

ISSUED
September 2009

COMPANY PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

Bright Grey

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers and analysts in assessing the relative strengths of UK long term insurers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading provider companies in the market, which participate in the production of the reports. For each remaining provider company which is covered, a SHORT report is produced.

This is a FULL report.

Each report collates relevant information from a range of sources such as a company's returns to the FSA, its report & accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies, the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk

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AKG assists providers in:

- Financial strength analysis, ratings and presentation
- Data and information provision
- Actuarial consultancy
- Distribution consultancy

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AKG assists intermediaries in:

- Financial strength analysis
- Best advice panel services
- Data and information provision
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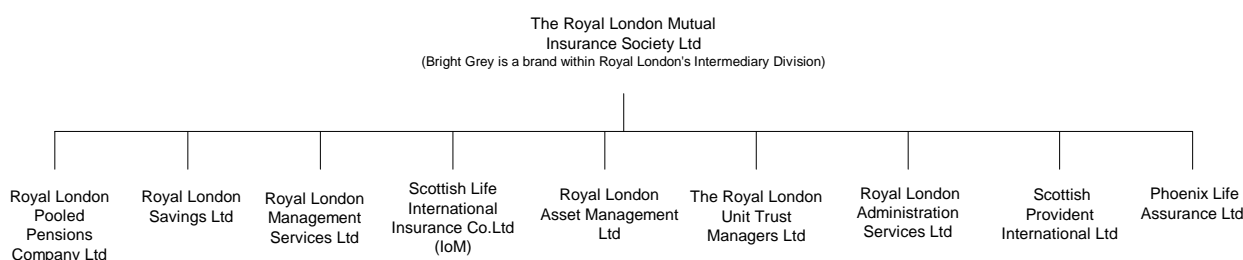
Overview

Bright Grey is one of two brands offered by The Royal London Mutual Insurance Society in the intermediary protection market. Royal London, now the UK's largest mutual life office, operated for many years as a traditional home service insurer. Its business has been transformed in recent years following a number of acquisitions. It acquired United Assurance Group in 2000 and then, in 2001, Scottish Life demutualised and transferred its business to Royal London. 2007 saw the group acquire the Ascentric wrap platform and the FundsDirect fund supermarket. This was followed in 2008 by the acquisition, from Pearl, of Phoenix Life Assurance Ltd (PLAL) together with some protection business from Scottish Mutual and Scottish Provident as well as Scottish Provident International Ltd and the Scottish Provident brand for a cost of just under £1bn, with Royal London agreeing to provide a bridging facility and debt financing. PLAL and the relevant Scottish Provident and Scottish Mutual business transferred into Royal London at the end of 2008.

The Royal London Group is now a specialist financial services provider focused on key sectors of the UK, distributing its products and services principally through independent distributors. In 2004, Royal London closed its face-to-face sales operation, which had carried on distributing Royal London branded products directly. During 2006 Royal London completed the transfer to Prudential Retirement Income Ltd (PRIL) of £1.8bn of annuity business previously sold under the Royal London, Scottish Life and United Assurance brands. In April 2007, Royal London announced that it was in discussion with Royal Liver regarding a possible combination of the two businesses. In August 2007, discussions on such a combination were terminated. The Society's twin focus in the intermediary market is on providing Scottish Life branded pension products and distributing protection products through both the Bright Grey and Scottish Provident brands. It also has an agreement to sell business through branches of Abbey (soon to be re-branded as Santander).

From January 2009 Royal London has operated offshore as Royal London 360°, following the amalgamation of Scottish Life International Ins Co Ltd, and Scottish Provident International Life Assurance Ltd. The group's investment management arm, Royal London Asset Management, manages funds for over 150 external clients, as well as for the Royal London funds. Royal London Administration Services focuses on administering the Royal London branded life and pensions business.

