

# UTMOST IRELAND DAC

Proposed transfer of international life assurance of Athora Ireland PLC to Utmost Ireland dac from the Head of Actuarial Function.

Final REPORT

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Prepared by

Head of Actuarial  
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## 1 Introduction

I have been asked as Head of Actuarial Function of Utmost Ireland dac (“UI”) to comment on the scheme by which it is proposed to transfer the offshore bonds business (“AIP Policies”) of Aegon Ireland PLC (to be renamed Athora Ireland PLC) (“AIP”) to UI (the “Irish Scheme”).

The High Court of Ireland is required to sanction any proposal to transfer the business of an authorised insurance company. A report from an Independent Actuary must be presented to the High Court of Ireland as part of the Scheme of Transfer.

The AIP Policies include policies written in Jersey and Guernsey. Consequently, I am advised that equivalent schemes will be required in these jurisdictions and that these will come into effect at the same time as the Irish Scheme (the “Jersey Scheme” and the “Guernsey Scheme” respectively).

It has become general practice for the Independent Actuary report to be accompanied by reports from the Head of Actuarial function of both the transferring entity (AIP) and the receiving entity (UI).

In this report, the term “Schemes” is used to refer to the Irish Scheme (which is the legal document outlining the terms for the proposed transfer) and the Jersey and Guernsey Schemes.

The purpose of this report is to consider the effects of the Schemes on the policyholders of UI, paying particular regard to the security of their benefits, their fair treatment and their reasonable expectations.

The documents and other information that I have relied upon in preparing this report are set out in the Appendix. This report is based on information available to me at, or prior to, 11<sup>TH</sup> July 2018.

I am a Fellow Member of the Society of Actuaries in Ireland having qualified in 2010, I have been the Head of Actuarial Function (PCF 48) of UI since 8<sup>th</sup> May 2018.

I am an employee of Utmost Services Ireland Ltd (“USIL”) a company within the same insurance group, Utmost Holdings Ireland Limited (“UHIL”) (formerly LCCG Ireland Ltd), as UI. I have no UI insurance policies nor personal investments in the LCCG group or any company within it.

Having considered the impact of the proposed Schemes, it is my opinion that the Schemes will have no material impact on the security or benefit expectations of the existing UI policyholders.

## 2 Background to the Schemes

Life Company Consolidation Group (“LCCG”) is a Guernsey based financial services group that have acquired a number of life insurance companies. In particular in July 2016, LCCG acquired the Ireland based life insurance businesses of AVIVA, Aviva Life International Limited, subsequently renamed to Utmost Ireland dac (UI).

UI is a life assurance company incorporated in 1999, regulated in Ireland by the Central Bank of Ireland (“CBI”). UI was initially known as Norwich Union International Ltd up until 2009 when it was rebranded Aviva Life International Limited. Following the acquisition on 26<sup>th</sup> July 2016 by Harcourt Life Assurance dac (“HLAC”), a subsidiary of LCCG, it was renamed Harcourt Life International dac (“HLI”). In June 2017 ownership of HLI was onwards transferred to UHIL, the parent company of HLAC. HLAC itself has now been renamed Harcourt Life Corporation.

In October 2016, HLI also agreed to acquire the offshore bond, Irish bond and pension business of AXA Life Europe (“ALE”). The acquisition of this business was effected through the transfer of the ALE policies into HLI by a Scheme under section 13 of the Assurance Companies Act 1909. This Scheme completed on 30 June 2017 and at this time HLI was renamed Utmost Ireland dac, i.e. UI.

AIP was formerly a subsidiary of the Aegon Group. In April 2018, the Aegon Group sold AIP to Athora Holdings Limited (Athora). UI has now entered into an agreement with AIP to onwards acquire part of the business of AIP, consisting of the non-guaranteed offshore bonds. Given that this business represents only a part of the overall business of AIP it is again proposed the transaction is effected through a Scheme under section 13 of the Assurance Companies Act 1909 with parallel Schemes in Jersey and Guernsey.

The proposed Schemes will transfer the AIP Policies and the relevant AIP business into UI. The transferred AIP business will then be rebranded Utmost Wealth Solutions in line with the existing UI business.

A transfer consideration of €30m will be paid from UI to AIP at the time of the transfer. The costs of the Schemes will be borne in part by UI and in part by AIP. The transfer consideration and UI’s share of the costs of the Schemes have been reflected in the post-transfer financial information presented in this report which also assume a capital injection of €47m is made ahead of the transfer. In practice the actual amount of the capital injection will be determined, ahead of the scheme implementation, to ensure that the coverage ratio of UI is at least 150% at the point at which the Schemes becomes effective.

### 3 Information on Utmost Ireland dac

#### 3.1 Profile of Insurance Portfolio

UI was incorporated in 1999. Initially UI wrote business across Europe, but in 2002 the decision was made to focus on UK off-shore life assurance bonds. Of the European business, only a few Italian bonds remain (see Union Star below). The bonds are all Unit Linked life assurance bonds with a wide range of investments, including from 2003 links to Aviva's UK With-Profits funds.

