to consider, amongst other things, the following:

- The significance of the issue and the degree of potential adverse impacts on Policyholders if the position turns out to be different from what the legal advice considers likely.
- How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact?
- The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances.
- Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks.
- Whether the Applicants have obtained an adequate level of advice, depending on the issue's significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction.
- Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.

Report reference: Section 1.5, 3.4

6.37. Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. For example, the IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. They should also consider where risks are identified but there are no suggestions about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations would allow the IE to consider the worst case scenario of these impacts.

Report reference: Section 1.5, 3.4

6.38. Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.

Report reference: Section 3.4, 8.4

6.39. Further to these points, we give some specific examples below where we have challenged the IE around potential over-reliance.

Report reference: N/A

6.40. Often an Applicant will get a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-EEA jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court would adopt the approach set out in the advice. In that case, we expect the IE not to use such advice as the sole basis of their conclusion that there are no materially adverse effects. We would expect the IE to consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court. The legal advice itself should address this and suggest ways of mitigating this risk.

Report reference: N/A

6.41. The IE may be uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.

Report reference: N/A

6.42. The position may be different depending on whether the Transferor remains authorised/in existence. So:

- If the Transferor's authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the Scheme is not formally recognised in another jurisdiction, the Courts of that jurisdiction would still act to prevent the Transferee from denying that it is liable. This may well be correct but we still expect the IE to assess any material possibility, and any mitigations if it is not.

- Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We would still expect an IE to examine what possible material adverse impact this could have on policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the Scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements.

Report reference: N/A

6.43. Our concern here is that the likelihood of an adverse impact should be low enough for consumers not to be adversely affected. We would expect the IE to take a view on that and seek the appropriate reassurances/ensure mitigations are in place.

Report reference: N/A

6.44. In summary, in most cases we will seek to review copies of relevant significant legal advice obtained, with appropriate arrangements to maintain any legal professional privilege. We will expect that advice to also cover what happens if the relevant court does not take the position of the advice and what mitigations can be used if that happens. It is important that all significant material an IE relies on when evaluating a Scheme and reaching their conclusions should, wherever reasonably possible, be available for review by the Court and interested parties. Where material is commercially sensitive there are mechanisms that allow the Court and IE to review without detailed disclosure to all other interested parties.

Report reference: N/A

6.45. At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.

Report reference: Section 1.3, 1.5

6.46. Some examples we have seen and challenged IEs on include:

- Where a conclusion in the report is that the IE 'takes comfort' from certain matters, as opposed to 'being satisfied' having taken various matters into account.
- Where the conclusion is uncertain. For example, 'I am satisfied that there is no material adverse effect. However...' but it is unclear how the qualification affects or undermines the conclusion.
- Where the conclusions are caveated we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat.
- It is also important that the caveat does not undermine the report or the IE's ability to be satisfied on the relevant point. For example, the conclusion may be caveated by 'on the basis of information provided to me'. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification.

Report reference: N/A

6.47. In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:

- That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert.
- How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact.

Report reference: N/A

6.48. To ensure the IE report is complete and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, particularly where they believe the IE has not fully addressed issues. Applicants have an interest in ensuring that the Court, regulators and Policyholders are able to rely on the IE report, taking into account the IE's disclaimers. On this basis, we consider that Applicants are able to make these challenges without compromising the IE's independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.

Report reference: N/A

6.49. To ensure effective two-way challenge we would expect the IE to engage with FCA or PRA- approved persons of sufficient seniority at the Applicant firm. This could be senior actuaries, including possibly the Chief Actuary, the CFO, Senior Underwriters and so on.

Report reference: Section 1.5, Appendix D

6.50. We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, particularly those for compiling actuarial reports.

Report reference: Section 1.2

6.51. IEs should be particularly aware that the revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically apply to technical actuarial work to support Part VII Transfers.

Report reference: Section 1.2

6.52. We draw specific attention to paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also draw specific attention to paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.

Report reference: Section 1.2

6.53. Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body, as applicable and current at the time when the work is performed.

