Report of the Independent Actuary

Zurich Life Assurance PLC and Monument Life Insurance DAC

4 June 2020

KPMG

Contents

1 Introduction

1.1 Purpose of the Report

Zurich Life Assurance Plc ("ZLAP") was established in March 1977 and is one of the largest life insurers in Ireland. ZLAP is authorised to conduct life insurance business in Classes I, II, III, IV, VI and VII. Investment, protection, pensions and annuities are its core business lines in Ireland. ZLAP has a branch in Italy through which it writes life insurance business on a freedom of establishment basis. ZLAP has also written life insurance business in Germany, Sweden, Spain, the United Kingdom and Italy on a freedom of services basis. Business written in these jurisdictions on a freedom of services basis is, with the exception of Germany, either closed or in the process of closing to new business. As at year-end 2019, ZLAP had total assets under management in excess of €24 billion.

Monument Life Insurance DAC ("MLIDAC") is a designated activity company regulated in Ireland and it is authorised by the Central Bank of Ireland ("CBI") to write Class I, III and IV life insurance business and Class 1, 2 and 16 non-life insurance business. MLIDAC is also in the process of applying to the CBI for a Class VI life licence. MLIDAC is registered in Ireland under company number 325795, which was incorporated in Ireland on 31 July 2000. MLIDAC commenced writing business in September 2000 under the name of CitiLife Financial Limited, a subsidiary of Citigroup Insurance Holdings Corporation. In March 2011, MLIDAC was sold by Citigroup Insurance Holdings Corporation to Enstar. MLIDAC was sold by Enstar to the Monument Re Group on 29 August 2017. MLIDAC has historically acted as the consolidation vehicle for the Monument Re group of companies for Irish transactions, involving the acquisition of portfolios of life insurance businesses in run-off. MLIDAC previously traded as "Laguna Life dac", having been re-branded with effect from 2 April 2020, and is a subsidiary of another Monument Re Group entity in Ireland, Monument Assurance DAC.

It is proposed to transfer the International Portfolio Bond ("IPB") contracts of ZLAP to MLIDAC via a Portfolio Transfer. Under the Portfolio Transfer, it has been proposed that ZLAP will transfer all liabilities and supporting assets relating to the IPB policies under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/2015). I refer to the proposed transfer as the "Scheme". This Report is in respect of the proposed Portfolio Transfer. ZLAP and MLIDAC are collectively referred to as the "Scheme Companies" throughout this Report. The terms covering the proposed transfer are set out in the 'Draft Scheme' that will be presented to the Irish High Court. It is anticipated that directions will be sought from the High Court in relation to the Scheme of Transfer in July 2020. It is proposed that the sanctions hearing for the Scheme will take place in November 2020, when final approval of the Scheme will be sought with a proposed effective date of 30 November 2020 (the "Effective Date").

This Report (the "Report") is a report prepared by the Independent Actuary in order to aid the High Court in its deliberations.

The Report describes the proposed transfer and discusses its potential impact on the relevant policyholder groups within both ZLAP and MLIDAC, particularly in terms of security of benefits and levels of policyholder service. The Report is organised into 8 sections as follows:

- Section 1: Describes the purpose of the Report and the role of the Independent Actuary;
- Section 2: Executive Summary and Conclusions;
- Section 3: Provides relevant background information on MLIDAC;
- Section 4: Provides relevant background information on ZLAP;
- Section 5: Commentary on the proposed Scheme;
- Section 6: Describes the general considerations when reviewing the proposed Scheme;
- Section 7: An assessment of the proposed Scheme on the security for policyholders of ZLAP and MLIDAC; and

- Section 8: An assessment of the proposed Scheme on the fair treatment of policyholders of ZLAP and MLIDAC.

1.2 Independent Actuary

I, Brian Morrissey, am a Partner in KPMG Ireland ("KPMG") specialising in life insurance actuarial services. I am a Fellow of the Society of Actuaries in Ireland ("SAI") having qualified as an actuary in 1999. My summary curriculum vitae is included in Appendix 3.

I have been appointed by ZLAP and MLIDAC to act as the Independent Actuary in connection with the Scheme. The CBI has been informed of my appointment and I understand has not raised any objections to my appointment. The terms on which I was formally appointed are set out in an engagement letter dated 1 July 2019 and an extract of my scope is included in Appendix 2.

For completeness, I note that I have also been appointed by MLIDAC and sister companies, Monument Insurance Designated Activity Company ("MIDAC") and Monument Assurance Designated Activity Company ("MADAC") to act as the Independent Actuary in connection with the portfolio transfer of the MIDAC and MADAC businesses into MLIDAC, which is expected to take place prior to this Scheme, in June 2020. This portfolio transfer was expected to receive High Court approval in March 2020, however, this did not happen as not all of the regulatory approvals were received. It is my understanding that MLIDAC and its sister companies still intend to formally proceed with this transfer once the regulatory approvals are received and therefore High Court approval is provided. This is an assumption in my work.

In terms of direct and indirect interests, I can confirm that I have pension policies with ZLAP through various employer related arrangements through KPMG and that I have no direct nor indirect interests with MLIDAC. I can also confirm that I am acting as Independent Actuary for the other ongoing portfolio transfer within MLIDAC's business, referred to above. I do not consider that the ZLAP pension policies, nor my other professional engagements, create a conflict in terms of those interests and I consider myself able to act as an Independent Actuary on this transaction.

I have also considered the position of KPMG. I can confirm that I have carried out appropriate internal checks in line with KPMG's internal risk management procedures with no issues being raised.

Neither I, nor any member of my team, is a qualified lawyer or tax expert. I have not considered it necessary to seek my own specific legal or tax advice on any element of the Scheme. The costs and expenses associated with my appointment as Independent Actuary and the production of the Report will be met by the shareholders of ZLAP and the shareholders of MLIDAC.

This Report has been subject to internal KPMG risk management processes and peer review in line with those professional requirements. The peer review was performed by a senior actuary in KPMG's actuarial practice.

1.3 Scope of Report

I owe an overriding duty to the Court and to give the Court an independent actuarial assessment of the proposed transfer.

This Report has been prepared in accordance with:

- S.I. No. 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015, which contains the applicable Irish provisions on transfers of portfolios. Regulation 41 of the 2015 Regulations makes express reference to Section 13 of the Assurance Companies Act 1909 and Section 36 of the Insurance Act 1989. Both sections concern the sanction of transfers by the Court.
- The Actuarial Standard of Practice ("ASP") issued by the Society of Actuaries in Ireland, ASP LA-6, "Transfer of long-term business of an authorised insurance company – role of the Independent Actuary".
- The ASP issued by the Society of Actuaries in Ireland, ASP PA-2, "General Actuarial Practice".

This Report is prepared primarily to assess the likely impact that the Scheme will have on the transferring policyholders of ZLAP, the remaining policyholders of ZLAP and the existing policyholders of MLIDAC if the Scheme proceeds. It is limited in its scope to the assessment of this Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

The term “Effective Date”, as used in this Report, refers to the date at which, if the Scheme proceeds, ZLAP’s IPB policies will be transferred to MLIDAC. The proposed Effective Date is 30 November 2020.

1.4 Assurances

Whilst I have been assisted by my team, the Report is written in the first person singular and the opinions expressed are my own.

I believe that the content of this Report is accurate and complete. I have considered all matters that I regard as relevant to the opinions I have expressed and I have considered all matters that I believe may be relevant to the policyholders of ZLAP and MLIDAC in their consideration of the Scheme. All the matters on which I have expressed an opinion lie within my field of experience.

I have received assurances as follows:

- I have circulated this Report to the management of ZLAP and MLIDAC respectively to ask for commentary on the detail within the Report including confirming all material information has been provided to me and how the Scheme of Transfer will be effected in practice. No issues were noted with the commentary and detail presented in the Report by either set of management. I have also been given full access to ZLAP and MLIDAC staff as necessary.
- I have provided the Head of Actuarial Function (“HoAF”) of ZLAP (John Coggins) and the HoAF of MLIDAC (Gareth McQuillan) with my Report to ensure they are aware of comments I have made in this Report in relation to actuarial and risk information and their roles as HoAF of the respective companies. I understand they have shared my reporting with other colleagues in the companies to solicit their views. No issues have been noted as a result of their review of my Report. I have also had sight of the reports prepared on the Scheme by the respective HoAFs of ZLAP and MLIDAC and no issues arose from my review of their assessments.

In the course of carrying out my work and preparing this Report I have considered various documents provided to me by ZLAP, MLIDAC, A&L Goodbody and Matheson (who are the legal advisers in relation to the proposed Scheme for ZLAP and MLIDAC, respectively). A summary list of the main documents I have considered is set out in Appendix 1.

All of the data and information which I have requested has been provided to me by ZLAP, MLIDAC and their advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form by ZLAP, MLIDAC and their advisers. I have not sought independent verification of data and information provided to me by the Scheme Companies, nor does my work constitute an audit of the financial and other information provided to me. I have, where possible, reviewed the information provided for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

I have met in person or conducted conference calls with representatives of the Scheme Companies to discuss the information provided to me and specific matters arising out of the considerations and analysis conducted.

I have been made aware of relevant discussions between ZLAP, MLIDAC and the CBI, and specifically inquired of them whether there were specific issues I should be aware of.

1.5 Qualifications and Limitations

This Report must be read in its entirety. Reading individual sections in isolation may be misleading.

A copy of the Report and a summary version of the Report (the “Summary Report”) will be made available to the Court, the CBI and the Boards of Directors of ZLAP and MLIDAC. It will also be made available to policyholders free of charge from the following:

- The registered office of ZLAP – Zurich House, Blackrock, County Dublin, Ireland;

- The Zurich website – www.zurich.ie/existing-customers/zurich-life/international-portfolio-bond-policies;
- The registered office of MLIDAC – 2 Park Place, Hatch Street Upper, Dublin 2, Ireland;
- The MLIDAC website – https://www.monumentregroup.com/about-monument-re/about-ie/monument-life-insurance-dac/;
- The Dublin offices of MLIDAC's legal advisors, Matheson, 70 Sir John Rogerson's Quay, Dublin 2, Ireland.

The Summary Report covers all the material points and issues raised in this full Report and will be sent to each transferring policyholder.

This Report is prepared solely in connection with, and for the purposes of, informing the Court and relevant potentially affected policyholders of my findings in respect of the impact of the Scheme on the security and expectations of these policyholders and may only be relied on for this purpose.

This Report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter dated 1 July 2019. An extract from this contract describing the scope of my work is contained in Appendix 2.

This Report should not be regarded as suitable to be used or relied upon by any party wishing to acquire any right to bring action against KPMG in connection with any other use or reliance. To the fullest extent permitted by law, KPMG will accept no responsibility or liability in respect of this Report to any other party.

In my role as Independent Actuary, I have in the normal course of conducting this role, been provided with a significant and appropriate amount of information and data about the Scheme Companies' activities and performance. When forming my view as set out in this Report, these disclosures and information have formed a necessary and vital contribution.

This Report is based on information made available to me at or prior to 29 May 2020 and takes no account of developments after that date. However, my understanding is that ZLAP and MLIDAC intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the High Court will be asked to consider and sanction the proposed Scheme. This is discussed in further detail later in the document.

1.6 Limits of Liabilities and Legal Jurisdiction

This Report is subject to the terms and conditions, including limitation of liability and legal jurisdiction, set out in the Engagement Letter.

1.7 Terminology

In my discussion of the effects of the proposed Scheme on the policyholders concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix 8.

1.8 Currency

I have identified clearly the currency of figures presented throughout the Report. All figures are presented in Euro (€) unless otherwise stated.

2 Executive Summary and Conclusions

2.1 Executive Summary

2.1.1 Overview

An agreement has been reached between ZLAP and MLIDAC for the transfer of ZLAP's IPB business to MLIDAC by means of a portfolio transfer of the relevant policy assets and liabilities ("the Scheme").

This Report considers the impact of the proposed transfer of the IPB policies from ZLAP to MLIDAC.

2.1.2 Motivation for proposed Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

ZLAP has decided to transfer its IPB business in line with its strategy (and the strategy of its Group) to dispose of non-core and legacy insurance business and to concentrate on the Irish market.

MLIDAC is a closed-book consolidator and the IPB book aligns with MLIDAC's strategic plans to grow and develop its unit-linked offering and capability and to continue to service UK business post-Brexit.

2.1.3 Approach

My approach to assessing the likely effects of the Scheme on policyholders was to:

i. Understand the businesses of the entities affected by the Scheme; and

ii. Understand the effect of the Scheme on the assets, liabilities and capital (on the regulatory basis) of the entities and businesses involved.

Having identified the effects of the Scheme on the various entities and businesses, I then:

i. Identify the groups of policyholders directly affected;

ii. Consider the impact of the Scheme on the security of each group of policyholders;

iii. Consider the impact of the Scheme on the benefit expectations of each group of policyholders; and

iv. Consider other aspects of the impact of the Scheme (for example, policyholder service and any changes in administration or other arrangements).

In order to consider the effect of the proposed Scheme on each of the companies and groups of policyholders concerned, I have been provided with financial information for each legal entity, including:

- ZLAP's historic financial information based on audited financial statements and regulatory submissions to the CBI, focusing in particular on the estimates of Solvency II regulatory capital.
- MLIDAC's historic financial information based on audited financial statements and regulatory submissions to the CBI, focusing in particular on the estimates of Solvency II regulatory capital.
- For both ZLAP and MLIDAC, the Actuarial Function Reports and Actuarial Reports on Technical Provisions in respect of historic regulatory balance sheets.

- For ZLAP, the Actuarial Function Report and Actuarial Report on Technical Provisions prepared in respect of the 31 December 2019 regulatory balance sheet.
- For MLIDAC, the summary Actuarial Report on Technical Provisions prepared in respect of the 31 December 2019 regulatory balance sheet.
- I have also considered updated regulatory information for both ZLAP and MLIDAC at 31 March 2020 including any initial impacts arising from the COVID-19 pandemic.
- Pro-forma balance sheets prepared by MLIDAC, illustrating the impact of the transfer as if it had occurred as at 31 December 2019.
- The projections prepared by both MLIDAC and ZLAP as part of their respective own risk and solvency assessment processes ("ORSA" processes). I note that the ORSA report produced following completion of this process is not a publicly available document, hence I have not re-produced the detail from the report for either entity within this Report.
- In forming my opinion, I have raised queries with key personnel responsible for core functions in the Scheme Companies and have placed reliance upon, amongst other information, estimates of the MLIDAC capital position after allowing for the proposed Scheme.
- In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:
  - The appropriateness of the methods used by the Scheme Companies to calculate the estimate of regulatory capital required; and
  - Stress and scenario testing currently performed by the Scheme Companies to understand their respective regulatory capital strength and whether further testing is required.
- I have considered the different capital support arrangements available that might be drawn upon to manage adverse events which may impact the financial position of the Scheme Companies.
- Given my role as Independent Actuary on the MIDAC/ MADAC portfolio transfer into MLIDAC, I have already considered in detail the risks associated with MLIDAC in reaching my positive conclusion on the proposed transfer. Certain information relating to the non-life business which is expected to be on the MLIDAC balance sheet prior to this Scheme is set out in Appendix 6. As non-life business is not currently a feature of the business of either ZLAP or MLIDAC, it is reasonable to provide further detail. To that end, I have extracted the information from my Independent Actuary report focusing on the MIDAC/ MADAC portfolio transfers into MLIDAC and provided more detailed background information on each entity.

Significant other information that was provided is set out in Appendix 1.

2.1.4 Key assumptions

With regard to the Scheme, I understand that:

- ZLAP will transfer its IPB business to MLIDAC.
- The existing reinsurance arrangements that MLIDAC has in place with Monument Re remain in place – these provide a high level of risk mitigation to existing (and indeed transferring) MLIDAC policyholders.
- MLIDAC is, and remains, closed to new business prior to the Effective Date of the Scheme, noting that this may change depending on future acquisitions and transfers.
- ZLAP will need to make an appropriate payment to MLIDAC to cover the cost of the transfer and of the future administration of the Transferring Policies. This is reflected in the Business Sale Agreement.

- Within the broader Monument Re Group, a project is nearing completion to restructure the business within Ireland:
  - MLIDAC is a wholly owned subsidiary of MADAC. MADAC is a wholly owned subsidiary of MIDAC and MIDAC is a wholly owned subsidiary of Monument Re. MIDAC, MADAC and MLIDAC all form part of the same group of companies.
  - As part of this project, separate portfolio transfers are underway to migrate the policies of MIDAC and MADAC to MLIDAC.
  - I note that I am acting as the Independent Actuary in those portfolio transfers. After these transfers complete, it is intended that MLIDAC will act as Monument Re Limited's primary Irish company. At the date of finalising this report, I understand that the CBI has granted approval for these transfers with the Sanctions Hearing court date set for 9 June 2020. The portfolio transfers are expected to complete before the Scheme in June 2020; therefore, the approach taken within this Report is to consider the Scheme as if these transfers had already taken place.
- To facilitate the transfer of the IPB policies, MLIDAC is applying to the CBI for a Class VI (Capital Redemption Operations) life insurance licence. As this approval is required for the Scheme to proceed, the assumption that this licence is approved also forms an inherent underlying assumption.
- I note that ZLAP currently receive rebates from investment managers in respect of IPB business and the majority of these are credited to policyholder accounts. Work is underway within ZLAP to formalise the link between rebates allocated to policyholders and those collected from fund managers. ZLAP's intention is to establish contracts with the fund managers regarding the amount of the rebates. These contracts would then novate to MLIDAC upon execution of the Scheme. At this stage, ZLAP has not identified any reason why these rebate rates would not transfer to MLIDAC post the Scheme. If this assumption is not correct, the impact on the policyholders would need to be revisited. I do not comment on this aspect further.
- I further note that there are some trivial rebate payments made by a very small number of fund managers. ZLAP may not be able to formalise these rebate arrangements. If this is the case, I note that prior to the portfolio transfer, a solution will be implemented which is fair to the very small number of impacted policyholders.
- One of the investment options that is available to IPB policyholders is the Zurich Portfolio Option. If utilising this option, policyholders can invest their funds through investment platforms, operated by Sterling ISA Managers Limited ("SIML") or Citibank UK Limited ("Citibank"). These platforms offer policyholders means to invest their funds in any of hundreds of investment funds available as part of their offering.
  - I note that SIML is terminating its relationship with ZLAP and ZLAP must migrate the small number of impacted policyholders to the Citbank platform in advance of the anticipated Directions Hearing. I have therefore assumed that this migration completes without issue in advance of the Scheme execution date.
  - I note that a small number of policyholders have exposure to Property Funds on the SIML platform and these Property funds have stopped pricing and there are no redemptions. Different options are being assessed if these Property funds remain closed to redemptions by the time of the portfolio transfer. These options have not been finalised. For now, I am assuming a solution will be found to facilitate the transfer of these Property funds.
  - I note that MLIDAC have no existing relationship with Citibank and I have assumed that MLIDAC will successfully be able to establish and maintain such a relationship in advance of the transfer date.
- I also need to consider another transaction in the context of this Report. In March 2019, MLIDAC entered into an agreement to acquire a c. €140m portfolio of Irish annuities from Rothesay Life Plc

in the UK. The acquisition has been structured initially as reinsurance to Monument Re to be followed by a Part VII transfer of the portfolio to MLIDAC, subject to regulatory and UK High Court approvals. The final UK Court hearing is expected in July 2020 and the expected portfolio transfer date is September 2020, prior to the completion of this Scheme. I have been provided with pro-forma year-end 2019 results that capture the impact of that Rothesay transfer, as if it had taken place on 31 December 2019. In addition, I have been provided with the financial projections (as part of my review of the ORSA) which illustrate the impact of that transfer and note that these projections do not appear to highlight any issues on financial strength and solvency. However, it is outside of the scope of my work to assess this specific Rothesay Scheme and its impact on MLIDAC policyholders which is being assessed by another Independent Expert.

- Another entity in the Monument Group in Ireland is Inora Life dac ("Inora"), which is a wholly owned subsidiary of MLIDAC. MLIDAC agreed to purchase Inora in March 2019, received regulatory approval for the transaction August 2019 and the transaction executed in September 2019. I note, post completion of the Scheme described in this Report, that it is MLIDAC's intention to transfer the liabilities of Inora to MLIDAC and liquidate Inora. As with the Rothesay transaction, I have been provided with the financial projections (as part of my review of the ORSA) which illustrate the impact of this expected transfer and note that these projections do not appear to highlight any issues on financial strength and solvency. However, it is outside of the scope of my work to assess this Scheme and its impact on MLIDAC policyholders which will be assessed by another Independent Expert.
- In relation to Brexit, MLIDAC have applied for inclusion into the Temporary Permissions Regime ("TPR"). The TPR was written into British legislation offering an alternative approach whereby EU regulated insurers carrying on business in the UK could opt into a simplified process, allowing the opportunity to carry on business in the UK for 3 years post Brexit before committing to submitting an application for authorisation of a third company branch in the UK to the UK regulatory authorities to maintain business in the UK post Brexit. However, it is noted that should a binding agreement be finalised between the European Union and UK Government, prior to 31 December 2020, that enables MLIDAC to continue to operate on a passporting basis, the TPR will not become effective or be required. In terms of the practicalities, I note that the Scheme will proceed if an agreement is in place by 31 December 2020 or if Brexit is delayed for a sufficiently long period to allow it to proceed through the Courts including the necessary regulatory approvals including from the PRA. In terms of approvals and the nature of the Brexit agreement, I note that a full application might be required to the PRA for the TPR and the timing and practicalities associated with that application and approval also need consideration. Regardless of the exact mechanism employed, my assumption is that MLIDAC will obtain the necessary permissions to continue to operate and service the UK market post-Brexit.
- At present, the transferring IPB policyholders are part of the UK Financial Services Compensation Scheme ("FSCS") and that they, and existing MLIDAC policyholders that are covered under the FSCS, will remain part of the FSCS post-transfer. I understand from legal advice that post-Brexit, MLIDAC will, in due course, need to be authorised as a Third Country Branch (as noted above) in order that the policyholders continue to be covered by the FSCS. MLIDAC's strategic intention is to continue to operate in the UK and the necessary permissions will be obtained, so policyholders that are currently protected under the FSCS will be unaffected. This is a key assumption, so if this is not the case, my assessment will need to be revisited.
- The IPB policy administration services provided at present by Capita will be maintained for 12 months post transfer and will then be migrated to another provider, with this migration being managed so as to avoid any disruption to, or decrease in service standards for, the IPB policyholders. The administration costs for MLIDAC, after switching service provider, will be significantly below those currently incurred by ZLAP through Capita.
- Where the current funds offered by ZLAP to IPB policyholders will be unavailable to IPB policyholders after the Scheme, funds will be transferred to replacement funds that have been

agreed in principle between ZLAP and MLIDAC, which provide the same or similar investment mandates, performance and costs in line with policyholder reasonable expectations and policy terms and conditions.

The above assumptions underlie the analysis and conclusions in my Report. If any of these assumptions were to change, my opinion may also change. I have assessed each of these assumptions and their significance in Section 7.5 of the report.

I have circulated this Report to the management of ZLAP and MLIDAC respectively to ask for commentary on the detail within the Report, including the underlying assumptions. No issues were noted with the commentary and detail presented in the Report by either set of management, reflecting the fact that the key assumptions listed above correctly represent the current intentions and that the information I have been provided accurately reflects these businesses.

2.1.5 Findings

The findings of my Report are summarised below.

- Both ZLAP and MLIDAC are subsidiaries of larger insurance groups. ZLAP's ultimate parent is Zurich Insurance Group Limited, a multi-national insurance company head-quartered in Zurich, Switzerland. MLIDAC's parent is Monument Re Limited, a Bermuda based insurance group. Whilst ZLAP's parent is significantly larger than MLIDAC's, both entities can avail of capital support from their respective group if so required.
- Both ZLAP and MLIDAC are subject to supervision by the CBI and are regulated under the Solvency II regime, hence neither the supervisory approach nor the regulatory capital regime supporting policyholders will be impacted by the Scheme.
- In line with regulatory requirements and good practice, both ZLAP and MLIDAC have comprehensive risk management and governance structures in place, with oversight from their respective Boards.
- There are no planned changes to IPB policyholders' terms and conditions as a result of the Scheme.
- It is the initial intention that, for 12 months after the Scheme, there will be no changes to the administration approach or structures for the Transferring Policies. However, MLIDAC have indicated the intention to migrate administration services from the existing provider to another commercial provider at some stage in the future. MLIDAC have an existing relationship with the proposed new provider and have prior experience of managing both the products and indeed such migration projects.
- Whilst management of unit-linked business is a relatively new focus for MLIDAC, the control and governance frameworks that have been put in place in relation to it are in line with what I would expect.
- I have considered the relative capital strength of ZLAP and MLIDAC both pre- and post- the transfer. I have based my financial analysis, for both entities, on the regulatory submissions to the CBI at 31 December 2019, the audited financial statements as at 31 December 2019, the ORSA reports (which project solvency coverage over 5 years in a base case and a wide range of stressed scenarios) and additional supplementary analysis made available to me, notably MLIDAC's pro-forma results for 31 December 2019. A summary of the relative capital strength of ZLAP and MLIDAC pre- and post-transfer is set out below:

Table 2.1: ZLAP and MLIDAC Illustrative Solvency Position - €m

	ZLAP 31 December 2019	MLIDAC Pre-Transfer 31 December 2019*	MLIDAC Post-Transfer 31 December 2019*
Own Funds	762.9	29.8	35.8

Solvency Capital Requirement	591.9	16.1	23.0
Excess of Own Funds over Solvency Capital Requirement	171.0	13.7	12.9
Solvency Coverage Ratio	129%	185%	156%

**Note: MLIDAC results are pro-forma results prepared by MLIDAC management. Prior to the Scheme, it is expected that MLIDAC will acquire the annuity portfolio of Rothesay Life plc and that the business of MIDAC and MADAC will transfer to MLIDAC; the above table assumes that these transactions are approved and hence they are reflected in the above pre-transfer results. The MLIDAC pro forma figures also ignore the impacts of the volatility adjustment, a €5.5m dividend paid by MLIDAC's subsidiary Inora to MLIDAC over Q1 2020 and the non-payment of a planned Q1 2020 dividend of €1.5m from MLIDAC to its parent. Taken together these factors would increase MLIDAC's post-transfer solvency coverage above 156% and, in particular, above MLIDAC's target coverage level.*

- I note that for IPB policyholders:
  - They are part of ZLAP, one of the largest life insurance companies operating in the Irish market and a subsidiary of a large multi-national insurance group. As at year-end 2019, ZLAP had a regulatory capital requirement of €591.9m, with available Own Funds of €762.9m, excess of available Own Funds above the regulatory requirement of €171m with a solvency coverage ratio of 129%.
  - Post-transfer, the IPB policyholders will move to MLIDAC, a smaller life insurance company that specialises in the service and administration of closed books of insurance business such as the IPB book. MLIDAC is part of the Monument Re group of companies, a (re)insurance group headquartered in Bermuda. As at year-end 2019, MLIDAC had a regulatory capital requirement of €10.0m, with available Own Fund of €28.2m and excess available Own Funds above the regulatory requirement of €18.2m, giving a solvency coverage ratio of 282%. Based on pro-forma results prepared by MLIDAC, after allowing for the other transfers anticipated to take place over 2020 and the inclusion of the IPB book, post-transfer MLIDAC is anticipated to have a regulatory capital requirement of €23.0m, available Own Funds of €35.8m, and excess available Own Funds above the regulatory requirement of €12.9m, with a solvency coverage ratio of 156%. So, while the level of excess available Own Funds is lower in MLIDAC, the level of anticipated solvency coverage in MLIDAC after the transfer is in excess of the regulatory minimum. As noted in the footnote to the table above, once the volatility adjustment and actual dividends over 2020 are allowed for, MLIDAC's solvency coverage is also anticipated to be in excess of its internal capital target. I note that updated analysis has been prepared to support the level of the additional capital buffer as part of the internal capital target in respect of the intra group reinsurance arrangements in place and planned to be put in place.
  - Based on its ORSA projections and projections prepared considering the IPB portfolio, MLIDAC's solvency position is projected to both improve over time and to continue to meet its regulatory capital requirements and internal capital targets in a wide range of adverse scenarios.
  - As a result of the Scheme, IPB policyholders will be exposed to certain different risks than they are currently exposed to, specifically the non-life risks that will form part of MLIDAC's balance sheet as a result of the transfer of MIDAC business. However, these non-life risks are well understood by MLIDAC, are anticipated to run-off quite quickly and there are regulatory capital buffers and risk management processes in place to manage these risks. I am comfortable that this does not materially impact the financial security of the IPB policyholders.
- I note that, for the remaining ZLAP policyholders:
  - The IPB portfolio is relatively immaterial in the context of ZLAP's overall book. The IPB transfer has no material impact on ZLAP's reinsurance structures, governance structures or level of

available capital. As a result, I am comfortable that the scheme does not adversely impact the policyholders that remain in ZLAP after the Scheme completes.

- I note that, for the existing MLIDAC policyholders:
  - There is a strong regulatory capital position pre- and post-transfer.
  - Pre-transfer, after allowing for the anticipated restructure of the Irish entities and the Rothesay transfer, based on pro-forma year-end 2019 results, the Own Funds are expected to be €29.8m, the regulatory capital requirement to be €16.1m and the solvency coverage ratio to be 185%. The transfer sees an increase in Own Funds, with a corresponding increase in the regulatory capital requirement. The Own Funds increase to €35.8m, whilst the capital requirement increases to €23.0m, leading to a reduction in coverage to 156%. Therefore, MLIDAC policyholders remain part of a company with a higher level of Own Funds, but a higher regulatory capital requirement due to the inclusion of the IPB business. Overall the solvency coverage which they enjoy has decreased but it remains well in excess of the regulatory minimum levels. As noted above, once the volatility adjustment and actual dividend payments over 2020 are allowed for, MLIDAC's solvency coverage is also anticipated to be in excess of its internal capital targets.
  - MLIDAC's risk profile does change slightly as a result of the transfer, notably as a result of the increased market risk exposure that it faces. However, MLIDAC already have experience of managing this risk and the level of available capital is more than sufficient to offset the increased requirements. The products transferring are similar, in terms of design features, operation and key risks, to those already on MLIDAC's balance sheet.
  - Based on its ORSA projections and projections prepared considering the IPB portfolio, MLIDAC's solvency position is projected to both improve over time and to continue to meet its regulatory capital requirements and internal capital targets in a wide range of adverse scenarios.
- I note that it is the intention of MLIDAC to put reinsurance cover in place for the IPB book post-transfer. This reinsurance cover is anticipated to be aligned to the existing structures that MLIDAC has in place with Monument Re and will help mitigate the mortality, lapse and expense risks within the acquired portfolio. It is intended that the arrangement will make use of a similar collateral/ funds withheld arrangement (as used for the current reinsurance). Given that plans are developing on this issue, it has not been a material consideration in forming my view on the Scheme. However, MLIDAC have prepared results illustrating the impact of the reinsurance on their projected solvency position post-transfer and I have factored those results into my assessment.
- I also note that, in preparing this report, I have primarily considered the results made available to me as at 31 December 2019. However, over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. Consequently, I have also supplemented my analysis by considering the 31 March 2020 results for both entities.
  - In ZLAP's case, I note that the available Solvency II Own Funds reduced from €762.9m to €664.5m, whilst the regulatory capital requirement fell from €591.9m to €543.6m. Therefore, ZLAP's coverage of the regulatory capital requirement fell from 129% to 122%.
  - In MLIDAC's case, I note that the available Solvency II Own Funds reduced from €28.2m to €27.9m, whilst the regulatory capital requirement fell from €10.0m to €8.8m. Therefore, MLIDAC's coverage of the regulatory capital requirement increased from 282% to 317%. This reflects the actual dividends paid over the period versus those allowed for in the year-end position (i.e. a €5.5m dividend was paid from Inora to MLIDAC and the planned dividend of €1.5m from MLIDAC to its parent was not proceeded with). The 31 March position also reflects the impact of the volatility adjustment, which was approved by the CBI in the period. MLIDAC have also provided pro-forma results which reflect the anticipated evolution of the balance sheet in advance of the Scheme, as well as the impacts of the Scheme itself. Based on the data as at 31 March, after allowing for the internal restructure and the Rothesay transaction, MLIDAC is anticipated to

have solvency coverage of 186%. The Scheme is anticipated to see this decrease to 178%, still well in excess of the regulatory requirements.

- Overall, the latest results do not indicate any material deterioration in the solvency position for ZLAP or MLIDAC as a result of recent market volatility.