In February 2010, UI closed to new business ceasing to accept new contracts but accepting single premium "top ups" on some of its products. In 2017 around 700 policies were acquired from ALE and transferred into UI. The ex-ALE products remain open to new business. At the end of December 2017, UI had the following mix of policies in-force:

#### Split of UI policies and funds under management at 31/12/2017

Business Line	Policy Count	Unit Reserves (€m)
International Core Funds Bond (Life Assurance Basis)	1,042	180
International Core Funds Bond (Capital Redemption Basis)	60	18
International Investment Bond	760	95
International Portfolio Bond	317	77
International Premier Portfolio	740	469
International With Profits Bond	2,011	375
Union Star	17	1
ex-ALE Investment Bond	775	950
ex-ALE Legacy Planning Bond	19	9
ex-ALE Irish Legacy Bond	24	3
<b>Total</b>	<b>5,765</b>	<b>2,177</b>

Table 3.1.1

The International With-Profits Bond and the with-profits element of the Core funds bond is 100% reassured to Aviva Life and Pensions UK ("ALAP"). A Charge Deed is in place between ALAP and UI such that in the event of insolvency of ALAP, with-profits bond Holders rank alongside other policyholders of ALAP. The main risk to UI's policyholders is that ALAP fail to meet the terms of the reinsurance leaving UI potentially exposed to providing with-profits benefits to its International With-Profits and Core Funds Bond policyholders. However, the likelihood of ALAP failing to meet its obligations under the reinsurance arrangements is extremely remote. At the end of December 2017, the Aviva group reported Solvency II Own Funds of £29.5bn, representing a solvency ratio of 169%.

The International With-Profits Bond row shown in table 3.1.1 includes 51 bonds, with €6.9m of associated funds, written in Hong Kong by Aviva Life Insurance Company Ltd ("Aviva Hong Kong") and reinsured to UI. UI onwards reinsures this business to ALAP in line with the approach for other International With-Profits Bonds.

The capital redemption version of the International Core Funds Bond provides a guaranteed amount at the 99<sup>th</sup> policy anniversary. The guarantee is the higher of the value of the unit funds or 101% of

the original investment, reduced for any partial withdrawals. UI have the right to cancel any policies that fall below a certain size (e.g. €1,500). Typically, these policies are purchased to provide an income of 5%pa. It's not expected that any policy will have been bought with the intention of holding that policy for 99 years, for the benefit of receiving the premium plus 1%. Furthermore, the combination of withdrawals and ongoing fund based charges and the ability to cancel small policies, means that most if not all policies will exhaust before the 99 years have expired. Consequently, it's my view that the capital redemption guarantee does not present any additional material risks to UI as compared with the life assurance version of the product.

Approximately 14% of the investments backing the UI policies are "mirror funds". These are funds maintained internally by UI, through a third-party service arrangement with Capita Life and Pensions Services (Ireland) Ltd ("Capita") and Utmost Administration Ltd, that have sole investments in specific third-party funds. The Schemes will have no effect on how the associated policies are invested.

UI reserve the right to amend management charges on the International Core Funds Bond, Premier Portfolio Bond, Investment Bond and Portfolio Bond and With-Profits Bonds to fairly and proportionately reflect increases in administration costs. Administration services incur costs that tend to rise with inflation. UI increases its charges on some products to meet these inflationary costs. For example, UI increases Premier Portfolio Bond administration charges in line with the Consumer Prices Index of Ireland.

None of the product types include death benefits that are onerous for UI. UI policies typically carry a 1% or 0.1% uplift to fund values on death. The with-profits variants cannot apply Market Value Reductions on death, but, as mentioned above, this benefit is provided by ALAP through the reinsurance arrangements.

The oversight of UI's business is carried out in Dublin by USIL and these arrangements will continue post Scheme transfer. In 2010, UI entered into a 10-year administration outsourcing arrangement with Capita for the customer servicing, investment administration and other operational elements of the administration of the ex-Aviva business. Administration of the ex-ALE business is largely outsourced to another company in the LCCG group, Utmost Administration Ltd ('UAL'). The Schemes will have no effect on these arrangements.

### 3.2 Capital Position

Table 3.2.1 below sets out the capital position, under the EU Solvency Directive 2009/138/EC Standard Formula basis ("SII SF"), of UI.

#### UI Capital Position on SII SF basis

	31/12/2016 €ms	31/12/2017 €ms
Own Funds	30.5	47.6
Solvency Capital Requirement	23.4	27.9
Excess	7.1	19.7
Solvency Coverage Ratio	130%	171%

Table 3.2.1

### 3.3 Capital Policy

UI has adopted a capital policy whereby it aims to always cover at least 133% of the Solvency II capital requirements. As a result of the acquisition by HLAC in July 2016, the shareholders of HLAC made a

commitment to the Irish regulator, the CBI, to maintain this capital policy. Furthermore, the directors adopted a policy such that any dividends paid would not result in UI having a solvency capital ratio of less than 150% immediately after the payment of that dividend.

Table 3.2.1 shows that at the end of December 2017, the solvency ratio for UI was 171% comfortably above the capital policy ratio of 133%. This represents a margin over 150% coverage of c. €4m for future dividends.

### 3.4 Risk Profile

The following table sets out the key risks as measured under the SII SF.

