MILLIMAN CLIENT REPORT

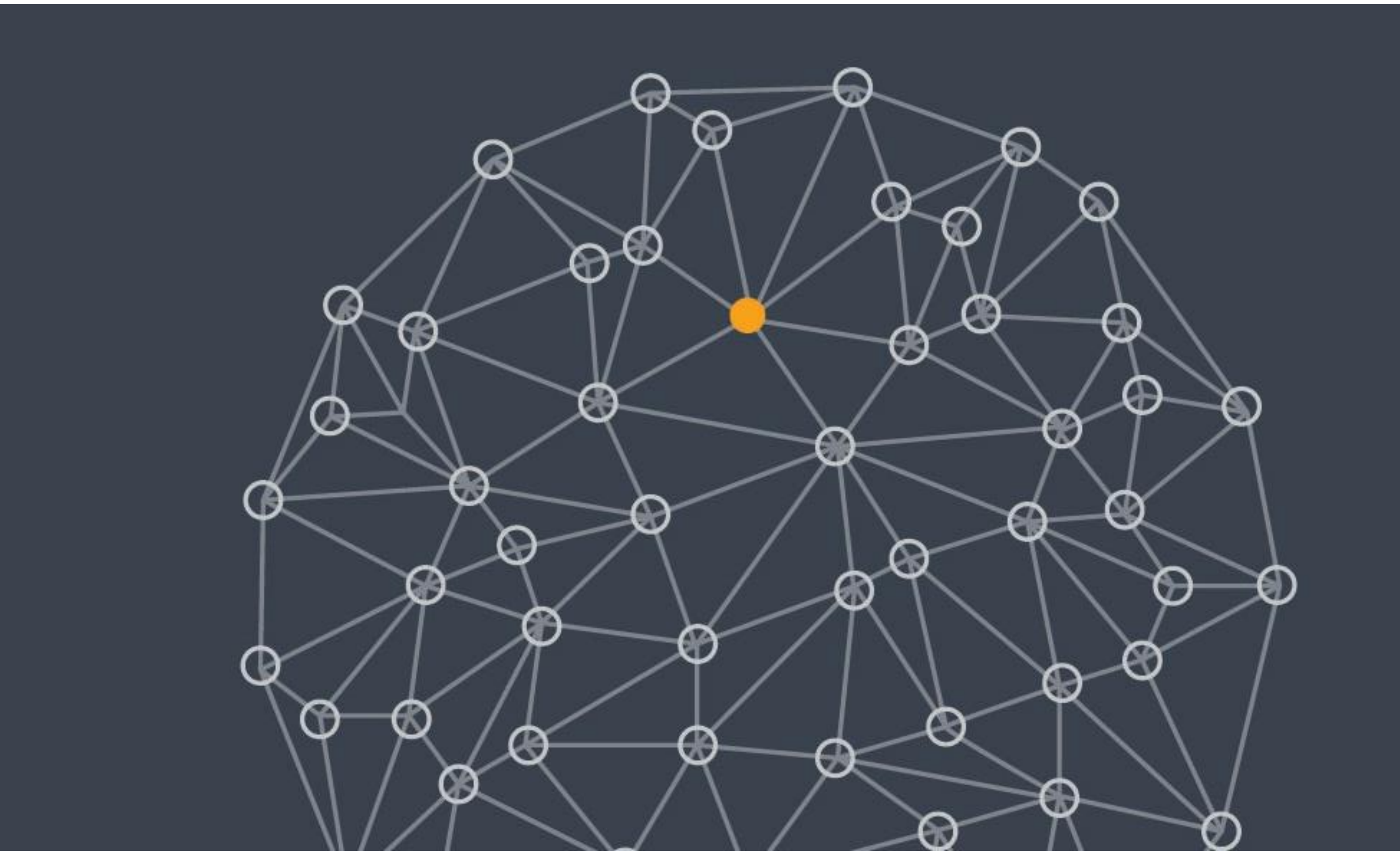
Utmost Limited

Report of the Independent Actuary on the proposed transfer of insurance business from Utmost Limited to Quilter International Isle of Man Limited

Final Version

24 August 2022

Philip Simpson, FIA



Milliman

Contents

1. PURPOSE AND SCOPE

PURPOSE OF THIS REPORT

1.1 Utmost Limited ("Utmost") proposes to transfer its entire business to Quilter International Isle of Man Limited ("Quilter") by an insurance business transfer scheme (the "Scheme"), pursuant to Section 21(1) of and Schedule 2 to the 2008 Insurance Act. Utmost is the "Transferor" and Quilter is the "Transferee". I understand that Quilter intends to change its name to Utmost International Isle of Man Limited, with the rename being launched on 24 October 2022.

1.2 Section 21(1) of and Schedule 2 to the Insurance Act 2008 requires that an application to the High Court of Justice of the Isle of Man (Civil Division) (the "Court") for an order sanctioning an insurance business transfer scheme must be accompanied by a report on the terms of the scheme (the "Scheme Report") by an independent actuary (the "Independent Actuary") having the skills necessary to make the report and who is approved by the Isle of Man Financial Services Authority ("FSA"). The Scheme Report is required in order that the Court may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In addition, the Scheme Report, or the summary of it, may be used by policyholders to help them assess the likely effects of the Scheme on them.

1.3 The Scheme Report consists of this report (the "Report") and any subsequent supplementary reports.

1.4 Utmost has nominated me, Philip Simpson, to act as Independent Actuary to provide the Scheme Report in respect of the Scheme, and the FSA has approved my appointment by letter dated 22 February 2022.

1.5 This Report describes the proposed transfer and discusses its likely effects on the policyholders of Quilter, in respect of the existing business of Quilter, and the business of Utmost which will be transferred to Quilter, including its likely effects on the security of policy benefits and levels of service. Therefore, after the proposed Scheme there will be no insurance business remaining in Utmost. As such, this Report fulfils the requirements of the Scheme Report.

1.6 Both Utmost and Quilter are domiciled, authorised and regulated in the Isle of Man ("IoM").

1.7 Utmost and Quilter are both indirect subsidiaries of Utmost Group Plc ("UGPlc"), UGPlc is the most senior regulated insurance holding company in the group, although there are other more senior holding companies. In this Report, I refer to UGPlc and its direct and indirect subsidiaries as the "Utmost Group".

1.8 Under the current corporate structure, Utmost is a wholly owned subsidiary of Utmost Holdings Isle of Man Limited ("UHIOM"). UHIOM also owns Quilter following an acquisition in November 2021, therefore both Utmost and Quilter are ultimately owned by UGPlc. The Utmost Group structure is discussed in more detail in section 4.

1.9 A list of terms defined in this Report is shown in Appendix H. Otherwise, I use the same defined terms as are in the document that sets out the terms of the proposed transfer (the "Scheme document").

THE PROPOSED SCHEME

1.10 The business to be transferred under the Scheme consists of all the long-term business of Utmost (the "Transferring Business"), which is unit-linked business, and includes:

- "With-Profit Fund Linked" business – these policies invest directly into two of Aviva Life and Pensions UK Limited's with-profits funds. No new With-Profit Fund Linked business is written, however top-ups are permitted;
- "Modified Co-Insurance" business – Utmost has modified co-insurance arrangements in place with AXA China Region Insurance Company (Bermuda) Ltd ("AXA China") and AXA Life Insurance Singapore Private Limited ("AXA Singapore"). Under these arrangements, AXA China and AXA Singapore write the business directly but it is ceded to Utmost; and
- "Other Unit-Linked" business – this is all the other business of Utmost that is not either With-Profit Fund Linked nor Modified Co-Insurance business.

1.11 In respect of the Transferring Business, and in particular the With-Profit Fund Linked business, Utmost has two reinsurance treaties in place with Aviva Life and Pensions UK Limited ("ALAP"). See paragraph 4.23 for more information.

1.12 I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. The Modified Co-Insurance agreement with AXA China and the two reinsurance agreements with ALAP have been identified as not being governed by IoM law. Therefore, alongside the Scheme a separate process will be established to novate these contracts. I understand that other, non-insurance, contracts may also be novated.

1.13 The proposed Scheme, if implemented, would transfer all of the liabilities associated with the Transferring Business, with the exception of any Residual Liabilities[1] and Excluded Liabilities[2], and all of the assets of Utmost, with the exception of the Residual Assets[3] and Excluded Assets[4], to Quilter on the Effective Date (i.e. the date on and from which the Scheme would become effective), which is expected to be 30 November 2022. The Scheme permits the Effective Date to be deferred by up to three months. The Scheme forms part of Utmost Group's consolidation plans, and results in the Utmost Group having a single insurer in the IoM.

1.14 It is anticipated that the novation of the Modified Co-Insurance agreement with AXA China and the two reinsurance agreements with ALAP would take effect on the same date as the Effective Date.

1.15 The Transferring Business contains policies which were issued to policyholders resident in Guernsey (the "Guernsey Policies") and policies which are carried on by Utmost in or from Jersey (the "Jersey Policies"). The transfer of the Guernsey Policies will, in addition to the Scheme, be conditional upon the approval of the Royal Court of Guernsey of a parallel Guernsey transfer scheme (the "Guernsey Scheme"). Similarly, the transfer of the Jersey Policies will, in addition to the Scheme, be conditional upon the approval of the Royal Court of Jersey of a parallel Jersey transfer scheme (the "Jersey Scheme"). The planned effective dates of both the Guernsey Scheme and Jersey Scheme are the same as the Effective Date of the Scheme, i.e. 30 November 2022. The Scheme permits the Effective Date to be deferred by up to three months. The effective dates of the Guernsey Scheme and Jersey Scheme are linked to the Effective Date of the Scheme and would therefore also be deferred if the Effective Date of the Scheme was deferred. Whilst the Guernsey Policies and Jersey Policies are subject to parallel transfer processes, they are, for all purposes of the Scheme, part of the Transferring Business.

1.16 The Scheme is expected to be presented to the Court for a Directions Hearing[5] on 7 September 2022 and for a Sanction Hearing[6] on 9 November 2022.

1.17 I provide further details of the business involved in the Scheme, the arrangements for the Scheme and the effect of the Scheme in sections 4 to 9.

THE INDEPENDENT ACTUARY

1.18 I am a Principal of Milliman LLP ("Milliman") and I am based in its UK Life Insurance and Financial Services practice in London. I am a Fellow of the Institute and Faculty of Actuaries ("IFoA"), which was established in 2010 by the merger of the Institute of Actuaries and the Faculty of Actuaries. I became a Fellow of the Institute of Actuaries in 1992. My experience of life insurance includes acting previously as an Independent Expert, Independent Actuary, an Actuarial Function Holder and a With-Profits Actuary. I have included my Curriculum Vitae in Appendix C in which I explicitly note the insurance business transfer schemes for which I have acted as the Independent Actuary or Independent Expert.

1.19 I am not an expert in the detailed application of the regulatory regime in the IoM as prescribed by the FSA or in market practice in IoM. I have been advised in these areas by an experienced qualified actuary from Milliman Limited's office in the IoM.

---

[1] The Residual Liabilities are all the liabilities associated with policies that cannot be transferred to or vested in Quilter under the Scheme at the Effective Time for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Quilter.

[2] The Excluded Liabilities are all the liabilities associated with the Constructive Funds which are all the funds held by Utmost as constructive trustee, deriving from three long-term business policies that were unenforceable for illegality and were cashed.

[3] The Residual Assets are all the assets associated with policies that cannot be transferred to or vested in Quilter under the Scheme at the Effective Date for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Quilter.

[4] The Excluded Assets are cash of an amount, which is expected to be around £50m, which represents the surplus over and above unit linked and current liabilities, the actual amount will be determined prior to the Sanction Hearing, the UPE Agreement which is a management services agreement for the provision of services between Utmost PanEurope Designated Activity Company and Utmost and the Constructive Funds.

[5] The Directions Hearing is a short hearing at which the Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.

[6] The Sanction Hearing is a hearing at which the Court hears the application to sanction a proposed transfer of insurance business.

1.20 I do not have any direct or indirect personal interest in any of the parties involved in the proposed Scheme, and, to the best of my knowledge, have never had any such interest. I am not a shareholder or member of any Utmost Group entity. I have not previously acted in an advisory role to any Utmost Group entity.

1.21 I can confirm that since 2018 Milliman has not worked on any projects for Utmost, Quilter or their subsidiaries.

1.22 I believe that, for all practical purposes, I am independent for the purposes of assessing the proposed Scheme.

1.23 The Scheme is subject to sanction by the Court under Section 21(1) of and Schedule 2 to the 2008 Insurance Act.

1.24 The costs associated with preparing and carrying out the proposed Scheme will be borne by Quilter. This includes the costs of my work as Independent Actuary. The costs of the Scheme will not be met by any policyholders of Quilter.

THE SCOPE OF MY REPORT

1.25 My terms of reference are set out in Appendix D.

1.26 I have considered the terms of the Scheme only and have not considered whether any other scheme or schemes or alternative arrangement might provide a more efficient or effective outcome.

1.27 The Report describes the Scheme and its likely effects on policyholders of Quilter and policyholders of the Transferring Business of Utmost, including effects on the security of policy benefits, the profile of risks to which policyholders are exposed, the regulatory and legal regime that will apply to policies and the standards of services provided to policyholders.

1.28 In arriving at the conclusions in this Report, I have applied the concept of “materiality”, and considered whether I believe any group of policyholders in the round is “materially adversely affected” by the implementation of the Scheme. If a potential effect of the Scheme is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then I do not consider it to have a material effect on the policies.

1.29 I am not required to consider the effects of the Scheme on new policyholders entering into contracts after the Effective Date. If Quilter or Utmost write any additional business between the date of this Report and the Effective Date, I will consider the effects of the Scheme on these additional policyholders in my Supplementary Report (I explain my Supplementary Report in paragraph 1.37 below).

1.30 The Report should be read in conjunction with the full terms of the Scheme.

1.31 My work has required an assessment of the liabilities of Utmost and Quilter for the purposes of describing the effects of the Scheme. My review of the liabilities was based on the technical provision assessments conducted by internal actuaries and Wraxall Capital Solutions (“WCS”), on behalf of Utmost and Quilter. I have reviewed the methodology and assumptions used in their work and assessed the key areas of uncertainty in relation to these liabilities. I have not attempted to review in detail the calculations performed by the internal actuaries or WCS on behalf of Utmost and Quilter or to produce independent estimates of the liabilities.

1.32 In addition to the liabilities, I have assessed the appropriateness in nature and amount of any assets to be transferred under the Scheme, and the capital position of Utmost and Quilter both pre-Scheme and post-Scheme. Again, I have not attempted to review in detail the calculations of the capital position performed by Utmost or Quilter, and I have not attempted to produce independently my own estimates. I discuss my reliance on financial information in this Report, and why I consider such reliance to be reasonable, in more detail in section 3.

1.33 As far as I am aware, there are no matters that I have not taken into account in undertaking my assessment of the Scheme and in preparing this Report, but which nonetheless should be drawn to the attention of policyholders in their consideration of the Scheme.

1.34 In reporting on the Scheme as the Independent Actuary, I recognise that I owe a duty to the Court to assist the Court on matters within my expertise. This duty overrides any obligation to Utmost and / or to Quilter. I confirm that I have complied with this duty and will continue to comply with this duty throughout the course of my appointment as the Independent Actuary.

1.35 I have taken account of the requirements regarding experts set out in Chapter 6 of the Rules of the High Court of Justice 2009.

1.36 I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

1.37 Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (the "Supplementary Report") that will cover any relevant matters that might have arisen since the date of this Report. As part of my preparation of the Supplementary Report, I shall review and comment on the then most up-to-date financial information relating to Utmost and Quilter.

1.38 The letters, notices and advertisements to be sent to policyholders or published in relation to the Scheme will refer all queries to a postal address, a telephone number, an email address or a webpage address. Utmost and Quilter have stated that they will respond promptly to any such queries. It is intended that both this Report and the Supplementary Report will be published on both the Utmost and Quilter webpage, on a page dedicated to the Scheme, and that copies will be sent to any policyholders who request them.

Guernsey Scheme and Jersey Scheme

1.39 As referred to in paragraphs 1.15 above, there are parallel schemes of transfer being carried out in Guernsey and Jersey, which provide for the transfer of Guernsey Policies and Jersey Policies, respectively, on the same terms as the Scheme. The Guernsey Scheme and Jersey Scheme are conditional on the sanction of the Scheme by the Court and are expected to become effective on the same date.

1.40 As the Guernsey Policies and Jersey Policies are part of the population of the Transferring Business, my conclusions as set out in this Report apply equally to the Guernsey Policies and Jersey Policies.

THE STRUCTURE OF MY REPORT

1.41 The remainder of this Report is set out as follows:

Section 2:	I provide an executive summary of this Report (I have also provided a separate summary of this Report, as described in paragraph 1.46, below).
Section 3:	I provide some background information regarding the regulatory environment in which Utmost and Quilter operate and also on the role of the Independent Actuary.
Section 4:	I provide some background information regarding Utmost and Quilter.
Section 5:	I summarise the key provisions of the Scheme.
Section 6:	I consider the likely impact of the Scheme on policyholders of Utmost whose policies would be transferred to Quilter under the Scheme (the “Transferring Policyholders”).
Section 7:	I consider the likely impact of the Scheme on the policyholders of Quilter (the “Existing Policyholders”).
Section 8:	I consider the likely impact of the Scheme on the fair treatment of customers, including the approach to communicating with policyholders regarding the Scheme.
Section 9:	I cover the general issues relating to the Scheme and the management of Utmost and Quilter.
Section 10:	I summarise my conclusions.
Appendices:	Include financial and other information.

RELIANCES AND LIMITATIONS

1.42 In carrying out my review and producing this Report, I have relied, without detailed verification, upon the accuracy and completeness of the data and information provided to me, in both written and oral form, by Utmost, Quilter and WCS. WCS have been engaged by Utmost and Quilter to support with the Scheme, and therefore WCS has produced documents and data upon which I have relied. Reliance has been placed upon, but not limited to, the information detailed in Appendix I. My opinions depend on the substantial accuracy of this data, information and the underlying calculations. I am unaware of any issue that might cause me to doubt the accuracy of the data and other information provided to me. All information that I have requested in relation to my review has been provided. I have been assisted in my review of the information and my analyses by colleagues of mine at Milliman but I have not relied on their work or their advice.

1.43 This Report has been prepared for the purposes of the Scheme in accordance with Section 21(1) of and Schedule 2 to the 2008 Insurance Act. A copy of this Report will be sent to the FSA, and will accompany the Scheme application to the Court. In addition, in respect of the Jersey Scheme and Guernsey Scheme, the report will be shared with the Jersey Financial Services Commission, Guernsey Financial Services Commission, Jersey Court and Guernsey Court.

1.44 This Report must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.

1.45 Neither this Report, nor any extract from it, may be published without me having provided my specific written consent, save that:

- copies of this Report may be made available for inspection by policyholders who might be affected by the Scheme;
- copies may be provided to any person requesting the same in accordance with legal requirements; and
- copies may be provided to the FSA, the Guernsey Financial Services Commission ("GFSC") and the Jersey Financial Services Commission ("JFSC").

I also consent to this Report being made available on a dedicated webpage related to the Scheme.

1.46 No summary of this Report may be made without my express consent. I will provide a summary of this Report (the "Report Summary") for inclusion in a document that will be made available to the affected policyholders of Utmost and Quilter, to the lawyers dealing with or representing individual claimants in relation to the Transferring Business, to any affected reinsurers of Utmost and Quilter, and to other relevant bodies, e.g. to anyone who has been identified as having an interest in the policies being transferred or who has notified Utmost or Quilter of their interest (further details are provided in section 8). The Report Summary will be sent to the FSA, the GFSC, the JFSC, will accompany the Scheme application to the Court, and will be available on the webpage dedicated to the Scheme.

1.47 This Report has been prepared within the context of the assessment of the terms of the Scheme and must not be relied upon for any other purpose. Milliman and/or I will accept no liability for any application of this Report to a purpose for which it was not intended or for the results of any misunderstanding by any user of any aspect of this Report. In particular, no liability will be accepted by Milliman or me under the terms of the Contracts (Rights of Third Parties) Act 1999.

1.48 Actuarial estimates are subject to uncertainty from various sources, including changes in claim reporting patterns, claim settlement patterns, judicial decisions, legislation, economic and investment conditions. Therefore, it should be expected that the actual emergence of claims, premiums, expenses and investment income will vary from any estimate. Such variations in experience could have a significant effect on the results and conclusions of this Report. No warranty is given by Milliman, or me, that the assumptions, results and conclusions on which this Report is based will be reflected in actual future experience. I discuss my reliance on financial information in this Report in more detail in section 3.

1.49 This review does not comprise an audit of the financial resources and liabilities of Utmost or Quilter, or of the wider Utmost Group.

1.50 This Report should not be construed as investment advice.

1.51 Nothing in this Report should be regarded as providing a legal opinion on the effectiveness of the Scheme.

1.52 In considering the background to Utmost and Quilter, and in considering the likely impact of the Scheme, I have made extensive use of financial information as at 31 December 2021 as that is, in general, the most recent date at which audited financial information will be available for the Scheme Report. I have asked the managements of Utmost and Quilter for information regarding any developments between 31 December 2021 and the date of this Report that have affected Utmost or Quilter, in particular any developments that may have affected the security of their policyholders, their risk profile or the standards of service provided to them, both now and in future. At the date of this Report, I am not aware of any material changes in circumstances since 31 December 2021 other than those referred to in this Report. The Report also takes no account of any information that I have not received, or of any inaccuracies in the information provided to me. I will review any further financial statements of Utmost and Quilter, whether audited or unaudited, as and when they become available, and will comment on this information in my Supplementary Report.

1.53 All of the financial information with which I have been provided has been expressed in Pounds Sterling. However, I would expect that some of the underlying assets and transactions would be or would have been denominated in other currencies. I have assumed that, throughout the financial information, data in other currencies has been converted to Pounds Sterling at appropriate and mutually consistent currency exchange rates.

1.54 The use of Milliman's name, trademarks or service marks, or reference to Milliman directly or indirectly in any media release, public announcement or public disclosure, including in any promotional or marketing materials, websites or business presentations, is not authorised without Milliman's prior written consent for each such use or release, which consent shall be given in Milliman's sole discretion.

PROFESSIONAL AND REGULATORY GUIDANCE

1.55 I am required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. I have complied with such standards, subject to the principles of proportionality and materiality.

1.56 In accordance with Actuarial Profession Standard X2, as issued by the IFoA, I have considered whether this Report should be subject to review ("Work Review"). I concluded that it should, and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Report or in the preparation of this Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Report should be subject to Independent Peer Review. I confirm that this Report has been subject to Independent Peer Review prior to its publication.

1.57 There are no specific local actuarial standards in the IoM. In preparing this Report I have given consideration to the terms of the guidance set out in the Statement of Policy entitled *The Prudential Regulation Authority's approach to insurance business transfers* (the "PRA Statement of Policy"), initially issued in April 2015 and updated in January 2022, and in Section 18 of the FCA Supervision Manual ("SUP18") contained in the Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. I have also given consideration to the FCA's guidance FG22/1 entitled *The FCA's approach to the review of Part VII insurance business transfers* (the "FCA Guidance"), initially issued in May 2018 and updated in February 2022.

2. EXECUTIVE SUMMARY

INTRODUCTION

2.1 To facilitate this section being read in isolation, I repeat herein the definitions of terms already defined in Section 1 and used in this section.

2.2 Utmost Group Plc (“UGPlc”) has a number of direct and indirect subsidiaries, including Utmost Limited (“Utmost”) and Quilter International Isle of Man Limited (“Quilter”). In this Report, I refer to UGPlc and its direct and indirect subsidiaries collectively as the “Utmost Group”.

2.3 Both Utmost and Quilter are domiciled, authorised and regulated in the Isle of Man (“IoM”).

2.4 It is proposed to transfer the entire business of Utmost to Quilter by an insurance business transfer scheme (the “Scheme”), pursuant to Section 21(1) of and Schedule 2 to the 2008 Insurance Act. The implementation of the Scheme will require the approval of the High Court of Justice in the Isle of Man (Civil Division) (the “Court”).