- I have considered the effects of the Scheme on the fair expectations and treatment of each of the transferring IPB, remaining ZLAP and existing MLIDAC policyholders, focusing on the following aspects:

  - *Compensation Schemes:* As a result of the Scheme and MLIDAC's intention regarding participation in the UK market, the IPB policyholders should continue to be covered by the FSCS and I note that this protection will not be available to them if a hard-Brexit occurs and they remain part of ZLAP. Overall, in my opinion, the implementation of the Scheme will not have an adverse impact upon the security of benefits and policyholders' expectations in this regard.
  - *Fund Range*: Some ZLAP internal funds are available to ZLAP policyholders only and will no longer be available to IPB policyholders after the Scheme completes. Agreement in principle has been reached between ZLAP and MLIDAC on how to address this, with suitable alternative funds having been identified and agreed in most cases. The proposed funds are well aligned in terms of asset allocation, performance and fees. In a small number of cases, suitable alternatives are unavailable and it is the intention to compensate the impacted policyholders. I expect to be provided with the final implementation plan associated with closing this issue and will comment upon it in my Supplementary Report ahead of the final hearing. For the externally managed funds, I also note that it is MLIDAC's intention to maintain the breadth of offering currently provided by ZLAP. I also note that certain Property Funds which IPB policyholders are invested in are currently closed to pricing and there are no redemptions. These same funds will not be available post transfer. At this stage, solutions are being assessed to ensure policyholders are not negatively impacted. In my opinion, the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.
  - *Entitlement to benefits:* Existing practices in respect of surrender, maturity, transfer, or death will remain in place post-transfer. Claims which are settled as part of the normal course of business will be dealt with in the same way post-transfer. Therefore, in my opinion, the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard.
  - *Policy Terms & Conditions*: policy terms and conditions will remain unchanged as a consequence of the Scheme for all policyholders. I have no issues to note.
  - *Service standards*: In the short-term, the existing arrangements for policy servicing will remain in place, so there will be no immediate impact upon service standards. In the longer-term, MLIDAC intend to migrate the administration of the IPB policies from the existing provider to one that MLIDAC has an existing relationship with. I note that MLIDAC have experience of managing such migrations and have committed to resourcing a project to manage the transition. In particular, the policies that transferred to MLIDAC under Project Carp were previously administered by the same firm as is currently employed for the administration of the IPB policies. MLIDAC successfully transferred the administration of those policies to its current provider post-transfer. Given MLIDAC's plans, the existing relationships in place and MLIDAC's experience of such migrations, I have no issues to note.
  - *Expenses and charges*: These will remain unchanged as a consequence of the Scheme for all policyholders, though I note that some policyholders may see a reduction in fund management charges as a result of the fund switches necessitated as part of the transfer. I note that work is underway within ZLAP and MLIDAC so as to ensure that rebates applied to policyholders' funds are formalised with the fund managers and are maintained at that level post transfer. I expect this issue to be fully resolved pre-transfer and information provided to me has not indicated any cause for concern at this stage. Overall, with regard to expenses and charges, I have no issues to note.
  - *Costs of the Scheme*: All costs associated with the Scheme will be borne by the shareholders of ZLAP and MLIDAC. No costs will be borne by policyholders. Therefore, in my opinion the

implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard. I have no issues to note.

– *Discretion:* With regard to the management of the IPB policies, the levels of discretion available to management are limited, relating to the charges levied, the funds offered and the approach to unit-pricing. Insofar as possible, MLIDAC will endeavour to maintain the existing structures, so there are no issues emerging that I am aware of that can adversely impact upon policyholders

– *Complaints and redress*: I note that the complaints handling procedures adopted by both entities at present are well aligned and that policyholders will continue to be able to escalate claims to the Financial Services and Pensions Ombudsman after the Scheme. As a result, there will be no consequence of the Scheme for policyholders. I have no issues to note.

Therefore I consider that the Scheme does not impact on the fair expectations of all policyholders.

2.1.6 Policyholder Communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs (and I understand ZLAP and MLIDAC will seek the High Court's dispensation from this requirement), certain materials must be transmitted to each policyholder. I note that:

- The transferring ZLAP IPB policyholders, and their financial advisors, will each be sent a circular (comprising of a letter from ZLAP's CEO, a summary of the terms of the Scheme, a summary version of this Report, a copy of the published legal notice and a frequently asked questions document in relation to the transfer).
- Given the immateriality of the transaction for ZLAP's broader business, it is not ZLAP's intention to communicate with the ZLAP policyholders who will remain in the company post the Scheme.
- There is no intention to communicate with the policyholders of MLIDAC, however information will be available on the MLIDAC website. The reasons set out by MLIDAC management are that the Scheme does not materially impact on MLIDAC policyholders and their overall financial position pre- and post- the Scheme remains strong and well in excess of internal and external regulatory capital limits. I have assessed the financial impact on the existing MLIDAC policyholders and note the impacts, as described in section 2.1.5 above. I also recognise that given other transactions (CARP/ Freyr and MIDAC/ MADAC over the next number of months), a large number of existing policyholders will have been communicated with for their own portfolio transfers so I do recognise the risk of confusion and indeed cost of these exercises.
- In addition to this Report, I have prepared a Summary Report which covers all the material points and issues raised in this full Report.
- The communication to IPB policyholders will include my conclusion as Independent Actuary and the Summary Report. It will also highlight very clearly the availability of my full Report on request and its availability on the ZLAP website. The CBI will be advised of this approach and I have assumed that they will not raise any objections.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- The majority of the IPB policyholders are based in the UK, with a small number in other EEA Member States. ZLAP will publish the Transfer in the UK and in each other relevant EEA Member State in accordance with the law of each such Member State. ZLAP is currently engaged with its legal advisors to ascertain what the law requires in each such Member State.
- There are a small number of IPB policyholders located outside the EEA. Whilst not a legal requirement, ZLAP intends to publicise the Scheme in the international edition of the Financial Times to accommodate such policyholders.

Overall, I am comfortable with this communication approach and am comfortable that the remaining ZLAP and existing MLIDAC policyholders will not be disadvantaged in any way by not being issued with a copy of either this Report or my Summary Report.

2.1.7 Supplementary Report

This Report is based on information provided to me on or before 29 May 2020 and therefore reflects a point in time view of the proposed transfer. My understanding is that ZLAP and MLIDAC intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing (and possibly even prior to the initial Directions hearing) at which the High Court will be asked to consider and sanction the proposed Scheme. My Supplementary Report will contain an update on any developments that may have occurred since 29 May 2020. In my Supplementary Report, I will review my findings and opinion which will include consideration of the following:

- Business performance in the period and updated regulatory and financial information;
- Updates on the other transfers underway within MLIDAC, notably the internal transfers within Monument Re and the transfer of the annuity portfolio from Rothesay Life plc;
- Progress on the application for a Class VI (Capital Redemption Operations) life insurance licence though this is not expected to be received prior to the Directions hearing;
- Progress on the review of rebate rates currently payable to ZLAP and ensuring that they transfer to MLIDAC;
- Progress on the migration, in advance of the transfer, of the policyholders who are on the SIML platform to the Citibank platform, noting that this transfer is being managed by ZLAP;
- Progress on the migration in relation to policyholders in certain Property Funds which are closed to redemptions on the SIML platform;
- Progress on the establishment of a contractual relationship between MLIDAC and Citibank for the continued use of its investment platform for the IPB policyholders who will be using it at the transfer date;
- Review of the policyholder communications to be issued in respect of the transfer;
- Progress on development of the reinsurance structures that MLIDAC intends to put in place for the IPB business, including the planned operation of the collateral arrangements supporting it;
- Progress on the plans for fund switches from the ZLAP internal funds, which are no longer available to IPB policyholders post-transfer;
- Progress on Brexit preparations and wider market and regulatory developments;
- Progress on plans within MLIDAC for changes to the administration of the IPB book; and
- Progress on the formal contractual arrangements supporting the expected new administration arrangements for the IPB book, which include the expected servicing costs.

Other issues may of course arise and these will be factored into such a Report.

If required to be produced, this Supplementary Report is intended to be made available alongside this Report at the registered offices of ZLAP and MLIDAC and on the ZLAP website as soon as is practicable once it has been issued.

2.2 Conclusions

Having considered the impact of the Scheme on both the transferring policyholders of ZLAP and the existing policyholders of MLIDAC, it is my opinion that:

- The Scheme will not have a material adverse effect on the reasonable benefit expectations of any of the policyholders involved; and
- The risk to policyholder security is remote. Therefore, in my view, policyholders will not be materially adversely affected by the proposed Scheme.

My opinion in relation to ZLAP and MLIDAC policyholders is based on:

- My review of all the pertinent historic, current and projected information provided by ZLAP and MLIDAC;
- The investigations completed by the respective ZLAP and MLIDAC Heads of Actuarial Function and their respective conclusions based on those investigations, as set out in their actuarial assessments; and
- Discussions with the management of ZLAP and MLIDAC on what will happen post-transfer.

My assessments are made in the context of the Solvency II regulatory regime in Europe.

I note that there is adequate planned communication of the Scheme to the relevant policyholders.

Brian Morrissey

4 June 2020

Brian Morrissey, FSAI

Date

Independent Actuary
KPMG in Ireland

3 Monument Life Insurance DAC

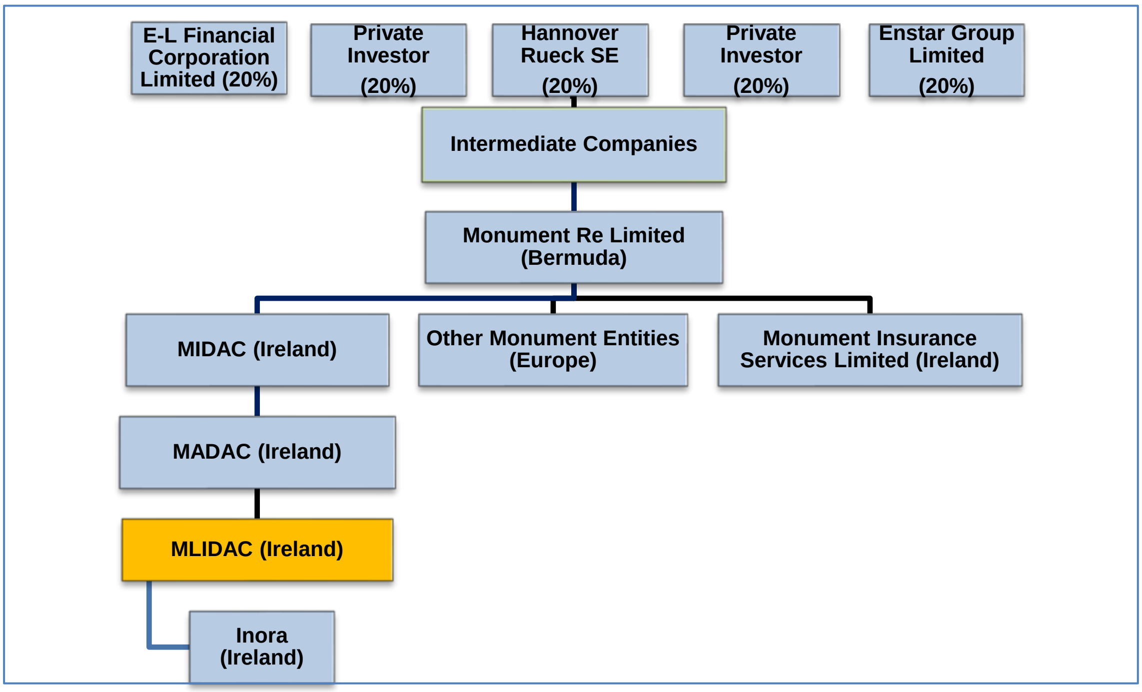
3.1 Overview

Monument Re Limited ("Monument Re"), is a Bermuda based class E life reinsurer and designated insurer supervised by the Bermuda Monetary Authority ("BMA"). It was incorporated on 27 October 2016 to operate as a reinsurer and acquirer of asset intensive European life insurers. Monument Re is backed by high quality shareholders which include Hannover Re, the world's third largest reinsurer; NYSE listed Enstar Group plc ("Enstar"), a leading P&C run-off consolidator; and E-L Financial Corporation Ltd, the parent company of Canadian life insurer Empire Life along with two individual private investors. Monument Re is the ultimate holding entity of four regulated insurance entities in Ireland:

- MIDAC, a non-life assurance company,
- MADAC, a life assurance company,
- MLIDAC, a life assurance company, and
- Inora Life.

Together, the four entities are collectively known as "Monument Insurance Ireland" in local company documentation. All of the companies above are subject to CBI supervision, and are indirectly owned by the Monument Re Group's regulated parent, Monument Re Limited.

The image below reflects the current Group structure:



3.2 Structure and background

MLIDAC is a designated activity company regulated in Ireland under company number 325795 which was incorporated in Ireland on 31 July 2000. It is authorised by the CBI to write Class I (life assurance and contracts to pay annuities on human life, but excluding Class II and III), Class III (contracts linked to investment funds) and Class IV (permanent health insurance contracts) life insurance business, as well as Class 1 (accident), Class 2 (sickness) and Class 16 (miscellaneous financial loss) non-life insurance business. I also note that, to facilitate the transfer of the IPB policies under the Scheme, MLIDAC require a Class VI (Capital Redemption Operations) life insurance license. MLIDAC is currently applying for permission from the CBI to extend its license to underwrite this insurance class. This report assumes that this application is successful.

MLIDAC's business is in run-off which means that MLIDAC is no longer selling new insurance. MLIDAC commenced writing business in September 2000 under the name of CitiLife Financial Limited, a subsidiary of Citigroup Insurance Holdings Corporation. In March 2011, the Company was sold by Citigroup Insurance Holdings Corporation to Enstar. The Company was sold by Enstar to Monument Re, on 29 August 2017. MLIDAC has acted as the consolidation vehicle for the group for Irish transactions detailed in section 3.3.1. MLIDAC agreed to purchase Inora in March 2019 and received regulatory approval for the transaction August 2019, with it completing in September 2019.

At the time of writing, I note that a project is underway to rationalise and streamline Monument Re's operations in Ireland. This project's aims are to simplify the ownership structure, optimise capital efficiency and reduce the reporting requirements for the Irish subsidiaries of the Group. Within Monument Re's overall group structure, up to 1 January 2020, MLIDAC had been trading as "Laguna Life dac".

The first phase of this project took effect on 2 April 2020, with Laguna Life dac being re-branded as MLIDAC.

The second phase of this project will see MADAC and MIDAC's insurance liabilities and corresponding assets transfer to MLIDAC, with MLIDAC becoming the sole insurance carrier for Monument Re in Ireland. The portfolio transfer is only waiting for regulatory approvals before final High Court approval is received and is expected to complete in advance of this proposed Scheme. At the date of finalising this report, I understand that the CBI has granted approval for these transfers with the Sanctions Hearing court date set for 9 June 2020. The portfolio transfers are expected to complete before the Scheme in June 2020; therefore, the approach taken within this Report is to consider the Scheme as if these transfers had already taken place. As a result, my Report considers the entity which the ZLAP IPB policies will be transferring into, i.e. MLIDAC, after the MIDAC and MADAC transfer has taken place. In addition, there are a number of other ongoing acquisitions and transfers, described below, that I must also factor into my analysis.

I would separately note that I have been provided with the financial statements and regulatory filings for Monument Re as reported to the BMA. I have not reproduced the detail in this report. I have reviewed it for the purposes of understanding the financial strength of the Monument Group, given that MLIDAC is a subsidiary of Monument Re. No issues were noted from my review of the regulatory documents.

3.3 Nature of business written

MLIDAC currently has €492.6m in insurance liabilities in respect of savings / protection policies and c11,300 policies worldwide across the company. The company received €39m in net premium income in 2019. These details are captured in tables 3.1 and 3.2 below:

Table 3.1: MLIDAC Earned Premiums - €m

Line of Business	31 December 2018	31 December 2019
Life	28.9	39.0
Total	**28.9**	**39.0**

Source: 2018, 2019 SFCR documents for MLIDAC

Table 3.2: MLIDAC Sum Assured and Policy Count - 2019

Line of Business	Policy Count	Sum Assured (gross)	Sum Assured (net)	Surrender Value (gross)
Laguna Term	2,592	391,653,611	40,160,655	0
Ethias/Freyr	1,784	-	-	57,963,209
Met Life/Carp				
- Non-Linked	184	21,630,000	2,163,000	
- Fixed Term Annuity	2,066	-	-	

- Unit-Linked	3,423	5,842,377	177,007	163,370,080
- Variable Annuity	1,240	1,147,519	-	86,647,001
Total	**11,289**	**420,273,507**	**42,500,663**	**307,980,291**

Source: MLIDAC QRT S14.01

3.3.1 Products

MLIDAC (which originally comprised regular and single premium, level and decreasing term assurance business in Spain and the UK) has acquired the following portfolios:

- **Project Freyr**: On 28 September 2018, MLIDAC completed the acquisition of a Belgian closed portfolio of around 4,300 flexible premium whole of life savings contracts from Ethias S.A. This portfolio is known as the "FIRST A" or "Freyr" portfolio. The portfolio is predominantly single premium and is in run-off, with small amounts of regular premiums.

- **Project Carp**: On 19 June 2018, the Company entered into an agreement with MetLife Europe dac an Irish authorised life insurer to acquire an additional block of variable annuity, fixed term annuity, annuity and protection business. The block is closed to new business. This transaction was initially executed through reinsurance to Monument Re. In accordance with the approval of the Irish High Court, the portfolio has transferred, as of the 1 April 2019, into MLIDAC in Ireland with the terms and conditions of transferring polices unchanged. The breakdown of the products are as follows:
  - Variable Annuity: This block comprises unit-linked business with guarantees, including Guaranteed Minimum Withdrawal Benefits, written in Greece, Spain and Poland. They were sold under the MetLife Europe Income Guarantee Solution name. This block is closed to new business.
  - ALIL unit-linked: This block comprises unit-linked business written in Germany, Italy, Spain and the UK, both regular and single premium in nature.
  - ALIL non-linked: The ALIL non-linked business comprises of several non-linked term assurance, income protection and group protection policies.
  - High Net Worth: This block comprises of several unit-linked single premium investment policies, written predominately in the UK.
  - Fixed Term Annuity: This block comprises policies issued in the UK under two fixed-term non-linked products that pay an immediate annuity while the client is alive during the policy term.

  I note that an immaterial additional component of the CARP portfolio is yet to transfer to MLIDAC. This aspect of this transaction is due to complete in Q3 2020. The results provided to me by MLIDAC indicate it is not material, as the impact on Own Funds is less than €40k. Given the low materiality of this item, I have not commented upon it any further within this Report.

- **Project Diane:** On 27 March 2019, the Company signed a definitive agreement to acquire Inora Life Designated Activity Company ("Inora") from Société Générale S.A. The closing of the transaction was subject to regulatory approval by the CBI. Inora is a life insurer domiciled in Ireland which has ceased all new business activity since 2012 but still manages a portfolio of unit-linked insurance products. Regulatory approval was issued by the CBI in August 2019 and the insurance liabilities of Inora are captured within the MLIDAC results as at year-end 2019. It is expected that this business will be transferred into MLIDAC once the other transfers are completed.

I also note that the following transfers are in progress and must also be considered as part of my overall deliberations on the Scheme:

- **MIDAC:** MIDAC underwrites the non-life element of Payment Protection Insurance ("PPI") policies and Income Protection Policies to Barclays Bank UK debt customers. It underwrites the non-life cover elements of PPI offered to the same partners as for MADAC, as well as some other standalone benefits. Business written includes short-term critical illness ("CI") and short-term accident and sickness ("AS") business. MIDAC also writes involuntary unemployment ("IU") business. All risks covered are in the UK. Further detail is included in Appendix 6.

- **MADAC:** MADAC underwrites PPI and Income Protection Policies to Barclay Bank debt customers. It underwrites the life cover element of PPI policies sold to UK policyholders with all lives assured being from the UK. In addition, MADAC writes long-term critical illness ("LCI") and long-term accident and sickness ("LAS"). Further detail is included in Appendix 7.

- **Rothesay Life Plc (In progress):** On 26 March 2019, the Company entered into an agreement to acquire the €140m portfolio of Irish annuities from Rothesay Life Plc a UK based life insurer. The acquisition has been structured initially as reinsurance to Monument Re and followed by a Part VII transfer of the portfolio to MLIDAC, subject to applicable regulatory and UK court approvals. The final Court hearing date is July 2020 with an expected portfolio transfer date of September 2020, prior to the execution of this Scheme. I note that this transfer is being considered by another Independent Expert and is beyond the scope of my report, but I have considered the MLIDAC balance sheet, prior to execution of the Scheme, as if this transfer had already been executed. I have access to his reporting as it is publicly available on the Rothesay Life website.

At 31 December 2019 MLIDAC has three lines of business on its books, classified under Solvency II as follows:

- Insurance with profit participation: Life and potential for a minimum rate of interest
- Index-linked and unit-linked insurance: Investment return, guaranteed withdrawal value, guaranteed death benefit, and
- Other Life Insurance: Life benefit.

3.3.2 Unit-linked business

I note that prior to Project CARP, MLIDAC did not manage unit-linked business, hence this drove a material change in both MLIDAC's business operations and governance structures. Since the acquisition of this portfolio, MLIDAC has established the processes and controls required to effectively manage this business in line with best practice. The management of the unit-linked business is overseen by the Unit-linked Investment Committee, which is chaired by the Head of Fund Administration and whose members comprise of individuals from the senior management team of MLIDAC. The Unit-linked Investment Committee report to the Board of MLIDAC.

MLIDAC follows the Association of British Insurers ("ABI") Guidance for Unit-linked Funds, applying the requisite governance structures to ensure that unit-linked funds are managed appropriately and in accordance with policy disclosures. MLIDAC acts in accordance with the Financial Conduct Authority's ("FCA") Principles of Business; complying with the Treating Customers Fairly requirements which includes PRE. Issues, should they arise, are brought to the Unit-linked Investment Committee to review and provide advice on.

As part of my work in preparing this Report, I discussed MLIDAC's approach to monitoring unit-linked funds and the structures that have been put in place since Project CARP completed:

- As a result of the continued growth, a Fund Administration function has been established in MLIDAC to support and report on unit linked activity. There are three employees now in place and it is anticipated that this team will continue to expand in time.
- The system used by Fund Administration is Invest | Pro, a widely used unit-pricing system. Since acquiring the unit-liabilities under Project CARP, MLIDAC have enhanced the existing control framework that was in place, developing a series of automated controls and checks within Invest | Pro. The intention here was to enhance the overall control framework and improve the efficiency of the administration process.
- The unit-pricing process carried out by Fund Administration is supported by a detailed checklist, which is completed for each pricing exercise (i.e. each business day). As part of the process, a number of checks are carried out on the unit prices, considering price moves relative to the underlying assets, with defined tolerances in place.
- In addition to the Unit-linked Investment Committee, a unit-pricing working group has been established. This group has only recently been established but will meet on a monthly basis going forward. The terms of reference for this working group are a work in progress, but it is intended to be comprised of members of the Fund Administration function, representatives of the administrators for the underlying policies and representatives of various control functions, such as Risk and

Compliance. I have had sight of the minutes of the first meeting of this working group and have no issues to raise.

- MLIDAC adhere to the requirements of article 132 under EU Directive 2009/138/EC, i.e. MLIDAC adhere to the "Prudent Person Principle" established under Solvency II for the purposes of investment management.
- I note that the following reporting structures also apply:
  - The above controls are also supplemented by oversight from the Actuarial Function, who prepare a report on a quarterly basis considering asset mixes, unit-prices and investment performance. This report carries out statistical analysis of the funds, ensuring that the structures and performance are as expected.
  - The Unit-linked Investment Committee meets on a quarterly basis and are provided with a dedicated reporting pack, facilitating oversight of the performance, structure and management of the unit-linked funds.
- As part of my review, I have considered some of the historic reporting packs prepared for the Unit-linked Investment Committee and the minutes of one of their meetings. Whilst I note that the Committee is a relatively new addition to the governance structure of MLIDAC, the content of the reports are broadly aligned to what I would expect. I note that MLIDAC management have not identified any material issues that need to be brought to the attention of either the Unit-linked Investment Committee or myself as part of this review.

I have also had sight of the unit pricing policy of MLIDAC and note that the content is broadly aligned to what I would expect and what I have seen within peers offering similar types of business.

I also note that, as part of the CARP transfer, MLIDAC had to establish relationships with many fund managers for the first time. Practically, this is a challenging exercise and MLIDAC has succeeded in agreeing terms with all of the fund managers with whom MetLife had relationships.

Hence, overall, I have no issues to note here, but I do note that work is ongoing in this regard and it is assumed that MLIDAC will continue to enhance and improve its governance and controls in this area, particularly in light of the acquisition of Inora and the proposed transfer of the IPB business

3.3.3 Assets

Table 3.3 summarises the profile of MLIDAC's shareholder assets at 31 December 2019:

Table 3.3 Assets - YE 2019 - €m	
Bonds	185.4
Collective Investment Undertakings	43.0
Derivatives	86.9
Money Market Funds	17.5
Total	**332.8**

Source: 2019 MLIDAC Financial Statements

3.4 Risk Profile and management

3.4.1 Overview of risks

MLIDAC's main risk exposure from underwriting life policies such as term assurance, whole of life, unit-linked and variable annuity policies are set out below:

- Counterparty risks (exposures to banks, debt instruments, reinsurers and deposit accounts);
- Market risks such as interest rate risk, currency risk, spread risk, and exchange rate risk;
- Underwriting risks such as deterioration in claims experience, morbidity risk, lapse and expense risk;

See Section 3.8.1 for breakdown of regulatory capital figures by risk category.

MLIDAC is also exposed to a range of other risks as follows:

- Counterparty risks (exposures to banks, debt instruments, reinsurers and deposit accounts);
- Liquidity risk (the risk is where there are not enough liquid assets in MIDAC in order to pay claims when they are due which can arise in stressed scenarios);
- Operational risks mainly arising from management and staff e.g. key person risk, process execution (e.g. products, contracts, customer service, service providers, activity steering, communication etc.) delays to the run-off plan, IT dysfunction and compliance risk, fraud;
- Group risk which include includes reputational, contagion, accumulation, concentration and intra-Group transactions risk;
- Strategic risks which include Brexit and acquisition risks; and
- Regulatory / fiscal risk which can come from increases in taxation, revisions in asset admissibility, changing reserve requirements and changing disclosure requirements.

These risks are overseen and managed by the Board. The Board reviews all risk and compliance issues affecting MLIDAC. The primary risk to the security of MLIDAC's policyholder benefits is that one or more of the risks identified give rise to an event which renders MLIDAC insolvent. Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of benefits could be considered remote.

3.4.2 Risk Appetite

The Risk Appetite Statement is reviewed at least annually by MIDAC's Board of Directors. It identifies the company's key risks and provides a framework for testing these risks and establishing risk tolerances. The Company has the following capital policy which was updated in 2019 which highlights different risk tolerance levels and associated actions required:

Description of measure	Metric	Risk Tolerance	Action Required
Greater than Surplus Level	> 150% of Max (SCR, MCR) + buffer*	Within tolerance	Pay a dividend subject to criteria being met. After a dividend payment, solvency coverage must remain at or above the Surplus Level (150% of SCR)
Between Surplus and Target Level	150 - 140% of Max (SCR, MCR) + buffer	Within tolerance	Monitor the Company's Solvency position
Between the Target Level and the Minimum Operating Level	140 - 130% of Max (SCR, MCR) + buffer	Within tolerance if target level achievable within 12 months.	Agree and implement a plan to restore the Company's Solvency position to the Target Level within 12 months
Between the Minimum Operating Level and the Recovery Level	130 - 105% of Max (SCR, MCR) + buffer	Outside tolerance, materially so if Minimum Operating Level not achievable within 6 months.	Agree and implement a plan to restore the Company's Solvency position to the Minimum Operating Level within 6 months.
At or below the Recovery Level	Less than or equal to 105% of Max (SCR, MCR)	Materially outside tolerance	Notify regulator, review and agree recovery plan, share within regulator within 2 months. Implement recovery plan aimed at complying with 100% of SCR within 6 months.

*The buffer has been calculated as €5.4m such that the Company will be able to meet:

- 100% of the MCR following the default of Monument Re after paying a dividend such that the Company's solvency is at the Surplus Level and prior to taking any management actions, and
- 100% of the SCR after taking management actions (as set by the Board).

The Risk Appetite Statement seeks to connect MLIDAC's strategy and the required level of regulatory capital with the company's risk management framework, which is supported by a suite of risk policies and manuals. These policies and manuals are reviewed and approved by MLIDAC's Board on an annual basis or more frequently if deemed appropriate.

The Risk Committee supports the Board in their review of the Risk Appetite Statement.

3.4.3 Risk sensitivities

I have been provided with sensitivity analysis which illustrates MLIDAC's exposure to key risks by considering the impacts that these have on MLIDAC's solvency position as at 31 December 2019 (and subsequent years) through the ORSA process. I have not reproduced the detail. The key risks are in line with those outlined in Section 3.4.1 above and as discussed in the MLIDAC ORSA. The most material point in time stresses are those driven by increases in expenses, decreases in interest rates and adverse market shocks combined with increases in claim costs.

3.4.4 Risk Issues

The current listing of open risk issues for MLIDAC was shared with me and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk events and ongoing issues, with owners for each issue and actions identified (where relevant/applicable). No specific issues were identified which impact upon the Scheme.

3.4.5 Governance

The Board represents the administrative, management and supervisory body of the Company. With the oversight of the Board, the Company has implemented a risk management framework which includes:

- A Risk Appetite Statement;
- A Risk Register;
- A suite of formal risk policies;
- Appointment of a Chief Risk Officer ("CRO");
- Internal audit;
- Risk and Control Self-Assessment on an annual basis; and a
- Risk Event Process.

The Board has established and delegated responsibilities to its Audit Committee and its Risk Committee to set the approach to internal controls and assist in its oversight of risk management. Each committee has been delegated matters for review or approval as set out in their terms of reference. Further details on these, and the other key features of MLIDAC's governance structures, are set out below:

- There is an Audit sub-committee of the Board: the Audit Committee comprises the two independent non-executive directors and one non-executive director. The Head of Compliance and Head of Internal Audit are also standing attendees. The committee's main responsibilities are to review:
  - The Company's accounting policies and financial reports and review management's approach to internal controls;
  - The adequacy and scope of the external and internal audit functions; and
  - The Company's compliance with regulatory and financial reporting requirements.

- The Risk Committee is also a sub-committee of the Board and comprises all members of the Board. The Chief Risk Officer ("CRO") is a standing attendee. The main responsibilities of the committee are to:
  - Advise the Board on risk appetite and tolerances;
  - Oversee the risk management function; and
  - Advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, the amount and type of capital that is adequate to cover the risks of the Company.
- The Executive Committee comprises the CEO and his direct reports who manage the delivery of business objectives.
- The company's CRO has access to the Board of Directors. Any decisions which will materially impact MLIDAC's balance sheet, or risk profile requires the approval of the CRO.
- The Actuarial Function, led by the Head of Actuarial Function, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. In summary, the key responsibilities of the actuarial function are to review and validate the calculation of the technical provisions, provide opinions on the underwriting and reinsurance policies and assist the risk management function with certain tasks.
- The compliance function, led by the Head of Compliance, is responsible for identifying, assessing, monitoring and reporting compliance risk exposure, focusing on compliance with applicable laws and regulatory requirements;
- The internal audit function, led by the Head of Internal Audit, is responsible for developing and delivering an agreed internal audit plan and monitoring the control environment;
- The company's Board is responsible for monitoring and assessing risk. The Board meets at a minimum of four times a year and the CRO and indeed other Control Function leads attend meetings as required. The Board ensures that the company operates within the confines of its Risk Appetite and that defined Risk Indicators and Tolerances are acceptable, under the advice of the CRO;
- The Board Risk Committee reviews the top risks at each meeting, where these are quantified as (Exposure x Probability of Occurrence over a 1 year time horizon); and
- A Risk Matrix is maintained by the company detailing the risks. This is reviewed on an annual basis or more frequently if deemed appropriate and quantified on a "bottom up" approach. The quantification of the operational risks is cross checked against the SCR held in respect of operational risk.

3.5 Operational arrangements

In May 2017 the Company changed to an operating model that outsourced its service provision via an inter-group outsourcing agreement, to MISL, a company established by Monument Re to provide services to the Monument entities. Existing employees of MIDAC and MADAC transferred employment to MISL on agreed terms and conditions with effect from 1 July 2017, MLIDAC employees subsequently transferred over from Laguna Life dac to MISL on 1 September 2017. Following the transfer of staff to MISL, the Company entered into a Management Services Agreement ("MSA") with MISL. The MSA enables MISL to provide a full suite of services to the Company including oversight of the services provided by external parties from July 2017. This arrangement will enable the Company to continue to operate in an effective manner, meeting both policyholder and regulator obligations.

These relationships with MISL are managed by the CEO of each respective business. Quarterly service reviews are conducted to ensure that the services company are meeting the agreed performance standards as set out in the services schedule of the agreement and the outcomes are reported to the Executive Committee ("ExCo") with escalation of significant issues to the Board. The ExCo is a committee within the company which is responsible for the oversight and management across the business and authority is granted by the Board to ExCo to make decisions that are carried out.

