The Report of the Independent Actuary

Report of the Independent Actuary on the proposed Scheme to transfer the insurance business of Ark Life Assurance Company dac to Irish Life Assurance plc

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4 April 2022

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1 INTRODUCTION

Background

1.1 Ark Life Assurance Company dac (“**Ark Life**”), an Irish insurance company, manages a range of pensions, savings and protection policies for its customers in the Irish market. Ark Life is closed to new business and the in-force book of business was written when Ark Life acted as a bancassurance subsidiary for Allied Irish Banks plc (and subsequently as part of a joint venture between Aviva plc and Allied Irish Banks plc) until 2012 (when the joint venture was terminated). Guardian Assurance Ltd acquired Ark Life in 2014. On 31 December 2016, the Company became a subsidiary of ReAssure Limited (“**ReAssure**”), a subsidiary of ReAssure Group plc ("**RGP**") which is part of the "ReAssure Group". The ReAssure Group is composed of a number of subsidiaries which were previously part of the Swiss Re Group ("**Swiss Re**"). On 6 December 2019, Swiss Re announced that it had come to an agreement to sell the ReAssure Group to Phoenix Group Holdings plc (“**PGHP**”). This transaction completed on 22 July 2020, meaning the ReAssure Group became part of the Phoenix group.

1.2 It was announced on 13 July 2021 that Great-West Lifeco Inc (“**Great-West Lifeco**”), through its Irish subsidiary Irish Life Hawk Limited (“**IL Hawk**”) was to acquire Ark Life.

1.3 IL Hawk and Irish Life Assurance plc (“**Irish Life**”) plan to enter into a formal sale agreement setting out the terms on which the transfer of specified assets and liabilities from Ark Life to Irish Life will take place. IL Hawk, Ark Life and Irish Life are all Irish part of the Great-West Lifeco group.

1.4 Under those agreed arrangements, in order to complete the transfer, a court-approved portfolio transfer is required. The Ark Life business will be transferred to Irish Life via a scheme of transfer (“**the proposed Scheme**”), subject to approval by the High Court of Ireland (**“the Court**”).

The role of the Independent Actuary

1.5 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.

1.6 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.

1.7 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.

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

Instructions

1.9 Ark 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) dated 14 January 2022.

1.10 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.

1.11 Throughout the remainder of this report (the “**Independent Actuary’s Report**”), the term “the proposed Scheme” is 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.

1.12 The Companies anticipate that the proposed Scheme will be presented to the Court in September 2022, with a proposed effective date of 1 October 2022 (the “**Effective Date**”).

1.13 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 section 7.

1.14 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.

1.15 I have also reviewed and considered the contents of the Circular (as defined in paragraph 6.20) that will be made available to policyholders in relation to the proposed Scheme and which contains a summary of this report.

1.16 I will prepare a further report (the "**Supplementary 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

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

1.18 I have more than 20 years' experience in the insurance industry, including experience of acting as the Appointed Actuary and/or Head of Actuarial Function ("**HoAF**") for a number of Irish life assurance companies.

1.19 I am not a policyholder of Ark 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).

1.20 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 or control of 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.

1.21 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. I am not, and have not been, employed directly by either of the Companies as an employee, officer or director.

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

1.23 I have had no prior involvement with Ark Life other than having previously acted in an advisory capacity for the Chief Risk Officer to assist with some ad-hoc queries. Similarly, I have had no involvement with Irish Life.

1.24 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 Ark 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.

1.25 Consultants from other Milliman offices provide, or have provided, services to both Ark Life and Irish Life and to other companies within the Great-West Lifeco Group. However, having checked within the Milliman organisation worldwide, I do not believe that any work undertaken by Milliman with either of the Companies, or with any other affiliates of either Ark Life or Irish Life, would create a conflict of interest for me in my role as Independent Actuary.

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

1.27 I have been assisted in preparing this report by my colleagues Aoibhin Wood and Patrick Meghen. However, this report is written in the first person and the opinions expressed are mine alone.

Parties for whom my report has been prepared

1.28 The Independent Actuary's Report has been prepared for the benefit of the policyholders of Ark Life and Irish Life.

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

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

- The Directors and senior management of Ark 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 advisers of any of the above with respect to the proposed Scheme.

Reliances and limitations

1.31 In preparing the Independent Actuary's Report, I have had access to certain documentary evidence provided by Ark 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 Ark 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.

1.32 I have relied on the work of the Companies' external auditors in gaining confidence in the financial information as at 31 December 2020 as summarised in this report. I have relied on the Companies' Heads of Actuarial Function in relation to the calculation of the technical provisions as at 31 December 2020 and 31 December 2021 and on the written opinions they have provided on aspects of their respective companies' own risk and solvency assessments ("**ORSA**").

1.33 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.

1.34 The Independent Actuary's Report is based on the information available to me at, or prior to, 4 April 2022, and takes no account of developments after that date.

1.35 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.

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

1.37 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.

1.38 I have prepared a summary of this report which will be provided to the Court and and will be available on the websites of both Ark 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.

1.39 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.

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

Professional guidance

1.41 The Independent Actuary's Report has been prepared under the terms of the guidance set out in version 2.3 (effective 1 September 2021) of the Actuarial Standard of Practice ("**ASP**") LA-6 ("Transfer of long-term business of an authorised insurance company – role of the independent actuary") issued by the SAI.

1.42 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

1.43 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

1.44 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 Ark Life.
- Irish 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.
- A glossary of terms is provided in Appendix B.

2 EXECUTIVE SUMMARY

Background and context

2.1 Ark Life and Irish Life have agreed to transfer all Ark Life's insurance business to Irish Life.

2.2 The rationale for the proposed transfer is that it will result in the consolidation of Ark Life's and Irish Life's life assurance operations. The simplified structure of having one combined life assurance company will lead to reduced regulatory and administrative costs, given both companies are already part of the same group.

2.3 The proposed portfolio transfer requires Court approval, and the Companies are 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.

2.4 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 the business from Ark Life to Irish Life. 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.

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

2.6 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.

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

The proposed Scheme

2.8 The proposed Scheme will see the entirety of Ark Life's insurance business transferred to Irish Life, as well as all other assets and liabilities (with the exception of €4.3m which will remain in Ark Life to cover its post-transfer solvency capital requirements), 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 October 2022 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 Ark Life to Irish Life, which will then become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with Irish Life as they previously had with Ark Life).
- Any rights, powers, obligations and liabilities of Ark Life under the Transferring Policies will be transferred to Irish Life. All property and assets held by Ark Life in respect of the Transferring Policies will also be transferred to Irish Life.
- To the extent that there is discretion available to Irish 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 Irish Life, taking into account the opinion of Irish Life's Head of Actuarial Function.
- The costs of preparing and implementing the proposed Scheme will be borne entirely by Irish Life. 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.

- After the Effective Date, Irish Life may, in certain limited circumstances apply to the Court for approval to change the terms of the Scheme. Any such application from Irish Life would require the Central Bank to be notified and would require a new report from an independent actuary. Ark 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.

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

Policyholder communications

2.10 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.

2.11 I understand that the Companies intend to ask the Court for permission to modify and waive some of these requirements. In that regard:

- Ark Life intends to send a three-page letter to the policyholders of Ark Life (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 this 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.
- The Policyholder Letter and FAQ document (together "**the Circular**") only be sent to the Transferring Policyholders, rather than to all policyholders in both Companies.
- 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 Ark Life not communicate with them), permission will be sought to withhold circulation of the Circular.

2.12 If the Court agrees, Ark Life will only send a copy of the Circular to all Transferring Policyholders (who do not have a "communications hold" on their account). The existing (pre-Effective Date) policyholders of Irish Life will not receive the Circular, nor will policyholders who fall under the "communications hold".

2.13 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

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

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

Key assumptions

2.16 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.

2.17 Summary of key assumptions:

- All policies written by Ark Life are within the scope of the Transfer Agreement
- All assets and liabilities of Ark Life (with the exception of €4.3m which will remain in Ark Life to cover its post-transfer solvency capital requirements) will transfer to Irish Life, and Irish Life will take over, and maintain in force, the reinsurance arrangements currently in place between Ark Life and its reinsurers.
- Irish Life will take over, and maintain in force, the reinsurance arrangements currently in place between Ark Life and its various reinsurers, in particular Munich Re. Both and Munich Re and Swiss Re have indicated their non-

objection to the novation of the existing reinsurance treaties to Irish Life as part of the proposed transfer (though they have yet to formally do so in writing).

- Based on available legal advice, neither Ark Life nor Irish Life need to participate in either the Temporary Permissions Regime or the Financial Services Contracts Regime in the UK in order to continue to administer the portfolio of UK policies which forms part of the proposed transfer.
- The cohort of Ark Life's policies that were written into the UK (the "**UK policyholders**") are currently not covered by the UK Financial Services Compensation Scheme ("**FSCS**") nor will they be post-transfer.
- Irish Life Financial Services Ltd (a member of the Great-West Lifeco group) already administers all of Ark Life's policies and will continue to do so in future.
- Irish Life will follow the business strategy as articulated in its most recent ORSA.
- Both Companies are part of the Great-West Lifeco Group and each of the Companies will continue in its current ownership.

2.18 Further details on key assumptions are provided in section 7 (starting at paragraph 7.14).

My approach to assessing the proposed Scheme

2.19 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.

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

- 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 benefit expectations.

2.21 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.

2.22 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;
- levels of customer service to policyholders.

2.23 The arrangement with regard to the costs of the proposed Scheme and the proposed approach to policyholder communications are also relevant factors to be considered.

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

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

2.25 As Ark Life is expected to have no policyholders following the proposed transfer, I do not need to consider the implications of the proposed Scheme on Ark Life post-transfer.

My assessment of the proposed Scheme

2.26 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.

2.27 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 are subsidiaries of the same group – Great-West Lifeco.
- Both currently have a mixture of unit-linked and non-linked business, primarily sold in the Irish market
- Both have reasonably similar overall risk profiles.
- Both have similar capital management policies.
- Both employ similar risk management tools. In particular, both have a significant reliance on reinsurance as a risk mitigant (albeit to a less material extent in the case of Irish Life compared to Ark Life).
- Both use the same service providers for policy administration and claims management (i.e. Great-West Lifeco group services companies provide these services to Ark Life at present)

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

- Ark Life is currently closed to new business whereas Irish Life is open to new business and active in the market.
- Irish Life is of a much larger scale than Ark Life.
- Irish Life has more complexity within its portfolio of in-force business.
- The two Companies have different strategic plans.

