

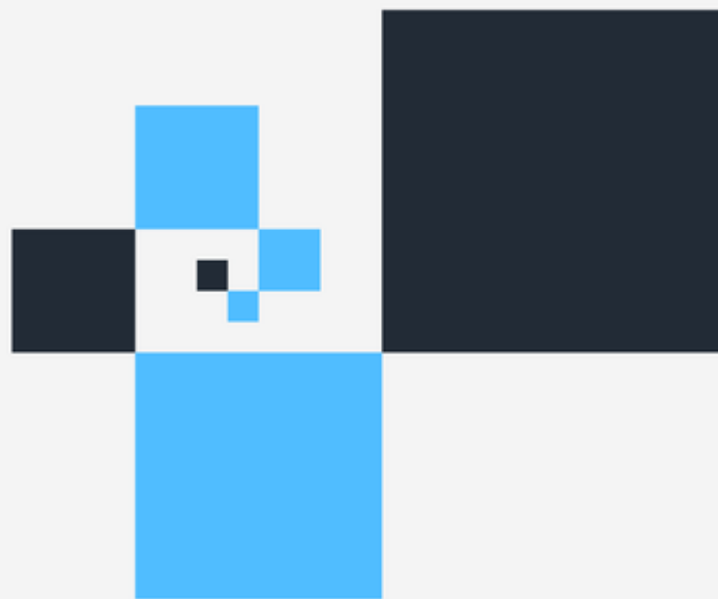
MILLIMAN REPORT

# The Part VII Transfer of the business of Aviva Protection UK Limited into Aviva Life & Pensions UK Limited

The report of the Independent Expert

1 July 2025

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# 1 Introduction

## THE PURPOSE OF THIS REPORT

- 1.1 It is proposed to transfer the whole of the insurance business of Aviva Protection UK Limited ("**APUK**") to Aviva Life & Pensions UK Limited ("**UKLAP**"), the main UK Life company of Aviva plc. APUK and UKLAP (together, the "**Companies**") are proprietary insurance companies operating in the UK. APUK is a subsidiary company of UKLAP, and the Companies are ultimately owned by Aviva plc. The "**Aviva Group**" or the "**Group**" are the names given for Aviva plc and all of its subsidiaries.
- 1.2 Under UK law a transfer of long-term insurance business must be carried out in accordance with Part VII of the Financial Services and Markets Act 2000 ("**FSMA**") and an application must be made to the High Court of Justice, Business and Property Courts of England and Wales, Companies Court (the "**High Court**") for approval under Section 111 of FSMA. Such a transfer of insurance business is referred to in this report as a "**Part VII Transfer**".
- 1.3 I refer to the proposed scheme providing for the transfer to UKLAP of the insurance business of APUK as "**the Scheme**" or "**this Scheme**", and throughout the remainder of this report these terms are used to cover all the proposals included in the proposed scheme of transfer. The date on which the Scheme is proposed to take effect is referred to as the "**Effective Date**".
- 1.4 Under Section 109 of the FSMA, the application to the High Court for approval of the Scheme must be accompanied by a report (the "**Scheme Report**") by an Independent Expert on the terms of the proposed Scheme. The Scheme Report consists of this report (the "**Report**") and any subsequent Supplementary Reports issued by me covering the proposed Scheme.

## MY APPOINTMENT AS INDEPENDENT EXPERT

- 1.5 I have been appointed by the Companies to report, pursuant to Section 109 of FSMA, in the capacity of the Independent Expert, on the terms of the proposed Scheme.
- 1.6 I am a Fellow of the Institute and Faculty of Actuaries ("**IFoA**") and a senior partner of Milliman LLP ("**Milliman**"), part of Milliman Inc., a global consulting firm. I have over 30 years' experience in the UK life insurance industry and I have fulfilled the role of Independent Expert in relation to a number of transfers of long-term insurance business that have subsequently been approved by the High Court. I hold certificates issued by the IFoA enabling me to act as a Chief Actuary and as a With-Profits Actuary, and I am an approved person on the Financial Services Register.
- 1.7 My appointment was approved by the Prudential Regulation Authority ("**PRA**"), after consultation with the Financial Conduct Authority ("**FCA**"), and was confirmed in a letter dated 10 January 2025. My terms of reference have been reviewed by the PRA and the FCA.
- 1.8 I submitted a statement of independence to the PRA and the FCA for review prior to their approval of me as Independent Expert. In summary, I confirm that neither I nor Milliman have or have had any direct or indirect interest in or control of any of UKLAP, APUK or other related firms that could influence my independence. I confirm that my personal interests have not influenced me in reaching the conclusions in this Report.
- 1.9 My fees will be paid by the Non-Profit Sub-Fund ("**NPSF**") of UKLAP, the parent company of APUK, as described in Section 6 of this Report.

## MY REPORT AS INDEPENDENT EXPERT

- 1.10 This Report is produced for the High Court to assist in its deliberations in respect of the proposed Scheme. This Report and a summary of this Report (the "**Summary Report**") will be made available to policyholders via dedicated pages on the Aviva website (the "**Transfer Website**") and the summary of my Report will be included in the communications pack that is sent to the appropriate policyholders. The groups of policyholders who will receive a communications pack, and the reasons why, are set out in Section 9 of this Report.
- 1.11 This Report has been prepared in accordance with the approach and expectations of the PRA, as set out in PS1/22: "The PRA's approach to insurance business transfers" dated January 2022 (the "**PRA Statement of Policy**"), as well as Chapter 18 of the Supervision Manual ("**SUP 18**") contained in the FCA Handbook, and the FCA's Final Guidance "FG22/1: The FCA's approach to the review of Part VII insurance business transfers" dated February 2022 (the "**FCA Final Guidance**").

- 1.12 The financial information in this Report in relation to UKLAP and APUK is largely based on the financial results as at 31 December 2024. Where financial information is used, the as at date will be included. This financial information has been subject to external review by the auditors of UKLAP and APUK and I have relied upon this financial information being correct.
- 1.13 I have also had financial information provided to me regarding the financial position of the Companies allowing for the implementation of the proposed Scheme. This financial information has been subject to review by the UKLAP Chief Actuary, the APUK Chief Actuary and the UKLAP Chief Risk Officer. I have relied upon this information being correct.
- 1.14 I confirm that the comments and conclusions in this Report apply to all policyholders of the Companies irrespective of their place of residence and/or the jurisdiction within which the business is said to be carried on or in which their policy was issued.

#### THE JERSEY AND GUERNSEY SCHEMES

- 1.15 It is proposed that the transfer of any business carried on in or from within Jersey by APUK, or the transfer of any policies issued by APUK to persons resident in the Bailiwick of Guernsey ("**Guernsey**") will be effected following the approval of separate schemes in Jersey and Guernsey (referred to respectively as the "**Jersey Scheme**" and the "**Guernsey Scheme**").
- 1.16 These schemes, pursuant to the relevant local law, will provide for the transfer of policies on substantially the same terms as the proposed Scheme, are expected to have the same transfer date as the Scheme, and would proceed only if the High Court in the UK were to sanction the proposed Scheme. The implementation of the proposed Scheme is not conditional on the approval of the Jersey Scheme or the Guernsey Scheme.
- 1.17 To the extent that the relevant local scheme were not to be approved by the relevant Court in Jersey or Guernsey, the relevant policies would become Residual Policies and would be reinsured to UKLAP until such time as they may be transferred to UKLAP.
- 1.18 References to the Scheme should be taken to include the Jersey Scheme and the Guernsey Scheme unless otherwise stated. This Report and its conclusions apply equally to the Jersey Scheme and the Guernsey Scheme.
- 1.19 This Report will be provided to the Royal Court of Jersey and the Royal Court of Guernsey to assist in their deliberations in respect of the Jersey Scheme and the Guernsey Scheme, respectively.

#### MY SUPPLEMENTARY REPORT

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

#### THE PARTIES FOR WHOM THIS REPORT HAS BEEN PREPARED

- 1.24 This Report, and any extract or summary thereof has been prepared particularly for the use of:
- The High Court;
  - The Royal Courts in Jersey and Guernsey;
  - The FCA and the PRA;
  - The regulators in Jersey and Guernsey;
  - The insurance regulator of any European Economic Area ("**EEA**") country who requests a copy of the report;
  - The Directors and senior management of UKLAP;
  - The Directors and senior management of APUK; and

- The professional advisers of any of the above.

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

## A NOTE ON REPORT TERMINOLOGY

1.26 Any technical terms, including those in relation to the UK version of the Solvency II regulations ("**Solvency UK**"), are defined in the glossary of terms in Appendix C. I set out a general overview of the life insurance market and regulatory environment in the UK in Appendix A.

## RELIANCES AND LIMITATIONS

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

1.28 I have relied on the work of the external auditors of the Companies in gaining confidence in the financial information as provided by the Companies throughout this Report. It should be noted that not all of the financial information is subject to external audit, and hence this reliance is limited to that information which is subject to external audit. Where the financial information has been subject to external audit, this is taken to imply that the relevant results are in compliance with applicable rules and guidance, in particular those in relation to Solvency UK.

1.29 The Companies have been advised by their own legal adviser, Pinsent Masons LLP ("**Pinsent Masons**"). I have reviewed the legal input provided by Pinsent Masons following its review of drafts of this Report and have taken into account that legal input in reaching my conclusions. I have described in Section 3 why I think it is reasonable to use the legal input from Pinsent Masons in that way. For the avoidance of doubt, Pinsent Masons has no liability to me or Milliman in respect of that input.

1.30 This report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of this Report should not be relied upon for any purpose. I have provided my Summary Report for inclusion in the communications with the policyholders (and where relevant distribution to any persons requesting a copy of it). This Summary Report will also be made available on the Transfer Website. Any other purported summary of this Report or elements of this Report should not be treated as having been approved or authorised by me.

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

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

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

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

## REGULATORY AND PROFESSIONAL GUIDANCE

1.35 This Report has been prepared subject to the terms of the Technical Actuarial Standards ("**TASs**") applicable to insurance transformations ("**TAS 200: Insurance v2.0**") issued by the Financial Reporting Council. In my opinion, this Report complies with the TAS 200: Insurance v2.0.

1.36 This Report is compliant with TAS 100: General Actuarial Standards v2.0, and in particular those aspects that are applicable to transformations.

- 1.37 In complying with these requirements, a number of the key documents listed in Appendix D have been prepared or reviewed by individuals who were subject to professional standards in undertaking their work, including, where appropriate, TAS requirements.
- 1.38 Actuarial Profession Standard X2, as issued by the IFoA, requires members to consider whether their work requires an independent peer review. In my view this Report does require independent peer review and this has been carried out by an appropriate senior actuary in Milliman who has not been part of my team working on this assignment.

## 2 Executive summary of the Scheme Report

### INTRODUCTION AND THE ROLE OF THE INDEPENDENT EXPERT

- 2.1 APUK and UKLAP are proprietary insurance companies within the Aviva Group. Under the proposed Scheme, the entire business of APUK would be transferred to UKLAP.
- 2.2 I have been appointed by APUK and UKLAP to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert on the terms of the proposed Scheme.
- 2.3 As the Independent Expert I should consider the effects of the proposed Scheme on policyholders, including on the security of benefits under their policies, their reasonable benefit expectations, and on the standards of service, administration, management and governance applicable.
- 2.4 I am a Fellow of the IFoA and a senior partner of Milliman, part of Milliman Inc., a global consulting firm. I have over 30 years' experience in the UK life insurance industry and I have fulfilled the role of Independent Expert in relation to a number of transfers of long-term insurance business that have subsequently been approved by the High Court. I hold certificates issued by the IFoA enabling me to act as a Chief Actuary and a With-Profits Actuary, and I am an approved person on the Financial Services Register.
- 2.5 My appointment as Independent Expert was approved by the PRA after consultation with the FCA and was confirmed in a letter dated 10 January 2025. My terms of reference have been reviewed by the PRA and the FCA.
- 2.6 I submitted a statement of independence to the PRA and the FCA for review prior to their approval of me as Independent Expert. In summary, I confirm that neither I nor Milliman have or have had any direct or indirect interest in or control of any of UKLAP, APUK or other related firms that could influence my independence. I have set out my independence considerations, as discussed and agreed with the PRA and the FCA, in Section 3 of this Report.
- 2.7 My fees will be paid by the NPSF of UKLAP, the parent company of APUK, as described in Section 6 of my Report.
- 2.8 It is proposed that the transfer of policies forming part of the business carried on in or from within Jersey and policies issued to persons resident in Guernsey will be effected through the Jersey Scheme and Guernsey Scheme respectively, which would transfer such policies on substantially the same terms as the proposed Scheme.
- 2.9 References to the Scheme throughout my Report should be taken to include the Jersey Scheme and the Guernsey Scheme unless otherwise stated. My Report and its conclusions apply equally to the Jersey Scheme and the Guernsey Scheme.

### BACKGROUND INFORMATION ON THE AVIVA GROUP

- 2.10 Aviva Group is a large international insurance group and it can trace its history back several centuries, through a series of mergers and acquisitions of various mutual and proprietary companies across the life, health and general insurance and pensions sectors. In the UK, Aviva plc's key propositions include Insurance, Wealth & Retirement ("IWR"), General Insurance and asset management services provided through Aviva Investors Holdings Limited ("Aviva Investors"), an entity within the Aviva Group.
- 2.11 On 23 December 2024, Aviva Group and Direct Line Group ("DLG") announced they had reached an agreement on the terms of Aviva Group's acquisition of DLG, which includes entities that provide general insurance policies to customers. Subsequently, on 10 March 2025, it was announced that the DLG shareholders had accepted the formal offer made by Aviva Group. This acquisition became effective on 1 July 2025.

### BACKGROUND INFORMATION ON APUK

- 2.12 In September 2023, Aviva plc announced the acquisition of AIG Life Limited ("AIG LL") from Corebridge Financial, Inc. The transaction was subsequently completed on 8 April 2024, with AIG LL becoming a subsidiary of UKLAP. In February 2025, AIG LL was renamed Aviva Protection UK Limited (APUK).
- 2.13 Following UKLAP's acquisition of APUK, Aviva Group commenced a business plan to integrate APUK into the Aviva Group business, and this proposed Scheme is part of that plan. Various other integration activities either have already been completed or are underway, including in respect of the appetite for risk exposures, reinsurance, administration, policy servicing and governance.

- 2.14 APUK provides protection insurance, on both an individual and group basis, to residents in the UK, Isle of Man, the Channel Islands and Gibraltar. Individual policies are purchased by individuals to cover themselves and/or their dependents, while group policies are purchased by employers to provide insurance cover for their employees.
- 2.15 APUK is substantially closed to new business and there are no current plans to launch any new products. Currently, APUK's individual protection business is open to new business via a small number of sales channels (covering all lines of individual protection business of APUK), and APUK plans to close the majority of these sales channels by the end of 2025. APUK's group protection business is closed to new business apart from renewals on existing policies.
- 2.16 As at 31 December 2024, APUK's long-term business comprised approximately 1.3 million individual protection policies, and approximately 15,000 group protection policies covering approximately 1.2 million members. If the proposed Scheme were to be implemented, then the entire business of APUK would be transferred into UKLAP.
- 2.17 APUK calculates its Solvency Capital Requirement ("**SCR**") using the Standard Formula under Solvency UK. As at 31 December 2024, APUK had a Solvency Ratio (the ratio of Own Funds to SCR) of 170%.
- 2.18 Within its risk management framework, APUK defines its "**Target Capital**" as the level of capital required in normal times to cover solvency requirements over a medium-term horizon. The Target Capital is expressed as a percentage of SCR, and is calibrated to ensure APUK can meet its SCR in a 1-in-10-year stress.
- 2.19 APUK also has a Liquidity Risk Appetite ("**LRA**") that is set to maintain defined target liquid asset levels under both normal and stressed conditions, such that APUK maintains sufficient operational liquidity to meet payments such as policyholder claims and operational costs as they become due.
- 2.20 As at 31 December 2024, APUK was in compliance with its LRA, though its Solvency Ratio of 170% was below its Target Capital ratio although still within its risk appetite. This means that no significant measures were required to restore its Solvency Ratio to the Target Capital level. This lower solvency was predominantly driven by the termination of certain reinsurance agreements between APUK (then AIG LL) and American International Reinsurance Company Limited ("**AIRCO**") described below. Capital injections have been provided from UKLAP to APUK to address the fall in the Solvency Ratio.
- 2.21 APUK has reinsurance agreements with a variety of external reinsurers. These arrangements reduce APUK's exposure to mortality and morbidity risk, and reduce balance sheet volatility arising from adverse claims experience. Historically, APUK had further internal (to AIG Group) reinsurance agreements in place with AIRCO but all such reinsurance agreements were terminated following the acquisition of AIG LL by UKLAP.
- 2.22 Administration and servicing of APUK policies is currently carried out by in-house professionals and Accenture (UK) Limited ("**Accenture**") under an outsourcing agreement. Administration/servicing tasks are contractually split between the in-house team and Accenture, by complexity and/or product type. The general principle for this split is that higher complexity, higher authority tasks are performed by the in-house team.

## BACKGROUND INFORMATION ON UKLAP

- 2.23 UKLAP is the main subsidiary company of Aviva plc that provides life insurance, pensions business and investment products, as part of its IWR proposition. As at 31 December 2024, UKLAP had approximately 17.4 million policies in force, including approximately 3.7 million individual protection policies and approximately 2.8 million group policies (on a policy lives basis, i.e. covered across approximately 10,000 group policies) within the UKLAP NPSF.
- 2.24 UKLAP has several ring-fenced with-profits funds, in which it manages its with-profits business (as well as some non-profit business). The majority of UKLAP's non-profit business is managed within the NPSF. UKLAP's non-profit business includes a wide range of annuities, unit-linked business and conventional non-profit business, including (but not limited to) the same product types held in APUK. The business of APUK would be transferring into the NPSF under the proposed Scheme.
- 2.25 UKLAP calculates its SCR using its PRA-permitted Internal Model. As at 31 December 2024, UKLAP had a Solvency Ratio of 164%.
- 2.26 UKLAP sets a Solvency Risk Appetite ("**SRA**") as a threshold for UKLAP's Solvency Ratio, the purpose of which is to manage the risk of breaching its regulatory capital requirements while pursuing strategic business objectives. The SRA is expressed as a percentage of SCR, and is calibrated to ensure that UKLAP could meet its SCR after a 1-in-10-year stress event. As at 31 December 2024, the UKLAP Solvency Ratio was above its SRA.



- 2.27 UKLAP also has an LRA to ensure there is sufficient operational liquidity to continue to meet payments such as policyholder claims and operational costs under stressed conditions. As at 31 December 2024, UKLAP was in compliance with its LRA.
- 2.28 UKLAP has a reinsurance agreement in place under which it cedes certain elements of its insurance business to Aviva International Insurance Ltd (“**All**”) on a quota share basis. This agreement is known as the “**All Reinsurance Treaty**”. Under the All Reinsurance Treaty, UKLAP cedes 30% of the liabilities (net of other external reinsurance) in the NPSF to All.

## THE PROPOSED SCHEME

- 2.29 If the proposed Scheme were to be implemented, then all of the business of APUK (the “**Transferring Business**”), comprising approximately 2.5 million policies (on a policy lives basis), would be transferred into the UKLAP NPSF. The Transferring Business would therefore have constituted approximately 28% of the policy count of UKLAP’s protection business (on a policy lives basis), had the proposed Scheme been implemented as at 31 December 2024.
- 2.30 The proposed Scheme is part of a wider programme of activity to integrate APUK into the Aviva Group. This integration would facilitate greater operational and capital efficiencies, as well as reductions in certain expenses, through more efficient financial reporting, governance and administration between APUK and UKLAP.
- 2.31 The policies included in the Transferring Business are referred to in my Report as the “**Transferring Policies**”. The holders of these policies are referred to in my Report as the “**Transferring Policyholders**”.
- 2.32 As set out in the Notice of the proposed Scheme (dated 26 February 2025), the Application is due to be presented to a Judge of the High Court at 7 Rolls Building, Fetter Lane, London EC4A 1NL on 26 November 2025 (the Sanction Hearing).
- 2.33 Any person (including policyholders or employees of the Companies) who alleges that they would be adversely affected by the implementation of the proposed Scheme has a right to attend the Hearing and express their views, either in person or by a suitably qualified legal representative.
- 2.34 Any person who alleges that they would be adversely affected by the implementation of the proposed Scheme but does not intend to attend the Hearing may make representations about the Scheme by setting out their reasons why they believe they would be adversely affected and:
- Telephoning APUK or Aviva UK (as appropriate);
  - Writing to APUK or Aviva UK (as appropriate) by letter or by email; or
  - Writing to Pinsent Masons LLP (the solicitors and external legal advisers of the Companies).
- 2.35 If approved by the High Court, the proposed Scheme would come into effect on the Effective Date, which is expected to be 31 December 2025.
- 2.36 The proposed Scheme would also effect the transfer of the current external reinsurance agreements applicable to the Transferring Business from APUK to UKLAP to cover the same business as is covered currently. These agreements would not be extended to cover any of the existing UKLAP business.
- 2.37 Alongside this transfer of business, the Companies intend to implement the following additional changes if (and only if) the proposed Scheme were to be implemented (these additional changes are not part of the Scheme itself):
- The All Reinsurance Treaty would be extended to cover the Transferring Business once it has been transferred to the NPSF (i.e. the same 30% quota share would apply to the liabilities, net of external reinsurance agreements, from these policies). This would require approval from All as set out in paragraph 5.37, a process that is expected to be undertaken in the second half of 2025 (ahead of the Effective Date).
  - The SCR and Risk Margin of the Transferring Business would be valued for Solvency UK reporting purposes using UKLAP’s Internal Model. This process requires notification to the PRA.
  - Customer communications would be updated to refer to UKLAP, and customer contact points (e.g. the APUK website) would also be updated to reflect the implementation of the Scheme.
- 2.38 Various other aspects of the proposed Scheme are covered in Section 6.

## THE EFFECT OF THE PROPOSED SCHEME ON THE SECURITY OF BENEFITS FOR POLICYHOLDERS

- 2.39 I have considered the likely effect of the proposed Scheme on the security of benefits for policyholders, which primarily depends upon the financial strength of the relevant company. Figure 2.1 below shows the pre-Scheme financial position of APUK and UKLAP as at 31 December 2024, and the post-Scheme financial position of UKLAP if the proposed Scheme had been implemented as at 31 December 2024.

FIGURE 2.1: APUK'S AND UKLAP'S PRE-SCHEME AND UKLAP'S POST-SCHEME BALANCE SHEETS AS AT 31 DECEMBER 2024

(£m)	APUK (PRE-SCHEME)	UKLAP (PRE-SCHEME)	UKLAP (POST-SCHEME)
<b>Own Funds (A)</b>	345	9,087	9,148
<b>SCR (B)</b>	203	5,540	5,515
<b>Excess Own Funds (C = A – B)</b>	142	3,546	3,634
<b>Solvency Ratio (D = A / B)</b>	<b>170%</b>	<b>164%</b>	<b>166%</b>

Source: provided by Aviva plc.

- 2.40 Figure 2.1 above shows that, if the proposed Scheme had been implemented on 31 December 2024:
- There would have been a small increase in UKLAP's Solvency Ratio (an increase from 164% pre-Scheme to 166% post-Scheme including the Transferring Business); and
  - The Transferring Policies would have been transferred from APUK, with a Solvency Ratio of 170%, to UKLAP, with a Solvency Ratio (post-Scheme) of 166%.
- 2.41 Furthermore, as at 31 December 2024, APUK's Solvency Ratio was below its Target Capital (though within risk appetite), while UKLAP's Solvency Ratio was above its SRA and would have remained above its SRA if the proposed Scheme had been implemented on 31 December 2024. Both the APUK Target Capital and UKLAP SRA are calibrated to ensure each company could continue to meet its SCR after a 1-in-10-year stress scenario. The Transferring Business would therefore be transferred from a company holding less than the amount needed at the 1-in-10-year level (APUK), to a company holding more than the amount needed (UKLAP). This indicates that the implementation of the proposed Scheme would lead to an expected small increase in the financial strength contributing to the security of benefits for the Transferring Policies.
- 2.42 If the proposed Scheme were to be implemented, then the SCR in respect of the Transferring Business would, following a notification to the PRA, be calculated using the UKLAP Internal Model (along with the existing business of UKLAP) rather than using the Standard Formula as currently. I have also considered the impact of this change on the financial security of the Transferring Policies.
- 2.43 As at 31 December 2024, the SCR for the Transferring Business (i.e. as part of APUK, and calculated under the Standard Formula) was £203 million. If the proposed Scheme had been implemented on 31 December 2024, then the inclusion of the Transferring Business within the NPSF would have increased the SCR of the NPSF (in isolation) by £93 million. The increase of £93 million to the SCR of the NPSF as at 31 December 2024 is not directly comparable to the pre-Scheme standalone SCR of £203 million for the Transferring Business and, in particular, the differences between these figures include:
- An unwind of diversification benefits currently allowed for in the Standard Formula calculation for the standalone Transferring Business as part of APUK.
  - A small decrease in the SCR due to the adoption of the UKLAP Internal Model instead of the Standard Formula.
  - A small decrease in the SCR due to an increase in the loss absorbing capacity of deferred tax ("LACDT"), which offsets an additional deferred tax liability from the increase in Own Funds.
  - An additional diversification benefit, as the APUK business would be part of the much larger NPSF within UKLAP which has a more diverse risk profile than APUK alone.
  - An additional reduction as a result of the inclusion of the Transferring Business in the All Reinsurance Treaty.
- 2.44 As the parent company of APUK, UKLAP already holds £118 million of capital in respect of APUK as a subsidiary company as part of its SCR. If the Scheme were to be implemented, the overall impact on UKLAP's SCR would be

a reduction of £26 million, as shown in Figure 2.1 above (allowing for rounding). This net impact is a result of removing the capital requirement of £118 million of holding APUK as a subsidiary and the increase of the SCR of the NPSF of UKLAP of £93 million as the effects described in paragraph 2.43 above.

- 2.45 Taking account of all of the above, I am satisfied that the calculation of the SCR in respect of the Transferring Business in UKLAP compared with in APUK would not have a material adverse effect on the security of benefits for the Transferring Policies.
- 2.46 For the existing UKLAP policies, if the proposed Scheme had been implemented on 31 December 2024, it would not have had a material impact on the Solvency Ratio for UKLAP, and UKLAP would have remained comfortably above its SRA. Furthermore, UKLAP is materially larger than APUK, with Solvency UK Own Funds of c. £9.1 billion as at 31 December 2024 compared to Own Funds of c. £345 million for APUK. Therefore, the proposed transfer of the APUK business into the UKLAP NPSF would not materially change the risk exposure profile of UKLAP.
- 2.47 If the proposed Scheme were to be implemented, there would be no business transferred into or out of the with-profits funds of UKLAP and no change in the financial position of those funds. As shown in Figure 2.1, the implementation of the Scheme (as at 31 December 2024) would have led to a minor increase to UKLAP's Solvency Ratio, and therefore would not materially affect the ability of UKLAP (and the NPSF in particular) to provide capital support to any of the with-profits funds if it were required.
- 2.48 If the proposed Scheme were to be implemented then the inclusion of the Transferring Business within the All Reinsurance Treaty would not have a material impact on UKLAP's financial position and, in particular, UKLAP would be compliant with its SRA without this reinsurance being applied to the Transferring Business. As a result, I am satisfied that there is no dependency of the proposed Scheme on the All Reinsurance Treaty being applied to the Transferring Business.
- 2.49 I have also considered other factors that affect the security of policyholder benefits, including the capital management policies of the Companies, the reinsurance agreements of the Companies, additional support to the Transferring Policies and the risk profile exposure of the Companies. I am satisfied that these factors would not lead to a material adverse impact on the security of policyholder benefits of the Companies under the proposed Scheme.
- 2.50 Overall, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of policyholder benefits under the Transferring Policies from APUK, or under the existing policies of UKLAP.

#### **THE EFFECT OF THE PROPOSED SCHEME ON THE REASONABLE EXPECTATIONS OF POLICYHOLDERS IN RESPECT OF THEIR BENEFITS**

- 2.51 I have considered the impact of the Scheme on the reasonable expectations of all policyholders of APUK and UKLAP in respect of their benefits.
- 2.52 In respect of the Transferring Policyholders from APUK, the Transferring Policies are not with-profits policies, and are all non-profit protection policies, and so the reasonable expectations of the Transferring Policyholders in respect of their benefits are that:
- Their benefits would be paid out on an eligible claim event (as specified in their policy terms and conditions) during the policy term, at the amount and in the form specified in their policy;
  - Policy options and guarantees as specified in the policy terms and conditions, such as guaranteed insurability, would be honoured; and
  - Premiums would continue to be payable at the amounts specified in their policy documents, in line with the policy terms and conditions.
- 2.53 The possible scenarios in which the proposed Scheme would impact these benefit expectations are therefore:
- If the implementation of the proposed Scheme led to a material change in financial security that increased the risk that the benefits under the policies could not be paid when due.  
I have concluded above that the proposed Scheme would not have a material adverse effect on the security of policyholder benefits under the Transferring Policies.
  - If policy terms and conditions, options or guarantees were to be changed as a result of the proposed Scheme.  
There would be no changes to these aspects as a result of the implementation of the proposed Scheme.

- If any discretionary element of the policy benefits or premiums were affected by a change in the management of the Transferring Policies.

I cover this aspect below.

- 2.54 For non-profit protection policies, these discretionary elements principally relate to claims handling and underwriting, where different standards could impact when a claim is or is not paid, and pricing bases for premiums where these are reviewable.
- 2.55 As part of the wider integration of APUK into Aviva Group, UKLAP carried out a review of the underwriting practices and processes adopted in APUK. I understand that this process did not identify any material differences in the underwriting practices and processes, or in the practices around the acceptance and payment of claims between APUK and UKLAP. In respect of pricing bases, these can change over time in line with a company's own views of key economic and demographic factors, as well as commercial factors.
- 2.56 For the avoidance of doubt, these discretionary elements would not be changed by the implementation of the proposed Scheme.
- 2.57 Taking the above into account, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable expectations of the Transferring Policyholders in respect of their benefits.
- 2.58 In respect of the existing UKLAP policyholders, the implementation of the Scheme would not change any of the following:
- The operation of the NPSF, the with-profits funds of UKLAP, or the fund structure of UKLAP;
  - The terms and conditions of any policy;
  - The charges that apply to any policies, or to the with-profits funds;
  - The investments available to unit-linked policyholders;
  - The exercise of discretion in respect of the management of the unit-linked funds;
  - The rights of the with-profits policies to any future distributions of the estates of the with-profits funds;
  - The investment strategies of the NPSF or the with-profits funds;
  - The administration or servicing of the policies, including the service-level agreements; or
  - The management and governance of the funds, including the exercise of discretion for the with-profits policies such as bonus policies and surrender values.
- 2.59 The With-Profits Actuary ("WPA") of UKLAP has concluded that the with-profits policyholders of UKLAP would not be materially adversely affected by the implementation of the proposed Scheme and, based on the evidence provided, I agree with this conclusion of the WPA of UKLAP.
- 2.60 Overall, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable expectations of any policyholders of APUK or UKLAP in respect of their benefits.

#### **THE EFFECT OF THE SCHEME ON THE STANDARDS OF ADMINISTRATION, SERVICING, MANAGEMENT, AND GOVERNANCE APPLICABLE TO THE POLICIES**

- 2.61 If the proposed Scheme were to be implemented, the Transferring Policies would become policies of UKLAP, and the responsibility for the governance and management of these policies would lie directly with the UKLAP Board.
- 2.62 The implementation of the proposed Scheme would not change the current administration and servicing arrangements for the Transferring Policies and there would be no change to the service-level agreements in place. The oversight and governance of administration and servicing would continue to be carried out by a customer service committee in UKLAP.
- 2.63 The Chief Actuaries of the Companies have confirmed that the risk profile of the Transferring Business is similar to that of the existing protection policies in UKLAP and there are no new categories of risk in the Transferring Business to which UKLAP is not already exposed. I am satisfied that the UKLAP Board, and the various committees within UKLAP's governance structure, have the relevant experience and expertise in managing the types of business and the risks that make up the Transferring Business. Furthermore, I understand that two of the three members of the current APUK Board, including the Chief Actuary of APUK, are now employed by Aviva plc and that the Non-Executive Director of APUK is also on the UKLAP Board (and would continue in this latter role following the implementation of the proposed Scheme).

- 2.64 Therefore, I am satisfied that UKLAP would retain knowledge of the specific characteristics of the Transferring Business and processes if the proposed Scheme were to be implemented and that, overall, there would be no material adverse impact to the Transferring Policies as a result of being subject to the governance (directly) of UKLAP, rather than of APUK.
- 2.65 Taking all of the above into account, I am satisfied that if the proposed Scheme were to be implemented, there would not be a material adverse effect on the standards of administration, servicing, management, and governance that would apply to the Transferring Business of APUK or to the existing policies of UKLAP.

#### **THE APPROACH TO COMMUNICATIONS WITH POLICYHOLDERS**

- 2.66 I have considered the proposed communications strategy of the Companies, both in relation to the direct communications with the policyholders as well as the further distribution of information in respect of the Scheme.
- 2.67 In particular, I have considered the relative advantages and disadvantages of the proposal to use email communications relating to the proposed Scheme where customers have expressed such a preference, and I have taken into account the considerations outlined in the FCA Final Guidance in this respect. Overall, I am satisfied that APUK's proposed strategy of sending email communications to those customers who have stated such a preference is appropriate.
- 2.68 I have considered the structure and content of the direct communications with the policyholders.
- 2.69 I have also considered the dispensations being sought by APUK in relation to communications to certain classes of APUK policyholders and other related parties, as well as dispensations sought by UKLAP in relation to communications with UKLAP policyholders.
- 2.70 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the dispensations, and including the approach to vulnerable customers, is appropriate and fair. I am also satisfied that the content of the communications is clear, adequate and appropriately tailored to the needs of the customers.
- 2.71 I have provided a summary of my Report and my conclusions for inclusion within the communications to policyholders, as well as for inclusion on the relevant parts of the UKLAP website.

#### **MY OTHER CONSIDERATIONS ARISING FROM THE SCHEME**

- 2.72 In Section 10 of my Report, I have considered a number of other additional aspects not covered elsewhere in my Report that may have a bearing on the impact of the proposed Scheme on the policyholders of APUK and UKLAP. These include:
- The future practical operation of the Scheme;
  - Access to the Financial Services Compensation Scheme and the Financial Ombudsman Service;
  - The costs of the Scheme;
  - The tax implications of the Scheme;
  - The effect of the Scheme on other companies in the Aviva Group;
  - The effect of the Scheme on reinsurers;
  - Any emerging risks and the potential for volatility in financial markets;
  - Operational readiness for the Scheme;
  - The likely effects of the Scheme not proceeding;
  - Aviva Group's acquisition of DLG;
  - The FCA's Consumer Duty rules; and
  - Other regulatory developments.
- 2.73 I have concluded that these matters do not have any material impact on my conclusions in respect of the Scheme.