Comprising of representation from all key management areas of the business, ExCo meets on a (at least) quarterly basis and is responsible for reviewing key areas of focus for the company.

Core management functions are carried out by MISL including the roles of Head of Actuarial Function, Head of Risk and Compliance Officer. The number of full time equivalents ("FTE") at 31 March 2020 was 39, employed in the areas of Operations (Outsourcing & Ops teams), Administration, Actuarial, Risk, Finance and Compliance. This number is made up of 38 employees and 1 contractor, employed within the Finance function.

The existing business also has a number of key outsourcing arrangements. The table below provides details of the outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located as of the end of quarter one 2020.

Table 3.4 Service provider	Activity
MISL (Intra-group)	Insurance administration services
MISL (Intra-group)	Actuarial function
MISL (Intra-group)	Risk and Compliance
MISL (Intra-group)	Fund Administration, Internal Audit & HR
MISL (Intra-group)	Policy Administration Services - Claims, Premium and Complaints
Irish Progressive Services International Ltd ("IPSI") (External)	Policy servicing and claims administration
IBM (External)	IT services
Equiniti Group (External)	Policy servicing and claims administration
Monument Insurance Belgium Services (Intra-group)	Policy Administration
Crawford & Company (Norway) (External)	Policy Administration Services - Claims, Premium and Complaints.
Norsk Forsikring (External)	Premium Collection
Conning Asset Management Limited (External)	Investment and asset management
Goldman Sachs Asset Management (External)	Investment and asset management
Monument Re (Intra-group)	Middle & back office operations including Investment and asset management

The only key outsourcing arrangements that MIDAC/ MADAC have in place that are not already in place for MLIDAC comprise of:

- the Policy Administration arrangement of the PPI business with Covéa, and
- the customer communication and premium collection services provided by OSP Barclays/Barclaycard.

Both agreements will be novated from MIDAC and MADAC to MLIDAC as part of the portfolio transfer of those businesses.

I also note for completeness that, separately, MLIDAC has a project underway to migrate the administration of some of its term life insurance in-force portfolio from the current life administration platform P1 to VWSFP. The administration is currently performed by MISL in Dublin. There were 1,704 policies in force in Spain and 888 in the UK at year end 2019. The project has a target closure date on 30 Sep 2020. This has no impact upon the Scheme and is noted for information only.

3.6 Reinsurance

3.6.1 Overview of reinsurance

MLIDAC employs reinsurance agreements to reduce the Company's exposure to mortality, morbidity, lapse and expense risk. Arrangements vary for each of the acquired portfolios, as described below:

Reinsurance Arrangements for Spanish Legacy business

At present, MLIDAC employs a non-proportional re-insurance strategy with Swiss Re. The ceded premium is set out in the special conditions of the re-insurance agreement and is based on age, sex, and amount of cover of the underlying policyholder.

Reinsurance Arrangements for UK Legacy business:

MLIDAC has proportional reinsurance arrangements in place for Spain and UK business. The arrangements are with Swiss Re (i.e. 90% Quota Share with a maximum retention of €15k) and Scor (i.e. 80% quota share with a maximum retention of £25k). The ceded premium is set out in the special conditions of the re-insurance treaty and is based on age, sex, and the amount of cover of the underlying policyholder.

Reinsurance - Project Freyr:

MLIDAC has a quota share reinsurance agreement to reduce the Company's exposure to mortality, morbidity, lapse and expense risk. This reinsurance agreement is with Monument Re Limited to reinsure 90% of all benefits and expenses arising under the policies purchased on 28 September 2018 under the acquisition of a Belgian closed portfolio of flexible premium whole of life savings contracts from Ethias S.A. The portfolio is predominantly single premium and is in run-off, with small amounts of regular premiums. Counterparty risk to Monument Re (which is unrated) is mitigated through a collateral (funds withheld) structure on the MLIDAC balance sheet, with a quarterly collateral review process. The requirements and process for collateral top-ups are set out in the relevant reinsurance treaties, the terms of which are reviewed by the Reinsurance Committee.

This is a capital efficient structure for the group as long as Monument Re meets its capital obligations under the Bermuda Monetary Authority ("BMA") regime and also maintains collateral levels as required under the treaty. It is noted that this is monitored closely and that the financial strength of Monument Re is reported to MLIDAC as a condition of the treaty.

At 31 December 2019, MLIDAC held collateral of €444m (€8m of which is in respect of MetLife Reinsurance Company of Bermuda ("MrB") as compared with a reinsurance asset of €436m under its reinsurance arrangement with Monument Re and MrB – there are excess assets in the arrangement and this excess amounts can be recovered by Monument Re in line with the collateral terms. This collateral amount can change over time and needs to be rebalanced on a frequent basis. Appropriate clauses are included in the treaty to allow for this mechanism to take place.

I note that there is a legal process underway to finalise the MSA between Monument Re and MLIDAC in relation to the collateral arrangements supporting the funds withheld reinsurance arrangements. My assumption is that this MSA will be finalised in line with how the current collateral arrangements work in relation to the existing agreements. My understanding, based on conversations with MLIDAC management, is that this is expected to be in place by end 2020 in line with the current format and structure.

Reinsurance - Project Carp:

Under Project Carp, MLIDAC has entered into a 100% Quota Share reinsurance treaty in respect of the variable annuity exposure in respect of the guaranteed cashflows with MrB. As MrB is unrated, MLIDAC has collateral agreements in place with MrB. This is monitored on a regular basis, and collateral is expected to be rebalanced on a regular basis, subject to 'de minimis' thresholds as set out in the treaty. MrB has agreed to inform MLIDAC of its compliance or not with the BMA capital requirements on a quarterly basis.

The Company also put a new reinsurance arrangement in place following the transfer of the MetLife Europe liabilities to MLIDAC under Project Carp – this agreement is in respect of 90% of the non-operational risks (or non-guaranteed cashflows) that have not already been transferred to MrB under the terms of the quota scheme reinsurance Treaty. This was a novation of the reinsurance agreement that was in place between MetLife Europe and Monument Re to MLIDAC – the Monument Re structure was put in place to give effect to MetLife of the economics at the date of the agreement, pending the portfolio transfer which was executed in April 2019. This reinsurance arrangement has a collateral structure in place and was amended to reference UK Law as opposed to the original treaty which referenced New York Law. Some other minor changes were also applied.

Reinsurance - MIDAC and MADAC portfolios:

As at year-end 2019, no reinsurance was in place in respect of the portfolios of MADAC and MIDAC and there are no plans to put reinsurance cover in place.

Reinsurance – Inora

As at year-end 2019, Inora was consolidated onto the MLIDAC balance sheet and Inora had no material reinsurance cover in place. I understand that it is not likely that reinsurance will be put in place at this stage. I have not considered it further.

Reinsurance – Rothesay

As noted earlier, the Rothesay transfer is anticipated to complete in September 2020 and I understand that reinsurance cover will be sought for the Rothesay liabilities once they transfer onto MLIDAC's balance sheet.

The exact terms of the reinsurance have not been agreed nor specified at this stage, however, MLIDAC management have indicated that the intended cover will function in a similar manner to the cover established under Project Freyr above. That is, the reinsurance cover will reduce the Company's exposure to mortality, market and expense risks, with 90% of the annuity benefits and expenses arising under the policies being reinsured. As with the Project Freyr reinsurance, it is expected that the reinsurance will be supported by a collateral/ funds withheld arrangement which will be subject to quarterly monitoring.

3.6.2 Ratings of reinsurers

The default risk of the reinsurance counterparties is monitored – the credit ratings of the reinsurance counterparties are described below and summarised in Table 3.5:

- MLIDAC limits its risk to reinsurance default by requiring the reinsurance companies to have a minimum Standard & Poor's credit rating of BBB or its equivalent. In cases where there is no rating or a rating which is of lesser quality, appropriate levels of collateral are required to be put in place.
- At end Q4 2019 the credit rating of Swiss Re (Spanish reinsurer) was AA- and the credit rating of SCOR (UK reinsurer) was AA-.
- Monument Re is an unrated reinsurance company, licensed as a class E reinsurer in Bermuda. Monument Re will provide an update of its capital position relative to its regulatory requirements on a quarterly basis, as per the reinsurance treaty terms. At Q4 2019, Monument Re was capitalised to a level of 474% of its minimum regulatory capital requirement.
- MLIDAC is enabled to take credit for this reinsurance on its Solvency II balance sheet so long as Bermuda retains Solvency II Equivalence. There are no reasons to believe that this will change in the near future, as it can be noted that the Bermuda regime is making changes to its regime so as to actively maintain this status.

Table 3.5 summarises MLIDAC's reinsurance asset and collateral by treaty at 31 December 2019.

Table 3.5 MLIDAC's Reinsurance Asset by location for 2019 ("RI Asset") (€m's)

Entity	RI asset – 2019	Collateral
Scor	0.1	-
Swiss Re	-	-
Mon Re	431.6	435.8
MetLife Bermuda	4.0	8.0

Total	435.7	443.8

Source: MLIDAC analysis

3.6.3 Terms of reinsurance

The reinsurance treaties are arranged on a treaty basis with full cover on guaranteed terms until expiry, so there should be no issues with renewals or reinstatements.

3.7 Financial Profile

3.7.1 Background

The Solvency II regulatory reporting regime came into effect across the EU from 1 January 2016. As Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings, it applies in Ireland and across the EU in a harmonised way. Therefore there is no difference between the underlying regulatory reporting regime for any insurance business sold in the EU.

Under the CBI implementation of Solvency II, there is a prescribed role known as 'The Head of Actuarial Function' which is performed by Gareth McQuillan in MLIDAC. This is a Pre-Approved Controlled Function or PCF role under the CBI's Fitness and Probity Regime. An overview of the Solvency II regime is given in Appendix 5.

3.7.2 Technical Provisions

Table 3.6 below summarises MLIDAC's Solvency II technical provisions at 31 December 2018 and 31 December 2019:

Table 3.6: MLIDAC Technical Provisions* by region - Gross of reinsurance - €m

Component	**31 December 2018**	**31 December 2019**
Ireland		7.9
UK	2.0	138.5
Belgium	109.5	109.2
Germany		34.9
Greece		43.9
Italy		14.0
Norway		0.0
Poland		4.5
Spain	0.7	49.6
Non-EEA		87.7
Risk Margin	1.4	2.5
Total	**113.6**	**492.7**

Source: MLIDAC 2019 SFCR

Table 3.7 below summarises MLIDAC's BEL at 31 December 2019 Gross and Net of reinsurance.

Table 3.7: MLIDAC Technical Provisions - Gross and Net of Reinsurance - YE 2019 - €m

Component	**Gross**	**Net**
Best Estimate Liability	240.2	29.5

Technical Provisions as a Whole	250.0	25.0
Risk Margin	2.5	2.5
Total	**492.7**	**57.0**

Source: MLIDAC 2019 ARTP

The "Technical Provisions calculated as a whole" figures, in the context of MLIDAC's balance sheet, correspond to the unit-linked liabilities of the business and are determined directly from the value of the underlying assets.

The gross best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates, whilst the risk margin is intended to reflect the compensation that a third-party would require for the capital costs incurred in taking on the insurance liabilities.

In terms of key judgements used to prepare their Solvency II technical provisions, at present MLIDAC do not use any transitional measures and use the prescribed EIOPA risk free yield curve. I note that, just prior to preparation of this report, the CBI granted approval for MLIDAC to use the EIOPA risk free yield curve allowing for the volatility adjustment in its assessment of the technical provisions. Whilst this is not reflected in the year-end results provided above, it is captured in the projections of solvency coverage and the 31 March 2020 results that MLIDAC have made available to me.

3.8 Solvency Position

3.8.1 Solvency II Solvency Capital Requirement

Under Solvency II, firms must hold capital equal to the higher of the Solvency Capital Requirement ("SCR") or Minimum Capital Requirement ("MCR"). In MLIDAC's case, at year-end 2019, it is the SCR that applies.

The SCR is determined by subjecting the overall balance sheet to a prescribed series of 1-in-200 year shocks and aggregating the impacts in a specific way. The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk, the Technical Provisions, written premiums and administrative expenses. The MCR is also subject to an absolute minimum amount, specified in Euro terms. Further detail on the determination of both is set out in Appendix 5.

Under Solvency II, the assets available to cover the capital requirements are referred to as "Own Funds", with the Own Funds reflecting the value of the net asset position of the firm. Comparing the SCR to the level of Own Funds gives an indication as to the level of solvency coverage within a firm.

Table 3.8 below sets out the regulatory capital position of MLIDAC, under the Solvency II framework at 31 December 2018 and 31 December 2019. The impacts of the group restructure, dividend payments and the portfolio transfer of the MIDAC and MADAC business' into MLIDAC are also considered:

Table 3.8: MLIDAC Pro-forma SCR Coverage - €m

Component	**31 Dec 2018**	**31 Dec 2019**		
	Reported Result	*Reported Result*	*Add: MIDAC/MADAC transfers*	*Add: Rothesay Life Transfer and CARP HNW*
Assets	399.3	1,071.5	1,079.1	1,431.9
Liabilities*	368.5	1,043.3	1,050.9	1,402.1
Own Funds	30.8	28.2	28.2	29.8
SCR	3.5	10.0	14.6	16.1
MCR	3.7	*SCR applies*	*SCR applies*	*SCR applies*

Capital Required:	**3.7**	**10.0**	**14.6**	**16.1**
Excess Own Funds over requirement:	27.1	18.2	13.7	13.7
Solvency Coverage Ratio	832%	282%	194%	185%

Source: MLIDAC 2019 SFCR, combined with MLIDAC analysis and results.

*MLIDAC's 2019 reported Own Funds position reflected a €1.5m dividend it intended to pay to its parent in early 2020, hence the starting liabilities have been increased by €1.5m to capture this.

As at 31 December 2019 the Solvency II returns showed total Own Funds available net of liabilities of MLIDAC were €28.2m, an excess of €18.2m over the solvency capital requirement of €10.0m. There was a Solvency II solvency coverage ratio of 282%.

The 2019 position reflects the addition of the Project CARP assets and liabilities, the own funds of Inora and the payment of a dividend of €3.5m during 2019. The capital requirement also reflects the impacts of the additional insurance liabilities from CARP and the application of the equity shock to the Own Funds of Inora on MLIDAC's overall risk profile, leading to an increase in the capital required to be held under the Solvency II regime.

I also note that MLIDAC's reported Own Funds as at year-end 2019 were €28.2m, whereas the actual surplus of assets over liabilities was €29.7m. All the €28.2m Own Funds capital held is classified as Tier 1 unrestricted capital.

MLIDAC had anticipated the payment of a dividend of €1.5m to its parent in Q1 2020 and this anticipated dividend was removed from the Own Funds as at 31 December 2019. Dividends of €32m were paid in 2017, no dividends were paid in 2018 and dividends of €3.5m were paid in 2019.

The pro-forma results provided above show the impacts on MLIDAC's solvency position of the anticipated MIDAC/MADAC transfers that will take place as part of the Group restructure as well as the Rothesay transfer. Considering the above in totality, MLIDAC's reported solvency coverage at year-end 2019 was 282%, but this is expected to decrease to 185% once the activities anticipated to take-place in advance of the IPB transfer have occurred. I note that this is well in excess of the minimum regulatory requirements and in excess of MLIDAC's internal capital targets. This reflects my starting point when assessing the impact of the Scheme on IPB policyholders and MLIDAC policyholders.

In addition to the above, I note the Financial Statements show financial loss over 2019 of €3.47m, primarily driven by various one-off charges in the period due to acquisition and integration activity. The analysis conducted by management in respect of this has been shared with me and I do not comment further on it in this report.

Table 3.9 below sets out the breakdown of solvency capital position of MLIDAC by risk category, under the Solvency II framework as at 31 December 2018 and 31 December 2019. In addition, the 31 December 2019 results have been set out considering the impacts of the Group restructuring and the Rothesay transaction.

Table 3.9: MLIDAC SCR Components - Pro-forma as at 31 December 2019 - €m

Component	31 Dec 2018	31 Dec 2019		
	Reported Result	*Reported Result*	*Add: MIDAC/MADAC transfers*	*Add: Rothesay Life Transfer*
Market risk	1.2	6.8	7.0	7.8
Counterparty default risk	1.9	1.0	1.2	1.2
Life underwriting risk	1.2	2.1	2.1	2.8
Health underwriting risk	0.0	0.0	0.3	0.3
Non-life underwriting risk	0.0	0.0	7.0	7.0
Diversification	-1.2	-1.9	-5.3	-5.9

Operational risk	0.5	2.1	2.2	2.8
Solvency Capital Requirement	**3.5**	**10.0**	**14.6**	**16.1**

Source: MLIDAC 2019 SFCR, combined with MLIDAC analysis and results.

Over 2019, it can be seen that the main driver of the increase in MLIDAC's SCR was market risk exposure, stemming from the Carp and Inora transfers (in particular, the capital charge associated with MLIDAC's investment in Inora). The pro-forma results above show that the SCR is expected to increase once the internal Group restructure and the Rothesay transactions are allowed for – the bulk of the increase in the pro-forma SCR arises from the non-life underwriting risks in the transferred MIDAC business and counterparty risk associated with the reinsurance arrangements. The overall risk is mitigated heavily by the collateralised reinsurance structures in place, which are assumed to also cover the Rothesay liabilities.

I also note that, in preparing this report, I have primarily considered the results made available to me as at 31 December 2019. However, over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. Consequently, I have also supplemented my analysis by considering the 31 March 2020 results for MLIDAC. I note that the solvency position has not been materially impacted by the COVID-19 pandemic, the associated market turbulence and policyholder responses. I note that the available Solvency II Own Funds reduced from €28.2m at 31 December 2019 to €27.9m, whilst the regulatory capital requirement fell from €10.0m to €8.8m. Therefore, MLIDAC's coverage of the regulatory capital requirement increased from 282% to 317%. This reflects the actual dividends paid over the period versus those allowed for in the year-end position (a €5.5m dividend was paid from Inora to MLIDAC and the planned dividend of €1.5m from MLIDAC to its parent was not proceeded with). The 31 March position also reflects the impact of the volatility adjustment, which was approved by the CBI in the period. The MLIDAC HoAF has advised that certain adverse experience has manifested on the MIDAC book but that the required reserve strengthening will be reflected in the purchase price/ asset transfer in respect of that book of business, so there is no impact on the overall MLIDAC figures pre the portfolio transfer. MLIDAC have also provided pro-forma results which reflect the anticipated evolution of the balance sheet in advance of the Scheme. Based on the data as at 31 March, after allowing for the internal restructure and the Rothesay transaction, MLIDAC is anticipated to have solvency coverage of 186% in advance of the Scheme. These figures are captured in table 3.10 below:

Table 3.10: MLIDAC Pro-forma SCR Coverage - €m

Component	**31 Dec 2019**	**31 Mar 2019**		
	Reported Result	*Reported Result*	*Add: MIDAC/MADAC transfers*	*Add: Rothesay Life Transfer/ CARP HNW*
Assets	1,071.5	1,005.3	1,014.7	1,342.5
Liabilities*	1,043.3	977.4	986.8	1,313.4
Own Funds	28.2	27.9	27.9	29.1
SCR	10.0	8.8	14.2	15.6
MCR	SCR applies	*SCR applies*	*SCR applies*	*SCR applies*
Capital Required:	**10.0**	**8.8**	**14.2**	**15.6**
Excess Own Funds over requirement:	18.2	19.1	13.7	13.5
Solvency Coverage Ratio	282%	317%	196%	186%

Source: MLIDAC analysis and results.

The results above reflect the approval of the volatility adjustment by the CBI and the payment of a dividend of €5.5m from Inora to MLIDAC. At 31 December 2019, MLIDAC had planned for a dividend of €1.5m to be paid to its parent, which was not proceeded with and hence this is also captured in the above results.

3.8.2 Consolidated Balance Sheet - Inora Life DAC

As noted earlier, following the completion of the Inora transfer in 2019, Inora is a subsidiary of MLIDAC. The value of MLIDAC's investment in Inora is Inora's Solvency II Own Funds. The capital treatment is that the investment is viewed as a strategic investment to subject to a capital charge of 22% under the Market risk module. Below, I have provided some illustrative, standalone information on Inora, so as to reflect the impact that this entity has on MLIDAC's risk-profile and solvency coverage.

Inora is an insurance undertaking, incorporated in Ireland and regulated by the CBI, which sold a range of unit-linked products, written on both single premium and regular premium bases. The products offered customers access to the investment returns earned on a range of underlying funds, including both mutual funds and structured investments.

Inora was a wholly owned subsidiary of the Société Générale Group. It is a DAC established in Ireland and authorised to carry on life insurance business by the CBI. It commenced writing insurance business in 2001. It transacts life assurance and long-term savings business (although it no longer writes any new policies following the decision to close to new business). The principal locations where policies have been sold, through a mixture of local branches and the "freedom of services" facility in accordance with European legislation, (at the time the European Communities (Life Assurance) Framework Regulations 1994), are Belgium, Austria, Germany, Italy and operates through its branches in France.

Circa 28% of Inora Life's internal funds invest in assets that provide a guarantee on maturity. The balance of the guarantees are underwritten by a third party asset issuer. The policyholder bears the counterparty risk in all of these cases.

Inora closed to new business in 2012 and has been in run off since then. The intention had been to portfolio transfer the Inora book into another group entity, however, Monument Re agreed to acquire the company in March 2019 through MLIDAC. The transaction received regulatory approval from the CBI in August 2019 and took effect on 16 September 2019.

Table 3.11 below summarises out the regulatory capital position of Inora under the Solvency II framework at 31 December 2018 and 31 December 2019:

Table 3.11: Inora SCR Coverage - €m

Components	31 December 2018	31 December 2019
Own Funds	18.9	13.8
SCR	3.3	3.5
MCR	3.7	3.7
Capital Required:	**3.7**	**3.7**
Excess of Own Funds over capital required:	15.2	10.1
Solvency Coverage Ratio	511%	374%

Source: 2019 Inora SFCR

As at 31 December 2019 the Solvency II returns showed Own Funds of Inora were €13.8m, an excess of €10.3m over the capital requirement of €3.7m (as Inora's capital requirement was floored at the MCR absolute minimum of €3.7m). There was a solvency coverage ratio of 374%. The Own Funds position reflects the anticipated payment of a dividend of €5.5m from Inora to MLIDAC as part of the group restructuring (which was paid on 19 March 2020).

All of the €13.8m Own Funds capital held by Inora is Tier 1 unrestricted capital.

Table 3.12 below sets out the breakdown of solvency capital position of Inora by risk category, under the Solvency II framework at 31 December 2018 and 31 December 2019 position.

Table 3.12: Inora SCR Components - €m

SCR Component	31 December 2018	31 December 2019

Market risk	0.5	0.9
Counterparty default risk	1.5	1.3
Life underwriting risk	1.2	1.3
Health underwriting risk	0.0	0.0
Non-life underwriting risk	0.0	0.0
Diversification	-0.8	-1.0
Operational risk	1.0	1.0
Solvency Capital Requirement	**3.3**	**3.5 ***

Source: 2019 Inora SFCR
*The overall capital required is subject to a minimum floor of 3.7m.

Overall, Inora has a strong regulatory capital position.

I was also provided with the Inora Solvency II results from 31 March 2020 and I note that, as with MLIDAC, the solvency position has not been materially impacted by the COVID-19 pandemic, the associated market turbulence and policyholder responses. I note that the available Solvency II Own Funds reduced from €13.8m at 31 December 2019 to €13.0m, whilst the regulatory capital requirement remained at the MCR level of €3.7m. So, although Inora's coverage of the regulatory capital requirement reduced, coverage was still strong at the end of March 2020, at 353%. This is set out in table 3.13 below:

Table 3.13: Inora SCR Coverage - €m

Components	**31 December 2019**	**31 March 2020**
Own Funds	13.8	13.0
SCR	3.5	3.1
MCR	3.7	3.7
Capital Required:	**3.7**	**3.7**
Excess of Own Funds over capital required:	10.1	9.3
Solvency Coverage Ratio	374%	353%

Source: MLIDAC results

In addition to the reported results, I have considered both the 2018 and 2019 ORSAs for Inora (on a standalone basis) – one being prior to the Monument Re acquisition and the other being post. I note that the 2019 ORSA for MLIDAC also includes figures for Inora. For the ORSA reports completed in June 2018 and December 2019, I have not reproduced the detail in this report. The projection of the base balance sheet over the projection period shows a SCR coverage ratio well in excess of the internal minimum solvency ratio target for each year. Focusing on the 2019 ORSA, with the exception of two scenarios, the financial strength of the company remains robust over the projection period. The two scenarios which lead to an adverse impact on projected solvency coverage are:

- a reverse stress test, which is actually designed to cause an onerous breach in capital requirements, and
- the financial impact of a downgrade of SocGen, given the large amount of cash deposits that Inora has with this entity (noting that this exposure can be mitigated over time).

Over time, I also note that the 2019 ORSA highlighted how it becomes more capital intensive to maintain a life company in run-off as volumes decline. The fact that the business has now transferred to MLIDAC, which specialises in running off closed books of business, makes commercial sense in that regard.

3.8.3 Projected Solvency Position

I have considered MLIDAC's most recent ORSA report, completed in December 2019 (and indeed the ORSA completed in June 2019). I have not reproduced the detail in this report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario over the five year period to year end 2023, where the projected SCR coverage ratio is targeted to exceed the internal minimum solvency ratio. The stress and scenarios used are included in the June 2019 ORSA provided and these included the items captured in table 3.14 below:

Table 3.14: ORSA Stresses and Scenarios

Scenario	Description
Base Case – non approval of MIDAC/MADAC transfer	Impact if MIDAC/MADAC portfolio transfer does not proceed
Base Case – MIDAC/MADAC approved, volatility adjustment	Impact if MIDAC/MADAC proceeds and VA application approved
Base Case – MIDAC/MADAC approved, volatility adjustment	Impact if MIDAC/MADAC proceeds and VA application not approved
Base Case – non approval of future transactions	Impact if Inora and Rothesay not approved
Default	Default of Monument Re
Recession stress	Blackrock Aladdin Global Financial Crisis historical scenario, spreads rise to levels not seen since crisis and defaults on credit assets for 2 years
EU Crisis scenario	Blackrock Aladdin Eurozone Crisis historical scenario
Poor claims	Poor accident, sickness and unemployment experience
Eurozone breakup	Blackrock Aladdin Eurozone Breakup hypothetical scenario
Low spread stress	Spread falls to lows seen in 2004-2007 and remain at that level for 5 years
Interest rate stress	interest rates fall by 2% across the yield curve
Equity stress	20% fall in the value of equities
Expense stress	10% increase in all expenses plus 1 percentage point increase in expense inflation
Lapse stress	25% fall in surrender rates for portfolios with guaranteed interest rates and 20% mass lapse over 1 year for all other business
Last liquid point stress	EUR Last Liquid Point extends from 20 years to 30 years

The December 2019 ORSA provided included a similar set of scenarios reflecting the passage of time, an updated financial position and updated calibrations. A number of new scenarios were also introduced including consideration of the Scheme and its non-approval, a longevity stress, consideration of the interest rate stress calibration (including the last liquid point), a FX stress and what a hard Brexit might look like.

Within the December 2019 ORSA, a projection is made in line with the company's run-off plan which assumes the transfer of the remaining MIDAC/ MADAC businesses to MLIDAC during 2020, the portfolio transfer of Rothesay Life in 2020 and the approval of the use of the volatility adjustment by the CBI (which was granted in advance of my preparation of this report). These form the base projection described in the table 3.15 below, which sets out the solvency coverage ratio in the base case for MLIDAC, noting that this does not include the impacts of the Scheme:

Table 3.15: MLIDAC Base Case ORSA	2019	2020	2021	2022	2023
MLIDAC Solvency Coverage	328%	224%	259%	291%	322%

Source: MLIDAC 2019 ORSA report; this includes Inora, Rothesay, planned dividends and the approval of the volatility adjustment. The 2019 solvency coverage set out here does not align to that actually reported by MLIDAC for 31 December 2019; the ORSA was prepared as at June 2019 and shows a projected expected position.

The year-end 2019 results from these projections do not coincide exactly with the reported position provided above – this is due to the fact that the ORSA was prepared in advance of year-end 2019, whereas the reported results reflect actual asset and liability positions at the reporting date. I have discussed the drivers of these differences with MLIDAC and am satisfied that they are reasonable and do not lead to concerns with either the pro-forma positions above, nor the projections below.

Overall, the projections show a SCR coverage ratio in excess of the internal minimum solvency ratio target for each year in the base scenarios and for each stress scenario. While the portfolio is in run-off, the SCR runs down slowly with the level of own funds remaining broadly stable leading to a projected improvement in the solvency coverage ratio.

The financial strength of MLIDAC remains robust under each of the base case and scenarios tested over the projection period, though the scenarios are largely based on the Scheme proceeding and consideration of the combined MIDAC, MADAC and MLIDAC positions. I think this is reasonable.

I have also considered the range of management actions available to MLIDAC as described in the ORSA and consider these to be reasonable.

I have no issues to note from my review of the OSRA projections provided by MLIDAC.

3.9 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider guidance issued by the Society of Actuaries in Ireland with regard to Policyholders' Reasonable Expectations ("PRE"). ASP LA-6 ("Transfer of Long-term Business of an Authorised Insurance Company – Role of the Independent Actuary") sets out items to be considered in this regard.

Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. Being mindful of the above guidance and requirements and considering the detailed consideration which the MLIDAC HoAF gives to PRE within his annual Actuarial Function Report, my views are:

- Benefits payable to existing MLIDAC policyholders are straightforward, with limited amounts of options and guarantees applying. The benefits offered to existing MLIDAC policyholders are not going to change as a result of the Scheme.
- Security of benefits: the policyholders of MLIDAC have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the policyholders are exposed to before and after the transfer, including the relevant financial position of MLIDAC.
- Entitlement to benefits: policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. I have reviewed some of MLIDAC's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms or constrain the use of discretion by MLIDAC.
- Service standards: MLIDAC policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly. The existing structures applied for policy servicing are not expected to change as a result of the Scheme.
- Discretionary powers available to MLIDAC: policyholders have a reasonable expectation that any discretion available to MLIDAC will be applied in a fair and reasonable manner. The use of discretion

by MLIDAC is reasonably limited but is broad in nature given the nature of its business mix (particularly after allowing for the MIDAC and MADAC transfers). The Scheme does not lead to any anticipated changes with how discretion is applied for existing MLIDAC policyholders. The use of discretion principally relates to the following general areas:

- Assessment as to whether a claim is valid or not;
- Appropriate premium rate to charge;
- Assessment as to whether monthly recurring premium (non-life, i.e. former MIDAC) contracts are written such that the premium rate may be altered or the policy terminated at the discretion of MIDAC at each renewal date.
- The determination of charges levied against policyholders for unit-linked business. The recently established Unit-linked Investment Committee have oversight of this aspect;
- The amendment of premium rates for certain UK critical illness policies; and
- The application of bonuses to the Freyr business, noting that it is MLIDAC's priority to meet all guaranteed claims and that bonuses are not envisaged.

In general, I would note that practice is well established in MLIDAC in these areas. However, as noted earlier in my Report, the management of unit-linked business is a relatively new area of focus for MLIDAC and practice in relation to this is still becoming embedded in the firm.

The approach to the use of these discretionary powers will not be materially altered as a result of the Scheme, I comment on this further in Section 9.2.

3.10 Complaints and Litigation

MLIDAC has a formal complaints process in place, which varies by the jurisdiction in which contracts were issued. As an example, the process for dealing with complaints from UK based customers may vary to that for Belgium based customers, reflecting differences in legislative and regulatory requirements and market practice. The established processes in place for addressing complaints for existing MLIDAC customers will not change as a result of the Scheme. Given the above, I have not reproduced significant additional detail within the Report.

I did receive a complaints log containing pending complaints for MLIDAC. There are a small number of open cases which are neither expected to generate notable costs nor set a precedent. No material issues were noted.

I also note that MLIDAC had one Financial Ombudsman Service ("FOS") Complaint upheld in Q1 this year. I understand that there are no open complaints currently with FOS.

I have been advised that MLIDAC currently have no legal matters outstanding.

3.11 Other Regulatory matters

3.11.1 CBI Matters

I have received a list of recent correspondence that MLIDAC has had with the CBI. I have also been provided current CBI Themed Risk Assessments in progress to understand the nature of the issues and regulatory focus. I note that there are certain actions in relation to Risk Mitigation Plans identified by the CBI which are being worked on with an expected closure date of 30 June. I understand the plan and the timing to resolve the actions will be communicated to the CBI. I understand the approval of the portfolio transfers (i.e. MIDAC/ MADAC as they are current) will require these Risk Mitigation Plans to be closed.