#### Components of SII SF capital requirements

Components	€ms
Market Risk	
- Interest Rate	0.5
- Equity	5.0
- Property	0.2
- Credit Spread	6.6
- Currency	7.4
- Less diversification benefit	-4.8
<b>Total Market Risk</b>	<b>14.9</b>
Life insurance risks	
- Mortality	0.8
- Life Expenses	7.1
- Lapse	9.6
- Less diversification benefit	-2.8
<b>Total Life Insurance Risk</b>	<b>14.7</b>
<b>Counterparty Default Risk</b>	<b>7.3</b>
Total before diversification	36.9
Diversification benefit	-10.3
<b>Total Basic SCR</b>	<b>26.6</b>
Operational Risk	1.3
<b>Total Solvency Capital Requirement</b>	<b>27.9</b>

Table 3.4.1

The UI business is made up of unit linked policies where the income to UI is represented by a mixture of fixed amount charges and charges based on a percentage of the value of the unit funds. This means that the income to UI is exposed to the movements in the value of these funds. Policyholder unit funds are invested in a diverse range of equity, property and bonds meaning that there is little exposure to any one investment. However, the individual funds are in general subject to the same underlying economic factors and consequently UI's income is exposed to market risks.

The bulk of UI's business is written in the UK. This means that the income is in pounds sterling. UI is an Irish company situated within the Eurozone, with a material portion of its expenses in addition to its capital requirements denominated in Euros. There is therefore a risk that the income falls relative to expenses and capital requirements due to currency movements. This is known as currency risk and makes up a significant proportion of the market risk capital component.

Before allowing for diversification effects, market risk, including currency risk, contributed €14.9m to UI's capital requirements.

International With-Profits and Core Funds Bond policyholders can access the with-profits funds of ALAP through a reinsurance arrangement between UI and ALAP. This reinsurance passes all of the investment risk to ALAP. However, there remains a risk that ALAP, the counterparty, do not have sufficient resources to meet the payments to UI, i.e. a counterparty default. Before allowing for diversification effects, this risk is represented by a contribution of €7.3m to UI's capital requirements under the heading Counterparty Default risk.

A portion of UI's own funds is derived from future profits made on policies currently in force. When policies are surrendered UI loses this future income stream less the value of any surrender penalties. Also, UI suffer expenses in relation to the administration of these contracts. In the case of UI's Unit Linked business the income from policies is more than the associated administration costs. For with-profits business the situation is in reverse with expenditure exceeding income. Consequently, UI is exposed to a risk that unit linked policyholders surrender their policies ahead of expectation and conversely that with-profits fund linked policies remain in-force for longer than expected.

UI incurs expenses in administering the contracts through to claim. Servicing of the ex-Aviva policyholders is carried out, in the main, by Capita. The fees under the arrangement with Capita are guaranteed until 2020. This has the effect of reducing the risks of expense inflation associated with a decline in the number of policies in-force. However, there remain risks around managing central expenses within budgets and with maintaining the Capita arrangement beyond 2020.

The expense and surrender risks are represented by a contribution to UI's pre-diversification capital requirements of €14.7m under the heading Life Insurance risk.

UI has no direct exposure to health insurance or general insurance risks.

In addition to the risks mentioned above there are operational risks associated with administering the business through run-off. Examples of operational risks include failure of people, systems and processes leading to expenditure in excess of amounts budgeted. The SII SF basis give an Operational risk component of €1.3m.

### 3.5 Projected Capital position

Projected capital position of UI, excluding effect of Scheme transfer

€ms	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Own Funds	47.6	50.4	53.3	56.2	59.4	62.9
Solvency Capital Requirement	27.9	25.9	24.6	23.5	22.7	22.2
Excess	19.7	24.5	28.7	32.7	36.7	40.6
Solvency Coverage Ratio	171%	194%	217%	239%	261%	283%

Table 3.5.1

The pattern of improving solvency capital ratio results from the gradual run-off of the in-force UI policies. As the policies run-off, the capital requirement in respect of those policies falls away driving the solvency ratio improvements. The value of new business being written also supports the growth in own funds over the projection period.

In practice, we would expect dividends to be paid at a future date, with potential to bring the solvency ratio down to 150% (as set out under Capital Policy above). Consequently, although the projected



position gives comfort that the solvency position is expected to improve, policyholder security should be evaluated at the capital policy level only.

## 4 Information on the transferring business, the AIP Ireland Policies

### 4.1 Profile of Insurance Portfolio

AIP (or Scottish Equitable International as it was then known) was authorised as a life insurance undertaking in July 2002 to meet the needs of UK clients seeking to invest in unit-linked life insurance investment policies (OSB business).

In 2006, the Company was chosen as the Aegon Group hub for production of unit-linked life policies offering income and capital guarantees (VAs) to the European market.

Subsequently, in 2013, the Company established a life branch in Frankfurt, Germany under the Freedom of Establishment provisions of the EU directive and commenced the sale of VA products in the German market.

The Company closed to new business on non-platform VA products in late 2016 but remained open to German VA business and VA reinsurance. OSB sales were suspended in December 2017.