Corporate Structure (simplified)



Ratings

Company	Financial Strength Ratings				Supporting Ratings		
	Overall	With Profits	Non Profit	Unit Linked	Service	Image & Strategy	Annual Review
The Royal London Mutual Insurance Society Ltd	B+	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★

Corporate Data

Ownership	Mutual
Open to New Business?	Yes
Year Established	1837
Head Office	Bright Grey 2, Queen Street Edinburgh EH2 1BG
Tel:	0131 247 1500
Fax:	0131 247 1555

Administration Office As above

Website - Consumer www.brightgrey.com

Website - IFA www.brightadviser.co.uk

Key Personnel

Chairman	T Melville-Ross
Group Chief Executive	M J Yardley
Group Finance Director	S Shone
Chief Executive, Intermediary Division and Group Director	J Deane
With Profits Actuary	S Wilson
Chief Executive, RLAM and Group Director	A Carter
Managing Director, Bright Grey & Scottish Provident	R Ainslie

Company Background

Royal London was founded in 1861 as a friendly society. It became a mutual life insurance company in 1908. It acquired the United Assurance Group (UAG) in 2000 and the five life businesses of UAG (Refuge Assurance, United Friendly Insurance, United Friendly Life Assurance, Canterbury Life and Refuge Investments) were transferred into Royal London on 1st January 2001. On 1st July 2001, Scottish Life demutualised and transferred its business to The Royal London Mutual Insurance Society Limited. Bright Grey was established in September 2001 and launched to the IFA market, with a phased rollout, from the end of March 2003.

In 2008, Phoenix Life Assurance Ltd, together with protection business from Scottish Provident and Scottish Mutual, transferred into Royal London.

Overall Financial Strength

B+

Royal London is a strong mutual that remains focussed on its core markets. This is reflected in the robust new business figures reported for 2008. Expenses appear to be well under control. It is well advanced in its integration of the various ex-Resolution businesses acquired from Pearl. Solvency has undoubtedly been impacted by the events of 2008, but whilst its free assets, for a mutual, are relatively low, it is well managed and remains in good shape.

Reinsurance

Approach

The Society reinsures some £17m of reserves in respect of its Bright Grey proposition, with Munich Re. Other reinsurers include Gen Re, Hannover Re and XL Re. There are also a number of treaties relating to protection business transferred in, having been written either in PLAL, or under the SMA Pegasus or SPL Self Assurance brands, with such reinsurers as Swiss Re, RGA, SCOR and Munich Re.

The Society reinsures annuity liabilities with Prudential Retirement Income Ltd (PRIL). During 2008 the Society reinsured some £113m of pension annuity premiums with PRIL, giving total reinsured reserves of £406m at the end of 2008.

Elsewhere the main reinsurance treaties, in terms of premiums, concern the reinsurance of Scottish Life pensions business to funds managed by other life offices, the largest of which is to BGI Pensions Management Ltd with ceded reserves totalling £247m at December 2008.

2008 saw the company reinsure its group income protection claims in payment with Unum, for a premium of £25.1m.

Analysis of Reserves	2006	2007	2008
	£000's	£000's	£000's
Gross reserves	19,437,880	19,356,007	20,341,765
Reinsurance ceded - external	553,846	770,421	858,035
Reinsurance ceded - internal	0	0	0
Net mathematical reserves	18,884,034	18,585,586	19,483,730

Non Profit Business

General

Non profit retained liabilities increased during 2008 following the transfer in of business from Resolution. However they remain a relatively small proportion of the overall liabilities, due in part to reinsurance of the protection business but primarily as a result of the ongoing reinsurance of annuities with PRIL. Retained non profit liabilities are backed by fixed interest investments and bonds.

Non Profit Reserves	2006	2007	2008
	£000's	£000's	£000's
UK Life	237,757	228,375	461,937
UK Pensions	430,615	413,345	549,844
Overseas	307	343	-2,552
Total net NP reserves	668,679	642,064	1,009,230

Non Profit Financial Strength

★★★★

The Society's non profit business appears to have a very good degree of security given the reinsurance arrangements, the available capital resources and the volume of in force with profits business.

Unit Linked Business

Approach

No unit linked business is written under the Bright Grey brand, but Royal London has around £8.6bn unit linked liabilities from its other brands.

