

Report of the Independent Actuary

Summary of the Report of the Independent Actuary on the proposed transfer of Quilter International Ireland dac to Utmost PanEurope dac for inclusion in the policyholder circular.

29 June 2022

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Section 1: Introduction

Scope of the Independent Actuary Report

- 1.1 The Independent Actuary report has been prepared in respect of the schemes to be presented to the Irish Court¹ and the Guernsey Court² for the transfer of all of the insurance business from Quilter International Ireland dac (“QII”) and a small number of insurance policies from Utmost Worldwide Limited (“UWW”) to Utmost PanEurope dac (“UPE”) in compliance with the requirement for an independent actuary’s report in Ireland and Guernsey respectively. As Independent Actuary, I am required to examine the consequences and potential consequences of the proposed transfer. In particular, I must consider the implications of the Schemes on the security of policyholders’ benefits and the impact on the benefits ultimately payable.
- 1.2 The Independent Actuary report considers the consequences of the Schemes for the QII and UWW transferring policyholders, for the policyholders of the transferee company, UPE (or the “Transferee”) and also for the non-transferring policyholders of UWW. I have only considered the Schemes proposed and I have not considered any alternative schemes. This report compares the position of the life assurance policyholders of the three companies after implementation of the Schemes against the position if the Schemes were not to proceed.
- 1.3 This report (the “Summary Report”) is a summary of my Independent Actuary Report in respect of the proposed Schemes and further information and the analysis underlying my conclusions can be found in my full Independent Actuary Report.

Background

- 1.4 The Utmost Group has been operating since 2013, previously as two separate groups: Utmost International Group Holdings and Utmost UK Group Holdings. In October 2020, the Group underwent a reorganisation which resulted in the Group’s two businesses being brought together under a single UK holding company, Utmost Group Limited, which was reregistered as Utmost Group plc (“UG”) in July 2021. UG, is a UK based financial services group operating in the UK and international life assurance sectors. It is a provider of insurance and savings products which also specialises in the acquisition and consolidation of books of life assurance business in the UK and internationally.
- 1.5 QII is a member of UG, and a direct subsidiary of UPE. UPE is a member of UG, and a direct subsidiary of Utmost Holdings Ireland Limited (“UHIL”). It is proposed that QII will transfer its insurance business to UPE via a scheme of transfer in Ireland (the “Irish Scheme”) and in Guernsey (the “QII Guernsey Scheme”), that are currently planned to take effect at 30 September 2022 (the “Effective Time”). This transfer is a continuation of UG’s consolidation strategy to simplify the business, produce operational and capital efficiencies and manage liquidity.
- 1.6 UWW is also a member of UG, and a direct subsidiary of Utmost International Group Holdings Limited (“UIGH”). At the same time as the transfer of the QII insurance business, and through a separate scheme of transfer in Guernsey (the “UWW Guernsey Scheme”), UWW will transfer a small number of insurance policies to UPE. The transfer of these policies is as a result of the Dutch Authority for the Financial Markets (“The Dutch Regulator”) requiring that all third country insurance companies operating within the Netherlands, including UWW, run-off their positions over a period of two years following the United Kingdom’s exit from the European Union (“EU”) on 31 January 2021.

¹ The High Court of Ireland

² The Royal Court of Guernsey

- 1.7 Although the transfer of the QII business is separate to the transfer of the UWW policies, the processes are being carried out in parallel and so I provide my opinion on the overall outcome for policyholders of UPE after the proposed transfer. My conclusions are based on the assumption that both the QII and UWW policies will transfer to UPE. If however either transfer does not go ahead as planned, I will consider the impact of this in my supplementary report.
- 1.8 The acquisition of QII by Utmost Holdings Isle of Man Limited was completed on 30 November 2021 and as part of a subsequent business reorganisation, QII was acquired by UPE. The business of QII includes single premium Portfolio Bonds and a small amount of unit-linked business, collectively referred to as the “QII Transferring Business”. QII is open to new business in respect of Portfolio Bond products only.
- 1.9 UWW is a life insurance company based in Guernsey which was acquired by UG in February 2019. The business of UWW includes unit-linked and Portfolio Bond products as well as group protection and retirement and savings business, sold to individual expatriates and multinational corporations globally. The only UWW policies that will transfer to UPE, collectively referred to as the “UWW Transferring Business”, are those policies where at least one policyholder was a resident of the Netherlands at the time of the inception and where the policyholder is still recorded as resident or tax resident in the Netherlands. These policies cover a range of different products including unit-linked single and regular premium business and make up a small proportion of UWW’s overall liabilities.
- 1.10 The QII Transferring Business and the UWW Transferring Business are collectively referred to as the “Transferring Business”.
- 1.11 UPE, previously Generali PanEurope dac, was acquired by UG during 2018. The in-force business of UPE includes unit-linked single and regular premium business, employee benefits business and a small portfolio of German variable annuity (“VA”) business as well as with-profits business. UPE is open to new business in respect of a number of different unit-linked and group protection products.
- 1.12 It is proposed that all the policies in QII will be transferred to UPE at the Effective Time via the Irish Scheme, approved by the High Court of Ireland (“the Irish Court”).
- 1.13 Included within the QII Transferring Business are policies that have been sold by QII to residents of Guernsey (“the QII Guernsey Policies”). To the extent that the QII Guernsey Policies fall within the scope of the Insurance Business (Bailiwick of Guernsey) Law 2002 (“Guernsey Insurance Law”), the QII Guernsey Policies will not transfer to UPE pursuant to the terms of the Irish Scheme but instead will transfer pursuant to the QII Guernsey Scheme under the Guernsey Insurance Law with the same planned effective date as the Effective Time of the Irish Scheme. Having reviewed the draft QII Guernsey Scheme, I am satisfied that the QII Guernsey Scheme incorporates and reflects the Irish Scheme. The QII Guernsey Scheme will be subject to the approval of the Royal Court of Guernsey (“the Guernsey Court”). My conclusions as set out in this report apply equally in respect of the QII Guernsey Policies comprised in the QII Transferring Business.
- 1.14 As UWW is a licensed insurer in Guernsey, the UWW Transferring Business will be transferred to UPE pursuant to the separate UWW Guernsey Scheme at the same time as the QII Guernsey Scheme. The Schemes in respect of the QII Transferring policies are not dependent on the transfer of the UWW policies. My conclusions as set out in this report apply equally in respect of the UWW Transferring Business.
- 1.15 The structure of UG before the proposed Schemes is set out in Figure 1.1 below and the planned structure post the proposed Schemes is shown in Figure 1.2 below:

Figure 1.1 - UG structure before transfer

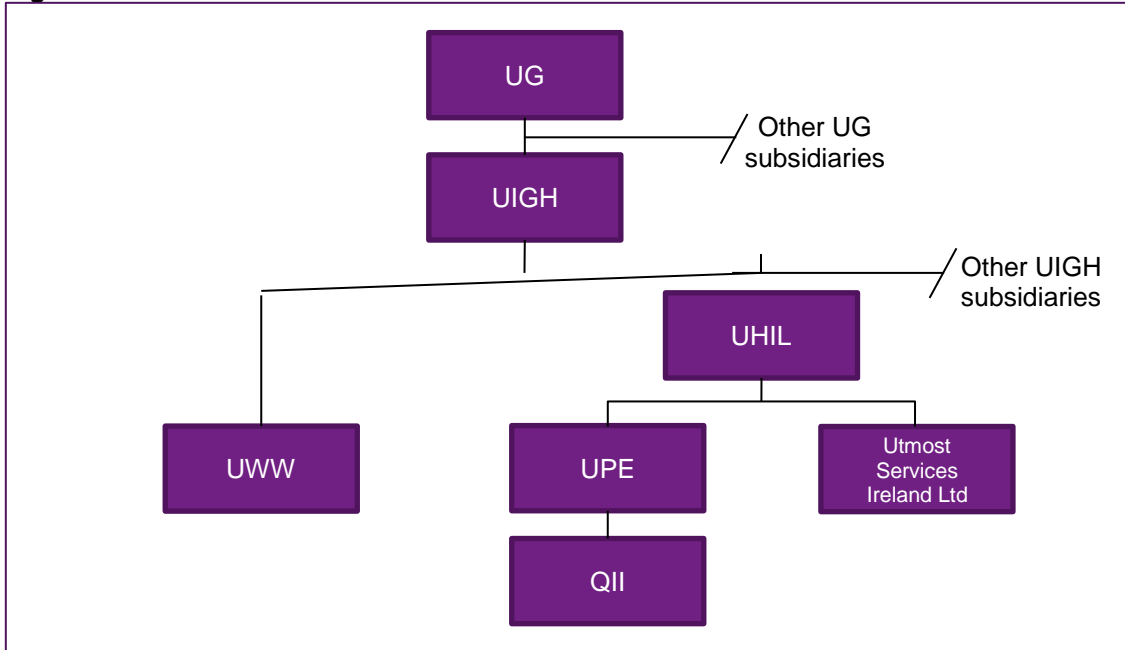
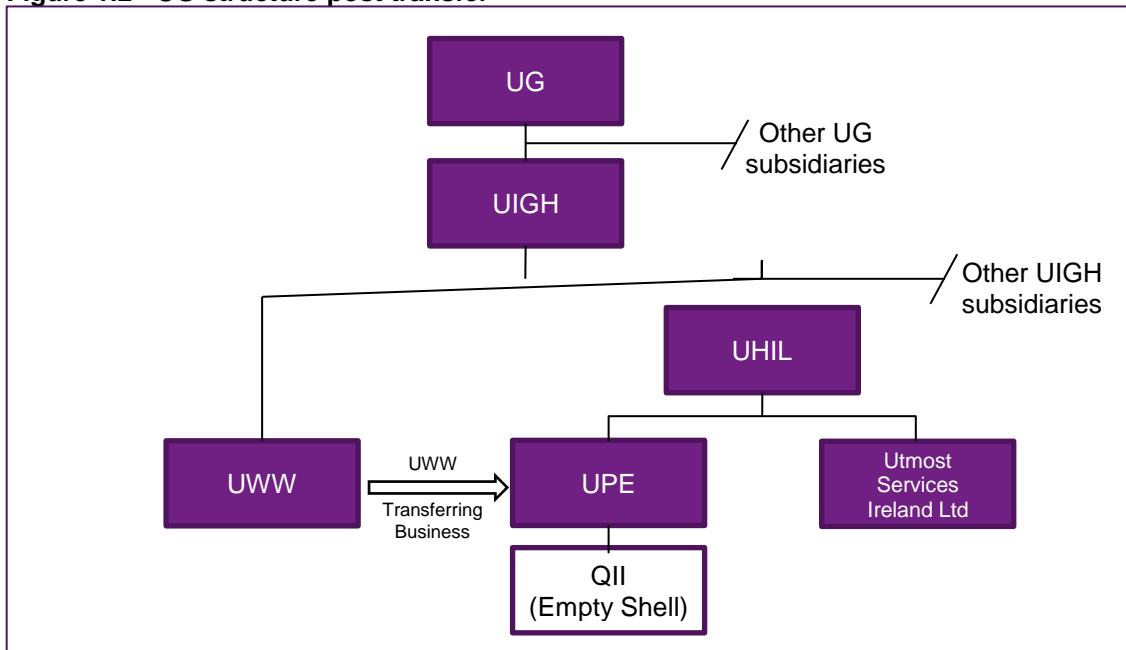


Figure 1.2 - UG structure post transfer



- 1.16 The respective Boards of Directors of QII, UWW and UPE have approved the draft Schemes, subject to the requirements of; the Central Bank of Ireland ("the CBI"); the Guernsey Financial Services Commission ("GFSC"); the sanction of the Irish Court in respect of the Irish Scheme; the sanction of the Guernsey Court in respect of the QII Guernsey Scheme and the UWW Guernsey Scheme.

The role of the Independent Actuary

- 1.17 Under Section 13 of the Assurance Companies Act 1909 ("the Act"), any scheme which provides for the whole or part of the life assurance business carried on by an insurance company to be transferred to another body, requires the prior sanction of the Irish Court.

