Report of the Independent Expert

Aetna Insurance Company Limited and AWP P&C SA

27 June 2023

580644003

Contents

1 Introduction

1.1 Purpose of this Report

This is the Independent Expert Report (the "Report") relating to the Part VII 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") who shall allocate the transferred business in full to AWP P&C SA (UK branch) ("the Companies"). I refer to this proposed transfer of the portfolio as the proposed "Scheme".

1.1.1 AWP P&C SA

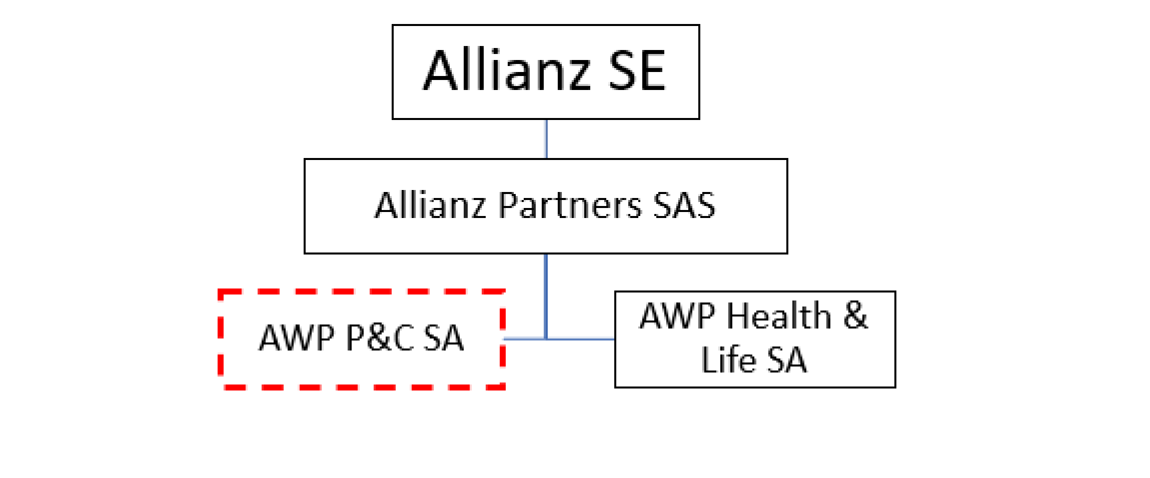
Allianz Partners SAS ("AzP") is registered in France, controlling three French based insurance carriers:

- AWP P&C SA (also known as "AWP P&C"),
- Fragonard Assurance (subsidiary of AWP France SAS), and
- AWP Health and Life SA (also known as "AWP H&L" or "AWP Health & Life") incorporating AWP Health and Life SA Irish Branch.

Allianz Partners SAS is the leading global Business to Business to Customer ("B2B2C") specialist provider of the Allianz SE Group. Allianz Partners SAS group subsidiaries are specialised in providing a range of insurance and reinsurance cover and services such as healthcare, life and disability and travel insurance schemes and associated services such as administration, medical assistance, travel and life care for policyholders.

See Figure 1.1 for a simplified Allianz Organisation Structure.

Figure 1.1 Simplified Allianz Partners Entity Organogram



Allianz Partners SAS is regulated by the Authorité de Contrôle Prudential et de Resolution ("ACPR"), the French Prudential Supervision and Resolution Authority.

AWP P&C SA is a subsidiary of this Allianz Partners SAS, whose ultimate parent is Allianz SE (Fitch Rating AA August 2022; market capitalisation of €81.0 billion as of December 31, 2022).

AWP P&C SA is registered as a foreign company in England and Wales with foreign company number FC030280, with registered address at 7 Rue Dora Maar, 93400 Saint-Ouen, Paris, France, and its UK Branch is registered with branch number BR015275 and a registered office at Mondial House 102 George Street, Croydon, Surrey CR9 6HD. At the start of my work, AWP P&C (UK Branch) was operating under the UK Temporary Permissions Regime ("TPR") with deemed Part 4A authorisation under the Financial Services and Markets Act 2000 which allows it to operate in the UK on a temporary basis following the UK's departure from the European Union. AWP P&C applied for full authorisation and this has been approved as of 12 May 2023.[1]

The main lines of business of AWP P&C (UK Branch) in the UK are roadside assistance, health, automotive and travel.

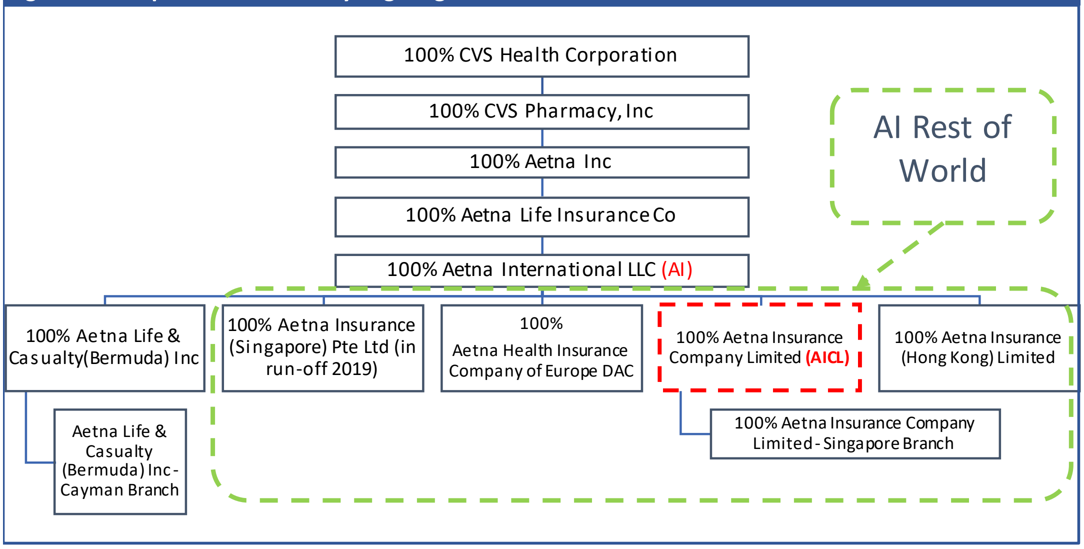
Per the Regulatory returns (QRT S.02.01.02) in its 2021 and 2022 Solvency and Financial Condition Reports (SFCR), as at year-end 2021, AWP P&C had Own Funds (excess of assets over liabilities) of €493m a Solvency Capital Requirement ("SCR") of €358m and a solvency ratio of 138% on a Solvency II[2] basis. As at year-end 2022, Own Funds increased to €509m and SCR increased to €448m giving a solvency ratio of 113% on a Solvency II basis.

1.1.2 AICL

AICL (in the red dotted-line box below) is a member of the Aetna International LLC ("AI") group of companies which in turn form part the CVS Health Corporation ("CVS Health").

AI (incorporated in Connecticut) is 100% owned by Aetna Life Insurance Company ("ALIC") (A+ credit rating, Fitch Ratings) which is 100% owned by Aetna Inc. See Figure 1.2 for a simplified entity organogram.

Figure 1.2 Simplified Aetna Entity Organogram



AICL is a private company limited by shares which is incorporated in England with company number 05956141. Its registered address and principal place of business is 25 Templer Avenue, 2nd Floor, Farnborough, Hampshire, GU14 6FE, United Kingdom ("UK").

AICL does not employ any staff directly. The activities of AICL are serviced by Aetna Global Benefits UK ("AGBUK"), another UK company in the CVS Group which is an insurance administrator company. AGBUK Limited is a limited company with a single shareholder AI and is registered in England and Wales with number 03554885. AGBUK is authorised and regulated by the FCA with firm reference number 312279.

AICL is a UK authorised insurance company providing international private medical insurance for individuals and groups. It is authorised by the PRA and regulated by both the PRA and the FCA with

[1] https://www.fca.org.uk/brexit/temporary-permissions-regime-tpr

The TPR allows EEA-based firms that were passporting into the UK at the end of the transition period (31 December 2020) to continue operating in the UK within the scope of their previous passport permission for a limited period after the end of the transition period.

[2] See Appendix 4 for details on Solvency II

firm reference number 458505. AICL also has a branch, AICL Singapore Branch ("AICL SB"), which was authorised in 2009 and is regulated by the Monetary Authority of Singapore ("MAS"). AICL SB is licensed to write short term accident and health insurance business. AICL SB will undergo its own local Part VII equivalent in Singapore, and therefore its policies are excluded from this UK Part VII Transfer.

AICL supports the AI strategy to provide international private medical insurance contracts to individuals and groups throughout the global market including Europe, the Middle East, Asia and Africa. In addition to accepting business directly, the Company also accepts international private medical insurance business on a reinsurance basis from various insurers in numerous locations globally.

Per the Regulatory returns (S.02.01.02) in its 2022 SFCR, as at year-end 2022 (the date of the most recent publicly available information), AICL had Own Funds of €136m, a SCR of €34m giving a solvency ratio of 400% on a Solvency II basis.

AICL's ultimate parent is the CVS Health Corporation group of companies ("CVS Group"). CVS Health is listed on the New York Stock Exchange with a market capitalisation of €115bn (as at 30 June 2022) and a credit rating of BBB (S&P Global Ratings).

1.1.3 Motivation for Scheme

Aetna Inc. was founded in 1853 and acquired by CVS Pharmacy (see Figure 1.2) in 2018. CVS Health considers the AI Rest of World health insurance and services business (the dotted green box in figure 1.2 above) as non-core.

For context, in 2021 the written premium of each of these entities in AI Rest of the World Health insurance was:

- AICL (€266m);
- Aetna International Hong Kong Limited ("AIHK", €44m);
- Aetna Health International Company of Europe DAC ("AHICE", €12m); and
- Aetna International Singapore (nil, in run-off).

CVS Health is therefore exiting these operations. With respect to AICL, this process consists of two parts:

Asset Purchase Agreement – to introduce Allianz Partners to AICL's €266m annual premium business

AICL entered into an Asset Purchase Agreement ("APA") with (amongst others) AGBUK and AWP H&L dated 23 March 2022, whereby AICL has given exclusive introductory rights to seek to migrate its €266m of annual premium business to AWP H&L. To explain this transaction further, the APA is between Aetna Global Benefits (UK) Limited ("AGBUK") and AWP H&L. As a result of the APA, the AICL renewals are being offered to AWP P&C (UK Branch), as these are the UK authorised companies within the respective groups. AWP P&C (UK Branch) will then reinsure these 90% to AWP H&L. The migration process commenced in July 2022 and will be complete by the end of October 2023. The migration of most small-medium enterprise ("SME") and large corporate group policies commenced in July/ August 2022. The migration of individual policies and remaining small cohorts of SME and large corporate group policies commenced on 1 November 2022. Under this APA agreement for exclusive introductory rights, customers have the option to take out a new policy with AWP upon expiry of their existing AICL policy, but this does not include the migration of AICL policies to AWP. I have given this transaction consideration in terms of the solvency capital impact it has through increased new business volumes on the AWP P&C and AWP H&L branch, who act as reinsurer of the AICL business post the IBT into AWP P&C (UK branch) and reinsure 90% of the renewal rights accepted by AWP P&C (UK branch) under the APA.

Framework Agreement – in relation to the forecasted €4m run-off liabilities transfer

AI has considered various options to accelerate the ultimate closure of relevant AI entities, including AICL, on the completion of the above migration of policies. The option being pursued by AICL to accelerate business closure is an Insurance Business Transfer ("IBT") under Part VII of the Financial

Services and Markets Act 2000 of its legacy portfolio to AWP P&C SA, through its UK branch, subject to court and regulatory approvals.

Therefore, on 23 March 2022, various AI entities, including AICL, and AWP H&L also signed a Framework Agreement ("FA") by which AWP H&L (and its affiliates including AWP P&C (UK branch)) agreed to accept receipt of relevant AI legacy business via separate IBTs in each jurisdiction. The jurisdictions include the UK (which is the subject of this Independent Expert report) but also Singapore, Ireland and Hong Kong. The latter three are out of the scope of this report. These are separate applications submitted with each of the Regulators in Singapore, Ireland and Hong Kong, to complete transfers similar to Part VII, but under the local statutory/ regulatory processes applicable in each territory. For the avoidance of doubt, the Ireland and Hong Kong arrangements involve a legally separate Aetna entity.

To illustrate the relative size of this FA (versus the APA) the current projected claims provisions expected to be transferred under each of the separate IBTs in each jurisdiction are summarised in Table 1.1 below:

Table 1.1 Projected Claims provision to be transferred under the various IBTs

AICL Entity	€ 'm
AICL excluding AICL SB	3.0
AICL SB	0.3
AHICE	0.2
AIHK	0.3
Total	**3.9**

Source: AICL Management Information

This process, which is planned for the end of 2023, transfers the remaining AICL portfolio (which are the run-off liabilities, forecast to be about €3.0m for AICL, excluding AICL SB) to AWP P&C SA. The actual amount depends on the effective date of the transfer, and the emerging claims experience.

Each of the Aetna International entities in Ireland, Hong Kong and Singapore writes separate International Private Medical Insurance Contracts, which from a legal perspective are mutually exclusive to the contracts written by AICL.

As it relates to the reinsurance for each entity, this is currently being provided by the Aetna Life Insurance Company ("ALIC"), a separate incorporated and regulated entity in the United States.

Each of the entities in UK, Ireland, Singapore and Hong Kong avails of the reinsurance benefit with ALIC and these reinsurance arrangements will exist separately for each entity with ALIC until the business transferred under the equivalent Part VII in each territory.

The UK insurer, AICL, has a reinsurance contract with ALIC, but does not provide any reinsurance to the other entities in Ireland, Singapore and Hong Kong.

Under the FA, AI's US domiciled parent company, Aetna Life Insurance Company ("ALIC"), proposes to enter into a 100% quota share reinsurance agreement with AWP H&L to reinsure the business transferred to AWP H&L and its affiliates by the IBTs (i.e. ALIC will fully reinsure the business transferred to the relevant Allianz entity under each scheme in the UK/ Ireland/ Singapore/ Hong Kong). AICL currently reinsure its exposure 100% to ALIC with effect from 1 January 2023. The parties acknowledge and agree that this reinsurance agreement is critical to ensure that the economic risk associated with the business remains within the overall Transferor group. The parties agree and acknowledge that coverage under the reinsurance agreement (being on a 100% quota share basis) shall incept in respect of each relevant business on the relevant IBT effective date. It shall continue in respect of each relevant business for a period of three years. Based on past claims development, the expected claims outstanding after three years is projected to be €11k for AICL i.e. de minimis.

IBTs in the UK require an Independent Expert to opine on the proposed terms of the transfer. This is the purpose of this Independent Expert Report.

In this Report I will consider if the proposed Scheme affects in a materially adverse way either the security or the policy servicing levels of the AICL Policyholders and the AWP P&C (UK Branch) Policyholders.

Materiality

In order to determine whether any effects of the Scheme on any group of policyholders are materially adverse it has been necessary for me to exercise my professional judgement in the light of the information that I have reviewed. 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, on a group of policyholders then it is not considered by me to have a material adverse effect on that group of policyholders.

My 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 impact on the financial security of a group of policyholders is likely to be lower than the materiality threshold for a change that does not have a direct financial impact.

This is the framework in which I undertake my consideration of materiality in relation to the Scheme.

This Report has been prepared within the remit of the UK Civil Procedure Rules as they apply to expert witnesses (primarily CP35) and the accompanying personal independence requirements.

The work has also been performed in line with:

- Section 109 of the Financial Services and Markets Act 2000 and regulation 3(4) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001;
- The PRA guidance for transfer reports set out in the Policy Statement PS1/22 issued by the PRA in April 2015 entitled "The Prudential Regulation Authority's Approach to Insurance Business Transfers", updated in January 2022;
- Chapter 18 of the FCA Supervision Handbook – SUP 18 Transfers of Business;
- The FCA's approach to the review of Part VII insurance business transfers FG22/1, dated 15 February 2022;
- The applicable Technical Actuarial Standards in force in the UK; and
- The ASP issued by the Society of Actuaries in Ireland, ASP PA-2, "General Actuarial Practice".