Linked Reserves	2006	2007	2008
	£000's	£000's	£000's
UK Life	701,710	692,916	1,630,061
UK Pensions	7,069,100	7,432,168	6,950,419
Overseas	41,956	45,655	49,236
Total net linked reserves	7,812,767	8,170,739	8,629,714

Unit Linked Financial Strength

★★★★

No unit linked business is written under the Bright Grey brand.

With Profits Business

Approach

The total with profits liabilities at the end of 2008 amounted to £9.8bn in three separate asset pools: the closed Scottish Life Fund in respect of the pre-transfer Scottish Life with profits business, the closed PLAL sub-fund (recaptured from Scottish Mutual) and the open Royal London fund in respect of the rest of the business. Following the merger of the Refuge Assurance Ordinary Branch sub-fund into the main Royal London sub-fund, this is now split into 4 sub-funds, with shared assets.

With Profit Reserves	2006	2007	2008
	£000's	£000's	£000's
UK Life	3,873,905	3,588,575	3,739,150
UK Pensions	6,445,171	6,057,693	5,967,085
Overseas	83,514	126,516	138,550
Total net WP reserves	10,402,589	9,772,784	9,844,786

Profit Sharing Philosophy

Royal London, including new Scottish Life branded with profits business, is a mutual, so that distributions are 100% to policyholders. With profits policyholders within the closed Scottish Life fund are entitled to 100% of its surplus. For former UAG policies, 90% of the profits go to the UAG policy and 10% to the Royal London with profits policyholders. A Mutual Dividend, introduced in 2007, was not repeated in 2008.

Asset Allocation

At the end of 2008, the Royal London Fund Equity Backing Ratio (EBR) was 56.8% whilst the Scottish Life Fund EBR had fallen to 20.5%. In a reversal of the performance in 2007, the Royal London Fund underperformed its benchmark, returning -15.2% whilst the Scottish Life Fund outperformed with 3.6%.

Distribution of Surplus	2006	2007	2008
	£000's	£000's	£000's
To Policyholders	220,923	277,747	270,916
Other Transfers	3,612	4,224	4,970

Realistic Balance Sheet	2006	2007	2008
	£000's	£000's	£000's
Working capital	1,808,643	1,905,624	1,200,069
Risk capital margin	390,527	366,402	273,561
Realistic excess available	1,418,116	1,539,222	926,508
Working capital ratio	11.4%	12.5%	8.4%
RCM as % of assets	2.5%	2.4%	1.9%
Realistic xs available ratio	9.0%	10.1%	6.5%

The RBS above is aggregated across all of the Society's 5 sub funds. The working capital ratio for the open sub-fund, at 16% [2007: 23%] compares favourably with other life offices.

With Profits Financial Strength

★★★★

The RBS was impacted by the market falls in 2008. The Society continues to monitor the funds and early 2009 saw the RL fund sell £400m of equities and the reconstruction of two hedges, following on from earlier de-risking. In the Scottish Life Fund the Society had previously carried out an extensive cash flow matching and hedging exercise. AKG views the with profits business as being secure although the closed Scottish Life Fund is not seen as being as strong as the Royal London Fund.

Key Financial Data (for y/e: 31/12/08)

Capital Resources	2006	2007	2008
	£000's	£000's	£000's
Core tier one capital	4,218,430	4,351,855	2,978,387
Tier one waivers	0	0	0
Other tier one capital	0	0	0
Tier one deductions	-419,385	-752,770	-1,242,616
Total tier one capital	3,799,045	3,599,085	1,735,771
Tier two capital	395,972	396,418	396,859
Adjustments and deductions	-269,624	-11,108	-434,608
Total Capital Resources	3,925,393	3,984,395	1,698,022
CR outside the fund	0	0	0

Total regulatory capital resources fell during the year, impacted by falling markets and an increased level of inadmissible assets. In particular, £685m is the inadmissible part of the Resolution consideration (goodwill, VIF and other intangibles). The Society still holds £396m of subordinated debt, the £125m acquired along with Scottish Life having been repaid in 2006.

