



FRIENDLY SOCIETIES ACT 1992

DECISION BY THE PRUDENTIAL REGULATION AUTHORITY ON THE APPLICATION OF POLICE MUTUAL ASSURANCE SOCIETY LIMITED TO TRANSFER ALL OF ITS ENGAGEMENTS TO THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED, UNDER SECTION 86 OF THE FRIENDLY SOCIETIES ACT 1992.

The Prudential Regulation Authority appointed Lyndon Nelson to decide the application on its behalf.

The Prudential Regulation Authority decided to confirm the transfer pursuant to section 86 of The Friendly Societies Act 1992. Its full decision is set out in section 6 of this notice.

1. INTRODUCTION

1.1. Police Mutual Assurance Society Limited (“**the Society**”) applied on 4 June 2020, to the Prudential Regulation Authority (“**the Authority**”) for confirmation of its transfer of all of its engagements to The Royal London Mutual Insurance Society Limited (“**the Transferee**”) pursuant to section 86 of the Friendly Societies Act 1992 (“**the FS Act**”).

Procedure

1.2. Paragraph 2(b) of section 86 of the FS Act requires that a friendly society, in order to transfer any of its engagements, must resolve to transfer the engagements by special resolution. The Society’s delegates voted on the resolution relating to the proposed transfer of engagements of the Society to the Transferee (“**the Transfer**”) with votes counted and declared on 4 June 2020.

1.3. Paragraph 6 of Schedule 15 of the FS Act requires that, where a friendly society applies to the Authority for confirmation of a transfer of engagements, a notice shall be published stating that interested parties have the right to make representations to the Authority with respect to the application. The notice must, among other matters, specify the date, determined by the Authority, before which any written representations or notice of a person’s intention to make oral representations must be received by the Authority and the date on which the Authority intends to hear any oral representations. In the case of the Transfer notice was given in the Belfast Gazette, the Edinburgh Gazette and the London Gazette by the Society on 5 June 2020. The notices specified 3 August 2020 as the closing date for receipt by the Authority of written representations or notice of intention to make oral representations and 17 August 2020 as the date set aside by the Authority to hear oral representations.

- 1.4. Paragraph 6 of Schedule 15 of the FS Act also states that the notice of the application shall be published in one or more newspapers if so directed by the Authority. In accordance with the direction of the Authority, notice of the application for the Transfer was published in The Times and the Daily Mirror on 9 June 2020.
- 1.5. By 3 August 2020 the Authority had received 45 written representations from interested parties, five of which included a notice of intention to make oral representations. No representations were received out of time albeit one individual who had already submitted a written representation notified the Authority of their intention to make an oral representation. This individual was permitted to do so. The Authority held the oral hearing as advertised on 17 August 2020. Four of the expected six individuals attended to make oral representations.

Materials prepared by the Society

- 1.6. In considering its confirmation of the Transfer, the Authority considered where relevant the material produced by the Society about the Transfer and sent to its delegates and members. The material sent to delegates included the statutory statement required to be sent to members of the Society and concerning the matters specified in paragraph 2 of Schedule 15 to the FS Act (“**the Member Statement**”). The Member Statement was approved by the Authority on 11 May 2020. The Authority consulted the Financial Conduct Authority (FCA) prior to giving this approval in accordance with paragraph 2 of Schedule 15 to the FS Act.
- 1.7. It is not, however, for the Authority to consider the merits of proposals which the members eligible to vote on the Transfer have approved, save for its assessment of the application against the relevant Preclusion Grounds as set out in section 3 of this notice.

2. THE SOCIETY'S VOTE

- 2.1. In its application for confirmation, the Society declared that the requisite special resolution, required by section 86(2)(b) of the FS Act, was passed by postal ballot of the Society's delegates.
- 2.2. Paragraph 7(2) of Schedule 12 to the FS Act provides that a resolution of a friendly society shall not be effective as a special resolution unless it is passed by not less than three-quarters of the number of the members of the society entitled to vote on it and voting either (in person or by proxy) on a poll at a meeting of the society or in a postal ballot.
- 2.3. Paragraph 8(3) of Schedule 12 to the FS Act provides that notice of a postal ballot shall be given not less than 14 nor more than 56 days before the date which the society specifies as the final date for the receipt of completed ballot papers (“**the voting date**”).
- 2.4. Notice of the postal ballot was sent to each of the Society's delegates, being those entitled to vote in accordance with the rules of the Society, on 12 May 2020. The voting date was 4 June 2020. Notice was therefore given more than 14 days, but not more than 56 days, in advance of the voting date.

