The Report of the Independent Actuary

Report of the Independent Actuary on the proposed Scheme to transfer a portfolio of insurance business from Irish Life Assurance plc dac to Saol Assurance dac

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1 INTRODUCTION

Background

1.1 Irish Life is an Irish-incorporated and Irish-authorised public limited company ("**plc**"). It was incorporated on 11 December 1989, under company registration number 152576 as Calbourne Limited. The company changed its name to Irish Life Assurance (Newco) Limited on 21 September 1990. On 31 December 1990, Irish Life re-registered as a public limited company and changed its name to Irish Life Assurance plc. Irish Life is wholly owned by Irish Life Group Limited. On 29 June 2012, Irish Life Group Limited was acquired by the Minister for Finance on behalf of the Irish State for €1.3 billion. In February 2013, an agreement was reached between Great West and the Irish Government on the acquisition of the Irish Life group of companies. Following receipt of the necessary regulatory approvals, the transaction was completed on 18 July 2013.

1.2 Irish Life is therefore a wholly owned subsidiary of Great-West Lifeco Inc ("**Great-West Lifeco**"), which is a company incorporated in Canada. Great-West Lifeco and its subsidiaries - including the Great-West Life Assurance Company which was founded in Winnipeg, Canada, more than a century ago - have in the region of CAD$2 trillion (Canadian dollars) in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

1.3 By agreement on the 23 June 2021, Allied Irish Banks plc ("**AIB**"), a financial services group with significant activities in retail, business and corporate banking as well as wealth management, and Canada Life Irish Holding Company Limited ("**CLIHC**") agreed to establish AIB JV HoldCo Limited, which has since been renamed Saol Assurance Holdings Limited ("**Saol HoldCo**") as a 50:50 joint venture holding company. Saol Assurance dac trading as AIB life ("**AIB life**"), a wholly-owned subsidiary of Saol HoldCo, received its authorisation as a life assurer on 17 February 2023.

1.4 AIB life is to acquire a portfolio of business as defined in paragraph 1.6 below ("**the Transferring Policies**") from Irish Life Assurance plc ("**Irish Life**"), and both parties have entered into a formal sale agreement setting out the terms on which the transfer of specified assets and liabilities from Irish Life to AIB life will take place.

1.5 Under those agreed arrangements, in order to complete the transfer, a court-approved portfolio transfer is required. The Transferring Policies will be transferred to AIB life via a scheme of transfer ("**the proposed Scheme**"), subject to approval by the High Court of Ireland (**"the Court**").

1.6 The portfolio of business that is to be transferred comprises the following cohort of policies:

- Inforce polices issued under Irish Life's distribution agreement with AIB, and which are, or may be deemed to have been, in existence on 30 June 2023 and still inforce at the **"Effective Date"** of the proposed Scheme (as defined in paragraph 1.14 below), comprising all unit-linked life savings and investment plans, all personal pension plans (aside from Personal Retirement Savings Accounts) and any executive pension plans that were issued by the Retail Division of Irish Life prior to 22 April 2021, with the exception of the following:
    - Any policy with an investment in an "**Excluded Fund"** (i.e. any Irish Life unit-linked fund in which any of the Transferring Policies is invested and which is not deemed (by Irish Life and AIB life) to have a suitable fund option within AIB life with similar characteristics and risk rating into which these policies can switch as part of the proposed Scheme);
    - Any policy forming part of a specific book of investment plans which are past the end of their original investment term; and
    - Any policy for which AIB no longer acts as the servicing agent (under the terms of Irish Life's distribution agreement with AIB) at the Effective Date.

With regard to the exceptions noted above, from 30 June 2023, any fund deemed to be an Excluded Fund (in accordance with the definition above) will cease to be available to new investments (new premiums and/or fund switches) on policies that are within the portfolio of business to be transferred.

The role of the Independent Actuary

1.7 Under Section 13 of the Assurance Companies Act 1909 ("**the 1909 Act**"), the Court must approve any scheme which provides for transfer to another body of some or all of the life assurance business carried on by an insurance company.

1.8 The 1909 Act requires that a report by an independent actuary (the "**Independent Actuary**"), unless the Court otherwise directs, be transmitted to each policyholder of each company on the terms of the scheme.

1.9 The Court will consider any such scheme on the basis of an application ("**Petition**") by one, or both, of the parties. The Independent Actuary's report is typically included in the Petition.

1.10 This report is intended to fulfil the above-mentioned requirements in the case of the proposed Scheme.

Instructions

1.11 AIB life and Irish Life, together referred to as "**the Companies**", have instructed me to act as the Independent Actuary who is required to report to the Court on the terms of the proposed Scheme. My report has been prepared in accordance with the terms of a statement of work (and associated engagement letter), between Milliman, Consultants & Actuaries ("**Milliman**") and Irish Life and dated 21 October 2022.

1.12 My appointment as the Independent Actuary has been notified to the Central Bank of Ireland (the "**Central Bank**"). The Central Bank has not objected to my appointment.

1.13 Throughout the remainder of this report (the "**Independent Actuary's Report**"), the terms "**the proposed Scheme**" and "**the proposed transfer**" are used to cover all the proposals included in the scheme of transfer, including any related documents referred to in the scheme itself relating to the proposed implementation and operation of the scheme of transfer.

1.14 The Companies anticipate that the proposed Scheme will be presented to the Court in October 2023, with a proposed effective date of 1 November 2023 (the "**Effective Date**").

1.15 I have interpreted my instructions as requiring me to consider the likely effects of the proposed Scheme on the Companies' life assurance policyholders including, but not limited to, the security of their benefits and their reasonable expectations. In preparing the Independent Actuary's Report, I have had regard to the security of the benefits in each company both before and after the implementation of the proposed Scheme, and the policyholders' reasonable expectations created by the past practices employed or statements made by each company. I have compared the status quo to the position that will apply after the completion of the proposed transfer. I expand further on these topics in sections 7, 8 and 9.

1.16 As far as I am aware, there are no matters that I have not taken into account in assessing the proposed Scheme and in preparing the Independent Actuary's Report but which, nonetheless, should be brought to the attention of policyholders or the Court in consideration of the terms of the proposed Scheme.

1.17 I have also reviewed and considered the contents of the Circular (as defined in paragraph 6.23) that will be made available to policyholders in relation to the proposed Scheme and which contains a summary of this report.

1.18 I will prepare a further report (the "**Supplemental Report**") prior to the final Court hearing to provide an update for the Court on my conclusions in respect of the effect of the proposed transfer on the different groups of policyholders in light of any significant events or developments that have occurred since this report was prepared.

Qualifications and disclosures

1.19 I am a Fellow Member of the Society of Actuaries in Ireland ("**SAI**") and have been since 2002. I am a Principal of Milliman and am a consulting actuary based in the firm's Irish insurance practice at 7 Grand Canal Street Lower, Dublin 2.

1.20 I have 25 years' experience in the insurance industry, including experience of acting as the Head of Actuarial Function ("**HoAF**") for a number of Irish life assurance companies.

1.21 I am not a policyholder of AIB life, but I am a policyholder of Irish Life, through legacy pensions savings arrangements which are administered by Irish Life Assurance plc and which arose directly from past employments with other regulated entities (and in both instances the originating employer-sponsored schemes were administered by Irish Life). I am not one of the Transferring Policyholders.

1.22 My employer, Milliman Ltd, has group life and income protection policies in place with Irish Life to provide death in service and income protection cover for all staff in the Dublin office. I am covered as part of these group policies. I have no input to or control over the placing of these policies and the benefits payable would only be payable in either the event of my death or becoming unable to work.

1.23 I have no financial interests in either of the Companies, nor in their parent companies or in other companies within the Great West Lifeco group or the AIB group. I am not, and have not been, employed directly by either of the Companies as an employee, officer or director.

1.24 I was previously employed by Canada Life Assurance (Ireland) Ltd from 1998 to 2005. In 2003, Canada Life Assurance (Ireland) Ltd was acquired by the Great-West Lifeco group, which is the group to which Irish Life now belongs. The Great-West Lifeco group acquired Irish Life in 2013. I do not consider this link to be material or relevant but have disclosed it for completeness.

1.25 I have had no prior involvement with AIB life. I have previously acted as Independent Actuary for a scheme of transfer involving Irish Life and Ark Life Assurance Company dac, which was sanctioned in 2022.

1.26 I do not consider that these points prevent me from acting independently in my assessment of the proposed Scheme. I have also discussed this with senior management of AIB life and Irish Life and they have confirmed that they are of the same opinion. In addition, as noted above, the Central Bank, which is aware of my previous roles, has been informed of my appointment and has made no objection.

1.27 Consultants from other Milliman offices provide, or have provided, services to both AIB life and Irish Life. However, having checked within the Milliman organisation, I do not believe that any work undertaken by Milliman with either of the Companies, or with any other affiliates of either company, would create a conflict of interest for me in my role as Independent Actuary.

1.28 Based on the foregoing I consider that I am in a position to act independently in my assessment of the proposed Scheme.

1.29 I have been assisted by colleagues in the preparation and peer review of this report. However, this report is written in the first person and the opinions expressed are mine alone.

Parties for whom my report has been prepared

1.30 The Independent Actuary's Report has been prepared for the benefit of the policyholders of AIB life and Irish Life.

1.31 I also note that the Report could be of particular interest to the Court and may be used as part of the petition to the Court to sanction the transfer.

1.32 The report may also be of interest to the following parties:

- The Directors and senior management of AIB life and Irish Life and their parent companies;
- The Central Bank or any other governmental department or agency having responsibility for the regulation of insurance companies in Ireland, or other relevant Member States of the European Economic Area ("**EEA**"); and
- The professional advisors of any of the above with respect to the proposed Scheme.

Reliances and limitations

1.33 In preparing the Independent Actuary's Report, I have had access to certain documentary evidence provided by AIB life and Irish Life, the principal elements of which I list in Appendix A to this report. In addition, I have had access to, and discussions with, the senior management of both AIB life and Irish Life. My conclusions depend on the substantial accuracy of this information, and I have relied on this information without independent verification. There are no documents or other information that I have requested and that have not been provided.

1.34 I have relied on the work of the Companies' external auditors (where relevant) in gaining confidence in the financial information as at 31 December 2022 as summarised in this report. I have relied on Irish Life's Head of Actuarial Function in relation to the calculation of the technical provisions as at 31 December 2021 and 31 December 2022 and on the information contained within the Companies' own risk and solvency assessment ("**ORSA**") reports.

1.35 As AIB life is a newly authorised insurance entity, it did not have any inforce life assurance business as at 31 December 2022. AIB life has provided me with the detailed business plan which accompanied its application for authorisation, and I have placed reliance on this document.

1.36 Neither I, nor any member of my team, is a qualified legal or tax expert. I have relied on the opinions and assurances of the Companies' experts in these matters and have not sought independent expert advice.

1.37 The Independent Actuary's Report is based on the information available to me at, or prior to, 21 June 2023, and takes no account of developments after that date.

1.38 The Independent Actuary's Report, and any extract or summary thereof, has been prepared specifically and solely for the purposes of Section 13 of the 1909 Act.

1.39 Copies of the Independent Actuary’s Report may be made available for inspection by policyholders of both AIB life and Irish Life and copies may be provided to any person requesting the same in accordance with legal requirements.

1.40 Other than the aforementioned purpose and providing a copy to the Court and placing a copy on the Companies’ websites, neither the Independent Actuary’s Report, nor any extract from it, may be published without my specific written consent having first been given. In the event such consent is provided, the Independent Actuary’s Report must be provided in its entirety.

1.41 I have prepared a summary of this report which will be provided to the Court and will be available on the websites of both AIB life and Irish Life and in hardcopy upon request. No other summary of this report may be made without my written consent and, in particular, no other summary of this report may be distributed to policyholders without my prior approval.

1.42 The Independent Actuary’s Report has been prepared within the context of the assessment of the terms of the proposed Scheme. No liability will be accepted by Milliman, or me, for any application of the Independent Actuary’s Report to a purpose for which it was not intended, nor for the results of any misunderstanding by any user of any aspect of the Independent Actuary’s Report (or any summary thereof). Judgments as to the conclusions contained in the Independent Actuary’s Report should be made only after studying the report in its entirety. Furthermore, conclusions reached by the review of a section or sections on an isolated basis may be incorrect.

1.43 The Independent Actuary’s Report should be read together with the other documents relating to the proposed Scheme.

Professional guidance

1.44 The Independent Actuary’s Report has been prepared under the terms of the guidance set out in version 1.0 (effective 1 December 2022) of the Actuarial Standard of Practice (“**ASP**”) INS-2 (“Transfer of an Insurance Portfolio – Role of the Independent Actuary”) issued by the SAI.

1.45 In addition, version 1.2 (effective 1 March 2022) of ASP PA-2 (“General Actuarial Practice”), as issued by the SAI, requires members to consider whether their work requires an independent peer review. In my view, this report requires peer review and, in accordance with Milliman quality assurance requirements, it has been peer reviewed by another Milliman Principal.

Terminology

1.46 My report contains various technical terms which I need to use in assessing the proposed Scheme. Those terms are written in bold font when first defined in my report and are also listed in the glossary in Appendix B.

Structure of this report

1.47 The remainder of this report is structured as follows:

- An Executive Summary is provided in section 2;
- The regulatory regime governing Irish insurance companies is summarised in section 3;
- Section 4 provides a summary of the business of Irish Life;
- AIB life’s business is summarised in section 5;
- Section 6 summarises the proposed Scheme;
- In section 7, I set out the basis on which I will assess the proposed Scheme;
- My assessment of the proposed Scheme is set out in sections 8 (security of benefits) and 9 (fair treatment);
- My conclusions are set out in section 10;
- Appendix A lists the principal data sources I relied upon in carrying out my work; and
- A glossary of terms is provided in Appendix B.

2 EXECUTIVE SUMMARY

Background and context

2.1 A distribution agreement has been in place between AIB and Irish Life since April 2012. Under this agreement, AIB financial advisors provided their clients (AIB customers) with access to Irish Life's product range, which includes pensions, investment and protection products.

2.2 Under the distribution agreement, ownership and responsibility for the customer relationship was retained by AIB, with the right to provide ongoing financial advice to these customers being restricted to AIB only. Irish Life could engage directly with those customers only for the purpose of servicing their existing policies.

2.3 The distribution agreement between AIB and Irish Life terminated on 15 May 2023, with AIB forming a new distribution partnership with AIB life.

2.4 Both AIB and Irish Life agree that it is in the best interests of existing customers with unit linked pension and investment policies to continue to receive on-going advice from an AIB financial advisor (noting that the customers in question are AIB clients, were sold their policies by AIB financial advisors and continue to be serviced by AIB financial advisors). These customers' best interests are served when their financial advisor can access and help them to manage their long-term financial needs from one place. It is with that in mind that Irish Life and AIB life have agreed to transfer a defined portfolio of Irish Life's insurance business to AIB life, comprising these customers. It is believed that the transfer will result in better long-term financial planning outcomes for the customer than the alternative (which would be for customers' policies to be split across two different life assurance companies, with Irish Life restricted from the level of engagement it could have with these customers).

2.5 Irish Life and AIB life have concluded that the proposed portfolio transfer will ensure that AIB financial advisors retain the most efficient access to their customers for the purposes of providing continued advice and guidance on their financial affairs.

2.6 The proposed transfer requires Court approval, and Irish Life is applying to the Court to seek such approval. The terms of the proposed transfer are set out in the proposed Scheme, and the application is set out in a Petition, both of which will be submitted to the Court.

2.7 This report, which I have prepared in my capacity as the Independent Actuary appointed by the Companies, considers the impact of the proposed transfer of business from Irish Life to AIB life.

2.8 Further details on the background to the proposed transfer and on my role as Independent Actuary are set out in section 1.

2.9 The Companies are both Irish-domiciled insurance companies and are therefore both subject to the same regulatory and supervisory regime. The Irish regulatory regime for insurance companies is substantially based on the Solvency II framework developed at EU level, with some local additions. This regulatory framework provides the basis on which insurers must manage their businesses, as well as how they must report both publicly and privately to the supervisor (the Central Bank). The framework also defines the concepts and measures used in managing and reporting on insurance companies' financial and solvency positions.

2.10 Further details on the Irish regulatory framework for insurance companies are set out in section 3.

The proposed Scheme

2.11 The proposed Scheme will see a defined portfolio of Irish Life's insurance business transferred to AIB life, subject to the approval of the Court. I have been provided with a copy of the proposed Scheme, the main features of which I summarise as follows:

- The Effective Date will be 1 November 2023 unless another date is specified by the Court;
- The proposed Scheme is conditional on a number of criteria being met, including no objection to the Scheme having been made by the Central Bank. It will also be necessary to have complied with all of the agreed pre-transfer policyholder notification requirements as directed by the Court;
- Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies will transfer on the Effective Date from Irish Life to AIB life, which will then become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with AIB life as they previously had with Irish Life);

- Any rights, powers, obligations and liabilities of Irish Life under the Transferring Policies will be transferred to AIB life, as will all property and assets (or equivalent value of assets) held by Irish Life in respect of the value of investments in any unit-linked funds held by those policies;
- To the extent that there is discretion available to AIB life as to how it will apply or modify the contractual provisions that govern the operation of the Transferring Policies and/or the internal funds to which their benefits are linked, that discretion will be exercised in accordance with the principles in relation to policyholders' reasonable expectations that apply to similar business in AIB life, taking into account the opinion of AIB life's Head of Actuarial Function;
- Irish Life and AIB life will each bear their own costs and expenses associated with preparing and implementing the proposed Scheme. No costs or expenses will be borne directly by any of the policyholders of either of the Companies;
- The Court may impose modifications, additions or further conditions to the proposed Scheme. Other additions and modifications to the proposed Scheme are permitted prior to the Effective Date if the Companies both agree, subject to Court approval; and
- After the Effective Date, AIB life may, in certain limited circumstances apply to the Court for approval to change the terms of the Scheme. Any such application from AIB life would require the Central Bank to be notified and would require a new report from an independent actuary. Irish Life's consent would also be required if the proposed modification would affect its rights, obligations or interests. Finally, the Court would also have to give its approval.

