abrdn Life and Pensions Limited

Report of the Chief Actuary on the proposed transfer of business from Phoenix Life Limited to abrdn 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. The purpose of this report is to describe the expected impact on the policyholders of abrdn Life and Pensions Limited (abrdn Life or the Company) of a proposed scheme of transfer under Part VII of the Financial Services and Markets Act 2000 (the Scheme).

1.1.2. The Scheme will transfer the following unit-linked policies, collectively the 'Transferring business', from Phoenix Life Limited (Phoenix Life) to abrdn Life:

- 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 particular, this report considers how the Scheme is expected to impact benefit security for abrdn Life's policyholders and the reasonable expectations of those policyholders with regards to benefit expectations, service standards, management and governance.

1.1.4. 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.

1.1.5. This report is written for the Board of abrdn Life in my capacity as abrdn 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 and the report by the Independent Expert.

1.2. Summary conclusions

1.2.1. In my opinion the effects of the Scheme and associated actions on abrdn Life's policyholders will result in no material change to their:

- security of benefits;
- reasonable benefit expectations; or
- service standards, management or governance.

1.2.2. Furthermore, in my opinion, abrdn Life's policyholders will be treated fairly with regards to communication of the impact of the Scheme.

1.2.3. These aspects are discussed in Section 4.

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 this 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 a draft of his report on the terms and impacts of the Scheme and considered his conclusions.

1.4.2. I have also read the report on the proposed transfer 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 abrdn Life, including information received orally, without independent verification. In particular, I have relied upon the data provided and used for the abrdn 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 updated financial information for abrdn Life as at 30 June 2024, provided by abrdn 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 abrdn Life 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. My indicative opinions contained in this report may change once arrangements are final.

1.6.5. Prior to the Court hearing where a decision will be made as to whether the proposed transfer should be enacted, I will prepare a supplementary report to highlight any major developments affecting the proposed transfer and the implications for abrdn Life's policyholders.

1.6.6. In determining the financial position of abrdn 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.

1.6.7. This report is based on data available to Barnett Waddingham at, or prior to, 28 November 2024 and takes no account of developments after that date.

1.6.8. This report is subject to the terms and limitations, including limitation of liability, set out in the engagement letter between Barnett Waddingham and abrdn 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 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 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 rather than any excerpt.

2. Overview of abrdn Life

2.1. Background

2.1.1. abrdn Life is a UK private limited company incorporated in England and Wales on 6 March 1998 and authorised as UK insurance company since 2001.

2.1.2. It is subject to the Solvency II prudential solvency regime as implemented in the UK, which sets out regulatory requirements for insurance firms and groups, covering financial resources, governance and accountability, risk assessment and management, supervision, reporting and public disclosure.

2.1.3. Originally established by Deutsche Bank AG as Deutsche Morgan Grenfell Life & Pensions Limited it was subsequently renamed Morgan Grenfell Life & Pensions Limited on 18 May 1998 and Deutsche Asset Management Life & Pensions Limited on 4 October 1999. The Company was acquired by Aberdeen Asset Management plc on 30 September 2005 before being renamed Aberdeen Asset Management Life and Pensions Limited on 15 December 2005 and is now part of the abrdn Group of companies.

2.1.4. A further name change, to Aberdeen Standard Investments Life and Pensions Limited, happened on 7 August 2019 before the Company was given its current name, abrdn Life and Pensions Limited on 13 December 2021.

2.1.5. abrdn Life serves as an efficient mechanism for abrdn Group's asset management business to deliver investment management services to UK institutional pension scheme clients and other UK insurance entities. It generates revenue by collecting charges from policies based on the value of investments managed (see sub-section 2.2).

2.1.6. abrdn Life relies on abrdn Investments Limited (aIL), an abrdn Group company, to carry out all management functions other than the Actuarial function, which is outsourced to Barnett Waddingham. Policy administration is carried out by aIL and third-party providers (see sub-section 2.3).

2.1.7. The arrangements with aIL are governed by a Management Services Agreement (MSA) and an Investment Management Agreement (IMA) between abrdn Life and aIL. The MSA and IMA set out the duties and responsibilities of aIL, and also define the basis for payment of the fees and expenses payable by abrdn Life for the services provided. The nature of the agreements helps to limit certain risks borne by abrdn Life (see sub-section 2.4).

2.1.8. abrdn Life follows the abrdn Group's approach to governance, which is supplemented as necessary to account for requirements specific to abrdn Life (see sub-section 2.5).

2.2. In-force business

2.2.1. abrdn Life currently writes three types of policy:

- unit-linked trustee investment plans (abrdn Life TIP)
- unit-linked pension property-linked reinsurance (abrdn Life reinsurance accepted)
- segregated investment mandates (abrdn Life SIM)

2.2.2. The abrdn Life policies contain no guaranteed benefits and no investment guarantees.

2.2.3. All policy benefits for abrdn Life's unit-linked plans are linked to the value of assets held in internal linked funds established by abrdn Life. Each internal linked fund is a portfolio of assets that is owned by abrdn Life and managed in accordance with a stated investment objective. As well as direct investments, such as bonds and company shares, the assets held may include units in other internal linked funds and investments in collective investment schemes such as unit trust units or open-ended investment company shares. Each portfolio of assets is notionally divided into a number of units, with the value of each unit derived by reference to the value of assets held in the relevant portfolio. When policyholders invest into an internal linked fund, they are allocated a number of units in the fund. The benefit subsequently payable is the value of the allocated units when the benefit is taken.

2.2.4. The benefit is typically taken as a cash amount, although the policy terms and conditions allow the policyholder to request an in-specie transfer (where assets rather than cash are transferred to the policyholder) or to exchange some or all of the cash benefit for an annuity. In practice, requests for in-specie transfers are very rare and no abrdn Life policyholder, to date, has requested an annuity.

