



FRIENDLY SOCIETIES ACT 1992

DECISION BY THE PRUDENTIAL REGULATION AUTHORITY ON THE APPLICATION OF CIVIL SERVICE HEALTHCARE SOCIETY LIMITED TO TRANSFER ITS INSURANCE POLICIES AND RELATED ENGAGEMENTS TO BUPA INSURANCE LIMITED AND TO TRANSFER ITS OPERATING ASSETS AND LIABILITIES TO BUPA INSURANCE SERVICES LIMITED, UNDER SECTION 86 OF THE FRIENDLY SOCIETIES ACT 1992.

The Prudential Regulation Authority's Supervisory Assessment Policy panel decided the application and delegated authority to [REDACTED] to sign the decision notice 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. Civil Service Healthcare Society Limited ("**the Society**") applied on 10 September 2020, to the Prudential Regulation Authority ("**the Authority**") for confirmation of its transfer of all of its engagements to Bupa Insurance Limited and Bupa Insurance Services Limited ("**the Transferees**") 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 members voted on the resolution relating to the proposed transfer of engagements of the Society to the Transferees ("**the Transfer**") with votes counted and declared on 9 September 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 by the Society in the Belfast Gazette on 11 September 2020, the London Gazette on 14 September 2020, and the Edinburgh Gazette on 15 September 2020. The notices specified 26 October 2020 as the closing date for receipt by the Authority of written representations or notice of intention to make oral

representations and 12 November 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 on 14 September 2020.
- 1.5. By 26 October 2020 the Authority had received one written representation from an interested party, which included a notice of intention to make oral representations. The Authority held the oral hearing as advertised on 12 November 2020.

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 members. The material sent to members 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 29 July 2020. The Authority consulted the Financial Conduct Authority (FCA) prior to giving this approval in accordance with paragraph 2(3) 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 ballot of the Society’s members.
- 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 7(1) of Schedule 12 of the FS Act provides that the Society must send a statement no later than 14 days (or such longer period as its rules may require) before the meeting at which any such resolution is to be moved. The Society’s rules extend this period to 28 days. The Society sent all members their information packs via email or post at the end of July. The vote closed on 9 September. Notice was therefore given more than 28 days in advance of the vote. While the Authority noted that the representation it received expressed the view that this timeframe was not sufficient for a number of reasons, the Authority considers that the requirements under the FS Act had been satisfied.

- 2.4. 17.6% of all of the Society's members voted on the special resolution in respect of the Transfer. 82.6% of the number of members voting voted in favour to approve the Transfer.
- 2.5. 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 transferees 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 Transferees to carry out the transferred business; and b) whether the Transferees are capable of carrying out the business.
- 3.5. The Authority was not aware of any reason why the Transferees would be unable to carry out lawfully the engagements to be transferred as Bupa Insurance Limited holds the necessary Part 4A permissions (considered in Preclusion Ground 5) and there is no evidence that the transferring business differs from the business that Bupa Insurance Limited currently carries out in such a way that would render the transfer unlawful.
- 3.6. Based on the Authority's supervision of Bupa Insurance Limited and the FCA's regulation of Bupa Insurance Services Limited, the Authority was not aware of any matter related to the scale or nature of the Society's business that would materially increase the complexity of the Transferees' business, particularly given the relative scales of the business.
- 3.7. The Authority noted the British United Provident Association's ("**Bupa Group**") past experience of acquiring and integrating smaller private medical insurance businesses and was not aware of any reason why the Transferees would not be capable of carrying out the transferring business.
- 3.8. The Authority therefore finds that there is no substantial risk that the Transferees 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”