#### **MY CONCLUSIONS**

- 2.74 I have considered and analysed the likely impact of the proposed Scheme on all of the policyholders of APUK and UKLAP and my conclusions are set out below and in Section 11 of my Report.

2.75 In conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on any of the following:

- The security of the benefits to which policyholders of APUK and UKLAP are entitled under the terms and conditions of their policies;
- The reasonable expectations of the policyholders of APUK and UKLAP in respect of their benefits; and
- The standards of administration, servicing, management, and governance applicable to the policies of APUK and UKLAP.

## 3 The role of the Independent Expert

### INTRODUCTION

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

- The obligations placed on the Companies to give notice of the proposed transfer to policyholders and other interested parties. Any person who considers they may be adversely affected by the Scheme may make a representation to the High Court.
- The Independent Expert: The Independent Expert produces the (publicly available) Scheme Report assessing the Scheme and its likely effects on affected policyholders (this Report and any subsequent Supplementary Reports).
- The UK regulators (the PRA and the FCA) as they:
  - Approve the appointment of the Independent Expert;
  - Approve the form of the Independent Expert's Scheme Report;
  - Produce their own reports on the Scheme for consideration by the High Court;
  - Are entitled to appear in the High Court; and
  - Approve the form of the notices that are published and sent to policyholders regarding the Scheme.
- The High Court.

There are two High Court Hearings: the Directions Hearing and the Sanction Hearing. The proposed plan for notification of policyholders is considered at the Directions Hearing.

The High Court reviews the Scheme at the Sanction Hearing where the High Court also takes into account the views of the regulators, the Independent Expert, various statements by the parties to the transfer, and any objections raised by policyholders and other interested parties.

3.2 I have been appointed by APUK and UKLAP to report, pursuant to Section 109 of the FSMA, in the capacity of the Independent Expert on the terms of the proposed Scheme. My role as Independent Expert is to assess the proposed Scheme and to report on this via the Scheme Report to the High Court. The significant areas of consideration in discharging this role as the Independent Expert are to consider the effects of the Scheme on policyholders, including on the security of benefits under their policies, their reasonable benefit expectations, and on the standards of service, administration, management and governance applicable.

3.3 I am a Fellow of the IFoA and a senior partner of Milliman, part of Milliman Inc., a global consulting firm. I have over 30 years' experience in the UK life insurance industry and I have fulfilled the role of Independent Expert in relation to a number of transfers of long-term insurance business that have subsequently been approved by the High Court. I hold certificates issued by the IFoA enabling me to act as a Chief Actuary and a With-Profits Actuary, and I am an approved person on the Financial Services Register.

3.4 My appointment as Independent Expert was approved by the PRA, after consultation with the FCA, and was confirmed in a letter dated 10 January 2025. My terms of reference have been reviewed by the PRA and the FCA.

### THE CONSIDERATIONS OF THE INDEPENDENT EXPERT

#### The regulatory requirements in respect of my role

3.5 The requirements in respect of my Scheme Report are set out in:

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

3.6 My Report complies with the requirements set out in these documents.



- 3.7 As described in Section 1 of this Report, the proposed Scheme involves two UK life insurance companies: APUK and UKLAP. I need to consider the terms of the Scheme generally and how the different groups of policyholders of APUK and UKLAP are likely to be affected by the implementation of the Scheme. In particular, I need to consider:
- The effect of the implementation of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
  - The effect of the implementation of the Scheme on the reasonable expectations of policyholders in respect of their benefits; and
  - The effect of the implementation of the Scheme on the standards of service, administration, management and governance applicable to the policies.
- 3.8 My considerations in respect of each of these areas are set out in more detail below.
- 3.9 In this Report I have not restricted my assessment of the Scheme to potential or actual adverse effects.
- 3.10 I am only required to comment on the likely effects of the implementation of the Scheme on policyholders who enter into contracts with the Companies prior to the Effective Date of the Scheme. I am not required to consider the likely effects of the Scheme on new policyholders entering into contracts after this date. Further details on the Effective Date of the Scheme and of its practical implementation are given in Section 6.
- 3.11 I am not required to consider possible alternative schemes and I have therefore only considered the terms of the proposed Scheme as presented to me.

#### **The security of policyholder benefits**

- 3.12 In my role as Independent Expert, I should consider the likely effects of the proposed Scheme on the security of policyholder benefits. That is, the effect of the implementation of the proposed Scheme on the likelihood that policyholders will receive their full benefit entitlement when these are due, and in particular, consideration of this in adverse circumstances.
- 3.13 Solvency UK requires insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic or best estimate of their liabilities to policyholders. This amount of capital is based on the risks being taken on by the insurance company. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios. I describe the UK regulatory regime in more detail in Appendix A.
- 3.14 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the benefits, and security is also provided by other capital resources and strategies in the insurance company. As well as the amount of available capital, the quality of that capital is also an important consideration in the context of the security of policyholder benefits.
- 3.15 The Companies involved in the Scheme have a different mix of policies and policyholders, and the type of policy held by a policyholder will be a key determinant of the risks to which that policyholder is exposed. Other than this, the key determinants of the policyholders' risk exposures will be the characteristics of the company in which the policy is held such as the size of the company, the mix of different types of business and risk, the amount and quality of capital resources available, the investment strategy, and the internal capital policy and risk appetite of the company.

#### **Policyholders' reasonable expectations in respect of their benefits**

- 3.16 In my role as Independent Expert for the Scheme, I should consider the effect of the implementation of the proposed Scheme on policyholders' reasonable expectations in respect of the benefits due under their policies.
- 3.17 This includes considering the effect of the implementation of the proposed Scheme on areas where the Board of the relevant insurer has discretion with regard to the charges applied to a policy and/or the benefits granted to the policyholder.
- 3.18 Policyholders' reasonable benefit expectations relate to expectations that are applicable in the context of the normal course of events and non-extreme scenarios. Therefore, this consideration differs to the assessment of the financial security of policyholders' benefits, in that the latter assessment considers the security of benefits under extreme scenarios. In other words, it assesses the extent to which the policyholder has a materially unchanged security of



benefits under adverse risk events after the implementation of the proposed Scheme as it does currently pre-Scheme.

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

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

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

- 3.20 The framework for my conclusions is a consequence of the High Court's consideration of prior Part VII schemes.
- 3.21 In particular, principles stated by Evans-Lombe J. in *Re Axa Equity & Law Life Assurance Society plc and AXA Sun Life plc* (2001) (based on principles outlined by Hoffman J. in *Re London Life Association Limited* (1989)) are often used as the basis for the consideration of insurance business transfers by the Independent Expert and by the High Court.
- 3.22 In *Re AXA Equity & Law* (2001) Evans-Lombe J. stated that "the court is concerned whether a policyholder, employee or other interested person or any group of them will be adversely affected by the scheme".
- 3.23 He went on to state: "That individual policyholders or groups of policyholders may be adversely affected does not mean that the scheme has to be rejected by the court. The fundamental question is whether the scheme as a whole is fair as between the interests of the different classes of persons affected".
- 3.24 The most common interpretation of these (and other relevant) statements has been that a conclusion that "no group of policyholders is materially adversely affected by the scheme" provides a sufficient condition to conclude that the fairness of the scheme as a whole has been demonstrated.
- 3.25 As Independent Expert, my assessment of the likely effects of the implementation of the proposed Scheme on the various affected policies is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.
- 3.26 A scheme may have both positive and negative likely effects on a group of policies and the existence of likely detrimental effects should not necessarily imply that the High Court should reject the scheme as the positive likely effects may outweigh the negative likely effects or the negative likely effects may be very small.
- 3.27 In order to acknowledge this inherent uncertainty, and to be consistent with the statements by the High Court noted above, the conclusions of the Independent Expert in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies.
- 3.28 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact on policyholders' benefits.
- 3.29 Another particular previous Part VII scheme worthy of note is the transfer of a portfolio of annuities from The Prudential Assurance Company Limited ("Prudential") to Rothesay Life Plc ("Rothesay Life"). An appeal was brought to the Court of Appeal by Prudential and Rothesay Life, following the initial Court ruling of Snowden J who, on 16 August 2019, declined to sanction the transfer.

- 3.30 In the judgement issued by the Court of Appeal, some clarity was provided on the principles that a judge should consider when deciding whether to approve a Part VII Transfer. It clarified that:
- The key question for the Court remains whether the transfer results in a material adverse effect on policyholders, employees or other stakeholders.
  - An adverse effect will only be material if it is:
    - a possibility that cannot sensibly be ignored, given the nature and gravity of feared harm in the particular case;
    - a consequence of the scheme in question; and
    - material in the sense that there is the prospect of real or significant, as opposed to fanciful or insignificant, risk to the position of the stakeholder concerned.
  - In some cases, it may also be necessary for the Court to consider whether there would be a material adverse effect in the event that the scheme in question was not sanctioned.
  - Should a transfer result in a material adverse effect on some group(s) of policyholders, there may still be reasons to approve the scheme. However, if the effects of the scheme differ significantly for different group(s) of policyholders then the Court will need to consider whether the scheme as a whole is fair.
  - In reaching a decision, and determining the key factors for consideration, the Court must consider the nature of the business concerned (both transferring and non-transferring) as well as the circumstances surrounding the transfer.
  - Whilst the Court has discretion over whether to sanction a transfer, in exercising this discretion, it must take into account and give proper weight to matters that ought to be considered and ignore matters that ought not properly to be taken into account. The decision as to what matters to consider will depend on the particular circumstances of the transfer.
  - The Court scrutinises the reports of the Independent Expert, the PRA and the FCA, and the evidence of any person required to be heard by the Court. The Court is entitled to ask questions as is necessary to ensure that the opinions presented are fully understood and with a view to identifying any “errors, omissions, or instances of inadequate or defective reasoning”. However, in the absence of such defects the Court should place “full weight” on the opinions of the Independent Expert, the PRA and the FCA and only depart from their conclusions if there are “significant and appropriate reasons” for doing so.
  - Following the Court’s evaluation, it will decide whether or not to sanction the scheme if it is appropriate in all the circumstances to do so. The Court cannot explicitly request for a scheme to be altered, although alterations may occur as a result of the Court expressing concerns in relation to certain aspects of the scheme.
- 3.31 In the particular case of the Prudential to Rothesay Life transfer, the Court of Appeal judgement also drew the following conclusions:
- It was justifiable for the Independent Expert, the PRA and the FCA to rely on Solvency UK metrics at a specific date to support their opinions that there was a remote chance of parental support being needed in the future as Rothesay would continue to be regulated under these same rules for the foreseeable future.
  - The possibility of non-contractual parental support being available in the future was not a relevant factor for consideration.
  - Given the extensive financial and actuarial evidence available to the Court, the subjective factors raised by the policyholders (such as the age, vulnerability and reputation of Prudential) were not relevant.
- 3.32 As Independent Expert, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately and necessarily a matter of expert judgement regarding the likelihood and impact of future possible events. However, the analytical approaches and tools available to me to carry out my work (as set out in this Report) enable me to exercise this judgement in an objective and explainable manner.
- 3.33 I confirm that I have taken materiality into account in carrying out my work and in forming my conclusions, and wherever I have made use of the concept of materiality in forming my conclusions I have highlighted and explained this in the relevant sections of this Report. My working definition of and my approach to materiality is consistent with that set out by the Court of Appeal and described above in paragraph 3.30.
- 3.34 This is the framework in which I have undertaken my consideration of the proposed Scheme.

## THE INDEPENDENCE OF THE INDEPENDENT EXPERT

- 3.35 I and my team do not have any direct or indirect interest or control in APUK or in any of the companies in the Aviva Group.
- 3.36 I am satisfied that there is nothing that would affect my independence or objectivity in carrying out my role as Independent Expert. As a Fellow of the Institute of Actuaries, I am bound by a professional code of conduct, which requires me to act with integrity and impartiality.
- 3.37 In the last five years I have not carried out any previous work for APUK or UKLAP.

## RELIANCES OF THE INDEPENDENT EXPERT IN THIS REPORT

### The financial information in this Report

- 3.38 The regulatory solvency framework for the EEA insurance and reinsurance industry, known as “Solvency II” applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK’s exit from the European Union (“EU”) (and the EEA).
- 3.39 Since 1 January 2021, the UK has been free to determine an appropriate regulatory regime for insurance companies, known as Solvency UK. Solvency UK is applicable to the UK entities of the Aviva Group, including APUK and UKLAP.
- 3.40 Sections 7 and 8 of this Report show the current (i.e. before the implementation of the proposed Scheme) and the pro forma post-Scheme Solvency UK balance sheets (including capital requirements) as at 31 December 2024<sup>1</sup> for the Companies, and this financial information is used in the analysis of the effects of the implementation of the proposed Scheme.
- 3.41 APUK’s reported Solvency UK financial information is based on the Solvency UK Standard Formula, which is a pre-defined ‘one size fits all’ method for calculating the Solvency Capital Requirement (“SCR”) based on broader assumptions and averages to estimate risks. These terms are explained in more detail in Appendix A.
- 3.42 UKLAP’s reported Solvency UK financial information is based on a “Partial Internal Model”, whereby UKLAP’s business is valued using its permitted Internal Model but the consolidated UKLAP position includes insurance entities<sup>2</sup> whose financial information is valued using the Solvency UK Standard Formula. UKLAP’s Internal Model is tailored to how UKLAP operates and the specific risks it faces, and permission to use this Internal Model, as well as the controls and policies around it, has been granted by the PRA.
- 3.43 If the proposed Scheme were to be approved by the High Court and implemented, it is intended that the current business of APUK would be valued alongside the UKLAP business using the UKLAP Internal Model. Aviva has carried out a detailed review of the products and risk exposures of APUK and this confirmed that there were no material differences relative to those of UKLAP and so concluded that this would not constitute a (major or minor) model change under UKLAP’s Internal Model Change Policy on either qualitative or quantitative grounds. This change therefore would require notification to, but not permission from, the PRA.
- 3.44 In my report, I have presented the pre-Scheme financial information for APUK on a Standard Formula basis, and the post-Scheme financial information for APUK as derived from the UKLAP Internal Model.

### The financial information used in this Report

- 3.45 I have not carried out an independent audit of the financial information provided to me by UKLAP and APUK but I am satisfied that it is reasonable to rely upon the results produced for the following reasons:
- The reported Solvency UK balance sheets as at 31 December 2024 have been subject to an external audit (by Ernst & Young LLP) and approved by the respective Chief Actuaries, Audit Committees, Risk Committees and Boards. Actuarial input from the Chief Actuaries (of both Companies) and With-Profits Actuary of UKLAP is subject to the TAS requirements and to the IFoA’s Actuarial Professional Standards.

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<sup>1</sup>For the avoidance of doubt, as the Solvency UK balance sheets shown in this Report are as at 31 December 2024, these will reflect the Solvency UK reforms effective from this date.

<sup>2</sup> The subsidiaries of UKLAP are detailed in paragraphs 5.11 to 5.13.

- Permission for the use of UKLAP's Internal Model has been granted by the PRA and as part of this process UKLAP was required to put in place strict governance and control processes to ensure that the Internal Model could not be materially changed without adherence to these internal checking controls and, for major changes, re-confirmation of permission from the PRA. UKLAP has confirmed that it has adhered to these processes and controls as set out to and permitted by the PRA.
- I have carried out a high-level reconciliation of the pro forma post-Scheme Solvency UK balance sheets as at 31 December 2024 for UKLAP, back to the pre-Scheme externally audited Solvency UK balance sheets for UKLAP and APUK.

In particular, the post-Scheme balance sheet includes results for the APUK business as derived from using the UKLAP Internal Model. The inclusion of the APUK business within UKLAP's Internal Model will require notification to, but not permission from, the PRA. The UKLAP finance and actuarial team has calculated the likely effects of this change on the SCR of UKLAP, and I am satisfied that it is reasonable to assume that the due processes and governance have been followed by UKLAP in adopting the UKLAP Internal Model for the purposes of assessing the capital required under Solvency UK for the risks associated with the APUK business.

### **My conclusion in respect of the financial information**

- 3.46 Given the level of external review and internal checking and governance to which the financial information pre and post the proposed Scheme for APUK and for UKLAP has been subject, as well as my own high-level review and reasonableness checks, I am satisfied that it is appropriate to rely upon this financial information for the purpose of this Report.
- 3.47 My Supplementary Report will contain more up-to-date financial information for the Sanction Hearing and will provide an update on the effect of the implementation of the proposed Scheme based upon these figures.

### **My reliance on legal advice**

- 3.48 This Report has been prepared for the High Court as part of the process of submission of the Scheme to the High Court. I am not an expert in legal matters and hold no qualifications in UK law (insurance regulations or otherwise) and therefore rely on experts in UK insurance law in relation to a number of areas. In particular:
- I have received a legal review of the previous schemes involving UKLAP or APUK which considered whether there are any provisions in previous schemes that could, in conjunction with the implementation of the Scheme, result in a material adverse impact on policyholders; and
  - I have taken into account the input given by legal experts following their review of drafts of this Report in order to ensure that my understanding of the proposed Scheme and its likely effects, and my description of its relevant features in this Report, are materially accurate.
- 3.49 Obtaining information in respect of the operation of the Scheme from the legal experts involved provides, in my view, a sound basis from which to carry out my review and analysis using actuarial expertise.
- 3.50 In order to get a sound understanding of the legal effect of the Scheme, the options available to me are to retain my own legal adviser to carry out the relevant legal review, or to rely upon the advice and input of the legal firm retained by the Companies in respect of this Scheme, namely Pinsent Masons. In this case, I consider that it is not necessary for me to obtain independent legal advice and that it is appropriate for me to rely upon the advice provided by Pinsent Masons.
- 3.51 Pinsent Masons has not been retained by me, and has no liability to me or Milliman for any input that has been made available to me that I consider relevant to my assessment of the likely effects of the Scheme.
- 3.52 My reasons for taking this input into account are:
- Pinsent Masons is a large legal firm with a wide range of experience and expertise in UK insurance law and Part VII Transfers, and it is my view that it has the relevant and appropriate qualifications and knowledge of the laws and regulations governing insurance business transfers in the UK;
  - The nature of the information and advice from Pinsent Masons upon which I have relied concerns how the Scheme and the previous schemes work both factually and in accordance with UK law; and
  - The relevant legal matters do not appear to be contentious.

- 3.53 For these reasons, I am satisfied that the input or information provided to me by Pinsent Masons would not be different if Pinsent Masons were to be retained directly by me in respect of the Scheme.
- 3.54 I am satisfied that it is appropriate for me to rely upon the input of Pinsent Masons in forming my view on the proposed Scheme.

## 4 Background information relating to APUK

### INTRODUCTION

- 4.1 APUK is a proprietary life insurance company incorporated in the United Kingdom and registered in England and Wales.
- 4.2 APUK is a wholly owned subsidiary of UKLAP<sup>3</sup>, which itself is a subsidiary of Aviva Life Holdings UK Limited. Aviva Life Holdings UK Limited is a subsidiary of Aviva Group Holdings Limited, which has a number of both domestic and internal business entities offering general insurance, life insurance, investment management and other services. Aviva Group Holdings Limited's parent company is Aviva plc.
- 4.3 APUK is authorised under the terms of FSMA to undertake long-term insurance business in Classes I (Life and annuity) and IV (Permanent health<sup>4</sup>) set out in Part II of Schedule 1 to the Regulated Activities Order 2001.
- 4.4 As at 31 December 2024, APUK had approximately 1.3 million policies in force, and Solvency UK Technical Provisions of c. £567 million.

### COMPANY HISTORY

- 4.5 APUK was established in 2008 as Fortis Life, an insurance company providing long-term life insurance, critical illness and income protection products. In 2014, AIG Europe Holdings Limited, part of American International Group, Inc. ("**AIG**"), acquired Fortis Life. Fortis Life was subsequently renamed AIG Life Limited ("**AIG LL**"). AIG Europe Holdings Limited was later renamed AIG Holdings Europe Limited.
- 4.6 In 2018, AIG LL acquired a block of group life, critical illness and income protection business from the UK branch of ERGO Lebensversicherung (the "**Ellipse Business**").
- 4.7 After deciding to sell its life and retirement business, AIG underwent restructuring to separate its life and retirement business from its general insurance business. As part of this, the ownership of AIG LL was transferred from AIG Holdings Europe Limited to another entity within the group, SAFG Retirement Services, Inc. in 2021.
- 4.8 Later in 2021, AIG sold 9.9% of its stake in SAFG Retirement Services, Inc. to Argon Holdings LLC, a wholly owned subsidiary of Blackstone Inc. In 2022, SAFG Retirement Services, Inc. was renamed Corebridge Financial, Inc.
- 4.9 Corebridge Financial, Inc. completed an initial public offering later in 2022, which reduced AIG's share in Corebridge Financial, Inc. to 77.7% as at 31 December 2022. Three subsequent secondary offerings followed in 2023, further diluting AIG's share in AIG LL. AIG's share in Corebridge Financial, Inc. was 52.5% as at 31 December 2023.
- 4.10 In September 2023, Aviva plc announced the acquisition of AIG LL from Corebridge Financial, Inc. The transaction was subsequently completed on 8 April 2024 for a consideration of £453 million, with AIG LL thereby becoming a subsidiary of UKLAP.
- 4.11 In February 2025, AIG LL was renamed Aviva Protection UK Limited.

### PREVIOUS APUK SCHEMES

- 4.12 As mentioned in paragraph 4.6, APUK (as AIG LL) acquired the Ellipse Business in 2018. The Ellipse Business was transferred to APUK by way of:
- A portfolio transfer agreement dated 14 December 2018, covering the UK policies of the Ellipse Business; and
  - The novation of four group policies held by policyholders (employers) in Germany (which were excluded from the portfolio transfer agreement), at the request of the German Federal Financial Supervisory Authority.

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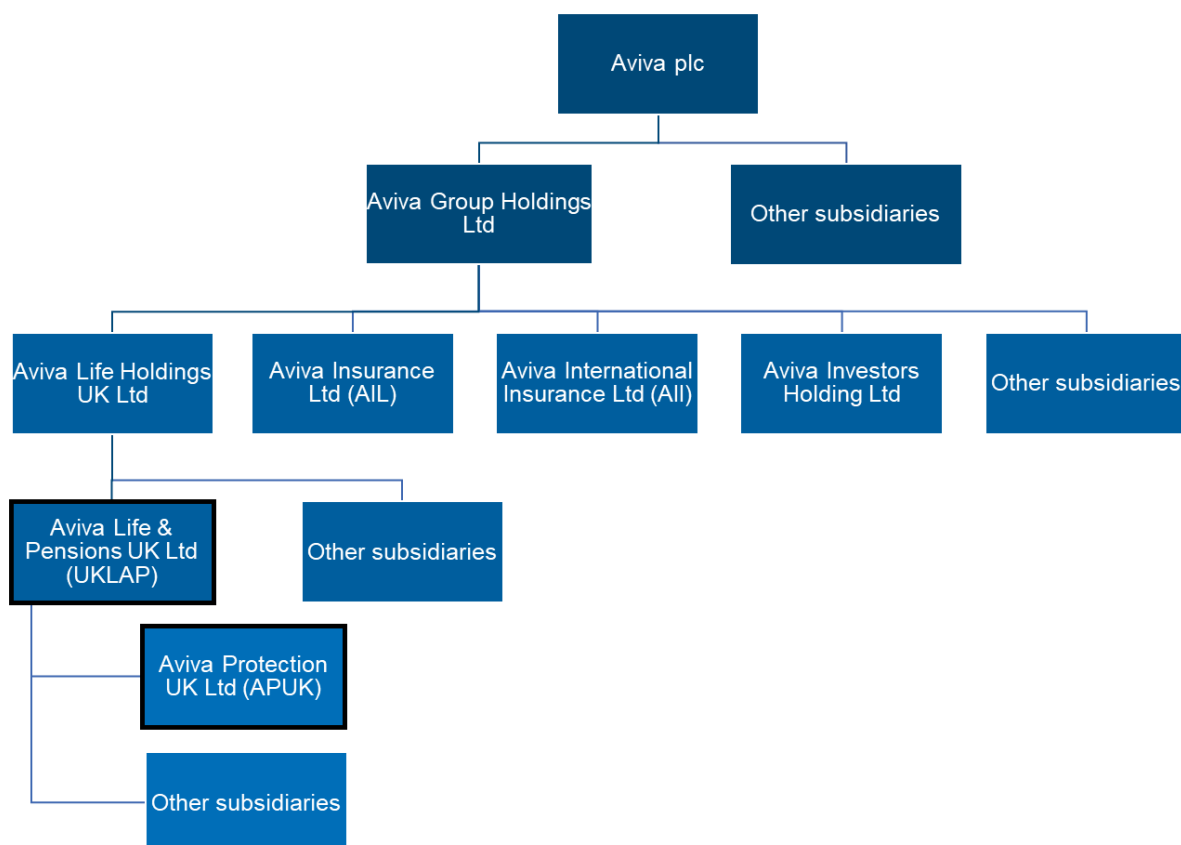
<sup>3</sup> Further background information relating to UKLAP is provided in Section 5.

<sup>4</sup> Permanent health relates to income protection business, the latter being the term used throughout this Report.

## APUK'S GROUP STRUCTURE

4.13 A simplified view of the organisational group structure of APUK is shown in Figure 4.1 below.

FIGURE 4.1: ORGANISATIONAL GROUP STRUCTURE OF APUK<sup>5</sup>



Source: confirmed by Aviva plc, summarised by Milliman.

## THE INTEGRATION OF APUK INTO AVIVA GROUP

- 4.14 Following UKLAP's acquisition of APUK (as AIG LL), Aviva Group commenced a business plan to integrate APUK into the business, of which the proposed Part VII Transfer is part.
- 4.15 As part of this business strategy, APUK (as AIG LL) has substantially closed to new business and has no plans to launch any new products. Further details are provided in paragraph 4.20.
- 4.16 Under the terms of the acquisition, Aviva Group was required to discontinue its use of the AIG brand within 12 months of acquisition. As a result, AIG LL was renamed to Aviva Protection UK Limited in February 2025. AIG LL issued communications over November 2024 to February 2025 to its customers and the financial advisers of its customers to notify of this rebrand. Further details of these rebrand communications are provided in paragraphs 9.8 to 9.18.
- 4.17 Various other integration activities either have already been completed or are underway, including in respect of risk appetites, reinsurance, administration, and governance. I cover the details of these further in the relevant sub-sections in the rest of this Report.

<sup>5</sup> At the time of writing, APUK currently has two subsidiaries, namely Group Risk Services Ltd ("GRS") and Group Risk Technology Ltd. Neither of these subsidiaries is an insurance company. These subsidiaries are expected to be liquidated in advance of the Effective Date and have therefore been excluded from Figure 4.1.

## APUK'S BUSINESS

- 4.18 APUK provides protection insurance to residents in the UK, Isle of Man, the Channel Islands and Gibraltar. APUK provides protection insurance on both an individual and a group basis. Individual policies are purchased by individuals to cover themselves and/or their dependents, while group policies are purchased by employers to provide insurance cover for their employees.
- 4.19 APUK has sold business directly as well as through various intermediaries, including Independent Financial Advisers ("IFAs"), strategic partners and other distribution partners.
- 4.20 APUK is substantially closed to new business and there are no plans to launch any new products. Currently, APUK's individual protection products are open to new business via a small number of sales channels including some strategic partners (covering all lines of business of APUK). APUK plans to close the majority of these sales channels by the end of 2025. APUK's group protection business is closed to new business apart from renewals on existing policies. At the time of writing, the individual protection new business forecast to be sold in 2026 is uncertain as it will depend on when the sales channels close, however this level of new business is expected to be materially lower than the new business volumes sold in 2025.
- 4.21 APUK does not have any with-profits business, and manages its business in a single non-profit fund.
- 4.22 As at 31 December 2024, APUK's long-term business comprised approximately 1.3 million individual protection policies, and approximately 15,000 group policies covering approximately 1.2 million members. This business consists of the following products:
- **Individual protection:**
    - **Level Term Assurance (without critical illness)**, which pays out a lump sum on the death of the life assured<sup>6</sup> within the policy term (and nothing on survival to the end of the term). The lump sum may be level or indexed to protect against inflation, and may be paid in monthly instalments if the family income benefit option is chosen. Premiums are guaranteed over the term, on a level or indexing basis.
    - **Level Term Assurance (with critical illness)**, which pays out a lump sum on either death or on diagnosis of a serious medical condition listed in the policy terms and conditions, within the policy term. The lump sum may be level or indexed, and premiums are, respectively, on a level or indexing basis. These policies may include an optional amount of children's critical illness cover in addition to the main policyholder cover.
    - **Decreasing Term Assurance (no critical illness)**, which pays out a lump sum that decreases over time on death within the policy term, such that the payout is less if the life assured dies later in the policy term. Premiums are guaranteed and level over the term. Decreasing term assurance policies are used typically to cover a repayment mortgage or loan.
    - **Decreasing Term Assurance (with critical illness)**, which pays out a lump sum that decreases over time, either on death or on diagnosis of a serious medical condition listed in the policy terms and conditions, within the policy term. Premiums are guaranteed and level over the term. These policies may include an optional amount of children's critical illness cover.
    - **Non-profit Whole of Life**, which pays out a lump sum on the death of the life assured with no limited term. The lump sum may be level or indexed, and premiums are, respectively, on a level or indexing basis. There are two variants within APUK's business: **Underwritten Whole of Life**, which requires underwriting<sup>7</sup> at policy inception, and **Guaranteed Whole of Life**, which guarantees acceptance for those in specific age ranges and typically with lower sums assured (lump sum benefits) than the Underwritten variant.
    - **Standalone critical illness**, which pays out a lump sum on diagnosis of a serious medical condition listed in the policy terms and conditions (but not on death), within the policy term. The lump sum may be level or decreasing (with guaranteed level premiums) or indexed (with indexed premiums).

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<sup>6</sup> Individual protection policies that cover the death of the life assured also cover diagnosis with a terminal illness as defined in the policy terms and conditions (typically this is where life expectancy is less than 12 months). In all product descriptions, where death is covered, this has the meaning that terminal illness is also covered. Terminal illness differs from critical illness, as the latter relates to specified medical conditions.

<sup>7</sup> Underwriting includes an assessment of health, lifestyle and other factors for a prospective policyholder to decide on the premium or sum assured for the policy (or potentially not allowing a policy to be taken).



- **Income protection**, which provides monthly payments to replace a portion of the policyholder's income if they are unable to work due to illness, injury or disability. Premiums are guaranteed over the term, on a level or indexing basis.
- **Group protection:**
  - **Group Term Assurance**, which pays out a lump sum or a death-in-service pension ("**DISP**", see below) on the death of an employee covered by the group policy. There are three variants within APUK's business, covering the employee (lump sum payable to dependents), the spouse/partner of an employee (lump sum payable to the employee), or "keyperson" covering key personnel in the company (payable to the employer).
  - **Group Term Assurance – DISP**, which are in-payment annuities to the dependents of (now) deceased employees covered by group term assurance policies with this form of death benefit, which commenced upon the death of the employee.
  - **Group CI**, which pays out a lump sum on diagnosis of a serious medical condition listed in the policy terms and conditions for the employee. Employees' children are automatically covered (up to age 18 or 23 if in full time education), and the employer may choose to offer cover to the employee's spouse/partner.
  - **Group IP**, which provides monthly payments to the employer to replace a portion of the employee's income if the employee is unable to work due to illness, injury or disability. The employer passes this benefit to the employee through the payroll system to ensure tax and national insurance is deducted correctly.

- 4.23 The group protection products have a rate guarantee period during which premium rates do not change, with the default period being 2 years. After this period, premium rates are reviewed by APUK.
- 4.24 The products have a number of underlying options that vary depending on the product. Examples include guaranteed insurability (to increase the sum assured or policy term), ability to make mid-term adjustments (such as to change premium frequency), and the ability to add a second life assured to the policy.
- 4.25 APUK has several reinsurance agreements in place. Details of APUK's reinsurance agreements are provided in paragraphs 4.42 to 4.45 below.
- 4.26 Figure 4.2 below shows the breakdown of best estimate liabilities ("**BEL**") gross and net of reinsurance for APUK.

**FIGURE 4.2: BREAKDOWN OF APUK'S BEL GROSS AND NET OF REINSURANCE AS AT 31 DECEMBER 2024**

PRODUCT GROUP	GROSS BEL (£m)	NET BEL (£m)
<b>Modelled BEL</b>		
Individual Protection <sup>8</sup>	280	(255)
Group Protection	130	93
<b>Manual BEL<sup>9</sup></b>	<b>121</b>	<b>(130)</b>
<b>Total</b>	<b>531</b>	<b>(293)</b>

Source: provided by Aviva plc.

<sup>8</sup> The BEL being negative on a net of reinsurance basis means that, on a best estimate basis, the cashflows received from this business (including the premiums and future reinsurance recoverables) more than offset the cashflows paid out (including expenses and policyholder claims).

<sup>9</sup> The manual BEL includes items such as policyholder premiums due and claims that are incurred but not yet settled.

## APUK'S FINANCIAL POSITION

4.27 Figure 4.3 below summarises the financial position of APUK as at 31 December 2024.

FIGURE 4.3: APUK'S FINANCIAL POSITION AS AT 31 DECEMBER 2024

	(£m)
<b>Total assets<sup>10</sup> (A)</b>	<b>1,188</b>
BEL (B)	531
TMTP (C)	-
Risk Margin (D)	36
<b>Technical Provisions (E = B – C + D)</b>	<b>567</b>
Other liabilities (F)	276
<b>Net assets (G = A – E – F)</b>	<b>345</b>
Ring-fenced funds restriction (H)	-
<b>Own Funds (I = G – H)</b>	<b>345</b>
SCR (J)	203
<b>Excess Own Funds (K = I – J)</b>	<b>142</b>
<b>Solvency Ratio (L = I / J)</b>	<b>170%</b>

Source: provided by Aviva plc.

- 4.28 APUK does not have regulatory permission to use the Matching Adjustment or the Volatility Adjustment and so does not use either of these long-term guarantee measures under Solvency UK. APUK does have regulatory permission to use the Transitional Measure on Technical Provisions ("**TMTP**") but this is currently reported as zero, as shown in Figure 4.3.
- 4.29 As is required by Solvency UK regulation, the majority of APUK's Own Funds is backed by Tier 1 capital<sup>11</sup> (over 96% as at 31 December 2024).
- 4.30 APUK calculates its SCR using the Standard Formula under Solvency UK. The calculation of the SCR reflects the various external reinsurance agreements in place, which are detailed below in paragraphs 4.42 to 4.45.
- 4.31 Following the acquisition of APUK by UKLAP, a loan facility was provided by UKLAP to APUK with a borrowing limit of £150 million. In Q1 2025, this loan facility was extended until Q1 2026, but for a lower borrowing limit of £135 million. The purpose of this loan facility is to support APUK's liquidity management.

## APUK'S CAPITAL MANAGEMENT

- 4.32 APUK maintains a Capital Management Policy ("**CMP**") to ensure the appropriate and effective use of capital within the business. This policy defines a number of objectives relating to the use of capital to support the business in optimising the value of the business and implementing strategic plans, while ensuring sufficient capital is retained to meet regulatory capital requirements.

