Introduction

An Independent Expert's Report ("Full Report") dated 27 June 2023 has been prepared in order that the UK High Court, the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA"), the Authorité de Contrôle Prudential et de Resolution ("ACPR") in France, the policyholders and other affected parties may properly assess the impact of the proposed transfer of a portfolio of insurance and inwards reinsurance liabilities of Aetna Insurance Company Limited ("AICL") ("the Transferor") into AWP P&C SA ("the Transferee") operating through its UK branch ("the Companies"). I refer to this proposed transfer of the portfolio as the proposed "Scheme". AICL and AWP P&C SA are referred to collectively herein as the "Scheme Companies".

The Scheme arises from a decision by Aetna International LLC ("Aetna") to wind down most of their non-Americas insurance business. Aetna is achieving this wind down using two transactions, the above Scheme and a separate Asset Purchase Agreement (APA).

Under the APA, AICL has given exclusive introductory rights to seek to migrate its annual premium business to AWP Health and Life SA ("AWP H&L"), to support continuity of coverage for its members wherever possible.

Under the Scheme, Aetna are also proposing to transfer all of AICL's remaining private medical insurance business (other than business written by Aetna's Singapore branch ("AICL SB"), which will undergo its own local Part VII equivalent in Singapore) to AWP P&C SA ("AWP P&C"), operating through its UK Branch ("AWP P&C UK"). This includes all insurance policies underwritten by AICL (other than business written by AICL SB) where there is still potential liability for claims. For completeness, there are two other Part VII equivalent transfers for Ireland and Hong Kong will have no bearing on the UK Part VII transfer, as they are completely separate legal entities.

The Full Report describes this second transaction, the Scheme. The Full Report considers the potential impact and benefits on all affected policyholders (of the Scheme Companies), including the security of their policies. I have also explicitly considered what happens if there are unintended policyholders left behind because the other IBT processes do not fully proceed. I note the Scheme document makes an allowance for excluded policyholders even though there are expected to be none. This Summary Report is a summary of the Independent Expert's Full Report. The Full Report is available from the:

- registered office of AICL – 25 Templer Avenue, 2nd Floor, Farnborough, Hampshire, GU14 6FE, UK;
- AICL website at www.aetnainternational.com/;
- registered UK Branch office of AWP P&C, which is Mondial House, 102 George Street, Croydon, Surrey, CR9 6HD; and
- AWP P&C website – https://www.allianz-partners.co.uk/ and https://www.allianz-assistance.co.uk/.

The proposed transfer of insurance business from one insurer to another must be approved by the High Court in the UK. In addition, the PRA, the FCA and the ACPR, as the regulators of the Scheme Companies, will be consulted. The terms covering the proposed Scheme are set out in the Scheme document that will be presented to the High Court. I refer to that document as the "Scheme of Transfer". It is anticipated that the Scheme of Transfer will be presented to the High Court under Part VII of the Financial Services and Markets Act 2000 on 5th July 2023, at which time the directions of the High Court will be sought. It is intended that the Sanctions Hearing will take place in November 2023, when final approval of the Scheme of Transfer will be sought with a proposed effective date of 1 December 2023 (the "Effective Date").

About the Independent Expert

I am a partner in KPMG Ireland. I am a Fellow of the Society of Actuaries in Ireland with more than 30 years of experience of working in the insurance industry. I have previously conducted similar Independent Expert roles. My detailed biography is included in the Full Report.

Use and Limitations

This Summary Report covers the main conclusions of the Full Report. However, this Summary Report must be considered in conjunction with that Full Report and reliance must not be placed solely on this Summary Report. Both this Summary Report and the Full Report must be considered in their entirety as individual sections, if considered in isolation, may be misleading. This Summary Report is subject to the same limitations on its use as are set out in the Full Report. In the event of any real or perceived conflict between this Summary Report and the Full Report, the latter contains the definitive description. A summary of my Full Report is set out below.

Background to Scheme Companies

My Full report contains an overview of the Scheme companies including the nature of products underwritten; risk profile, management and governance; use of reinsurance and other risk mitigation; outsourcing; financial strength and capital analysis; projections of financial strength including stress testing; consideration of Customer Duty, Regulatory matters including complaints and litigation. I have not reproduced the detail in this Summary Report as my Full Report is available on request from the Scheme Companies.

Details of the Scheme

The Scheme proposed is one for the transfer of all of AICL's remaining private medical insurance business (other than business written by AICL SB) to AWP P&C, with the transferring business to be allocated in full to its UK Branch. This includes all insurance policies underwritten by AICL (other than business written by AICL SB) where there is still potential liability for claims. The Scheme has the following attributes:

- The portfolio transfer will be made on an arm's length basis and will include the transfer of assets to support the maintenance of the portfolio post the portfolio transfer.
- There will be no changes to policy terms.
- There will be no impact on the benefits under policies.
- There will be no change to policyholders' rights and obligations under their policies.
- All claims which are currently being dealt with by AICL will be handled by, or on behalf of, AWP P&C, on and from the Effective Date.