2.5 The business of Utmost that is to be transferred under the proposed Scheme contains policies which were issued to policyholders resident in Guernsey (the “Guernsey Policies”) and policies which are carried on by Utmost in or from Jersey (the “Jersey Policies”). The transfer of the Guernsey Policies will, in addition to the Scheme, be conditional upon the approval of the Royal Court of Guernsey of a parallel Guernsey transfer scheme (the “Guernsey Scheme”). Similarly, the transfer of the Jersey Policies will, in addition to the Scheme, be conditional upon the approval of the Royal Court of Jersey of a parallel Jersey transfer scheme (the “Jersey Scheme”).

THE PROPOSED SCHEME

Motivation for the Scheme

2.6 The Utmost Group specialises in the acquisition and consolidation of life assurance business. In 2021, Utmost Group acquired the international business segment of the Quilter group, Quilter International Holdings Limited, which included its subsidiary, Quilter.

2.7 The proposal to transfer the business of Utmost to Quilter forms part of the Utmost Group’s continuing consolidation strategy, and the Utmost Group anticipates that the Scheme will have the following benefits:

- Consolidation is a core competency for the Utmost Group. They acquire life assurance business and then consolidate to simplify the Utmost Group structure;
- Operational efficiencies as fewer companies means business lines and operational risks are streamlined, leading to a reduction in the overhead costs required to manage and maintain the business;
- Capital efficiencies from the diversification benefits of combining Utmost and Quilter and capital fungibility e.g. it allows capital to be utilised against losses without the need for complex intra-group capital transactions; and
- Simplified liquidity management as the company will only need to manage one pool of assets to meet the liquidity needs of the business.

2.8 In addition, the Utmost Group anticipates that the proposed Scheme will create a more efficient and robust business, giving greater certainty to the policyholders over its ability to meet expectations.

Summary of the Scheme

2.9 The business to be transferred under the Scheme consists of all the long-term business of Utmost (the “Transferring Business”), which is unit-linked business, and includes:

- “With-Profit Fund Linked” business – these policies invest directly into two of Aviva Life and Pensions UK Limited’s with-profits funds. No new With-Profit Fund Linked business is written, however top-ups are permitted;

- "Modified Co-Insurance" business – Utmost has modified co-insurance arrangements in place with AXA China Region Insurance Company (Bermuda) Ltd ("AXA China") and AXA Life Insurance Singapore Private Limited ("AXA Singapore"). Under these arrangements, AXA China and AXA Singapore write the business directly but it is ceded to Utmost; and
- "Other Unit-Linked" business – this is all the other business of Utmost that is not either With-Profit Fund Linked nor Modified Co-Insurance business.

Whilst the Guernsey Policies and Jersey Policies are subject to parallel transfer processes, they are, for all purposes of the Scheme, part of the Transferring Business.

2.10 In respect of the Transferring Business, and in particular the With-Profit Fund Linked business, Utmost has two reinsurance treaties in place with Aviva Life and Pensions UK Limited ("ALAP").

2.11 I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. The Modified Co-Insurance agreement with AXA China and the two reinsurance agreements with ALAP have been identified as not being governed by IoM law. Therefore, alongside the Scheme a separate process will be established to novate these contracts. I understand that other, non-insurance, contracts may also be novated.

2.12 The proposed Scheme, if implemented, would transfer all of the liabilities associated with the Transferring Business, with the exception of any Residual Liabilities[7] and Excluded Liabilities[8], and all the assets of Utmost, with the exception of Residual Assets[9] and Excluded Assets[10], to Quilter on the Effective Date (i.e. the date on and from which the Scheme would become effective), which is expected to be 30 November 2022. The planned effective dates of both the Guernsey Scheme and Jersey Scheme are the same as the Effective Date of the Scheme, i.e. 30 November 2022. The Scheme permits the Effective Date to be deferred by up to three months. The effective dates of the Guernsey Scheme and Jersey Scheme are linked to the Effective Date of the Scheme and would therefore also be deferred if the Effective Date of the Scheme was deferred.

2.13 It is anticipated that the novation of the Modified Co-Insurance agreement with AXA China and the two reinsurance agreements with ALAP would take effect on the same date as the Effective Date. I consider the novation of these contracts further in paragraphs 2.72 to 2.76 below.

2.14 Figure 2.1 below sets out the number of policies fund values associated with the Transferring Business as at 31 December 2021.

FIGURE 2.1 UTMOST BUSINESS POLICY COUNT AND FUND VALUE AT 31 DECEMBER 2021

Policy Count	With-Profits Fund Linked	Modified Co-Insurance	Other Unit-Linked
Policy Count	1,080	467	27,311
Fund Value (£m)	273.9	408.9	10,961.9

Source: Information provided on request from Wraxall Capital Solutions ("WCS")

2.15 The Scheme is expected to be presented to the Court for a Directions Hearing[11] on 7 September 2022 and for a Sanction Hearing[12] on 9 November 2022.

[7] *The Residual Liabilities are all the liabilities associated with policies that cannot be transferred to or vested in Quilter under the Scheme at the Effective Time for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Quilter.*

[8] *The Excluded Liabilities are all the liabilities associated with the Constructive Funds which are all the funds held by Utmost as constructive trustee, deriving from three long-term business policies that were unenforceable for illegality and were cashed.*

[9] *The Residual Assets are all the assets associated with policies that cannot be transferred to or vested in Quilter under the Scheme at the Effective Date for any reason. Utmost will hold assets associated with the Residual Liabilities as trustee for Quilter.*

[10] *The Excluded Assets are cash of an amount, which is expected to be around £50m, which represents the surplus over and above unit linked and current liabilities, the actual amount will be determined prior to the Sanction Hearing, the UPE Agreement which is a management services agreement for the provision of services between Utmost PanEurope Designated Activity Company and Utmost and the Constructive Funds.*

[11] *The Directions Hearing is a short hearing at which the Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.*

[12] *The Sanction Hearing is a hearing at which the Court hears the application to sanction a proposed transfer of insurance business.*

MY CONSIDERATIONS WITH RESPECT TO THE PROPOSED SCHEME

2.16 The key points to consider in respect of each group of policyholders affected by the proposed Scheme are the likely change (if any) to the following as a result of the implementation of the proposed Scheme:

- The security of policyholder benefits. This is derived from the financial strength available to provide security for the benefits under the applicable risk appetite statement, capital management policy, reinsurance arrangements and any support available from the parent company by virtue of being part of a group;
- Any protection conferred by the IoM's Policyholder Compensation Scheme ("PCS") and United Kingdom's Financial Compensation Scheme ("FSCS"), where applicable;
- The profile of risks to which the policies are exposed;
- The oversight provided by the regulatory regime that will apply to the policies;
- The reasonable expectations of policyholders in respect of their benefits; and
- The services provided to policyholders, including the likely effects of the transfer on the standards of administration, service, management and governance as applied to each group of policies.

2.17 I consider the likely impact of the Scheme separately for the following groups of policyholders:

- The impact of the Scheme on policyholders of the Transferring Business; and
- The impact of the Scheme on the policyholders of Quilter ("Existing Policyholders").

UTMOST AND QUILTER BALANCE SHEETS

2.18 Summarised pre-Scheme and pro-forma post-Scheme balance sheets, prepared under the current regulatory solvency framework for insurers and reinsurers authorised in the Isle of Man carrying on long-term insurance business ("Insurance Solvency Regulations") are set out in Figure 2.2 and Figure 2.3 below. The pro-forma post-Scheme balance sheets reflect the financial position of Quilter assuming the Scheme had taken effect as at 31 December 2021. As the proposed Scheme transfers all the policyholders of Utmost (the Transferring Business), and their associated liabilities to Quilter, it is not expected that there will be any policyholder liabilities in Utmost post-Scheme and therefore we do not show a pro-forma post-Scheme balance sheet for Utmost.

FIGURE 2.2 SUMMARISED PRE-SCHEME INSURANCE SOLVENCY REGULATIONS BALANCE SHEETS AS AT 31 DECEMBER 2021

£M	UTMOST PRE-SCHEME	QUILTER PRE-SCHEME
Own Funds	276.5	666.1
SCR	180.2	345.8
Excess Own Funds	96.3	320.3
SCR ratio	153%	193%

Source: Information provided by Wraxall Capital Solutions Ltd, Quilter Appointed Actuary Report on the Scheme and Utmost Appointed Actuary Report on the Scheme.

FIGURE 2.3 SUMMARISED PRO-FORMA POST-SCHEME INSURANCE SOLVENCY REGULATIONS BALANCE SHEETS AS AT 31 DECEMBER 2021

£M	QUILTER POST-SCHEME
Own Funds	930.0
SCR	498.1
Excess Own Funds	431.9
SCR ratio	187%

Source: Information provided by Wraxall Capital Solutions Ltd, Quilter Appointed Actuary Report on the Scheme and Utmost Appointed Actuary Report on the Scheme.

2.19 Please note that the pro-forma post-Scheme balance sheets include the impact of the alignment of the assumptions and models used by Utmost and Quilter.

2.20 I have been provided with information which enables me to estimate the impact of the alignment of assumptions on the results shown in Figure 2.3 and I am satisfied that had the assumptions not been aligned Quilter would still have had sufficient Own Funds to meet its Capital Management Policy.

THE IMPACT OF THE SCHEME ON TRANSFERRING POLICYHOLDERS

2.21 The policies within the Transferring Business are collectively referred to as the “Transferring Policies”, and the policyholders holding these policies are collectively referred to as the “Transferring Policyholders”. In this section I consider the likely effects on the Transferring Policyholders of the implementation of the proposed Scheme.

The effect of the Scheme on the security of the Transferring Policyholders’ benefits

2.22 I have considered the effect of the proposed Scheme on the security of benefits under the Transferring Policies.

2.23 In summary, I have concluded that if the proposed Scheme were to be implemented:

- Both Utmost and Quilter have capital management policies that are aligned to the Utmost Group risk appetite and so the minimum capital ratio they must maintain immediately after the payment of a dividend is the same;
- The management responses required following a breach of the minimum capital buffer are materially the same for Utmost and Quilter;
- The governance arrangements in respect of any changes to the respective capital management policies are materially the same for Utmost and Quilter;
- Reliance on the financial strength of Quilter rather than Utmost will not lead to a material adverse effect on the security of benefits of the Transferring Policies;
- There would be no changes to the existing reinsurance arrangements used in respect of the Transferring Business, other than that the arrangements would either be transferred under the Scheme or novated to Quilter; and
- Both Utmost and Quilter are members of the Utmost Group, with UGPlc being the ultimate regulated insurance holding company of both. It is therefore unlikely that the proposed Scheme would change UGPlc’s willingness or ability to support the Transferring Business.

2.24 The Transferring Business sold under permissions held by Utmost in the United Kingdom (the “UK Transferring Business”) currently benefits from the protection conferred by the FSCS, the United Kingdom’s statutory ‘fund of last resort’, in respect of any civil liabilities relating to the sales, distribution and facilitation activities carried out in the United Kingdom (“UK”). If the Scheme were to be implemented, the protection conferred by the FSCS would be lost. However, I note that:

- The policyholders of the UK Transferring Business will continue to benefit from the protection conferred by the PCS, which is the Isle of Man’s statutory ‘fund of last resort’;
- I understand that the current protection conferred by the FSCS only relates to a limited set of circumstances, in that it is only in respect of civil liabilities relating to the sales, distribution and facilitation activities carried out in the UK, whereas the remit of the PCS is wider than this;
- I have been informed that Utmost and its associated service provider companies have not incurred any civil liability in respect of sales, distribution and facilitation activities carried out in the UK in the last 25 years; and
- At the Effective Date Quilter will be adequately capitalised and will be required to comply with the Insurance Solvency Regulations; therefore I consider the likelihood of default or insolvency of Quilter to be low.

2.25 The non-UK Transferring Business is not eligible for the FSCS. The proposed Scheme would not result in any change to the protection conferred by the PCS.

2.26 Overall, I am satisfied that if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of benefits under the Transferring Policies.

The effect of the Scheme on the profile of risks to which the Transferring Policyholders are exposed

2.27 Currently the Transferring Policyholders are exposed to the risk profile of Utmost, if the proposed Scheme were to be implemented the Transferring Policyholders would instead be exposed to the risk profile of Quilter.

2.28 The risk profiles of Utmost and Quilter are broadly equivalent, both are primarily exposed to life underwriting risk, driven by lapse risk, and market risk, driven by equity and currency risk. These risks are typical of insurance companies primarily writing unit-linked life assurance business.

2.29 Overall, I am satisfied that the Transferring Business will not be materially adversely affected by the change in profile of risks to which it is exposed as a result of the implementation of the proposed Scheme.

The effect on the Transferring Policyholders of the applicable regulatory and legal regime

2.30 Utmost holds certain permissions in the UK, which I understand means it is also subject to conduct of business rules issued by the conduct regulator in the UK, the Financial Conduct Authority ("FCA") in respect of business sold in the UK. The proposed Scheme transfers the Transferring Policies to Quilter, which does not hold any permissions in the UK and therefore is not subject to conduct of business rules issued by the FCA. As a result, there are some changes to:

- The authorities responsible for the conduct of business supervision;
- The independent complaints service to which the UK Transferring Policyholders have access; and
- The funds of last resort from which the UK Transferring Policyholders benefit.

Conduct of business regulation

2.31 Following the Scheme, conduct of business supervision will be solely provided by the conduct regulator in the IoM, the Financial Services Authority ("FSA"). This represents a change for all UK Transferring Business, as for this business conduct of business supervision is currently provided by both the FSA and FCA. However, both the FSA and FCA have each issued conduct principles which aim to ensure the fair treatment of customers.

Access to the services of an independent complaints service

2.32 Currently, Transferring Policyholders have access to the Financial Services Ombudsman Scheme ("FSOS") in the IoM. I understand that the policyholders of the UK Transferring Business also currently have access to the Financial Ombudsman Scheme ("FOS"), the independent complaints service in the UK, in respect of regulated activities undertaken by Utmost in the UK.

2.33 After the proposed Scheme, the policyholders of UK Transferring Business will lose access to the FOS in respect of acts and omissions which occur after the Effective Date. The access of the Transferring Business to the FSOS will be unchanged by the proposed Scheme.

2.34 I consider the services provided by the FOS and FSOS to be broadly similar, in that:

- They are both independent bodies which aim to resolve complaints from individuals against financial service providers;
- Where required, they set a level of compensation to remediate individuals and can make legally binding rulings; and
- The complaints procedures are similar.

2.35 Utmost has confirmed that in the last 25 years no complaints have been referred to the FOS in respect of the business of Utmost, and there are also no pending cases with the FOS. Therefore, the fact that post-Scheme policyholders of the UK Transferring Business will be required to raise complaints with the FSOS rather than the FOS, does not represent a material change to the current approach taken by Transferring Policyholders.

2.36 Overall, given the similarities in the services provided by the FOS and FSOS and the continued access to the FSOS, and despite the differences in maximum award, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the rights of Transferring Policyholders in relation to their access to the services of an independent complains service.

Access to a compensation scheme in the event of insurer default or insolvency

2.37 The Transferring Business sold under permissions held by Utmost in the United Kingdom (the "UK Transferring Business") currently benefits from the protection conferred by the FSCS, the United Kingdom's statutory 'fund of last resort', in respect of any civil liabilities relating to the sales, distribution and facilitation activities carried out in the United Kingdom ("UK"). If the Scheme were to be implemented, the protection conferred by the FSCS would be lost. However, I note that:

- The policyholders of the UK Transferring Business will continue to benefit from the protection conferred by the PCS, which is the Isle of Man's statutory 'fund of last resort';
- I understand from Utmost that the current protection conferred by the FSCS only relates to a limited set of circumstances, in that it is only in respect of civil liabilities relating to the sales, distribution and facilitation activities carried out in the UK, whereas the remit of the PCS is wider than this;
- I have been informed that Utmost and its associated service provider companies have not incurred any civil liability in respect of sales, distribution and facilitation activities carried out in the UK in the last 25 years; and
- At the Effective Date Quilter will be adequately capitalised and will be required to comply with the Insurance Solvency Regulations; therefore I consider the likelihood of default or insolvency of Quilter to be low.

2.38 The non-UK Transferring Business is not eligible for the FSCS. The proposed Scheme would not result in any change to the protection conferred by the PCS.

Conclusion

2.39 Overall, I am satisfied that the change in the applicable regulatory and legal regime would not have a material adverse effect on the Transferring Policies.

The effect of the Scheme on the reasonable expectations of the Transferring Policyholders

2.40 If the proposed Scheme were to be implemented there would be no changes to the terms and conditions of the Transferring Policies (aside from becoming policies of Quilter).

2.41 The implementation of the Scheme would not have a material adverse effect on the benefit expectations of the Transferring Policies because:

- The Transferring Policies will still have access to the same range of funds as they do currently, and there will be no change to the management of these funds or to the number, value or type of units held;
- Where the charges on the Transferring Business are contractual, these would be unchanged by the Scheme;
- As a result of the programme to integrate Quilter into the Utmost Group, Quilter's approach to the application of discretion is aligned to that of Utmost, therefore there will be no change to the approach to discretion as a result of the proposed Scheme; and
- Based on the information provided to me by Utmost Group's internal tax team, if the proposed Scheme were to be implemented, I am satisfied that there would not be any material adverse change to policyholders' tax liabilities.

The effect of the Scheme on management, governance, administration and servicing of the Transferring Policyholders

2.42 The Transferring Business is currently subject to the management and governance of Utmost and would, if the Scheme is implemented, be subject to the management and governance of Quilter. The organisational structure of Quilter was aligned to that of Utmost on 1 April 2022. Therefore, in the same way that Utmost does currently, the Quilter Board delegates certain tasks to a small number of committees.

2.43 The Transferring Business is currently administered by Utmost Services Limited ("USL"), under the terms set out in a Master Services Agreement ("MSA") between Utmost and USL. As a result of the proposed Scheme a new agreement is to be put in place between Quilter and Utmost Administration Limited ("UAL"), a different service company in the Utmost Group, which I understand is currently being drafted.

2.44 Although as a result of the Scheme the administration of the Transferring Business would be under the terms of a new MSA and the administration services will be provided by UAL rather than USL, I understand from Utmost that these changes do not result in any changes to the individuals performing the administration of the Transferring Business nor the platform on which it is administered. In addition, the Utmost Board will continue to be provided with information for it to assess the level of service being provided to the Transferring Business. Once the MSA is drafted, I will review this and provide an update in my Supplementary Report.

2.45 Overall, I am therefore satisfied that the implementation of the Scheme would not have a material adverse effect on the levels and standards of management, governance, administration and service that would apply to the Transferring Business.

THE IMPACT OF THE SCHEME ON THE EXISTING POLICYHOLDERS

2.46 In this section I consider the likely effects on the Existing Policyholders of the implementation of the proposed Scheme.

The effect of the Scheme on the security of the Existing Policyholders' benefits

2.47 I have considered the effect of the proposed Scheme on the security of benefits under the policies held by the Existing Policyholders (the "Existing Policies").

2.48 In summary, I have concluded that if the Scheme were to be implemented:

- There would be no change to Quilter's capital management policy;
- There would be no material adverse effect on the financial strength of Quilter;
- There would be no changes to the reinsurance arrangements used by Quilter; and
- There would be no change to the parental support from UGPlc to Quilter.

2.49 Therefore, I am satisfied that, if the proposed Scheme were to be implemented, there would be no material adverse effect on the security of the benefits under the Existing Policies.

The effect of the Scheme on the profile of risks to which the Existing Policyholders are exposed

2.50 If the proposed Scheme were to be implemented, the risk profile of Quilter would not be materially altered. The most material risks would continue to be life underwriting and market risk. Therefore, I am satisfied that the proposed Scheme does not have a material adverse effect on the profile of risk to which the Existing Policies are exposed.

The effect of the Scheme on the reasonable expectations of the Existing Policyholders in respect of their benefits and service standards

2.51 If the proposed Scheme were to be implemented there would be no change to:

- The terms and conditions of the Existing Policies;
- The governance and management of the Existing Policies; or
- The administration of the Existing Policies, therefore there is no reason why the quality of administration or the level of service provided to the Existing Policyholders would deteriorate as a result of the Scheme.

2.52 In addition to there being no changes to the terms and conditions of Existing Policies, there will be no changes to the Linked Funds of Quilter as a result of the proposed Scheme.

MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO THE SCHEME

Proposed waiver applications

Existing Policyholders

2.53 Quilter intends to seek a waiver from the regulatory requirement to send written notice to the Existing Policyholders. This is on the basis that although the volume of Transferring Business is material, the product types transferring are similar to those already sold by Quilter.

2.54 In addition, I have concluded that the implementation of the proposed Scheme would have no material adverse effect on the Existing Policyholders. I am therefore satisfied that the application for a waiver from the regulatory requirements to send a written notice to the Existing Policyholders is reasonable.

Written statement setting out the terms of the Scheme and containing the Summary Report

2.55 Utmost is seeking a waiver to the requirement that a statement is sent to each Transferring Policyholders which includes a summary of the terms of the Scheme and a summary of this Report. Instead, Utmost intends to send a short letter to the Transferring Policyholders (for whom it holds a valid name and address and are alive at the time of the mailing) informing them of the Scheme and referring them to a dedicated webpage.

2.56 I understand the waiver is sought on proportionate and practical grounds as it avoids bulk printing and mailing which I understand from Utmost would be a considerable cost, including an environmental cost. Based on this and given that policyholders will be directed to a dedicated webpage containing all the necessary information, I am satisfied that this application for a waiver is reasonable. In addition, the Website Referral Letter sets out that Transferring Policyholders may request paper copies of the Policyholder Circular, and details the ways in which such a request can be made.

Gone-away and deceased policyholders

2.57 Utmost are seeking a waiver to the requirements to write to Transferring Policyholders who are gone-away (i.e. for which Utmost does not hold a valid address) and deceased Transferring Policyholders for which no personal representative has been appointed.

2.58 Given that only 0.1% of Transferring Policyholders are gone-away, and on the basis that Utmost will attempt to identify a personal representative where possible, I am satisfied that it is reasonable to request a waiver to the requirements to write to Transferring Policyholders who are gone-away or deceased with no personal representative appointed.

Information on dedicated webpage

2.59 As detailed in paragraph 2.55, Utmost intends to send to the Transferring Policyholders, excluding those for which it is applying for a waiver, a letter informing them of the Scheme and referring them to a dedicated webpage (the "Website Referral Letter"). A copy of the Website Referral Letter and a "Policyholder Circular", together the "Policyholder Pack", will be accessible via the dedicated webpage. The Policyholder Circular will contain:

- A statement summarising the terms of the Scheme;
- A summary, produced by me, of this Report;
- A Questions & Answers section providing answers to the most common questions that a policyholder may have about the Scheme;
- A copy of the legal notice of the Scheme; and
- Details of how the policyholder can contact Utmost should they have any questions on the Scheme or should they wish to object to the Scheme.

2.60 I understand that should any customers request communications in a different format, for example in larger font, then Utmost would follow its standard procedure for such requests and provide a Policyholder Pack in the requested format.

2.61 Paper copies of the full Scheme document(s) and this Report will be available on request and without charge.

2.62 I have reviewed the draft Policyholder Pack and I am satisfied that the content highlights to the Transferring Policyholders the key elements of the Scheme of which they should be aware.

Communications with counterparties to inwards reinsurance

2.63 Utmost has two inwards reinsurance contracts in place with AXA China and AXA Singapore, under which the Modified Co-Insurance business written by AXA China and AXA Singapore is reinsured to Utmost. Quilter do not propose to send the Policyholder Pack to AXA China and AXA Singapore, but are instead in direct discussion with both AXA China and AXA Singapore in relation to the proposed Scheme.

2.64 For the avoidance of doubt, the Policyholder Pack will not be sent to the underlying policyholders of the Modified Co-Insurance Agreements, as these are direct policyholders of AXA China or AXA Singapore and not of Utmost.

Communications with counterparties to outwards reinsurance

2.65 Utmost has an outwards reinsurance contract in place with ALAP under which it reinsures the With-Profit Fund Linked business to ALAP. Quilter do not propose to send the Policyholder Pack to ALAP, but are instead in direct discussion with ALAP in relation to the proposed Scheme.

2.66 As policyholders of the With-Profit Fund Linked business are direct policyholders of Utmost they will be sent the Policyholder Pack.

Conclusion

2.67 I have reviewed the proposed communications strategy and draft Policyholder Pack. Overall, I am satisfied that the proposed approach to communication with policyholders, including the application of waivers, is fair and reasonable, and that it adequately describes the proposals to policyholders.

2.68 The costs of the Scheme will be met by Quilter. I am satisfied with this allocation of costs of the Scheme is reasonable.