- 2.5. The postal ballot results were counted and declared by the Society on its website and displayed at its registered office on 4 June.
- 2.6. 100% of all of the Society's delegates voted on the special resolution in respect of the Transfer. 100% of the number of delegates voting voted in favour to approve the Transfer. 100% of the delegate votes received, weighted by the number of members in each delegate's force, were in favour of the Transfer.
- 2.7. The Society confirmed that the resolutions were duly passed in accordance with the FS Act and its rules in force at the time.

3. THE AUTHORITY'S CONCLUSIONS

- 3.1. Paragraph 8(1) of Schedule 15 to the FS Act provides that the Authority must confirm the Transfer **unless** it is precluded from doing so on any of the grounds specified in the FS Act ("**the Preclusion Grounds**").
- 3.2. The Authority consulted the FCA prior to taking its decision on whether to confirm the Transfer. The FCA did not object to the Transfer and its full response to the Authority's consultation was taken into consideration when assessing the Preclusion Grounds.

Preclusion Ground 1 "The Successor Factor"

- 3.3. Paragraph 8(2) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it appears to it that there is a substantial risk that the successor society will not be able lawfully to carry out the engagements to be transferred.
- 3.4. The Authority considered whether a) it is lawful for the Transferee to carry out the transferred business; and b) whether the Transferee is capable of carrying out the business.
- 3.5. The Society stated in its application that it undertook appropriate due diligence on the Transferee to ensure that the engagements of the Society can be performed by the Transferee following the Transfer, and that it has obtained customary warranties from the Transferee in this regard.
- 3.6. The Authority noted that on 14 August and 8 September respectively, the Transferee obtained additional approvals required from Her Majesty's Revenue & Customs to manage Individual Savings Accounts and Child Trust Funds included in the engagements to be transferred.
- 3.7. The Authority was not aware of any other reason why the Transferee would be unable to carry out lawfully the engagements to be transferred.
- 3.8. The Authority noted the Transferee's past experience of acquiring and integrating mutual businesses and was not aware of any reason why the Transferee would not be capable of carrying out the transferring business.

3.9. The Authority therefore finds that there is no substantial risk that the Transferee will not be able lawfully to carry out the engagements to be transferred and that **this Preclusion Ground does not apply**.

Preclusion Ground 2 “The Material Information Factor”

3.10. Paragraph 9(1)(a) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that some information material to the members' decision about the transfer was not made available to all the members eligible to vote.

3.11. The Authority considered whether a) the communication materials were provided to all members eligible to vote; b) the materials omitted any information material to the members' decision about the Transfer; and c) whether any material information came to light subsequently.

3.12. The members eligible to vote are the delegates of the Society. The Authority noted that the communication materials were sent to all delegates individually allowing sufficient time, in accordance with the FS Act, to review the materials in advance of the voting date.

3.13. The Authority noted that the delegates were provided with the required Member Statement and is satisfied based on statements and assurances from the Society that this contained all necessary information in accordance with the requirements of the FS Act. This included a summary of the Independent Actuary's Report which was produced as directed by the Authority. The Authority, in consultation with the FCA, had approved the appointment of Gordon Wood of Ernst & Young to undertake this role.

3.14. The Authority noted that the Society provided additional material relevant to the Transfer to its delegates. This material included the background to the transfer; an explanation of why the Transferee was appropriate; the impact of the Transfer on the Society's members; the role of the delegates in voting on the Transfer; and reference to the Society's website where delegates could access the detailed actuarial reports relating to the Transfer.

3.15. Upon the request of the Authority the Independent Actuary and the actuaries of the Society and the Transferee produced supplementary reports in August 2020. The Authority noted that these reports contained up-to-date information relating to the Transfer as at 30 June 2020, and that they did not reach different conclusions on the Transfer as compared to the reports produced in advance of the voting date; and they did not provide information material to the members eligible to vote that was not available in advance of the vote.

3.16. The Authority therefore finds that there was no information material to the members' decision about the Transfer that was not made available to all the members eligible to vote and that **this Preclusion Ground does not apply**.

Preclusion Ground 3 “The Representative Vote Factor”

3.17. Paragraph 9(1)(b) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that the vote on any resolution approving a transfer does not represent the views of the members eligible to vote.