2.2.5. The abrdn Life SIM policies do not have policy benefits. Under the abrdn Life SIM policies abrdn Life manages the assets of the policyholder in accordance with an agreed investment mandate, but the policyholder is the owner of the assets managed.

2.2.6. The abrdn Life TIP and abrdn Life SIM is sold to the trustees of UK-registered occupational pension schemes, although the latter is not currently actively marketed. The abrdn Life reinsurance accepted is sold to UK-authorised insurance companies (third-party insurers) and is the legal mechanism that allows the third-party insurers' policyholders access to abrdn Life's internal linked funds.

2.2.7. All abrdn Life policies may be terminated by abrdn Life, subject to giving policyholders at least three-months' notice.

2.2.8. Policyholders are charged fees based on the value of assets under management (AUM), either by way of annual management charges incorporated within the internal linked fund unit pricing or by way of explicit charges payable periodically. Where charges are incorporated within the internal linked fund pricing, policyholders may be eligible for a rebate of part of the charge, which is typically applied as an allocation to the policyholder of additional units equal in value to the amount of the rebate. Explicit charging applies to all SIM contracts and to some unit-linked contracts.

2.2.9. Performance fees may also be payable by abrdn Life SIM policyholders.

2.2.10. All policies allow abrdn Life to increase the level of charges, subject to a period of notice.

2.2.11. The composition of the in-force business at 30 June 2024 is shown in table 2.1 below. All tables in this report may include rounding differences in the totals.

Table 2.1: Composition of abrdn Life's business at 30 June 2024

	Policies	Assets under management (£m)
abrdn Life TIP	26	103
abrdn Life reinsurance accepted	7	566
abrdn Life SIM	2	79
Total	**35**	**748**

2.3. Management and policy administration

2.3.1. All policies are managed and administered under the following service agreements (with only a subset being relevant to the SIM business):

- Investment management services provided by aIL
- Distributor services provided by aIL
- Custodian services provided by Citibank N.A (Citibank)
- Fund accounting services provided by Citibank
- Administration (transfer agency) services provided by SS&C Financial Services International Limited and SS&C Financial Services Europe Limited (together SS&C)
- Management services provided by aIL
- Actuarial services provided by Barnett Waddingham

2.3.2. The expenses payable under the agreements with Citibank and SS&C are incurred in the management of the internal linked funds and are charged directly to those funds where possible. However, on a voluntary and non-binding basis, abrdn Life currently limits (or caps) the total expenses charged to certain funds. Where these caps apply, abrdn Life bears the cost of any expenses that would normally be chargeable to the funds but are above the caps (referred to as 'expenses in excess of caps').

2.4. Intra-group arrangements

2.4.1. abrdn Life is currently exposed to limited risks. The primary risk is that revenue is insufficient to cover expenses. This risk is managed by the terms of the MSA and IMA between abrdn Life and aIL which:

- adjust the expenses payable by abrdn Life to aIL based on abrdn Life's ability to pay; and
- compensate abrdn Life for any operational risk losses incurred.

2.4.2. The terms of the MSA and IMA also provide abrdn Life with some protection against increases in the amount of capital it needs to hold under the Solvency II regime.

Expenses

2.4.3. The terms of the MSA and IMA between abrdn Life and aIL are such that abrdn Life incurs expenses for investment management and distributor services totaling 85% of net fee income, where net fee income is annual management charge fee income net of any fee rebates paid back to policyholders (see paragraph 2.2.8) and net of Citibank, SS&C and other fund expenses that cannot be charged to the internal linked funds due to the application of the caps (as described in paragraph 2.3.2).

2.4.4. As well as expenses incurred under the arrangements set out in paragraph 2.4.3, abrdn Life incurs:

- management services expenses, which are abrdn Life's allocated share of abrdn Group costs; and
- expenses in respect of other costs or services payable to a range of parties (for example, actuarial fees and director emoluments).

2.4.5. If the expenses described in paragraph 2.4.4, the 'direct expenses', exceed the 15% of net fee income retained by abrdn Life, the amount payable to aIL for investment management and distributor services is reduced and the amount of net fee income retained by abrdn Life is increased, up to a maximum retention of 100% of net fee income.

2.4.6. Thus, direct expenses will be covered by net fee income retained by abrdn Life so long as the direct expenses are less than or equal to 100% of net fee income.

2.4.7. Performance fees are excluded from the fee retention mechanism, with 100% of any performance fee being payable to aIL.

Operational risk

2.4.8. Operational risk means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Typically, it will involve the cost of correcting an error.

2.4.9. Under the terms of the MSA, aIL is liable for all operational risk losses in respect of the abrdn Life business, whether these occur as a result of a failure of aIL or as a result of a failure of a third-party provider and where that third party is unable or unwilling to compensate for any loss incurred.

2.4.10. Although the cost of operational risk losses is met by aIL, under the Solvency II regime as it applies to abrdn Life, abrdn Life must hold capital (financial resources) against the risk. The amount of capital that abrdn Life must hold against the risk, as defined in relevant regulation, is 25% of the non-acquisition expenses incurred over the preceding twelve months. abrdn Life currently treats all expenses as non-acquisition expenses. This means, if abrdn Life's expenses increase, its capital requirement for operational risk will also increase.

2.4.11. The capital requirement in respect of operational risk is currently a material element of abrdn Life's total capital requirement and the inter-group arrangements provide some protection to help abrdn Life fund an increase in the operational risk capital requirement out of retained profits.

2.4.12. If abrdn Life's expenses do increase, a check is made to determine if the additional capital requirement[1], together with an appropriate buffer, can be funded out of the net fee income retained by abrdn Life after deduction of the direct expenses. The buffer is currently set to 100%, so the check is whether twice the additional capital requirement can be funded from retained net fee income less direct expenses.

2.4.13. If the retained net fee income less direct expenses would otherwise be insufficient to fund the increase in the capital requirement and the associated buffer, the amount payable to aIL for investment management and distributor services is reduced and the retained percentage of net fee income is increased up to a maximum retention of 100% of net fee income.