In August 2017, Aegon Group signed a Share Purchase Agreement (“SPA”) with AGER Bermuda Holdings Ltd (“AGER”), a subsidiary of Athene Holdings Ltd. (“Athene”). AGER sought to acquire AIP from Aegon Holding in 2018, subject to approval from the CBI and the terms set out in the SPA. Subsequently in January 2018, AGER announced a deconsolidation from Athene, although Athene did retain a minor shareholding. Shortly afterwards, AGER changed its name to Athora Holding Ltd. (“Athora”) The acquisition of AIP by Athora was completed on 3 April 2018. The Company also closed all remaining VA products to new business at this point in time. In April 2018, shortly after the completion of the acquisition, AIP reinsured most of the risk related to its VA portfolio with a well-rated reinsurance company.

Subsequently, on 9 April 2018, Athora announced that it would sell AIP’s OSB portfolio to Utmost Ireland. The business in question comprises unit-linked policies sold primarily in the United Kingdom but with some policies concluded in the Channel Islands (Jersey and Guernsey).

The following table, Table 4.1.1, summarises the numbers of policies and the Unit Linked reserves of the transferring AIP Policies at 31 December 2017.

#### Split of AIP OSB portfolio policy numbers and funds under management

Business Line	Policy Count	Unit Reserves (€m)
Money Market Portfolio	47	21
Private Client Portfolio	1,366	898
Investment Portfolio	566	80
Flexible Investment Portfolio	96	12
Wealth Management Portfolio	4,828	2,427
Wealth Planning Account	149	82
<b>Total</b>	<b>7,052</b>	<b>3,520</b>

Table 4.1.1

The Flexible Investment Portfolio includes some regular premium policies. Current levels of annual premium are around €0.3m. All the other transferring policies are single premium policies. None of

the policies include onerous investment guarantees. In all cases, benefits are linked to the performance of unit linked funds

The products include policy charges to cover administration, fund management costs and commission costs. The charges can be amended by AIP to take account of unexpected increased costs and certain charges increase regularly with the Consumer Price Index in Ireland.

None of the policies include onerous death benefits, with an additional sum assured of up to 1.0% of units is paid on death depending on product and age of policyholder.

The administration of this business is carried out in Dublin using staff working directly for AIP. Those staff deemed to be part of the TUPE process will transfer with the business and will continue to provide customer servicing functions. It is also intended as part of the migration of AIP policies to the UI administration system to replicate functionality available to policyholders on the current AIP website. Consequently, the Schemes will have no material impact on the services currently received by AIP policyholders.

The proposed Schemes envisage that only sufficient assets to cover the unit linked liabilities, along with policyholder cash balances related to the AIP Policies, will be transferred to UI. However, the AIP Policies are subject to annual charges that are more than sufficient to meet the ongoing administration and servicing costs. I have taken this excess income into account in assessing the impact of the transfer on the solvency of UI and the security of benefits for UI policyholders (see section 6).

Following the transfer of the business to UI, it is intended that the contractual fees (i.e. those to be paid by UI to USIL and UAL) be amended for all UI business. I have taken into account the effect of the proposed fee amendments in assessing the financial impact of the Schemes on UI.

The AIP policies are invested in a wide range of funds. These are mainly funds administered by third party asset managers, known as Open Architecture funds, or managed on a discretionary basis by specialist fund managers, known as Discretionary Asset Managers. These investments will be transferred by the Schemes and the Schemes will have no effect on how the policies are invested.

A small proportion of the investments backing the AIP policies are “mirror funds”. These are funds maintained internally by AIP, administered using an industry standard package Invest Pro, that have sole investments in specific third-party funds. These funds will be transferred by the Schemes. The AIP investment administration team will transfer to UI. Fund and investment administration will be migrated from Invest Pro to Apache, a system used by UAL to administer ALE funds and investment. The Schemes will have no effect on how the associated policies are invested.

A small number of funds are invested in by both AIP remaining and the AIP Policies that are transferring. Most of these funds will transfer to UI. For those funds that cannot be transferred, UI will seek to negotiate equivalent arrangements with the relevant fund managers. UI will seek agreement from the Court that these arrangements can be split between UI and AIP. If the Court declines to split the agreements then UI and AIP will enter into a reciprocal fund linked reinsurance arrangement to ensure that both sets of policyholders continue to enjoy the same terms for and access to, funds before and after the Scheme comes into effect. (It should be noted that the reinsurance arrangements will allow access to the underlying funds and that no other risks will be transferred between AIP and UI, for example no guaranteed benefits currently provided by AIP will be underwritten by UI.)

In summary, all of the unit-linked funds maintained immediately prior to the portfolio transfer date by AIP in respect of the AIP Policies on and from the Scheme transfer date will be maintained by UI. In other words, the Schemes will have no impact on how policyholder funds are invested.

Sections 3.1 and this section 4.1 demonstrate the high degree of similarity between the two sets of policy types and the two businesses. This provides me with additional comfort with regards UI's ability to manage the two businesses as one post transfer.

## 4.2 Capital Position

Only assets backing unit liabilities and any net current liabilities in respect of policyholder transactions will be transferred by the Schemes. Consequently, UI will be required to provide the solvency capital needed to meet its capital policy requirements post Schemes. Capital will be injected into UI ahead of the transfer to fund the transfer consideration, scheme implementation costs and to ensure the solvency coverage ratio after the transfer remains at least 150%. This is explored in more detail in Section 6.

## 4.3 Risk Profile

Components of AIP transferring business SII SF capital requirements, UI expense basis.

