

Policyholder Summary

- 1 This summary of the Scheme Report has been prepared to inform policyholders of Zurich Assurance Ltd (“ZAL”) and Scottish Widows Limited (“SWL”) of the likely impact of the Scheme on their policies. The Scheme Report, dated 6 February 2019, was prepared by the Independent Expert, John McKenzie FFA, of Hymans Robertson LLP. His appointment has been approved by the Prudential Regulation Authority, in consultation with the Financial Conduct Authority.
- 2 This summary does not replace the analysis and conclusions set out in the Scheme Report which will take precedence in terms of interpretation.

Statement of conclusions

Transferred Policies

- 3 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of the Transferred Policies.
- 4 In my opinion, the Scheme will not have any impact on the benefit expectations of the Transferred Policies.
- 5 In my opinion, the standard of servicing of the Transferred Policies will be maintained after the Scheme has been implemented.
- 6 I have concluded that the Trading Suspension Period proposal is appropriate and consistent with the fair treatment of the holders of Transferred Policies.

Excluded Policies – Corporate Pensions Business

- 7 I conclude that the implementation of the Scheme will have no impact on security of benefits of the Excluded Policies that are Corporate Pensions Business.
- 8 In my opinion, benefit expectations of the Excluded Policies that are Corporate Pensions Business will be maintained on the implementation of the Scheme.
- 9 In my opinion, the service standards for the Excluded Policies that are Corporate Pensions Business will remain satisfactory.

Excluded Policies – non-Corporate Pensions Business

- 10 I conclude that the implementation of the Scheme will have no impact on security of the benefits of Excluded Policies that are not Corporate Pensions Business.
- 11 In my opinion, on the implementation of the Scheme there will be no impact on benefit expectations of the participants in the 90:10 Fund.
- 12 In my opinion, benefit expectations of the Excluded Policies that are not Corporate Pension Business in the 100:0 Fund, the DCP Fund and the NP Fund will be maintained on the implementation of the Scheme.
- 13 In my opinion, the service standards for Excluded Policies that are not Corporate Pensions Business will not be impacted by the implementation of the Scheme.

SWL's Existing Policyholders

- 14 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of SWL's existing policyholders.
- 15 In my opinion, the Scheme will not have a material adverse impact on the benefit expectations of SWL's existing policyholders.
- 16 In my opinion, the servicing and administration of SWL's existing policies will not be affected by the Scheme.

Equity between policyholders

- 17 I am satisfied that the Scheme is equitable between the Transferred Policies and the Excluded Policies (both Excluded Policies that are Corporate Pensions Business and Excluded Policies that are non-Corporate Pensions business). I arrive at this conclusion because none of these groups stand to lose or gain materially over each other.

Policyholders subject to the Island Schemes

- 18 In my opinion, the security of policyholders' benefits will be maintained following the implementation of the Island Schemes. It is also my opinion that the benefit expectations and service standards of policyholders will be maintained following the implementation of the Island Schemes.

Other stakeholders

- 19 The contractual arrangements with other third parties providing services to ZAL will be maintained either because they relate to the business retained by ZAL or they transfer to SWL under the terms of the Scheme.

Communication plan

- 20 I am comfortable with the communication plan for Excluded Policies within ZAL's Corporate Pensions Business.
- 21 I am comfortable with the approach for the Excluded Policyholders that are not Corporate Pensions Business.
- 22 I am comfortable with the communication plan for Transferred Policies, including the waivers sought.
- 23 I am comfortable with the proposed communication plan for SWL's existing policyholders.
- 24 I have considered the Wider Communication Plan and I consider it to be appropriate, including the proposal to seek a waiver from publishing in newspapers in individual EEA states.

Background to ZAL and to SWL

- 25 My opinions on the Scheme have been informed by considering how ZAL and SWL have managed their businesses as a whole.
- 26 I have considered the following aspects of each company insofar as they are relevant to the Scheme:
- History (including any prior schemes under Part VII of FSMA);
 - Group structure;

- Lines of business currently being written and those that remain on the books;
- Fund structure;
- How each fund is managed and interacts with other funds;
- Financial position; and
- Capital management policy.