I note that in 2018, the CBI requested that MLIDAC, MIDAC and MADAC prepare a Resolution and Recovery plan. This has been shared with me. This gives further insight into the scenarios which would cause MLIDAC to fall below the regulatory MCR. The entities had to set out the recovery plan to allow sustainable recovery of the solvency position; if recovery of the solvency position was not possible, sufficient information had to be provided to the CBI to allow them to resolve the situation and to ensure policyholders would receive all of their entitlements. The document is generally in line with other documents I have reviewed in terms of the available options.

I have asked about any conduct matters in the UK as MLIDAC has business which originated there, and it is relevant given that the Transferring Policies also originated there. Within the UK, MLIDAC is subject to conduct oversight by the Financial Conduct Authority (“FCA”) – no issues were noted. I note more generally that the CBI had delayed the granting of regulatory approval for the portfolio transfers from MIDAC/ MADAC into MLIDAC. At the date of finalising this report, I understand that the CBI has granted approval for these transfers with the Sanctions Hearing court date set for 9 June 2020. The portfolio transfers are expected to complete before the Scheme in June 2020; therefore, the approach taken within this Report is to consider the Scheme as if these transfers had already taken place – this is noted as key assumption in Section 2.1.4.

3.11.2 Compensation Schemes

I note that the former MIDAC and MADAC UK-based policyholders of MLIDAC are captured in the FSCS scheme, but that the UK policyholders that were part of MLIDAC prior to this transfer are not. However, there is potential for these policyholders to be in scope of FSCS if liabilities exceed £500m. I note that, given the existing liability profile of MLIDAC, the planned transfers, and the transfer being considered as part of this Report, this limit would be reached. As a result, it is anticipated that all UK policyholders of MLIDAC will be covered under the FSCS post the Scheme.

3.11.3 Brexit

Brexit is a material issue for consideration for MLIDAC given the volumes of UK business in force. MLIDAC have applied for inclusion into the Temporary Permissions Regime (“TPR”). The TPR was written into British legislation offering an alternative approach whereby EU regulated insurers carrying on business in the UK could opt into a simplified process allowing the opportunity to carry on business in the UK for 3 years post Brexit before committing to submitting an application for authorisation of a third company branch in the UK to the UK regulatory authorities to maintain business in the UK post Brexit. However, it is noted that should a binding agreement be finalised between the European Union and UK Government prior to 31 December 2020, which enables an EU based insurer to continue to operate in the UK on a passporting basis, the TPR will not become effective or be required.

The Board’s discussions on the Brexit approach over this extended period indicated that the TPR approach was preferred for MLIDAC. This will ensure that MLIDAC is capable and legally entitled to continue to manage its UK based business during the transition to a post Brexit structure.

4 Zurich Life Assurance plc

4.1 Overview

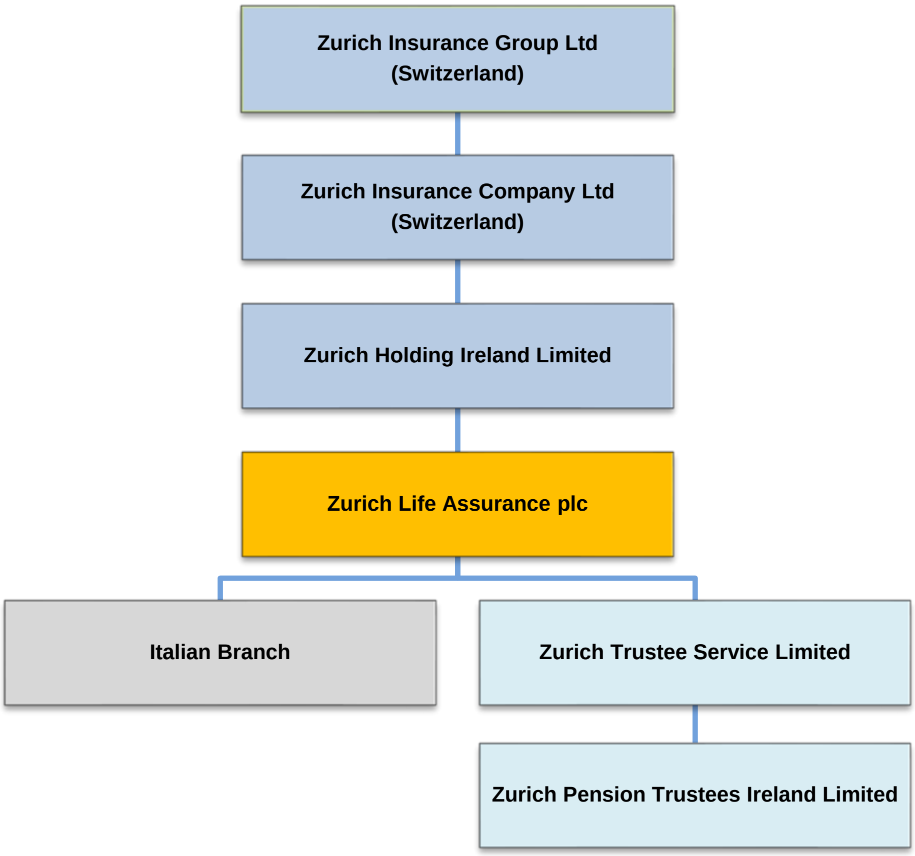
ZLAP was established in 1977 and is one of the largest life insurers in Ireland. ZLAP is registered in Ireland under company number 58098 and is regulated by the CBI.

ZLAP is authorised to conduct life insurance business in Classes I, II, III, IV, VI and VII. Investment, protection, pensions and annuities are its core business lines in Ireland. ZLAP has a branch in Italy through which it writes life insurance business on a freedom of establishment basis. ZLAP has also written life insurance business in Germany, Sweden, Spain, the United Kingdom and Italy on a freedom of services basis. Business written in these jurisdictions on a freedom of services basis is, with the exception of Germany, either closed or in the process of closing to new business. As at year-end 2019, ZLAP had total assets under management in excess of €24 billion.

ZLAP is part of the Zurich Insurance Group Limited, a multi-national insurance company head-quartered in Zurich, Switzerland. Zurich Insurance Group Limited is ZLAP's ultimate parent company.

ZLAP has investment holdings in two subsidiaries, both incorporated in Ireland; ZLAP has 100% ownership of Zurich Trustee Services Limited, which in turn has 50% ownership of Zurich Pension Trustee Ireland Limited.

A high-level overview of ZLAP's corporate structure is provided in the image below:



As noted earlier, it is only a minor subset of ZLAP's overall portfolio of business that is transferring to MLIDAC as part of the proposed scheme. In the remainder of section 4 of the Report, I will comment upon ZLAP's operations in general and will highlight any specific issues or differences as apply to the transferring portfolio.

4.2 Nature of business written

4.2.1 General Overview

As noted above, ZLAP is a life insurance company and its core business lines comprise protection, annuity and pension products. ZLAP is active in both the individual and group scheme markets. The table below sets out a high-level description of ZLAP's main lines of business, along with the total premiums written for each line in 2019.

Table 4.1: ZLAP Business Written

Line of Business	Description	2019 - Premiums Written (€m)
Health Insurance	Products providing income protection benefits or benefits in the event of critical illness.	22.8
Other life insurance	Comprises mostly of annuity and term protection products.	132.9
Insurance with profit participation	This category comprises of unit-linked policies where more than 50% of their investments are invested in ZLAP's Unitised With-Profits funds	181.0
Index-linked and unit-linked insurance	The Index-Linked and Unit-Linked Insurance category is ZLAP's largest line of business and contains all other unit-linked policies	2,986.3
Total		3,323.0

Source: ZLAP 2019 Solvency and Financial Condition Report

The "Health Insurance" line of business includes critical illness and income protection products issued to both individual customers and group schemes. The "Other life insurance" category mainly consists of annuity and term protection policies.

"Insurance with profit participation" is composed of any unit-linked policies where more than 50% of their investments are invested in ZLAP's Unitised With-Profits funds; the "Index-linked and unit-linked insurance" category is ZLAP's largest line of business and contains all other unit-linked policies. Unit-linked policies are those where policyholders invest their premiums in pooled underlying investment funds, with the value of their policies increasing or decreasing in line with the performance of the underlying assets. The investment risk for such funds is borne by policyholders, with ZLAP generally earning a fee which is mainly set as a percentage of the fund. Unit-linked policies can also have insurance benefits attached to the underlying contracts. As at year-end 2019, ZLAP managed over €20.7 billion in assets in respect of unit-linked policies.

4.2.2 International Portfolio Bonds

Product Overview

The IPB is a specific product offered by ZLAP, though it is no longer open to new business. It is proposed, under the terms of the Scheme, to transfer ZLAP's portfolio of IPB products to MLIDAC. Given that this product is the sole focus of the proposed Scheme, this section of the Report considers the features of this product in detail.

The IPB is an offshore, single-premium, unit-linked portfolio bond that was sold to residents of the United Kingdom ("UK"). As at year-end 2019, the assets under management in respect of the IPB product totalled almost €439 million, meaning it represented just over 2% of ZLAP's overall unit-linked business.

Subject to certain limits, UK tax law permits the tax payable on investment gains in offshore life insurance contracts to be deferred until the funds are repatriated to the UK. This enables policyholders to control the timing of tax payments, meaning that the use of offshore products can be tax efficient, and IPB products are widely used within the UK for the purposes of retirement saving and inheritance tax planning.

ZLAP Product Variants and Benefits

The ZLAP product was issued in two broad variants, a whole-of-life policy with an element of life cover and a capital-redemption policy. Under both variants, regular and one-off withdrawals are permitted throughout the contract term.

The whole-of-life variant has named lives assured on the policy and pays out specific death benefits on the death of the last life assured. The standard death benefit offered is the higher of 100.1% of the fund value or the premiums paid less withdrawals (should death occur within the first ten years of the policy), but the contract also provides accidental death cover in the event of death due to injuries sustained in an accident (should this occur within the first ten years of the policy). An option also exists for the policyholder to reduce the underlying charges applied by reducing the level of death cover provided. A reduced death benefit also applies if the youngest life assured is aged 70 or more at the start of the policy.

Under the capital redemption version, there are no fixed lives assured. This variant offers a guaranteed return after 99 years, with the payout at maturity being the higher of:

- The plan value when all assets have been sold, and
- Twice the value of the initial payment less twice the value of any regular withdrawals taken. Note that this floored amount is also reduced each time a one-off withdrawal is taken by the policyholder.

Note that ZLAP have a third variant of the contract in issue, which is aligned to the structures set out above, but has tailored features to reflect the specific needs of a niche market. This variant was designed for HSBC Bank plc, a UK bank. As at year-end 2019, only one such policies was in issue. Given the low materiality of this niche product, it is grouped together with the other IPB variants for this Report.

Investment Options

Policies can be denominated in Euro, United States Dollars (“USD”) or Great British Pounds Sterling (“GBP”).

Policyholders can choose to invest their premiums in over 500 funds, with choices available between Insured funds, Mutual funds, Deposit accounts, a discretionary asset manager (“DAM”) or the Zurich Portfolio Option. These are described in further detail below:

- Insured funds – these are internal life funds managed by ZLAP that allow groups of investors to pool their money for investment purposes;
- Mutual funds – these are collective investments, managed by external fund managers, that allow groups of investors to pool their money for investment purposes;
- Deposit accounts – these deposit accounts offered by external deposit account providers, with a restriction applying that the deposit account used must be in the same currency as the plan currency;
- DAM - DAMs offer an independent professional investment service to manage the investments on behalf of the policyholder; and
- Zurich Portfolio option – this allows policyholders access to UK-based online wealth management platforms provided by either SIML or Citibank. These grant investors access to a wide range of funds that are offered on the platform. They allow for plan assets to be held within a Zurich Portfolio and managed on a policyholder’s behalf by their adviser or by an investment adviser who takes responsibility for selecting and managing permitted assets in line with the policyholder’s risk profile and investment objectives.

It should be noted that some of the funds that are currently available to the IPB policyholders are ZLAP specific funds and are not available to non-ZLAP policyholders.

Fees and Other Features

The following text describes the nature of the fees that may apply to the IPB policies, noting that fees can vary depending on when the contract was taken out and the exact nature of the contract chosen:

- Yearly charges are levied by ZLAP, with these fees varying with the level of the initial investment. The fees can also be adjusted (for the whole-of-life variant) if the plan owner elects to amend the level of death benefits payable.
- A trading charge is applied every time assets are bought or sold.
- Custody charges may be incurred for certain assets.
- External fund managers and investment advisors may also levy their own fees on the funds under management.

In addition to the above, the following are also worth bearing in mind:

- The plan holder must be resident or ordinarily resident in the UK, and
- There are certain minimum thresholds that apply to the plan with regard to initial investments, additional investments, regular withdrawals, transaction amounts and ongoing values.

4.3 Reinsurance

ZLAP makes widespread use of reinsurance as a means to manage its risk exposure. However, given the materiality of the IPB book and the level of death benefit offered on the contract relative to the value of the underlying fund, ZLAP have not put reinsurance cover in place for these policies.

As the IPB book is not reinsured, no changes to ZLAP's reinsurance cover are proposed as part of the Scheme itself, i.e. all existing reinsurance covers and treaties are expected to remain in place. Consequently, I do not comment further on the reinsurance arrangements in place as they will not be impacted or change as a result of the Scheme.

4.4 Risk profile and management

4.4.1 Overview of risks

ZLAP is exposed to a range of risks which it separates by nature and manages through a systematic risk management approach. Major risks, as indicated by the ZLAP Solvency and Financial Condition Report ("SFCR") and within the documentation in relation to its risk management framework, are described below, but, it should be noted that the IPB policies are relatively immaterial in the context of ZLAP's overall risk profile and do not contribute significantly to these:

- Market risk**,** notably equity, currency and interest rate:
  - Equity risk arises from price fluctuations on equity securities. ZLAP does not hold significant amounts of equities directly but has an indirect exposure to equity risk on its unit-linked business. As ZLAP receives a fee income on unit-linked business which is proportional to the value of the assets under management, changes in the value of the underlying assets can impact ZLAP's fee income.
  - Currency risk is the risk of loss due to changes in exchange rates, and arises for the same reasons as equity risk, above.
  - Interest rate risk is the risk of loss due to changes in interest rates and arises for ZLAP as assets held (both directly held by ZLAP and within the unit-linked funds) can be adversely impacted by interest rate movements.
- Life insurance underwriting risk primarily arises for ZLAP on its protection and annuity products, where claims costs (arising from mortality, morbidity or longevity) exceed that expected, either as a result of short-term volatility or due to changes in long term demographic behaviour.

- Credit default risk is a significant risk for ZLAP and arises as a result of ZLAP's exposure to reinsurers and its investments in assets such as bonds and bank deposits.
- Operational risk also exists within ZLAP's risk universe; the complexity and scale of the business can drive such exposures, which are managed through internal controls and the risk management framework itself.

4.4.2 Risk Management Framework

To facilitate a structured approach to risk-taking, an Enterprise Risk Management (ERM) framework has been documented and embedded within ZLAP's system of governance. I have reviewed the overall ERM Framework, noting it is structured around a "three lines of defence" model and has many of the features I would expect for an entity of ZLAP's size and scale. No material issues were noted as part of my review, but I have commented on some specific components of the broader framework below.

4.4.3 Risk Appetite

As part of its broader ERM Framework, ZLAP has established a Risk Appetite Statement, which is intended to allow the company to operate its ERM system in a controlled manner.

The Risk Appetite Statement details ZLAP's willingness and capacity to take risk, based on ZLAP's available capital, ZLAP's desire to balance risk and return and ZLAP's desire to protect its brand and reputation.

ZLAP's Risk Appetite considers the risk universe to which ZLAP is exposed and the aggregate level of risk that ZLAP is willing and has capacity to assume to achieve its strategic objectives.

No issues were noted as part of my review.

4.4.4 Risk Sensitivities

I have been provided with the report on ZLAP's Own Risk and Solvency Assessment ("ORSA") process. The ORSA is mandated under the Solvency II regulatory regime that applies to life insurance companies in Europe and requires an entity to consider its capital requirements and risk exposure. It is also expected that the ORSA will illustrate the entity's exposure to key risks by performing a series of stress and scenario tests.

ZLAP's latest approved ORSA report was prepared as at 30 June 2019 and I have considered the sensitivity analysis prepared within that report. I have not reproduced the detail. The key risks are in line with those outlined in Section 4.4.1 above and as discussed in the ZLAP ORSA, the most material relate to adverse claims experience (particularly longevity improvements) and market shocks.

4.4.5 Risk Issues

The current listing of open risk issues for ZLAP was also shared and I considered this as part of my review. No specific issues were identified which impact upon the Scheme.

4.4.6 Governance

ZLAP has a comprehensive governance structure in place which establishes roles and responsibilities across the entity.

The ZLAP Board

ZLAP's board of directors ('the Board') is responsible for the governance and oversight of all aspects of ZLAP's business. The Board operates in accordance with clearly defined terms of reference, and, amongst other matters, the Board approves the corporate objectives, sets strategy and ensures a robust control and operating framework is in place.

Committees of the ZLAP Board

The Board has established the following committees which report directly to it:

- The Audit Committee assists the Board in controlling, overseeing and coordinating ZLAP's internal and external audit activities and processes. It monitors the financial reporting process and reviews the annual financial statements and regulatory filings, as well as overseeing the activities of the Compliance function.

- The Board Risk Committee serves as a focal point for oversight of risk management. It reviews current exposures and makes recommendations to the Board on ZLAP's risk appetite and future risk strategy as well as overseeing the Risk Management function.
- The Nomination Committee assists and supports the Board on matters relating to the composition and membership of the Board and senior appointments within the Company. Amongst other things, it makes recommendations to the Board on the appointment of new Board members and other senior roles in the Company and oversees succession planning and compliance with corporate governance requirements in relation to the composition and membership of the Board.

ZLAP does not have a standalone Remuneration Committee as the Board has determined that, rather than establish its own committee on this topic, it is appropriate for ZLAP to rely on the Zurich Group Remuneration Committee for support and recommendations in this area.

Executive Management and Management Committees

The Board has delegated broad executive powers to the Chief Executive Officer ("CEO") to manage and operate ZLAP's business.

A number of key management committees have been established to assist and support the CEO and other senior management in fulfilling their responsibilities, which include:

- Management Committee
- Asset Liability Management and Investment Committee
- With-Profits Committee
- Risk and Control Committee
- Operational Risk Committee
- Reinsurance Committee
- Product Development Committee
- Conduct, Regulatory and Compliance Committee
- Cross Border Management Committee.

Key Functions

The ZLAP governance structure is also supported by the following key functions, which report to the Board or appropriate Board sub-committees on a specified basis:

- The Risk Management function, led by the ZLAP Chief Risk Officer ("CRO"), is responsible for facilitating the implementation and effective operation of the ZLAP ERM Framework, reporting on risk exposures and making recommendations to the Board on risk appetite and other risk management matters.
- The Compliance function, led by the ZLAP Chief Compliance Officer ("CCO"), is responsible for promoting an ethics based culture, delivering compliance solutions and providing assurance. Among other things, the Compliance function advises the Board on compliance with laws and regulations, assesses the impact of changes in the external legal environment and assesses the adequacy of measures taken by ZLAP to prevent non-compliance.
- The Internal Audit function, led by the ZLAP Head of Internal Audit, is responsible for providing independent and objective assurance to the Board, the Audit Committee and the Risk and Control Committee on the adequacy and effectiveness of ZLAP's risk management, internal control and governance processes. ZLAP's Internal Audit function is provided by the Zurich Group Internal Audit function.
- The Actuarial function, led by the ZLAP Head of Actuarial Function, is responsible for carrying out the actuarial activities of ZLAP including the provision of regular reports to the Board on Technical Provisions.

4.5 Financial profile

4.5.1 Background

ZLAP is regulated by the CBI and assesses its regulatory capital requirements in line with Solvency II, a pan-European regulatory regime which came into effect from 1 January 2016.

Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings.

The CBI introduced the Domestic Actuarial Regime following the introduction of Solvency II, which introduced a prescribed role known as "The Head of Actuarial Function" ("HoAF"). This is a Pre-Approved Controlled Function or PCF role under the CBI's Fitness and Probity Regime. For ZLAP, the role of HoAF is discharged by John Coggins.

An overview of the Solvency II regime is given in Appendix 5.

4.5.2 Technical Provisions

Table 4.2 below sets out the ZLAP Technical Provisions, as required under Solvency II, for the lines of business introduced in section 4.1.

Table 4.2: ZLAP Technical Provisions (€m) as at 31 December 2019

Line of Business	Technical Provisions calculated as a whole	Gross Best Estimate Liability	Risk Margin	Total Technical Provisions
Insurance with profit participation	1,835.4	-17.9	17.6	1,835.1
Index-linked and unit-linked insurance	20,789.6	-350.8	198.1	20,636.9
Other life insurance	86.6	1,032.0	10.8	-113.6
Health Insurance	12.9	129.8	8.4	-96.1
Total	22,724.5	793.1	234.9	22,262.3

Source: ZLAP 2019 Solvency and Financial Condition Report

The "Technical Provisions calculated as a whole" figures, in the context of ZLAP's balance sheet, correspond to the unit-linked liabilities of the business and are determined directly from the value of the underlying assets.

The gross best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates, whilst the risk margin is intended to reflect the compensation that a third-party would require for the capital costs incurred in taking on the insurance liabilities.

In terms of key judgements used to determine the Technical Provisions, ZLAP do not apply any transitional measures or volatility adjustment to the prescribed risk-free term structure of interest rates. I have not been made aware of any other key judgements made.

Table 4.2a below considers the Technical Provisions calculated as a whole and the gross best estimate liability for the IPB portfolio in isolation (i.e. excluding the Risk Margin):

Table 4.2a: IPB Products and Technical Provisions (€m)

Product Variant	Description	Technical Provisions calculated as a whole	Gross Best Estimate Liability	Total Technical Provisions (excluding Risk Margin)
ZPB	Life assured IPB product variant	221.1	5.1	226.2

ZFR	Capital redemption product variant	212.9	3.2	216.1
HSBC	Variant designed to meet the needs of a specific subset of high-net-worth policyholders	4.5	0.0	4.5
Total - IPB		438.6	8.2	446.8
Total - ZLAP		22,724.5	793.1	23,517.6
IPB as % ZLAP		1.93%	1.03%	1.90%

Source: KPMG Analysis of ZLAP data

The above table shows that, excluding the Risk Margin, the IPB product accounts for just under 2% of ZLAP's overall Technical Provisions and provides a sense of how material the IPB book is in the context of ZLAP's overall portfolio.

4.5.3 Solvency II Capital Requirements and Capital Coverage

Under Solvency II, firms must hold capital equal to the higher of the Solvency Capital Requirement ("SCR") or Minimum Capital Requirement ("MCR"). In ZLAP's case, it is the SCR that applies.

The SCR is determined by subjecting the overall balance sheet to a prescribed series of 1-in-200 year shocks and aggregating the impacts in a specific way. Further detail on the determination of the SCR is set out in Appendix 5.

Under Solvency II, the assets available to cover the capital requirements are referred to as "Own Funds", with the Own Funds reflecting the value of the net asset position of the firm. Comparing the SCR to the level of Own Funds gives an indication as to the level of solvency coverage within a firm.

The table below sets out ZLAP's overall SCR for year-end 2018 and year-end 2019.

Table 4.3: ZLAP Solvency Coverage

	2018	**2019**
Own Funds	781.6	762.9
SCR	565.3	591.9
Excess of Own Funds over SCR	216.3	171.0
Solvency Coverage Ratio	138%	129%

Source: KPMG analysis based on ZLAP 2019 Solvency and Financial Condition Report

Over the course of 2019, ZLAP's SCR increased. There are a number of factors driving this, notably the strong equity market performance over 2019, which increased the expected future profits in on ZLAP's unit-linked business. The increase in these expected future profits drove the increase in the capital required to be held against life underwriting risks (see table 4.4 below). Additional factors included new business, notably an additional large group risk scheme. The above results also include a dividend of €45m paid to ZLAP's parent over 2019.

The table below sets out the components of ZLAP's SCR for 31 December 2018 and 31 December 2019. The main drivers of ZLAP's capital requirements are life underwriting risks (arising from the insurance risks underwritten) and market risks.

Table 4.4: ZLAP SCR and MCR (€m)

Capital Measure	**Component**	**2018**	**2019**
Solvency Capital Requirement	Market Risk	250.6	247.9
	Counterparty Default Risk	26.5	23.0
	Life Underwriting Risk	382.7	408.9
	Health Underwriting Risk	22.6	36.0
	Diversification	-158.7	-167.2

	Operational Risk	40.1	43.0
	Ring Fenced Funds	16.5	20.6
	Loss Absorbing Capacity of Tax	-15.1	-20.2
	Total SCR	**565.2**	**592.0**
Minimum Capital Requirement		197.8	218.7

Source: ZLAP 2019 SFCR

In preparing this report, I have primarily considered the results made available to me as at 31 December 2019. However, over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. Consequently, I have also supplemented my analysis by considering the 31 March 2020 results from ZLAP. I note that the solvency position has not been materially impacted by the COVID-19 pandemic, the associated market turbulence and policyholder responses. I note that the available Solvency II Own Funds reduced from €762.9m to €664.5m, whilst the regulatory capital requirement fell from €591.9m to €543.6m. Therefore, ZLAP's coverage of the regulatory capital requirement fell from 129% to 122%. The major contributors here are interest rates and widening spreads on ZLAP's government bond portfolio. This is captured in table 4.5 below:

Table 4.5: ZLAP Solvency Coverage – March 2020

	31 December 2019	31 March 2020
Own Funds	762.9	664.5
SCR	591.9	543.6
Excess of Own Funds over SCR	171.0	120.9
Solvency Coverage Ratio	129%	122%

Source: ZLAP results

When managing its capital, ZLAP's approach considers both the regulatory requirements and its own internal view.

In order to quantify its internal view of material risks, ZLAP uses an Economic Capital Model ("ECM"). The ECM is a 1-in-200 year legal entity diversified measure. For internal purposes, ZLAP targets a level of available assets, determined on a Market Consistent Embedded Value basis, in excess of the ECM amount.

For the purposes of managing its regulatory capital, ZLAP has an internal capital target well in excess of the regulatory minimum, with internal policies specifying activities to be taken should the coverage drop below its internal targets.

4.5.4 Projected Solvency Position

As noted above, as part of my review I was provided with the ZLAP ORSA report. I have considered the report as part of my review, but have refrained from replicating all of the detail within this Report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company.

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. As part of ZLAP's overall ORSA process, a central base projection was prepared, which considered how the Solvency II capital position is expected to emerge over ZLAP's business planning horizon.

In general terms, the central projection indicates that ZLAP's capital coverage will be maintained over time (after allowing for dividends to its Group parent):

Table 4.6: ZLAP ORSA Base Projection				
Balance Sheet Component	**Year-end 2020**	**Year-end 2021**	**Year-end 2022**	**Year-end 2023**
SCR Coverage	137%	138%	138%	138%

Source: ZLAP 2019 ORSA Report

Within the ORSA process and report, ZLAP also subjected its projected balance sheet to a number of adverse stresses and scenarios, so as to assess the resilience of its balance sheet going forward. I have not replicated the detail within this Report, but no material issues were identified which need to be commented upon within this Report.

More specifically, I note that, within the ORSA base case projection, ZLAP have considered the transfer of the IPB business to another provider. This projection assumed that the transfer takes place in Q1 2020. Given the materiality of the IPB book relative to ZLAP's overall book, the impacts of the transfer were not significant. Allowing for the transfer caused Own Funds to increase by €3m and reduced the SCR by €9m, leading to an overall increase in solvency coverage of 2.5% (based on the starting point of the ORSA projection).

4.6 Operational arrangements

The majority of ZLAP's operations, and in particular its key management operations, are carried out in its offices in Ireland. However, some critical activities are outsourced and the table below summarises this.

Table 4.7: ZLAP Use of Outsourcing		
Service Provider	**Services Provided**	**Jurisdiction**
Zurich Group	Internal Audit	Switzerland
Zurich Group	Management of IT Infrastructure, Support and Maintenance	Ireland & Switzerland
Zurich Group	Policy Administration Services for Swedish & Spanish propositions	Isle of Man
Zurich Group	Policy Administration Services for German propositions	Germany
External	Payroll application support and maintenance	Ireland
External	Policy Administration Services for UK propositions	Ireland
External	Certain Fund Management services	Ireland & Germany
External	Printing and Posting of policyholder literature	Ireland
External	Policy Administration Services for Italian and German propositions	Ireland & Poland
External	IT Support for application software, technical support and consultancy	Italy
External	Management of IT Infrastructure, Support and Maintenance	Ireland & Switzerland
External	Application Support and Maintenance for some applications	Ireland & Switzerland
External	Certain fund management services	Ireland
External	Application support and maintenance for an investment application	U.K.

Source: ZLAP 2018 Solvency and Financial Condition Report

For ZLAP's non-transferring business, the operational arrangements in place are not anticipated to change as a result of the Scheme, hence I have not considered them further in this Report.

For the IPB portfolio, a key point to note is that the administration for this portfolio of business is outsourced to Capita Life and Pensions Services (Ireland) Limited ("Capita"), an outsourced provider of administration services. Capita, through its Irish and UK operations and subsidiaries, provides policy servicing and administration services for the IPB policies.

ZLAP have a comprehensive framework in place to monitor the activities undertaken by Capita on its behalf. A number of ZLAP functions engage with Capita on a regular basis to ensure quality of service, and compliance with all applicable legal and regulatory requirements. These activities and engagements are supported by management control committees that form part of the governance structure within ZLAP, notably the FOCC/PICC (Finance, Operations & Compliance Committee and Planning, IT & Change Committee), the RACC (Risk, Audit & Control Committee) and an annual JEM (Joint Executive Meeting), which comprises of senior management and stakeholders on both sides.

I note that in relation to the Zurich Portfolio Option, policyholders can invest their funds through investment platforms, operated by SIML or Citibank. These platforms offer policyholders means to invest their funds in any of hundreds of investment funds available as part of their offering. I note that SIML is terminating its relationship with ZLAP and ZLAP must migrate the small number of impacted policyholders to the Citbank platform in advance of the anticipated Directions Hearing. Overall, 30 policyholders are impacted, with the total IPB funds on the SIML platform totalling approximately €10m in value. ZLAP have not indicated any cause for concern with regard to this migration. Given that it is to be completed in advance or upon the Scheme becoming effective, I have not considered it further in this report.

I also note that a small number of policyholders have exposure to Property Funds on the SIML platform and these Property funds have stopped pricing and there are no redemptions. Different options are being assessed if these Property funds remain closed to redemptions by the time of the portfolio transfer. These options have not been finalised. For now, I am assuming a solution will be found to facilitate the transfer of these Property funds. On that basis, I have not considered it further in this report.

4.7 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider guidance issued by the Society of Actuaries in Ireland with regard to Policyholders' Reasonable Expectations ("PRE"). ASP LA-6 ("Transfer of Long-term Business of an Authorised Insurance Company – Role of the Independent Actuary") sets out items to be considered in this regard.

Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. Being mindful of the above guidance and requirements, considering the detailed consideration which the ZLAP HoAF gives to PRE within his annual Actuarial Function Report, and considering the transferring IPB policies in isolation, my views are:

- Benefits arising under the transferring IPB policies are straightforward and are determined with reference to the value of the underlying unit-linked funds.
- Security of benefits: transferring policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the transferring policyholders are exposed to before and after the transfer, including the relevant financial position of the companies.
- Entitlement to benefits: the transferring policyholders have a reasonable expectation that withdrawals, surrenders, maturity and valid death claims will be paid in accordance with policy terms and conditions. I have reviewed some of ZLAP's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms.
- Service standards: transferring policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly. Policy and claims administration is currently outsourced to Capita. MLIDAC management have indicated that this may change after completion of the Scheme and I have commented on this later in the Report.

- Discretionary powers available to ZLAP: transferring policyholders have a reasonable expectation that any discretion available to ZLAP will be applied in a fair and reasonable manner. The use of discretion by ZLAP is reasonably limited and principally relates to:
  - Assessment as to whether a death claim is valid or not;
  - Appropriate ongoing charges to apply.

Practice is well embedded on these matters in ZLAP.

4.8 Complaints and Litigation

ZLAP has a well-established complaints process, which is set out clearly for customers upon its website. Customers may make complaints in writing or over the phone, and, once a complaint is made, ZLAP follows a defined process, committing to respond to policyholders within a set time-frame.

Where the policyholder is not satisfied with ZLAP's response, they have the option to refer the complaint to the Financial Services and Pensions Ombudsman (FSPO), which is an independent statutory body in Ireland for dealing with such issues.

As part of my review, I was provided with specific information relating to historic and ongoing complaints associated with the IPB portfolio. With regard to the open complaints in particular, I note that there are only a small number outstanding and none are expected to generate either significant costs or set a precedent that may have implications for other IPB policyholders.