2.5. Governance

2.5.1. The governance framework of abrdn Life is based on the framework which applies to the abrdn Group. Additional arrangements have been established by the abrdn Life Board where necessary to address the requirements of abrdn Life as a UK insurance undertaking.

2.5.2. The role of the abrdn Life Board is to organise and direct the affairs of abrdn Life in a manner that seeks to promote the long-term sustainable success of the Company and maximise the value of the Company for the benefit of its shareholder whilst complying with the constitution of the Company and relevant regulatory and corporate governance requirements, including:

- the overriding regulatory responsibility to ensure fair treatment for all customers; and
- as a product manufacturer, to help deliver good outcomes for retail customers through its role in the distribution chain.

2.5.3. abrdn Life's Board comprises an independent chairperson, an independent non-executive director and three members of the executive team.

[1] Any increase in the Solvency II capital requirement anticipated is determined on an approximate basis.

2.5.4. The Board has established the following two dedicated sub-committees, which receive input from functional committees established by the abrdn Group as part of its group-wide risk management framework.

- **Risk Committee:** Responsible for reviewing risk management information relating to the Company. The Committee keeps under review in particular:
  - the alignment of the abrdn Group's strategy to the risk appetite and policy of the Company's Board;
  - quality of the abrdn Group's enterprise risk management framework and operating structure as a key control over the Company's risks; and
  - the extent to which risk assessment is in line with industry best practice and regulatory requirements.
- **Audit Committee:** Responsible for monitoring the integrity of the financial statements of the Company, reviewing significant financial reporting issues and judgements. The Committee reviews and challenges as appropriate:
  - the consistency of, and any changes to, accounting policies;
  - whether the Company has followed appropriate accounting standards and made appropriate estimates, assumptions and judgements, taking into account the view of the external auditor and the Chief Actuary;
  - the clarity of disclosure in the Company's financial reports;
  - the annual internal audit plan; and
  - the external auditor's audit plan.

2.5.5. In addition, abrdn Life has established the following executive management committee, to review the output from activity delegated to aIL under the MSA and IMA which has an impact on customer outcomes.

- **Client and Fund Governance Committee:** Responsible for assisting the Chief Executive Officer (CEO) in their responsibilities for oversight of any activity which has a direct impact on customer outcomes. This includes, but is not limited to:
  - decisions relating to, and operation of, the internal linked funds and abrdn Life SIM assets managed by the Company;
  - investment performance;
  - client facing documents and communications;
  - product changes;
  - complaints; and
  - oversight of matters relevant to the fair treatment of customers.

2.6. Capital Management Policy

2.6.1. The Solvency II regulations specify how insurance companies should value their assets and liabilities and require insurance companies to hold assets in excess of their liabilities. The minimum amount of excess assets that an insurance company must hold is called a regulatory capital requirement.

2.6.2. The primary regulatory capital requirement under the Solvency II regime is the Solvency Capital Requirement (SCR). It is intended to ensure that, if capital equal to the SCR is held, the value of the firm's assets will exceed the value of its liabilities over a one-year time period with a probability of 99.5%.

2.6.3. Most insurance firms, including abrdn Life, use the Solvency II Standard Formula to calculate the SCR. The Standard Formula sets out a given approach for calculating the SCR and aims to capture the material quantifiable risks to which most insurers are exposed. Where the Standard Formula is used, both the insurance company and the prudential regulator are required to assess its appropriateness on a regular basis. abrdn Life last assessed the appropriateness of the Standard Formula in August 2024 and concluded that the Standard Formula remains appropriate, both before and after the proposed transfer.

2.6.4. The SCR is underpinned by the Minimum Capital Requirement (MCR), which usually sets a lower limit on the amount of capital that an insurance company must hold. The calculation of the MCR is set out in the Solvency II regulations. The result is between 25% and 45% of the SCR although there is an overriding constraint that the MCR must be at least as large as a monetary amount set out in the Solvency II regulations. For life insurance companies the minimum amount is, as at the date of this report, set at €4.0m, which is converted to a sterling amount on an annual basis. Between 31 December 2023 and 30 December 2024, the sterling amount of the monetary minimum is £3.49m. Planned changes to the Solvency II regulations in the UK are expected to remove reference to a Euro amount, with the monetary minimum of the MCR expected to be set to £3.5m with effect from 31 December 2024.

2.6.5. Breaches of the SCR and MCR (if the insurer has insufficient assets to cover these capital requirements) will result in regulatory intervention. The intervention will be more severe if the MCR is breached.

2.6.6. Holding assets equal to the higher of the SCR and MCR provides benefit security to policyholders, as it means the insurer can withstand a degree of adverse experience and still have sufficient assets to meet its liabilities.

2.6.7. However, companies will typically target holding excess assets above the required minimum level to provide additional security and set out such targets in a Capital Management Policy.

2.6.8. Furthermore, insurance companies are required to assess the capital that they consider necessary to run the business, which may be higher or lower than the regulatory capital requirement.

2.6.9. abrdn Life's Capital Management Policy is to target holding capital equal to the greatest of 196% of its SCR, 150% of its MCR and 150% of its own assessment. Subject to appropriate governance and availability of distributable profits, abrdn Life may distribute by way of dividend any excess assets above its Capital Management Policy targets.

3. Summary of the Scheme

3.1. Rationale

3.1.1. Historical corporate transactions have led to abrdn Group managing the client relationships and undertaking administration for both the abrdn Life business and the Transferring business.

3.1.2. Most of the Transferring business was originally written by Standard Life Assurance Limited (SLAL) (or by Standard Life Assurance Company (SLAC) if written pre-2006, before SLAC demutualised) to clients introduced through Standard Life Investments Limited (SLI), with SLI managing some of the investments.

