

# abrtn Life and Pensions Limited

Supplementary report of the Chief Actuary on the proposed transfer of business from Phoenix Life Limited to abrtn Life and Pensions Limited pursuant to Part VII of the Financial Services and Markets Act 2000



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# 1. Summary

## 1.1. Purpose and scope

- 1.1.1. abrtn Life and Pensions Limited (abrtn Life or the Company) has agreed to acquire a block of long-term insurance policies from Phoenix Life Limited (Phoenix Life). The transfer of policies from Phoenix Life to abrtn Life will be achieved by a proposed scheme of transfer under Part VII of the Financial Services and Markets Act 2000 (the Scheme).
- 1.1.2. The Scheme covers the following unit-linked policies, collectively the 'Transferring business':
- Institutional Trustee Investment Plan (ITIP)
  - Retail Trustee Investment Plan (RTIP)
  - Institutional Personal Pension Investment Plan (IPPIP)
  - Retail Personal Pension Investment Plan (RPPIP)
  - Trustee Investment Plan Gateway (TIP-Gateway)
  - Pension property-linked reinsurance
- 1.1.3. In my capacity as abrtn Life's Chief Actuary, I wrote a report on the potential impact of the scheme titled "Report of the Chief Actuary on the proposed transfer of business from Phoenix Life Limited to abrtn Life and Pensions Limited pursuant to Part VII of the Financial Services and Markets Act 2000" dated 28 November 2024 (my "Original Report").
- 1.1.4. My Original Report considered, based on information available at the time, how the proposed Scheme is expected to impact benefit security for abrtn Life's policyholders and the reasonable expectations of those policyholders with regards to benefits, service standards, management and governance. In my Original Report, I concluded that the proposed Scheme will have no material adverse effect on abrtn Life's policyholders
- 1.1.5. The purpose of this supplementary report is to consider:
- if there are any material developments since the date of the Original Report covering:
    - the Scheme and related arrangements
    - developments particular to abrtn Life
    - external factors;
  - the impact of those material developments on the solvency position of abrtn Life and on abrtn Life's policyholders; and
  - whether the conclusions of my Original Report remain valid.
- 1.1.6. The proposed transfer will only happen if it is sanctioned by the High Court (the Court). As part of the legal process, an Independent Expert, appointed in accordance with Section 109 of the Financial Services and Markets Act 2000, is required to compile a report on the effects of the Scheme. The Independent Expert has compiled both a main and supplementary report (the "IE Reports").
- 1.1.7. This report is written for the Board of abrtn Life in my capacity as abrtn Life's Chief Actuary. This report will be provided to the Independent Expert, Phoenix Life, the Prudential Regulation Authority (PRA), the

Financial Conduct Authority (FCA) and the Court. It will also be made available on the abrdn Life website. It should be read in conjunction with the Scheme, my Original Report and the IE Reports.

## 1.2. Summary conclusions

- 1.2.1. In my opinion the conclusions set out in my Original Report remain valid.
- 1.2.2. In my opinion the effects of the Scheme and associated actions on abrdn Life's policyholders will result in no material change to:
- security of their benefits;
  - their reasonable benefit expectations; or
  - service standards, management or governance.

## 1.3. Disclosures

- 1.3.1. I qualified as a Fellow of the Institute and Faculty of Actuaries in 1996.
- 1.3.2. I have held the Chief Actuary (or equivalent) role for abrdn Life since 2013 and am a Partner of Barnett Waddingham LLP. The Chief Actuary role is undertaken in accordance with an outsourced service agreement between abrdn Life and Barnett Waddingham LLP.
- 1.3.3. I hold no policies and have no other interests in abrdn Life or Phoenix Life.
- 1.3.4. In my Original Report, I refer to another insurance company, Schroder Pension Management Limited (SPML), to which I am also Chief Actuary. Both abrdn Life and SPML are aware of my role with the other company, and I do not envisage any conflict of interest arising. However, should a conflict of interest arise, it will be managed in accordance with Barnett Waddingham's conflict of interest policy and the Actuaries Code (the ethical code of conduct to which all members of the Institute and Faculty of Actuaries must adhere).