- 1.18 The Irish Court will consider the Irish Scheme on the basis of a petition by one, or both, of the parties. The petition must be accompanied by a report on the terms of the scheme by an Independent Actuary.
- 1.19 The Actuarial Standard of Practice LA-6 (“ASP LA-6”), “Transfer of long-term business of an authorised insurance company – role of the independent actuary”, issued by the Society of Actuaries in Ireland, sets out the statutory and professional responsibilities of the Independent Actuary.
- 1.20 I have been appointed by UPE to act as the Independent Actuary in connection with the Irish Scheme pursuant to Section 13 of the Act and in connection with the Guernsey Schemes. My appointment is also made in fulfilment of the requirement of Section 45(2)(a)¹ of the Guernsey Insurance Law. The “Schemes” refer to the schemes of transfer which are the legal documents that set out the terms of the proposed transfer of business from QII and UWW to UPE.
- 1.21 I am a Fellow of the Society of Actuaries in Ireland. I am a Consulting Actuary at Willis Towers Watson (Ireland) Limited (“Willis Towers Watson”) of Elm Park, Merrion Road Dublin 4, Ireland. I have no personal connection with QII, UWW or UPE. I previously acted as Independent Actuary in relation to the 2019 transfer of UHI and HLI to UPE. Previously, in a number of transfers of business for companies owned by UHIL, a colleague in Willis Towers Watson acted as Independent Actuary in relation to the 2017 and 2018 transfers (namely transferring a book of business from AXA to UI, a book of business from Athora to UI and a number of simultaneous transfers of business from three companies owned by Utmost Holdings Ireland Limited to HLI). Other consultants in Willis Towers Watson have worked for and carried out consultancy work for the UG in the UK, although that work was not related in any way to the proposed transfer discussed in this report.
- 1.22 This report applies equally to the life assurance business comprising of policies issued to residents of Guernsey and the Netherlands. It may therefore be used to satisfy the requirement for a report by an independent actuary on the terms of the QII Guernsey Scheme and the UWW Guernsey Scheme.

Information on which this report is based

- 1.23 In the course of preparing the Independent Actuary Report and this Summary Report, I have been provided with a number of documents by QII, UWW and UPE to assess the impact on their policyholders of the proposed Scheme. Full details of the information provided to me are included in the Independent Actuary Report.
- 1.24 In addition, my team and I have participated in a number of meetings involving the management of UPE, QII and UWW. These included meetings with the Heads of Actuarial Function of QII, UPE and UWW.

Reliances and Limitations

- 1.25 This Summary Report is subject to the reliances and limitations set out in the Independent Actuary Report and, to the extent permitted by law, the use of the Independent Actuary Report is subject to the terms and conditions, including limitation of liability, set out in our Statement of Work document dated 03 May 2019.
- 1.26 The purpose of the Independent Actuary Report and this Summary Report is to set out my assessment of the likely effects of the proposed Schemes on the long-term policyholders of Utmost PanEurope dac, Quilter International Ireland DAC and Utmost Worldwide Limited and it should not be used for any other purpose or in any other context. My report was not specifically intended to, and may not therefore, address the particular needs, concerns or

¹ “The Royal Court shall not determine an application for an order under section 44 sanctioning a scheme unless the application is accompanied by a report on the terms of the scheme by an independent actuary”

objectives of any individual policyholder. This Summary Report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. If reliance is placed contrary to the guidelines set out above, Willis Towers Watson disclaim any and all liability which may arise.

- 1.27 In carrying out my review and producing this report I have relied without independent verification upon the accuracy and completeness of the data and information provided to me, both in written and oral form, by UPE, QII and UWW, particularly in relation to the financial information concerning the solvency position of each company, both before the proposed transfer and the projected solvency position after the proposed transfer, and also in respect of the legal and tax advice provided to me which I have reviewed and placed reliance on.
- 1.28 Neither the Independent Actuary Report, this Summary Report, nor any extract from either document, may be disclosed to, or relied on, by any third party not part of this process without the prior written consent of Willis Towers Watson, and neither will Willis Towers Watson nor I accept any responsibility or liability in respect of such disclosure or reliance, with the exception of making the Independent Actuary Report (or this Summary Report) available for inspection by, or circulation to UPE, QII and UWW policyholders as required by legislation or in order to meet any other specified legal requirements. In the event that such consent is provided, the Independent Actuary Report must be provided in its entirety.

Section 2: Background to QII, UWW and UPE

QII history

- 2.1 QII is a member of UG and is a direct subsidiary of UPE. QII is based in Dublin and offers life assurance investment solutions cross border, predominantly into EU countries utilising EU freedom of services regulations, plus selected non-EU markets. The principal activity of QII is the transaction of international unit-linked life assurance business and the company is authorised and regulated by the Central Bank of Ireland (“CBI”).
- 2.2 QII has a larger sister company, Quilter International Isle of Man Limited (“QIIM”), which serves non-EU and UK markets offering similar products. QII outsources extensively to group service companies.
- 2.3 The company has business in the majority of European Economic Area (“EEA”) countries and a number of non-EEA countries, including Crown Dependencies for which schemes of transfer are expected to be required.

The business of QII

- 2.4 QII currently has two distinctive product groupings, as set out below
- Portfolio bonds: These are single premium, open architecture products with a variety of charging structures, and make up the majority of the in-force book and all new business written by QII. The bonds are offered on a cross-border basis; and
 - Unit-linked products: The business also has a very small book of unit-linked products utilising the company’s internal fund offering. This book is entirely closed to new business and the internal fund offering continues to be rationalised as the book contracts.
- 2.5 A more detailed description of the product features is included in the QII Head of Actuarial Function report relating to the proposed transfer.
- 2.6 The QII business is administered by staff employed by Quilter International Business Services (“QIBS”) in the Isle of Man which is a member of UG.
- 2.7 Table 2.1 below summarises the number of policies and funds under management (“FUM”) of QII as at year-end 2021.

Table 2.1 – QII on 31 December 2021

| | Number of policyholders | FUM € million |
|-----------------|-------------------------|---------------|
| Portfolio Bonds | 7,005 | 4,559 |
| Unit-Linked | 400 | 32 |
| Total | 7,405 | 4,591 |

UWW history

- 2.8 UWW is a life insurance company based in Guernsey and was acquired by Utmost on 28 February 2019. UWW is made up of an Amalgamation of Generali International Ltd (“GIL”) and Generali Worldwide Insurance Company Limited (“GWICL”). The Amalgamation was akin to an Insurance Business Transfer, but under Guernsey law. The Amalgamation took place on 11 December 2015.

- 2.9 GIL wrote unit-linked savings contracts and portfolio bonds to individual expatriates globally. GWICL wrote group protection contracts and retirement and savings contracts to multinational corporations globally. UWW continues to write group protection, group savings, unit-linked savings and portfolio bonds, as well as accepting top-ups on existing contracts.

The business of UWW

- 2.10 UWW currently has a range of different product types as summarised in Table 2.2.

Table 2.2 – UWW on 31 December 2021 (FUM shown in GBP)

| | Number of policyholders | FUM £ million |
|--|-------------------------|---------------|
| Vision | 44,091 | 1,717 |
| Focus | 142 | 2 |
| Legacy Unit-Linked | 4,337 | 206 |
| Portfolio Bonds | 3,798 | 1,349 |
| Group Life & Disability | 1,255 | |
| Group Retirement & Savings, Momentum and individual legacy | 753 | 506 |
| Annuities | 1,565 | |
| Total | 55,941 | 3,780 |

- 2.11 However only a small subset of the UWW policies make up the UWW Transferring Business. This includes those policies where at least one policyholder was a resident of the Netherlands at the time of the inception and where the policyholder is still recorded as resident or tax resident in the Netherlands. A breakdown of the liabilities of the UWW Transferring Business is provided in Table 2.3 which shows that the transferring policies make up less than 1% of UWW business by both number of policies and FUM.

Table 2.3 - UWW Transferring Business on 31 December 2021 (FUM shown in GBP)

| | Number of policyholders | FUM £ million |
|--|-------------------------|---------------|
| Vision | 226 | 10.9 |
| Focus | | |
| Legacy Unit-Linked | 8 | 0.5 |
| Portfolio Bonds | | |
| Group Life & Disability | | |
| Group Retirement & Savings, Momentum and individual legacy | | |
| Annuities | | |
| Total | 234 | 11.4 |

- 2.12 All of the UWW Transferring Business is unit-linked in nature:

- Vision is a regular premium unit-linked whole-of-life savings plan that permits premium increases, with a wide fund range. There are no significant investment guarantees or

insurance benefits within this. Policies have death benefits at 101% of sum assured. The product variants included with the UWW Transferring Business are closed to new business and do not include any additional death benefits; and

- Legacy Unit-Linked business includes either single or regular premium unit-linked policies with varying charges and benefits. None of the policies have guaranteed minimum fund values, and all are closed to new business.
- 2.13 A more detailed description of the product features is included in the UWW Head of Actuarial Function report relating to the proposed transfer.
- 2.14 The UWW business is administered by UWW in Guernsey. The administration systems differ by line of business.

UPE history

- 2.15 UHIL acquired Generali PanEurope dac on 19th June 2018 and subsequently renamed it as Utmost PanEurope dac. UHIL in turn is part of UG. UG is a specialist vehicle operating in the UK and international life assurance sectors. It is a provider of insurance and savings products which also specialises in the acquisition and consolidation of books of life assurance business in the UK and internationally.
- 2.16 UPE was incorporated in October 1999 and began trading in October 2001, writing cross border life assurance contracts to pan-European jurisdictions. These products were unit-linked savings products, marketed at ultra-high-net worth individuals.
- 2.17 In 2006, UPE expanded its product range to include Employee Benefits, which are group risk style insurance products marketed to domestic Irish and multi-national corporations.
- 2.18 In 2019, the business of two other entities within UG, Harcourt Life Ireland dac (“HLI”) and Utmost Ireland dac (“UI”) transferred into UPE.

The business of UPE

- 2.19 UPE currently has three distinctive product groupings, as set out below:
- Heritage UPE products:
 - Wealth solutions business: unit-linked business investing in a range of stocks, shares and other funds, which can be sub-divided as follows:
 - Wealth Protection business;
 - Investment Planning Single Premium business; and
 - Investment Planning Regular Premium business (Vision).
 - Corporate Solution business: group risk style employee benefit business providing life cover, income protection and critical illness benefits to employees of domestic Irish and multi-national corporations.
 - Variable annuity (VA) business: unit-linked contracts offering a Guaranteed Minimum Accumulation Benefit (GMAB) to policyholders in the German market. This book is closed and is 100% reinsured.
 - Ex-UI products:
 - Ex-HLI products:

- 2.20 A more detailed description of the product features is included in the UPE Head of Actuarial Function report relating to the proposed transfer.
- 2.21 A significant feature of the UPE business is that it prepays tax to the Italian tax authority and then reclaims amounts from tax due to be paid by Italian policyholders when they withdraw funds and have had investment gains. The company has received tax advice that it can also recover the prepayment tax from tax amounts due to be paid to the Italian tax authority. The nature of the prepayment tax means that a significant tax asset has built up within the company. The amount of the prepayment Italian tax asset was €129 million as at year-end 2021.
- 2.22 UPE's business is managed by staff employed by Utmost Services Ireland Limited ("USIL"), a services company which is part of UG. The administration systems differ by line of business.
- 2.23 Table 2.4 below summarises the number of policies and funds under management ("FUM") of UPE as at year-end 2021.

Table 2.4 - UPE on 31 December 2021

| | Number of policyholders | FUM € million |
|--------------------------|-------------------------|---------------|
| Wealth Protection | 2,814 | 12,619 |
| Investment Planning Bond | 960 | 237 |
| Vision | 23,970 | 521 |
| Employee Benefits | 967 | - |
| Non-Profit | 324 | - |
| Unit-Linked | 15,181 | 7,115 |
| Total | 44,216 | 20,492 |

Section 3: Main features of the Schemes

- 3.1 The purpose of the Schemes is to provide for the transfer to UPE of the QII and UWW Transferring Business so that from the effective date of the Schemes the QII and UWW Transferring Business will become part of the life assurance business of UPE.
- 3.2 As described in Section 1, the QII Transferring Business will transfer to UPE via the Irish Scheme and the QII Guernsey Scheme, and the UWW Transferring Business will transfer to UPE via the UWW Guernsey Scheme. I have been provided with a draft of the proposed Irish Scheme and the principal features of this Scheme are set out in the following paragraphs. I have been informed that the Guernsey Scheme will incorporate and reflect the Irish Scheme.