4.9 Other Regulatory matters

4.9.1 CBI Matters

I have received a list of recent correspondence that ZLAP has had with the CBI. I have also been provided current CBI Themed Risk Assessments in progress to understand the nature of the issues and regulatory focus.

I have asked about any conduct matters in the UK as the IPB business originated from there. Within the UK, ZLAP is subject to conduct oversight by the Financial Conduct Authority ("FCA") – no issues were noted.

4.9.2 Compensation Schemes

I note that the IPB policyholders of ZLAP are covered by the Financial Services Compensation Scheme ("FSCS") in the UK. The FSCS will pay compensation if ZLAP is unable to pay claims because it has stopped trading or has been declared in default. Generally the FSCS covers business conducted by firms authorised by the FCA. However European firms that are authorised by their home state regulator that operate in the UK are also covered.

I understand that ZLAP does not intend to establish a UK presence post-Brexit, i.e. ZLAP does not intend to establish a Branch or subsidiary in the UK, nor has ZLAP applied for a temporary permission under the TPR. The legal advice provided to ZLAP (see section 4.9.3 below) is that ZLAP can continue to service the IPB policies post-Brexit without establishing such a presence or entering into the TPR. However, a hard-Brexit would mean that the IPB policies would likely fall outside of the FSCS.

4.9.3 Brexit

Outside of the IPB portfolio, ZLAP has no other UK business.

I have discussed contingency plans with ZLAP and note the following in relation to Brexit:

- ZLAP sought and acquired specialist legal advice in relation to its ability to continue to service its IPB business in the event of a hard-Brexit.
- The advice received is that ZLAP would not require a UK licence post hard-Brexit.
- Accordingly, if ZLAP were to continue to service the business post a hard-Brexit, then the protection provided under the FSCS would no longer be available to policyholders.

I also note that, should legal issues arise (as a result of a hard-Brexit) that mean that the Scheme is not recognised as effective to transfer the policies under UK law, a contingency plan has been agreed between the Scheme Companies involving a reinsurance agreement with Monument Re.

I am not aware of any other regulatory matters.

5 The proposed Scheme

5.1 Background to and motivation for the proposed Scheme

5.1.1 Motivation for proposed Scheme

Although not a direct consideration for me as Independent Actuary, it is nevertheless relevant for me to be aware of the rationale for the Scheme.

ZLAP has decided to transfer its IPB business in line with its strategy (and the strategy of its Group) to dispose of non-core and legacy insurance business and to concentrate on the Irish market.

MLIDAC is a closed-book consolidator and the IPB book aligns with MLIDAC's strategic plans to grow and develop its unit-linked offering and capability and to continue to service UK business post-Brexit.

5.1.2 Overview of proposed Scheme

The Scheme proposed is one for the transfer of the IPB insurance policies of ZLAP by order of the Irish High Court. The transfer of the ZLAP insurance policies to MLIDAC will be completed under the provisions of Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015. The Scheme provides for the transfer of the ZLAP IPB insurance policies, incorporating the underlying insurance contracts, together with the associated liabilities and unit-linked assets as at the Effective Date to MLIDAC, such that ZLAP's IPB policyholder liabilities are extinguished.

The Scheme proposes on the Effective Date:

- To transfer the IPB policyholder liabilities from ZLAP to MLIDAC, with the IPB policies being the sole policies in scope of the transfer.
- That MLIDAC will establish regulatory technical provisions in respect of the transferring liabilities and associated capital requirements under the Solvency II regulatory basis and methodology.
- That the portfolio transfer will be made on an arm's length basis and will include the transfer of assets to support the maintenance of the portfolios post the portfolio transfer.
- To maintain policyholder terms and conditions, i.e. there will be no changes to policyholders' terms and conditions across any of the entities.
- To allocate the same type, number and overall value of units in the MLIDAC unit-linked funds as held by ZLAP in their unit-linked funds for the policies transferring as part of the Scheme.
- To maintain the operation of the insurance contracts, i.e. the operation of the policies will not change and all supporting contractual arrangements such as scheme administration should remain unchanged – the Capita administration arrangement novates or transfers across as part of the Scheme. However, I note that MLIDAC is considering this point in further detail and I have commented on this more specifically below.

The Effective Date of the Scheme is expected to be in November 2020.

5.2 Continuity of proceedings

ZLAP is a party to complaints, legal actions and regulatory proceedings arising out of normal business operations related to the IPB portfolio, including as the plaintiff and defendant in arbitration and litigation matters related to contested insurance claims. Whilst ZLAP has indicated that it cannot predict the outcome or impact of any pending or future arbitration, litigation or regulatory proceedings, it does not believe that any pending arbitration, litigation or regulatory proceedings will have a material adverse effect on its business, financial condition or results of operations.

It is my understanding that at the Effective Date, any legal proceedings which may be pending, current or future against ZLAP in relation to the insurance business being transferred will become the responsibility of MLIDAC.

Specifically for the IPB liabilities:

- MLIDAC shall ensure that ZLAP will be released from all insurance liabilities relating to the Transferring Policies (as defined in the Scheme) after the Effective Date irrespective of when such liabilities arose.
- ZLAP shall ensure MLIDAC's assumption of all insurance liabilities relating to the Transferring Policies after the Effective Date, and MLIDAC acknowledges that it shall be liable after the Effective Date.

5.3 Rights and obligations

Every holder of a Transferring Policy will be entitled to the same contractual rights against MLIDAC as the holder currently has against ZLAP. As such there are no changes to the contract terms and conditions as a result of the Scheme. The effect of the Scheme will be that every holder of or the potential claimant against a Transferring Policy shall become entitled to the same rights against MLIDAC as the holder or potential claimant has against ZLAP and shall be subject to the same obligations to MLIDAC as the holder or potential claimant.

5.4 Maintenance of existing reinsurance arrangements

There are no reinsurance structures in place at present for the IPB portfolio of business, and the existing reinsurance structures in place in MLIDAC are not anticipated to change. However, based on my conversations with management in MLIDAC, I note that it is the broad intention to put reinsurance cover in place for the IPB book post-transfer. This reinsurance cover is anticipated to be aligned to existing structures that MLIDAC has in place with Monument Re Limited and will help mitigate risk associated with the mortality, lapse and expense risks associated with the acquired portfolio.

As noted in section 3, Monument Re is based in Bermuda, is regulated by the BMA and is unrated. However, it is well capitalised, with capital coverage of 474% of the required minimum. I also note that, as with the existing arrangements, it is intended that the counterparty risk to Monument Re will be mitigated through a collateral (funds withheld) structure on the MLIDAC balance sheet, with a quarterly collateral review process.

I note that MLIDAC is still giving thought to how the exact structure will operate but has identified no issues in respect of the information shared at this stage of the process.

5.5 Maintenance and operation of funds

This item refers to the breadth of fund offering and level of charges associated with the investment funds available to IPB policyholders. There are no changes to the charges or breadth of offering available to policyholders as a result of the Scheme.

5.6 Quality of assets

This item refers to the management of ZLAP and MLIDAC available capital or Own Funds. There are no planned changes in investment approach for either entity as a result of the Scheme.

5.7 Capital support arrangements

Both entities, ZLAP and MLIDAC, are part of larger groups. Post-transfer, both entities will have the option of availing of capital support from their parents, if so required, and this does not change as a result of the Scheme.

5.8 Target Capital

Both entities have defined a level of target capital in excess of the overall Solvency II SCR. I would note that, as a percentage of the SCR, MLIDAC's approach is to target a level which is higher than that of ZLAP. However, the value of ZLAP's SCR is higher, meaning it targets a higher level of surplus capital (in absolute terms). The approach adopted is similar in both entities and neither entity is planning a revision in approach as a result of the Scheme.

5.9 New Business Strategy

The IPB book is closed to new business and MLIDAC's strategy is to acquire and run-off closed books of business. Hence, there is no change in approach for the IPB book or the broader MLIDAC business as a result of the Scheme. For ZLAP, the company remains open to new business and this will not change as a result of the Scheme.

5.10 Risk Management

Both entities have a comprehensive risk management framework in place, reflecting the requirements of both the Solvency II regime and the CBI. No changes are planned to the risk management approach of either entity as a result of the Scheme, though MLIDAC continues to expand and refine its approach to management of unit-linked business.

5.11 Exercise of options

Any policy options that currently exist under the IPB policies will continue to exist and there are no planned changes in this regard. There are no planned changes to the policy options of other policies of either entity as a result of the Scheme.

5.12 Administration arrangements

At the Effective Date, it is intended that the existing administration arrangements will be maintained. For the IPB policies, administration services are currently provided by Capita. MLIDAC have indicated that it is their intention to maintain this arrangement for at least 12 months following the completion of the Scheme. Hence, as a result, there are no immediate impacts upon the administration arrangements as a result of the Scheme.

However, MLIDAC has set out a broad intention to migrate the administration services to Equiniti at some stage in the future. Equiniti is a large, UK-based organisation that provides outsourced administration services to Pension funds, Banks and Insurance companies (amongst others).

I note that migration of such services will be a complicated project, requiring significant effort from Capita, Equiniti and MLIDAC. Considerable effort is required to ensure that quality service is maintained during the transition and that knowledge is transferred so as to maintain quality of service post-transition. MLIDAC management are well-aware of these issues and have committed to establishing a well-resourced project team should such a transition be decided upon.

I also note that MLIDAC have an existing relationship with Equiniti and have experience of migrating administration services from one outsourced provider to another, having undertaken a number of such migrations following previous transfers. In particular, following the MetLife transaction under Project CARP, administration services for the UK products acquired were migrated from Capita to Equiniti.

MLIDAC's plans are not well developed in this regard, so, at the time of preparing this Report, no issues have been identified upon which I must comment. However, should firm plans be developed, I would need to review them as part of my considerations and this issue may receive further consideration within a Supplementary Report.

5.13 Taxation

I have been provided with a summary note from ZLAP setting out a brief tax analysis on the Scheme, noting that I am not a tax expert.

With regard to policyholder tax, a key area of focus for me as Independent Actuary is whether the Scheme would trigger a “chargeable event” for policyholders. Such events are defined in UK tax law and would see policyholders having to pay tax on some of their investment gains since policy inception (if such gains have arisen). Analysis prepared by ZLAP indicates that this is not an issue - the portfolio transfer does not trigger a UK chargeable event as the policies continue uninterrupted post-transfer.

I note that separately, there will be some minor tax impacts for ZLAP and MLIDAC pertaining to issues such as:

- Stamp duty and VAT costs associated with the sale (noting a VAT exemption is expected to apply)
- Gains or losses on the sale/acquisition which may lead to a tax benefit or liability for ZLAP and MLIDAC.

Such liabilities, if they arise, will likely not be material in the context of the overall transaction.

Given that policyholders will not incur any losses arising from tax treatment of the scheme and that any benefits or costs which must be borne by ZLAP or MLIDAC are not material in the context of the scheme, I have no issues to raise in this regard.

5.14 Costs of the proposed Scheme

All costs associated with the Proposed Transfer will be borne by the shareholders of ZLAP and MLIDAC, with no impacts upon either the transferring IPB policyholders, the existing MLIDAC policyholders or the remaining ZLAP policyholders.

5.15 Policyholder communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs (and I understand ZLAP and MLIDAC will seek the High Court’s dispensation from this requirement), certain materials must be transmitted to each policyholder of each Company. I note that:

- The transferring ZLAP IPB policyholders, and their financial advisors, will each be sent a circular (comprising of a letter from ZLAP’s CEO, a summary of the terms of the Scheme, a summary version of this Report, a copy of the published legal notice and a frequently asked questions document in relation to the transfer).
- Given the immateriality of the transaction for ZLAP’s broader business, it is not ZLAP’s intention to communicate with the ZLAP policyholders who will remain in the company post the Scheme.
- There is no intention to communicate with the policyholders of MLIDAC, however information will be available on the MLIDAC website. The reasons set out by MLIDAC management are that the Scheme does not materially impact on MLIDAC policyholders and their overall financial position pre- and post- the Scheme remains strong and well in excess of internal and external regulatory capital limits. I have assessed the financial impact on the existing MLIDAC policyholders and note the impacts, as described in section 2.1.5 above. I also recognise that given the other transactions completed/underway, a large number of existing policyholders will have been communicated with for their own portfolio transfers so I do recognise the risk of confusion and indeed the cost of these exercises.
- In addition to this Report, I have prepared a Summary Report which covers all the material points and issues raised in this full Report.
- The communication to IPB policyholders will include my conclusion as Independent Actuary and the Summary Report. It will also highlight very clearly the availability of my full Report on request and its availability on the ZLAP website. The CBI will be advised of this approach.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- The majority of the IPB policyholders are based in the UK, with a small number in other EEA Member States. ZLAP will publish the Transfer in the UK and in each other relevant EEA Member State in

accordance with the law of each such Member State. ZLAP is currently engaged with its legal advisors to ascertain what the law requires in each such Member State.

- There are a small number of IPB policyholders located outside the EEA. Whilst not a legal requirement, ZLAP intends to publicise the Scheme in the international edition of the Financial Times to accommodate such policyholders.

Overall, I am comfortable with this communication approach and am comfortable that the remaining ZLAP and existing MLIDAC policyholders will not be disadvantaged in any way by not being issued with a copy of either this Report or my Summary Report.

5.16 Governing law

The sanctioning of the Scheme is subject to the laws of Ireland, in particular Section 13 of the Assurance Companies Act 1909, Section 36 of the Insurance Act 1989 and Regulation 41 of the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485/ 2015).

6 General considerations when reviewing the proposed scheme

6.1 Introduction

As the Independent Actuary, the key areas in my opinion that I need to consider for the different groups of policyholders that could potentially be affected by the Scheme, namely the transferring IPB policyholders, the existing MLIDAC policyholders (including the MIDAC/MADAC policyholders, those of Inora and those of Rothesay) and the remaining ZLAP policyholders, are:

- Security of policyholder benefits; and
- Fair treatment of policyholders and impacts upon their reasonable expectations, which include disclosures to policyholders, maintenance of terms and conditions, the use of discretion by companies, local legislative requirements and the day to day administration of policies.

The considerations when reviewing the proposed Scheme are discussed briefly below and then assessed in Section 7 and 8 of this Report.

6.2 Impact on the security of policyholders' benefits

Aspects of the business and the Scheme which could impact on the security of policyholder benefits and should therefore be considered when reviewing the Scheme include:

- Financial security following the implementation of the Scheme for the different groups of policyholders, through consideration of the regulatory capital position under Solvency II.
- I note that the CBI supervise both entities under the Solvency II regulatory regime and that, once the Scheme is implemented, the entities will continue to be subject to supervision by the CBI under Solvency II.
- I consider the financial impact of the transaction which gives effect to the Scheme i.e. a payment from ZLAP to MLIDAC and ensure it is reflected in my assessment of the implementation of the Scheme.
- Other elements impacting on financial security involves consideration of:
  - Business planning outlook;
  - Stress and Scenario tests on a plausible basis to understand how robust the regulatory capital position is to such tests;
  - Impact of the Scheme on the risk levels in MLIDAC and ZLAP and whether new additional risks are created as a result of the Scheme;
  - Quality of capital including any capital support arrangements;
- External reviews/ audit findings on material areas;
- Continuation of reinsurance arrangements and any potential issues with reinsurance counterparties;
- Other elements including custody of assets; Group financial support; and any other aspects worthy of consideration e.g. expenses, outsourcing, strategic asset allocation.

6.3 Fair treatment of policyholders and the impact on their reasonable expectations

Aspects of the business and the Scheme which could impact on the fair treatment of policyholders and their reasonable expectations which should be considered when reviewing the Scheme include, but are not limited to:

- Policy terms and conditions;
- Servicing of policies;
- Application of discretion;
- Expenses and charges;
- Costs of the Scheme;
- Current practices and approaches;
- Complaints and redress; and
- Policyholder communications.

7 Assessment of the Scheme on the financial security of policies

7.1 Introduction

The following section considers the pro-forma regulatory balance sheets of the entities (ZLAP and MLIDAC) following implementation of the Scheme. I comment on the relative level of security of transferring ZLAP IPB policyholders, existing MLIDAC policyholders and non-transferring policyholders of ZLAP by considering the impact of the transfer under the Solvency II regime.

In this consideration, I have examined the transfer on both a quantitative and qualitative basis.

I also include discussion of other aspects of the Scheme relating to ZLAP and MLIDAC that could affect security to policyholders and note my conclusions on them.

7.2 Financial Strength Assessment

7.2.1 Introduction

I have considered the relative capital strength of ZLAP and MLIDAC respectively prior to and post the Scheme and in respect of all groups of policyholders. I have based my analysis on the most recent audited financial information at 31 December 2019, including regulatory returns to the CBI, pro-forma results prepared as at 31 December 2019 and the ORSA projections produced by both entities. I have also considered the regulatory returns provided to the CBI as at 31 March 2020.

For MLIDAC, I have focused on the pro-forma 31 December 2019 position, as it reflects the most up to date position of the entity combined with the impacts of the transfers that are anticipated to take place in advance of the Scheme. This position captures the portfolio transfers associated with the internal restructure occurring in Monument's Irish operations and the acquisition of Rothesay. Year-end 2019 pro-forma results were considered rather than year-end 2020 pro-forma results as there are already a number of pro-forma adjustments captured in the year-end 2019 results provided and the ORSA base case projection captures all anticipated transactions and indicates solvency coverage is expected to increase over the year.

As described in Section 6 above, the Scheme will not make any material change to the assets and liabilities of ZLAP or MLIDAC. The liabilities being transferred are unit-linked in nature, meaning that the bulk of the assets transferring are those committed to policyholders in line with policy terms and conditions. Where there is a transfer of assets outside of the unit-linked assets, this reflects the cash consideration paid by ZLAP to MLIDAC under the terms of the Scheme.

7.2.2 Solvency Coverage at Transfer Date

As noted elsewhere in this report, the IPB portfolio is relatively immaterial in the context of ZLAP's broader balance sheet. As the Scheme does not have a material impact upon ZLAP's solvency coverage, the impact of the Scheme upon ZLAP's solvency position is not explicitly set out below.

The below table sets out the pro-forma balance sheet of MLIDAC. This analysis considers the point in time solvency cover pre- and post-transfer, taking account of the impact of the Scheme in line with the Solvency II requirements, as if it had been implemented at 31 December 2019. The MLIDAC "Pre-transfer" position is after allowing for ongoing activities, as described in section 3 above, and thus reflects the MIDAC/MADAC transfer, the Rothesay acquisition and the reinsurance of those liabilities to Monument Re:

Table 7.1: MLIDAC Pro-forma Solvency Position as at 31 December 2019 - €m

Component	Pre-Transfer	Post-Transfer
Assets	1,431.9	1,876.7
Liabilities*	1,402.1	1,840.9
Own Funds	29.8	35.8
SCR	16.1	23.0
Excess Own Funds over SCR:	13.7	12.9
Solvency Coverage Ratio	185%	156%

Source: MLIDAC pro-forma results

The MLIDAC pro-forma figures ignore the impacts of the volatility adjustment, a €5.5m dividend paid by MLIDAC's subsidiary Inora to MLIDAC over Q1 2020 and the non-payment of a planned Q1 2020 dividend of €1.5m from MLIDAC to its parent. Taken together these factors would increase MLIDAC's post-transfer solvency coverage above 156% and, in particular, above MLIDAC's target regulatory capital coverage level.

It should be noted that the results prepared above by MLIDAC reflect the anticipated financial impacts of the migration of administration services from Capita to Equiniti 12 months post the portfolio transfer date, in terms of:

- The one-off costs anticipated to be incurred in implementing the migration, and
- The impact that the transfer is expected to have on MLIDAC's expense profile going forwards.

The papers prepared for the MLIDAC Board supporting the assumed level of expenses (post Capita) have been shared with me and the approach appears reasonable. Further work will need to be done in terms of formalising the likely cost structure by the time of the portfolio transfer.

In terms of the impacts upon MLIDAC's balance sheet, I note the following:

- Overall, MLIDAC's level of Own Funds is expected to increase from €29.8m to €35.8m as a result of the transfer. This reflects the anticipated consideration to be paid from ZLAP to MLIDAC and the transfer of the IPB assets and liabilities to the MLIDAC balance sheet.
- MLIDAC's SCR is expected to increase from €16.1m to €23.0m. This reflects MLIDAC's increased exposure to market risk, as much of the fee income earned on the IPB book can be impacted by market volatility.
- The level of excess Own Funds (i.e. the level of Own Funds available in excess of the SCR) falls by a small amount, from €13.7m to €12.9m.
- As noted in the footnote to the table above, once the volatility adjustment and actual dividends over 2020 are allowed for, MLIDAC's solvency coverage is expected to increase above 156%.

I separately note that it is the broad intention of MLIDAC to put reinsurance cover in place for the IPB book post-transfer. This reinsurance cover is anticipated to be aligned to the existing structures that MLIDAC has in place with Monument Re and will help mitigate risk associated with the mortality, lapse and expense risks within the acquired portfolio. It is intended that the arrangement will make use of a similar collateral/funds withheld arrangement (as used for the current reinsurance).

The above results do not reflect the reinsurance arrangements that MLIDAC management expect to put in place in respect of the IPB policies. As noted elsewhere in this Report, although MLIDAC management intend to put reinsurance cover in place, plans are not well developed in this regard. MLIDAC have provided results, which illustrate the impact that the transfer would have on MLIDAC's year-end 2019 balance sheet, if the reinsurance cover were to be put in place immediately (i.e. at the Effective Date). Whilst not a key item to consider in my overall assessment of the Scheme, I have reviewed these results and they are set out below:

Table 7.1a: MLIDAC Pro-forma solvency Position as at 31 December 2019 - €m

Component	Pre-Transfer	Post-Transfer

Assets	1,431.9	2,269.8
Liabilities*	1,402.1	2,237.9
Own Funds	29.8	31.9
SCR	16.1	17.2
Excess Own Funds over SCR:	13.7	14.7
Solvency Coverage Ratio	185%	186%

Source: MLIDAC pro-forma results

The MLIDAC pro-forma figures ignore the impacts of the volatility adjustment, a €5.5m dividend paid by MLIDAC's subsidiary Inora to MLIDAC over Q1 2020 and the non-payment of a planned Q1 2020 dividend of €1.5m from MLIDAC to its parent. Taken together these factors would increase MLIDAC's post-transfer solvency coverage above 186%.

This reinsurance, should it be put in place, would mean that the Scheme would lead to MLIDAC's overall solvency position being broadly maintained post-transfer. The reinsurance would alleviate some of the increase in the SCR, but the increase in Own Funds would be smaller as the costs of the reinsurance arrangement are allowed for.

I also note that, in preparing this report, I have primarily considered the results made available to me as at 31 December 2019. However, over the first quarter of 2020, financial markets and western economies experienced significant disruption as a result of the COVID-19 pandemic. Consequently, I have also supplemented my analysis by considering the 31 March 2020 position. MLIDAC have provided me with Solvency II results from 31 March 2020 together with updated pro-forma results which reflect the anticipated evolution of the balance sheet in advance of the Scheme. Based on the data as at 31 March, after allowing for the internal restructure and the Rothesay transaction, MLIDAC is anticipated to have solvency coverage of 186% in advance of the Scheme. Allowing for the Scheme, this is expected to reduce to 178% in the absence of reinsurance. If the reinsurance is allowed for, solvency coverage after the Scheme executes would be 189%. It should be noted that these results reflect the impact of the approval of the volatility adjustment and the actual dividend payments over the period (€5.5m was paid from Inora to MLIDAC, whilst the €1.5m dividend that MLIDAC had planned to pay to its parent, and which was reflected in the 31 December results, was not proceeded with). This is captured in the table below:

Table 7.1b: MLIDAC Pro-forma solvency Position as at 31 March 2020 - €m

Component	Pre-Transfer	Post-Transfer No Reinsurance	Post-Transfer With Reinsurance
Assets	1,342.5	1,689.3	1,993.1
Liabilities*	1,313.4	1,652.5	1,961.7
Own Funds	29.1	36.8	31.3
SCR	15.6	20.6	16.6
Excess Own Funds over SCR:	13.5	16.2	14.7
Solvency Coverage Ratio	186%	178%	189%

Source: MLIDAC pro-forma results

Given the results provided, I have considered below the impacts of the Scheme upon the various policyholder groups, focusing on the information pertaining to the last audited balance sheet as at 31 December 2019 and the related pro-forma balance sheets:

IPB Policyholders

For the IPB policyholders, I note the following impacts of the Scheme based on the analysis above:

- The IPB policyholders, pre-transfer, are part of ZLAP, which is a well-capitalised, diverse insurer.
- Post-transfer, the IPB policyholders are part of MLIDAC, with Own Funds post-transfer of €35.8m and solvency coverage of 156%. Therefore, the IPB policyholders become part of a company with a lower level of Own Funds (and a lower excess of Own Funds over the regulatory capital requirements) than they enjoyed prior to the transfer, with a lower overall capital requirement.
- Although the level of Own Funds is lower than ZLAP's, the level of solvency coverage is higher. The level of solvency coverage is in excess of the regulatory minimum levels and, as noted above, once the volatility adjustment and actual dividends over 2020 are allowed for, MLIDAC's solvency coverage is also anticipated to be in excess of its internal regulatory capital targets (including the enhanced level of target cover to allow for the impact of obtaining separate reinsurance cover).
- If the planned reinsurance is allowed for, the level of Own Funds is lower, but the lower capital requirements mean that solvency coverage is higher than in the case without reinsurance.

Existing MLIDAC Policyholders

For the existing MLIDAC policyholders, I note the following impacts of the Scheme based on the analysis above:

- Both before and after the transfer, the existing MLIDAC policyholders have a strong regulatory capital position.
- Pre-transfer, the MLIDAC policyholders have Own Funds of €29.8m, a SCR of €16.1m and a solvency ratio of 185%. Post the transfer, the Own Funds increase to €35.8m and the SCR increases to €23.0m as a result of the increased market risk exposure introduced by the IPB portfolio. The solvency ratio reduces to 156%.
- MLIDAC policyholders remain part of a company which will, post-transfer, have a higher level of Own Funds, but a higher regulatory capital requirement due to the inclusion of the IPB business. Overall the solvency coverage which they enjoy has decreased but it remains well in excess of the regulatory minimum levels. As noted in the tables above, once the volatility adjustment and actual dividends over 2020 are allowed for, MLIDAC's solvency coverage is also anticipated to be in excess of its internal regulatory capital targets
- If the planned reinsurance is allowed for, then the impacts are less material – the increase in Own Funds and capital requirements are smaller, with a less significant impact on solvency coverage. This is useful to note from the perspective of the existing MLIDAC policyholders, as the planned reinsurance is similar in nature to the existing reinsurance structures that are already in place.

Remaining ZLAP Policyholders

For the remaining ZLAP policyholders, I note that:

- For ZLAP, the IPB portfolio is not material in the context of its overall business.
- As demonstrated in Section 4 above (based on ZLAP's ORSA and the year-end 2019 results), the transfer of the IPB portfolio has no material impact on ZLAP's capital coverage.

As a result, I have no concerns about the IPB transfer impacting upon ZLAP's future solvency position.

Overall

Based on the above I do not believe that the implementation of the Scheme should have a material adverse effect on the financial security of the transferring IPB policyholders, the existing MLIDAC policyholders nor the remaining ZLAP policyholders. The level of Own Funds and solvency coverage in

MLIDAC post-transfer is well in excess of the regulatory minimum and is above the internal target levels set by MLIDAC.

7.2.3 Capital Targets

Both entities have defined a level of target capital in excess of the overall Solvency II SCR. I would note that, as a percentage of the SCR, MLIDAC's approach is to target a level which is higher than that of ZLAP. However, the value of ZLAP's SCR is higher, meaning it targets a higher level of surplus capital (in absolute terms). The approach adopted is similar in both entities and neither entity is planning a revision in approach as a result of the Scheme.

7.2.4 Business Plan and Projected Solvency

As noted above, I was provided with the most recent ZLAP ORSA report, which considered the projected balance sheet for ZLAP after the transfer. I note that the proposed Scheme has no material impact on ZLAP's projected solvency.

For MLIDAC, I was also provided with the most recent ORSA report, prepared in December 2019. In addition to showing the projected balance sheet and the ability of the balance sheet to absorb stresses from a variety of stress events, explicit consideration was given to the Scheme as part of the ORSA process.

The year-end 2019 results from these projections do not coincide exactly with the pro-forma positions provided above – this is due to the fact that the ORSA was prepared in advance of year-end 2019, whereas the reported results reflect actual asset and liability positions at the reporting date. I have discussed the drivers of these differences with MLIDAC and am satisfied that they are reasonable and do not lead to concerns with either the pro-forma positions above, or the projections below.

The below projection illustrates that, as with the pre-transfer projection, MLIDAC's SCR coverage is projected to grow over time, with a projected level of capital coverage in excess of both internal capital targets and the regulatory minimum. The ORSA results, combined with the projection below, illustrate MLIDAC's ability to continue to withstand adverse shocks. I note that the ORSA projections are prepared on the basis that the internal reinsurance to Monument Re is put in place, so I do not have sight of the results without such allowances. However, I have had sight of the impacts of the reinsurance in the pro-forma 31 December 2019 results provided.

Table 7.2 MLIDAC Projected Solvency Coverage	2019	2020	2021	2022	2023
MLIDAC Solvency Coverage - Pre Transfer	328%	224%	259%	291%	322%
MLIDAC Solvency Coverage - Post Transfer	328%	230%	264%	296%	327%

Source: MLIDAC 2019 ORSA report

Considering the above, I have not identified any concerns with regard to MLIDAC's projected solvency coverage after the transfer.

7.2.5 Sensitivity Testing

As noted earlier, I have been provided with the most recent ORSA reports prepared by ZLAP and MLIDAC, which illustrate the sensitivity of the Scheme Companies to various risk issues. As noted, given the materiality of the IPB book in the context of ZLAP's broader business, the Scheme does not have a material impact on ZLAP's sensitivity to key risk drivers.

For MLIDAC, whilst I have not been provided with any explicit sensitivities which capture the impacts of the IPB portfolio, considering the existing ORSA projections and stresses in conjunction with the pro-forma balance sheet enable me to form a view as to how MLIDAC's balance sheet may evolve in stressed situations after completion of the Scheme. I have not identified any material issues.

7.3 Other matters impacting on financial security

7.3.1 Risk profile

The primary differences here arise due to the mix of business of the two Scheme Companies and I have considered the impacts for the relevant policyholder groups below.

MLIDAC – Existing Policyholders

The risk profile of the transferring business is very similar to that of the business which transferred to MLIDAC under Project CARP and that acquired through the purchase of Inora.

Through CARP and Inora, MLIDAC established and continues to expand its capabilities with regard to management of unit-linked business. Considering the risk profile of the existing business and its similarities to that being transferred in to MLIDAC under the Scheme, no new risks are being introduced on MLIDAC's balance sheet and hence the existing MLIDAC policyholders are not disadvantaged as a result of the scheme

ZLAP – Remaining Policyholders

There are no material issues to consider for ZLAP. As the IPB portfolio is relatively immaterial in the context of ZLAP's broader book, the transfer has no impact on ZLAP's risk profile, hence remaining policyholders are not adversely affected.

ZLAP – Transferring IPB Policyholders

MLIDAC, post the MIDAC and MADAC transfers planned to take place in advance of the Scheme, will have both life and non-life risks sitting directly upon its own local balance sheet. ZLAP itself solely underwrites life insurance business. Hence, for the IPB policyholders, there is a slight change in risk profile as the IPB policyholders will become exposed to the risks associated with non-life contracts. However, whilst new risks are introduced, MLIDAC does have expertise in managing these. In addition, the non-life portfolio of MLIDAC is expected to run-off quickly, as the risks are short-term in nature.

The IPB book of business is a closed-book, with no new business being added. The policies are now being transferred to a closed-book consolidator, who specialises in acquiring and running-off such portfolios. As the overall book of business for MLIDAC declines, issues related to economies of scale can arise in areas such as expense and capital management, as overheads can be large relative to the size of the book. Such issues do not typically emerge in the short to medium term. I do not believe that the IPB policyholders are disadvantaged here as managing this risk is MLIDAC's specialty and forms a core part of its business plan going forward.

An additional factor relates to the management of unit-linked business; this is a relatively new addition to MLIDAC's risk-profile. Whilst MLIDAC has established structures in line with ABI guidance, practice is still evolving in this area. This is a significant change from ZLAP, where unit-linked business accounts for most of the book and the organisation has significant expertise at managing unit-linked liabilities. However, as noted earlier in my Report, MLIDAC have established processes and procedures in relation to the management of such business and the work undertaken is continuing to expand and be refined.

7.3.2 Compensation Schemes

At present, the ZLAP IPB policyholders have protection under the UK's FSCS. As UK business is beyond the scope of ZLAP's strategic focus going forward, ZLAP are not taking actions to maintain a UK presence post-Brexit. In the event of a hard-Brexit, legal advice shared with me by ZLAP indicates that the existing FSCS protection would no longer apply to ZLAP policyholders and this protection would be lost.