Components	€ms
Market Risk	
- Interest Rate	0.7
- Equity	16.7
- Property	0.0
- Credit Spread	0.9
- Currency	23.8
- Less diversification benefit	-9.1
<b>Total Market Risk</b>	<b>32.9</b>
Life insurance risks	
- Mortality	1.1
- Life Expenses	11.8
- Lapse	22.3
- Less diversification benefit	-5.0
<b>Total Life Insurance Risk</b>	<b>30.1</b>
<b>Counterparty Default Risk</b>	<b>0.0</b>
Total before diversification	63.0
Diversification benefit	-13.2
<b>Total Basic SCR</b>	<b>49.9</b>
Operational Risk	1.4
<b>Total Solvency Capital Requirement</b>	<b>51.3</b>

Table 4.3.1

The AIP transferring business is made up of unit linked policies where the income to AIP is a combination of fixed amount charges and charges determined as a percentage of the value of the unit funds. This means that the income to AIP is exposed to the movements in the value of these funds. Policyholder unit funds are invested in a diverse range of equity, property and bonds meaning that

there is little exposure to any one investment. However, the individual funds are in general subject to the same underlying economic factors and consequently AIP's income is exposed to market risks.

The bulk of AIP's transferring business is written in the UK. This means that the income is in pounds sterling. AIP is an Irish company situated within the Eurozone, with a material portion of its expenses in addition to its capital requirements denominated in Euros. There is therefore a risk that the income falls relative to expenses and capital requirements due to currency movements. This is known as currency risk and makes up a significant proportion of the market risk capital component.

Before allowing for diversification effects, market risk, including currency risk mentioned above, contributed €32.9m to AIP's SII SF capital requirements.

A portion of AIP's own funds is derived from future profits made on policies currently in force. When policies are surrendered, AIP lose this future income stream less the value of any surrender penalties. Consequently, AIP is exposed to a risk that policyholders surrender their policies ahead of plan.

AIP incurs expenses in administering the contracts through to claim. Expense risk captures the potential impact if these servicing costs are higher than expected

The expense and surrender risks are represented by a contribution to AIP's pre-diversification capital requirements of €30.1m under the heading Life Insurance risk.

AIP has no direct exposure to health insurance or general insurance risks. Furthermore, unlike UI, AIP has no material reinsurance arrangements and therefore no material Counterparty Default risk.

In addition to the risks mentioned above there are operational risks associated with administering the business through run-off. Examples of operational risks include failure of people, systems and processes leading to expenditure in excess of amounts budgeted. Under the SII SF measure this amounts to €1.4m.

## 5 Proposed Transfer

Subject to the approval of the Irish High Court, it is envisaged that the Irish Scheme will take effect at 23:59 on 31 December 2018.

### 5.1 Policy Transfer

The proposal is to transfer the AIP Policies to UI. The Irish Scheme provides that:

- The transferring AIP Policies will transfer to UI and the liabilities in respect of these policies will become liabilities of UI,
- UI will become entitled to all rights, benefits and powers of AIP in respect of each transferring policy,
- Policyholders will be entitled to the same rights with UI as were available to them with AIP, and
- All assets backing the unit reserves and cash balances of the AIP Policies will transfer to UI.

There are a small number of AIP Policies written in Jersey, Guernsey and separate Schemes, substantively based on the Irish Scheme, approved by the Royal Court of Jersey (the “Jersey Court”) and the Royal Court of Guernsey (the “Guernsey Court”) will transfer these policies at or around the same date as the UK and other EU domiciled policies.

### 5.2 Costs of the Schemes

UI and AIP will each bear their own costs and expenses incurred in connection with the preparation and carrying into effect of the Schemes with the exception of specific fees payable to legal advisors, tax advisors and the Independent Actuary associated with the implementation of the Schemes, which will be covered by UI’s surplus assets. Policyholders will not bear the costs of the Schemes.

### 5.3 Servicing Arrangements

At present the AIP Policies are serviced by ring fenced AIP staff based in Dublin and are administered on an in-house AIP policy administration system.

Under the proposed Schemes the AIP staff mentioned above will transfer to UI and will continue to service the AIP policies. It is planned that at or around the time of the scheme to migrate the AIP policies from their current administration system to the AIA platform currently used for the administration of the ex-ALE business of UI. The transferring business is similar in nature to the existing UI business administered on AIA and as a result I am happy that the core servicing functionality offered by the existing AIP systems, and the AIP website, can be replicated post migration to AIA and that there will therefore be no material impact on policyholders.

Existing UI policies are administered under a number of arrangements as mentioned above. The Schemes will not alter the existing administration arrangement for UI policyholders.

Investment administration for the transferring business will be undertaken on Apache, a system used by UAL to administer the investments of the ALE book, by the staff transferring with the business and therefore the investment administration experience should continue unchanged for transferring policyholders. There are no significant changes planned to the approach to investment administration of existing UI policyholders as a result of the Scheme.

Therefore, there is no material impact on the servicing arrangements for the holders of transferring AIP Policies or our existing UI policyholders.

#### 5.4 Reinsurance Treaties

The existing reinsurance arrangements of UI, principally the WP reinsurance to ALAP, are not impacted by the scheme and will continue in-force as is. There are no reinsurance arrangements relating to the transferring AIP business.