Scope of transfer

The Schemes (excluding the UWW Guernsey Scheme)

- 3.3 Under the Irish Scheme and the QII Guernsey Scheme, the life assurance business liabilities of the Transferors¹ will be transferred to UPE at the Effective Time (the time and date when the Schemes will become operative). The assets that will transfer under the Schemes at the Effective Time will be the assets of the Transferors in connection with the Transferring Business held by the Transferor on the Effective Time, but excluding the Excluded Assets.
- 3.4 The excluded assets are defined in the Schemes as follows:
- QII: Cash deposits with a value of €3.8 million.
- 3.5 The QII Transferring Policies are those life assurance policies written by the transferors up to and including the Effective Time.

UWW Guernsey Scheme

- 3.6 Under the UWW Guernsey Scheme, the life assurance business liabilities of the UWW will be transferred to UPE at the Effective Time (the time and date when the UWW Guernsey Scheme will become operative). A book of specific policies (the “UWW Transferring Policies”) will transfer to UPE from UWW under the UWW Guernsey Scheme.
- 3.7 The excluded assets are defined in the UWW Guernsey Scheme as follows:
- Any and all assets of UWW, other than assets relating to the UWW Transfer Policies.
- 3.8 The excluded policies are defined in the UWW Guernsey Scheme as follows:
- All policies other than the UWW Transferring Policies, which are comprised of 234 transferring policies which had been concluded with, and currently held by, persons resident in the Netherlands.

Business transfer agreement between UWW and UPE

- 3.9 A Business Transfer Agreement will be put in place between UPE and UWW. This agreement states that:
- The UWW Guernsey Scheme is not dependent on any other schemes;

¹ QII and UWW are each a Transferor. QII and UWW are together the Transferors.

- The transfer of the UWW Transferring Business is conditional on the reinsurance arrangement that will be put in place between UWW and UPE in respect of the UWW Transferring Business; and
- UWW will retain exposure for any legal risks relating to the UWW Transferring Business.

Effective Time

3.10 It is proposed that the Schemes will take effect at 23.59 on 30 September 2022 (“the Effective Time”) or such other date as the Transferors and Transferee may agree and to which the Irish Court consents.

3.11 It is proposed that the UWW Guernsey Scheme will take effect at the effective time or such other date as UWW and Transferee may agree and to which the Guernsey Court consents.

Conditions for Schemes to become operative

3.12 The Irish Scheme will not take effect on the Effective Time unless:

- The CBI has given its consent or indicated it has no objection to the Schemes;
- The Relevant Regulators¹ have given their consent to the Transfer, or the Relevant Regulators have failed to object to the Schemes within three months of having been notified by the Central Bank of the Schemes (as the case may be) pursuant to the terms of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485 of 2015) (“2015 Regulations”);
- the Irish Court approves the Scheme pursuant to the 1909 Act, the 1989 Act and the 2015 Regulations; and
- In the event that the Irish Court imposes a modification of or addition to the Schemes or any further conditions or provisions affecting same before the Effective Time, the Transferors and the Transferee consent to such modification, addition or condition before the Effective Time.

3.13 The QII Guernsey Scheme will not take effect on the Effective Time unless:

- The Irish Scheme has been approved by Irish Court; and
- In the event that the Guernsey Court imposes a modification of or addition to the Schemes or any further conditions or provisions affecting same before the Effective Time, the Transferors and the Transferee consent to such modification, addition or condition before the Effective Time.

3.14 The UWW Guernsey Scheme will not take effect on the Effective Time unless:

- The Guernsey Court approves the Scheme pursuant to The Guernsey Insurance Law;
- The GFSC has given its consent or indicated that it has no objection to the Scheme;
- The Guernsey Revenue Service has confirmed that the implementation of the Scheme does not appear to create any adverse Guernsey income tax consequences for the Policyholders;

¹ Defined in the Schemes as “The supervisory authorities of every relevant EU / EEA Member State where the Transferring Policies were concluded as listed in Schedule 2 (Relevant Regulators)”

- The CBI has given its consent or indicated it has no objection to the Schemes; and
- In the event that the Guernsey Court imposes a modification of or addition to this Scheme or any further conditions or provisions affecting same before the Effective Time, the Transferor and the Transferee consent to such modification, addition or condition before the Effective Time.

Contractual rights

- 3.15 Following the transfer, UPE will assume all the obligations to the policyholders of the Transferors. The rights under transferring contracts written by QII and UWW will not be changed as a result of the transfer. There will be no change to the policy terms and conditions for policyholders of the Transferor and UWW as a result of the proposed Schemes and the UWW Guernsey Schemes.
- 3.16 Currently some of the contract terms of the Transferring Policies permit policyholders the option of making additional ad-hoc incremental contributions to their policies. The proposed Schemes state that any rights that policyholders have under their contracts are transferred to UPE under the Schemes and the UWW Guernsey Schemes. As such the Schemes and the UWW Guernsey Schemes make no changes to this aspect of policyholder's contract terms.

Unit-linked funds

- 3.17 The assets backing the transferring unit-linked UWW policies will remain within UWW with unit pricing continuing to be carried out by the same staff using the same tools and methods as current. UPE will enter into a fund linked reinsurance arrangement with UWW so that the transferring policyholder's investment returns will continue to be linked to the performance of the same unit-linked funds of UWW as current.
- 3.18 UPE will establish new internal linked investment funds for the QII Transferring Policies which are unit-linked. These new internal linked investment funds will correspond to the internal linked investment funds which the Transferring Policies are currently invested in, including the same rules and procedures for the calculation of unit prices and fund-related charges. The legal and beneficial ownership of the assets relating to each fund will change from the Transferors to UPE.
- 3.19 There will be no change to the underlying assets, investment strategy, approach to unit pricing, policy charges or to the investment criteria as a result of the transfer.
- 3.20 For Transferring Policies which have externally managed portfolios, at the Effective Time, UPE shall establish records corresponding to all of the records maintained, on an individual policy-
- 3.21 As all contractual terms remain unchanged under the Schemes, any powers contained within the transferring contracts for funds to be merged, closed or sub-divided, or for the approach to unit pricing to be changed, will be preserved under the Schemes with such powers being transferred to UPE post transfer. Nothing within the Schemes prevent any such changes on such terms and conditions as is approved by the Board of UPE, having taken account of policyholders' reasonable expectations and the advice of the Head of Actuarial Function ("HoAF") in relation to the interpretation of policyholders' reasonable expectations.

Unit-linked charges

- 3.22 As all contractual terms remain unchanged under the Schemes any powers contained within the transferring contracts for changes to be made to unit-linked charges will be preserved under the Schemes with such powers being transferred to UPE post transfer. Nothing within the Schemes prevent any such changes on such terms and conditions as is approved by the Board of UPE, having taken account of policyholders' reasonable expectations and the advice of the HoAF in relation to the interpretation of policyholders' reasonable expectations.

Tax

- 3.23 The Schemes state that any tax liabilities which crystallise as a result of the transfer of policyholders' assets will not be borne by the policyholders.

New products

- 3.24 The Schemes do not prevent UPE from writing new product lines.

Continuity of proceedings

- 3.25 Any judicial, quasi-judicial, arbitration proceedings or any complaint to the ombudsman or other proceedings for the resolution of a dispute or claim which are pending by or against QII in respect of the transferring business shall be continued by or against UPE.
- 3.26 In respect of the UWW Transferring Business, the business transfer agreement referred to in paragraph 3.9 will mean that UWW retains exposure for any legal risks relating to the UWW Transferring Business post-Schemes.

Costs of the Schemes

- 3.27 All costs and expenses relating to the preparation of the Schemes and application for the sanctions of the Schemes, shall be borne by UPE. No costs will be directly borne by policyholders.

Policyholder communications

- 3.28 Section 13 of the Act requires that, unless the Court otherwise directs, certain materials must be transmitted to each policyholder of UPE, QII and UWW (the "Policyholder Circular"). The Policyholder Circular should include a statement summarising the proposed Schemes together with a summary of the Independent Actuary's Report.
- 3.29 It is proposed that, subject to relevant court approvals, a letter will be sent to each Transferring Policyholder which will provide outline details of the proposed Scheme and information on how to access full details of the policyholder circular. At the request of a Transferring Policyholder, a hard copy of the policyholder circular will be provided.
- 3.30 In addition, the following information will be available to any relevant parties from the offices of UPE, QII and UWW and will also be made available on a dedicated website relating to this transfer and at the offices of UPE in Navan, as well as the offices of Matheson in Dublin and to the extent required by the Guernsey Insurance Law, the offices of Carey Olsen in Guernsey:
- The Petition to the Courts including the Schemes;
 - The full Report of the Independent Actuary;
 - The Policyholder Circular;
 - The QII Guernsey Scheme Application;
 - The UWW Guernsey Scheme Application;
 - The Report of UPE's Head of Actuarial Function;
 - The Report of QII's Head of Actuarial Function; and
 - The Report of UWW's Head of Actuarial Function.

Section 4: Pre-Schemes Solvency Positions

Introduction

- 4.1 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that their contractual benefit entitlements will be met).
- 4.2 My analysis of the impact of the Schemes on policyholder security depends heavily on the level of capital available to the participating companies, and their ability to satisfy their respective solvency requirements now and in the future.
- 4.3 The companies involved in the transfer are subject to two different regulatory regimes. UPE and QII are regulated in Ireland by the CBI whereas UWW is regulated by the GFSC in Guernsey. I consider these regulatory regimes separately below.

Insurance Regulation in Ireland

- 4.4 Companies regulated by the CBI are required to determine their capital requirements under the European Union (Insurance and Reinsurance) Regulations 2015 (usually referred to as the Solvency II regulations). Under these regulations companies are required to hold sufficient assets to be able to cover the technical provisions associated with a portfolio of insurance contracts, where the technical provisions are the sum of the following two items:
1. The Best Estimate Liability ("BEL")¹ which is the sum of the following:
 - The policyholder unit liabilities (for unit-linked and UWP business); and
 - The best estimate view of the value of future costs less income (from the company's perspective) associated with the insurance policies in question (which may have a negative value);
 2. The Risk Margin².
- 4.5 Under Irish insurance legislation (which is derived from European Directives) each life assurance company must then hold further additional assets at least equal to the Solvency Capital Requirement ("SCR") associated with its life assurance business. The SCR is the amount of capital that insurance undertakings are required to hold to ensure that they can meet their obligations to policyholders over the following 12 months with a 99.5% probability.
- 4.6 Under Irish insurance legislation, if the SCR is no longer complied with or where there is a risk of non-compliance in the following 3 months, companies are obligated to inform the CBI with immediate effect. Companies must then submit, within 2 months of the observation of non-compliance, a recovery plan for approval by the CBI such that the SCR is covered within 6 months of the observation of the non-compliance.
- 4.7 Irish insurance legislation also defines the Minimum Capital requirement ("MCR") which is a simple factor-based linear formula which is targeted at a Value at Risk measure over one year with 85% confidence. The MCR has a floor of 25% and a cap of 45% of the SCR. The MCR is subject to a floor of €3.7m for life insurance companies. The MCR is generally less than the SCR except in the circumstances whereby the absolute minimum capital floor of €3.7 million

¹ The BEL is the expected value of the present value of future cashflows of a contract including cashflows related to future premium flows, insurance benefit payouts and the expenses of administering the contracts. These cashflows are projected over the contract's run-off period taking into account all up-to-date financial market and actuarial information

² The Risk Margin is the cost of providing an amount of capital equal to the Solvency Capital Requirement necessary to support the insurer's policyholder obligations over the lifetime of the in-force contracts.

bites. Where this minimum capital floor bites companies tend to focus primarily on the MCR when reporting solvency coverage.