<sup>10</sup> Total assets include investment assets, reinsurance recoverables and other assets.

<sup>11</sup> As described in paragraphs A.19 to A.20, Solvency UK classifies capital into three tiers with Tier 1 being the highest quality. Firms must hold the majority of their Own Funds in Tier 1 capital, with proportional limits in place for the use of Tier 2 and Tier 3 capital.

- 4.33 As part of its wider risk appetite framework, APUK defines its **“Target Capital”** as the level of capital required in normal times to cover solvency requirements over a medium-term horizon. The Target Capital is expressed as a percentage of SCR, and is calibrated to ensure APUK can meet its SCR in a 1-in-10-year stress.
- 4.34 APUK’s CMP defines additional thresholds for APUK’s Solvency Ratio, which set out the actions, if any, to be taken if the Solvency Ratio falls below the Target Capital or any of the additional thresholds.
- 4.35 Any surplus capital above Target Capital may be paid out as a dividend, subject to Board approval and unless the surplus capital is specifically approved to finance future growth.
- 4.36 APUK’s CMP is owned by its finance and actuarial functions, and ultimate responsibility for approving the CMP lies with the APUK Board. The Target Capital and other capital thresholds are recalibrated (but not necessarily updated) at least annually as part of the regular review process, with any changes to these thresholds requiring approval from the APUK Board.
- 4.37 APUK also has a Liquidity Risk Appetite (**“LRA”**) that is set to maintain defined target liquid asset levels under both normal and stressed conditions, such that APUK maintains sufficient operational liquidity to meet payments such as policyholder claims and operational costs as they become due.
- 4.38 As at 31 December 2024, APUK was in compliance with its LRA, though its Solvency Ratio was below its Target Capital. This lower solvency was predominantly driven by the cancellation of certain reinsurance agreements between AIG LL and AIG Group following the acquisition of AIG LL by UKLAP (with further details set out in paragraph 4.44). Capital injections have been provided from UKLAP to APUK (as AIG LL) to address the fall in Solvency Ratio, and the loan facility between UKLAP and APUK described above in paragraph 4.31 is also in place to support the solvency and liquidity position of APUK in the event of interest rates falling. However, a Solvency Ratio of 170% (as at 31 December 2024) is still within risk appetite for APUK in the context of its other solvency thresholds, and so significant measures are not required to restore its Solvency Ratio to the Target Capital.

## APUK’S RISK PROFILE

- 4.39 Figure 4.4 below shows the breakdown of the undiversified SCR of APUK (as AIG LL) as at 31 December 2024, split by risk category, on a Standard Formula basis.

**FIGURE 4.4: BREAKDOWN OF APUK’S SCR (AS AIG LL) BY RISK CATEGORY AS AT 31 DECEMBER 2024**

RISK CATEGORY	PERCENTAGE OF SCR <sup>12</sup>
<b>SCR</b>	<b>£203m</b>
Lapse risk	39%
Market and default risk	18%
Mortality and morbidity risk	14%
Operational risk	16%
Expense risk	12%
Longevity risk	1%
<b>Total</b>	<b>100%</b>

Source: provided by Aviva plc.

- 4.40 In terms of the SCR, the most material risk categories for APUK as at 31 December 2024 are lapse risk, market and default risk, mortality and morbidity risk, operational risk and expense risk. APUK’s lapse risk currently relates to its mass lapse risk<sup>13</sup>. This exposure relates to the loss of premium income resulting from the mass lapse of life policies. The biting lapse stress is sensitive to changes in interest rates, and this would change to lapse down if interest rates decrease to a certain extent.

<sup>12</sup> The risk categories are shown as a percentage of the undiversified SCR.

<sup>13</sup> Under the Standard Formula, the SCR for lapse risk considers the loss incurred by the insurer across a “lapse up” scenario, a “lapse down” scenario and a mass lapse scenario. The scenario which leads to the largest loss (the “biting” scenario) determines the SCR for lapse risk.

- 4.41 As APUK is substantially closed to new business, the majority of the business is in run-off. Therefore, the risk profile of APUK in the future is expected to be relatively stable.

#### **APUK'S REINSURANCE AGREEMENTS**

- 4.42 APUK has reinsurance agreements with a variety of external reinsurers, with the aim of ensuring that insurance liability risk is kept within APUK's risk appetite limits. These arrangements reduce APUK's exposure to mortality and morbidity risk, and reduce balance sheet volatility arising from adverse claims experience.
- 4.43 Examples of reinsurance agreements that APUK currently has in place are:
- A number of quota share reinsurance agreements covering its individual protection business;
  - Surplus reinsurance covering the group protection business, and quota share reinsurance covering the Group critical illness and Group income protection business; and
  - A treaty with Swiss Re reinsuring APUK in the event of a mass lapse for four products across its individual protection and group protection business.
- 4.44 Historically, AIG LL had further internal (to AIG Group) reinsurance agreements in place with AIRCO. All such reinsurance agreements were terminated following the acquisition of AIG LL by UKLAP. These agreements included:
- An Underwritten Whole of Life coinsurance agreement and reinsurance related to the DISP liabilities. The termination of these contracts resulted in a fall in Solvency Ratio for APUK (as AIG LL), though this was later mitigated through a capital injection from UKLAP; and
  - A catastrophe reinsurance agreement, which has since been replaced by a similar treaty with several external reinsurers.
- 4.45 APUK's reinsurance risk appetite limits are based on a reinsurer's Loss Given Default ("**LGD**") as a percentage of the total LGD across all reinsurers. These limits restrict the LGD as a percentage of the total for (i) a single reinsurer, and (ii) any two reinsurers combined. APUK also places a limit on the exposure to a single reinsurer over the course of its five-year business plan.

#### **ADMINISTRATION AND SERVICING OF APUK POLICIES**

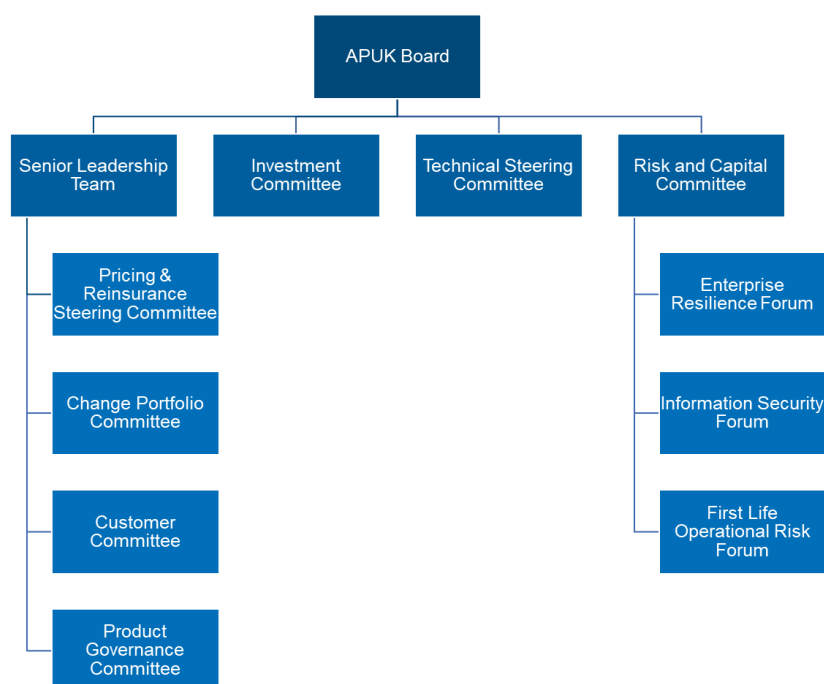
- 4.46 Administration and servicing of APUK policies is currently carried out by:
- In-house professionals whose employment was transferred from APUK to Aviva Employment Services Limited (the company that employs Aviva Group staff) as of 1 October 2024.  
All in-house customer-facing professionals continue to service the APUK policies as ring-fenced (from wider Aviva Group) teams; and
  - Accenture, under an outsourcing agreement that commenced in April 2023. As part of the purchase of AIG LL by Aviva Group, a five-year contract term was agreed, ending in mid-2029, to ensure continuity of service.
- 4.47 Administration/servicing tasks are contractually split between the in-house team and Accenture, by complexity and/or product type. The general principle for this split is that higher complexity, higher authority tasks are performed by the in-house team.
- 4.48 Oversight and governance of both in-house and outsourced administration and servicing for APUK policies is carried out by the Customer Committee within APUK, shown in Figure 4.5 below. This committee's oversight includes customer service levels, resource requirements, capacity plans, and risks relating to customer servicing.

#### **GOVERNANCE IN APUK**

- 4.49 APUK operates the three lines of defence risk management model. This model helps ensure effective risk management throughout the company. The first line of defence against risk is operational management. The second line of defence is the oversight function responsible for developing of a risk management framework and monitoring effectiveness of risk controls developed by the first line of defence. The third line of defence is the independent assurance provided by the Internal Audit function.

4.50 Figure 4.5, below, shows a simplified view of APUK's governance structure.

**FIGURE 4.5: GOVERNANCE STRUCTURE OF APUK**



Source: confirmed by Aviva plc, summarised by Milliman.

4.51 The Board consists of a balanced mix of executive and independent non-executive directors and is accountable for providing effective oversight and governance over the business, ensuring the company's direction and performance align with its strategic goals, while complying with legislative and regulatory requirements.

4.52 The Board is supported in its oversight and decision-making responsibilities by several Board committees, including:

- The Senior Leadership Team.  
The role of the Senior Leadership Team is to regularly review business performance, implement internal and external audit recommendations and manage outsourced arrangements.  
The Senior Leadership Team is supported by the Risk and Capital Committee to establish and uphold APUK's Risk Management Framework in line with APUK's Counterparty Default Risk Policy, as well as evaluating and monitoring liquidity risk.
- The Investment Committee.  
The role of the Investment Committee is to oversee and manage the company's market risk in alignment with the Board-approved investment strategy. Additionally, the committee conducts a detailed monthly review of liquidity risk.
- The Risk and Capital Committee.  
The role of the Risk and Capital Committee is to support the company's risk function and manage company risks within its risk appetite and risk governance framework.  
The Risk and Capital Committee is responsible for monitoring the effectiveness of insurance risk mitigation techniques through various processes and deliverables, such as the Risk Management Framework, Risk Register, Stress and Scenario Testing, and Key Risk reporting.

4.53 In addition to the Board committees, the governance structure at APUK includes executive committees and management forums. This structure supports the integration of risk management with regulatory requirements and business activities.

## ASSET MANAGEMENT IN APUK

- 4.54 Since Q4 2024, the management of APUK's asset portfolio has been undertaken by Aviva Investors Global Services Limited, a subsidiary of Aviva Investors.
- 4.55 As at 31 December 2024, as well as £36 million in cash holdings, APUK held approximately £300 million of invested assets, approximately £298 million of which related to holdings in bonds and approximately £1 million of which related to its participation holding in its subsidiary GRS.
- 4.56 APUK's exposure to bonds is currently restricted to gilts, as APUK has limited appetite to take investment risk, and under the Standard Formula, gilts attract no SCR in relation to credit risk. The BEL is duration matched by the bonds to reduce the component of SCR related to interest rate risk.

## 5 Background information relating to UKLAP

### INTRODUCTION

- 5.1 UKLAP is a proprietary life insurance company incorporated in the UK and registered in England and Wales.
- 5.2 UKLAP is a wholly-owned subsidiary of Aviva Life Holdings UK Limited. Aviva Life Holdings UK Limited is a subsidiary of Aviva Group Holdings Limited, which has a number of both domestic and internal business entities offering general insurance, life insurance, investment management and other services. Aviva Group Holdings Limited's parent company is Aviva plc.
- 5.3 UKLAP is authorised under the terms of FSMA to undertake long-term insurance business in Classes I (Life and annuity), II (Marriage and birth), III (Linked long-term), IV (Permanent health), VI (Capital redemption) and VII (Pension fund-management) set out in Part II of Schedule 1 to the Regulated Activities Order 2001.
- 5.4 As at 31 December 2024, UKLAP had approximately 17.4 million policies in force, and Solvency UK Technical Provisions of approximately £261 billion.

### COMPANY HISTORY

- 5.5 The history of Aviva Group can be traced back several centuries, through a series of mergers and acquisitions of various mutual and proprietary companies across the life, health, general insurance and pensions sectors. The companies involved in these mergers and acquisitions include Commercial Union and General Accident, which merged to form CGU plc in 1998.
- 5.6 In 2000, CGU plc and Norwich Union plc merged to form CGNU plc, offering services across life insurance, general insurance and pensions. In 2002, CGNU plc changed its name to Aviva plc. Subsequently, Norwich Union Life Holdings Limited and its subsidiary Norwich Union Life & Pensions Limited, both originally subsidiaries of Norwich Union plc prior to the formation of CGNU plc, were renamed Aviva Life Holdings UK Limited and Aviva Life & Pensions UK Limited (**UKLAP**) in 2009.
- 5.7 Since its formation, Aviva plc has expanded its operations via mergers, acquisitions and joint ventures. This includes the launch of the asset management subsidiary Aviva Investors in 2008 and the acquisition of Friends Life Group Limited, a life insurance and pensions provider, in 2015.
- 5.8 As mentioned in paragraph 4.10, in September 2023, Aviva plc announced the acquisition of AIG LL from Corebridge Financial, Inc., with the transaction subsequently completed on 8 April 2024, with AIG LL thereby becoming a subsidiary of UKLAP. AIG LL was subsequently renamed APUK in February 2025.
- 5.9 On 23 December 2024, Aviva Group announced its intention to acquire DLG, which includes entities that provide general insurance policies to customers. Subsequently, on 10 March 2025, it was announced that the DLG shareholders had accepted the formal offer made by Aviva Group. This acquisition became effective on 1 July 2025. I consider this acquisition in Section 10.

### PREVIOUS UKLAP PART VII SCHEMES

- 5.10 UKLAP has prior experience of Part VII Transfers, including:
- **The 2017 Scheme:**

The transfer of all of the long-term business of Friends Life Limited and Friends Life and Pensions Limited to UKLAP, with the transfer completed in October 2017.

The 2017 Scheme allowed for the transfer of non-profit business into the UKLAP Non-Profit Sub-Fund ("**NPSF**"), as well as with-profits business into an identical with-profits fund created in UKLAP. The 2017 scheme was a consolidating scheme, meaning that it consolidated and simplified the terms of numerous previous Part VII schemes.

The 2017 Scheme also allowed for the transfer of annuity business from Aviva Investors Pensions Limited, as well as transferring the scheme provider role for the My Money Self-Invested Personal Pension, along with certain administration functions, to UKLAP and Aviva Pension Trustees UK Limited, respectively.

The 2017 Scheme has been amended subsequently, with changes to certain distribution arrangements (for which the 2017 Scheme expressly permits changes), and corrections to certain manifest errors (using the modification provisions of the 2017 Scheme).

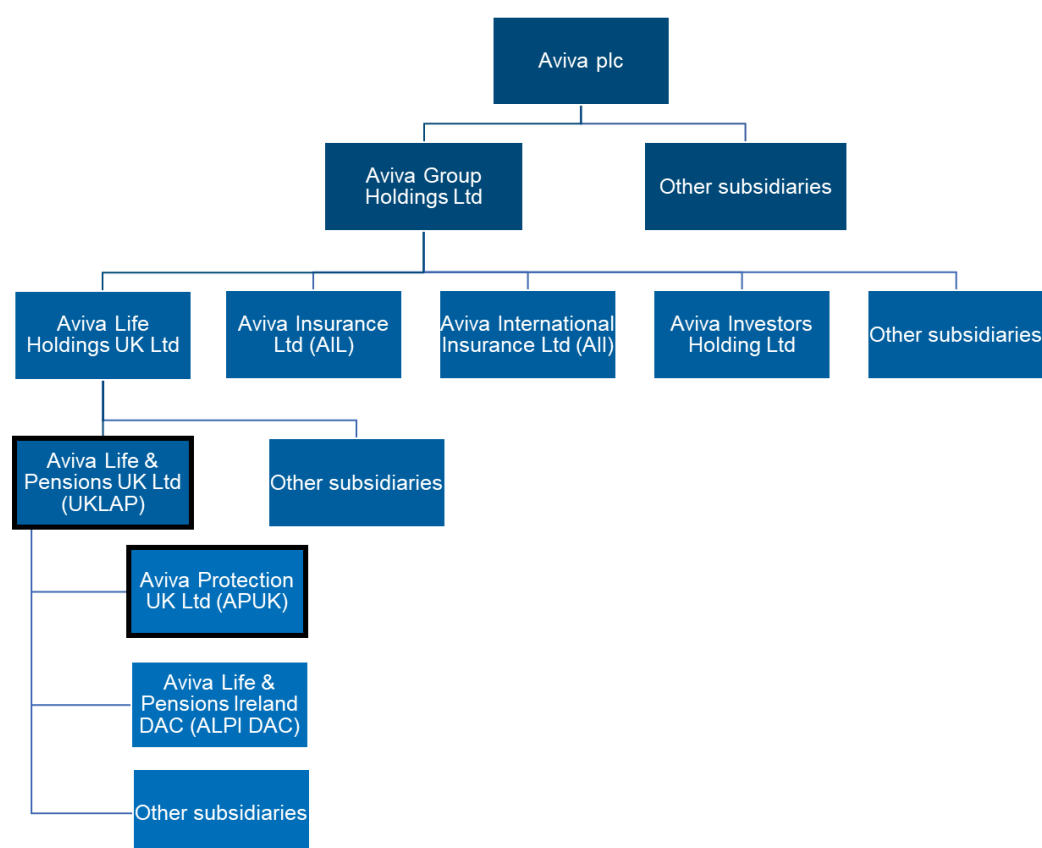
- The **Brexit Scheme**:

The transfer of certain long-term activities belonging to Irish and other EEA policies from UKLAP to Aviva Life & Pensions Ireland Designated Activity Company ("**ALPI DAC**"), with the transfer completed in March 2019.

## UKLAP'S GROUP STRUCTURE

5.11 A simplified view of the organisational group structure of UKLAP is shown in Figure 5.1 below:

**FIGURE 5.1: ORGANISATIONAL GROUP STRUCTURE OF UKLAP**



Source: confirmed by Aviva plc, summarised by Milliman.

5.12 As set out in Section 4, APUK is currently a direct subsidiary of UKLAP. Further information on APUK, as well as details of the planned integration of APUK into Aviva plc following its acquisition by UKLAP in April 2024, is provided in Section 4.

5.13 Additionally, UKLAP has other subsidiaries in the UK and Ireland. This includes ALPI DAC, a provider of life insurance and pension products in the Republic of Ireland.

5.14 Other notable subsidiaries of Aviva plc include:

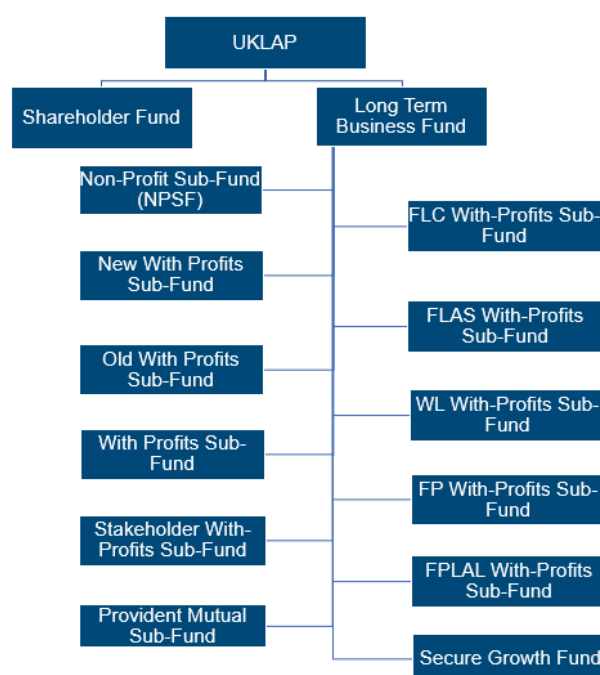
- Aviva Insurance Ltd (AIL), an entity that provides general and health insurance in the United Kingdom, and incorporated in Scotland.
- Aviva International Insurance Ltd (AII), an entity that acts as the reinsurance vehicle for companies within Aviva Group, and is incorporated in England and Wales. AII reinsures various different risk types across other business entities within Aviva Group.
- The entities acquired by Aviva plc as part of its acquisition of DLG on 1 July 2025 which write general insurance business. These entities became subsidiaries of AIL as part of this acquisition (not shown above in Figure 5.1).



## THE BUSINESS OF UKLAP

- 5.15 Aviva plc's key propositions include IWR, General Insurance and asset management services provided through Aviva Investors Holdings Limited. UKLAP forms part of the IWR proposition of Aviva plc, providing life insurance, pensions business and investment products. As mentioned in paragraph 5.4 above, as at 31 December 2024, UKLAP had approximately 17.4 million policies in force, including approximately 3.7 million individual protection policies and approximately 2.8 million group policies (on a policy lives basis, i.e. covered across approximately 10,000 group policies) within the NPSF.
- 5.16 Figure 5.2 below shows the fund structure of UKLAP covering the Shareholder Fund and the Long-Term Business Fund as described above.

**FIGURE 5.2: FUND STRUCTURE OF UKLAP**



Source: confirmed by Aviva plc, summarised by Milliman.

- 5.17 UKLAP transacts life assurance and long-term savings business and manages its insurance business within the Long Term Business Fund, which contains both non-profit and with-profits funds. The with-profits business (as well as some non-profit business) is held in 11 separate with-profits funds, as shown in Figure 5.2.
- 5.18 The majority of the non-profit business of UKLAP is managed within the NPSF. UKLAP's non-profit business includes a wide range of annuities, conventional non-profit and unit-linked business, including (but not limited to) the same product types held in APUK.
- 5.19 Figure 5.3 below shows the percentage breakdown of best estimate liabilities gross and net of reinsurance for UKLAP as at 31 December 2024. The NPSF contributes approximately 90% of UKLAP's BEL on a gross of reinsurance basis, with the remaining 10% from UKLAP's with-profits sub funds.

FIGURE 5.3: BREAKDOWN OF UKLAP'S BEL GROSS AND NET OF REINSURANCE AS AT 31 DECEMBER 2024

PRODUCT	TOTAL UKLAP	
	GROSS BEL	NET BEL
Total (£m)	261,010	251,860
Savings	7%	8%
Annuities	23%	23%
Individual protection	1%	0%
Group protection <sup>14</sup>	0%	0%
Pensions	68%	69%
Total	100%	100%

Source: provided by Aviva plc.

- 5.20 Internally, the NPSF is further divided into the Matching Adjustment Portfolio (“**MAP**”) and the “**Non-MAP**” (i.e. the remainder of the long-term business in the NPSF). The MAP contains certain eligible insurance liabilities, such as annuities, and long-term assets designed to back these liabilities. This allows UKLAP to make use of the Matching Adjustment for these liabilities under Solvency UK, which is an addition to the discount rate used for valuing the liabilities reflecting the proportion of the spread above the relevant risk-free rate that an insurer expects to earn on the assets backing those liabilities. This adjustment reduces the present value of liabilities, and so enhances the UKLAP solvency position. The Matching Adjustment is part of the Solvency UK regime, is an approach widely used in the UK insurance industry, and the use of the Matching Adjustment is subject to permission from the PRA.

#### UKLAP'S FINANCIAL POSITION

- 5.21 Figure 5.4 below shows the Solvency UK financial position of UKLAP at 31 December 2024, as well as the component of UKLAP's balance sheet that relates to APUK as a subsidiary.

FIGURE 5.4: SOLVENCY UK FINANCIAL POSITION OF UKLAP AS AT 31 DECEMBER 2024

OWN FUNDS	(£m)	
	UKLAP	Of which APUK
Total assets <sup>15</sup> (A)	353,175	345
BEL (B)	261,010	-
TMTP (C)	979	-
Risk Margin (D)	745	-
Technical Provisions (E = B – C + D)	260,776	-
Other liabilities (F)	81,584	-
Net assets (G = A – E – F)	10,816	345
Ring-fenced funds restriction (H)	1,730	-
Own Funds (I = G – H)	9,087	345
SCR (J)	5,540	118
Excess Own Funds (K = I – J)	3,546	N/A
Solvency Ratio (L = I / J)	164%	N/A

<sup>14</sup> UKLAP does hold a small amount of group protection business but these percentages are shown as 0% due to rounding.

<sup>15</sup> Total assets include investment assets, reinsurance recoverables and other assets.

Source: provided by Aviva plc.

- 5.22 The balance sheet values for APUK shown in Figure 5.4 above differ from those shown in Figure 4.3 in the previous section. APUK (as a subsidiary of UKLAP) is treated as an equity investment on UKLAP's Solvency UK balance sheet, and so APUK's Own Funds of £345 million are included as an asset. As an equity investment, APUK contributes £118 million to UKLAP's SCR, calculated in accordance with the Partial Internal Model.
- 5.23 UKLAP has regulatory permission to use the Matching Adjustment for a subset of its liabilities, as described in paragraph 5.20. UKLAP also has regulatory permission to use the Volatility Adjustment and TMTP. The impacts of all of these long-term guarantee measures are included in the UKLAP financial position shown in Figure 5.4 above.
- 5.24 As at 31 December 2024, the Own Funds of UKLAP consist entirely of Tier 1 capital<sup>16</sup>, which is the highest quality capital under the Solvency UK requirements.
- 5.25 As explained in paragraph 3.42, UKLAP's reported Solvency UK financial information is based on a Partial Internal Model, whereby UKLAP's business is valued using its PRA-permitted Internal Model but the consolidated UKLAP position includes insurance entities whose financial information is valued using the Solvency UK Standard Formula.
- 5.26 The calculation of UKLAP's SCR reflects the various reinsurance agreements in place, which are detailed below in paragraphs 5.36 to 5.39.

### UKLAP'S CAPITAL MANAGEMENT

- 5.27 UKLAP sets an SRA as a threshold for UKLAP's Solvency Ratio, the purpose of which is to manage the risk of breaching its regulatory capital requirements while pursuing strategic business objectives. When UKLAP's Solvency Ratio is below its SRA, management actions would be proposed with the aim of restoring the Solvency Ratio to the SRA level (or above).
- 5.28 The SRA is expressed as a percentage of SCR, and is calibrated to ensure UKLAP can meet its SCR in a 1-in-10-year stress.
- 5.29 There is guidance within Aviva Group on its risk appetite framework, which defines additional monitoring bands for UKLAP's Solvency Ratio (above and below the SRA), as well as the escalation process and actions, if any, to be taken if the Solvency Ratio is within each monitoring band.
- 5.30 UKLAP also has LRA statements for its policyholder funds (including the NPSF) and its shareholder fund. These are in place to ensure there is sufficient operational liquidity to continue to meet payments such as policyholder claims and operational costs under stressed conditions.
- 5.31 The SRA, together with the LRA and consideration of the level of distributable reserves, is the primary mechanism used by UKLAP to determine the ability to release excess assets to the shareholder as a dividend, subject to Board approval and no PRA objection. UKLAP's CMP sets out a framework for the monitoring and management of capital and conditions for payment of dividends.
- 5.32 The SRA is recalibrated (but not necessarily updated) at least annually as part of the regular review process. If there were to be a proposed material weakening of the SRA, this would need to be approved by the Board, after taking appropriate actuarial advice, as well as consulting with the With-Profits Committee ("WPC"), the PRA and the FCA. A material weakening includes a cumulative 5 percentage point reduction in the calibrated level (as a percentage of SCR) or a weakening of the calibration level (i.e. the 1-in-10-year level).
- 5.33 As at 31 December 2024, UKLAP was above its LRA and its Solvency Ratio was above its SRA.

### THE RISK PROFILE OF THE UKLAP NPSF

- 5.34 Figure 5.5 below shows the SCR of UKLAP NPSF as at 31 December 2024, split by risk category, on the UKLAP Internal Model basis.

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<sup>16</sup> As described in paragraph A.19-A.20, Solvency UK classifies capital into three tiers with Tier 1 being the highest quality. Firms must hold the majority of their Own Funds in Tier 1 capital, with proportional limits in place for the use of Tier 2 and Tier 3 capital.

**FIGURE 5.5: BREAKDOWN OF UKLAP NPSF'S SCR BY RISK CATEGORY AS AT 31 DECEMBER 2024**

RISK CATEGORY	PERCENTAGE OF SCR
<b>SCR</b>	<b>£4,254m</b>
Lapse risk	19%
Market and default risk	39%
Mortality and morbidity risk	3%
Operational risk	11%
Expense risk	13%
Longevity risk	15%
<b>Total (%)</b>	<b>100%</b>

Source: provided by Aviva plc.

- 5.35 In terms of SCR, the most material risk category for the UKLAP NPSF is market and default risk, in particular credit risk and risks relating to its portfolio of equity release mortgages and commercial mortgages. The UKLAP NPSF also has material exposure to lapse risk, longevity risk and expense risk.

### UKLAP'S REINSURANCE AGREEMENTS

- 5.36 UKLAP has a reinsurance agreement in place under which it cedes certain elements of its insurance business to All on a quota share basis. This agreement is known as the All Reinsurance Treaty, and it was put in place in 2016, with certain amendments and restatements made in 2020. Under the All Reinsurance Treaty, UKLAP cedes 30% of the liabilities held in the NPSF. The All Reinsurance Treaty automatically covers new contracts of long-term business allocated to the NPSF, with the exception of:
- Policies transferred to UKLAP, whether from within or outside of Aviva Group, by way of a Part VII Transfer; and
  - Policies previously written and allocated to a fund of UKLAP outside of the All Reinsurance Treaty.
- 5.37 Such policies may be ceded to All following agreement between UKLAP and All. In the expectation of both UKLAP and All, any such policies would be ceded unless there is a clear reason not to do so, and so in practice any such policies are ceded pursuant to the All Reinsurance Treaty following approval from All.
- 5.38 UKLAP also has various reinsurance agreements in place with multiple external reinsurers. These (together with the All Reinsurance Treaty), support UKLAP's new business strategy whilst managing balance sheet risk.
- 5.39 UKLAP uses various measures to define its counterparty credit risk limits that aim to ensure that losses from a single counterparty default are minimised. Higher limits are set for business units (such as APUK) to account for diversification.

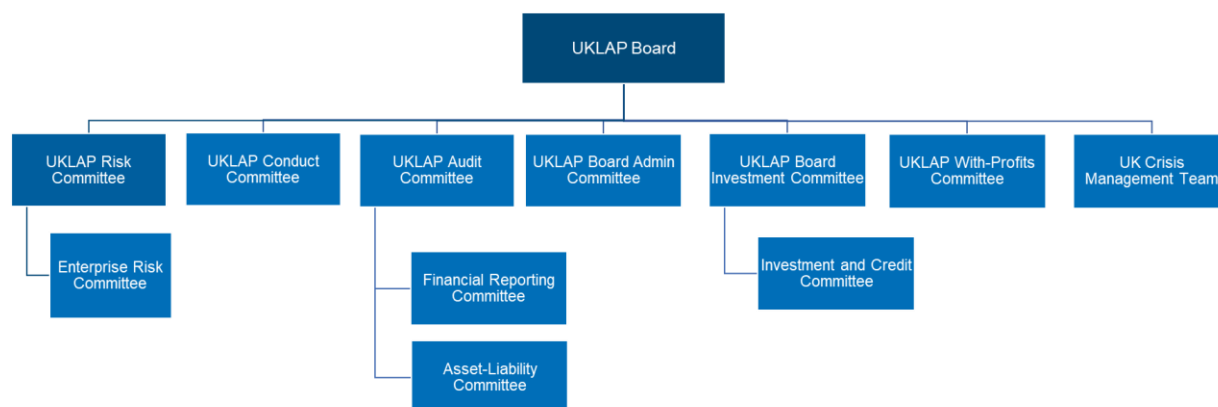
### THE ADMINISTRATION AND SERVICING OF UKLAP POLICIES

- 5.40 UKLAP utilises a combination of in-house professionals and outsourcing (with several outsourcing providers) for the administration and servicing of its policies, including those in the NPSF. These teams are separate from the teams that service the APUK policies.

### THE GOVERNANCE OF BUSINESS IN UKLAP

- 5.41 The Boards of each of Aviva plc's solo entities, including UKLAP, are responsible for promoting Aviva Group's shared goals, ensuring the Group risk appetite is met, and that there are appropriate risk governance systems in place for the entity.
- 5.42 Figure 5.6 below shows a simplified view of UKLAP's governance structure.

**FIGURE 5.6: GOVERNANCE STRUCTURE OF UKLAP**



Source: provided by Aviva plc.

5.43 The UKLAP Board is supported by a number of committees, including:

- **The Audit Committee.** The role of the Audit Committee is to review UKLAP's systems and controls relating to its financial reporting. The committee also oversees the internal audit function of UKLAP and liaises with external auditors.
- **The Conduct Committee.** The role of the Conduct Committee is to oversee conduct issues relating to UKLAP. The committee helps the Board to oversee the conduct framework applicable to BAU activities such as product design, selling practices and claims practices. The committee seeks to protect the brand and reputation of the Company by ensuring reputational risk is managed in line with the Board-approved risk tolerance.
- **The Investment Committee.** The role of the Investment Committee is to assess investment strategy policy in line with the risk appetite approved by the Board and the performance of the investment management functions. This role also involves oversight of UKLAP's relationship with related third parties such as investment managers and custodians.
- **The Risk Committee.** The role of the Risk Committee is to review the risk appetite and profile for UKLAP, and the effectiveness of the risk management framework. The committee performs reviews of key methodologies used by UKLAP, such as those used in calculating capital requirements and stress testing. It also monitors regulatory activities, as well as ensuring due diligence is performed in respect of significant business transactions.

5.44 These committees, and the Board, have responsibilities defined in their respective Terms of Reference. These terms of reference contain information on the decisions which only the Board can make, and decisions that can be made by the committees but must be reported to the Board.

## ASSET MANAGEMENT IN UKLAP

5.45 The majority of UKLAP's assets under management are currently managed by Aviva Investors. In particular, Aviva Investors manages all of the UKLAP investment portfolios into which the APUK assets would transfer if the proposed Scheme was implemented.

5.46 At 31 December 2024, UKLAP held a total of c. £272 billion of invested assets, approximately 88% of which were in relation to the NPSF. The most material asset classes include unit-linked assets (assets held in unit funds in respect of UKLAP's unit-linked business), bonds, loans, mortgages, property, equities and collective investments. UKLAP also held a small exposure to derivatives, making up c. 1% of total invested assets. For the avoidance of doubt, the c. £272 billion includes APUK's Own Funds of £345 million, which is classified as a subsidiary investment on the Solvency UK balance sheet of UKLAP.