2.29 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 two groups of policyholders.

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

	Transferring Policyholders	Irish Life's existing policyholders
Current/recent solvency position	The solvency coverage ratio in Irish Life post-transfer is calculated as being 165% as at 31 December 2021. This is lower than Ark Life's solvency coverage ratio of 204%. However, one should exercise caution when comparing solvency coverage ratios at a single point in time and should not rely unduly on that single metric. In addition, both Companies' solvency coverage ratios are comfortably in excess of the regulatory minimum of 100% solvency coverage.	The solvency coverage ratio in Irish Life post-transfer (165%) is calculated as being higher than pre-transfer (159%) as at 31 December 2021.

Table 1 (continued)

Projected solvency position	The development of the future solvency position of Ark Life post-transfer is not relevant to the proposed Scheme as it will be left with no remaining policyholder liabilities. It will have sufficient own funds to cover its solvency requirements following completion of the proposed transfer. It plans to return its insurance licence to the Central Bank post transfer.	The transfer of the Ark Life business is projected to have a positive impact on Irish Life's solvency position.
Risk profile	The Transferring Policyholders will be moving from a company within which the main financial risks are currently counterparty (reinsurer) risk, financial market risk, default risk and lapse risk, to one with broadly similar exposures to those risks. If Ark Life did not transfer its business, it is expected that its risk profile would shift over time with increased expense risk and operational risk as the portfolio reduces in size.	The transfer will increase Irish Life's exposure to the risk of counterparty (in particular, reinsurer) default. Irish Life already has large uncollateralised reinsurance exposures to Swiss Re and to Munich Re. The proposed transfer will increase the overall Munich Re exposure. However, sensitivity analysis has shown that this increased counterparty exposure does not materially change the Company's overall risk profile.
Risk management	Irish Life has similar risk management policies, frameworks, oversight and governance to Ark Life.	Irish Life does not intend to change its risk management framework as a result of the proposed transfer.
Capital management policy	Irish Life's capital management policy is broadly similar to that of Ark Life.	Irish Life does not intend to change its capital management policy as a result of the proposed transfer.
Business model sustainability	Irish Life's business model is different to Ark Life's in that it is open to new business and one of the major players in the Irish market. Based on ORSA projections, Irish Life has deemed that this business model is sustainable in the long run. On the other hand, as Ark Life is closed to new business, its business model will become unsustainable over time, as the volume of in-force business continues to decline.	The transfer in of the Ark Life business is in line with Irish Life's stated business strategy and does not change its business model. This transfer will add further scale to the Irish Life book and unlock synergies, given the same group entities administer these policies already.
Recovery and resolution options	Irish Life currently has a broader range of recovery options available to it than is the case for Ark Life. Irish Life has a well-developed pre-emptive recovery plan which sets out the actions to be taken in the event of an unacceptable deterioration in the Company's solvency position. This plan will be updated to take account of the Ark Life business post-transfer. The options available in a resolution situation are similar for both Companies.	Irish Life will update its pre-emptive recovery plan to take account of the Ark Life business. The transfer in of the Ark Life business will not change the options available in a resolution situation.
Parental support	The proposed transfer will not result in any change to the nature or character of parental support provided to the Transferring Policyholders. Both Companies are part of the same group.	The proposed transfer will not result in any material adverse change to the nature or character of parental support provided to Irish Life's existing policyholders.

2.30 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 two groups of policyholders.

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

	Transferring Policyholders	Irish 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.
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 Irish Life may exercise its discretion, compared to how Ark Life can currently exercise its discretion, in relation to certain contractual terms and conditions.	No change.
Service standards	The back-office service standards will not change as the same group entity currently fulfils this role for Ark Life.	No change.
Tax	External tax experts retained by Ark 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 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 tranfer to ensure that there are no unforeseen tax consequences.	I have been advised by Irish Life 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 proposed Scheme would materially adversely affect these policyholders.	I have not identified any other issues where the implementation of the proposed Scheme would materially adversely affect these policyholders.

My conclusions

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

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

2.33 This report is based on the information available to me as at 23 March 2022. I will prepare a Supplementary 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 Supplementary 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 Ark Life and Irish 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 – for both entities the vast majority of business has been written in Ireland. However, in the case of both Ark Life and Irish Life, a small amount of business was written in the UK.

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.
- 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).
- 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 Ark Life and Irish 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.

[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.

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.

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 both Ark Life and Irish Life are required to comply with them on a territory-by-territory basis. The vast majority of Ark Life's business was sold in Ireland and therefore is the same territory as Irish Life (and supervised by the Central bank). A small portion of the Ark Life business was sold in the UK. Further details on this point are included in paragraph 4.8 below.

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."

[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

"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."

"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 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 LA-6, 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 currently has an active working group that is examining the topic of PRE and is considering issuing new guidance on this topic in the future.

4 BACKGROUND TO ARK LIFE

History and background

4.1 Ark Life is an Irish-incorporated and Irish-authorised life assurance company. It was incorporated in Ireland on 11 May 1990 as a limited liability Company (“**Ltd**”) under company registration number 158762. It was originally named Ark Life Assurance Company Ltd. Ark Life has been closed to new business since 2012.

4.2 Guardian Assurance Ltd acquired Ark Life in 2014. On 31 December 2016, the Company became a subsidiary of ReAssure Limited “, a subsidiary of the ReAssure group. The ReAssure group is composed of a number of subsidiaries which were previously owned by the Swiss Re group . On 6 December 2019, Swiss Re announced that it had come to an agreement to sell the ReAssure group to Phoenix Group Holdings Plc ("**PGHP**"). This transaction completed on 22 July 2020, meaning the ReAssure group and Ark Life then became part of the Phoenix group.

4.3 On 1 November 2021, IL Hawk completed the acquisition of Ark Life from the Phoenix group. IL Hawk is a subsidiary of Great-West Lifeco Inc. and therefore Ark Life became part of the Great-West Lifeco group.

4.4 Ark Life’s ultimate parent company is Great-West Lifeco Inc. All of the shares of Ark Life are currently beneficially owned by IL Hawk, which is a subsidiary of ILG, which in turn is ultimately owned by Great-West Lifeco Inc. Great-West Lifeco Inc is an international financial services holding company with interests in life insurance, health insurance, retirement and investment services, asset management and reinsurance businesses and is incorporated in Canada.

4.5 Ark Life is authorised by the Central Bank to transact insurance business in Life Classes I, III, IV and VII under the Solvency II Regulations.

4.6 Ark Life is headquartered in Dublin, Ireland.

Nature of business written

4.7 Ark Life has a portfolio of business comprising conventional non-profit and unit-linked business. This portfolio is closed to new business and is in run-off. The material lines of business for the year ended 31 December 2021 were as follows:

- Index-linked and unit-linked life insurance.
- Other life insurance.
- Health insurance.

4.8 The material geographic area in which this business was written was the Republic of Ireland but some business was sold in the United Kingdom on a Freedom of Services (“**FOS**”) basis (the “**UK business**”). The portfolio includes policies written with policyholders through Allied Irish Banks plc. All of this business will transfer to Irish Life under the proposed Scheme. More details on the Transferring Policies are provided from paragraph 4.12 below

4.9 Table 3 summarises the technical provisions for each line of business in Ark Life as at 31 December 2021.

4.10 As can be seen from Table 3, the main lines of business are unit-linked pensions, savings and protection and non-linked protection (whole of life and level term). As at 31 December 2021, the technical provisions of Ark Life totalled €2.642 billion, with an offset of €676 million in respect of the credit that can be taken for the outwards reinsurance of some risks to reinsurers.

Table 3: Ark Life – Technical provisions for in-force business as at 31 December 2021 (€ millions)

	BEL	RM	Total TPs	Reinsurance Recoverables
Line of business	**(1)**	**(2)**	**(3)=(1)+(2)**	**(4)**
Life - Index-linked and unit-linked insurance	1,928	19	1,947	-
Life - Other life insurance	640	30	669	650
Health Insurance	22	3	25	26
Total	**2,590**	**51**	**2,642**	**676**

Source: Ark Life Q4 2021 QRTs. Due to rounding, figures may not sum exactly to the totals.

4.11 The entirety of Ark Life's business will transfer under the proposed Scheme (the "**Transferring Policies**"), and the reinsurance treaties in place in Ark Life are also expected to novate to Irish Life.

4.12 The Transferring Policies may be grouped as follows:

Table 4: Ark Life – Details of Transferring Policies as at 31 December 2021

Product	No. of policies	Best Estimate Liability including unit-linked liability € millions
Level Term Protection	44,448	62
Decreasing Term Mortgage Protection	14,656	- 4
Whole of Life	7,087	578
Specified Illness	11,797	26
Unit Linked Regular Premium Protection	4,411	55
Unit Linked Regular Premium Savings	10,798	306
Unit Linked Single Premium Investments	4,323	158
Unit Linked Regular Premium Pensions	37,581	1,263
Unit Linked Single Premium Pensions	5,119	107
Other minor product lines	863	39
Total	**141,083**	**2,590**

Source: draft Ark Life 2021 Annual QRTs

4.13 All products within the portfolio of Transferring Policies are closed to new business. Premiums are still being received on in force regular premium policies. Some term assurance policies have so-called "event options" which allow the policyholder (under certain conditions) to convert their existing policy into a new policy. This may lead to the issuing of "new policies" but no new business is being accepted.

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

4.15 The Transferring Policies are currently administered by Irish Life Financial Services Ltd ("**ILFS**") on an outsourced basis. Investment management is also outsourced to Irish Life Investment Managers ("**ILIM**"). Ark Life outsources the IT function to Canada Life Group Services Limited, and internal audit is outsourced to "Irish Life Group Services Limited (Int. Audit)". All these entities are within the same group as Ark Life. No changes will be made to these arrangements under the proposed transfer.

4.16 All other functions are currently undertaken in-house, including HR, finance, actuarial, risk management, compliance, and corporate communications. These functions will be undertaken by Irish Life post transfer, with support from some Ark Life staff who will transfer their employment to Irish Life.

4.17 Ark Life has reinsurance treaties in place with Munich Re, Swiss Re and SCOR Re covering a range of blocks of business. The Munich Re treaties are the most material and are on a 100% quota share basis. The reinsurance will transfer to Irish Life with effect from the Effective Date. Further details on this reinsurance arrangements are provided in 4.48 below.