3.1.3. Following the merger between Aberdeen Asset Management plc and Standard Life plc in 2017, the combined group, Standard Life Aberdeen, had two largely equivalent product offerings, the abrdn Life TIP written by abrdn Life and the Transferring business written by SLAL.

3.1.4. SLAL was subsequently acquired by Phoenix Group Holdings in 2018, and Standard Life Aberdeen was renamed abrdn. The functions that had previously been SLI remained part of the abrdn Group.

3.1.5. This resulted in a non-optimal structure where abrdn Group's clients seeking a TIP policy could be offered a solution via the internal entity, abrdn Life, or the external entity, SLAL.

3.1.6. The Scheme is part of a subsequent programme of transactions agreed in 2021 between the Phoenix Group and abrdn Group, whose purpose is to simplify the arrangements between the Phoenix Group and abrdn Group and to support the delivery of a more cohesive experience for policyholders, clients and their respective advisers.

3.1.7. As part of this programme of transactions, the Phoenix Group and abrdn Group agreed that they would seek to transfer to abrdn Life certain policies, which were then policies of SLAL, where the administration of those policies had been outsourced by SLAL to certain members of the abrdn Group. While it was originally intended for the policies to be transferred directly from SLAL to abrdn Life prior to a transfer of the SLAL business to Phoenix Life, work on the proposed transfer was suspended to allow the transfer from SLAL to Phoenix Life to take place, and become effective, first. As a result, these policies (most of the Transferring business) were transferred from SLAL to Phoenix Life on 27 October 2023. Since 27 October 2023, Phoenix Life has issued a small number of new policies under one of the contract types to be transferred and these policies form the remainder of the Transferring business.

3.1.8. From a shareholder perspective, the proposed transfer will support the simplification of the commercial and operational arrangements between the Phoenix Group and abrdn Group. The majority of profits on the Transferring business currently accrue to the abrdn Group as, under the existing arrangements, the abrdn Group company abrdn Investment Management Limited (aIML) receives the majority of the annual management charges on the Transferring business net of a fee paid to Phoenix Life for providing the business. The administration of the Transferred Business continues to be outsourced by Phoenix Life to aIML. Therefore, the transfer will allow the abrdn Group to take full control of the Transferring business (in respect of which it already holds an economic interest) and also adds scale to abrdn Life. It also provides a coherent and more easily understandable offering for policyholders.

3.2. Summary of the Scheme

3.2.1. The Scheme will result in the transfer of the Transferring business (certain blocks of unit-linked business) from Phoenix Life to abrdn Life, by way of an insurance business transfer under Part VII of the Financial

Services and Markets Act 2000. The scope of the proposed transfer is limited to the following contracts provided by Phoenix Life, but only where they do not participate in the Phoenix Life Heritage With-Profits Fund at the date of transfer:

- 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

3.2.2. The ITIP, RTIP and TIP-Gateway policyholders are trustees of occupational pension schemes. The IPPIP and RPPIP policyholders are trustees of Self Invested Personal Pension (SIPP) schemes. I understand that the main differences between the retail and institutional plans are the size of the minimum premium accepted and the rate of charges applied. The retail plans have a lower minimum premium and, typically, a higher rate of charge compared to the institutional plans. Furthermore, I understand that, in practice, there are no material differences in the way the institutional and retail policies are managed, although the classification determines which of Phoenix Life's internal linked funds are available to the policyholder and the retail policies are closed to new business, including additional contributions on existing business.

3.2.3. There is only one TIP-Gateway policy. This is similar to the ITIP policies but is accessed through a platform that allows financial advisors to perform aspects of administration.

3.2.4. The Pension property-linked reinsurance policyholders are UK insurance companies. In this instance, reinsurance is the mechanism used to give the policyholders of one insurance company access to investment solutions offered by another insurance company.

3.2.5. Under UK law, unless specific arrangements are put in place, the direct policyholders of a long-term insurer (both abrdn Life and Phoenix Life are long-term insurers) have priority over reinsured policyholders for the repayment of debts on the winding up of a long-term insurer. It is common practice, in relation to contracts like the Pension property-linked reinsurance, for legal agreements to be entered into that have the effect of both direct policyholders and reinsured policyholders being treated equally. These legal agreements are referred to as floating charges.

3.2.6. Phoenix Life has entered into such an agreement with the Pension property-linked reinsurance policyholders, the 'Property-Linked Floating Charge'. This is structured as a single agreement that covers all of the Pension property-linked reinsurance policyholders.

3.2.7. Under the proposed Scheme, the Property-Linked Floating Charge will be terminated. This will be replaced by separate agreements entered into between abrdn Life and each of the Pension property-linked reinsurance policyholders. All but one of the Pension property-linked reinsurance policyholders already has such an agreement with abrdn Life, the 'Existing abrdn Life Floating Charges'. In these cases, the existing agreement will be amended to confirm that it covers the Pension property-linked reinsurance, the 'Amended Existing abrdn Life Floating Charges'. For the other Pension property-linked reinsurance policyholder, abrdn Life will grant a new floating charge, the 'New abrdn Life Floating Charge'.

3.2.8. The intended outcome is that the Amended Existing abrdn Life Floating Charges and the New abrdn Life Floating Charge, together the 'abrdn Life Floating Charges', will provide equivalent protection for the Pension property-linked reinsurance policyholders to that provided by the Property-Linked Floating charge, albeit that the charges will be over abrdn Life's assets rather than Phoenix Life's assets, such that the change has no material adverse effect on affected policyholders.

3.2.9. Under the proposed Scheme the assets and liabilities relating to the Transferring business will be transferred into abrdn Life.

3.2.10. Before or on the date of transfer, abrdn Life will establish the internal linked funds necessary to receive the Transferring business assets.