## 6 The proposed Scheme

### THE MOTIVATION FOR THE PROPOSED SCHEME

- 6.1 As set out in Section 4, UKLAP acquired AIG LL from Corebridge Financial, Inc. with the transaction completing on 8 April 2024. The transaction was intended to increase Aviva Group's share of, and presence in, the UK market for long-term protection products. Since 8 April 2024, AIG LL has been operating as a wholly owned subsidiary of UKLAP and as a member of the wider Aviva Group. AIG LL was renamed APUK in February 2025.
- 6.2 The proposed transfer of business under the Scheme that is the subject of this Report is part of a wider programme of activity to integrate APUK into the Aviva Group. This integration will facilitate greater operational and capital efficiencies, as well as reductions in certain expenses, through more efficient financial reporting, governance and administration between APUK and UKLAP.
- 6.3 Following its acquisition of APUK (as AIG LL), it has been the intention of UKLAP to transfer the business of APUK into UKLAP through a transfer of business under Part VII of the FSMA. Alternative arrangements such as reinsuring the business into UKLAP or maintaining APUK as a standalone entity were considered and subsequently discounted, as the UKLAP Board decided that a Part VII Transfer would be the best way to realise the operational and capital efficiencies of the transaction whilst protecting the interests of the policyholders of APUK and UKLAP.

### THE PROCESS AND TIMETABLE OF THE PROPOSED SCHEME

#### The process and timetable for the proposed Scheme in the UK

- 6.4 In order to implement the proposed Scheme, the following process will apply:
- **Review by the Independent Expert and the UK regulators**

My role as Independent Expert is to assess the Scheme and to report on this (via this Report) to the High Court. My role and considerations are set out in Section 3 of this Report.

In addition, the UK regulators (the PRA and the FCA) will review the Scheme, approve the form of my Report, produce their own reports on the Scheme for consideration by the High Court and are entitled to appear at the High Court hearings.
  - **The Directions Hearing**

The Directions Hearing for the Scheme is scheduled for 16 July 2025. The proposed plan for notification of policyholders, including any waivers from contacting certain groups of policyholders, will be considered by the High Court at the Directions Hearing.
  - **Policyholder communications**

The Companies will send communication packs to applicable policyholders to set out details of the Scheme, a summary of the Independent Expert's assessment of the Scheme and details of how any policyholder who thinks they may be materially adversely affected by the Scheme can make representations to the High Court. Policyholder communications are scheduled to commence on 21 July 2025, and continue for 6 weeks (with 3 weeks of contingency), such that policyholders have at least 8 weeks to consider the Scheme ahead of the Sanction Hearing, which is longer than the minimum required by regulatory guidance (including allowing for the contingency).

I cover the policyholder communications in more detail in Section 9.
  - **Further review by the Independent Expert**

In advance of the Sanction Hearing, I shall produce my Supplementary Report that will update my conclusions from this Report in light of updated financial information, and any other new or updated information available at the time. I have set out outstanding areas of consideration at the time of finalising this Report in Section 11.
  - **The Sanction Hearing**

The Sanction Hearing for the Scheme is currently planned to take place on 26 November 2025. The High Court reviews the Scheme at the Sanction Hearing where the High Court also takes into account the views of the regulators, the Independent Expert, various statements by the parties to the transfer, and any objections raised by policyholders and other interested parties.

- **The Effective Date**

If the Scheme were to be sanctioned by the High Court, then the Scheme would take effect on the Effective Date. The Effective Date will be 31 December 2025, subject to a provision within the Scheme that allows APUK and UKLAP to delay the Effective Date until 31 March 2026 without the requirement of additional approval of the Court. In such a case, the Companies would notify the PRA and the FCA as soon as reasonably practicable.

The Effective Date of the Scheme will not be able to be deferred beyond 31 March 2026 without additional approval from the High Court.

- **The deauthorisation of APUK**

If the proposed Scheme were to be implemented, Aviva Group would consider making an application to the PRA to deauthorise APUK following the transfer of all of the long-term liabilities to UKLAP, and any remaining assets in APUK would transfer to UKLAP following such deauthorisation.

The timelines for the deauthorisation of APUK are not currently certain as it would depend on, for example, whether there are residual policies that cannot be transferred on the Effective Date (as described below in paragraph 6.22). The Companies would communicate any delays to the planned deauthorisation of APUK to the PRA.

For the avoidance of doubt, the deauthorisation of APUK is not part of the proposed Scheme.

## **The Jersey and Guernsey schemes**

6.5 In conjunction with the Scheme in the UK, separate schemes are required in Jersey and Guernsey to transfer any business carried on in or from within Jersey by APUK or the transfer of any policies issued by APUK to persons resident in Guernsey. As of 31 March 2025, there were approximately 4,500 APUK policyholders with a current address in Jersey and 2,400 APUK policyholders with a current address in Guernsey.

6.6 The Jersey Scheme and the Guernsey Scheme, pursuant to the relevant local law, would provide for the transfer of these policies substantively on the same terms as the proposed Scheme, and are expected to have the same effective date as the proposed Scheme, and would proceed only if the High Court in the UK were to sanction the proposed Scheme.

6.7 References to the Scheme should be taken to include the Jersey Scheme and the Guernsey Scheme unless otherwise stated. This Report and its conclusions apply equally to the Jersey Scheme and the Guernsey Scheme.

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

6.9 The implementation of the Scheme is not conditional on the approval of the Jersey Scheme or the Guernsey Scheme. The transfer of Guernsey and Jersey policies may take place only to the extent that the respective schemes have been sanctioned by the court in the respective jurisdictions. To the extent that the relevant local scheme were not to be approved by the relevant Court in Jersey or Guernsey, the relevant policies would become Residual Policies and would be reinsured to UKLAP until such time as they could be transferred to UKLAP.

6.10 The process in Jersey and Guernsey is similar to that in the UK, with the following differences:

- **The directions hearings**

The directions hearing is scheduled for 22 July 2025 for the Jersey Scheme. It should be noted that the legal process does not require a directions hearing in respect of the Guernsey Scheme and this is replaced with a regulatory review process.

- **The sanction hearings**

The sanction hearing for the Jersey Scheme is scheduled for 2 December 2025. At the time of writing, the proposed date of the sanction hearing for the Guernsey Scheme is 5 December 2025.

- **The transfer dates**

It is intended that both the Jersey Scheme and the Guernsey Scheme will have a transfer date (i.e. the date on which the relevant scheme becomes operative in accordance with its terms) coinciding with the Effective Date of the Scheme, i.e. 31 December 2025. However, if the transfer dates for either of these schemes fall after the Effective Date of the Scheme, the respective policies shall be reinsured to UKLAP until the eventual respective subsequent transfer dates.



- 6.11 This Report, as well as my Supplementary Report, will be provided to the Royal Court of Jersey and the Royal Court of Guernsey to assist in their deliberations in respect of the Jersey Scheme and the Guernsey Scheme, respectively.

### Other jurisdictions

- 6.12 APUK has received legal advice from Appleby (Isle of Man) LLP that a parallel scheme is not required in the Isle of Man.
- 6.13 Pinsent Masons has consulted with local counsel in Gibraltar and has advised the Companies that a parallel scheme is not required in Gibraltar as these policies are capable of being transferred to UKLAP under the proposed Scheme in the UK.

## A SUMMARY OF THE PROPOSED SCHEME

### The key features of the Scheme

- 6.14 If the proposed Scheme were to be implemented then the principal effect would be the transfer of all of APUK's business (the **"Transferring Business"**) to UKLAP. As described in Section 4, this business comprises (as at 31 December 2024):
- Approximately 1.3 million individual protection policies; and
  - Approximately 15,000 group protection policies, covering approximately 1.2 million group protection members.
- 6.15 The Transferring Business would therefore have constituted approximately 13% of the policy count of UKLAP (or 28% of UKLAP's protection business, both on a policy lives basis) and approximately 0.2% of the BEL of UKLAP on a gross of reinsurance basis if the Scheme had been implemented as at 31 December 2024.
- 6.16 As mentioned in paragraph 4.20, a small number of APUK's sales channels remain open to new individual protection business (covering all lines of individual protection business). For the avoidance of doubt, the Transferring Business includes any new business sold via these channels until the Effective Date.
- 6.17 The policies included in the Transferring Business are referred to in this Report as the **"Transferring Policies"**. The holders of these policies are referred to in this Report as the **"Transferring Policyholders"**<sup>17</sup>.
- 6.18 On the Effective Date of the Scheme, the assets and liabilities associated with the Transferring Business (the **"Transferring Assets"** and **"Transferring Liabilities"**, respectively) would be transferred from APUK to UKLAP, specifically into the non-MAP of the NPSF within UKLAP. The Transferring Assets and Transferring Liabilities are broadly all of APUK's assets and liabilities respectively, with the following exceptions:
- A small amount of assets will be retained in APUK to cover the Minimum Capital Requirement (**"MCR"**) of APUK, until such time as it may be deauthorised; and
  - Liabilities that cannot be transferred for legal reasons (detailed in paragraph 6.22 below).
- 6.19 The Transferring Assets include service agreements held by APUK with strategic partners that distribute policies written by APUK on its behalf. As mentioned in paragraph 4.20, some of these sales channels may still be open beyond the Effective Date. Under the proposed Scheme, given these service agreements would transfer to UKLAP, any new business written via these sales channels would become policies of UKLAP.
- 6.20 The proposed Scheme would also effect the transfer of the current external reinsurance agreements applicable to the Transferring Business (described in paragraph 4.42) from APUK to UKLAP to cover the same business as currently. These agreements would not be extended to cover any of the existing UKLAP business.
- 6.21 Alongside this transfer of business, the Companies intend to implement the following additional changes if (and only if) the proposed Scheme were to be implemented (these changes are not part of the Scheme itself):
- The liabilities of the Transferring Policies, net of other reinsurance, would be ceded to All (with the same 30% quota share) under the All Reinsurance Treaty (with an appropriate premium paid by All<sup>18</sup>). This will require

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<sup>17</sup> For the avoidance of doubt, the Transferring Policyholders in respect of the group policies are the employers and not the lives insured under those group policies.

<sup>18</sup> This reinsurance premium will be paid by All to UKLAP, rather than paid by UKLAP to All, as the Transferring Business has a negative BEL (net of the existing external reinsurance agreements).



approval from All as set out in paragraph 5.37, a process that is expected to be undertaken in the second half of 2025 (ahead of the Effective Date).

- The SCR and Risk Margin for the Transferring Business would be valued for Solvency UK reporting purposes using UKLAP's Internal Model. This process requires notification only to the PRA.
- Customer communications would be updated to refer to UKLAP, and customer contact points (e.g. the APUK website) will also be updated to reflect the implementation of the Scheme.
- As mentioned in paragraph 4.31, a loan facility was provided by UKLAP to APUK with a borrowing limit of £150 million. In Q1 2025, this loan facility was extended until Q1 2026, but for a lower borrowing limit of £135 million. The purpose of this loan facility is to support APUK's liquidity management. If the proposed Scheme were to be implemented upon the planned Effective Date of 31 December 2025, this loan facility would no longer be required and therefore the loan facility would not be used beyond this Effective Date (and would not be extended further).

### Other relevant aspects of the Scheme

6.22 The Scheme contains many provisions covering different aspects of the proposed transfer, and I have not sought to list every provision in this Report. Some of the other provisions of note are:

- Provisions to allow for policies that, for some legal reason, are not able to be transferred to UKLAP on the Effective Date ("**Residual Policies**") to subsequently be transferred at a later date under the Scheme.

Examples of possible Residual Policies are:

- The Jersey and Guernsey policies if the transfer date for either of the Jersey Scheme or the Guernsey Scheme, respectively, falls after the Effective Date of the Scheme, as described in paragraph 6.10.
- Any policies subject to sanctions at the Effective Date, which cannot legally transfer. At the time of writing, there are currently no policies subject to sanctions.

With the exception of policies subject to sanctions, Residual Policies would be covered by a reinsurance agreement (the "**Residual Policies Reinsurance Agreement**") until they are able to be transferred.

- Provision to allow for certain policies to be excluded from the transfer to UKLAP ("**Excluded Policies**"). There are currently no Excluded Policies expected under the Scheme.
- Future transactions (such as payments, costs, etc.) that would currently be met by APUK in respect of the Transferring Assets and Transferring Liabilities will instead be met by UKLAP. For the avoidance of doubt, any liabilities that arise after the Effective Date as a result of mis-selling or administration errors performed by APUK prior to the Effective Date will transfer to UKLAP post-Scheme.
- The transfer of all rights, liabilities and obligations of relevant data protection legislation that relate to the Transferring Business to UKLAP.
- Various provisions around proceedings by/against/or in relation to APUK, and provisions whereby UKLAP would indemnify APUK against losses on the Transferring Policies and Residual Policies (and associated expenses).
- Where APUK currently grants rights/options on the Transferring Policies or Residual Policies that provide for a new, additional or replacement policy, UKLAP is entitled to offer as an alternative the nearest equivalent policy and this is the case whether or not the Scheme is implemented.

The Scheme includes provisions for the process for settling on "nearest equivalent" terms, including that the UKLAP Board is satisfied that this will not have a material adverse effect on the policyholder or treat them unfairly, and will not lead the policyholder to incur an increased tax liability.

- Provisions to allow amendments to the sanctioned Scheme as follows:
  - Certain amendments may be made without requiring consent of the High Court, including minor or technical amendments and those necessary to reflect changes in generally accepted actuarial practices, because of changes in regulatory requirements or law, or to protect the rights and reasonable expectations of the policyholders.
  - Other amendments would require approval of the High Court with a certificate from an independent actuary, specified prior notice to the regulators and a right for them to be heard at any related High Court Hearing.

- 6.23 Similarly, in respect of the Jersey Scheme and the Guernsey Scheme, UKLAP would be able to make certain amendments to these schemes without requiring the consent of the relevant Courts. Such amendments would include minor or technical amendments and those necessary to reflect changes in generally accepted actuarial practices, because of changes in regulatory requirements or law, or to protect the rights and reasonable expectations of the policyholders. Such amendments would require notification to the Jersey Financial Services Commission or Guernsey Financial Services Commission, as appropriate. Other amendments would require approval of the relevant Court with a certificate from an independent actuary, specified prior notice to the Jersey Financial Services Commission or Guernsey Financial Services Commission (as appropriate) and a right for them to be heard at any related Court Hearing.

#### **THE CURRENT SCHEMES APPLICABLE TO THE COMPANIES**

- 6.24 There are no past Part VII Transfer schemes applicable to APUK, but there is the portfolio transfer agreement that transferred the Ellipse business to APUK (then AIG LL) under German law. UKLAP's external legal adviser, Pinsent Masons, has confirmed that there are no provisions of the portfolio transfer agreement that currently govern the ongoing management of the Ellipse business transferred to APUK, or that would have an impact on this proposed Scheme.
- 6.25 UKLAP has been subject to past schemes as detailed in paragraph 5.10. Considering these, and as confirmed by Pinsent Masons:
- The 2017 Scheme (as subsequently amended) has provisions that govern the ongoing operation of the current business of UKLAP, including the business of the NPSF. If the proposed Scheme were to be implemented, the Transferring Business would be transferred into the NPSF, and so certain provisions of the 2017 Scheme would also apply to the Transferring Business. I cover these provisions, and my consideration of their likely impact, in Section 10.
  - The Brexit Scheme transferred business out of UKLAP and so there are no interactions with this proposed Scheme. In particular, the Brexit Scheme does not contain any provisions that are relevant to the ongoing management of the Transferring Business once it has been transferred into the NPSF.

#### **THE COSTS OF THE PROPOSED SCHEME**

- 6.26 All costs in relation to the Scheme, including the costs associated with the Independent Expert, will be met by the UKLAP NPSF.

## 7 The effect of the proposed Scheme on the transferring APUK policies

### INTRODUCTION

- 7.1 In this section, I consider the effect of the implementation of the proposed Scheme on the policies that would be transferred from APUK, i.e. the Transferring Policies, and the holders of these policies. The Transferring Business consists of both individual and group protection policies. Full details of the different APUK product types are given in Section 4.
- 7.2 Given the similarities between the different product types, I do not consider it necessary to sub-divide my analysis into different groups for the Transferring Policies. However, where an effect of the Scheme applies to only a certain product type, I have commented on this explicitly.
- 7.3 In my role as Independent Expert, I should consider the likely effects of the proposed Scheme on the Transferring Policies in respect of:
- The security of the benefits to which policyholders are entitled under the terms and conditions of their policies;
  - The reasonable expectations of policyholders in respect of their benefits; and
  - The standards of administration, servicing, management, and governance applicable to the policies.
- 7.4 I consider these aspects in turn below with my conclusions at the end of this section.

### THE SECURITY OF POLICYHOLDER BENEFITS UNDER THE TRANSFERRING POLICIES

#### Introduction

- 7.5 For the Transferring Policies, the security of the benefits is currently, prior to the implementation of the proposed Scheme, primarily derived from the financial strength of APUK and in particular:
- The assets covering the Technical Provisions and SCR of APUK, as required under the Solvency UK regulations;
  - The additional financial strength required by the Target Capital and CMP for APUK. This includes the strength of the governance and processes in respect of enforcement of, and making changes to, the Target Capital and the CMP;
  - The reinsurance agreements covering the APUK business; and
  - Any additional support available from outside of APUK.
- 7.6 If the proposed Scheme were to be implemented, then the Transferring Policies would be transferred to the NPSF within UKLAP and responsibility for the payment of benefits when due would move to UKLAP and therefore the security of the benefits for these policies would then be provided by:
- The assets covering the Technical Provisions and SCR of the NPSF in UKLAP, as required under the Solvency UK regulations;
  - The additional financial strength required by the SRA and CMP for UKLAP. This includes the strength of the governance and processes in respect of the enforcement of, and making changes to, the SRA and CMP;
  - The reinsurance agreements applicable to the NPSF, including those covering the Transferring Business; and
  - Any additional support available from outside of the NPSF, both within UKLAP and from the wider Aviva Group.
- 7.7 I cover these aspects in turn below, as well as the effect of the proposed Scheme on the risk profile to which the Transferring Policies are exposed.

#### The financial strength provided by the Solvency UK Technical Provisions, SCR and Own Funds

- 7.8 If the proposed Scheme were to be implemented then the Transferring Business would remain in the UK and would remain under the rules of Solvency UK, and under the regulation of the PRA and the FCA.

- 7.9 Figure 7.1 below shows the effect of the implementation of the proposed Scheme on the Own Funds and SCR of the Transferring Business if the Scheme had been implemented on 31 December 2024, net of the All Reinsurance Treaty. That is, it shows the change in the valuation of the business from a standalone basis in APUK to the valuation of the business once transferred to the UKLAP NPSF, if the proposed Scheme had been implemented on 31 December 2024. The pro forma post-Scheme position of UKLAP is also shown for reference.
- 7.10 If the proposed Scheme were to be implemented then the Transferring Business would be part of the NPSF within UKLAP and would not be valued on a standalone basis, and so these figures are shown for illustrative purposes to demonstrate the impacts. The impact of the Scheme on the financial position of UKLAP is considered in Section 8.

**FIGURE 7.1: VALUATION OF THE TRANSFERRING BUSINESS PRE AND POST-SCHEME AS AT 31 DECEMBER 2024**

(£m)	VALUATION OF TRANSFERRING BUSINESS WITHIN APUK PRE-SCHEME	VALUATION OF TRANSFERRING BUSINESS WITHIN UKLAP POST-SCHEME <sup>19</sup>	FINANCIAL POSITION OF UKLAP (PRO FORMA POST- SCHEME)
Own Funds (A)	345	407	9,148
SCR (B)	203	93	5,515
<b>Excess Own Funds (C = A – B)</b>	<b>142</b>	<b>315</b>	<b>3,634</b>

Source: provided by Aviva plc, summarised by Milliman.

- 7.11 In respect of the Own Funds for the Transferring Business, Figure 7.1 shows that the inclusion of the Transferring Business within UKLAP would contribute approximately £407 million to its Own Funds. As mentioned in paragraph 5.22, valued as a subsidiary, APUK currently contributes approximately £345 million to the Own Funds of UKLAP.
- 7.12 The implementation of the proposed Scheme would further increase the Own Funds of UKLAP by approximately £61 million (allowing for rounding). This net increase is a result of:
- As mentioned in paragraph 5.23, UKLAP currently has regulatory permission to apply the Volatility Adjustment in respect of its business. UKLAP intends, if the Scheme were to be implemented, to apply the Volatility Adjustment to the Transferring Business. This would reduce the BEL of this business and therefore increase the Own Funds of UKLAP.
  - A reduction in the Risk Margin (and so increase in Own Funds) owing to the reduction in the SCR described in paragraphs 7.13 to 7.19 below.
  - A tax benefit in which a restriction to a deferred tax asset within APUK would no longer apply within UKLAP and could be used to offset its deferred tax liability.
  - A reduction in Own Funds arising from the application of the All Reinsurance Treaty to the Transferring Business, comprising:
    - A reinsurance premium payable by All, which increases Own Funds. This premium is payable by All, rather than to All, because the BEL (net of external reinsurance) in respect of the Transferring Business is negative.
    - An offsetting increase in Technical Provisions allowing for the application of the All Reinsurance Treaty, which is a 30% quota share. This decreases Own Funds.
- 7.13 In line with regulatory guidance for Part VII Transfers, UKLAP does not intend to seek regulatory permission to apply the TMTP in respect of the Transferring Business, given that the TMTP applied by APUK in respect of the Transferring Business is zero.
- 7.14 With the exception of the application of the Volatility Adjustment, the implementation of the proposed Scheme would not lead to any changes in the methodology or basis for calculating the BEL for the Transferring Business. The gross (of reinsurance) BEL in respect of the Transferring Business would therefore be otherwise unchanged.

<sup>19</sup> It should be noted that Figure 7.1 shows the valuation of the Transferring Business within UKLAP post-Scheme, but does not show the overall impact of the Scheme on UKLAP, which is shown in Figure 8.1. In particular, if the Scheme were to be implemented, UKLAP would remove APUK as a subsidiary, offsetting the impact shown in Figure 7.1.

However, the net BEL in respect of the Transferring Business would increase (become less negative) owing to the application of the All Reinsurance Treaty to the Transferring Business.

- 7.15 The SCR for the Transferring Business is currently (i.e. as part of APUK) calculated under the Standard Formula and was £203 million as at 31 December 2024. If the proposed Scheme were to be implemented, then the SCR in respect of the Transferring Business would, following a notification to the PRA, be calculated using the UKLAP Internal Model along with the SCR in respect of the existing business of UKLAP.
- 7.16 UKLAP has indicated that it will review the calibration of the life catastrophe risk in light of the extra exposure from APUK's group business to ensure that this would remain appropriate for the combined business if the proposed Scheme were to be implemented. However, it should be noted that life catastrophe risk contributed less than 3% towards UKLAP's SCR if the Scheme had been implemented as at 31 December 2024. The Chief Actuary of UKLAP has confirmed to me that the current calibration of this risk remains appropriate for the Transferring Business post-Scheme.
- 7.17 The UKLAP finance and actuarial team has calculated the likely effects of the change to the SCR of UKLAP, and therefore on the capital that would be held in respect of the UKLAP business as a whole, as a result of the implementation of the proposed Scheme and the transfer of the Transferring Policies.
- 7.18 These calculations indicate that (as shown in Figure 7.1) the inclusion of the Transferring Business within the NPSF would increase UKLAP's SCR by £93 million (net of the additional reinsurance through the All Reinsurance Treaty) if the Scheme had been implemented on 31 December 2024, allowing for the adoption of the UKLAP Internal Model for the Transferring Business post-Scheme.
- 7.19 The increase of £93 million to UKLAP's SCR as at 31 December 2024 is not directly comparable to the pre-Scheme standalone SCR of £203 million for the Transferring Business. In particular, the differences between these figures include:
- An unwind of diversification benefits<sup>20</sup> currently allowed for in the Standard Formula calculation for the standalone Transferring Business as part of APUK.
  - A small decrease due to the adoption of the UKLAP Internal Model instead of the Standard Formula, as described in paragraph 7.15.
  - A small decrease in the SCR due to an increase in the loss absorbing capacity of deferred tax ("LACDT"), which offsets an additional deferred tax liability from the increase in Own Funds.
  - An additional diversification benefit as the APUK business would be part of the much larger NPSF within UKLAP, which has a more diverse risk profile than APUK alone<sup>21</sup>.
  - An additional reduction as a result of the inclusion of the liabilities of the Transferring Policies in the All Reinsurance Treaty<sup>22</sup>.
- 7.20 Taking account of all of the above, I am satisfied that the calculation of the SCR in respect of the Transferring Business in UKLAP compared with in APUK would not have a material adverse effect on the security of benefits for the Transferring Policies.
- 7.21 I understand the reasons for the difference in the SCR in respect of the standalone Transferring Business pre-Scheme and the impact of the UKLAP SCR post-Scheme as at 31 December 2024 as set out in paragraph 7.19 and I can confirm the Companies have answered my queries in respect of this difference.
- 7.22 It should be noted that the increase of £93 million to the UKLAP SCR shown in Figure 7.1 does not represent the capital that would be held by UKLAP to support the Transferring Business in isolation (in particular, as a result of the aforementioned diversification benefits). Under Solvency UK, the SCR is calculated at the entity level, rather than for each segment of business. Therefore, if the Scheme were to be implemented, the financial security of the

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<sup>20</sup> Diversification benefits arise when different types of risks are combined because risks do not necessarily materialise at the same time or to the same extent, or different risks may have offsetting impacts when they arise. This reduces the overall level of risk. I cover diversification further in Appendix A.

<sup>21</sup> I commented on the risk profiles of APUK and UKLAP in paragraphs 4.40 and 5.35 respectively. In particular, it should be noted that UKLAP has a larger proportional exposure to longevity risk and market and default risk than APUK.

<sup>22</sup> It should be noted that the All Reinsurance Treaty transfers risk from UKLAP to All. Therefore, while the SCR of UKLAP decreases as a result of the All Reinsurance Treaty, the SCR of All increases, partially offsetting the impact on the capital held across the Aviva Group as a whole. I comment on the financial impact on All in paragraphs 10.33 to 10.36.

Transferring Policies post-Scheme would be derived from the overall financial position of UKLAP and I consider the financial position of UKLAP below.

- 7.23 Figure 7.2 below shows the pre-Scheme Solvency UK balance sheet of APUK, and the pro forma post-Scheme Solvency UK balance sheet of UKLAP if the Scheme had been implemented on 31 December 2024.

**FIGURE 7.2: APUK'S PRE-SCHEME AND UKLAP'S PRO FORMA POST-SCHEME BALANCE SHEETS AS AT 31 DECEMBER 2024**

(£m)	APUK (PRE-SCHEME)	UKLAP (PRO FORMA POST-SCHEME)
<b>Own Funds (A)</b>	345	9,148
<b>SCR (B)</b>	203	5,515
<b>Excess Own Funds (C = A – B)</b>	142	3,634
<b>Solvency Ratio (D = A / B)</b>	<b>170%</b>	<b>166%</b>

Source: provided by Aviva plc.

- 7.24 The Solvency Ratio is the ratio of the Own Funds to SCR, and so provides an indication of the funds available to meet the Solvency UK regulatory capital requirement.
- 7.25 Figure 7.2 above shows that, if the proposed Scheme had been implemented on 31 December 2024, the Transferring Policies would have been transferred from APUK with a Solvency Ratio of 170% to UKLAP which, after allowance for the implementation of the proposed Scheme, would be expected to have a Solvency Ratio (including the Transferring Business) of 166%. This is a small change in the Solvency Ratio for the Transferring Policies and indicates that, if the proposed Scheme were to be implemented, there would not be a material adverse effect on the financial security provided to the Transferring Policies by the financial strength of UKLAP compared to that provided currently by the financial strength of APUK.
- 7.26 Furthermore, as at 31 December 2024, APUK's Solvency Ratio was below its Target Capital (though within risk appetite for APUK in the context of its other solvency thresholds), while UKLAP's Solvency Ratio was above its SRA and would have remained above its SRA if the proposed Scheme had been implemented on 31 December 2024. Both the APUK Target Capital and UKLAP SRA are calibrated to ensure each company can meet its SCR in a 1-in-10-year stress scenario. The Transferring Business would therefore be transferred from a company holding less than the amount needed at the 1-in-10-year level (APUK), to a company holding more than the amount needed at the 1-in-10-year level (UKLAP). This indicates that there would be an increase (albeit a small one) in the financial strength that provides security of benefits for the Transferring Policies.
- 7.27 Any excess capital above the UKLAP SRA could be deployed or paid out as dividends, subject to UKLAP Board approval. Therefore, reliance should not be placed on the current excess capital above the SRA. However, the above conclusion still stands that the Transferring Business would have experienced an increase in financial strength relative to the 1-in-10-year capital buffer if the proposed Scheme had been implemented as at 31 December 2024.
- 7.28 Further consideration of the respective capital management of APUK and UKLAP is covered in paragraphs 7.32 to 7.37.
- 7.29 If the proposed Scheme were to be implemented then the inclusion of the Transferring Business within the All Reinsurance Treaty would not have a material impact on UKLAP's financial position and UKLAP would be compliant with its SRA without this reinsurance being applied to the Transferring Business. As a result, I am satisfied that there is no dependency of the proposed Scheme on the All Reinsurance Treaty being applied to the Transferring Business.
- 7.30 Taking account of the above, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the financial strength provided by the Solvency UK Technical Provisions and the required capital requirement (the SCR) for the Transferring Policies.
- 7.31 My analysis above considers UKLAP as a whole, as this is how UKLAP's financial information is reported. I have also been provided with a similar analysis considering the NPSF only, and my conclusions above are unchanged based on this additional information.

## The financial strength provided by the capital management policies of the Companies

- 7.32 APUK and UKLAP both have a CMP in place which defines the appropriate and effective use of capital across the business within risk management limits. I described the capital management of APUK and UKLAP in detail in Section 4 and in Section 5, respectively.
- 7.33 The current capital management approaches of APUK and UKLAP have the following similarities:
- Both Companies hold a capital buffer above their respective SCRs to ensure they can meet their regulatory capital requirements in future adverse scenarios; for APUK this is the Target Capital, and for UKLAP this is the SRA. For both of the Companies, this capital buffer is calibrated to ensure the company can meet its regulatory capital requirements in a 1-in-10-year stress scenario. Differences in the calibration of APUK's Target Capital and UKLAP's SRA are discussed further in paragraphs 7.34 to 7.36 below.
  - As part of their risk management frameworks, both APUK and UKLAP define additional solvency thresholds/monitoring ranges that determine the actions, if any, to be taken in the event that the Solvency Ratio crosses each threshold/falls within in the range. While these specific thresholds/ranges and actions differ between the Companies, they have the same broad structure and the differences allow for the difference in company profile and the management actions available to them.
  - APUK's CMP requires that any changes to the Target Capital, solvency thresholds or management actions are approved by the APUK Board, while UKLAP's SRA only requires approval from the UKLAP Board if there is a material weakening. However, a material weakening includes a cumulative 5 percentage point reduction in the calibrated level of the SRA, and so in practice only small changes can be made without Board approval.
- 7.34 While both of the Companies aim to maintain a capital buffer above the SCR that ensures it can meet its solvency capital requirements after a 1-in-10-year stress event, APUK's Target Capital and UKLAP's SRA are calibrated as different percentage of SCR. This is not uncommon in the UK life insurance industry for the following primary reasons:
- The level of capital required to withstand a 1-in-X-year stress will depend on the underlying risk profile, which will differ from company to company.
  - Risk calibration methodologies generally differ between companies<sup>23</sup>. Therefore, even if the risk profile were identical for two distinct companies, the capital required to withstand a 1-in-X-year stress would be expected to vary by firm. An example of this is the difference in the SCR for the Transferring Business once the UKLAP Internal Model calibration is adopted post-Scheme, as described above.
- 7.35 This difference in calibration means that, while APUK reported a Solvency Ratio of 170% and UKLAP reported a Solvency Ratio of 164% (pre-Scheme as at 31 December 2024):
- For APUK, this was below its Target Capital, though within risk appetite; and
  - For UKLAP, this was above its SRA.
- 7.36 I am satisfied that, if the proposed Scheme were to be implemented, the Transferring Policies would remain subject to a capital buffer designed to ensure regulatory capital requirements can be met after a 1-in-10-year stress event. I am therefore satisfied that the differences between APUK's Target Capital and UKLAP's SRA would not result in a material reduction in the financial strength available to support the security of benefits under the Transferring Business.
- 7.37 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the financial strength provided by the CMPs (and wider capital management tools) as security for the benefits under the Transferring Policies.

## The applicable reinsurance agreements for the Transferring Business

- 7.38 If the proposed Scheme were to be implemented, the Transferring Business would be covered by the following reinsurance agreements:
- Various existing external reinsurance agreements as described in paragraph 4.42.

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<sup>23</sup> The notable exception to this is that the firms applying the Standard Formula for a risk calibration will generally have the same calibration due to the prescribed nature of this methodology.



There would be no change to these agreements as part of the transfer, other than they would be transferred from APUK to UKLAP.

- The internal reinsurance agreement (the All Reinsurance Treaty) currently in place between UKLAP and All, which will reinsure 30% of the liabilities of the Transferring Policies (net of external reinsurance agreements) subject to approval from All (with an appropriate premium paid by All<sup>24</sup>).

This approval process for All to accept the Transferring Policies under the All Reinsurance Treaty is expected to be undertaken in the second half of 2025 (ahead of the Effective Date), and I shall provide an update on this in my Supplementary Report.

- 7.39 The reinsurance agreements applicable directly to the Transferring Policies would therefore be unchanged, other than the addition of the transferred in APUK business to the current All Reinsurance Treaty. While this additional reinsurance would increase the net BEL, it also mitigates the risks associated with the business and thus reduces the SCR.
- 7.40 Furthermore, if the proposed Scheme were to be implemented then the solvent financial position of UKLAP would not depend on the extension of the All Reinsurance Treaty to cover the Transferring Business and, in the absence of this extension, the Solvency Ratio of UKLAP would not be materially changed.
- 7.41 While the external reinsurance agreements would be unchanged by the implementation of the proposed Scheme and would continue to cover the Transferring Policies, any proceeds from claims under these reinsurance agreements would support the financial position of the NPSF (and all business within it), as opposed to supporting only the APUK policies as they do currently.
- 7.42 Conversely, the existing (and more diverse) range of external reinsurance agreements that are currently in place for the NPSF currently improve the financial stability of the NPSF and therefore the Transferring Policies would benefit from these reinsurance agreements post-Scheme, although these reinsurance treaties would not be directly applicable to the Transferring Business.
- 7.43 If the proposed Scheme were to be implemented, the reinsurance risk appetite limits for the NPSF would be monitored on the UKLAP basis, and not the current APUK basis described in paragraph 4.45. Under the UKLAP basis the combined business would not breach the current risk appetite limits.
- 7.44 Additional monitoring has been put in place in respect of the combined APUK and UKLAP reinsurance counterparty exposures to ensure these would continue to be supportable if the proposed Scheme were to be implemented. I shall provide an update on this monitoring in my Supplementary Report.