2.12 More details on the proposed Scheme are provided in section 6.

Policyholder communications

2.13 By law, the position with regard to policyholder communications is that all policyholders (of both Companies) must, unless the Court directs otherwise, be provided with a Circular which includes a summary of the main provisions of the Scheme and a copy of the Independent Actuary's report. Accordingly, it is open to the Companies to ask the Court for a derogation from various aspects of those requirements.

2.14 I understand that the Companies intend to ask the Court for permission to modify and waive some of these requirements, as follows:

- That the Circular point the relevant policyholders to a summary of the Independent Actuary's Report which will be placed on the Companies' websites rather than actually posting a hard copy of this report (or a summary of it) to them. The communication will advise policyholders that if they wish to receive a hard copy report or summary report then they simply need to request one and it will be posted to them;
- That the Circular only be sent to the Transferring Policyholders, rather than to all policyholders in both Companies; and
- In instances in which there is a "communications hold" on a policyholder's account (i.e. where policyholders are no longer resident at the recorded address or policyholders have requested that Irish Life not communicate with them), then if Irish Life does not have a valid email address or other contact details for such policyholders permission will be sought to withhold circulation of the Circular. Otherwise, a link to the Circular will be issued to these policyholders by email (or by using such other contact information as is available).

2.15 If the Court agrees, Irish Life will only send a copy of the Circular (or, in some instances, a link to the Circular, as outlined in paragraph 2.14) to the Transferring Policyholders (with the exception of those Transferring Policyholders who have a "communications hold" on their account(s) and for whom Irish Life does not have a valid email address or other contact details). The existing (pre-Effective Date) policyholders of Irish Life and AIB life will not receive the Circular.

2.16 In summary, Irish Life intends to send a letter to the Transferring Policyholders (the "**Policyholder Letter**") which in broad terms explains the Scheme. I have reviewed a draft of this Policyholder Letter, which also explains that additional documentation including the Scheme together with a summary of the Scheme and a copy of the Independent Actuary's report, as well as a summary thereof (the "**Transfer Documentation**") will be available to review on the Companies' websites. Policyholders can alternatively email or telephone a Freephone number to request a hard copy of the Transfer Documentation. I have also reviewed a draft document containing a list of frequently asked questions ("**FAQ document**") which will be included with the Policyholder Letter.

2.17 More details on the proposed approach to policyholder communications, and the Companies' rationale for the proposed approach, are provided in section 6. My views on the proposed approach are set out in section 9.

Information provided

2.18 I have been provided with comprehensive information on the Petition and proposed Scheme, as well as on the business of Irish Life and AIB life. Appendix A contains a list of the principal items of information provided to me.

2.19 I summarise the information provided on Irish Life in section 4, and the information provided on AIB life in section 5. The main aspects of the Petition and proposed Scheme are summarised in section 6.

Key assumptions

2.20 There are certain assumptions that I have made when assessing and reaching my conclusions on the proposed Scheme and which I summarise here. I have disclosed and discussed my assumptions with the Companies, and they have not raised any objections. However, if any of these assumptions are incorrect, it is possible that my conclusions on the proposed Scheme could change as a result.

2.21 Summary of key assumptions:

- The portfolio of policies which falls within the scope of the proposed Scheme is in line with the definition set out in paragraph 1.6 above;
- All liabilities associated with the Transferring Policies will transfer from Irish Life to AIB life (with the exception of any liabilities which have been specified by the Scheme as being excluded);
- The assets (or equivalent value of assets) supporting the investments in any unit-linked funds held by the Transferring Policies will transfer from Irish Life to AIB life (or to such third parties as nominated by AIB life, in accordance with the proposed Scheme);
- Irish Life Financial Services Ltd (a member of the Great-West Lifeco group) already administers the portfolio of Transferring Policies and will continue to do so post transfer to AIB life (under a separate outsourcing agreement). However, the administration of this business will be appropriately segregated from the administration of Irish Life's business post-transfer;
- Irish Life will follow the business strategy as articulated in its most recent ORSA;
- AIB life will follow the business strategy which has been articulated in its application for authorisation to the Central Bank of Ireland; and
- AIB life has been structured as a long-term strategic investment by both shareholders and there are currently no corporate plans that would impact its current ownership.

2.22 Further details on key assumptions are provided in section 7 (starting at paragraph 7.13).

My approach to assessing the proposed Scheme

2.23 In section 7, I set out the approach I take in assessing the proposed Scheme. I then provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9.

2.24 The conditions to be met by the proposed Scheme are:

- that the security of policyholders' benefits will not be materially adversely affected;
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable expectations; and
- that the standards of administration, service, management and governance that will apply to any of these groups of policyholders will not be materially adversely affected.

2.25 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;

- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and
- the extent of parental (or other) support available.

2.26 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;
- the tax treatment of policyholders' premiums and/or benefits;
- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders; and
- levels of customer service to policyholders.

2.27 The arrangements regarding the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

2.28 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from Irish Life (the "**Transferring Policyholders**");
- Existing (pre-Effective Date) policyholders of Irish Life ("**Irish Life's existing policyholders**"); and
- Existing (pre-Effective Date) policyholders of AIB life ("**AIB life's existing policyholders**").

My assessment of the proposed Scheme

2.29 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9. I summarise that assessment in the following paragraphs.

2.30 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than might otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). The points of similarity include:

- Both are domiciled in Ireland and subject to the same regulations and the same supervisory regime;
- Both have a common shareholder – Great-West Lifeco – which ultimately owns 100% of Irish Life and 50% of AIB life;
- Both are currently authorised to write both unit-linked and non-linked protection business in the Irish market;
- Both have reasonably similar overall risk profiles (initially, and over the business planning horizon);
- Both have similar capital management policies;
- Both employ similar risk management tools and techniques, including reliance on reinsurance as a risk mitigant; and
- Post-transfer, both companies will use the same service providers for policy administration, claims management and investment management services (i.e. Great-West Lifeco group services companies, which provide these services to Irish Life at present). AIB life will, however, only use these service providers in relation to the Transferring Policies.

2.31 There are also some differences, however, including (but not limited to):

- AIB life is a newly authorised life insurance entity (and commenced writing new business in March of this year) whereas Irish Life is already very well-established in the Irish market;
- Therefore, Irish Life is of a much larger scale than AIB life, though AIB life is expected to grow at a much faster pace in the near term as it seeks to build economies of scale;

- Irish Life currently has much more complexity within its portfolio of in-force business (and this is likely to continue to be the case post completion of the proposed transfer); and
- Irish Life operates a multi-channel distribution strategy, whereas AIB life will have only one distribution partner (at least initially).

2.32 My full assessment of the proposed Scheme in relation to its implications for the security of policyholders' benefits is set out in section 8. In the following table, I briefly summarise the results of my assessment for the three groups of policyholders.

Table 1: High-level summary of my assessment of the proposed Scheme – benefit security

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
Current/recent solvency position	The solvency coverage ratio of Irish Life is calculated as being 166% as at 31 December 2022. AIB life did not report a solvency coverage ratio as at 31 December 2022 as it had not yet received its authorisation from the Central Bank of Ireland. Post completion of the proposed transfer, AIB life is expected to have a solvency coverage ratio of 144%. While this is lower than Irish Life's current solvency coverage ratio of 166%, it is still comfortably in excess of the regulatory minimum of 100% solvency coverage. However, one should exercise caution when considering solvency coverage ratios at single points in time.	The solvency coverage ratio in Irish Life post-transfer (167%) is calculated as being slightly higher than pre-transfer (166%) as at 31 December 2022.	The expected solvency coverage ratio as at 31 December 2023 of AIB life post-completion of the proposed transfer (144%) is calculated as being significantly lower than immediately prior to the transfer (878%). The main reason though is that the pre-transfer solvency coverage ratio is artificially inflated due to the addition of the own funds that will be needed to support the SCR of the transferring business. Excluding these additional own funds, the solvency coverage ratio pre-transfer is circa 150%.
Projected solvency position	Both companies enjoy strong solvency positions and this is projected to continue over the next 5 years (which is the business planning horizon). Post transfer, AIB life's solvency position is expected to remain comfortably in excess of regulatory requirements, and in line with its capital management policy, in the years immediately following the proposed transfer.	The planned transfer of business is projected to have a slightly positive impact on Irish Life's solvency position.	While the transfer of the Irish Life business is projected to have a negative impact on AIB life's solvency position at the time of the transfer, this is mainly because its solvency coverage ratio immediately prior to the completion of the transfer will have been artificially inflated (see above). AIB life's projected solvency position is expected to remain comfortably in excess of regulatory requirements in the years immediately following completion of the proposed transfer.
Risk profile	The Transferring Policyholders will be moving from a company within which the main financial risks are currently underwriting risk, market risk, and counterparty risk to one with exposure to a similar range of	The transfer will not have a material impact on the overall risk profile of Irish Life.	The transfer will not have a material impact on the overall risk profile of AIB life (i.e. the range of risks to which it is exposed). The quantum of risk (as measured by the SCR) will

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
	risks, although there are some differences (notably counterparty risk being relatively less significant in AIB life) given the different current states of maturity of the two companies. As a newly authorised insurer, AIB life carries some additional risk in certain areas (e.g. liquidity risk, and the risk that the company fails to reach scale). However, these additional risks are being mitigated where possible and do not materially adversely impact the financial security of the Transferring Policyholders.		materially increase, but so too will the quantum of own funds available to protect against the additional risk.
Risk management	AIB life has similar risk management policies, frameworks, oversight and governance to Irish Life.	Irish Life does not intend to change its risk management framework as a result of the proposed transfer.	AIB life does not intend to change its risk management framework as a result of the proposed transfer.
Capital management policy	AIB life's capital management policy is very similar to that of Irish Life.	Irish Life does not intend to change its capital management policy as a result of the proposed transfer.	AIB life does not intend to change its capital management policy as a result of the proposed transfer.
Business model sustainability	The business models of both Irish Life and AIB life are quite similar, with both companies operating in the Irish market and selling similar types of business. There are some differences though, e.g. Irish Life currently operates a multi-channel distribution strategy whereas AIB life will, at least initially, operate a single distribution channel (i.e. AIB). Any such differences would not be expected to have any negative impact upon the security of benefits of the Transferring Policyholders.	The transfer of business to AIB life does not impact the business model of Irish Life.	The transfer in of the Irish Life portfolio is in line with AIB life's business plan and does not have any impact on its business model. This transfer will add scale to the AIB life book and unlock synergies which will benefit the company, and which should, ultimately, also benefit its policyholders.
Recovery and resolution options	Although Irish Life currently has a broader range of recovery options available to it than is the case for AIB life (due to its relative size), the range of available recovery options should become similar over time as AIB life builds scale. The most effective recovery option is parental support, and both Irish Life and AIB life have this option	The transfer of business to AIB life will not have any material impact the options available to Irish Life.	The transfer in of the Irish Life portfolio will, if anything, enhance the options available to AIB life, as it will add scale to the business.

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
	available to them. The options available in a resolution situation are similar for both companies.		
Parental support	The proposed transfer will not result in any material adverse change to the nature, character or likelihood of parental support available to the Transferring Policyholders.	The proposed transfer will not result in any material adverse change to the nature, character or likelihood of parental support available to Irish Life's existing policyholders.	The proposed transfer will not result in any material adverse change to the nature, character or likelihood of parental support available to AIB life's existing policyholders.

2.33 My full assessment of the proposed Scheme in relation to the fair treatment of policyholders is set out in section 9. In the following table, I briefly summarise the results of my assessment for the three groups of policyholders.

Table 2: High-level summary of my assessment of the proposed Scheme – fair treatment

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
Policy terms and conditions	The proposed Scheme provides that there will be no change to existing policy terms and conditions.	The proposed Scheme provides that there will be no change to existing policy terms and conditions.	The proposed Scheme provides that there will be no change to existing policy terms and conditions.
Discretion and Policyholders' Reasonable Expectations ("**PRE**")	I have no reason to believe that there will be any materially adverse impact from the way in which AIB life may exercise its discretion, compared to how Irish Life can currently exercise its discretion, in relation to certain contractual terms and conditions.	No change.	No change.
Service standards	The back-office service standards will not change as the same entity currently fulfils this role for Irish Life as will perform it in the future for AIB life (under a new outsourcing agreement).	No change.	No change.
Fund Range	The range of Irish Life internal linked funds that is currently available to the Transferring Policies, pre-transfer, will be replaced by a new internal linked fund range. The replacement of unit-linked funds is permitted under the policy conditions of the Transferring Policies and it not unusual for unit-linked funds to be replaced by new funds from time to time. The Companies have collectively carried out a detailed fund mapping exercise, in order to	No change.	No change.

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
	ensure that each existing fund that is currently held by one or more of the Transferring Policies is replaced by a suitable fund with similar characteristics and risk rating within the new AIB life unit-linked fund range. The HoAF of each company has reviewed the proposal, particularly from the perspective of policyholder reasonable expectations, and neither has noted any material concerns.		
Fund Charges	The charges which will be levied on the Transferring Policyholders investing in each of the replacement funds within AIB life will, for a large majority of individual funds, remain unchanged relative to the charges which applied to each corresponding original fund within Irish Life. However, in the case of three funds the charges will reduce by one basis point per annum, while in the case of two other funds there will be an increase of approximately two basis points per annum). It is noteworthy that the total level of fund charges applied to these five funds has varied by up to eight basis points per annum (when examined over the past six years), and the charges associated with the replacement funds within AIB life are also expected to vary slightly into the future. Given the level of inherent variation that has been observed over time, coupled with the very small magnitude of the changes overall, any increase in fund charges (impacting only two funds), as a result of the proposed transfer, may be considered to be immaterial. There will also be a change to the way in which a portion of the annual fund charge will be applied to each of the internal	No change.	No change.

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
	linked funds as a result of the migration from the Irish Life fund range into the AIB life range, in order to align with the methodology that is used across all of AIB life's internal linked funds. However, this change in approach is not expected to result in any adverse impact on the Transferring Policies. The HoAF of each company has reviewed these proposals, particularly from the perspective of policyholder reasonable expectations, and neither has noted any material concerns.		
Tax	External tax experts retained by AIB life have examined the terms of the proposed Scheme and concluded that it will have no adverse consequences for the tax treatment of these policyholders. The Scheme of transfer also states that the proposed transfer will not proceed if there are material adverse tax consequences arising from the implementation of the Scheme (unless such consequences do not materially adversely impact the security of benefits for policyholders, or their reasonable expectations). Any tax liabilities that crystallise as a result of the transfer of the policyholders' assets will not be borne by the policyholders. A formal submission to the Office of Revenue Commissioners of Ireland will be made in advance of the proposed transfer to ensure that there are no unforeseen tax consequences.	I have been advised that the proposed Scheme is not expected to have any adverse consequences for these policyholders.	I have been advised that the proposed Scheme is not expected to have any adverse consequences for these policyholders.
Other	I have not identified any other issues where the implementation of the	I have not identified any other issues where the implementation of the	I have not identified any other issues where the implementation of the

	Transferring Policyholders	Irish Life's existing policyholders	AIB life's existing policyholders
	proposed Scheme would materially adversely affect these policyholders.	proposed Scheme would materially adversely affect these policyholders.	proposed Scheme would materially adversely affect these policyholders.

My conclusions

2.34 My conclusions are provided in section 10. In summary, having considered the effects of the proposed Scheme on both the Transferring Policyholders and Irish Life's existing policyholders, I am satisfied that the implementation of the proposed Scheme would not have a material adverse effect on

- the security of benefits of any of the three group of policyholders;
- the reasonable expectations of any of the three groups of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both any of the three of policyholders.

2.35 I am also satisfied that the proposed approach to communicating with policyholders is reasonable.

2.36 I will prepare a Supplemental Report closer to the date of the final Court hearing to provide an update for the Court on my conclusions in the light of any significant events or developments that may have occurred in the meantime. The Supplemental Report will be made available on the Companies' websites and will also be available for inspection in accordance with the arrangements set out in the Petition and the Circular.

3 OVERVIEW OF THE REGULATORY REGIME FOR IRISH INSURERS

Introduction

3.1 Irish Life and AIB life are both Irish life assurance companies and are therefore subject to the same prudential regulatory and supervisory regime in respect of the entirety of their business. The regulation and supervision of conduct of business risk depends on the territory where the insurer has written the business – in the case of the Transferring Policies, all business was written in the Republic of Ireland.

Prudential regulation

3.2 Solvency II is the name given to the prudential regime for insurers (and reinsurers) across the European Union ("**EU**"). Introduced in 2016, it is based on the following so-called three pillar approach:

- Pillar 1: Quantitative requirements;
- Pillar 2: Governance and risk management; and
- Pillar 3: Supervisory reporting and public disclosure.

3.3 Taken together, the three pillars are intended to form a coherent overall approach which incentivises the understanding and management of risks across the insurance sector.

3.4 Some of the key features of the Solvency II regulatory framework are:

- Risk-based: Higher risks will lead to higher capital requirements to cover for unexpected losses. Appropriate credit is given for risk mitigation strategies through reduced capital requirements;
- Market consistent: Assets and liabilities are valued at market value (or a proxy if no direct market price exists); and
- Proportionate: The requirements are intended to be applied in a way that is proportionate to the nature, scale and complexity of the risks inherent in an insurer's business.

3.5 The EU Solvency II Directive has been implemented in Ireland in the European Union (Insurance and Reinsurance) Regulations 2015 ("**the Solvency II Regulations**"), supplemented by EU-wide Delegated Regulations and additional requirements and guidelines issued by the Central Bank.

3.6 In the following paragraphs, I provide a summary of the main relevant features of the Solvency II framework. The descriptions and explanations are necessarily high-level in places and should not be taken as exhaustive. They should, however, help to introduce some of the concepts that I refer to later in this report – in particular when discussing the financial and solvency position of the Companies.

PILLAR 1

3.7 Pillar 1 sets out the rules for the valuation of insurers' assets and liabilities and the rules for determining the risk-based capital requirements.