Servicing the UK market is a key strategic priority for MLIDAC. MLIDAC wishes to be able to continue to service both its existing and potential new UK-based policyholders post-Brexit. As a result, MLIDAC has applied for inclusion in the TPR regime and hence its existing UK policyholders will continue to be protected under the FSCS post-Brexit.

MLIDAC's proposed approach (making use of the TPR), combined with the Scheme, would mean that the FSCS would continue to apply for IPB policyholders once they become policyholders of MLIDAC.

Hence, the protection provided under the FSCS would be maintained post-transfer, regardless of the outcome of the ongoing Brexit negotiations.

7.4 Reinsurance arrangements

The IPB policies have no reinsurance in place and the Scheme does not see any changes arising to the existing reinsurance structures for either ZLAP or MLIDAC. However, I note that it is the broad intention of MLIDAC to put reinsurance cover in place for the IPB book post-transfer. My assessment is based on the reinsurance not being in place, but I have considered the results provided by MLIDAC which illustrate the impacts of the proposed cover.

This reinsurance cover is anticipated to be aligned to existing structures that MLIDAC has in place with Monument Re and will help mitigate the mortality, lapse and expense risks associated with the acquired portfolio.

It is intended that the arrangement will make use of a similar collateral/funds withheld arrangement (as used for the current reinsurance). Use of collateral minimises the counterparty default risk associated with the reinsurance cover. I further note that MLIDAC takes the approach of setting its internal capital targets with reference to the cost of replacing the reinsurance cover, hence the planned reinsurance will be factored into MLIDAC's internal assessment of its capital needs.

In section 3, I have commented upon the financial strength of Monument Re and the capital requirements of the Bermuda regulatory regime. Hence, whilst I note that MLIDAC is still giving thought to how the exact structure will operate, I have identified no issues in respect of the information shared at this stage of the process.

7.5 Miscellaneous aspects

7.5.1 Assessment of Assumptions

Within section 2.1.4 above, a series of assumptions were set out which underlie the analysis and conclusions set out in this Report. As noted above, if any of these assumptions were to change, my opinion may also change.

These assumptions are necessary because of a number of factors, notably the ongoing negotiation of Britain's terms of departure from the European Union and the number of transactions ongoing within MLIDAC's broader business. Below, I have replicated and considered (in *italics*) each of the relevant assumptions set out in section 2.1.4 and set out the potential impacts that they may have on my opinion of the Scheme:

- The existing reinsurance arrangements that MLIDAC has in place with Monument Re remain in place – these provide a high level of risk mitigation to existing (and indeed transferring) MLIDAC policyholders.

MLIDAC makes use of reinsurance to manage its overall risk exposures and as a result, the existing reinsurance structures form a key part of MLIDAC's overall risk profile. If these structures were not to remain in place, it would fundamentally alter both MLIDAC's overall risk profile and capital requirements. I have not considered any alternatives, as the reinsurance employed forms a key component of MLIDAC's business model and contributes to the effective implementation of its overall strategy.

- MLIDAC is, and remains, closed to new business prior to the Effective Date of the Scheme, noting that this may change depending on future acquisitions and transfers.

In-line with its overall business strategy and business plans, MLIDAC is a closed-book consolidator and acquires and manages closed-books of insurance business. This is a fundamental part of MLIDAC's broader strategic plans and it is not intended that this will change in the short-term. Issuing new policies is beyond the scope of MLIDAC's broader strategic intentions. Issuing new business can be capital intensive and the nature of the products written can alter an entity's risk profile over time. If MLIDAC were intending to open to new business, the risk impacts and capital requirements would need detailed *consideration. A new business plan would need to be developed and approval of both MLIDAC's Board and the CBI would be required.*

- ZLAP will need to make an appropriate payment to MLIDAC to cover the cost of the transfer and of the future administration of the Transferring Policies.

This is not a material assumption, rather, it reflects the expected mechanics of the transaction between ZLAP and MLIDAC.

- Within the broader Monument Re Group, a project is nearing completion to restructure the business within Ireland:
  - MLIDAC is a wholly owned subsidiary of MADAC. MADAC is a wholly owned subsidiary of MIDAC and MIDAC is a wholly owned subsidiary of Monument Re. MIDAC, MADAC and MLIDAC all form part of the same group of companies.
  - As part of this project, separate portfolio transfers are underway to migrate the policies of MIDAC and MADAC to MLIDAC.
  - I note that I am acting as the Independent Actuary in those portfolio transfers. After these transfers complete, it is intended that MLIDAC will act as Monument Re Limited's primary Irish company. At the date of finalising this report, I understand that the CBI has granted approval for these transfers with the Sanctions Hearing court date set for 9 June 2020. The portfolio transfers are expected to complete before the Scheme in June 2020; therefore, the approach taken within this Report is to consider the Scheme as if these transfers had already taken place.

As part of preparing my Report, the *above assumptions are required as they reflect MLIDAC's strategic plans and the anticipated structure of MLIDAC's balance sheet prior to the IPB policies transferring. I did have to factor in the risk of these transfers not proceeding and that MLIDAC's anticipated structure and risk profile would be fundamentally different from that anticipated in my assessment of the Scheme. I note that, within its latest ORSA report, MLIDAC considered the potential impacts of the MIDAC and MADAC transfers not proceeding. However, given the CBI approval as noted above, I have not had to factor this analysis into the Report but I note that a detailed assessment was undertaken as a contingency for completeness.*

- To facilitate the transfer of the IPB policies, MLIDAC is applying to the CBI for a Class VI (Capital Redemption Operations) life insurance licence. As this approval is required for the Scheme to proceed, the assumption that this licence is approved also forms an inherent underlying assumption. I note that the initial Directions hearing will not proceed until this approval has been granted.

MLIDAC require a Class VI licence in order to be able to service the Capital Redemption variants of the IPB policies being transferred. If approval is not granted, then the Scheme cannot proceed as MLIDAC will not have the necessary regulatory permissions to service the IPB policies.

- I note that ZLAP currently receive rebates from investment managers in respect of IPB business and the majority of these are credited to policyholder accounts. Work is underway within ZLAP to formalise the link between rebates allocated to policyholders and those collected from fund managers. ZLAP's intention is to establish contracts with the fund managers regarding the amount of the rebates. These contracts would then novate to MLIDAC upon execution of the Scheme. At this stage, ZLAP has not identified any reason why these rebate rates would not transfer to MLIDAC post the Scheme. If this assumption is not correct, the impact on the policyholders would need to be revisited. I do not comment on this aspect further.

- I further note that there are some trivial rebate payments made by a very small number of fund managers. ZLAP may not be able to formalise these rebate arrangements. If this is the case, I note that prior to the portfolio transfer, a solution will be implemented which is fair to the very small number of impacted policyholders.

Rebates serve to reduce the impact of fund management charges on policyholder investment returns. There is a tidy up of these arrangements being undertaken by ZLAP which is expected to be largely *completed prior to the portfolio transfer. I consider that it is important that the arrangements are formalised as planned by ZLAP and that these contractual arrangements are transferred over to MLIDAC. I have assumed that for those fund managers where there are trivial levels of rebates, that ZLAP may not be able to agree a formal contract and that ZLAP will develop a solution to ensure policyholders are not disadvantaged by the lack of a formal contract as part of the portfolio transfer.*

- One of the investment options that is available to IPB policyholders is the Zurich Portfolio Option. If utilising this option, policyholders can invest their funds through investment platforms, operated by Sterling ISA Managers Limited (“SIML”) or Citibank UK Limited (“Citibank”). These platforms offer policyholders means to invest their funds in any of hundreds of investment funds available as part of their offering.
  - I note that SIML is terminating its relationship with ZLAP and ZLAP must migrate the small number of impacted policyholders to the Citibank platform in advance of the anticipated Directions Hearing. I have therefore assumed that this migration completes without issue in advance of the Scheme execution date.
  - I note that a small number of policyholders have exposure to Property Funds on the SIML platform and these Property funds have stopped pricing and there are no redemptions. Different options are being assessed if these Property funds remain closed to redemptions by the time of the portfolio transfer. These options have not been finalised. For now, I am assuming a solution will be found to facilitate the transfer of these Property funds.
  - I note that MLIDAC has no existing relationship with Citibank and I have assumed that MLIDAC will successfully be able to establish and maintain such a relationship in advance of the transfer date.

The assumption that the SIML transfer completes is a mechanical one and has been set out because it reflects the situation that is expected to apply upon the execution date of the Scheme. Some solution must be found here as SIML will no longer service ZLAP policyholders, and this assumption reflects the anticipated solution at the time of preparation of the report. If an alternative solution is found, I will consider this in my Supplementary Report, but I do not expect that this would impact on my overall assessment of the Scheme.

With regard to the assumption that MLIDAC successfully establish a relationship with Citibank – this is a key assumption as it relates to the breadth of offering that will be made available to IPB policyholders post-transfer. If MLIDAC cannot establish and formalise the necessary relationship, then I expect that policyholders would no longer be able to use the Citibank platform post-transfer and would therefore be disadvantaged by the Scheme. This would, therefore, impact upon my assessment of the Scheme.

With regard to the small number of policyholders with exposures to Property Funds which are not available on the Citbank platform post the portfolio transfer; I understand options are being considered to ensure policyholders are not going to be disadvantaged. Given that the Property Funds may reopen in due course, the approach is reasonable at this stage.

- I also need to consider another transaction in the context of this Report. In March 2019, MLIDAC entered into an agreement to acquire a c. €140m portfolio of Irish annuities from Rothesay Life Plc in the UK. The acquisition has been structured initially as reinsurance to Monument Re and is expected to be followed by a Part VII transfer of the portfolio to MLIDAC, subject to regulatory and UK High Court approvals. The expected portfolio transfer date is September 2020, prior to the completion of the Scheme. I have been provided with pro-forma year-end 2019 results that capture the impact of that transfer, as if it had taken place on 31 December 2019. In addition, I have been provided with the financial projections (as part of my review of the ORSA) which illustrate the impact of that transfer and note that these projections do not appear to highlight any issues on financial strength and solvency. However, it is outside of the scope of my work to assess this Rothesay Scheme and its impact on MLIDAC policyholders which will be assessed by another Independent Expert.

- Another entity in the Monument Group in Ireland is Inora Life dac ("Inora"), which is a wholly owned subsidiary of MLIDAC. MLIDAC agreed to purchase Inora in March 2019, received regulatory approval for the transaction August 2019 and the transactions closed in September 2019. I note, post completion of the Scheme described in this Report, that it is MLIDAC's intention to transfer the liabilities of Inora to MLIDAC and liquidate Inora. As with the Rothesay transaction, I have been provided with the financial projections (as part of my review of the ORSA) which illustrate the impact of this expected transfer and note that these projections do not appear to highlight any issues on financial strength and solvency. However, it is outside of the scope of my work to assess this Scheme and its impact on MLIDAC policyholders which will be assessed by another Independent Expert

The above assumptions are required as they reflect MLIDAC's strategic plans and the anticipated structure of MLIDAC's balance sheet prior to the IPB policies transferring.

For the Inora transaction, I note that MLIDAC already owns Inora and hence has exposure to it; MLIDAC has exposure to Inora regardless of whether or not the planned activities take place. Hence, this is not a material assumption with regard to the Scheme.

Considering Rothesay, within its latest ORSA report, MLIDAC considered the potential impacts of this transaction not proceeding. I have replicated these results in table 7.3 below:

Table 7.3 Rothesay Impacts	2019	2020	2021	2022	2023
MLIDAC Solvency Coverage - Base Case	328%	230%	264%	296%	327%
MLIDAC Solvency Coverage - Exclude Rothesay	328%	240%	281%	317%	351%

Source: MLIDAC 2019 ORSA report

The base case above includes the IPB transfer, whilst the stress case includes IPB but excludes Rothesay. The results therefore demonstrate the impact of the Rothesay transaction on MLIDAC's projected solvency coverage. Should this transaction not proceed, MLIDAC's projected solvency coverage would be higher. Hence, were this transfer not proceed, I would comment upon this in the Supplementary Report, but do not believe it would materially impact my assessment of the Scheme.

- In relation to Brexit, MLIDAC have applied for inclusion into the Temporary Permissions Regime ("TPR"). The TPR was written into British legislation offering an alternative approach whereby EU regulated insurers carrying on business in the UK could opt into a simplified process allowing the opportunity to carry on business in the UK for 3 years post Brexit before committing to submitting an application for authorisation of a third company branch in the UK to the UK regulatory authorities to maintain business in the UK post Brexit. However, it is noted that should a binding agreement be finalised between the European Union and UK Government, prior to 31 December 2020, that enables MLIDAC to continue to operate on a passporting basis, the TPR will not become effective or be required. In terms of other practicalities, I note that the Scheme will only proceed if (a) it is sanctioned and effective prior to a hard Brexit, or, (b) an appropriate Brexit agreement is in place by 31 December 2020 allowing it to proceed, or, (c) if Brexit is delayed for a sufficiently long period to allow it to proceed through the Irish High Court . In terms of approvals and the nature of the Brexit agreement, I note that a full application might be required to the PRA for the TPR and the timing and practicalities associated with that application and approval also need consideration. Regardless of the exact mechanism employed, my assumption is that MLIDAC will obtain the necessary permissions to continue to operate and service the UK market post-Brexit.

- At present, the transferring IPB policyholders are part of the UK Financial Services Compensation Scheme ("FSCS") and that they, and existing MLIDAC policyholders that are covered under the FSCS, will remain part of the FSCS post-transfer. I understand from legal advice that post-Brexit, MLIDAC will, in due course, need to be authorised as a Third Country Branch (as noted above) in order that the policyholders continue to be covered by the FSCS. MLIDAC's strategic intention is to continue to operate in the UK and the necessary permissions will be obtained, so policyholders that are currently protected under the FSCS will be unaffected. This is a key assumption, so if this is not the case, my assessment will need to be revisited.

The above assumptions are key assumptions – whilst they reflect MLIDAC's strategic intention, they also reflect upon MLIDAC's ability to continue to service UK based policyholders and the protections available for the transferring policyholders (under the FSCS).

If MLIDAC cannot continue to service the UK market post-Brexit then MLIDAC will not be able to service the IPB policies, nor, indeed, their other existing UK policies.

At present, the ZLAP IPB policyholders have protection under the FSCS. In the event of a hard-Brexit, legal advice shared by ZLAP indicates that the existing FSCS protection would no longer apply to ZLAP policyholders.

However, MLIDAC's proposed approach (making use of the TPR), combined with the Scheme, would mean that the FSCS would continue to apply for IPB policyholders once they become policyholders of MLIDAC. Hence, the protection provided under the FSCS would be maintained post-transfer, regardless of the outcome of the ongoing Brexit negotiations.

In aggregate, the above indicates that policyholders are unaffected by the Scheme as FSCS protection is either maintained during the transfer or reinstated for IPB policyholders once they become MLIDAC policyholders.

- The IPB policy administration services provided at present by Capita will be maintained for 12 months post transfer and will then be migrated to another provider, with this migration being managed so as to avoid any disruption to, or decrease in service standards for, the IPB policyholders.
- The administration costs for MLIDAC, after switching service provider, will be significantly below those currently incurred by ZLAP through Capita.

These assumption address maintenance of service standards to policyholders and MLIDAC's cost base.

With regard to the migration of services, if the timelines quoted are revised by MLIDAC, then this would not fundamentally alter my view of the Scheme and would likely be addressed in the Supplementary Report. However, if planned activities were likely to lead to adverse impacts upon service standards, then this would fundamentally alter my view of the Scheme and would need detailed consideration.

At present, in MLIDAC's assessment of its post-transfer capital position, allowance has been made for costs to be lower than those currently incurred by ZLAP. Should this saving not be possible through the use of an alternative provider, then it would lead to an increase in MLIDAC's technical provisions and possibly increased capital requirements. Updated analysis has been prepared to validate the likely assumption and this analysis has been shared with me. This may therefore alter MLIDAC's capital position post transfer which would require re-consideration of my assessment of the Scheme. I expect to be able to formally address this in my Supplementary Report.

- Where the current funds offered by ZLAP to IPB policyholders will be unavailable to IPB policyholders after the Scheme, funds will be transferred to replacement funds that have been agreed in principle between ZLAP and MLIDAC, which provide the same or similar investment mandates, performance and costs in line with policyholder reasonable expectations and policy terms and conditions.

Broad agreement has been reached between ZLAP and MLIDAC on the replacement funds and no issues have arisen that impact upon my assessment of the Scheme. This assumption reflects the transactions that are expected to take place. If the agreed replacements are no longer available, then there is a risk that policyholders may be adversely impacted by the Scheme. However, I note that this *risk is remote, given the broad range of alternative funds that are available. I would likely address this in the Supplementary Report, if so required.*

7.6 Conclusion on the impact of the Scheme on the security of policies

7.6.1 Conclusion on the impact of the Scheme on the security of the transferring ZLAP IPB policyholders

In this section I have considered the aspects of the Scheme that I consider to have the potential to affect the security of the transferring ZLAP IPB policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans.

Based on my consideration of these key elements, in my opinion the risk of the ZLAP IPB policyholders' benefits being adversely affected in terms of financial security is remote. Therefore, in my view, the ZLAP IPB policyholders will not be materially adversely affected by the proposed Scheme.

7.6.2 Conclusion on the impact of the Scheme on the security of MLIDAC policyholders

In this section I have considered the aspects of the Scheme that I consider to have the potential to affect the security of MLIDAC policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans.

Based on my consideration of these key elements, in my opinion the risk of MLIDAC policyholders' benefits being adversely affected in terms of financial security is remote. Therefore, in my view, MLIDAC policyholders will not be materially adversely affected by the proposed Scheme.

7.6.3 Conclusion on the impact of the Scheme on the security of remaining ZLAP policyholders

In this section I have considered the aspects of the Scheme that I consider to have the potential to affect the security of the remaining ZLAP policyholders. The key areas are:

- Regulatory regime requirements
- Capital resources available
- Risk profile
- Capital profile
- Risk and capital mitigation plans.

Based on my consideration of these key elements, in my opinion the risk of the remaining ZLAP policyholders' benefits being adversely affected in terms of financial security is remote. Therefore, in my view, the remaining ZLAP policyholders will not be materially adversely affected by the proposed Scheme.

8 Assessment of the Scheme on the fair treatment of policyholders

8.1 Introduction

The fair treatment of policyholders through the interpretation and application of PRE is an important part of the current regulatory regime for ZLAP and MLIDAC. The concept relates to how insurance companies deal with their policyholders across a wide range of areas and the following paragraphs cover the areas which, in my opinion, need to be specifically addressed in relation to the Scheme.

The HoAFs of ZLAP and MLIDAC have a responsibility to consider PRE and advise their Boards on the matter, particularly as it pertains to the calculation of technical provisions.

I have discussed with ZLAP and MLIDAC the key elements of PRE and what will happen post-transfer. In particular, I have discussed with the HoAF of MLIDAC the company's views of PRE and what existing PRE practices in respect of the ZLAP IPB policies will remain unchanged post the transfer.

In particular, I have considered the following:

- Security of benefits: Policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. I have considered financial strength and ongoing compliance with the Solvency II regulatory requirements in Section 7 above.
- Fund range: Policyholders have a reasonable expectation that the available fund range will be maintained.
- Entitlement to benefits: Policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions, and that maturity, surrender and withdrawal claims will be paid when requested.
- Terms and Conditions: Policyholders have a reasonable expectation that contracts remain unchanged.
- Service standards: Policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly.
- Charges: Policyholders have a reasonable expectation that charges levied remain in line with policy terms and conditions and that approaches do not change.
- Discretion: Policyholders have a reasonable expectation that the application of discretion will remain unchanged.
- Policyholder notifications: Policyholders impacted by the Scheme would have an expectation that they would be communicated with (including technical information on the Scheme along with a summary of the Independent Actuary Report) and if they had issues, to have the option to raise them.

My overarching assessment is to focus on changes to any of the broad requirements brought about by the Scheme.

8.2 Specific considerations

8.2.1 Security of benefits

This is considered in Section 7.

8.2.2 Fund Range

As noted above, a number of the investment funds which IPB policyholders currently have available to them are ZLAP proprietary funds and are not available to non-ZLAP policyholders. The implication of this is that there are some investment funds that IPB policyholders will no longer have access to as a result of the Scheme.

I have had sight of the preliminary discussions that have taken place between ZLAP and MLIDAC on this issue. As part of these discussions, I was provided with the details of the impacted policyholders as at 31 December 2018 and note that there were only four impacted policyholders, with funds of just under €1m in total at that time. These policies therefore accounted for less than 0.25% of the IPB policyholders overall. However, in total there were 11 funds offered by ZLAP which will no longer be available to IPB policyholders.

In consideration of the transfer, I note that MLIDAC has engaged with ZLAP directly on this, comparing the features of the 11 ZLAP funds to the features of the funds currently offered within the MLIDAC fund universe and within the suite of other, non-internal funds offered by ZLAP. The intention is that the impacted policyholders will be switched to investment funds with the same or similar investment mandates, performance and fee levels, so as to ensure no policyholders are adversely impacted.

At the time of writing, I note that this is a work in progress, but broad agreement on approach has been reached and MLIDAC has identified suitable alternatives for most of the funds.

There are a very small number of the ZLAP internal funds where there are no directly comparable funds available, either in the suite of other transferring funds, or in MLIDAC's existing fund universe. These funds accounted for less than 0.1% of the total IPB funds as at year-end 2018. The agreement in principle struck between ZLAP and MLIDAC is that the funds will be closed, with policyholders offered the option of switching to another available fund. Policyholders will also be compensated for the closure of the funds.

Given that the negotiations between MLIDAC and ZLAP are at an early stage, the practicalities of facilitating the switches have not yet been agreed (i.e. it is not clear as to whether the policyholders will be switched out of the ZLAP funds in advance of, or at, the Effective Date).

In addition to the above, I also note that ZLAP offers the IPB policyholders over 500 investment funds to choose from and facilitates investments with Discretionary Asset Managers and the Citibank platform. I note that it is MLIDAC's intention to maintain this breadth of offering but note that this is contingent upon MLIDAC agreeing terms with Citibank and each of the fund managers in question. In the event of a fund manager declining to offer services to MLIDAC policyholders, then MLIDAC will endeavour to offer a policyholder a switch to an equivalent fund.

I note that a small number of policyholders have exposure to Property Funds on the SIML platform and these Property funds have stopped pricing and there are no redemptions. Different options are being assessed if these Property funds remain closed to redemptions by the time of the portfolio transfer. These options have not been finalised. For now, I am assuming a solution will be found to facilitate the transfer of these Property funds and that policyholders will not be disadvantaged.

Overall, I expect to address the above points in my Supplementary Report ahead of the final hearing, as I expect to be provided with the final implementation plans/contracts as required. However, I am comfortable that processes have been established and I note that the HoAF's of both ZLAP and MLIDAC will need to approve any such plan given their requirements to consider PRE.

8.2.3 Entitlement to Benefits

Existing practices in respect of surrender, maturity, transfer or death will remain in place post-transfer. Claims which are settled as part of the normal course of business will be dealt with in the same way post-transfer.

8.2.4 Policy Terms & Conditions

I note that the policy terms and conditions are not anticipated to change as part of the Scheme.

8.2.5 Service standards

It is MLIDAC's intention to maintain the existing relationship with Capita for at least 12 months after the Effective Date by way of novation of Capita's existing contract with ZLAP. Hence, service standards will remain unchanged as a consequence of the Scheme for all policyholders for at least 12 months after the Effective Date.

However, as noted in section 5.12 above, MLIDAC has set out a broad intention to migrate the administration services to Equiniti at some stage in the future. I note that MLIDAC have prior experience of managing a number of such transitions as part of its business as usual work; in particular, the UK liabilities acquired under Project CARP were successfully migrated from Capita to Equiniti by MLIDAC after that transfer completed.

Such a migration, were it to proceed, could have some impact upon service standards, although this is not anticipated by MLIDAC. Given that no firm arrangements are in place in this regard and MLIDAC's experience in managing such migrations, no specific issues have been identified that I must comment upon. Should further plans be developed prior to the Effective Date, I will review them and, if so required, comment upon them in a Supplementary Report.

8.2.6 Expenses and charges

My understanding is there there is no intention on MLIDAC's part to amend the charges applied post completion of the Scheme.

I note that ZLAP currently receive rebates from investment managers in respect of IPB business and the majority of these are credited to policyholder accounts. Work is underway within ZLAP to formalise the link between rebates allocated to policyholders and those collected from fund managers. ZLAP's intention is to establish contracts with the fund managers regarding the amount of rebates. These contracts would then novate to MLIDAC upon execution of the Scheme. At this stage, ZLAP has not identified any reason why these rebate rates would not transfer to MLIDAC post the Scheme. I further note that there are some trivial rebate payments made by a very small number of fund managers. ZLAP may not be able to formalise these rebate arrangements. If this is the case, I note that prior to the portfolio transfer, a solution will be implemented which is fair to the very small number of impacted policyholders.

If this assumption is not correct, the impact on the policyholders would need to be revisited, however, at this stage, I have not identified a specific need to cover off this eventuality.

8.2.7 Costs of the Scheme

All costs associated with the Proposed Transfer will be borne by the shareholders of ZLAP and MLIDAC. No costs will be borne by policyholders. Therefore, in my opinion the implementation of the Scheme will not have an adverse effect on the fair treatment of policyholders in this regard. I have no specific issues to note.

8.2.8 Discretion

Policyholders expect that the application of discretion will be unchanged as a result of the scheme. With regard to the management of the IPB policies, the levels of discretion available to management are limited, relating to the charges levied, the funds offered and the approach to unit-pricing. Insofar as possible, MLIDAC will endeavour to maintain the existing structures, so there are no issues emerging that I am aware of that can adversely impact upon policyholders.

8.2.9 Complaints and redress

I note that the complaints handling procedures adopted by both entities at present are well aligned and that policyholders will continue to be able to escalate claims to the FSPO after the Scheme. As a result, there will be no consequence of the Scheme for policyholders. I have no issues to note.

8.2.10 Policyholder communications

In terms of policyholder communications, Section 13 of the 1909 Act requires that, unless the Court otherwise directs (and I understand ZLAP and MLIDAC will seek the High Court's dispensation from this requirement), certain materials must be transmitted to each policyholder of each Company. I note that:

- The transferring ZLAP IPB policyholders, and their financial advisors, will each be sent a circular (comprising of a letter from ZLAP's CEO, a summary of the terms of the Scheme, a summary version of this Report, a copy of the published legal notice and a frequently asked questions document in relation to the transfer)..
- Given the immateriality of the transaction for ZLAP's broader business, it is not ZLAP's intention to communicate with the ZLAP policyholders who will remain in the company post the Scheme.
- There is no intention to communicate with the policyholders of MLIDAC, however information will be available on the MLIDAC website. The reasons set out by MLIDAC management are that the Scheme does not materially impact on MLIDAC policyholders and their overall financial position pre- and post- the Scheme remains strong and well in excess of internal and external regulatory capital limits. I have assessed the financial impact on the existing MLIDAC policyholders and note the impacts, as described in section 2.1.5 above. I also recognise that given other transactions, a large number of existing policyholders will have been communicated with for their own portfolio transfers so I do recognise the risk of confusion and indeed cost of these exercises.
- In addition to this Report, I have prepared a Summary Report which covers all the material points and issues raised in this full Report.
- The communication to IPB policyholders will include my conclusion as Independent Actuary and the Summary Report. It will also highlight very clearly the availability of my full Report on request and its availability on the ZLAP website. The CBI has been advised of this approach and has not raised any objection.
- A notice will be published in the Irish official Gazette, Iris Oifigiúil, and two daily national newspapers in Ireland.
- The majority of the IPB policyholders are based in the UK, with a small number in other EEA Member States. ZLAP will publish the Transfer in the UK and in each other relevant EEA Member State in accordance with the law of each such Member State. ZLAP is currently engaged with its legal advisors to ascertain what the law requires in each such Member State.
- There are a small number of IPB policyholders located outside the EEA. Whilst not a legal requirement, ZLAP intends to publicise the Scheme in the international edition of the Financial Times to accommodate such policyholders.

Overall, I am comfortable with this communication approach and am comfortable that the remaining ZLAP and existing MLIDAC policyholders will not be disadvantaged in any way by not being issued with a copy of either this Report or my Summary Report.

8.3 Conclusion on the impact of the Scheme on the fair treatment of policyholders

8.3.1 Conclusion on the impact of the Scheme on the fair treatment of the transferring ZLAP IPB policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme will not have a material adverse effect on the fair treatment of transferring ZLAP IPB policyholders.

8.3.2 Conclusion on the impact of the Scheme on the fair treatment of existing MLIDAC policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme will not have a material adverse effect on the fair treatment of existing MLIDAC policyholders.

8.3.3 Conclusion on the impact of the Scheme on the fair treatment of remaining ZLAP policyholders

Given the considerations set out above, in my opinion the implementation of the Scheme will not have a material adverse effect on the fair treatment of remaining ZLAP policyholders.

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Appendix 1 Information received

The table below sets out a summary of the information provided to me to facilitate preparation of this Report. I would note that, in addition to the list below:

- I had regular calls with management to discuss queries and issues arising, and
- That supporting emails and documents were also provided to supplement the key reports outlined below.