Outline of the Transaction and the Scheme

Outline of the Transaction

27 Zurich UK Life's workplace pensions and savings business comprised:

- Platform infrastructure and investment business owned and operated by ZAL's sister company Sterling ISA Managers Limited ("**SIML**"), and
- Insurance business written by ZAL but administered by SIML.

28 On 11 October 2017, SIML and ZAL agreed to sell their workplace pensions and savings business and the administration platform known as the "CS Platform" to Scottish Widows Administration Services Limited ("**SWASL**") and SWL. The transaction comprised two business transfer agreements ("**BTAs**"):

- The Platform BTA and,
- The Part VII BTA

29 The transfer of the business sold under the Platform BTA was completed on 3 April 2018. The business which was the subject of this transaction is investment business not conducted within an insurance company environment. The Scheme will implement the Part VII BTA. The Scheme Summary is outlined in Appendix B of this Planholder Guide.

Outline of the Scheme

30 I confirm that the description set out there reflects my interpretation of the Scheme. Please note that, in this summary, I have used the term "Transferred Policies" to refer to those policies that the Scheme will transfer from ZAL to SWL.

Practical Implementation of the Scheme

Administration of the Transferred Policies

31 ZAL's workplace pensions and savings business (including the Transferred Policies) is currently administered by SWASL on an outsourced basis. The vast majority of the staff who administer ZAL's workplace pensions and savings business transferred employment to Lloyds Banking Group when the Platform BTA completed; the remainder will transfer employment on the Effective Date.

32 The Transferred Policies are currently administered on the CS Platform – owned by SWASL – and the DC Platform – owned by ZAL. A project is underway to migrate those pension schemes that are currently administered on the DC Platform to the CS Platform. This migration is expected to complete before the Effective Date.

33 The administration (staff and system) of the Transferred Policies is effectively a standalone function which does not impact on the administration of other SWL policies.

Approach to Establishing the Linked Funds in SWL

- 34 Most of ZAL's internal funds are linked to funds provided by third-party investment management firms. SWL will enter into its own agreements with these third parties. On the Effective Date, ZAL and SWL will give instructions to the third party to cancel units held under ZAL's contract in exchange for issuing new units under the replacement SWL contract, simultaneously on the Effective Date and at the same price.
- 35 Some of ZAL's fund-link contracts will also transfer to SWL, where these contracts are not required by the policies that will remain with ZAL.
- 36 There are 11 funds that are used by both the Transferred Policies and the policies that will remain with ZAL and which are managed by ZAL itself. Given the nature of the investments in those funds, ZAL does not consider it practicable to split the investments held in those funds in a way that would ensure that there was no potential adverse impact to either the Transferred Policies or the policies that will remain with ZAL. ZAL will therefore continue to manage these assets and will, in effect, become another third-party fund provider to the Transferred Policies following the Effective Date.

Management of the Linked Funds and Unit Pricing

- 37 SWL has conducted an analysis of ZAL's practices in relation to pricing and managing the linked funds. SWL intends to adopt ZAL's practices for managing the transferring funds after the Scheme has been implemented. Certain operational processes, discussed below, will be changed to align with SWL's processes.
- 38 SWL and ZAL use different sources for determining the prices of listed assets. I do not expect this to have a material impact on customer outcomes since market prices are generally available.
- 39 ZAL currently rounds down unit prices to the nearer 0.1p. SWL will change this practice to round to the nearer 0.1p. I have considered the proposed change, and I am satisfied that it will result in no customer detriment, and may slightly benefit some customers.
- 40 When an external fund manager does not supply a fund price, ZAL's practice is to use the most recently-supplied price until such time as an up-to-date price is available. SWL intends to estimate a price from similar unit-linked funds. In my opinion, use of this "proxy pricing" should improve customer outcomes. Use of proxy prices means that the price applied to unit-linked funds better reflects movements in markets, compared to a situation where the unit price is not updated at all, and is intended to ensure fairness amongst policyholders effecting trades (or not).