I am also required to comply with relevant professional standards and guidance maintained by the Financial Reporting Council and by the IFoA, including TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance. I have complied with such standards, subject to the principles of proportionality and materiality.

In accordance with Actuarial Profession Standard X2, as issued by the IFoA, I have considered whether this Report should be subject to review ("Work Review"). I concluded that it should and I have also decided that the Work Review should be conducted by an individual who has not otherwise been involved in the analysis underlying this Report or in the preparation of this Report, but who would have had the appropriate experience and expertise to take responsibility for the work himself. In other words, I have decided that this Report should be subject to Independent Peer Review. I confirm that this Report has been subject to Independent Peer Review prior to its publication.

This Report (and, if relevant, the summary Report) is to be provided to:

- the PRA / FCA (copy also sent to the ACPR); and
- the policyholders of The Companies (the "policyholders"), should they request it

in accordance with Section 109 (Scheme Reports) of the Financial Services and Markets Act 2000 and regulation 3(4) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001. I agree that this Report and / or summary Report and any supplemental Report may be made publicly available at the registered offices of The Companies and online. The extent of the communications to the different stakeholders will be discussed with the FCA in the first instance, and ratified by the Court in terms of any exemptions.

This Report is in respect of the proposed Scheme. AICL and AWP P&C are collectively referred to as the “Scheme Companies” or “The Companies” throughout this Report. The terms covering the proposed transfer are set out in the Scheme that will be presented to the UK High Court.

It is anticipated that directions will be sought from the High Court in relation to the Scheme around July 2023. It is proposed that the sanctions hearing for the Scheme will take place in November 2023, when approval of the Scheme will be sought with a proposed effective date of 1 December 2023 (the “Effective Date”).

This Report is prepared by the Independent Expert in order to aid the High Court in its deliberations.

This Report describes the proposed transfer and discusses its potential impact on the relevant policyholder groups within both AWP P&C and AICL, particularly in terms of security of benefits and levels of policyholder service. This Report is organised into 7 sections as follows:

- Section 1: Describes the purpose of this Report and the role of the Independent Expert;
- Section 2: Executive Summary and Conclusions;
- Section 3: Provides relevant background information on AICL;
- Section 4: Provides relevant background information on AWP P&C;
- Section 5: Provides details on the proposed Scheme;
- Section 6: Describes the impact of the proposed Scheme on the policyholders of each of AICL and AWP P&C; and
- Section 7: Describes other considerations.

1.2 Independent Expert

I, Brian Morrissey, am a partner and senior actuary in KPMG Ireland. I am a Fellow of the Society of Actuaries in Ireland (“SAI”) having qualified as an actuary in 1999. My summary curriculum vitae is included in Appendix 3.

I have been appointed by AICL and AWP P&C to act as the Independent Expert in connection with the Scheme. The PRA and FCA have been informed of my appointment, and the PRA has approved my appointment in their letter dated 1st February 2023. The terms on which I was formally appointed are set out in an engagement letter dated 10 December 2022 and an extract of my scope is included in Appendix 2.

In terms of direct and indirect interests, I can confirm that I have no direct or indirect interests with either AICL or AWP P&C. I consider myself able to act as an Independent Expert on this transaction.

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

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

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

1.3 Scope of Report

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

This Report is prepared primarily to assess the likely impact that the Scheme will have on

- the transferring policyholders[3] of AICL (i.e. all the policyholders immediately prior to the Effective Date, excluding AICL SB policies (who have their own equivalent Part VII IBT in Singapore, as there should be none remaining post transfer – discussed further in Chapter 5), and
- the existing policyholders of AWP P&C.

if the Scheme proceeds. It is limited in its scope to the assessment of this Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

The term "Effective Date", as used in this Report, refers to the date at which, if the Scheme proceeds, AICL's policies will be transferred to AWP P&C. The proposed Effective Date is 1st December 2023.

1.4 Assurances

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

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

I have received assurances as follows:

- I have circulated this Report to the management of each of AICL and AWP P&C to ask for commentary on the detail within this Report, including confirming all material information has been provided to me and how the Scheme will be affected in practice. No issues were noted with the commentary and detail presented in this final version of my Report by either set of management. I have also been given full access to staff of each of AICL and AWP P&C as necessary.
- I have provided the Head of Actuarial Function ("HoAF") of AICL (Stuart Butler) and the Head of Actuarial of AWP H&L (John Armstrong) with my Report to ensure they are aware of comments I have made in this Report in relation to actuarial and risk information and their roles as HoAF and Actuarial Function Holder of the respective companies. I understand they have shared my reporting with other colleagues in the companies to solicit their views. No issues have been noted as a result of their review of this final version of my Report.

In the course of carrying out my work and preparing this Report, I have considered various documents provided to me by each of AICL, AWP P&C, and their respective legal advisers. A summary list of the main documents I have considered is set out in Appendix 1.

All of the data and information which I have requested has been provided to me by each of AICL, AWP P&C and their respective advisers as appropriate. I have relied upon the accuracy and completeness of this data and information, which has been provided to me both in written and oral form by each of AICL, AWP P&C and their respective advisers. I have not sought independent verification of data and

[3] The term **'policyholders'** as used in FSMA and any statutory instruments created under it (including the Regulations) is defined very broadly. In the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001, a "policyholder" is defined as "*the person who for the time being is the legal holder of the policy, and includes any person to whom, under the policy, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided*".
(https://www.legislation.gov.uk/uksi/2001/2361/article/3/made)

information provided to me by the Scheme Companies, nor does my work constitute an audit of the financial and other information provided to me. I have, where possible, reviewed the information provided for reasonableness. Where critical information has been initially provided orally, I have requested and obtained written confirmation.

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

I have been made aware of relevant discussions between AICL, AWP P&C, the PRA and FCA and ACPR, and specifically inquired of them whether there were specific issues I should be aware of, and there are no issues that have been specifically noted to me.

1.5 Qualifications and Limitations

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

A copy of this Report and a summary version of this Report (the "Summary Report") will be made available to the Court, the FCA, PRA and ACPR, and the Boards of Directors of AICL and AWP P&C respectively. It will also be made available to policyholders free of charge at the following:

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

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

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

This Report is subject to the terms and limitations, including limitation of liability, set out in my firm's engagement letter dated 10 December 2022. An extract from this contract describing the scope of my work is contained in Appendix 2.

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

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

This Report is based on information made available to me at or prior to 22 June 2023 and takes no account of developments after that date. However, my understanding is that the Scheme Companies intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the High Court will be asked to consider and sanction the proposed Scheme. This is discussed in further detail later in the document.

1.6 Limits of Liabilities and Legal Jurisdiction

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

1.7 Terminology

In my discussion of the effects of the proposed Scheme on the policyholders concerned, I use various technical terms. The definitions of these terms as used in this Report are contained in the Glossary in Appendix 6.

1.8 Currency

I have clearly identified the currency of figures presented throughout this Report. All figures are presented in €, and clearly so labelled. Table 1.2 below details the exchange rates used to convert from US$ to €.

Table 1.2 Exchange Rates used in this report

Effective Date	US$ to €
Year-end 2020	0.81729
Year-end 2021	0.87935
30th June 2022	0.94632
Year-end 2022	0.93699
Future Dates	0.93699

Source AWP Management

2 Executive Summary and Conclusions

2.1 The Scheme

AGBUK has entered into an APA with AWP H&L, through its Irish branch, whereby it has sold the renewal rights to its €266m of UK annual premium (AICL) business to Allianz (AWP P&C). The €266m is the total net of reinsurance earned premium ("NEP") for AICL in 2021, and includes €56m for AICL SB. The migration process commenced in July 2022 and will be complete by the end of October 2023. The migration of most small-medium enterprise (SME) and large corporate group policies commenced in July/ August 2022. The migration of individual policies and remaining small cohorts of SME and large corporate group policies commenced on 1 November 2022. This is the transaction prior to the Scheme but included to assist in understanding the full transaction.

AI wishes to accelerate the ultimate closure of relevant AI entities, including AICL, on the completion of the above transfer of policies. The option being pursued by AICL to accelerate business closure is called an IBT of its legacy portfolio to AWP P&C (through its UK Branch) subject to court and regulatory approvals. This transaction is The Scheme. For completeness, there are a number of IBTs across different jurisdictions from relevant AI entities to AWP H&L (and its affiliates) including the UK (whose IBT is the subject of this report), Singapore, Ireland and Hong Kong. Ultimately the transferring liabilities from AI (and its affiliates) will be reinsured within Allianz Partners SAS by AWP H&L and then 100% retroceded to ALIC.

Therefore, on 23 March 2022, AI, and other companies within the AI group including AICL, and AWP H&L also signed a Framework Agreement ("FA") by which AWP H&L and its affiliates agreed to accept receipt of relevant AI legacy business via a series of IBTs.

Specifically with respect to AICL, this second part of this process (planned for end of 2023 or shortly after subject to Court approval) is the transfer of the remaining portfolio (which are the run-off liabilities of AICL, excluding AICL SB policies, forecast to be €3.0m) to AWP P&C. The actual amount depends on the Effective Date and the emerging claims experience.

IBTs in the UK require an Independent Expert to opine on the proposed terms of the transfer. This is the purpose of this Independent Expert Report.

2.1.1 Motivation for proposed Scheme

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

Aetna Inc. was founded in 1853 and acquired by CVS Health in 2018. Aetna Inc. owns 100% of Aetna Life Insurance Company ("ALIC") (A+ credit rating, Fitch Ratings), which in turn owns 100% of Aetna International LLC, which then owns 100% of Aetna Insurance company Limited (AICL).

Post this acquisition, CVS Health considers the Aetna International Rest of World (AI Rest of World) health insurance and services business as "non-core" (AI Rest of World constitutes a very small part of the Aetna Inc business).

Therefore in 2019 the potential divestiture of the shares of AI Rest of World was pursued by CVS Health, however the transaction was ultimately unsuccessful and was disbanded in 2021.

In Q4 2021, the current project was established to explore potential options to fully exit the business. AI management identified exit options available in the relevant territories and conducted a feasibility analysis. The initial high-level feasibility was conducted in December 2021 and CVS Health decided to continue with the current project, and in particular to further explore the potential sale of AI's business to another IPMI provider and options to bring finality (in due course) to the existing AI set up (which is this Scheme).

2.1.2 Policyholders Affected

I have considered the effects of the Scheme on the following two groups of policyholders:

- those policyholders of AICL (both direct and inwards reinsurance, excluding AICL SB policyholders) whose policies are to be transferred to AWP P&C (UK Branch) (i.e. as explained in detail in this Report, this is expected to be all the policyholders of AICL at any time) as of the Effective Date; and
- the current (as at the Effective Date) policyholders of AWP P&C.

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.

2.1.3 Process followed

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

i. Understand the businesses of the Companies; and

ii. 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:

i. Identify the groups of policyholders directly affected;

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

iii. Consider the impact of the Scheme on the expected treatment of claims and other aspects (for example, policyholder service and any changes in administration or other arrangements).

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

- AICL's historic financial information based on audited financial statements and regulatory submissions to the PRA, focusing in particular on the estimates of Solvency II regulatory capital.
- AWP P&C's historic financial information based on audited financial statements and regulatory submissions to the PRA, focusing in particular on the estimates of Solvency II regulatory capital and the nature and risks in each of the balance sheets.
- For both Companies, the Actuarial Function Reports and Actuarial Reports on IFRS Provisions in respect of historic regulatory balance sheets.
- Projected Balance sheets as at the Effective Date of AICL UK and AWP P&C pre- and post the Scheme.
- Financial information in respect of the reinsurers, AWP H&L and ALIC as at 31 December 2022.
- The projections prepared by both companies as part of their respective own risk and solvency assessment processes ("ORSA" processes).
- In forming my opinion, I have raised queries with key personnel responsible for core functions in the companies and have placed reliance upon, amongst other information, estimates of the AICL and AWP P&C capital position after allowing for the proposed Scheme.
- In order to satisfy myself that these estimates are an appropriate basis on which to form an opinion, I have considered:
  - The appropriateness of the methods used by the Companies to calculate the estimate of regulatory reserves and regulatory capital required;
  - Stress and scenario testing currently performed by the Companies to understand their respective regulatory capital strength and whether further testing is required; and
  - Considering the reverse stress in the ORSA, and also performing my own more extreme stresses.
- I have considered the different capital support arrangements available that might be drawn upon to manage adverse events which may impact the financial position of the Companies.

I note that the UK is in the process of transitioning from Solvency II to Solvency UK, but for now, for the purposes of comparing financial strength, I have considered the strength of both entities using the existing Solvency II basis. I consider this to be appropriate, as the new Solvency UK regime is not anticipated to differ materially from the Solvency II regime.

I note that the AWP P&C UK branch (to which the AICL business is being transferred) is a dual regulated branch regulated by both the FCA and the PRA (it was operating under the TPR until 12 May 2023). AICL is similarly regulated by both FCA and PRA. Therefore there is consistency between the Companies in terms of their regulation by the PRA and FCA.

I have also been provided with other non-financial information specifically relating to the Scheme including:

- Background to the Scheme;
- Company and Group structures;
- Product documentation;
- An overview of the risk and governance frameworks in place in both Companies;
- An overview of the companies' approach to Treating Customers Fairly, and the approach to its replacement, Consumer Duty, coming into effect July 2023, for open books;
- Documentation outlining any recent discussions the Companies have had with the PRA and FCA;
- For the transferring policyholders, I have also considered the impact of compensation schemes, and priority in the unlikely event that either AICL or AWP P&C is declared insolvent, for example in relation to Direct and Inward Reinsurance (fronted) policies.

Appendix 1 includes a list of all information provided.

2.2 The impact of the Scheme on the policyholders of each of AICL and AWP P&C

The balance sheets I have reviewed for AICL and AWP P&C respectively show amounts as at 31 December 2021 and 31 December 2022. I have chosen these dates because they are the latest dates for which audited financial information is available for each of The Companies.

I note that the AICL historic financial information is not particularly meaningful as it is now closed to new business and its risk exposures are naturally running down – which in the absence of any management actions would mean a reduction in SCR over the next few years which would be released into Own Funds.

I have reached the above conclusion by considering:

- the reserves of the Companies as at 31 December 2021 and 31 December 2022;
- the Solvency II regulatory capital of the Companies as at 31 December 2021 and 31 December 2022;
- the excess assets / Own Funds of the Companies as at 31 December 2021 and 31 December 2022;
- the risk appetite thresholds of the Companies as regards the regulatory capital coverage ratio;
- the operation of compensation schemes pre- and post- Scheme;
- the risk exposures in the Companies and the impact that the Scheme might have on those;
- the impact of the Scheme on non-financial aspects (e.g. standards of policy servicing in each of the Companies); and
- the security provided by the 100% quota share reinsurance treaty into AWP H&L and then 100% onto ALIC before and after the Scheme for the transferring policyholders.

It is worth noting that under the French Insurance Code, IFRS numbers are required to be audited, but there is no requirement to audit Solvency figures. Therefore AWP P&C IFRS numbers quoted in this report are subject to audit, but AWP P&C Solvency II numbers are not. For AICL however, both IFRS and Solvency II numbers are subject to audit, as required in the UK.