- 4.8 If the MCR is no longer complied with or where there is a risk of non-compliance in the following 3 months, companies are obligated under Irish insurance legislation to inform the CBI with immediate effect. Companies must then submit, within 1 month of the observation of non-compliance, a short-term realistic finance scheme for approval by the CBI such that the MCR is covered within 3 months of the observation of non-compliance. Therefore, under Irish insurance legislation (which is derived from the EU Solvency Directive) a breach of the MCR requires more immediate action than that of the SCR.
- 4.9 For UPE (both pre- and post-transfer) and QII pre-transfer, the SCR exceeds the MCR and therefore in assessing the solvency position of these entities the principal solvency coverage ratio is that based on the SCR. Given this, I do not comment further on the MCR.

Insurance Regulation in Guernsey

- 4.10 Companies regulated by the GFSC determine their capital requirements under the Guernsey Insurance Law, and The Insurance Business (Solvency) Rules and Guidance, 2021 ("Guernsey Solvency Rules"). Under the Guernsey Solvency Rules, companies must at all times hold Regulatory Capital Resources ("RCR") greater than or equal to the Prescribed Capital Requirement ("PCR").
- 4.11 For this purpose, the RCR should be calculated in accordance with recognised accounting standards. However, I have been informed that UWW has received approval from the GFSC to determine their RCR in line with the Solvency II Eligible Own Funds applicable to UK firms.
- 4.12 Companies can either calculate their PCR using the Guernsey Standard Formula or using a Recognised Standard Formula. The Standard Formula applicable to UK regulated firms is a Recognised Standard Formula under the Guernsey Solvency Rules and I understand that UWW follows the UK approach to set its PCR. At the time of writing, the Standard Formula approach applicable to UK regulated firms is the same as the Standard Formula approach applicable to Irish (and other EU) regulated firms.
- 4.13 Given the above, the regulatory capital resources, PCR and solvency coverage ratio for UWW are directly comparable to the Own Funds, SCR and solvency coverage ratio of UPE and QII.
- 4.14 In the event of regulatory capital resources falling below 105% of PCR, the GFSC would apply a supervisory ladder of interventions requiring a company to take a series of remedial actions. These interventions vary in severity depending on the solvency of the company.
- 4.15 Under Guernsey Solvency Rules, firms must also at all times hold regulatory capital resources greater than or equal to the MCR. The MCR under Guernsey Solvency Rules is calculated differently than under Solvency II. However, for UWW the PCR exceeds the MCR and therefore I do not comment further on the MCR for UWW.

Capital policy

- 4.16 The target solvency for each participating company will be determined according to the company's capital policy and risk appetite in the context of the risk profile of the company. This could be in the form of a minimum target percentage of the SCR/PCR (or MCR in situations where the SCR/PCR is less than the MCR) that the firm will not want to fall below expressed as a percentage of SCR/PCR (or MCR if appropriate). Furthermore, the capital policy may determine a different target ratio (i.e. higher) in deciding whether dividends can be paid e.g. such that any dividends paid would not result in the participating company having a solvency capital ratio of less than Y% of SCR/PCR where Y is greater than the equivalent coverage derived from the risk appetite. Liquidity risk may also be specifically considered by companies within their capital policy, and different metrics may be used by companies to

address liquidity concerns e.g. liquid assets of at least X% of SCR should be held if a material illiquid asset is excluded from the company's assets.

- 4.17 Each Irish insurance company is required by the CBI to set out within its risk management framework what additional assets it intends to hold over and above the SCR (or the MCR if greater). This additional capital is frequently expressed as a percentage of the SCR (or MCR if greater). The purpose of this additional capital, sometimes referred to as "buffer capital", is to provide additional security to policyholder benefits consistent with the company's own view of the volatility of its balance sheet (including the appropriateness of the SCR Standard Formula) and its risk appetite.
- 4.18 UWW also holds capital in excess of its PCR and I understand that the GFSC requires that UWW must at all times hold RCR greater than or equal to 135% of PCR.

Opening Solvency Position

- 4.19 This Section of the Report sets out a summary of the solvency position of each of the participant companies as at 31 December 2021. The numbers presented are the results that we have been informed each company submitted to the CBI (for UPE and QII) and GFCR (for UWW) in respect of its solvency position for their year-end 2021 returns.
- 4.20 The solvency position of the participating companies is an important indicator in assessing whether sufficient assets have been set aside to fulfil the current and future obligations to the policyholders in respect of their insurance contracts. The principal measure used to assess the solvency of each company is the ratio of adjusted own funds/RCR to the SCR/PCR. Adjusted Own Funds is the sum of the Own Funds (the assets held by an insurance company over and above all liabilities including Technical Provisions¹ and adjustments permitted under Solvency II. UPE has an adjustment related to a loan that is subordinate to policyholders (described in paragraph 6.10). Adjustments within QII relate to basis harmonisation and have a relatively minor impact to Own Funds. These ratios are also referred to as Solvency Coverage Ratios.

¹ Technical Provisions are equal to the sum of the BEL and the RM

UPE – Pre-Transfer Solvency Position

4.21 The reported solvency position of UPE pre-transfer is shown in the table below:

Table 4.1 – UPE solvency position as at 31 December 2021

| € million | Reported |
|--|--------------|
| Total Assets* | 21,389.6 |
| Best Estimate Liability – unit liability | 20,736.0 |
| Best Estimate Liability – non-unit liability | (136.2) |
| Risk Margin | 122.6 |
| Other Liabilities | 143.4 |
| Deferred Tax Liability | 36.0 |
| Total Liabilities | 20,901.8 |
| Own Funds (Asset less Liabilities) | 487.8 |
| Subordinated Debt | 23.8 |
| Adjusted Own Funds | 511.6 |
| Solvency Capital Requirement | 275.3 |
| Excess Assets | 236.2 |
| Solvency Coverage Ratio | 186% |
| Adjusted Own Funds excluding Italian Withholding Tax asset | 382.2 |
| Solvency Capital Requirement excluding Italian Withholding Tax asset | 267.6 |
| Excess Assets excluding Italian Withholding Tax asset | 114.6 |
| Solvency Coverage Ratio excluding Italian Withholding Tax asset | 143% |

UPE SCR

4.22 The key components of UPE's adjusted SCR (before allowing for diversification) are described below.

- Equity risk (€94.0 million): UPE's business consists primarily of unitised policies where the income to UPE is represented by percentage charges made on the value of the unit funds. This means that UPE's income is exposed to the movements in the value of these funds. Therefore, UPE is exposed to equity risk to the extent that if there is a fall in the value of the equity component of these funds this will lead to a reduction in future income for UPE;
- Currency risk (€102.1 million): A proportion of UPE's business is written in the UK. As a result, any income from this business is in pounds sterling. In addition, a proportion of the underlying assets in the unit funds is denominated in currencies other than Euros. UPE is an Irish company situated within the Eurozone, with a material portion of its expenses in addition to its capital requirements denominated in Euros. There is

therefore a risk that the income falls relative to expenses and capital requirements due to currency movements. This currency risk accounts for a material proportion of the market risk capital component;

- Spread risk (€19.9 million): This is the risk of losses arising from changes in the value of market securities driven by changes in the credit standing of counterparties, UPE is exposed to spread risk through policyholder unit funds which are invested in a diverse range of assets including bonds, as well through direct holdings in sovereign and corporate bonds;
- Expense risk (€37.2 million): UPE incurs expenses in administering the policies through to claim. Its costs are made up of direct costs and costs related to outsourced activities. Policy administration is currently carried out by USIL. UPE is exposed to risk that future expenses will be greater than expected;
- Lapse risk (€146.3 million): The lapse risk captures the risk that there is an unexpected change (higher or lower) in the rate of run-off of the business. For UPE, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse;
- Counterparty default risk (€40.5 million): The counterparty default risk for UPE arises from the risk of a failure of a counterparty (such as a bank or reinsurer) resulting in the loss of funds to the company. The key drivers of this risk for UPE are the exposures to reinsurers, the exposure in respect of the Italian Withholding Tax (“IWT”) asset, cash balances held by the shareholder in bank accounts and “aged debtors” (debts owed to UPE in respect of outstanding asset fees). As the IWT asset may be recovered from policyholders in certain circumstances it could be argued that it is not necessary to include it the counterparty default risk calculations. Excluding it would reduce the SCR to €267.6 which is equal to the SCR excluding IWT assets, shown in Table 4.1. However, it would not change the UPE solvency cover (excluding the IWT asset). Therefore, continuing to include the IWT asset in the counterparty default risk calculation does not negatively impact my conclusions in this report; and
- Operational risk (€15.8 million): UPE is exposed to operational risks and losses which can arise from inadequate or failed processes, systems or from external events.

QII – Pre Transfer Solvency Position

4.23 The reported and adjusted solvency position of QII pre-transfer is shown in the table below.

Table 4.2 – QII solvency position as at 31 December 2021

| € million | Reported |
|--|-------------|
| Total Assets | 4,605.3 |
| Best Estimate Liability – unit liability | 4,591.5 |
| Best Estimate Liability – non-unit liability | (103.5) |
| Risk Margin | 19.4 |
| Other Liabilities | 24.9 |
| Deferred Tax Liability | - |
| Total Liabilities | 4,532.3 |
| Own Funds (Asset less Liabilities) | 73.0 |
| Subordinated Debt | - |
| Adjusted Own Funds | 73.0 |
| Solvency Capital Requirement | 38.9 |
| Excess Assets | 34.1 |
| Solvency Coverage Ratio | 187% |

QII SCR

4.24 The key components of QII's adjusted SCR (before allowing for diversification) are described below:

- Currency risk (€11.8 million): Currency risk is significant for QII since a large proportion of business is written in foreign currency (predominantly in GBP);
- Expense risk (€17.8 million): QII incurs operational and other expenses in administering the contracts through to claim, including the expenses incurred with third party outsourcers. Policy administration is currently carried out by QIBS. QII is exposed to risk that future expenses will be greater than expected; and
- Lapse risk (€17.0 million): The lapse risk captures the risk that there is a higher or lower rate of lapses in the rate of run-off of the business. For QII, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse.

UWW – Pre-Transfer Solvency Position

4.25 The reported solvency position of UWW pre-transfer is shown in the table below. Figures are shown as reported in GBP.

Table 4.3 - UWW solvency position as at 31 December 2021 (figures shown in GBP)

| £ million | Reported |
|--------------|----------|
| Total Assets | 4,372.6 |

| | |
|---|----------------|
| Best Estimate Liability – unit liability | 3,461.3 |
| Best Estimate Liability – non-unit liability | 389.4 |
| Risk Margin | 42.7 |
| Other Liabilities | 129.9 |
| Deferred Tax Liability | 3.4 |
| Total Liabilities | 4,026.7 |
| Own Funds (Asset less Liabilities) | 345.9 |
| Restriction to Own Funds due to ring-fenced funds | (12.0) |
| Adjusted Own Funds | 333.9 |
| Solvency Capital Requirement | 189.5 |
| Excess Assets | 144.4 |
| Solvency Coverage Ratio | 176% |

UWW SCR

4.26 The key components of UWW's adjusted SCR (before allowing for diversification) are described below:

- Equity risk (€96.1 million): UWW business includes unitised policies where the some of the income to UWW is based on percentage charges made on the value of the unit funds. This means that UWW's income is exposed to the movements in the value of these funds and therefore, UWW is exposed to equity risk to the extent that if there is a fall in the value of the equity component of these funds this will lead to a reduction in future income for UWW;
- Lapse risk (€61.1 million): Lapse risk captures the risk that there is an unexpected change (higher or lower) in the rate of run-off of the business. For UWW, the key risk is a mass lapse event which would lead to the loss of future profits on those policies which lapse;
- Currency risk (€36.6 million): The majority of the currency capital charge relates to unit-linked business and represents the mismatch of future income (denominated in a wide range of global currencies, but notably US Dollars) compared to future expenses which are incurred mainly in GBP and EURO; and
- Expense risk (€28.5 million): UWW incurs expenses in administering the policies through to claim including costs related to outsourced activities. UWW is exposed to the risk that future expenses will be greater than expected.