Integration with SWL systems

- 41 SWL is currently undertaking a project to integrate the Transferred Policies and the CS Platform with its various other systems and its integration with third-party platforms. This includes a project to develop the functionality of the CS Platform so that it can carry out the investment administration of the Transferred Business. This project is currently ongoing and I will comment on the proposed solutions in my supplementary report, along with an assessment of whether the required solutions are likely to be in place on or before the Effective Date.

Proposed Trading Suspension Period

- 42 Implementation of the Scheme and the transfer of the Transferred Business from ZAL to SWL will involve a number of complex operational changes, including the transfer of the policyholder investment administration functionality for the entire Transferred Business from the DC Platform to the CS Platform and the migration of the policy administration of the Corporate Investment Plans onto the CS Platform. To

ensure this transition happens smoothly and does not cause unintended disruption to policyholders' ability to trade, ZAL and SWL will seek the Court's approval to applying a "Trading Suspension Period" around the week-end of the Effective Date during which no trading will be permitted in the Transferred Business.

Financial Positions of ZAL and SWL on the Effective Date

Financial Position of ZAL Following the Transfer

- 43 Although ZAL will be considerably smaller once the Scheme is implemented - its assets would have reduced from £55 billion to £34 billion as at 31 December 2017 - its financial strength will not be materially changed.
- 44 In forming this view, I have considered the estimated impact that implementing the Scheme would have had on ZAL's financial position had the Scheme been implemented on 31 December 2017. I have also considered the estimated impact that implementing the Scheme would have had on ZAL's financial position had the Scheme been implemented on 30 June 2018.

Financial Position of SWL Following the Transfer

- 45 On implementing the Scheme as at 31 December 2017, the Transferred Policies would have increased SWL's assets by £21 billion to £150 billion, approximately, but it would not have significantly changed the financial strength.
- 46 In forming this view, I have considered the estimated impact that implementing the Scheme would have had on SWL's financial position had the Scheme been implemented on 31 December 2017. I have also considered the estimated impact that implementing the Scheme would have had on SWL's financial position had the Scheme been implemented on 30 June 2018.

SWL's Brexit Scheme

- 47 In response to the UK's decision to leave the EU in March 2019 ("**Brexit**"), SWL is currently reorganising its insurance business written in the EU to protect the interests of those policyholders. The reorganisation will be effected by means of a Part VII transfer to a subsidiary company in the EU. Reporting on the terms of the Brexit scheme is beyond the scope of my Scheme Report but, since the Brexit transfer will be implemented ahead of the Scheme, I have considered the Brexit transfer's impact on the management of SWL and the likely financial position of SWL on implementation to the extent that these matters may affect the interests of the policyholders in the Transferred Business from ZAL. I am comfortable that the Brexit scheme is unlikely to alter my conclusions on the effects of the Scheme but I will consider the matter again in my supplementary report.

Transferred Policies

Security of Benefits

- 48 Although SWL's solvency coverage ratio was lower than ZAL's at 31 December 2017, I do not consider that the security of the Transferred Policies would be lower in SWL in practical terms.
- 49 The solvency coverage ratio is an indicator of the financial position at a point in time and should be considered in the context of the overall risk framework of the firm and, in particular, the capital management policy and the dividend policy. These aim to permit ZAL and SWL to satisfy regulatory capital requirements (based on the extreme 1-in-200 one year stresses) in the face of scenarios in line with their chosen capital tolerance basis. The coverage ratio of either company could fall in the future should that company decide to distribute retained capital as dividends. However, both companies

currently operate a dividend policy which must have regard to the capital targets which they have set themselves and in stressed circumstances the payment of a dividend could be constrained potentially.

- 50 I am satisfied that the bounds which SWL has set within its capital management policy are adequate to provide its policyholders with an appropriate level of benefit security.
- 51 I have also given consideration to ZAL's funding agreement with Zurich Insurance Group ("ZIG"). This funding agreement provides additional security to ZAL's policyholders in addition to the minimum level of financial resources that ZAL aims to hold on its own account. However, I take more comfort from the existence of the capital management policy than from the provisions of the ZIG funding arrangement. It is my opinion that the funding agreement adds little in practical terms to the security of benefits except in the most extreme circumstances.
- 52 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of the Transferred Policies.