OTHER CONSIDERATIONS IN RELATION TO THE SCHEME

The future operation of the Scheme

2.69 If the proposed Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), Utmost and Quilter are committed to implementing the Scheme as set out in the Scheme document (and reflected in this Report). In giving effect to those obligations, the Directors of Utmost and Quilter must act in accordance with their fiduciary responsibilities under Isle of Man company law.

2.70 After the proposed Scheme has been sanctioned, any non-minor or non-technical amendments to the Scheme will require the consent of the Court to amend the terms of the Scheme. If such consent is granted then Quilter may amend the terms in accordance with the consent granted by the Court.

2.71 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court.

The novation of contracts not governed by IoM law

2.72 As detailed in paragraph 2.11, I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. Therefore, as the Modified Co-Insurance agreement with AXA China, the two reinsurance agreements with ALAP covering the With-Profit Fund Linked business and the associated floating charge are not governed by IoM law they will be novated to Quilter rather than transferred under the Scheme.

2.73 It is expected that these novations will take effect on the same date as the Effective Date.

2.74 I am not aware of any reasons that would cause the novation of the reinsurance agreements with ALAP, the associated floating charge and the Modified Co-Insurance agreement with AXA China to be delayed, or to not occur, however I acknowledge that as they are not being transferred under the Scheme that these novations could follow a different timescale. I will therefore provide an update on the expected timing of these novations in my Supplementary Report.

2.75 Although I have no reason to believe that these novations would not occur as intended, as these contracts are to be transferred via a process other than the Scheme, I have considered the impact should they not be novated to Quilter:

- Modified Co-Insurance agreement with AXA China: if this were not to be novated, this contract would remain with Utmost and would be a Residual Liability.

- Two reinsurance agreements with ALAP: if these were not to be novated then these contracts would be Residual Assets, and would be treated as such under the terms of the Scheme. I understand that this would mean that any monies received would be held on trust by Utmost and passed to Quilter as soon as is reasonably practicable.

2.76 I am satisfied that these impacts do not result in a material change to any of my conclusions detailed elsewhere in this Report. I will provide an update on the progress of these novations in my Supplementary Report.

The impact of the Scheme upon reinsurers of the Transferring Business

2.77 If the proposed Scheme were to be implemented, the two reinsurance treaties that Utmost has in place with ALAP in respect of the With-Profit Fund Linked business would be transferred to Quilter. No other changes to the terms and conditions of these treaties are anticipated. Since these reinsurance arrangements will continue to cover the same policies after the transfer, I am satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurer.

The impact of relevant external events on the Scheme

The COVID-19 pandemic

2.78 In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organisation, and the outbreak has continued to spread globally during the intervening period. In response, governments around the world have enforced restrictions to varying degrees and at varying times since the declaration of the pandemic.

2.79 Currently, COVID-19 is not having a material impact on global markets, and there are relatively few governments enforcing restrictions. I will continue to monitor the evolving COVID-19 situation and I will provide an update in my Supplementary Report.

Conflict between Russia and Ukraine

2.80 I understand from Utmost that none of the Transferring Business is directly impacted by the sanctions imposed as a result of the Russian invasion of Ukraine and that some assets within the unit-linked funds are subject to sanctions. However, the Scheme would not require any of these assets to be sold, and therefore I understand that they can be transferred to Quilter under the Scheme. I do not believe that the Scheme alters the impact of the sanctions imposed on these assets.

Impact of inflation and expectations of inflation

2.81 I will consider further the impact of inflation in my Supplementary Report when the financial information as at 30 June 2022 is available for both Utmost and Quilter.

MY CONCLUSIONS

2.82 I confirm that I have considered the issues affecting the various categories of policyholders of Utmost and Quilter separately, including the existing policyholders of Quilter and those that transfer to Quilter under the Scheme. I do not consider an assessment of further subdivisions of policyholders (other than those considered in this Report) to be necessary.

2.83 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of the benefits under the Transferring Policies and the Existing Policies;

- The profile of risks to which the Transferring Policies and Existing Policies are exposed;

- The protection offered by the regulatory regime that would apply to the Transferring Policies; or

- The reasonable expectations of the Transferring Policyholders and the Existing Policyholders in respect of their benefits, including the level and standards of administration and service that would apply.

2.84 I am satisfied that the Scheme is equitable to all classes and generations of Utmost and Quilter policyholders.

3. THE INSURANCE MARKET AND REGULATORY ENVIRONMENT AND THE ROLE OF THE INDEPENDENT ACTUARY

INTRODUCTION

3.1 The IoM regulatory regime to which Utmost and Quilter are subject, and the applicable solvency requirements, are relevant to my considerations as Independent Actuary.

3.2 This section provides some background on the solvency and governance requirements of the regulatory regime in the IoM. The background is provided in the context of the Scheme and is not intended to be a complete description of the products or regulatory environment in the IoM. The final paragraphs describe the role of the Independent Actuary.

THE SOLVENCY REGIME REQUIREMENTS

Introduction

3.3 During 2021 the FSA ran a consultation to seek views on proposed updates to the regulatory solvency framework for insurers and reinsurers authorised in the IoM and carrying on long-term business and as a result *Insurance (Long-Term Business Valuation and Solvency) Regulations 2021* (the "Insurance Solvency Regulations") was issued and came into operation on 30 June 2022. This replaced the *Insurance (Long-Term Business Valuation and Solvency) Regulations 2018.*

3.4 The main relevant differences between the *Insurance (Long-Term Business Valuation and Solvency) Regulations 2018* and *Insurance (Long-Term Business Valuation and Solvency) Regulations 2021* are:

- Changes required due to the United Kingdom's withdrawal from the European Union, which meant that the United Kingdom and the Bank of England needed to be included within specific sections of the regulations;
- Certain foreign currencies (Bahraini Dinars, UAE Dirhams, Qatari Riyals and Argentine Pesos) were added to specific tables within the regulations following requests from insurers;
- The calculation of the mass lapse capital requirement was amended following advice published by the European Insurance and Occupational Pensions Authority ("EIOPA"), which is a European Union financial regulatory institution responsible for issuing the solvency regime in the European Union;
- The calculation of the expense risk capital requirement was amended following advice issued by EIOPA; and
- Additional clarification has been included within the section on risk mitigation techniques to assist insurers who wish to use such arrangements.

3.5 The current solvency regime in the IoM is summarised in Appendix E of this Report, and in this section I bring out some of the features of the Insurance Solvency Regulations that are particularly important to understand in the context of the proposed transfer.

The Solvency Capital Requirements in the Isle of Man

3.6 Under the Insurance Solvency Regulations, assets are, broadly speaking, reported at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

3.7 A company's insurance liabilities are called the "technical provisions" which consist of the sum of the best estimate liabilities (the "BEL") and the "risk margin".

3.8 The BEL is a market consistent value of liabilities calculated by projecting the expected future obligations of the insurer over the lifetime of the contracts using the most up-to-date financial information (at the date of the valuation) and the best estimate actuarial assumptions. The BEL is the present value of these projected cash-flows.

3.9 The risk margin is an amount in addition to the BEL designed to estimate the opportunity cost resulting from the insurer having to hold assets to meet the solvency capital requirements.

3.10 The discount rate used to calculate technical provisions is the risk-free rate provided by the FSA.

3.11 The excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital available in the company to cover capital requirements and are also referred to as "Basic Own Funds". In addition to Basic Own Funds, insurers are permitted to use Ancillary Own Funds to meet capital requirements, subject to regulatory approval. Ancillary Own Funds are committed but unpaid sources of capital, which can be drawn on demand by the insurer without any attaching conditionality.

3.12 The Solvency Capital Requirement ("SCR") is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5% and must not be less than the Minimum Capital Requirement ("MCR") (detailed in paragraph 3.14).

3.13 In calculating the SCR, firms are required to calculate it using the "Standard Formula", as prescribed by the FSA. Insurers must inform the FSA if the available capital is insufficient to meet the SCR, or if the insurer becomes aware of a substantial risk that this may occur within the next 3 months.

3.14 The Minimum Capital Requirement ("MCR"), which is usually lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk sensitive than the SCR calculation. The MCR is subject to an absolute minimum monetary amount of £3.0 million.

THE GOVERNANCE OF LONG-TERM INSURERS

3.15 The governance of long-term insurers in the IoM was set out in the *Corporate Governance Code of Practice for Commercial Insurers* however, following a consultation, the *Corporate Governance Code of Practice for Insurers 2021* has been released and came into operation on 30 June 2022. The governance of long-term insurers in the IoM is set out in more detail in Appendix F, but in summary:

- The Board of Directors of a proprietary long-term insurer is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements;
- All insurers carrying out long-term business are required to establish the following key functions:
    - Actuarial function: This function is required, inter alia, to co-ordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions;
    - Compliance function: This function is required, inter alia, to advise the firm on compliance with its legal and regulatory obligations;
    - Internal audit function: This function is required, inter alia, to evaluate the adequacy and effectiveness of the firm's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions; and
    - Risk management function: This function is required, inter alia, to facilitate the implementation of the firm's risk management system.
- Insurers must establish, implement and maintain (and operate within) an effective risk management system, that is adequate and appropriate to the nature, scale and complexity of the insurer, its activities and the risks to which it is or may be exposed. The risk management system must be integrated into the decision making processes of the entity; and
- On 1 March 2022 the FSA issued updated guidance in order to set out the criteria that will normally apply in considering the fitness and propriety of individuals who hold Controlled Functions, these Controlled Functions include:
    - Chief Executive;
    - Financial Controller;
    - Appointed Actuary;
    - Head of Compliance; and
    - Head of Internal Audit.

A FIRM'S RISK APPETITE

3.16 The Board of an insurer is responsible for the management of the company and for its exposure to risk. The Board will typically set out its appetite for risk in a form which references the probability that the Board is willing to accept of not being able to pay its liabilities as they fall due and/or meet regulatory capital requirements.

3.17 In order to ensure that day-to-day fluctuations in markets and experience do not lead to a breach of their risk appetite and regulatory capital requirements, firms usually aim to hold more capital than strictly required to meet the regulatory minimum. The details of the target level of capital buffer are typically set out in the firm's internal capital policy.

3.18 The internal capital policy of a firm is set by and owned by the Board and describes the capital that the Board has determined should be held in the company. Changes to the internal capital policy usually require Board approval. There is no explicit requirement for the FSA to be notified, however the *Corporate Governance Code of Practice for Insurers 2021* does require insurers to deal openly with the FSA.

3.19 The capital policy is typically stated in terms of the capital requirements set by the FSA. A typical capital policy specifies either a target minimum level of capital to be held in addition to the SCR, or a target maximum probability of the capital held falling below the SCR. By requiring additional capital to be held on top of the regulatory requirements, the capital policy increases the probability of remaining solvent over a particular timeframe and therefore increases the security of the benefits provided under the policies subject to the capital policy.

3.20 The level of capital required may also be driven by the desire of the Board to maintain a particular credit rating with external credit rating agencies.

CONDUCT PRINCIPLES

3.21 The *Insurance (Conduct of Business)(Long Term Business) Code* 2021 sets out the general principles for the fair treatment of customers. These are as follows:

- In paying due regard to its policyholders and treating them fairly, an insurer must:
  - establish and implement policies and procedures for the fair treatment of policyholders as an integral part of its business and culture; and
  - ensure that its policies and procedures for the fair treatment of policyholders are set out in writing and are provided to all relevant staff.
- The policies and procedures should include a consideration of how the insurer:
  - develops and markets its products in a way that pays due regard to the interests of policyholders;
  - ensures policyholders are provided with clear information before, during and after the point of sale;
  - only permits distribution methods that are appropriate to the regulated entity's products and its policyholders' needs;
  - deals with policyholder complaints and disputes in a fair and transparent manner;
  - manages the reasonable expectations of policyholders;
  - monitors the regulated entity's performance with respect to the fair treatment of policyholders;
  - ensures that its staff and management are aware of their obligations in relation to the fair treatment of policyholders including through regular training; and
  - ensures that any performance and reward strategies for a regulated entity's staff and management are aligned with the principles of the fair treatment of policyholders and do not result in unfair policyholder outcomes.
- The responsibility for the design, implementation and monitoring of adherence to the policies and procedures rests with the Board and senior management of the insurer; and

- An insurer must regularly review, and update where necessary, the policies and procedures to ensure that they remain valid and up-to-date.

INSOLVENCY REGULATION AND LEGISLATION

3.22 Under IoM law, the winding-up of an insurance undertaking is governed by the Schedule 3 of the Insurance Act 2008. Under these regulations, assets to the value of the technical provisions are available only for meeting the insurer's obligations in relation to its policyholders (including policyholders of reinsurance contracts).

POLICYHOLDER PROTECTION SCHEME AND ADDITIONAL REGULATION

Policyholder Compensation Scheme

3.23 As well as through the FSA regulations, the IoM operates a compensation scheme to protect policyholders of authorised insurers writing long-term business (the "Policyholder Compensation Scheme" or "PCS"). This is a "fund of last resort", which compensates customers in the event the insurer is insolvent and is unable, or likely to be unable, to pay its claims.

3.24 The PCS is governed by the Life Assurance (Compensation of Policyholders) Regulations 1991 and provides compensation up to 90% of the value of the protected contract, determined at the date the insurer failed. The compensation is paid out of payments from other insurers, collected after the relevant insurer has become insolvent.

3.25 In the UK there is also a "fund of last resort", the Financial Services Compensation Scheme ("FSCS") which provides compensation (up to 100% of the policyholder's entitlement for the types of business involved in the transfer) to eligible individual holders of long-term insurance policies in the event of insolvency of an insurer (the failure of the insurer to pay benefits), subject to the insurer meeting the eligibility rules.

Financial Services Ombudsman Scheme

3.26 The Financial Services Ombudsman Scheme ("FSOS") is an independent public body in the IoM that aims to resolve disputes between individuals and financial services companies and may make compensation awards in favour of policyholders. The FSOS may direct IoM financial services companies to pay compensation up to a maximum limit of £150,000 for defined financial loss and small sums for any material distress and inconvenience suffered.

3.27 The role and powers of the FSOS are set out in Schedule 4 of the Financial Services Act 2008.

3.28 Policyholders of reinsurance contracts are not covered by FSOS.

3.29 In the UK there is also an independent body which aims to resolve disputes between individuals and financial service companies, the Financial Ombudsman Service ("FOS"). The FOS may direct UK financial services companies to pay compensation up to a maximum limit of £355,000 for complaints referred to the FOS on or after 1 April 2020 about acts or omissions by UK firms on or after 1 April 2019.

THE ROLE OF THE INDEPENDENT ACTUARY

Background

3.30 Policyholders involved in IoM insurance business transfers have four main layers of protection provided by the legal and regulatory system in the IoM. These layers of protection are provided by:

- The IoM regulator, the FSA as they:
  - Approve the appointment of the Independent Actuary; and
  - Are entitled to appear in Court.
- The Independent Actuary. He/she produces the (publicly available) Scheme Report assessing the Scheme and an updated Supplementary Report for the Sanction Hearing;
- The obligations placed on the companies to give notice of the proposed transfer to policyholders and other interested parties. Any policyholder that considers they may be adversely affected by the Scheme may make a representation to the Court; and

- The Court. There are two Court hearings: the Directions Hearing and the Final (or Sanction) Hearing. The Court reviews the Scheme at the Final Hearing where the Court also takes into account the views of the regulators, the Independent Actuary, evidence on behalf of the parties to the transfer, and any objections raised by policyholders and other interested parties.

3.31 My role as Independent Actuary, as the second layer of protection for policyholders described above, is to assess the Scheme and to report on this via the Scheme Report (this Report and any supplemental reports) to the Court. I set out below my significant areas of consideration in discharging this role.

The considerations of the Independent Actuary

The regulatory requirements in respect of my role

3.32 There are no specific local actuarial standards in the IoM in respect of the role of the Independent Actuary in insurance business transfers. However, in preparing the Scheme Report I have been mindful of relevant requirements in the UK which are set out in:

- The PRA Statement of Policy (paragraphs 2.27 to 2.40 of the PRA Statement);
- Paragraphs 31 to 41 of section 2 of SUP 18 of the FCA Handbook; and
- The FCA Guidance described in paragraph 1.47.

3.33 In considering the Scheme, the concept of 'Treating Customers Fairly' ("TCF") should be applied. From the policyholders' perspective, the successful implementation of the Scheme must be on the basis that they are treated fairly during the process and will be treated fairly in the future.

3.34 As described in section 1 of this Report, the Scheme concerns two life insurance companies: Utmost and Quilter. I need to consider the terms of the Scheme generally and how any different groups of policyholders of Utmost and Quilter are likely to be affected by the implementation of the Scheme. In particular I need to consider:

- The effect of the implementation of the Scheme on the security of the policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;
- The effect of the implementation of the Scheme on the reasonable expectations of policyholders in respect of their benefits; and
- The effect of the implementation of the Scheme on the standards of service, administration, management and governance applicable to the policies.

3.35 My considerations in respect of each of these areas are set out in more detail below.

3.36 In this Report I have:

- Not restricted my assessment of the Scheme to adverse effects;
- Only commented on the effects of the implementation of the Scheme on policyholders who enter into contracts with Utmost and Quilter prior to the date of the implementation of the Scheme, which is expected to be the Effective Date; and
- Not considered possible alternative schemes and I have therefore only considered the terms of the Scheme presented to me.

The security of policy claims payments

3.37 As part of my role as Independent Actuary for the Scheme, I need to consider the security of policyholder benefits, that is, the effect of the implementation of the Scheme on the likelihood that policyholders will receive their benefits when these are due.

3.38 The Insurance Solvency Regulations require insurance companies to hold a minimum amount of capital in addition to the assets backing a realistic estimate of their insurance liabilities. Insurance companies must also demonstrate that they can fulfil their regulatory requirements and meet policyholder claims as they become due in adverse scenarios.

3.39 Therefore, the amount by which the assets available to support the long-term insurance business exceed the long-term liabilities provides security for the benefits and security is also provided by other capital resources in the insurance company. As well as the amount of available capital, the quality of that capital is also an important consideration in the context of security of benefits as are the constraints around the circumstances where shareholders can effectively withdraw capital arising from profits through the payment of dividends.

3.40 The life insurance companies involved in the Scheme have a different mix of policies and policyholders and the type of policy held by a policyholder will be a key determinant of the risks to which the policyholder is exposed. Other than this, the key determinants of the policyholders' risk exposure will be the characteristics of the company in which the policy is held such as the size of the company, the mix of different types of business, the amount and quality of capital resources available, and the internal capital policy and risk appetite of the company.

Policyholders' reasonable expectations in respect of the levels of service received

3.41 As Independent Actuary I also need to consider the proposals in the context of the FSA's regulatory objectives and in particular the effect of the implementation of the Scheme on policyholders' reasonable expectations in respect of the quality of the levels of administration, servicing, management and governance in respect of their policies.

3.42 This includes considering the effect of the implementation of the Scheme on any areas where discretion may be involved on behalf of the relevant company with regard to the charges applied to a policy and the claims payments granted to the policyholder.

The framework for the Independent Actuary's consideration of the Scheme

3.43 In forming my conclusions on the Scheme, I have used a framework which is a consequence of the Court's consideration of prior schemes, the High Court of Justice in England and Wales (the "UK Court") consideration of prior schemes, including the transfer of a portfolio of annuities from Prudential Assurance Company Limited ("Prudential") to Rothesay Life Limited ("Rothesay"), and the judgement issued by the Court of Appeal in respect of the Prudential to Rothesay appeal.

3.44 As Independent Actuary, my assessment of the impact of the implementation of the Scheme on the various affected policies is ultimately a matter of expert judgment regarding the likelihood and impact of future possible events. Given the inherent uncertainty of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies and policyholders.

3.45 A scheme may have both positive and negative effects on a group of policies, and policyholders, and the existence of detrimental effects should not necessarily imply that the Court should reject a scheme as the positive effects may outweigh the negative effects or the negative effects may be very small.

3.46 In order to acknowledge this inherent uncertainty, the conclusions of the Independent Actuary in relation to transfers of long-term insurance business are usually framed using a materiality threshold. If the potential impact under consideration is very unlikely to happen and does not have a significant impact, or is likely to happen but has a very small impact, then it is not considered to have a material effect on the policies and policyholders.

3.47 The assessment of materiality will also take into account the nature of the potential impact so that, for example, the materiality threshold for a change that could have a direct financial impact on policyholders' benefits is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

3.48 This is the framework in which I undertake my consideration of the Scheme.

RELIANCES OF THE INDEPENDENT ACTUARY IN THIS REPORT

The financial information in this Report

3.49 Appendix A shows the current balance sheets (i.e. before the implementation of the Scheme) for Utmost and Quilter and Appendix B pro-forma post-Scheme balance sheets (including capital requirements) as at 31 December 2021 for Quilter under the Insurance Solvency Regulations.

3.50 The financial information contained within Appendix A and Appendix B is used in the analysis of the effects of the implementation of the Scheme as set out in sections 6 to 9, as this is the most recent date at which financial information that has been through Utmost and Quilter's internal and external review processes will be available for the Report.

The checks that have been carried out on the financial information

3.51 I have not carried out an independent review of the financial information used in this Report but:

- The reported Utmost balance sheet as at 31 December 2021 (shown in Appendix A) has been subject to Utmost's internal governance and Board approval. In addition, the Insurance Solvency Regulations balance sheet of Utmost at 31 December 2021 has been subject to external audit review, as required by the IoM FSA;
- The reported Quilter balance sheet as at 31 December 2021 (shown in Appendix A) has been subject to Quilter's internal governance and Board approval. In addition, the Insurance Solvency Regulations balance sheet of Quilter at 31 December 2021 has been subject to external audit review of those areas which are within external audit scope;
- I have carried out a high-level reconciliation of the pro-forma Quilter balance sheets as at 31 December 2021, shown in Appendix B, back to the Quilter reported balance sheet as at 31 December 2021, shown in Appendix A;
- The pro-forma Quilter balance sheet contained in Appendix B has been calculated by the company's internal actuaries, and have been reviewed and approved by the Quilter Appointed Actuary; and
- Some of the financial projections I have received from Utmost and Quilter were produced as part of the 2020 Own Risk and Solvency Assessment ("ORSA") and have undergone the normal checking, review and governance required as part of this process.

Conclusion in respect of the financial information

3.52 Given the level of external review and internal checking and governance to which the financial information will be subject, as well as my own high-level review and reasonableness checks, I am satisfied that it is appropriate to rely upon this financial information for the purpose of this Report.

3.53 My Supplementary Report will contain financial information as at 30 June 2022 and I will provide an update on the effect of the implementation of the Scheme based upon these figures.

My reliance on legal advice

3.54 My Report is prepared for the Court as part of the process of submission of the Scheme to the Court. I am not an expert in legal matters and hold no qualifications in IoM law (insurance regulations or otherwise) and therefore incorporate the input of experts in IoM insurance law in relation to a number of areas. In particular, I incorporate the input given by legal experts in order to ensure that my understanding of the Scheme, and my description of its relevant features in my Report, is materially accurate.

4. BACKGROUND REGARDING THE ENTITIES CONCERNED IN THE SCHEME

4.1 In this section of the Report, I set out some background information and key metrics relating to the entities that are involved in the Scheme.

UTMOST GROUP STRUCTURE

4.2 The Utmost Group has been operating since 2013. The Utmost Group operated as two separate groups, Utmost International Group Holdings and Utmost UK Group Holdings, until October 2020 when the Utmost Group underwent a reorganisation which resulted in the two separate groups being brought together under a single UK holding company, UGPlc. Until 2019 the Utmost Group was called the Life Company Consolidation Group (“LCCG”).

4.3 Utmost Group is a UK based financial services group operating in the UK and international life assurance sectors. It provides insurance and saving products, whilst also specialising in the acquisition and consolidation of life assurance businesses.

4.4 As shown in Figure 4.1, UGPlc is authorised in the UK. The current regulatory solvency framework for the UK insurance and reinsurance industry is Solvency II, as amended by the PRA, and therefore UGPlc reports its solvency position under the Solvency II regime as adopted into UK law.

Utmost

4.5 Utmost was established in 1991 and originally named Sun Life Operations Limited, and subsequently changed its name to Sun Life International (IOM) Ltd in 1992. There was a further name change in 2001 to AXA Isle of Man Ltd, following the acquisition of Sun Life by AXA.

4.6 In 2016, AXA Isle of Man Ltd was acquired by LCCG and renamed to Utmost Limited. This was the first acquisition by Utmost Group of an open book of business.