3.8 In summary, the Solvency II Regulations require insurers to value their assets and liabilities at market value, but in most cases liabilities to policyholders are determined on a best estimate basis with the addition of an explicit risk margin, reflecting the lack of a market "price" for insurance liabilities. The policyholder liabilities are valued using best-estimate assumptions, with the projected future cashflows discounted using risk-free rates (with some adjustments).

3.9 Together, the best estimate liability ("**BEL**") and risk margin form the technical provisions which sit on the liability side of the Solvency II balance sheet. To the extent that any business is outwardly reinsured (and this reinsurance remains a positive for the Company), there will be an offset to the technical provisions (the "**reinsurance recoverable**") which sits on the asset side of the balance sheet. The terms "net" and "gross" are sometimes used in the context of the BEL or technical provisions to denote the position with or without allowance for reinsurance respectively.

3.10 The Solvency II balance sheet provides the measure of the amount by which an insurer's assets exceed its liabilities (termed the insurer's "**own funds**"). There can be some further adjustments needed to arrive at the "**eligible own funds**", which are the own funds eligible to be counted towards meeting the regulatory capital requirements.

3.11 The eligible own funds are then compared with a regulatory capital requirement termed the Solvency Capital Requirement ("**SCR**"), which is a risk-based capital requirement, intended to represent the amount of capital that an insurer needs to hold to ensure that it will still be solvent (i.e. that its assets will exceed its liabilities, measured according to Solvency II valuation rules) in one year's time with a probability of at least 99.5% based on the insurer's own risk profile. Insurance companies must therefore ensure that they have sufficient available capital resources (i.e. eligible own funds) to cover the SCR.

3.12 The SCR must cover a prescribed list of various types of risk:

- underwriting risks (life / non-life / health);
- (financial) market risks;
- counterparty default risk; and
- operational risk.

3.13 Insurers may calculate their SCR using standard prescribed stress tests or factors for the various types of risk, which are then aggregated using prescribed correlation matrices. This approach is known as the "**Standard Formula**". Alternatively, the SCR may be calculated using an **"internal model"**, which is based on the insurer's internally-derived assessment of appropriate capital requirements, provided it has first been approved by the insurer's regulator and, in doing so, must meet a number of prescribed standards.

3.14 The benefits of risk mitigation techniques (e.g. reinsurance of underwriting risks; hedging of market risks) can be recognised in the calculation of the SCR, subject to certain conditions being satisfied.

3.15 Both Irish Life and AIB life use the Standard Formula approach to determining their respective SCRs.

3.16 In addition to the SCR as described above, there is also a second, lower, level of regulatory capital requirement under Solvency II, known as the Minimum Capital Requirement ("**MCR**") which is intended to represent the amount of capital required to ensure continued solvency in one year's time with a probability of at least 85%.

3.17 The two capital requirements – SCR and MCR – define two rungs on the so-called "*ladder of supervisory intervention*", under which increasingly severe actions will be taken by an insurer's regulator if its level of available capital falls below the SCR (the first point of regulatory intervention)[1] and approaches the MCR. The MCR is the ultimate point of supervisory intervention, below which a company would lose its authorisation.

PILLAR 2

3.18 In addition to the Pillar 1 requirements, under Pillar 2, insurers are required to adopt risk management policies, capital management policies, and risk appetite statements (amongst other things), all of which aim to contribute to effective risk and capital management.

3.19 Furthermore, every insurer is required to conduct an Own Risk and Solvency Assessment ("**ORSA**") on at least an annual basis and to report the findings to the Board and the Central Bank. An ORSA must also be carried out whenever there is a material change in risk profile.

PILLAR 3

3.20 Pillar 3 imposes reporting requirements on insurers – both private reporting to the supervisor and public reporting.

3.21 The private reporting to the supervisor includes quarterly financial and other quantitative information which is provided in defined formats (termed Quantitative Reporting Templates or "**QRTs**"), as well as a more comprehensive suite of annual QRTs and a periodic narrative report (the Regular Supervisory Report).

3.22 In terms of public reporting, every insurer is also required to publish detailed information on its recent performance and solvency position in its annual Solvency and Financial Condition Report ("**SFCR**"), which also includes a subset of the annual QRTs.

Conduct of business regulation

3.23 As noted above, as the Companies are both Irish-authorised insurers, they are both subject to the relevant Irish prudential regulations and to the ongoing prudential supervision of the Central Bank in respect of their entire business.

[1] Although, legally, the supervisory authorities can only first intervene when an insurer's available capital falls below the level of its SCR (i.e. an SCR coverage ratio of less than 100%), in practice supervisors expect insurers to manage their businesses to a higher level of coverage.

3.24 When it comes to the regulation and supervision of conduct of business matters, these are the domain of the territory in which the business is written. The relevant conduct of business regulations vary from one territory to the next but companies are required to comply with them on a territory-by-territory basis. All of business written thus far by AIB life was sold in Ireland (and supervised by the Central Bank). A small portion of the inforce business of Irish Life was sold in the UK, but this business does not comprise any of the policies that form part of the proposed Scheme that is the subject of this report.

Policyholder's reasonable expectations

3.25 Whilst not, strictly speaking, a legal or regulatory requirement, the concept of "policyholders' reasonable expectations", or "**PRE**", has evolved over time and has come to be an important consideration in terms of how insurers treat their policyholders beyond the contractual obligations set out in their policy terms and conditions.

3.26 The concept first arose in the context of "with-profits" business, where insurers retained very substantial discretion in deciding on the extent to which profits would be shared with policyholders by way of discretionary bonus additions to their contractual benefits. Over the years, the concept has been extended to apply to other types of business, including unit-linked business.

3.27 The PRE concept is not, however, well-defined. It is not set out in any Irish insurance legislation, nor in any regulatory communication.

3.28 A briefing note[2] issued by the SAI stated that:

"The Financial Regulator expects life assurance companies to deal fairly and equitably with policyholders and to meet "policyholders' reasonable expectations". This term is not formally defined, but a working understanding of the concept has developed.

Policyholders' reasonable expectations will be affected by:

(a) the communications provided to policyholders, including policy projections; and

(b) the basis on which the company exercises any discretions that it has in relation to policy conditions.

The Board is responsible for meeting policyholders' reasonable expectations. The Appointed Actuary must make an interpretation of the company's policyholders' reasonable expectations, in order to value the company's life assurance liabilities, and will make the Board aware of his or her interpretation.

Among the areas where interpretation of policyholders' reasonable expectations may be required are:

(a) equity in bonus distribution to with profit policyholders;

(b) the unit pricing process in the case of unit-linked policies; and

(c) the exercise of discretions to change policy conditions, especially charges.

The Appointed Actuary may have a specified role in some of these matters in accordance with policy terms but, in any event, would be expected to inform the Board on his or her interpretation of the impact of proposals in all of these or similar areas on policyholders' reasonable expectations."

3.29 An updated note[3], issued by the SAI in January 2007 following the revisions of a number of ASPs, included the following statements:

"In line with the position set out by the Financial Regulator, the Board is responsible for the proper running of the company, including all matters pertaining to the fair treatment of the company's policyholders."

"The Actuarial Standards of Practice LA-1 and LA-4 address matters relating to policyholders' reasonable expectations. In valuing the company's life assurance liabilities, the Appointed Actuary must take into account, and therefore has a continuing responsibility to advise the Board of, his or her interpretation of the company's policyholders' reasonable expectations."

[2] "The Role of the Appointed Actuary in Ireland" available at:
https://web.actuaries.ie/sites/default/files/story/2007/03/070320_the_role_of_the_appointed_actuary_in_ireland.pdf

[3] "Duties of the Appointed Actuary" issued January 2007 and available at:
https://web.actuaries.ie/sites/default/files/story/Duties_of_the_Appointed_Actuary/070124_duties_of_the_appointed_actuary.pdf

"It is, however, the Board that is responsible for meeting policyholders' reasonable expectations, and consequently the revised Actuarial Standards of Practice consider policyholders' reasonable expectations only in the context of the Appointed Actuary's responsibility to establish adequate technical reserves."

3.30 Until relatively recently, the SAI maintained an ASP on PRE ("ASP LA-4: Additional guidance for Appointed Actuaries on policyholders'' reasonable expectations"), but this was withdrawn in March 2020[4].

3.31 That ASP included the following requirement for Appointed Actuaries:

"The Appointed Actuary must ensure that the Board is aware of his or her interpretation of policyholders' reasonable expectations. In general terms, this interpretation must have regard to the broad nature of the Company's practices and its approach to the treatment of policyholders both individually and (where appropriate) collectively as a group vis-à-vis shareholders. When a material change is likely to take place in the Company's practices, the Appointed Actuary must advise the Board of the implications for policyholders' reasonable expectations."

3.32 Under Solvency II, the role of the Appointed Actuary no longer exists. However, the Central Bank has, without defining what it means by PRE, introduced requirements for the HoAF to set out, in his or her annual report to the Board of directors on technical provisions, his or her interpretation of PRE and how this has been considered in establishing the technical provisions. However, despite this role for the HoAF, it is generally accepted that under Solvency II the responsibility for meeting PRE rests with the Board of directors.

3.33 Given the lack of codification, considerations of PRE are largely a matter of judgement. The Board of directors is ultimately responsible but will often take the HoAF's views into account (particularly given the requirement for the HoAF to articulate his or her view of PRE, but also because of the long history of the actuarial profession's involvement in this area, as evidenced by the notes and ASP referred to above) and will also look to standards or approaches from other relevant territories (particularly the UK for historical and cultural reasons).

3.34 The SAI has stated, in ASP INS-2, the need for the Independent Actuary to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act.

[4] The Society of Actuaries in Ireland has a working group in place that is examining the topic of PRE and is considering whether or not to issue any form of new guidance or discussion papers on this topic in the future.

4 BACKGROUND TO IRISH LIFE

History and background

4.1 Irish Life is an Irish-incorporated and Irish-authorised public limited company. It was incorporated on 11 December 1989, under company registration number 152576, as Calbourne Limited. The Company changed its name to Irish Life Assurance (Newco) Limited on 21 September 1990. On 31 December 1990, Irish Life re-registered as a public limited company and changed its name to Irish Life Assurance plc.

4.2 Irish Life is wholly owned by Irish Life Group Limited. On 29 June 2012, Irish Life Group Limited was acquired by the Minister for Finance on behalf of the Irish State for €1.3 billion. The completion of this transaction marked the legal separation of the businesses of Permanent tsb bank and the Irish Life group of companies (which together had previously formed the Irish Life & Permanent Group).

4.3 In February 2013, an agreement was reached between Great West and the Irish Government on the acquisition of the Irish Life group of companies. Following receipt of the necessary regulatory approvals, the transaction was completed on 18 July 2013.

4.4 Irish Life is therefore a wholly owned subsidiary of Great-West Lifeco Inc, which is a company incorporated in Canada. Great-West Lifeco and its subsidiaries - including the Great-West Life Assurance Company which was founded in Winnipeg, Canada, more than a century ago - have in the region of CAD$2 trillion (Canadian dollars) in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

4.5 Irish Life is authorised by the Central Bank to transact insurance business in Life Classes I, III, IV, VI and VII.

4.6 Irish Life is the largest life and pensions group in Ireland, with over 1.3 million customers[5]. Irish Life operates a multi-channel distribution strategy for its products and services. For individual customers, it provides a wide product range including pensions, protection, investment and regular savings products. It also provides a wide range of group pension and protection solutions to employers, pension schemes and affinity groups. Irish Life's unit-linked business includes individual and group life and pension business. Some unit-linked products have attaching guarantees or capital protection provided either by Irish Life or third parties. The non-linked business includes annuities, income protection, and term assurances. The life assurance business of Irish Life consists of both participating and non-participating policies.

4.7 The business of Irish Life consisted of the following portfolios as at 31 December 2022.

Table 3: Irish Life – Summary of business as at 31 December 2022 (€ millions)

Line of business	BEL including unit-linked liability (1)	RM (2)	Total TPs[6] (3)=(1)+(2)	Reinsurance Recoverables (4)
Life - Contracts with profit participation	75	0	75	0
Life - Unit-Linked	52,036	154	52,190	8
Life - Other Life Insurance	3,705	138	3,843	1,576
Health	507	37	544	62
Total	**56,323**	**330**	**56,652**	**1,646**

Source: Irish Life 2022 QRTs YE2022

[5] Irish Life has 1.3 million customers but reports 965k contracts in force in its annual QRTs. The difference between these two figures is because in preparing the QRTs, Irish Life counts schemes as one contract, meaning a DB/DC corporate pension scheme would count as one contract rather than being counted as the number of underlying members in the scheme.

[6] For the avoidance of doubt, where the term "technical provisions" is used in this report, any amounts are stated gross of reinsurance recoverables.

Nature of business written

4.8 The make-up of Irish Life's business, as at 31 December 2022, is set out in Table 4 below.

Table 4: Irish Life – Summary of in-force business as at 31 December 2022

Product	No. of policies	Best Estimate Liability including unit-linked liability € millions
Non-Profit		
Individual Insurance	510,317	1,281
Individual and Group Investment	404,828	51,409
Annuities	43,560	3,001
Group Risk	4,082	511
Former with-profits	27	0
Other product lines	1,408	45
With-Profit		
With Profit Policies	1,183	75
Total	**965,405**	**56,323**

Source: Irish Life

4.9 In summary, as at 31 December 2022, Irish Life had 965,405 in-force policies (covering some 1.3 million customers) across a wide range of business lines. Total technical provisions (gross of reinsurance) amounted to €56,653 million (comprising the "best estimate liability including unit linked liability" of €56,323 million, shown above, plus a risk margin of €330 million).

4.10 Irish Life operates through two main divisions, Irish Life Retail (Retail Life) for individual and small business customers and Irish Life Corporate Business (Corporate Life) for corporate customers.

4.11 Irish Life has a multi-channel distribution strategy. This means that sales are split between independent brokers and independently regulated tied agents, tied agents in bank branches and its employed and self-employed sales force.

4.12 Irish Life provides pensions, life and investment products to individual and small business customers in Ireland. It sells pensions and risk products to the corporate customers, namely employers and affinity groups in Ireland, mainly through pension consultants and brokers.

4.13 A specified portfolio of Irish Life's business – the Transferring Policies as defined in paragraph 1.6 above – will transfer to AIB life under the proposed Scheme.

4.14 The Transferring Policies may be grouped as follows:

Table 5: Irish Life – Details of Transferring Policies as at 31 December 2022

Product Type	No. of policies	Best Estimate Liability including unit-linked liability € millions
Unit Linked Savings	4,037	81
Unit Linked Bonds	16,837	1,397
Unit Linked Regular Premium Pensions	2,924	215
Unit Linked Single Premium Pensions	2,760	223
Total	**26,558**	**1,915**

Source: Irish Life

4.15 None of the Transferring Policies participates in profits and none of the Transferring Policies has been subject to any previous scheme of transfer.

4.16 The Transferring Policies are currently administered by ILFS on an outsourced basis. Investment management is also outsourced to Irish Life Investment Managers ("**ILIM**"). No substantive changes will be made to these arrangements under the proposed transfer, other than AIB life contracting directly with ILFS and ILIM post completion of the proposed transfer.

4.17 The Transferring Policies comprise a well-defined block of business. As AIB has terminated its distribution agreement with Irish Life (and now acts as AIB life's distribution partner instead), the number of in-force policies in this portfolio will steadily reduce due to claims. My Supplemental Report will include updated figures for the Transferring Policies.

Solvency position

RECENT SOLVENCY POSITION

4.18 At 31 December 2022, Irish Life had an excess of eligible own funds over its regulatory capital requirement of €673 million, as shown in Table 6 below.

Table 6: Irish Life – Solvency position at 31 December 2022 and 31 December 2021 (€ millions)

	31-Dec-22	31-Dec-21
(1) Total Eligible Own Funds	1,697	1,873
(2) Solvency Capital Requirement (SCR)	1,024	1,179
(3) Solvency Coverage Ratio (= (1) / (2))	166%	159%
(4) Excess of eligible own funds over capital requirement (=(1) – (2))	673	694

Source: Irish Life QRTs YE 2022

4.19 As at 31 December 2022, the Company's assets exceeded its liabilities by €1,697 million (31 December 2021: €1,873 million). The eligible own funds exceeded the regulatory capital requirement by €673 million (31 December 2021: €694 million). This translated into a solvency coverage ratio of 166% at 31 December 2022, compared to 159% at year-end 2021. This improvement was partly due to the impact of market movements over the year, experience gains and losses, capital generated from the inforce book net of new business requirements and the impact of the integration of the business that was acquired from Ark Life Assurance Company dac, offset by the impact of dividend payments.

4.20 Irish Life operates a policy of targeting a solvency coverage ratio significantly in excess of the regulatory minimum level. See paragraphs 4.40 to 4.43 for details.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

Table 7: Irish Life – Pro-forma solvency position at 31 December 2022 (€ millions)

	Total Pre-transfer	Transferring Policies	Total Post-transfer
(1) Total Eligible Own Funds	1,697	58	1,639
(2) Solvency Capital Requirement (SCR)	1,024	40	984
(3) Solvency Coverage Ratio (= (1) / (2))	166%		167%
(4) Excess of eligible own funds over capital requirement (= (1) – (2))	673	17	655

Source: Irish Life

4.21 The impact of the transferring policies on the balance sheet is to reduce eligible own funds by €58 million. The SCR reduces by €40 million[7]. This leads to slight improvement in the solvency coverage ratio (166% moving to 167%) post completion of the proposed transfer.

4.22 The table above also allows for known events that will occur prior to the portfolio transfer, such as the payment of dividends which were classified as “foreseeable dividends” at year-end 2022.

PROJECTED SOLVENCY POSITION

4.23 In addition to looking at the recent solvency position, it is also useful to look at the projected future solvency development.

4.24 In July 2022, the Irish Life Board approved a report documenting the most recent results of an ORSA of the company’s business. The ORSA report included projections of the future solvency position of Irish Life for the period to end-2026 (with and without allowance for the proposed transfer of business from Irish Life to AIB life which is the subject of this report). It also assumed no further transactions or future dividend payments.