I concluded 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 (i.e. 400% SCR ratio at 31 December 2022) significantly exceeding its strategic solvency targets and substantially more than its internal risk appetite levels would require;
- 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 SCR at each year-end;
- AWP P&C (UK Branch) however had a capital position at year-end 2022 of 105% of the branch SCR. This is at the action barrier ratio level (described in Chapter 4), and I understand has been restored to 120% as discussed with the PRA;
- The approach to the calculation of the SCR and the Risk Margin is appropriate in the Companies. In particular, I consider that the SCR standard formula calculation, with the approved usage of USPs (for AWP P&C), is an appropriate measure for the 1 in 200 Solvency II calculation. I note that AWP P&C has a projected margin over the SCR in the form of a Risk Margin (historically between 5% and 6% of the SCR) in addition to excess eligible Own Funds, forecast to be 21% of the SCR at year-end 2023, assuming payment of a proposed dividend of a further 20% of SCR in 2023. The risk margin makes an adjustment for the difference between reserving risk over one year that is captured in the SCR and the ultimate reserving risk to which the Companies are exposed - I consider these to have been appropriately calculated. I am comfortable with my findings that to ultimate and not just for one year that transferring AICL policyholders interests are not materially impacted. My view is further reinforced by the stress testing performed on the risk of exhaustion of eligible Own Funds where I consider the likelihood of transferring AICL policyholder claims not being paid to be remote;
- As mentioned in Section 1, the ultimate parent, Allianz SE has a Fitch Rating AA as of August 2022 and market capitalisation of €81.0 billion as of December 31, 2022. Allianz Capital Management policy requires a lower regulatory capital coverage level at subsidiaries than AICL, but clearly has significant capital at a group level to call upon, if there is ever a need. However it is important to note, as is normal market practice, that there is no capital guarantee in place from the ultimate parent Allianz SE to AWP P&C, and AWP P&C is not considered a ‘core’ entity by independent rating agencies. So although some comfort can be taken from the strength of the ultimate parent, my conclusions in this report are based on treating AWP P&C as a stand-alone entity;
- 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/MCR 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/ MCR required;
- If the Scheme does progress, and dividends are as forecast, the AWP P&C SA equivalent forecasts are Own Funds range 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 of €98m, which is 20% of the SCR, 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 renewal 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;
- The 100% quota share reinsurance into ALIC pre-Scheme is replaced by a similar 100% quota share reinsurance into ALIC post Scheme to provide added protection for AWP P&C SA;
- ALIC (regulated by the Connecticut Insurance Department), has strong external credit ratings (Baa2 from Moody's; A- from S&P; A from AM Best), and is well capitalised, with overall available capital and surplus of €5.8bn at 31 December 2022;
- AICL writes health insurance which is short tail in nature i.e. the vast majority of claims are known about and settled very quickly, typically within months of occurrence. The main classes of business of AWP P&C are travel and roadside assistance. The claims on these classes are similarly short tail in nature. AWP P&C does have three other classes which are different in risk profile to the transferring policies, and therefore result in the policies transferring into a slightly riskier portfolio.
  - One of these classes, general liability, is however very small, with net reserves of less than €400k.
  - The other two classes are appliance protection and automotive motor warranty. These are larger in nature at about €100m each in gross written premium. However, I have been supplied with data on both these classes which suggests that they develop very quickly from the time of incident to the settlement of the claims. Their exposure terms are typically up to two years for appliance protection and three to four years for automotive motor warranty. In particular 99% of claims incurred are settled within 12 months of the incident on both these classes. The Solvency II premium provisions for these classes are €35m for appliance protections and €25m for automotive motor warranty. As the premium provisions effectively represent the future exposures and therefore the tail of the reserves, I do not consider that this level of premium provision for these two classes will bring significant additional uncertainty to the portfolio over in this case the run-off period of the transferring AICL policyholders (which will predominantly run-off within two years).
- Finally, 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 performed stresses against the main risks as determined by the AWP P&C SCR which are market risk, underwriting risk, default risk and operational risk. I checked in each case the size of the stress that would be required to eliminate the eligible Own Funds, and therefore put the transferring AICL policyholders in danger of not being paid their valid claims. I compared these stresses against their one-in-two-hundred values in each company and any available recent experience for the Companies in terms of adverse events. I note that the absolute level of Own Funds of AWP P&C is significantly higher than that of AICL. 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, at considerably in excess of a one-in-two-hundred-year event. In particular I noted the different asset classes in AWP P&C relative to AICL and stressed the various assets with what I consider to be an onerous shock, including up to 70% on the participation. In the remote scenarios

considered, the eligible Own Funds are just exhausted though valid policyholder claims could still be paid which is my key consideration for transferring AICL policyholders. I do not consider that the increased risk leads to material detriment to transferring policyholders, especially in light of the short time remaining in which the transferring policyholders' liabilities are expected to settle.

- I consider that the SCR standard formula calculation, with the approved usage of USPs, is an appropriate measure for the 1 in 200 Solvency II ruin calculation. AWP P&C has a projected margin over this in the form of a risk margin (historically between 5% and 6% of the SCR) and excess eligible Own Funds, forecast to be 21% of the SCR at year-end 2023, assuming payment of a dividend of a further 20% of SCR in 2023. In particular, the purpose of our stress tests on the eligible Own Funds is to test whether the additional risk to which transferring policyholders are exposed creates a material detriment to their likelihood of having their claims paid over the term of these transferring liabilities, which is greater than one year (these liabilities are forecast to drop from €3.3m to €0.2m within 24 months). I conclude that the stress tests I considered are an adequate test of the risk to ultimate for the purpose of the transferring liabilities i.e. the Part VII.
- Overall, I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the AICL Policyholders and the AWP P&C Policyholders.
- In the unlikely event that the proposed transfer of AICL SB policyholders does not proceed then the AICL SB policyholders will remain in AICL after the UK IBT. They will, however, benefit from all the capital remaining in AICL and the existing 100% quota share reinsurance from ALIC will continue in place until their liabilities are extinguished, which provides adequate capital resources for the residual amount of liabilities remaining within this portfolio. As such I am satisfied that the AICL SB policyholders will not be materially adversely affected by the UK transfer in the unlikely event that the Singapore transfer does not proceed.
- Similarly if the AICL SB transfer does proceed, but the UK transfer does not, I am also satisfied that the AICL UK policyholders will not be materially adversely affected by the AICL SB transfer in the unlikely event that the UK transfer does not proceed.
- The other two 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.

2.3 The impact of the Scheme in respect of other matters

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

I note that AICL are exploring a potential third-party administration solution at the time of writing my Report. Aetna are exploring solutions for business that is not part of the Scheme or the APA and it may also include the transferring business. This is work in progress. If a third-party administration solution impacting the transferring business is put in place outside of the AWP arrangement, I will assess this as part of my Supplementary Report.

Given the APA and the transfer of exclusive introduction rights, I have also been provided with operations documents assessing the service levels over the period of migration of these exclusive introduction 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, as a result of this and other parallel Schemes.

I have been informed that the Scheme is not expected to have tax implications that would affect either of the Companies or any of the groups of policyholders identified above.

I have been provided with an estimate of the external costs of the Scheme. I consider it unlikely that the costs of the Scheme will be such as to jeopardise the security of any of the groups of policyholders.

2.4 The Approach to Communication to Policyholders

The intended approach that AICL and AWP P&C plan to take in communicating information about the proposed Scheme to the affected policyholders and other parties is set out in Section 7.

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 this Report including the dispensations sought 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 Court to approve the notification arrangements.

I have also reviewed the policyholder communication pack including the cover letter (with different covers to policyholders, brokers, fronter, healthcare partners etc), an information document containing a summary of the Scheme document setting out the terms of the proposed Transfer; a summary of the Independent Expert's 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. No material issues arose in my review of the final draft communication pack.

2.5 Key Assumptions

In conducting my analysis, I have made the following key 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 H&L acting as administrator of the transferring business. If a change were to be made ahead of the Scheme, the new third-party administration provider would need to meet the service levels presented by AWP P&C in my assessment.
- For the policyholders of AICL moving to AWP P&C under the Scheme, the 100% quota share reinsurance treaty with 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.
- No significant additional tax liabilities will arise as a result of the Scheme for any of the Companies.
- AWP P&C has no current intention to cease underwriting or carry out any restructuring of their businesses as a result of the Scheme.
- AICL SB policyholders are excluded from this Scheme, as they will have their own local Part VII equivalent process in Singapore.
- 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 timetable.

- While the Scheme allows for Excluded Policies, none is expected at this time (other than AICL SB policyholders), and any Excluded Policies would be known before the date of the final Court hearing. In the event that such policies are identified I will address them in a Supplementary Report.

The above assumptions underlie the analysis and conclusions in my Report. If these assumptions were to change, my opinion may also change. At the time of writing my Report, the above assumptions are the current intentions for the Scheme and the Companies, as informed to me by AICL and AWP P&C. If there are any changes to these assumptions, I will consider and comment in my Supplementary Report.

2.6 Supplementary Report

This Report is based on information provided to me on or before 22 June 2023 and therefore reflects a point in time view of the proposed transfer. My understanding is that AICL and AWP P&C intend to request that I prepare and issue a Supplementary Report closer to the date of the final hearing at which the Court will be asked to consider and sanction the proposed Scheme. My Supplementary Report will contain an update on any developments that may have occurred since 22 June 2023. In my Supplementary Report, I will review my findings and opinion which will include consideration of the following:

- Update on AWP P&C and AWP H&L solvency levels relative to their risk appetite statement.
- Update to the stresses I have performed if projections in the AWP P&C ORSA which forecast a solvency ratio of 121% as at year-end 2023 are different.
- Business performance in the period and updated regulatory and financial information for both AICL, AWP P&C and reinsurers, AWP H&L and ALIC.
- If there were any changes to the assumptions underpinning my Report as noted in Section 2.5.
- Finalisation of the reinsurance arrangements from AWP P&C (UK branch) to AWP H&L and then onto ALIC.
- Review of any responses from policyholders to the communications issued in respect of the transfer.
- Update on wider market and regulatory developments.
- Review of additional main financial reports produced un the intervening period, e.g. ORSA reports, quarterly management reports, quarterly regulatory filings.
- Review of all relevant correspondence with impacted regulators.
- Review progress of implementation by AWP P&C of the Consumer Duty regime, effective 31st July 2023.
- Progress on any potential changes to the third-party administration arrangements – the Scheme is based on AWP H&L undertaking the role and my assessment is based on that.
- Progress on the parallel Singapore Part VII exercise for AICL SB policyholders.

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

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

2.7 Benefits and Drawbacks of the Scheme

I consider the benefits and drawbacks of the Scheme separately for the two groups of policyholders.

For the existing policyholders of AWP P&C, given the very small size of the liabilities being transferred under the Scheme (and the fact that they are 100% reinsured to ALIC) relative to the liabilities of AWP P&C, there are no obvious benefits or drawbacks for these policyholders.

For the policyholders of AICL transferring under the Scheme, the principal benefits and drawbacks are as follows:

Benefits

- The transferring AICL policyholders are moving from a company in wind-down, which if the Scheme does not occur, has projected own funds of just over €21m for the next three years, to a company with projected Own Funds ranging from €587m (2023) to €751m (2025) should the Scheme occur. Such a company has the ability to withstand larger unforeseen events that may not be envisaged in the capital calculation.
- Service standards will be at least as good in AWP P&C as they are currently in AICL.
- There will be no changes to the terms and conditions for the transferring policyholders.

Drawbacks

- The Part VII process itself may bring some uncertainty to the transferring AICL policyholders, although I do believe the communication strategy should mitigate this adequately.
- There will be new points of contacts for the transferring policyholders to become familiar with.
- There may be a very small number of impacted policyholders who cannot be contacted directly e.g. employees no longer employed by the corporate policyholder. This should be mitigated by the prior AICL avenues of contact redirection and the advertising planned, as outlined in Section 7.5.
- As noted in Section 2.2, the transferring policyholders are moving to a balance sheet where the SCR is many times that of AICL and this is the primary measure of the 1 in 200 risk. I have performed stress tests to determine that the risk of non-payment of genuine claims to AICL policyholders is remote.

2.8 Conclusions

In my opinion, provided the proposed Scheme operates as intended and AWP P&C and AWP H&L retain solvency levels within their risk appetite up to and after the Effective Date, 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 this 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.

27 June 2023

Brian Morrissey, FSAI

Date

Independent Expert
KPMG in Ireland

3 Aetna Insurance Company Limited

3.1 Overview

AICL is a private company limited by shares which is incorporated in England with company number 05956141. Its registered address and principal place of business is 25 Templar Avenue, 2nd Floor, Farnborough, Hampshire, GU14 6FE, UK.

AICL was incorporated in 2006 and authorised in 2007 and is regulated by the PRA and FCA. AICL has a branch registered in Singapore, which is regulated by the Money Authority of Singapore ("MAS").

AICL is authorised to write accident, assistance, general liability, legal expense and sickness classes of insurance business.

As at 31 December 2022 the total gross technical provisions for AICL were €133.0m. AICL is well capitalised with a Solvency II SCR coverage ratio of 400% (target: 150%) as at 31 December 2022.

AICL is a wholly owned subsidiary of AI and forms a part of AI's 'Rest of World' (i.e. non-American) operations (See figure 1.2 for simplified Aetna entity Organogram). AI is a part of the CVS Group, a company incorporated in Delaware (USA).

AICL does not employ any staff and the activities of the company are serviced by AGBUK, another UK company in the CVS Group which is an FCA regulated insurance administrator.

3.2 Nature of business written

AICL is a monoline health insurer. Prior to 31 October 2022, AICL underwrote policies for large corporate, SME and individual customers in the UK and throughout the Middle East, Europe, Africa and Asia. As noted above, and similar to the rest of the AI group, business was written directly and through a number of local insurance counterparties in territories where AICL is not licensed.

Large corporate group is the largest customer segment for AICL by premium volume, followed by SME and individual customer segments.

Table 3.1: AICL Net earned premium per Customer Segment

€m	2022	2021	2020
Large Corporate Group	91.3	124.2	128.6
SME	113.8	109.4	98.6
Individual	26.7	33.0	36.3
Total Earned Premium	247.4	266.5	263.6

Source: AICL SOO (Scheme of Operations) 08 November 2022; 1.2.1 Business

Written by AICL and Management Information

Table 3.2 shows the gross written premium by the largest territories.

Table 3.2: GWP by largest territories

€m	United Arab Emirates	Singapore	United Kingdom	Vietnam	Bahrain	Malaysia	Netherlands
2022	87.4	38.9	21.2	4.7	1.4	0.0	0.0
2021	140.0	45.6	28.3	5.0	3.4	2.1	0.0

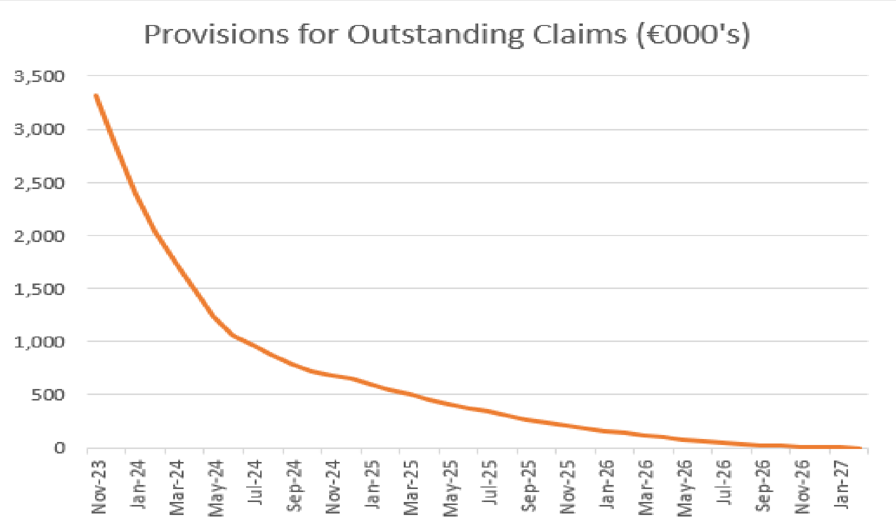
2020	130.4	47.9	30.7	5.4	0.0	0.0	2.9

Source: 2022, 2021 & 2020 AICL SFCR; A.2 Underwriting Performance

Aligned to the migration of policies under the APA, from July 2022, AICL started to cease writing new business on a phased basis, which will result in lower premium volumes in H2 2022. AICL ceased writing new business and ceased renewing existing policies at close of business on 31 October 2022.

Figure 3.1 below illustrates how quickly the claims provisions are forecast to run-off from the Effective Date. As at the Effective Date, the provisions are forecast to be approx. €3.3m (€3.0m excl. AICL SB). Within 12 months they are expected to be approximately €700k. However, even though they are forecast to run-off speedily, it can be seen that without the IBT, it would take several years to settle all claims.