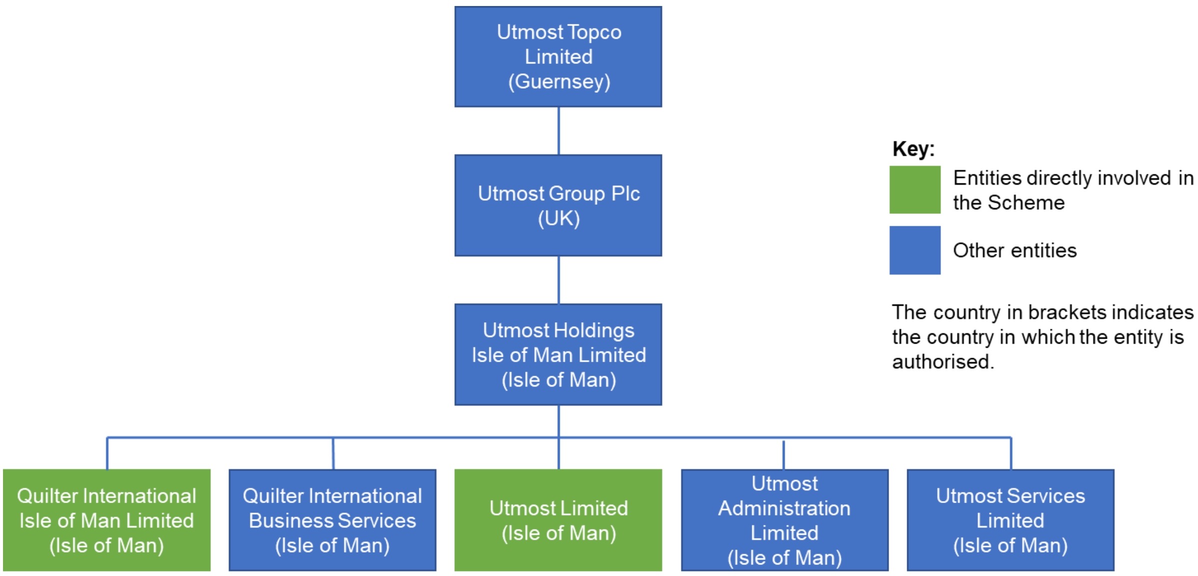
Quilter

4.7 Quilter was founded in the IoM in 1984, and was originally incorporated as NEL Britannia International Insurance Limited. Following a change of ownership in 1989 it changed its name to Royal Skandia Life Assurance Limited, and then to Old Mutual International Isle of Man Limited in 2014. It became Quilter International Isle of Man Limited in 2020.

4.8 In 2021 the Utmost Group acquired Quilter International Holdings Limited and its subsidiary, Quilter.

4.9 The group structure chart as at 31 December 2021, which will also apply at the Effective Date of the Scheme, is set out below in Figure 4.1.

FIGURE 4.1 SIMPLIFIED UTMOST GROUP STRUCTURE AS AT 31 DECEMBER 2021



UTMOST

Background

4.10 Utmost is incorporated in the IoM and is authorised and regulated by the FSA. Utmost also holds permissions in the UK, and in respect of these it is regulated by the FCA. In addition, it holds a licence to conduct long-term insurance business in Jersey. Utmost currently has a credit rating of A from Fitch Ratings Inc, issued on 26 July 2021.

4.11 The principal activity of Utmost is the provision long-term assurance, primarily targeted at the UK market. However, there are a small number of policyholders who are resident in Guernsey and a small number of policies which are carried on by Utmost in or from within Jersey.

4.12 In addition, Utmost has also entered into two separate arrangements with AXA China and AXA Singapore, which operate in the Asia region. These arrangements take the form of modified co-insurance arrangements, under which AXA China and AXA Singapore in Hong Kong and Singapore, respectively, sell the EVO and EPB products (defined in paragraph 4.14 below) which are reinsured to Utmost, these arrangements are set out in further detail in paragraphs 4.20 to 4.22 below.

Current business

4.13 Utmost is authorised by the FSA to carry on long-term insurance business classes 1 (linked long-term) and 2 (long-term). Under the rules of the FSA, this means that Utmost can write both direct insurance and reinsurance within these classes.

4.14 All of the business written by Utmost is unit-linked business, and broadly there are three different types of unit-linked products sold:

- Evolution Bonds (“EVO”): this is a flexible investment bond, with a wide range of investment options. It is designed for individuals, corporate and trustee applicants looking for growth, income, tax planning or wealth transfer. EVO is offered as either a life assurance bond or a capital redemption bond with a term of 99 years. The capital redemption bond has a guaranteed maturity value;

- Estate Planning Bonds (“EPB”): this is a single premium investment bond, with a wide range of investment options, written in a discounted gift trust. It provides an income during the policyholder’s lifetime; and

- Regular Premium Savings (“RPS”): these are regular premium products that were written on a life assured basis. These policies are no longer written.

4.15 The Utmost business as at 31 December 2021 is shown in Figures 4.2 and 4.3 below, split between the different types of unit-linked products, and also split by the different categories of Transferring Business detailed in paragraph 1.10:

FIGURE 4.2 UTMOST BUSINESS POLICY COUNT AT 31 DECEMBER 2021

Policy Count	With-Profits Fund Linked	Modified Co-Insurance	Other Unit-Linked	Total
EVO	1,012	467	14,681	**16,160**
EPB	68	0	12,392	**12,460**
RPS	0	0	238	**238**
Total	**1,080**	**467**	**27,311**	**28,858**

Source: Information provided on request from WCS

FIGURE 4.3 UTMOST BUSINESS FUND VALUE AT 31 DECEMBER 2021

Fund Value (£m)	With-Profits Fund Linked	Modified Co-Insurance	Other Unit-Linked	Total
EVO	235.1	408.9	8,465.8	9,109.8
EPB	38.8	0.0	2,412.6	2,451.5
RPS	0.0	0.0	83.5	83.5
Total	273.9	408.9	10,961.9	11,644.8

Source: Information provided on request from WCS

4.16 The With-Profit Fund Linked business is unit-linked investment bonds which invest in the FLC With-Profits Sub-Fund ("FLC WPSF") and FLAS With-Profits Sub-Fund ("FLAS WPSF") of ALAP via two reinsurance agreements (see paragraph 4.23). This business is closed to new business but permits top-ups.

4.17 The Modified Co-Insurance business is whole-of-life bonds sold by AXA China and AXA Singapore. This business is open to new business.

4.18 The Other Unit-Linked business contains EVO, EPB and RPS business that is not With-Profit Fund Linked nor Modified Co-Insurance business. There are relatively few RPS policies remaining in force, and whilst regular premiums and top-ups are still permitted the RPS business is no longer sold.

4.19 The business to be transferred under the Scheme is all of the long-term insurance business of Utmost, therefore the Transferring Business is the entirety of that shown in Figure 4.2 and Figure 4.3.

Reinsurance agreements

Inwards reinsurance

4.20 The Modified Co-Insurance business is written by AXA China and AXA Singapore and reinsured to Utmost. The two agreements Utmost have in place with AXA China and AXA Singapore (the "Modified Co-Insurance Agreements") permit AXA China and AXA Singapore, respectively, to retain ownership of the assets related to the Modified Co-Insurance business. Therefore, Utmost's liability to AXA China and AXA Singapore is offset against the value of the assets retained.

4.21 Under the Modified Co-Insurance Agreements the death benefit in excess of the underlying unit-value only is reinsured under the agreement with AXA Singapore, it is not reinsured under the agreement with AXA China. Therefore, as Utmost's liability to AXA China and AXA Singapore is offset against the assumed value of the assets retained by AXA China and AXA Singapore, the only liability retained by Utmost is the death benefit in excess of the unit-value on policies covered by the agreement with AXA Singapore.

4.22 Utmost is responsible for the administration of policies ceded to it under both of the Modified Co-Insurance Agreements.

Outwards reinsurance

4.23 Utmost has two reinsurance treaties in place with ALAP, under these treaties the unit liabilities of the With-Profits Fund Linked business is reinsured to two with-profits funds in ALAP, the FLC WPSF and FLAS WPSF. These reinsurance treaties effectively allow the holders of With-Profit Fund Linked business policies to invest in the FLC WPSF and FLAS WPSF.

4.24 There is a floating charge associated with the two reinsurance treaties of ALAP over the assets of the FLC WPSF and FLAS WPSF. The provisions of the floating charge mean that, in the unlikely event that ALAP became insolvent, Utmost currently ranks pari-pasu with the other direct policyholders of ALAP. There is no associated fixed charge.

Linked funds

4.25 There are a wide-range of funds available to Utmost policyholders, and these are invested in a diverse range of equities and bonds.

Key financial information

4.26 Utmost calculates its SCR in line with the Insurance Solvency Regulations issued by the FSA.

4.27 The results of the Insurance Solvency Regulations as at 31 December 2021 are set out in Appendix A. As at 31 December 2021, Utmost had an SCR of £180 million and excess capital over its SCR of £96 million, resulting in a solvency cover ratio of 153%.

4.28 Over the course of 2022 it is intended that the assumptions and models used by Utmost and Quilter will be aligned as part of the integration of Quilter into the Utmost Group, and not directly as a result of the proposed Scheme. Therefore, over 2022 the following changes are anticipated for Utmost:

- Expense and charge inflation assumption – to align with Quilter, Utmost will update its assumption such that it is Retail Price Index ("RPI") + 0.5%, rather than just RPI, as historically inflation in the IoM has exceeded that in the UK and RPI is a UK metric;

- Correction to expense and charge inflation – as at 31 December 2021 the RPI was erroneously entered as spot rates rather than forward rates, this has been corrected during 2022; and

- Fund based expense – to align with the approach used by Quilter, Utmost is to assume that c.5% of its expenses are related to funds under management rather than policy count.

4.29 During the second half of 2021 Utmost experienced significant expense inflation that was not fully reflected in the assumptions used as at 31 December 2021. At the time, it was not clear whether the increased expense inflation was just transient, however given that inflation has remained high a higher starting level of expenses taking into account the inflation over the second half of 2021 is required. This has led to the starting position for projections being updated to reflect the impact of high inflation, this is not linked to the Scheme nor the alignment of assumptions.

4.30 If the changes detailed in paragraphs 4.28 and 4.29 had been implemented as at 31 December 2021, Utmost would have had an SCR of £170 million and excess capital over its SCR of £88 million, resulting in a solvency cover ratio of 152%. These results are set out in Appendix A, labelled "Adjusted".

4.31 Under the Insurance Solvency Regulations, capital is classified into three tiers depending on its quality, with the highest quality capital in tier 1. Utmost's Basic Own Funds are made up entirely of unrestricted tier 1 capital.

Capital management policy

4.32 The "Capital Management Policy" sets out the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR.

4.33 The UHIOM Risk Committee, which has delegated authority from the Utmost Board, has approved a Risk Appetite Statement (the "UHIOM RAS") which is aligned to the Utmost Group risk appetite. The UHIOM RAS has been adopted by the Utmost Board, and therefore the Utmost Capital Management Policy is aligned to the Utmost Group risk appetite. The Utmost Capital Management Policy requires Utmost to hold capital sufficient to cover 125% of its SCR and maintain a ratio of at least 150% immediately after the payment of a dividend.

4.34 In the event that the capital held by Utmost breached the Utmost Capital Management Policy, then the Management Committee of Utmost will be notified immediately and appropriate actions taken to bring the capital back to within risk appetite. The Board of Directors would also be informed.

4.35 The Utmost Capital Management Policy is the responsibility of the Utmost Board and it must be reviewed at least annually.

Risk profile

4.36 The risk profile under the Insurance Solvency Regulations illustrates the key risks to which Utmost is exposed.

4.37 The breakdown of Utmost's pre-diversification SCR as at 31 December 2021 is shown in Figure 4.4 below, and the total SCR as at 31 December 2021 is shown in Figure 4.5 below.

FIGURE 4.4 UTMOST'S PRE-DIVERSIFICATION SCR BREAKDOWN AS AT 31 DECEMBER 2021

	%
Life Underwriting Risk	51%
Market Risk	42%
Counterparty Default Risk	3%
Operational Risk	4%

Source: Utmost Appointed Actuary's Report on the Scheme

FIGURE 4.5 UTMOST'S SCR AS AT 31 DECEMBER 2021

	£m
Solvency Capital Requirement	**180.2**

Source: Utmost Appointed Actuary's Report on the Scheme

4.38 The largest components of Utmost's SCR on an undiversified basis are the life underwriting risk module and market risk.

4.39 Utmost's exposure to life underwriting risk is primarily driven by lapse risk, which is the risk that the actual lapse experience differs to that expected. The majority of Utmost's Own Funds is derived from expected future profits made on its in-force business. When policies lapse this future income stream is lost. In addition, a significant proportion of Utmost's business is not subject to surrender penalties which leaves Utmost exposed to policyholders lapsing sooner than anticipated as it leads to a reduction in expected future profits.

4.40 The market risk to which Utmost is exposed is driven by:

- Equity risk (the risk that there is a fall in the value of equities), interest rate risk (the risk from adverse movements in interest rates) and spread risk (the sensitivity of assets and liabilities to the level or the volatility of credit spreads). Income on unit-linked business is calculated as a percentage of asset shares, and therefore Utmost is primarily exposed to these risks due to the Linked Funds' investments in equities and bonds; and

- Currency risk, this is the risk of the adverse movements in the price of one currency in relation to another. As Utmost is based in the IoM, it reports in Pounds Sterling ("GBP"), however premiums and benefits are denominated in a range of currencies. In addition, significant revenues are denominated in currencies other than GBP.

4.41 I will consider the impact of the current high levels of inflation, combined with a fall in market indices, in my Supplementary Report when financial information as at 30 June 2022 is available.

Actuarial Funding

4.42 Utmost does not apply Actuarial Funding[13] to any product types.

Governance arrangements

4.43 The Utmost Board is ultimately responsible for the management and governance of Utmost. However responsibility for certain matters are delegated to committees. The same individuals sit on the Utmost Board, the Quilter Board and the UHIOM Board, similarly, the majority of the committees with delegated responsibility are shared by Utmost, Quilter and UHIOM.

4.44 The committees with delegated responsibility are:

- Audit Committee, which is primarily responsible for reviewing and examining financial control systems and for ensuring that Utmost is complying with its Articles of Association and the relevant legal and regulatory framework;

[13] *There are different approaches to Actuarial Funding, in general it means that a company holds fewer units than the face value of units purchased by the policyholder.*

- Risk and Compliance Committee, which ensures that Utmost complies with the Utmost Group's Risk and Compliance Management frameworks;
- Remuneration Committee, which makes recommendations as to the Chief Executive and senior management's pay; and
- Investment Committee, which makes recommendations in relation to the overall investment strategy of Utmost, it also monitors and reports on the investment activities of Utmost.

4.45 Utmost is also required by the FSA to have an Appointed Actuary. The Appointed Actuary is responsible for the following:

- Providing the Utmost Board, on an annual basis, with a review of the underwriting and reinsurance arrangements of Utmost;
- Carrying out regular solvency valuations for the purposes of regular submissions to the FSA;
- Monitoring compliance with Utmost's Capital Management Policy; and
- Investigating financial performance and making recommendations to the Actuarial Governance Forum. The Actuarial Governance Forum is responsible for making recommendations to the Utmost Board regarding judgements over key financial assumptions for solvency and financial reporting purposes.

Risk management strategy

4.46 Utmost manages its exposure to risk in a number of ways. The key features of Utmost's risk management framework include:

- The Utmost Board (through delegated authority to the Risk Committee) has adopted the UHIOM RAS. This sets out Utmost's overall appetite to risk, from both a qualitative and quantitative perspective. The policy covers the key risks to which Utmost is exposed, including: capital, liquidity, earnings and investments;
- The UHIOM RAS also sets out hard and soft limits for specific risks. If these are breached there is a set escalation and remediation process to return to risk appetite;
- Utmost employs the three lines of defence model to manage its risks. The third line is the Internal Audit function, the second line is the Risk, Legal & Compliance and elements of the Actuarial function, and the first line is the remainder of staff and functions who have a responsibility to manage risk that arises through regular business activities;
- Stress and Scenario testing carried out as part of the ORSA process; and
- Monitoring compliance with the risk management framework, producing risk related management information for the Utmost Board and reviews carried out by the Risk function or Internal Audit function.

Administration and servicing arrangements

4.47 The majority of the Utmost policies, including those which are ceded to Utmost under the Modified Co-Insurance Agreements, are administered by Utmost Services Ltd ("USL"), a service company based on the IoM, which provides life insurance and investment administration services primarily to Utmost but also to Utmost PanEurope dac under a Master Services Agreement ("MSA") between Utmost and USL.

4.48 On a regular basis USL provides information to the Utmost Board detailing the level of service that is being provided to the Transferring Business.

QUILTER

Background

4.49 Quilter is incorporated in the IoM and is authorised and regulated by the FSA. Quilter has branches in Hong Kong and Singapore which are regulated by the Hong Kong Insurance Authority ("HKIA") and the Monetary Authority of Singapore ("MAS"), respectively. Quilter currently has a credit rating of A from Fitch Ratings Inc, issued on 30 November 2021.

4.50 The principal activity of Quilter is the provision of unit-linked life assurance business, primarily targeted at the UK and other expatriates, internationally minded investors and local investors. Quilter's primary markets by geographical region are UK, Hong Kong, Singapore, United Arab Emirates, Europe and selected markets in Latin America.

4.51 Quilter's business largely comprises unit-linked portfolio bonds and unit-linked products:

- Unit-linked portfolio bonds are single premium bonds, these make up the majority of the in-force book and new business written by Quilter. These are primarily offered on a cross-border basis in the jurisdictions listed in paragraph 4.50; and
- The unit-linked business utilises Quilter's internal fund offering and is now mostly closed to new business. Quilter's internal fund offering is currently going through a process of rationalisation.

Current business

4.52 Quilter is authorised by the FSA to carry on long-term insurance business classes 1 (linked long-term), 2 (long-term) and Class 10 (reinsurance accepted).

4.53 The business written by Quilter has predominantly been life assurance unit-linked contracts, with the following characteristics:

- They are mainly single premium contracts which allow single premium top-ups. A significant number of the regular premium products also permit single premium top-ups;
- Most contracts are written either on a whole of life basis or capital redemption basis, with no fixed end date; and
- The investment options vary depending on the contract type, some offer a limited range of investments, others offer a wide range of investments in internal funds and there are some contracts which allow investment in externally manged funds.

Some of the products written by Quilter also have rider benefits.

4.54 Quilter also provides reinsurance cover to Quilter International Ireland dac ("QII") and Old Mutual International (Guernsey) Ltd ("OMI"), in respect of unit-linked business written by these entities.

4.55 As at 31 December 2021, Quilter had one non-linked policy, a term assurance product providing a guaranteed benefit if the life assured dies within the term. The mortality risk on this product is reinsured. Quilter no longer writes non-linked business.

4.56 The Quilter business as at 31 December 2021 is shown in the Figure 4.6 below:

FIGURE 4.6 QUILTER BUSINESS

	Policy Count	Fund Value (£m)
Direct Business	79,381	20,301.9
Inwards Reinsurance	917	180.8
Total	80,298	20,428.7

Source: Information provided on request from WCS

Reinsurance agreements

Inwards reinsurance

4.57 Quilter has three inwards reinsurance arrangements in place with:

- OMI, under which Quilter has reinsured the Offshore Collective Investment Bond product since 2010;
- QII, under which Quilter reinsures 100% of a subset of QII's business. This has been in place since 2017; and
- QII, covering a subset of portfolio bonds. This has been in place since 2020.

4.58 Under the inwards reinsurance agreement with QII that covers a subset of portfolio bonds, Quilter finances new business commissions paid by QII. The amount borrowed by QII is to be repaid with interest via future charges on the new business. At 31 December 2021 the outstanding balance was £18.9m.

Outwards reinsurance

4.59 Quilter has six outwards reinsurance treaties in place, which cover a range of risks:

- Mortality – Quilter reinsures the risk associated with death benefits on certain products under three reinsurance treaties it has in place with SCOR Global Life Reinsurance Ireland Ltd, RGA Reinsurance Company and the Singapore branch of Munich Reinsurance Company;
- Mortality – as detailed in paragraph 4.55, Quilter has a single non-linked policy, a term assurance policy. The mortality benefits on this product are reinsured to an entity in the Phoenix Group;
- Morbidity – Quilter writes a product which provides a long-term care benefit, expressed as a regular amount, depending on satisfying the requirements for ongoing care defined in the contract. The long-term care risk associated with this product is reinsured to Munich Re; and
- Morbidity – some products contain a waiver of premium benefit, whereby the premiums on the policy are waived if the insured is able to evidence that they cannot carry out their own or any other occupation. The waiver of premium benefit is reinsured to Hannover Reinsurance (UK) Ltd.

Linked funds

4.60 There are a wide-range of funds available to Quilter policyholders, and these are invested in a diverse range of equities and bonds.

Key financial information

4.61 Quilter calculates its SCR in line with the Insurance Solvency Regulations issued by the FSA.

4.62 The results of the Insurance Solvency Regulations as at 31 December 2021 are set out in Appendix A. As at 31 December 2021, Quilter had an SCR of £346 million and excess capital over its SCR of £320 million, resulting in a solvency cover ratio of 193%.

4.63 Over the course of 2022 it is intended that the assumptions and models used by Utmost and Quilter will be aligned as part of the integration of Quilter into the Utmost Group, and not directly as a result of the proposed Scheme. Therefore, over 2022 the following changes are anticipated for Quilter:

- Modelling interest on the transaction account – Quilter retains the first 3% of risk-free returns earned on policyholder cash accounts, this is currently calculated using a manual workaround, however this will be calculated within the model following the change in modelling platform;
- Expenses in the mass lapse stress – the approaches currently used by Quilter and Utmost both allow for a period of expense overrun; however Quilter will fully adopt the Utmost approach to allowing for this expense overrun in the stress;
- Expense stress – Quilter is to allow for a stress on the inflation element of charges under the expense stress. No such allowance is currently made;
- Projection period – extending the projection term to 60 years from 40 years; and
- Yield curves – use the currency specific yield curves for all currencies, rather than defaulting to GBP.

4.64 During the second half of 2021 Quilter experienced significant expense inflation that was not fully reflected in the assumptions used as at 31 December 2021. At the time, it was not clear whether the increased expense inflation was just transient, however given that inflation has remained high a higher starting level of expenses taking into account the inflation over the second half of 2021 is required. This has led to the starting position for projections being updated to reflect the impact of high inflation, this is not linked to the Scheme nor the alignment of assumptions.

4.65 If the changes detailed in paragraphs 4.63 and 4.64 had been implemented as at 31 December 2021, Quilter would have had an SCR of £333 million and excess capital over its SCR of £342 million, resulting in a solvency cover ratio of 203%. These results are set out in Appendix A, labelled “Adjusted”.

4.66 In addition, Quilter is currently undertaking work to change its modelling platform to align with that used by Utmost. I have been provided with evidence to show that Quilter does not expect this change to have a material impact. I will provide an update on this in my Supplementary Report.

4.67 Under the Insurance Solvency Regulations, capital is classified into three tiers depending on its quality, with the highest quality capital in tier 1. Quilter's Basic Own Funds are made up entirely of unrestricted tier 1 capital.

Capital management policy

4.68 The Capital Management Policy sets out the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR.

4.69 The UHIOM RAS, which is aligned to the Utmost Group risk appetite, has been adopted by the Quilter Risk Committee, which has delegated authority from the Quilter Board. Therefore, the Quilter Capital Management Policy is aligned to the Utmost Group risk appetite. The Quilter Capital Management Policy requires Quilter to hold capital sufficient to cover 135% of its SCR and maintain a ratio of at least 150% immediately after the payment of a dividend.

4.70 In the event that the capital held by Quilter breached the Quilter Capital Management Policy, then the Management Committee of Quilter will be notified immediately and appropriate actions taken to bring the capital back to within risk appetite. The Board of Directors would also be informed.

4.71 The Quilter Capital Management Policy is the responsibility of the Quilter Board and it must be reviewed at least annually.

Risk profile

4.72 The risk profile under the Insurance Solvency Regulations illustrates the key risks to which Quilter is exposed.

4.73 The breakdown of Quilter's pre-diversification SCR as at 31 December 2021 is shown in Figure 4.7 below, and the total SCR as at 31 December 2021 is shown in Figure 4.8 below.