## 1.4. Other advice and opinions

- 1.4.1. Mr. Simon Perry of Grant Thornton UK LLP has been retained by the boards of abrdn Life and Phoenix Life to act as Independent Expert. I have read his report on the terms and impacts of the Scheme and his draft supplementary report and considered his conclusions.
- 1.4.2. I have also read the report on the proposed transfer and the draft supplementary report compiled by Mr. Stephen Makin, the Chief Actuary of Phoenix Life, and considered his conclusions.
- 1.4.3. A copy of this report has been provided to both Mr. Perry and Mr. Makin, with both having had the opportunity to review earlier draft versions.

## 1.5. Known future actions

- 1.5.1. Apart from actions associated with the Scheme, there are no actions planned by abrdn Life, that I am aware of, that have or may have a material impact on the financial information shown or the conclusions drawn in this report.

## 1.6. Reliances and limitations

- 1.6.1. In preparing this report I have relied on the accuracy and completeness of information provided by abrtn Life, including information received orally, without independent verification. In particular, I have relied upon the data provided and used for the abrtn Life solvency valuation as at 31 December 2023. I reviewed this information for reasonableness and internal consistency as part of my work relating to the 31 December 2023 valuation. I have also relied upon financial information for abrtn Life as at 30 June 2024 and 30 September 2024, provided by abrtn Life. I reviewed this information for reasonableness and internal consistency as part of my work for this report.
- 1.6.2. I have also relied upon information on the Transferring business provided by abrtn Life (via abrtn Investment Management Limited) and Phoenix Life. I reviewed this information for reasonableness and internal consistency but have not otherwise verified its accuracy.
- 1.6.3. In coming to my conclusions, I have relied upon the accuracy of this information.
- 1.6.4. This report should be considered in the context that while, at the time of writing, I understand the Scheme and related documents are near-final, late amendments are possible. I will make the abrtn Life Board aware if my opinions contained in this report change once arrangements are final.
- 1.6.5. In determining the financial position of abrtn Life, assumptions are made about future experience, including economic and investment experience, expenses, discontinuance rates and legislation. The assumptions used to place a value on insurance liabilities, the technical provisions, are intended to be 'best estimates' in the sense that they are intended to be neither optimistic nor pessimistic. However, actual future experience is likely to differ from these assumptions, due to random fluctuations, changes in the operating environment and other factors. Such variations in experience could have a significant effect on the results and conclusions that rely on this report. No warranty is given by Barnett Waddingham that the assumptions underlying the calculations shown in this report will be reflected in actual future experience.
- 1.6.6. This report is subject to the terms and limitations, including limitation of liability, set out in the engagement letter between Barnett Waddingham and abrtn Life of 30 March 2016 as amended by the Amendment Agreement dated 31 March 2022.

## 1.7. Compliance with actuarial standards

- 1.7.1. The Financial Reporting Council sets out Technical Actuarial Standards (TASs) for members of the Institute and Faculty of Actuaries. This report and the work carried out to produce it is subject to and, in my opinion, complies with the following standards:
- TAS 100: General Actuarial Standards
  - TAS 200: Insurance.
- 1.7.2. The Institute and Faculty of Actuaries sets actuarial professional standards for its members. This report and the work carried out to produce it is subject to, and in my opinion, complies with the following standards:
- APS X1: Applying Standards to Actuarial Work.
  - APS X2: Review of Actuarial Work, with Gillian Mathias of Barnett Waddingham having provided independent peer review.

- APS L1: Duties and Responsibilities of Life Assurance Actuaries, in particular the requirement for the Chief Actuary to ensure that the firm's management is aware at all times of the Chief Actuary's interpretation of the firm's obligations to treat its customers fairly and policyholders' reasonable expectations which need to be taken into account in assessing the calculation of the technical provisions and capital requirements.

