



Standard Life Assurance Limited

Supplementary Report by the With Profits Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company

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1 Introduction

1.1 Purpose of the Report

- 1.1.1 I have written this report for the Board of Standard Life Assurance Limited (“SLAL”) in my capacity as SLAL’s With Profits Actuary (“WPA”).
- 1.1.2 This report will also be presented to the Board of Standard Life International (“SL Intl”) as its scope includes the treatment of the transferring with profits policyholders once they have become policyholders of SL Intl. This approach has been confirmed with the Financial Conduct Authority (“FCA”) in the UK. SL Intl does not currently have any with profits business or a WPA.
- 1.1.3 I consider the effects on the with profits policyholders of SLAL of the Part VII transfer of all Euro-denominated business from SLAL to SL Intl under Part VII of the Financial Services and Markets Act 2000. The terms of the Part VII transfer are set out in an insurance business scheme of transfer (the “Scheme”) and, if approved, it will come into effect on the “Effective Date”, expected to be 29 March 2019.
- 1.1.4 As part of the proposed Part VII transfer a number of reinsurance arrangements between SLAL and SL Intl are to be established. I have assessed their appropriateness and the impact they have on both transferring and non-transferring with profits policyholders. The proposed Part VII transfer and reinsurance arrangements are referred to in combination as the “Proposed Transfer”.
- 1.1.5 The Proposed Transfer requires changes to be made to the Scheme of Demutualisation (the “2006 Scheme”) under which, pursuant to Part VII of the Financial Services and Markets Act 2000, substantially all of the long-term business of The Standard Life Assurance Company (“SLAC”) was transferred to SLAL. Similarly, changes will be made to the 2011 Scheme that transferred business from Standard Life Investment Funds Limited to SLAL. The 2006 Scheme and 2011 Scheme are referred to in combination as the “Legacy Schemes”.
- 1.1.6 The Proposed Transfer is a Related Transaction as defined in paragraph 35 of the 2006 Scheme. The 2006 Scheme allows SLAL to enter into such a transaction provided that it is on terms which, in the opinion of the SLAL Board (having regard to the advice of the SLAL WPA), are unlikely to have a material adverse effect on the interests of the holders of Heritage With Profits Fund (“HWPF”) with profits policies. This report includes the advice required by the 2006 Scheme.
- 1.1.7 This report supplements, and should be read in conjunction with, my original “Report by the With Profits Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company” (the “Previous Report”). That report, dated 18 September 2018, which was submitted to the Initial Court Hearing on 25 September 2018 and made public immediately following it, can currently be found on the following website: www.standardlife.eu
- 1.1.8 The objective of the present report is to consider whether events since September 2018 have changed the conclusions and opinions I expressed in my Previous Report.

1.2 Reliances

- 1.2.1 In this report I have based my understanding of the Proposed Transfer on the legal documentation and on the descriptions in the report of the SLAL Chief Actuary, Mr Brian Peters (“Chief Actuary Report”) and his Supplementary Report (“Chief Actuary Supplementary Report”). Further, I refer to some of the calculations and projections presented in the Chief Actuary Report and the Chief Actuary Supplementary Report and I have relied on their accuracy and completeness.
- 1.2.2 I have read the report and supplementary report prepared by the Independent Expert, Mr Tim Roff and the report and supplementary report prepared by the SL Intl Head of Actuarial Function, Mr Eamonn Phelan. I have considered their comments on the effect of the Scheme and changes to the Legacy Schemes on policyholders.
- 1.2.3 My report is based on information made available to me up to 6 March 2019 and takes no account of developments after this date.

1.3 TAS Compliance

- 1.3.1 This report has been prepared in accordance with the applicable Technical Actuarial Standards (“TAS”) issued by the Board for Actuarial Standards:
 - i. Principles for Technical Actuarial Work (TAS 100)
 - ii. Insurance (TAS 200)
- 1.3.2 This report, and the work underlying it, has been completed in accordance with the Actuarial Profession Standard X2: Review of Actuarial Work (APS X2).

2 Update since Previous Report

2.1 Purpose of Section

2.1.1 The Chief Actuary provided a detailed explanation of the Proposed Transfer and how it affects SLAL and SL Intl in the Chief Actuary Report. The Chief Actuary Supplementary Report gives an update on the following:

- Corporate structural changes affecting SLAL and SL Intl (in Section 3)
- The details of the Scheme, Legacy Schemes, reinsurance arrangements and security charges (in Section 4)
- The financial positions of SLAL and SL Intl (in Section 5).