- 3.9. 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.
- 3.10. 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.
- 3.11. The Authority noted that the communication materials were sent to all members individually allowing sufficient time, in accordance with the FS Act, to review the materials in advance of the voting date.
- 3.12. The Authority noted that the members 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.
- 3.13. The Authority noted that the Society provided additional material relevant to the Transfer to its members. This material included the background to the transfer; an explanation of why the Transferees were appropriate; the impact of the Transfer on the Society's members; the opinion of the Society's Chief Actuary and details for requesting a copy of the full actuarial report; and reference to the Society's website where members could find responses to relevant questions which were asked after the initial material was provided.
- 3.14. The Authority noted that the representation received by the Authority expressed concern that the information to members was not presented with complete impartiality, with no clear comparison of the advantages and disadvantages of the Transfer. The Authority considered that there was sufficient impartial information provided to members and the ability for members to ask further questions, so members could still take a view on how their interests were being affected. The Authority finds that the Preclusion Ground does not apply to this point.
- 3.15. The Authority noted that the representation also expressed concern that it was not clear to members that the guarantees to transferring policyholders were only confirmed for renewals up to early 2022. The Authority noted that in the information presented to members, it was made clear that Bupa Insurance Limited was only offering price guarantees for a fixed period and that it would review the policies after that fixed period expires to determine the appropriate premium to charge. The Authority also noted that Bupa Insurance Limited would be required by the FCA to set the appropriate premium in a way that treats affected policyholders fairly. On this basis, the Authority finds that the Preclusion Ground does not apply to this point.
- 3.16. The Authority noted that the representation argued that the information provided to members about the 'combined OP [outpatient] limit pot' was not sufficiently clear to members. However, the Authority understands that the move to a 'combined OP limit pot' should be an advantage for all members, as it expands the amount of outpatient

medical expenses which are eligible under the insurance policy, up to the same limit that the Society's members already pay for. The Authority finds that the Preclusion Ground does not apply to this point.

- 3.17. 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"

- 3.18. 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.

- 3.19. 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).

- 3.20. The Authority, in consultation with the FCA, reviewed the overall communications strategy of the Society and raised no objection.

- 3.21. 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"

- 3.22. 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.

- 3.23. The Authority has not identified any rules or provisions of the FS Act that were not fulfilled by the Society. The FCA has also confirmed that it does not have any concerns that some relevant requirement of the FS Act or of the Society's rules has not been fulfilled to any material extent.

- 3.24. 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"

- 3.25. 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.

- 3.26. The Authority noted that Bupa Insurance Limited is authorised by the Authority to effect and carry out contracts of insurance in the class of sickness and a number of other classes.

- 3.27. The Authority noted that Bupa Insurance Limited 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 Bupa Insurance Limited's satisfaction of those conditions.
- 3.28. The Authority noted that Bupa Insurance Services Limited is authorised and regulated by the FCA with the relevant permission to assist in the administration and performance of a contract of insurance. The FCA confirmed that it has considered this Preclusion Ground and has not seen any evidence to suggest this was not satisfied with respect to the Transferees.
- 3.29. The Authority finds that there is no substantial risk that the Transferees will not have the necessary Part 4A permissions to enable them to carry on the business to be transferred and that **this Preclusion Ground does not apply**.

Preclusion Ground 6 “The Eligibility Factor”

- 3.30. 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.
- 3.31. The Authority considered whether the Transfer is eligible for confirmation under the FS Act.
- 3.32. 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.
- 3.33. The Authority noted that the Transferees are both registered under the Companies Act 2006 as private limited companies.
- 3.34. 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.
- 3.35. 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”

- 3.36. 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.
- 3.37. The Authority noted the challenges that the Society faced as set out in its application and acknowledged the Society's conclusion that it would be in the long term interests of the Society's members to transfer them to a larger organisation with economies of scale in managing both medical and administrative costs.
- 3.38. The Authority noted that the Chief Actuary of the Society concluded in their report that the Transfer is in the interests of the members of the Society. The Chief Actuary

considered two alternative scenarios: using Bupa as a Third Party Administrator or winding up the Society, and found that these would be a relatively adverse outcome for a large number of the Society's members compared to the Transfer.