Figure 3.1 AICL Projected Provisions for Outstanding Claims (€ 000's)



Source: AICL Management Information

3.2.1 Products

AICL has supported the AI strategy to provide international private medical insurance ("IPMI") contracts to individuals and groups throughout the global market including Europe, the Middle East, Asia and Africa, including sales through its authorised branch in Singapore. The company has accepted business on a direct basis, and on a reinsurance basis from business counterparties in certain territories where the company is not permitted to write business directly. All IPMI plans sold by the company are short term in nature and renewable by invitation on an annual basis. There are two types of pricing structure:

Community rated

Community rated products include a pricing structure for a single population, with different price points depending on age and location. These will typically be purchased by individuals and small employer sponsored groups.

Experience rated

Experience rated products are offered to larger employer sponsored groups (100 + employees), where a target claims fund is set by reference to the historical claims experience. The claims fund for each experience rated group is reviewed on an annual basis. The plan designs include a common architecture and structure for benefit tables, which facilitate the performance of claims analytics across the entire AI book of business.

3.2.2 Assets

Table 3.3 summarises the profile of AICL's assets, valued on a Solvency II basis, at 31 December 2021 and at 31 December 2022.

Table 3.3: Assets		
€m	SII Value YE 2022	SII Value YE 2021
Investments (other than assets held for index-linked and unit-linked contracts)	195.5	200.9
Bonds	186.8	175.0
Government Bonds	107.9	93.1
Corporate Bonds	73.3	82.0
Deposits other than cash equivalents	14.4	25.9
Reinsurance Recoverables	-1.5	2.2
Insurance and Intermediary receivables	26.9	53.9
Reinsurance Receivables	1.5	1.1
Receivables (trade not insurance)	0.4	0.7
Cash and Cash Equivalents	18.3	25.4
Total Assets	241.2	284.3

Source: AICL SFCRs QRT S.02.01.02 Balance Sheet

Based on the current trading profile and asset portfolio, market risk arises due to fluctuations in interest rates, spread risk and currency risk (mainly USD, EUR, GBP, SGD, THB). In mitigation of this risk AICL maintains a highly liquid blend of cash and investment balances in its core reporting currencies. Overall, AICL operates a low investment risk environment with capital preservation central to the investment objective. The Board has delegated management and oversight of the investment guidelines to its Investment Committee.

3.3 Risk Profile and management

3.3.1 Overview of risks

As AICL conducted its Own Risk and Solvency Assessment ("ORSA") process in 2022, the Risk Champions, Risk Management ("RM") team and other internal stakeholders identified the top risks of the company that needed to be actively monitored and managed. The ORSA report was finalised on 7 December 2022.

The ORSA report noted that the ORSA has been prepared under a runoff scenario, allowing for the APA, but with no allowance for the proposed IBT. It notes that the proposed IBT was early in the planning stage for execution and subject to regulatory and court approval.

This list of top risks was refined, examined by all internal stakeholders and committees and duly approved by AICL's Board of Directors at the end of quarter 4, 2022.

These key risks have also been reviewed for all of AI's business that is winding down, so that there is a comparable list of top risks for AICL.

The AICL risks are then linked back to AICL's risk appetite statement to ensure compliance with the risk tolerances and set limits.

The current AICL Risk Profile can be defined within the following core and emerging risk segments with the top 4 in terms of regulatory capital being market, underwriting, credit/ default and operational risk:

Underwriting Risk: Per the 2022 ORSA, the excess of loss reinsurance programme was commuted on the 31st December 2022 and has been replaced by a new 100% quota share reinsurance agreement with ALIC. This agreement was approved by the Connecticut Insurance Department and the AICL Board for implementation with effect from 1st January 2023. This internal reinsurance program mitigates against any additional claims activity for the company. ALIC has strong external credit ratings (Baa2 from Moody's; A- from S&P; A from AM Best), and is well capitalised, with overall available capital and surplus of €5.8bn as at 31st December 2022.

Credit Risk: This is the risk of default by counterparties. This is managed by investing primarily in short-term (3 month) commercial paper or high-grade government bonds (US and Singapore). Similarly reinsurance credit risk is minimal as the current reinsurer is ALIC (referenced in last paragraph). Premium debtor balances are minimised by robust collection processes, with minimal debt over 90 days.

Market Risk: This arises due to fluctuations in interest rates, spread risk and currency risk (mainly USD, EUR, GBP, SGD, THB). AICL maintains a highly liquid blend of cash and investment balances in its core reporting currencies, with capital preservation central to the investment objective.

Operational Risk: Operational risks arise from people, processes, systems and external events. The material risks to AICL are those that could impact both its reputation and ability to operate, either through business interruption, political unrest or a data security breach. This is controlled by the CVS Group IT Security team and documented in a governance tool, Archer eGRC.

Regulatory Risk: AICL has regulatory licences in the UK and Singapore and has local compliance representation in both regions. In certain locations where AICL has clients in which it does not have a licence to conduct business and it is required to do so, AICL conducts such business via local insurance companies. Clients are managed on the Operating platform used across AI to ensure consistency of service and control framework.

Reserving Risk: The risk of AICL holding insufficient reserves to cover claims is low by nature of the short tail term business, good claims history and stable loss trends over recent years. An actuarial review is undertaken quarterly by AICL's actuarial team to assess the adequacy of AICL's reserves. As part of the year-end audit process, external (independent) attestation to the reserve balances carried is received.

Claims Management: The risk of claims management issues impacting client service, financial control and reputation is managed through robust documented procedures, reporting and a programme of formal and informal internal audit review. Third parties involved in processing AICL's claims go through a rigorous due diligence process and are closely monitored through regular reporting and audit visits. Provider management teams are responsible for ensuring that providers submit claims on a timely basis and adhere to the terms of AICL's policies.

Liquidity Risk: The nature of AICL's investment objectives is to maintain high levels of cash balances which are immediately available to ensure that obligations to policyholders can be met.

Group Risk: Currently the main additional risks that AICL is exposed to are a dependency on the Aetna group with regard to the internal 100% Quota share reinsurance programme with ALIC, and reputational risk from association with other Aetna group businesses. The Board continually monitors Group Risk exposure across AICL and where warranted reflects findings and agreed actions within the ORSA process and report.

Outsourcing Risk: To mitigate against potential outsourcing risk, AICL continues to outsource low value added, routine processes to third party vendors and those high value customers facing processes remain in-house within AI. Robust due diligence and audit procedures are in place to ensure vendor service delivery quality.

Emerging Risks: Due to ongoing integration of AICL into the AI operating model and continuous upstream regulatory requirements, including the potential for post Brexit changes, AICL does consider future changes in the risk profile of AICL, in particular the impacts of inflation and Climate Change. Inflation of both expenses and claims are stressed quantitively in the ORSA, Climate change stresses (e.g. more regular claims, catastrophe claims and impact on business model) are considered qualitatively in the ORSA. The Board is comfortable with its level of exposure to emerging risks, but continues to monitor them on a regular basis, noting that the risk will reduce significantly as the runoff progresses through 2023.

3.3.2 Governance

The Board, its sub-committees and executive management

The Board has overall responsibility for ensuring that it has an effective system of governance. It is responsible for overseeing the conduct of the company's business and supervising the executive team which is responsible for its day-to-day management. The Board manages its affairs in accordance with the constitution of the company, its terms of reference and the legal & regulatory framework in which the company operates. The Board currently comprises six directors: three non-executive directors and three executive directors, as well as the company secretary.

The Board has delegated certain of its responsibilities directly to the executive management team and its sub-committees:

Audit & Risk Committee

This committee has responsibility for the oversight of the company's financial reporting process, its audit process, its system of internal controls, compliance with laws & regulations and risk exposure (including determining risk appetite and tolerance). This committee is comprised of the three non-executive directors. The finance, compliance, risk management and internal audit functions all provide quarterly updates on their activity to this committee.

Executive Management Team

The executive management team reports to the Board and periodically the executive management team invites the investment manager to attend the Board meetings for discussion on investment performance.

The company's executive management team is comprised of the Chief Executive Officer, the Chief Risk Officer and the Chief Finance Officer. It has overall management accountability for the day-to-day business of the company and is responsible for reporting on such matters to the Board & its sub-committees. The executive management team is supported by three functional committees (Reserving and Underwriting, Operations and Finance, Compliance & Risk) which facilitate process management, awareness, and appropriate governance amongst the key functions of the business.

The company's executive management team remains directly responsible for implementing any group strategy at the company level and decisions with respect to how the company should conduct its UK regulated business.

3.3.3 Risk Appetite

Risk Appetite, Tolerances and Limits

AICL's risk management framework includes:

- A Risk Management policy
- Quantitative measurement of risk (in normal and stressed environments)
- Prospective solvency assessment (through its ORSA)

The risk appetite framework facilitates the determination, review, oversight, quantification and reporting of risks and how they affect AICL's objectives.

The AICL risk appetite statement reflects the risk profile for AICL, and the risks outlined in the AICL risk register.

The risk appetite statement guides AICL to an acceptable risk portfolio. Determination of AICL risk appetite is a dynamic process that includes quantitative and qualitative methods. It is aligned to the enterprise business model and goals as well as business unit long- and short-term strategies.

I have reviewed the risk appetite statement and it appears reasonable for the risk profile and nature of the entity, a company in run-off.

Scope

The risk appetite statement applies to all operations and functions performed by or on behalf of AICL. The AICL CRO is responsible for oversight of the risk appetite statement. The risk appetite statement considers the risks AICL accepts in the pursuit of its strategic objectives. AICL's Board of Directors reviews material exceptions to the risk appetite statement.

In establishing its risk appetite statement, AICL considers:

- Categorizing risk based upon themes common to regulatory and rating agency risk descriptions.
- Assuming risk where the risk-adjusted returns are beyond the minimum acceptable rate of return (hurdle rate) and where no risk limits are exceeded.
- Accommodating different stakeholders (management, regulators, rating agencies, shareholders, other stakeholders) with varying perspectives on risk appetite.
- Combining short-term management and market earnings perspectives with longer-term sustainability, solvency and rating views.
- Setting the risk appetite based on an understanding of Aetna group's overall capacity for risk. Risk capacity represents the maximum risk the company can bear relative to:
  - Financial capital position (regulatory requirements and debt capacity).
  - Strength of core earnings.
  - Resiliency of brand and reputation.

Statement of Risk Tolerance and Responsibility

Risk tolerances are expressed as limits within the risk appetite statement. Some are top-down (i.e., determined by AICL's Board of Directors and its committees), and others are bottom-up (i.e., provided by management and then approved by AICL's Board of Directors).

Management fulfils several responsibilities relating to its risk appetite:

- Reviews the risk appetite statement periodically and recommends changes to the Risk Committee.
- Tracks and reports on compliance with the risk appetite statement.
- Works with the businesses to remediate risk limit breaches, if any.

Overall, a comprehensive approach to assessing, monitoring and managing risk appetite is embedded within AICL.

3.3.4 Risk sensitivities

I have been provided with stress and scenarios tests which illustrates AICL's exposure to key risks by considering the impacts that these have on AICL's forecast solvency position as at 31st December 2022 and for the following years.

The following stress test scenarios were considered:

- Stress testing for inflationary increases to the total expense base for run-off, adding a higher inflation rate for each year from 2023 to 2027, where the base rates also increase each year for the prior year's additional inflation.
- Stress testing for medical claims costs, noting that claims can only be submitted for treatment occurring in the cover periods of the policy and billing rates will apply at the date of treatment, not when claim is submitted.
- Aggregate stress test assuming inflationary pressure on general expenses and medical claims costs occur at the same time.

I have not reproduced the detail here. The key risks presented in the ORSA are in line with those outlined in Section 3.3.1 above and are discussed in more detail in Section 3.7.

3.3.5 Risk Issues

The current risk register (i.e. list of open risks) for AICL was shared with me and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk exposures and monitoring procedures. The items are in line with what I see elsewhere.

3.4 Outsourcing

AICL does not employ any staff and the activities of the company are serviced by AGBUK, another UK company in the CVS Group which is an FCA regulated insurance administrator.

Over 2022 there has been no material change in outsourced activity and the company's operations are integrated with the AI operating model. To mitigate against potential outsourcing risk, AICL continues to outsource low value added, routine processes to third party vendors and those high value customers facing processes remain in-house within AI. Robust due diligence and audit procedures are in place to ensure vendor service delivery quality.

3.5 Reinsurance

3.5.1 Overview of reinsurance

As noted in 3.3.1 (under Group Risk), since January 2023, AICL is covered by a 100% Quota Share agreement with ALIC, with an effective date of 1 January. All historic reinsurance covers have been commuted.

3.5.2 Ratings of reinsurers

ALIC, AICL's 100% Quota Share reinsurer since 1st January 2023, has strong external credit ratings (A2 Moody's; A- S&P; A AM Best), and is highly capitalised, with overall available capital of €5.8bn as at 31st December 2022. I have not performed a detailed review on ALIC but have been provided with the most recently audited financial statements, the most up to date rating agency information and that it is part of a listed group, CVS.

3.6 Financial Profile

3.6.1 Background

AICL is regulated by both the FCA and PRA.

The existing Solvency II regulatory reporting regime came into effect across the EU from 1 January 2016. I note that the UK is in the process of transitioning from Solvency II to Solvency UK. But for now, for the purposes of comparing financial strength, I will look at the strength of both entities using the existing Solvency II basis.

3.6.2 Technical Provisions

Table 3.4 below summarises AICL's Solvency II technical provisions at 31st December 2020, 2021 and 2022.

Table 3.4 Technical Provisions

€m	2022	2021	2021
Best Estimate Liabilities (BEL)	98.3	120.3	107.1
Risk Margin	1.0	4.5	4.3
Total	99.3	124.8	111.4

Source: AICL SFCR 2022, 2021 & 2020: D2 Technical provisions

The Scheme of Operations Document provided to me by AICL demonstrates that the run-off of the BEL is expected to be very rapid into the future, dropping to €18m[4] as at year-end 2023, €8m at year-end 2024, and for example €3m at year-end 2026, and zero at subsequent year-ends thereafter.

[4] Note €18m is much higher than the €3.3m as it allows for full projected expenses from that valuation point

3.7 Solvency Position

3.7.1 Solvency II Solvency Capital Requirement

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

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

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

I note AICL prepare the SCR calculation on a standard formula basis.

Table 3.5: AICL Solvency Own funds			
€m	2022	2021	2021
Eligible Own Funds	136.0	154.9	166.6
SCR	34.0	63.7	66.4
Solvency II Surplus	101.9	91.2	100.1
Ratio of eligible Own Funds to SCR	**400%**	**243%**	**251%**
MCR	12.2	17.6	16.6
Ratio of eligible Own Funds to MCR	**1116%**	**881%**	**1004%**

Source: AICL SFCR 2022, 2021 & 2020: E1 Capital Management Own Funds

As at 31 December 2022 the Solvency II returns showed total Own Funds available net of liabilities of AICL were €136m, an excess of €102m over the solvency capital requirement of €34m. There was a Solvency coverage ratio of 400%.

The SCR is projected to decrease rapidly over a short time period to €7m as at year-end 2023, €4m at year-end 2024 etc. Per the Scheme of operations, AICL intends to pay dividends to its shareholder to reduce the level of surplus solvency during 2023 while ensuring it maintains an appropriate level of capital at all times in line with its risk appetite limits.

The Own Funds are all classified as unrestricted Tier 1 capital.

Table 3.6: SCR Calculation			
€m	2022	2021	2020
Market Risk	22.7	20.6	23.8
Default Risk	5.7	12.0	10.6
Health Risk	5.7	41.4	43.2
Diversification	-7.2	-18.5	-19.2
Basic Solvency Capital Requirement	26.9	55.5	58.4
Operational Risk	7.0	8.2	8.0
SCR	34.0	63.7	66.4
Surplus solvency Margin	101.9	91.2	100.2
Total eligible Own funds after restriction for Singapore Branch	136.0	154.9	166.6
SCR Ratio	400%	243%	251%
Minimum Solvency Requirement	12.2	17.6	16.6

Source: AICL SFCR 2022 &2021: C Risk Profile

As can be seen from the 2022 SCR breakdown versus the prior years, the big driver of the reduction in the SCR we saw in Table 3.5 is the Health Risk element of the SCR which has reduced dramatically from €41.4m at year-end 2021 to €5.7m at year-end 2022, reflecting the very significant reduction in risk associated with the shrinking portfolio.