2.1.2 I give a short summary in this section before commenting on the effect on with profits policyholders.

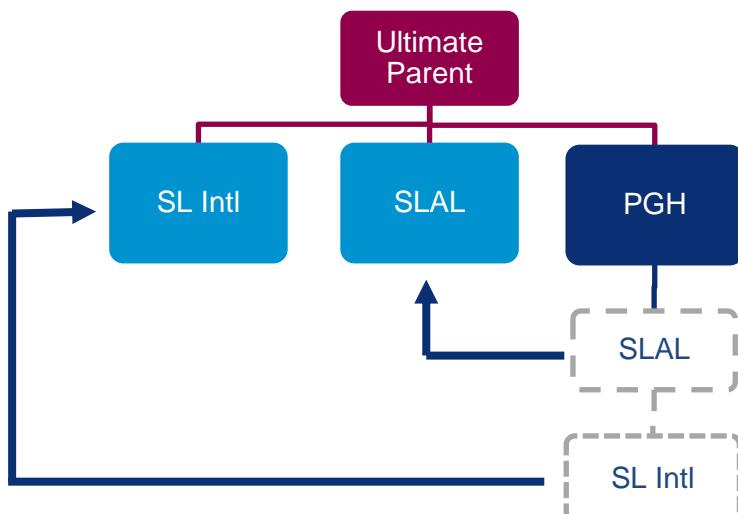
2.2 Corporate Structural Changes

2.2.1 As explained in Section 3 of the Chief Actuary Supplementary Report, the corporate structure within which SLAL and SL Intl sit has changed since my Previous Report.

2.2.2 In December 2018, Phoenix Group Holdings (“PGH”) became a subsidiary of Phoenix Group Holdings plc (the “Ultimate Parent”), the new ultimate parent of the Group. Additionally:

- In February 2019 SL Intl moved within the structure of the Group so that it became a direct subsidiary of the Ultimate Parent.
- In March 2019, and prior to the Effective Date, SLAL is expected to be moved within the structure of the Group so that it is a direct subsidiary of the Ultimate Parent.

2.2.3 These moves are illustrated by the diagram below, with the dashed boxes representing the original locations of SLAL and SL Intl.



- 2.2.4 I note that the SLAL Chief Actuary, having assessed how the change of corporate structure affects the capital positions of the companies, is satisfied that it has no material impact on the Proposed Transfer. Given this, the SLAL Chief Actuary has stated that the change has no impact on the conclusions he reached in his Chief Actuary Report.
- 2.2.5 The structure of the Proposed Transfer was not dependent on SL Intl being a subsidiary of SLAL or on either SLAL or SL Intl being a subsidiary of PGH. The changes to the legal framework since my Previous Report (considered in 2.3 below) are not linked to the change in corporate structure.
- 2.2.6 Having considered the change in Group structure, I have concluded that this does not alter the conclusions or opinions I expressed in my Previous Report.

2.3 Changes to the Legal Framework

- 2.3.1 Section 4 of the Chief Actuary Supplementary Report describes the changes to the legal framework since the Initial Court Hearing. The principal changes have been to the reinsurance arrangements.
- 2.3.2 The reinsurance arrangements have been modified to allow the SL Intl Board to make representations to the CEO of the Ultimate Parent on matters affecting the reinsured policies. If there is nevertheless a matter on which the parties continue to disagree, there is provision for non-binding mediation in accordance with the Model Mediation Procedure set out by the Centre for Effective Dispute Resolution. Since this involves the appointment of an independent expert it will, in my opinion, improve the protection for with profits policyholders.
- 2.3.3 Additionally, the reinsurance arrangements have been altered so that the option to terminate the reinsurance as a result of a change of control of either SLAL or SL Intl requires PRA, FCA and CBI approval. This does not weaken the protection of policyholders' interests.
- 2.3.4 For completeness, I note that the reinsurance arrangements have been altered to include a requirement on SLAL to ensure that the role profile of the WPA and the terms of reference of the With Profits Committee include consideration of SL Intl policyholders who participate in a SLAL with profits fund via reinsurance. This is in line with the governance as described in 3.5.6 and 3.5.7 of my Previous Report.
- 2.3.5 The reinsurance arrangements have also been altered to ensure that SLAL gives SL Intl sufficient notice to fulfil its regulatory responsibilities. This is discussed further in 2.5.3 below.