FIGURE 4.7 QUILTER'S PRE-DIVERSIFICATION SCR BREAKDOWN AS AT 31 DECEMBER 2021

	%
Life Underwriting Risk	65%
Market Risk	27%
Counterparty Default Risk	1%
Operational Risk	7%

Source: Quilter Appointed Actuary's Report on the Scheme

FIGURE 4.8 QUILTER'S SCR AS AT 31 DECEMBER 2021

	£m
Solvency Capital Requirement	345.8

Source: Quilter Appointed Actuary's Report on the Scheme

4.74 The largest components of Quilter's SCR on an undiversified basis are the life underwriting risk and market risk.

4.75 Quilter's exposure to life underwriting risk is primarily driven by lapse risk, which is the risk that the actual lapse experience differs to that expected. The majority of Quilter's Own Funds is derived from expected future profits made on its in-force business. When policies lapse this future income stream is lost. In addition, a significant proportion of Utmost's business is not subject to surrender penalties which leaves Quilter exposed to policyholders lapsing sooner than anticipated. Another large driver of the life underwriting risk is the expense risk, that is the risk that actual expenses are higher than expected as it leads to a reduction in expected future profits.

4.76 The market risk to which Utmost is exposed is driven by:

- Equity risk (the risk that there is a fall in the value of equities), interest rate risk (the risk from adverse movements in interest rates) and spread risk (the sensitivity of assets and liabilities to the level or the volatility of credit spreads). Income on unit-linked business is calculated as a percentage of unit-linked fund values, and therefore Quilter is primarily exposed to these risks due to the unit-linked funds' investments in equities and bonds; and

- Currency risk, this is the risk of the adverse movements in the price of one currency in relation to another. As Quilter is based in the IoM, it reports in UK Pounds Sterling ("GBP"). However premiums and benefits are denominated in a range of currencies. In addition, significant revenues are denominated in currencies other than GBP.

4.77 I will consider the impact of the current high levels of inflation, combined with a fall in market indices, in my Supplementary Report when financial information as at 30 June 2022 is available.

Actuarial Funding

4.78 Quilter applies Actuarial Funding to a small number of product types, its approach to Actuarial Funding is to hold fewer units than the full face value of the units purchased by the policyholder, with the amount being held being broadly equal to the surrender value of the policy. As such, Quilter notionally allocates 100% of premiums to purchase units whilst actually allocating some percentage less than 100%, for a period of time, and using the remainder of the premium to pay initial commission.

Governance arrangements

4.79 The Quilter Board is ultimately responsible for the management and governance of Quilter. The same individuals sit on the Quilter Board, the Utmost Board and the UHIOM Board, and the governance arrangements of the Quilter Board is currently being aligned to that used by Utmost. Therefore, similar to Utmost, it is expected that the Quilter Board will delegate tasks to committees, the majority of the committees with delegated responsibility will be shared by Quilter, Utmost and UHIOM.

4.80 The committees with delegated responsibility are:

- Audit Committee, which is primarily responsible for reviewing and examining financial control systems and for ensuring that Quilter is complying with its Articles of Association and the relevant legal and regulatory framework;

- Risk and Compliance Committee, which ensures that Quilter complies with the Utmost Group's Risk and Compliance Management frameworks;

- Remuneration Committee, which makes recommendations as to the Chief Executive and senior management's pay; and

- Investment Committee, which makes recommendations in relation to the overall investment strategy of Quilter, it also monitors and reports on the investment activities of Quilter.

4.81 Quilter is also required by the FSA to have an Appointed Actuary. The Quilter Appointed Actuary is responsible for the following:

- Provide the Quilter Board, on an annual basis, with a review of the underwriting and reinsurance arrangements of Utmost;

- Carry out regular solvency valuations for the purposes of regular submissions to the FSA;

- Monitor compliance with Quilter's Capital Management Policy; and

- Investigate financial performance and in the future, following alignment to the Utmost Group governance structure, will make recommendations to the Actuarial Governance Forum. The Actuarial Governance Forum is responsible for making recommendations to the Quilter Board regarding judgements over key financial assumptions for solvency and financial reporting purposes.

4.82 Quilter has adopted the same structure and responsibilities for management committees and processes as Utmost.

Risk management strategy

4.83 Quilter manages its exposure to risk in a number of ways. The key features of Quilter's risk management framework include:

- The Quilter Board (through delegated authority to the Risk Committee) has adopted the UHIOM RAS. This sets out Quilter's overall appetite to risk, from both a qualitative and quantitative perspective. The policy covers the key risks to which Quilter is exposed, including: capital, liquidity, earnings and investments;
- The UHIOM RAS also sets out hard and soft limits for specific risks. If these are breached there is a set escalation and remediation process to return to risk appetite;
- Quilter employs the three lines of defence model to manage its risks;
- Stress and Scenario testing carried out as part of the ORSA process; and
- Monitoring compliance with the risk management framework, producing risk related management information for the Quilter Board and reviews carried out by the Risk function or Internal Audit function.

Administration and servicing arrangements

4.84 All of the policies of Quilter are administered by Quilter International Business Services Limited ("QIBS"), a service company in the Utmost Group based on the IoM. The terms under which QIBS administers the policies are set out in a MSA between Quilter and QIBS. QIBS has subsequent chain outsource arrangement with Quilter Business Services Limited ("QBSL") and it is QBSL which provides the administration platform on which the Quilter policies are administered under a Transitional Services Agreement, as QBSL is not part of the Utmost Group.

4.85 The Utmost Group is currently undertaking a programme to integrate Quilter and reduce the number of service companies within the group. As a result of this programme, and not as a result of the proposed Scheme, the policies of Quilter are to be administered under the terms of a MSA between Quilter and Utmost Administration Limited ("UAL"), a different service company within the Utmost Group. I understand from Quilter that this change would not lead to any changes to the staff responsible for performing the administration, nor the administration platform which is used to administer the business. In addition, the Quilter Board will continue to be provided with information so that it is able to assess the service level that is being provided to its policyholders.

5. THE PROPOSED SCHEME

MOTIVATION FOR THE SCHEME

5.1 As mentioned in paragraph 4.3, Utmost Group specialises in the acquisition and consolidation of life assurance businesses. In 2021, Utmost Group acquired the international business segment of the Quilter group, Quilter International Holdings Limited, which included its subsidiary, Quilter.

5.2 The proposal to transfer the business of Utmost to Quilter forms part of Utmost Group's continuing consolidation strategy, and the Utmost Group anticipates that the Scheme will have the following benefits:

- Consolidation is a core competency for the Utmost Group. They acquire life assurance businesses and then consolidate to simplify the Utmost Group structure;
- Operational efficiencies as fewer companies means business lines and operational risks are streamlined, leading to a reduction in the overhead costs required to manage and maintain the business;
- Capital efficiencies from the diversification benefits of combining Utmost and Quilter and capital fungibility e.g. it allows capital to be utilised against losses without the need for complex intra-group capital transactions; and
- Simplified liquidity management as the company will only need to manage one pool of assets to meet the liquidity needs of the business.

5.3 In addition, the Utmost Group anticipates that the proposed Scheme will create a more efficient and robust business, giving greater certainty to the policyholders of the Transferring Business over its ability to meet expectations.

SUMMARY OF THE SCHEME

5.4 If the proposed Scheme were to be implemented, all of the assets of Utmost, with the exception of the Residual Assets and Excluded Assets, and all the liabilities associated with the Transferring Business, with the exception of the Residual Liabilities and Excluded Liabilities, would be transferred to Quilter on the Effective Date.

5.5 As detailed in paragraph 1.12, I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. The two reinsurance agreements with ALAP and the Modified Co-Insurance agreement with AXA China are not governed by IoM law and will therefore be novated, alongside the Scheme, from Utmost to Quilter. The novation of these contracts is expected to take effect on the same date as the Effective Date.

5.6 The Residual Assets and Residual Liabilities are the assets and liabilities, respectively, associated with Transferring Business that cannot be transferred to Quilter on the Effective Date. It is not anticipated that there will be any Residual Liabilities. Under the Scheme, from the Effective Date Utmost shall act as trustee for Quilter in respect of all Residual Assets until these can be transferred to Utmost.

5.7 The Excluded Liabilities are the liabilities associated with the:

- Constructive Funds, which are all the funds held by Utmost as constructive trustee, deriving from three long-term business policies that were unenforceable for illegality and were cashed; and
- liabilities associated with the UPE Agreement, which is a management services agreement for the provision of services between Utmost PanEurope Designated Activity Company.

5.8 The Excluded Assets are made up of three parts:

- Cash of an amount, which is expected to be around £50m, which represents the surplus over and above unit linked and current liabilities, the actual amount will be determined prior to the Sanction Hearing;
- the UPE Agreement; and
- the assets in the Constructive Funds.

5.9 The Transferring Business contains Guernsey and Jersey Policies. The transfer of these policies are conditional on the sanction of the Guernsey Scheme and Jersey Scheme, respectively.

5.10 The Scheme is expected to be presented to the Court for a Directions Hearing on 7 September 2022 and for a Sanction Hearing on 9 November 2022, with a planned Effective Date of 30 November 2022. The Guernsey Scheme and Jersey Scheme also have a planned Effective Date of 30 November 2022. The Scheme permits the Effective Date to be deferred by up to three months. The effective dates of the Guernsey Scheme and Jersey Scheme are linked to the Effective Date of the Scheme and would therefore also be deferred if the Effective Date of the Scheme was deferred.

5.11 If approved by the Court, the Scheme will become operative on the Effective Date, at which point the Transferring Business would legally transfer from Utmost to Quilter.

REINSURANCE

Inwards reinsurance

5.12 The Modified Co-Insurance Agreements would be transferred to Quilter under the proposed Scheme, except as discussed in paragraph 5.5.

Outwards reinsurance

5.13 Utmost has two outwards reinsurance agreements with ALAP in respect of the With-Profits Fund Linked business. As these reinsurance agreements are not governed by IoM law, they will be novated from Utmost to Quilter.

THE LINKED FUNDS

5.14 All of the business of Utmost is unit-linked business and therefore Utmost maintains linked funds for the purposes of calculating benefits payable under unit-linked policies (i.e. the Linked Funds). Each of the policies of the Transferring Business invests in one or more of the Linked Funds into which relevant policyholders' premiums are invested, with assets acquired by the Linked Fund.

5.15 The Linked Funds of Utmost will all be transferred to Quilter under the proposed Scheme. Subject to the approval of the Quilter Board, having regard to the reasonable expectations of policyholders, nothing in the proposed Scheme would prevent Quilter from performing the following actions, as recommended by the Actuary of Quilter:

- Establishing new Linked Funds;
- Closing Linked Funds;
- Amalgamating any Linked Funds, or parts of Linked Funds;
- Changing the name or designation of Linked Funds;
- Dividing Linked Funds into two or more Linked Funds;
- Changing the approach to pricing;
- Changing the policy charges (subject to them being in accordance with the terms and conditions of the Transferring Business); and
- Any combination of the above.

5.16 Utmost also has Linked Funds which are placed with external managers and custodians. Following the proposed Scheme, the relationship with these external managers and custodians, and the related responsibilities, will transfer to Quilter.

CHARGES

5.17 Utmost currently has the right to vary charges on the Transferring Business in accordance with the terms and conditions of these policies in response to normal commercial circumstances, this right would be transferred to Quilter under the proposed Scheme. However, the proposed Scheme does not allow Quilter to increase the charges on the Transferring Business purely as a result of the Scheme itself.

MODIFICATIONS TO THE SCHEME

5.18 After the proposed Scheme has been sanctioned, any non-minor or non-technical amendments to the Scheme will require the consent of the Court to amend the terms of the Scheme. If such consent is granted then Quilter may amend the terms in accordance with the consent granted by the Court.

5.19 Quilter may amend the terms of the Scheme without the consent of the Court in relation to minor and/or technical amendments, provided that the FSA has been notified.

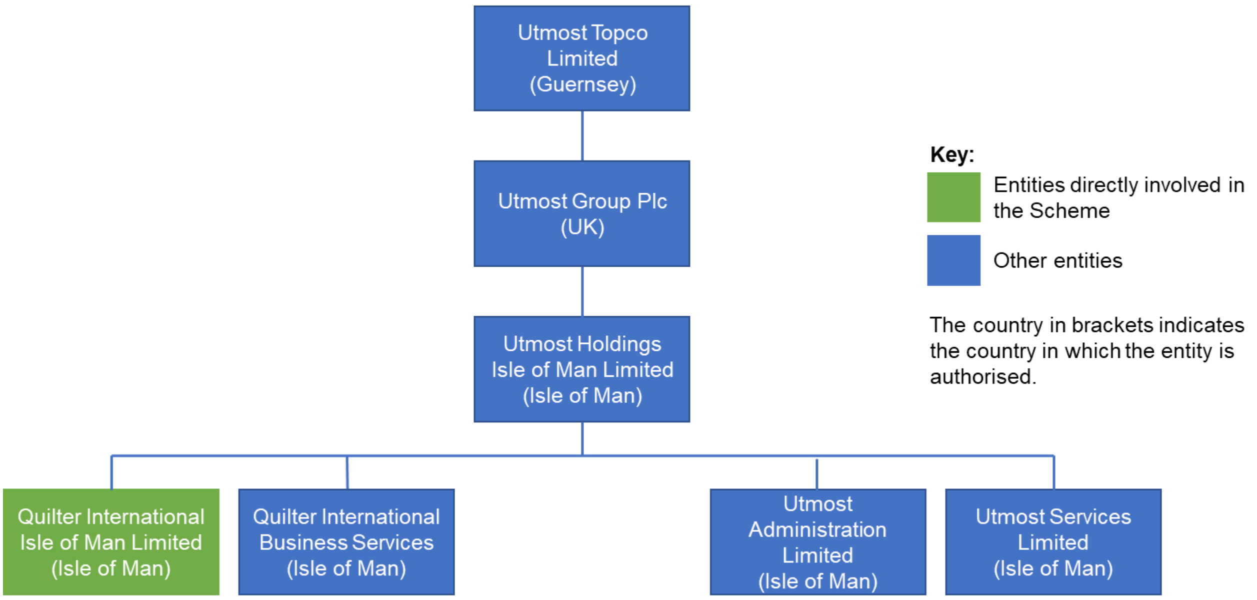
COSTS OF THE SCHEME

5.20 The total costs of implementing the proposed Scheme will be borne by Quilter. None of the costs associated with the Scheme will be passed to any policyholders.

STRUCTURE AFTER THE SCHEME

5.21 The group structure chart after the proposed Scheme, is set out below in Figure 5.1.

FIGURE 5.1 SIMPLIFIED UTMOST GROUP STRUCTURE AFTER THE PROPOSED SCHEME



6. THE IMPACT OF THE SCHEME ON THE TRANSFERRING POLICYHOLDERS

INTRODUCTION

6.1 If the proposed Scheme were to be approved by the Court, the Transferring Business would be transferred from Utmost to Quilter. The policies within the Transferring Business are collectively referred to as the "Transferring Policies", and the policyholders holding these policies are collectively referred to as the "Transferring Policyholders".

6.2 In this section of the Report, I consider the likely effects on the Transferring Policyholders of the implementation of the proposed Scheme. The key points to consider in respect of the Transferring Policyholders are the changes in the following due to the transfer:

- **The security of benefits under the Transferring Policies:** this is derived from the financial strength available to provide security for the benefits under the Transferring Policies under the applicable Capital Management Policy and includes the strength provided by the reinsurance agreements and by the support from the Utmost Group.

  This is covered in paragraphs 6.3 to 6.44.

- **The profile of risks to which the Transferring Policyholders are exposed:** if the proposed Scheme were to be implemented, the Transferring Policies would become directly exposed to the risk profile of Quilter rather than Utmost.

  This is covered in paragraphs 6.45 to 6.49.

- **The oversight provided by the regulatory regime that will apply to the Transferring Policies:** if the proposed Scheme were to be implemented, the Transferring Policies would remain subject to the laws and regulations of the IoM, but the Transferring Business sold under permissions held by Utmost in the UK (the "UK Transferring Business") would no longer be subject to conduct of business regulations in the UK.

  This is covered in paragraphs 6.50 to 6.65.

- **The reasonable expectations of the Transferring Policyholders in respect of their benefits and standards of service:** this includes the likely effects of the transfer on the standards of administration, service, management and governance applied to the Transferring Policies by Quilter compared to Utmost.

  This is covered in paragraphs 6.66 to 6.88.

THE EFFECT OF THE SCHEME ON THE SECURITY OF BENEFITS UNDER THE TRANSFERRING POLICIES

Introduction

6.3 Currently, the Transferring Policyholders derive their security of benefits from being part of Utmost and the associated financial strength under the Utmost Capital Management Policy, the strength of Utmost's reinsurance agreements and support provided to Utmost from its ultimate parent, UGPlc. In addition, in the extreme scenario of Utmost becoming unable to pay policyholder benefits, some of the Transferring Policyholders are currently protected by the PCS and, to a limited extent (as described in paragraph 6.41), the FSCS (described in Section 3 of this Report).

6.4 The implementation of the proposed Scheme would mean that Utmost would cease to have defined contractual obligations to the Transferring Policyholders and that these obligations would be transferred to Quilter. Therefore, after the implementation of the proposed Scheme, the Transferring Policies would derive their security of benefits from:

- Being part of Quilter and the associated strength under the Quilter Capital Management Policy;
- The strength of Quilter's reinsurance agreements (including the reinsurance agreements covering the Transferring Business transferred under the Scheme or novated to Quilter); and
- The support provided to Quilter from its ultimate parent (UGPlc).

6.5 In considering the effect of the proposed Scheme on the security of benefits, I therefore need to consider the effects on the security of the benefits under the Transferring Policies of:

- The change of applicable Capital Management Policy from the Utmost Capital Management Policy to the Quilter Capital Management Policy, including change controls and governance around these policies;
- The change of insurer to Quilter after the Scheme as compared to Utmost currently. This will include consideration of the changes to the:
  - The financial strength provided by Quilter compared to Utmost;
  - Applicable reinsurance agreements; and
  - The support available from the parent company including any group guarantees.
- The change in the protection conferred by the FSCS.

6.6 These are all covered consecutively below.

The effect on the security of benefits of a change in the applicable Capital Management Policy

6.7 The risk management strategy and Capital Management Policies for Utmost and Quilter are covered in detail in section 4.

Capital Management Policies

6.8 The Capital Management Policy is a key area to consider when assessing the security of policyholders' benefits. The Capital Management Policy sets out the capital that the firm has committed to hold in respect of its business and is typically expressed relative to the regulatory capital requirement. As the Capital Management Policy stipulates that capital is held in addition to the regulatory capital requirements, it increases the probability of the firm remaining solvent over the period covered by the policy and therefore provides increased security for policyholders of the business covered by the Capital Management Policy.

6.9 Assets held in excess of the levels set out in the Capital Management Policy are, subject to governance procedures and approvals, able to be distributed out of a subsidiary through dividend distributions to its parent. Therefore, when assessing the security of policyholders' benefits by considering the company's financial strength, it is appropriate to only place reliance on the assets held in line with the Capital Management Policy.

6.10 When considering the strength of the risk appetite statement, qualitative factors should be considered, as well as the capital requirements prescribed via the Capital Management Policy. These factors include the management actions that the company would take should there be a breach of the Capital Management Policy, and the procedures and governance around making changes to the policy.

Capital requirements under the Capital Management Policies

6.11 The Utmost Capital Management Policy, which forms part of the UHIOM RAS which has been adopted by the Utmost Risk Committee, which the Utmost Board has granted delegated authority, requires Utmost to hold capital sufficient to cover 125% of its SCR and maintain a ratio of at least 150% immediately after the payment of a dividend.

6.12 The Quilter Capital Management Policy requires Quilter to hold capital sufficient to cover 135% of its SCR and maintain a ratio of at least 150% immediately after the payment of a dividend.

6.13 As a result of the proposed Scheme, the Transferring Policies will transfer to Quilter, which under its Capital Management Policy, is required to take action to improve its capital position at an earlier intervention point than Utmost under its respective Capital Management Policy. I am satisfied that the amount of capital required to be held by the Quilter Capital Management Policy is at least as strong as that required by the Utmost Capital Management Policy.

Response to capital falling below minimum required by the Capital Management Policy

6.14 The Boards of both Utmost and Quilter have both adopted the UHIOM RAS. The UHIOM RAS sets out the approach that should be taken should the amount of capital fall below the minimum levels specified in the respective Capital Management Policy. The UHIOM RAS requires that if the solvency cover ratio falls below that required under the respective Capital Management Policy then appropriate actions should be taken to restore it to a level above the minimum. Therefore, as both Utmost and Quilter have adopted the UHIOM RAS, their respective approaches to capital falling below the minimum required by the respective Capital Management Policy are consistent.

6.15 The minimum capital required by the respective Capital Management Policy is greater than the capital required to be held to ensure continued solvency over a one-year trading timeframe with a likelihood of 99.5% (i.e. the SCR). Therefore, the Quilter Capital Management Policy requires management to take steps to maintain capital in line with its Capital Management Policy and such actions are required while there is still a significant margin before Quilter would be unable to pay its policyholders.

6.16 Overall, I am satisfied that the management responses required following a breach of the minimum capital amounts required under the respective Capital Management Policies are materially similar and would therefore not have a material adverse effect on the security of benefits of the Transferring Policies.

Governance of the Capital Management Policies

6.17 The boards of Utmost and Quilter are responsible for setting their respective Capital Management Policies and approving any (non-minor) changes to it, as well as agreeing actions that should be taken if the Utmost solvency capital ratio or Quilter capital ratio sit above the normal operating range, or below the target minimum level.

6.18 Any proposed changes to the Capital Management Policies of either Utmost or Quilter would require a range of factors to be considered, including regulatory expectations, sensitivity of capital to various stresses and scenarios, risk appetite with respect to solvency and the impact on policyholders. Any such paper would require the involvement of both the Chief Risk Officer and the Appointed Actuary, and the Risk Committee would be responsible for reviewing and recommending the paper to the Board, for Board approval.

6.19 The governance arrangements in respect of any changes to the respective Capital Management Policies of Utmost and Quilter are therefore broadly equivalent.

Risk management

6.20 The Boards of both Utmost and Quilter have adopted the UHIOM RAS which sets out the overall appetite to risk from both a qualitative and quantitative perspective. It sets out the hard and soft limits for specific risks, as well as the escalation and remediation process to return to risk appetite. In addition, both Utmost and Quilter employ the three lines of defence model to manage their risks. Therefore I am satisfied that there are no major differences in the approaches to risk management adopted by Utmost and Quilter that would impact the security of benefits of the Transferring Policies.

Conclusion

6.21 Overall I am satisfied that there should be no material impact to the security of benefits for Transferring Policyholders due to them being subject to the Quilter Capital Management Policy and risk appetite statement compared to the Utmost Capital Management Policy and risk appetite statement. In particular:

- Utmost and Quilter have Capital Management Policies that are broadly equivalent;
- The capital required to be held under both the Utmost and Quilter Capital Management Policies results in the amount of capital required to be held by both Utmost and Quilter to be in excess of a 1 in 200 year confidence level;
- Utmost and Quilter have essentially the same governance processes in place in relation to any distributions of surplus and any changes to the Capital Management Policies; and
- The Utmost and Quilter risk management frameworks are aligned to the UHIOM RAS, and are therefore materially similar.

The effect on the security of Transferring Policy benefits due to being part of Quilter after implementation of the Scheme compared to Utmost currently

Introduction

6.22 If the Scheme were to be implemented, then the Transferring Policies would be transferred from Utmost to Quilter. The Transferring Policies would derive the security for their benefits from:

- The financial strength of Quilter as provided by the assets backing the technical provisions and SCR as required by the Insurance Solvency Regulations and the excess assets up to the level of the requirements of the Quilter Capital Management Policy;
- The existing reinsurance agreements of Utmost that would be transferred to Quilter under the Scheme; and
- The potential support from UGPlc as the ultimate parent of Quilter.

The financial strength of Quilter

6.23 If the Scheme were to be implemented the financial strength of Quilter would be provided by the assets backing the technical provisions and SCR and the excess assets (in excess of total technical provisions and SCR) in Quilter, up to the level required by the Quilter Capital Management Policy.

6.24 Figure 6.1, below, sets out the Utmost solvency cover ratio pre-Scheme and the Quilter solvency cover ratio immediately after the proposed Scheme, as at 31 December 2021. The post-Scheme results in the table below include the effect of the alignment of assumptions detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64.