ZLAP Information	
Subject	**Document**
Constitution	Final Form Amended and Restated Agency Services Agreement 06.11.14.docx
	4.14 Zurich Sub Processors v4.0 (2).xlsx
	ZLAP Constitution - April 2019 CRO Website.pdf
SFCR	SFCR 2016.pdf
	SFCR 2017.pdf
	SFCR 2018.pdf
Risk Management	5.18. 1 ZLAP Consolidated Risk Appetite Framework.pdf
	5.18.2 ZLAP Risk Management Policy.pdf
	5.18.3 ZLAP Risk Universe.pdf
	5.18.4 ZLAP Enterprise Risk Management Framework.pdf
IPB Product	5.19 Zurich International Portfolio Bond - Overview of Product.ppt
	5.19.1 Zurich Life - IPB Activities and Tasks V3.0.pptx
	32.1 IPB - Deed of Full Assignment form - not in trust.pdf
	32.2 IPB - Deed of Full Assignment- In Trust form.pdf
	32.3 IPB - Deed of Partial Assignments - In Trust form.pdf
	32.4 IPB - Deed of Partial Assignments form - not in trust.pdf
	32.5 IPB - Deposit accounts and structured deposits.pdf
	32.6 IPB Fund charges summary.pdf
	32.7 Certification of tax status - Self Certification form for an Entity.pdf
	32.8 Certification of tax status - Self certification form for an Individual.pdf
	32.9 IPB - Deposit accounts and structured deposits.pdf
	32.10 Zurich International Portfolio Bond - Bare Gift Trust adviser guide.pdf
	32.11 Zurich International Portfolio Bond - Bare Gift Trust Deed.pdf
	32.12 Zurich International Portfolio Bond - Being a trustee - Your guide.pdf
	32.13 Zurich International Portfolio Bond - Cash-in request form.pdf
	32.14 Zurich International Portfolio Bond - Confirming and protecting your identity.pdf
	32.15 Zurich International Portfolio Bond - Discretionary asset manager nomination.pdf
	32.16 Zurich International Portfolio Bond - Discretionary Discounted Gift Trust customer guide.pdf
	32.17 Zurich International Portfolio Bond - Discretionary Gift Trust (Settlor excluded) adviser guide.pdf
	32.18 Zurich International Portfolio Bond - Discretionary Gift Trust (Settlor excluded) customer guide.pdf
	32.19 Zurich International Portfolio Bond - Discretionary Gift Trust Deed (Settlor excluded).pdf
	32.20 Zurich International Portfolio Bond - Discretionary Gift Trust deed (Settlor included).pdf

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	32.21 Zurich International Portfolio Bond - Discretionary Loan Trust adviser guide.pdf
	32.22 Zurich International Portfolio Bond - Discretionary Loan Trust customer guide.pdf
	32.23 Zurich International Portfolio Bond - Discretionary Loan Trust Deed and Loan Trust Agreement.pdf
	32.24 Zurich International Portfolio Bond - Excluded Property Trust adviser guide.pdf
	32.25 Zurich International Portfolio Bond - Excluded Property Trust customer guide.pdf
	32.26 Zurich International Portfolio Bond - Fund charges summary.pdf
	32.27 Zurich International Portfolio Bond - Information leaflet.pdf
	32.28 Zurich International Portfolio Bond - Nomination for a Zurich Portfolio.pdf
	32.29 Zurich International Portfolio Bond - Probate Trust Adviser guide.pdf
	32.30 Zurich International Portfolio Bond - Probate Trust customer guide.pdf
	32.31 Zurich International Portfolio Bond - Terms and Conditions.pdf
	32.32 Zurich International Portfolio Bond - Terms of Business.pdf
	32.33 Zurich International Portfolio Bond - Trading Instruction Form.pdf
	32.34 Zurich International Portfolio Bond - Your investment choice.pdf
	32.35 Zurich International Portfolio Bond - Your transaction accounts.pdf
	32.36 Zurich International Portfolio Bond Adviser Authority.pdf
	32.37 Zurich International Portfolio Bond Key Features.pdf
	Sch 3 Zurich IPB_Your Transaction Accounts.pdf
ORSA	ORSA 2016.pdf
	ORSA 2017.pdf
	ORSA 2018.pdf
HoAF Reports	Actuarial Opinion on Technical Provisions 31.12.2016.docx
	ZLAP Actuarial Function Report (2016 12) v1.0 (Post BM).docx
	Actuarial Opinion on Technical Provisions 31.12.2017 v1.docx
	ZLAP Actuarial Function Report (2017 12) v1 (Post BM).docx
	Actuarial Opinion on Technical Provisions 31.12.2018 v1.docx
	ZLAP Actuarial Function Report (2018) v1.0 (Post BM).docx
	ORSA Opinion 2016 v1.0.docx
	ORSA Opinion 2017 v1.0.docx
	ORSA Opinion 2018 v1.0.docx
	ZLAP Opinion on Underwriting Policy v1.0.docx
	ZLAP Opinion on Reinsurance Arrangements 2017 v1.0 (Post BM).docx
	ZLAP Opinion on Underwriting Policy v2.0 (Post BM).docx
	ZLAP Opinion on Reinsurance Arrangements 2018 v1.0.docx
	ZLAP Opinion on Underwriting Policy v3.0 (Post BM).docx
RSR	Regular Supervisory Report 31.12.2017 v1.0.docx
	Summary Regular Supervisory Report 2018 (Post BM).docx
Financial Statements	45.1 SII and Irish GAAP Balance Sheets (2018 12) values.xlsx
	Financial Statements 2017 final signed copy.pdf
	ZLAP Signed Financial Statements 2016 from PWC 030517.pdf
	ZLAP signed FS 2018.pdf

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	6.24 IFRS & SII Management Accounts (2019 03).xlsx
Governance	Sch 1a_ALMIC Terms of Reference 12th June 2019.pdf
	Sch 2a_IPB PAL June 2019.xlsx
	Sch 2b_32.9 IPB - Deposit accounts and structured deposits.pdf
	Sch 2c_ZLA plc Investment Guidelines_Preface_ZLAP.pdf
	Sch 2d ZRP 3.3 Managing Asset Liability Risk.pdf
	Sch 2e_ZRP_MR3b_Asset Liability Policy Manual_20170630.pdf
	6.29 ZLAP 2019-2021 Business Plan - December Board Paper (Post BM).docx
	6.31 June 2019 Board Puma update.pptx
	11 (5) IPB Board update 2017.docx
	6.30 Impacts pre post transfer as at 31 Dec 2018 on own funds, capital coverage.xlsx
Complaints	11 (1) Zurich Complaints 2019 Q1.ppt
	11 (2) IPB Complaints & Ex Gratia Payments 2015.xls
	11 (2) IPB Complaints & Ex Gratia Payments 2016.xls
	11 (2) IPB Complaints & Ex Gratia Payments 2017.xls
	11 (2) IPB Complaints & Ex Gratia Payments 2018.xls
	11 (4) scanned-sdolan-20180725104959.pdf
	11 (4) Zurich - Credit Note 400000727 9th Oct18.pdf
	11 (5) IPB Board update 2017.docx
2020 Update - Information Received	ZLAP Financial Statements 2019 Draft 9 Final.doc
	5. Undiscounted Best Estimate CF (2019 12)_values.xlsx
	7.1 ORSA Report 2019.docx
	Q1 Results and commentary.pptx
	C744_20191231_ARTP_Report_1.pdf
	C744_20191231_SolvencyIIAnnualRSR_Return_1.pdf
	C744_20191231_SolvencyIIAnnualSFCR_Return_1.pdf

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MLIDAC Information	
Subject	**Document**
Outsourcing info	Monument SLA_201905.xlsx
	Monument Premiums Delegated Authority.docx
	RE_ Summary Document Inventory.msg
	BID Letter Matrix 2014 v1.0.xls
Products	Barclays_Income_Insurance_VW09049_20091029_Final.pdf
	BarclaysLoan_RP_PD_VW09044 policy doc 200900128_v11 FINAL.pdf
	Bcard_PC_VW04732_20060119_v5.pdf
	Mcare2_PC_VW07229_20110311_FINAL.pdf
	OD_PC_VW03475_20041105_v1.pdf
	SPARTA LETTER CLEAN VERSION Company Name Change Mailing Loans and Select Customers BB06012017 v9_AH_JP_EC.doc
Schedules	Schedule 01 - Services Description.docx
	Schedule 02 - Service Levels.docx
	Schedule 03 - Charges and Invoicing.docx
	Schedule 04 - Anti Bribery and Corruption (ABC).docx
	Schedule 05 - Governance.docx
	Schedule 06 - Contract Change Control Procedure.docx
	Schedule 07 - Bank Dedicated Space.docx
	Schedule 08 - Employment Matters.docx
	Schedule 09 - Approved Service Delivery Locations.docx
	Schedule 10 - Approved Subcontractors.docx
	Schedule 11 - Termination Assistance and Exit Plan.docx
	Schedule 12 - Minimum Control Reqs.docx
Reinsurance:	IA_12_Monument Re - MLIDAC Reinsurance Agreement - Executed Version (Freyr).pdf
	Swiss Re Index.pdf
	Swiss Re Treaty - Section (A-F).pdf
	Scor Reinsurance Treaty Index.pdf
	Scor Reinsurance Treaty - Section (A-C).pdf
HoAF reports	Q119 MI Pack_Mgt Accounts_Ireland_V2.xlsx
	MLIDAC Life Reporting Basis YE 2017.pdf
	BID - Actuarial Function Report - year-ended 31 October 2016_final_sent020317_V2_clean.pdf
	IA_22_BID - Actuarial Function Report - year-ended 31 October 2016_final_sent020317_V2_clean.pdf
	IA_22_MLIDAC Life Actuarial Function Report 2017 (31Dec2016 valuation).pdf
	3.2 - MLIDAC Life Actuarial Function Report 2017 (31Dec2016 valuation).pdf
	IA_22_MLIDAC Life Actuarial Report on Technical Provisions 31 Dec 2017.docx
	Item 6.4 MLIDAC Life Actuarial Function Report YE2018.docx
	Item 6.4 MID_MAD Actuarial Function Report YE2018.docx
	8.2 AFH_Report_2018_Final (Inora)
Financial Statements	BADDAC signed financial statements 2016.pdf
	BIDDAC signed financial statements 2016.pdf
	MLIDAC Life DAC Financial Statements 31 December 2016 - SIGNED.pdf

	MLIDAC Life 2017 Financial Statements - Signed.pdf MADAC signed financial statements 2017.pdf MIDAC signed financial statements 2017.pdf Signed FS - MIDAC.pdf Signed FS - LLDAC.pdf Signed FS - MADAC.pdf
SFCR	MLIDAC SFCR 2016.docx MLIDAC SFCR 2017.pdf MLIDAC SFCR 2018.pdf MID & MAD SFCR 2016.pdf MID & MAD SFCR 2017.pdf MID & MAD SFCR 2018.docx Item 1.0 Monument Ireland - Brexit Proposal V1.0.pdf
RSR	MLIDAC RSR 2016.docx MLIDAC RSR 2017.pdf MLIDAC RSR 2018.pdf MID & MAD RSR 2016.pdf MID & MAD RSR 2017.pdf MID & MAD RSR 2018.pdf
Complaints	RE_ Complaint Docs & FOS Process Overview.msg Monument FOS Referrals Monthly_201810.xlsx C33627_20181231_SolvencyIIAnnualRSR_Return_1_Inora.pdf (Inora RSR)
ORSA	4. ORSA Report Draft v1.docx (MLIDAC, MIDAC and MADAC) ORSA_June2018_27.09.18_Final (Inora)
Constitution	MLIDAC Life DAC Constitution.DOCX Constitution - Monument Insurance DAC BIDL.DOCX Constitution - Monument Assurance DAC BADL.DOCX
Compensation	FW Trinity internal workshop - FSCS & FOS Details (MID MAD MLIDAC).msg Metlife Portfolio transfer IA_0_2018-10-31 - MetLife Europe - MLIDAC - Independent Actuary Report - DRAF....docx
Others	16. Unit-linked Investment Committee ToR.doc 18 June updated Risk Committee Pack.pdf 3.1 June Summary Risk and Controls v1. 10.6.2019GL.pdf Item 1.0 Monument Ireland - Brexit Proposal V1.0.ppt Monument Fund Admin Unit Pricing Daily Tasks Procedures.docx Checklist.pdf (Monument fund admin daily checklist) Minutes of IPSI Meeting 25.06.19.docx Minutes of Unit Linked Working Group 10.07.19.docx
2020 Update - Information Received	Inora Solvency-Financial-Condition-Report-SFCR-2019.pdf Monument Insurance Full Annual ORSA Report 2019 Final.pdf Puma_ProForma_31Dec2019_for discussion.xlsx 20200310 Unit Linked Management Committee Q4 Board update (submitted).pptx 20200310 Unit Linked Management Committee Q4 update pack.pptx

	Actuarial Fund Oversight Mar 2020_v1.pptm
	Unit Linked Management Committee - 10 March 2020 - minutes.docx
	Unit Pricing Policy_v1.docx
	Financial Statements MADAC - Signed.pdf
	Financial Statements MIDAC - Signed.pdf
	Financial Statements MLIDAC - Signed.pdf
	(MIDAC, MADAC) C33585_20191231_SolvencyIIAnnualSFCR_Return_1.pdf
	(MLIDAC) C33623_20191231_SolvencyIIAnnualSFCR_Return_1.pdf
	Midac Madac Summary ARTP YE2019 v1.0 FINAL.docx
	MLIDAC Summary ARTP YE2019 v1.0 FINAL.docx
	Monument Life Insurance SFCR 2019.pdf

Scheme / Joint Information	
Subject	**Document**
Background	5. Undiscounted Best Estimate CF_values.xlsx
	Summary of Transfer.docx
	ZLAP and Monument - high level step plan.docx
	45.2 SCR - UK IPB_values.xlsx
	45.3 Undiscounted Best Estimate CF_ run excl exp_values.xlsx
Communications	13 Puma Communications Strategy_CEO letter.docx
	13 Puma Communications Strategy_FAQ.docx
	13 Puma Communications Strategy_shared with Monument.docx
	13 Puma Communications Strategy_Summary of Transfer.docx
Tax	43 Puma Tax Note.docx
2020 Update - Information Received	Project Puma - CEO Letter (ALG Comments 11 March 2020).docx
	Project Puma - Cover Letter for Circular (ALG Draft 11 March 2020).docx
	Project Puma - Draft BSA - ALG_Zurich Mark-up - 22 April 2020.docx
	Project Puma - FAQs Document (ALG Comments 10 October 2019) (compared wi....pdf
	Project Puma - FAQs Document (ALG Draft 11 March 2020).docx
	ZLAP and Monument - high level step plan (April 2020) v.1.docx

Appendix 2 Scope from Engagement Letter

The role of Independent Actuary will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the transferring policyholders of ZLAP, the policyholders remaining in ZLAP following the transfer and the existing policyholders of MLIDAC, and to opine as to whether the interests of any of those groups of policyholders could be in any way (either directly or indirectly) materially adversely affected by the proposed transfer.

In order to form my opinion, we will expect the tasks that will be carried out will include the following:

- review of the internal actuarial and risk assessments of the proposed transfer;
- review of existing company documentation (in particular, documentation sent to policyholders to ground existing expectations);
- review of the Scheme documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;
- review the proposed transfer considering the effect on policyholders covering their contractual rights, benefit security, and benefit expectations;
- in particular review the approach to PRE and the proposals post transfer;
- review the application of discretion including claims settlement, dispute resolution, application of charges etc.;
- review the status and proposed resolution around policyholder complaint/ data issues;
- review any changes to reassurance arrangements in connection with the transfer;
- review existing/ proposed fund arrangements/structures proposed;
- review pro forma comparative solvency levels on a Solvency II basis before and after the proposed transfers (other financial measures can be considered and agreed) at a point in time, business planning horizon and sensitivities;
- review of the effects of the transfer on the risks within the companies and the resources of those companies to meet those risks;
- liaise and raise issues and questions as necessary with the appropriate persons at ZLAP and MLIDAC; and
- liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.

Appendix 3 Independent Actuary CV

- Brian Morrissey is a qualified actuary with over 25 years' experience.
- He currently heads up KPMG's actuarial practice in Ireland focusing on life and non-life insurance and reinsurance markets, both domestically and internationally.
- He has previously worked with KPMG in the UK and a regional role for KPMG out of Hong Kong (18 months 2001/02). During his time overseas, he gained significant exposure to the international insurance markets and the range of products sold in these markets.
- He has carried out some significant assignments in the Irish market including acting as Finance Director to an international life company for a period of 5 months, as Head of Actuarial to a life entity with local/ international operations as part of a transition to a new owner for a 4 month period.
- He has acted as Independent/Expert Actuary on a number of expert opinions required by life insurance and reinsurance companies including significant portfolio transfers in the Irish and Isle of Man markets. He has acted as actuarial peer reviewer on a range of technical matters.
- He holds a number of statutory roles including Appointed Actuary to a life insurance company; Actuarial Function Holder under Solvency II to six life insurance/ reinsurance companies regulated in Ireland and Independent Actuary to six Bermudan regulated life reinsurance companies.
- He is involved with KPMG International's initiatives in relation to IFRS 17 and Solvency II.
- He has previously sat on Council of Society of Actuaries in Ireland and is a member of various sub committees of the Society and is the Society's representative on the Insurance Accounting subcommittee of the International Actuarial Association.

Appendix 4 PRE

Overview of PRE regime in Ireland

- The interpretation of PRE was originally considered to be an issue for companies writing “with-profits” investment policies of the type traditionally offered in the UK and Ireland. These contracts give the life insurance company significant discretion in relation to their operation particularly as regards to the amounts distributed to policyholders by way of bonuses and the timing of such distributions. The concept has, however, been extended to encompass the operation of unit linked business and to a lesser extent non-profit non linked business.
- Although the phrase “PRE” came into use in the 1970’s it does not appear in the Irish insurance legislation. PRE in Ireland has evolved over time and has been affected by, and in some instances overtaken by, legal, regulatory, consumer and industry developments such as the Consumer Protection Code, the Unfair Contract Terms legislation and the Personal Retirement Savings Account (“PRSA”) regulations of the Pensions Board (which is distinct from the CBI). It was mentioned in guidance notes produced in 2000 by the Department of Enterprise, Trade and Employment (a predecessor of the CBI) in relation to the European Communities (Life Assurance) Framework Regulations 1994. Under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. While there are no prescribed regulations, the CBI does consider PRE as part of its individual company engagements.
- The SAI adopted the Institute of Actuaries guidance notes until 1995 and these referred in places to PRE. In 1995 the SAI issued professional standards that referred to PRE and were mandatory for Irish Appointed Actuaries under the Solvency I regime. These standards have been updated several times and in 2006 an additional standard was issued to provide more guidance specifically to PRE. In early 2020, the SAI cancelled this standard and is in the process of developing a new one, recognising the changed role of actuaries under Solvency II.
- As mentioned above under the new Solvency II regime there is a statutory requirement for the HoAF to consider PRE as set out in the CBI guidance note entitled ‘Domestic Actuarial Regime and Related Governance Requirements under Solvency II’. Ultimately the Board is responsible for running the company and meeting PRE.
- Where not overtaken by legal aspects, PRE in Ireland remains a largely judgemental area because the actuarial standards are principle based. In applying these principles Irish HoAFs would usually take good practice into account such as that applied in the UK (such as the ABI’s “A guide of good practice for unit linked funds”, actuarial papers and regulatory requirements).
- It is worth noting that the standard previously set out by the SAI, ASP LA-4, applied only to Irish HoAFs and therefore would not have applied to business sold into Ireland on a freedom of establishment basis.

Appendix 5 Solvency II

The European Solvency II Directive is a fundamental review of the capital adequacy and solvency supervision regime for the European insurance industry. As Solvency II is an EU initiative it applies in Ireland (and across Europe) in a harmonised way. Solvency II was implemented on 1 January 2016.

Under Solvency II, the statutory role of the Appointed Actuary ("AA") was abolished, with the Directive establishing the role of the Actuarial Function. The Central Bank of Ireland, under the Domestic Actuarial Regime, then enhanced the requirements under Solvency II by establishing the role of Head of Actuarial Function. The role and responsibilities of the Head of Actuarial Function ("HoAF") under Solvency II are slightly different and somewhat narrower than those of the AA under Solvency I. For the purposes of this report, the respective HoAFs of MIDAC, MADAC and MLIDAC have prepared the Solvency II figures. The change in actuarial governance does not impact on my assessment of the Scheme.

The Solvency II framework is made up of three Pillars.

Pillar 1 focuses on the quantitative aspects of the regime and sets out the the financial resources that a company needs to hold in order to be considered solvent. In particular, it contains guidance on the valuation of assets and liabilities and sets out how the capital requirements of the regime are determined.

The liabilities determined under Solvency II are referred to as Technical Provisions and in general consist of two components, a best estimate liability and a risk margin. The best estimate liability is a probability-weighted average of future cashflows, discounted using a prescribed risk-free term structure of interest rates. The risk margin is an additional layer on top of the best estimate, determined using a cost of capital approach, and is intended to reflect the margin that would be required by a third party to take over the obligations of the insurer.

Eligible capital under Solvency II is referred to as Own Funds and is broadly split into two types, Basic Own Funds and Ancilliary Own Funds. Basic Own Funds comprise of the surplus of assets over liabilities and any subordinated liabilities, whilst Ancilliary Own Funds comprise of other loss-absorbing items, including unpaid share capital and letters of credit. Own funds are also separated into three tiers based on overall quality, with tier 1 being the highest quality and tier three the lowest. There are no limits applied to the tier 1 own funds, but the regime does specify quantitative limits with regard to how much of the capital used to cover the regulatory requirements can comprise of tier 2 and tier 3 own funds.

The capital requirements under Solvency II comprise of the Minimum Capital Requirement, or MCR, and the Solvency Capital Requirement, or SCR.

The SCR represents the capital required to meet quantifiable risks on the existing portfolio and is assessed by applying a series of instantaneous shocks to the balance sheet. The SCR is calibrated to a 99.5% value-at-risk and can be assessed using a standard formula published by the regulatory authorities, or through an internal model approach (with regulatory approval required to use this approach). The risks considered in the standard formula approach include market risks (such as interest rates, interest rate spreads, asset valuations and currency risks), life underwriting risks (such as lapse, expense, mortality and longevity risks), non-life underwriting risks (such as catastrophe risk and premium risk), credit risk and operational risk. Regulatory engagement is required if the level of available capital falls below the SCR.

The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk, the technical provisions, written premiums and administrative expenses. For life insurance companies, the MCR has an absolute floor of €3.2m.

Pillar 2 focuses qualitatively on the governance and risk management systems in place and the supervision of these systems and controls. In particular, this includes a review of the SCR and the firm's Own Risk and Solvency Assessment ("ORSA"). The ORSA is an assessment of the firm's capital needs taking into account the specific risk profile and strategy of the firm. It analyses areas in which the SCR does not fully reflect this risk profile.

Pillar 3 involves disclosure of a firm’s financial condition in order to improve transparency to outsiders and considers how information is disclosed to both regulators and the general public.

Appendix 6 Background to non-life business in MLIDAC i.e. Monument Insurance DAC

As noted, I am acting in the role of Independent Actuary in the portfolio transfers of Monument Insurance DAC and Monument Assurance DAC into MLIDAC. I prepared my report on that proposed transfer dated 13 December 2019.

I have noted in Section 2.1.4 that this portfolio transfer is assumed to take place prior to the Scheme, i.e. prior to the portfolio transfer of IPB business from ZLAP to MLIDAC. In addition, in Section 3.2, I included some brief commentary on the MIDAC business.

Given that the business in MIDAC is non-life in nature, hence different to the existing MLIDAC risk profile and indeed ZLAP's risk profile, I have included below some extracts (so not all of the commentary) from my Independent Actuary report dated 13 December 2019 which deals with the MIDAC and MADAC transfers into MLIDAC.

This information has not been updated to reflect results from 31 December 2019 and I have focused on the information relevant to the non-life business. The reason for this is that the information is supplementary and intended to support a deeper understanding of the non-life risks. These extracts are set out below. I must emphasise that the tables and section references relate to my other report and that I have not adjusted them in the below.

3.2 Structure and background

MIDAC, is a designated activity company under company number 265959 which was incorporated in Ireland on 07 May 1997 and under the company name Barclays Insurance (Dublin) Limited. It was sold to Monument Re and rebranded as MIDAC in March 2017. It is authorised by the CBI to write Class 1 (Accident), Class 2 (Sickness), Class 7 (Goods in transit), Class 8 (Fire and Natural Forces), Class 9 (Other Damage to Property) and Class 16 (Miscellaneous Financial Loss) non-life insurance business on a freedom of services basis. MIDAC is a wholly owned subsidiary of Monument Re.

I understand that, as part of the Scheme, MIDAC expects to transfer all of its insurance liabilities to MLIDAC which is within the Monument Re Group.

3.3 Nature of business written

MIDAC had 268,076 policyholders with PPI and Income Protection policies as at 31 December 2018. The company received £22.3m of premium income in 2018.

Table 3.1 MIDAC's Earned Premiums by Segment (£m's)

	31 December 2017	31 December 2018
Health SLT	15.1	10.4
Misc FL	17.3	11.9
Total	**32.4**	**22.3**

Source: MID & MAD SFCR 2018.doc

Table 3.2 MIDAC's sum assured and policy count in 2018 by Segment (£m's)

<table>
<tr><th></th><th>Policy count</th><th>Sum assured</th></tr>
<tr><td>Health SLT</td><td rowspan="2">268,076</td><td rowspan="2">1,574</td></tr>
<tr><td>Misc FL</td></tr>
<tr><td>Total</td><td>268,076</td><td>1,574</td></tr>
</table>

Source: MID & MAD SFCR 2018.doc

3.3.1 Products

At 31 December 2018 MIDAC has two Solvency II classified lines of business on its books as follows:

Miscellaneous Financial Loss:

- Involuntary Unemployment
- Carer Cover
- Purchase Protection

Health SLT:

- Accident and Sickness
- Critical Illness
- Permanent and Total Disability

MIDAC underwrites the non-life element of PPI policies and Income Protection Policies to Barclays Bank UK debt customers. It underwrites the non-life cover elements of PPI offered to the same partners as for MADAC, as well as some other standalone benefits. Business written includes short-term CI and short-term AS business. This business is classified as the "Life – Health insurance" Line of Business under Solvency II. MIDAC also writes IU business which is classified as "Non-life – Miscellaneous financial loss business".

All premiums are received from contracts underwritten from the Republic of Ireland, to cover risks located in the United Kingdom.

3.3.2 Assets

Table 3.3 summarises the profile of assets at 31 December 2018 including the value reflected of its investment in subsidiaries i.e. MADAC (which includes MADAC's investment in MLIDAC):

Table 3.3 Assets	MIDAC £m
Holdings in related undertakings, including participations	29.5
Government bonds	1.2
Corporate bonds	8.2
Collective Investment Undertakings	1.2
Total	**40.1**

The Company adheres to the prudent person principle in the implementation of its investment strategy. This is accomplished through an investment framework focused on governance, risk assessment and portfolio diversification. A key part of the implementation is the use of third party investment service providers who can provide expertise for their appointed mandates principally across government and corporate bonds. The most significant asset on the balance sheet is the investment in MADAC.

3.4 Risk profile and management

3.4.1 Overview of risks

MIDAC's main risk exposures from underwriting the non-life element of PPI policies and Income Protection Policies are set out below:

- Market risks such as interest rate risk, currency risk, spread risk, and exchange rate risk through its direct asset holdings and its investment in subsidiaries;
- Underwriting risks such as deterioration in claims experience, morbidity risk, lapse and expense risk – the claims profile for the MIDAC portfolio can be more volatile, as one of the key perils is IU which is connected to the rate of UK redundancies. Hence, the MIDAC balance sheet is exposed to UK recession type scenarios whereby claims can increase significantly.

See Section 3.8.1 for breakdown of the regulatory capital figures by risk category.

MIDAC is also exposed to a range of other risks as follows:

- Counterparty risks (exposures to banks, debt instruments, reinsurers and deposit accounts);
- Liquidity risk (the risk is where there are not enough liquid assets in MIDAC in order to make claims good when they are due which is especially the case after the dividends from the June 2019 Board decision are paid out and can arise in stressed scenarios);
- Operational risks mainly arising from management and staff e.g. key person risk, process execution (e.g. products, contracts, customer service, service providers, activity steering, communication etc.) delays to the run-off plan, IT dysfunction and compliance risk, fraud;
- Group risk which include includes reputational, contagion, accumulation, concentration and intra-Group transactions risk;
- Strategic risks which include Brexit and acquisition risks; and
- Regulatory / fiscal risk which can come from increases in taxation, revisions in asset admissibility, changing reserve requirements and changing disclosure requirements.

These risks are overseen and managed by the Board. The Board reviews all risk and compliance issues affecting MIDAC. The primary risk to the security of MIDAC's policyholder benefits is that one or more of the risks identified give rise to an event which renders MIDAC insolvent. Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of benefits could be considered remote.

3.4.2 Risk Appetite

The Risk Appetite Statement is reviewed at least annually by MIDAC's Board of Directors. It identifies the company's key risks and provides a framework for testing these risks and establishing risk tolerances. The Company has the following capital policy which was updated in 2019 which highlights different risk tolerance levels and associated actions required:

Description of measure	Risk Tolerance	Action Required
Greater than Surplus Level	> 150% of Max (SCR, MCR)	Pay a dividend subject to criteria being met.
Between Surplus and Target Level	150 - 140% of Max (SCR, MCR)	Monitor the Company's Solvency position
Between the Target Level and the Minimum Operating Level	140 - 130% of Max (SCR, MCR)	Agree and implement a plan to restore the Company's Solvency position to the Target Level within 12 months
Between the Minimum Operating Level and the Recovery Level	130 - 105% of Max (SCR, MCR)	Agree and implement a plan to restore the Company's Solvency position to the Minimum Operating Level within 6 months.
At or below the Recovery Level	Less than or equal to 105% of Max (SCR, MCRO	Enter recovery

The Risk Appetite Statement seeks to connect MIDAC's strategy and the required level of regulatory capital with the company's risk management framework, which is supported by a suite of risk policies and manuals. These policies and manuals are reviewed and approved by MIDAC's Board on an annual basis or more frequently if deemed appropriate.

The Risk Committee supports the Board in their review of the Risk Appetite Statement.

3.4.3 Risk sensitivities

I have been provided with sensitivity analysis which illustrates MIDAC's exposure to key risks by considering the impacts that these have on MIDAC's solvency position as at 31 December 2018 (and subsequent years) through the ORSA process. I have not reproduced the detail. The key risks are in line with those outlined in Section 3.4.1 above and as discussed in the MIDAC ORSA. The most material are adverse claims and higher lapse rates and the capital requirements relating to the investment in MADAC.

3.4.4 Risk issues

The current listing of open risk issues for MIDAC was also shared and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk events and ongoing issues, with owners for each issue and actions identified (where relevant/applicable). No specific issues were identified which impact upon the Scheme.

3.4.5 Governance

The company has implemented a risk management framework. The risk management framework includes:

- A Risk Appetite Statement;
- A Risk Register;
- A suite of formal risk policies;
- Appointment of a Chief Risk Officer ("CRO");
- Internal audit;
- Risk and Control Self-Assessment on an annual basis; and a
- Risk Event Process.

The Board has established and delegated responsibilities to its Audit Committee and its Risk Committee, to set the approach to internal controls and assist in its oversight of risk management and has delegated matters for review or approval as set out in their terms of reference.

- There is an Audit sub-committee of the Board: the Audit Committee comprises the two independent non-executive directors and one non-executive director. The Head of Compliance and Head of Internal Audit are also standing attendees. The committee's main responsibilities are to review:
  - The Company's accounting policies and financial reports and review management's approach to internal controls;
  - The adequacy and scope of the external and internal audit functions; and
  - The Company's compliance with regulatory and financial reporting requirements.
- The Risk Committee is also a sub-committee of the Board and comprises all members of the Board. The Chief Risk Officer ("CRO") is a standing attendee. The main responsibilities of the committee are to:
  - Advise the Board on risk appetite and tolerances;
  - Oversee the risk management function; and
  - Advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an on-going basis, the amount and type of capital that is adequate to cover the risks of the Company.

- The Executive Committee comprises the CEO and his direct reports who manage the delivery of business objectives.
- The company's CRO has access to the Board of Directors. Any decisions which will materially impact MIDAC's balance sheet, or risk profile requires the approval of the CRO.
- The Actuarial Function, led by the Head of Actuarial Function, is responsible for performing the specified tasks set out in Article 48 of the Solvency II Directive. In summary, the key responsibilities of the actuarial function are to review and validate the calculation of the technical provisions, provide opinions on the underwriting and reinsurance policies and assist the risk management function with certain tasks.
- The compliance function, led by the Head of Compliance, is responsible for identifying, assessing, monitoring and reporting compliance risk exposure, focusing on compliance with applicable laws and regulatory requirements;
- The internal audit function, led by the Head of Internal Audit, is responsible for developing and delivering an agreed internal audit plan and monitoring the control environment;
- The company's Board is responsible for monitoring and assessing risk. The Board meets at a minimum of four times a year and the CRO and indeed other Control Function leads attend meetings as required. The Board ensures that the company operates within the confines of its Risk Appetite and that defined Risk Indicators and Tolerances are acceptable, under the advice of the CRO;
- The Board Risk Committee reviews the top risks at each meeting, where these are quantified as (Exposure x Probability of Occurrence over a 1 year time horizon); and
- A Risk Matrix is maintained by the company detailing the risks. This is reviewed on an annual basis or more frequently if deemed appropriate and quantified on a "bottom up" approach. The quantification of the operational risks is cross checked against the SCR held in respect of operational risk.

3.5 Operational arrangements

In May 2017 the Company changed to an operating model that outsourced its service provision via an inter-group outsourcing agreement, to MISL, a company established by Monument Re to provide services to the Monument entities. Existing employees of MIDAC and MADAC transferred employment to MISL on agreed terms and conditions with effect from 1 July 2017. Following the transfer of staff to MISL, the Company entered into a Management Services Agreement ("MSA") with MISL. The MSA enables MISL to provide a full suite of services to the Company including oversight of the services provided by external parties from July 2017. This arrangement will enable the Company to continue to operate in an effective manner, meeting both policyholder and regulator obligations.

These relationships with MISL are managed by the CEO of each respective business. Quarterly service reviews are conducted to ensure that the services company are meeting the agreed performance standards as set out in the services schedule of the agreement and the outcomes are reported to the Executive Committee ("ExCo") with escalation of significant issues to the Board. The ExCo is a committee within the company which is responsible for the oversight and management across the business and authority is granted by the Board to ExCo to make decisions that are carried out.

Comprising of representation from all key management areas of the business, ExCo meets on a (at least) quarterly basis and is responsible for reviewing key areas of focus for the company.

Core management functions are carried out by MISL including the roles of Head of Actuarial Function, Head of Risk and Compliance Officer. The number of full time equivalents ("FTE") at 31 May 2019 was 39.6, employed in the areas of Operations, Administration, Actuarial, Risk, Finance and Compliance. The existing business also has a number of other existing key outsourcing arrangements which are summarised in the table below.

The table below provides details of the outsourced critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located as of Quarter 4 of 2019.

Table 3.4 Service provider	Activity
MISL (Intra-group)	Insurance administration services
MISL (Intra-group)	Actuarial and Risk function
MISL (Intra-group)	Compliance and Internal Audit
Covéa Insurance Services limited (External)	Policy servicing and claims administration
IBM (External)	IT services
Barclays (and Barclaycard)	Customer Communications and Premium Collection

Source: MID & MAD RSR 2018.pdf

The only key outsourcing arrangement that MIDAC/ MADAC have in place that is not already in place for MLIDAC is the Policy Administration arrangement of the PPI business with Covéa Insurance Services Limited ("Covéa") which is governed by a MSA between MIDAC/ MADAC and Covéa. The Covéa agreement will be novated from MIDAC to MLIDAC as part of the Scheme.

3.6 Reinsurance

MIDAC has no reinsurance agreements in place at 31 December 2018.

3.7 Financial Profile

3.7.1 Background

The Solvency II regulatory reporting regime came into effect across Europe from 1 January 2016. As Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings, it applies in Ireland and across the EU in a harmonised way. Therefore there is no difference between the underlying regulatory reporting regime for any insurance business sold in the EU.