#### 5.5 Taxation

The Schemes will not alter policies and does not result in the cancelation or the issue of new policies to policyholders. As such there is no tax impact on policyholders as a result of the Schemes. The tax authorities in Ireland and the UK will be notified of the intention to carry out the proposed transfer under the Schemes.

#### 5.6 Legal

Legislation requires that the policyholders of both AIP and Utmost are notified of the Schemes. This means that all policyholders must be directly notified of the Scheme, the AIP transferring and non-transferring policyholders and the Utmost policyholders. The relevant legislation provides the court with the discretion to direct that only transferring policyholders be directly notified of the Schemes. However, in practice such dispensation would typically be requested only in circumstances where the proposed transfer is not expected to have a material adverse effect on policyholders. It is intended that a dispensation will be sought from the court, such that only the AIP transferring policyholders are directly notified of the proposed transfer.

#### 5.7 Policyholder Communication

I understand that this report and the reports of the Independent Actuary and the Head of Actuarial Function for AIP will be made available to all policyholders via websites that are specific to UI and AIP. I understand that there will be advertising in Ireland and the relevant jurisdictions in the EEA within which policies have been concluded as required by local laws.

It is proposed to not mail existing UI policyholders. In my opinion the impact of the proposed Schemes on existing UI policyholders is not material. I note that existing UI policyholders will have access to this report and the report of the Independent Actuary as mentioned above. For these reasons, I support the proposals not to send a direct mailing to existing UI policyholders.

I am, therefore, comfortable with the proposed communications plan.

## 6 Impact of the Proposed Transfer on Policyholders of Utmost Ireland dac

### 6.1 Policyholder Security

Table 6.1.1 below shows the pro-forma solvency position of UI if the proposed transfer had taken place at 31 December 2017.

Pro-forma effect of combining UI and AIP, under SII SF

31/12/2017 €ms	Existing UI	AEGON	Scheme Impacts	Proforma
Own Funds	47.6	40.4	16.3	104.3
Solvency Capital Requirement	27.9	51.3	-6.5	72.6
Excess	19.7	-10.9	22.8	31.6
Solvency Coverage Ratio	171%			144%
Table 6.1.1				

The AIP transferring business does not bring sufficient capital, on a stand-alone basis to meet the UI capital policy requirement. However it is proposed ahead of the transfer to inject additional capital into UI to target capital coverage when the transfer takes place at the end of 2018 of at least 150%. The projected proforma position shown is based on an injection of €47m. Once the transfer consideration of €30m has been paid and the costs of the Scheme and the wider integration have been allowed for this results in a net increase in Own Funds of €11m included in the Scheme impacts column. This combined with the capital currently in UI and the benefits of expense and diversification synergies between the businesses mean that the proforma post-Schemes solvency ratio is lower than pre-Scheme but remains comfortably above the current 133% capital policy amount. The Scheme is actually expected to come into force at the end of 2018, table 6.1.3 shows that the expected capital ratio at that point will be 150%.

The above table shows that pre-Scheme UI has a capital ratio of 171%. If the Scheme does not go ahead then I would expect dividends to be paid so as to bring the ratio to 150%. Therefore, the impact of the Scheme should be regarded as maintaining the level of security provided to policyholders, at the amounts set out in UI's Capital Policy.

The following table shows the risk profile of the two businesses side by side:

## Components of SII SF capital requirements, UI and AIP side by side

Components €ms	Existing UI	AEGON	Pro-Forma
Market Risk			
- Interest Rate	0.5	0.7	2.1
- Equity	5.0	16.7	22.0
- Property	0.2	0.0	0.2
- Credit Spostad	6.6	0.9	7.3
- Currency	7.4	23.8	31.7
- Less diversification benefit	-4.8	-9.1	-15.4
<b>Total Market Risk</b>	<b>14.9</b>	<b>32.9</b>	<b>47.9</b>
Life insurance risks			
- Mortality	0.8	1.1	1.5
- Life Expenses	7.1	11.8	19.1
- Lapse	9.6	22.3	28.2
- Less diversification benefit	-2.8	-5.0	-7.3
<b>Total Life Insurance Risk</b>	<b>14.7</b>	<b>30.1</b>	<b>41.4</b>
<b>Counterparty Default Risk</b>	<b>7.3</b>	<b>0.0</b>	<b>7.3</b>
Total before diversification	36.9	63.0	96.6
Diversification benefit	-10.3	-13.2	-23.2
<b>Total Basic SCR</b>	<b>26.6</b>	<b>49.9</b>	<b>73.4</b>
Operational Risk	1.3	1.4	2.6
<b>Total Solvency Capital Requirement</b>	<b>27.9</b>	<b>51.3</b>	<b>75.9</b>

Table 6.1.2

It should be noted that the standalone AIP figures shown here are calculated using the expected post transfer expense basis for UI. This will be different from the capital requirements calculated on an AIP as is expense basis.

Table 6.1.2 shows that the balance of risks of the two businesses is similar. The most material difference relates to the existence of the ALAP With-Profits reinsurance arrangement within UI generating a significant Counterparty default risk exposure. AIP has no equivalent reinsurance arrangement.

The SCR shown in table 6.1.1 is equivalent to the €75.9m in the table above but reduced by €3.3m for the loss absorbancy of deferred tax in the post transfer balance sheet.