4.25 The central projections indicated that, in the absence of any further dividends being paid, Irish Life’s solvency position was expected to improve strongly (when measured in terms of the solvency coverage ratio) over the coming years. In reality, however, it might be expected that dividends will actually be paid (in accordance with the company’s capital management plan), which will temper the projected improvement in the solvency coverage ratio.

4.26 The company’s policy regarding target solvency coverage and dividend payments is summarised below, starting at paragraph 4.40. The ORSA report also included an estimate of dividend capacity in the projections. These projections indicated that a significant level of dividends could be paid over the period to end-2026 and Irish Life’s solvency position would still be maintained above its target level, assuming the business develops in line with the central scenario.

4.27 A wide range of adverse scenarios was tested in the ORSA report, and these demonstrated that the solvency position of Irish Life is expected to be robust under a range of economic and non-economic stresses.

Risk profile

4.28 The range of risks to which Irish Life is exposed includes market/financial risk, credit risk, counterparty risk, insurance risk, business/operational risk, regulatory compliance risk and fiscal risk. As required under the Solvency II Regulations, the Company has in place a risk management framework to monitor and manage risk on an ongoing basis.

4.29 The table below shows the components of the SCR at 31 December 2022 as reported, together with the impact of the proposed Scheme if it had taken place as at that date. As previously noted, the make-up of the SCR (as a risk-based capital measure), is a useful proxy for the Company’s risk profile.

[7] The reduction in the total post-transfer SCR is slightly different to the SCR of the Transferring Policies due to rounding.

Table 8: Irish Life – SCR at 31 December 2022 both pre- and post-transfer (€ millions)

	Reported SCR	Transferring Policies SCR	Total post-transfer SCR
Market risk	589	(27)	562
Counterparty risk	55	0	55
Life underwriting risk	665	(30)	635
Health underwriting risk	179	0	179
Non-life underwriting risk	0	0	0
Diversification	(405)	13	(392)
Intangible asset risk		0	
Basic Solvency Capital Requirement	1,083	(45)	1,038
Operational risk	87	(1)	86
Loss-absorbing capacity of technical provisions		0	
Loss-absorbing capacity of deferred tax	(146)	6	(141)
Solvency Capital Requirement	1,024	(40)	984

Source: Irish Life

4.30 Prior to the transfer, market risk, life underwriting risk and health underwriting risk were the most significant components of Irish Life's SCR.

4.31 The Transferring Policies will lead to a reasonably significant reduction in both life underwriting risk and market risk. Overall, the risk profile, as indicated by the breakdown of the SCR, remains relatively unchanged though.

4.32 In addition to the financial risks shown above, Irish Life is also exposed to non-financial risks, including strategic risk and outsourcing risk.

4.33 In its year-end 2022 SFCR, Irish Life reported that it had seven internal (intra-group) and three external critical or important outsourced service providers. See paragraphs 4.48 to 4.51 for further details on operational arrangements.

4.34 Irish Life's strategy continues to evolve to address issues such as market competitiveness, changes in distribution networks and digitalisation.

Risk management

4.35 Irish Life has adopted a risk management framework which includes the following components:

- risk strategy and appetite, aligned to the Company's business strategy;
- risk tolerances, limits and triggers; and
- risk management policies and ongoing processes to identify, measure, monitor, manage and report risk.

4.36 The risk management framework provides for the continuous and forward-looking identification and assessment of the company's risks. On an annual basis, Irish Life performs an ORSA to assess whether or not it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions (which are designed based on the company's risk profile). The Irish Life Board reviews the conclusions drawn from the ORSA and agrees potential actions to be taken.

4.37 Irish Life has several reinsurance treaties in place with various counterparties. There are high levels of reinsurance on the individual protection and annuity product lines to reduce exposure to adverse mortality, morbidity and longevity experience. Treaties are also in place on Group Life and Income Protection business.

Table 9: Irish Life – Technical provisions gross and net of reinsurance recoverables as at 31 December 2022 (€ millions)

Line of business	BEL including unit-linked liability (1)	RM (2)	Total TPs (3)=(1)+(2)	Reinsurance Recoverables (4)
Life – Contracts with profit participation	75	0	75	0
Life – Unit-Linked	52,036	154	52,190	8
Life – Other Life Insurance	3,705	138	3,843	1,576
Health	507	37	544	62
Total	**56,323**	**330**	**56,652**	**1,646**

Source: Irish Life

4.38 This table shows the technical provisions of Irish Life at 31 December 2022 as well as the respective reinsurance recoverables. As can be seen, reinsurance is a significant risk mitigant for Irish Life, reducing its technical provisions by €1,646 million.

4.39 Counterparty risk related to XL Re, Markel Bermuda and internally with The Canada Life Assurance Company, Barbados Branch is mitigated through collateral arrangements.

Capital management policy

4.40 The Irish Life Board has adopted a capital management policy[8], which sets the company's target solvency coverage ratio at a level that is significantly greater than the regulatory minimum of 100% of SCR (or MCR if greater).

4.41 Enhanced solvency coverage oversight is required if the coverage ratio falls below the target level. This includes increased frequency of monitoring and updating capital and cashflow projections. In addition, a 'formal remediation range' of solvency coverage sits just below the target level and management action is required if solvency cover falls below this level. A hard limit is set below the formal remediation range and a breach of this limit requires the cessation of dividends and capital depleting transactions.

4.42 Where solvency coverage exceeds required levels, management will present dividend proposals to the Irish Life Board. Each dividend proposal is considered on its own merits in the context of the capital management policy. When drawing up any dividend proposals, the company must consider a range of factors including:

- The company's regulatory capital position and any regulatory notification requirements;
- Financial projections, including the financial impacts of any expected acquisitions / disposals; and
- The short-term liquidity position pre / post any dividend payment.

4.43 The policy also provides that Irish Life shall manage its capital with reference to financial projections over the course of its business planning horizon. It envisages that the annual business planning process and annual ORSA process will be central to the capital planning work.

Irish Life's position within the Great-West Lifeco Group

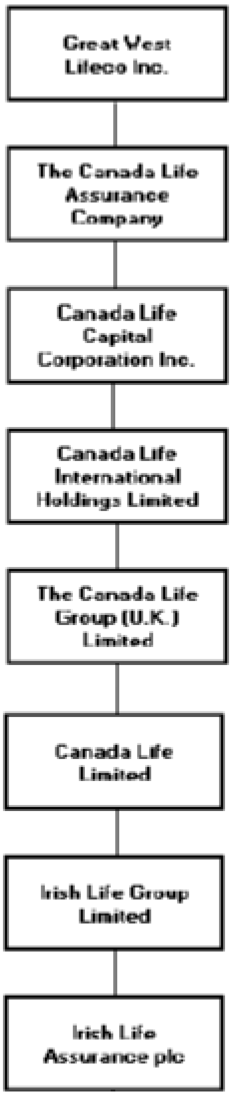
4.44 As noted above, Irish Life is owned by Great-West Lifeco Inc.

4.45 Great-West Lifeco and its subsidiaries – including the Great-West Life Assurance Company which was founded in Winnipeg, Canada, more than a century ago – have in the region of $2.0 trillion Canadian dollars in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

4.46 The position of Irish Life within the Great-West Lifeco group is set out in Figure 1.

[8] I have been provided with a copy of this policy, including details of the target solvency coverage ratio but I have not included specific details here on the grounds of commercial sensitivity.

Figure 1: Irish Life within the Great-West Lifeco group corporate structure (simplified)



Source: Irish Life

4.47 Although Irish Life is managed so that it should be self-sufficient from a capital perspective (other than potentially requiring capital to support future acquisitions), it may be able to call upon its parent, Irish Life Group Limited, should it need additional capital to support its business (although Great-West Lifeco is under no legal obligation to provide such capital).

Operational arrangements

4.48 Irish Life outsources its insurance administration activities to Irish Life Financial Services Ltd via an intra-group outsourcing arrangement governed by a Master Services Agreement. ILFS provides insurance services to support the administration requirements of Irish Life in respect of its business.

4.49 Irish Life outsources its investment management activities to three group entities – Irish Life Investment Managers Ltd, Setanta Asset Management Ltd and Canada Life Asset Management Ltd.

4.50 Irish Life currently also outsources a number of other key functions to shared group services companies, including, IT infrastructure support and internal audit. Irish Life has seven internal critical or important outsourcers servicing its existing business.

4.51 Irish Life currently also outsources a number of other key functions to external companies, including investment management services, actuarial services, administration activity, printing and document management services and telephone and related communication services.

Policyholders' Reasonable Expectations

4.52 The Head of Actuarial Function ("**HoAF**") of Irish Life has stated that the following items are the most material areas of consideration of PRE for Irish Life's policyholders:

- Security of benefits;
- Policy terms and conditions;
- Policy charges;
- Servicing of policies; and
- Policyholder communications.

4.53 Irish Life's HoAF has specifically considered PRE in the context of the Transferring Policies, in addition to PRE as it relates to the exiting policyholders of Irish Life and has not expressed any concerns.

Other

COMPLAINTS

4.54 I received a complaints log containing pending complaints for Irish Life. 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.

4.55 There are no complaints currently with the Financial Services and Pensions Ombudsman ("**FSPO**") for decision.

4.56 I have been advised that Irish Life currently has no material legal matters outstanding nor any regulatory matters outstanding with the Central Bank.

COMPENSATION SCHEMES

4.57 No compensation schemes apply to Irish Life policyholders.

COVID-19

4.58 Irish Life's business units proved operationally resilient during the COVID pandemic. The widespread move to a remote working environment, and resultant changes to work practices, completed relatively smoothly over a very condensed timeframe.

4.59 Irish Life experienced proportionately few COVID-related deaths relative to the population, due to the age profile of lives covered and does not appear to have suffered any lasting negative consequences to its business more generally.

5 BACKGROUND TO AIB LIFE

History and background

5.1 Saol Assurance dac, trading as AIB life, is an Irish-incorporated and Irish-authorised Designated Activity Company ("**dac**"). It was incorporated on 10 August 2021, under company registration number 701277, as AIB JV dac. The company changed its name to Saol Assurance dac on 30 January 2023.

5.2 AIB life is a subsidiary of Saol Assurance Holdings Limited, a 50:50 joint venture holding company, jointly owned by Allied Irish Banks plc and CLIHC, a member of the Great-West Lifeco group.

5.3 AIB life received its authorisation as a life assurer on 17 February 2023. It is authorised by the Central Bank to transact insurance business in Life Classes I, III, IV and VII under the Solvency II Regulations.

5.4 AIB life is headquartered in Dublin, Ireland.

Nature of business written

5.5 AIB life currently has a small portfolio of business comprising conventional non-profit (serious illness and protection) and unit-linked business, having just commenced writing new business in March of this year. This portfolio is expected to grow rapidly over time, in line with the company's business plan. While there was no business inforce for the year ended 31 December 2022, it is expected that the material lines of business will, at least initially, be as follows:

- Index-linked and unit-linked life insurance; and
- Other life insurance (conventional non-profit business).

5.6 The geographic area in which this business was written (and into which future new business will be written) is the Republic of Ireland. The existing portfolio will be supplemented by the (relatively much larger) portfolio of business that is expected to transfer in from Irish Life under the proposed Scheme. More details on the Transferring Policies are provided in paragraph 4.14 above.

5.7 AIB life had no technical provisions as at 31 December 2021. However, it is expected that, in line with the company's business plan, technical provisions at 31 December 2023 will be c. €227 million (excluding the proposed transfer), as outlined in Table 10 below.

Table 10: AIB life – Projected amount of technical provisions for in-force business as at 31 December 2023 (€ millions)

Line of business	BEL including unit-linked liability (1)	RM (2)	Total TPs (3)=(1)+(2)	Reinsurance Recoverables (4)
Life – Unit-linked	230.7	1.5	232.2	0
Life – Other Life Insurance & Health	(8.6)	3.3	(5.2)	7.2
Total	**222.1**	**4.8**	**227.0**	**7.2**

Source: AIB life

Solvency position

CURRENT SOLVENCY POSITION

5.8 At 31 December 2022, AIB life had not yet received its Central Bank authorisation to write life insurance business. It subsequently received this authorisation (on 17 February 2023) and commenced writing new business in March of this year. In the very early stages of writing new business, a company's solvency position may appear somewhat distorted, as it will generally have received a substantial amount of capital from its shareholder(s) in advance of commencement of new business, and this capital will then be used to finance the writing of new business for a period of time thereafter.

5.9 In the case of AIB life, it is more informative to consider the expected solvency position at or after the Effective Date of the proposed transfer, following completion of the transfer itself.

5.10 AIB life will be capitalised in advance of completion of the proposed transfer with sufficient additional own funds to support the non-linked liabilities and the solvency capital requirements associated with the Transferring Policies, post-transfer. This means that the solvency coverage ratio of the company immediately prior to the transfer will appear artificially strong, as it will have received additional own funds in advance of completion of the transfer of liabilities. The table below shows a projection of the expected solvency position at 31 December 2023, as if the transfer happened at that date (rather than at the Effective Date of 1 November 2023) both including and excluding the proposed transfer.

Table 11: Projected solvency position at 31 December 2023, including & excluding the Transferring Policies (€ millions)

	Excluding proposed transfer 31/12/2023	Including proposed transfer 31/12/2023
(1) Total Eligible Own Funds	119.6	119.6
(2) Solvency Capital Requirement (SCR)	13.6	82.8
(3) Solvency Coverage Ratio (= (1) / (2))	878%[9]	144%
(4) Excess of eligible own funds over capital requirement (= (1) – (2))	105.9	36.7

Source: AIB life

5.11 In summary, the assets of AIB life are expected to exceed its liabilities by €119.6 million immediately following completion of the proposed transfer. The eligible own funds are expected to exceed the relevant regulatory capital requirement by €36.7 million. In percentage terms the company's solvency coverage ratio is expected to be 144%, based on these projections.

5.12 The proposed transfer will materially increase the amount of business inforce on the balance sheet of AIB life. However, over time, as AIB life continues to write increasing volumes of new business and the portfolio of Transferring Policies begins to run off, this impact will become much smaller in relative terms.

5.13 AIB life operates a policy of targeting a solvency coverage ratio that is comfortably in excess of the required minimum level of 100% of SCR (or MCR if greater). While the actual solvency coverage may dip below its target level from time to time, due to unexpected developments or to random variation in factors which may impact upon its technical provisions, own funds or capital requirements, the company will actively seek to remain at or above its target at all times.

PROJECTED SOLVENCY POSITION

5.14 In addition to looking at the expected solvency position of AIB life following completion of the proposed transfer, it is useful to look at the projected future solvency development over the business planning horizon.

5.15 As a newly authorised insurance entity, AIB life has not yet formally prepared an annual ORSA. However, on 8 November 2022 the Board of AIB life ("**AIB life Board**") reviewed and approved the company's business plan (for inclusion in its application for authorisation to the Central Bank), part of which included projections of the future solvency position of AIB life for the period to end-2027 (on the basis of the successful completion of the proposed Scheme).

5.16 These business plan projections indicated that AIB life's solvency coverage ratio is expected to remain strong over the coming years, even as it continues to quickly grow its portfolio of business, remaining comfortably above the regulatory minimum requirement during this time (in line with its capital management policy), without recourse to ongoing capital injections from its shareholder.

5.17 No dividend payments were included in the projections (over the business planning horizon).

5.18 The business plan also investigated the projected solvency development under a range of alternative adverse scenarios, testing the following key risks to solvency coverage: changing new business volumes, market risk, lapse risk, deterioration in mortality, expense stress, and combinations of these adverse conditions.

[9] In the absence of the additional own funds that AIB life will receive prior to completion of the proposed transfer, the solvency coverage ratio would be expected to be in the region of 150%.

5.19 The ORSA scenarios examined illustrated that the company's solvency position is expected to be robust in the face of adverse conditions. Whilst in some instances, solvency coverage may fall below the company's target level (per its capital management policy), it is still expected to remain, at all times, comfortably in excess of regulatory minimum levels.

Risk profile

5.20 According to its business plan, the range of risks to which AIB life is expected to be exposed over the medium term includes market risk, underwriting risk, operational risk and liquidity risk. As required under the Solvency II Regulations, the company has in place a risk management framework to monitor and manage risk on an ongoing basis.

5.21 Table 12 sets out the expected composition of AIB life's SCR as at 31 December 2023, following completion of the proposed transfer, as well as the expected composition five years later, as 31 December 2028. As the SCR is a risk-based calculation of the amount of capital required to be held in respect of various risks to which the company is exposed, it is a useful measure to help understand the company's risk profile, both immediately following the proposed transfer (when the profile will largely be determined by the profile of the Transferring Policies – given the size of this portfolio relative to the rest of the business) and longer term, when AIB life expects to have written significant quantities of new business itself. As AIB life plans to write a mix of unit-linked and protection business, the risk profile is expected to slowly change over time, as outlined in the following paragraphs.

Table 12: AIB life – Composition of SCR as at 31 December 2023 and 31 December 2028 (% total SCR)

	Post-transfer SCR 31/12/2023 % of total SCR	Post-transfer SCR 31/12/2028 % of total SCR
Market risk	52%	47%
Counterparty Default risk	9%	2%
Life underwriting risk	67%	83%
Health underwriting risk	0%	0%
Non-life underwriting risk	0%	0%
Diversification	(30%)	(27%)
Intangible asset risk	0%	0%
Basic Solvency Capital Requirement	98%	106%
Operational risk	2%	4%
Loss-absorbing capacity of technical provisions	0%	0%
Loss-absorbing capacity of deferred tax	0%	(10%)
Solvency Capital Requirement	100%	100%

Source: figures provided by AIB life

5.22 As can be seen from Table 12, by far the largest contributors to AIB life's SCR are the capital requirements for market risk and life underwriting risk.

5.23 Market risks include equity market risk, interest rate risk, spread risk, concentration risk and currency risk. The proportion of the overall SCR that comprises market risk is expected to reduce slightly over the course of the five years following the proposed transfer, as new business continues to be written.

5.24 This expected reduction comes about because AIB life plans to write protection business, in addition to unit-linked business, going forward. Protection business, by its nature, tends to carry relatively less market risk and relatively more underwriting risk, when compared with unit-linked savings, investment and pensions business (which will comprise the vast majority of AIB life's inforce business immediately after completion of the proposed transfer).