4.18 In relation to the ability to exercise discretion in respect of aspects of the terms and conditions applicable to the Transferring Policies, Ark Life has exercised some discretionary powers on the Transferring Policies in the past, such as the removal of policy fees on paid-up Personal Pension and Executive Personal Pension policies.

4.19 As the Transferring Policies are a closed block in run-off, the number of in-force policies is steadily reducing due to claims. My Supplementary Report will include updated figures for the Transferring Policies.

Solvency position

RECENT SOLVENCY POSITION

4.20 At 31 December 2021, Ark Life had an excess of eligible own funds over its SCR, as shown in Table 5. The table also shows the equivalent position as at 31 December 2020.

Table 5: Ark Life – Solvency position at 31 December 2021 and 31 December 2020 (€ millions)

	31-Dec-21 € millions	31-Dec-20 € millions
(1) Total Eligible Own Funds	242	252
(2) Solvency Capital Requirement (SCR)	118	115
(3) Solvency Coverage Ratio (= (1) / (2))	204%	219%
(4) Excess of eligible own funds over capital requirement (= (1) - (2))	123	137

Source: draft Ark Life 2021 Annual QRTs

4.21 In summary, the assets of Ark Life exceeded its liabilities by €242 million (31 December 2020: €252 million). The eligible own funds exceeded the relevant regulatory capital requirement by €123 million (31 December 2020: €137 million). In percentage terms the Company's solvency coverage ratio was 204%[5] (31 December 2020: 219%).

4.22 Ark Life currently operates a policy of targeting a solvency coverage ratio of in excess of the required minimum level of 100% of SCR (or MCR if greater), in addition to holding an explicitly quantified fixed amount of capital related to its exposure to Munich Re. See paragraphs 4.49 and 4.50 below for details.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

4.23 All assets and liabilities are included in the transfer except for €4.3m which will remain in Ark Life post-transfer. Other than this amount, the Company will have no other assets or liabilities post transfer.

4.24 The table below illustrates the impact on its solvency of the proposed transfer of business to Irish Life, had it occurred at 31 December 2021. This is shown in Table 6.

Table 6: Ark Life – Pro-forma solvency position at 31 December 2021 (€ millions)

	Total Pre-transfer € millions	Transferring Policies € millions	Total Post Transfer € millions
(1) Total Eligible Own Funds	242	237	4.3
(2) Solvency Capital Requirement (SCR)	118	118	3.7
(3) Solvency Coverage Ratio (= (1) / (2))	204%	200%	116%
(4) Excess of eligible own funds over capital requirement (= (1) - (2))	123	119	0.6

Source: Pre-transfer figures taken from Ark Life draft annual 2021 QRTs; other figures provided by Ark Life

4.25 After the transfer there will be no policies remaining in Ark Life. Typically, even if an insurance company has no policies it will still be required to hold capital while it retains its licence and until the licence is surrendered to the Central Bank. The level of capital required is floored at the Absolute Minimum Capital Requirement ("**AMCR**") under Solvency II, which currently stands at €3.7 million but which is due to increase to €4 million later this year. Ark Life will have €4.3m in assets, which will be sufficient to cover its SCR.

PROJECTED SOLVENCY POSITION

4.26 In addition to looking at the recent solvency position, it is useful to look at the projected future solvency development, both with and without the Transferring Policies.

4.27 In June 2021, the board of Ark Life ("**Ark Life Board**") approved a report documenting the results of an Own Risk and Solvency Assessment ("**ORSA"**) of the Company's business. The ORSA report, which was prepared prior to the sale of Ark Life to IL Hawk, included projections of the future solvency position of Ark Life for the period to end-2025 on the basis of retaining the Transferring Policies.

[5] Note that the solvency coverage for Ark Life is shown as 203% in the Q4 QRTs, but is expected to be shown as 204% in the Company's Annual QRT submission (due to some minor changes in the interim).

4.28 The central set of projections assumed that Ark Life would remain in run off and that an integration of Ark Life with Standard Life International dac (another company owned by the Phoenix group in Ireland at the time of drafting the ORSA) would occur in 2023 by means of a Section 13 transfer. The projections assumed the Section 13 transfer would result in both staff and non-staff cost savings for Ark Life over the following years.

4.29 These ORSA projections indicated that Ark Life's solvency coverage ratio was expected to increase steadily over the coming years, after payment of dividends.

4.30 The dividend payments included in the projections were on the basis that Ark Life continued to meet its target of cost savings and income generated from the business.

4.31 The ORSA report also investigated the projected solvency development under a range of alternative adverse scenarios, testing the following key risks to solvency coverage: reinsurer default, Munich Re credit rating downgrade, expense risk, market risk, a pandemic scenario, liquidity risk, operational risk, climate risk and regulatory risk and a reverse stress test.

4.32 The ORSA scenarios examined illustrate that exposure to reinsurers, from both a default and credit rating downgrade perspective, remains a critical exposure for Ark Life. All of the most severe stresses are ones in which either the default or credit rating downgrade of Munich Re is involved. In these scenarios no dividends can be paid and, in some instances, very large capital injections are required in order to continue to meet solvency capital requirements.

4.33 As noted above, the ORSA projections did not allow for the proposed transfer of business to Irish Life.

Risk profile

4.34 According to the ORSA, the range of risks to which Ark Life is exposed includes counterparty default risk, interest rate risk, expense risk, inflation risk, lapse risk, market risk and operational 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.

4.35 Table 7 sets out the composition of Ark Life's SCR as at 31 December 2021. 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.

Table 7: Ark Life – SCR as at 31 December 2021 (€ millions)

	Pre Transfer SCR 31/12/2021 € millions	Post Transfer SCR 31/12/2021 € millions
Market risk	65	0
Counterparty default risk	11	0
Life underwriting risk	75	0
Health underwriting risk	5	0
Non-life underwriting risk	0	0
Diversification	(40)	0
Basic Solvency Capital Requirement	**117**	**0**
Operational risk	6	0
Loss-absorbing capacity of technical provisions	0	0
Loss-absorbing capacity of deferred tax	(4)	0
Solvency Capital Requirement	**118**	**3.7**

Source: Pre-transfer figures taken from Ark Life Q4 2021 QRTs; other figures provided by Ark Life

4.36 As can be seen from Table 7, the largest contributors to Ark Life's SCR are the capital requirements for (financial) market risk and life underwriting risk. Post-transfer, all elements of the SCR are expected to reduce to zero, but the AMCR of €3.7 million will apply.

4.37 Market risks include equity market risk, interest rate risk, spread risk, concentration risk and currency risk. The largest contributor to Ark Life's capital requirement for market risk at 31 December 2021 was equity risk (€52.8 million), followed by currency risk (€21.7 million) and interest rate risk (€8.1 million).

4.38 The ORSA notes that the market risk mainly arises due to second order exposures via fluctuations in fees earned as a percentage of policyholder funds if stress scenarios occur, rather than arising as a result of direct holdings in volatile asset classes. For example, the Company does not have any direct equity exposure – so this capital requirement reflects a reduction in the amount of fees that would be earned if the value of policyholder assets dropped severely due to an equity stress.

4.39 Life underwriting risk capital includes capital for longevity risk, expense risk and lapse risk. At 31 December 2021, lapse risk (€52.8 million) was the greatest contributor to Ark Life's capital requirement for underwriting risk, followed by expense risk (€24.1 million) and mortality risk (€8.1 million).

4.40 The Company currently has relatively low capital requirements for the counterparty default risk module (€11.3 million), even though the ORSA indicates that reinsurer default is one of the most severe risks for Ark Life. The level of capital required in respect of this risk reflects the high credit rating assigned to the reinsurers to which Ark Life is exposed, which leads to a low capital requirement using the Solvency II Standard Formula calculation.

4.41 In addition to the financial risks shown above, Ark Life is also exposed to non-financial risks, including reputational risk, conduct risk and operational risk.

4.42 The transferring business will change the risk profile of Ark Life as follows:

- There will be no assets or liabilities remaining in Ark Life, except for €4.3 million which is being kept to ensure Ark Life has sufficient solvency coverage post transfer.
- The regulatory capital requirements will go to zero post-transfer for most modules of the SCR, and the SCR amount will instead be dictated by the AMCR amount of €3.7 million.
- As the Company will effectively have no policyholder assets or liabilities (and be closed to new business) most of its underlying financial and non-financial risks should fall away. The Company plans to return its licence to the Central Bank post transfer which will remove the regulatory requirements and need to hold the AMCR amount of capital.

Risk management

4.43 The Ark Life risk management framework identifies a "Risk Universe" which represents a comprehensive list of the categories of risk which the Group's businesses face or may face in the future. It categorises risks into two areas: "Risks for which capital is held" and "Other Risks".

4.44 Ark Life sets out qualitative risk appetite statements for each risk type in the Risk Universe to provide direction as to how the risk appetite statement indicator is to be interpreted.

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

4.46 Ark Life's risk governance framework includes risk policies and business standards, risk oversight committees with defined roles, responsibilities and delegated authorities.

4.47 Risks are reported on a bi-monthly basis to the management Risk and Compliance Committee, Asset Liability Committee, Operations Committee and the Customer Committee as part of a regular risk monitoring and reporting process.

4.48 Ark Life makes extensive use of reinsurance to reduce its exposure to mortality and morbidity risk. The Company has a significant exposure to a small number of reinsurance counterparties, in particular Munich Re. The Company manages this risk by only placing reinsurance with highly rated counterparties and monitoring the credit quality of its reinsurers.

Capital management policy

4.49 Ark Life's capital management policy and risk appetite statement sets out the following parameters for managing the Company's solvency position.