2.4 Update on Financial Position of SLAL and SL Intl

- 2.4.1 Section 5 of the Chief Actuary Supplementary Report provides an update on the effect of the Proposed Transfer on the solvency and risk profiles of SLAL and SL Intl. Having reviewed this information I conclude, as I did in my Previous Report, that the solvency and risk profiles of SLAL and SL Intl do not expose the with profits policyholders to any significant change in security on the Proposed Transfer.

2.5 Principles and Practices of Financial Management and With Profits Operating Principles

- 2.5.1 I have reviewed the Principles and Practices of Financial Management (“PPFM”) for the HWPF and the Internal Principles and Practices of Financial Management (“IPPFM”) for the German With Profits Fund and the German Smoothed Managed With Profits Fund that are expected to apply in SLAL from the Effective Date. I am satisfied that these are consistent with the funds continuing to be managed in such a way as to meet their policyholders’ reasonable expectations.
- 2.5.2 I have also reviewed the corresponding IPPFM that are expected to apply in SL Intl from the Effective Date. I am satisfied that these are appropriate as they are consistent with the corresponding SLAL PPFMs and will help to ensure that the funds are managed in a consistent manner.
- 2.5.3 I have taken account of the changes to the Domestic Actuarial Regime and Related Governance in Ireland which include the introduction of With Profits Operating Principles (“WPOP”). These WPOP have not yet been drafted for SL Intl but will reflect the PPFM and IPPFM applying in SLAL and SL Intl. I expect to review the SL Intl WPOP before they are finalised and made available to the SL Intl With Profits Policyholders. SL Intl will be required to give its policyholders advance notice of material changes to the WPOP. The reinsurance arrangements provide for SLAL to give sufficient notice of PPFM or IPPFM changes to allow this.
- 2.5.4 Under the modified Regime, the SL Intl Head of Actuarial Function will be required to report to the SL Intl Board at least annually on the compliance of each of the SL Intl with profits funds with their WPOP. The SL Intl Board will be required to publish each year its opinion on the consistency of the management of each with profits fund with its WPOP. This extension to regulation in Ireland provides an additional layer of protection for the transferring with profits policyholders.
- 2.5.5 For transferring HWPF policyholders, it provides protection similar to that provided by the requirement under the 2006 Scheme for SLAL to certify to the UK regulators, each year, whether certain provisions of the 2006 Scheme (including operating the HWPF in line with PPFM) have been complied with. The certification to the UK regulators will continue to cover the reinsured business for as long as the reinsurance arrangements remain in place.

3 Policyholder Communications

- 3.1 The Chief Actuary Supplementary Report discusses the objections received by SLAL and SL Intl to the Proposed Transfer. I have reviewed the objections raised and agree with the Chief Actuary's conclusions about them.
- 3.2 I note, however, that two objections raised an issue specific to with profits policyholders' interests. These policyholders objected to some of the costs of the transfer being charged to the estate. I covered this issue in 7.10 of my Previous Report and confirmed that this treatment is consistent with the 2006 Scheme. Most of the transfer costs will have been incurred before the final Court hearing.
- 3.3 One policyholder, as part of their objection, questioned whether the guaranteed benefits included in their contract would be affected by the Proposed Transfer. I covered this issue in 3.2.2 of my Previous Report: the Proposed Transfer will not result in any change to the options and guarantees available to any with profits policyholder.
- 3.4 I have noted that the loss of FSCS protection, which is not specific to with profits policyholders' interests, has been the objection in the largest number of cases. Since my opinion relates to with profits benefits payable by SLAL or SL Intl, and access to the FSCS is not in the control of either company, I made clear in my Previous Report that I had not taken it into account in reaching my opinion. I did, however, note that the likelihood of customers suffering as a result of the loss of FSCS protection is remote.