3.2.11. Immediately following the proposed transfer, the Transferring business policyholders will be allocated units in abrdn Life internal linked funds that are equal in value to the units allocated to them in Phoenix Life internal linked funds immediately prior to the proposed transfer. The abrdn Life internal linked funds selected for any Transferring business policyholder will, as far as practicable, replicate the investment objectives of the Phoenix Life internal linked funds that the Transferring business policyholder is invested in.

3.2.12. At the date of transfer abrdn Life and Phoenix Life will enter into a reinsurance agreement to enable Transferring business policyholders continued access to the Phoenix Life Pooled Property Pension Fund that cannot be replicated by abrdn Life. A floating charge will also be entered into which has the effect that abrdn Life will be treated equal to the direct policyholders of Phoenix Life in the event of Phoenix Life's insolvency.

3.2.13. In advance of the transfer, abrdn Life will enter into a reinsurance agreement with SPML to enable Transferring business policyholders continued access to the SPML Intermediated Diversified Growth Fund, a linked fund offered and managed by SPML. A floating charge will also be entered into which has the effect that abrdn Life will be treated equal to the direct policyholders of SPML in the event of SPML's insolvency.

3.2.14. Following the transfer, abrdn Life will be responsible for all liabilities and risks for the Transferring business.

3.2.15. The Scheme is clear in that the costs associated with it must be met by Phoenix Life, abrdn Life, or other companies within the abrdn Group. I have assurance from abrdn Life's Chief Executive Officer that abrdn Life will not incur any costs associated with the Scheme as the abrdn Group's share of such costs will be met by other entities within the abrdn Group. Costs associated with the Scheme will not be borne by the Transferring business policyholders or abrdn Life's policyholders.

3.2.16. The proposed transfer is expected to take effect on 28 March 2025.

3.3. The transferring portfolio

3.3.1. The composition of the in-force Transferring business at 30 June 2024 is shown in table 3.1 below. The values of assets under management shown in table 3.1 are based on the valuation of assets at the daily valuation point for the relevant internal linked funds. The values have been rounded and, therefore, are approximate. The total amount of assets under management of £3,805m shown in table 3.1 differs to the value of £3,829m included in the unit reserve figure shown in the post-transfer column of table 4.1 at paragraph 4.1.20 as the value of assets under management for the Transferring business. The difference between the two amounts is due to the figure included in table 4.1 being determined using asset values at a time of day different to the daily valuation point for the relevant internal linked funds, in line with abrdn Life's financial reporting policy.

Table 3.1: Composition of the Transferring business at 30 June 2024

	Policies	Approximate assets under management (£m)
ITIP	214	3,100
RTIP	31	20
IPPIP	52	30
RPPIP	77	20
TIP-Gateway	1	500
Pension property-linked reinsurance	5	135
Total	**380**	**3,805**

Source: Report by the Chief Actuary of Phoenix Life Limited

4. Impact of the transfer

4.1. Financial position of abrdn Life before and after the transfer

Introduction

4.1.1. As part of the considerations as to whether benefit security of abrdn Life's policyholders will be affected by the Scheme, it is appropriate to consider abrdn Life's solvency position before and after the transfer.

4.1.2. Below, I show the regulatory solvency position of abrdn Life as at 30 June 2024 and the estimated solvency position assuming the Scheme is implemented on that date.

4.1.3. abrdn Life uses the Solvency II Standard Formula to assess the regulatory solvency position, referred to as 'Pillar 1' solvency. A key measure is the solvency ratio, determined as available own funds (capital resources) divided by the SCR.

4.1.4. 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. My supplementary report will include an update on the expected impact of the Scheme on abrdn Life.

4.1.5. 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 later sections of this report.

Key risks

4.1.6. The majority of risks on the Transferring business are similar to those on abrdn Life's existing business and will be mitigated in the same way. However, unlike abrdn Life's existing policies, the terms and conditions of the Transferring business do not contain a clause that gives the insurer the right to unilaterally terminate contracts. Also, the Transferring business introduces a new risk to abrdn Life, reinsurer counterparty default risk. The consequences of these differences are discussed below.

4.1.7. The structure of the intra-group arrangements discussed in sub-section 2.4 mean abrdn Life currently retains limited risk.

4.1.8. Operational risk is effectively transferred to aIL, and the intra-group arrangements also provide some protection against abrdn Life making a loss as a result of falling revenues, either because of falls in asset values or the termination of policies, or an increase in expenses.

4.1.9. If abrdn Life were to become loss-making, it currently has the ability to increase charges payable by policyholders, subject to giving policyholders appropriate notice. Ultimately, if abrdn Life were to become unviable for any reason, it currently has the contractual right to unilaterally terminate all contracts subject to giving policyholders at least three months' notice, with benefits being paid to policyholders at the end of the notice period. After paying out all benefits to policyholders it could seek deauthorisation and subsequently be wound up.

4.1.10. The pre-transfer solvency calculations shown in table 4.1 below assume that all risks can be closed out in three months. This is the current valuation approach. It has been discussed with the PRA and is considered to be a simplified and proportionate calculation compared to assessing risks over a longer period.

4.1.11. Following the proposed transfer, the intra-group arrangements will remain in place and will be extended to cover the Transferring business. They will, therefore, provide similar protections against operational risk events and against abrdn Life making a loss due to falling revenues or increasing expenses.

4.1.12. If abrdn Life were to become loss-making post the proposed transfer, it would still be able to increase charges payable by policyholders, subject to giving policyholders appropriate notice. However, while the policy terms and conditions for some policies within the Transferring business allow for benefits to be paid if an internal linked fund is closed, they do not include a clause that gives the insurer a right to terminate contracts. This potentially impacts how quicky risks can be closed out.

4.1.13. In practice, in my opinion, the absence of a unilateral termination clause does not introduce material additional risk to abrdn Life. In my opinion, in the unlikely event of abrdn Life becoming unviable, policyholders would be faced with the choice of increased charges or termination by consent. As there are no termination penalties, if the required increase in charges was significant, rational policyholders or, where relevant, underlying beneficiaries, would choose termination and receive their benefits to be reinvested elsewhere. Policyholders and beneficiaries would need to be given appropriate notice to consider the options.