Long Term Business Admissible Assets	2006	2007	2008
	£000's	£000's	£000's
Fixed Interest	5,867,702	5,478,457	5,023,506
Equities	6,252,132	5,544,162	4,628,784
Property	1,696,676	1,448,874	1,097,197
Linked	7,786,543	8,077,160	8,429,964
Other	1,792,258	2,626,161	3,331,777
Total Assets	23,395,311	23,174,814	22,511,228

Whilst total assets fell slightly in 2008, impacted by market falls, this was offset at least in part by the transfer in of the ex-Resolution business (a net £2.8bn).

Free Assets	2006	2007	2008
	£000's	£000's	£000's
Free Assets (Exc Fin Eng)	1,794,312	1,900,454	772,656
Financial Engineering	0	0	0
Free Assets (Published)	1,794,312	1,900,454	772,656

Free Asset Ratios	2006	2007	2008
	%	%	%
FAR (Exc Fin Eng)	7.7	8.2	3.4
FAR (Published)	7.7	8.2	3.4

CRR Coverage Ratios	2006	2007	2008
	%	%	%
CRRCR (Exc Fin Eng)	184.2	191.2	183.5
CRRCR (Published)	184.2	191.2	183.5

Whilst free assets fell markedly, coverage for the Capital Resources Requirement held up well, with market falls triggering a substantial fall in the WPICC.

Long Term Business Liabilities & Margins	2006	2007	2008
	£000's	£000's	£000's
Non Linked Non Profit	668,679	642,064	1,009,230
Non Linked With Profits	7,159,735	6,559,896	5,993,453
Accum'lg With Profits	3,304,381	3,276,759	3,882,727
Linked	7,812,767	8,170,739	8,629,714
Surplus c/f	0	0	0
Other liabilities	933,601	949,625	1,715,751
Investment Reserves	3,516,149	3,575,732	1,280,354
Total Liabilities/Margins	23,395,312	23,174,814	22,511,228

GAO provisions total £635m (RL £64m & SL £571m), up from £574m. The Society also has a provision of £129m [2007: £143m] for pensions mis-selling guarantees. Additionally there is GMP provision of £133m and a small provision of £35.1m for endowment maturity guarantees. The Society implemented PS06/14, whilst at the same time strengthening annuitant mortality.

Key Revenue Items	2006	2007	2008
	£000's	£000's	£000's
INCOME			
Premiums	1,016,578	1,640,824	1,811,435
Investment Income	984,728	930,530	993,904
Investment Increase	203,958	-224,479	-2,271,483
EXPENDITURE			
Commissions	101,816	107,580	109,820
Policy claims	2,169,146	2,339,261	2,297,515
Expenses	214,317	197,113	184,562
BUSINESS TRANSFERS			
TRANSFER to P&L	0	0	2,812,804
INCREASE in fund			
	-312,546	-296,104	865,666

Whilst the Society again saw a net outflow, the position improved with net premiums up and claims down. The impact of falling investment values can clearly be seen as can the transfer in of the ex-Resolution business. Expense levels generally continue to fall.

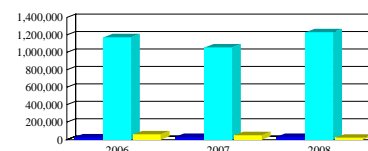
Expense Ratios	2006	2007	2008
New business (% APE)	60.5	64.7	64.6
Renewal (% reg premiums)	21.7	19.9	17.5
Renewal (% p.a. of mean fund)	0.72	0.63	0.56

Acquisition expenses increased, keeping pace with increased new business levels and leaving the new business expense ratio effectively unchanged. Maintenance expenses fell again, maintaining the trend of lower renewal expense ratios.