Report reference: Section 1.2

Appendix C. Terms of reference

The role of the Independent Expert is to prepare a report for Canada Life Limited (“CLL”), Scottish Friendly Assurance Society Limited (“SF”), the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”) that opines on the fairness and reasonableness of the prospective Transfer of Engagements (“Transfer”) of certain businesses from CLL to SF.

The Independent Expert will independently consider the following matters in respect of the Transfer:

a. the impact of the Transfer on the security of policyholder benefits, for different groups and generations where appropriate, before and after the Transfer including quality of allocated assets/capital and whether this is reasonable and fair;

b. the impact of the Transfer on the benefit expectations for different groups and generations of policyholders, before and after the Transfer;

c. the impact of the Transfer on costs and expenses to be borne by policyholders after the Transfer;

d. the financial position pre and post Transfer under Solvency II;

e. the change, if any, in the capital management policy of the new M&G Sub-Fund after the Transfer;

f. how the application of discretion, if any, that is exercised in the management of the transferring policies would be affected;

g. the treatment of the unit-linked and non-profit policies in respect of security, performance, charges and benefits after the Transfer;

h. what the likely impact of the Transfer will be on investment strategy and expense levels;

i. the membership rights of the transferring members;

j. documents which have been issued or intend to be issued to the policyholders to explain the Transfer;

k. an analysis of the risks which have been considered including scenario and general stress testing;

l. the treatment of policies in respect of security and benefits after the Transfer;

m. the impact of the Transfer on the level of service provided to policyholders;

n. the tax consequences of the Transfer in so far as they affect transferring policies and policyholders;

o. the impact of the Transfer on the governance arrangements for policyholders;

p. any other aspect of the Transfer that the Independent Expert considers should be reviewed or any matters drawn to his attention by the PRA or FCA in order to opine on the fairness and reasonableness of the Transfer.

Appendix D. Data

Information provided by CLL

Item	Date received
ORSA Reports for the last 4 years	31st August 2018 and 8th April 2019
Chief Actuary Reports for the last 3 years	31st August 2018
The PPFM and the CFPPFM for the Manulife Fund	31st August 2018
Marketing literature and factsheets for the main product lines transferring	31st August 2018
Chief Actuary Report for the Transfer	Various Drafts from 26th October 2018 to 7th June 2019
With Profit Actuary Report for the Transfer	Various Drafts from 26th October 2018 to 7th June 2019
Impact of Transfer on CLL Risk Profile	31st August 2018
Selected relevant recent regulatory correspondence (including materials provided)	17th September 2018
Annual Report and accounts for the last 3 years	31st August 2018
SFCRs for the last 3 years	31st August 2018
Overview of reinsurance	17th September 2018
Policyholder communications materials	11th January 2019
Policyholder Communication Strategy	11th January 2019
CLL internal risk assessment for the Transfer	31st August 2018
Capital Management Operating Policy	17th September 2018
Pre and post balance sheets	31st August 2018 and 10th May 2019
Regulatory Supervisory Report for the last 2 years	31st August 2018
Actuarial Function Reports for the last 3 years	31st August 2018
PPFM Compliance Reports for the last 3 years	31st August 2018
Annual bonus reviews for the Manulife Fund	17th September 2018
Materials related to 2017 conversion of WPF	17th September 2018
Longstanding Customer Strategy document	25th October 2018

Information provided by SF

Item	Date received
Report and accounts for the last 3 years	2nd October 2018
SFCRs for the last 3 years	2nd October 2018
ORSA report for the last 3 years	2nd October 2018
Recovery and resolution plan	2nd October 2018
WPA Report for the Transfer	Various Drafts from 22nd January 2019 to 7th June 2019
Chief Actuary Report for the Transfer	Various Drafts from 1st November 2018 to 7th June 2019
Selected relevant recent regulatory correspondence	October to December 2018
Summary of Legal Advice on property ACS received from CMS	7th January 2019
PPFM Compliance report for the last 3 years	7th December 2018
Risk appetite framework and statement	16th October 2018
Lessons from MGM acquisition	30th October 2018
Additional analysis of pre and post balance sheets	16th January 2019 and 10th May 2019
Capital management framework	30th October 2018
Overview of due diligence conducted for the Transfer (including Scenario analysis)	30th October 2018
Overview of reinsurance	10th January 2019
Service levels and complaints data	11th January 2019
Regulatory Supervisory Report for the last 2 years	2nd October 2018
Head of Actuarial Report for the last 2 years	2nd October 2018
WPA Report on PPFM compliance	2nd October 2018
Admin capabilities	16th October 2018
WPA Report to Policyholders	2nd October 2018
Ernst and Young LLP Tax Advice	22nd January 2019
Delegate Communications Pack	13th February 2019
Updated Solvency Capital Risk Appetite	8th April 2019
Draft PPFM for New Manulife Fund	8th April 2019