4.1.14. However, the absence of a unilateral termination clause on the Transferring business means that the current simplified approach used in the solvency calculations, of assuming all risks can be closed out in three months, is no longer appropriate post the proposed transfer. The post-transfer solvency calculations shown in table 4.1 below assume that risks are assessed over the long term but, if abrdn Life becomes loss-making, it will invoke action to limit losses to a period of one year from when it first becomes loss making.

4.1.15. Outward reinsurance will be used by abrdn Life to enable Transferring business policyholders continued access to the Phoenix Life Pooled Property Pension Fund and the SPML Intermediated Diversified Growth Fund.

4.1.16. The risk of either of Phoenix Life or SPML (acting as reinsurers) defaulting on their respective obligations to abrdn Life in respect of the Transferring business will be borne by abrdn Life.

4.1.17. Under the Solvency II regulations abrdn Life will be required to allow for the risk of reinsurer default:

- on a best-estimate basis via a reduction in assets; and
- under a stressed basis, as part of the SCR.

4.1.18. The risk of reinsurance counterparty default will be mitigated by ongoing due diligence. abrdn Life will monitor the solvency positions of Phoenix Life and SPML and will take appropriate action to safeguard the interests of its policyholders if the risk of default increases. To avoid any potential conflict of interest for me, acting as Chief Actuary to both abrdn Life and SPML, the monitoring of SPML will be conducted by abrdn Life using publicly available information and its direct relationship with SPML.

abrdn Life's financial position

4.1.19. The estimated impact of the proposed transfer on abrdn Life as at 30 June 2024, assuming the transfer occurs on that date is shown in table 4.1 below.

4.1.20. Although not part of the Scheme, assuming the Scheme is approved, abrdn Life will be make a payment 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 will provide abrdn Life with additional capital of the same amount, prior to the date of the transfer, such that the net effect on abrdn Life's own funds from the payment made to the abrdn Group will be zero. In table 4.1, 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. The amount of the payment and capital injection is, at the time of writing this report, expected to be of the order of £4m, although the exact amount will be confirmed closer to the date of transfer. The results shown in table 4.1 are not dependent upon the amount.

Table 4.1: abrdn Life solvency position before and after the proposed transfer

30 June 2024	Pre-transfer (£m)	Post-transfer (£m)
Assets	**689.21**	**4,517.86**
Less technical provisions:		
Best estimate liabilities		
Unit reserve	669.50	4,498.24
Value of in-force business (VIF)	(0.00)	(4.33)
Risk margin	0.03	1.06
Total technical provisions	**669.53**	**4,494.98**
Less:		
Non-insurance liabilities	**4.74**	**5.56**
Equals		
Own funds	**14.94**	**17.33**
Solvency Capital Requirement (SCR)		
Operational risk SCR	0.72	0.72
Basic SCR	0.37	7.20
Market risk	*0.31*	*2.07*
Counterparty risk	*0.09*	*4.88*
Life underwriting risk	*0.05*	*2.93*
Diversification	*(0.09)*	*(2.67)*
Loss absorbing capacity of deferred taxes	(0.26)	(1.27)
Total SCR	**0.82**	**6.66**
Capital surplus/(shortfall)	**14.11**	**10.67**
SCR cover (Own funds/Total SCR)	**1,813%**	**260%**
Minimum Capital Requirement (MCR)	**3.49**	**3.49**
MCR cover (Own funds/MCR)	**427%**	**496%**

4.1.21. The expected impact of the Scheme on the solvency position of abrdn Life 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 (see paragraphs 4.1.15 to 4.1.17).
- The unit reserve is increased by the value of the Transferring business.
- 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 (see paragraphs 4.1.15 to 4.1.17).
- 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 260%, and in excess of abrdn Life's target (see sub-section 2.6).

4.1.22. The figures reported in table 4.1 indicate the immediate impact of the transfer on abrdn Life's solvency position. This is influenced by the protections included in the intra-group arrangements discussed in sub-section 2.4.

4.1.23. Immediately after the transfer, the operational risk SCR is unchanged. However, this is expected to increase over time, as expenses (which are included in the calculation of the operational risk SCR) are incurred in respect of the Transferring business. The intra-group expense arrangements (see paragraphs 2.4.10 to 2.4.13) recognise the expected future increase in the operational risk SCR and abrdn Life retains a greater than normal share of fee income so that the expected increase in the operational risk SCR can be met from retained profits. This leads to the VIF initially being higher than it otherwise would be and, consequently, the market and life underwriting elements of the SCR (which reflect a loss of the VIF under stressed conditions) being higher than they would otherwise be.

4.1.24. Over time, profits earned will increase abrdn Life's assets (assuming no dividends are paid) and the VIF will fall. Consequently, the market and life underwriting elements of the SCR will fall, but the fall in these elements will be offset by an increase in the operational risk SCR. I have estimated that, overall, the longer-term impact on SCR cover after the transfer will not be dissimilar to the outcome shown on table 4.1.

4.1.25. Changes to the Solvency II regulations effective from 31 December 2024, that were announced by the PRA on 15 November 2024, included an unexpected change that had not been previously flagged by the PRA as an intended change in approach. This change will increase abrdn Life's SCR. The impact is expected to be a modest reduction in abrdn Life's SCR cover, but with the SCR cover remaining in excess of abrdn Life's target. I am aware of no other actions or events since 30 June 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 in table 4.1. I will provide an update on the financial position of abrdn Life, taking the aforementioned change to the SCR into account, in my supplementary report.

4.2. Effect on existing policyholders of abrdn Life

Benefit security

4.2.1. It is important that abrdn Life is able to pay policyholders' benefits.

4.2.2. I have considered the security of abrdn Life's existing policyholders' benefits by comparing the sources of security and the profile of risks to which those policyholders will be exposed pre- and post-Scheme.