5.25 Life underwriting risk capital includes capital for mortality risk, longevity risk, expense risk and lapse risk. This type of risk is expected to increase (as a proportion of the overall SCR) over the coming years, for the same reason as outlined in paragraph 5.24 above.

5.26 In addition to the financial risks shown above, AIB life is also exposed to non-financial risks, including reputational risk and conduct risk. It is also exposed to liquidity risk in the near-term (due to its anticipated growth), although this risk is suitably mitigated using external reinsurance arrangements.

Risk management

5.27 The AIB life risk management framework identifies a “Risk Universe” which represents a comprehensive list of the categories of risk which the company faces or may face in the future.

5.28 AIB life sets out a qualitative indication of risk appetite for each risk type in the Risk Universe to provide a comprehensive overview of its risk preferences.

5.29 AIB life has an appetite for certain risks – such as insurance risks – that it believes it can understand, control, and manage. In contrast, AIB life’s stated risk appetite sees it seeking to avoid, or to manage, other risks like conduct and operational risks, which AIB life understands but cannot fully control.

5.30 AIB life’s risk governance framework includes risk policies and business standards, risk oversight committees with defined roles, responsibilities and delegated authorities.

5.31 The risk management framework provides for the continuous and forward-looking identification and assessment of the company’s risks. On an annual basis (including this year), AIB life will perform an ORSA to assess whether or not it has sufficient capital to meet solvency capital requirements over the business planning period under specific risk scenarios or stressed business conditions (which are designed based on the company’s risk profile). The AIB life Board will review the conclusions drawn from the ORSA and agree any necessary actions to be taken.

5.32 AIB life plans to make extensive use of reinsurance to manage its exposure to mortality and morbidity risk. The company seeks to manage its counterparty risk by only placing reinsurance with highly rated counterparties and monitoring the credit quality of its reinsurers. it also seeks to avoid excessive exposure to any individual counterparty.

Capital management policy

5.33 AIB life’s capital management policy and risk appetite statement focus on the maintenance of a strong solvency position. The AIB life Board has adopted a capital management policy[10], which sets the company’s target solvency coverage ratio at a level that is significantly greater than the regulatory minimum of 100% of SCR (or MCR if greater).

5.34 Enhanced solvency coverage oversight is required if the coverage ratio falls below the target level. This includes increased frequency of monitoring and reporting to the Board. In addition, a ‘formal remediation range' of solvency coverage sits just below the target level and management action is required if solvency cover falls below this level. A hard limit is set below the formal remediation range and a breach of this limit requires the cessation of dividends and capital depleting transactions.

5.35 It is not anticipated that AIB life will pay dividends in the near term. However, in due course, and in line with the company’s capital management policy, management may present dividend proposals to the AIB life Board. Each dividend proposal would be considered on its own merits in the context of the capital management policy.

5.36 The policy also provides that AIB life shall manage its capital with reference to financial projections over the course of its business planning horizon. It envisages that the annual business planning process and annual ORSA process will be central to the capital planning work.

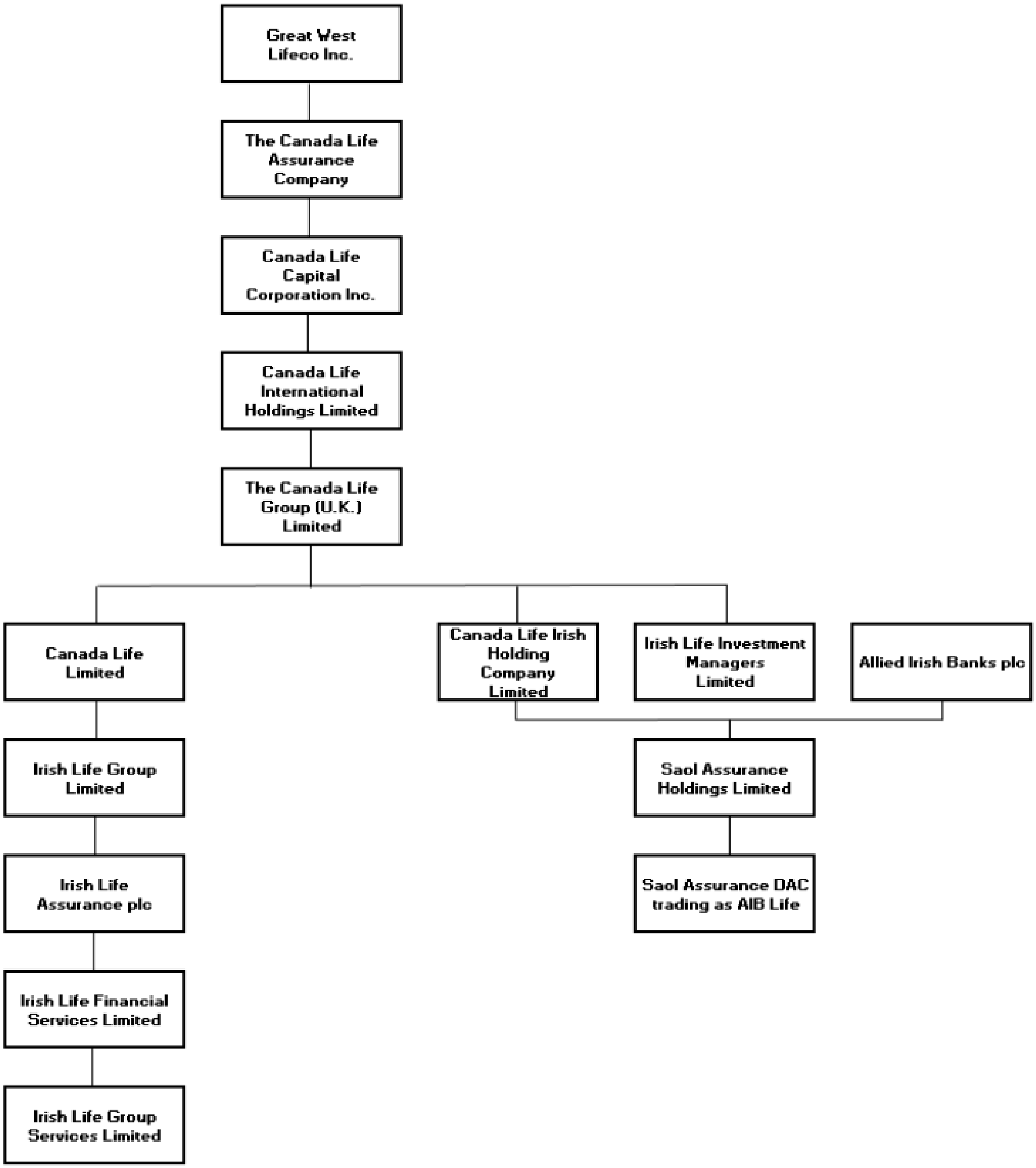
AIB life’s position in the context of the Great-West Lifeco group

5.37 AIB life is part of a joint venture between the Great-West Lifeco group (which also owns a number of insurance entities in Ireland and globally, including Irish Life) and the AIB group.

5.38 The position of AIB life in the context of the Great-West Lifeco group structure is as summarised in Figure 2. AIB life is a subsidiary of Saol HoldCo, which in turn is jointly owned by Canada Life Irish Holding Company Limited and Allied Irish Banks plc.

[10] I have been provided with a copy of this policy, including details of the target solvency coverage ratio but I have not included specific details here on the grounds of commercial sensitivity.

Figure 2: AIB life in the context of the Great-West Lifeco group corporate structure (simplified)



Source: Irish Life

5.39 Although AIB life will be managed such that, in the longer term, it should be self-sufficient from a capital perspective, it can call upon its shareholders, Great-West Lifeco group and AIB group should it need additional capital to support its business. Although neither shareholder is under any legal obligation to provide such capital, both shareholders have entered into a formal agreement in accordance with which each has committed to contributing additional capital in equal measure should it be required for the purpose of the development or continuation of the business. In the short term, AIB life is expected to utilise financial reinsurance arrangements in order to provide capital for the writing of new business.

5.40 In February 2023, Great-West Lifeco was rated ‘A+’ by the S&P credit rating agency and ‘A’ by the Fitch credit rating agency, and Allied Irish Banks plc was rated ‘A-’ by the S&P credit rating agency and ’A1’ by the Moody’s credit rating agency.

Operational arrangements

5.41 As part of the proposed transfer, AIB life will put in place an outsourcing agreement with ILFS for the provision of services relating to policy administration and customer service for the Transferring Policies. It will also enter into an agreement with ILIM for the provision of investment management services on this business.

5.42 ILFS already provides outsourced administration services (to Irish Life) for the Transferring Policies, and similarly ILIM provides investment management services.

5.43 Each outsourcing arrangement has an owner within the AIB life Senior Management Team, who is responsible for ensuring compliance with AIB life’s outsourcing policy requirements.

5.44 AIB life has explicitly taken into account the completion of the proposed transfer in its resource planning and its governance arrangements, prepared as part of its application for authorisation by the Central Bank.

Policyholders’ Reasonable Expectations

5.45 The HoAF of AIB life has stated that, in his view, the following reasonable expectations apply to the both the existing and the Transferring Policyholders and has not expressed any concerns:

- Security of benefits;
- Policy terms and conditions;
- Policy charges;
- Servicing of policies; and
- Policyholder communications.

5.46 For the Transferring Policies, my understanding is that there is no proposal by AIB life to alter the manner in which discretion in relation to the operation of the Transferring Policies will be exercised, or to take measures substantially inconsistent with the current Irish Life practice.

5.47 In relation its unit-linked business, I note that AIB life has a documented unit pricing policy in place (which I have reviewed) which sets out AIB life’s approach in this area. The documented approach is typical for unit-linked business.

Other

COMPLAINTS

5.48 I received confirmation from AIB life that it has not yet received any complaints, although this is potentially owing to the fact that it only received its Central Bank authorisation in February of this year.

5.49 AIB life has not yet had complaints referred to or upheld by the Financial Services and Pensions Ombudsman (“**FSPO**”). If there is any material development in relation to complaints, I will highlight this in my Supplemental Report.

5.50 I have been advised that AIB life currently has no legal matters outstanding nor any regulatory matters outstanding with the Central Bank.

COMPENSATION SCHEMES

5.51 None of AIB life’s policyholders are covered by guarantee or compensation schemes.

6 THE PROPOSED PETITION AND SCHEME

Introduction

6.1 The Transferring Policies will be transferred to AIB life via the mechanism of the proposed Scheme, subject to the approval of the Court. I have been provided with a copy of the proposed Scheme and, in this section, I summarise its principal features. I also summarise certain relevant aspects of the petition that Irish Life intends to make to the Court (the "**Petition**") when submitting the proposed Scheme to the Court for its approval (particularly the proposed approach to communicating with the Companies' policyholders in respect of the proposed Scheme).

6.2 I provide my assessment of the proposed Scheme and of certain aspects of the Petition (notably the proposed approach to communicating with policyholders) in sections 8 and 9.

Effective date

6.3 It is envisaged that the proposed Scheme will become effective and the transfer take place at 00:01 hours on 1 November 2023, or such other date as may be specified by the Court.

Pre-conditions

6.4 The proposed Scheme is conditional on a number of factors, including:

- obtaining the non-objection of the Central Bank;
- obtaining the agreement or deemed agreement of the relevant authorities in the countries in which the Transferring Policies have been written (see paragraphs 6.8 to 6.10 below); and
- the sanction of the Court.

Business to be transferred

6.5 Subject to satisfying the necessary pre-conditions as set out in the proposed Scheme, the Transferring Policies are scheduled to be transferred in their entirety on the Effective Date to AIB life, which will become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with AIB life as they previously had with Irish Life).

6.6 Under the proposed Scheme, any rights, powers, obligations and liabilities of Irish Life under, or by virtue of, such policies will be transferred to AIB life.

6.7 In addition, those assets and liabilities of Irish Life that relate to the business being transferred, in accordance with the proposed Scheme, will also transfer to AIB life on the Effective Date.

EEA and non-EEA policies

6.8 Policies issued by an Irish authorised insurer cannot be transferred to another EEA authorised insurer unless the relevant supervisory authority in the EEA territory in which the transferring policies were concluded has been notified of the transfer, and either agrees to it or does not object within three months of notification. I understand that Irish Life only issued policies that form part of the portfolio of Transferring Policies in Ireland. For completeness, Irish Life plans to provide the Central Bank with a list of all jurisdictions (both within and outside the EEA) where Transferring Policyholders are now resident.

6.9 Irish Life has confirmed that some policyholders within the portfolio of Transferring Policies are currently residing in a number of different EEA countries. I understand that the transfer will be advertised in publications in those Member States in accordance with relevant local laws. Irish Life plans to ask the Central Bank whether or not it wishes to consult with any of the relevant regulatory authorities in any of those countries.

6.10 There are also a number of policyholders residing in other non-EEA countries. I understand that the transfer of non-EEA resident policyholders does not require any further regulatory approvals to be obtained under Solvency II Regulations.

Maintenance and operation of funds

6.11 Following the publication in August 2017 of the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (SI 384 of 2017), the concept of the "life assurance fund", as set out in Sections 14 and 15 of the Insurance Act 1989, no longer exists for life assurance companies that fall within the scope of the Solvency II regime.

6.12 Irish Life operates a number of "ring-fenced funds", as defined under Solvency II. These ring-fenced funds have no impact upon the proposed portfolio transfer. It is worth noting that AIB life does not operate any "ring-fenced funds" and does not have any current plans to do so. No ring-fenced funds will be created by the proposed transfer.

6.13 Irish Life maintains a number of unit-linked funds ("**internal linked funds**") in respect of the transferring business. Under the proposed Scheme, the range of Irish Life internal linked funds that is currently available to the Transferring Policies, pre-transfer, will be replaced by a new internal linked fund range. This new fund range represents the suite of internal unit-linked funds offered by AIB life. Similar to the existing fund range, this new range will be managed by ILIM.

6.14 The Companies have collectively carried out a detailed fund mapping exercise, in order to ensure that each existing fund that is currently held by one or more of the Transferring Policies is replaced by a fund with similar characteristics and risk rating within the new AIB life unit-linked fund range.

6.15 The value of the assets deemed appropriated to each Irish Life internal linked fund, in respect of Transferring Policies, immediately prior to the Effective Date will be moved on the Effective Date to the corresponding internal linked fund established within AIB life. The Transferring Policies will be allocated an equivalent value of units in the internal linked funds operated by AIB life that correspond to those previously operated by Irish Life.

6.16 The total charges that are levied on the internal linked funds comprise a fixed annual management charge as well as a variable component. The variable component covers charges related to, for example, external fund managers' fees, custody fees, etc. In accordance with the Scheme, there will be no change to the fixed annual management charge component of fund charges, as a result of the transfer. There may, however, be some changes to the variable component, and these are considered further in section 9 below.

6.17 Within Irish Life's fund range, the variable component of the total charges is passed directly to policyholders as and when it is incurred. By its nature, this charge can vary slightly from year to year. The Scheme states that there will be a change in approach to the application of this variable charge post-transfer to AIB life. In particular, AIB life will estimate the expected future level of the variable charge and apply this as a fixed deduction each year. The overall level of charges that will apply within each fund is expected to remain relatively stable from year to year and to be reflective of the underlying variables costs that are actually incurred by each fund. This is considered further in section 9 below.

6.18 After the Effective Date, AIB life will have the ability to exercise its discretion in relation to the rules of operation (including unit pricing) of the internal linked funds, subject to the governance framework in place in AIB life, policyholder documentation, policy terms and conditions and policyholders' reasonable expectations.

AIB life's rights in relation to Transferring Policies

6.19 The proposed Scheme provides that AIB life may:

- exercise such discretions under the Transferring Policies as are available to be exercised by it under the terms and conditions of those Transferring Policies in accordance with any principles which are, for the time being, generally applied in Irish Life in relation to such business; and
- modify the terms and conditions applicable to any Transferring Policy or internal linked fund, in accordance with any principles which, for the time being, are generally applied in Irish Life in relation to such business,

subject in every case to the provisions of the applicable policy conditions associated with the Transferring Policies, the rules of any relevant investment fund and, where relevant, to the opinion of AIB life's Head of Actuarial Function.

Costs of the proposed Scheme

6.20 Irish Life and AIB life will each bear their own costs and expenses associated with preparing and implementing the proposed Scheme. No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

Modification or additions

6.21 Modifications and additions to the proposed Scheme, or further conditions to the proposed Scheme, may be imposed by the Court. Other additions and modifications to the proposed Scheme are permitted if AIB life and Irish Life both agree, subject to Court approval.

6.22 After the Effective Date, AIB life may, in certain limited circumstances and subject to the Court's approval, vary the terms of the Scheme. Any such application from AIB life would require the Central Bank to be notified and would require a fresh report from an independent actuary. Irish Life's consent would also be required if the proposed modification would affect its rights, obligations or interests.

Policyholder communications

6.23 Section 13 of the 1909 Act requires that, unless the Court otherwise directs, certain materials must be sent to each policyholder of both Irish Life and AIB life. These materials include a statement summarising the proposed Scheme together with an abstract summarising the main terms of the proposed Scheme and the Independent Actuary's Report (together the "**Circular**").

6.24 In respect of the proposed Scheme, I understand that the Companies intend to ask the Court to modify and waive some of these requirements. In summary, the Companies request that:

- The Circular point the relevant policyholders to a summary of the Independent Actuary's Report which will be placed on the Companies' websites rather than actually posting a hard copy of this report (or a summary of it) to them. The communication will advise policyholders that if they wish to receive a hard copy report or summary report they simply need to request one and it will be posted to them;
- The Circular will only be sent to those policyholders whose policies are transferring from Irish Life to AIB life, rather than to all policyholders in both Companies; and
- In instances in which there is a "communications hold" on a policyholder's account (i.e. where policyholders are no longer resident at the recorded address or policyholders have requested that Irish Life not communicate with them), then if Irish Life does not have a valid email address or other contact details for such policyholders permission will be sought to withhold circulation of the Circular. Otherwise, a link to the Circular will be issued to these policyholders by email (or by using such other contact information as is available).