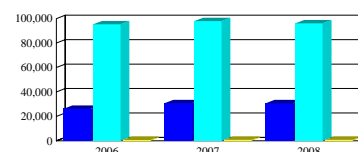
New Business Data (for y/e: 31/12/08)

		Single £000's	Regular £000's
Investment			
Bonds	With Profits	0	0
	Unitised WP	23,884	0
	Unit Linked	29,457	0
Endowment	With Profits	0	0
	Unitised WP	0	29
	Unit Linked	0	95
Guaranteed Bonds		0	0
ISA / tax exempt		0	126
Annuities		57	0
Miscellaneous		122	1,021
Protection			
Whole Life	With Profits	0	0
	Unitised WP	0	101
	Unit Linked	0	39
Term	Ordinary	0	11,886
	Pension	0	1,086
IP	Individual	0	1,052
Critical Illness		0	16,706
Long Term Care		0	0
Miscellaneous		0	765
Pensions			
Individual	With Profits	75,127	18
	Unitised WP	76,395	1,721
	Unit Linked	890,514	84,943
CPA		121,047	0
Bulk Transfer Annuities		0	0
Miscellaneous		15	0
Group Business			
Pension		67,522	8,065
Life		0	22
IP		0	1
Critical Illness		0	0
Miscellaneous		0	0
TOTAL DIRECT BUSINESS		1,284,140	127,676
Overseas Direct (inc above)		22,864	786
External Reins (exc above)		0	0
Intra-Group Reins (exc above)		0	0
Industrial Branch (inc above)		0	0

New Single Premiums	2006 £000's	2007 £000's	2008 £000's
UK Life	26,453	31,730	30,599
UK Pensions	1,173,223	1,056,517	1,230,677
Overseas	61,329	50,891	22,865
Total (Direct + External Reins)	1,261,005	1,139,140	1,284,141
Growth Rate	22.8%	-9.7%	12.7%
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2006 £000's	2007 £000's	2008 £000's
UK Life	26,183	30,768	30,714
UK Pensions	95,380	97,948	96,175
Overseas	720	828	786
Total (Direct + External Reins)	122,283	129,544	127,675
Growth Rate	-6.7%	5.9%	-1.4%
Reins Accepted (Intra-Group)	0	0	0



The new business figures shown on this page relate to Royal London as a whole and not just to Bright Grey.

On balance another very solid year in new business terms for the Royal London Group against the backdrop of a difficult market. The addition of the Scottish Provident business means that the Society is now one of the top three individual protection providers (a market share of 17% in the adviser markets they operate in and 10% of the market as a whole.)

For pensions business, new single premiums increased by 16.4%, whilst new regular premiums fell marginally by 1.8%. The company claims a 3.2% overall market share and 3.6% in its chosen markets [2007: 3% & 3.4%], reversing the trend in recent years, as the Society continues to follow its strategy to write only profitable business. The Society claims a 15.9% market share for its income drawdown product Income Release. New pension APE exceeded £200m for the first time.

Whilst new regular life premiums fell back slightly, Bright Grey again increased its market share in the competitive protection market.

Elsewhere, Scottish Life International saw its new business up slightly. SPILA also contributed new business to the Group following its acquisition in June. New External investments with RLAM totalled £1.5bn [2007: £2.6bn].

Distribution

Method

Royal London operates multiple protection brands: Bright Grey and Scottish Provident brands in the intermediary market whilst the Royal London brand is used in the bancassurance space as evidenced by the tie-in with Abbey Santander.

Bright Grey's main focus is on advised sales in the intermediary channel, whilst also seeking to broaden its distribution footprint. Following steady establishment in the UK intermediary sector over the past few years, 2008 introduced a somewhat lateral change in the potential fortunes of the brand and its opportunities. Bright Grey's distribution position has been inevitably influenced by Royal London's acquisition of Scottish Provident. With both brands targeting the intermediary sector with quality focused menu based propositions, there is some understandable overlap. However, both as part of a broader multi-brand agenda and through a decidedly pragmatic approach to maintaining existing alignments, where removal creates the risk of business loss, both Scottish Provident and Bright Grey brands and propositions have been retained.

That said, synergetic cost savings between Scottish Provident and Bright Grey have been made, not least in respect of a single management and sales distribution infrastructure. More are expected as the sales activities and distribution opportunities are further knitted together with the introduction of a National Partnership Director to drive commercial benefits across the brands.

Further, in tandem with the further protection distribution afforded to Royal London by Scottish Provident, Bright Grey has been pursuing other distribution opportunities to broaden its reach outside those consumers with access to independent intermediary advice. In particular taking an initial toehold in online B2B2C activity through a newly launched Lifestyle Protection Plan available without advice through online intermediary IDOL.com and other online comparison sites.