#### **The additional support available to Transferring Policies**

- 7.45 APUK is a company within Aviva Group, and a subsidiary of UKLAP. The Transferring Policies therefore already benefit from parental support from UKLAP, and support from the wider Aviva Group. Recently, support was provided to APUK to address a fall in its Solvency Ratio following the termination of its reinsurance agreements with AIRCO, and a further capital injection mechanism is currently in place to support the financial position of APUK in the event of interest rates falling. It should be noted that parental support from UKLAP or the rest of Aviva Group is not guaranteed, and this would continue to be the case if the Scheme is not implemented.
- 7.46 If the proposed Scheme were to be implemented, the Transferring Policies would become policies of the NPSF within UKLAP, and so these capital injection mechanisms would become redundant. Instead, support would be provided implicitly within the NPSF. In addition, the transfer to the NPSF realises diversification benefits and allows the Transferring Policies to be covered by the All Reinsurance Treaty. Both of these aspects would be expected to reduce the volatility of the SCR relative to the current standalone basis, and so reduce the likely need for explicit support for the business.
- 7.47 Furthermore, if the proposed Scheme were to be implemented, the Transferring Policies would continue to benefit from support from the wider Aviva Group as they do currently, except as policies of UKLAP rather than as policies of APUK. However, it should be noted that, as is the case pre-Scheme, such support would not be guaranteed to be provided from Aviva Group.

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<sup>24</sup> As explained in paragraph 6.21, this reinsurance premium will be paid by All to UKLAP, rather than paid by UKLAP to All, as the Transferring Business has a negative BEL (net of the existing external reinsurance agreements).



## The risk profile to which the Transferring Policyholders are exposed

- 7.48 Figure 7.3 below shows the SCR split by risk category of APUK on a Solvency UK Standard Formula basis, and of the UKLAP NPSF on the UKLAP Internal Model basis, both as at 31 December 2024.

FIGURE 7.3: BREAKDOWN OF APUK AND UKLAP NPSF'S SCR BY RISK CATEGORY AS AT 31 DECEMBER 2024

RISK CATEGORY	PERCENTAGE OF SCR	
	APUK	UKLAP NPSF
SCR (£m)	203	4,254
Lapse risk	39%	19%
Market and default risk	18%	39%
Mortality and morbidity risk	14%	3%
Operational risk	16%	11%
Expense risk	12%	13%
Longevity risk	1%	15%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: provided by Aviva plc.

- 7.49 As shown in Figure 7.3:
- APUK is currently exposed to a range of risks categories, though with a significant exposure (more than 50% undiversified) to life underwriting risk as defined under the Solvency UK Standard Formula. The dominant risk is lapse risk and, as at 31 December 2024, the risk of a mass lapse in particular.
  - The UKLAP NPSF is significantly larger than APUK and is exposed to a more diverse range of risks. The most material risk category for the UKLAP NPSF is market and default risk, in particular credit risk and risks relating to its portfolio of equity release mortgages and commercial mortgages. The UKLAP NPSF also has a significant longevity risk exposure in comparison to the negligible longevity exposure for APUK.
- 7.50 From the perspective of the Transferring Policies, if the proposed Scheme were to be implemented, the broader exposure of the UKLAP NPSF to different risks would only have a material adverse effect on the security of benefits for the Transferring Policies if these broader risks resulted in an extreme deterioration in the financial strength of UKLAP. This deterioration would need to be severe enough to prevent UKLAP from supporting the guaranteed benefits of the Transferring Policies. Considering this:
- UKLAP holds capital in accordance with the UKLAP SRA, which provides a buffer against the risks to which the NPSF and other UKLAP funds are exposed. The capital requirements reflect both the quantum of the various risks, as well as the level of diversification of risk that results from having a range of risks within UKLAP.
  - If the proposed Scheme were to be implemented, the capital held by UKLAP would be updated to take account of the risks in respect of the Transferring Policies.
- 7.51 Therefore, while the Transferring Policies would be exposed to a different risk profile following the implementation of the proposed Scheme, the capital held by UKLAP would provide security for these policies.
- 7.52 The Transferring Policies are, in effect, currently exposed to the risks of UKLAP owing to the fact that APUK is a subsidiary of UKLAP and the implementation of the proposed Scheme would not change the dependency of the security of the benefits of the Transferring Business on the risk profile or financial position of UKLAP. That this support is currently in place is demonstrated by the provision of capital support by UKLAP to APUK in some extreme scenarios since the acquisition of APUK (as AIG LL) as a subsidiary, as described in Section 4.
- 7.53 Taking the above into account, I am satisfied that the change in the risk profile to which the Transferring Policies would be exposed if the proposed Scheme were to be implemented would not materially adversely affect the security of benefits of the Transferring Policies.

## Conclusion in respect of the security of policyholder benefits under the Transferring Policies

- 7.54 Overall, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the security of policyholder benefits under the Transferring Policies.

## THE REASONABLE EXPECTATIONS OF THE TRANSFERRING APUK POLICYHOLDERS IN RESPECT OF THEIR BENEFITS

### Introduction

- 7.55 The Transferring Policies are all policies that provide protection for the policyholders with the following variations:
- **Eligible claim event:** This may be death (for term assurance or Whole of Life), a specified critical illness (for policies with critical illness cover), and/or inability to work due to illness, injury or disability (for income protection policies).
  - **Payout amount and form:** This may be a specified sum assured (either level, indexed or decreasing) or a series of regular payments (for life of the dependent or a fixed term).
  - **Policy term:** This may be short-term for Group policies (with a default rate guarantee period of two years), fixed term, or Whole of Life.
  - **Individual or Group:** This differentiation does not impact the benefits available, in practice; the difference is in ownership of the policy, i.e. whether the individual is a direct policyholder (Individual) or a member underlying a group policy (Group).
- 7.56 Full details of the different product types and combinations are given in paragraph 4.22.
- 7.57 The current reasonable expectations of the Transferring Policyholders in respect of their benefits are that:
- Their benefits are paid out on an eligible claim event (as specified in their policy terms and conditions) during the policy term, at the amount and in the form specified on their policy;
  - For decreasing term assurance policies, the decreases in the sum assured are aligned with the decreases specified in their policy terms and conditions;
  - Policy options and guarantees (as specified in the policy terms and conditions) are honoured, such as guaranteed insurability; and
  - Premiums continue to be payable at the amounts specified in the policy terms and conditions, which includes:
    - Changes in premiums periodically where premiums are reviewable; and
    - For Whole of Life policies, premiums ceasing (where applicable) at the specified maximum premium age<sup>25</sup>.
- 7.58 If the proposed Scheme were to be implemented, there would be no change to:
- The product type or terms and conditions of any of the Transferring Policies. This includes the specified conditions under which Life, critical illness or income protection benefits are payable, and the policy options and guarantees applicable, with the exception that the policies would become policies of UKLAP rather than APUK.
  - The assessment criteria for determining eligible claims under critical illness or income protection policies, or for determining when the regular payments under income protection policies should cease;
  - The assessment criteria for determining eligible claims under terminal illness benefits;
  - The methodology used to decrease sums assured for the decreasing term assurance policies;
  - The methodology used to calculate revised premiums or sums assured under policy options and guarantees;
  - The premiums payable by Transferring Policyholders, in terms of both amount and timing;
  - The methodology used to calculate revised premiums and sums assured under any other terms of the policies (including indexing of these premiums and sums assured, where applicable); and
  - The methodology used to determine revised premiums where these are reviewable.

### APUK products containing guarantees and options

- 7.59 As set out in Section 4, the Transferring Policies contain a number of underlying options that vary depending on the product. In some cases, where such options are exercised, a new policy would be written for the policyholder. These

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<sup>25</sup> While coverage and benefits for Whole of Life policies continue for the whole of a policyholder's life, typically the payment of premiums by the policyholder will cease at a fixed age (or on earlier death) specified in the policy terms and conditions.

options give the policyholder the option to receive a replacement policy under similar (but not necessarily identical) terms and conditions to their current policy.

- 7.60 As part of its integration activity, UKLAP may discontinue the use of APUK's pricing and underwriting systems over time, which would mean that it may no longer be operationally possible to provide a policy from an identical product if the policyholder were to exercise such an option. In this case, a nearest equivalent UKLAP policy would be provided, as opposed to an APUK policy as currently.
- 7.61 For the avoidance of doubt, any such change would be after the Effective Date of the Scheme, and would not be dependent on the Scheme being implemented. As such it is not within the scope of my role as Independent Expert.
- 7.62 However, the Scheme does include provisions for settling on "nearest equivalent" terms in such circumstances. These provisions are standard for Part VII Transfers such as this one, and serve to provide additional protection to customers in the management of such options, as well as support alignment with regulatory expectations.
- 7.63 I am satisfied that UKLAP's approach is in adherence to the Consumer Duty rules and is based on securing positive customer outcomes. I consider the Consumer Duty obligations of the Companies further in Section 10 of this report.

#### **Additional non-contractual services currently offered to the APUK policyholders**

- 7.64 The Transferring Policyholders currently benefit from additional non-contractual services which are largely provided via third parties. The non-contractual services that are currently provided vary by product type. Examples of such benefits include access to Aviva Smart Health, an online platform offering various services such as remote access to a general practitioner and health consultations (offered to all policyholders), bereavement and probate support (for Group Life policyholders) and vocational rehabilitation services (offered to Group Income Protection claimants).
- 7.65 These non-contractual benefits would not be affected under the proposed Scheme and so, under current plans, the Transferring Policyholders would continue to be able to access these additional benefits post-Scheme. It should be noted that, as these benefits are non-contractual, APUK has the right to change or withdraw these benefits at any time (and UKLAP would have the same right post-Scheme). Such a decision would be subject to the relevant internal governance process within UKLAP.

#### **Conclusion in respect of the reasonable expectations of the APUK policyholders in respect of their benefits under the Transferring Policies**

- 7.66 Taking into account the above, as well as my conclusion in paragraph 7.54 that the implementation of the proposed Scheme would not have a material effect on the security of policyholder benefits under the Transferring Policies, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable expectations of the Transferring Policyholders in respect of their benefits.

### **THE STANDARDS OF ADMINISTRATION, SERVICING, MANAGEMENT AND GOVERNANCE APPLICABLE TO THE TRANSFERRING APUK POLICIES**

#### **The administration and servicing of the Transferring Policies**

- 7.67 As set out in Section 4, administration and servicing tasks are currently undertaken by an in-house team and by Accenture UK Limited. If the proposed Scheme were to be implemented, there would be no change to the current administration and servicing arrangements for the Transferring Policies (and, for avoidance of doubt, no IT migration is planned as part of the proposed Scheme), and these would remain as set out in paragraphs 4.46 to 4.48. In particular:
- The in-house team of APUK professionals currently administering and servicing the policies have been transferred to Aviva Employment Services Limited and continue (and would continue post-Scheme) to administer and service the policies in separate teams; and
  - There is a contract in place with Accenture to administer and service the APUK policies until mid-2029. This contract would be transferred from APUK to UKLAP, but otherwise would remain unchanged.
- 7.68 The implementation of the proposed Scheme would not lead to any changes to the service-level agreements in place for the servicing of the Transferring Policies. Oversight and governance of administration and servicing of the Transferring Policies would continue to be carried out by the customer service committee in UKLAP.

- 7.69 A separate team will be established to handle the anticipated temporary increase in demand on customer servicing as a result of customers contacting the Companies about the proposed Scheme. This team will largely consist of employees of Aviva Employment Services Limited who were previously employed by APUK and would be a small proportion of the overall number of such employees. Additional support would be provided by Accenture.
- 7.70 I am satisfied that this team will have the adequate experience and knowledge required to respond to any communications (including queries, requests and complaints) received as a result of the communications in respect of the proposed Scheme.
- 7.71 Responding to questions regarding the transfer is not expected to use all of their time and would be for a temporary period and I understand that additional resources would be available from Aviva Employment Services Limited if required and would be managed as appropriate.
- 7.72 Taking this all into account, I am satisfied that establishing this team would not have a material effect on the business-as-usual administration and servicing of the Transferring Policies.
- 7.73 As part of the wider work undertaken to integrate APUK into the Aviva Group, UKLAP carried out a review of the underwriting practices and processes adopted in APUK. This review included the documented philosophy around the payment of claims and the reinsurer audits of historic claims. This process did not identify any material differences in the underwriting practices and processes, or in the practices around the acceptance and payment of claims between APUK and UKLAP.
- 7.74 The APUK Chief Actuary has confirmed that, if the Scheme were to be implemented, UKLAP would monitor claim payout ratios and claim patterns in the Transferring Business after the implementation of the Scheme to identify any changes post-Transfer, as part of its existing product governance processes. If any material trend in the claims relating to the Transferring Business were to be identified, UKLAP would take remediating actions as necessary. For example, if a certain type of claim were deemed to have been impacted, UKLAP would review the relevant claims in order to identify the reasons for this difference post-Scheme and would then instigate an action plan to resolve any significant discrepancy.
- 7.75 This seems a reasonable commitment by UKLAP and one that should help to support good outcomes for policyholders and that the APUK policies would not be materially adversely affected by the implementation of the proposed Scheme.
- 7.76 The Companies are also currently seeking to integrate their pricing bases as part of the wider integration of APUK into the Aviva Group. Pricing bases can change over time in line with a company's own views of key economic and demographic factors, as well as commercial factors.
- 7.77 For the avoidance of doubt, the integration of the Companies' underwriting practices and processes, and pricing bases, is currently underway and is independent of the Scheme.
- 7.78 If the Scheme were to be implemented, direct debit arrangements of the Transferring Policyholders would not be affected. However, those Transferring Policyholders using other means of payment (including standing order, giro or bank transfer) would have to update the payee's name. This requirement will be made clear in the communications sent to Transferring Policyholders, which I consider in more detail in Section 9. However, the payments from such customers would still be received even if the Transferring Policyholder fails to update the payee's name, and so the policy would not cease as a result of a missed payment. Furthermore, under the terms of the Transferring Policies, the policyholder has the right to reinstate the policy within 6 months of lapsing. As a result, I am satisfied that the risk of a policyholder unintentionally and permanently lapsing their policy as a result of not following the action to update their payee's name would be minimised.
- 7.79 Overall, I am satisfied that the implementation of the proposed Scheme would not lead to a material adverse change to the administration and servicing of the Transferring Business including the underwriting practices applied to the Transferring Business.

#### **The management and governance arrangements for the Transferring Policies**

- 7.80 Currently the Transferring Business is in APUK and executive oversight of the management of APUK is provided by the APUK Board.
- 7.81 APUK is currently a wholly-owned subsidiary of UKLAP and therefore, while responsibility for the management and governance of the APUK business lies with the APUK Board, the UKLAP Board has influence over APUK and the APUK Board.

- 7.82 If the proposed Scheme were to be implemented, the Transferring Policies would become policies of UKLAP, and the responsibility for the governance and management of these policies would lie directly with the UKLAP Board. The revised governance framework would provide oversight of the management of the Transferring Business through the governance structure of UKLAP set out in Section 5.
- 7.83 The UKLAP Board (as well as the various committees within UKLAP's governance structure) has the relevant experience and expertise in managing the types of business that make up the Transferring Business. Furthermore, I understand that two of the three members of the current APUK Board, including the Chief Actuary of APUK, are now employed by Aviva plc and that the Non-Executive Director of APUK is a member of the UKLAP Board (and will continue in this role following the implementation of the proposed Scheme). Furthermore, these Board members have been engaged with the wider integration of APUK into the Aviva Group, including the Part VII Transfer implemented by the proposed Scheme. Therefore, I am satisfied that if the proposed Scheme were to be implemented, knowledge of the specific characteristics of the Transferring Business and its previous management and governance processes would be retained in UKLAP and that there would therefore be no material adverse effect on management and governance of the Transferring Policies.
- 7.84 For the avoidance of doubt, there would be no change to the governance of UKLAP as a result of the Scheme.
- 7.85 The APUK Chief Risk Officer has carried out a review comparing the management and control of risks between APUK and UKLAP. I have been provided with the Own Risk and Solvency Assessment ("**ORSA**") reports produced since the acquisition of APUK by UKLAP covering the details of the review. Having reviewed these ORSA reports, I am satisfied that the above conclusion is reasonable and that the implementation of the Scheme would not have a material effect on the strength and effectiveness of the management, governance, risk and control framework applied to the Transferring Business.
- 7.86 Taking account of the above, I am satisfied that the implementation of the proposed Scheme would not lead to a material adverse change to the Transferring Policyholders as a result of the change in the management and governance applicable to the Transferring Business from that of APUK to that of UKLAP.

#### **Conclusion in respect of administration, servicing, management, and governance**

- 7.87 Overall, I am satisfied that if the proposed Scheme were to be implemented, there would not be a material adverse effect on the standards of administration, servicing, management, and governance that would apply to the Transferring Business.

#### **MY CONCLUSIONS IN RESPECT OF THE TRANSFERRING APUK POLICIES**

- 7.88 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on any of the following:
- The security of the benefits to which Transferring Policyholders are entitled under the terms and conditions of their policies;
  - The reasonable expectations of the Transferring Policyholders in respect of their benefits; and
  - The standards of administration, servicing, management, and governance applicable to the Transferring Policies.

## 8 The effect of the proposed Scheme on the existing UKLAP policies

### INTRODUCTION

- 8.1 In this section, I consider the effect of the implementation of the proposed Scheme on the existing UKLAP policies (and the holders of these policies). These policies can be sub-divided into:
- The existing policies in the NPSF; and
  - The existing policies in the with-profits funds of UKLAP.
- 8.2 These groups are considered in turn below.
- 8.3 In my role as Independent Expert, I should consider the likely effects of the proposed Scheme on the existing UKLAP policies in respect of:
- The security of the benefits to which policyholders are entitled under the terms and conditions of their policies;
  - The reasonable expectations of policyholders in respect of their benefits; and
  - The standards of administration, servicing, management, and governance applicable to the policies.
- 8.4 I consider these aspects below with my conclusions at the end of this section.

### THE EXISTING POLICIES IN THE UKLAP NPSF

#### Introduction

- 8.5 If the proposed Scheme were to be implemented, the Transferring Policies would transfer into the NPSF within UKLAP. As set out in Section 5, there is currently a wide variety of product types in the NPSF, comprising:
- Non-profit and unit-linked;
  - Annuities, protection, savings, and pensions; and
  - Individual and group protection business.
- 8.6 The protection business in the NPSF includes similar product types to those that would be transferred from APUK under the Scheme.

#### The security of policyholder benefits under the existing UKLAP NPSF policies

- 8.7 The financial strength that provides security of benefits for the existing policies in the NPSF is currently derived from:
- The assets covering the Technical Provisions and SCR of the NPSF, as required under the Solvency UK regulations;
  - The additional financial strength required by the SRA and CMP for UKLAP, including the strength of the governance around the SRA and CMP and changes to it;
  - The reinsurance agreements covering the NPSF business; and
  - Any additional support that would be provided from outside of the NPSF.
- 8.8 If the proposed Scheme were to be implemented, the security of the benefits of the NPSF business would continue to be provided by the same elements listed above, but these elements would also cover the Transferring Business.
- 8.9 Figure 8.1 below shows the pre-Scheme and pro forma post-Scheme Solvency UK balance sheet of UKLAP if the proposed Scheme had been implemented as at 31 December 2024.

**FIGURE 8.1: UKLAP'S PRE-SCHEME AND PRO FORMA POST-SCHEME BALANCE SHEETS AS AT 31 DECEMBER 2024**

(£m)	UKLAP (PRE-SCHEME)	UKLAP (PRO FORMA POST-SCHEME)
<b>Own Funds (A)</b>	9,087	9,148
<b>SCR (B)</b>	5,540	5,515
<b>Excess Own Funds (C = A – B)</b>	3,546	3,634
<b>Solvency Ratio (D = A / B)</b>	<b>164%</b>	<b>166%</b>

8.10 Figure 8.1 shows that, if the proposed Scheme had been implemented on 31 December 2024:

- There would have been an increase in the Own Funds of £61 million.  
As APUK's Own Funds are currently accounted for in UKLAP's balance sheet (as APUK is a subsidiary of UKLAP), the inclusion of the Transferring Business in UKLAP would largely be offset by the reduction in the value of APUK as a subsidiary as a result of the Scheme. The net impact on the Own Funds is also affected by:
  - The increase in the Risk Margin from holding the Transferring Business directly;
  - The intention to use the Volatility Adjustment in the valuation of the Transferring Business, as mentioned in paragraph 7.12;
  - A tax benefit in which a restriction to a deferred tax asset within APUK would no longer apply within UKLAP and could be used to offset UKLAP's deferred tax liability post-Scheme; and
  - The reinsurance premium received from All in respect of the All Reinsurance Treaty.
- The SCR for UKLAP would have decreased by £26 million (allowing for rounding).  
Currently, APUK (as a subsidiary of UKLAP) is treated as an equity investment on UKLAP's Solvency UK balance sheet and contributes £118 million to UKLAP's SCR as calculated on the UKLAP Internal Model.  
If the proposed Scheme were to be implemented, then the SCR contribution in respect of the Transferring Business would be calculated on UKLAP's Internal Model, and would benefit from diversification with the existing NPSF business and from the application of the All Reinsurance Treaty. As shown in Figure 7.1, the SCR contribution of the Transferring Business post-Scheme is £93 million. The net impact is therefore a reduction in the SCR post-Scheme of £26 million.  
There will be a review of the calibration of the life catastrophe risk within the UKLAP Internal Model in light of the extra exposure from APUK's group business to ensure that this would remain appropriate for the combined business if the proposed Scheme were to be implemented. It should be noted that life catastrophe contributed less than 3% towards UKLAP's SCR as at 31 December 2024.
- Excess Own Funds would have increased by £88 million, increasing the Solvency Ratio by a small amount from 164% to 166%.

8.11 For the avoidance of doubt, as mentioned in paragraph 7.13, UKLAP does not intend to apply for regulatory permission to use the TMTP on the Transferring Business post-Scheme.

8.12 I am satisfied that, if the proposed Scheme had been implemented on 31 December 2024, it would not have had a material impact on the Solvency Ratio for UKLAP, and UKLAP would have remained comfortably above its SRA.

8.13 If the proposed Scheme were to be implemented, the Transferring Business would be covered by the following reinsurance agreements:

- Various external reinsurance agreements as described in paragraph 4.42. None of these external agreements would be updated to cover the existing business in the NPSF but the cedant would be changed to refer to UKLAP rather than APUK.



- The internal reinsurance agreement (the All Reinsurance Treaty) currently in place between UKLAP and All, which would reinsure 30% of the liabilities of the Transferring Policies, net of external reinsurance agreements, subject to approval from All (and with an appropriate premium paid by All to UKLAP<sup>26</sup>).
- 8.14 As a result of the planned extension of the scope of the All Reinsurance Treaty to include the Transferring Business (if the proposed Scheme were to be implemented), All would have an increased exposure to the NPSF. The key consideration of whether this expansion of the All Reinsurance Treaty would impact the financial security of the existing NPSF policyholder benefits relates to whether All's ability to meet its future reinsurance obligations to UKLAP would be materially affected as a result, and the extent to which UKLAP's financial position would depend on the All Reinsurance Treaty in place with All.
- 8.15 It is estimated (by Aviva) that the inclusion of the Transferring Business within the All Reinsurance Treaty as at 31 December 2024 would have caused a small decrease to All's Solvency Ratio, from 220% to 217%. All would therefore have remained within its solvency risk appetite and, in particular, the implementation of the All Reinsurance Treaty would not have affected All's compliance with its solvency capital requirements.
- 8.16 I am satisfied that the proposal to include the Transferring Business within the All Reinsurance Treaty would not have any material impact on All's ability to meet its reinsurance obligations and therefore there would be no material adverse impact on the financial security of the existing NPSF policyholder benefits.
- 8.17 Furthermore, as set out in paragraph 7.29, if the proposed Scheme were to be implemented then the inclusion of the Transferring Business within the All Reinsurance Treaty would not have a material impact on UKLAP's financial position and, in particular, UKLAP would be compliant with its SRA without this reinsurance being applied to the Transferring Business. As a result, I am satisfied that there is no dependency of the proposed Scheme on the All Reinsurance Treaty being applied to the Transferring Business.
- 8.18 The NPSF is currently exposed to a more diverse range of risks than APUK, and in particular, as the NPSF already includes the same product types as those that would be transferred from APUK under the proposed Scheme, the transfer of the APUK business into the NPSF would not introduce material new categories of risks to the NPSF. That said, it is likely that the Transferring Business will have arisen from different sources, through different sales channels and that the underlying policyholder group may have different demographic characteristics from the existing policyholder group.
- 8.19 UKLAP is materially larger than APUK, with Solvency UK Technical Provisions of c. £260.8 billion and Own Funds of £9.1 billion as at 31 December 2024, compared to APUK's Technical Provisions of £0.6 billion and Own Funds of £0.3 billion, and I am satisfied that the proposed transfer of the APUK business into the NPSF would not materially change the profile of risk exposures of the NPSF.
- 8.20 If the proposed Scheme were to be implemented, the Transferring Policies would become policies of UKLAP, and so support would be provided implicitly to the Transferring Policies as policies within the NPSF of UKLAP.
- 8.21 APUK is already within Aviva Group, and is a subsidiary of UKLAP. As such, UKLAP and the wider Aviva Group already provide parental support to APUK (and the Transferring Policies). In particular:
- UKLAP provided support recently to APUK when the reinsurance agreements with AIRCO were terminated to address a fall in Solvency Ratio; and
  - A further capital injection mechanism is currently in place to support the financial position of APUK in the event of a material decrease in interest rates.
- 8.22 I am satisfied that, if the proposed Scheme were to be implemented there would be no material change to the support mechanisms provided by UKLAP, other than to make them implicit rather than explicit.
- 8.23 Therefore, I am satisfied that the implementation of the Scheme would not have a material adverse effect on the financial strength available to support the security of benefits for the existing NPSF policies.

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<sup>26</sup> As explained in paragraph 6.21, this reinsurance premium will be paid by All to UKLAP, rather than paid by UKLAP to All, as the Transferring Business has a negative BEL (net of the existing external reinsurance agreements).



**The reasonable benefit expectations of the existing UKLAP NPSF policyholders and the standards of administration, servicing, management and governance to which they are subject**

- 8.24 In respect of the existing UKLAP NPSF policyholders, the implementation of the proposed Scheme would not change any of the following:
- The operation of the NPSF or the fund structure of UKLAP;
  - The terms and conditions of any policy;
  - The charges that apply to any policies;
  - The investments available to unit-linked policyholders;
  - The exercise of discretion in respect of the management of the unit-linked funds;
  - The investment strategy of the UKLAP NPSF;
  - The administration or servicing of the NPSF or its policies, including the service-level agreements; or
  - The management and governance of the NPSF or its policies.
- 8.25 As mentioned in paragraph 7.69, UKLAP has established a team to handle the anticipated temporary increase in demand on customer servicing as a result of customers contacting the Companies about the proposed Scheme. This team largely consists of existing APUK employees with additional support provided by Accenture, and would not impact the UKLAP customer service staffing levels. The customer service teams servicing the existing UKLAP business would divert any customer queries, requests and complaints received that are related to the proposed Scheme to this customer servicing team. I am satisfied that there would not be an adverse effect on the level of service that would be experienced by the existing UKLAP business as a result of the anticipated temporary increase in the numbers of customers contacting the Companies about the Scheme.
- 8.26 I am therefore satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the reasonable benefit expectations of the existing NPSF policyholders, or on the standards of administration, servicing, management and governance that apply to the existing NPSF business.

**Conclusion for existing policies of the UKLAP NPSF**

- 8.27 Taking into account all of the above, I am satisfied that, in respect of the existing policies in the UKLAP NPSF, the implementation of the proposed Scheme would not have a material adverse effect on:
- The security of benefits under these policies;
  - The reasonable expectations of the holders of these policies in respect of their benefits; or
  - The standards of administration, servicing, management and governance that would apply to these policies.

**THE EXISTING POLICIES IN THE UKLAP WITH-PROFITS FUNDS**

- 8.28 If the proposed Scheme were to be implemented, there would be no business transferred into or out of the with-profits funds of UKLAP and no change to the financial position of those funds.
- 8.29 As shown in Figure 8.1, the implementation of the proposed Scheme would not have a material impact on the UKLAP balance sheet (either the financial strength or the CMP), and so would not materially affect the ability of UKLAP (and the NPSF in particular) to provide capital support to any of the with-profits funds if it were required.
- 8.30 Furthermore, in respect of the with-profits funds, the implementation of the proposed Scheme would not change:
- The operation of the funds or the fund structure;
  - The terms and conditions of any policy;
  - The charges that apply to those funds, or to policies within those funds;
  - The rights of the with-profits policies to any future distributions of the estates;
  - The investment strategies of the with-profits funds;
  - The administration or servicing of the funds and the policies within those funds; or
  - The management and governance of the funds, including the exercise of discretion such as bonus policies and surrender values.

- 8.31 The WPA of UKLAP has produced a report on the proposed Scheme to the WPC of UKLAP and I have been provided with this report. The WPA has considered the likely impact of the proposed Scheme on the security of the benefits, the benefit expectations, and servicing arrangements applicable to the existing UKLAP with-profits policyholders and has concluded that, in his opinion, the with-profits policyholders would not be materially adversely affected by the implementation of the proposed Scheme.
- 8.32 Following the provision of this report, all members of the WPC confirmed their non-objection to the proposed Scheme.
- 8.33 Based on the evidence provided, I agree with the conclusions of the WPA of UKLAP and I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the existing policies in the with-profits funds of UKLAP.

#### **MY CONCLUSIONS IN RESPECT OF THE EXISTING UKLAP POLICIES**

- 8.34 Overall I am satisfied that, in respect of the existing non-profit and with-profits policies of UKLAP, the implementation of the proposed Scheme would not have a material adverse effect on any of the following:
- The security of the benefits to which the existing policyholders of UKLAP are entitled under the terms and conditions of their policies;
  - The reasonable expectations of the existing policyholders of UKLAP in respect of their benefits; and
  - The standards of administration, servicing, management, and governance applicable to the existing policies of UKLAP.

## 9 My considerations regarding the policyholder communications

### INTRODUCTION

- 9.1 The FSMA requires that a communication regarding the proposed Scheme should be sent to every policyholder of the parties involved in the proposed Scheme. However, this requirement may be modified via dispensations at the discretion of the High Court, which may give consideration to the practicality and costs of sending notices relative to the likely benefits for policyholders of receiving such communications.
- 9.2 The proposed communications regarding the proposed Scheme are limited to the Transferring Policyholders, with the exception of certain classes of policyholders for which the Companies propose a dispensation from the requirement to send communications directly. These proposed dispensations are described below in paragraphs 9.55 to 9.89.
- 9.3 Subject to these proposed dispensations, APUK intends to send a pack of information (the **"Notification Pack"**) to the Transferring Policyholders, which will include a detailed guide to the Scheme (the **"Transfer Guide"**). The Notification Pack will also be made publicly available on the Transfer Website. I provide more details on the Notification Pack in paragraph 9.46 below.
- 9.4 Under the proposed dispensations, UKLAP policyholders will not receive direct communications in relation to the proposed Scheme.
- 9.5 APUK intends to send the Notification Pack to named policyholders of the individual protection business within the Transferring Business and no other persons associated with the policyholder, with the exception of the principal trustee or individual holding power of attorney associated to the Transferring Policy, where applicable. For those Transferring Policies issued via an IFA and for which the policyholder has expressed their preference for email communication to be sent to their IFA, APUK proposes to send the Notification Pack to the IFA and has taken measures to ensure these IFAs will relay this information onto the relevant customers.
- 9.6 Further notification of the Scheme and distribution of the documents relating to the Scheme is described in paragraphs 9.36 to 9.44 below.

### THE INTENDED STRATEGY FOR POLICYHOLDER COMMUNICATIONS

#### The communications in respect of the rebrand from AIG LL to APUK

- 9.7 As described in paragraph 4.16, under the terms of the acquisition, Aviva Group was required to discontinue its use of the AIG brand within 12 months of acquisition. As a result, AIG LL was renamed Aviva Protection UK Limited in February 2025.
- 9.8 APUK (as AIG LL) undertook an exercise to notify its customers and relevant third parties of this rebrand (the **"Rebrand Communications"**) taking effect from 17 February 2025. The Rebrand Communications took place over November 2024 to February 2025 and concluded in advance of the communications relating to this proposed Scheme.
- 9.9 The first communications sent under this exercise were distributed in November 2024 and were in respect of policies for which APUK does not hold the customer data, that is, where the customer data is held by a third party (e.g. financial advisers and strategic partners). These communications were sent to the third parties and provided an explanation of UKLAP's acquisition of AIG LL, the subsequent rebrand and information relating to updates in contact details and payment methods. These communications also provided instructions to these third-party advisers to share this information relating to the upcoming rebrand to the underlying APUK policyholders, as well as to discontinue the use of AIG branding in their communications with APUK policyholders.
- 9.10 Subsequently, the Rebrand Communications in respect of customers for whom APUK holds the customer data were sent to customers over January and February 2025.
- 9.11 For the majority of its customers, APUK holds the preferred form of contact (i.e. email or post) stated at the point of sale of policy. APUK therefore issued the Rebrand Communications according to each customer's preferred form of contact where this information was available.

- 9.12 These communications informed customers of the rebrand taking effect from 17 February 2025, the updated contact details of APUK and whether any actions were required to be taken by the customer (for example, if the policy is held in trust, the customer should notify the trustee of the rebrand).
- 9.13 The Rebrand Communications sent directly to customers made clear that there was no change to the terms and conditions of the policies as a result of the rebrand and that there was also no impact on non-contractual benefits, such as access to Aviva Smart Health. Variants of the Rebrand Communications were used as appropriate, for example, the communications sent to policyholders who had a pending claims decision clarified that the claims process would not be affected by the rebrand.
- 9.14 Following the rebrand taking effect<sup>27</sup>, APUK issued further communications to all customers (either directly or via third-party financial advisers) to notify the customers that the rebrand from AIG LL to APUK had now taken effect. These communications reiterated the updated contact details and also signposted the future Part VII communications, which I consider in the rest of this section.
- 9.15 In conjunction with the Rebrand Communications, AIG LL's website and social media accounts were also rebranded to Aviva, to ensure consistent branding across all points of customer interaction.
- 9.16 In total, over 800,000 emails and over 100,000 letters were initially sent as part of the Rebrand Communications. Over 50% of these initial emails were opened, which is above previous AIG LL averages and in line with Aviva plc's benchmark, therefore providing evidence of an overall strong rate of customer engagement. Further emails were sent to those customers that did not open the initial email in order to maximise the number of customers who were notified of the rebrand.
- 9.17 Approximately 700 letters were returned after having not been delivered successfully. For these policies, the Rebrand Communications were resent via email where possible. Approximately 17,000 of the initial emails were flagged as not having been delivered successfully. Similarly, APUK resent the Rebrand Communications to these policyholders by post where possible.
- 9.18 A small number of complaints were received from policyholders in relation to the rebrand. At the time of writing, none of these complaints referred to the proposed Scheme and I have therefore not considered these further. As I mention in paragraph 9.97, I shall consider any complaints or objections related to the proposed Scheme in my Supplementary Report.