3.7.2 Projected Solvency Position

I have considered AICL's 2022 ORSA report, completed in December 2022. I have not reproduced the detail in this Report.

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

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario to the end of 2027 (to allow for run-off of the company without an IBT) in line with the company's strategic plan and incorporate the Board approved managed actions. The stress and scenarios used in the ORSA include stresses across a variety of risks. This year in particular inflation becomes one of the largest risks the company needs to consider, due to the APA. Therefore a significant focus was placed on expense inflation, medical cost inflation and aggregations of these two risks in the latest (2022) ORSA. The calibration detail of each stress performed is not captured within this Report, however the findings from the ORSA illustrate the alignment between the business plan and risk strategy set by the Board. I note that AICL maintains an appropriate level of solvency coverage ratio in all projection's years to the end of 2027.

I note the 2022 ORSA does consider the impact of the APA, but not the Scheme transferring to AWP P&C. This is probably reasonable as it does capture a worst-case scenario and AICL having to run off of the liabilities over the next number of years. No issues are noted with this adverse scenario.

I have no issues to note from my review of the ORSA projections provided by AICL. I note that closing to new business causes a rapid accumulation of Own Funds as the SCR decreases.

Given the risk profile of the company's business and the current level of available assets in excess of the company's minimum solvency margin requirement, the risk of insolvency and any risk to the security of policyholders is considered remote.

3.8 Treating Customers Fairly and Consumer Duty

AICL has provided me with documentation in relation to treating customers fairly (TCF). This explains that AICL has embedded their TCF approach through the various operational processes across its product life cycle, product design and promotion, advice and services, complaints, claims and data handling stages. Various policies, controls and procedures have been implemented to manage their commitment to adherence towards TCF principles. This includes training, product governance committees, staff competency standards, processing and handling of claims and compliances and the proper handling of customer data. These controls and procedures are monitored as part of the annual compliance plan.

Where there is a local TCF regulation in relation to AICL's non-UK business, specific local requirements are incorporated into the relevant operational processes.

AICL has an established TCF framework in line with both the ICOBS FCA Sourcebook and the PROD FCA Sourcebook. In order to assess their adherence to the TCF principles, checks are conducted to ensure operating effectiveness of controls implemented.

More specifically, with respect to claims handling, AICL adhere to the following service levels:

- 85% of claims will be adjudicated on within 15 days
- 80% of emails will be handled within 2 days
- 100% of complaints will be acknowledged within 5 days
- 100% of complaints will be resolved within 8 weeks

I have read the terms and conditions of a sample of the most recent AICL policy wordings of transferring policies, and they do not generate expectations in relation to the payment of claims that would cause me any concern relative to the service levels that have been promised by AWP P&C.

In July 2022, the FCA published its finalised guidance for firms on the Consumer Duty[5]. These new regulations are replacing TCF and are more onerous on companies. There are 5 milestones to prepare for the new rules to take effect, as follows:

- 27 July 2022 — Final Rules and Guidance Published
- 31 October 2022 — Firms agree implementation plans
- 30 April 2023 — Manufacturers complete the rules to meet the outcome rules
- 31 July 2023 — Rules start for open product services
- 31 July 2024 — Rules start for closed product services

The FCA guidance defines closed products services as "products and services that are no longer on sale to new customers or available for renewal by existing customers"

As all AICL products and services now fall into this category, AICL does not have to comply with the rules until July 2024. Should the Scheme proceed as at the Effective Date, then AICL will have no policyholders left, and therefore the Consumer Duty guidance will not apply. Therefore AICL policyholders will not benefit from this new regulatory regime for the time-being.

3.9 Litigation and Complaints

I have received an assurance from the Vice President & General Counsel, AI, in relation to the nature of any litigation issues / exposures. He has assured me that there is only one case currently: a fraud case being pursued in Romania on a "no win no fee" basis with local counsel. AICL is seeking to resolve the case or abandon it by 31 October 2023. He has committed to AWP P&C that this will not transfer with the IBT. He has also informed me that if anything changes during the transfer, that he will inform me, as the Independent Expert.

AICL provided me with their Aetna International Complaints Administration Policy, last updated 17 April 2020. This document outlines clearly the Aetna International (AI) position on complaints handling and management. Its aim is to ensure all complaints, whether reportable or not, are logged across the business. It describes the process for resolving complaints submitted by members, members' authorised representatives, providers, brokers or plan sponsors.

AICL also provided me with the last four 6 monthly submissions to the FCA, detailing their complaints. The number of complaints dropped by about two thirds over this period, no doubt driven in part at least by reducing volumes.

3.10 Other Regulatory matters

3.10.1 PRA/ FCA/ MAS Matters

I have received the regulatory briefing packs that AICL has provided to the PRA and MAS. I have also seen a summary of correspondence with the regulators in relation to the Scheme. I have also received an assurance by email on 9th Feb 2023 from AICL that "our Compliance team has confirmed that there

[5] https://www.fca.org.uk/publication/finalised-guidance/fg22-5.pdf

are no open issues (such as open regulatory inspection findings, regulatory fines and penalties) with the impacted regulators that we are aware of".

Based on this information and discussions with AICL management, I am therefore satisfied that there are no regulatory matters that would impact the execution of the Scheme.

3.10.2 Compensation Schemes

The Financial Services Compensation Scheme

AICL is a member of the Financial Services Compensation Scheme ("FSCS"). This scheme provides 100% protection to policyholders, in the event of the failure of an insurance company, if the policy they purchased is one of the following:

- Compulsory insurance
- Long-term insurance
- Professional indemnity insurance
- Claims arising from the death or incapacity of the policyholder due to injury, sickness or infirmity

Building guarantee policies All other insurance is 90% protected.

Therefore the FSCS will cover health insurance claims up to 90% with no financial limit but still subject to the original policy limits. On the basis that the policies written by AICL are protecting UK risks of UK policyholders then those policyholders are covered by FSCS.

The Financial Ombudsman Service

The Financial Ombudsman Service ("FOS") is a free and easy-to-use service that settles complaints between consumers and businesses that provide financial services. The FOS aims to resolve disputes fairly and impartially.

FOS protection applies to Health Insurance and where the policy was bought from a UK financial provider.

Other compensation Schemes

AICL has been advised that it is unlikely that overseas residents with policies underwritten by AICL would benefit from compensation from other territories.

4 AWP P&C SA operating through its UK Branch

4.1 Overview

AWP P&C is an insurance company incorporated in 2010 which is a subsidiary of Allianz Partners SAS. The ultimate shareholder is Allianz SE. AWP P&C trades as Allianz Partners, Allianz Assistance, Allianz Travel and Allianz Automotive.

The supervisory authority of AWP P&C is the French regulator, the Autorité de Contrôle Prudentiel et de Résolution ("ACPR"). The supervisory authority of the ultimate parent company Allianz SE is Bundesanstalt für Finanzdienstleistungsaufsicht ("Bafin" – the German regulator).

AWP P&C SA – UK Branch is regulated by the PRA and the FCA (having been regulated under the TPR up to May 2023).

The total gross technical provisions for AWP P&C SA were €570.4m at 31 December 2021 (per the AWP P&C SFCR) and €681.3m at 31 December 2022. AWP P&C SA was well capitalised with a SCR coverage ratio of 138% as at 31 December 2021 and is lower, but still within its risk appetite with SCR coverage ratio of 113%, relative to the alert ratio (see section 4.7 for meaning of alert ratio) of 110%, as at 31 December 2022.

The total gross premiums for 2021 and for 2022 for AWP P&C (UK branch) were €146m and €238m respectively. The total gross technical provisions for AWP P&C (UK branch) were €125m at 31 December 2021 and €152m at 31st December 2022.

4.2 Nature of business written

4.2.1 General Overview

AWP P&C SA has branches in the following countries:

- Austria
- Belgium
- Bulgaria
- Czech Republic
- Germany
- UK
- Greece
- Hungary
- Italy
- Netherlands
- Poland
- Portugal
- Spain
- Switzerland
- Romania (only services activity, no insurance licence so it is not regulated by ACPR).

Table 4.1 below gives the net written premium per major class in 2021 and 2022 at the AWP P&C SA level:

Table 4.1: Net Written Premium by Class		
€ m	**2022**	**2021**
Medical Expenses	8.0	23.2
Other Motor	78.8	63.6
Fire and other Damage to Property	96.9	99.0
General Liability	2.5	1.3
Assistance	784.2	599.7
Miscellaneous Financial Loss	856.3	449.3
Total	**1826.7**	**1236.1**

Source: AWP P&C 2022, 2021 & 2020 SFCR: QRT S28.01.01

For AWP P&C SA (UK Branch) the equivalent total Net Written Premium for 2021 and 2022 is €145.5m and €279.4m.

Table 4.2 below gives the net written premium per major country in 2021 and 2022 at the AWP P&C level:

Table 4.2: Net Written Premium by Major Country		
€ m	**2022**	**2021**
Switzerland	528.2	331.3
France	224.9	172.3
United Kingdom	247.8	129.3
Germany	194.8	122.6
Netherlands	141.3	105.1
Spain	108.7	91.8
Other Countries	381.1	283.7
Total	**1,826.7**	**1,236.1**

Source: AWP P&C 2022, 2021 & 2020 SFCR: QRT S05.02.01

Table 4.2(a) below gives the net reserves broken down by class in 2021 and 2022 at the AWP P&C level:

Table 4.2a Net Reserves by Line of Business		
€ m	2022	2021
Medical Expenses	0.9	0.0
Other Motor	37.8	40.9
Fire and other Damage to Property	56.6	58.7
General Liability	0.4	0.4
Assistance	258.8	219.4
Miscellaneous Financial Loss	227.8	162.1
Total	**582.3**	**481.5**

Source: AWP P&C 2022, 2021 & 2020 SFCR: QRT S28.01.01

It is worth noting for completeness that there are three classes of business in AWP P&C which are different in nature and risk profile to health insurance.

- The first is a general liability class. This class usually has a much longer tail (i.e. takes longer to settle claims, frequently many years) and greater volatility than health insurance. But net reserves are very small at €380k (per the YE2022 Solvency II return S.28.01.01). So the additional risk from this class is small.

- The other two classes are appliance protection and automotive motor warranty. These are larger in nature at about €100m each in gross written premium. However I have been supplied with data on both these classes which suggests that they develop very quickly from the time of incident to the settlement of the claims. Their exposure terms are typically up to two years for appliance protection and three to four years for automotive motor warranty. In particular 99% of claims incurred are settled within 12 months of the incident on both these classes. The Solvency II premium provisions for these classes are €35m for appliance protections and €25m for automotive motor warranty. As the premium provisions effectively represent the future exposures and therefore the tail of the reserves, I do not consider that this level of premium provision for these two classes will bring significant additional uncertainty to the portfolio over in this case the run-off period of the transferring AICL policyholders (which will predominantly run-off within two years).

Further commentary is included in Section 6.3.

4.2.2 Products

The principal products lines of business provided by AWP P&C include:

- Travel insurance
- Roadside Assistance
- Automotive Extended Warranty
- Appliance Protection Insurance (including Mobile Devices and Digital Risk – MDDR)
- Event Ticket Insurance
- Health insurance and Assistance
- Third Party Liability Insurance (in Italy only, in run-off)

Contract duration can be from several days to several years. These products are distributed via various partners, e.g.:

- Financial Institutions
- Airlines
- Travel agencies and Online Portals
- Car Manufacturers
- Leasing companies
- Dealer Groups / Brokers
- Direct to Retail Customers

Some of the products listed above are provided as insurance, others as services (i.e. a fee is charged after intervention for services provided). Sometimes the service business is bundled with the underlying insurance coverage provided.

4.2.3 Assets

Table 4.3 summarises the profile of AWP P&C's assets, valued on a Solvency II basis, at 31 December 2021 and at 31 December 2022.

Table 4.3: Assets		
€ m	**Solvency II Value YE 2022**	**Solvency II Value YE 2021**
Deferred Tax Assets	0	9.7
Pension Benefit Surplus	7.7	7.3
Property Plant and Equipment held for own use	6.6	8.3
Holdings in related undertakings/ Participation	445.7	446.9
Bonds	488.1	498.4
Derivatives	10.2	3.5
Deposits other than cash equivalents	6.5	13.7
Loans and mortgages	187.3	179.5
Reinsurance Recoverables	70.8	72.5
Deposits to cedants	1.7	1.7
Insurance and Intermediary receivables	169.8	135.7
Reinsurance Receivables	1.5	0.4
Receivables (trade not insurance)	153.8	74.5
Cash and Cash Equivalents	173.3	97.7
Any Other Asset not elsewhere shown	12.1	11.8
Total Assets	**1,735.2**	**1,561.6**
Total UK branch assets	**340.1**	**183.3**

Source: 2022 & 2021 AWP P&C SFCR QRT S.02.01.02 Balance Sheet

The exposure to risks arising from invested assets is mitigated through investment in a diversified portfolio of highly rated debt instruments and close interest rate matching of liability cashflows. The distribution of assets in AWP P&C differs from that in AICL. In particular this is the case for Participation, inter-group cash pooling and inter-company lending (loans and mortgages) arrangements. I show breakdowns for each of Participations and Loans and Mortgages captions. These breakdowns are from the 2022 year-end accounts.

With respect to the Holdings in relating undertakings/ Participation, this is a subsidiary of AWP P&C, Jefferson Insurance Co ("Jefferson"). A breakdown of the balance sheet assets underlying the Participation interest in respect of Jefferson (in €m) as at year-end 2022 is given in table 4.3(a) below:

Table 4.3(a) Jefferson Balance Sheet - Assets	€m	%
US Treasury	146	16%
Other bonds	349	38%
Mortgage Bonds	126	13%
Cash	60	6%
Reinsurance recoverable	175	19%
DAC	57	6%
Other	18	2%
Total	932	

Source: Analysis provided by AWP P&C

In terms of the assets themselves, I have been provided with the detailed asset listing across the US Treasury, Corporate bonds (range of blue-chip household company names) and Mortgage bonds (which are Freddie Mac and Fannie Mae pooled residential and commercial mortgage backed securities). I have also been provided with credit risk data in respect of the corporate bond exposures. Based on my analysis, I regard the bond portfolios as high quality.

The reinsurance asset is mainly internal Allianz Reinsurance of the underwriting risks.

More generally, I note that Jefferson offers a limited range of insurance products, most of which primarily focus on travel risks, and therefore are short-term in nature. The products include travel insurance, event ticket protection, registration and tuition reimbursement, group accident and health, auto physical damage, financial institution travel related and bankcard enhancement. Therefore, the products are similar to those underwritten by AWP P&C and I expect the volatility of the liabilities of Jefferson to be similar in nature to that of AWP P&C.

A breakdown of the assets underlying the Loans and Mortgage balance as at year-end 2022 is given in table 4.3(b) below:

Table 4.3(b) AWP P&C Loans and mortgages YE 2022 (€m)		€m	%
Loans to corporate customers	AZ Technology	75.0	40%
Loans to corporate customers	Other	14.4	8%
Receivables from cash pooling	Allianz SE	98.0	52%
Total		187.4	

Source: Analysis provided by AWP P&C

The main elements relate to a loan to a sister company, AZ Technology (which is a short-term liquidity facility for that entity), and cash pooling with Allianz SE.

With respect to receivables, I have received a detail breakdown of receivables for AWP P&C by duration. The vast majority are either within 3 months or not due yet. I consider this to be high quality.

4.3 Risk Profile and Management

4.3.1 Introduction

Much of the information in this section is taken from the ORSA documents provided to me. It is important to note that there is not a separate ORSA report for AWP P&C, AWP H&L and other Allianz Partners entities. Allianz Partners filed a request with the ACPR in 2016 for a unique sub-group ORSA report. This request was approved by the ACPR in November 2016.