The distribution split below relates solely to Bright Grey.

Distribution Split	Regular Premium %	Single Premium %
IFAs	100.0	0.0
Multi-Ties	0.0	0.0
Direct Marketing	0.0	0.0

Image and Strategy



Whilst Royal London remains committed to mutuality, with a vision to become the leading customer owned financial services organisation, it is managed very much as a proprietary company. It is therefore committed to being a leading provider of financial service products and adopts a very definite multi-brand strategy. Strategy is to focus on being a manufacturer not a distributor. The acquisition of a wrap provider having been another element to this strategy.

As above, Bright Grey's strategy to grow into a leading value player in the protection market was somewhat overtaken by Royal London's adding of Scottish Provident into its multi brand proposition. However, the Bright Grey brand remains and with further potential to incrementally differentiate it both in terms of product and distribution reach from its Scottish Provident bedfellow, it appears well placed in its parents future strategy.

Products

Overall Product Philosophy

Bright Grey was launched in March 2003 as the protection brand from Royal London. Offering a full range of covers, its proposition is designed to be flexible, affordable and easy to understand (with clear expectations set and an aim of having no 'nasty surprises' at point of claim). Through Bright Grey, the Society provides individual life, critical illness and income protection via intermediaries throughout the UK.

Bright Grey explicitly aims to base products on customer need. Thus Bright Grey takes core industry standard product elements as a starting point, and seeking to differentiate in part by added value elements. An example being its Helping Hand service which was extended in 2007 to include family members. This includes access to help lines, discounts and deals on health related products, and the support and advice of a qualified nurse or bereavement counselling when a claim is made.

Bright Grey has now moved to develop the business protection market alongside the individual protection market. The products listed below are available on a business protection basis as well as an individual basis.

Products Currently Marketed

Protection Products

- Critical Illness
- Income Protection
- Term Assurance (incl. Family Income Benefit)
- Waiver of Premium

Service



Approach

Bright Grey aims to 'deliver market leading customer service and a completely personal approach to customer care, product flexibility and customer communications, supported by systems, processes and products that make sense'. In an evolution of its approach the business espouses an objective of being able to assist the adviser protect existing business and grow the business rather than simply focussing on the product. Success in this now appears to be generating good service perception. Bright Grey anticipates its service becoming a positive differentiator in the market.

The challenge now will largely come from the dynamics created from the multi-brand approach, which in particular now sees the sister, Scottish Provident, operation alongside it. Current service experience within Scottish Provident is below that of Bright Grey and the clear imperative for an umbrella management, which exists across both protection entities, must be to maintain or continue to drive improvements in Bright Grey, whilst using its experience with that operation to assist it in raising the Scottish Provident experience.

e-Business

Bright Grey is supported by purpose-built leading edge computer systems in its Edinburgh offices, which are entirely separate from all other Royal London systems. A comprehensive web site is available. Bright Grey is accessible through the main portals and full extranet facilities became available in January 2006. In 2008, Bright Grey claimed to be the first provider to develop its own in-house expert underwriting system, rather than deploying a packaged reinsurance solution, believing that this will allow it to be more responsive to current and future underwriting trends. July 2009 saw Bright Grey introduce Unipass. Bright Grey gained 4 'eee' ratings in the awards from the Financial & Technology Research Centre (FTRC).

Service Standards & Awards

From a relatively low start, measures have however been improving. Notably the results for its participation in the ABI's Customer Impact research show good progress and supports the operation's objective to have service as the major differentiator in the market. In particular, results show that the quality of information is high and levels of potential customer recommendations are very good. Improved service perception is also underlined by Bright Grey scoring 5 stars in the 2008 Financial Adviser Service awards, although results from the CityWire Service Index are generally mid table.

Outsourcing

There are no outsourcing arrangements for Bright Grey branded business. In the wider group, SIPP administration, via Scottish Life's Pension Portfolio, is outsourced to Capita, as is Scottish Provident's protection business.

Investment

Overall Approach

Investment issues are not particularly important in the context of the Bright Grey brand, since most liabilities are reinsured, and the remainder are backed by fixed interest securities, managed by Royal London Asset Management.