## 1.8. Distribution and use

- 1.8.1. This report and the opinions and conclusions it contains are for the internal use of the directors and management of abrdn Life in helping them understand the impacts of the Scheme. It has been prepared by me acting as an advisor on an outsourced basis. Third parties reading this report may not have the background or information necessary for a full understanding of the report.
- 1.8.2. Judgements as to the conclusions drawn in this report should be made only after studying the report in its entirety alongside the Original Report as parts considered in isolation may be misleading. I assume that users of the report will seek explanation of any part of the report that is not clear.
- 1.8.3. Draft versions of the report must not be relied upon by any person for any purpose. No reliance should be placed on any advice not given in writing. If reliance is placed contrary to the guidelines set out above, Barnett Waddingham LLP disclaim any and all liability which may arise.
- 1.8.4. I understand that abrdn Life will provide copies of this report to the Court, the Independent Expert, Phoenix Life, the PRA and the FCA. The report will also be made publicly available. Permission is hereby granted for such distribution and publication on the condition that the entire report is distributed or published.

## 2. Developments affecting the Scheme and related arrangements

### 2.1. Scheme and related reinsurance arrangements

- 2.1.1. There have been number of minor changes to the Scheme and associated proposed reinsurance arrangements since the date of my Original Report. None of these changes invalidate the conclusions of my Original Report but one does require me to make a correction to what I said in my Original Report.
- 2.1.2. In paragraph 3.2.7 of my Original Report, I discussed how the existing floating charge entered into between Phoenix Life and the transferring Pension property-linked reinsurance policyholders, the 'Property-Linked Floating Charge', would be replaced by equivalent arrangements between abrdn Life and the Pension property-linked reinsurance policyholders. I said that existing arrangements, the 'Existing abrdn Life Floating Charges', between abrdn Life and the relevant policyholders would be extended to cover the Pension property-linked reinsurance for all but one of the relevant policyholders and that a new floating charge would be granted by abrdn Life for the other relevant policyholder. The updated position is that a new floating charge will be granted by abrdn Life to not one, but two of the relevant policyholders. This updated position does not change my conclusions on the Scheme.
- 2.1.3. The proposed transfer is still expected to take effect on 28 March 2025.

### 2.2. The transferring portfolio

- 2.2.1. The number of policies and the value of assets under management (AUM) of the Transferring business have reduced from those shown in my Original Report, reflecting policyholder transactions and market movements in asset values. The composition of the Transferring business at 31 December 2024 is shown in table 2.1, alongside equivalent data as at 30 June 2024. All tables in this report may include rounding differences in the totals. The modest reduction in the volume of Transferring business does not affect my conclusions.

Table 2.1: Composition of the Transferring business at 31 December 2024 and 30 June 2024

	31 December 2024		30 June 2024	
	Policies	Approximate assets under management (£m)	Policies	Approximate assets under management (£m)
ITIP	198	2,730	214	3,100
RTIP	31	20	31	20
IPPIP	50	30	52	30
RPPIP	70	20	77	20
TIP-Gateway	1	540	1	500
Pension property- linked reinsurance	5	120	5	135
<b>Total</b>	<b>355</b>	<b>3,460</b>	<b>380</b>	<b>3,805</b>

Source: Supplementary report by the Chief Actuary of Phoenix Life Limited

## 2.3. Communications with abrnn Life Policyholders

- 2.3.1. In Section 4 of my Original Report, I stated that abrnn Life would communicate with all of its policyholders to provide them with information on the proposed transfer. I understand that communications with a small number of policyholders were delayed compared to the intended timetable, but that the delayed communications were subsequently issued on 16 January 2025 in sufficient time to comply with all regulatory and legal requirements regarding the notice needed to be given to policyholders.
- 2.3.2. abrnn Life has also provided the policyholder communication to the holders of all new policies written between the cut-off date for the original communications exercise, 12 December 2024, and the date of this report. It will continue to provide the policyholder communication to the holders of any further new policies written before the Sanction Hearing (the hearing at which the Court will decide whether to sanction the proposed transfer), which is expected to be on 12 March 2025.
- 2.3.3. As at the date of this report:
- Two abrnn Life policyholders have contacted abrnn Life seeking clarification on the content of the policyholder communication.
  - No abrnn Life policyholders have expressed concerns or an intention to object to the Scheme.
- 2.3.4. I understand that abrnn Life has responded to all queries received from policyholders related to the Scheme.
- 2.3.5. These communications with policyholders do not affect my conclusions.