FIGURE 6.1 REGULATORY SOLVENCY RATIOS AS AT 31 DECEMBER 2021

£M	UTMOST PRE-ALIGNMENT PRE-SCHEME	QUILTER POST-ALIGNMENT POST-SCHEME
SCR	276.5	930.0
Own Funds	180.2	498.1
Excess	96.3	431.9
Solvency cover ratio	153%	187%

Source: Appendices A and B

6.25 The table above, Figure 6.1, shows that as at 31 December 2021:

- The capital resources of Utmost covered the SCR with Own Funds of £180.2 million. This corresponds to a solvency cover ratio of 153%, which is in excess of that required by the Insurance Solvency Regulations and in line with that required by the Utmost Capital Management Policy.
- If the Scheme had been implemented on this date, the pro-forma information shows that Quilter's capital resources would have covered its SCR with Own Funds of £498.1 million. This corresponds to a solvency cover ratio of 187%, which is in excess of that required by the Insurance Solvency Regulations and that required by the Quilter Capital Management Policy.

6.26 I have been provided with information which enables me to estimate the impact of the alignment of assumptions on the results shown in Figure 6.1. Based on my estimates, if the assumptions had not been aligned, the solvency cover ratio would have been reduced by c.6% to approximately 179%. Therefore, I am satisfied that had the assumptions not been aligned Quilter would still have had sufficient Own Funds to meet its Capital Management Policy.

6.27 The solvency cover ratios are indicators of, or proxies for, financial strength and when considering the solvency coverage one should only take into account the capital resources that the firm is required to hold up to the level specified by its Capital Management Policy because capital resources in excess of this may be transferred out of the company. Figure 6.1 indicates that, if the Scheme had been implemented on 31 December 2021, Quilter would have been sufficiently well capitalised to withstand a wide range of adverse stress events.

6.28 I have been provided with base and stressed projections for Quilter, which forecast the expected Own Funds over the five-year business planning horizon if the proposed Scheme were to be implemented. A range of adverse stress events have been considered by Quilter. These projections show that Quilter is not expected to breach the minimum capital amount required under the Quilter Capital Management Policy during the projection period, and is expected to generate Own Funds in excess of the level required by the Capital Management Policy (such excess could be distributed as dividends subject to company law and regulatory requirements).

6.29 In summary, I am satisfied that reliance on the financial strength of Quilter if the Scheme were to be implemented would not lead to a material adverse effect on the security of benefits under the Transferring Policies.

The reinsurance arrangements of Quilter after the implementation of the Scheme

6.30 If the Scheme were to be implemented, the reinsurance agreements of Quilter would be as follows:

- The existing inwards reinsurance agreements that Quilter has in place with OMI and QII;
- The existing outwards reinsurance agreements that Quilter has in place with SCOR Global Life Reinsurance Ireland Ltd, RGA Reinsurance Company, the Singapore branch of Munich Reinsurance Company, an entity within the Phoenix group, Munich Re and Hannover Reinsurance (UK) Ltd;
- The Modified Co-Insurance Agreements that would be transferred to Quilter under the Scheme; and
- The outwards reinsurance agreements in place with ALAP in respect of the With-Profits Fund Linked business that is to be novated to Quilter in association with the Scheme.

6.31 As detailed in paragraph 4.24, there is a floating charge associated with the reinsurance agreement with ALAP. It is anticipated that the floating charge will be novated to Quilter alongside the Scheme, and Utmost and ALAP are actively discussing this.

6.32 The existing inwards and outwards reinsurance agreements that Quilter has in place will be unchanged by the Scheme. In addition, the Scheme will not result in any changes to the Modified Co-Insurance Agreements or the reinsurance agreements with ALAP, other than the fact that they will be transferred under the Scheme or novated to Quilter, and I am satisfied that the transfer of these agreements does not materially adversely affect the security of benefits for the Transferring Business. I will confirm in my Supplementary Report that the floating charge is to be transferred to Quilter.

Actuarial Funding

6.33 As mentioned in paragraph 4.78, Quilter applies Actuarial Funding to a small number of product types. The Actuarial Funding relates primarily to initial commissions paid. Given that initial commissions will have already been paid on the Transferring Policies, and that the functionality to maintain the funded vs unfunded position does not exist on the Utmost administration platforms, I understand from Quilter that it has no intention of applying Actuarial Funding to the Transferring Policies.

The support for Quilter from UGPlc as the ultimate parent of Quilter

6.34 There is no formal capital support arrangement between Quilter and UGPlc. Therefore, UGPlc's interest in Quilter is limited to indirectly owning the entire issued share capital of Quilter. As a matter of company law, UGPlc is not under any legal obligation to provide capital support to Quilter.

6.35 However, UGPlc is subject to a number of obligations which link UGPlc's financial position to that of Quilter and which, in my view, limit UGPlc's ability to walk away from Quilter in all but the most extreme scenarios when UGPlc itself is at risk of not being able to meet its own claims:

- UGPlc status as the shareholder of Quilter means that Quilter is integrated into the UGPlc management and oversight framework. UGPlc's Solvency II results incorporate the financial position of its subsidiaries including Quilter. The financial position of Quilter would therefore affect the Utmost Group's financial position and failure of Quilter to meet its SCR would be expected to lead to regulatory intervention by the FSA, and this could ultimately lead to a constraint on Quilter's ability to pay a dividend'
- UGPlc is not able to freely sell its shares in Quilter to a third party without the prior approval of the FSA to the change in control over Quilter and this approval would only be given if the FSA was satisfied with the suitability of the acquirer and financial soundness of the acquisition;
- Given the number of policyholders of Quilter and the nature of its insurance business, any attempt by UGPlc to walk away from Quilter would be likely to result in significant adverse publicity that would be highly undesirable to UGPlc; and
- UGPlc and Quilter have investment grade credit ratings, with current credit ratings of A- and A, respectively, according to Fitch Ratings Inc. a global credit rating agency. Any downgrade in UGPlc's credit rating as a result of insolvency of one of its subsidiaries would be highly undesirable to UGPlc.

6.36 For clarity, even if the potential for parental support had not been taken into account in reaching my conclusion (that there would be no material adverse effect on the security of benefits under the Transferring Policies) it would not have changed my conclusion on this point, in particular as this is an intra-group transfer the position is unchanged.

6.37 Therefore, although there is no formal capital support arrangement in place between UGPlc and insurance companies in the Utmost Group, including Utmost and Quilter, Quilter can derive additional security from having UGPlc as a parent as in most circumstances UGPlc would be expected to provide support to Quilter if and when required.

The effect on the security of benefits under the Transferring Policies due to losing protection conferred by funds of last resort in the IoM and the UK

6.38 The With-Profit Linked Transferring Policies and Other Unit-Linked Transferring Policies currently benefit from the protection conferred by PCS, which is the IoM's statutory 'fund of last resort'. The PCS provides compensation up to 90% of the value of the protected contract, determined at the date the insurer failed. These Transferring Policies will continue to be protected by the PCS post-transfer.

6.39 The policyholders of AXA China and AXA Singapore that are reinsured to Utmost under the Modified Co-Insurance do not directly benefit from the protection conferred by the PCS, however AXA China and AXA Singapore do. AXA China and AXA Singapore will continue to benefit from the protection conferred by the PCS post-transfer.

6.40 The UK Transferring Business currently benefits from the protection conferred by the FSCS, the UK's statutory 'fund of last resort', in respect of any civil liabilities relating to the sales, distribution and facilitation activities carried out in the UK. If the Scheme were to be implemented, the protection conferred by the FSCS would be lost.

6.41 Therefore, the only change in access to funds of last resort is that FSCS protection would be lost as a result of the proposed Scheme for the UK Transferring Business. I am satisfied that this does not materially adversely affect the security of the Transferring Policyholders' benefits as:

- The policyholders of the UK Transferring Business will continue to benefit from the protection conferred by the PCS;
- I understand that the current protection conferred by the FSCS only relates to a limited set of circumstances, in that it is only in respect of civil liabilities relating to the sales, distribution and facilitation activities carried out in the UK, whereas the remit of the PCS is wider than this;
- I have been informed that Utmost and its associated service provider companies have not incurred any civil liability in respect of sales, distribution and facilitation activities carried out in the UK in the last 25 years; and
- At the Effective Date Quilter will be adequately capitalised and will be required to comply with the Insurance Solvency Regulations; therefore I consider the likelihood of default or insolvency of Quilter to be low.

6.42 The proposed Scheme will not result in any changes to the protection conferred by the PCS for the With-Profit Linked Transferring Policies, Other Unit-Linked Transferring Policies, AXA China and AXA Singapore will continue to benefit from the protection conferred by the PCS.

Overall conclusion on the effect of the Scheme on the security of Part VII Transferring Policy claims payments

6.43 As described above, should the proposed Scheme be implemented, the Transferring Policies would be transferred to Quilter, and I am satisfied that there would be no material adverse effect on the security of the Transferring Policyholders' benefits as a result of:

- Being subject to the Quilter Capital Management Policy and risk appetite statement compared to the Utmost Capital Management Policy and risk appetite statement currently;
- Being dependent on the financial strength of Quilter compared to Utmost currently;
- Quilter having UGPlc as an ultimate parent, as UGPlc is also the ultimate parent of Utmost; and
- The loss of FSCS protection would not lead to a material adverse effect on the security of benefits under the Transferring Policies.

6.44 Therefore I am satisfied that, should the proposed Scheme be implemented, there would be no material adverse impact on the security of Transferring Policyholders' benefits due to becoming policyholders of Quilter.

THE EFFECT OF THE SCHEME ON THE PROFILE OF RISKS TO WHICH THE TRANSFERRING POLICYHOLDERS ARE EXPOSED

6.45 The Transferring Policyholders are currently exposed to the risk profile of Utmost. If the proposed Scheme were to be implemented the Transferring Policyholders would instead be exposed to the risk profile of Quilter.

6.46 Figure 6.2, below, shows the undiversified risk profile under the Insurance Solvency Regulations as at 31 December 2021 of Utmost pre-Scheme and Quilter immediately after the transfer in of the Part VII Transferring Business and includes the impact of the alignment of assumptions (detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64).

FIGURE 6.2 UNDIVERSIFIED RISK PROFILE AS AT 31 DECEMBER 2021

	UTMOST PRE-SCHEME	QUILTER POST-SCHEME
Life Underwriting Risk	51%	58%
Market Risk	42%	34%
Counterparty Default Risk	3%	1%
Operational Risk	4%	6%
Total	**100%**	**100%**

6.47 As can be seen from the above table, the profile of risks to which the Transferring Business is exposed immediately after the proposed Scheme is broadly equivalent to the profile of risks to which it was exposed pre-transfer.

6.48 Following the implementation of the proposed Scheme, the Transferring Business continues to be exposed primarily to life underwriting risk, driven by lapse risk, and market risk, driven by equity and currency risk. These risks are typical of insurance companies primarily writing unit-linked business life assurance business.

6.49 Overall, I am satisfied that the Transferring Business will not be materially adversely affected by the change in profile of risks to which it is exposed as a result of the implementation of the proposed Scheme.

THE EFFECT ON TRANSFERRING POLICYHOLDERS DUE TO THE PERMISSIONS HELD BY QUILTER COMPARED TO THOSE HELD BY UTMOST

Introduction

6.50 Both Utmost and Quilter are authorised in the IoM to carry on Class 1 (linked long-term) and Class 2 (long-term) insurance business, whilst Quilter is also authorised to carry on Class 10 (reinsurance of contracts within classes 1 and 2). In addition, both Utmost and Quilter also hold permits to conduct long-term insurance business in Jersey.

6.51 Utmost holds certain permissions in the UK, which Quilter does not hold, and I understand is therefore subject to certain conduct of business regulations in the UK issued by the conduct regulator in the UK, the FCA.

6.52 Quilter has authorisations in Hong Kong and Singapore, in respect of two branches, and it also holds regulatory permissions in the State of Florida, USA and Trinidad & Tobago.

Prudential regulation

6.53 The FSA is responsible for prudential regulation in the IoM. As both Utmost and Quilter are authorised in the IoM, there will be no change to the primary regulator responsible for prudential regulation, it will continue to be the FSA.

Conduct of business regulation

6.54 The FSA is responsible for conduct regulation in the IoM. As both Utmost and Quilter are authorised in the IoM, they are both subject to the conduct regulations issued by the FSA.

6.55 Utmost holds certain permissions in the UK, which I understand means it is also subject to conduct of business rules issued by the FCA in respect of business sold in the UK. The proposed Scheme transfers the Transferring Policies to Quilter, which does not hold any permissions in the UK and therefore is not subject to conduct of business rules issued by the FCA.

6.56 Therefore, following the Scheme, conduct of business supervision will be solely provided by the FSA. This represents a change for all UK Transferring Business, as for this business conduct of business supervision is currently provided by both the FSA and FCA.

6.57 Overall, the FSA and FCA have each issued conduct principles which aim to ensure the fair treatment of customers. I am therefore satisfied that, in terms of conduct of business regulations, the implementation of the proposed Scheme would not have a material adverse effect on the Transferring Policies.

Access of Transferring Policyholders to the services of an independent complaints service

6.58 Currently, Transferring Policyholders have access to the FSOS in the IoM. I understand that the policyholders of the UK Transferring Business also have access to FOS, the independent complaints service in the UK, in respect of regulated activities undertaken by Utmost in the UK.

6.59 After the proposed Scheme, Transferring Policyholders will continue to have access to the FSOS in the IoM. The policyholders of the UK Transferring Business will lose access to the FOS in respect of acts and omissions which occur after the Effective Date.

6.60 I consider the services provided by the FOS and FSOS to be broadly similar, in that they are both independent bodies which aim to resolve complaints from individuals against financial services providers, and where required, set a level of compensation to remediate the individual.

6.61 The complaints procedures for both the FSOS and FOS are broadly similar. Both organisations have the power to make legally binding rulings on individual disputes. However, the maximum award that can be granted by the FOS in the UK (£355,000) is higher than that which can be awarded by the FSOS in the IoM (£150,000).

6.62 Utmost has confirmed that in the last 25 years no complaints have been referred to the FOS, in respect of the business of Utmost, and there are also no pending cases with the FOS. Therefore, the fact that post-Scheme policyholders of the UK Transferring Business will be required to raise complaints with the FSOS rather than the FOS, does not represent a material change to the current approach taken by Transferring Policyholders.

6.63 Overall, given the similarities in the services provided by the FOS and FSOS and the continued access to the FSOS, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on the rights of the Transferring Policyholders in relation to their access to the services of an independent complaints service.

Access of Transferring Policyholders to a compensation scheme in the event of insurer default or insolvency

6.64 The implications on the loss of FSCS protection are discussed in paragraphs 6.38 to 6.41.

Conclusion

6.65 In summary, I am satisfied that if the Scheme were to be implemented:

- In terms of prudential regulation and conduct of business regulation, there would be no material adverse effect on the Transferring Policies;
- There would be no material adverse effect on the rights of Transferring Policyholders in relation to their access to an independent complaints service; and
- I am satisfied that the loss of FSCS protection would not lead to a material adverse effect on the rights of the Transferring Policyholders, especially given that the protection conferred by the FSCS only relates to a limited set of circumstances.

THE EFFECT OF THE SCHEME ON THE REASONABLE EXPECTATIONS OF THE TRANSFERRING POLICYHOLDERS IN RESPECT OF THEIR BENEFITS AND SERVICE STANDARDS

Introduction

6.66 The Transferring Business is all unit-linked business and therefore, in my view, policyholders' expectations in respect of their benefits are that:

- They receive their benefits as defined under the policy, on the dates and in the contingencies specified in the terms and conditions; and
- The management, governance, administration and servicing of the policies is performed to a consistent standard throughout the duration of their policy.

6.67 It is therefore necessary to consider the impact of the Scheme on:

- The range of funds available, the management of these funds (including the allowance for discretion in managing them), the investment objectives applied to these funds, the charges applied to those funds and the pricing of those funds;
- The assets in which the units under unit-linked policies are invested, as these should continue to be materially in line with the target investment allocation in the relevant fund literature; and
- The benefits received by policyholders, as these should continue to reflect the investment performance of the assets in which their units are invested and the contractual charges payable under the policies.

These are considered in turn below.

The benefit expectations of the Transferring Policyholders

Introduction

6.68 If the proposed Scheme were to be implemented, there would be no material changes to the terms and conditions of the Transferring Policies, aside from becoming policies of Quilter. The analysis and conclusions within this section apply equally to both internal and external funds unless specified otherwise.

Range and management of funds

6.69 The implementation of the proposed Scheme would not change the range of funds to which the Transferring Policyholders would have access, the management of the Linked Funds in respect of investment objectives and charges taken nor the number, value or type of units held by the Transferring Policyholders.

6.70 Following the implementation of the proposed Scheme, Quilter will be entitled to the same rights in relation to the management of the internal Linked Funds as Utmost is currently. These rights include the powers to close or amalgamate the internal Linked Funds.

6.71 Utmost also has external Linked Funds which are placed with external managers and custodians. Following the proposed Scheme, the relationship with these external managers and custodians, and the related responsibilities, will transfer to Quilter.

6.72 Operational oversight for investment related matters, including unit pricing, is delegated to the Investment Forum, which provides oversight across both Quilter and Utmost. Therefore, the governance of unit-pricing in Quilter is aligned to that in Utmost. In addition, in terms of changes to these arrangements, including the individuals responsible for the decision making, and the committees with responsibility for the management of the unit-linked funds, the same governance process applies in Quilter as that which applies in Utmost currently.

Benefits received by policyholders

6.73 As detailed in paragraph 6.69, the implementation of the proposed Scheme will not change the number, value or type of units held by Transferring Policyholders. Therefore, when considering the impact of the proposed Scheme on the benefits received by Transferring Policyholders, the only remaining area of consideration is the application of charges.

6.74 Where the charges on the Transferring Business are contractual, these would be unchanged by the Scheme as there are no material changes to the terms and conditions of the Transferring Policies.

6.75 Currently, where there is an element of discretion in setting the charge, the following approach is taken by Utmost:

- On an annual basis, the Pricing Team of Utmost consider the administration charges and then propose a change, with these changes usually being linked to inflation indices. The Pricing Team will also consider how the costs of maintaining the products has increased over the period and apply some discretion.
- The Pricing Team's proposal is shared with the Appointed Actuary for consideration.
- The Utmost Board will consider the increase proposed by the Pricing Team, and consider policyholders' reasonable expectations, and take the advice of the Appointed Actuary.
- Any increases to charges must be approved by the Chief Executive of Utmost.

6.76 Quilter's approach to the application of discretion is aligned to that of Utmost. This alignment took place following the acquisition of Quilter by Utmost, and formed part of the programme to integrate Quilter into the Utmost Group. Therefore, Quilter also follows the approach detailed in paragraph 6.75 and it follows that there will be no change to the approach to discretion as a result of the proposed Scheme.

Tax

6.77 I am not an expert in tax matters and therefore, in forming my opinion on the tax implications of the proposed Scheme, I have relied on information provided by Utmost Group's internal tax team.

6.78 In general, the Transferring Policies are taxed on a gross roll-up tax basis i.e. they are not taxed on the income and gains accruing on underlying investment assets held under the policy. However, the Transferring Policies are subject to tax on certain surrender and death events under the applicable legislation governing the policy in the policyholder's country of tax residence. I understand, based on the information provided to me by the Utmost Group's tax experts, that the proposed Scheme is not expected to have any tax implications for any Transferring Policyholders. In addition, although there is not expected to be any tax implications for any Transferring Policyholders, the Quilter Board has approved to rectify any such tax losses should they occur.

6.79 Quilter has a branch in Hong Kong which is taxed under local rules by reference to a percentage of Quilter's worldwide profits, with the percentage being based on the Hong Kong sourced premium over the total worldwide premium. It is not expected that the transfer would lead to any profit emerging and therefore no additional shareholder tax liability in Hong Kong is expected to occur. I will provide an update on the position in relation to shareholder tax in Hong Kong in my Supplementary Report.

6.80 Based on the information provided, as described above, if the proposed Scheme were to be implemented, I am satisfied that there would not be any material adverse change to policyholders' tax liabilities.

Conclusion

6.81 I am satisfied that the implementation of the Scheme would not have a material adverse effect on the benefit expectations of the Transferring Policyholders.

The effect of the Scheme on the management, governance, administration and servicing of the Transferring Policies

Management and governance

6.82 The Transferring Business is currently subject to the management and governance of Utmost and would, if the Scheme is implemented, be subject to the management and governance of Quilter. I note that in respect of the management of the Transferring Business after the transfer the Quilter Board would replace the Utmost Board as the governing body with responsibility for the Transferring Business. The members of the Quilter Board are the same as those of the Utmost Board.

6.83 The organisational structure of Quilter was aligned to that of Utmost on 1 April 2022, therefore, in the same way that Utmost does currently, the Quilter Board delegates certain tasks to a small number of committees.

6.84 I am satisfied that the implementation of the Scheme would not have a material adverse effect on the levels of management and governance that would apply to the Transferring Policies.

Administration and Servicing

6.85 The Transferring Business is currently administered by USL, under the terms set out in a MSA between Utmost and USL. As a result of the proposed Scheme a new agreement is to be put in place between Quilter and UAL, which I understand is currently being drafted.

6.86 Although as a result of the Scheme the administration of the Transferring Business would be under the terms of a new MSA and the administration services will be provided by UAL rather than USL, I understand from Utmost that these changes do not result in any changes to the individuals performing the administration of the Transferring Business nor the platform on which it is administered. In addition, the Utmost Board will continue to be provided with information for it to assess the level of service being provided to the Transferring Business. Once the MSA is drafted, I will review this and provide an update in my Supplementary Report.

6.87 Overall, there would be no material change to the administration and servicing of the Transferring Policies if the proposed Scheme were to be implemented, and I am therefore satisfied that the proposed Scheme would not have a material adverse effect on the levels and standards of administration and service that would apply to the Transferring Policies.

Overall conclusion on the effect of the Scheme on the reasonable expectations of the Transferring Policyholders in respect of their benefits and service standards

6.88 In conclusion, I am satisfied that the proposed Scheme would not have a material adverse effect on the reasonable expectations of the Transferring Policyholders in respect of their benefits and standards of service.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON THE TRANSFERRING POLICYHOLDERS

6.89 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The profile of risks to which the Transferring Policyholders are exposed;
- The protection offered by the regulatory and legal regimes that apply to the Transferring Policyholders; or
- The reasonable expectations of the Transferring Policyholders in respect of their benefits, including the standards of administration, service, management and governance that apply to the Transferring Policyholders.

7. THE IMPACT OF THE SCHEME ON THE EXISTING POLICYHOLDERS

INTRODUCTION

7.1 In this section of my Report I consider the likely effects on the existing business of Quilter (the "Existing Business") of the implementation of the proposed Scheme. The policies within the Existing Business are collectively referred to as the "Existing Policies", and the policyholders holding these policies are collectively referred to as the "Existing Policyholders".

7.2 The key points to consider in respect of the Existing Policyholders are the changes in the following due to the transfer:

- **The security of benefits of the Existing Policies:** this is derived from the financial strength available to provide security for the benefits under the Existing Policies under the applicable Capital Management Policy and includes the strength any support available from the parent company by virtue of being part of a group.

  This is covered in paragraphs 7.3 to 7.12.

- **The profile of risks to which the Existing Policies are exposed:** if the proposed Scheme were to be implemented, then the transfer of the Transferring Business into Quilter will impact the profile of risks to which the Existing Policyholders are exposed.

  This is covered in paragraphs 7.13 to 7.15.

- **The reasonable expectations of the Existing Policyholders in respect of their benefits and service standards:** this includes the likely effects of the transfer on the standards of administration, service, management and governance applied to the Existing Policies.

  This is covered in paragraphs 7.16 to 7.21.

My overall conclusions regarding the likely effects on the Existing Business are set out in paragraph 7.22.

THE EFFECT OF THE SCHEME ON THE SECURITY OF BENEFITS UNDER THE EXISTING POLICIES

7.3 The Existing Policies derive their security of benefits from being policyholders of Quilter and the associated financial strength under the applicable Capital Management Policy, the strength of Quilter's reinsurance agreements and support provided to Quilter from its ultimate parent (UGPlc). In addition, in the extreme scenario of Quilter becoming unable to pay policyholder benefits, the Existing Policyholders are currently protected by the PCS (as described in Section 3 of this Report). I consider the impact of the Scheme on these matters in respect of the Existing Policyholders below.