Table 8: Ark Life – Board-adopted solvency coverage ratio thresholds

Metric	Agreed level or range
Green – Within appetite	125% of SCR + €90m
Amber - Indicated Action Trigger	Between 120% of SCR + €47m and 125% of SCR + €90m
Amber Volatile – Immediate Action Trigger	Between 120% of SCR and 120% of SCR + €47m
Red – Breach, Urgent Action Required	Less than 120% of SCR
Regulatory Minimum	100% of SCR

Source: Ark Life Risk Appetite Statement

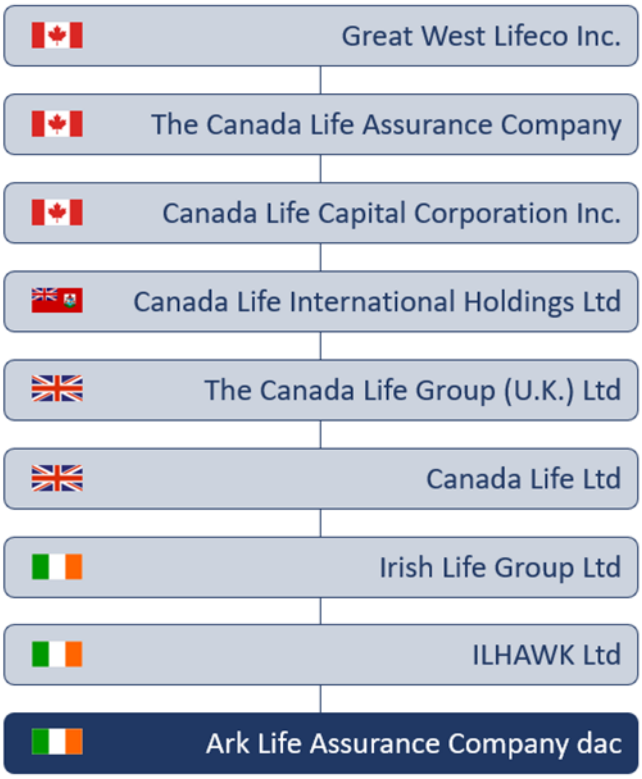
4.50 Ark Life's capital and dividend policy states that all excess capital over the normal operating level (125% solvency coverage + €90m) shall be considered for distribution.

Ark Life's position within the Great-West Lifeco group

4.51 Ark Life is closed to new business and aims to manage the book in run-off efficiently and effectively. The longer-term plan for Ark Life assumes a transfer and integration of the business with another entity. Ark Life is part of the Great-West Lifeco group which also owns a number of insurance entities in Ireland and globally.

4.52 The Great-West Lifeco group's structure is as summarised in Figure 1. Ark Life is a subsidiary of IL Hawk, which in turn is owned by Irish Life Group Ltd.

Figure 1: Group Group corporate structure



Source: Ark Life

4.53 Although Ark Life is managed so that it should be self-sufficient from a capital perspective, it can call upon its parent, Great-West Lifeco should it need additional capital to support its business (although Great-West Lifeco Inc. is under no legal obligation to provide such capital).

4.54 In February 2022, Great-West Lifeco was rated 'A+' (with a stable outlook) by the S&P credit rating agency and 'A' (with a negative outlook) by the Fitch credit rating agency.

Operational arrangements

4.55 Ark Life has an intra-group agreement with Irish Life Financial Services Ltd. for the provision of services relating to policy administration and customer service. It also has an intra-group agreement for the provision of investment management services with Irish Life Investment Managers.

4.56 Ark Life also has outsourcing arrangements for critical and/or important functions with service providers within the Great-West Lifeco group covering IT and Internal Audit.

4.57 Each outsourcing arrangement has an owner within the Ark Life Senior Management Team, who is responsible for ensuring the Ark Life outsourcing policy requirements are complied with. The Company's Compliance Officer is responsible for monitoring compliance across all arrangements.

Policyholders' Reasonable Expectations

4.58 The Head of Actuarial Function of Ark Life has stated that, in her view, the following reasonable expectations apply to the Transferring Policyholders:

- Unit pricing will be conducted in line with policy documentation and in a manner that is consistent and fair to policyholders.
- Discretionary powers are exercised in a manner that is consistent and fair to policyholders.
- Operational practices, in all relevant areas, are consistent with the terms outlined in the sales documentation and policy conditions.
- Investment strategy being adopted is consistent with that indicated in the sales documentation and policy literature.
- Unit-linked investment mandates will continue to be set and operated in a manner consistent with policy literature.
- No changes will be made to any policyholder charges except where such changes are consistent with PRE. This covers increases in policy fees and age related increases in insurance charges.
- The Company's sales materials and policy documentation do not convey inappropriate expectations.

Other

COMPLAINTS

4.59 I received a complaints log containing pending complaints for Ark 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.

4.60 I note that Ark Life had no complaints upheld by the Financial Services and Pensions Ombudsman ("**FSPO**") in 2020 or 2021. Ark Life has a documented complaints management procedure for both internal complaints and for complaints that are escalated to the FSPO. Six FSPO Complaints were settled with the firm during the FSPO process in 2020 and ten were settled in 2021.

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

COMPENSATION SCHEMES

4.62 None of Ark Life's policyholders are covered by guarantee or compensation schemes. Although Ark Life has UK policies, the Company has stated that they are not covered under the FSCS in the UK.

BREXIT

4.63 Following the United Kingdom's departure from the European Union, Ark Life did not enter the Temporary Permission Regime (**TPR**). Based on external legal advice, it believes that the TPR does not apply, nor does the Financial Services Contracts Regime (**FSCR)**, which is a default alternative for firms not participating in the TPR. The FSCR enables firms within the EEA that previously passported into the UK and that did not enter the Temporary Permission Regime (**TPR**) to wind down their UK business in an orderly fashion for a limited period of time (up to a maximum of 15 years for insurance business).

5 BACKGROUND TO IRISH LIFE

History and background

5.1 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.

5.2 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).

5.3 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.

5.4 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 around $2 trillion Canadian dollars in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

5.5 On 1 November 2021, IL Hawk completed the acquisition of Ark Life from the Phoenix Group, making Ark Life and Irish Life part of the same insurance group and both wholly owned subsidiaries of Great-West Lifeco Inc.

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

5.7 Irish Life is the largest life and pensions group in Ireland, with over 1.3 million customers[6]. 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.

5.8 The business of Irish Life consisted of the following portfolios as at 31 December 2021.

Table 9: Irish Life – Summary of business as at 31 December 2021, € millions

Line of business	BEL (1)	RM (2)	Total TPs (3)=(1)+(2)	Reinsurance Recoverables (4)
Life - Contracts with profit participation	86	0	86	-
Life - Unit-linked	56,535	179	56,714	12
Life - Other Life Insurance	4,093	161	4,254	1,332
Health	593	43	637	64
Total	**61,307**	**385**	**61,691**	**1,408**

Source: Irish Life Q4 2021 QRTs

5.9 Irish Life has communicated with the Central Bank in connection with the acquisition of Ark Life by IL Hawk and the intention to subsequently proceed with the portfolio transfer that is currently being proposed. I note that the proposed Scheme includes a requirement to obtain the non-objection of the Central Bank as a precondition to the Scheme (see

[6] Irish Life has 1.3 million customers but reports 838k contracts in force in the 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.

paragraph 6.4 below). The Central Bank has not raised any concerns thus far that might suggest that there will be any objection.

Nature of business written

5.10 The make-up of Irish Life's business, as at 31 December 2021, is set out in Table 10 below.

Table 10: Irish Life – Summary of in-force business as at 31 December 2021 (€ millions)

Product	No. of policies	Best Estimate Liability including unit-linked liability € millions
Non-Profit		
Individual Insurance	443,037	1,064
Individual and Group Investment	345,115	55,847
Annuities	43,107	3,655
Group Risk	4,067	594
Former with-profits	31	1
Other Product Lines	1,460	60
With-Profit		
With Profit Policies	1,289	86
Total	**838,106**	**61,307**

Source: Summary table & draft QRT S14.01 for 31 December 2021 as provided by Irish Life

5.11 In summary, as at 31 December 2021 Irish Life had 838,106 in-force policies (covering some 1.3m customers) across a wide range of business lines. Total technical provisions (gross of reinsurance) amounted to €61,690 million (comprising the "best estimate liability including unit linked liability" of €61,307 million, shown above, plus a risk margin of €385 million).

5.12 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.

5.13 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.

5.14 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.

5.15 Irish Life has well established bancassurance arrangements with a number of Ireland's banks which gives it access to the largest network of bank branches in Ireland. It has existing relationships with AIB, which is the same bank that was the sales channel for all of Ark Life's policies that were originally sold.

Solvency position

RECENT SOLVENCY POSITION

5.16 At 31 December 2021, Irish Life had an excess of eligible own funds over its regulatory capital requirement of €694 million, as shown in Table 11.

Table 11: Irish Life – Solvency position at 31 December 2021 and 31 December 2020

	31-Dec-21 € millions	31-Dec-20 € millions
(1) Total Eligible Own Funds	1,873	2,010
(2) Solvency Capital Requirement (SCR)	1,179	1,142
(3) Solvency Coverage Ratio (= (1) / (2))	159%	176%
(4) Excess of eligible own funds over capital requirement (= (1) - (2))	694	868

Source: Irish Life Q4 2021QRTs & Annual QRTs YE 2020

5.17 As at 31 December 2021, the Company's assets exceeded its liabilities by €1,873 million (31 December 2020: €2,010 million). The eligible own funds exceeded the regulatory capital requirement by €694 million (31 December 2020: €868 million). This translated into a solvency coverage ratio of 159% at 31 December 2021, compared to 176% at end-2020. This reduction was partly due to the payment of a dividend during 2021 as well as 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 changes to the valuation of the Company's defined benefit pension scheme.

5.18 Irish Life operates a policy of targeting a solvency coverage ratio significantly in excess of the regulatory minimum level. See paragraphs 5.43 to 5.46 below for details.

PRO-FORMA POSITION ALLOWING FOR TRANSFER

Table 12: Irish Life – Pro-forma solvency position at 31 December 2021 (€ millions)

	Total Pre-transfer € millions	Transferring Policies € millions	Total Post Transfer € millions
(1) Total Eligible Own Funds	1,873	237	2,110
(2) Solvency Capital Requirement (SCR)	1,179	118	1,278
(3) Solvency Coverage Ratio (= (1) / (2))	159%	200%	165%
(4) Excess of eligible own funds over capital requirement (= (1) - (2))	694	119	832

Source: figures provided by Irish Life

5.19 The impact of the transferring policies on the balance sheet is to increase eligible own funds by €237 million. The SCR increases by €99 million[7]. This leads to a solvency coverage ratio post completion of the proposed transfer of 165%.

5.20 The table above also allows for some other known items that will occur prior to the portfolio transfer. These include:

- For Irish Life, there is a foreseeable dividend of €30m at year-end 2021. This is allowed for in the Solvency II balance sheet at year-end 2021 (Own Funds are €1,873m net of €30m dividend).
- For Ark Life, there is a foreseeable dividend of €17.2m at year-end 2021. This is allowed for in the Solvency II balance sheet at year-end 2021 (Own Funds are €242m net of €17.2m dividend, with €4.3m of these own funds assumd to remain in Ark Life post transfer).