- 3.18. The Authority considered whether a) the members eligible to vote have been identified correctly; b) the number of votes cast in favour of the resolution exceeds the requirements in the FS Act and the rules of the Society for it to be passed; and c) the vote is representative of the views of every subset of members eligible to vote (as applicable).
- 3.19. The Authority noted that 19 representations received by the Authority expressed concern that the decision to proceed with the Transfer had been taken by the delegates without prior consultation with members.
- 3.20. The Authority noted that the rules of the Society provides for the delegate voting approach and is used for all votes of the Society. This approach has always been used by the Society and its rules do not allow an alternative voting approach in any circumstances other than as required by the FS Act in respect of an affected members' resolution, which was not relevant in this case.
- 3.21. The FS Act acknowledges that some societies adopt a delegate voting approach and does not preclude its use for a special resolution to transfer all of a society's engagements. The FS Act only precludes its use in an affected members' resolution which was not relevant in this case.
- 3.22. Paragraph 5(a) of section 7 of the FS Act allows societies to choose a system of representation of the members in the making of decisions as it sees fit.
- 3.23. The Authority, in consultation with the FCA, reviewed the overall communications strategy of the Society and raised no objection.
- 3.24. The Authority considers that the delegate voting approach used to pass the resolution in respect of the Transfer is consistent with both the rules of the Society and the requirements of the FS Act. Therefore the Authority finds that the delegates were the members eligible to vote. Taking into account that 100% of the delegates voted and all voted in favour of the Transfer, the Authority finds that the vote represents the views of the members eligible to vote and that **this Preclusion Ground does not apply**.

Preclusion Ground 4 "The Requirements Factor"

- 3.25. Paragraph 9(1)(c) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer if it considers that some relevant requirement of the Act or the rules of a friendly society participating in a transfer was not fulfilled.
- 3.26. The Society's application states that all relevant requirements in respect of which it is required to take action under the FS Act have been complied (or as the case may be would be complied with prior to the date of the decision taken by the Authority) in accordance with its rules. It does not believe there is any evidence to the contrary. It has also provided checklists detailing its compliance with the requirements of the FS Act and those of the Society's Memorandum and Rules.
- 3.27. The Authority finds that there is no evidence that the Society has not fulfilled any relevant requirement of the Act nor the rules of the Society and that **this Preclusion Ground does not apply**.

Preclusion Ground 5 “The Permissions Factor”

- 3.28. Paragraph 11 of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that there is no substantial risk that the transferee will not have the necessary Part 4A permissions to enable it to carry on the business.
- 3.29. The Authority noted that the Transferee is authorised by the Authority to effect and carry out contracts of long-term insurance business in classes I to IV and VI to VII.
- 3.30. The Authority noted that the Transferee currently satisfies the Threshold Conditions (as set out in Schedule 6 to the Financial Services and Markets Act 2000) and that the Transfer was not expected to have any impact on the Transferee’s satisfaction of those conditions.
- 3.31. The Authority finds that there is no substantial risk that the Transferee will not have the necessary Part 4A permissions to enable it to carry on the business to be transferred and that **this Preclusion Ground does not apply.**

Preclusion Ground 6 “The Eligibility Factor”

- 3.32. Paragraph 12(a) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that all the engagements included in the transfer may be transferred in accordance with the FS Act.
- 3.33. The Authority considered whether the Transfer is eligible for confirmation under the FS Act.
- 3.34. Paragraph 1 of section 86 of the FS Act provides that a society may transfer its engagements to a company registered under the Companies Act 2006, or in relation to engagements which constitute the carrying on of insurance business, to any other person who is an insurer.
- 3.35. The Authority noted that the Transferee is an insurer registered under the Companies Act 2006 as a private company limited by guarantee without share capital.
- 3.36. The Authority noted that it was otherwise satisfied, in accordance with Preclusion Ground 4, that there was no evidence that any relevant requirement of the Act had not been fulfilled.
- 3.37. The Authority finds that all the engagements included in the Transfer may be transferred and that **this Preclusion Ground does not apply.**

Preclusion Ground 7 “The Members Factor”

- 3.38. Paragraph 12(b) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that the transfer is in the interests of the members of each friendly society participating in the transfer.
- 3.39. The Authority noted the challenges that the Society faced as set out in its application and the fact that it considers that the only alternative option, in the absence of the Transfer, would be to close to new business and enter run-off. The Authority’s

assessment of whether the Transfer is in the interests of its members therefore compared outcomes under the Transfer against those in run-off.