4.2.3. 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.

4.2.4. 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 abrdn 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 abrdn Life's Capital Management Policy as a direct result of the Scheme;
- while the Scheme results in a decrease in abrdn Life's SCR cover, the SCR cover remains strong and greater than abrdn Life's target;
- although the Scheme will introduce exposure to Phoenix Life and SPML via outward reinsurance, the additional risk to abrdn Life's existing policyholders in terms of security of benefits is not material; and
- abrdn Life will incur no costs associated with the Scheme, as such costs that might otherwise fall upon abrdn Life will be met by the abrdn Group.

4.2.5. I explain my reasoning by expanding on these points, other than the last which I consider requires no further explanation, below.

Sources of benefit security

4.2.6. Security of benefits is currently provided by:

- the assets backing abrdn Life's technical provisions and regulatory capital requirements (the higher of the SCR and MCR); and

- assets held by abrdn Life in addition to its regulatory capital requirements.

4.2.7. Following the implementation of the Scheme the security of the benefits of abrdn Life's existing policyholders will continue to be provided by the elements discussed above, albeit that they will include assets held in respect of the Transferring business.

4.2.8. As the transferring assets include outward reinsurance, security of benefits post-Scheme will also be provided, to an extent, indirectly by the assets of abrdn Life's reinsurance counterparties, Phoenix Life and SPML.

4.2.9. Following implementation of the Scheme, these elements will provide security for both abrdn Life's existing policyholders and Transferring business policyholders.

Technical provisions and SCR

4.2.10. Although the Transferring business is similar to abrdn Life's existing business, there are some contractual differences. As discussed in sub-section 4.1, these differences have led to some modifications to the way abrdn Life's technical provisions are calculated to ensure the technical provisions produce what can be considered a best estimate of the liability in respect of the combined business post-transfer.

4.2.11. The SCR in respect of the Transferring business will be calculated using the Solvency II Standard Formula. I am satisfied that the use of the Standard Formula is appropriate for the Transferring business. In particular, the SCR post-transfer will make allowance for the risk of reinsurance counterparty default.

4.2.12. The resulting overall technical provisions and SCR will therefore lead to a similar level of benefit security both before and after the transfer, with the SCR intended to be sufficient to cover any losses that might arise over a one-year time period with a probability of 99.5%.

Capital Management Policy

4.2.13. abrdn Life's Capital Management Policy is described in sub-section 2.6. The abrdn Life Board has resolved that no changes to the Capital Management Policy are necessary as a direct result of the Scheme and abrdn Life's capital targets will lead to a similar level of benefit security both before and after the transfer.

Comparison of solvency position

4.2.14. Table 4.1 above shows that abrdn Life's SCR cover is expected to reduce as a result of the transfer, as explained in paragraphs 4.1.19 to 4.1.25.

4.2.15. 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.

4.2.16. 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.

4.2.17. 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 260% is still significantly higher than its Capital Management Policy target of 196%.

Risk profile

4.2.18. As discussed in paragraphs 4.1.6 to 4.1.18, if the Scheme is implemented, the most material change to abrdn Life's risk profile will be exposure to reinsurer counterparty default risk.

4.2.19. This, alongside other risks, will be reflected in abrdn Life's SCR post-transfer and, as discussed in paragraphs 4.2.11 and 4.2.12, I am satisfied that the SCR post-transfer will offer a similar level of protection compared to if the Scheme is not implemented.

4.2.20. Post-transfer, if either of Phoenix Life and SPML were to default on their respective obligations to abrdn Life, abrdn Life would need to make good any shortfall in the amount recovered, and this would impact abrdn Life's solvency position to the detriment of all of its policyholders, not only those invested in the reinsured funds. abrdn Life will have the benefit of the floating charges discussed in paragraphs 3.2.12 and 3.2.13, which give abrdn Life equal ranking to the reinsurers' respective direct policyholders in the event of a default. This helps to protect against abrdn Life incurring a significant loss upon reinsurer default as, if a default were to occur, any loss would likely only be for a small part of the reinsurance exposure. However, I am content that the risk of either Phoenix Life or SPML defaulting on their respective obligations to abrdn Life is very small.

4.2.21. Both Phoenix Life and SPML are subject to the Solvency II prudential regime, and both have their own targets to hold capital significantly higher than their respective regulatory minimum amounts, such that either would be able to withstand significant adverse experience and still be able to meet its commitments.

4.2.22. Furthermore, abrdn Life will monitor the financial position of both Phoenix Life and SPML and will be able to terminate either or both reinsurance contracts, recovering the value of the relevant reinsured assets, where this is in the best interests of its policyholders, if abrdn Life considers the risk of default has increased to an unacceptable level.

4.2.23. In summary, I am satisfied that the additional risks to which abrdn Life will be exposed if the Scheme is implemented will not lead to a material adverse effect on abrdn Life's existing policyholders.

Policyholder benefit expectations

4.2.24. Benefit expectations for abrdn Life's unit-linked policyholders primarily relate to maintaining policies in accordance with policy terms and conditions, maintaining the internal linked funds, and the fair application of discretionary practices. Some particular points to consider are the:

- operation of the internal linked funds, in particular unit pricing, in accordance with the policy terms and conditions;
- investment of the internal linked funds in accordance with the aims and objectives of each fund, as communicated to policyholders; and
- the extent of policyholder charges including charges deducted directly from internal linked funds and the discretion exercised in deciding appropriate charges.

4.2.25. Benefit expectations for abrdn Life's SIM policyholders are similar except aspects specific to the management of the internal linked funds are not applicable. These are replaced by an expectation that the SIM assets should be managed in accordance with the agreed investment mandate.

4.2.26. The Scheme makes no changes to:

- abrdn Life policyholders' policy terms and conditions;

- the investment management of the existing abrdn Life internal linked funds or SIM asset portfolios;
- the operation of the existing abrdn Life internal linked funds, including unit pricing practices;
- charge levels; or
- the application of discretion.