### **The timelines for direct policyholder communications in respect of the proposed Scheme**

- 9.19 Both the PRA Statement of Policy and the FCA Final Guidance state that, in respect of insurance business transfers, companies are required to notify the policyholders, or interested persons, at least six weeks before the date of the High Court hearing at which the application to sanction the Scheme will be heard (the Sanction Hearing).
- 9.20 Provided that the proposed dispensations are approved by the High Court, the Companies<sup>28</sup> will distribute the Notification Pack to the remaining policyholders over July to September 2025. As a result, it is expected that policyholders will have at least 11 weeks' notice prior to the expected date of the Sanction Hearing on 26 November 2025, complying with the minimum period of notice stated by the PRA and FCA.

### **The form of policyholder communications**

- 9.21 As noted in paragraph 9.11, APUK holds the preferred communication format (either normal post or email) for the majority of its policyholders. APUK therefore proposes to send the Notification Pack in respect of the proposed Scheme in the format preferred by its customers. Where the communication preference or the email address of a policyholder is not known, the Notification Pack will be sent by post.
- 9.22 APUK's rationale for including email as a means of communication includes:
- Where applicable, APUK's customers have stated email as their preferred form of communication and therefore the use of this communication format is more likely to be aligned to these customers' interests. Approximately 80% of APUK's active customers for which it holds the contact details have expressed a preference for email communications.

<sup>27</sup> The change of name from AIG LL to APUK became legally effective from 18 February 2025.

<sup>28</sup> As one dispensation is in respect of all UKLAP policyholders, all communications would be sent by APUK.

- Where APUK holds the customer data and these customers have selected email as their preferred form of communication, such customers may have received email communications from APUK previously. In particular, this would be consistent with the communication form used for the Rebrand Communications. It is therefore reasonable to expect that such customers would be at least as likely to engage with email communications as they would with communications sent by post.
- There will be no difference in the information provided within the communications between the email and post communications.
- APUK have performed a testing exercise to test if policyholder email addresses are valid. If an error in the email addresses is flagged, APUK will send the Notification Pack by post. This data cleansing exercise will help minimise the chance that a policyholder does not receive the Notification Pack as a result of incorrect or outdated contact details.
- If any failed deliveries of emails occur that were not discovered as part of this preparatory exercise, APUK will send the Notification Pack by post to these customers.
- For convenience, hyperlinks will be embedded into the contact details provided in the email communications, providing a quick method for policyholders to raise an objection if they decide to do so.

9.23 I have considered the relative advantages and disadvantages of email communications relating to the proposed Scheme. Paragraph 7.29 of the FCA Final Guidance acknowledges the use of digital communication methods, and I have taken into account the considerations outlined in this guidance.

9.24 Overall, for the reasons outlined above, I am satisfied that APUK's proposed strategy of sending email communications to those customers who have stated such a preference is appropriate. In particular, I am satisfied that this strategy is likely to be better aligned with the best interests of the customers, and that the relative advantages of email communications for such customers include potentially higher rates of receipt and engagement.

9.25 Furthermore, the technological issues associated with email communications have been sufficiently mitigated via the testing exercise in advance of the communications and, should any such issues persist at the time of mailing, APUK has the contingency plan of sending policyholders the Notification Pack by post, where postal addresses are held by APUK.

9.26 As set out in Section 4 of this Report, APUK has sold business both directly to customers and through intermediaries such as IFAs. In most cases, APUK has the contact details of the holders of policies issued via IFAs and will therefore send the Notification Pack to these policyholders directly (as described above, in line with the policyholder's preferred format of communication).

9.27 The Transferring Policies include policies which have been issued via APUK's strategic partners on a 'white label' basis<sup>29</sup>. As at 31 March 2025, there were approximately 122,000 such policies. APUK has agreed with each such strategic partner that APUK will send the Notification Pack to these policyholders directly. Given that habitual communication with such policyholders is done via the strategic partner rather than APUK, where appropriate, these communications will include correspondence from the strategic partner explaining why they have received the Notification Pack. These communications will be sent in line with the preferred communication format of the policyholder (either post or email).

## Consumer Duty

9.28 The Companies have considered the FCA Consumer Duty Rules throughout the preparation of the communications strategy.

9.29 Aviva has defined a set of internal principles for its provision of customer services to ensure it is able to meet the expectations under Consumer Duty and ensure it delivers an industry-leading customer experience. These customer service principles have been taken into account by the Companies in forming the communications strategy. Examples of this include:

- Variants in style or content of the Notification Pack communications have been considered to ensure these reflect the individual circumstances of the customers (for example, providing a cover letter to new business

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<sup>29</sup> Such policies are policies provided by APUK but have been sold and packaged via the strategic partner. In particular, such policies may not have been sold using APUK (or AIG LL) branding.

customers that acknowledges the policy is new to avoid confusion, or proactively providing accessible versions of the Notification Pack such as braille where appropriate);

- Communications are made clear and simple as far as possible, and where technical wording is required (for legal reasons), such terms that may be construed as jargon are clearly explained; and
- Any relevant rights, protections and options of the customer are clearly signposted and articulated.

- 9.30 Aviva has also produced internal guidance for effective policyholder communications in line with Consumer Duty requirements. This guidance seeks to ensure best practice is followed with respect to, for example, the layout of communications, the length of communications and the use of jargon. The Notification Pack has been prepared in line with this guidance for effective policyholder communications to further improve the understandability and accessibility of these communications.
- 9.31 APUK will give special consideration to how it goes about contacting vulnerable customers. As mentioned in paragraph 9.29, vulnerable customers will receive more accessible versions of the Notification Pack as appropriate, including large print, braille or audio versions. Furthermore, the team handling responses to questions received will be trained in identifying customers with potential vulnerabilities and their needs.
- 9.32 As at 31 March 2025, approximately 3,000 Transferring Policyholders were categorised as vulnerable customers. These include customers that are flagged as vulnerable on request of the policyholder. Any such vulnerable customers are provided with an internal email address, which is monitored by a "Customer Champion".
- 9.33 Customer Champions are responsible for reviewing any communications issued to vulnerable customers and preparing specialised communications (including translations, where required), depending on the nature of the vulnerability flagged. In respect of these policyholders, the Customer Champions will consider the most appropriate way of communicating the information contained in the Notification Pack, noting the individual needs of the vulnerable customer. In some circumstances, including in cases of actual or suspected domestic violence, the Consumer Champion may decide to contact a Transferring Policyholder by other means (e.g. by telephone).
- 9.34 These specialised communications for vulnerable customers will be dealt with in the first week of the communications timetable (starting in July 2025, as described in paragraph 9.20) in order to ensure such customers have sufficient time to raise queries, complaints or objections relating to the proposed Scheme.
- 9.35 Based on the materials provided by and discussion held with the Companies, I am satisfied that the Companies have paid due regard to the Consumer Duty rules in formulating the policyholder communications in respect of the proposed Scheme.

#### **Further notifications and distribution of the Scheme documents**

- 9.36 If delivery of the Notification Pack proves to be unsuccessful as a result of incorrect or out-of-date contact details, APUK will perform a tracing exercise to obtain the correct contact details of the policyholder. APUK will then attempt to resend the Notification Pack. I consider APUK's efforts in handling such cases further in paragraph 9.71 below.
- 9.37 If certain Transferring Policyholders who were due to receive the Notification Pack do not as a result of accidental omission or other operational error, then APUK will attempt to remedy this where possible in advance of the Sanction Hearing and in such cases will inform the PRA and FCA of the action taken.
- 9.38 The relevant documents relating to the Scheme will also be made publicly available on the Transfer Website (comprising webpages tailored for individual customers, group customers and financial advisers). These documents include:
- The proposed Scheme (and a summary of the Scheme);
  - A sample copy of the Notification Pack;
  - The reports of the Chief Actuary of APUK and the Chief Actuary of UKLAP on the impact of the Scheme;
  - This Report and the Summary Report; and
  - A copy of the legal notice of the proposed Part VII Transfer to the High Court.
- 9.39 Additionally, physical copies of any of the documents listed in paragraph 9.38 will be provided without charge by the Companies upon request.

- 9.40 The supplementary reports produced in relation the Scheme, including my Supplementary Report and the supplementary reports of the Chief Actuaries of the Companies, will be made available on the Transfer Website in advance of the Sanction Hearing.
- 9.41 As per the requirements under FSMA<sup>30</sup>, the Companies will also publish notices of the Scheme, following relevant regulatory approval, in the following publications:
- The London Gazette, The Edinburgh Gazette and The Belfast Gazette;
  - In several UK national newspapers: The Times, The Guardian, The Telegraph, The Daily Mail and The Mirror; and
  - The international edition of the Financial Times.
- 9.42 Additionally, the Companies will also publish notices in respect of the Jersey and Guernsey Scheme (as relevant) in local publications in Jersey and Guernsey, including the Jersey Gazette, La Gazette Officielle in Guernsey, the Alderney Gazette and the Sark Public Notice Box.
- 9.43 Given the variety of publications, which cover a range of geographical locations and newspaper preferences, and that the notice would be included in online versions of these publications where available as well as print versions, I am satisfied that the proposed selection of gazettes and newspapers is appropriate and adequate for notifying interested parties of the proposed Scheme.
- 9.44 Any future update to the timelines relating to the Scheme, including a change to the date of the Sanction Hearing and a change to the Effective Date, would be published on the Transfer Website. The decision of the High Court in relation to the Scheme will also be published on the Transfer Website following the Sanction Hearing.
- 9.45 For the avoidance of doubt, there is no requirement under FSMA to contact policyholders of insurance companies not involved in the Scheme and so the Companies do not intend to send direct communications to such policyholders. In particular, policyholders of other entities within Aviva plc not included in the Scheme (including ALPI DAC, AIL and the entities acquired by Aviva as part of its acquisition of DLG) will not be directly notified of the Scheme. I am satisfied that it is appropriate not to contact such policyholders, given there is no such requirement under FSMA and that there would be no direct impact on those policyholders as a result of the implementation of the proposed Scheme.

## THE CONTENT OF POLICYHOLDER COMMUNICATIONS

- 9.46 As mentioned in paragraph 9.3, subject to the proposed dispensations described in paragraphs 9.60 to 9.89 below, APUK will send the Notification Pack to the Transferring Policyholders setting out details of the Scheme. The Notification Pack will contain:
- A cover letter, which will notify the policyholder of the proposed Part VII Transfer and provide a summary of:
    - The impact of the transfer on the policyholder;
    - The protection in place for the policyholder; and
    - The High Court process and its timelines.
  - The Transfer Guide, which is a detailed guide to the Scheme containing:
    - Background information on the Scheme;
    - Common questions and answers relating to the Scheme;
    - A summary of the terms of the Scheme;
    - A summary of my Scheme Report; and
    - A copy of the legal notice of the proposed Part VII Transfer to the High Court.
- 9.47 Where it is appropriate to do so, APUK will send a variation of the cover letter that takes into account the individual circumstances of the customer as appropriate. Namely, as well as a main customer letter, there are variations for:
- Policyholders who hold their policies via strategic partners; and
  - Policyholders residing in Jersey or Guernsey.

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<sup>30</sup> Namely, 3(2)(a)(i) and (ii) of Statutory Instrument 2001 No. 3625, The Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001.



- 9.48 There will also be a variant for policyholders who take out a new policy (in advance of the Effective Date), which I explain below in paragraph 9.59.
- 9.49 The cover letter will also inform the Transferring Policyholders that all documents relating to this Scheme are available on the Transfer Website, including the Scheme document, this Report in full, the Summary Report and the Transfer Guide. The letter also details how policyholders can contact APUK to discuss the Scheme as well as request the information in alternative formats.
- 9.50 For policyholders who wish to raise an objection in relation to the proposed Scheme, instructions are provided in the Transfer Guide. These instructions also inform the policyholders that they can attend the Sanction Hearing. It should be noted that, since the Transfer Guide is made publicly available on the Transfer Website, these instructions to raise an objection will be available to all policyholders of the Companies, whether or not they receive the Notification Pack directly.
- 9.51 The Transfer Guide will also include information on whether it is necessary for policyholders to update their payment methods (as described in paragraph 7.78), confirmation that there will be no impact on new or existing claims, confirmation that there will be no impact on access to non-contractual benefits as a result of the Scheme (but that, as described in paragraph 7.65, that provision of such benefits may be changed or withdrawn at any time), and details of the legal process being followed to implement the Part VII Transfer.

### **My review of the content of policyholder communications**

- 9.52 I confirm that I have reviewed the draft Notification Packs, including the variants, as set out above. I have raised queries with the Companies in relation to draft versions of these communications and these have been answered to my satisfaction.
- 9.53 Both the cover letter and the Transfer Guide included in the Notification Pack will refer to the recent Rebrand Communications and I am satisfied that the Rebrand Communications have been acknowledged in a way that is clear and easy to understand for policyholders. I therefore consider the risk of confusion amongst policyholders in relation to the succession of the rebrand of AIG LL to APUK, followed by the proposed transfer to UKLAP, to be low and that it has been appropriately managed.
- 9.54 I have reviewed the instructions provided in the Transfer Guide for raising an objection in relation to the proposed Scheme. In my opinion, these instructions are clear and are adequately signposted throughout the Notification Pack.

### **THE PROPOSED DISPENSATION APPLICATIONS**

- 9.55 As set out in paragraph 9.1, unless a waiver is granted by the High Court, the FSMA requires that a communication regarding the proposed Scheme should be sent to every policyholder of the parties involved in the proposed Scheme.
- 9.56 The Companies intend to seek a waiver from the High Court in respect of the requirement to notify all policyholders of the Scheme. For those groups of policyholders for which the Companies propose a dispensation to notify of the proposed Scheme, the Companies have shared with me the rationale for so doing.
- 9.57 The FCA Final Guidance acknowledges such applications for dispensations and the arguments applicable for dispensations. Such arguments include the impossibility, practicality, proportionality and utility of communications, as well as the availability of other information channels.
- 9.58 Under the Companies' proposals, approximately 1.2 million Transferring Policyholders of APUK will be sent the Notification Pack proposals, with the dispensations covering a small proportion of the existing APUK policyholders, as well as the holders of the 17.4 million UKLAP policies in force. I consider each of the dispensations in turn below.
- 9.59 As set out in Section 6, the Transferring Business includes any new individual protection business written by APUK via its remaining open sales channels in advance of the Effective Date. For the avoidance of doubt, APUK intends to send the Notification Pack to these individuals once they become policyholders of APUK. The third-party advisers will also inform such policyholders of the proposed Part VII Transfer.

### **Policyholders of UKLAP**

- 9.60 UKLAP intends to seek a dispensation from the requirement to directly contact all its policyholders, of which there were approximately 17.4 million as at 31 December 2024, in respect of the proposed Scheme.



- 9.61 As set out in Section 8, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the UKLAP policyholders in respect of the security of benefits, their reasonable benefit expectations or the standards of administration, servicing, management and governance. As set out in Section 8 of this Report, the implementation of the proposed Scheme would not have a material effect on the existing UKLAP policyholders as the transferring block of business is small (at Technical Provisions of £0.6 billion as at 31 December 2024) compared to the UKLAP block of business (Technical Provisions of £260.8 billion as at 31 December 2024).
- 9.62 As mentioned in paragraph 9.3, the Notification Pack will be made publicly available on the Transfer Website, and it will also be posted free of charge to any policyholder upon request. Therefore, any UKLAP policyholder that has an interest in the Scheme has access to this information.
- 9.63 For any UKLAP policyholders with an interest in the Scheme, I am satisfied that notification of the Scheme in the gazettes and newspapers listed in paragraph 9.41 would provide sufficient opportunity for these policyholders to learn of the proposed Scheme.
- 9.64 UKLAP estimates the cost of mailing all UKLAP policyholders would be approximately £35 million and that the estimated cost of contacting the APUK policyholders (subject to the proposed dispensations) would be approximately £4.8 million. The costs quoted here refer to the direct printing and mailing only and not any additional costs from handling additional correspondence and queries from policyholders as a result of the communications.
- 9.65 For consistency, the above estimates have been calculated on the basis that all communications will be sent via post rather than email. As mentioned above, APUK proposes to send the majority of its communications via email, in line with the communication preferences of its customers, and doing so would significantly reduce the estimated total costs. As UKLAP does not hold customer data relating to email preferences, it would mail its policyholders by default.
- 9.66 As a result, sending the communications pack to all of the UKLAP policyholders would cause a significant proportional increase to the costs of the communications in respect of the proposed Scheme.
- 9.67 Given the availability of the information relating to the Scheme from other means, the significant extra cost involved and the fact that the implementation of the proposed Scheme would not have a material effect on the UKLAP policyholders, I am satisfied that the costs of sending communications in respect of the Scheme to the UKLAP policyholders would not be proportional to the likely benefit to those policyholders of receiving those communications.

#### **Policyholders of APUK for whom contact details are not held**

- 9.68 In the context of this proposed Scheme, **"Goneaways"** are policies where the company (or third party acting on APUK's behalf) does not have a valid (email or postal) address for the policyholder, and subsequent reasonable attempts to trace the policyholder have been unsuccessful. This also includes policies where the address details are incomplete, mis-keyed or unreadable.
- 9.69 APUK intends to seek dispensation from sending a written notice of the Scheme to Transferring Policyholders which are Goneaways, as it will not be practically possible for the Companies to notify these policyholders.
- 9.70 The number of Goneaways identified within the Transferring Policies is 704 (less than 0.1% of Transferring Policyholders). The proportion of Goneaways is in line with those which I have seen for other UK life insurance companies and makes up a small proportion of the overall Transferring Business.
- 9.71 In order to reduce the proportion of Goneaways further, APUK has performed various data cleansing exercises in advance of the Direction Hearing, including:
- A tracing exercise with a third-party provider, which sought to validate existing policyholder data and obtain updated contact details for policyholders identified as Goneaways.
  - Prior to the Rebrand Communications, a review of postal addresses conducted with the Swiss Postal Service, the company which APUK uses for postal services, to validate that these addresses are correct.
  - Prior to the Rebrand Communications, a "ghost ping" exercise was performed to identify incorrect email addresses.
  - Additionally, the recent Rebrand Communications exercise described above provided a further opportunity for APUK to verify the contact details of its customers. As a result of this, APUK was able to improve the quality of its customer data shortly in advance of sending the communications relating to this proposed Scheme.

- 9.72 In order to bring the Scheme to the attention of as many Goneaway customers as possible, the Companies will include advertising in the gazettes and newspapers mentioned in paragraph 9.41, which were chosen to reflect the current residency and assumed majority newspaper preferences of APUK policyholders. Additionally, the Companies will make the Scheme and associated documents, including this Report, the Summary Report and the Mailing Pack, available on the Transfer Website.

#### Holders of APUK policies who have selected the email address of their IFA for communications

- 9.73 APUK proposes a dispensation from contacting Transferring Policyholders whose policies have been distributed through IFAs, have expressed their preference for email communications and have provided the email address of their IFA as their contact email address. As at 31 March 2025, there were approximately 1,200 such policies.
- 9.74 APUK has liaised with the relevant IFAs to request that they pass on information relating to the proposed Scheme to the affected Transferring Policyholders and to provide assistance to the IFAs in so doing. In particular, APUK will provide the Notification Pack to these IFAs to ensure they are informed of the details of the proposed Scheme. The terms of business of the IFAs stipulate that they must relay all relevant information onto these policyholders.
- 9.75 Given the nature of the relationship between such policyholders and their IFAs, it would be reasonable to expect the IFAs to relay information in relation to the Scheme to the extent that it is relevant to their customers, in line with their terms of business. Therefore, I am satisfied that the proposed dispensation relating to such policyholders is appropriate. For the avoidance of doubt, APUK plans to directly contact Transferring Policyholders whose policies have been sold via IFAs but who have provided their own (email or postal) address under their preferred form of communication.

#### Other proposed dispensations

- 9.76 APUK has proposed a number of other dispensations in relation to the Transferring Business, which I summarise below.
- 9.77 While the majority of open death claims relating to the Transferring Policies at the time of mailing would be expected to be settled in advance of the Effective Date, there may be a small number of policies for which the death claim is considered likely to be outstanding at the Effective Date. For such cases, APUK recognises the distressing circumstances of the interested parties, including the executor or personal representative of the deceased policyholder and would consider how best to handle each case on an individual basis. Therefore, APUK has applied for a general dispensation in respect of executors and personal representatives of deceased policyholders.
- 9.78 Based on recent levels of claims, an estimate for the number of death claims outstanding at the time of mailing is 136. Given this level of claims, I consider that the use of discretion in contacting executors and personal representatives of deceased policyholders will likely lead to better outcomes for the relevant claimants.
- 9.79 APUK is also seeking a dispensation in respect of holders of policies that, as at the time of the Part VII communications, have lapsed but still have a right to reinstate their policy ("**Policies in Lapse**"). It is estimated that approximately 40,000 such Policies in Lapse will exist at the time of issuing the Part VII communications, however, only a small proportion of these would be expected to invoke the right to reinstate their policy.
- 9.80 Communications sent to holders of Policies in Lapse may cause unintended confusion to these policyholders in relation to the status of the policy. I therefore consider the proposed dispensation of holders of Policies in Lapse to be appropriate. It should also be noted that APUK will send the Notification Pack to any holder of a Policy in Lapse that reinstates their policy between the date at which communications are issued and the Effective Date of the Scheme.
- 9.81 Furthermore, there are related parties with which APUK has no direct legal or contractual relationship and therefore proposes a dispensation from providing communications relating to the Part VII, including:
- Individuals covered by group policies;
  - Beneficiaries of policies held under trust;
  - Trustees that are not principal trustees;
  - Trustees-in-bankruptcy, receivers and administrative receivers; and
  - Users of non-contractual benefits.

- 9.82 In respect of group policies, APUK holds a legal obligation in respect of the legal owner of the policy (the employer) rather than with the individuals covered by the group policy. Therefore, APUK is not required to hold the contact details of the individuals covered by group policies and it is therefore not possible to contact these individuals. For the avoidance of doubt, the legal owners of group policies are Transferring Policyholders and will be sent the Notification Pack (via a third-party adviser).
- 9.83 APUK does not hold legal obligations directly with the beneficiaries of a policy that is written in trust as they are instead held with the trustee(s). As such, APUK is not required to hold the contact details of beneficiaries, and, in some cases, it may not be possible to send communications to the beneficiaries. For example, discretionary trusts may be in respect of future beneficiaries that have not yet been identified or beneficiaries may have not provided permission to use their personal data to contact them.
- 9.84 In lieu of contacting beneficiaries of policies held under trust directly, APUK will send the Notification to the principal trustee associated to each Transferring Policy. APUK also proposes a dispensation to contact only the principal trustee, rather than all trustees, in relation to each Transferring Policy held in trust.
- 9.85 In my opinion, the proposed dispensations in respect of beneficiaries and trustees are reasonable. Where relevant, the principal trustee will receive a Notification Pack that requests this information be relayed to the beneficiaries. For the purpose of ensuring the beneficiaries are made aware of the proposed Scheme, I am content that contacting solely the principal trustee is adequate and proportionate.
- 9.86 Certain Transferring Policyholders are insolvent persons, the control of whose assets may have been appointed to a trustee-in-bankruptcy, receiver or administrative receiver. APUK does not have any practical way of identifying the trustee-in-bankruptcy, receiver or administrative receiver of such Transferring Policyholders. Therefore, unless the Transferring Policyholder has specifically notified APUK of such an appointment, APUK intends to send a variant of the Notification Pack to the insolvent Transferring Policyholder directly, which will request the Transferring Policyholder to share the Notification Pack with their trustee(s)-in-bankruptcy, receiver(s) or administrative receiver(s) as appropriate.
- 9.87 I am satisfied that the waiver in respect of trustees-in-bankruptcy, receivers or administrative receivers is appropriate given that it would require a disproportionate effort to establish contact with these parties, and, in many cases, it may not be possible to do so.
- 9.88 As mentioned in paragraph 7.64, APUK offers the Transferring Policyholders a number of non-contractual benefits. In some cases, these benefits can be extended to others, for example, access to Aviva Smart Health may be provided to the family members of Transferring Policyholders. APUK proposes a dispensation in respect of such users of non-contractual benefits as APUK does not hold their contact details nor does it hold a legal obligation to such users that are not Transferring Policyholders.
- 9.89 In my opinion, it would not be proportionate to contact users of non-contractual benefits and, given that access to non-contractual benefits will be unaffected by the transfer, there would be limited utility in respect of such communications.

### **My conclusions in respect of the proposed dispensations**

- 9.90 I have reviewed each of the Companies' proposed dispensations for sending direct communications in respect of the proposed Scheme and I have considered the Companies' explanations for these dispensations, as shared directly with me and my team in written and oral formats, as well as the rationale set out in the Witness Statement of Frances Julia Bruce, the Chief Executive Officer of APUK, and the Witness Statement of Andrew Dinwiddie, the Chief Financial Officer of IWR.
- 9.91 In my experience of other Part VII schemes in the UK industry, it is an accepted and established practice to seek dispensations from the communications rules as part of Part VII schemes.
- 9.92 Any policyholders or interested parties who are not contacted via the communications strategy in respect of the proposed Scheme will have the opportunity to get information regarding the proposed Scheme through:
- The dedicated Transfer Website ([www.aviva.co.uk/partviii/](http://www.aviva.co.uk/partviii/)) which will contain copies of the various key documents, such as my Independent Expert's report, the reports of the Chief Actuaries, and the various communication notices regarding the proposed Scheme; and
  - The notice that will be published in the Guardian, the Times, the Telegraph, the Mirror, the Daily Mail, the international edition of the Financial Times and in the Belfast, London and Edinburgh gazettes.

- 9.93 The notices and transfer website will be available at least six weeks before the Sanction Hearing.
- 9.94 Overall, I am satisfied that the Companies' application to waive the requirement to contact all of their policyholders in relation to the proposed Scheme is appropriate. I have considered all of the proposed dispensations, including all UKLAP policyholders as well as certain classes of policyholders of APUK. In my opinion, the proposed dispensations are appropriate and are consistent with the supporting arguments set out in the FCA Final Guidance.

#### **POLICYHOLDER RESPONSES**

- 9.95 Any policyholder of UKLAP or APUK who has an enquiry and/or complaint related to the proposed Scheme may contact the relevant company by telephone, letter or email using the details that will be set out in the Notification Pack and on the transfer website. Such correspondence would be received and processed by a dedicated Part VII response handling team trained to deal with questions and concerns relating to the proposed Scheme.
- 9.96 All objections and complaints received prior to the Effective Date by the Companies concerning the proposed Scheme, as well as the responses provided by the Companies and any further correspondence thereafter, will be provided to me (and the PRA and FCA) by the Companies in a weekly summary spreadsheet detailing the type and number of correspondence in respect of the proposed Scheme received from policyholders and other interested parties.
- 9.97 I shall consider all complaints and objections received by the Companies in advance of the Effective Date. In my Supplementary Report, I shall comment on the process in place for handling any policyholder responses, the content of any complaints and objections and the Companies' responses to these complaints and objections.

#### **MY OVERALL CONCLUSIONS IN RESPECT OF THE PROPOSED POLICYHOLDER COMMUNICATIONS**

- 9.98 I have considered the proposed communications strategy of the Companies, both in relation to the direct communications with the policyholders as well as the further distribution of information in respect of the Scheme, including this Report.
- 9.99 I have considered the structure and content of the direct communications with the policyholders.
- 9.100 Finally, I have also considered the dispensations being sought by APUK in relation to communications to certain classes of the Transferring Policyholders and other related parties, as well as dispensations sought by UKLAP in relation to communications with UKLAP policyholders.
- 9.101 Overall, I am satisfied that the proposed approach to communication with policyholders, including the application for the dispensations, and including the approach to vulnerable customers, is appropriate and fair. I am also satisfied that the content of the communications is clear, adequate and appropriately tailored to the needs of the customer.

## 10 Other considerations in respect of the proposed Scheme

### INTRODUCTION

- 10.1 In this section, I have set out some other considerations that I consider relevant to the proposed Scheme and the likely effects of its implementation on policyholders. I have also set out my considerations in respect of other parties who may be affected by the implementation of the Scheme, including policyholders of insurance companies other than those directly involved in the Scheme (i.e. other than UKLAP and APUK).

### THE FUTURE OPERATION OF THE SCHEME

- 10.2 The proposed Scheme may be modified before the Effective Date with consent from both APUK and UKLAP. Such modifications would be subject to consideration by the High Court, the PRA and the FCA as well as me in my role as the Independent Expert as part of the Scheme process.
- 10.3 If the proposed Scheme were to be sanctioned by the High Court (and subject to any subsequent amendment of the Scheme, as considered below), the Scheme would be legally binding. The Boards of the Companies would be expected to implement the Scheme in accordance with their fiduciary duties under UK company law and their regulatory responsibilities under PRA and FCA rules, as well as their obligations to the High Court.
- 10.4 The Scheme would be sanctioned if a High Court Judge were to make an Order to that effect and would become effective on the Effective Date (31 December 2025).
- 10.5 The Scheme allows for the Companies to delay the Effective Date for up to three months (to 31 March 2026) without further High Court approval. The Effective Date would only be delayed for material reasons such as significant market volatility or force majeure events (such as operational failure). In such a case, the Companies would notify the PRA and the FCA and communicate this delay to the Transferring Policyholders as appropriate. The Effective Date of the Scheme will not be able to be deferred beyond 31 March 2026 without additional approval from the High Court.
- 10.6 This provision to delay the Effective Date for up to three months is not unusual in my experience of schemes of this nature and can offer further protection against unforeseen events. I am satisfied that it is reasonable to include such a provision in the proposed Scheme.
- 10.7 At any time after the High Court's approval of the Scheme, the Scheme permits future amendments to its terms where there is express provision within the Scheme to make such amendments or where UKLAP applies to the High Court to amend the Scheme.
- 10.8 Consent of the High Court is not required for amendments to the Scheme after the Effective Date where the proposed amendment to the Scheme is:
- Minor or technical;
  - Necessary to comply with Applicable Law and Regulation;
  - Necessary to reflect any changes in generally accepted actuarial principles; or
  - Required to protect the rights and reasonable expectations of holders of the Transferring Policies.
- 10.9 UKLAP would need to notify the PRA and the FCA if it planned to make any changes in respect of the cases set out in paragraph 10.8 above and can only make the amendments if each regulator has not objected within 30 days of such notification.
- 10.10 Furthermore, consent of the High Court and notification to the PRA and the FCA are not required where an amendment is allowed through a specific provision of the Scheme, and this provision is fully complied with.
- 10.11 For any case not covered by paragraph 10.8, UKLAP can apply for an amendment through the High Court, provided that certain conditions are met by UKLAP, including notifications to the PRA and the FCA, notification to APUK (if it has not been deauthorised at that time), and an accompanying certificate from an independent actuary stating that, in their opinion, the proposed amendment would not have a material adverse effect on UKLAP's policyholders (including the Transferring Policyholders). Should UKLAP obtain approval from the High Court to amend the Scheme, then the Scheme could be amended accordingly.
- 10.12 As described in Section 5, UKLAP is subject to a number of previous schemes, and is experienced in ensuring the adherence of UKLAP to the provisions of those schemes.

- 10.13 The 2017 Scheme (as subsequently amended) has provisions that govern the ongoing operation of the current business of UKLAP, including the business of the NPSF. If the proposed Scheme were to be implemented, the Transferring Business would be transferred into the NPSF, and so certain provisions of the 2017 Scheme would also apply to the Transferring Business.
- 10.14 UKLAP's legal adviser, Pinsent Masons, has reviewed the terms of the 2017 Scheme that apply to the ongoing management of the NPSF and its policies. The majority of these clauses relate to the management of the NPSF generally, and therefore would not have a direct impact on the Transferring Policies from APUK. However, there are certain clauses that apply to the policies of the NPSF that would, if the proposed Scheme were to be implemented, apply to the APUK business. One example of this is the ability to reallocate any non-profit policies to a different sub-fund of UKLAP in the future. Any such action would be subject to its own governance process and requirements as defined in the 2017 Scheme, including taking appropriate actuarial advice and requiring UKLAP Board approval.
- 10.15 Furthermore, Pinsent Masons has confirmed that the proposed Scheme does not conflict with any of the existing compliance or monitoring requirements contained within the 2017 Scheme, and that there are no conflicts in terms of the ongoing management of the Transferring Business.
- 10.16 I am satisfied that there are sufficient safeguards in place to ensure that, if it were to be approved by the High Court, then the proposed Scheme would be operated as set out in this Report and as presented to the High Court.

#### THE STRESS AND SCENARIO TESTING CARRIED OUT BY THE COMPANIES

- 10.17 As part of the work undertaken during the APUK acquisition process, Aviva considered the stress and scenario testing carried out by APUK. This showed that the primary risks affecting APUK, outside of those expected in a portfolio of UK protection business, were in respect of interest rate risk and the risks from the exposure of APUK to reinsurers.
- 10.18 Additional stress and scenario tests were obtained in the period leading up to acquisition which informed the capital injections and capital modelling work undertaken after the completion of the acquisition.
- 10.19 The exposure of APUK to movements in interest rates has been monitored by Aviva since the acquisition and UKLAP has put in place an interest rate hedging strategy that is designed to provide a mechanism for UKLAP to fund further injections into APUK if rates were to move adversely between now and the Effective Date.
- 10.20 During the preparation and planning for the proposed Scheme and the transfer of the APUK business to UKLAP, the Companies carried out some 1-in-200-year stresses on the post-Scheme assets and liabilities of UKLAP, and therefore the expected impact on UKLAP's SCR post-Scheme, as at 31 December 2024. This analysis showed:
- The most material (on a pre-Scheme basis) components of the SCR<sup>31</sup> modestly increased under the stresses considered. These risk components are credit risk, longevity risk, lapse risk and interest rate risk.
  - The components of the SCR for the other less material risks overall increased proportionally more than the components of the SCR for the most material risks. These risks were those that related more directly to the protection nature of the APUK products, such as mortality risk, critical illness risks, concentration risk and reinsurance risk. However, as they are less material in terms of the SCR, then it follows that the overall exposure of UKLAP to these risks is lower.
- 10.21 The product details and risks covered in the existing APUK business are similar to those of the existing UKLAP protection business, with no significant differences in products or product features. As APUK is a subsidiary of UKLAP, UKLAP is already exposed to the risks in APUK.
- 10.22 I am satisfied that the stress and scenario tests carried out in preparation for the proposed Scheme provide an appropriate coverage of the risks to which UKLAP would be exposed if the proposed Scheme were to be implemented.

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<sup>31</sup> In this analysis, the component of the SCR in respect of each individual risk was considered, i.e. the loss in Own Funds as a result of a 1-in-200-year stress relating to that risk in isolation. The post-diversification SCR of UKLAP would additionally allow for diversification benefits arising (as explained in paragraph A.68, such benefits may arise when different types of risks are combined because risks do not necessarily materialise at the same time or to the same extent, or different risks may have offsetting impacts).