Memo update on SF governance framework review	8th April 2019
Memo on Unit-Linked PPFM	8th April 2019
Note on migration plan and progress update	9th April 2019
Note on delegate voting	9th April 2019
Information relating to policy loans	22nd May 2019

Other documents provided

Item	Date received
Business Transfer Agreement (including draft Scheme of Transfer)	31st August 2018
Agreed ULRA Terms	7th December 2018
Agreed technical basis for the Transfer	4th December 2018
Updated draft Scheme of Transfer	24th May 2019

Appendix E. Existing reinsurance arrangements

The following table summarises SF's reinsurance agreements in place at the time this report was written where the reinsured liabilities exceeded £10m. SF also has other reinsurance agreements where the reinsured liabilities are in aggregate less than £10m, but I have not included these in the report on grounds of materiality:

Reinsurer	**Business covered**	**Reinsured liabilities £m[18]**
Swiss Re	Selected protection business (Neilson FS)	101
Hannover Re	Selected protection business (Beagle Street)	41
Mobius Life	Unit-linked fund investments	319
Hannover Re and RGA	Annuities	310
Retirement Advantage	Unit-linked fund investments (FIA)	439

Source: SF

[18] All as at 30th September 2018, except for Mobius Life which is as at 30th November 2018

Appendix F. Glossary

Term	Description
1995 Scheme	The scheme under which the Manulife policies were transferred to the UK branch of CLACO
1999 Scheme	The scheme under which the Manulife policies were transferred from CLACO to CLL
ACS	Authorised Contractual Schemes
Actuarial Function Holder or actuarial function	The person holding the role of the Actuarial Function Holder as defined in the Regulatory Handbook.
AGM	Annual General Meeting
Annual bonus(es)	A bonus allocated to a with-profits policy annually and determined in line with principles and practices set out in the PPFM.
APS	Actuarial Profession Standard
Asset Share(s)	The value of premiums less allowances for expenses, tax and the cost of risk benefits, accumulated at a rate of return based on the actual income and growth of the assets backing a with-profits policy.
Best Estimate Liabilities, or BEL	The present value of future liability cash flows on a realistic basis (i.e. with no prudence margins)
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chief Actuary	Person responsible for the actuarial function
CLACO	Canada Life Assurance Company
CLL	Canada Life Limited
CMS	CMS Cameron McKenna Nabarro Olswang LLP, solicitors representing SF
COBS	The FCA’s Conduct of Business Sourcebook
Contribution Reserve	Calculated as the value, based on assumptions at the time of policy issue, of the cost of paying the sum assured and attaching bonuses on death and maturity, less future valuation premiums.
Counterparty default risk	The risk that a counterparty defaults
Court	Her Majesty’s High Court of Justice of England and Wales
CRO	Chief Risk Officer
EEA	European Economic Area
Effective Date	The date on which the Transfer will take effect. This is expected to be 1st November 2019
EU	European Union
FCA	Financial Conduct Authority
FOS	Financial Ombudsman Service
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GAA	Governance Advisory Arrangement
Health Underwriting risk	The risks associated with underwriting health insurance