## 3. Developments particular to abrdn Life

### 3.1. Composition of abrdn Life's in-force business

- 3.1.1. There has been no material change to the composition of abrdn Life's in-force business since the date of my Original Report, with small differences reflecting policyholder transactions and market movements in asset values.
- 3.1.2. The composition of abrdn Life's in-force business at 31 December 2024 is shown in table 3.1, alongside equivalent data as at 30 June 2024. While the number of policies has increased over the period, the value of assets under management has fallen marginally. This primarily reflects the value of net redemptions on policies in-force at 30 June 2024 exceeding the value of contributions received on new policies written over the period. The small difference in the volume of abrdn Life's in-force business does not affect my conclusions.

Table 3.1: Composition of abrdn Life's business at 31 December 2024 and 30 June 2024

	31 December 2024		30 June 2024	
	Policies	Assets under management (£m)	Policies	Assets under management (£m)
abrdn Life Trustee Investment Plan (TIP)	37	126	26	103
abrdn Life reinsurance accepted	7	539	7	566
abrdn Life Segregated Investment Mandates (SIM)	2	78	2	79
<b>Total</b>	<b>46</b>	<b>742</b>	<b>35</b>	<b>748</b>

### 3.2. Capital injection

- 3.2.1. In paragraph 4.1.20 of my Original Report, I stated that if the Scheme is approved, abrdn Life will be required to make a payment to the abrdn Group in recognition of the value of the business acquired and, to avoid this payment reducing abrdn Life's own funds (available capital), that abrdn Group would provide capital of the same amount prior to the date of the transfer. In my Original Report, I stated that the payment and the capital injection were expected to be of the order of £4m.
- 3.2.2. Since the date of my Original Report, abrdn Life and the abrdn Group have agreed for the payment and capital injection to be different amounts, with the capital injection being £1m higher. This improves abrdn Life's solvency position, is beneficial to abrdn Life's policyholders and does not affect my conclusions.
- 3.2.3. The abrdn Group provided abrdn Life with a capital injection of £5m in December 2024. This took the form of an issue of ordinary shares. If the Scheme is approved, abrdn Life will pay £4m to the abrdn Group.

## 4. External developments

### 4.1. UK Solvency II regulations

- 4.1.1. In paragraph 4.1.25 of my Original Report I stated that, on 15 November 2024, the PRA published an unexpected change to the Solvency II regulations as they apply in the UK that would have led to an increase in abrdn Life's Solvency Capital Requirement (SCR) and, consequently, a modest reduction in abrdn Life's SCR cover with effect from 31 December 2024.
- 4.1.2. The SCR is a measure of the capital an insurance company is required to hold under the Solvency II regulations as implemented in the UK (see sub-section 2.6 of my Original Report). SCR cover is a measure of an insurance company's financial strength calculated as own funds (capital resources) divided by the SCR.
- 4.1.3. On 20 December 2024 the PRA published an amendment that reversed the previously announced unexpected change, such that the change referred to in my Original Report no longer applies. Consequently, the changes to the Solvency II regulations in the UK, effective from 31 December 2024, have no material impact on abrdn Life, do not affect abrdn Life's SCR or SCR cover, and do not affect my conclusions.

### 4.2. Economic environment

- 4.2.1. The financial analysis included in my Original Report was prepared as at 30 June 2024. The financial analysis shown in section 5 of this report is as at 30 September 2024.
- 4.2.2. Since 30 September 2024, there have been variations in the economic environment and in key economic indicators. For example, between 30 September 2024 and 31 December 2024, bond yields increased and inflation was variable. Given the nature of abrdn Life's existing business and the Transferring business, changes in economic conditions do not have a material impact on the financial information shown in Section 5, and I am content to use the 30 September 2024 data in forming my opinions.