Section 5: Effects of the Schemes on UPE Policyholders

General Considerations

- 5.1 In reviewing the Schemes, I must consider the implications of the proposed transfer for the security of policyholders' contractual benefits (that is, the likelihood that contractual benefit entitlements will be met), for the level of benefits payable to policyholders (including the impact of variable charges on such benefits) and for the reasonable expectations of all policyholders in UPE, QII and UWW. In particular, I need to consider whether any changes to discretionary charges or entitlements are consistent with policyholders' reasonable expectations. Separate consideration is required for each group of policyholders affected by the Schemes.
- 5.2 The factors I must consider for each company in assessing the implications of the transfer for the security of policyholder benefits include:
- The current solvency position;
 - The risk profile of the participant companies;
 - The capital targets as set out in each company's Risk Management Framework; and
 - The expected future solvency position of each company, both before and after the transfer.
- 5.3 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders include:
- Contractual obligations to policyholders;
 - Investment criteria for the corresponding unit-linked and UWP funds in the transferee company;
 - The pricing basis for the new equivalent unit-linked and UWP funds in the transferee company;
 - The level of charges to be deducted from the new equivalent unit-linked funds in the transferee company;
 - Any changes, caused by the transfer, to the taxation of policyholder benefits;
 - Application of discretion by UPE;
 - The levels of customer service to policyholders following the transfer; and
 - Current strategic plans for UPE.
- 5.4 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.
- 5.5 In this section I consider the likely impact of the Schemes on the policyholders of UPE. These are policyholders with policies held in UPE prior to the transfer.

Security of UPE policyholders' benefits

i) Opening Solvency position

5.6 In order to assist me in forming my judgement regarding the security of policyholder benefits, I have considered the solvency position of UPE, both before and after the proposed transfer.

5.7 Table 6.1 summarises the solvency position UPE before and after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021.

Table 5.1 - UPE solvency position pre- and post-transfer as at 31 December 2021

| € million | Pre-Transfer | | Post Transfer | |
|--|--------------|---------|----------------------------------|--------------|
| | UPE | QII | Diversification and aggregation* | UPE (Post)** |
| Assets | 21,389.6 | 4,605.3 | (76.2) | 25,918.6 |
| | - | - | - | |
| BEL - unit-linked/UWP | 20,736.0 | 4,591.5 | - | 25,327.5 |
| BEL - non-linked | (136.2) | (103.5) | (5.1) | (244.8) |
| RM | 122.6 | 19.4 | 0.9 | 143.0 |
| Other liabilities | 143.4 | 24.9 | - | 168.2 |
| DTL | 36.0 | - | 10.2 | 46.2 |
| Total liabilities | 20,901.8 | 4,532.3 | 6.0 | 25,440.1 |
| | | | - | |
| Own Funds | 487.8 | 73.0 | (82.2) | 478.6 |
| Subordinated debt | 23.8 | - | - | 23.8 |
| Adjusted Own Funds | 511.6 | 73.0 | (82.2) | 502.3 |
| SCR post LACDT | 275.3 | 38.9 | (20.8) | 293.5 |
| Solvency*** Coverage Ratio | 186% | 187% | | 171% |
| Adjusted Own Funds (excl IWT asset) | 382.2 | 73.0 | (82.3) | 373.0 |
| SCR post LACDT (excluding IWT asset) | 267.6 | 38.9 | (20.7) | 285.9 |
| Solvency Coverage Ratio (excl IWT asset)**** | 143% | 187% | | 130% |

*This column represents the impacts of combining the transferring business from QII and UWW in UPE. The own funds of QII are already included in UPE's assets, so an adjustment is made to strip these out to avoid double counting.

** Includes the UWW transferring business

*** Represents the coverage if the IWT asset is included in the own funds and stressed in the SCR of UPE.

**** Represents the coverage if the IWT asset is not included in the own funds or stressed in the SCR of UPE

5.8 Table 5.1 shows a reduction in assets of €76.2 million in the 'diversification and aggregation' column when moving from the individual entities to the combined post-Schemes entity. This is because UPE's holdings in QII as a subsidiary are already included in UPE's assets. Post-Schemes, the assets of QII will be held directly by UPE (with the exception of €3.8 million in cash retained). The ultimate goal will be to wind up QII, at which point the remaining assets will pass to UPE.

- 5.9 A small reduction in liabilities is also expected as a result of the estimated impact of QII adopting UPE's methodology, including some minor cost savings expected post-transfer.
- 5.10 For UPE, results are shown both including and excluding the IWT asset. This is an illiquid asset that is not realisable at the company's option i.e. the company cannot in the normal course of business convert this asset into cash but rather must wait to recover amounts from the policyholders liability to pay tax in the future when they withdraw funds, and provided that investment performance is sufficiently positive that sufficient tax is payable by the policyholder on investment gains. This has liquidity implications for the company and is the reason why UPE monitor liquidity and solvency cover excluding the IWT asset.
- 5.11 Under the Italian withholding tax regime UPE is required to pay an amount each year to the Italian revenue which it may then effectively recover from policyholders once they encash funds and become liable to pay a gains tax. If recoveries cannot be made from policyholders, UPE has received legal advice that any remaining balance could be recovered directly from Italian tax authorities after the last Italian policyholder has exited, which may be a long time in the future. This means that UPE is exposed to the risk that when investment markets fall policyholder gains will reduce which makes it more difficult for UPE to convert this IWT illiquid asset into a liquid asset (i.e. cash). This is because the amount of tax on investment gains payable by policyholders would reduce. However, in this situation UPE has informed us that it would still deduct stamp duty from policyholders (again at the time policyholders withdraw funds), and to the extent it was not recovering the IWT asset it could reduce the amount of stamp duty paid to the Italian tax authorities. This reduces the risk that UPE would not recover the IWT asset (until after the last policyholders leave when an application to the Italian tax authorities could be made). There remains a liquidity risk because recovering part of the IWT asset from stamp duty can happen only as and when policyholders withdraw funds.
- 5.12 I have been provided with information which shows that at year-end 2021, the capital gains tax ("CGT") that would be due on the aggregate gain for UPE policyholders (if they were all to encash their policies) has been estimated to be in excess of €400 million. The total IWT asset at year-end 2021 was €129.6 million. This implies that UPE would have been able to recover the IWT asset from the CGT paid by these policyholders in this particular scenario. In the event of a 40% fall in asset values as at year end 2021 the amount of CGT due from policyholders would have reduced to €90 million while the accrued stamp duty is €79 million. Having considered these figures, I believe it is reasonable to take the IWT asset into account when considering the solvency position of UPE.
- 5.13 UPE's capital policy (pre-transfer) is to always maintain sufficient assets to cover at least 135% of its SCR. The company also aims to maintain sufficient assets excluding the IWT asset so that they are able to cover its SCR. Furthermore, the Directors adopted a dividend policy such that any dividends paid would not result in UPE having a solvency coverage ratio of less than 150% (or 110% excluding the IWT asset). The capital policy for UPE will not change as a result of the Schemes.
- 5.14 As shown in Table 5.1, the solvency coverage ratio of UPE pre-transfer is 186% (or 143% excluding the IWT asset). This means that UPE could, in line with their dividend policy described in paragraph 5.13, pay a dividend to their parent so that the coverage would fall to 150% or 110% excluding the IWT asset (whichever is the higher threshold).
- 5.15 As shown in Table 6.1, the solvency coverage ratio of UPE post-transfer is 171% (or 130% excluding the IWT asset). These coverage amounts are lower than the pre-transfer figures of 186% and 143% respectively as a result of including the QII risks directly onto the UPE balance sheet, rather than treating QII as a subsidiary.
- 5.16 The post-transfer solvency ratios are still in excess of the targets set out in the capital policy, of 150% (or 110% excluding the IWT asset), below which a dividend would not be paid. This means that UPE post-transfer would still be in a position to pay a dividend to their parent. Therefore, despite the solvency coverage decreasing as a result of the transfer, UPE would

still retain a buffer over the coverage amounts outlined in their dividend policy, and therefore I do not believe that the implementation of the Schemes would have a material adverse effect on the security of policyholder benefits from a coverage perspective.

ii) Risk Profile

- 5.17 In assessing the impact of the Schemes on the risk profile of UPE it is necessary to consider the risk profile of each of the participant companies, and in particular the points of difference, in order to understand the additional risks (if any) to which each participant group of policyholders becomes exposed as a result of the Schemes. The key features of each of the participant businesses are described below.
- 5.18 The SCR is a key consideration when considering risk profile. It is a risk-based calculation that takes account of a predefined list of risks to which a life assurance company may be exposed. The component parts of the SCR calculation are defined within the Solvency II Regulations. The SCR consists of market risk, life insurance risk, health insurance risk, counterparty default risk and operational risk.
- 5.19 In considering the risk profiles of the various companies, I have considered the SCR for each participant company, including its component parts, the business profile of each company, its investment strategy and current holdings of shareholder assets.
- 5.20 UPE's Technical Provisions at 31 December 2021 (pre-transfer) are €20,722 million. Its business consists mostly of unit-linked business. It also sells group risk employee benefit business, which is heavily reinsured (100% for multinational business and 80% for domestic Irish business), and has a small amount of legacy variable annuity ("VA") business which is 100% reinsured. More information on UPE's business is available in Section 3 of this report.
- 5.21 Post-Schemes UPE will be a somewhat bigger business. The total BEL pre-transfer is €20,600 million and post transfer is €25,083 million. The vast majority of the increase in BEL is as a result of the addition of unitised business from QII (€4,488 million), and also a smaller amount of unitised business from UWW (£11 million). Post-Schemes, the UWW Transferring Business will be fully reinsured back to UWW and I understand that UPE will retain a small fee for administering the reinsurance arrangement.
- 5.22 The nature of business and risk profile of the transferring policies being transferred into UPE from QII and UWW is broadly consistent with the current UPE unit-linked business.
- 5.23 Both QII and the transferring policies in UWW remain exposed to litigation risk and, upon transfer, this risk will transfer to UPE. However, I understand that there is currently no ongoing litigation in relation to QII where QII is the defendant and nor is there any litigation in process or anticipated that affects the UWW Transferring Business.
- 5.24 Litigation risk is not explicitly considered as part of the SCR calculation. However, post-Schemes the operational risk capital charge within the SCR increases to €17.4 million from €15.8 million. Overall, the SCR increases from €275.3 million pre-Schemes to €293.5 million post-Schemes. In addition, UPE post transfer will also hold a capital buffer of over and above the SCR. UPE's capital policy states that it will hold own funds of 135% of its SCR (or 100% excluding the IWT asset), and will not pay a dividend if that dividend would cause coverage to fall below 150% of the SCR (or 110% excluding the IWT asset). It is not possible for me to estimate the possible financial impact of litigation risk.
- 5.25 UPE post transfer will continue to rely on a variety of outsourced partners. The implementation of the Schemes does not give rise to any changes to these arrangements.

SCR Comparison

- 5.26 I have compared the SCR for UPE pre-transfer with the SCR for UPE post transfer.