6.25 If the Court agrees, Irish Life will only send a copy of the Circular (or, in some instances, a link to the Circular, as outlined in paragraph 6.24) to the Transferring Policyholders (with the exception of those Transferring Policyholders who have a "communications hold" on their account(s) and for whom Irish Life does not have a valid email address or other contact details). The existing (pre-Effective Date) policyholders of Irish Life and AIB life will not receive the Circular.

6.26 The Companies' principal arguments for not automatically sending the Circular to Irish Life's existing policyholders are as follows:

- That neither the security of benefits nor the fair treatment and reasonable expectations of those policyholders who will not be transferring as part of the proposed transfer will be materially adversely affected by the proposed Scheme and that, therefore, sending them the Circular risks causing them unnecessary concern or confusion;
- The proposed Scheme does not have any impact on the terms and conditions, or the administration arrangements relevant to any policy that is not forming part of the proposed transfer; and
- Those policyholders who are not transferring as part of the proposed transfer will be made aware of the proposed Scheme through website updates and press advertisements (in Ireland and elsewhere, including the International Edition of the Financial Times) and will be able to contact the Companies for further information if necessary.

6.27 Similar arguments apply for not automatically sending the Circular to AIB life's existing (pre-Effective Date) policyholders, with the exception of the point in relation to the costs of doing so. The existing cohort of policyholders in AIB life is much smaller than that of Irish Life, so cost would not be a material consideration.

6.28 In addition, the materials will be available on both the AIB life website (www.saolassurance.ie/legal/portfoliotransfer) and the Irish Life website (www.irishlife.ie/aib-life-portfolio-transfer).

6.29 Irish Life has set up a dedicated customer support line for queries related to the proposed transfer.

6.30 The proposed communication plan, as summarised above, is subject to any amendment directed by the Court.

7 APPROACH TO ASSESSING THE PROPOSED SCHEME

Introduction

7.1 In this section I explain the approach I have adopted in assessing the impact of the proposed Scheme on the policyholders of Irish Life and AIB life.

Context of assessment

7.2 My assessment is conducted within the context of the proposed Scheme, and only the proposed Scheme, and considers its likely effects on the Transferring Policyholders, Irish Life's existing policyholders and AIB life's existing policyholders. It is not within my remit to consider possible alternative schemes or to form a view as to whether or not this is the best possible scheme.

7.3 My assessment of the impact of the implementation of the proposed Scheme on the various affected policies is ultimately a matter of expert judgement regarding the likelihood and impact of future possible events. Given the inherent uncertainty over the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.

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

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

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

Principles of assessment

7.7 I consider the conditions to be met by the proposed Scheme to be:

- that the security of policyholders' benefits will not be materially adversely affected; and
- that the proposed Scheme treats policyholders fairly and will not materially adversely affect their reasonable expectations.

7.8 In sections 8 and 9, I assess the proposed Scheme in the context of security of policyholders' benefits, fair treatment and policyholders' reasonable expectations. In addition, I have considered the impact of other miscellaneous aspects of the proposed Scheme as set out below. I do not believe that there are any other matters that I have not taken into account that might be relevant to my assessment of the proposed Scheme.

7.9 In my view, the principal factors to be considered in assessing the security of policyholders' benefits in the context of the proposed Scheme are:

- the two Companies' respective solvency positions (both at present and projected into the future);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and
- the extent of parental support available.

7.10 The principal factors I consider relevant to an assessment of fair treatment and policyholders' reasonable expectations in the context of the proposed Scheme are its implications for:

- policyholders' contractual obligations;

- the tax treatment of policyholders' premiums and/or benefits;
- areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders; and
- levels of customer service to policyholders.

7.11 The arrangements regarding the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

Policyholder groupings

7.12 I consider the implications of the proposed Scheme separately for the following groups:

- Policyholders transferring from Irish Life (referred to as the Transferring Policyholders);
- Existing (pre-Effective Date) policyholders of Irish Life (referred to as Irish Life's existing policyholders); and
- Existing (pre-Effective Date) policyholders of AIB life (referred to as AIB life's existing policyholders).

Assumptions made when assessing the proposed Scheme

7.13 When considering the implications of the proposed Scheme, I need to make certain assumptions about how the Companies will run their respective businesses.

7.14 The assumptions I have made include:

- The portfolio of policies which falls within the scope of the proposed Scheme is in line with the definition set out in paragraph 1.6 above;
- All liabilities associated with the Transferring Policies will transfer from Irish Life to AIB life All liabilities associated with the Transferring Policies will transfer from Irish Life to AIB life (with the exception of any liabilities which have been specified by the Scheme as being excluded);
- The assets (or equivalent value of assets) supporting the investments in any unit-linked funds held by the Transferring Policies will transfer from Irish Life to AIB life (or to such third parties as nominated by AIB life, in accordance with the proposed Scheme);
- Irish Life Financial Services Ltd (a member of the Great-West Lifeco group) already administers the portfolio of Transferring Policies and will continue to do so post transfer to AIB life (under a separate outsourcing agreement). However, the administration of this business will be appropriately segregated from the administration of Irish Life's business post-transfer;
- Irish Life will follow the business strategy as articulated in its most recent ORSA;
- AIB life will follow the business strategy which has been articulated in its application for authorisation to the Central Bank of Ireland; and
- AIB life has been structured as a long-term strategic investment by both shareholders and there are currently no corporate plans that would impact its current ownership.

7.15 My assumptions are based on my understanding of the issues in question and have been shared with the Companies' respective senior management teams for confirmation. I believe, therefore, that it is reasonable to make the assumptions I have made when assessing the implications of the proposed Scheme. However, if any of these assumptions were to be invalid, then my assessment of and conclusions on the proposed Scheme may need to be revised.

8 ASSESSMENT OF THE PROPOSED SCHEME: SECURITY OF BENEFITS

Introduction

8.1 In this section, I set out my assessment of the proposed Scheme in so far as it may affect the security of policyholders' benefits.

8.2 In assessing the implications of the proposed Scheme on the security of benefits for the various groups of policyholders, I have considered a number of factors including the risk profiles of the two Companies and the outlook for their respective future solvency development (including consideration of their business plans).

8.3 The security of policyholders' benefits is provided by the amount by which an insurer's assets exceed its liabilities. In addition, the regulatory regime for Irish insurers requires that this excess of assets over liabilities must in turn exceed a prescribed minimum level (which is calculated taking account of the risks to which the insurer is exposed), thus providing a minimum level of security (see section 3 for more details).

8.4 The principal issue with regard to security of benefits, therefore, is whether or not the transferee company will have adequate resources following the completion of the proposed Scheme and whether this is likely to remain the case over time. This assessment must also have regard to the corresponding situation which would pertain should the proposed Scheme not proceed.

8.5 In my view, the relevant factors to be considered are:

- the two Companies' respective solvency positions (both current and projected);
- their respective risk profiles and approaches to risk management;
- their capital management policies;
- business model sustainability;
- options available in recovery and resolution situations; and
- the extent of parental support available.

8.6 I deal with each of these aspects in turn in the following paragraphs. Before doing so, however, it is worth first noting the principal similarities and differences between the two Companies.

8.7 At a high level, the two Companies share many similarities, which makes the assessment of the implications for the Transferring Policyholders more straightforward than might otherwise be the case and also helps to focus on the areas of difference (which are of particular importance to the Transferring Policyholders). The points of similarity include:

- Both are domiciled in Ireland and subject to the same regulations and the same supervisory regime;
- Both have a common shareholder (Irish Life being a fully owned subsidiary of Great-West Lifeco group and AIB life being part of a 50:50 joint venture);
- Both currently have (or in the case of AIB life expect to have, imminently) a mixture of unit-linked investment, savings and pensions business and non-linked protection business, mainly written in Ireland (though, in the case of Irish Life, a small amount of its business was written in the UK);
- Both have reasonably similar overall risk profiles (initially, and over the business planning horizon);
- Both have very similar capital management policies;
- Both employ similar risk management tools. In particular, both have a significant reliance on reinsurance as a risk mitigant; and
- The same entities that are currently used by Irish Life to administer the Transferring Policies and conduct investment management activity on this business, as outsourced services providers, will continue to be used by AIB life in connection with this same book of business.

8.8 There are also some differences, however, including (but not limited to):

- AIB life is newly authorised and has only recently commenced writing new business whereas Irish Life is a long-established business in the Irish market; and

- Irish Life has much more complexity within its portfolio of in-force business.

Solvency

8.9 The solvency position of the two Companies is discussed in sections 4 and 5. In particular, the position is examined:

- As at 31 December 2022 in the case of Irish Life (both as reported and on a pro forma basis as if the proposed transfer had taken place as at that date), with the reported 31 December 2021 position also shown for comparison;
- The projected position as at 31 December 2023 in the case of AIB life, as there was no business inforce as at 31 December 2022. The projected position is shown both including and excluding the proposed transfer (with the pro forma including the proposed transfer presented as if the transfer had taken place as at that date); and
- As projected over the period up to 31 December 2026 for Irish Life and 31 December 2027 for AIB life. Projections have been prepared both with and without allowance for the proposed transfer.

8.10 I note that, as at both 31 December 2021 and 31 December 2022, Irish Life had available capital resources in excess of both the regulatory minimum (100% of SCR) and its target level as per its capital management policy (see below). Similarly, the projected position for AIB life (as at 31 December 2023) shows that it is expected to have available capital resources in excess of both the regulatory minimum and its target level as per its capital management policy.

8.11 In addition, projections carried out by both Companies in the context of their ORSAs, indicate that the two companies are expected to maintain adequate solvency levels (in excess of the target levels specified in their capital management policies) over the projection period.

8.12 As explained in section 3, the solvency position is a function of both the available capital resources (i.e., the eligible own funds) and the calculated capital requirement (i.e. the SCR). Therefore, both items must be correctly and appropriately calculated for the reported solvency coverage position to be reliable.

- The eligible own funds derive from the surplus of assets over liabilities measured on a Solvency II basis. To the extent that the assets and/or liabilities are misstated, the eligible own funds may be misstated. I note that the Solvency II balance sheet is audited, and I further note that the technical provisions (which form part of the overall liabilities) are certified by the HoAF. In the case of Irish Life, I have relied on the work of the company's auditors and HoAF in this regard. This has not been possible in the case of AIB life because the company was not yet authorised as a life insurer as at 31 December 2022;
- I have also reviewed the report on the technical provisions produced by the Irish Life HoAF in respect of 31 December 2021 and the corresponding information that has been provided to me in respect of 31 December 2022 and I am satisfied that the approaches adopted appear reasonable; and
- The calculation of the SCR using the Standard Formula is a complex one. Again, this is audited, and I have relied on the work of the auditors in this regard. In addition, I reviewed Irish Life's SCR as at 31 December 2021 and 31 December 2022 for reasonableness based on my knowledge of the business and of the operation of the Standard Formula.

8.13 Whilst examination of the current and projected solvency position is helpful, it does not, in my view, provide the full picture necessary for an evaluation of the security of policyholders' benefits. In my view, it is also necessary to review and consider the other items listed in 8.5 above.

Risk profiles and risk management

8.14 In my view, any consideration of the respective future solvency positions needs to include an assessment of the extent to which the projected future development of the Companies' solvency positions could vary as a result of differences in the Companies' risk profiles and approach to risk management. Comparison of the Companies' respective risk profiles is also an important consideration when examining the impact on the Transferring Policyholders of moving from a company with one particular risk profile to a company with a different risk profile.

8.15 The makeup of each company's SCR provides a reasonably good indication of the risks to which the Companies are exposed, and the extent of their exposure. In sections 4 and 5, I summarise the key risks for both Irish Life and AIB life, based on the composition of the SCR and commentary from their respective ORSA reports. In summary, the two companies are exposed to broadly similar types of risk.

8.16 Both companies adopt similar approaches in terms of risk management policies, frameworks, oversight and governance (as is to be expected as they are both subject to the same regulatory and supervisory regime in this regard).

8.17 In terms of risk mitigants, both companies make substantial use of reinsurance – albeit to a greater extent at present in the case of Irish Life given the relative size of the two companies). Some of these reinsurance arrangements may change the nature of the risk exposure on the business in question, in that some of the underlying risks associated with the business (e.g. mortality risk) are substantially replaced with counterparty default risk i.e. the risk that the reinsurer defaults on its obligations. In the case of both companies, this risk is, in turn, mitigated through capital requirements, collateral or other mechanisms. Significant amounts of collateral/funds withheld are retained to mitigate the risk related to the various reinsurance treaties covering annuity business within Irish Life – namely with XL Re, Markel Bermuda and Canada Life Assurance (Barbados branch). Minor amounts of collateral are also retained for some of the other reinsurance treaties in place.

8.18 Having reviewed the relevant documentation provided to me, and based on my experience of insurance risk management, I am satisfied that both companies' risk profiles and risk management frameworks are sufficiently similar as to give no cause for concern that there is any material impact on the security of benefits of the Transferring Policyholders.

Capital management policies

8.19 In my view, the Companies' capital management policies are a very important aspect of the assessment of financial strength and security as ultimately any excess capital resources above the level specified in each capital management policy may be transferred out of each company. That specified level of coverage should therefore, in my view, form the basis for assessing the Companies' financial strength.

8.20 The two companies' capital management policies are summarised in sections 4 and 5. They are both very similar in terms of the level of capital resources the Companies must hold in excess of the regulatory minimum requirement of 100% of the SCR (or MCR of greater).

8.21 As the SCR is intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%, by maintaining capital resources at a significantly higher level than 100% of SCR, the Companies are both reducing the probability of having insufficient assets to meet liabilities to less than 0.5% over that timeframe.

8.22 Both companies aim to hold similar levels of explicit capital buffers in excess of regulatory requirements. I have reviewed the basis on which these buffers have been calculated and am satisfied that it is reasonable.

8.23 Having examined the Companies' respective capital management policies (particularly with the Transferring Policyholders in mind), I am satisfied that AIB life's policy is comparable to Irish Life's in terms of the protection that it affords to policyholders.

Business model sustainability

8.24 In assessing the security of policyholders' benefits, I believe it is also necessary to give due consideration to the sustainability of the Companies' business models.

8.25 Overall, the Companies have similar business models, with both operating in the Irish market and selling similar types of business (albeit Irish Life has a broader product range at present). As a newly authorised insurer, AIB life's strategy is to quickly grow its book of business, both organically, as well as through the addition of the Transferring Policies, should the proposed transfer proceed as planned. Irish Life plans to continue selling business in the Irish market and to acquire and integrate additional portfolios of insurance business if suitable opportunities arise. Whilst Irish Life operates a multi-channel distribution strategy, AIB life will have only one distribution partner (i.e. AIB).

8.26 I do not see the proposed transfer resulting in any material adverse implications for the Transferring Policyholders arising from AIB life's business model sustainability – effectively, they will transition from a more mature company into a relatively new and fast-growing business, with both companies following similar overall strategies. For AIB life's existing policyholders, the acquisition and addition of the Transferring Policies is a positive development – it helps to quickly add scale to its business. Therefore, this will help AIB life to achieve its objective of growing its business in a sustainable way.

Recovery and resolution options

8.27 Under Solvency II, insurers are required to develop a recovery plan within two months if they breach their SCR. In addition, however, Irish insurers are required to develop pre-emptive recovery plans. These are aimed at ensuring that insurers have a good understanding of the circumstances that could adversely affect their business to the extent that it becomes necessary to implement a recovery plan, as well as the options available in those situations.

8.28 Both companies' pre-emptive recovery plans[11] include analysis of various scenarios that may result in a recovery situation and the options available to each entity. Some of the recovery options available to both companies are broadly similar in nature. For example, both list support from their parent company as a key recovery option. However, it is worth noting that the range of recovery options available to Irish Life is greater than the range which is currently available to AIB life. Irish Life states that it could take actions that would increase its solvency coverage ratio by circa 35% without the need for parental support, which would enable it to restore its solvency ratio to an acceptable level even after a significant stress event and remain open to new business. AIB life, on the other hand, has a much greater reliance on parental support as a recovery option (and this will likely continue to be the case until such time as it achieves scale), though it has access to a number of other options that it could also use, either in combination or in the event of relatively less severe stresses.

8.29 Resolution refers to the actions to be taken (by the supervisory authorities) in situations where recovery plans have failed, and all recovery options have been exhausted. In terms of resolution, the options available to both firms are the same and include portfolio transfer and run-off.

Parental support

8.30 Irish Life is capitalised and managed to be self-sufficient on a standalone basis, without needing recourse to its parent (except to fund agreed acquisitions or other similar transactions). Prior to the effective date of the proposed transfer, AIB life will be similarly capitalised (such that it can support the Transferring Policies post transfer). Nevertheless, both companies benefit from the continued support of their respective parent undertakings, in particular through potential access to capital if required (noting that, in both cases, such capital support may or may not actually be forthcoming depending on the circumstances).

8.31 In my view the proposed transfer will not change the nature, character or likelihood of parental support available to either group of policyholders.

Consideration of different groups of policyholders

8.32 As noted in paragraph 7.12, it is necessary to consider the position separately for each relevant group of policyholders. In the following paragraphs I set out my analysis of the implications of the proposed Scheme for:

- the Transferring Policyholders;
- Irish Life's existing policyholders; and
- AIB life's existing policyholders.

8.33 Based on my assessment of the outlook for the solvency position of the two Companies, together with my assessment of the Companies' respective risk profiles and capital management policies, my views on the implications of the transfer for the security of benefits of each of these categories of policyholders are set out below.

THE TRANSFERRING POLICYHOLDERS

Solvency

8.34 AIB life's projected solvency coverage ratio as at 31 December 2023 (capturing the impact of the proposed transfer) is expected to be approximately 144%, which is well in excess of the regulatory required minimum solvency cover and in line with its capital management policy. It is, however, somewhat lower than the expected solvency coverage ratio of Irish Life as at the same date, after allowing for any potential dividend payments in accordance with its capital management policy.