- 3.39. The Authority noted that the policies that the members would be transferred onto offered greater policyholder security due to Bupa Insurance Limited's financial position and offered a greater value of benefits.
- 3.40. The Authority noted that the Transfer is not expected to have any material impact on service standards for policyholders.
- 3.41. The Authority noted that the Society's members will lose their membership rights and will no longer have any control over aspects of how their private medical insurer is run. However, the Authority considers that the loss of membership rights is outweighed by the other benefits of the Transfer, including enhanced benefit security and benefit expectations. In addition, the ultimate parent of the Transferees, Bupa Group, is a company limited by guarantee with no external shareholders.
- 3.42. The Authority finds that the transfer is in the interests of members and that **this Preclusion Ground does not apply.**

Preclusion Ground 8 "The Solvency Factor"

- 3.43. Paragraph 15(2)(c) of Schedule 15 to the FS Act provides that the Authority shall not confirm a transfer unless the relevant authority certifies that Bupa Insurance Limited possess the necessary margin of solvency after taking the proposed transfer into account.
- 3.44. The Authority noted the expected Solvency Coverage Ratio of Bupa Insurance Limited before and after the Transfer and that it possesses the required margin of solvency in excess of the Solvency Capital Requirement (SCR) and issued a certificate of solvency on 23 November 2020.
- 3.45. In relation to a transferee which is not required to possess a margin of solvency by rules made by the Authority under section 138 of the Financial Services and Markets Act 2000, paragraph 13 of Schedule 15 to the FS Act requires that the value of the transferee's assets will exceed its liabilities (after taking the proposed transfer into account). The Authority noted that, on the basis of evidence provided to it, Bupa Insurance Services Limited's assets will exceed its liabilities after the Transfer, with an increase in its net assets. The FCA supervise Bupa Insurance Services Limited and confirmed that this preclusion was considered and that it had not seen any evidence to suggest it has not been satisfied by the firm.
- 3.46. The Authority is accordingly satisfied that Bupa Insurance Limited will possess the required margin of solvency and Bupa Insurance Services Limited's assets will exceed its liabilities, in each case taking the proposed transfer into account. Accordingly, the Authority is satisfied that **this Preclusion Ground does not apply.**

4. ADDITIONAL PRECLUSION GROUNDS UNDER PARAGRAPH 15 (INCLUDING EEA NOTIFICATIONS)

- 4.1. Paragraph 15(2)(d) provides where the establishment from which the policies are to be transferred is situated in an EEA State other than the UK, the Authority must be satisfied that: the supervisory authority in that EEA state has been consulted; and either that the authority has responded or that the period of three months beginning with the consultation has elapsed.
- 4.2. The Society has no establishments outside of the UK. Therefore this requirement is not relevant.
- 4.3. Paragraph 15(3) of Schedule 15 to the FS Act provides that where, as regards any policy included in the transfer where the risk is situated in an EEA State other than the UK, 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.
- 4.4. The Society confirmed to the Authority that it no longer has any EEA-based members. All non-UK members were informed that the Society lacked the appropriate permissions to renew policies running beyond April 2020 and were advised to seek appropriate cover. Therefore these requirements are not relevant.
- 4.5. In addition, Paragraph 15(2)(b) of Schedule 15 of the FS Act requires that the PRA shall not confirm the transfer unless every policy included in the transfer evidences a contract which was entered into before the date of the application. The Society has confirmed that every policy included in the transfer evidences a contract which was entered into before the date of the application.

5. REPRESENTATIONS

- 5.1. The Authority considered the representation made by an interested party in its assessment of the Preclusion Grounds. Where relevant to a specific Preclusion Ground, the Authority considers the elements of the representation in 3 (The Authority's Conclusions) above. The other elements of the representation are considered below.
- 5.2. The representation expressed concern that there was no dedicated phone line for members to discuss the impact of the Transfer on their policies. The Society argued that there was a phone line which members could use to register their queries and could then be called or emailed with a response, suggesting that it was not reasonable to expect junior staff to answer complex technical queries about the Transfer on the phone.
- 5.3. The Authority considers that the Society's argument is reasonable and notes that the Society's communication strategy was reviewed and not objected to by both the Authority and the FCA. The Authority finds that none of the Preclusion Grounds apply to this representation.

6. DECISION

The Authority has considered the application by Civil Service Healthcare Society Limited for confirmation of the transfer of its insurance policies and related engagements to Bupa Insurance Limited and the transfer of its operating assets and liabilities to Bupa Insurance Services 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 paragraph 11A of Schedule 15 of the FS Act confirmed the transfer on 16 December 2020.

For and on behalf of the
Prudential Regulation Authority

[REDACTED]

16 December 2020

**Prudential Regulation Authority
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