Benefit Expectations

- 53 The arrangements described in paragraphs 34 to 41 maintain fund values for the Transferred Policies as at the Effective Date and provide for the same investment options to be available. However, SWL will be able to merge or close internal linked funds relevant to the Transferred Policies in continuation of the discretionary power available to ZAL.
- 54 In general, these arrangements are also equivalent to the arrangements currently in place in ZAL and there are therefore no new risks being placed upon most policyholders. However, there are certain groups of policyholder who bear the credit risk associated with external fund providers. Since ZAL will become an external fund provider following the implementation of the Scheme (see paragraph 36) this will potentially expose those policyholders to a risk of default by ZAL as well as by SWL. In order to mitigate any potential adverse impact, the Scheme requires SWL to cover those policyholders with investments in those funds which will be the subject of reinsurance contracts between SWL and ZAL, at the Effective Date, against the risk associated with ZAL failing to pay out under the reinsurance arrangement.
- 55 SWL has considered its proposed approach to management of linked funds with reference to ZAL's existing pricing policy and practices. SWL has confirmed various aspects that it does and does not intend to change following implementation of the Scheme. In addition, SWL will create banking arrangements for the Transferred Policies rather than sharing these with the investment contracts acquired under the Platform BTA. I have considered these changes and I am comfortable that they will not result in detriment for the Transferred Policies.
- 56 The Scheme will not alter the generality of the policy terms and conditions but will make some minor changes to clarify references to the entities administering the Transferred Policies.
- 57 SWL's Board has resolved not to increase charges on the Transferred Policies solely due to the Scheme being implemented. It is in any case unlikely that the Scheme would result in pressure to increase charges, since the expense ratio for SWL's workplace pensions and savings business is not expected to increase significantly. In practice, SWL's ability to increase charges is limited since the workplace pensions and savings market is very competitive and demand is price-sensitive.
- 58 In my opinion, there is no reason to expect that the standard of servicing of the Transferred Policies will not be maintained after the Scheme has been implemented. Most of the Transferred Policies have already been migrated to the CS Platform and are being administered successfully. Following the

implementation of the Scheme, the Transferred Policies will be administered by the same staff that currently administer the business. However, integrating the CS Platform into the SWL systems is a major project aimed at ensuring proper control and oversight. It is planned to be completed by the Effective Date but in the event that there is any delay to the project, I will re-consider the impact in my supplementary report.

- 59 Rights of policyholders included in the Transferred Policies are protected by the Scheme. Any protections afforded to the Transferred Policies under the terms of the Financial Services Compensation Scheme prior to the Effective Date will continue to apply after the Effective Date.
- 60 In my opinion, the Scheme will not have any impact on the benefit expectations of the Transferred Policies.

Proposed Trading Suspension Period

- 61 As discussed in paragraph 42 the parties propose a Trading Suspension Period to implement the Scheme.
- 62 I have considered the impact of the Trading Suspension Period on the various transaction types, the proposed communication strategy and the risks and benefits of the Trading Suspension Period. I have concluded that the proposal is appropriate and consistent with the fair treatment of the holders of Transferred Policies.

Policies that will remain with ZAL

Security of Benefits

- 63 As noted above, the Scheme is expected to slightly improve ZAL's financial position. The small improvement should be viewed in the context that while ZAL is satisfying its capital management policy, an increase of this nature may simply enhance ZAL's ability to pay a dividend to its shareholders, i.e., it may not result in an effective increase in the solvency position in the longer term.
- 64 In my opinion, the Scheme will have no impact on the security of the benefits of the policies that will remain with ZAL.

Benefit Expectations

- 65 The workplace pensions and savings policies that remain with ZAL will remain invested in the same assets after implementing the Scheme.
- 66 The level of expenses allocated to any product line within ZAL is not expected to increase as a result of the Scheme. I therefore do not expect the Scheme to result in an increase in policyholder charges or premiums where ZAL has discretion over these.
- 67 The investment strategies of ZAL's with-profits funds are not expected to change as a result of the Scheme since this is determined by reference to the resources of these funds on a standalone basis.
- 68 The 100:0 Fund may receive a small surplus on the Effective Date as a result of the Scheme (and will not share in any loss, if one should arise from implementation of the Scheme).
- 69 Prior to the Scheme, ZAL's workplace pensions and savings policies are administered by SWASL. ZAL plans to switch the administration of its remaining workplace pensions and savings policies to a third-party outsourcing firm by the Effective Date. The contract will include provisions to ensure that service standards are consistent with the current position.