## ACCESS TO THE FINANCIAL SERVICES COMPENSATION SCHEME AND THE FINANCIAL OMBUDSMAN SERVICE

- 10.23 UKLAP and APUK are UK-authorised companies and the access for the Transferring Policyholders and the existing UKLAP policyholders to the Financial Services Compensation Scheme (“**FSCS**”) and to the Financial Ombudsman Service (“**FOS**”) would be unaffected by the implementation of the proposed Scheme.
- 10.24 In particular, as described in Appendix A, the FSCS compensates customers in the event of the insolvency (or other defined default) of a financial services firm and therefore the Transferring Policyholders would be protected under the FSCS whether the proposed Scheme were to proceed (as policyholders of UKLAP) or not (as policyholders of APUK). For the avoidance of doubt, access to the FSCS and FOS applies to all Transferring Policyholders, including those domiciled in the UK, the Isle of Man, the Channel Islands and Gibraltar.
- 10.25 Group policies held by employers (as opposed to directly by individuals) may have different access rights for individuals for FSCS and/or FOS, but the position in respect of such policies would not be affected by the implementation of the proposed Scheme.

## THE COSTS OF THE PROPOSED SCHEME

- 10.26 As set out in Section 6, all costs in relation to the proposed Scheme, including the costs associated with the Independent Expert, will be met by the UKLAP NPSF.
- 10.27 The costs of the proposed Scheme are small relative to the size of UKLAP and would not materially impact the financial position of the NPSF. There would be no material impact on the expected benefits of the policyholders of the NPSF or the security of those benefits. For the avoidance of doubt, the costs of the Scheme are not being charged to the with-profits policyholders of UKLAP.
- 10.28 I am satisfied that the costs of the proposed transfer would not have a material adverse effect on the Transferring Policyholders or existing UKLAP policyholders.

## THE TAX IMPLICATIONS OF THE PROPOSED SCHEME

- 10.29 Consideration of the possible tax implications in relation to the proposed Scheme has been provided to the Companies by Aviva Group’s internal tax team. This tax team has managed the tax aspects of numerous previous Part VII Transfers. Technical support from external tax advisers would be sought if it were deemed necessary due to issues of complexity or international tax considerations. At the time of writing, no such external tax support has been sought by the Companies.
- 10.30 In forming my view on the Scheme, I have taken the advice received by the Companies from Aviva Group’s internal tax team into account as expert opinions on the tax implications of the Scheme on the Companies and the policyholders. This advice confirms that the Scheme:
- Would not result in any overall additional tax liabilities for the Companies, with all tax attributes/liabilities of APUK passing to UKLAP; and
  - Would not have any impact on policyholder taxation.
- 10.31 In addition, UKLAP will seek specific formal tax clearances from His Majesty’s Revenue and Customs (“**HMRC**”) following the Directions Hearing. I shall provide an update on these tax clearance applications in my Supplementary Report.

## THE EFFECT OF THE PROPOSED SCHEME ON OTHER COMPANIES IN THE AVIVA GROUP

### Introduction

- 10.32 In this section I have considered the effect of the proposed Scheme on the insurance companies (and their policyholders, where applicable) within the Aviva Group other than UKLAP and APUK. As set out in Section 5, these other companies are All, AIL, ALPI DAC and entities that existed as part of DLG prior to Aviva’s acquisition of DLG (which are now subsidiaries of AIL).

### **The effect of the proposed Scheme on the financial position of All**

- 10.33 The Technical Provisions and SCR of All would change as a result of the plan to extend the All Reinsurance Treaty to cover the Transferring Business post-Scheme once it is part of the NPSF.
- 10.34 As described in paragraph 8.15, it has been estimated that the inclusion of the Transferring Business within the All Reinsurance Treaty as at 31 December 2024 would have led to an insignificant decrease to All's Solvency Ratio, from 220% to 217%. All would therefore have remained within its solvency risk appetite and, in particular, the implementation of the All Reinsurance Treaty would not have affected All's compliance with its solvency capital requirements.
- 10.35 In February 2025, All paid a dividend to Aviva Group Holdings Limited which reduced the Solvency Ratio of All of 220% to 160%. This dividend was paid in line with the dividend policy of All and went through the required governance processes.
- 10.36 The pro forma Solvency Ratio of All allowing for the impact of the proposed Scheme (and the All Reinsurance Treaty being extended to cover the Transferring Business within UKLAP, as described in paragraph 6.21) as at 31 December 2024 was 158%. For the avoidance of doubt, this solvency ratio does allow for the payment of this dividend and does not affect All's compliance with its SRA.

### **The effect of the proposed Scheme on the policyholders of AIL or its subsidiaries**

- 10.37 The implementation of the proposed Scheme would have no impact on the financial position of AIL or the entities acquired by Aviva as part of its acquisition of DLG (which are subsidiaries of AIL).
- 10.38 The implementation of the proposed Scheme would not have any effect on the servicing, management, administration or governance applying to the AIL policyholders or the policyholders of the entities acquired by Aviva as part of its acquisition of DLG.
- 10.39 There is no requirement to notify AIL policyholders, or the policyholders of the entities acquired by Aviva as part of its acquisition of DLG (which are subsidiaries of AIL), of the Scheme as they are not policyholders of the Companies. As I mentioned in paragraph 9.45, I am satisfied that it is appropriate not to contact these policyholders in respect of the Scheme, given the minor impact the Scheme has on these policyholders.

### **The effect of the proposed Scheme on the ALPI DAC policyholders**

- 10.40 As set out in Sections 5 and 6, the Irish and other non-UK EEA policies of UKLAP were transferred to ALPI DAC under the Brexit Scheme in 2019. There are reinsurance agreements in place between ALPI DAC and UKLAP to reinsure certain business transferred from the NPSF and some of the with-profits funds of UKLAP.
- 10.41 The implementation of the proposed Scheme would not affect these reinsurance agreements or the terms and conditions of the ALPI DAC policies. Furthermore, the Scheme would not have any effect on the servicing, management, administration or governance applying to the ALPI DAC policyholders.
- 10.42 Owing to the reinsurance, the proposed Scheme would affect the policies of ALPI DAC to the extent that there are changes for the existing UKLAP policies (in either the NPSF or the with-profits funds). Therefore, my conclusions on the impact of the Scheme on the existing direct policyholders of UKLAP (set out in Section 8) apply equally to the reinsured policyholders of ALPI DAC.
- 10.43 There is no requirement to notify ALPI DAC policyholders of the Scheme as they are no longer policyholders of UKLAP. As set out in paragraph 9.45, I am satisfied that it is appropriate not to contact ALPI DAC policyholders in respect of the Scheme, given the limited impact the Scheme has on these policyholders.

### **My conclusions in respect of the effect of the proposed Scheme on the other insurance companies of the Aviva Group**

- 10.44 I am satisfied that the proposed Scheme would not have a material impact on policyholders in the remaining insurance companies within Aviva Group, whether in the UK or otherwise.
- 10.45 Further, I am satisfied that there would be no material change in the solvency position of the Aviva Group if the proposed Scheme were to be implemented, which is relevant to all companies within the Aviva Group.



## THE EFFECT OF THE SCHEME ON REINSURERS

- 10.46 As described in Sections 4 and 5, the Companies have various external reinsurance agreements. These agreements will be unchanged by the proposed Scheme, other than the current APUK agreements that would all be transferred such that the counterparty would be UKLAP rather than APUK.
- 10.47 All external reinsurers of APUK have been made aware of the proposed Scheme and APUK plans to send a formal notification of the proposed Scheme to these external reinsurers over July to August 2025.
- 10.48 At the time of writing this Report, I am not aware of any objections or issues raised by the reinsurers and APUK does not anticipate any such objections or issues given that, in particular, UKLAP has an existing relationship with all external reinsurers of APUK. I am therefore satisfied that there is no likely material adverse impact on the security of the Transferring Policyholders' benefits in the event of the objection of any of the external reinsurers of APUK to the proposed Scheme. I will provide an update on the communications with the external reinsurers of APUK in my Supplementary Report.

## EMERGING RISKS AND VOLATILITY

- 10.49 When considering the likely effects of the implementation of the proposed Scheme, I have continued to review emerging risks in the wider operating environment and whether these affect my conclusions in relation to the Scheme. In light of recent and ongoing events, such as the war in Ukraine, the Israeli-Palestinian conflict, the Israeli-Iranian conflict and the wider political unrest in the Middle East, I have considered a range of scenarios that, in my view, are the most plausible and relevant to the Scheme, including:
- The potential for further volatility in financial markets;
  - The potential for operational disruption within the Companies;
  - The potential for disruption to third parties that play a role in the implementation of the Scheme; and
  - The wider societal impacts that may affect policyholders' ability to engage with the Scheme.
- 10.50 Furthermore, the Companies are performing regular checks for policyholders who are sanctions targets against various international sanctions lists. At the time of writing, there are no policies of APUK that are subject to sanctions, though the Companies will continue to perform regular checks for such policyholders until the Effective Date. In addition, there are no sanctioned financial assets being transferred under the Scheme.
- 10.51 The impact of climate change is a key emerging risk for insurance companies and will affect both the assets and liabilities of insurance companies. The Bank of England has particularly emphasised that assessing and managing the risks arising from climate change is a key priority for insurers. This risk would exist regardless of whether or not the proposed Scheme were to be implemented and the implementation of the proposed Scheme would not impact the emergence of this risk.
- 10.52 In the event that I considered that any emerging risks were to render it inappropriate for the Companies to proceed with the Scheme within the planned time frames, I would make my views on this known to the Companies. Based on current conditions, in my view it remains appropriate for the Companies to continue to pursue the Scheme. I shall continue to monitor this and I shall provide an update in my Supplementary Report.
- 10.53 My Supplementary Report is expected to include updated financial information and analysis as at 30 June 2025. The effect of any significant market volatility arising between 30 June 2025 and the date of my Supplementary Report will be covered in my Supplementary Report, and I shall provide a further update to the High Court prior to the Sanction Hearing if necessary.

## OPERATIONAL READINESS FOR THE SCHEME

- 10.54 Implementation of the Scheme process, from the commencement of the policyholder mailings, through to the final processes which take place on the Effective Date and immediately thereafter, clearly constitutes a major operational exercise for the Companies. However, as APUK is already part of Aviva Group, integration and harmonisation activity does not need to be operationally managed concurrently with the Scheme to be implemented at the Effective Date. This differs from Part VII Transfers between two entirely separate entities, under which areas such as policy servicing and administration need to migrate on the Effective Date. This means that the consideration of operational risk and operational readiness in relation to this Scheme is at the more straightforward end of the spectrum.

- 10.55 A number of integration activities have been referred to in this Report for completeness but, on the whole, these will progress independently of the implementation of the proposed Scheme. Paragraph 6.21 sets out the operational changes that are directly tied to the implementation of the proposed Scheme. I shall continue to monitor these aspects and the state of operational readiness for the implementation of the Scheme, and I shall provide an update in my Supplementary Report.

#### **EFFECTS OF THE SCHEME NOT PROCEEDING**

- 10.56 I have also considered the likely effects on all policyholders of the Companies if for any reason the Scheme were not to be put into effect.
- 10.57 In such a scenario, all arrangements would continue as done currently and there would likely be no immediate effects (adverse or beneficial) on any policyholders. However, the benefits of the Scheme as set out in paragraph 6.2 in terms of greater operational, capital, and expense efficiency would not be realised.
- 10.58 It is likely that alternative strategies for the management and operation of APUK would be considered if the business was to continue on a standalone basis. However, this consideration is outside of my scope as the Independent Expert appointed to opine on this proposed Scheme.
- 10.59 If, for some reason, the Scheme were not sanctioned, the Companies would seek legal advice regarding what action to take regarding the Jersey Scheme and Guernsey Scheme.

#### **AVIVA GROUP'S ACQUISITION OF DIRECT LINE GROUP**

- 10.60 On 23 December 2024, Aviva Group and DLG announced they had reached an agreement on the terms of Aviva Group's acquisition of DLG. The acquisition aligns with Aviva Group's strategic focus on expanding its 'capital light' business, which includes general insurance (like DLG), as well as health and protection business (like APUK). Subsequently, on 10 March 2025, it was announced that the DLG shareholders had accepted the formal offer made by Aviva Group. This acquisition became effective on 1 July 2025.
- 10.61 It is expected that the integration process will take around three years and will, at some point, likely include a Part VII Transfer of UK Insurance Limited (the primary operating entity within DLG prior to the acquisition) into AIL. At the time this is decided, an Independent Expert would be appointed to opine on that Part VII Transfer and there would be interaction with, and oversight from, the PRA and the FCA.
- 10.62 The entities acquired by Aviva as part of its acquisition of DLG do not underwrite any life insurance or pensions business and so these operations and business lines are distinct and separate from those involved in the proposed Scheme between APUK and UKLAP.
- 10.63 The financial and operational segregation between these business lines ensures that the recent acquisition of DLG and the plan to integrate the acquired DLG business into the Aviva Group do not have any material impact on my conclusions in respect of the effect of the proposed Scheme on the Transferring Policies from APUK or the existing policies of UKLAP.
- 10.64 Further, Aviva Group has confirmed that the integration of the acquired DLG business will be managed by a dedicated team, ensuring that resources and personnel involved in this proposed Scheme would remain focused on the successful completion of the transfer of the APUK policies without diversion.
- 10.65 Aviva Group's capital management framework is designed to maintain robust solvency ratios and liquidity levels, mitigating potential contagion risk that could arise from the acquisition. The solvency position of Aviva Group is expected to remain at the upper end of its working range, with no adverse impact on the credit ratings or financial stability of Aviva Group. It is the expectation that the acquired business of DLG will be partially reinsured by AIL, leading to a change in AIL's financial position. Such a reinsurance agreement would be subject to approval of the AIL Board and would therefore follow the usual governance for such reinsurance agreements, and in particular the AIL Board would not proceed with such an agreement if to do so would result in a breach to AIL's SRA. Therefore, I am satisfied that AIL is expected to remain compliant with its SRA and that there will be no material adverse impact on its ability to continue the AIL Reinsurance Treaty with UKLAP as a result of this acquisition and subsequent reinsurance of the acquired business of DLG to AIL.
- 10.66 APUK (as AIG LL) had previously engaged in a strategic partnership with DLG to offer certain life insurance products to DLG customers. Such policies are included in the Transferring Policies and would be transferred to UKLAP if the proposed Scheme were to be implemented. The partnership between APUK and DLG ceased on 12 February 2025.

- 10.67 Taking account of the above, I am satisfied that the recent acquisition of DLG and planned integration process of the acquired business of DLG into the Aviva Group will not impact the proposed Scheme. The effects of the potential subsequent Part VII Transfer of the acquired DLG business to AIL would be considered by the Independent Expert approved to review that transfer, as well as by the Court, the PRA and the FCA.

## THE CONSUMER DUTY

- 10.68 In July 2022, the FCA published its Policy Statement and Finalised Guidance for the new Consumer Duty, which sets higher and clearer standards of consumer protection across financial services in the UK and requires firms to put their customers' needs first.
- 10.69 The Consumer Duty includes a new Consumer Principle (Principle 12 of the Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers. These rules came into force on 31 July 2023 for new and existing products or services that are open to new business and came into force on 31 July 2024 for closed products or services. Therefore Consumer Duty is currently applicable to all of the Transferring Business and to all of the existing UKLAP business.
- 10.70 Given the time of the acquisition, APUK and UKLAP have developed their own approaches to ensuring their business complied with the Consumer Duty requirements. In particular, Aviva plc has developed a Consumer Duty implementation programme covering its IWR proposition as a whole, which encompasses UKLAP.
- 10.71 As noted in paragraph 9.29, Aviva has defined a set of internal principles for its provision of customer services to ensure it is able to meet the expectations under Consumer Duty and to ensure it delivers an industry-leading customer experience. Additionally, as mentioned in paragraph 9.30, Aviva has produced internal guidance for effective policyholder communications to ensure that best practice, and in particular the requirements of the Consumer Duty, is followed for such communications.
- 10.72 The IWR Consumer Duty implementation is being embedded into the business-as-usual processes, and this is subject to ongoing and regular assurance. In particular, a monthly steering committee monitors progress and provides challenge of the Consumer Duty implementation across the IWR proposition. Additionally, an annual assessment of UKLAP's compliance with Consumer Duty, including any necessary future actions and improvements, will be reviewed by the UKLAP Board.
- 10.73 As the IWR Consumer Duty implementation programme commenced prior to UKLAP's acquisition of APUK (as AIG LL), it did not explicitly consider the APUK business. Following the acquisition of APUK (as AIG LL), an assessment was performed to compare APUK's pre-existing approach to Consumer Duty to that which Aviva had developed for its IWR proposition. Aviva has confirmed to me that the outcome of this comparison was that, whilst both businesses are considered compliant with Consumer Duty, the threshold currently set by IWR is at least as high as that set by APUK.
- 10.74 APUK therefore determined a list of improvements to help align its Consumer Duty standards with those of IWR and these actions were completed over Q1 2025. These improvements involved assessments of communications, customer journeys, outcome monitoring and documentation. In particular, a fair value assessment of a sample of the APUK products was performed using the IWR fair value framework. As a result of this work, the Companies consider the strengthened Consumer Duty standards currently applied under APUK are comparable to those applied under IWR.
- 10.75 I understand that the FCA is engaging with a number of insurers, including UKLAP, to ensure customer outcome monitoring implemented by firms as part of their Consumer Duty compliance is adequate. As part of this, UKLAP has performed a gap analysis against the Consumer Duty requirements and has formulated a risk mitigation plan to be implemented over 2025 that will strengthen its customer outcome monitoring and on which I will provide an update in my Supplementary Report. For the avoidance of doubt, the APUK business is outside of the scope of this risk mitigation plan, however any improvements made to UKLAP will be extended to the management of APUK's customers.
- 10.76 The FCA has also recently launched a market study into the UK pure protection insurance market and will explore commission arrangements related to the sale of these products as well as how these products ensure good value is delivered for customers. Aviva plc will participate in this study and this will include the protection business within both UKLAP and APUK. Aviva plc has confirmed that it will carefully consider any findings that emerge from this study and incorporate these into its Consumer Duty implementation as appropriate.

- 10.77 The activities undertaken to improve the Companies' respective implementations of Consumer Duty are unrelated to the proposed Scheme. That is, whether the Scheme were to be implemented or not, the management of the Transferring Business would be performed according to the same standards which are in the process of being aligned to those under IWR's Consumer Duty implementation as part of the wider integration of APUK into the Aviva Group.
- 10.78 I am satisfied that the Transferring Policyholders will not experience any material differences in their customer outcomes as a result of the implementation of the proposed Scheme.

#### REGULATORY DEVELOPMENTS

- 10.79 In December 2024, the PRA published Consultation Paper 19/24 "Closing liquidity reporting gaps and streamlining Standard Formula reporting" ("**CP19/24**") which outlined proposals to introduce more comprehensive and regular liquidity reporting requirements for insurers above certain thresholds.
- 10.80 Under these thresholds, CP19/24 would be applicable to UKLAP, and UKLAP has confirmed it will comply with these reporting requirements when they become effective. As APUK does not exceed these thresholds, it would not, in the absence of the Scheme, have to implement these reporting requirements.
- 10.81 In December 2024, the PRA published Supervisory Statement 11/24 "Solvent exit planning for insurers" ("**SS11/24**") which set out the requirements for insurers to prepare for an orderly solvent exit as part of business-as-usual activities and to be able to execute a solvent exit if needed.
- 10.82 Both APUK and UKLAP are in the scope of SS11/24 and will therefore have to comply with its requirements, and in particular produce and maintain a policy detailing the firm's strategy in executing a solvent wind-down.
- 10.83 These requirements will be applicable to both APUK and UKLAP regardless of whether the proposed Scheme were to be implemented.

## 11 My conclusions in respect of the proposed Scheme

- 11.1 I have considered and analysed the likely impact of the proposed Scheme on all of the policyholders of APUK and UKLAP as set out in previous sections of this Report.
- 11.2 There are some outstanding areas of consideration at the time of finalising this Report that, to the extent that there are developments at the time of writing, I will consider in my Supplementary Report. These areas include:
- The outcome of the Directions Hearing, and any further material changes to the Scheme;
  - The responses received from the Transferring Policyholders, and the Companies' management of these responses;
  - Any material changes in the financial positions or risk profiles of the Companies between the date of this Report and the Effective Date;
  - Any material changes in internal governance, risk management, of the Companies between the date of this Report and the Effective Date;
  - Any material changes in the administration and servicing arrangements of the Companies between the date of this Report and the Effective Date; and
  - Any significant regulatory or legal developments that are relevant to the Companies occurring between the date of this Report and the Effective Date;
  - The outcome of the process for All to approve the extension of the All Reinsurance Treaty to the Transferring Business; and
  - Any other material events occurring between the date of this Report and the Effective Date.
- 11.3 In conclusion, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on any of the following:
- The security of the benefits to which policyholders of APUK and UKLAP are entitled under the terms and conditions of their policies;
  - The reasonable expectations of the policyholders of APUK and UKLAP in respect of their benefits; and
  - The standards of administration, servicing, management, and governance applicable to the policies of APUK and UKLAP.



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1 July 2025

# Appendix A – The UK life insurance market and regulatory environment

## INTRODUCTION

- A.1 The regulatory regime to which UK insurers are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Expert and are summarised in this section.

## THE UK REGULATORS

- A.2 Prior to 1 April 2013, regulation of insurance companies was the responsibility of the Financial Services Authority. Since 1 April 2013, responsibility for the regulation of such companies has been split between the PRA and the FCA.
- A.3 The PRA is a part of the Bank of England and carries out the prudential regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms.
- A.4 The PRA has two primary objectives: a general objective to promote the safety and soundness of the firms they regulate, and an objective specific to insurance firms, to contribute to ensuring that policyholders are appropriately protected. More generally, these statutory objectives can be advanced by seeking to ensure that regulated insurers have resilience against failure and that disruption to the stability of the UK financial system from regulated insurers is minimised.
- A.5 The FCA regulates the conduct of all financial services firms with the strategic objective to make sure the relevant markets function well. The FCA has operational objectives in relation to consumer protection, industry stability and the promotion of healthy competition between providers.

## THE SOLVENCY UK REGULATORY REGIME

### Introduction

- A.6 The current regulatory solvency framework for the EEA insurance and reinsurance industry came into effect on 1 January 2016. This regime is known as Solvency II, and it imposes minimum solvency requirements that reflect the specific risks faced by each insurer and reinsurer and aims to achieve consistency across the EEA. All but the smallest EEA insurance companies are subject to Solvency II, and as a result are required to adhere to a set of risk-based capital requirements, and to disclose their solvency position in a public document.
- A.7 The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021 the UK has been free to determine an appropriate regulatory regime for insurance companies, which is known as Solvency UK. Changes have been made to date to the Solvency II regime as it is applied to UK incorporated and authorised insurers and reinsurers, including a change to the yield curves used to discount the components of the balance sheet and the removal of certain Quantitative Reporting Templates.
- A.8 The UK Government published a consultation document on proposed reforms as part of Solvency UK in April 2022, and the PRA published a statement in response and an accompanying discussion paper setting out the PRA's views on key aspects of the consultation. To date, the PRA has implemented a number of reforms as part of Solvency UK, specified in several supervisory statements. Such changes include:
- For the Risk Margin calculation, the cost of capital rate applied in the calculation reduced from 6.0% to 4.0% and the Risk Margin projection introduced a new "lambda factor" which reduces the size of the projection over time by taking respective powers of the factor. The lambda factor is prescribed as 0.9 for life insurers and reinsurers and 1.0 for non-life insurers and reinsurers, with a floor of 0.25 for all firms. The Risk Margin changes took effect from 31 December 2023;
  - A requirement for firms to recalculate their TMTP to take account for the Risk Margin changes, as well as simplifications for recalculations of the TMTP;
  - Identifying additional Quantitative Reporting Templates which are expected to be removed in the future and which have been made optional in the interim;
  - Removal of the requirement to submit a Regular Supervisory Report;

- Reforms to the Matching Adjustment including:
  - Greater investment flexibility, including the ability to use assets with highly predictable cashflows;
  - Allowing the Matching Adjustment to apply to a wider range of liabilities e.g. in-payment income protection liabilities;
  - Greater guidance and scope on how to treat internal credit assessments and sub-investment grade assets;
  - Additional rules around eligibility of assets and proportionality for breaches of the Matching Adjustment conditions;
  - Requirement to provide an attestation from a senior management function (“**SMF**”) on the sufficiency of the fundamental spread and the quality of the Matching Adjustment;
  - Introduction of formalised assumptions which underlie the Matching Adjustment;
  - Formalised regulatory data collection on the Matching Adjustment;
  - Increased granularity in the fundamental spread, including notching where appropriate.

A.9 The list of changes set out above is not intended to be exhaustive and there are other areas being considered for reform as part of Solvency UK.

### The Solvency II three pillars

A.10 Solvency II is based on three pillars:

- Under Pillar 1, quantitative requirements define a market consistent<sup>32</sup> framework for valuing the company’s assets and liabilities, the results of which will be publicly disclosed.
- Under Pillar 2, insurers must meet minimum standards for their corporate governance and their risk and capital management. There is a requirement for permanent internal audit and actuarial functions. Insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of capital resources (called the ORSA), and senior management must demonstrate that this actively informs business planning, management actions and risk mitigation.
- Under Pillar 3, there are explicit requirements governing disclosures to supervisors and to the public. Firms produce a publicly available Solvency and Financial Condition Report.

### The Pillar 1 requirements

- A.11 The determination of a market consistent value of liabilities under Solvency II requires the insurer to calculate the BEL. The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and using best estimate actuarial assumptions, and the BEL represents the present value of these projected cashflows, discounted at risk-free interest rates.
- A.12 Under Solvency II, a company’s Pillar 1 liabilities are called the “Technical Provisions” which consist of the sum of the BEL and the Risk Margin. The Risk Margin is an adjustment designed to bring the Technical Provisions up to the amount that another insurance or reinsurance undertaking would be expected to require in order to take over and meet the insurance obligations in an arm’s length transaction.
- A.13 Insurers are permitted to apply to their regulator (the PRA in the UK) to make use of the TMTP, which allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen-year period. In the UK, the increase is measured relative to the firm’s insurance liabilities under the previous Solvency I Pillar II regime. In the UK, the TMTP is subject to a mandatory recalculation every two years, and additionally, firms are permitted to seek permission from the PRA to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.
- A.14 Under Pillar 1, the assets of the insurer are, broadly speaking, recognised at their market value.
- A.15 The SCR under Solvency II is the capital requirement under Pillar 1 and is intended to be the amount required to ensure that the firm’s assets continue to exceed its Technical Provisions over a one-year time frame with a probability of 99.5%.

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<sup>32</sup> A market consistent framework requires the values placed on assets and liabilities to be consistent with the market prices of listed securities and traded derivative instruments.



- A.16 The MCR, which is generally lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation but is also subject to an absolute minimum value.
- A.17 In calculating the SCR, the majority of firms use the “Standard Formula”, as prescribed by the European Insurance and Occupational Pensions Authority. However, Solvency II also permits firms to use their own internal models (or a combination of an internal model and the standard formula, known as a partial internal model) that are designed to represent the firm’s specific risk profile more accurately to derive the SCR. These internal models and partial internal models are subject to approval by, or permission from, the relevant regulator. In the UK, this requires permission from the PRA.

### **Own Funds and capital resources**

- A.18 Under the Solvency II regime, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital resources available in the company to cover capital requirements.
- A.19 Under Solvency II, companies are required to classify their Own Funds into three tiers, which broadly represent the quality of the Own Funds in relation to their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must exhibit both of the following:
- Permanent availability, i.e., the item is available, or can be called up on demand, to fully absorb losses on a going concern basis, as well as in the case of winding up.
  - Subordination, i.e., in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations towards policyholders and beneficiaries of insurance and reinsurance contracts, have been met.
- A.20 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

### **Ring-fenced funds**

- A.21 Solvency II includes the concept of a ring-fenced fund. This refers to any arrangement where an identified set of assets and liabilities are managed as though they were a separate undertaking, meaning that there are restrictions on the extent to which surplus in the ring-fenced fund may be transferred to shareholders or used to cover losses outside the ring-fenced fund.
- A.22 In the UK, many firms have established ring-fenced funds in order to reflect the arrangements applicable to their with-profits funds (as defined under the previous regulatory regime) and the with-profits and non-profit business allocated to such with-profits funds.

## **THE LONG-TERM BUSINESS FUND AND SHAREHOLDER FUND IN THE UK**

- A.23 Prior to the implementation of Solvency II, proprietary firms in the UK writing long-term insurance business were required to identify the assets attributable to their long-term insurance business and keep those assets separate from shareholder funds in what was referred to as a long-term business fund. The other assets of a proprietary company were typically allocated to the shareholder fund.
- A.24 Following the implementation of Solvency II, the requirement to maintain a separate long-term business fund was removed and therefore a firm’s “fund structure” now consists of the ring-fenced funds and the business outside of the ring-fenced funds. Although not required to do so for regulatory purposes, some firms continue to maintain a notional fund for accounting purposes in respect of long-term insurance business outside of the ring-fenced funds. Such a notional fund is sometimes referred to as the non-profit fund.

## **REGULATORY PERMISSIONS UNDER SOLVENCY II**

- A.25 Any UK firms intending to use an internal model, transitional measures, a Matching Adjustment or Volatility Adjustment must apply to the PRA for permission. The PRA has the right to remove its permission for the use of any of these measures if the firm is found to be in breach of the restrictions and conditions on which the original permission was based.

- A.26 Firms must apply to the PRA if they wish to make changes to the terms of their existing permissions. For example, firms would seek permission from the PRA to make a major change to their internal model and would not be expected to submit more than one major change application per year. A major change can comprise a single change or an accumulation of minor changes that, in aggregate, comprise a major change.
- A.27 Additionally, firms are permitted to seek permission to undertake a recalculation of their TMTP every six months if their risk profile has changed materially since the previous recalculation.

### **The transitional measures**

- A.28 Insurers are permitted to apply to their regulator to make use of transitional measures. Transitional measures allow firms to phase in the balance sheet impact of moving from the former Solvency I regulatory regime to the Solvency II regulatory regime. The transitional measures can be applied in one of two ways:
- The TMTP allows firms to phase in the increase in Technical Provisions under Solvency II Pillar 1 (in relation to business written prior to 1 January 2016) over a sixteen-year period. In the UK, the increase is measured relative to the firm's Solvency I Pillar II liabilities.
  - The Transitional Measure on the Risk-Free Interest Rate allows firms to phase in any reduction in the discount rate used to calculate their liabilities under Solvency II relative to the previous regime over a sixteen-year period.
- A.29 For a given firm, the TMTP is calculated as at the implementation date of Solvency II, i.e., 1 January 2016. The TMTP is calculated as the difference, to the extent that this difference is a positive number, between the firm's Technical Provisions under Solvency II and the firm's insurance liabilities under the previous Solvency I Pillar II regime.
- A.30 The final calculated TMTP is deducted from the firm's Technical Provisions in its Solvency II balance sheet at 1 January 2016. For valuation dates after 1 January 2016, the TMTP that was calculated at 1 January 2016 is reduced linearly to zero over a sixteen-year period.
- A.31 The Solvency II Directive provides for firms' TMTP to be subject to recalculation every two years, with more frequent recalculations permitted if the firm's risk profile has materially changed.
- A.32 There have been changes to simplify future recalculations of the TMTP under Solvency UK, as well as a requirement for firms to recalculate in respect of the changes to the Risk Margin calculation which took effect from 31 December 2023.

### **The Matching Adjustment**

- A.33 In calculating the BEL, the Solvency II regulations permit firms to apply to their regulator to make use of the Matching Adjustment. The Matching Adjustment is an increase to the discount rate used in the calculation of the BEL that allows firms to take credit for the additional investment return in excess of the risk free rate that they expect to earn from a "hold to maturity" investment strategy for their less liquid assets, which are used to back their most stable and predictable liabilities, typically non-profit in-payment annuity liabilities.
- A.34 Firms using the Matching Adjustment are subject to various restrictions around the types of asset that are permitted to back the relevant liabilities, the circumstances in which the assets may be traded, and the extent to which mismatching of asset and liability cashflows is permitted.
- A.35 As noted earlier in this Appendix, certain changes to the Matching Adjustment under Solvency UK took effect in 2024.

### **The Volatility Adjustment**

- A.36 Where insurers have liabilities that are not eligible for use of the Matching Adjustment, the Solvency II regulations permit firms to apply to their regulator to make use of the Volatility Adjustment. The Volatility Adjustment is an increase to the discount rate used in the calculation of the BEL (other than for liabilities that are subject to the Matching Adjustment) which aims to prevent forced sales of assets in the event of extreme bond spread movements.
- A.37 The Volatility Adjustment is based on the spreads on a representative portfolio of assets for each relevant currency and the risk-free discount curves which include the Volatility Adjustment are published by the PRA in the UK.

## THE PRODUCTS AND LONG-TERM INSURANCE BUSINESS RELEVANT TO THIS REPORT

- A.38 UKLAP has a wide variety of in-force insurance policy types, covering both with-profits and non-profit life, health and pension policies. APUK has a narrower range of in-force insurance policy types, covering non-profit life and health policies.
- A.39 Non-profit business refers to insurance business whose policyholders do not share in the profits of the insurer and all surplus is typically attributable to the providers of capital, for example the company's shareholders or holders of with-profits policies issued by the company. Non-profit business typically refers to the following classes of insurance business:
- Conventional non-profit business;
  - Unit-linked business; and
  - Index-linked business.
- A.40 Conventional non-profit business refers to insurance business where the benefits received by policyholders are fixed in terms of monetary amount, for example a life insurance policy that pays a fixed death benefit or a pension annuity that pays a fixed annuity amount each year whilst the policyholder remains alive. Insurance companies aim to make a profit from conventional non-profit business by setting premium amounts that, in conjunction with the investment returns earned on invested policyholder premiums, are expected to be more than sufficient to cover the benefits payable and any associated expenses.
- A.41 Unit-linked business is principally a type of investment product where policyholders' premiums are used to buy units in investment funds. The value of the policyholder's units is generally updated on a daily basis, such that it moves in line with the performance of the investments in the fund, net of any charges levied on the policy. Insurance companies' profits from unit-linked contracts are determined by the extent to which the income they receive from these charges exceeds the expenses they incur in incepting and maintaining the business.
- A.42 Index-linked business is an insurance product where the policyholder's benefits are determined by reference to an index, such as an inflation index, rather than being a fixed monetary amount. An annuity providing payments linked to changes in the RPI is an example of an index-linked contract.
- A.43 With-profits business refers to insurance business where policyholders are entitled to share in the profits of a specified pool of assets and liabilities. For with-profits business, it is typical for insurers to target policyholder pay-outs to be relatively close to the policy's "asset share", which is a measure of the true value of the policy based on actual investment returns and expenses incurred by the fund. Therefore, where final bonuses are paid, it is typical for these to be calibrated in order to target something close to asset share, subject often to a degree of smoothing, as well as being subject to honouring any guaranteed benefits to which the policyholder is entitled.