## 5. Impact of the transfer

### 5.1. Introduction

- 5.1.1. In my Original Report I gave my opinion on the impact of the Scheme and associated actions on abrdn Life's policyholders by considering:
- Security of benefits
  - Reasonable benefit expectations
  - Service standards (administration), management and governance
  - Policyholder communications concerning the Scheme.
- 5.1.2. The discussion in my Original Report regarding benefit expectations, administration, management, governance, and policyholder communications remains valid and these aspects are not considered further in this report (although see sub-section 2.3 for an update on policyholder communications).
- 5.1.3. I considered the security of policyholder benefits in my Original Report by looking at:
- the solvency position of abrdn Life before and after the transfer; and
  - the key risk exposures of abrdn Life.
- 5.1.4. The key risks faced by abrdn Life are unchanged from my Original Report.
- 5.1.5. In the remainder of this section, I consider the updated solvency position of abrdn Life before and after the transfer assuming the Scheme had been implemented at 30 September 2024. This is the most up to date quarter-end for which full valuation data was available at the time of drafting this report. The actual impact on abrdn Life's solvency position at the effective date of the Scheme will differ from the estimate shown below. However, I consider the estimate gives a reasonable indication of the impact in the absence of more up to date information.
- 5.1.6. In particular, I have considered whether changes in the economic environment and changes in the composition of the Transferring business and abrdn Life's in-force business since 30 September 2024 affect my opinions and I have concluded they do not. Furthermore, I am not aware of any other developments that would cause me to change my opinions or conclusions.
- 5.1.7. As discussed in Section 2 of my Original Report, abrdn Life uses the Solvency II Standard Formula to assess its regulatory solvency position, referred to as 'Pillar 1' solvency. A key measure is the SCR cover, determined as available own funds (capital resources) divided by the SCR.
- 5.1.8. Insurance companies are also required to carry out an own assessment of solvency requirements. This own assessment, referred to as the 'Pillar 2' basis is not public information and is not included in this report. However, I have considered the Pillar 2 position of abrdn Life in forming my opinions discussed in this report.

### 5.2. abrdn Life's financial position

- 5.2.1. The estimated impact of the proposed transfer on abrdn Life as at 30 September 2024, assuming the transfer occurs on that date is shown in table 5.1 below. The results included in my Original Report, as at 30 June 2024, are shown for comparison.

- 5.2.2. As discussed in sub-section 3.2, although not part of the Scheme, assuming the Scheme is approved, abrdn Life will make a payment of £4m to the abrdn Group in recognition of the value of the business acquired. To avoid this payment resulting in a reduction in abrdn Life's own funds (available capital), the abrdn Group has provided abrdn Life with additional capital of £5m, such that the net effect on abrdn Life's own funds from the payment made to the abrdn Group will be an increase of £1m. In table 5.1, the pre-transfer results assume neither the payment nor capital injection have been made and the post-transfer results assume both the payment and capital injection have been made.