- 5.27 Most of the SCR components have grown broadly in proportion to the increase in the size of the business and there is no material change in risk profile. The only exception being equity risk which shows a reduction post-transfer which mainly relates to the removal of the capital charge in respect of UPE's holdings in QII as a subsidiary company. By combining QII directly with UPE, the risks and benefits of owning QII are taken directly by UPE and can be diversified against UPE's own risks.
- 5.28 I have also considered risks that may not necessarily be captured by the SCR. Such risks could include legal risk, government bond risk, tax risk, political risk, reputational and strategic risk.
- 5.29 One such risk relates to litigations. While I understand that there are ongoing litigations in respect of UPE, as described in paragraph 5.23, I have been informed there is no relevant ongoing litigations in relation to QII or the UWW Transferring Business. As such the situation remains unchanged within UPE post-Schemes.
- 5.30 I have been provided with the pre-Schemes ORSA¹ for 2021 which include projections and scenario tests for QII and UPE. These scenarios do not consider every feasible scenario but rather the scenarios help to indicate the sensitivity of the solvency position of the business to the factors considered. The pre-Schemes results show that UPE's capital position is most exposed to higher expenses, lower lapse rates and counterparty downgrade scenarios. None of the scenarios investigated resulted in the Solvency Coverage Ratio of UPE post-Schemes falling below UPE's "hard target" solvency ratio of 135% (except for a reverse stress test which considers what scenario would result in a breach of the solvency ratio target). There were no scenarios which resulted in the solvency ratio excluding IWT asset falling below 100%.
- 5.31 I have also been provided with a Stress and Scenario Testing Supporting Report which shows the impact of a number of stress scenario tests on UPE's solvency cover after QII and the transferring policies in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing, albeit that this is consistent with the pre-Schemes ORSA scenarios.
- 5.32 In addition, UPE has considered a combined scenario stress test on the post-Schemes position. The circumstances UPE investigated were a combination of adverse events including a 50% mass lapse with 10% increase in expenses. This scenario led to a reduction in solvency coverage to 124%.
- 5.33 The UPE pre-Schemes ORSA and the Stress and Scenario Testing Supporting Report both identify the exposure to the IWT asset as being a material risk exposure. UPE has addressed this risk through its capital policy whereby it has set capital targets excluding the IWT asset as well as capital targets including the IWT asset.
- 5.34 Given the illiquid nature of the IWT asset, UPE has also assessed the liquidity position of the company post-Schemes. As at 31 December 2021, the combined entity, after repayment of the liquidity financing arrangement to QIIOM, would have €190 million in liquid assets, which would be predominately invested in cash (€13 million), government bonds (€71 million), corporate bonds (€46m) and investment funds (€61 million). These assets would be readily available if the company need to make substantial payments e.g. in the event of an operational event. The Stress and Scenario Testing Supporting Report shows that over time, the available liquid assets of the combined entity increase (allowing for expected dividend payments), as the company continues to generate cash. The liquidity position is also helped by the mechanics of the IWT asset which includes a limit on the size of the total asset.

¹ Own Risk and Solvency Assessment ("ORSA") is a report that must be prepared at least annually to cover the company's view of its risk profile and the amount of capital it needs. A key component of the ORSA is the scenarios that assess how the solvency position of the company might develop under different circumstances. It should cover all material risks that a company is exposed to

iii) Projected Solvency position

- 5.35 As described in paragraph 4.17, each company regulated by the CBI is required to set out within its risk management framework what additional capital resources it intends to allocate over and above its SCR in order to provide additional security to policyholder benefits.
- 5.36 The capital policy for UPE, as set out in paragraph 5.13, will not change as a result of the Schemes.
- 5.37 I have also considered the projected solvency position of UPE pre- and post-Schemes. The projections assume that dividends are paid to UHIL throughout the period. The solvency coverage ratio is expected to reduce both pre-Schemes and post-Schemes as UPE has assumed that dividends of €40 million per annum would be paid throughout the projection pre-Schemes and €50 million per annum would be paid post-Schemes. If the IWT asset is excluded, the solvency coverage ratio is expected to reduce initially but then improve over time in both the pre-Schemes and post-Schemes projection.
- 5.38 The solvency coverage in the post-Schemes scenario projection remains above both the legislative requirement and also the targets of 135% (or 100% excluding the IWT asset) as set out in the capital policy. Whilst the projected solvency ratio pre-Schemes is higher, under the dividend policy any excess above the targets of 150% (or 110% excluding the IWT asset) can be paid as a dividend. As the post-Schemes solvency ratio remains above these targets in each year of the projection, I do not believe that the projected solvency position is materially adversely impacted as a result of the Schemes.
- 5.39 In consolidating QII into UPE the structure of UHIL will be simplified. A simplified group structure would be expected to be more cost efficient and also more capital efficient from a group perspective. This in turn should place UHIL in a stronger position to support its various businesses. This should be positive from the perspective of UPE policyholders.

Summary - Security

- 5.40 Based on the information provided to me and having considered the various points set out above in relation to the solvency positions, the relative risk profiles, as well as the projected solvency coverage (all pre- and post-Schemes), it is my opinion that the UPE policyholders are not materially adversely impacted as a result of the proposed Schemes.

Reasonable Expectations of UPE policyholders

- 5.41 The Schemes do not affect the contractual obligations to the policyholders of UPE.
- 5.42 The Schemes have no impact on the rights and obligations of UPE policyholders. All policyholders will be entitled to the same rights as were available to them before the Schemes.

i) Funds

- 5.43 There will be no changes to the unit-linked funds as a result of the proposed Schemes.
- 5.44 The Schemes do not prevent UPE from establishing, closing, amalgamating Sub-Funds; changing the name of Sub-Funds or changing the charges where such changes would be in line with the policy terms and conditions. Any such changes would be made by UPE on such terms as recommended by the HoAF having regard to the reasonable benefit expectations of the policyholders and having been approved by the UPE Board.

ii) Reinsurance arrangements

- 5.45 UPE currently has a number of reinsurance arrangements in place. These include the reinsurance arrangement with Generali Switzerland in respect of the variable annuity business,

reinsurance on the domestic Irish and multi-national employee benefit business, reinsurance on mortality benefits attached to the unit funds and the catastrophe reinsurance treaty. These arrangements will be unaffected by the Schemes.

- 5.46 QII currently has reinsurance arrangements in place which will be transferred to UPE as part of the Scheme. These arrangements will have no impact on UPE policyholders.
- 5.47 I understand that immediately following the schemes, UPE will reinsure the entirety of the UWW Transferring Business back to UWW. UPE are expected to retain a small annual fee for administering this reinsurance arrangement. This arrangement will not have a material impact on UPE policyholders.

iii) Pricing basis for unit-linked funds

- 5.48 The Schemes state that there will be no change to the approach to unit pricing as a result of the proposed transfer. There will also be no change to the unit pricing procedures affecting policies belonging to the existing UPE customers as a result of the proposed transfer, although the Schemes allow UPE to change the approach to pricing in future.

iv) Charges

- 5.49 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company or as a result of certain events, such as changes in legislation. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.
- 5.50 The terms and conditions of each product sold by UPE list all the charges that apply to a policy. The charges on the UPE policies mainly consist of percentage charges made on the value of the unit funds.
- 5.51 The contractual terms of UPE policyholders do not change as a result of the Schemes.

v) Service

- 5.52 The supporting documentation I have been provided with states that Schemes will have no material effect on the servicing arrangements for UPE policyholders. Consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

- 5.53 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such, UPE policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

- 5.54 The supporting documentation I have been provided with states that the Schemes will not result in changes to the terms and conditions of any existing UPE policies. As such, there are not expected to be any tax implications to existing UPE policyholders.

Conclusion

- 5.55 Subject to the points in paragraph 8.1, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for the UPE pre-Schemes policyholders, the proposed transfers do not have a material

adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

5.56 Furthermore, the Head of Actuarial Function of UPE has prepared a report in relation to the transfer. In that report the HoAF has concluded that:

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

Section 6: Effects of the Schemes on QII Policyholders

Introduction

- 6.1 In this Section of the report, I consider the likely impact of the Schemes on the QII policyholders in terms of the impact on security of policyholder benefits and on policyholders' reasonable expectations and service levels.
- 6.2 As with the other participant companies, the factors I must consider in assessing the implications of the transfer for the security of policyholder benefits include:
- The current solvency position;
 - The risk profile of the participant companies;
 - The capital targets as set out in each company's Risk Management Framework; and
 - The expected future solvency position of each company, both before and after the transfer.
- 6.3 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders are set out in paragraph 5.3.
- 6.4 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.

Security of QII policyholders' benefits

i) Solvency position

- 6.5 In order to assist me in forming my judgement regarding the security of policyholder benefits I have considered the solvency position of QII before the proposed transfer and that of UPE post transfer.
- 6.6 Table 6.1 summarises the solvency position of QII before and after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021. The pre-transfer numbers are those reported at 31 December 2021 and the post-Schemes UPE position is as described in Section 5 of this report.

Table 6.1 – QII solvency position pre- and post-transfer as at 31 December 2021

| € million | QII | UPE (Post) |
|---|-------------|-------------|
| Assets | 4,605.3 | 25,918.6 |
| | | |
| BEL - unit-linked/UWP | 4,591.5 | 25,327.5 |
| BEL - non-linked | (103.5) | (244.8) |
| RM | 19.4 | 143.0 |
| Other liabilities | 24.9 | 168.2 |
| DTL | - | 46.2 |
| Total Liabilities | 4,532.3 | 25,440.1 |
| | - | - |
| Own Funds | 73.0 | 478.5 |
| Subordinated debt | - | 23.8 |
| Adjusted Own Funds | 73.0 | 502.3 |
| | | |
| SCR | 38.9 | 293.5 |
| Solvency Coverage Ratio | 187% | 171% |
| | | |
| Adjusted Own Funds (excl IWT asset) | 73.0 | 373.0 |
| SCR (excl IWT asset) | 38.9 | 285.9 |
| Solvency Coverage Ratio (excl IWT asset) | 187% | 130% |

- 6.7 The table above shows that had the proposed transfer taken place as at 31 December 2021, then QII policyholders would be within a larger company whose solvency coverage exceeded the Solvency II regulatory requirements but which had a lower solvency coverage ratio than pre-Schemes. There are also other differences between the companies including in particular the IWT asset and the subordinated loan that are described in the following paragraphs.
- 6.8 If the IWT asset is excluded, the solvency coverage ratio of the combined entity would be 130%, which is lower than QII's current solvency coverage of 187%. While considering solvency coverage excluding the IWT is an onerous test, even on this basis the company has sufficient liquid capital to meet capital requirements. Also, despite the lower solvency coverage ratio post-Schemes compared to QII pre-Schemes, a large proportion of QII's Own Funds are made up of expected future profits which are largely illiquid, whereas a lower proportion of UPE's Own Funds will be made up of illiquid non-linked reserves post-Schemes. QII has a financial reinsurance arrangement in place to manage this liquidity risk. As such QII policyholders will not be exposed to materially different levels of liquidity risk post-Schemes compared to pre-Schemes.
- 6.9 QII's solvency target is for Solvency Coverage Ratio to be greater than 155% and no less than 130%. While this is an onerous test, I note that the solvency level post-schemes excluding the IWT of 130% is above the legislative requirement and is within the current solvency target range. In addition, the absolute level of this buffer (i.e. Adjusted Own Funds minus SCR), is much higher post-Schemes than it is for QII pre-Schemes (€87.1 million versus €34.1 million respectively). This means that post-Schemes, the entity would be better able to withstand a one-off hit in absolute terms (such as an operational event), than QII would be able to withstand pre-Schemes.

- 6.10 Under Solvency II Own Funds items are classified in accordance with quality criteria into three tiers. The three tiers are based on the quality of the Own Funds items and their ability to absorb losses, with Tier 1 being the highest quality and Tier 3 being the lowest quality. QII's Own Funds are all Tier 1. UPE's Own Funds are all classified as Tier 1 with the exception of a loan which is classified as Tier 2. UPE has a loan of £20m from Utmost Limited, which is due to be repaid in 2029. Repayment of the loan is subordinate to policyholders (with specific details set out in the loan agreement) and having assessed the Solvency II requirements, UPE classified the loan as Tier 2. Consequently, UPE is able to disregard the loan for the purpose of covering the SCR. If the loan was not disregarded, then the coverage in the above table would fall to 163% (or 122% excluding the IWT asset). Given the size of the loan, the relatively minor benefit on the capital cover from allowing for this loan and the size of the capital cover, I do not believe that the security of QII policyholder's benefits is materially adversely impacted by the loan.
- 6.11 Based on the above information, it is my opinion that the QII policyholders are not materially adversely impacted from a solvency perspective if the Schemes had been implemented at year-end 2021.

ii) Risk Profile

- 6.12 QII has 7,405 policies in force as at 31 December 2021 and funds under management of €4,591 million at the same date. The policies are unit-linked investment policies with no material investment guarantees.
- 6.13 The key risks to which QII is exposed are expense risk, lapse risk and currency risk:
- Expense risk, relating to future expenses being greater than expected;
 - Lapse risk, relating to a mass lapse event resulting in the loss of future revenue; and
 - Currency risk, reflecting the potential loss of future revenue resulting from adverse movement in currency markets which reduce the Euro value of future revenues and in particular to the depreciation of Sterling against Euro due a large proportion of business being denominated in GBP.
- 6.14 I have been provided with the QII pre-Schemes ORSA for 2021, which shows the impact of a number of stress scenarios on QII's solvency cover. The list of scenarios does not consider every feasible scenario but rather the scenarios considered indicate the sensitivity of the solvency position of the business to the factors considered. The risks that had the most material negative impact on solvency cover were expenses, currency and investment market falls. However, none of the scenarios investigated resulted in solvency coverage falling below 100%.
- 6.15 Post transfer, QII's policyholders will be part of a much bigger company with a broader range of risk exposures. The predominant nature of the QII's business, (i.e. unit-linked), is also the predominant business within UPE post-Schemes. Post transfer, QII policyholders will continue to be exposed to various market risks via the shareholder asset holdings as well as via the shareholder's exposure to variations in its expected income from unit-linked charges as a result of market movements, albeit to a greater scale. They will also be exposed to greater expense, lapse, counterparty and operational risks where the size of those risk exposures is greater, driven by the much greater scale of UPE post transfer, relative to the size of QII. They will also become exposed to health insurance risks in UPE post transfer, which are risks to which they are not currently exposed.
- 6.16 The Stress and Scenario Testing Supporting Report shows the impact of a number of stress scenario tests on UPE's solvency cover after QII and the transferring policies in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing. The Stress and

Scenario Testing Supporting Report also identifies the exposure to the IWT asset (which is covered in paragraphs 5.10 to 5.12 above).