[11] AIB life's recovery plan is still in draft form and subject to Board approval. In accordance with Central Bank of Ireland requirements, it does not need to have a formally approved recovery plan in place until 12 months after its date of authorisation.

8.35 Based on the projections prepared recently for Irish Life's ORSA, its projected solvency development over the coming years is expected to remain strong (and higher than the level required under the company's capital management policy). Projections prepared assuming the transfer occurs as planned also show a similar trend.

8.36 The solvency coverage ratio of Irish Life is expected to remain well in excess of the regulatory minimum level and, indeed, ahead of its own capital management targets over the coming years. Similarly, the solvency coverage ratio of AIB life is expected to remain well in excess of the regulatory minimum level, and in line with its capital management targets, based on the business plan submitted to support the application to the Central Bank for authorisation.

8.37 The Transferring Policyholders will move from an entity with a relatively greater absolute amount of own funds to a smaller entity, though one which is expected to grow at a faster pace. Irish Life had circa €1.7 billion of own funds at year-end 2022 compared to AIB life's expected level of circa €120 million immediately after completion of the proposed transfer. However, it must be borne in mind that the solvency capital requirement associated with the Irish Life balance sheet is correspondingly much greater than that of AIB life (Irish Life's SCR at year-end 2022 was €1.024 billion, while AIB life's expected SCR immediately post completion of the proposed transfer is only €82.8 million). Both companies are expected to maintain a strong solvency position over the time horizon that is considered in both companies' ORSAs (i.e. the next 5 years) and both are expected to write profitable new business over this period.

8.38 Based on the information provided, I am satisfied that AIB life is in a healthy solvency position, such that the Transferring Policyholders will not be materially adversely affected as a result of the proposed Scheme.

Risk profile

8.39 The Transferring Policyholders will be moving from a company within which the main risks are currently counterparty (reinsurer) default risk, financial market risk, and underwriting risk, to one with exposure to a similar range of risks.

8.40 However, AIB life is expected to have a relatively greater liquidity risk exposure in the near-term, due to the capital requirements associated with writing significant volumes of new business relative to the size of its inforce book. AIB life has effective liquidity risk mitigation in place, however, in the form of financial reinsurance, so this liquidity risk is not of material concern and not expected to have any impact on the Transferring Policies.

8.41 AIB life will be reliant on writing substantial volumes of new business in order to achieve scale and, with it, the anticipated expense efficiencies that it will need in order to become profitable. This brings with it some risk for the Transferring Policyholders, in the event that AIB life does not achieve the required scale. However, AIB life has secured a very significant (and exclusive) distribution arrangement with Allied Irish Banks plc. Given that AIB has a proven track record in generating sales (having been the distributor of the portfolio of business that is the subject of the proposed transfer), coupled with the fact that it is one of the joint-venture partners in AIB life (and hence suitably incentivised to ensure the success of AIB life), the risk to not achieving significant sales volumes into the future may be considered to be quite small.

8.42 Therefore, although the proposed Scheme would result in some changes to the overall risk profile to which the Transferring Policies will be exposed, the risk profiles of the two companies are still quite similar, aside from one being a mature business and the other being in a start-up phase. As outlined in paragraphs 5.23 to 5.25 above, as AIB life continues to mature, its exposure to market risk is expected to reduce, in relative terms, while its exposure to underwriting risk will increase. However, these changes will occur gradually and do not represent any material change in overall risk exposure that would be likely to disadvantage the Transferring Policyholders in any way.

Risk management

8.43 AIB life and Irish Life both have similar risk management policies, frameworks, oversight and governance and are subject to the same regulatory requirements in relation to risk management.

8.44 As noted above, both companies make substantial use of reinsurance with their risk exposure to those reinsurers mitigated through capital, collateral or other mechanisms.

8.45 I am therefore satisfied that transferring to AIB life would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Capital management policy

8.46 I assess AIB life's capital management policy as comparable to Irish Life's and both provide strong protection to policyholders. I am therefore satisfied that the change in capital management policy does not weaken the security of benefits for the Transferring Policyholders.

Business model sustainability

8.47 The business models of AIB life and Irish Life are quite similar, with both operating in the same market (i.e. Ireland) and providing similar unit linked and protection products. Both companies are open to new business and, on this basis, are expected to be sustainable in the longer term. I am therefore satisfied that transferring to AIB life would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Recovery and resolution options

8.48 AIB life has developed a draft pre-emptive recovery plan (still subject to Board-approval) which sets out the actions to be taken in the event of an unacceptable deterioration in the company's solvency or liquidity position. I have reviewed this draft plan and believe the actions outlined are plausible. This plan has been prepared taking into account the proposed transfer of business from Irish Life.

8.49 The options available both in a recovery and a resolution situation are currently not as broad as those that are available to Irish Life, as Irish Life's larger scale means it has less reliance on parental support. However, needing to place reliance on parental support is by no means unique as far as pre-emptive recovery planning in concerned, and this dependence would be expected to wane as the overall size of the business grows. AIB life is ultimately owned by two shareholders which are both financially very strong (i.e. Great-West Lifeco group and AIB group). There is no reason to believe that any required parental support would not be forthcoming as and when needed. AIB life also has access to a number of other options that it could also use, either in combination or in the event of relatively less severe stresses, which (at least to some extent) reduces reliance on parental support.

8.50 On that basis, I am satisfied that transferring to AIB life would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Parental support

8.51 AIB life's parent undertaking, Saol HoldCo (a 50:50 joint venture holding company) has a comprehensive shareholder agreement in place between its joint owners (Allied Irish Banks plc and CLIHC), in accordance with which both shareholders, should they decide to provide additional capital for the purposes of the development or continuation of the business, are obliged to do so in equal measure. Given this agreement, and the fact that both AIB life and Irish Life are ultimately owned by shareholders with significant financial strength, I am satisfied that the proposed transfer will not result in any material adverse change to the nature, character or likelihood of parental support available to the Transferring Policyholders.

IRISH LIFE'S EXISTING POLICYHOLDERS

Solvency

8.52 The completion of the proposed transfer is expected to have a marginally beneficial impact on Irish Life's solvency position (with the solvency coverage ratio on a pro forma basis at 31 December 2022 increasing slightly, from 166% to 167%) and is expected to be broadly neutral to the company's projected solvency position (compared to the equivalent projection assuming the transfer did not take place).

8.53 I am therefore satisfied that the transfer into AIB life of the Transferring Policies does not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Risk profile

8.54 The transfer will not have any material impact on Irish Life's risk profile, although the quantum of capital required to support the solvency capital requirements associated with its in-force business will naturally reduce.

8.55 I am therefore satisfied that the transfer into AIB life of the Transferring Policies will not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Risk management

8.56 Irish Life does not intend to change its risk management framework as a result of the proposed transfer, nor would the proposed Scheme suggest that it would need to do so. Accordingly, I do not consider there to be any issues of concern for Irish Life's existing policyholders.

Capital management policy

8.57 Irish Life does not intend to change its capital management policy as a result of the proposed transfer. Accordingly, I do not consider there to be any issues of concern for Irish Life's existing policyholders.

Business model sustainability

8.58 The proposed transfer does not change the business model of Irish Life. The company will continue to operate in the same markets post-transfer, and the Transferring Policies represent only a small proportion (less than 3% by policy count and circa 3.5% if measured in terms of the BEL) of Irish Life's overall book of business as at 31 December 2022. On that basis, I am satisfied that the completion of the proposed transfer into AIB life does not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Recovery and resolution options

8.59 Irish Life has a broad range of effective recovery options available to it, should they need to be called upon. The potential impact on its recovery options (and their effectiveness) as a result of the completion of the proposed transfer into AIB life has been acknowledged in the current version of the recovery plan.

8.60 In relation to the options available in a recovery or resolution situation, the proposed transfer into AIB life will not change the nature of these options.

8.61 On that basis, I do not consider there to be any issues of concern for Irish Life's existing policyholders in this regard.

Parental support

8.62 The nature, character or likelihood of parental support available to Irish Life's existing policyholders is not expected to change as a result of the proposed Scheme.

AIB LIFE'S EXISTING POLICYHOLDERS

Solvency

8.63 Prior to the completion of the proposed transfer, AIB life will be capitalised such that its solvency coverage is much greater than its target level. Once the transfer completes, the solvency capital requirement associated with the Transferring Policies will be such that the solvency coverage ratio will reduce to close to the company's target level (per its capital management policy), while still being well in excess of the regulatory minimum level. Excluding the additional own funds that AIB life will receive in order to support the SCR associated with the Transferring Policies, the pre-transfer solvency coverage ratio would be circa 150%. While this represents a reduction in solvency coverage ratio as a result of the transfer, it arguably leaves AIB life's existing policyholders in a stronger position, because they will be part of a larger and more stable portfolio of business going forward. AIB life's pre-transfer solvency coverage ratio will have been artificially high (as own funds will have been set at a higher level specifically to support the anticipated arrival of the Transferring Policies) and is therefore not a realistic long-term view of the financial strength of the undertaking should the proposed transfer not take place, as such excess own funds would then be surplus to requirements and could be withdrawn under the company's capital management policy.

8.64 I am therefore satisfied that the transfer into AIB life of the Transferring Policies would not lead to any material adverse implications in this regard for AIB life's existing policyholders.

Risk profile

8.65 The transfer will materially increase the quantum of AIB life's exposure to a range of risks (mainly of a financial, underwriting and operational nature), due to the significant increase in its overall volume of in-force business.

8.66 This increased risk exposure will be mitigated through holding additional own funds. Sufficient own funds will be contributed to AIB life prior to the completion of the proposed transfer such that the company will maintain a solvency coverage ratio, post transfer, which is line with its capital management policy.

8.67 The risks associated with the Transferring Policies are consistent with AIB life's stated risk appetite, and consistent with the risks associated with the types of business that AIB life plans to write in the future.

8.68 I am therefore satisfied that the transfer into AIB life of the Transferring Policies will not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Risk management

8.69 AIB life does not intend to change its risk management framework as a result of the proposed transfer, nor would the proposed Scheme suggest that they would need to do so. Accordingly, I do not consider there to be any issues of concern for AIB life's existing policyholders.

Capital management policy

8.70 AIB life does not intend to change its capital management policy as a result of the proposed transfer, nor would the proposed Scheme suggest that they would need to do so. Accordingly, I do not consider there to be any issues of concern for AIB life's existing policyholders.

Business model sustainability

8.71 The transfer in of the Transferring Policies is in line with AIB life's business strategy and does not change its business model. AIB life has only recently commenced writing new business, and with the completion of the proposed transfer it will quickly add scale and help it to grow, whilst also achieving operational synergies. On that basis, I am satisfied that the transfer into AIB life of the Transferring Policies will not lead to any material adverse implications in this regard for AIB life's existing policyholders.

Recovery and resolution options

8.72 AIB life has anticipated the completion of the proposed transfer in its draft recovery plan.

8.73 In relation to the options available in a recovery or resolution situation, the completion of the proposed transfer will not change anything materially immediately post-transfer. AIB life's main recovery option is to request additional capital from its shareholder, should this be necessary. The addition of the Transferring Policies will add scale to AIB life, which in time will help to broaden the range of recovery options available to the business. This will ultimately be beneficial to the company's existing policyholders.

8.74 On that basis, I do not consider there to be any issues of concern for AIB life's existing policyholders in this regard.

Parental support

8.75 The nature, character or likelihood of parental support available to AIB life's existing policyholders is not expected to change as a result of the proposed Scheme.

COVID-19

8.76 The Transferring Policies do not comprise any portfolio of business that would be expected to be materially impacted by unanticipated variations in mortality rates and/or trends that may arise as a result of the Covid-19 pandemic.

INFLATION

8.77 The impact of the current high inflationary environment has been recognised by both AIB life and Irish Life in their respective valuation of the liabilities associated with the Transferring Policies. Expense inflation risk associated with the Transferring Policies will transition from Irish Life to AIB life as part of the proposed transfer, and AIB life will hold own funds in order to meet the capital requirements associated with it.

MATTERS NOT CONSIDERED

8.78 I do not believe that there are any material relevant issues that have not been considered in this report.

Summary & Conclusions – Security

8.79 On the basis of the information provided to me and having considered the alternative scenario of the transfer not taking place, I am satisfied that the proposed Scheme will not result in a material adverse impact on the security of policyholders' benefits in the case of the Transferring Policyholders, AIB life's existing policyholders or Irish Life's existing policyholders.

9 ASSESSMENT OF THE PROPOSED SCHEME: FAIR TREATMENT

Introduction

9.1 I must also consider whether the proposed Scheme treats policyholders fairly and consider the effect of the proposed Scheme on policyholders' reasonable expectations.

9.2 In the case of the proposed Scheme, I consider that this involves consideration of:

- Contractual obligations to policyholders;
- Any changes that would be caused to the tax treatment of policyholders' premiums and/or benefits;
- Any areas where the Companies may exercise discretion in relation to the fulfilment of their contracts with their policyholders. Such areas of discretionary powers may include, in respect of internal linked funds, the investment criteria, unit-pricing rules and the level of charges applicable to those funds and the ability to vary the level of any non-guaranteed charges, amongst others; and
- The levels of customer service to policyholders.

9.3 The arrangements regarding the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

9.4 The SAI has stated, in ASP INS-2, the need to consider PRE when assessing a proposed transfer of business from one life assurance company to another under the provisions of Section 13 of the 1909 Act, as well as placing an obligation on the Independent Actuary to consider "*whether for each relevant company the scheme [of transfer] places obligations on the directors sufficient in the Independent Actuary's opinion for the protection of those expectations*". I note that there is no objective standard or definition when it comes to considering PRE (see section 3) and I am therefore guided by the comments made by the Heads of Actuarial Function of the two companies in that regard.

9.5 In the following paragraphs, I set out my views on the impact of the proposed Scheme on the fair treatment and reasonable expectations of the three groups of policyholders outlined in paragraph 7.12 above. I also consider the specific requirements of ASP INS-2 outlined in the previous paragraph in relation to the obligations placed on directors by the proposed Scheme.

The Transferring Policyholders

CONTRACTUAL OBLIGATIONS

9.6 The Transferring Policyholders' contractual terms and conditions will not change as a consequence of the proposed Scheme.

TAX TREATMENT OF PREMIUMS AND BENEFITS

9.7 Both AIB life and Irish Life have availed of external tax advice to review the proposed Scheme from the perspective of the tax implications (if any) on the Transferring Policies. This advice has concluded that the implementation of the proposed Scheme is not expected to have any adverse tax consequences for the Transferring Policyholders.

9.8 The scheme of transfer states that any tax liabilities that crystallise as a result of the transfer of the policyholders' assets will not be borne by the policyholders.

9.9 I have been provided with a summary of the advice provided and have relied on that advice. I do not consider it necessary to seek additional independent tax advice.

9.10 I also note that AIB life is in the process of preparing a submission to the Office of Revenue Commissioners of Ireland. This submission provides information on the transfer and seeks confirmation on certain points. A response to this submission was not available to me at the date of writing this report and therefore I have relied on the advice provided by the external tax experts that have been engaged. I will comment on this in the Supplemental Report that I will produce prior to the final Court hearing.

EXERCISE OF DISCRETION

9.11 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, I note that (as stated in paragraph 5.46), I have been informed by AIB life that it does not propose to alter the manner in which discretion will be exercised in relation to the Transferring Policies, nor does it propose to take discretionary measures that would be substantially inconsistent with current Irish Life practice.

9.12 I further note that the proposed Scheme requires that the exercise of such discretion by AIB life post-transfer must have regard, where relevant, to the opinion of AIB life's Head of Actuarial Function. The current governance arrangements for AIB life's unit-linked business include a documented unit pricing policy (which I have reviewed) which sets out AIB life's approach in this area and which is typical for unit-linked business. Post-transfer, this policy would also apply to the Transferring Policies.

9.13 Based on the foregoing, I am satisfied that there is no reason to believe that the Transferring Policyholders will be materially adversely affected by the way in which AIB life may exercise its discretion in respect of aspects of the terms and conditions of the Transferring Policies post-transfer, compared to how Irish Life can currently exercise its discretion.

CHANGES TO THE UNIT-LINKED FUND RANGE AND CHARGES

9.14 As outlined in paragraph 6.13 above, under the proposed Scheme, the range of Irish Life internal linked funds that is currently available to the Transferring Policies, pre-transfer, will be replaced by a new internal linked fund range. This new fund range represents the suite of internal unit-linked funds offered by AIB life. Similar to the existing fund range, this new range will be managed by ILIM.

9.15 The Companies have collectively carried out a detailed fund mapping exercise, in order to ensure that each existing fund that is currently held by one or more of the Transferring Policies is replaced by a fund with similar characteristics and risk rating within the new AIB life unit-linked fund range.

9.16 This mapping exercise has considered details such as comparative past (or simulated future) fund returns, fund risk ratings, investment objectives, asset allocations and performance benchmarks, amongst other aspects in order to ensure, insofar as possible, that the replacement funds are suitable.

9.17 Part of this assessment considered the issue of fund charges. The total charge which is levied on an internal linked fund is composed of a fixed annual fund management charge as well as a variable component. The fixed annual management charge will remain unchanged, for each individual fund that is currently available to the Transferring Policyholders, as a result of the proposed transfer. However, there may be some changes to the additional or variable charges which are levied on internal linked funds and, in some cases, these additional charges will not be identical between the pre-transfer and post-transfer fund range.

9.18 In particular, there are five funds in which there are differences. In the case of three of these funds, these additional variable charges will reduce by one basis point per annum, while in the case of two other funds there will be an increase of approximately two basis points per annum). It is noteworthy that the total level of fund charges applied to these five funds has varied by up to eight basis points per annum (when examined over the past six years), and the charges associated with the replacement funds within AIB life are also expected to vary slightly into the future.