PROJECTED SOLVENCY POSITION

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

5.22 In July 2021, the Irish Life Board approved a report documenting the 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-2025 (with no

[7] The increase in the total post-transfer SCR is less than the SCR of the Transferring Policies due to the impact of diversification.

allowance for the proposed transfer of business from Ark Life which is the subject of this report, as that transfer had not been agreed at that time). It also assumed that there are no future transactions or dividend payments.

5.23 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 would actually be paid (in accordance with the Company's capital management plan).

5.24 The Company's policy regarding target solvency coverage and dividend payments is summarised below, starting at paragraph 5.43. 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-2025 and Irish Life's solvency position would still be maintained above its target level, assuming the business develops in line with the central scenario.

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

5.26 As noted in paragraph 5.22 above, these projections did not allow for the proposed transfer of business from Ark Life.

5.27 Irish Life produced an abridged[8] ORSA report dated 12 July 2021 to assess the impact of the transferring business. I have reviewed this ORSA and the results of the financial projections included in it.

5.28 The projection of the combined Irish Life and Ark Life balance sheets showed a consistently strong level of capital generation over time, leading to a steadily improving solvency coverage ratio (before consideration of dividends), as both solo entities are individually expected to be capital generative over time.

5.29 A range of adverse scenarios was also tested in the July 2021 ORSA report which demonstrated that the solvency position of Irish Life (post transfer) is expected to be robust in a range of economic and non-economic scenarios.

Risk profile

5.30 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.

5.31 The table below shows the components of the SCR at 31 December 2021 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.

[8] This was a summary ORSA, focussed mainly on the impact of transferring Ark Life's business onto Irish Life's balance sheet, rather than being a full (annual) ORSA exercise.

Table 13: Irish Life – SCR at 31 December 2021 both pre- and post-transfer (€m)

	Reported SCR € millions	Transferring Policies € millions	Total post-transfer SCR € millions
Market risk	795	65	856
Counterparty Default risk	42	11	50
Life underwriting risk	692	75	764
Health underwriting risk	228	5	232
Non-life underwriting risk	0	0	0
Diversification	(473)	(40)	(510)
Intangible asset risk	0	0	0
Basic Solvency Capital Requirement	1,284	117	1,392
Operational risk	64	6	69
Loss-absorbing capacity of technical provisions	0	0	0
Loss-absorbing capacity of deferred tax	(168)	(4)	(183)
Solvency Capital Requirement	1,179	118	1,278

Source: Figures provided by Irish Life

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

5.33 The transferring policies will bring a significant amount of lapse risk (which is the main reason for the increase in life underwriting risk in the table above) and some material market risk. Overall, the risk profile, as indicated by the SCR remains relatively unchanged.

5.34 The main risk of taking on the Ark Life business is a material change in counterparty risk in respect of Munich Re. This risk currently does not incur a large capital charge in the SCR, due to Munich Re's high credit rating but if its rating dropped or if it were to default there could be severe impacts. Munich Re has agreed ìn principal to the inclusion of the Ark Life treaties within the offset agreement already in place with Irish Life.

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

5.36 In March 2021 (the date of the year-end 2020 SFCR) Irish Life had six internal (inter-group) and seven external critical or important outsourcers. See paragraphs 5.51 to 5.56 for further details on operational arrangements.

5.37 Irish Life's strategy is evolving to address market competitiveness, changes in distribution networks, digitalisation and changes to the work environment as a result of COVID-19.

Risk management

5.38 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.

5.39 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.

5.40 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 14: Irish Life – Technical provisions gross and net of reinsurance recoverables as at 31 December 2021 (€m)

Line of business	BEL (1)	RM (2)	Total TPs (3)=(1)+(2)	Reinsurance Recoverables (4)
Life - Contracts with profit participation	86	0	86	-
Life - Unit-linked	56,535	179	56,714	12
Life - Other Life Insurance	4,093	161	4,254	1,332
Health	593	43	637	64
Total	**61,307**	**385**	**61,691**	**1,408**

Source: Irish Life Q4 2021 QRTs

5.41 The table shows the technical provisions of Irish Life at 31 December 2021 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 €1,408 million.

5.42 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

5.43 The Irish Life Board has adopted a Capital Management Policy[9], 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).

5.44 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.

5.45 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.

5.46 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

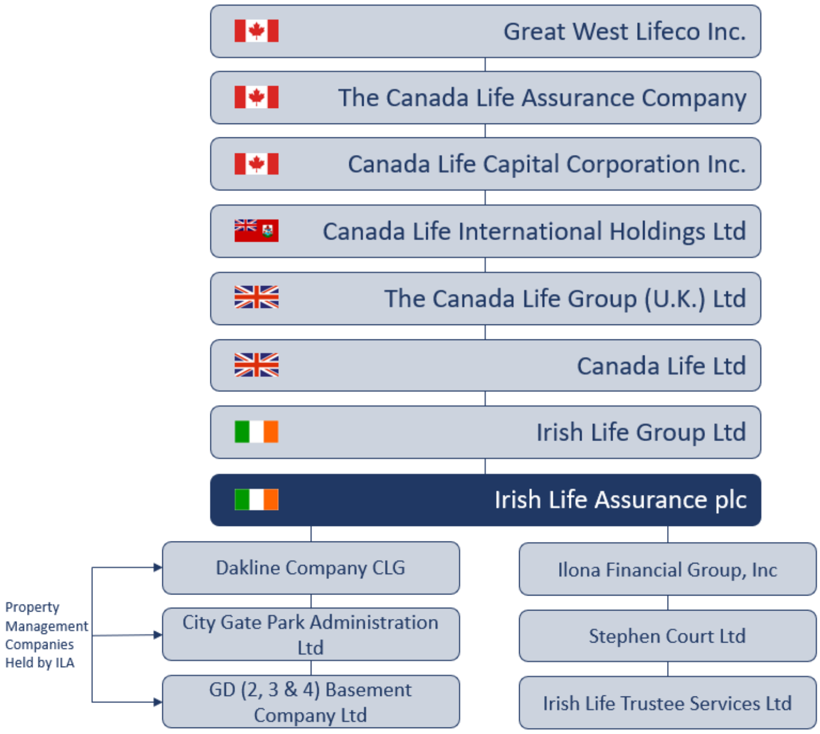
5.47 As noted above, Irish Life is owned by Great-West Lifeco Inc.

5.48 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 around $2.0 trillion Canadian dollars in consolidated assets under administration. They are members of the Power Financial Corporation group of companies.

5.49 The structure of the Great-West Lifeco group is set out in Figure 2.

[9] 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: Group corporate structure (simplified)



Source: Irish Life

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

Operational arrangements

5.51 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.

5.52 Irish Life outsources its investment management activities to three group entities – Irish Life Investment Managers Ltd (**ILIM**), Setanta Asset Management Ltd and Canada Life Asset Management Ltd (**CLAM**).

5.53 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 six internal critical or important outsourcers servicing its existing business.

5.54 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. Irish Life has seven external critical or important outsourced providers servicing its existing business.

5.55 Irish Life has prepared a 'transitional operating model' setting out its outsourcing partners and likely activities by each. Irish Life has signed a letter of intent with an additional outsourcing service provider that will provide policy and fund administration services for the transferring business. Ark Life staff who transfer to Irish Life will provide some support services also.

5.56 The same intra-group entities as used by Irish Life to service its own policies also currently services the Transferring Policies – for activities such as policy administration, investment management services, IT infrastructure support and internal audit.

Policyholders’ Reasonable Expectations

5.57 The Head of Actuarial Function of Irish Life has stated that the following items are the most material areas of consideration of PRE for Irish Life’s existing policyholders:

- Operation of unit-linked funds, including topics such as property funds, investment guarantees, taxation, Policy Disclosures and Policy charges.
- Operation of participating funds
- Customer complaints and any implication for PRE

5.58 For the Transferring Policies, my understanding is that there is no proposal by Irish 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 Ark Life practice.

5.59 In relation to unit-linked business, I note that Irish Life has a documented unit pricing policy in place (which I have reviewed) which sets out Irish Life’s approach in this area, and also operates a unit linked governance committee. The documented approach is typical for unit-linked business.

Other

COMPLAINTS

5.60 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.

5.61 I note that Irish Life had nine complaints fully or partially upheld by the FSPO in 2020. There were seven complaints upheld in 2021 (partially, substantially or fully).

5.62 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

5.63 No compensation schemes apply to Irish Life policyholders.

COVID-19

5.64 The COVID impact on the Irish and global economies has been very extreme. The pace and level of the recovery remains uncertain. In the meantime, government fiscal deficits have ballooned to fund large stimulus programmes and central bank ‘balance sheets’ have grown due to asset purchases.

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

5.66 Irish Life experienced proportionately few COVID-related deaths relative to the population, due to the age profile of lives covered. One notable impact of the pandemic, however, has been the acceleration of the move to remote advice from face-to-face advice.

6 THE PROPOSED PETITION AND SCHEME

Introduction

6.1 The Transferring Policies will be transferred to Irish 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 the Companies intend 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 October 2022, or such other date as may be specified by the Court.

Pre-conditions

6.4 The proposed Scheme is conditional on a number of conditions being fulfilled, 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 and 6.11 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 Irish Life, which will become the insurer of those contracts from the Effective Date (with the Transferring Policyholders acquiring the same contractual rights with Irish Life as they previously had with Ark Life).

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

6.7 In addition, those assets and liabilities of Ark Life that relate to the business being transferred will also transfer to Irish Life on the Effective Date. With the exception of €4.3m of assets which will remain in Ark Life to cover its ongoing solvency capital requirements, all remaining assets and liabilities will also transfer to Irish Life.

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 from the notification. I understand that Ark Life only issued policies in Ireland and the UK. Following Brexit, the UK is no longer part of the EEA and therefore there is no obligation to notify the relevant supervisory authority. For completeness, Ark Life also plans to provide the Central Bank with a list of all jurisdictions (both within and outside the EEA) where Transferring Policyholders are resident.

6.9 Ark Life has confirmed that it has policyholders residing in a number of EEA countries. I understand that the transfer will be advertised in publications in those Member States in accordance with the relevant local laws. Ark 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 In relation to non-EEA policyholders, I understand that Ark Life will ask the Central Bank whether or not it wishes to consult with the UK regulatory authorities in relation to the proposed transfer.

6.11 Ark Life also has 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 the Solvency II Regulations.

Maintenance and operation of funds

6.12 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.