Whereas AWP P&C and AWP H&L are separate legal entity insurance companies, each subsidiaries of Allianz Partners, each of the three companies Allianz Partners, AWP P&C and AWP H&L share the same Board Chairman and President of the Company, the same Deputy Managing Directors (including CFO) and the same personnel in the key function holder roles of Audit, Actuarial, Risk, Compliance and Legal.

In the Allianz Partners ORSA, there are separate appendices covering AWP P&C and AWP H&L, specifically providing quantitative details of the various projections of capital and solvency coverage for the base case and the various stresses etc.

But in describing the Risk Management framework, this is done in the main body of the report, and equally applies to Allianz Partners, as it does to its subsidiaries, including AWP P&C and AWP H&L. Therefore in what follows below, we describe the Risk Management operation within Allianz Partners, which equally applies to AWP P&C and AWP H&L.

4.3.2 Overview of risks

As part of its Overall Solvency Needs Assessment, conducted through the ORSA process at 2021, AWP P&C identified the top risks of the company that needed to be actively monitored and managed.

As at year-end 2022, AWP P&C has a well-balanced and diversified risk profile.

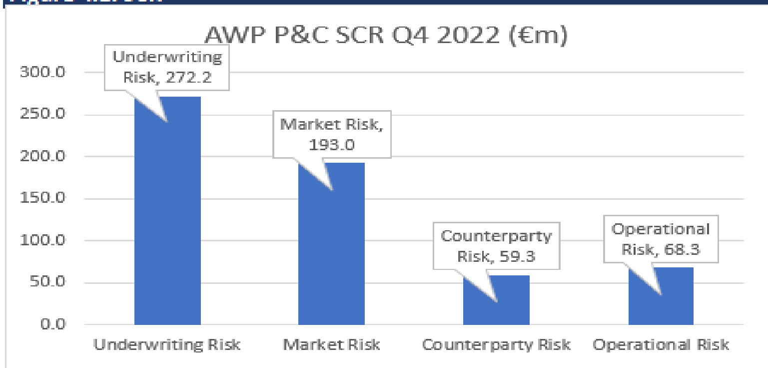
Although underwriting risks account for 46% (€272m) (See figure 4.1 below) of the risk profile, as represented by the SCR, this comprises risks relating to both non-life and health insurance and is highly diversified by geography.

Market risk accounts for 33% (€193m) of the risk profile arising primarily from any mismatch between assets and liabilities by currency and the participations held.

Counterparty default risk arises primarily from business receivables, and to a lesser extent, from exposure to banking, reinsurance and derivatives counterparties; it accounts for 10% (€59m) of the risk profile.

Operational risk (arising from people, processes, systems and external events) accounts for 12% (€68m) of the risk profile.

Figure 4.1: SCR



Source: 2022 AWP P&C QRTs

4.3.3 Governance

Committees

In order to ensure that risks across Allianz Partners are well supported and monitored at all levels across the organization within a consistent framework, a system of three types of committees has been established:

- Statutory Committees
  - Supervisory Board Committees (incl. Audit, Risk and Compensation) or Committees of the Board of Directors for solo entities;
  - Board of Management committee chaired by an AzP Board Member (e.g. Remuneration committee, Governance and Control Committee);
- Functional (managerial) committees – have a cross line of business / cross region view;
- Other Committees – organised for local ease of management (do not encroach on overall committee framework).

Risk Management Function

The risk management function of Allianz Partners is led by the CRO, who reports to the CFO and the CRO of the Allianz Group and has a reporting line to the Allianz Management Supervisory Board ("AMSB").

The team is set up in two departments

- the quantitative risk and risk regulatory affairs and
- the qualitative risk and internal control department.

The Allianz Partners risk management function is a Global function in charge of risk management in all of Allianz Partners Sub-Group and solo entities (including AWP P&C) risk governance (including risk management framework and strategy). All references below in relation to AzP Risk management processes are applicable for AWP P&C.

The Allianz Partners risk management function is a key function within the Internal Control System of Allianz Partners. Its main objectives are:

- Supporting the first line-of-defence by helping ensure employees at all levels of the company are aware of the risks related to their business activities and how to properly respond to them;

- Supporting the AMSB with development of a risk strategy and risk appetite;
- Monitoring of the risk profile to ensure it remains within the approved risk appetite and following up on instances of any risk appetite breaches (i.e. via resolution directly with the first line-of-defence and other stakeholders or escalation to the AMSB);
- Encouraging a strong risk culture which is supported by solid risk governance and incorporation of risk considerations into management and decision-making processes; and
- Applying a uniform and comprehensive risk capital approach to protect the company's risk capital base and to support effective capital management.

Principles

The following principles serve as a basic foundation upon which the Allianz Partners Sub-Group's and solo entities' risk management approach is implemented and conducted:

- Sub-Group AMSB is responsible for the risk strategy and appetite;
- Risk capital as a key risk indicator;
- Clear definition of the organizational structure and risk process;
- Measurement and evaluation of risks;
- Development of limit systems;
- Mitigation of risks exceeding the Allianz Partners Risk appetite;
- Consistent and efficient monitoring;
- Consistent risk reporting and risk communication;
- Integration of risk management into business processes;
- Comprehensive and timely documentation of risk related decisions.

Risk Strategy

The Risk Strategy is a core element of Allianz Partners and its solo entities' risk management framework.

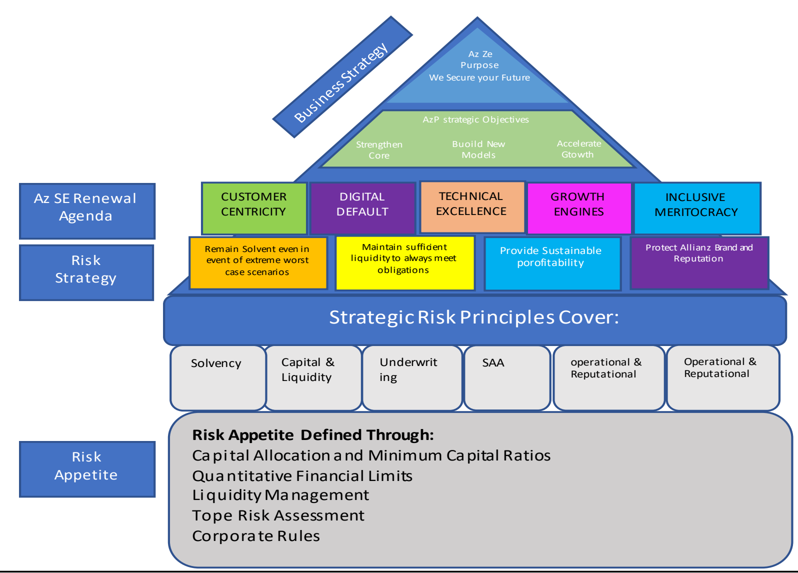
It defines the approach to managing risks faced by Allianz Partners and its solo entities in the course of pursuing its broader business strategy. The aims of the risk strategy include:

- Protecting the Allianz brand and reputation;
- Providing sustainable profitability;
- Remaining solvent even in the event of extreme, worst-case scenarios;
- Maintaining sufficient liquidity to always meet the organization's obligations.

The associated Allianz Partners Risk Appetite, defined with respect to all material qualitative and quantitative risks, is developed in a manner that,

- Allows for breaking the Risk Appetite down to the legal insurance entities (including AWP P&C SA, AWP H&L SA and Fragonard Assurance SA) and at any local and regional level; and
- Takes into account shareholders' expectations, requirements imposed by regulators and rating agencies.
- The Allianz Partners Risk Strategy, presented in Figure 4.2 below, is divided into three components:
- Business strategy, including key measures or principles;
- Risk strategies for the main risk categories, as defined in the Allianz Partners Risk Policy;
- Supporting Risk Appetites.

Figure 4.2 Allianz Partners Risk Strategy



4.3.4 Risk Appetite

I have been provided with the risk appetite statement for Allianz Partners, which covers all solo entities, including AWP P&C.

It is a comprehensive document covering the ten main risk categories

- Capital position
- Market limits
- Credit limits
- Liquidity limits
- Underwriting limits
- Operational risk appetite
- Reputational risk appetite
- Business Risk appetite
- Strategic Risk appetite
- ESG Risk appetite

The risk appetite statement is a dynamic document, incorporating limits that may change over time. Extraordinary developments may require adjustments to the Risk Strategy / risk appetite statement on an ad hoc basis. Significant ad hoc changes are approved by the Supervisory Board of Allianz Partners and Board of Directors of the solo legal entities and formally incorporated into the Risk Strategy / risk appetite statement.

For each of the above risks, tolerances and limits are categorised as “Acceptable”, “Alert” or “Action”, or alternatively as “green”, “amber” and “red”. The limits are outlined in most cases in the risk appetite statement, or the document refers to another document entitled “Limit Monitoring Report”.

In addition, Allianz Partners performs an annual Top Risk Assessment (“TRA”) (i.e. list of top 12 risks), a structured and systematic process implemented across Allianz Partners, covering also the top risks of its Solo Entities and relevant branches. The objective of the TRA is to identify and remediate significant threats to financial results, operational viability and the delivery of key strategic objectives, regardless of whether they can be quantified or not.

In addition, Allianz Partners performs regular stress tests on key risk exposures to measure the impact on the solvency capital coverage ratio.

Overall, a comprehensive approach to assessing, monitoring and managing risk appetite is embedded within Allianz Partners.

4.3.5 Risk sensitivities

I have been provided with the quantitative AWP P&C ORSA (an appendix to the Allianz Partners ORSA) which outlines stress and scenarios tests to illustrate AWP P&C's exposure to key risks by considering the impacts that these have on AWP P&C's solvency position as at 31 December 2021 through the ORSA process.

The following stress test scenarios were considered

- Business Loss and Reserving Risk (4 stresses modelled)
- Market and Credit Risks (9 stresses modelled)
- Pandemic and Catastrophe Risk (3 stresses modelled)
- Multiyear and Combined Stresses (2 modelled)
- Extreme and reverse stress scenarios (2 modelled)

I have not reproduced the detail here. The key risks presented in the ORSA are in line with those outlined in Section 4.3.1 above and are discussed in more detail in Section 4.7.

4.3.6 Risk Issues

The TRA 2022 for Allianz Partners was shared with me and I considered this as part of my review. I note that the list is comprehensive and covers off a substantial range of risk exposures and monitoring procedures. The items are in line with what I see as good market practice.

4.4 Outsourcing

4.4.1 Overview

The outsourcing of functions or services essential to the operation of an Allianz Partners entity can directly affects customers' interests and outcomes. In order to appropriately safeguard these interests, certain principles and processes have to be observed in order to adequately assess, mitigate and control the risks associated with outsourcing and to ensure business continuity in case of adverse events or termination. To establish these principles and processes, thus setting a sound Group standard for outsourcing and ensuring compliance with Solvency II regulatory requirements, Allianz SE has established a Group Outsourcing Policy, complemented by local outsourcing policies and procedures.

4.4.2 Group Outsourcing Policy

AWP P&C Board of Directors has decided to directly endorse the AzP Outsourcing policy. Therefore, the company implements directly the requirements set out in the AzP policy.

The Group Outsourcing Policy ("GOP") governs the outsourcing of functions or services to internal as well as external providers. Its main purpose is to determine the relevant processes and strategies for outsourcing at the Group level and to ensure compliance with regulatory requirements, while providing the necessary space for adjustments for local legal and regulatory requirements. In particular, this includes key criteria for defining critical and important functions and services ("CIFS") to be outsourced, for selecting, hiring, and monitoring providers, and for determining clear roles and responsibilities, control rights, and rules for the termination of outsourcing agreements.

I note that AWP P&C has outsourced its administration and claims handling to AWP H&L. The UK branch considers AWP H&L as a material Outsourcer and is identified with the PRA as such.

4.5 Reinsurance

4.5.1 Overview of reinsurance

The company has structured a reinsurance programme that is designed to reduce the impact of adverse loss experience on equity to a tolerable level. The company is exposed to the risk of adverse loss experience on a frequency and severity basis and has structured its reinsurance programme to appropriately respond to such risks in both individual and catastrophic loss scenarios.

The nature of the Reinsurance Programme is commercially sensitive, so I do not disclose it here. I have reviewed the program as part of my report, and in my opinion, it is suitable and aligned to what it is designed for. In addition, I was provided with the Reinsurance Opinion of the Head of Actuarial of AWP P&C who has satisfied himself that the reinsurance programme is suitable. These findings also appear reasonable to me.

4.6 Financial Profile

4.6.1 Background

Allianz Partners SAS is registered in France, and has three subsidiaries as follows:

- AWP P&C SA;
- AWP France SAS (a subsidiary or which is Fragonard Assurance); and
- AWP Health and Life SA incorporating AWP Health & Life SA Irish Branch.

AWP P&C SA is a subsidiary of Allianz Partners SAS, whose ultimate parent is Allianz SE (Fitch Rating AA, August 2022).

The main lines of business of AWP P&C SA (UK Branch) in the UK are roadside assistance, health, automotive and travel.

4.6.2 Technical Provisions

Table 4.4 below summarises AWP P&C Solvency II technical provisions at 31 December 2021 and 2022.

Table 4.4 AWP P&C Technical Provisions

€ m	2022	2021
Technical Provision non-life (excl Health)		
Best Estimate Liabilities (BEL)	605.2	501.3
Risk Margin	27.7	19.3
Non-Life Total	632.9	520.6
Technical Provision health (similar to non-life)		
Best Estimate Liabilities (BEL)	48.0	49.3
Risk Margin	0.4	0.4
Health Total	48.4	49.7
Total (Gross of Reinsurance)	681.3	570.3
Reinsurance Recoverables	70.8	72.4
Total (Net of Reinsurance)	610.5	497.9

Source: Actuarial Function Report AWP P&C Section 5 Technical Provisions

In Chapter 6 I outline our review of the methodology and governance of the calculation of the technical provisions, which I am comfortable with.

4.7 Solvency Position

4.7.1 Solvency II Solvency Capital Requirement

For a detailed description of Own Funds, SCR and MCR, please see Section 3.7.1.

Table 4.5 below sets out the regulatory capital position of AWP P&C, under the Solvency II framework at 31 December 2021 and 2022.

Table 4.5: AWP P&C Solvency Own Funds

€ m	**2022**	**2021**
Eligible Own Funds to meet the SCR	508.5	493.3
Eligible Own Funds to meet the MCR	508.5	483.5
SCR	448.3	358.4
Solvency II Surplus	60.2	134.9
Ratio of eligible Own Funds to SCR	**113%**	**138%**
MCR	201.7	161.3
Ratio of eligible Own Funds to MCR	**252%**	**300%**

Source: AWP P&C SFCR 2022 & 2021: Appendix form S23.01.01

As at 31 December 2021 the Solvency II returns showed AWP P&C had Own Funds available of €493.3m, an excess of €134.9m over the SCR of €358.4m. There was a Solvency coverage ratio of 138%.

As at 31 December 2022 the Solvency II returns showed AWP P&C had Own Funds available of €508.5m, an excess of €60.2m over the SCR of €448.3m. There was a solvency coverage ratio of 113%. The AWP P&C risk appetite statement has three ratios against which to compare the solvency coverage ratio. There is the management ratio, which is 120%, above which they usually dividend out to the parent. Then there is an alert ratio, of 110%, which is the ratio at which an action plan is prepared. Finally there is the action ratio of 105% which is the ratio at which action is taken to remediate the solvency ratio. Hence the 113% is within their risk appetite.

All (i.e. €508.5m) of the Own Funds are classified as unrestricted Tier 1 capital.

Table 4.6 below sets out the breakdown of the solvency capital position of AWP P&C by risk category, under the Solvency II framework as at 31 December 2021 and at 31 December 2022. The main drivers of AWP P&C's capital requirements are Non-Life underwriting risks (arising from the insurance risks underwritten) and market risks.