## THE GOVERNANCE OF UK LONG-TERM INSURERS

- A.44 For most UK long-term insurers, the Board of Directors is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management, and approving the firm's financial statements.
- A.45 Under Solvency II, all insurers are required to establish the following key functions:
- **Actuarial function:** The actuarial function is responsible for, inter alia, coordinating the calculation of the Technical Provisions and providing an opinion on the firm's underwriting policy and the adequacy of the firm's reinsurance agreements.
  - **Compliance function:** This function is required, inter alia, to advise the insurer on compliance with the Solvency II regulations.
  - **Internal audit function:** This function is required, inter alia, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.
  - **Risk management function:** This function is required, inter alia, to facilitate the implementation of the insurer's risk management system.
- A.46 These functions are not defined by the Solvency II regulations as being performed by an individual; however, in the UK, the PRA and FCA have introduced a governance regime for UK insurers called the Senior Managers and

Certification Regime (“**SM&CR**”), which became effective on 10 December 2018 and defines a set of SMFs, including:

- SMF 1 – Chief Executive Officer;
- SMF 2 – Chief Financial Officer;
- SMF 4 – Chief Risk Officer;
- SMF 5 – Head of Internal Audit;
- SMF 6 – Head of Key Business Area;
- SMF 15 – Chair of the With-Profits Committee;
- SMF 20 – Chief Actuary; and
- SMF20a – With-Profits Actuary.

- A.47 Under the SM&CR, the persons having responsibility for the actuarial function, internal audit function and risk management under Solvency II are the Chief Actuary, Head of Internal Audit and Chief Risk Officer respectively, and the individuals responsible for these functions are subject to PRA approval.
- A.48 In addition, those firms with with-profits business must appoint an actuary (or actuaries) to perform the WPA function (also subject to PRA approval). This individual’s responsibilities include advising the firm’s management on the key aspects of the discretion to be exercised affecting those classes of the with-profits business of the firm in respect of which they have been appointed.
- A.49 Under the SM&CR, SMF holders are subject to a ‘Duty of Responsibility’. If a firm breaches a regulatory requirement, the regulators can take action directly against the SMF holder responsible for the area relevant to the breach if the regulators can show that the SMF holder had failed to take reasonable steps to prevent or stop the breach.
- A.50 In relation to each with-profits fund, firms must appoint a WPC (or a “with-profits advisory arrangement” if appropriate given the size, nature, and complexity of the fund in question). The role of the WPC is to advise and provide recommendations to the firm’s governing body on the management of the with-profits business, and to act as a means by which the interests of with-profits policyholders are appropriately considered within a firm’s governance structures. The Chair of the WPC is one of the SMFs defined under the SM&CR.

#### **A FIRM’S RISK APPETITE AND CAPITAL MANAGEMENT POLICY**

- A.51 The Board of a firm is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept not being able to pay policyholder liabilities as they fall due and/or meet regulatory requirements.
- A.52 In order to ensure that day-to-day fluctuations in markets and other experience do not lead to a breach of their risk appetite and regulatory capital requirements, insurers usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm’s capital management policy.
- A.53 The capital management policy of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to this policy usually require Board approval and appropriate consultation with the prudential regulator (the PRA in the UK).
- A.54 The capital management policy is typically stated in terms of the capital requirements set down by the relevant regulations. The regulatory capital requirements typically target a particular probability of remaining solvent over a certain time horizon: for example, for the Solvency II regulatory regime it is a 99.5% probability of remaining solvent over a one-year time horizon. By requiring additional capital to be held on top of the regulatory requirements, adherence to the capital management policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to that policy.
- A.55 The level of capital required may also be driven by the desire of the Board to maintain a certain credit rating with external credit rating agencies.

## FINANCIAL SERVICES COMPENSATION SCHEME

- A.56 As well as through the PRA and FCA regulations, consumer protection is also provided by the Financial Services Compensation Scheme (or FSCS). This is a statutory "fund of last resort", which compensates customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or FCA.
- A.57 The Financial Services Compensation Scheme provides compensation (100% of the policyholder's entitlement) to individual holders of long-term insurance policies issued by UK insurers in the UK or another EEA state in the event of the insolvency of an insurer (the failure of that insurer to pay benefits). In the event of an insolvency, a call on the Financial Services Compensation Scheme is covered by levies on the insurers in the UK insurance industry.

## FINANCIAL OMBUDSMAN SERVICE

- A.58 The Financial Ombudsman Service is an independent public body that aims to resolve disputes between individuals and UK financial services companies and may make compensation awards in favour of policyholders. Only holders of policies that constitute business carried on in the UK are permitted to bring complaints to the Financial Ombudsman Service. The Financial Ombudsman Service may direct UK financial services companies to pay compensation up to maximum limits that depend on the timing of the complaints and the timing of the acts or omissions by firms.
- A.59 The "Dispute Resolution: Complaints" section of the FCA Handbook sets out the jurisdiction and scope of the Financial Ombudsman Service in the UK.

## FCA CONDUCT PRINCIPLES

- A.60 Within its document "Fair treatment of customers", the FCA sets out six consumer outcomes that firms should strive to achieve to ensure fair treatment of customers. These remain core to what the FCA expects of firms. These are as follows:
- Outcome 1: Consumers can be confident that they are dealing with insurers where the fair treatment of customers is central to the corporate culture;
  - Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly;
  - Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale;
  - Outcome 4: Where consumers receive advice, the advice is suitable and takes account of their circumstances;
  - Outcome 5: Consumers are provided with products that perform as insurers have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect; and
  - Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by insurers to change product, switch provider, submit a claim or make a complaint.
- A.61 These outcomes, which are often summarised as "Treating Customers Fairly", apply even for firms that do not have direct contact with retail customers. The FCA's rationale is that risks and poor conduct can be carried from wholesale to retail markets.
- A.62 The FCA has supplemented its Fair Treatment of Customers document with guidance, published in January 2018, entitled The Responsibilities of Providers and Distributors for the Fair Treatment of Customers ("RPPD"). This provides the FCA's view on what the combination of Principles for Businesses and detailed rules require respectively of providers and distributors in certain circumstances to treat customers fairly. The RPPD looks particularly to the following Principles:
- Principle 2: A firm must conduct its business with due skill, care and diligence;
  - Principle 3: A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
  - Principle 6: A firm must pay due regard to the interests of its customers and treat them fairly;
  - Principle 7: A firm must pay due regard to the information needs of its clients and communicate information to them in a way that is clear, fair and not misleading; and
  - Principle 12: A firm must act to deliver good outcomes for retail customers.

## THE CONSUMER DUTY

- A.63 In July 2022, the FCA published its Policy Statement and Finalised Guidance for the new Consumer Duty, which sets higher and clearer standards of consumer protection across financial services in the UK and require firms to put their customers' needs first.
- A.64 The Consumer Duty consists of three parts:
- A new Consumer Principle (Principle 12 of the FCA Principles for Businesses) that requires firms to act in a way that delivers good outcomes for retail customers;
  - The "cross-cutting rules" which develop expectations for firms' behaviour and how they should act to deliver good outcomes. It also informs firms on how to interpret the four outcomes; and
  - The "four outcomes" which are rules and guidance to provide detailed expectations for firms. The outcomes cover:
    - The governance of products and services;
    - Price and value;
    - Consumer understanding; and
    - Consumer support.
- A.65 These rules came into force on 31 July 2023 for new and existing products or services that are open to new business, and came into force on 31 July 2024 for closed products or services.

## THE INSURERS (REORGANISATION AND WINDING-UP) REGULATIONS 2004

- A.66 Under UK law, the winding-up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding-Up) Regulations 2004 (as amended, including under the Solvency II Regulations 2015). Under these regulations, insurance claims have precedence over any claim on the insurance undertaking with the exception of certain preferential claims (e.g., claims by employees) with respect to the whole of the insurance undertaking's assets. Therefore, direct policyholders rank equally and above inwards reinsurance policyholders and all other unsecured/non preferential creditors in the event that an insurer is wound up.

## RISK CATEGORIES RELEVANT TO THE COMPANIES

- A.67 It is common for insurers to divide the risks to which they are exposed into categories. Categories of risk to which the Companies are exposed are:
- **Market risk:** The risk of adverse changes in the price, level or volatility of financial instruments and market variables such as interest rates, inflation, property and equity prices.
  - **Expense risk:** The risk of the insurer underestimating the level of its expense base, resulting in higher than expected expense outgoings.
  - **Lapse risk:** The risk of higher or lower than expected surrenders of life insurance policies or transfers of pension policies.
  - **Mortality risk:** The risk of higher than expected deaths amongst holders of life insurance policies.
  - **Longevity risk:** The risk of greater than expected longevity amongst holders of annuities and other products.
  - **Disability risk:** The risk of higher than expected rates of disability, sickness or morbidity for policies which protect the policyholder against such risks.
  - **Life catastrophe risk:** The risk resulting from significant uncertainties in pricing assumptions related to extreme or irregular events.
  - **Health underwriting risk:** the risks arising from the underwriting of health insurance policies.
  - **Counterparty default risk:** the risk of losses resulting from the unexpected default or deterioration in credit quality of counterparties and debtors. This includes risk mitigation contracts, securitisations, derivatives and receivables from intermediaries.
  - **Operational risk:** the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

- A.68 Diversification benefits arise when different types of risks are combined because risks do not necessarily materialise at the same time or to the same extent, or different risks may have offsetting impacts when they arise. This reduces the overall level of risk.
- A.69 When companies with differing risk profiles are combined, it is possible that stresses can partially or fully offset one another and result in an SCR lower than the sum of the SCR for each company separately. This is a tried and tested risk management concept resulting in a reduction in capital requirements. For example, if for one company the assets less liabilities increases when interest rates rise, and for another company the assets less liabilities decreases when interest rates rise, then overall for both companies combined if interest rates were to rise then there would be some offsetting effect, i.e., a diversification benefit.



## Appendix B – Certificate of compliance

I understand that my duty in preparing my report is to help the High Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules<sup>33</sup>, the Practice Direction<sup>34</sup> and the Guidance for the Instruction of Experts in Civil Claims 2014<sup>35</sup> produced by the UK's Civil Justice Council and have complied with and will continue to comply with them. As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I have understood my duty to the High Court and have complied with and will continue to comply with this duty.

I confirm that I have made clear which facts and matters referred to in my report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

I understand that proceedings for contempt of court may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.



**Oliver Gillespie**

Fellow of the Institute and Faculty of Actuaries

Principal, Milliman LLP

1 July 2025

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<sup>33</sup> Rules & Practice Directions - Civil Procedure Rules ([justice.gov.uk](https://www.justice.gov.uk))

<sup>34</sup> PART 35 - EXPERTS AND ASSESSORS - Civil Procedure Rules ([justice.gov.uk](https://www.justice.gov.uk))

<sup>35</sup> Guidance for the instruction of experts in civil claims | Courts and Tribunals Judiciary

## Appendix C – Glossary of terms

A glossary of the abbreviations used throughout the report is given below.

	#
<b>2017 Scheme</b>	In April 2015, Aviva plc acquired Friends Life Group, making Aviva plc the ultimate holding company of Friends Life Ltd and Friends Life & Pensions Ltd. On 1 October 2017, the long-term business of FLL, FLP and the annuity business of Aviva Investors Pensions Ltd was transferred to UKLAP.
	A
<b>Accenture</b>	Accenture UK Limited. A company that provides management consulting, technology, and outsourcing services. Administration and servicing of APUK policies is currently carried out by Accenture (as well as APUK's in-house professionals) under an outsourcing agreement.
<b>AIG</b>	American International Group, Inc. A global insurance and financial services company headquartered in the United States. In 2021, AIG underwent restructuring to separate its life and retirement business from its general insurance business, which ultimately led to the acquisition of APUK (then AIG LL) by UKLAP.
<b>AIG LL</b>	AIG Life Limited. The name of APUK prior to its rebranding in February 2025. AIG LL was acquired by UKLAP in 2024.
<b>All</b>	Aviva International Insurance Ltd. An entity that acts as the reinsurance vehicle for companies within Aviva Group and is incorporated in England and Wales. All reinsures various different risk types across other business entities within Aviva Group.
<b>All Reinsurance Treaty</b>	The reinsurance treaty in place between UKLAP and All whereby UKLAP cedes 30% of the liabilities in the NPSF to All on a quota share basis.
<b>AIL</b>	Aviva Insurance Ltd. An entity within the Aviva Group that provides general and health insurance in the United Kingdom, and incorporated in Scotland
<b>AIRCO</b>	American International Reinsurance Company Limited. A Bermuda-based reinsurance company and a wholly owned subsidiary of AIG.
<b>ALPI DAC</b>	Aviva Life & Pensions Ireland Designated Activity Company. An entity within Aviva Group that provides life insurance and pension products in the Republic of Ireland.
<b>APS</b>	Actuarial Professional Standards. Standards for the actuarial profession produced by the IFoA which all members must adhere to regardless of location or area of practice.
<b>APUK</b>	Aviva Protection UK Limited. A life insurance subsidiary of UKLAP and part of the Aviva Group. APUK was previously named AIG LL prior to its rebranding in February 2025.
<b>Aviva or Aviva Group</b>	The group of entities Aviva entities of which Aviva plc is the parent company. Both UKLAP and APUK belong to the Aviva Group.
<b>Aviva Employment Services Limited</b>	The entity within the Aviva Group through which staff employment is managed.
<b>Aviva Investors</b>	Aviva Investors Holdings Limited. The asset management subsidiary of Aviva plc. Aviva Investors manages the assets of APUK and UKLAP.
<b>Aviva plc</b>	The ultimate parent company within the Aviva Group.
	B
<b>BEL</b>	Best Estimate Liability. One of the components of the Technical Provisions under Solvency II (including Solvency UK). The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cashflows.
<b>Buffer</b>	This general term refers to an amount of capital held in addition to the regulatory capital requirements. The purpose of this additional capital is to seek to ensure that regulatory capital requirements can still be met after an adverse event.
<b>Brexit Scheme</b>	The transfer of certain long-term activities belonging to Irish and other EEA policies from UKLAP to ALPI DAC, with the transfer completed in March 2019.
	C
<b>Catastrophe risk</b>	Catastrophe risk, or life catastrophe risk, is the risk of adverse change in the value of insurance liabilities resulting from the significant uncertainty of pricing and reserving assumptions related to extreme or irregular events.
<b>CMP</b>	Capital Management Policy. The policy by which a firm sets out its controls, processes reporting and responsibilities in relation to capital management.
<b>Companies</b>	APUK and UKLAP collectively.

<b>Counterparty default risk</b>	Counterparty default risk reflects possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of insurance and reinsurance undertakings over the following 12 months, taking appropriate account of collateral and the risks associated therewith.
<b>CP19/24</b>	The PRA's Consultation Paper "Closing liquidity reporting gaps and streamlining Standard Formula reporting", published in December 2024 and which outlined proposals to introduce more comprehensive and regular liquidity reporting requirements for insurers above certain thresholds.
<b>Credit risk</b>	Credit risk, or spread risk, is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure.
<b>Currency risk</b>	Currency risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates.
<b>Customer Champion</b>	A role within Aviva plc that oversees customer servicing, and in particular is responsible for reviewing any communications issued to vulnerable customers and preparing specialised communications depending on the nature of the vulnerability.
<b>D</b>	
<b>Directions Hearing</b>	An initial court hearing for a Part VII Transfer at which the Companies' plans for notifying policyholders (and other preliminary matters) are considered.
<b>DISP</b>	Death-in-service Pensions. A benefit provided by some forms of group term assurance, offering ongoing payments to the dependents of an employee who dies while in service.
<b>DLG</b>	Direct Line Group. Prior to 1 July 2025, DLG was a group of insurance entities providing general insurance. An agreement for Aviva to acquire DLG was confirmed in March 2025. This acquisition became effective on 1 July 2025.
<b>E</b>	
<b>EEA</b>	The European Economic Area. An international agreement which enables the extension of the European Union's single market to member states of the European Free Trade Association. The EEA comprises the EU together with Iceland, Liechtenstein and Norway.
<b>Effective Date</b>	The date, expected to be 31 December 2025, from which the proposed Scheme will be effective legally and for the purposes of financial and regulatory reporting.
<b>Ellipse Business</b>	A block of group life, critical illness and income protection business acquired by APUK (then AIG LL) from the UK branch of ERGO Lebensversicherung in 2018.
<b>Equity risk</b>	Equity risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities.
<b>EU</b>	The European Union.
<b>Excluded Policies</b>	Policies which are not being transferred under the Scheme. The policies, as well as the assets and liabilities related to such policies, would not transfer as part of the Scheme. There are currently no Excluded Policies expected under the Scheme.
<b>Expense risk</b>	Expense risk, or life expense risk, is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of the expenses incurred in servicing insurance or reinsurance contracts.
<b>F</b>	
<b>FCA</b>	Financial Conduct Authority. Responsible for regulating the conduct of financial services firms in the UK. Its roles include protecting consumers, supporting a stable financial sector and promoting healthy competition between financial service providers.
<b>FCA Consumer Duty Rules</b>	New FCA rules which are applicable from 31 July 2023 (for open products) and 31 July 2024 (for closed products) and which require financial firms to seek good outcomes for their customers.
<b>FCA Final Guidance</b>	Guidance provided by the FCA, FG22/1: The FCA's approach to the review of Part VII insurance business transfers, dated February 2022.
<b>FOS</b>	Financial Ombudsman Service. A service in the UK which settles claims between consumers and businesses that provide financial services.
<b>FSCS</b>	Financial Services Compensation Scheme. A scheme which provides compensation to holders of long-term insurance policies in the event of the insolvency of a UK or an EEA or other overseas insurer in respect of its UK customers.
<b>FSMA</b>	Financial Services and Markets Act 2000. An Act that makes provision about the regulation of financial services and markets, provides for the transfer of certain statutory functions relating to building societies, friendly societies, industrial and provident societies and certain other mutual societies.
<b>G</b>	

<b>Goneaways</b>	Policies where the company does not have a valid address for the policyholder, and subsequent reasonable attempts to trace the policyholder have been unsuccessful.
<b>Guernsey</b>	The Bailiwick of Guernsey.
<b>Guernsey Financial Services Commission</b>	The regulator for the finance industry in the Bailiwick of Guernsey.
<b>Guernsey Scheme</b>	The Guernsey court-approved scheme process that, together with the Scheme, would effect the transfer of policies issued by APUK to persons resident in the Bailiwick of Guernsey to UKLAP. This scheme would provide for the transfer of policies on substantially the same terms as the proposed Scheme and is expected to have the same transfer date as the Scheme.
<b>GRS</b>	Group Risk Services Ltd. A (non-insurance) subsidiary of APUK, which is planned to go into liquidation before the Effective Date.
<b>H</b>	
<b>Health underwriting risk</b>	Health underwriting risk refers to the risk arising from health insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk.
<b>High Court</b>	The High Court of Justice, Business and Property Courts of England and Wales, Companies Court. It primarily deals with company-related matters, including applications under FSMA.
<b>HMRC</b>	His Majesty's Revenue and Customs is the UK's tax, payments and customs authority.
<b>I</b>	
<b>IFoA</b>	Institute and Faculty of Actuaries. The UK chartered professional body which is responsible for regulating actuaries.
<b>IFA</b>	Independent Financial Adviser. Professionals who provide regulated financial advice on a range of products, including life insurance. IFAs are required to offer unbiased recommendations from across the whole market.
<b>Independent Expert</b>	The Independent Expert is an individual appointed to report on the terms of an insurance business transfer scheme and approved by the PRA and the FCA pursuant to Section 109 of FSMA. For this Scheme, the Independent Expert is Oliver Gillespie, a Fellow of the IFoA and a senior partner of Milliman.
<b>Interest rate risk</b>	Interest rate risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates.
<b>Internal Model</b>	A bespoke approach to calculating the SCR under Solvency UK or Solvency II as an alternative to the Standard Formula. The use of and the nature of an Internal Model is subject to the approval of, or permission from, the appropriate regulator. In the UK, this requires permission from the PRA.
<b>IWR</b>	Insurance, Wealth & Retirement. One of the key propositions across the Aviva Group.
<b>J</b>	
<b>Jersey Financial Services Commission</b>	The regulator for the financial services industry in Jersey.
<b>Jersey Scheme</b>	The Jersey court-approved scheme document that, together with the Scheme, would transfer business carried out by APUK in or from Jersey to UKLAP. This scheme would provide for the transfer of policies on substantially the same terms as the proposed Scheme and is expected to have the same transfer date as the Scheme.
<b>L</b>	
<b>LACDT</b>	Loss absorbing capacity of deferred tax. A balance sheet item under Solvency UK that represents the fact that, when calculating the SCR, a stress scenario may lead to a deferred tax asset arising, which would partially offset the reduction in Own Funds caused by the stress event.
<b>Lapse risk</b>	Lapse risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of policy lapses, terminations, renewals and surrenders.
<b>LGD</b>	Loss Given Default. A measure of the financial loss incurred when a counterparty defaults on a financial obligation.
<b>Life underwriting risk</b>	Life underwriting risk refers to the risk arising from life insurance obligations, comprising at least mortality risk, longevity risk, morbidity risk, expense risk, revision risk, lapse risk and catastrophe risk.
<b>Longevity risk</b>	Longevity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities.

<b>LRA</b>	Liquidity Risk Appetite. Defines target liquid asset levels under both normal and stressed conditions, such that the insurer can maintain sufficient operational liquidity to meet payments such as policyholder claims and operational costs as they become due.
<b>M</b>	
<b>Market concentration risk</b>	Market concentration risk is those additional risks stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a group of related issuers.
<b>Market risk</b>	Market risk reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities, comprising at least interest rate risk, equity risk, property risk, credit risk, currency risk and market concentration risk.
<b>Matching Adjustment</b>	The Matching Adjustment is an upwards adjustment to the risk-free rate sometimes used under Solvency II or Solvency UK to discount long-term liabilities, where those liabilities are well-matched by long-term assets and the intention is to hold those assets to maturity. Its effect is to generally reduce the BEL of the business to which it is applied. The Matching Adjustment is a more extensive form of the Volatility Adjustment with consequently more onerous requirements.
<b>MAP</b>	Matching Adjustment Portfolio. The portfolio of insurance business within UKLAP's NPSF to which the Matching Adjustment is applied.
<b>MCR</b>	Minimum Capital Requirement. The MCR is lower than the SCR and defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.
<b>Milliman</b>	Milliman LLP registered in England and Wales, part of Milliman Inc., a global consulting firm.
<b>Morbidity risk</b>	Morbidity risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates.
<b>Mortality risk</b>	Mortality risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities.
<b>N</b>	
<b>Nearest Equivalent Policy</b>	A policy from a UKLAP product that most closely matched the core benefits and the customer needs under their existing policy. This would be provided, following the implementation of the Scheme, where certain rights/options on the Transferring Policies or Residual Policies provide for a new, additional or replacement policy.
<b>Non-MAP</b>	The remainder of the business within UKLAP's NPSF that is not in the MAP.
<b>Notification Pack</b>	The communications sent to affected policyholders of the proposed transfer (subject to dispensations). This will include a cover letter and the Transfer Guide.
<b>NPSF</b>	Non-Profit Sub-Fund. For UKLAP, the NPSF is the fund in which the non-profit business of UKLAP that is not allocated to a with-profits fund is managed.
<b>O</b>	
<b>Operational risk</b>	Operational risk refers to those operational risks to the extent they are not already reflected in the life underwriting risk, health underwriting risk, market risk and counterparty default risk.
<b>ORSA</b>	Own Risk and Solvency Assessment. A requirement under Solvency UK whereby insurers must regularly undertake a forward-looking assessment of risks, solvency needs and adequacy of their capital resources.
<b>Other Liabilities</b>	These are liabilities under Solvency II (and Solvency UK) other than Technical Provisions which need to be added to the Technical Provisions in arriving at the total liabilities. For example, accounting liabilities such as tax due.
<b>Own Funds</b>	The excess of an insurer's assets over its liabilities on a Solvency UK basis.
<b>P</b>	
<b>Part VII Transfer</b>	The transfer of long-term insurance business under UK law in accordance with Part VII of the FSMA.
<b>Partial Internal Model</b>	An approach that used a firm's PRA-permitted Internal Model to calculate its SCR under Solvency UK or Solvency II, but where certain business or risk modules are calculated using the Standard Formula. UKLAP's business is valued using its PRA-permitted Internal Model but the consolidated UKLAP position includes insurance entities whose financial information is valued using the UK Standard Formula.
<b>Pinsent Masons</b>	Pinsent Masons LLP is a legal firm advising the Companies on the Scheme.
<b>Policies in Lapse</b>	In the context of the proposed dispensations from sending Part VII communications to policyholders of the Companies, Policies in Lapse refer to policies that have previously lapsed but where the policyholder still has an active option to reinstate their policy.

<b>PRA</b>	Prudential Regulation Authority. Responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
<b>PRA Statement of Policy</b>	Statement setting out the PRA's approach and expectations in PS1/22: "The Prudential Regulation Authority's approach to insurance business transfers", dated January 2022.
<b>Property risk</b>	Property risk is the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate.
<b>Q</b>	
<b>Quota share reinsurance</b>	A reinsurance agreement whereby the insurer cedes a fixed percentage of its insurance liabilities to a reinsurer.
<b>R</b>	
<b>Rebrand Communications</b>	Communications sent to customers of APUK and their financial advisers to notify them of the rebrand of AIG LL to APUK in February 2025.
<b>Report</b>	This report, referred to as either "my Report" or "this Report".
<b>Residual Policies</b>	Policies that, for some legal reason, are not able to be transferred to UKLAP on the Effective Date.
<b>Residual Policies Reinsurance Agreement</b>	A reinsurance agreement that would cover the Residual Policies, with the exception of those policies subject to sanctions, until they are able to be transferred to UKLAP.
<b>Revision risk</b>	Revision risk is the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the level, trend, or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured.
<b>Ring-fenced funds restriction</b>	The restriction on the use of capital as a result of that capital being allocated to a ring-fenced fund within the company, and therefore only available to meet certain losses as related to that ring-fenced fund.
<b>Risk appetite</b>	The amount of risk which a company is willing to accept in order to meet its business objectives. Details of the Companies' Risk Appetites are provided in paragraphs 4.33 to 4.37 for APUK and paragraphs 5.27 to 5.32 for UKLAP. In particular, each Company has defined various thresholds for its Solvency Ratio and exposure to liquidity risk as well as the remedial action it could take should those thresholds be breached.
<b>Risk Margin</b>	The amount held under Solvency II or Solvency UK as part of Technical Provisions which is based on the cost of holding capital in relation to the non-hedgeable components of the SCR.
<b>RPPD</b>	The Responsibilities of Providers and Distributors for the Fair Treatment of Customers. FCA guide on the principles and rules required for providers and distributors to treat customers fairly.
<b>S</b>	
<b>Sanction Hearing</b>	A hearing of the High Court to approve the terms of the Scheme prior to the Effective Date of the Scheme.
<b>Scheme</b>	The Scheme and all proposals included in the Scheme, including any documents referred to in the Scheme relating to its proposed implementation and operation. Also referred to as "this Scheme". For the avoidance of doubt, references to the Jersey Scheme, Guernsey Scheme, Brexit Scheme and 2017 Scheme relate to distinct schemes, as defined elsewhere in this glossary.
<b>Scheme Report</b>	A report on the terms of the Scheme by an Independent Expert. This includes this Report and any subsequent Supplementary Reports covering the Scheme. Also referred to as "this Report" or "my Report".
<b>SM&amp;CR</b>	Senior Managers and Certification Regime. A governance regime for UK insurers, which became effective on 10 December 2018 and defines a set of SMFs.
<b>SMF</b>	Senior Management Function. A component of the SM&CR that allocates specific responsibilities to Senior Managers for key conduct and prudential risks.
<b>Solvency Capital Requirement or SCR</b>	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II (and Solvency UK). It is intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time period with a probability of 99.5%.
<b>Solvency II</b>	The regulatory solvency framework for the European Economic Area insurance and reinsurance industry. See also Solvency UK.
<b>Solvency Ratio</b>	The ratio of a company's (eligible) Own Funds to SCR (on a Solvency UK basis). The Solvency Ratio is therefore a measure of a company's ability to meet its regulatory capital requirements and is required to be at least 100%.
<b>Solvency UK</b>	The regulatory solvency framework for insurance and reinsurance companies in the UK since 1 January 2021 when Brexit became fully effective.

<b>SRA</b>	Solvency Risk Appetite. The risk appetite a firm adopts, i.e. the level of the risk that a firm is willing to accept, in relation to its ability to meet its solvency capital requirements, including in future adverse circumstances. The SRA is often expressed in relation to the Solvency Ratio. UKLAP sets an SRA as a threshold for UKLAP's Solvency Ratio, the purpose of which is to manage the risk of breaching its regulatory capital requirements while pursuing strategic business objectives.
<b>SS11/24</b>	The PRA's Supervisory Statement "Solvent exit planning for insurers", published in December 2024 and which set out the requirements for insurers to prepare for an orderly solvent exit as part of business-as-usual activities and to be able to execute a solvent exit if needed.
<b>Standard Formula</b>	The prescribed method under Solvency UK for calculating the SCR where PRA-permitted Internal Model is not used. Insurers are required to calculate their SCR using either the Standard Formula or a PRA-permitted Internal Model.
<b>Summary Report</b>	The summarised version of the Scheme Report which will be made available to policyholders alongside this Report.
<b>SUP</b>	The Supervision Manual contained in the FCA Handbook. This addresses the day-to-day relationship between the FCA, authorised persons (firms), key individuals within them, their appointed representatives and tied agents, and those who own or control them.
<b>SUP 18</b>	Chapter 18 of SUP, covering transfers of business.
<b>Supplementary Report</b>	A further report produced prior to the Sanction Hearing to provide an update for the Court on the Independent Expert's conclusions in the light of any significant events subsequent to the date of the finalisation of this Report.
<b>T</b>	
<b>Target Capital</b>	APUK defines its Target Capital as the level of capital required in normal times to cover solvency requirements over a medium-term horizon. The Target Capital is expressed as a percentage of SCR.
<b>TASs</b>	Technical Actuarial Standards. The TASs are standards issued by the Financial Reporting Council which apply to work in the UK involving the use of actuarial principles and/or techniques and the exercise of judgement. Compliance with the TASs for work in their scope is required for members of the IFoA.
<b>TAS 200: Insurance</b>	The Technical Actuarial Standards applicable to Insurance transformations (such as the Scheme that is the subject of this Report), issued by the Financial Reporting Council.
<b>Technical Provisions</b>	The value of the technical insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II (and Solvency UK), the Technical Provisions comprise the BEL and the Risk Margin. There are also Other Liabilities which need to be added to the Technical Provisions in arriving at the total liabilities.
<b>Transfer Guide</b>	A customer guide that provides more information on the Scheme, including common questions and answers.
<b>Transfer Website</b>	A subdomain of Aviva's website ( <a href="http://www.aviva.co.uk">www.aviva.co.uk</a> ) on which information and the documents relating to the proposed Scheme will be made publicly available.
<b>Transferring Business</b>	The Transferring Policies and the associated Transferring Liabilities which will transfer from APUK to UKLAP on the Scheme Effective Date.
<b>Transferring Liabilities</b>	The associated liabilities of the policies which will transfer from APUK to UKLAP on the Scheme Effective Date.
<b>Transferring Policies</b>	The policies which will transfer from APUK to UKLAP on the Scheme Effective Date.
<b>Transferring Policyholders</b>	The holders of the Transferring Policies which will transfer from APUK to UKLAP on the Scheme Effective Date.
<b>Transitional Measure on Technical Provisions or TMTP</b>	Transitional Measure on Technical Provisions. The TMTP is intended to phase in (over 16 years) any increase in reserves that must be held for business written prior to 2016 arising from the introduction of the Solvency II regime on 1 January 2016. Insurers must apply to the regulator (the PRA in the UK) to use a TMTP.
<b>U</b>	
<b>UKLAP</b>	Aviva Life & Pensions UK Limited. A life insurance entity within the Aviva Group.
<b>V</b>	
<b>Volatility Adjustment</b>	An increase to the discount rate sometimes used under Solvency II or Solvency UK in the calculation of the BEL (other than for liabilities that are subject to the Matching Adjustment) based on the rationale of avoiding forced sales of assets in the event of extreme bond spread movements. Its effect is to generally reduce the BEL of the business to which it is applied.
<b>W</b>	



<b>Whole of Life</b>	An insurance policy which lasts for the lifetime of the policyholder(s).
<b>WPA</b>	With-Profits Actuary. The person or persons fulfilling the With-Profits Actuary function. A regulated role in the UK with a responsibility for advising a firm's Board on the key areas of discretion exercised in managing its with-profits business.
<b>WPC</b>	With-Profits Committee. A committee that provides oversight of the management of a with-profits fund. The role of the WPC is to act in an advisory capacity to a firm's Board on decisions affecting with-profits policyholders, to ensure the interests of with-profits policyholders are appropriately considered within the firm's governance structures.

## Appendix D – Documents and data relied upon

In addition to discussions (comprising face-to-face meetings, video and telephone calls, and emails) with the staff of the Companies, I have relied upon the information shown in the list below in formulating my conclusions. The list below contains the main items of information and is not a complete list of all items:

- Memorandum and Articles of Association of UKLAP and APUK
- Aviva Group Solvency and Financial Condition Report 2023 and 2024
- APUK Solvency and Financial Condition Report 2023
- APUK Articles on Incorporation
- APUK Amendment to Articles
- APUK Chief Actuary Report on the impact of the Scheme (version as at 1 July 2025)
- UKLAP Chief Actuary Report on the impact of the Scheme (version as at 1 July 2025)
- UKLAP With-Profits Actuary Report to the With-Profits Committee (version as at 21 February 2025)
- The Scheme document (version as at 1 July 2025)
- Legal notice of the Scheme (version as at 1 July 2025)
- APUK First Witness Statement (version as at 1 July 2025)
- UKLAP First Witness Statement (version as at 1 July 2025)
- APUK Part VII Communication Strategy
- Draft customer communications (including variants by customer type and communications format)
- Summary of APUK's Rebrand Communications strategy
- Sample Rebrand Communications (including variants by customer type)
- Details of the rationale for the Companies' proposed dispensations for the Part VII communications
- Extract of presentation to the IWR Consumer Duty Steering Committee
- Details of implementation of Consumer Duty in the Part VII communications
- Summaries of the UKLAP Solvency Risk Appetite, Liquidity Risk Appetite and Capital Management Policy 2024
- APUK Capital Management Policy 2024
- UKLAP 2023 ORSA
- APUK ORSA 2024 and interim 2024 ORSAs
- Breakdown of the Companies' Solvency Capital Requirements as at 31 December 2024
- Breakdown of the assets held by the Companies
- Breakdown of BEL and policy counts by product type of the Companies
- Impact of the Scheme and All Reinsurance Treaty on the financial position of UKLAP as at 31 December 2024
- Governance diagrams of the Companies
- Details of the Aviva Group structure
- Details of the reinsurance agreements of the Companies
- Details of the administration and servicing of APUK policies
- Details of the existing business options of the APUK products and comparison to corresponding UKLAP products
- Details of the Transferring Products and the areas of discretion in the management of these products
- Portfolio Transfer Agreement for the Ellipse business
- Responses from UKLAP and APUK to the questions and answer log maintained by Milliman