- 3.40. The Authority noted that the Independent Actuary and the actuaries of the Society concluded in their reports that the Transfer is in the interests of the members of the Society.
- 3.41. The Authority noted the forecast material weakening of the Society's regulatory capital coverage in run-off as compared to the forecast coverage of the Transferee upon completion of the Transfer. The Authority also noted the risk of diseconomies of scale arising during run-off. This would improve security for policyholders of the Society under the Transfer.
- 3.42. The Authority noted that there will be no change to the terms and conditions or guaranteed benefits of either non-profit or with-profit policies. The Authority also noted that management actions already taken by the Society, and the additional management actions assumed to be taken upon entering run-off would have an adverse impact on the benefit expectations of with-profit policyholders as compared to the expectations under the Transfer. The Authority noted that there is unlikely to be a material impact on the benefit expectations of other policyholders, but that there was a risk of increased charges in run-off.
- 3.43. The Authority noted that the Transfer is not expected to have any material impact on service standards for policyholders.
- 3.44. Some representations from interested parties expressed concern over the loss of membership rights and the loss of the Society's brand, specialist knowledge of the affinity, and the provision of products to meet those needs.
- 3.45. The Authority noted the Independent Actuary's conclusion that in the circumstances of the Transfer it was appropriate to ascribe no material value to membership rights and did not consider this conclusion unreasonable. The Authority noted that the Transferee would continue to offer new products to the affinity and has committed to maintain structures to engage with the affinity. The Authority noted that in contrast, if the Society were to enter run-off, it would not be able to offer any new products to meet the needs of its members.
- 3.46. The Authority noted that members who are not policyholders but are customers of the subsidiaries of the Society may be adversely impacted by those businesses entering administration or being subject to a distressed sale.
- 3.47. The Authority finds, having taken account of the relative impact on members from the Transfer as compared to run-off, that the transfer is in the interests of members and that **this Preclusion Ground does not apply.**

Preclusion Ground 8 "The Solvency Factor"

- 3.48. Paragraph 13 of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless it is satisfied that the transferee will, taking the transfer into account, possess the required margin of solvency.

- 3.49. The Authority noted the expected Solvency Coverage Ratio of the Transferee before and after the Transfer and that it possesses the required margin of solvency in excess of the Solvency Capital Requirement (SCR).
- 3.50. The Authority is accordingly satisfied that the Transferee will possess the required margin of solvency and that **this Preclusion Ground does not apply**.

4. EEA NOTIFICATION PROCESS

- 4.1. Paragraph 15A of Schedule 15 to the FS Act provides that where, among other matters, a transfer of engagements includes long term business and as regards any policy included in the transfer an EEA State other than the UK is the State in which the commitment is situated, the Authority must be satisfied that the supervisory authority in each such EEA State has been consulted and has either not refused consent or a period of three months has passed.
- 4.2. There was some uncertainty as to whether any commitments of the Society were situated in an EEA State other than the UK and therefore the Authority conducted a consultation exercise across all EEA States. All EEA supervisory authorities were notified of the proposal for the Transfer on 20 March 2020.
- 4.3. All EEA supervisory authorities have either consented, or not refused consent within the period of three months beginning with the date of the notification.
- 4.4. Paragraph 16B of Schedule 15 to the FS Act provides that where the Authority confirms a transfer in accordance with paragraph 15A, the Authority shall direct that a) as regards any policy included in the transfer an EEA State other than the UK is the State in which the commitment is situated, notice of its decision, and of the execution of any instrument giving effect to the transfer, shall be published in each such EEA State; and b) the notice shall specify the period during which the policyholder may exercise any right to cancel the policy in accordance with the law of each such EEA State.

5. REPRESENTATIONS

- 5.1. The Authority considered representations made by interested parties in its assessment of the Preclusion Grounds. The Authority also took into account objections or expressions of concern raised directly to the Society.
- 5.2. Some representations expressed concern that the Society continued selling new business without disclosing that it was in discussions with the Transferee and without disclosing its weakened financial position.
- 5.3. The Authority finds that this does not relate directly to any of the Preclusion Grounds but has considered the issue raised in consultation with the FCA. The Authority noted that there may be arguments for starting the communications at different points in time but that the judgement made by the Society on when to communicate the Transfer to existing and prospective policyholders, and its decision to continue writing new business

as it sought a positive outcome for its members, were not unreasonable. The Authority notes that it remains open to individual policyholders to raise their grievances with the Financial Ombudsman Service (FOS) should they consider that their case has not been considered adequately.

6. DECISION

The Authority has considered the application by Police Mutual Assurance Society Limited for confirmation of the transfer of all of its engagements to The Royal London Mutual Insurance Company Limited, pursuant to section 86 of the Friendly Societies Act 1992, and, having had regard to the information available to it and having consulted with the Financial Conduct Authority as required under section 86(3A) of the FS Act: - (a) confirmed the transfer on 9 September 2020; and (b) directs that, as regards any long term policy included in the transfer in respect of which an EEA State other than the UK is the State in which the commitment is situated, notice of its decision, and of the execution of any instrument giving effect to the transfer, shall be published in each such EEA State; and such notice shall specify the period during which the policyholder may exercise any right to cancel the policy in accordance with the law of each such EEA State.

For and on behalf of the
Prudential Regulation Authority

Lyndon Nelson

21 September 2020

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