Table 5.1: abrdn Life solvency position before and after the proposed transfer

	30 September 2024		30 June 2024	
	Pre-transfer (£m)	Post-transfer (£m)	Pre-transfer (£m)	Post-transfer (£m)
<b>Assets</b>	<b>681.91</b>	<b>4,322.73</b>	<b>689.21</b>	<b>4,517.86</b>
<i>Less technical provisions:</i>				
Best estimate liabilities				
Unit reserve	664.72	4,304.64	669.50	4,498.24
Value of in-force business (VIF)	(0.03)	(4.45)	(0.00)	(4.33)
Risk margin	0.03	1.06	0.03	1.06
<b>Total technical provisions</b>	<b>664.72</b>	<b>4,301.25</b>	<b>669.53</b>	<b>4,494.98</b>
<i>Less:</i>				
<b>Non-insurance liabilities</b>	<b>2.13</b>	<b>2.98</b>	<b>4.74</b>	<b>5.56</b>
<i>Equals</i>				
<b>Own funds</b>	<b>15.06</b>	<b>18.51</b>	<b>14.94</b>	<b>17.33</b>
<b>Solvency Capital Requirement (SCR)</b>				
Operational risk SCR	0.61	0.61	0.72	0.72
Basic SCR	0.39	7.13	0.37	7.20
Market risk	0.33	1.95	0.31	2.07
Counterparty risk	0.08	4.96	0.09	4.88
Life underwriting risk	0.07	2.81	0.05	2.93
Diversification	(0.10)	(2.59)	(0.09)	(2.67)
Loss absorbing capacity of deferred taxes	(0.24)	(1.30)	(0.26)	(1.27)
<b>Total SCR</b>	<b>0.75</b>	<b>6.44</b>	<b>0.82</b>	<b>6.66</b>
<b>Capital surplus/(shortfall)</b>	<b>14.30</b>	<b>12.07</b>	<b>14.11</b>	<b>10.67</b>
<b>SCR cover (Own funds/Total SCR)</b>	<b>1,999%</b>	<b>287%</b>	<b>1,813%</b>	<b>260%</b>
<b>Minimum Capital Requirement (MCR)</b>	<b>3.49</b>	<b>3.49</b>	<b>3.49</b>	<b>3.49</b>
<b>MCR cover (Own funds/MCR)</b>	<b>431%</b>	<b>530%</b>	<b>427%</b>	<b>496%</b>

5.2.3. abrdn Life's pre-transfer solvency position at 30 September 2024 has improved compared to that at 30 June 2024 as show in my Original Report. This primarily reflects a reduction in the operational risk SCR, which is a function of expenses incurred in the twelve months to the valuation date. Such expenses fell over the period, reflecting a reduction in the value of assets under management towards the end of 2023 that resulted in a fall in both revenue and expenses from that date. The data as at 30 June 2024 includes six months of the lower expenses, whereas the data at 30 September 2024 includes nine months of lower expenses.

5.2.4. The expected impact of the Scheme on the solvency position of abrdn Life as at 30 September 2024 can be summarised as follows:

- Assets are increased by the value of the Transferring business less an allowance for the risk of reinsurer default on a best estimate basis plus an additional £1m, stemming from the capital injection from abrdn Group exceeding the payment that abrdn Life will make to abrdn Group by £1m (as described in paragraph 5.2.2).
- The unit reserve is increased by the value of the Transferring business AUM.
- The value of the in-force business (VIF) reflects the present value of the profits (revenue less expenses) expected to be earned by abrdn Life on the in-force business. Where profits are expected, the VIF reduces the technical provisions and is shown as a negative amount. The value of the VIF is increased by the profits expected to emerge on the Transferring business.
- The risk margin is a function of certain elements of the SCR, and the increase in the risk margin reflects the increase in the SCR (discussed below).
- Non-insurance liabilities are increased by the notional tax payable on the profits represented by the excess of the VIF over the risk margin.
- The increase in own funds reflects the movements described in the previous bullets.
- The operational risk SCR is a function of expenses incurred in the year to the valuation date and is initially unchanged by the transfer.
- The market risk and life underwriting risk elements of the SCR primarily capture the loss of profit under stressed conditions and the increase in these elements primarily reflects the increase in the VIF.
- The increase in the counterparty risk element of the SCR primarily reflects abrdn Life's exposure to reinsurance post the proposed transfer.
- The loss absorbing capacity of deferred taxes (LACDT) reflects potential tax impacts should a loss be incurred equal to the SCR before the LACDT is deducted. The increase in the LACDT post-transfer primarily reflects the reversal of the adjustment to non-insurance liabilities for notional tax on the excess of the VIF over the risk margin.
- Overall, a reduction in SCR cover (own funds divided by the SCR) is expected. However, SCR cover remains strong at 287%, and in excess of abrdn Life's target.