Independent Expert's Approach

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

- Understand the businesses of the Companies; and
- Understand the effect of the Scheme on the assets, liabilities and capital (on the regulatory basis) of the Companies and their respective businesses.

Having identified the effects of the Scheme on both Companies and their respective businesses, I then:

- Identify the groups of policyholders directly affected i.e. those policyholders of AICL (both direct and inwards reinsurance, excluding AICL SB policyholders) whose policies are to be transferred to AWP P&C and the current policyholders of AWP P&C;
- Consider the impact of the Scheme on the security of each group of policyholders;
- Consider the impact of the Scheme on the expected treatment of claims and other aspects (for example, policyholder service and any changes in administration or other arrangements).

Key assumptions

The assumptions underpinning my analysis are set out in Section 2.5 of my Full Report. The assumptions underlie the analysis and conclusions in my Full Report and, at this stage, these assumptions correctly represent the current intentions of the Companies. If any of these assumptions were to change, my opinion may also change. Whilst my Full Report captures all of the detail, below I have summarised some of the more significant assumptions:

- AWP P&C and AWP H&L retain solvency levels within their risk appetite up to and after the Effective Date.
- There will not be an increase in the aggregate liability or risk exposures in the Companies as an immediate consequence of the Scheme that would not have occurred were the Scheme not to proceed.
- Service levels will not be impacted by the Scheme. My assessment is based on AWP Health & Life ("AWP H&L") acting as administrator of the transferring business on behalf of AWP P&C.

- For the policyholders of AICL moving to AWP P&C under the Scheme, the 100% quota share reinsurance treaty with Aetna Life Insurance Company (ALIC") will cease on the Effective Date, but such policyholders will enjoy the benefit of a 100% quota share reinsurance treaty between AWP P&C onto AWP H&L and then with ALIC from that date.
- There will be no policyholders left in AICL after the Scheme, as all existing policyholders of AICL will become policyholders of AWP P&C as a result of the Scheme. This assumes the AICL SB local Part VII transfer occurs at the same time, which is the proposed time-table. Therefore I anticipate there will be no policies excluded in either this Scheme or the Singapore equivalent. In the event that this is not the case, I will address that scenario in a Supplementary Report.

Security of benefits

The balance sheets I have reviewed for AICL and AWP P&C respectively show amounts as at 31 December 2021 and 31 December 2022. From my review of the full range of financial and regulatory information, I conclude that:

- The reserves of the Companies appear reasonable as at 31 December 2021 and 31 December 2022;
- AWP P&C is projected to continue to be well reserved with effect from the Effective Date;
- As at 31 December 2021 and 31 December 2022, AICL has strong Solvency II regulatory capital position exceeding its strategic solvency targets and in line with its internal risk appetite levels;
- As at 31 December 2021 and 2022, AWP P&C had a Solvency II regulatory capital position within its risk appetite at 134% and 113% respectively of the Solvency Capital Requirement ("SCR") at each year-end;
- AWP P&C (UK Branch) however had a capital position at 31 December 2022 of 105% of the branch SCR. This is at the action barrier ratio level (described in Chapter 4 of my Full Report), and I understand has been restored to 120% as discussed with the PRA in 2023;
- The approach to the calculation of the SCR and the Risk Margin is appropriate in the Companies;
- Specifically, if the Scheme does not progress, AICL has forecast that its Own Funds will remain at c€21m (about 550% coverage of its SCR of approximately €4m) over the run-off period, leaving a surplus over its SCR in run-off of approximately €17m over that period. Although 550% appears to be a very large coverage ratio, this is simply the mathematical consequence of dividing by the small SCR required;
- If the Scheme does progress, and dividends are as forecast, the AWP P&C SA equivalent forecasts are Own Funds ranging from €587m for year-end 2023 to €751m for year-end 2025. The surplus over its SCR over that period ranges from €102m for year-end 2023 to €154m for year-end 2025. The resultant SCR coverage ratio varies from 121% to 126% over this period. So although the percentage coverage of the SCR is less in AWP P&C SA, in absolute terms this is a much larger balance sheet;
- It is worth noting that the SCR coverage ratio of 121% at the end of 2023 assumes the payment of a proposed dividend in 2023, providing a further possible buffer in the event of any adverse impacts emerging;
- So although the regulatory capital coverage ratio is considerably less in AWP P&C SA than AICL, in absolute terms AWP P&C SA has a much larger balance sheet;
- As at the Effective Date, AWP P&C is forecast to have a Solvency II regulatory capital position which will continue to meet its own internal risk appetite;
- The projected regulatory capital position for AWP P&C also takes account of the transfer of the exclusive introduction rights from AICL under the APA – the impact is not particularly material given the internal reinsurance of 90% of these rights to AWP H&L;
- There is no reason to think that the financial strength of AWP P&C will be impacted by the Scheme, as the transferring policies will be 100% reinsured from AWP P&C to AWP H&L and in turn 100% reinsured to ALIC, so the net impact of the AWP P&C balance sheet is zero;
- I note that the solvency position of AWP H&L as internal reinsurer for the transferring liabilities before reinsuring on with ALIC, has a solvency ratio at 114% which is again within its risk appetite;
- As at the Effective Date, AICL will have a much higher solvency ratio than AWP P&C, however this is not a valid comparison as with no remaining policyholders it will be dissolved and the remaining Own Funds returned to its shareholders. Looking forward, in absolute money terms, AWP P&C has a much larger balance sheet than AICL would have if the Scheme did not proceed;