6.13 Furthermore, as Ark Life does not operate any "ring-fenced funds", as defined under Solvency II, all assets and liabilities of Ark Life relating to the Transferring Policies will simply transfer to Irish Life's ownership, without any allocation or ring-fencing to any particular fund. It is worth noting that Irish Life does operate "ring-fenced funds" but I do not think this is material in respect of the portfolio transfer.

6.14 However, Ark Life maintains a number of notional funds in respect of the transferring business ("**internal linked funds**"). After the Effective Date, Ark Life's internal linked funds will be replaced by equivalent funds in Irish Life. The assets and liabilities deemed appropriated to each Ark Life internal linked fund immediately prior to the Effective Date will be moved on the Effective Date to an equivalent internal linked fund established within Irish Life. The Transferring Policies will be allocated equivalent units in the internal linked funds operated by Irish Life that correspond to those previously operated by Ark Life. The Scheme also states that there will be no change to the investment strategy, the approach to unit pricing, or to fund charges as a result of the transfer.

6.15 After the Effective Date, Irish 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 Irish Life, policyholder documentation and terms and conditions and policyholders' reasonables expectations.

Irish Life's rights in relation to Transferring Policies

6.16 The proposed Scheme provides that Irish Life may:

- exercise any available discretions in relation to the Transferring Policies provided it does so in accordance with the applicable principles in relation to policyholders' reasonable expectations, and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in Irish Life; and
- modify the terms and conditions applicable to any policy or internal linked fund, in accordance with these principles, and having regard, as appropriate, to such considerations as are from time to time in use in relation to such business in Irish Life,

subject in every case to the provisions of the applicable policy conditions and the rules of any relevant investment fund and, where relevant, to the opinion of Irish Life's Head of Actuarial Function.

Costs of the proposed Scheme

6.17 All costs and expenses relating to the preparation and carrying into effect of the proposed Scheme will be borne by Irish Life. No costs or expenses will be borne directly by any of the policyholders of either of the Companies.

Modification or additions

6.18 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 Irish Life and Ark Life both agree, subject to Court approval.

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

Policyholder communications

6.20 Section 13 of the 1909 Act requires that, unless the Court otherwise directs, certain materials must be sent to each policyholder of both Ark Life and Irish 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.

6.21 I understand that the Companies intend to ask the Court for permission to modify and waive some of these requirements. In that regard:

- Ark Life intends to send a three-page letter to the policyholders of Ark Life (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 this 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.
- The Policyholder Letter and FAQ document (together "**the Circular**") only be sent to the Transferring Policyholders, rather than to all policyholders in both Companies.
- 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 Ark Life not communicate with them), permission will be sought to withhold circulation of the Circular.

6.22 If the Court agrees, Ark Life will only send a copy of the Circular to all Transferring Policyholders (who do not have a "communications hold" on their account). The existing (pre-Effective Date) policyholders of Irish Life will not receive the Circular, nor will policyholders who fall under the "communications hold".

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

- That, given the number of customers involved (approximately 1.3 million), the costs of sending the Circular by post would be disproportionate to any benefit that might be obtained by the policyholders in question.
- In addition to advertising in Ireland, the Companies propose to publish notice of the proposed Scheme in national newspapers in the Financial Times (International Edition) as well as any national publications within the EEA as may be required (having received local legal advice in the territories in which Ark Life policyholders are currently resident).
- That I have concluded that neither the security of benefits nor the fair treatment and reasonable benefit expectations of those policyholders will be materially adversely affected by the proposed Scheme[10] and that, therefore, sending them the Circular risks causing them unnecessary concern.

6.24 Furthermore, as there will be no policyholders remaining in Ark Life after the Effective Date of the proposed Scheme there is no requirement to send the Circular to such a cohort.

6.25 In addition, the materials will be available on both the Ark Life website (https://www.arklife.ie) and the Irish Life website (https://www.irishlife.ie).

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

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

[10] Please refer to sections 8 and 9 for details of my conclusions and the basis on which I reached them.

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 Ark Life and Irish 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 and Irish Life's existing policyholders. It is not within my remit to consider possible alternative schemes or to form a view as to whether 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 of the outcome of such future events and that the effects may differ across different groups of policies, it is not possible to be certain of the effect on the policies.

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 The conditions to be met by the proposed Scheme are:

- 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 benefit 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 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.

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;
- levels of customer service to policyholders.

7.11 The arrangement with regard to 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 Ark Life (referred to as the Transferring Policyholders); and,
- Existing (pre-Effective Date) policyholders of Irish Life (referred to as Irish Life's existing policyholders).

7.13 As Ark Life is expected to have no policyholders following the proposed transfer, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in Ark Life post-transfer.

Assumptions made when assessing the proposed Scheme

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

7.15 The assumptions I have made include:

- All policies written by Ark Life are within the scope of the Transfer Agreement
- All assets and liabilities of Ark Life (with the exception of €4.3m which will remain in Ark Life to cover its post-transfer solvency capital requirements) will transfer to Irish Life, and Irish Life will take over, and maintain in force, the reinsurance arrangements currently in place between Ark Life and its reinsurers.
- Irish Life will take over, and maintain in force, the reinsurance arrangements currently in place between Ark Life and its various reinsurers, in particular Munich Re. Both and Munich Re and Swiss Re have indicated their non-objection to the novation of the existing reinsurance treaties to Irish Life as part of the proposed transfer (though they have yet to formally do so in writing).
- Based on available legal advice, neither Ark Life nor Irish Life need to participate in either the Temporary Permissions Regime or the Financial Services Contracts Regime in the UK in order to continue to administer the portfolio of UK policies which forms part of the proposed transfer.
- The cohort of Ark Life's policies that were written into the UK (the "**UK policyholders**") are currently not covered by the UK Financial Services Compensation Scheme ("**FSCS**") nor will they be post-transfer.
- Irish Life Financial Services Ltd (a member of the Great-West Lifeco group) already administers all of Ark Life's policies and will continue to do so in future.
- Irish Life will follow the business strategy as articulated in its most recent ORSA.
- Both Companies are part of the Great-West Lifeco Group and each of the Companies will continue in its current ownership.

7.16 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). Those points of similarity include:

- Both are domiciled in Ireland and subject to the same regulations and the same supervisory regime.
- Both are subsidiaries of the same group
- Both currently have a mixture of unit-linked and non-linked business, mainly written in Ireland (though, in both cases, a small amount was written in the UK).
- Both have reasonably similar overall risk profiles.
- Both have similar capital management policies.
- Both employ similar risk management tools. In particular, both have a significant reliance on reinsurance as a risk mitigant.
- The same group entities are used by Irish Life and Ark Life to administer their business and conduct a portion of the investment activity at present, as an outsourced services provider.

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

- Ark Life is closed to new business and is in run-off whereas Irish Life is open to new business
- Irish Life has more complexity within its portfolio of in-force business.
- The two Companies have different strategic plans.

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 2021 (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 2020 position also shown for comparison.
- As projected over the period up to 31 December 2025 for both Ark Life, and Irish Life. Projections have been prepared by Irish Life both with and without allowance for the proposed transfer.

8.10 I note that, as at both 31 December 2020 and 31 December 2021, both Companies had available capital resources in excess of both the regulatory minimum (100% of SCR) and their respective target levels as per their capital management policies (see below).

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. I have relied on the work of the Companies‘ auditors and HoAFs in this regard. I have also reviewed the reports on the technical provisions produced by the respective HoAFs in respect of 31 December 2020 and preliminary information that has been provided to me in respect of 31 December 2021 and I am satisfied that the approaches adopted appear reasonable.
- 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 the two Companies’ SCRs as at 31 December 2020 and 31 December 2021 for reasonableness based on my knowledge of their businesses 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 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 Ark Life and Irish Life, based on the composition of the SCR and commentary from the ORSA reports. In summary, the two Companies are exposed to broadly similar types of risk.

8.16 In terms of risk management, 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 much greater extent (relatively speaking) in the case of Ark Life. This changes the nature of the risk exposure on the business in question, in that many of the underlying risks associated with the business (e.g. mortality risk or morbidity 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 applicable capital regimes, collateral or other similar mechanisms. Significant amounts of collateral/funds withheld are retained to mitigate the rsks 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 Offset agreements (where premiums and claims between different treaties with the same reinsurer can be netted in the event of reinsurer default, to reduce the total exposure) are in place with many of Irish Life's reinsurance counterparties. An overarching agreement is in place with Irish Life's two largest reinsurers on individual mortality/morbidity – Swiss Re and Munich Re – to ensure the right of offset between all treaties with those reinsurers. I understand that Munich Re has agreed in principle for this offset agreement to extend to the Ark Life business.

8.19 Having reviewed the relevant documentation provided to me, and based on my experience of insurance risk management, I am satisfied that both Companies' risk management frameworks are fit for purpose.

Capital management policies

8.20 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 the capital management policy may be transferred out of the Company. That specified level of coverage should therefore, in my view, form the basis for assessing the Companies' financial strength.

8.21 The two Companies capital management policies are summarised in sections 4 and 5. They are both reasonably 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).

8.22 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 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.

8.23 Ark Life's capital management policy explicitly recognises the dependence on Munich Re and includes an explicit amount of capital that must be held to reflect the associated risks. I have reviewed the basis on which the buffer has been calculated and am satisfied that it is reasonable (particularly in terms of the credibility and reasonableness of the actions that Ark Life has stated it will take in the event of default by Munich Re).

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

Business model sustainability

8.25 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.

8.26 Ark Life's business model is to run off the closed book of business efficiently and effectively and ultimately to transfer the business to another entity, once scale drops to a certain level. Irish Life's business model is to continue selling business in the Irish market and to acquire and integrate additional portfolios of insurance business and to manage them if suitable opportunities arise.

8.27 In this regard, the Companies have quite different business models. However the business model of Irish life is the more sustainable in the long term as it is not a business that is in run-off. On that basis, I do not see the proposed transfer resulting in any material adverse implications for Ark Life's policyholders arising from Irish Life's business model sustainability – effectively, they will transition from a company in run-off to one that is open to new business. For Irish Life's policyholders, the acquisition and addition of a closed book of business is not necessarily a negative - in fact it adds additional scale to the Irish Life book. Therefore, this will help Irish Life to achieve its objective of growing the business in a sustainable way.

Recovery and resolution options

8.28 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 situations 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.