The security of benefits derived from the applicable capital management policy

7.4 The Scheme would have no effect on the Quilter Capital Management Policy, and the Existing Business would continue to be managed in accordance with this policy after the implementation of the proposed Scheme.

The security of benefits derived from the financial strength of Quilter

7.5 As shown in Appendix B, if the Scheme and the alignment of assumptions (detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64) been implemented as at 31 December 2021, it would have resulted in a small decrease of the solvency cover ratio from 193% to 187%. This is caused by a larger relative increase in the SCR than Own Funds.

7.6 I have been provided with information which enables me to estimate the impact of the alignment of assumptions on the solvency cover ratio of Quilter, assuming they were implemented as at 31 December 2021 and I am satisfied that had the assumptions not been aligned Quilter would still have had sufficient Own Funds to meet its Capital Management Policy. It should also be noted that the alignment of assumptions is not linked to the proposed Scheme but is part of the integration of Quilter into the Utmost Group.

7.7 As the solvency cover ratio of Quilter remains above the minimum required by the Quilter Capital Management Policy I am satisfied that there is no material adverse effect on the financial strength of Quilter as a result of the Scheme.

The security of benefits derived from the reinsurance arrangements of Quilter

7.8 Quilter has a range of inwards and outwards reinsurance agreements in place in respect of the Existing Business. These inwards and outwards reinsurance agreements will remain in place following the implementation of the proposed Scheme.

7.9 The proposed Scheme will also lead to the inwards and outwards reinsurance agreements that Utmost currently has in place in respect of the Transferring Business being transferred under the proposed Scheme or novated to Quilter, namely:

- The Modified Co-Insurance Agreements, under which the Modified Co-Insurance Transferring Business is currently ceded to Utmost; and
- The outwards reinsurance agreement Utmost currently has in place with ALAP, which relates to the With-Profits Fund Linked business.

7.10 As detailed in paragraph 4.24, there is a floating charge associated with the reinsurance agreement with ALAP. Utmost is currently in conversation with ALAP in relation to the transfer of the floating charge to Quilter.

7.11 Since there is no change to the inwards and outwards reinsurance arrangements used by Quilter which relate to the Existing Business, nor are there any changes to the inwards and outwards reinsurance arrangements relating to the Transferring Business other than that they are being transferred to Quilter, I am satisfied that the Scheme will not have a material adverse effect on Existing Policyholder benefit security in relation to these reinsurance arrangements. I will confirm in my Supplementary Report that the floating charge associated with the ALAP reinsurance agreement is on course to be transferred.

Actuarial Funding

7.12 As mentioned in paragraph 4.78, Quilter applies Actuarial Funding to a small number of product types. The proposed Scheme will not result in any changes to the range of product types to which Actuarial Funding is applied, nor the method in which it is applied.

THE EFFECT OF THE SCHEME ON THE PROFILE OF RISKS TO WHICH THE EXISTING POLICYHOLDERS ARE EXPOSED

7.13 Figure 7.1 below sets out the pre-Scheme and pro-forma post-Scheme post-alignment of assumptions (detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64) breakdown of Quilter's pre-diversification SCR as at 31 December 2021.

FIGURE 7.1 UNDIVERSIFIED RISK PROFILE AS AT 31 DECEMBER 2021

	QUILTER PRE-SCHEME	QUILTER POST-SCHEME
Life Underwriting Risk	65%	58%
Market Risk	27%	34%
Counterparty Default Risk	1%	1%
Operational Risk	7%	6%
Total	**100%**	**100%**

7.14 The Existing Business is currently exposed to the risk profile of Quilter, this will continue to be the case after the proposed Scheme, however the transfer of the Transferring Business to Quilter under the proposed Scheme will alter the risk profile of Quilter.

7.15 The risk profile of Quilter is not materially altered as a result of the proposed Scheme. The most material risks will continue to be life underwriting and market risk. Therefore, I am satisfied that the proposed Scheme does not have a material adverse effect on the profile of risk to which the Existing Policies are exposed.

THE EFFECT OF THE SCHEME ON THE REASONABLE EXPECTATIONS OF THE EXISITNG POLICYHOLDERS IN RESPECT OF THEIR BENEFITS AND SERVICE STANDARDS

7.16 The implementation of the proposed Scheme would not change:

- The terms and conditions of the Existing Policies; or
- The governance and management of the Existing Policies.

7.17 In addition to there being no changes to the terms and conditions of Existing Policies, for unit-linked Existing Policies, there will also be no changes to the Linked Funds of Quilter as a result of the proposed Scheme. In particular:

- The Existing Policies would have access to the same range of funds;
- These funds would be manged in the same way as currently in respect of investment objectives, charges taken, unit pricing and the tax charged to the unit funds;
- There would be no change to the number, value or type of units held by the unit-linked Existing Policyholders;
- There would be no change to the level or calculation of charges applied to the unit-linked Existing Policyholders; and
- There would be no change to the application of discretion in respect of unit-linked Existing Policyholders. Following the acquisition of Quilter by Utmost, Quilter updated its approach to discretion to align it to that of Utmost, this alignment formed part of the programme to integrate Quilter into the Utmost Group and was not as a result of this Scheme.

7.18 Currently the Existing Policies are administered by QIBS under the terms of a MSA between Quilter and QIBS. Prior to the Scheme, and as a result of a programme undertaken by the Utmost Group to reduce the number of service companies in the Utmost Group rather than the Scheme itself, the Existing Policies will instead be administered under a MSA between Quilter and UAL. I understand from Quilter that this change would not lead to any changes to the staff responsible for performing the administration, nor the administration platform which is used to administer the business. In addition, the Quilter Board will continue to be provided with information so that it is able to assess the service level that is being provided to its policyholders. This change is expected to occur after the publication of this Report, and therefore I will consider this change further in my Supplementary Report.

7.19 The proposed Scheme will not result in any changes to the terms of the MSA between Quilter and UAL that is to be put in place ahead of the Effective Date, the individuals performing the administration, nor the platform on which the administration is performed.

7.20 If the changes detailed in paragraph 7.18 were, for any reason, not to proceed, then this would mean that the Existing Policies would continue to be administered under the terms of the MSA between Quilter and QIBS. However, as these changes are not linked to the proposed Scheme they would not impact whether the Scheme went ahead, nor my opinions on the effect of the proposed Scheme.

7.21 Overall, I am satisfied that the implementation of the Scheme would not have a material adverse effect on the reasonable benefit expectations of the Existing Policyholders or the standards of administration, management and governance that apply to Existing Policies.

CONCLUSION FOR THE EFFECT OF THE PROPOSED SCHEME ON THE EXISTING POLICYHOLDERS

7.22 Overall, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Existing Policies;
- The profile of risks to which the Existing Policies are exposed; and
- The reasonable expectations of the Existing Policyholders in respect of their benefits, including the standards of administration, management and governance that apply to the Existing Policies.

8. MY CONSIDERATIONS IN RESPECT OF THE FAIR TREATMENT OF CUSTOMERS IN RELATION TO THE SCHEME

THE APPROACH TO COMMUNICATION WITH POLICYHOLDERS

Introduction

8.1 Section 21(1) of Schedule 2 to the Insurance Act 2008 requires a communication regarding the proposed transfer to be sent to every policyholder of the parties under the Scheme. However, this requirement may be waived at the discretion of the Court which will give consideration to issues such as the practicality and costs of sending notices relative to the likely benefits for policyholders of receiving such communications.

The proposed waiver applications

Existing Policyholders

8.2 Quilter intends to seek a waiver from the regulatory requirements to send written notice to the current policyholders of Quilter, i.e. the Existing Policyholders.

8.3 This waiver is being sought by Quilter on the basis that although the volume of Transferring Business is material, the product types transferring are similar to those already sold by Quilter. In addition, the proposed Scheme does not result in a material change to the risk profile of Quilter, nor lead to any changes to its Capital Management Policy and it is projected to hold Own Funds in excess of that required by its Capital Management Policy.

8.4 Paragraph 8.3 details the rationale set out by Quilter in its communication strategy for seeking a waiver from the regulatory requirements to send written notice to the Existing Policyholders. I further note that:

- As described in Section 7 of this Report, in my view there would be no material adverse effect on:
    - The security of benefits under the Existing Policies;
    - The profile of risks to which these policies are exposed; and
    - The reasonable expectations of holders of these policies in respect of their benefits, including the standards of administration, management and governance that apply to these policies.
- There will be press advertising for the Scheme to comply with the advertising requirements in the IoM, Jersey and Guernsey, as well as any local laws in which policyholders are resident. Further detail can be found in paragraph 8.27 below;
- There would be no change to the terms and conditions of the Existing Policies; and
- There would be no change to the governance structure or regulatory framework applicable to the Existing Policies.

8.5 Based on the above, I am satisfied that the application for a waiver from the regulatory requirements to send a written notice to the Existing Policyholders is reasonable.

Written statement setting out the terms of the Scheme and containing the Summary Report

8.6 Paragraph 3(b) of Schedule 2 to the Insurance Act 2008 requires that a statement is sent to each of the Transferring Policyholders and that the statement (a) sets out the terms of the Scheme and (b) contains the Summary Report.

8.7 Utmost is seeking a waiver to the requirements of Paragraph 3(b) and instead intends to send a short letter to the Transferring Policyholders (for whom Utmost hold a name and address and are alive at the time of the mailing) informing them of the Scheme and referring them to a dedicated webpage (the "Website Referral Letter") where further documents can be found, including the Policyholder Circular detailed in paragraph 8.17 below and further documents detailed in paragraphs 8.19 below.

8.8 The Website Referral Letter will detail that the proposed Scheme requires the approval of the Court, and that the Jersey Scheme and Guernsey Scheme will require the respective approvals of the Jersey Court and Guernsey Court.

8.9 The Website Referral Letter will be sent prior to the Sanction Hearing to enable the Transferring Policyholders to make representations to the Court if they feel they may be disadvantaged by the proposals.

8.10 The Website Referral Letter will either be sent by email or by pre-paid post, it will only be sent by email if the policyholder has previously agreed or requested to receive communications from Utmost via email. Where there are multiple policyholders the Website Referral Letter will be sent only to the policyholder noted on the administration system as “first-named”.

8.11 Some of the Transferring Business is currently open to new business. Therefore, for the avoidance of doubt, any new policyholders whose business applications are in the pipeline during the period between the Directions Hearing and Sanction Hearing will receive the Website Referral Letter.

8.12 I understand that this waiver is sought on proportionate and practical grounds as it avoids bulk printing and mailing Transferring Policyholders with the Policyholder Circular (see paragraph 8.17) which I understand from Utmost would be a considerable cost, including an environmental cost. Based on this and given that policyholders will be directed to a dedicated webpage containing all the necessary information, I am satisfied that this application for a waiver from mailing the Policyholder Circular is reasonable. In addition, the Website Referral Letter sets out that Transferring Policyholders may request paper copies of the Policyholder Circular, and details the ways in which such a request can be made .

Gone-away and deceased policyholders

8.13 Utmost are also seeking a waiver to the requirements to write to Transferring Policyholders who are gone-away (i.e. for which Utmost does not hold a valid address) and deceased Transferring Policyholders for which no personal representative has been appointed.

8.14 In the last 12 months Utmost has undertaken exercises to trace policyholders for which it does not hold a valid address (“gone-away” policyholders), this involved contacting advisers and using online directories. As a result Utmost has 33 gone-away policyholders, which is 0.1% of Transferring Policyholders.

8.15 For deceased Transferring Policyholders with no personal representative Utmost intends to attempt to trace an address for the personal representative.

8.16 Given the low number of gone-away policyholders, and on the basis that Utmost will attempt to identify a personal representative where possible, I am satisfied that it is reasonable to request a waiver to the requirements to write to Transferring Policyholders who are gone-away or deceased with no personal representative appointed.

Information on dedicated webpage

8.17 As detailed in paragraph 8.7, Utmost intends to send to the Transferring Policyholders a Website Referral Letter. The Website Referral Letter and a “Policyholder Circular” will be accessible via dedicated webpage. The Policyholder Circular will contain:

- A statement summarising the terms of the Scheme;
- A summary, produced by me, of this Report;
- A Questions & Answers section providing answers to the most common questions that a policyholder may have about the Scheme (the “Q&A”);
- A copy of the legal notice of the Scheme; and
- Details of how the policyholder can contact Utmost should they have any questions on the Scheme or should they wish to object to the Scheme.

8.18 The Website Referral Letter and the Policyholder Circular, together the “Policyholder Pack”, will be written in English, as this is the language in which the original policy was written.

8.19 In addition, amongst other things, the webpage will also contain:

- Contact numbers and email addresses;
- The full Scheme;
- The Guernsey Scheme;
- The Jersey Scheme, and

- This Report.

8.20 I understand that should any customers request communications in a different format, for example in larger font, then Utmost would follow its standard procedure for such requests and provide a Policyholder Pack in the requested format.

8.21 Paper copies of the Policyholder Circular, full Scheme document(s) and this Report will be available on request and without charge.

8.22 I have reviewed the draft Policyholder Pack and I am satisfied that the content highlights to the Transferring Policyholders the key elements of the Scheme of which they should be aware.

Communications with counterparties to inwards reinsurance

8.23 As detailed in paragraphs 4.20 to 4.22 Utmost has two inwards reinsurance contracts in place with AXA China and AXA Singapore, therefore the policyholders in the context of these contracts are AXA China and AXA Singapore. Quilter do not propose to send the Policyholder Pack to AXA China or AXA Singapore, but are instead in direct discussion with both AXA China and AXA Singapore in relation to the proposed Scheme. I will provide an update on the status of these discussions in my Supplementary Report.

8.24 For the avoidance of doubt, the Policyholder Pack will not be sent to the policyholders whose policies are reinsured to Utmost the Modified Co-Insurance Agreements, as these are direct policyholders of AXA China or AXA Singapore and not of Utmost.

Communications with counterparties to outwards reinsurance

8.25 As detailed in paragraphs 4.23 to 4.24 Utmost has an outwards reinsurance contract in place with ALAP in respect of the With-Profit Fund Linked business. Quilter do not propose to send the Policyholder Pack to ALAP, but are instead in direct discussion with ALAP in relation to the proposed Scheme. I will provide an update on the status of these discussions in my Supplementary Report.

8.26 As the policyholders of the With-Profit Fund Linked business are direct policyholders of Utmost they will be sent the Policyholder Pack.

Further publication of the Scheme

8.27 Utmost will publish a notice in respect of the Scheme in the following publications:

- In the IoM – in two newspapers; and
- Internationally – The Financial Times International Edition.

In addition, the notice in respect of the Guernsey Scheme will be published in the Guernsey Gazette, La Gazette Officielle, and notice of the Jersey Scheme will be published in the Evening Post and online in the Jersey Gazette.

Route for policyholder queries and objections

8.28 Utmost have made arrangements to manage policyholder responses to the communications detailed above, as well as to handle objections received.

8.29 I will review the responses received from policyholders, including any objections received and provide an update on these in my Supplementary Report.

Conclusion

8.30 I have reviewed the proposed communications strategy and drafts of the Policyholder Pack.

8.31 Overall, I am satisfied that the proposed approach to communications with policyholders, including the application for the waivers, is fair and reasonable, and that the information contained in the draft communications with policyholders adequately describes the proposals to those policyholders.

FUTURE CONDUCT AND REGULATORY RISK

8.32 If the proposed Scheme were to be implemented, any costs arising as a result of conduct or failure to comply with regulations would be met by Quilter.

PREVIOUS STATEMENTS MADE TO POLICYHOLDERS

8.33 Utmost is not aware of any previous statements made, either on its website or in policyholder communications, on which Transferring Policyholders could rely to argue that the Scheme is effecting a substantive change to their expectations. Utmost is currently undertaking an exercise to confirm this position and I will report on the outcome of this in my Supplementary Report.

COSTS OF THE SCHEME

8.34 The costs associated with preparing and carrying out the proposed Scheme, including the costs of my work as Independent Actuary, will be borne by Quilter.

8.35 The costs of the Scheme will not be met by any policyholders of Quilter.

8.36 I am satisfied that the allocation of costs as described above is reasonable.

9. FURTHER CONSIDERATIONS

THE FUTURE OPERATION OF THE SCHEME

9.1 If the proposed Scheme is approved by the Court (and subject to any subsequent amendment of the Scheme, as considered below), Utmost and Quilter are committed to implementing the Scheme as set out in the Scheme document (and reflected in this Report). In giving effect to those obligations, the Directors of Utmost and Quilter must act in accordance with their fiduciary responsibilities under IoM company law.

9.2 As described in paragraph 5.18, at any time after the Effective Date, Quilter must obtain consent from the Court to make any non-minor or non-technical amendment to the Scheme.

9.3 In my opinion there are reasonable safeguards in place to ensure that, if approved by the Court, the Scheme will be operated as presented to the Court and as set out and described in this report.

THE NOVATION OF CONTRACTS NOT GOVERNED BY IOM LAW

9.4 As detailed in paragraph 1.11, I understand that it may not be possible to transfer under the Scheme contracts which are not governed by IoM law. Therefore, as the Modified Co-Insurance agreement with AXA China, the two reinsurance agreements with ALAP covering the With-Profit Fund Linked business and the associated floating charge are not governed by IoM law they will be novated to Quilter rather than transferred under the Scheme.

9.5 It is expected that these novations will take effect on the same date as the Effective Date.

9.6 I am not aware of any reasons that would cause the novation of the reinsurance agreements with ALAP, the associated floating charge and the Modified Co-Insurance agreement with AXA China to be delayed, or to not occur, however I acknowledge that as they are not being transferred under the Scheme that these novations could follow a different timescale. I will therefore provide an update on the expected timing of these novations in my Supplementary Report.

9.7 Although I have no reason to believe that these novations would not occur as intended, as these contracts are to be transferred via a process other than the Scheme, I have considered the impact should they not be novated to Quilter:

- Modified Co-Insurance agreement with AXA China: if this were not to be novated, this contract would remain with Utmost and would be a Residual Liability.
- Two reinsurance agreements with ALAP: if these were not to be novated then these contracts would be Residual Assets, and would be treated as such under the terms of the Scheme. I understand that this would mean that any monies received would be held on trust by Utmost and passed to Quilter as soon as is reasonably practicable.

I am satisfied that these impacts do not result in a material change to any of my conclusions detailed elsewhere in this Report. I will provide an update on the progress of these novations in my Supplementary Report.

THE IMPACT OF THE SCHEME UPON REINSURERS OF THE TRANSFERRING BUSINESS

9.8 As outlined in Section 5, if the proposed Scheme were to be implemented, the two reinsurance treaties that Utmost has in place with ALAP in respect of the With-Profit Fund Linked business would be transferred to Quilter. No other changes to the terms and conditions of these treaties are anticipated. Since these reinsurance arrangements will continue to cover the same policies after the transfer, I am satisfied that the change of ceding company is unlikely to have a material impact on the affected reinsurer.

THE IMPACT OF RELEVANT EXTERNAL EVENTS ON THE SCHEME

The COVID-19 pandemic

9.9 In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organisation, and the outbreak has continued to spread globally during the intervening period. In response, governments around the world have enforced restrictions to varying degrees and at varying times since the declaration of the pandemic.

9.10 Currently, COVID-19 is not having a material impact on global markets, and there are relatively few governments enforcing restrictions. I will continue to monitor the evolving COVID-19 situation and I will provide an update in my Supplementary Report.

Conflict between Russia and Ukraine

9.11 I understand from Utmost that none of the Transferring Business is directly impacted by the sanctions imposed as a result of the Russian invasion of Ukraine and that some assets within the unit-linked funds are subject to sanctions. However, the Scheme would not require any of these assets to be sold, and therefore I understand that they can be transferred to Quilter under the Scheme. I do not believe that the Scheme alters the impact of the sanctions imposed on these assets.

Impact of inflation and expectations of inflation

9.12 I will consider further the impact of inflation in my Supplementary Report when the financial information as at 30 June 2022 is available for both Utmost and Quilter.

10. CONCLUSIONS

10.1 I confirm that I have considered the issues affecting the various categories of policyholders of Utmost and Quilter separately, as set out in sections 6 to 9, and I do not consider further subdivisions (other than those in this Report) to be necessary.

10.2 I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Transferring Policies;
- The profile of risks to which the Transferring Policies are exposed;
- The protection offered by the regulatory and legal regimes that apply to the Transferring Policyholders; or
- The reasonable expectations of the Transferring Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Transferring Policies.

10.3 In addition, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on:

- The security of benefits under the Existing Policies;
- The profile of risks to which the Existing Policies are exposed; or
- The reasonable expectations of the Existing Policyholders in respect of their benefits, including the level and standards of administration and service that would apply to the Existing Policies.

10.4 I am satisfied that the Scheme is equitable to all classes of Utmost and Quilter policyholders.

P H Simpson

Philip Simpson

24 August 2022

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix A Selected financial information before the implementation of the Scheme

The results in Figure, 8.1, below, show the financial information of Utmost and Quilter pre-Scheme and before the alignment of the assumptions (detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64).

Figure A.1 Regulatory financial information as at 31 December 2021

£M	UTMOST PRE-SCHEME	QUILTER PRE-SCHEME
Total assets	11,730.7	20,673.6
Total liabilities	11,454.1	20,007.5
Own Funds	276.5	666.1
SCR	180.2	345.8
MCR	63.1	121.0
Excess Own Funds	96.3	320.3
SCR ratio	153%	193%

Source: Information provided by WCS, and Quilter Appointed Actuary Report and Utmost Appointed Actuary Report on the Scheme

The results in Figure A.2, below, show the financial information of Utmost and Quilter pre-Scheme but post-alignment of the assumptions (detailed in paragraphs 4.28 to 4.29 and 4.63 to 4.64).

Figure A.2 Adjusted financial information as at 31 December 2021

£M	UTMOST PRE-SCHEME ADJUSTED	QUILTER PRE-SCHEME ADJUSTED
Total assets	11,730.7	20,673.6
Total liabilities	11,473.2	19,998.5
Own Funds	257.5	675.1
SCR	169.6	332.7
Excess Own Funds	87.8	342.4
SCR ratio	152%	203%

Source: Information provided by WCS, and Quilter Appointed Actuary Report and Utmost Appointed Actuary Report on the Scheme

Appendix B Selected financial information after the implementation of the Scheme

Figure B.1 Regulatory post-Scheme pro-forma financial information as at 31 December 2021

£M	QUILTER POST-SCHEME
Total assets	32,404.3
Total liabilities	31,474.2
Own Funds	930.0
SCR	498.1
MCR	174.3
Excess Own Funds	431.9
SCR ratio	187%

Source: Information provided by WCS, and Quilter Appointed Actuary Report and Utmost Appointed Actuary Report on the Scheme

Note:

As the proposed Scheme transfers all the policyholders of Utmost (the Transferring Business), and their associated liabilities to Quilter, it is not expected that there will be any policyholder liabilities in Utmost post-Scheme and therefore we do not show a pro-forma post-Scheme balance sheet for Utmost.

Appendix C CV for Philip Simpson

C.1 Philip Simpson is a Principal and actuarial consultant in Milliman's London office. He has worked with the firm and its predecessors since 1999.

C.2 Philip is a Fellow of the Institute and Faculty of Actuaries and a Fellow of the Society of Actuaries in Ireland.

C.3 Philip specialises in life insurance and reinsurance. His consulting assignments include insurance business transfers; with-profits business; mergers and acquisitions; unit-linked business, reinsurance, financial reporting, annuities, longevity, Solvency II, Embedded Value, company reconstructions, new company launches, and product design and pricing.

C.4 Philip has acted as an Independent Expert or Actuary on a number of insurance business transfers. He has worked on over 40 transactions, including insurance business transfers, in the last 15 years.

C.5 Philip has advised sellers and purchasers on a large number of business transformations and mergers and acquisitions, including ones with material levels of mortality or longevity risk and with-profits exposure.

C.6 Philip has consulted on a wide range of with-profits, unit-linked and longevity related assignments including bonus reviews, reinsurance programmes, product design, reserve reviews, financial reporting and pricing.

C.7 Philip acts, or has acted, as a Chief Actuary, Head of Actuarial Function, an Actuarial Function Holder, a With Profits Actuary, an Appointed Actuary, an Independent Expert, an Independent Actuary and a Life Reinsurance Signing Actuary. He has wide experience in with-profits business, unit-linked business, annuity business and traditional business.