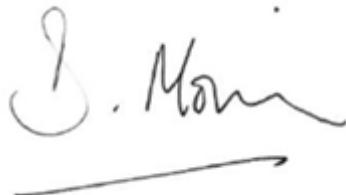
4 Allocation of expenses

- 4.1 The expected project expenses relating to the Proposed Transfer, and allocated to the HWPF, continue to be in line with those estimated at the time of writing my Previous Report. This allocation of expenses is fair to with profits policyholders and is in line with the 2006 Scheme. It maintains appropriate protection of policyholders' interests as the allocated costs associated with the Proposed Transfer will have been incurred in the operation of the HWPF as necessary to ensure the continued servicing of the transferring policyholders. I therefore continue to be of the opinion that this is fair for policyholders.

5 Conclusions

5.1 My opinion therefore remains as in my Previous Report, that:

- i. There will be no material changes to the terms and conditions of any SLAL with profits policy.
- ii. The governance for with profits business in SLAL and SL Intl will be sufficient to maintain the Reasonable Expectations of with profits policyholders. The Proposed Transfer provides for this to continue even in the event of the termination of any of the reinsurance arrangements.
- iii. The reinsurance termination arrangements (on SLAL insolvency and in other circumstances) appropriately balance the interests of the with profits policyholders of SL Intl and SLAL.
- iv. While the HWPF reinsurance arrangement is in place, the HWPF can continue to be managed as it has been since its inception at demutualisation. The existing sharing of experience between with profits policies from the UK, Germany, Austria and Ireland will continue.
- v. The allocation of expenses to the HWPF will continue in line with the 2006 Scheme. The project expenses of the Proposed Transfer and the costs of additional work needed to operate the HWPF reinsurance arrangement will result in some additional expenses being charged to the HWPF.
- vi. The proposed variations to the Legacy Schemes will not materially and adversely affect the Reasonable Expectations of any SLAL with profits policyholder.



Douglas Morrison, FFA

7 March 2019

Appendix: Glossary

Term	Meaning
2006 Scheme	The 2006 Scheme of Demutualisation
2011 Scheme	The 2011 Scheme that transferred insurance business from Standard Life Investment Funds Limited to SLAL on 31 December 2011
CEO	Chief Executive Officer
Chief Actuary Report	The report of the SLAL Chief Actuary, Mr Brian Peters, entitled “Report by the Chief Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company” and signed on 17 September 2018
Chief Actuary Supplementary Report	The supplementary report of the SLAL Chief Actuary, Mr Brian Peters, entitled “Supplementary Report by the Chief Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company”
Effective Date	The date on which the Scheme comes into effect, expected to be 29 March 2019.
FCA	Financial Conduct Authority
FSCS	Financial Services Compensation Scheme
Group	All of the subsidiaries of the ultimate parent of SLAL
HWPF	Heritage With Profits Fund
IPPFM	Internal Principles and Practices of Financial Management
Legacy Schemes	The 2006 Scheme of Demutualisation and the 2011 Scheme.
PGH	Phoenix Group Holdings
PPFM	Principles and Practices of Financial Management
Previous Report	My report entitled “Report by the With Profits Actuary on the Proposed Transfer of the Euro-denominated life insurance business from Standard Life Assurance Limited to Standard Life International designated activity company” and signed on 18 September 2018
Proposed Transfer	Proposed Part VII transfer and reinsurance arrangements.

Reasonable Expectations

The concept of Policyholders' Reasonable Expectations has been a feature of the management of with profits business for many years because of the extent to which the benefits ultimately received by policyholders depend on decisions by the firm that are not explicitly constrained by the contract terms and conditions. Although to some extent Policyholders Reasonable Expectations has been superseded in the UK by the concept of treating customers fairly that is now enshrined in regulations, the 2006 Scheme makes repeated reference to it in provisions that protect policyholders' interests. With profits policyholders' reasonable expectations depend materially on the firm's past practices in managing the business as well as on the representations made at the point of sale and subsequently.

Scheme	The Scheme of transfer under Part VII of the Financial Services and Markets Act 2000 of the euro-denominated life assurance business of SLAL to SL Intl.
SLAC	The Standard Life Assurance Company
SLAL	Standard Life Assurance Limited
SL Intl	Standard Life International designated activity company
TAS	Technical Actuarial Standards
The Court	Court of Session
Ultimate Parent	Phoenix Group Holdings plc
WPOP	With Profits Operating Principles. A published document which details the principles by which a with profits fund is managed. WPOP are required to be maintained by insurers subject to Solvency II in Ireland.
With profits policyholders	Includes both current with profits policyholders and also those policyholders who currently invest only in unit linked funds but have the right to switch into with profits investments
WPA	With Profits Actuary