- 70 In my opinion, the service standards will remain satisfactory for those workplace pensions and savings policies that will remain with ZAL.
- 71 The Scheme is not expected to result in any changes to service providers and systems for any policy that is not part of ZAL's workplace pensions and savings business. In my opinion, the service standards for this group of policies will not be impacted by the implementation of the Scheme.
- 72 In my opinion, the Scheme will not have any impact on the benefit expectations of the policies that remain with ZAL.

SWL's Existing Policyholders

Security of Benefits

- 73 The impact of the Scheme on SWL's financial position was set out above. Although the Scheme may weaken the financial position a little, SWL would still satisfy its capital management policy and the reduction would be insignificant, in practice.
- 74 In my opinion, the Scheme will not have a material adverse impact on the security of the benefits of SWL's existing policyholders.

Benefit Expectations

- 75 SWL has carried out analysis which shows that the Scheme is not expected to change the expenses allocated to any business unit other than workplace pensions.
- 76 The Scheme is expected to result in a slight increase in the expense ratio (i.e., the ratio of expenses divided by income) for the workplace pension business unit. However, the increase is slight and the increase in the workplace pensions business is expected to be more than sufficient to cover this.
- 77 In my opinion, the change in expense levels from implementing the Scheme will not change benefit expectations for SWL existing policies solely due to implementing the Scheme.
- 78 In my opinion, implementing the Scheme should not affect the way the with-profits funds are managed. In particular, the way that the investment strategy for each fund is set should not change nor should the availability of the capital support.
- 79 New internal linked funds will be created to manage the Transferred Policies and these will not interact with the existing internal funds maintained by SWL. Valuation and pricing mechanisms for the existing funds and policies will not be altered on implementing the Scheme.
- 80 SWL's existing non-profit non-unit linked policies will not be changed by the Scheme.
- 81 The Transferred Policies will be administered by a dedicated team using a standalone system. The servicing and administration of existing SWL policies will not be affected by it.
- 82 In my opinion, the Scheme will not have a material adverse impact on the benefit expectations of SWL's existing policyholders.

Consequences of the Scheme not Completing

- 83 If the Scheme is not implemented, then the Transferred Policies (and related assets and liabilities) will remain with ZAL. Security and benefit expectations of the policyholders of ZAL and SWL will not change from the current position. However, administration and management of the workplace pensions and savings business may be problematic in the longer term.

- 84 If the Scheme had still not completed two years after the planned Effective Date then ZAL would need to put in place new administration arrangements. These arrangements could involve entering into a new outsourcing arrangement with SWASL; entering into an outsourcing agreement with another administration provider; or ZAL carrying out the administration itself (provided that it has developed the necessary in-house resources by that point).
- 85 If the Scheme cannot complete, ZAL will refund a portion of the consideration paid by SWL in respect of the Transferred Policies. In the short term, SWASL would continue to administer the business as provided for by the Transitional Services Agreement. However, before the Transitional Services Agreement expires, ZAL anticipates that it would transfer responsibility of administration of the business to a third party outsourcing firm.

The Island Schemes

- 86 The "Island Schemes" are two schemes to be presented to the Royal Court of Jersey and to the Royal Court of Guernsey to ensure the effective transfer of certain Transferred Policies that have been effected in Jersey and Guernsey respectively.
- 87 The provisions of the Island Schemes will be materially the same as the provisions of the Scheme. I also consider that the Transferred Policies that are within the scope of the Island Schemes are materially the same as the Transferred Policies that are in the scope of the Scheme. It therefore follows that the considerations that are relevant to the Island Schemes are the same as those that are relevant to the Scheme.
- 88 In my opinion, the security of policyholders' benefits will be maintained following the implementation of the Island Schemes. It is also my opinion that the benefit expectations of policyholders will be maintained following the implementation of the Island Schemes.