UI continues to write new business. Writing new business brings additional risks in that UI incurs up-front sales, marketing and other acquisition costs that are recovered from future policy charges. However, overall the UI new business is profitable which improves the long-term solvency position as those profits are realised in the future. The impact of UI planned new business is included in the projection shown in table 6.1.3 below.

The following table shows the pro-forma projected solvency position of UI following the proposed Schemes.



## Projected capital position of UI, showing effect of Scheme transfer

€ms	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
Own Funds	104.3	102.6	107.1	111.7	116.5	121.6
Solvency Capital Requirement	72.6	68.1	63.7	60.2	57.5	55.5
Excess	31.6	34.5	43.4	51.5	59.0	66.1
Solvency Coverage Ratio	144%	151%	168%	185%	203%	219%

Table 6.1.3

It can be seen that the projected solvency position of the combined business increases over time reflecting the value of new business being written and the gradual run off of the Risk margin and the capital requirements. Note that the fall in own funds shown for 2018 reflects that future profits included in the end 2017 pro-forma figures, but forecast to emerge from the AIP business in 2018 have been excluded from the end 2018 Own Funds estimate. Despite this the forecast solvency coverage at end 2018 increases to just over 150%.

In practice, we would expect dividends to be paid from some future date, with potential to bring the solvency ratio down to 150% (as set out under Capital Policy above). Consequently, although the projected position gives comfort that the solvency position remains above the 150% level, policyholder security should be evaluated at the capital policy level only.

## 6.2 Policyholders Reasonable Expectations

As noted above the Schemes will have no material effect on the servicing offered to AIP policyholders. The servicing arrangements for UI are also unaltered. Consequently, the policyholders will continue to receive the same standard of service before and after the Scheme.

The Schemes will have no impact on discretionary charges on the unit linked policies of either AIP or UI.

The ALAP With-Profits fund is unaffected by the Schemes. Aviva will continue to add With-profits bonuses to UI policies linked to the ALAP funds in accordance with their Principles and Practices of Financial Management. The Schemes will have no effect on pay-outs and bonus declarations for UI policies linked to the ALAP With-Profits funds.

## 7 Conclusions

Having considered the impact of the proposed Schemes on existing Utmost Ireland dac policyholders it is my opinion that:

- the Schemes will have no material adverse impact on the security of the existing Utmost Ireland dac policyholders;
- the fair treatment and reasonable benefit expectations of existing Utmost Ireland dac policyholders will not be materially adversely affected by the Schemes; and,
- the Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.

Sarah Johnston, FSAI

Utmost Ireland dac

## Appendix 1: Reliances and limitations – To be updated.

### **Reliances:**

AIP product literature provided by AIP.

Estimates of the financial impact on UI of the transfer of the AIP transferring business provided by Wraxall Capital Management Ltd, an actuarial consulting firm with extensive experience of supporting business transfers, engaged by UI to support this work.

Estimates of the BEL and Solvency 2 risk profile of the transferring AIP business at end 2017 provided by AIP.

Estimates of the Solvency 2 risk profile of the AIP transferring business on a post transfer basis provided by Wraxall Capital Management Ltd.

Internal assessments of UI's financial position and risk profile for the purposes of UI's Own Risk and Solvency Assessment under Solvency 2.

That the Scheme documents and Policyholder communication proposals are substantially in the form provided to the CBI on 21/6/18.

The report of the Head of Actuarial Function of AIP, as of 18/6/2018.

All factual statements made orally in private meetings by the AIP Head of Actuarial Function.

### **Limitations:**

The sole purpose of this report is to assist the Independent Actuary, Rosemary Commons, to form her opinion of the effects of the Schemes on the various groups of affected policyholders.

This report should not be used or relied upon for any other purpose.

This report is made available to interested policyholders of AIP and Utmost Ireland dac so that they may review the basis upon which the Independent Actuary has formed her view.

## Appendix 2: Glossary

**Own Funds:** The value of an insurance undertaking's assets that are in excess of the amounts required to meet its policyholder's benefit payments and its ongoing expenses.

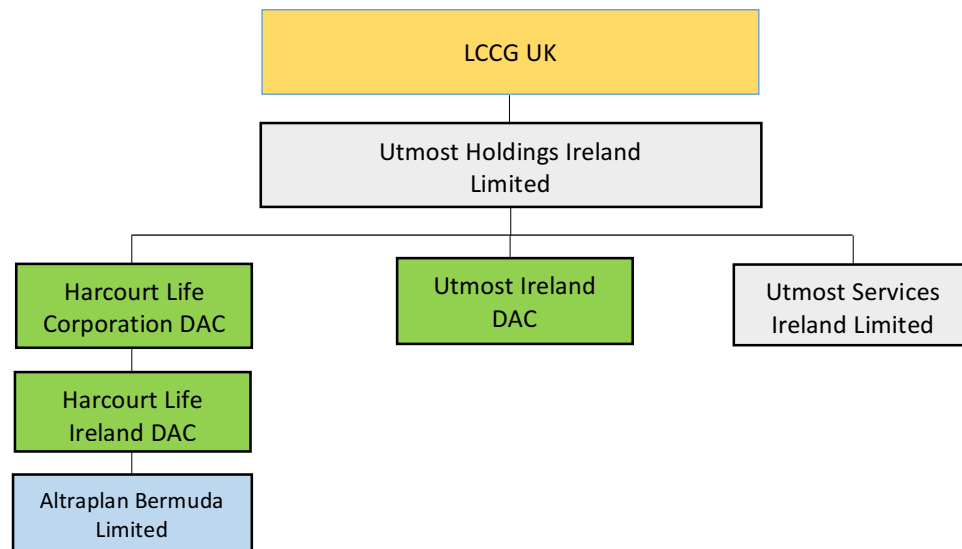
**Solvency Capital Requirement ("SCR"):** The amount of capital that an insurance undertakings is required to hold to ensure that it can meet its obligations to policyholders over the following 12 months with a 99.5% probability. This includes setting aside sufficient assets to meet policyholder obligations that extend beyond these 12 months.