- I performed several stresses against both balance sheets as at the end of 2023 (the projected IBT date), for AICL assuming the Scheme did not progress, and for AWP P&C assuming the Scheme does progress. The purpose was to form a view as to whether the transferring AICL policyholders are transferring to a riskier balance sheet, and if so, if that additional risk is material. I note that the stresses do suggest that the AWP P&C balance sheet does have more risk associated with it than the AICL balance sheet, but this incremental risk is very remote
- ALIC (regulated by the Connecticut Insurance Department), has strong external credit ratings and is well capitalised.

Overall, I am satisfied that the proposed Scheme does not affect in a materially adverse way the security of the AICL Policyholders and the AWP P&C Policyholders.

Consideration of other matters including service levels

I have also been provided with an operations document comparing the service levels before and (projected) after the Scheme. I am satisfied that service level will be similar or better post the Scheme for the transferring policyholders.

Given the APA, I have also been provided with operations documents assessing the service levels over the period of migration of these exclusive rights. No material issues appear to be flagged in terms of meeting service levels and standards.

In addition, AWP P&C provided me with its plans to implement the new Consumer Duty charter, effective from 31 July 2023 for open books. This is more comprehensive than the existing Treating Customers Fairly regime. As a consequence of this, the transferring policyholders should be better served under this new enhanced regime. AICL does not need to implement the Consumer Duty charter, as it does not apply to closed books until 31 July 2024, by which time AICL expects to have no policyholders.

Overall, I am satisfied that the proposed Scheme does not affect in a materially adverse way the policy servicing levels of the AICL Policyholders and the AWP P&C Policyholders.

The Approach to Communication to Policyholders

The intended approach that AICL and AWP P&C plan to take in communicating information about the Scheme to affected policyholders and other parties is set out in Section 7 of my Full Report. The main objectives of the communications are to:

- ensure that policyholders and other interested parties receive sufficient and clear information on the Scheme and its effect and implications for them;
- enable recipients to make an informed decision as to whether they wish to make representations to the Court in relation to the Scheme, and the process to follow should they wish to do so; and
- enable recipients to understand any impact on the claims process and their ability to claim.

I believe the proposed approach to communication with policyholders and other interested parties as detailed in my Full Report to be both proportionate and reasonable. It is proposed that only the impacted AICL policyholders will be notified, as there will be negligible impact on existing AWP P&C policyholders. In making this statement I note that it is for the High Court to approve the notification arrangements.

I have also reviewed the communication pack including the cover letter (with different covers to policyholders, brokers, fronters, healthcare partners etc), an information document containing a summary of the Scheme document setting out the terms of the proposed Transfer; this Summary Report; the notice of the proposed Transfer and further information on the High Court hearing; and the document setting out a set of frequently asked questions and answers. I consider the information presented to be clear.

Conclusions

In my opinion, provided the proposed Scheme operates as intended, and I have no grounds for believing that it will not do so:

- The security of benefits to policyholders of AICL and AWP P&C will not be materially adversely affected by the implementation of the Scheme on the Effective Date; and
- The Scheme will not materially adversely impact on the service standards experienced by the policyholders of AICL and AWP P&C.

I will review my analyses and conclusions in the light of any relevant information of which I become aware prior to the Court hearing to sanction the Scheme, and I will summarise my additional review and conclusions, explaining any revisions to those contained within my Full Report, in a Supplementary Report.

My opinion in relation to AICL and AWP P&C policyholders is based on:

- My review of all the pertinent historical, current and projected information provided by AICL and AWP P&C; and
- Discussions with the management of AICL and AWP P&C on what will happen post-transfer.

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

Brian Morrissey

27 June 2023

Brian Morrissey, FSAI **Date**

Independent Actuary, KPMG in Ireland