8.29 Both Companies' Recovery Plans[11] meet the requirements of the Central Bank of Ireland. These 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 the parent 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 available to Ark Life. Irish Life states that it could take actions that would increase the solvency coverage ratio by circa 40% 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. Ark Life has a greater reliance on parental support as a recovery option – its main exposure relates to reinsurer default.

8.30 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 (with Ark Life already in run-off).

Parental support

8.31 Both Ark Life and Irish Life are capitalised and managed to be self-sufficient on a standalone basis, without needing recourse to their parent (except to fund agreed acquisitions or other similar transactions). Nevertheless, both Companies benefit from the support of their parent, in particular through potential access to capital if required (noting that such capital support may or may not be forthcoming depending on the circumstances).

8.32 In my view, and given both entities ultimately have the same parent, the proposed transfer will not change the nature or character of parental support provided to either group of policyholders.

Consideration of different groups of policyholders

8.33 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; and,
- Irish Life's existing policyholders.

8.34 As noted in paragraph 7.13 above, I do not need to consider the implications of the proposed Scheme from the perspective of any policyholders remaining in Ark Life post-transfer as there will be none.

8.35 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 the categories of policyholders are set out below.

THE TRANSFERRING POLICYHOLDERS

Solvency

8.36 Irish Life's solvency coverage ratio (pro forma at 31 December 2021 as if the transfer had taken place on that date) is calculated as being somewhat lower than Ark Life's solvency coverage ratio at 31 December 2021 (159% versus 204%), though still well in excess of the regulatory required minimum solvency cover.

8.37 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 also show a similar trend.

8.38 Whilst the solvency coverage in Ark Life is initially higher than that in Irish Life, the solvency coverage ratio of Irish Life is expected to remain well in excess of both the regulatory minimum level and of its own capital management targets. In addition to this, being part of a larger company means the absolute amount of own funds is much larger – Irish Life has circa €2bn of own funds compared to Ark Life's level of circa €250m. Whilst both companies will maintain a strong solvency position over the projection horizon (the next 5 years) there would likely be benefits to the Ark Life policies in the longer term of joining a larger and open to new business entity. Given Ark Life is closed to new business the book will shrink in size meaning costs could erode the capital base unless they reduce in line with the size of the book of business. This may lead to reduced solvency coverage, or more volatile solvency coverage as the absolute size of the own funds and SCR reduce.

[11] Ark Life's recovery plan is still subject to Board approval

8.39 Based on the information provided, I am satisfied that the Irish Life has a healthy solvency position such that the Transferring Policyholders will not be materially adversely affected as a result of the proposed Scheme.

Risk profile

8.40 The Transferring Policyholders will be moving from a company within which the main risks are currently counterparty (reinsurer) default risk, financial market risk, and mortality risk, to one with broadly similar exposures to those risks but with less counterparty (reinsurer) default risk as a proportion of own funds.

8.41 As Ark Life is closed to new business this creates differences in the risk profile. If Ark Life did not transfer the business, it is expected that its risk profile would shift over time with more concentration of risk and more exposure to expense risk or operational risks.

8.42 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 broadly similar aside from one being open to new business and the other being in run-off. In particular, both Companies will have material exposures to reinsurers and both Companies face similar financial risks.

8.43 The counterparty exposure of Ark Life to Munich Re is one significant difference in the risk profiles. If Munich Re were to default then Ark Life would need a capital injection. While Ark Life's solvency coverage appears to be stronger than Irish Life's coverage this doesn't fully capture the exposure to Munich Re. A credit ratings downgrade of Munich Re (currently rated AA- by Standard & Poors) to BBB coupled with a severe interest rates shock would see Ark Life's solvency coverage diminish significantly. Irish Life would be able to withstand a default of Munich Re (post-transfer), even with zero recoverability, whilst still maintaining a solvency coverage ratio above 100%. The likelihood of such an event would be extremely remote. Figures provided to me by Irish Life indicate that a downgrade of Munich Re and Swiss Re to a BBB rating would have circa one tenth of the impact on Irish Life's (post transfer) solvency coverge ratio compared to the impact on Ark Life's (pre transfer) solvency coverage ratio, in terms of the percentage point reduction in the solvency coverage ratio as a result of such an event.

Risk management

8.44 Irish Life has similar risk management policies, frameworks, oversight and governance.

8.45 As noted above, both Companies make substantial use of reinsurance with their risk exposure to those reinsurers mitigated through capital or other mechanisms. Significant amounts of collateral/funds withheld are retained to mitigate the rsks related to the various reinsurance treaties regarding annuity business – 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.

8.46 I am therefore satisfied that transferring to Irish Life would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Capital management policy

8.47 I assess Irish Life's capital management policy as comparable to Ark Life's and both provide strong protection. 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

8.48 Irish Life's business model is different to Ark Life's as it is open to new business. This is a more sustainable business model than Ark Life's current business model which is to run the business off and potentially transfer the business at a later stage once it has reduced further in size. I am therefore satisfied that transferring to Irish Life would not lead to any material adverse implications in this regard for the Transferring Policyholders.

Recovery and resolution options

8.49 Irish Life has a well-developed pre-emptive recovery plan which sets out the actions to be taken in the event of an unacceptable deterioration in the Company's solvency position. I have reviewed Irish Life's plan and believe the actions outlined are plausible. This plan will be updated to take account of the Ark Life business.

8.50 The options available both in a recovery and a resolution situation are greater for Irish Life, as its larger scale means it has less reliance on parental support. This will be a benefit to the Ark Life policyholders.

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

Parental support

8.52 Given both companies are part of the same group and have access to the same ultimate parent for support, I am satisfied that the proposed transfer will not result in any material adverse change to the nature or character of parental support provided to the Transferring Policyholders.

IRISH LIFE'S EXISTING POLICYHOLDERS

Solvency

8.53 The transfer of the Ark Life business is calculated as having a beneficial impact on Irish Life's solvency position (with the solvency coverage ratio on a pro forma basis at 31 December 2021 increasing from 159% to 165%) and as having a corresponding impact on the Company's projected solvency position (compared to the equivalent projection assuming the transfer did not take place).

8.54 I am therefore satisfied that the transfer into Irish Life of the Ark Life business would not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Risk profile

8.55 The transfer will materially increase Irish Life's exposure to counterparty default risk (specifically Munich Re) as well as increasing its exposure to financial market risks.

8.56 Whilst Irish Life's exposure to Munich Re will increase significantly the Company will also grow in scale, which may lessen the relative sensitivity to other risks (such as the relative exposure to Swiss Re, currently Irish Life's largest reinsurance exposure). Although this increased counterparty exposure is worth noting, Munich Re is a reputable reinsurer with a very strong credit rating (currently rated AA- by Standard & Poors). With proper governance and risk management in place (such as that outlined in the Company's Reinsurance and Risk Mitigation Policy) this increased exposure should not be of material concern. It is also worth noting that, given the larger scale of Irish Life's own funds, if Munich Re were to default and no recovery was made on the reinsurance asset (which may be considered to be an extremely remote outcome), it would still be able to maintain solvency coverage greater than 100% (i.e. Irish Life has sufficient excess own funds to absorb the default of Munich Re). Depending on the circumstances of the default and market conditions at the time, Irish Life may also be able to replace the reinsurance cover, which could potentially help to restore its solvency coverage again.

8.57 I am therefore satisfied that the transfer into Irish Life of the Ark Life business would not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Risk management

8.58 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 they 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

8.59 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

8.60 The transfer in of the Ark Life business is in line with Irish Life's stated business strategy and does not change its business model. Although Ark Life is a closed book of business it will add scale to Irish Life and help it to grow, whilst also achieving operational synergies. On that basis, I am satisfied that the transfer into Irish Life of the Ark Life business would not lead to any material adverse implications in this regard for Irish Life's existing policyholders.

Recovery and resolution options

8.61 Irish Life will update its pre-emptive recovery plan to take account of the Ark Life business.

8.62 In relation to the options available in a recovery or resolution situation, the transfer in of the Ark Life business will not change the options available. Irish Life has more recovery options available to it, largely due to its current scale. The addition of further scale to Irish Life through the incorporation of the Ark Life business will strengthen this point.

8.63 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

8.64 The nature and character of parental support provided to Irish Life's existing policyholders should not change as a result of the proposed Scheme.

Miscellaneous aspects

BREXIT

8.65 I note that, at the time of Brexit, Irish Life had a small amount of business on its books that was written in the UK. Irish Life is participating in the FSCR on the basis that this business was originally written through a UK branch. Once all insurance liabilities have terminated (as has now happened with the exception of one income protection claim in payment) this permission falls away. Irish Life has received legal advice indicating that the UK business that it will acquire from Ark Life as part of the proposed transfer does not require participation in either the TPR or the FSCR. Therefore, the proposed Scheme will not adversely alter the situation for those Transferring Policyholders who are UK-resident, as an equivalent position is currently considered to apply in Ark Life. In other words, the legal and regulatory position of the policyholders in question, with respect to Brexit, will not be adversely impacted by the proposed Scheme.

8.66 The number of affected policies, and the liabilities associated with them, is small, so this issue is largely immaterial in the overall context of the proposed transfer.

MATTERS NOT CONSIDERED

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

Summary & Conclusions – Security

8.68 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 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, 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 arrangement with regard to 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 LA-6, 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. 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 two groups of policyholders.

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 Ark Life and Irish Life have retained external tax experts to review the proposed Scheme from the perspective of the tax implications (if any) on the Transferring Policies. These experts have concluded that the implementation of the proposed Scheme is not expected to have any adverse tax consequences for the Transferring Policyholders.

9.8 I note that, in providing this opinion, the external tax experts have considered the existence and operation of a number of funds which operate on an "net" (or "I-E") basis as well as policies sold in the UK. Having done so, they have concluded that there should be no adverse implications for the tax treatment of the Transferring Policies.

9.9 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.

9.10 I have been provided with a summary of the advice provided. I do not consider it necessary to seek additional independent tax advice.

9.11 I also note that the Company 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 report of the external tax experts engaged by the Companies. I will comment on this in the supplementary report I will produce prior to the Court hearing.

EXERCISE OF DISCRETION

9.12 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 5.58) I have been informed by Irish Life that they do not propose to alter the manner in which discretion will be exercised in relation to the Transferring Policies, nor do they propose to take discretionary measures that would be substantially inconsistent with current Ark Life practice.

9.13 I further note that the proposed Scheme requires that the exercise of such discretion by Irish Life post-transfer must have regard, where relevant, to the opinion of Irish Life's Head of Actuarial Function. The current governance arrangements for Irish Life's unit-linked business (as summarised in paragraph 5.59) include a documented unit pricing policy (which I have reviewed) which sets out Irish 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.