Table 4.6: AWP P&C SCR Calculation

€ m	**2022**	**2021**
Market Risk	193.0	191.6
Default Risk	59.3	49.4
Health Underwriting Risk	2.0	5.1
Non-Life Underwriting Risk	272.2	218.4
Diversification	-122.5	-112.5
Basic Solvency Capital Requirement	404.1	352.0
Operation Risk	68.3	39.1
Loss Absorbing Capacity of deferred taxes	-24.1	-32.7
SCR	**448.3**	**358.4**
Surplus solvency Margin	60.2	134.9
Total eligible Own funds	**508.5**	**493.3**
SCR Ratio	**113%**	**138%**
Minimum Solvency Requirement	201.7	161.3

Source: AWP P&C SFCR 2022 & 2021: Appendix form S25.01.21

I note the SCR is calculated using the standard formula. I note that AWP P&C make use of Underwriting Specific Parameters (USPs) in the premium risk calculation of the Assistance and Miscellaneous Lines of Business of the SCR calculation, which was approved by the ACPR in November 2015. Following the changes in AWP P&C risk profile in 2018, a new application for updated USPs was submitted to the French regulator which was approved in November 2018. The ACPR also approved in October 2016, the use of Group Specific Parameters (GSP) in the premium risk calculation of the Assistance and Miscellaneous Lines of Business of Allianz Partners Sub-Group. USPs and GSPs are updated on a yearly basis using the most up to date data available. Since 2016, all USPs and GSPs have a 10-year credibility. The AWP P&C USP adjustment is effectively driven by the volatility of the loss ratio, with expert judgement applied. I have discussed the impact of COVID-19 and recent economic events on the USP calculation with AWP P&C. AWP P&C did consider both as part of the USP process. After application of expert judgement, they did not have a material impact on the USP. Therefore, given the short tail nature of the portfolio, I consider that the continued use of USPs is appropriate.

For the remaining parts of the SCR, AWP P&C use the standard formula approach. AWP P&C has documented extensively in appendix 3.7 of the 2023 ORSA the rationale for this approach. In particular, AWP P&C has examined separately each assumption within the standard formula (and how the standard formula was originally calibrated) for every risk and sub-risk module, and provided narrative on why each assumption is appropriate for their business, Based on this analysis, and my experience of similar companies, I believe this approach is reasonable.

Additionally, it is worth noting that the risk margin within the technical provisions is a technical adjustment which is laid down in the Solvency II regulations. The risk margin is an addition to the Best Estimate Liability an insurance company is required to hold on its balance sheet. It is intended to represent the compensation a third party would require to accept the insurer's book of liabilities. And whereas the SCR is a one-year measure of risk at a 99.5% confidence level, the risk margin provides a further degree of protection to ultimate settlement of the liabilities on top of the SCR. I have reviewed the full range of stress testing in the AWP P&C ORSA and I have separately performed several simple stress tests in relation to the key risks i.e. market, underwriting, default and operational risk – this is included in Section 6.3. These stresses provide me with further comfort around the SCR, and by extension around the level of the risk margin calculated from the technical provisions. While, I have not reviewed the calculation of the risk margin in detail, but based on the above, I believe it is reasonable.

I consider that the SCR standard formula calculation, with the approved usage of USPs, is an appropriate measure for the 1 in 200 Solvency II ruin calculation.

AWP P&C has a projected margin over this in the form of a risk margin (historically between 5% and 6% of the SCR) and excess eligible Own Funds, forecast to be 21% of the SCR at year-end 2023, assuming payment of a dividend of a further 20% of SCR in 2023.

In particular, the purpose of our stress tests on the eligible Own Funds is to test whether the additional risk to which transferring policyholders are exposed creates a material detriment to their likelihood of having their claims paid over the term of these transferring liabilities, which is greater than one year (these liabilities are forecast to drop from €3.3m to €0.2m within 24 months).

I consider that the Risk Margin makes an adjustment for the difference between reserving risk over one year that is captured in the SCR and the ultimate reserving risk to which the Companies are exposed - I consider these to have been appropriately calculated.

I consider that the stress tests are an adequate test of the risk to ultimate for the purpose of the transferring liabilities i.e. the Part VII. I am comfortable with my findings that to ultimate and not just for one year that transferring AICL policyholder interests are not materially impacted.

The reduction in the solvency coverage ratio is driven off a number of items – continued growth in the AWP P&C book, the level of currency risk SCR held due to currency mismatches which has continued to increase in the period given the large number of currencies which AWP P&C operate in; and the impact of the commission structures in place for the internal reinsurance arrangements which are not aligned to the underlying expense/commission arrangements for certain growing portions of the AWP P&C book.

There is a work in progress to improve the coverage ratio over Q1 and Q2 of 2023 to ensure the coverage ratio remains within risk appetite. At the date of my Report, these actions are outstanding. This will be commented on in more detail in my Supplementary Report.

4.7.2 Projected Solvency Position

I have considered AWP P&C's 2021 ORSA report, together with AWP H&L's 2021 ORSA report completed in April 2022. I have not reproduced the detail in this Report. I expect to review the 2022 report in 2023, and comment on the updated projected solvency position in my Supplementary Report.

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

The ORSA is useful in terms of understanding the risks inherent in the business and the stability of the Solvency II capital position over time. The projections within the ORSA are based on a central scenario over a three-year time horizon in line with the company's strategic plan and incorporate the Board approved managed actions.

A number of stresses to the central scenario of the three-year plan was also run, as detailed in Section 4.3.4.

The calibration detail of each stress performed is not captured within this Report, however the findings from the ORSA illustrate the alignment between the strategic plan and risk strategy set by the Board. I note that AWP P&C maintains an appropriate level of solvency coverage ratio over all projection years in terms of meeting regulatory requirements and their own internal Risk Appetite limits.

I note the 2021 AWP P&C ORSA does not consider the impact of the Scheme. However, the APA is reflected in the AWP H&L's 2021 ORSA report. This is because the renewals that are subject to the APA will be 90% reinsured from AWP P&C (and indeed other AWP affiliates) to AWP H&L. This will be a further focus of my review of the 2022 AWP P&C ORSA which will be undertaken as part of my preparation of a Supplementary Report.

The detail is not repeated here, but the impact of the APA and the IBT are discussed in detail in the projections in Section 6 of this Report. I have no issues to note from my review of the ORSA projections and report provided by AWP P&C.

4.8 Consumer Duty

AWP P&C provided me with information on how they are planning to address the new Consumer Duty requirements. I have focused on this aspect rather than their approach to Treating Customers Fairly.

The Consumer Duty rules relate to four outcomes that represent critical elements of the firm-consumer relationship, which are instrumental in helping to drive good outcomes for customers. The first three below clearly apply to the treatment of the transferring business.

- **Customer Understanding**: Particularly relevant to the IBT, the main objectives are:
  - support their customers' understanding by ensuring that their communications meet the information needs of customers, are likely to be understood by customers intended to receive

the communication, and equip them to make decisions that are effective, timely and properly informed;

  – tailor communications taking into account the characteristics of the customers intended to receive the communication – including any characteristics of vulnerability, the complexity of products, the communication channel used, and the role of the firm;
  – when interacting directly with a customer on a one-to-one basis, where appropriate, tailor communications to meet the information needs of the customer, and ask them if they understand the information and have any further questions;
  – test, monitor and adapt communications to support understanding and good outcomes for customers.

- **Products and Services**: Again the service element is very relevant to the IBT. The requirements include:
  – ensure that the design of the product or service meets the needs, characteristics and objectives of customers in the identified target market;
  – ensure that the intended distribution strategy for the product or service is appropriate for the target market;
  – carry out regular reviews to ensure that the product or service continues to meet the needs, characteristics and objectives of the target market.
- **Consumer Support**: In particular:
  – design and deliver support that meets the needs of customers, including those with characteristics of vulnerability;
  – ensure that customers can use their products as reasonably anticipated;
  – ensure they include appropriate friction in customer journeys to mitigate the risk of harm and give customers sufficient opportunity to understand and assess their options, including any risks;
  – ensure that customers do not face unreasonable barriers (including unreasonable additional costs) during the lifecycle of a product or service;
  – monitor the quality of the support they are offering, looking for evidence that may indicate areas where they fall short of the outcome, and act promptly to address these, and
  – ensure they do not disadvantage particular groups of customers, including those with characteristics of vulnerability.
- **Price and Value**: This is not really relevant to the transferring policies, but for completeness covers:
  – Are there elements of the pricing structure that could lead to foreseeable harm?
  – Are there fees or charges or rates which appear unjustifiably or unreasonably high compared to the benefits of the product and other comparable products (either in the firm's product portfolio or comparable products supplied by other firms)?
  – Should/have any changes in the benefits of the product been reflected in the price?
  – Should/have any material changes to assumptions that underpinned pricing (for example on costs of servicing) been reflected in changes to the price?

The FCA have stated a deadline of 31 July 2023 for firms to adhere to the new Consumer Duty rules and AWP P&C believe they are well on track to achieve this. Specifically AWP P&C has identified some areas of focus to further improve their approach:

- They have defined what 'good' outcomes look like for their customers.
- They are putting research in place so that they can review whether their communications are understood by their customers.

- They are updating their existing reporting mechanisms to make sure that they monitor ‘good’ customer outcomes and drive continuous improvements.
- They aim to have communications testing capability by the end of April, after which they will start seeking feedback from insurance customers.
- They are putting a process in place to ensure they are able to act upon any feedback appropriately and they will start reporting against the new Consumer Duty outcomes from May onwards.

As this is an ongoing piece of work, I will comment on this further in my Supplementary Report.

4.9 Complaints and Litigation

AWP P&C supplied me with their internal document entitled Standard for Sales Compliance. In particular, this document outlines the rules and principles for compliant and ethical (fair) sales practices across Allianz Partners. It includes key principles to ensure appropriate fairness and transparency to Customers, including in respect of the remuneration of distributors and to address the particular sales compliance risk. In addition the document outlines the Allianz Partners complaints management process in relation to a product or the manner of sale of that product.

AWP P&C also supplied me with two samples of their monthly complaints report outlining in detail the various complaints by status, category, customer journey, duration, outcome etc.

The AWP P&C and AWP H&L legal team has also confirmed to me that there are two litigations in excess of €2m. I have been provided with details of both. I do not consider these to be material to my assessment of the Scheme.

4.10 Other Regulatory matters

4.10.1 PRA / FCA / ACPR

AWP P&C has informed me that there are no material open issues with the PRA, FCA or ACPR that they believe would impact on the Scheme.

For completeness they did outline for me the main current interactions, which I summarise as follows:

- Interaction on the AWP P&C (UK Branch) solvency ratio which fell to 105% at year-end 2022, but has been restored to 120% as discussed with the UK Regulator, the PRA.
- Interaction on the AWP H&L solvency ratio which fell to 114% at year-end 2022 but is projected to be at 118% by year-end 2023, and in excess of 120% thereafter as agreed with the French Regulator, the ACPR.
- There was a delay in submitting a QRT (quarterly reporting templates) from June 2022 through the BEEDS portal due to technical issues with BEEDS. The PRA were fully aware of this and the return had been submitted via email within the deadline. This was acknowledged by the PRA. There are

still some ongoing BEEDS (Bank of England Electronic Data Submission) the issues whereby AWP P&C has been notified of overdue returns where there are none.

4.10.2 Compensation Schemes

AWP P&C SA Compliance team has confirmed the below to us.

The Financial Services Compensation Scheme

AWP P&C SA, operating through its UK branch, is a member of the FSCS.

The FSCS will cover health insurance claims up to 90% with no financial limit but still subject to the original policy limits. On the basis that the policies written by AWP P&C SA, operating through its UK branch, are protecting UK risks of UK policyholders then those policyholders are covered by FSCS.

The Financial Ombudsman Service

The Financial Ombudsman Service (“FOS”) is a free and easy-to-use service that settles complaints between consumers and businesses that provide financial services. The FOS aims to resolve disputes fairly and impartially.

FOS protection applies to Health Insurance and where the policy was bought from a UK financial provider.

Other compensation Schemes

AWP P&C SA has been advised that it is unlikely that overseas residents with policies underwritten by AWP P&C SA through its UK branch would benefit from compensation from other territories.

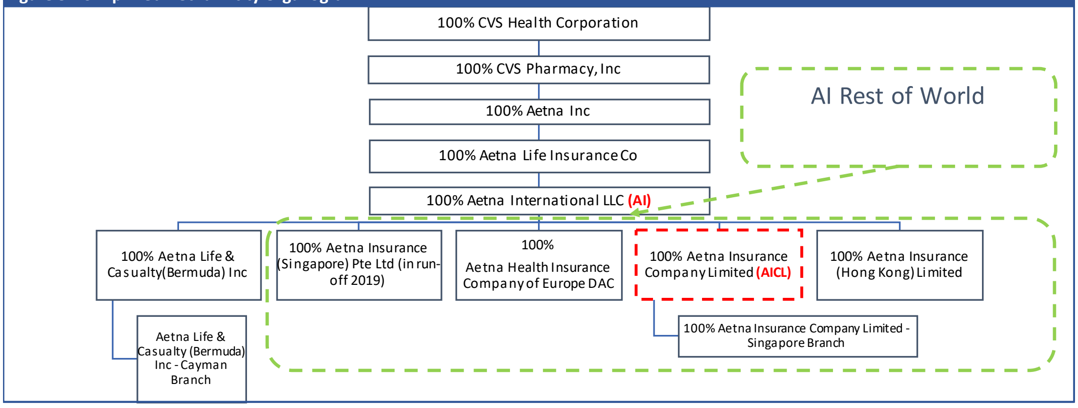
5 The Proposed Scheme

5.1 Motivation for the proposed Scheme

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

Aetna Inc. was founded in 1853 and acquired by CVS Health in 2018. Aetna Inc. owns 100% of ALIC (A+ credit rating, Fitch Ratings), which in turn owns 100% of AI, which then owns 100% of AICL. See Figure 5.1.

Figure 5.1 Simplified Aetna Entity Organogram



Post this acquisition, CVS Health considers the Aetna International Rest of World (AI Rest of World) health insurance and services business as "non-core" (AI Rest of World constitutes a very small part of the Aetna Inc business).

5.2 Outline

CVS has decided on a dual strategy to dispose of AI Rest of World:

Asset Purchase Agreement – to introduce Allianz Partners to AICL's €266m annual premium business

AICL entered into an APA with (amongst others) AGBUK[6] and AWP H&L[7] dated 23 March 2022, whereby AICL has given exclusive introductory rights to seek to migrate its US$303m of annual premium business to AWP H&L. The migration process commenced in July 2022 and will be complete by the end of October 2023. The migration of most small-medium enterprise ("SME") and large corporate group policies commenced in July/ August 2022. The migration of individual policies and remaining small cohorts of SME and large corporate group policies commenced on 1 November 2022.

Framework Agreement – in relation to the forecasted €4m run-off liabilities transfer

AI has considered various options to accelerate the ultimate closure of relevant AI entities, including AICL, on the completion of the above migration of policies. The option being pursued by AICL to

[6] AGBUK is a UK authorised service company, with a single shareholder Aetna International

[7]The APA is between Aetna Global Benefits (UK) Limited ("AGBUK") and AWP H&L. As a result of the APA, the AICL renewals are being offered to AWP P&C (UK Branch), as these are both the UK authorised companies within the respective groups. AWP P&C (UK Branch) will then reinsure these 100% to AWP H&L.

accelerate business closure is an IBT under Part VII of the Financial Services and Markets Act 2000 of its legacy portfolio to AWP P&C SA, through its UK branch, subject to court and regulatory approvals.

Therefore, on 23 March 2022, various AI entities, including AICL, and AWP H&L also signed a FA by which AWP H&L (and its affiliates) agreed to accept receipt of relevant AI legacy business via separate IBTs in each jurisdiction.