9.19 As noted in paragraph 6.16 above, there will be no change to the fixed annual management charge component of fund charges as a result of the transfer of policies into this new fund range. Aside from the changes to the amount of the variable component of the total charge, as described in the previous paragraph, there will be a change to the way in which this charge is applied in the calculation of unit prices, in order to align with the methodology that is used across all of AIB life's internal linked funds. Within Irish Life's fund range, the variable component of the total charges is passed directly to policyholders as and when it is incurred as a cost by each fund. By its nature, this charge can vary slightly from year to year. Within AIB life's fund range, these charges are levied as a fixed deduction each year, with this deduction based on an estimate of the expected future level of the variable costs which will apply to each fund. Importantly, the overall level of charges that will be deducted from each fund is expected to remain relatively stable. The underlying variable costs which give rise to the variable element of the fund charge are not expected to vary significantly over time, so any difference between the charge levied in any given year and the underlying level of the variable costs is expected to be very small and may be either positive or negative.

9.20 A process will be implemented within AIB life, as part of the proposed transfer, whereby the level of the charge that is applied will be regularly reviewed, and adjustments will be made as deemed necessary by AIB life in order to ensure that the amount of the charge continues to be an accurate reflection of the expected future level of the underlying variable costs (as well as an accurate reflection of what they have been in the previous 12 months), and adjustments will be made to the fixed charge as and when deemed necessary by AIB life (subject to approval of its Investment Management Committee) should these become out of line with one other.

9.21 I have reviewed the aforementioned changes in charges and in the approach to levying these charges and have not identified any instances in which I felt that any Transferring Policyholder is being subjected to unfair treatment. The replacement of unit-linked funds is permitted under the policy conditions of the Transferring Policies, and it is not unusual for unit-linked funds to be replaced by new funds from time to time, although the replacement of a whole fund range would be a less common occurrence. In relation to the variation in additional fund charges (as described in the paragraphs 9.17 and 9.18 above), given the level of inherent variation that has been observed over time, coupled with the very small magnitude of the changes overall, any increase in fund charges (impacting only two funds, as outlined above), as a result of the proposed transfer, may be considered to be immaterial. I have also considered the changes that will be made in the application of the variable element of the charges applied to the internal linked funds (as described in paragraph 9.19) and do not believe that this will impact negatively on policyholders.

CUSTOMER SERVICE

9.22 Investment management and policy administration services in relation to the Transferring Policies are already provided on an outsourced basis to Irish Life by other entities within the Great-West Lifeco group. AIB life has stated its intention to continue these arrangements post-transfer so there will be no change to the investment and policy administration arrangements for these policyholders as a result of the proposed transfer.

9.23 Given that there will be minimal disruption to existing policy administration and investment management arrangements in relation to the Transferring Policies, I do not believe that there will be any adverse impact to the service levels experienced by the Transferring Policyholders.

9.24 I have reviewed information provided to me by AIB life concerning its resource plans in relation to governance and oversight of these activities post-transfer and have not identified any cause for concern.

9.25 Having considered the relevant facts, as set out above, I am satisfied that there is no reason to believe that the service standards experienced by the Transferring Policies will be materially adversely affected by the proposed Scheme.

COSTS OF THE PROPOSED SCHEME

9.26 The arrangements regarding the costs of the proposed Scheme are set out in paragraph 6.20 above. I confirm that I am satisfied that the proposals are fair to the Transferring Policyholders.

POLICYHOLDER COMMUNICATIONS

9.27 The proposed communications plan is summarised in paragraphs 6.23 to 6.28 above. From the perspective of the Transferring Policyholders, the only points of difference with the usual approach to communications are:

- the proposal to direct policyholders to the summary report (and full report) hosted on both the Irish Life and AIB life websites rather than including it in printed form as part of the Circular, and
- the proposal not to send the Circular (or a link to the Circular) to those who have a "communications hold" on their account and for whom Irish Life does not have a valid email address or other contact details.

9.28 I am satisfied that the proposed approach of communicating with the Transferring Policyholders is reasonable.

Irish Life's Existing Policyholders

GENERAL

9.29 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of Irish Life's existing policyholders, nor will there be any changes to the way in which Irish Life will exercise its discretionary powers. I have been advised that no adverse tax consequences are foreseen and there will be no change to the administration and customer service arrangements.

9.30 I am satisfied that the proposals with regard to the costs of the proposed Scheme are fair to Irish Life's existing policyholders.

CHANGES TO THE UNIT LINKED FUND RANGE AND CHARGES

9.31 As noted in paragraphs 6.13 and 9.14 above, under the proposed Scheme, the Irish Life unit-linked fund range that is currently available to the Transferring Policies, pre-transfer, will be replaced by a new AIB life unit-linked fund range.

This fund migration is expected to have no impact on Irish Life's existing policyholders or on the range of fund options available to them.

9.32 Changes to fund charges (as noted in paragraphs 6.16, 6.17 above) do not apply to any of Irish Life's existing policyholders and will therefore have no impact on them.

POLICYHOLDER COMMUNICATIONS

9.33 As noted in section 6, I understand that (subject to the agreement of the Court), the Circular will not be sent to Irish Life's existing policyholders.

9.34 I note that the arguments in support of this approach are as follows:

- That neither the security of benefits nor the fair treatment and reasonable expectations of those policyholders who will not be transferring as part of the proposed transfer will be materially adversely affected by the proposed Scheme and that, therefore, sending them the Circular risks causing them unnecessary concern or confusion;
- The proposed Scheme does not have any impact on the terms and conditions, or the administration arrangements relevant to any policy that is not forming part of the proposed transfer; and
- Those policyholders who are not transferring as part of the proposed transfer will be made aware of the proposed Scheme through website updates and press advertisements (in Ireland and elsewhere, including the International Edition of the Financial Times) and will be able to contact the Companies for further information if necessary.

9.35 I have considered the proposed approach to policyholder communication and am satisfied that it is fair and reasonable in the circumstances.

AIB life's Existing Policyholders

GENERAL

9.36 There will be no change arising from the proposed Scheme to the terms and conditions of the policies of AIB life's existing policyholders, nor will there be any changes to the way in which AIB life will exercise its discretionary powers as a result of the transfer. I have been advised that no adverse tax consequences are foreseen and there will be no change to the administration and customer service arrangements pertaining to existing policyholders.

9.37 I am satisfied that the proposals with regard to the costs of the proposed Scheme are fair to AIB life's existing policyholders.

CHANGES TO THE UNIT LINKED FUND RANGE

9.38 As noted in paragraphs 6.13 and 9.14 above, under the proposed Scheme, the Irish Life unit-linked fund range that is currently available to the Transferring Policies, pre-transfer, will be replaced by a new AIB life unit-linked fund range. This fund migration is expected to have no adverse impact on AIB life's existing policyholders and, indeed, might have some beneficial impact by increasing the scale of assets under management in these funds (which may, in turn, give rise to some expense efficiencies). There will be no changes made to the funds that are currently available to AIB life's existing policyholders.

9.39 AIB life's existing unit-linked policyholders are already subject to the charges levied on AIB life's internal linked funds and therefore the changes to fund charges (as noted in paragraphs 6.16, 6.17 above) do not have any additional impact on them. There is no impact on non-linked policyholders.

POLICYHOLDER COMMUNICATIONS

9.40 As noted in section 6, I understand that (subject to the agreement of the Court), the Circular will not be sent to AIB life's existing policyholders.

9.41 I note that the arguments in support of this approach are the same as those outlined in paragraph 9.34 above.

9.42 I have considered the proposed approach to policyholder communications and am satisfied that it is fair and reasonable in the circumstances.

Summary & Conclusions – Fair treatment

9.43 In my opinion, for the reasons set out above, I am satisfied that the fair treatment and reasonable expectations of all three groups of policyholders will not be materially adversely affected by the proposed Scheme.

9.44 I am also satisfied with the proposed approach to policyholder communications in respect of the proposed Scheme.

10 CONCLUSIONS ON THE PROPOSED SCHEME

10.1 I confirm that I have considered the effects of the proposed Scheme on the following groups of policyholders:

- Policyholders transferring to AIB life from Irish Life;
- Existing (pre-Effective Date) policyholders of Irish Life; and
- Existing (pre-Effective Date) policyholders of AIB life.

10.2 I further confirm that I do not consider further subdivisions to be necessary.

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

- the security of benefits of any of these groups of policyholders;
- the reasonable expectations of any of these groups of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to any of these groups of policyholders.

Eamonn Phelan
Fellow of the Society of Actuaries in Ireland

22 June 2023

11 APPENDIX A: LIST OF PRINCIPAL DATA SOURCES

11.1 In carrying out my work and producing this report, reliance has been placed upon, but not limited to, the following information. All items have been provided directly to me by either Irish Life or AIB life unless otherwise noted.

Legal documents & Actuarial Reports

- The Petition, proposed Scheme and other related legal documents
- The Circular to be provided to each transferring policyholder
- Reports from the Heads of Actuarial Function on the proposed portfolio transfer
- Report from the Head of Actuarial Function to the Board of Irish Life in respect of the year ended 31 December 2022
- ARTP and AOTP from the Head of Actuarial Function to the Board of Irish Life for Year end 2022
- AIB life Actuarial Report (part of Central Bank application for authorisation)
- PRE-related documentation
- AIB life Certificate of Authorisation
- AIB life Memorandum of Association

Solvency & Financial Condition Reports & QRTs

- Solvency and Financial Condition Report (SFCR) for Irish Life for the years ended 31 December 2022
- Year-end 2022 Solvency II QRTs for Irish Life (public version)
- Specific details on own funds, SCR, technical provisions, policy counts, etc. as they appear in the tables in this report

Own Risk & Solvency Assessment (ORSA) Reports

- ORSA Report for Irish Life
- ORSA Report for AIB life

Product documentation

- Sample policy documents for the Transferring Policies
- Communication plan for policyholders (received from Irish Life)

Risk & Capital Management

- Capital management policies of Irish Life and AIB life
- Chief Risk Officer reports
- Enterprise Risk Management policy and Risk Strategy of Irish Life and AIB life
- Risk Appetite Framework of Irish Life and AIB life
- AIB life Risk & Control self-assessment
- AIB life risk universe
- AIB life risk management framework (overview)

Reinsurance

- Reinsurance agreements for AIB life
- Reinsurance agreements for Irish Life

Other documents

- Fund mapping details and conclusions
- Fund operating procedures
- Unit pricing policies of Irish Life and AIB life
- Description of post-transfer administration arrangements
- Investment policy of Irish Life and AIB life
- Pre-emptive recovery plans of Irish Life and AIB life
- Operational resilience and Business Continuity Management frameworks
- Underwriting policy of Irish Life and AIB life
- Product Oversight & Governance policy of Irish Life and AIB life
- Details of the financing arrangements underlying the proposed transaction between Irish Life and AIB life
- Advice from retained tax experts regarding tax implications for Transferring Policyholders
- AIB life outsourcing register
- Various Q&A Logs
- Data Request Log
- Summary details of customer complaints and legal actions for AIB life
- Summary details of customer complaints and legal actions for Irish Life
- Portfolio Transfer Approach to Variable Fund Charges

Correspondence

- E-mail correspondence with AIB life in relation to the proposed Scheme
- E-mail correspondence with Irish Life in relation to the proposed Scheme

12 APPENDIX B: GLOSSARY OF TERMS

12.1 A glossary of terms and abbreviations used throughout the report is provided below.

Term	Definition
1909 Act	The Assurance Companies Act 1909 (as amended)
Appointed Actuary	An actuary appointed to an Irish life assurance company pursuant to Section 34 of the Insurance Act 1989. (Note that the Appointed Actuary role no longer exists following the transition to Solvency II on 1 January 2016)
ASP	Actuarial Standard of Practice
AIB	Allied Irish Banks plc
AIB life	The Transferee, Saol Assurance dac trading as AIB life
AIB life Board	The board of directors of AIB life
AIB life's existing policyholders	The existing (pre-Effective Date) policyholders of AIB life
Basis point	One hundredth of one percent
BEL	Best Estimate Liability. One of the components of the technical provisions under Solvency II. The BEL is calculated by projecting the expected future obligations of the insurer over the lifetime of the insurance contracts using the most up-to-date financial information and best-estimate actuarial assumptions. The BEL represents the present value of those projected cash-flows
Central Bank	The Central Bank of Ireland, which is the supervisory authority with responsibility for the prudential supervision of the Companies
Circular	The Circular is a document to be provided to the Transferring Policyholders which includes a summary of the main terms of the proposed Scheme and of the Independent Actuary's Report
the Companies	Irish Life and AIB life, collectively
the Court	The High Court of Ireland
dac	Designated Activity Company
EEA	The European Economic Area. The EEA comprises the EU plus Iceland, Liechtenstein and Norway
Effective Date	00:01 hours on 1 November 2023, or such other date as may be specified by the Court
Eligible own funds	The amount of an insurer's own funds (see) following the application of the eligibility criteria specified in the Solvency II Regulations. Eligible own funds are available to cover the SCR
EU	The European Union
Excluded Fund	Any Irish Life unit-linked fund in which any of the Transferring Policies is invested and which is not deemed (by Irish Life and AIB life) to have a replacement fund option with similar characteristics and risk rating within AIB life into which these policies can switch as part of the proposed transfer
FAQ document	A document to be provided to Transferring Policyholders which contains a list of frequently asked questions, such as may arise in connection with the proposed Scheme
FSAI	Fellow of the Society of Actuaries in Ireland
FSPO	The Financial Services and Pensions Ombudsman in Ireland is an independent and free service that helps resolve complaints with pensions providers and regulated financial services providers.
Great-West Lifeco	Great-West Lifeco Inc.
HoAF	Head of Actuarial Function. The person, as nominated by the company's board of directors and approved by the Central Bank, with overall responsibility for the tasks called out for the actuarial function under Solvency II and the additional responsibilities introduced by the Central Bank
ILFS	Irish Life Financial Services Limited

Term	Definition
ILIM	Irish Life Investment Managers
Independent Actuary	Mr Eamonn Phelan, a Fellow of the Society of Actuaries in Ireland and a Principal with Milliman, a firm of actuaries and consultants.
Independent Actuary’s report	This report
Internal Model	A customised (company-specific) model for determining the SCR, which must meet certain specified standards and be approved by the Central Bank (in the case of an Irish insurer). Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model
Internal linked funds	Internal structures which facilitate the calculation of benefits payable under unit-linked policies (see definition of “unit-linked business”)
Irish Life	The Transferor, Irish Life Assurance plc
Irish Life Board	The board of directors of Irish Life
Irish Life’s existing policyholders	The existing (pre-Effective Date) policyholders of Irish Life
Limited / Ltd	Limited liability company
MCR	Minimum Capital Requirement. One of the regulatory capital requirements under Solvency II. Usually lower than the SCR. The MCR defines the point of intensive regulatory intervention. The MCR calculation is simpler, more formulaic and less risk-sensitive than the SCR calculation
Milliman	Milliman Limited, 7 Grand Canal Street Lower, Dublin 2
Non-linked business	Life assurance business which is not unit-linked business (see “unit linked business” below)
ORSA	Own Risk and Solvency Assessment. The ORSA is a risk management tool, which is required under Solvency II, to assess the overall solvency needs of the firm taking into account the firm's own assessment of its particular risk profile
Own funds	Broadly speaking, the excess of an insurer's assets over its liabilities on a Solvency II basis
Petition	The application by one, or both, of the parties for which the Court will consider the proposed Scheme. The Petition must be accompanied by a report on the terms of the scheme by an independent actuary
plc	Public limited company
Policyholder Letter	A letter issued to the Transferring Policyholders which, in broad terms, explains the proposed Scheme
PRE	Policyholders’ reasonable expectations
proposed Scheme / proposed transfer	The legal scheme of transfer by which it is proposed that the Transferring Policies and their associated assets and liabilities will be transferred from Irish Life to AIB life. Under the relevant provisions of the 1909 Act (see above), the proposed scheme requires the approval of the Court
QRTs	Quantitative Reporting Templates. These are specific forms which insurers must complete on a regular basis under Solvency II. Some QRTs are required to be produced quarterly and more are required to be produced annually. Some of the annual QRTs are public (typically appended to the SFCR)
Reinsurance recoverable	To the extent that business is reinsured, reinsurance recoverable is an offset to the BEL which sits on the asset side of the balance sheet
Risk Margin	The risk margin is an amount, in addition to the BEL, designed to bring the technical provisions up to the amount that another insurer (or reinsurer) would be expected to require in order to take over and discharge the insurance liabilities in an arm’s length transaction
Run-off	A line of insurance business, or an insurance company, that no longer accepts new business but continues to provide coverage for claims arising on policies still in-force and that makes payments for claims that have occurred on policies that have expired
Saol HoldCo	Saol Assurance Holdings Limited

Term	Definition
SAI	The Society of Actuaries in Ireland
SCR	Solvency Capital Requirement. One of the regulatory capital requirements under Solvency II. Intended to represent the amount required to ensure that an insurer's assets continue to exceed its liabilities over a one-year time frame with a probability of 99.5%
SFCR	Solvency and Financial Condition Report. This is a public document which all insurers are required to produce on an annual basis under Solvency II. Insurers are required to publish their SFCRs on their websites. In addition, the Central Bank also maintains a public repository of all Irish insurers' SFCRs
Solvency II	The regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising insurance regulation across all EEA countries
Solvency II Regulations	The European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No 485 of 2015) (as amended)
Standard Formula	A standardised calculation method for determining the SCR. Insurers are required to calculate their SCR using either the Standard Formula or an approved Internal Model
Supplemental report	A further report to be prepared by the Independent Actuary prior to the final Court hearing. The purpose of the supplemental report is to provide an update for the Court on the Independent Actuary's conclusions in light of any significant events subsequent to the date of the finalisation of this report
Technical provisions	The value of the insurance liabilities of an insurer, as determined for regulatory purposes. Under Solvency II, the Technical Provisions comprise the BEL and the Risk Margin
Transfer Documentation	The Circular, the proposed Scheme, a summary of the proposed Scheme, the Independent Actuary's Report (i.e. this report) and a summary of the Independent Actuary's Report
Transferring Policies	The policies that are proposed to be transferred from Irish Life to AIB life under the proposed Scheme
Transferring Policyholders	The policyholders being transferred from Irish Life to AIB life
UK	The United Kingdom of Great Britain and Northern Ireland
Unit-linked business	A type of life assurance business, written under Class III and VII of the Solvency II Regulations, where the benefits payable are linked to the performance of investment funds