5.2.5. abrdn Life's post-transfer solvency position at 30 September 2024 has improved compared to that at 30 June 2024 as show in my Original Report. This primarily reflects:

- the £1m net contribution to own funds from the capital injection of £5m exceeding the £4m payment that will be made by abrdn Life (see sub-section 3.2 and paragraph 5.2.2); and
- the reduction in the operational risk SCR described in paragraph 5.2.3.

- 5.2.6. Given the reduction in the unit reserve between 30 June 2024 and 30 September 2024, the increase in value of the in-force business (VIF) over the period may appear counter-intuitive. This is influenced by the protections included in the intra-group arrangements discussed in sub-section 2.4 of my Original Report (in particular, the protections described at paragraphs 2.4.11 to 2.4.13 of my Original Report). These protections provide for abrdn Life to retain a greater proportion of revenue if it expects a future increase in its operational risk SCR. At 30 September 2024 the expected future increase in the operational risk SCR is higher than at 30 June 2024 as the effect of the reduction in the actual operational risk SCR at 30 September 2024 (described in paragraph 5.2.3) outweighs the impact of the fall in the volume of the Transferring business. This results in abrdn Life retaining a slightly larger amount of revenue at 30 September 2024, so that it can meet the anticipated increase in its operational risk SCR plus a buffer, leading to a modest increase in the VIF at 30 September 2024 compared to that at 30 June 2024.
- 5.2.7. The figures reported in table 5.1 indicate the immediate impact of the transfer on abrdn Life's solvency position. Again, this is influenced by the protections included in the intra-group arrangements discussed in my Original Report.
- 5.2.8. I have estimated that, overall, the longer-term impact on SCR cover after the transfer will not be dissimilar to the outcome shown as at 30 September 2024 in table 5.1.
- 5.2.9. I am aware of no actions or events since 30 September 2024 that are likely to have a material impact on the financial position of abrdn Life before or after the proposed transfer. Therefore, in my opinion, it is appropriate for the analysis discussed later in this section to be based on the information shown as at 30 September 2024 in table 5.1.

### 5.3. Benefit security of existing policyholders of abrdn Life

- 5.3.1. Table 5.1 above shows that abrdn Life's SCR cover is expected to reduce as a result of the transfer.
- 5.3.2. However, when considering security of benefits, it is important to consider capital targets rather than actual SCR cover, as capital in excess of targets could be transferred out through the payment of dividends. In recent years, abrdn Life has deliberately maintained capital in excess of its targets in anticipation of the Scheme and in the knowledge that the Scheme would reduce SCR cover. If the Scheme is not implemented, abrdn Life is under no obligation to maintain capital in excess of its targets.
- 5.3.3. It is therefore inappropriate to compare the SCR cover immediately before and after the transfer, as the pre-transfer position does not reflect abrdn Life's longer-term policy.
- 5.3.4. The important aspect is whether abrdn Life will continue to meet the targets set out in its Capital Management Policy, and the estimated SCR cover immediately post-transfer of 287% is still significantly higher than its Capital Management Policy target of 196%.
- 5.3.5. I am satisfied that the implementation of the Scheme will have no material adverse effect on the security of benefits provided to abrdn Life's existing policyholders.
- 5.3.6. I have formed this opinion taking into account that:
- the intended approach to calculating the technical provisions on the Transferring business places an appropriate value on the insurance liabilities;

- the risks associated with the Transferring business will be appropriately captured by abrtn Life's SCR such that the protection provided by the SCR should not be materially different before and after the Scheme;
- there will be no changes to abrtn Life's Capital Management Policy as a direct result of the Scheme;
- while the Scheme results in a decrease in abrtn Life's SCR cover, the SCR cover remains strong and greater than abrtn Life's target;
- although the Scheme will introduce exposure to Phoenix Life and SPML via outward reinsurance (see paragraphs 4.1.15 to 4.1.18 of my Original Report), the additional risk to abrtn Life's existing policyholders in terms of security of benefits is not material; and
- abrtn Life will incur no costs associated with the Scheme, as such costs that might otherwise fall upon abrtn Life will be met by the abrtn Group.