C.8 Philip holds a Chief Actuary (Life) Certificate and a With Profits Actuary Certificate issued by the Institute and Faculty of Actuaries.

C.9 Philip is Chair of the UK actuarial profession's Life Board.

C.10 Philip is a member of the International Actuarial Association's ("IAA") Insurance Regulation Committee and also a member of the IAA's Actuarial Standards Committee.

C.11 Since 2012, Philip acted as the Independent Expert in respect of the following Part VII transfers:

- Transfer of the business of the Finnish branch of Skandia Life Assurance Company limited to a new life company in Finland, a transfer that was sanctioned in 2012;
- Transfer of the business of Hannover Life Reassurance (UK) Limited to its parent company Hannover Rückversicherung AG, a transfer that was sanctioned in 2012;
- Transfer of the long-term business from PEL Altraplan (Gibraltar) PCC Limited to Augura Life Ireland Limited, a transfer that was sanctioned in 2014;
- Transfer for a block of long-term business from Mobius Life to Scottish Friendly, a transfer that was sanctioned in 2018;
- Transfer of the long-term business from Assurant Life Limited and London General Life Company Limited to Assurant Europe Life Assurance N.V., a transfer that was sanctioned in 2020; and
- Transfer of the life reinsurance business of Pacific Life Re Limited to a newly formed company in Bermuda, Pacific Life Re International Limited, a transfer that was sanctioned in 2021.

C.12 In addition, Philip has been peer reviewer to the Independent Expert for a significant number of Part VII transfers.

C.13 Before joining Milliman, Philip worked in reinsurance for 12 years.

Appendix D Scope of the Work of the Independent Actuary in relation to the Scheme

D.1 The following was included within the letter of engagement that was agreed between the Companies, Milliman and me, and which was shown to the FSA prior to the approval by the FSA of my appointment as the Independent Actuary in respect of the Scheme. Therefore, the following constitutes my terms of reference in respect of this assignment.

"My report (the Scheme Report) will consider the terms of the Scheme generally and the effect that the Scheme will have on the holders of (re)insurance policies of the Companies.

My review and Scheme Report will address generally the way in which the Companies have conducted their (re)insurance business but taking into account the particular circumstances of each of the different groups of policyholders of the Companies involved in the Scheme. It will deal inter alia with the following aspects:

- *The impact of the Scheme on the security of benefits / financial strength afforded to the different groups of policyholders of the Companies involved in the Scheme;*
- *The impact of the Scheme on the reasonable benefit expectations of the different groups of policyholders of the Companies involved in the Scheme;*
- *The corporate governance arrangements operating in the Companies involved in the Scheme and the impact of any differences in these arrangements on any groups of policyholders in the Companies involved in the Scheme;*
- *The impact of the Scheme on the levels of service provided to the different groups of policyholders of the Companies involved in the Scheme;*
- *The future business plans and the capital management policies of the Companies following implementation of the Scheme;*
- *The existing and proposed agreements between the Companies and their reinsurers;*
- *Guarantees and/or agreements (if any) between the Companies;*
- *Guarantees and/or agreements (if any) between each of the Companies and their respective parent company;*
- *Transactions (outside the Scheme) that impact upon one or both of the Companies;*
- *The terms and conditions (if any) expected to be imposed by the Scheme to be presented to the Court;*
- *A review of the communications to be made to policyholders and the categories of policyholders to be excluded from any direct communications;*
- *Any other matters drawn to my attention by the Regulators or which are required by the Regulators to be addressed within the report.*

The above list is not intended to be exclusive to any other aspects that may be identified during the completion of the project and which are considered to be relevant.

I shall not be directly involved in the formulation of the proposed transfers although I should expect to give guidance during the evolution of the detailed proposals on those issues that concern me, or that I consider unsatisfactory.

I will meet with the Companies at an early stage to identify key issues and will also discuss the initial findings in respect of the Scheme with the Companies.

I will support the Companies in their liaison with and provision of information to the Regulators and will also participate in discussions with the Regulators as required.

I will produce (i) the Scheme Report for submission to the Court; (ii) a supplemental report to the Scheme Report for submission to the Court at the final court hearing; and (iii) a summary of the Scheme Report that forms part of the Scheme summary for inclusion within letters to policyholders. I will share the Scheme Report (and drafts) and any supplemental report with those noted at paragraph 6(b) of the engagement letter.

If required, I will attend the Court hearings. For the avoidance of doubt, Milliman's fee estimates included in *this agreement include its attendance at the final court hearing of the Scheme.*

I will not provide any advice with respect to the merits of the proposed Scheme."

Appendix E The solvency regulatory regime in the IoM

QUALITATIVE REQUIREMENTS

E.1 A new regulatory solvency framework for IoM insurance and reinsurance industry came into operation on 30 June 2022, the *Insurance (Long-Term Business Valuation and Solvency) Regulations 2021* (the "Insurance Solvency Regulations"). These regulations are an update to the previous regulatory solvency framework in force, the *Insurance (Long-Term Business Valuation and Solvency) Regulations 2018*. This section summarises the Insurance Solvency Regulations.

E.2 Assets are, broadly speaking, reported at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

E.3 The insurer must also value its liabilities at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction. The determination of a the value of liabilities under the Insurance Solvency Regulations requires the insurer to calculate the BEL. The expected future obligations of the insurer are projected over the lifetime of the contracts using the most up-to-date financial information and the best estimate actuarial assumptions, and the BEL represents the present value of these projected cash-flows.

E.4 Under Insurance Solvency Regulations, a company's liabilities are called the "technical provisions" which consist of the sum of the BEL and the "risk margin". The risk margin is an estimation of the opportunity cost resulting from an insurer having to establish and hold eligible own-funds equal to its SCR, over the lifetime of its insurance obligations. It must take account of the diversification of the whole portfolio.

E.5 The SCR under the Insurance Solvency Regulations is intended to be the amount required to ensure that the firm's assets continue to exceed its technical provisions over a one year time frame with a probability of 99.5%.

E.6 The MCR, which is lower than the SCR, defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation.

E.7 In calculating the SCR, firms must use the "Standard Formula", as prescribed by the FSA.

OWN FUNDS AND CAPITAL

E.8 Under the Insurance Solvency Regulations, the excess of assets over liabilities, plus any subordinated liabilities, is known as Own Funds. Own Funds can be thought of as the capital available in the company to cover capital requirements.

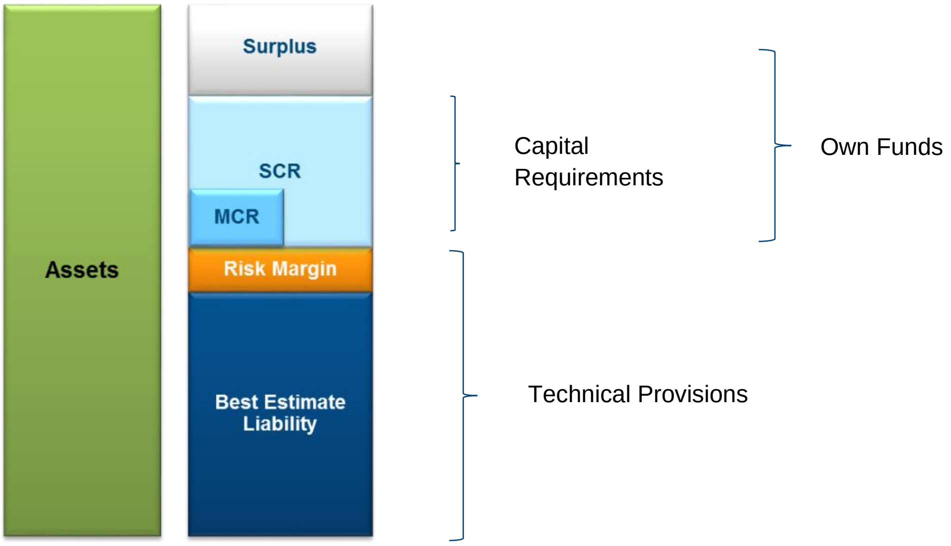
E.9 Under Insurance Solvency Regulations, companies are required to classify their Own Funds into three tiers, which broadly represent the quality of the Own Funds in relation to their ability to absorb losses. The Own Funds of the highest quality are classified as Tier 1. In order to be classified as Tier 1, Own Funds must, in general, be:

- Immediately available, i.e. the item is either immediately available, or becomes available at the point the insurer has insufficient eligible capital resources to meet its capital requirements and does not hinder the capitalisation of the insurer; and
- Subordination, i.e. in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder.

E.10 Own Funds that are classified as Tier 2 or Tier 3 are of a lower quality, with less ability to fully absorb losses.

E.11 The Own Funds described above are also often referred to as "Basic Own Funds". In addition to Basic Own Funds, the Insurance Solvency Regulations permits insurers to use Ancillary Own Funds to meet capital requirements, subject to regulatory approval. Ancillary Own Funds are committed but unpaid sources of capital, which can be drawn on demand by the insurer without any attaching conditionality. Ancillary Own Funds are also classified in line with the tiers outlined above, and are allocated to a tier one level below the level of the underlying item if it were a Basic Own Funds item.

E.12 The following diagram shows the structure of the balance sheet for an IoM life insurance company under the IoM risk-based capital market consistent valuation.



Appendix F The regulation and governance of insurance companies in the IoM

THE ROLE OF THE REGULATORS

F.1 The FSA was established by the Transfer of Functions (IoM Financial Services Authority) Order 2015, which transferred the functions of the Financial Supervision Commission and the Insurance and Pensions Authority to the FSA.

F.2 The regulatory objectives of the FSA are:

- Securing an appropriate degree of protection for policyholders, members of retirement benefit schemes and the customers of persons carrying on a regulated activity.
- The reduction of financial crime.
- The maintenance of confidence in the IoM's financial services, insurance and pensions industries through effective regulation, thereby supporting the IoM's economy and its development as an international financial centre.

F.3 The main functions of the FSA are set out in the Financial Services Act 2008 and the Insurance Act 2008.

THE GOVERNANCE OF LONG-TERM INSURERS

F.4 The Board of Directors of a proprietary long-term (re)insurer is the firm's governing body, and is ultimately responsible for setting the strategic direction of the firm, overseeing the activities of the firm's day-to-day management and approving the firm's financial statements.

F.5 Under the *Corporate Governance Code of Practice for Insurers 2021*, all (re)insurers are required to establish the following key functions:

- Actuarial function: This function is required, inter alia, to coordinate the calculation of technical provisions, and to ensure the appropriateness of the methodologies, underlying models and assumptions used in the calculation of technical provisions.
- Compliance function: This function is required, inter alia, to advise the insurer on compliance with its legal and regulatory obligations.
- Internal audit function: This function is required, inter alia, to evaluate the adequacy and effectiveness of the insurer's internal control system and other elements of its system of governance. The internal audit function is required to be objective and independent from the company's operational functions.
- Risk management function: This function is required, inter alia, to facilitate the implementation of the insurer's risk management system.

F.6 All individuals that are to be appointed as key persons (i.e. in any of the "Controlled Functions" for a regulated entity) must be notified to the FSA. On 1 March 2022 the FSA issued updated guidance in order to set out the criteria that will normally apply in considering the fitness and propriety of individuals who hold Controlled Functions. These Controlled Functions include:

- Chief Executive.
- Financial Controller.
- Appointed Actuary.
- Head of Compliance.
- Head of Internal Audit.

The individuals responsible for these functions are subject to acceptance by the FSA.

Appendix G Certificate of compliance

G.1 I understand that my duty in preparing my Report is to help the Court on all matters within my expertise and that this duty overrides any obligations I have to those instructing me and / or paying my fee. I confirm that I have complied with this duty.

G.2 I confirm that I am aware of, and have complied with, the requirements applicable to experts set out in Chapter 6 of the Rules of the High Court of Justice 2009. As required by rule 8.60 (2i), I hereby confirm that I have understood, and have complied with, my duty to the Court.

G.3 I confirm that, insofar as the facts stated in my report are within my knowledge, I have made clear which they are and I believe them to be true, and that the opinions I have expressed represent my true and complete professional opinion.

P H Simpson

Philip Simpson

24 August 2022

Principal of Milliman LLP

Fellow of the Institute and Faculty of Actuaries

Appendix H Definitions

TERM	DEFINITION
Actuarial Governance Forum	A forum made up of senior executives. It is responsible for making recommendations to the Utmost Board and Quilter Board, respectively, regarding judgements over key financial assumptions for solvency and financial reporting purposes.
ALAP	Aviva Life and Pensions UK Limited.
Ancillary Own Funds	Ancillary Own Funds are committed but unpaid sources of capital, which can be drawn on by demand by the insurer without attaching conditionality. Insurers are permitted to use Ancillary Own Funds to meet capital requirements, subject to regulatory approval.
Appleby	Appleby (Isle of Man) LLC.
AXA China	AXA China Region Insurance Company (Bermuda) Ltd.
AXA Singapore	AXA Life Insurance Singapore Private Limited.
Basic Own Funds	The excess of assets over liabilities, plus any subordinated liabilities.
BEL	The best estimate liability ("BEL") is a market consistent value of liabilities calculated under Solvency II.
Board	The Board of an insurer is ultimately accountable and responsible for the affairs of the insurer.
Capital Management Policy	The Capital Management Policy of a company sets out the minimum capital requirements relating to the quantity of capital to be held in excess of the SCR.
Constructive Funds	All the funds held by Utmost as constructive trustee, deriving from three long-term business policies that were unenforceable for illegality and were cashed.
Controlled Functions	These are key functions of the insurer for which individuals with responsibility for these functions must be notified to the FSA, and some of which must be approved by the FSA.
The Court	The Isle of Man Courts of Justice.
Directions Hearing	A short hearing at which the Court makes procedural orders with regard to a proposed scheme, in particular in relation to communications with policyholders.
Effective Date	The date on and from which the Scheme shall become effective, which is expected to be 30 November 2022.
EIOPA	The European Insurance and Occupational Pensions Authority ("EIOPA") was established in consequence of the reforms to the structure of supervision of the financial sector in the EU, with the goals of: better protecting consumers and rebuilding trust in the financial system; ensuring a high, effective and consistent level of regulation and supervision taking account of the varying interests of all Member States and the different nature of financial institutions; greater harmonisation and coherent application of rules for financial institutions & markets across the EU; strengthening oversight of cross-border groups; and promoting coordinated EU supervisory responses.
EPB	Estate Planning Bonds.
EVO	Evolution Bonds.

Existing Business	All the business of Quilter.
Existing Policies	The insurance contracts underlying the Existing Business.
Existing Policyholders	The policyholders of the Existing Business.
FCA	The Financial Conduct Authority ("FCA") is the UK regulatory agency that focuses on the regulation of conduct by retail and wholesale financial services firms. The FCA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
FCA Guidance	The FCA's guidance FG22/1 entitled "*The FCA's approach to the review of Part VII insurance business transfers"*, initially issued in May 2018 and updated in February 2022.
FLAS WPSF	FLAS With-Profits Sub-Fund of ALAP.
FLC WPSF	FLC With-Profits Sub-Fund of ALAP.
FOS	The Financial Ombudsman Service ("FOS") is an independent public body that aims to resolve disputes between individuals and UK financial services companies, and may make compensation awards in favour of policyholders.
FSA	Financial Services Authority in the IoM which is the authority possible for conduct and prudential regulation of financial service firms in the IoM. It was established by the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.
FSCS	The Financial Services Compensation Scheme ("FSCS") is a statutory "fund of last resort" in the UK, which compensates retail customers in the event of the insolvency (or other defined default) of a financial services firm authorised by the PRA or FCA.
FSOS	The Financial Services Ombudsman Scheme in the IoM. It is an independent dispute resolution service for customers with a complaint against an IoM financial firm, such as an insurance company, which the firm has been unable to resolve.
GBP	UK Pounds Sterling, the currency of the UK.
GFSC	Guernsey Financial Services Commission.
Guernsey Court	The Royal Court of Guernsey. Approval of the Royal Court of Guernsey will be sought in respect of the Guernsey Scheme.
Guernsey Policies	The policies of the Transferring Business which were issued to policyholders resident in Guernsey.
Guernsey Scheme	The parallel transfer of the Guernsey Policies from Utmost to Quilter. The transfer of the Guernsey Policies is conditional on the approval of the Guernsey Scheme by the Guernsey Court, as well as the approval of the Scheme by the Court.
HKIA	Hong Kong Insurance Authority.
IAA	International Actuarial Association.
IFoA	The Institute and Faculty of Actuaries, the professional body for actuaries in the UK.
Independent Actuary	The Independent Actuary prepares the Independent Actuary's Report and provides it to the Court in order that it may properly assess the impact of the proposed transfer, including the effect on the policyholders of the insurance companies in question. In the case of the Scheme, I have been appointed as the Independent Actuary.

Insurance Solvency Regulations	The *Insurance (Long-Term Business Valuation and Solvency) Regulations 2021* which set out how insurers authorised in the IoM should calculate their solvency capital requirements.
IoM	Isle of Man.
Jersey Court	The Royal Court in Jersey. Approval of the Royal Court in Jersey will be sought in respect of the Jersey Scheme.
Jersey Policies	Policies carried on by Utmost in or from Jersey.
Jersey Scheme	The parallel transfer of the Jersey Policies from Utmost to Quilter. The transfer of the Jersey Policies is conditional on the approval of the Jersey Scheme by the Jersey Court, as well as the approval of the Scheme by the Court.
JFSC	Jersey Financial Services Commission.
LCCG	Life Company Consolidation Group.
Linked Funds	These are linked funds for the purpose of calculating benefits payable under unit-linked policies.
MAS	Monetary Authority of Singapore.
MCR	The Minimum Capital Requirement ("MCR") under the Insurance Solvency Regulations, which is usually lower than the SCR, and defines the point of intensive regulatory intervention.
Milliman	Milliman LLP, a member of the Milliman Group.
Modified Co-Insurance Agreements	The two agreements Utmost have in place with AXA China and AXA Singapore, under which the Modified Co-Insurance business is ceded back to Utmost.
Modified Co-Insurance business	The Transferring Business sold by AXA China and AXA Singapore which is ceded to Utmost.
OMI	Old Mutual International (Guernsey) Ltd.
Other Unit-Linked business	The Transferring Business which is neither With-Profit Fund Linked nor Modified Co-Insurance.
ORSA	The Own Risk and Solvency Assessment ("ORSA") is a fundamental set of processes under Solvency II and the UK Prudential Regulation Regime constituting a tool for decision-making and strategic analysis. It aims to assess, in a continuous and prospective way, the overall solvency needs related to the specific risk profile of the insurance company.
Own Funds	The excess of assets over liabilities, plus any subordinated liabilities and Ancillary Own Funds, defined under the Insurance Solvency Regulations.
PCS	The Policyholder Compensation Scheme.
Policyholder Compensation Scheme	The Policyholder Compensation Scheme – Life Assurance in the IoM. The purpose of this compensation scheme is to protect policyholders of authorised insurers writing long-term business.
PRA	The Prudential Regulatory Authority ("PRA") is part of the Bank of England and carries out the prudential regulation of financial firms in the UK, including banks, investment banks, building societies and insurance companies. The PRA operates as part of the regulatory framework implemented under the Financial Services Act 2012.
PRA Statement of Policy	The Statement of Policy entitled "The Prudential Regulation Authority's approach to insurance business transfers", initially issued in April 2015 and updated in January 2022.

QBS	Quilter Business Services Limited.
QIBS	Quilter International Business Services.
QII	Quilter International Ireland dac.
Quilter	Quilter International Isle of Man Limited.
Quilter Capital Management Policy	The policy maintained by Quilter which sets out the minimum quantity of capital to be held in excess of the SCR.
Regulated activities undertaken by Utmost in the UK	Utmost holds the following FCA permissions in the UK: • Arranging safeguarding and administration of assets; • Dealing in investments as agent; • Dealing in investments as principal; • Making arrangements with a view to transactions in investments; • Making investments; • Safeguarding and administration of assets (without arranging); and • Agreeing to carry on regulated activity. The above carry the following limitation "The firm may only carry on listed activities in respect of the investments specified for the purposes of its long term insurance business".
Report	References to the "Report" refer to this report.
Report Summary	I will provide a summary of this Report (the "Report Summary") for inclusion in a document that will be made available to the affected policyholders of Utmost and Quilter. The Report Summary will be sent to the FSA and will accompany the Scheme application to the Court, and will be available on the website dedicated to the Scheme.
Risk margin	Under Insurance Solvency Regulations the risk margin is an adjustment designed to estimate the opportunity cost resulting from the insurer having to hold reserves to meet the solvency capital requirements.
RPI	Retail Price Index, a UK based inflation index.
RPS	These are regular premium products that were written by Utmost on a life assured basis. These policies are no longer written.
Sanction Hearing	A hearing at which the Court hears the application to sanction a proposed transfer of insurance business.
Scheme	In the context of this Report, the proposal that the transferring business of Utmost be transferred to Quilter under the provisions of Section 21(1) of Schedule 2 to the 2008 Insurance Act.
Scheme Report	The Scheme Report consists of this report (the "Report") and any subsequent supplementary reports.
Scheme document	The document that sets out the terms of the proposed transfer (the "Scheme document").
SCR	The Solvency Capital Requirement ("SCR") under Insurance Solvency Regulation is the amount of capital required to ensure continued solvency over a one year trading time frame with a likelihood of 99.5%.
Standard Formula	In calculating the SCR under the Insurance Solvency Regulations firms must use the "Standard Formula", as prescribed by the FSA.
SUP18	Section 18 of the FCA Supervision Manual.

Supplementary Report	Shortly before the date of the Court hearing at which an order sanctioning the Scheme will be sought, I will prepare a supplementary report (the "Supplementary Report") that will cover any relevant matters that might have arisen since the date of this Report.
TCF	The TCF (“treating customers fairly”) principles aim to raise standards in the way firms carry on their business by introducing changes that will benefit consumers and increase their confidence in the financial services industry. Specifically, TCF aims to: help customers fully understand the features, benefits, risks and costs of the financial products they buy; and minimise the sale of unsuitable products by encouraging best practice before, during and after a sale.
Technical provisions	Liabilities determined for regulatory purposes. In particular, the provisions for the ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for future claims (and premiums) arising on unexpired periods of risk. See Appendix E of this Report for further details.
Transferee	The entity to which business is being transferred – in the case of the Scheme, this is Quilter.
Transferor	The entity from which business is being transferred – in the case of the Scheme, this is Utmost.
Transferring Business	All of the liabilities associated with the long-term business of Utmost.
Transferring Policyholders	Policyholders of Utmost whose policies would be transferred to Quilter under the Scheme.
TSA	Transitional Services Agreements.
UAL	Utmost Administration Limited.
UGPlc	Utmost Group Plc.
UHIOM	Utmost Holdings Isle of Man Limited.
UHIOM RAS	The risk appetite statement adopted by the UHIOM Board.
UPE Agreement	An management services agreement for the provision of services between Utmost PanEurope Designated Activity Company and Utmost.
UK	United Kingdom.
UK Transferring Business	Transferring Business sold under the permissions held by Utmost in the UK, in respect of which Utmost is regulated by the FCA.
USL	Utmost Services Ltd.
UTL	Utmost Topco Limited.
Utmost	Utmost Limited.
Utmost Capital Management Policy	The policy maintained by Utmost which sets out the minimum quantity of capital to be held in excess of the SCR.
WCS	Wraxall Capital Solutions Ltd.
Website Referral Letter	A short letter Utmost intends to send to the Transferring Policyholders informing them of the Scheme and referring them to a dedicated webpage.
With-Profit Fund Linked	The Transferring Business that invests into two of ALAP’s with-profits funds.

Appendix I Key Sources of Data

I.1 In writing this Report, I relied upon the accuracy of certain documents provided by agents for Utmost and Quilter. These included, but were not limited to, the following:

DOCUMENT	DATE OF DOCUMENT
Quilter International Isle of Man Limited: Actuary's Report 2021	17/03/2022
Utmost Actuary's Report 2021	Early 2022
Scheme Document	24/08/2022
First Witness Statement of Joly Hemuss	24/08/2022
Quilter Appointed Actuary Report on the Scheme	24/08/2022
Utmost Appointed Actuary Report on the Scheme	24/08/2022
Responses received to Independent Actuary Query Log	N/A
Policyholder communications	N/A
Various additional underlying documentation	N/A

I.2 Information relating to the items listed above was also gathered during discussions with representatives of WCS, Utmost and Quilter.