HMRC	Her Majesty's Revenue and Customs
Hogan Lovells	Hogan Lovells International LLP, solicitors representing CLL
Hong Kong Policies	c. 300 policies sold in Hong Kong to be retained by CLL, but administration outsourced to SF
Inherited Estate	The excess of the value assets in a with-profits fund over a realistic assessment of the liabilities in the fund (taking into account the reasonable expectations of the policyholders)
ISA	Individual Savings Account
LANMAS	London, Aberdeen and Northern Mutual Assurance Society Limited
LANMAS Sub-Fund	A ring-fenced fund in SF containing assets and liabilities with respect to business transferred from London Aberdeen & Northern Mutual Assurance Society
LICAT	Life Insurance Capital Adequacy Test, the Canadian regulatory framework for life insurers
Life Underwriting risk	The risks associated with underwriting life insurance, including expense and lapse risk
M&GM	Marine & General Mutual Life Assurance Society Limited
M&GM Sub-Fund	A ring fenced fund in SF containing assets and liabilities with respect to business transferred from Marine & General Life Assurance Society Limited
MA	Matching Adjustment
Market Risk	The risk that as a result of market movements there are fluctuations in the income from, or value of, its assets, or the amount of its liabilities.
New Manulife Fund	A ring-fenced fund in SF containing assets and liabilities with respect to business transferred from CLL’s Manulife Fund
Non-Profit business	Insurance contracts which are not with-profits insurance contracts. These contracts do not participate in the profits of the insurance company.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
ORSA	Own Risk and Solvency Assessment
Own Funds	The part of the assets held by an insurer which is not required to meet its regulatory liabilities (technical provisions) under Solvency II.
PRA	Prudential Regulation Authority
Principles and Practices of Financial Management, or “PPFM”	A document published in respect of a with-profits fund, which sets out the principles and practices governing the operation and management of the relevant with-profits business
Rational Shelley Sub-Fund	A ring-fenced fund in SF containing assets and liabilities with respect to business transferred from Rational Shelley Friendly Society
Regulatory Handbook	Rules and guidance issued by the PRA and FCA in their respective Handbooks
Scottish Legal Sub-Fund	A ring-fenced fund in SF containing assets and liabilities with respect to the business transferred from Scottish Legal Life
SCR Coverage Ratio	Defined as the ratio of Own Funds to SCR
SF	Scottish Friendly Assurance Society Limited
SF Main Fund	The main operating fund for SF
SMCR	Senior Managers and Certification Regime

SMR	Senior Managers Regime
Solvency and Financial Condition Report, or "SFCR"	Regulatory returns submitted to PRA disclosing solvency information amongst other data to the regulatory authority
Solvency Capital Requirement, or "SCR"	The minimum level of capital that a firm must hold in addition to the Technical Provisions
Solvency II	EU-wide regulatory regime for the insurance industry which took effect from 1st January 2016
Sonata	Administration platform used by SF
Sub-funds	Collectively, ring-fenced funds of SF which are not the SF Main Fund
SUP	Supervision Manual
Surplus	Defined as Own Funds less SCR
TAS	Technical Actuarial Standard
Technical Provisions	Sum of Best Estimate Liability and Risk Margin
Terminal Bonus(es)	A one-off bonus allocated to a with-profits policy on exit and determined in line with principles and practices set out in the PPFM.
The "Scheme", or the "terms of the Transfer"	The legal documentation setting out the terms for the Transfer (which includes, inter alia, the FFM)
The Transfer	The proposed transfer of the long-term business of CLL to SF under Part VII of the Financial Services and Markets Act 2000
TMTP	Transitional Measures for Technical Provisions
Transitional Services Agreement	Allows CLL to continue to provide administrative services on a temporary basis if necessary
ULRA	Unit-Linked Reinsurance Agreement
Unit-Linked business	Insurance contracts providing benefits which are directly linked to the underlying value of unit-linked investments. These contracts do not participate in the profits of the insurance company.
VA	Volatility Adjustment
With-Profits Actuary or "WPA"	The person holding the role of the With-Profits Actuary as defined in the Regulatory Handbook.
With-Profits Advisory Arrangement or "WPAA"	The With-Profits Advisory Arrangement has responsibility for with-profits governance in accordance with COBS 20.5.
With-Profits business	Insurance contracts where the policyholder is eligible to participate in any surplus arising on the whole or any part of the insurer's long-term business.
WPC	With-Profits Committee

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