4.2.27. The Client and Fund Governance Committee will continue to assist the CEO in providing oversight of any activity that has a direct impact on customer outcomes.

4.2.28. Furthermore, abrdn Life policyholders will bear no costs incurred in planning for or executing the Scheme.

4.2.29. The Scheme offers the benefit that a wider range of internal linked funds will be available following the transfer.

4.2.30. I therefore conclude that the transfer will have no material adverse impact on the benefit expectations of existing abrdn Life policyholders.

Administration

4.2.31. Policyholder administration and client relationship management for abrdn Life policyholders are unchanged by the proposed transfer. In particular:

- there will be no changes to the abrdn Group personnel or functions involved;
- administration will remain outsourced to SS&C; and
- fund accounting and custody services will remain outsourced to Citibank.

4.2.32. Furthermore, abrdn Life policyholders are expected to be unaffected by the migration of the Transferring business onto the abrdn Life administration platforms around the time of the Scheme implementation date. abrdn Life policyholders will be able to trade (invest new premiums, switch investments between existing abrdn Life internal linked funds, and withdraw investments) in the current range of abrdn Life internal linked funds as normal.

4.2.33. abrdn Life policyholders are expected to be able to invest in any internal linked funds established by abrdn Life in connection with the Transferring business from 31 March 2025, shortly after the Scheme implementation date.

4.2.34. Although the volume of abrdn Life's in-force business is expected to increase post the proposed transfer, in my opinion this is unlikely to have any detrimental impact on abrdn Life's policyholders as:

- there will be no additional burden on the abrdn Group personnel that manage the client relationship (client relationship for the Transferring business will be undertaken by the same abrdn Group personnel both before and after the proposed transfer); and
- SS&C and Citibank are both specialist providers, with adequate resources to efficiently administer the increased volumes.

4.2.35. I therefore conclude that there is no reason to expect any change in the standard of service provided to abrdn Life policyholders following the Scheme.

Management and governance

4.2.36. Management and governance of the abrdn Life policies are primarily unchanged by the proposed transfer. In particular, there will be no changes to abrdn Group personnel or functions involved and no material changes to the board and management committees described in sub-section 2.5.

4.2.37. Certain changes will be made to the terms of reference for relevant committees to cater for management and governance aspects that are specific to the Transferring business, such as the monitoring of reinsurance counterparties, with the aim of protecting the interests of all of abrdn Life's policyholders post-transfer.

4.2.38. I therefore conclude that there is no reason to expect any detrimental change in the standard of management and governance provided to abrdn Life existing policyholders if the Scheme is implemented.

Policyholder communications

4.2.39. Communications will be sent to abrdn Life's policyholders, that is, the third-party insurers and the trustees of the pension schemes that have taken out policies with abrdn Life.

4.2.40. abrdn Life does not have information on the policyholders of the third-party insurers or the members of the pension schemes to enable it to contact those parties directly. The communications will, however:

- ask abrdn Life's policyholders that are pension scheme trustees to consider notifying all beneficiaries under the relevant policy and to direct their beneficiaries to relevant information that will be made available on the abrdn Life website; and
- suggest abrdn Life's policyholders that are third-party insurers make any of their policyholders with an interest in the proposed transfer aware of the proposals.

4.2.41. Where appropriate, abrdn Life will offer support to its policyholders in communicating to individual beneficiaries. Individual beneficiaries may also become aware of the proposals via notices that will be placed in a number of publications including four national newspapers.

4.2.42. The communication to abrdn Life's policyholders will, by default, be by email, as this is the normal means of communication between abrdn Life and its policyholders.

4.2.43. Where an email is not delivered or if it is not possible to send an email to a particular policyholder, the communications will be sent by post to the policyholder's address.

4.2.44. In my opinion, the intended use of email communication by default is appropriate as it follows the normal means of communication between abrdn Life and its policyholders. It also has the benefit of faster and ensured delivery compared to the use of a postal service.

4.2.45. abrdn Life policyholders will receive:

- a covering letter; and
- a detailed guide to the Scheme which includes:
    - a statement setting out the terms of the Scheme;
    - a tailored summary of the Independent Expert's report;

- a legal notice that contains details of where abrdn Life policyholders can obtain other documents relating to the Scheme, an outline of the legal process, how policyholders may object to the proposed transfer and relevant contact details; and
- a set of questions and answers to address the most likely questions that policyholders may have on the Scheme.

4.2.46. The mailing, intended to ensure that abrdn Life's policyholders are adequately informed of the nature and effect of the Scheme, will be supplemented by web-based content and press adverts.

4.2.47. I have reviewed the communications, and I am content that they are appropriate and consistent with the principles of treating policyholders fairly.

Gone aways

4.2.48. The abrdn group acquired a book of insurance policies from Credit Suisse in 2011 which was subsequently transferred into what is now abrdn Life. The acquisition included a balance attributable to a small population of policyholders who could not be contacted at the time. I understand that, prior to the acquisition, Credit Suisse had attempted unsuccessfully to identify and contact these policyholders, referred to as 'gone aways'. After these policies were transferred to abrdn Life, abrdn Life used paper files provided by Credit Suisse to carry out investigations to try to trace the policyholders between 2011 and 2016. This included contacting the Pensions Regulator and the Pensions Tracing Service, but these efforts proved unsuccessful. As at 30 June 2024, the assets held by abrdn Life for the benefit of the gone away policyholders is approximately £0.1m, which represents approximately 0.02% of abrdn Life's unit-linked AUM. The number of gone away policyholders is not clear as reconciliations have not been possible.

4.2.49. abrdn Life is seeking a dispensation from contacting the gone away policyholders as it has no means of doing so. Given the time passed and previous attempts to trace the policyholders, in my opinion, this is reasonable.