- 6.17 However, UPE does have in place a risk management framework to manage and mitigate the various risks within UPE. In addition, post transfer, the SCR of the combined businesses is materially greater than the SCR of QII in isolation. This materially increased SCR is reflective of the risks within the bigger combined businesses post transfer. Furthermore, the UPE capital policy is such that the company states that it will hold sufficient capital to cover 135% of the SCR (or 100% of the SCR if the IWT asset is excluded) and will not pay a dividend if such dividend would reduce the SCR capital coverage below 150% (or 110% if the IWT asset is excluded).
- 6.18 In moving to the larger entity, QII policyholders do benefit from being able to spread direct expense costs over a much larger book of policyholders which could be expected to reduce their exposure to expense risk. UPE is also an open book of business, meaning that fixed costs will continue to be spread over an increasing number of policies. In addition, the ultimate objective of the Schemes is to simplify UHIL's structure. A simplified group structure would be expected to be more cost efficient and may also be more capital efficient from a group perspective. This in turn places the UHIL in a stronger position to support its various businesses. This should be positive from the perspective of QII policyholders.

iii) Projected Solvency position

- 6.19 QII's capital policy (pre-transfer) is to maintain sufficient assets to cover at least 155% of its SCR and a minimum of 130% of SCR. The Capital policy of UPE post-Schemes will be to maintain sufficient assets to cover at least 135% of its SCR (or 100% of its SCR excluding the IWT asset). Furthermore, the Directors adopted a policy such that any dividends paid would not result in UPE having a solvency capital ratio of less than 150% (or 110% excluding the IWT asset).
- 6.20 I have also considered the projected solvency position of QII pre-Schemes, and the projected solvency position of the combined UPE entity post-Schemes. The projections show that in the pre-transfer scenario for QII the solvency coverage is 187% initially and rises to 198% by 2026.
- 6.21 In the post-Schemes projection, the coverage is 171% initially, and steadily reduces over the course of the projection to 154% by 2026. This reduction is largely due the expected dividend payments over the period. If the IWT asset is excluded, the coverage is 130% initially, and remains broadly unchanged throughout the projection period.
- 6.22 Under the UPE capital policy any excess capital above the 150% target and the 110% target excluding the IWT asset may be paid out as a dividend which is reflected in these projections. Throughout the projection, the capital buffer remains above these levels under both bases, which provides some comfort around the security of policyholder benefits.

Summary - Security

- 6.23 Having considered the various points set out above in relation to the solvency position of QII and UPE post-Schemes, the relative risk profiles of QII and UPE post-Schemes as well as the projected solvency coverage of both companies, it is my opinion that the QII policyholders are not materially adversely impacted as a result of the proposed Schemes.

Reasonable Expectations of QII policyholders

- 6.24 The Schemes do not affect the contractual obligations to the policyholders of QII.
- 6.25 The Schemes have no impact on the rights and obligations of QII policyholders. All policyholders will be entitled to the same rights as were available to them before the Schemes.

i) Funds

- 6.26 The QII Transferring Policies are all unit-linked contracts. The Schemes state that UPE will establish new internal linked funds for the Transferring Policies which will correspond to the current QII internal linked funds and that the new funds will be subject to the same rules and procedures for the calculation of unit prices and fund-related charges as was the case with the corresponding QII funds.
- 6.27 For QII Transferring Policies with investments in internal managed funds the transferring policyholders will receive an identical number of units of equal value in the new “host” internal linked funds in UPE compared to their position in the corresponding QII fund.
- 6.28 Therefore, the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer. The value of transferring policyholders’ funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place. The underlying unit-linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.
- 6.29 The investment criteria of the QII internal linked funds and the fund management arrangements will also transfer to the new “host” internal linked funds in UPE. The external and discretionary fund managers are not parties to the Schemes and consequently the investment criteria of externally managed funds are unaffected by the Schemes.
- 6.30 Any powers contained within the transferring contracts for funds to be merged, closed or subdivided will be preserved under the Schemes with such powers being transferred to UPE post transfer.

ii) Reinsurance arrangements

- 6.31 QII has a number of reinsurance arrangements in place to mitigate the risk of excessive claims where the insurance element of its policies becomes a material risk to the Company. These arrangements will transfer with the Schemes.
- 6.32 In 2012 QII acquired, as a result of a Scheme of Transfer in Ireland (“2012 Scheme”), a small book of unit-linked business from a related Irish group company in a group consolidation exercise (“the 2012 Irish Policies”). The entire risk and reward of this book was at the time reinsured to Old Mutual International Guernsey Ltd (“OMIG”) and retroceded to Old Mutual International Isle of Man Ltd, which is now QIIOM. As part of a wider group project, this arrangement was altered in 2017 to remove OMIG from the arrangement so that the reinsurance is now direct with QIIOM and is therefore now an intra-group arrangement. The 2012 Scheme included provisions to maintain benefit security for the transferring 2012 Irish Policies. The arrangements put in place in 2012 were modified and simplified in 2017 as part of the wider group project. UPE and QIIOM will replicate the 2017 arrangements so that following the Schemes the transferring 2012 Irish Policies will continue to enjoy the same protection as afforded by the 2012 Scheme.
- 6.33 QII also has a financial reinsurance treaty in place to provide cash liquidity in order to make commission payments on relevant sales to distributors. The arrangement has limited risk transfer and is accounted for as loan financing within QII’s financial statements. This arrangement will transfer with the Schemes but is expected to be collapsed by UPE thereafter.

iii) Pricing basis for unit-linked funds

- 6.34 The Schemes state that there will be no change to the approach to unit pricing as a result of the proposed transfer. There will also be no change to the unit pricing procedures affecting policies belonging to the existing QII customers as a result of the proposed transfer.

iv) Charges

- 6.35 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.
- 6.36 The terms and conditions of each product sold by QII list all the charges that apply to a policy.
- 6.37 As all contractual terms remain unchanged under the Schemes, any powers contained within the QII contracts for changes to be made to charges will be preserved under the Schemes with such powers being transferred to UPE post transfer.

v) Service

- 6.38 QII outsources many of its requirements for operational services to several different entities within the wider UG. None of these arrangements will change as a result of the Schemes. Consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

- 6.39 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such QII policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

- 6.40 The Schemes will not alter policies and does not result in the cancellation or the issue of new policies to policyholders. It is not expected that the Schemes will give rise to tax consequences for policyholders and the Schemes state that any tax implications which crystallise as a result of the Schemes will not be borne by policyholders. The tax authorities in Ireland will be notified of the intention to carry out the proposed transfer under the Schemes.

viii) Liquidity

- 6.41 QII does not have an IWT asset but does rely on a financial reinsurance arrangement in order to provide liquidity to make commission payments on relevant sales to distributors. It is expected that this reinsurance will be collapsed post-Scheme. However, QII will continue to be exposed to liquidity risk post-Schemes through exposure to the IWT asset which is not readily available to make payments e.g. in the event of an operational event. However, the Stress and Scenario Testing Report shows that, post-Scheme UPE will have €223 million of liquid assets, which in absolute terms is a larger amount of liquid assets than QII currently holds. In addition, Stress and Scenario Testing Report also includes a forecast of the expected future liquid assets. While this shows a reduction in liquid assets over time, the main driver of this is the expected levels of future dividend payment. As a result, I do not believe that QII policyholders are materially worse off from a liquidity point of view as a result of the Schemes.

Conclusion

- 6.42 Subject to the points in paragraph 8.1 of Section 8, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for the QII Transferring Policyholders, the proposed transfer does not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

6.43 Furthermore, the HoAF of QII has prepared a report in relation to this transfer. In that report the HoAF has concluded that:

- *The Schemes will have no material adverse impact on the security of the benefits for QII policyholders;*
- *The fair treatment and reasonable benefit expectations of QII policyholders will not be materially adversely affected by the Schemes; and*
- *The Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.*

Section 7: Effects of the Schemes on UWW Policyholders

Introduction

- 7.1 In this Section of the report, I consider the likely impact of the Schemes on both the transferring and non-transferring UWW policyholders in terms of the impact on security of policyholder benefits, on policyholders' reasonable expectations and service levels.
- 7.2 Given the materiality of the transferring policies in the context of the remaining UWW policyholders, I have considered the impact of the transfer on the remaining UWW policyholders, by confirming that the impact on the balance sheet would not be material, which is illustrated in paragraph 2.11 which describes that the UWW Transferring Policies make up less than 1% of the overall UWW funds under management.
- 7.3 As with the other participant companies, the factors I must consider in assessing the implications of the transfer for the security of policyholder benefits include:
- The current solvency position;
 - The risk profile of the participant companies;
 - The capital targets as set out in each company's Risk Management Framework; and
 - The expected future solvency position of each company, both before and after the transfer;.
- 7.4 The issues I need to consider in assessing the likely impact on policyholders' reasonable expectations for the transferring policyholders are set out below.
- 7.5 The terms of reference of the role of the Independent Actuary require me to consider whether the Schemes provide sufficient protection for policyholders' interests in the changed circumstances that will apply after the implementation of the Schemes.

Security of UWW policyholders' benefits

i) Solvency position

- 7.6 In order to assist me in forming my judgement regarding the security of policyholder benefits I have considered the solvency position of UWW before the proposed transfer and that of UPE post transfer.
- 7.7 Table 7.1 summarises the solvency position of UWW before the proposed transfer and UPE after the proposed transfer assuming that the effective date of the transfer had been 31 December 2021 and that only the UWW Transferring Business transfers to UPE. For comparison purposes, figures are shown in GBP.