9.14 Furthermore, Ark Life have notified Irish Life of a number of areas where discretion is applied (such as reductions in fees for certain policyholders and processes for calculation of charges). Irish Life have stated that they will continue to operate the funds and policies in a manner that is cognisant of past practices within Ark Life and in line with PRE.

9.15 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 Irish Life may exercise its discretion in respect of aspects of the terms and conditions of the Transferring Policies post-transfer, compared to how Ark Life can currently exercise its discretion.

CUSTOMER SERVICE

9.16 As noted in paragraph 5.56 above, large parts of the investment management and policy administration functions are already provided on an outsourced basis to Ark Life by Great-West Lifeco group (through group service companies that Irish Life also use). Irish Life has stated its intention to continue these arrangements so there will be no change to the investment and policy administration arrangements for Ark Life policyholders.

9.17 Approximately 27 employees, in areas such as finance, actuarial, risk and compliance are expected to transfer to Irish Life as a result of the transfer. Given the scale of the functions in Irish Life, the number of existing staff expected to transfer to Irish Life, and the fact that policy administration activity is already outsourced to Irish Life Financial Services Ltd., I do not think there will be any adverse impact to the service levels of Ark Life policyholders.

9.18 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

9.19 The arrangement with regard to the costs of the proposed Scheme are set out in paragraph 6.17 above. I confirm that I am satisfied that the proposals are fair to the Transferring Policyholders.

POLICYHOLDER COMMUNICATIONS

9.20 The proposed communications plan is summarised in paragraphs 6.20 to 6.25 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 the summary report (and full report) hosted on Ark Life's website rather than including it in printed form as part of the Circular, and
- the proposal not to send the Circular to those who have a "communications hold" on their account.

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

Irish Life's Existing Policyholders

GENERAL

9.22 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.

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

POLICYHOLDER COMMUNICATIONS

9.24 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.

9.25 I note that the Companies' arguments for this approach are as follows:

- That, given the number of customers involved (approximately 1.3 million), the costs of sending the Circular by post would be disproportionate to any benefit that might be obtained by the policyholders in question.
- In addition to advertising in Ireland, the Companies propose to publish notice of the proposed Scheme in the Financial Times (International Edition), as well as observing any local law advertising requirements (having sought local legal advice from counsel in each of the EEA territories in which policyholders of Ark Life are resident).
- That I have concluded that neither the security of benefits nor the fair treatment and reasonable benefit expectations of those policyholders will be materially adversely affected by the proposed Scheme and that, therefore, sending them the Circular risks causing them unnecessary concern.

9.26 I have considered the proposed approach to policyholder communication and am satisfied that it is fair and reasonable in the circumstances. In forming this view I note that, although the size of the proposed transfer (ca. €3 billion in assets transferring) is material, the impacts on Irish Life's solvency position and risk profile are far less material.

Summary & Conclusions – Fair treatment

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

9.28 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 Irish Life from Ark Life; and,
- Existing (pre-Effective Date) policyholders of Irish 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 either group of policyholders;
- the reasonable expectations of either group of policyholders with respect to their benefits; and
- the standards of administration, service, management and governance that will apply to both groups of policyholders.

Eamonn Phelan

Eamonn Phelan
Fellow of the Society of Actuaries in Ireland

4 April 2022

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 Ark Life or Irish Life unless otherwise noted.

Legal documents

- Constitution of Ark Life
- Constitution of Irish Life
- Certificate of Authorisation from the Central Bank of Ireland to Ark Life
- The Petition, proposed Scheme and other related legal documents
- The Circular to be provided to each transferring Ark Life policyholder
- Reports from the Heads of Actuarial Function
- Report from the Head of Actuarial Function to the Board of Ark Life in respect of the year ended 31 December 2020
- ARTP and AOTP from the Head of Actuarial Function to the Board of Irish Life for Year end 2020
- ARTP and AOTP from the HoAF to the Board of Ark Life for Year End 2020
- Irish Life HoAF Opinion on Underwriting Policy and Reinsurance Arrangements dated on 22 September 2020
- Ark Life HoAF Opinion on Underwriting Policy and Reinsurance Arrangements for Year End 2020
- Irish Life HoAF report on the Ark Life Portfolio Transfer dated 28 February 2022
- Ark Life HoAF opinion on PRE dated May 2021
- Draft of Ark Life HoAF report on the Ark Life Portfolio Transfer dated 1 March 2022
- Suite of Irish Life PRE documents

Solvency & Financial Condition Reports

- Solvency and Financial Condition Report (SFCR) for Ark Life for the years ended 31 December 2020
- Solvency and Financial Condition Report (SFCR) for Irish Life for the years ended 31 December 2020
- Various files on Q4 2021 QRT's for Irish Life
- Q4 2021 QRT's for Ark Life
- Draft Annual QRTs for Ark Life

Own Risk & Solvency Assessment (ORSA) Reports

- Partial ORSA report for IL HAWK dated 12 July 2021
- ORSA Report for Ark Life dated 2 June 2021
- ORSA Report for Irish Life dated July 2021
- Ark Life HoAF opinion on the ORSA dated 2 June 2021
- Irish Life HoAF opinion on the ORSA process dated July 2021

Directors' Reports and Financial Statements

- Directors' Report and Financial Statements for Ark Life for the financial years ended 31 December 2020
- Directors' Report and Financial Statements for Irish Life for the financial years ended 31 December 2020

Product documentation

- Sample policy documents for the Transferring Policies
- Communication plan for policy holders received from Irish Life

Risk Policies

- Suite of documents from Irish Life regarding risk register and drisk reporting
- Irish Life risk appetite statement
- Sample Irish Life risk management policies
- Suite of documents from Ark Life regarding risk register and drisk reporting
- Ark Life risk appetite statement
- Sample Ark Life risk management policies

Reinsurance

- Reinsurance agreements for Ark Life
  - Munich Re (various documents including the reinsurance agreement as amended)
  - SCOR (various documents including the reinsurance agreement as amended)
  - Swiss Re (various documents including the reinsurance agreement as amended)
  - Reinsurance summary file
- Reinsurance agreements for Irish Life
  - Document recieved outlining all reinsurance agreements

Other documents

- Capital Management Policy for Irish Life dated November 2021
- Capital Management Policy for Ark Life dated May 2021
- Details of the financing arrangements underlying the proposed transaction between Irish Life and Ark Life
- Letter from KPMG to Irish Life dated March 2022 regarding tax implications for Transferring Policyholders
- Various Q&A Logs
- Data request Log
- Minutes of project team meeting dated 9 February 2022
- Proposed revisions to Brexit FSCS text on the Srk Life website
- Suite of documents on regulatory correspondence for Ark Life
- Details of recent open complaints and litigation for Ark Life
- Investment policy file from Irish Life dated September 2021
- Details of Ark Life Investment Policy
- RSR for Irish Life 2019
- RSR for Ark Life 2020
- Various documents detailing Audit reports for Irish Life
- Recovery Plan from Irish Life dated November 2021
- Draft of the Ark Life recovery plan dated February 2022

- Summary details of customer complaints and legal actins for Ark Life
- Summary details of customer complaints and legal actins for Irish Life
- Details on warranties in place relating to a previous transfer of Ark Life

Correspondence

- E-mail correspondence with Ark 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)
AMCR	Absolute Minimum Capital Requirement
ASP	Actuarial Standard of Practice
Ark Life	Transferor
Ark Life Board	The board of Ark Life
Ark Life Business	A range of pensions, savings and protection policies for customers in the Irish market
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
Brexit	The term used to describe the UK's exit from the EU
Central Bank	The Central Bank of Ireland, which is the supervisory authority with responsibility for the prudential supervision of the Companies
Circular	A document to be provided to the Transferring Policyholders which includes the Policyholder letter and the FAQ document
CLAM	Canada Life Asset Management Ltd.
the Companies	Ark Life and Irish 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 October 2022, 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
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
FOS	Freedom of Services
FSAI	Fellow of the Society of Actuaries in Ireland
FSCR	The Financial Services Contracts Regime enables EEA firms that previously passported into the UK and that did not enter the TPR (or have exited the TPR without securing authorisation for a UK branch) to wind down their UK business in an orderly fashion.
FSCS	The Financial Services Compensation Scheme in the UK
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
ILG	Irish Life Group Ltd.
ILFS	Irish Life Financial Services Ltd.
IL Hawk	Irish Life Hawk Limited
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 linked funds	A number of notional funds maintained by Ark Life in respect of the transferring business
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
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 Ltd., Consultants & Actuaries, 7 Grand Canal Street Lower, Dublin 2
Internal Linked Funds	Internal structures to facilitate the operation of funds for different cohorts
Irish Life	Transferee
Irish Life Board	The board of Irish Life
Irish Life's existing policyholders	The existing (pre-Effective Date) policyholders of Irish Life
Munich Re	Munich Re Group, a reinsurer
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
PGHP	Phoenix Group Holdings plc
Policyholder Letter	A letter issued to the Transferring Policyholders which, in broad terms, explains the proposed Scheme
PRE	Policyholders' reasonable expectations
proposed Scheme	The legal scheme of transfer by which it is proposed that the Transferring Policies and their associated assets and liabilities be transferred from Ark Life to Irish 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

RGP	ReAssure Group plc
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
SAI	The Society of Actuaries in Ireland
SCOR	SCOR SE, a reinsurer
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)
Spread Risk	The sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure
SRO	Supervised Run-Off. This is the mechanism under the FSCR that allows firms that previously operated in the UK on a cross-border basis to continue to carry out certain regulated activities in the UK for a period of up to 15 years.
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
Supplementary report	A further report to be prepared by the Independent Actuary prior to the final Court hearing. The purpose of the supplementary 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
Swiss Re	Swiss Re Group
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
TPR	The Temporary Permissions Regime – the legal basis by which insurers from the EU carrying on insurance business in the UK could (if they opted in) continue to carry on their business in the UK for three years post-Brexit.
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 this report
Transferring Policies	The policies that are proposed to be transferred from Ark Life to Irish Life under the proposed Scheme
Transferring Policyholders	The policyholders being transferred from Ark Life to Irish Life
UK	The United Kingdom of Great Britain and Northern Ireland
UK Business	Business sold in Northern Ireland and Great Britain on a Freedom of Services basis
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
1909 Act	The Assurance Companies Act 1909 (as amended)