Under the CBI implementation of Solvency II, there is a prescribed role for each insurance company known as 'The Head of Actuarial Function' which is performed by Dermot Mannion in MIDAC. This is a Pre-Approved Controlled Function or PCF role under the CBI's Fitness and Probity Regime. An overview of the Solvency II regime is given in Appendix 5.

3.7.2 Technical Provisions

Table 3.5 below summarises MIDAC's Solvency II technical provisions at 31 December 2018 and the projected level at 31 December 2019.

Table 3.5 MIDAC's Total Liabilities (£m's)	31 December 2018	Projected 31 December 2019
Health SLT BEL	3.6	3.1
Misc FL BEL	2.8	2.5
Risk Margin	0.5	0.5
Technical Provisions	**6.9**	**6.1**

Source: MID & MAD SFCR 2018.doc and Monument Analysis

In terms of key judgements used to prepare their Solvency II technical provisions MIDAC do not use any transitional measures and use the prescribed EIOPA risk free yield curve.

The reporting of the Head of Actuarial Function over the past three years has been provided to me and no specific issues arose in my review of the information.

3.8 Solvency Position

3.8.1 Solvency II Solvency Capital Requirement

Table 3.6 below sets out the solvency position of MIDAC, under the Solvency II framework at 31 December 2018 with the projected 31 December 2019 position (as a proxy to the proposed portfolio transfer date). The proforma information is presented pre and post the group restructuring.

Table 3.6 MIDAC's Solvency Coverage Ratio (£'m)

	31 December 2018	Projected 31 December 2019 pre transfer / pre group restructuring	Projected 31 December 2019 Pre transfer/ post group restructuring
Assets	44.0	37.7	17.4
Liabilities	10.5	6.1	6.1
Own Funds	33.5	31.6	11.3
Solvency Capital Requirement	11.8	11.1	7.5
Excess of Own Funds over SCR	21.7	20.5	3.7
Solvency Coverage Ratio	**283%**	**284%**	**150%**

Source: MID & MAD SFCR 2018.doc and Monument Analysis

*Note *: the historic financial figures at 31 December 2018 in the table above are presented in Sterling which is the reporting currency of MIDAC; the proforma financial information which I utilise in Section 9 is set out in € to make cross referencing easier later in the report - € is the reporting currency of MLIDAC. The FX rate at 31 December 2018 is €:£ - 1.1 if a reader needs to prepare comparatives back into Sterling.*

As at 31 December 2018 the Solvency II returns showed total Own Funds of MIDAC were Stg£33.5m (of which the investment in subsidiary is £29.5m), an excess of £21.7m over the solvency capital requirement of £11.8m. There was a solvency coverage ratio of 283% at 31 December 2018 (2017: 170%). The improvement in the level of Own Funds and SCR coverage in the period reflects a capital contribution of €20m paid in 2018 to support acquisition activity in MLIDAC.

The projected position at 31 December 2019 is broadly unchanged given the continued run-off of the book, payment of dividends and inclusion of the acquisition of Inora by MLIDAC.

I note the Management Information Accounts show a net operating profit of £0.8m for the period to 30 September 2019.

The impact of the group restructure is to remove the investment by MIDAC in MADAC (and its investment in MLIDAC and Inora). This has the effect of reducing both own funds and SCR as the value of the investments is removed and the corresponding regulatory capital being held in respect of the investments.

All of the MIDAC Own Funds capital held is Tier 1 unrestricted capital.

Historically, MIDAC has maintained a strong solvency capital position.

Dividends of £28.5m were paid in 2017 to Monument Re. The dividend was originated in MLIDAC (i.e. €32m) and passed up through MADAC and then MIDAC. Dividends in 2019 have been reflected in the proforma 31 December 2019 position of €8.7m paid by MIDAC, and dividends from MLIDAC of €3.5m and MADAC of €4.3m. The 2019 dividends are reflected in the proforma positions above.

Table 3.7 below sets out the breakdown of solvency capital position of MIDAC by risk category, under the Solvency II framework at 31 December 2018 with the projected 31 December 2019 position (the proforma portfolio transfer date). The proforma information is presented pre and post the group restructuring.

Table 3.7 MIDAC's Solvency Capital Requirement breakdown (£'m)

	31 December 2018	Projected 31 December 2019 pre transfer/ pre group restructuring	Projected 31 December 2019 Pre transfer/ post group restructuring
Market risk	6.6	6.8	1.5
Counterparty default risk	0.1	0.1	0.1
Life underwriting risk	0.0	0.0	0.0
Health underwriting risk	0.3	0.2	0.2
Non-life underwriting risk	7.2	6.3	6.3
Diversification	-3.1	-3.0	-1.2
Operational risk	0.8	0.7	0.7
Solvency Capital Requirement	**11.8**	**11.1**	**7.5**

Source: MID & MAD SFCR 2018.doc

Note: the historic financial figures at 31 December 2017 and 2018 in the table above are presented in Sterling which is the reporting currency of MIDAC; the proforma financial information which I utilise in Section 9 is set out in € to make cross referencing easier later in the report - € is the reporting currency of MLIDAC. The FX rate at 31 December 2018 is €:£ - 1.1 if a reader needs to prepare comparatives back into Sterling.

MIDAC has a strong regulatory capital position. As can be seen, the impact of the group restructure is that the bulk of the market risk which arises from the capital requirement in respect of the investment by MIDAC in MADAC (and principally by MADAC's investment in MLIDAC) is removed.

3.8.2 Investment in subsidiaries

As noted in the Section 3.3.2 on Assets, MIDAC has an investment in MADAC (which in turn has an investment in MLIDAC). All of these are 100% investments. The value of the MIDAC's investment in MADAC is MADAC's Solvency II Own Funds. The capital treatment is that the investment is viewed as a strategic investment and subject to a capital charge of 22% under the Market risk module (so it drives the bulk of the Market risk SCR charge in Table 3.7 above). The impact of the group restructure is that the investment in MLIDAC is transferred to Monument Re. The impact can be seen in the material decline in market risk SCR in Table 3.7 above.

3.8.3 Projected Solvency Position and sensitivities

I have considered MIDAC's most recent ORSA report, completed in December 2019 (and indeed the ORSA completed in June 2019). I have not reproduced the detail in this report.

The ORSA is an integral part of each company's risk management system and its purpose is to include an assessment of the overall solvency needs of the company, the compliance on a continuous basis with the Solvency II capital requirements and the significance with which the risk profile of the company differs from the assumptions underlying the SCR. The ORSA should be an integral part of the business strategy and should be taken into account on an ongoing basis in the strategic decisions of the company. The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario over the five year period to year end 2023, where the projected SCR coverage ratio is targeted to exceed the internal minimum solvency ratio. The stress and scenarios used are included in the June 2019 ORSA provided and these included:

Table 3.8 Scenario	Description
Base Case – non approval of Trinity	Impact if portfolio transfer does not proceed

Table 3.8 Scenario	Description
Base Case – Trinity approved and volatility adjustment	Impact if Scheme proceeds and VA application approved
Base Case – Trinity approved and volatility adjustment	Impact if Scheme proceeds and VA application not approved
Base Case – non approval of future transactions	Impact if Inora and Rothesay not approved
Default	Default of Monument Re
Recession stress	Global Financial Crisis historical scenario, spreads rise to levels not seen since crisis and defaults on credit assets for 2 years
EU Crisis scenario	Blackrock Aladdin Eurozone Crisis historical scenario
Poor claims	Poor accident, sickness and un-employment experience
Eurozone breakup	Blackrock Aladdin Eurozone Breakup hypothetical scenario
Low spread stress	Spread falls to lows seen in 2004-2007 and remain at that level for 5 years
Interest rate stress	interest rates fall by 2% across the yield curve
Equity stress	20% fall in the value of equities
Expense stress	10% increase in all expenses plus 1 percentage point increase in expense inflation
Lapse stress	25% fall in surrender rates for portfolios with guaranteed interest rates and 20% mass lapse over 1 year for all other business
Last liquid point stress	EUR Last Liquid Point extends from 20 years to 30 years

Source: ORSA_Report 2019.pdf

The December 2019 ORSA provided included a similar set of scenarios reflecting the passage of time, an updated financial position and updated calibrations. A number of new scenarios were also introduced including: non approval of another transaction which is in progress though not expected to complete if at all until later in 2020, a longevity stress, consideration of the interest rate stress calibration (including the last liquid point), a FX stress and what a hard Brexit might look like.

The projection of MIDAC's base case balance sheet over the projection period shows a SCR coverage ratio in excess of the internal minimum solvency ratio target for each year. While the portfolio is in run-off, the SCR continues to run down but the level of own funds remains broadly stable leading to a projected improvement in the solvency coverage ratio.

Table 3.9 sets out the solvency coverage ratio in the base case for MIDAC policyholders:

Table 3.9 Base Case ORSA	2019	2020	2021	2022	2023
MIDAC Solvency Coverage – Pre transfer/ Pre restructure	284%	335%	377%	413%	443%
MIDAC Solvency Coverage – Pre transfer/ Post restructure	150%	219%	292%	369%	449%

Source: Monument analysis to supplement the 2019 ORSA process – there are timing and calculation differences in the figures feeding into the ORSA for the pre transfer MIDAC and MADAC figures as the focus of the ORSA was that the transfers would take place so small differences arise given that – these are not material and are understood.

I note the exposure to UK recession type scenarios whereby claims can increase significantly. From a solvency point of view, one of the main mitigants against high claims in MIDAC is the profit share agreement with Barclays, whereby future commissions payable to Barclays can be offset by policyholder claims carried forward. This means in a deep and prolonged recession type scenario, MIDAC would need to source liquidity external to its own balance sheet in order to pay claims. The exposure is understood and is part of the liquidity risk assessment.

In summary, the financial strength of the company remains robust under each of the base case and scenarios tested over the projection period, though the scenarios are largely based on the portfolio transfer proceeding and consideration of the combined MIDAC, MADAC and MLIDAC positions. Notwithstanding the base case projections illustrating a robust solvency position, I would note that as the core insurance business runs off the remaining (and declining number of) policyholders are materially exposed to the investment in MADAC (and MLIDAC) in terms of the overall asset and capital position.

3.9 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider Policyholders Reasonable Expectations ("PRE") under ASP LA-6 in the context of the work of the Independent Actuary and ASP LA-4: 'Additional guidance for Appointed Actuaries on policyholders' reasonable expectations'. Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. However, there is no statutory regulation in relation to PRE for non-life insurance companies in Ireland. Notwithstanding that, I have considered PRE in a general manner below and discussed PRE issues with MIDAC's HoAF. My considerations are:

- Benefits arising under the transferring MIDAC policies are straightforward and guaranteed in nature.
- Security of benefits: transferring policyholders have a reasonable expectation that their benefits are secure and will be paid as they fall due. This will depend on the risks to which the transferring policyholders are exposed to before and after the transfer, including the relevant financial position of the companies.
- Entitlement to benefits: transferring policyholders have a reasonable expectation that valid claims will be paid in accordance with policy terms and conditions. I have reviewed some of MIDAC's product documentation and am satisfied that it does not confer any particular additional reasonable expectations over and above the contractual provisions. I am not aware of any local legislative requirements which confer entitlements to policyholders beyond those in the policy terms, or constrain the use of discretion by MIDAC.
- Service standards: transferring policyholders have a reasonable expectation that the services they receive will be provided in a professional manner, that claims and enquiries will be dealt with promptly. Policy and claims administration is currently outsourced to Covéa and it is the intention that Covéa will remain as the policy administrators following the portfolio transfer and that the current contract with MIDAC will be novated to MLIDAC.
- Discretionary powers available to MIDAC: transferring policyholders have a reasonable expectation that any discretion available to MIDAC will be applied in a fair and reasonable manner. The use of discretion by MIDAC is reasonably limited and principally relates to:
    - assessment as to whether a claim is valid or not;
    - appropriate premium rate to charge;
    - assessment as to whether premium refunds are guaranteed or not. However, policyholder expectations may have been set to receive premium refunds from illustrated refund values within policy documentation;
    - assessment as to whether monthly recurring premium contracts are written such that the premium rate may be altered or the policy terminated at the discretion of MIDAC at each renewal date. Most regular premium policyholders are reminded of MIDAC's right to cancel policies through their annual statements plus the "right to cancel" contract term was relied upon to cancel all in-force Barclaycard Lifestyle Plan policies in August 2012.

Practice is well embedded on these matters in MIDAC.

3.10 Other regulatory matters

On 23 June 2016 the UK voted to leave the European Union ("EU"). The Company underwrites insurance policies in the UK on 'freedom of services' basis, otherwise referred to as 'passporting'. The Company has opted to apply the Financial Services Contract Regime and continues to keep abreast of ongoing developments and will continue to review its action plan and take account of significant changes in the course of Brexit. The FSCR is legislation enacted by the British government such that if the UK leaves the EU without a withdrawal agreement, it will enable firms who do not enter the temporary permissions regime to wind down their UK business, run-off existing UK contracts and conduct an orderly exit from the UK market. It is essentially a one stop-gap to ensure that those EEA based firms that do not enter the temporary permissions regime (TPR), and those that exit the TPR without UK authorisation, are able to run-off their UK based business in an orderly manner. I note that Brexit remains an issue under the Scheme as MADAC and MLIDAC are in a similar situation in terms of authorisations and licensing for activities in the UK market – see Section 4.10, 5.10 and Section 9 for further commentary.

3.10.1 CBI matters

I have received a list of recent correspondence that MIDAC has had with the CBI.

I have asked about any conduct matters in the UK as the business was originated from there and MIDAC is subject to conduct oversight by the Financial Conduct Authority ("FCA") – no issues were noted.

3.10.2 Complaints log

I received a complaints log containing pending complaints. There are a small number of open cases but they are not expected to generate notable costs or set a precedent. No material issues were noted.

3.10.3 Legal matters outstanding

There are no material legal matters outstanding.

3.10.4 Ombudsman issues

There are no open complaints currently with Financial Ombudsman Service.

3.10.5 Compensation Scheme

I note that policyholders of MIDAC are covered by the Financial Services Compensation Scheme ("FSCS") in the UK. The FSCS will pay compensation to policyholders of MIDAC if MIDAC is unable to pay claims because it has stopped trading or has been declared in default. Generally, the FSCS covers business conducted by firms authorised by the FCA in the UK. However, EU firms that are authorised by their home state regulator that operate in the UK are also covered. I understand that following the Scheme of Transfer that there is no change to the position of these UK policyholders of MIDAC as regards their coverage by the FSCS.

3.10.6 Targeted Risk Assessment ("TRA")

There are no TRAs in progress or notified for MIDAC.

Appendix 7 Background to other life business in MLIDAC i.e. Monument Assurance DAC

As noted, I am acting in the role of Independent Actuary in the portfolio transfers of Monument Insurance DAC and Monument Assurance DAC into MLIDAC. I prepared my report on that proposed transfer dated 13 December 2019.

I have noted in Section 2.1.4 that this portfolio transfer is assumed to take place prior to the Scheme, i.e. prior to the portfolio transfer of IPB business from ZLAP to MLIDAC. In addition, in Section 3.2, I included some brief commentary on the MIDAC business.

This information has not been updated to reflect results from 31 December 2019 and I have focused on the information relevant to the life business of MADAC. The reason for this is that the information is supplementary and intended to support a deeper understanding of the additional life risks that will transfer to MLIDAC. These extracts are set out below. I must emphasise that the tables and section references relate to my other report and that I have not adjusted them in the below.

4.2 Structure and background

MADAC is a designated activity company under company number 265960 which was incorporated in Ireland on 7 May 1997 and under the company name Barclays Assurance (Dublin) Limited. It was sold to Monument Re and rebranded as MADAC in March 2017. MADAC is regulated in Ireland and it is authorised by the CBI to write Class I (life assurance and contracts to pay annuities on human life, but excluding Classes II and III) and Class IV (permanent health insurance contracts) insurance business on a freedom of services basis. MADAC is a wholly owned subsidiary of MIDAC.

I understand as part of the Scheme, MADAC expects to transfer its insurance liabilities to MLIDAC which is within the Monument Re Group. This report focuses solely on the proposed transfer of the policyholder liabilities from MADAC to MLIDAC.

4.3 Nature of business written

MADAC currently has 222,575 PPI and Income Protection policies. The company received £8.4m of premium income in 2018.

Table 4.1 MADAC's Earned Premiums Net of Reinsurance by Segment (£m's)

	31 December 2017	31 December 2018
Life	12.4	8.4
Total	**12.4**	**8.4**

Source: MID & MAD SFCR 2018.doc

Table 4.2 MADAC's policy count and sum assured in 2018 by Segment (£m's)

	Policy count	Sum assured
Life	222,575	196.6
Total	**222,575**	**196.6**

Source: MID & MAD SFCR 2018.doc

4.3.1 Products

At 31 December 2018 MADAC has two Solvency II classified lines of business on its books as follows:

Other Life Insurance:

- Life

Health SLT:

- Accident and Sickness
- Critical Illness
- Permanent and Total Disability

MADAC underwrites PPI and Income Protection Policies to Barclay Bank debt customers. It underwrites the life cover element of PPI policies sold to UK policyholders. This business is classified as the "Life - Other life insurance" Line of Business under Solvency II. In addition, MADAC writes long-term LCI and long-term LAS business which it classifies as "Life - Health insurance" business under Solvency II.

All premiums are received from contracts underwritten from the Republic of Ireland, to cover risks located in the United Kingdom.

4.3.2 Assets

Table 4.3 summarises the profile of assets at 31 December 2018 including the value reflected of its investment in subsidiaries i.e. MLIDAC:

Table 4.3 Assets	MADAC £m
Holdings in related undertakings, including participations	27.5
Government bonds	0.5
Corporate bonds	1.2
Collective Investment Undertakings	1.4
Total	**30.6**

Source: MADAC 2018 financial statements

I note that the group restructuring planned for early 2020 means that MADAC will sell its investment in MLIDAC to Monument Re.

The Company adheres to the prudent person principle in the implementation of its investment strategy. This is accomplished through an investment framework focused on governance, risk assessment and portfolio diversification. A key part of the implementation is the use of third party investment service providers who can provide expertise for their appointed mandates. The most significant asset on the balance sheet is the investment in MLIDAC.

4.4 Risk Profile and Management

4.4.1 Overview of risks

MADAC's main risk exposure from underwriting the life element of PPI policies and Income Protection Policies is generally in line with those as documented in Section 3.4.1 for MIDAC. The same considerations apply when MADAC assesses its risk profile (including the market risk from its investment in MLIDAC which drives a material level of its risk rather than that relating to the core insurance business). The detail in Section 3.2 is not repeated here.

4.4.2 Risk Appetite

The same approach to Risk Appetite Statement applies for MADAC as outlined in Section 3.4.2 for MIDAC.

4.4.3 Risk sensitivities

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I have been provided with sensitivity analysis which illustrates MADAC's exposure to key risks by considering the impacts that these have on MADAC's solvency position as at 31 December 2018. I have not reproduced the detail. The key risks are in line with those outlined in Section 3.4.1 above and as discussed in the MADAC ORSA, the most material are adverse claims and higher lapse rates which relate to the MADAC core business but the investment in MLIDAC is a significant risk.

4.4.4 Risk issues

The current listing of open risk issues for MADAC was also shared and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk events and ongoing issues, with owners for each issue and actions identified (where relevant/applicable). No specific issues were identified which impact upon the Scheme.

4.4.5 Governance

MADAC has adopted the same governance and risk management framework as MIDAC. I have not repeated the detail in this section – it is the same as Section 3.4.5.

4.5 Operational arrangements

MADAC has the same operational arrangement as MIDAC. I have not repeated the detail in this section – it is the same as Section 3.5

4.6 Reinsurance

MIDAC has no reinsurance agreements in place at 31 December 2018. This was also the case at 31 December 2017.

4.7 Financial Profile

4.7.1 Background

The Solvency II regulatory reporting regime came into effect across the EU from 1 January 2016. As Solvency II is an EU initiative, which sets out prescribed rules on the calculation of technical provisions and capital requirements for (re)insurance undertakings, it applies in Ireland and across the EU in a harmonised way. Therefore there is no difference between the underlying regulatory reporting regime for any business sold in the EU.

Under the CBI implementation of Solvency II, there is a prescribed role known as 'The Head of Actuarial Function' which is performed by Dermot Mannion in MIDAC. This is a Pre-Approved Controlled Function or PCF role under the CBI's Fitness and Probity Regime. An overview of the Solvency II regime is given in Appendix 5.

4.7.2 Technical Provisions

Table 4.4 below summarises MADAC's Solvency II technical provisions at 31 December 2018 and the projected position at 31 December 2019 (the proforma portfolio transfer date).

Table 4.4 MADAC's Total Liabilities (£m's)

	31 December 2018	Projected 31 December 2019 pre transfer
Life BEL	0.1	0.1
Risk margin	0.1	0.0

Technical Provisions	0.2	0.1

Source: MID & MAD SFCR 2018.doc and Monument Analysis.

In terms of key judgements used to prepare their Solvency II technical provisions MADAC do not use any transitional measures and use the prescribed EIOPA risk free yield curve.

The reporting of the Head of Actuarial Function over the past three years has been provided to me and no specific issues arose in my review of the information.

4.8 Solvency Position

4.8.1 Solvency II Solvency Capital Requirement

Table 4.5 below sets out the solvency position of MADAC, under the Solvency II framework at 31 December 2018 with the projected 31 December 2019 position (the proforma portfolio transfer date). I have shown the impact both pre and post the group restructuring.

Table 4.5 MADAC's Solvency Coverage Ratio (£'m)

	31 December 2018	Projected 31 December 2019 pre transfer/ pre group restructuring	Projected 31 December 2019 Pre transfer/ post group restructuring
Assets	31.8	30.2	5.9
Liabilities	2.2	0.1	0.1
Own Funds	29.5	30.1	5.8
Solvency Capital Requirement	10.7	10.8	3.4
Excess of Own Funds over SCR	18.9	19.4	2.4
Solvency Coverage Ratio	**277%**	**280%**	**173%**

Source: MID & MAD SFCR 2018.doc

*Note *: the historic financial figures at 31 December 2018 in the table above are presented in Sterling which is the reporting currency of MIDAC; the proforma financial information which I utilise in Section 9 is set out in € to make cross referencing easier later in the report - € is the reporting currency of MLIDAC. The FX rate at 31 December 2018 is €:£ - 1.1 if a reader needs to prepare comparatives back into Sterling.*

As at 31 December 2018 the Solvency II returns showed Own Funds of £29.5m (of which £27.5m is the investment in MLIDAC), an excess of £18.9m over the solvency capital requirement of €10.7m meaning a solvency coverage ratio of 277%. The improvement in the level of Own Funds and slight reduction in SCR coverage in the period reflects a capital contribution of €20m paid in 2018 to support acquisition activity in MLIDAC.

The projected position at 31 December 2019 is broadly unchanged given the continued run-off of the book, payment of a dividend and inclusion of the acquisition of Inora by MLIDAC.

I note the Management Information Accounts show a net operating profit of £1.1m for the period to 30 September 2019.

The impact of the group restructure is to remove the investment by MADAC in MLIDAC. This has the effect of reducing both own funds and SCR as the value of the investments is removed and the corresponding regulatory capital being held in respect of the investments. The transaction price involved in the restructuring involves use of intercompany debt. The presentation of the projected position post the restructure is probably prudent as the intercompany debt is not included as an element of own funds or indeed the SCR held in respect of it. The presentation of the solvency coverage therefore being prudent for the purposes of the analysis.

There is an improved projected position at 31 December 2019 given the continued run-off of the book, payment of a dividend and inclusion of the acquisition of Inora by MLIDAC.

MADAC Own Funds capital have Tier 1 unrestricted capital of €5.8m and unapproved own funds of €24.7m (in the form of intercompany debt as noted above). The group restructure also allows for the payment of a dividend of €6m from MLIDAC to MADAC.

Dividends of £28.5m were paid in 2017 to Monument Re. The dividend was originated in MLIDAC (i.e. €32m) and passed up through MADAC and then onto MIDAC. Dividends in 2019 of €4.3m paid by MADAC and €3.5m paid by MLIDAC have been reflected in the proforma 31 December 2019 positions above. The pre transfer/ post group restructuring proforma also allows for the payment of additional dividends of €6m (£5.4m) from MLIDAC to MADAC and €4.5m (£4.0m) from MADAC to MIDAC.

Historically, MADAC has maintained a strong solvency capital position.

Table 4.6 below sets out the breakdown of solvency capital position of MADAC by risk category, under the Solvency II framework at 31 December 2018 with the projected 31 December 2019 position (the proforma portfolio transfer date). The proforma information is presented pre and post the group restructuring.

Table 4.6 MADAC's Solvency Capital Requirement breakdown (£'m)

	31 December 2018	Projected 31 December 2019 pre transfer/ pre restructuring	Projected 31 December 2019 pre transfer/ post group restructuring
Market risk	10.3	10.4	0.2
Counterparty default risk	0.1	0.1	0.1
Life underwriting risk	0.0	0.0	0.0
Health underwriting risk	0.0	0.0	0.0
Non-life underwriting risk	0.0	0.0	0.0
Diversification	-0.1	-0.1	-0.1
Operational risk	0.3	0.3	0.1
Solvency Capital Requirement	**10.7**	**10.8**	**3.4**

Source: MID & MAD SFCR 2018.doc

Note: the historic financial figures at 31 December 2017 and 2018 in the table above are presented in Sterling which is the reporting currency of MIDAC; the proforma financial information which I utilise in Section 9 is set out in € to make cross referencing easier later in the report - € is the reporting currency of MLIDAC. The FX rate at 31 December 2018 is €:£ - 1.1 if a reader needs to prepare comparatives back into Sterling.

I note I have illustrated that the MADAC position post restructuring is the minimum level of the SCR at £3.4m.

MADAC has a strong regulatory capital position. The bulk of the SCR arises from the investment in MLIDAC including the foreign exchange risk as MLIDAC's own funds are in Euro whereas MADAC prepare their regulatory returns in Sterling. This disappears post the group restructuring.

4.8.2 Consolidated Balance Sheet

As noted in the Section 4.3 on Assets, MADAC has an investment in MLIDAC. The value of MADAC's investment in MLIDAC is MLIDAC's Solvency II Own Funds. The capital treatment is that the investment is viewed as a strategic investment and subject to a capital charge of 22% under the Market risk module (so it drives the bulk of the Market risk SCR charge in Table 4.7 above) plus the investment is subject to a currency risk charge of 25% of the value of the investment as MLIDAC is a Euro asset and MADAC's regulatory reporting currency is Sterling. The impact of the group restructure is that the investment in MLIDAC is transferred to Monument Re.

4.8.3 Projected Solvency Position and sensitivities

As noted in Section 3.8.3 for MIDAC, I have considered MADAC's most recent ORSA report, completed in June 2019 and the most recent update at December 2019. I have not reproduced the detail in this report. The detail of the process is in line with that for MIDAC.

The stress and scenarios used are included in the June 2019 and December 2019 ORSA provided and these are summarised in Section 3.8.3 already.

Within the 2019 ORSA a projection is made in line with the company's run-off plan which assumes the transfer of the remaining business to MLIDAC. This projection shows a SCR coverage ratio in excess of the internal minimum solvency ratio target for each year and for each scenario.

Table 4.7 sets out the solvency coverage ratio in the base case for MADAC:

Table 4.7 Base Case ORSA	2019	2020	2021	2022	2023
MADAC Solvency Coverage – Pre transfer/ Pre restructure	280%	288%	294%	298%	301%
MADAC Solvency Coverage – Pre transfer/ Post restructure	173%	189%	199%	205%	207%

Source: Monument analysis to supplement the 2019 ORSA process – there are timing and calculation differences in the figures feeding into the ORSA for the pre transfer MIDAC and MADAC figures (and pre and post restructuring) as the focus of the ORSA was that the transfers would take place so small differences arise given that – these are not material and are understood.

In summary, the financial strength of the company remains strong under each of the base case and scenarios tested over the projection period, though the scenarios are largely based on the portfolio transfer proceeding and consideration of the combined MIDAC, MADAC and MLIDAC position. Notwithstanding the base case projections illustrating a strong solvency position, the remaining (and declining number of) policyholders are materially exposed to the investment in MLIDAC in terms of the overall asset and capital position. This is the case pre the group restructure. Post the group restructure, this exposure is removed.

I have no issues to note from my review of the OSRA prepared by MADAC.

4.9 Policyholder Reasonable Expectations

For life insurance entities, I am required to consider Policyholders Reasonable Expectations ("PRE") under ASP LA-6 in the context of the work of the Independent Actuary and ASP LA-4: 'Additional guidance for Appointed Actuaries on policyholders' reasonable expectations'. Furthermore, I note that under the new Solvency II regime there is a statutory requirement for the HoAF of life insurance entities to consider PRE as set out in the CBI guidance note entitled 'Domestic Actuarial Regime and Related Governance Requirements under Solvency II'. I have considered PRE in a general manner below and discussed PRE issues with MADAC's HoAF. My considerations are the same as those outlined for MIDAC in Section 3.9 and they have not been reproduced below.

The approach to the use of these discretionary powers will not be materially altered as a result of the Scheme, I comment on this further in Section 9.2.

4.10 Other regulatory matters

MADAC has the exact same issues as MIDAC which was documented in Section 3.10. I have not reproduced the commentary again in this section but the same points apply to both entities.

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Appendix 8 Glossary

Glossary	
Term	**Definition**
AA	Appointed Actuary
ABI	Association of British Insurers
ALM	Asset Liability Management
APE	Annual Premium Equivalent
AS	Accident and Sickness
ASP	Actuarial Standard of Practice
BEL	Best Estimate Liability
BMA	Bermuda Monetary Authority
Brexit	Term used to refer to the departure of the United Kingdom from the European Union
Capita	Capita Life and Pensions Services (Ireland) ltd
CBI	Central Bank of Ireland
CCO	Chief Compliance Officer
CEO	Chief Executive Officer
CI	Critical Illness
Class 1 Non-life Insurance	Accident
Class 16 Non-life Insurance	Miscellaneous Financial Loss
Class 2 Non-life Insurance	Sickness
Class 7 Non-life Insurance	Goods in transit
Class 8 Non-life Insurance	Fire and Natural Forces
Class 9 Non-life Insurance	Other Damage to Property
Class I Life Insurance	Life Assurance and contracts to pay annuities on human life
Class II Life Insurance	Contracts of insurance to provide a sum on marriage or on the birth of a child expressed to be in effect for a period of more than one year
Class III Life Insurance	Contracts linked to investment funds
Class IV Life Insurance	Permanent health insurance contracts
Class VI Life Insurance	Capital redemption operations
Consolidator	(Insurance context) Insurance entity which acquires insurance portfolios from other entities and aggregates them on a consolidated balance sheet.
CRO	Chief Risk Officer
DAC	Designated Activity Company
DAM	Discretionary Asset Manager
DTA	Deferred tax asset
ECM	Economic Capital Model
ECR	Enhanced Capital Requirement
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
ETF	Exchanged Traded Fund
Ethias	Ethias S.A.
EU	European Union
FCA	Financial Conduct Authority

FOS	Financial Ombudsman Service
FSCR	Financial Services Contract Regime
FSCS	Financial Services Compensation Scheme
FSPO	Financial Services and Pensions Ombudsman
FTE	Full Time Equivalents
GAAP	Generally Accepted Accounting Principles
HoAF	Head of Actuarial Function
IFRS	International Financial Reporting Standards
Inora	Inora Life dac
IPB	International Portfolio Bonds
IU	Involuntary Unemployment
KPMG	KPMG Ireland
MLIDAC	Monument Life Insurance DAC
LAS	Long Term Accident and Sickness
LCI	Long Term Critical Illness
MAB	Monument Assurance Belgium N.V.
MADAC	Monument Assurance Designated Activity Company
MAL	Monument Assurance Luxembourg S.A.
MCEV	Market Consistent Embedded Value
MCR	Minimal Capital Requirement
MIDAC	Monument Insurance Designated Activity Company
MISL	Monument Insurance Services Limited
MSA	Management Services Agreement or Master Services Agreement
NYSE	New York Stock Exchange
ORSA	Own Risk and Solvency Assessment
PCF	Pre-Approval Controlled Function
PPI	Payment Protection Insurance
PRE	Policyholders' Reasonable Expectations
RSR	Regular Supervisory Report
S.I.	Statutory Instrument
SAI	Society of Actuaries in Ireland
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
Solvency II	Risk based EU wide insurance directive which codifies and harmonises the EU insurance regulation. Discussed further in Appendix 5.
TCF	Treating Customers Fairly
TPR	Temporary Permissions Regime
TPs	Technical Provisions
TRA	Thematic Risk Assessment
UK	the United Kingdom
USD	United States Dollar
VA	Variable Annuity
YE	Year Ending
YOY	year-on-year
ZLAP	Zurich Life Assurance PLC

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