Table 7.1 – Solvency position of UWW pre-Schemes compared to UPE post-Schemes as at 31 December 2021 (figures shown in GBP)

| £ million | UWW | UPE (Post) |
|---|-------------|-------------|
| Adjusted Own Funds | 333.9 | 422.5 |
| SCR | 189.5 | 246.9 |
| Solvency Coverage Ratio | 176% | 171% |
| | | - |
| Adjusted Own Funds (excl IWT asset) | 333.9 | 313.7 |
| SCR (excl IWT asset) | 189.5 | 240.5 |
| Solvency Coverage Ratio (excl IWT asset) | 176% | 130% |

- 7.8 The table above shows that had the proposed transfer taken place as at 31 December 2021, then the UWW Transferring policyholders would be within a larger company whose solvency coverage exceeded the Solvency II regulatory requirements and which is slightly lower but not materially different from the pre-Schemes solvency coverage. There are also other differences between the companies including in particular the IWT asset and the subordinated loan that are described in the following paragraphs.
- 7.9 Both UWW and UPE have a minimum Solvency Coverage Ratio target of 135%. Further, the Solvency coverage ratio for both UWW and UPE must remain above 150% immediately after a dividend payment. Including the IWT asset, the Solvency Coverage Ratio of UPE post-Schemes is not materially different to the Solvency Coverage Ratio of UWW. While this is an onerous test, if the IWT asset is excluded, the Solvency Coverage Ratio of the combined entity would be 130%, which is lower than UWW's current solvency coverage of 176%. However, the absolute amount of Own Funds for UPE post-Schemes and excluding the IWT assets is not materially different from the UWW Own Funds pre-Schemes.
- 7.10 Under Solvency II, Own Funds items are classified in accordance with quality criteria into three tiers. As described in paragraph 6.10, UPE's own funds are all classified as Tier 1 with the exception of a £20 million loan which is classified as Tier 2. Given the size of the loan, the relatively minor benefit on the capital cover from allowing for this loan and the size of the capital cover, I do not believe that the security of UWW policyholder's benefits is materially adversely impacted by the loan.
- 7.11 Based on the above information, it is my opinion that the transferring UWW policyholders are not materially adversely impacted from a solvency perspective if the Schemes had been implemented at year-end 2021. Further, given that the UWW Transferring Business makes up a very small proportion of the overall UWW business and also given that the UWW will be reinsured back to UWW post-Schemes, the remaining UWW policyholders would also not have been materially impacted from a solvency perspective if the Schemes had been implemented at year-end 2021.

ii) Risk Profile

- 7.12 UWW has 55,941 policies in force as at 31 December 2021 and funds under management of €3,780 million at the same date. The policies are unit-linked savings and portfolio bonds, group protection and group savings policies.
- 7.13 The key risks to which UWW is exposed are equity risk, expense risk, lapse risk and currency risk:
- Equity risk, relating to future revenue being lower than expected on unit-linked business following a reduction in unit-linked asset values;
 - Lapse risk, relating to a mass lapse event resulting in the loss of future revenue;

- Currency risk, reflecting the potential loss of future revenue resulting from adverse movement in currency markets which reduce the GBP value of future revenues; and
 - Expense risk, relating to future expenses being greater than expected.
- 7.14 I have been provided with the UWW pre-Schemes Actuarial Function Report for 2021, which show the impact of a number of sensitivities on UWW's Own Funds. The list of sensitivities does not consider every feasible scenario but rather the scenarios considered indicate the sensitivity of the solvency position of the business to the factors considered. The risks that had the most material negative impact related to lapses, however none of the sensitivities showed Own Funds falling below the level of the SCR.
- 7.15 The mix of risks that UWW is exposed to is broadly similar to the mix of risks that the UWW Transferring policies will be exposed to in UPE post-Schemes.
- UWW transferring policyholders will continue to be exposed to various market risks via the shareholder asset holdings as well as via shareholder's exposure to variations in its expected income from unit-linked charges as a result of market movements;
 - UWW reports in GBP whereas UPE reports in EURO, however UPE's cashflows are less diversified across different currencies compared to UWW's cashflows which means that UPE post-Schemes has proportionately higher currency risk;
 - UWW is more exposed to mass lapse and expense risk;
 - UPE does not write non-life business so holds no capital in respect of non-life insurance risks. This is not the case for UWW; and
 - UPE has higher counterparty default risk capital requirement which is partly as a result of the exposure to IWT asset as well as in respect of reinsurance treaties held.
- 7.16 The Stress and Scenario Testing Supporting Report shows the impact of a number of stress scenario tests on UPE's solvency cover after QII and the Transferring Business in UWW have been transferred into UPE. This shows that the post-Schemes solvency cover is also particularly exposed to lapse rates reducing and expenses increasing. The Stress and Scenario Testing Supporting Report also identifies the exposure to the IWT asset (which is covered in paragraphs 5.10 to 5.12 above).
- 7.17 However, UPE does have in place a risk management framework to manage and mitigate the various risks within UPE. In addition, post transfer, the SCR of the combined businesses is greater than the SCR of UWW in isolation. This materially increased SCR is reflective of the risks within the bigger combined businesses post transfer. Furthermore, the UPE capital policy is such that the company states that it will hold sufficient capital to cover 135% of the SCR (or 100% of the SCR if the IWT asset is excluded) and will not pay a dividend if such dividend would reduce the SCR capital coverage below 150% (or 110% if the IWT asset is excluded).

iv) Projected Solvency position

- 7.18 UWW's capital policy (pre-transfer) is to maintain sufficient assets to cover at least 135% of its SCR. The Capital policy of UPE post-Schemes will be to maintain sufficient assets to cover at least 135% of its SCR (or 100% of its SCR excluding the IWT asset). Furthermore, the Directors adopted a policy such that any dividends paid would not result in UPE having a solvency capital ratio of less than 150% (or 110% excluding the IWT asset).
- 7.19 I have also considered the projected solvency position of UWW pre-Schemes, and the projected solvency position of the combined UPE entity post-Schemes. The projections show that in the pre-transfer scenario for UWW the solvency coverage is 176% initially and remains

broadly level over the period to 2026. It is not expected that the UWW projection will be materially impacted by the Schemes due to the small number of transferring policies.

- 7.20 In the post-Schemes projection, the coverage is 171% initially, and steadily reduces over the course of the projection to 154% by 2026. This reduction is largely due to the expected dividend payments over the period. If the IWT asset is excluded, the coverage is 130% initially, and remains broadly unchanged throughout the projection period.
- 7.21 Under the UPE capital policy any excess capital above the 150% target and the 110% target excluding the IWT asset may be paid out as a dividend which is reflected in these projections. Throughout the projection, the capital buffer remains above these levels under both bases, which provides some comfort around the security of policyholder benefits.

Summary - Security

- 7.22 As the UWW Guernsey Scheme involve the UWW Transferring policyholders moving from an entity regulated in Guernsey to an entity regulated in Ireland, these policyholders will be subject to a different policyholder protection regime post-Schemes. To assess the impact of this, I have been provided with a comparative analysis and legal review of the policyholder protections regimes in Ireland and Guernsey, which also considers policyholder protections in the event of the insolvency of an insurer. This analysis concludes that the Irish regulatory regime is broadly comparable to the Guernsey regime in respect of protections to policyholders. Based on this information, it is my understanding that UWW Transferring policyholders would receive similar protections in Ireland post-Schemes compared to what they currently receive in Guernsey.
- 7.23 The UWW Guernsey Scheme will be dependent on the reinsurance arrangement in respect of the UWW Transferring policyholders which will be entirely reinsured from UPE back to UWW at the same time as the Scheme comes into force. I have been provided with a report which describes the policyholder protection measures that will be included within the UWW Guernsey Scheme. This report describes the proposed terms of the reinsurance treaty which have been designed to maintain the current level of policyholder protections for UWW Transferring policyholders post-Schemes. These terms would require UWW to hold policyholder assets under trust directly for the benefit of underlying policyholders such that in the event of insolvency of either UPE or UWW, neither company (or their administrators) would have a claim on those assets. I understand that the specific terms of the reinsurance treaty have yet to be finalised, however the intention is that the treaty will maintain the current level of policyholder protections for UWW Transferring policyholders post-Schemes.
- 7.24 Having considered the various points set out above in relation to the solvency position and policyholder protections of UWW and UPE post-Schemes, the relative risk profiles of UWW and UPE post-Schemes as well as the projected solvency coverage of both companies, it is my opinion that both the UWW Transferring and non-transferring policyholders are not materially adversely impacted as a result of the proposed Schemes. This conclusion is based on the assumption that the final terms of the reinsurance treaty between UWW and UPE described paragraph 7.23 will not materially worsen the protections that policyholders currently enjoy. If however the terms of the reinsurance treaty does affect policyholder protections, I will consider the impact of this in my supplementary report.

Reasonable Expectations of UWW policyholders

- 7.25 The Schemes do not affect the contractual obligations to the policyholders of UWW and the Schemes have no impact on the rights and obligations of UWW policyholders.

j) Funds

- 7.26 The UWW Transferring Policies will be entirely reinsured back to UWW post-Schemes. All existing investment options will be available to the policyholders, which will remain under the governance of UWW, including in respect of pricing and purchase/sale of units.
- 7.27 Therefore, the nature and structure of the underlying asset holdings immediately after the transfer will be unchanged relative to their position immediately prior to the transfer. The value of transferring policyholders' funds immediately after the transfer takes place will be equal in value to that immediately prior to the transfer taking place. The underlying unit-linked funds and associated assets immediately after the transfer will be the same as those immediately prior to the transfer.

ii) Reinsurance arrangements

- 7.28 There are no reinsurance treaties currently in-force in respect of the UWW Transferring Business. However, immediately following the Schemes it is intended that UPE will reinsure the entirety of the UWW Transferring Business back to UWW.

iii) Pricing basis for unit-linked funds

- 7.29 There will be no changes to the approach to unit pricing for the UWW Transferring Business as a result of the proposed transfer.

iv) Charges

- 7.30 The policy terms and conditions documents specify the charges that are levied on the policy throughout its lifetime. At present, some of these charges may be varied at the discretion of the company. It is therefore also necessary for me to consider the effect of the Schemes on such charges both immediately after the transfer and also how these charges may vary in the future.
- 7.31 The terms and conditions of each product sold by UWW list all the charges that apply to a policy. Policy charges on the UWW Transferring Business will continue to be set by the UWW (by way of recommendation to the UPE Board) and will equate to charges on equivalent non-transferring UWW policies.

v) Service

- 7.32 None of the administration arrangements for the transferred policies will change as a result of the Schemes. The policies will continue to be administered by UWW on the current administration platforms and consequently, the policyholders will continue to receive the same standard of service before and after the Schemes.

vi) Options

- 7.33 The Schemes state that all policyholder rights that exist under the policyholder contracts will remain unchanged as a result of the Schemes. As such UWW policyholders are not adversely impacted as a result of the proposed transfer from the perspective of the options available to them on their policies.

vii) Tax

- 7.34 The Schemes will not alter policies and does not result in the cancellation or the issue of new policies to policyholders. It is not expected that the Schemes will give rise to tax consequences for policyholders. The tax authorities in Ireland and Guernsey will be notified of the intention to carry out the proposed transfer under the Schemes.

viii) Liquidity

7.35 UWW does not have an IWT asset and so the UWW Transferring Business will be exposed to greater liquidity risk as a result of the schemes. However, Table 7.1 shows that Own Funds for UPE post-Schemes excluding the IWT asset are not materially different to the UWW Own Funds. As a result, I do not believe that UWW transferring policyholders are materially worse off from a liquidity point of view as a result of the Schemes.

Conclusion

7.36 Subject to the points in paragraph 8.1 of Section 8, based on the information provided to me and the comments I have set out in this section of the report, I consider it reasonable to conclude that, for both the transferring and non-transferring UWW policyholders, the proposed transfer does not have a material adverse impact on the security of their benefits, their reasonable benefit expectations or the level of service that they currently receive.

7.37 Furthermore, the HoAF of UWW has prepared a report in relation to this transfer. In that report the HoAF has concluded that:

- *The Schemes will have no material adverse impact on the security of the benefits for UWW policyholders;*
- *The fair treatment and reasonable benefit expectations of UWW policyholders will not be materially adversely affected by the Schemes; and*
- *The Schemes will have no material adverse impact on the current and projected solvency position of the combined entity.*

Section 8: Summary and overall conclusions

8.1 In this report I have considered the effects of the proposed transfer on the current policyholders of UPE and the transferring policyholders of QII and UWW. My conclusion is subject to the following:

- That there are no changes to my opinion as a result of any activities within the wider UG between now and the date of implementation of the Schemes;
- That the final terms of the reinsurance treaty between UWW and UPE described paragraph 7.23 will maintain the protections that policyholders currently enjoy; and
- The Reliances and Limitations as set out in paragraphs 1.25 to 1.28.

8.2 Subject to 8.1, my conclusions may be summarised by the following statements:

- The proposal provides appropriate protection for the interests of QII and UWW Transferring Policyholders. I do not consider it necessary to put in place any additional protections in addition to those in the Schemes;
- There will be no material adverse impact on the security of benefits (which includes claims payments) for any group of policyholders (including the holders of QII Guernsey Policies and the UWW transferring policies) as a result of the proposed Schemes;
- No group of policyholders (including the holders of the QII Guernsey Policies and the UWW transferring policies) will suffer any reduction in reasonable benefit expectations or service levels as a result of the proposed Schemes; and
- There will be no material adverse effect on the level of services provided to any group of policyholders (including the holders of the QII Guernsey Policies and the UWW transferring policies) as a result of the proposed Schemes.



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