**Diversification benefit:** The reduction in the aggregate of individual SCRs caused by taking on a range of different risks. This reduction comes about because it is unlikely that all the bad outcomes will occur at the same time.

## Appendix 3: Organisational Structure Charts

### Structure of Utmost Holdings Ireland Limited business at 16/5/18

The structure below excludes “shell” companies (Union Heritage DAC & Augura Ireland DAC) for which the de-authorisation process is underway, and shows HLC DAC in its current status an authorised insurer, noting that following the portfolio transfer effective 31<sup>st</sup> March 2018 it no longer contains any insurance business. The de-authorisation process for HLC DAC has also commenced. HLC DAC was previously named Harcourt Life Assurance DAC and has been renamed as part of the de-authorisation process which is expected to complete during Q3 2018.



Note:

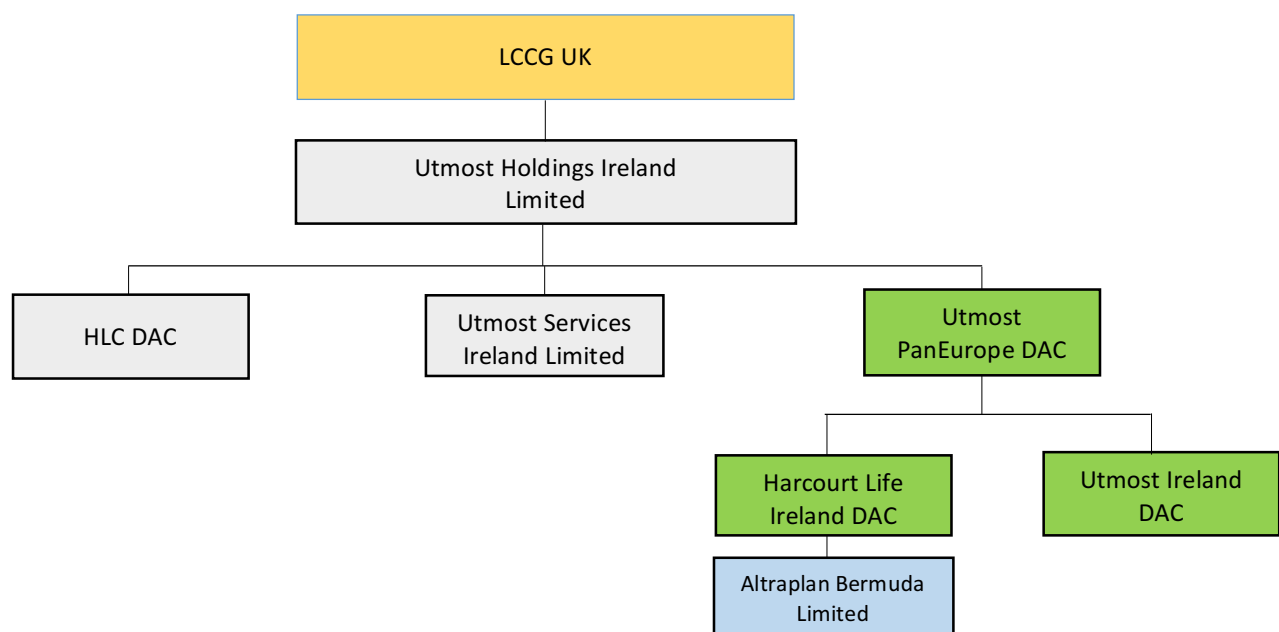
1. Utmost Holdings Ireland Limited formerly LCCG Ireland Limited
2. Harcourt Life Corporation DAC formerly Harcourt Life Assurance DAC
3. Utmost Services Ireland Limited formerly Harcourt Life Services Limited

### Structure of Utmost Holdings Ireland Limited business POST planned acquisition of GPE

The full structure of the Irish business after the GPE acquisition will be as shown below, subject to CBI approval of

- Change in control of GPE (which upon acquisition will be renamed Utmost PanEurope dac)
- Transfer of Harcourt Life Ireland dac (“HLI”) to ownership by Utmost PanEurope dac
- Transfer of Utmost Ireland dac (“UI”) to ownership by Utmost PanEurope dac

Acquisition of GPE is expected to complete during June 2018, with the subsequent ownership changes for UI and HLI expected to be completed during Q3. The structure below is expected to be in place at the portfolio transfer effective date.



**Note:**

Generali PanEurope dac (“GPE”) will be renamed Utmost PanEurope dac upon acquisition.