Funds Under Management

Total funds under management within Royal London, including unit trusts and external funds, increased by £1.9bn in 2008 to £35bn, including some £4bn in respect of the Resolution transfer (falling to £29.5bn by March 2009). Whilst RLAM achieved continued success with new external investment, with new gross sales of £1.5bn [2007: £2.6bn], the vast majority of funds under management relates to the life business.

Annual Review



2008 was another very important year strategically for Royal London. The Society completed the acquisition of parts of Resolution from Pearl, including PLAL, protection business from Scottish Mutual and Scottish Provident as well as the latter's new business assets. All these businesses were transferred into Royal London late in 2008. It also acquired SPILA, an offshore operation. These acquisitions represent the continuation of a policy of acquiring appropriate businesses and have resulted in the Society developing real scale in the market place. This is particularly relevant given its substantially increased footprint in the individual protection space, where Scottish Provident's premium income of £331m in 2008 is more than 3 times that of Bright Grey at £92m.

Bright Grey introduced a new Expert Underwriting System in Q1 2008 and 68% of business is now submitted through this channel.

New business results were robust and the Society saw market share generally improve. Solvency similarly appears robust.

Financial Strength Ratings - Introduction

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. To illustrate this point, for example, the 'Non Profit' category covers a multiplicity of different products. It is clear that slightly different criteria should be used for, say, short-term policies with fully guaranteed terms (e.g. Guaranteed Bonds), than for longer-term policies with terms that can be varied at the company's discretion (e.g. Renewable or Reviewable Term).

AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for each of the financial strength ratings are summarised below:

With Profits Financial Strength Rating

The objective is to assess the overall strength of the company's with profits funds. The initial concern is the company's ability to meet its ongoing guaranteed, or promised, commitments, i.e. existing sum assured and bonuses. However, the company's ability to continue to compete successfully in the with profits market is also particularly relevant, given that closed funds are sometimes bad news for policyholders. In such situations, overall expenses tend to increase as a proportion of the fund and investment performance may well deteriorate. These, together with other factors, may make it difficult for companies in such situations to maintain competitive bonus rates at future declarations, although existing declared bonuses are not affected (other than possibly by MVRs).

The main criteria taken into account are: capital base and free asset position, with profits realistic balance sheet position, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Report.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

Non Profit Financial Strength Rating

The objective is to assess the company's ability to meet all guaranteed payments arising from such contracts as term plans, annuities etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), and image and strategy.

★★★★★	Excellent
★★★★☆	Very good
★★★☆☆	Good
★★☆☆☆	Adequate
★☆☆☆☆	Poor
☐	Not rated

Unit Linked Financial Strength Rating

Whilst this is essentially a non profit line, and the primary objective is to assess the company's ability to meet all guaranteed payments arising, AKG also seeks to take into account the extent to which the company is likely to be able to sustain its unit linked operations, and whether or not it is likely to be able to maintain, or improve, its competitive position. Thus strategic issues are also relevant, because of their bearing on the quality of investment management offered, and because of companies' rights to increase charges etc.

The main criteria taken into account are: free assets, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak

Supporting Ratings - Introduction

Supporting ratings are provided only in full reports, and are assessed at the brand level. AKG assesses three key supporting areas, using consistent methodology and objective measures wherever possible. The aim is to assist IFAs and others to consider the relative merits of the brands that they deal with. AKG's objectives and criteria for each of these ratings are summarised below:

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Image and Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

Annual Review Rating

This is an end of year view for the last year for which Report and Accounts, returns to the FSA, etc., are available, together with comment on any significant post-balance sheet events. It is an assessment of how the brand has fared against its peers, and how it is perceived externally.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity - good or bad, press or market commentary, regulatory fines, and competitive position.

★★★★★	Excellent
★★★★	Very good
★★★	Good
★★	Adequate
★	Poor
☐	Not rated

The logo for AKG, consisting of the letters 'AKG' in a bold, black, sans-serif font. The background of the page features large, overlapping, semi-transparent circles in shades of light orange and light blue.

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AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry

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