This process, which is planned for the end of 2023, transfers the remaining AICL portfolio (which are the run-off liabilities, forecast to be about €3.0m for AICL in particular, excluding AICL SB) to AWP P&C SA. The actual amount depends on the effective date of the transfer, and the emerging claims experience. As mentioned above, this excludes the AICL SB policies

Under the FA, AI's US domiciled parent company, ALIC, proposes to enter into a 100% quota share reinsurance agreement with AWP H&L to reinsure the business transferred to AWP H&L and its affiliates by the IBTs. The parties acknowledge and agree that this reinsurance agreement is critical to ensure that the economic risk associated with the business remains within the overall Transferor group. This will be a similar reinsurance arrangement to that which is in place for AICL policyholders from 1 January 2023 – 100% reinsurance to ALIC. The parties agree and acknowledge that coverage under the reinsurance agreement (being on a 100% quota share basis) shall incept in respect of each relevant business on the relevant IBT effective date. This means that AICL policyholders continue to be subject to the same ultimate financial support pre and post the Scheme. It shall continue in respect of each relevant business for a period of three years. Based on past claims development, the expected claims outstanding after three years is projected to be €11k for AICL i.e. de minimis.

5.3 Scope of This Report

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

This Report is prepared primarily to assess the likely impact that the Scheme will have on the transferring policyholders of AICL (i.e. all the policyholders, as there are planned to be none remaining post transfer), excluding AICL SB policies and the existing policyholders of AWP P&C SA, if the Scheme proceeds.

I note the AICL SB policies are subject to a concurrent IBT process in Singapore under the requirements there. It is outside of my scope to consider the impact of those AICL SB policyholders if that Singapore Part VII process does not proceed as planned as that is a consideration for the Independent Expert for that process. However, I have been informed by AICL management that in the unlikely event that the proposed Singapore transfer does not proceed then the Singapore Branch policyholders will remain in AICL after the UK transfer. They will, however, benefit from all the capital remaining in AICL (€22.2m versus €6.3m SCR) and the 100% Quota Share from ALIC will continue in place until their liabilities are extinguished, which provides considerable capital resources for the small amount of liabilities remaining within this portfolio.

Note there should be no policies in force post the Effective Date in AICL. But, as explained in Section 1.4, the term policyholder refers to the legal holder of any policy that may be left, and includes, for example, any person to whom, under the policy, a sum is due. See definition of "Transferring Policy" below.

This Report is limited in its scope to the assessment of this Scheme alone and not to any other possible scheme. It is intended that this Report be submitted, in full, as evidence to the Court when it considers whether or not to sanction the Scheme.

5.4 Scheme Details

The following is a summary of the Scheme document. This summary is intended to provide a reasonable narrative of the main topics covered by the Scheme document. However much of the rigorous legal language has been omitted (other than in the initial definitions), to endeavour to make it easier to understand for lay persons.

Transferring Business

Specifically, by order of the Court, with effect from the Effective Date, the "Transferring Business" (see below for definition) shall be transferred to the Transferee in accordance with and subject to the terms of the Scheme.

The Scheme defines the term "Transferring Business" as "Transferring Policies", "Transferring Liabilities" and the "Transferring Assets", excluding the "Excluded Business". These are in turn defined in the Scheme as follows:

- "Transferring Policy" means any Policy or reinsurance policy, including any endorsements or amendments thereto, underwritten by the Transferor under which any liability or contingent liability remains unsatisfied or outstanding at the Effective Date, excluding the Excluded Policies;
- "Transferring Liabilities" means all Liabilities of the Transferor of every kind and description (whether present or future, actual or contingent, lapsed, expired or reinstated) comprised in or attributable to the Transferring Policies and/or the Transferring Assets, including Liabilities in respect of the Provider Contract Indemnities and Liabilities in respect of any claim for Mis-selling by any current or former Policyholder who holds a Transferring Policy or has held a Transferring Policy prior to the Effective Date, excluding the Excluded Liabilities;
- "Transferring Assets" means any and all of the following whatsoever and wheresoever situated, comprised in or attributable to the Transferring Policies as at the Effective Date, including (without prejudice to the generality of the foregoing):
  - the rights, benefits, authorities and powers of the Transferor under or by virtue of the Transferring Policies;
  - the rights, benefits, authorities and powers of the Transferor under the Provider Contract Indemnity;
  - the assets or cash deposits comprising the insurance provisions and reserves associated with the Transferring Policies;
  - all rights of recovery (including the right to continue or bring a legal claim) against any party which arises as a result of the Transferor underwriting or paying a claim under any of the Transferring Policies; and
  - the Transferring Records including, without limitation, all rights, title and interest to the extent of the Transferor in such records, excluding the Excluded Assets.

Excluded Business

The Scheme document also defines "Excluded Business", structured in a similar manner to the above definition of Transferring Business, where Excluded Business refers to:

- "Excluded Policies",
- "Excluded Assets",
- "Excluded Liabilities",
- "Excluded Agreements",
- any rights of AICL in the ALIC 100% QS agreement, and
- any other assets or liabilities of AICL that do not constitute Transferring Business.

For clarification, the intent is that there should be no Excluded Business other than the Singapore branch business, which will be the subject of a similar but separate Singapore process.

Residual Assets, Liabilities and Policies

The Scheme document also defines "Residual Assets", "Residual Liabilities" and "Residual Policies" in a similar manner as transferring assets, liabilities and policies (respectively), as assets, liabilities and policies which should but do not transfer for some reason on the Effective Date. In which case these residual assets, policies and liabilities will be transferred on a subsequent transfer date(s).

Declaration of Trust and Residual policies Reinsurance

The Transferor shall with effect from the Effective Date hold its rights under each Residual Policy and each Residual Asset on trust for the Transferee until the subsequent transfer date(s), or other arrangements are made by agreement between the transferor and transferee.

Until then, the Transferee shall have full and irrevocable authority to act as the attorney of the Transferor in respect of its rights under the Residual Policies and the Residual Assets for all purposes.

As of the effective date, the Residual Policies and associated liabilities shall remain with the Transferor but will be fully reinsured to the Transferee.

The transferee shall assume the administration of the residual policies

Other provisions in relation to Transferring Business

With effect from the Effective Date, the Transferee shall become entitled to all the rights etc., of the Transferor under the Transferring Policies and shall be entitled to any and all defences, claims etc. which would have been available to the Transferor under or in respect of the Transferring Policies.

Also, with effect from the Effective Date, every person who is a Policyholder (recall this also includes any person who may be due a benefit under the policy) of a Transferring Policy shall become entitled to the same rights against the Transferee as were available to that person against the Transferor under such Transferring Policy.

In addition, with effect from the Effective Date, every person who is a party to a Transferring Policy, shall, in substitution for any liability or obligation owed to the Transferor, be under the same liability or obligation to the Transferee.

The Scheme will not result in for example invalidating any existing agreement, benefit, obligation etc. It will also not require any re-registration or filing of any amendment for any existing agreement etc.

Indemnities

With effect from the Effective Date the Transferee shall observe and perform the Transferor's obligations under the Transferring Policies and the Residual Policies and shall indemnify and keep indemnified the Transferor against any liability arising in respect of the Transferring Liabilities or Residual Liabilities. For clarity, this does not include any liability where the Transferor is entitled to recover the same from any person (including by way of insurance).

Legal Proceedings and Continuity

Any Proceedings in relation to the Transferring Business shall be commenced and/or continued by, against, with or in relation to the Transferee on and from the Effective Date.

Until the relevant Subsequent Transfer Date, any relevant Proceedings shall be continued by the Transferor and the Transferee shall have the right to direct the conduct of any legal Proceedings in relation to the Residual Policies.

Any judgment, decree, settlement, order or award, in relation to the Transferring Business, obtained by or against the Transferor, not fully satisfied before the Effective Date shall become enforceable by or against the Transferee without the need for further order.

Premiums, Mandates

Any and all premiums and other sums attributable or referable to the Transferring Policies shall, on and from the Effective Date, be payable to the Transferee.

Any mandate, standing order etc. in relation to the Transferring Business shall thereafter take effect as if it had provided for and authorised such payment to the Transferee.

Personal Data

With effect from the Effective Date, the Transferee shall succeed to all rights, liabilities and obligations of the Transferor in respect of any personal data which relates to the Transferring Business, and which is subject to Data Protection Legislation

Effective Date

The proposed Effective Date of the Scheme is 1 December 2023.

Costs and Expenses

All costs and expenses relating to the preparation and effecting of the Scheme and application for the sanction of the Scheme, including the costs of the PRA, FCA, Independent Expert and counsel, shall be borne by the Transferor.

Applicable Law

The terms of the Scheme are governed by English law.

Policyholders Affected

I consider the effects of the Scheme on two main groups of policyholders in Section 6, namely:

- those policyholders of AICL whose policies are to be transferred to AWP P&C (i.e. as explained this is expected to be all the policyholders of AICL as of the Effective Date, as defined in Section 1.3) and
- the current (as at immediately prior to the Effective Date) policyholders of AWP P&C.

Specifically, we do not consider the impact on the AICL SB Policyholders in this report, as they are subject to a separate parallel process in Singapore.

6 Impact of the Scheme on the Policyholders of AICL and AWP P&C

6.1 Introduction

Under the Scheme, the (AICL) Transferring Business will be transferred to AWP P&C (operating through its UK Branch).

This Chapter is structured as follows:

- Section 6.2 covers the reserve strengths of AICL and AWP P&C
- Section 6.3 discusses the capital strengths of AICL and AWP P&C, risk appetite and solvency targets, including the approach to regulatory capital held
- Section 6.4 covers Financial Support arrangements of AWP P&C and AICL pre and post Scheme, including the impact of reinsurance treaties on the Scheme
- Section 6.5 discusses the risk exposures in AWP P&C post Scheme relative to the Risk Exposure of AICL pre-Scheme
- Section 6.6 then discusses the policy servicing levels in AWP P&C compared with those currently provided by AICL pre-Scheme
- Section 6.7 summarises my conclusion in relation to the impact of the Scheme on the policyholders of AICL transferring under the Scheme
- Section 6.8 then discusses the impact of the Scheme on the existing policyholders of AWP P&C
- Section 6.9 summarises my conclusion in relation to the impact of the Scheme on the policyholders of AWP P&C

6.2 Reserve Strength of AWP P&C and AICL

The balance sheets I have reviewed for each of AICL and AWP P&C show amounts as at 31 December 2021 and at 31 December 2022.

It is worth noting that the AICL liabilities and assets to be transferred are very small in the overall context of AWP P&C and are 100% reinsured back to ALIC via AWP H&L.

I have been provided with the following reserving reports for both companies:

- The Actuarial Function Report (on a Solvency II basis) for AWP P&C 2021 dated 2 May 2022, and the Actuarial Function Report for AWP P&C 2022 dated 6 June 2023;
- The Annual Reserve Report (on an IFRS basis) for Allianz Partners Travel and Assistance 2021 and 2022 dated 15 March 2022 and 15 March 2023 respectively (this includes AWP P&C);
- The Actuarial Function Report (on a Solvency II basis) for AICL 2021 dated 15 March 2022, and the 2022 report dated 24 March 2023:
  - In particular Appendix D contains the IFRS Report;
  - Appendix F (available for the 2021 report only) which contains a PwC methodology and assumptions IFRS reserve review in respect of the AICL IFRS reserves; and
  - An excel Spreadsheet projecting the claim reserves as at the Effective Date separately for each of AICL and AICL SB, in particular forecasting what the reserves are expected to be at the Effective Date.

The Actuarial Function Reports are produced for the purposes of Solvency II. They take the IFRS reports as their starting point and make adjustments required for Solvency II. These adjustments are purely the technical adjustments required to move from IFRS to Solvency II, including for example discounting (which in this case has minimal impact, given the very short nature of the liabilities, as previously illustrated).

So, to compare reserve strengths, I compared the two IFRS reports. The IFRS reports contain much more detail on methodology etc than the more regulatory focussed Solvency II reports.

The Annual Reserve Reports (on an IFRS basis) for Allianz Partners Travel and Assistance 2021 and 2022

AWP P&C have explained to me that AWP P&C is the legal entity, whereas Allianz Partners Travel and Assistance is the management term for the purposes of the relevant reserving report I have focused on, which contains AWP P&C and some other entities that are not of interest to us in analysing the reserve strength of the legal entity AWP P&C. My detailed focus was on the 2021 report in terms of timing and I subsequently reviewed the 2022 report.

I have reviewed the work carried out by those responsible for estimating reserves for AWP P&C, as set out in the above-named report, in order to satisfy myself that it is reasonable for me to rely on their work. The report contains all the various headings that I would expect to see i.e.

- Purpose and Scope
- Distribution and Use
- Key Uncertainties Risks and Concerns
- Executive Summary
- Business Overview
- Structure and Governance
- Data and Systems
- Methodology
- Analysis
- Glossary
- Appendices

The **Key Risks and Uncertainties** chapter details the principal sources of uncertainty as the possibility that:

- Models and Assumptions may be a poor representation of reality
- Data may be incomplete, incorrect or inappropriate
- Human Error could result in errors being introduced
- The inevitable uncertainty of modelling the random process of claims

The **Structure and Governance** chapter in particular details the structure of Corporate Actuarial, and the role of the Reserve Committee and the Allianz Group governance documents. It outlines that the process of checking reserves usually comprises:

- Data checks
- Key Assumption and Parameter checks
- Result analysis
- Movement and Sensitivity Analyses

The controls consist of three components:

- Peer Review
- Management Review
- Technical Review

Finally all figures are sent from Corporate Actuarial to Group Actuarial for reconciliation.

In the **Methodology Chapter**, in particular, it is explained that most claims are high frequency and low severity and are both reported and settled quite quickly.

There are some exceptions, such as large medical claims or medical repatriation.

There can also be claims aggregations from events such as storms and accidents.

The reserving methods deployed are standard actuarial methods such as Chain Ladder, Bornhuetter-Fergusson or Average Costs methods.

For many portfolios, in particular assistance, claims are relatively small, and notified and settled so quickly that case estimates are not used.

For the occasional large claims referenced above, case estimates are set by the business unit using the individual judgement of local claims staff or management.

In the analysis section, in the summary results at the start, details are provided for the claims reserves, premium reserves and the reserves for Deferred Acquisitions Costs, for each entity, including AWP P&C.

Of particular interest in assessing the reserve strength, is that this chapter details the favourable claims run-off on the prior period of 22%. Favourable run-off suggests strong reserving, which delivers more security in particular to the Transferring Policyholders, than for example if there was adverse run-off.

There is significant detail provided in this section (with several pages dedicated to each country) covering the US, Canada, Brazil, Australia, China, Hong Kong, South Korea, Singapore, New Zealand, Malaysia, Thailand, India, Japan, Germany, Austria, Switzerland, Italy, Spain, Portugal, Greece, France, Poland, UK, Belgium, Netherlands, Czech Republic, Russia and Turkey.

Finally, the **Executive Summary** details the reserve gross and net of reinsurance

I have also reviewed the 2022 AzP Revere Review report, and there has been no change in approach versus the 2021. In particular the prior year reserve movement has again been favourable, this year at 17%. This once more suggests that historically reserves have been more than sufficient.

There is not enough detail in the report to independently recalculate reserves. However independent recalculation is out of scope for this exercise but there is sufficient detail to enable me to review and management responded to my specific queries. Therefore, I am satisfied based on the details provided on governance and controls, the methodologies employed, the short-term nature of the business, and the favourable reserve run-off reported, that the reserves appear reasonable at present, and probably contain a margin of prudence. The adjustments to Solvency II from these IFRS reserves also appear reasonable.

AICL Actuarial function Report Appendix D (IFRS Reserves) and Appendix E (PwC Review of IFRS Analysis)

I have read both the AICL IFRS report and the PwC Review of same. I have placed no reliance upon the report and presentation prepared by PwC. Where I have used them, I have performed sufficient work of my own to confirm that it is appropriate for me to use the information for the purposes of forming my opinion on the Scheme. The PwC report, which both describes and analyses the approach that the AICL actuaries have taken to their reserve review as at year-end 2021, also performs alternative calculations, comparing and contrasting both. My detailed focus was on the 2021 report in terms of timing and I subsequently reviewed the 2022 report.

The AICL report contains all the various headings that I would expect to see i.e.:

- Purpose, Scope and Users
- Executive summary
- Overview of Reserving process, including
  - Data
  - Reserving Process

  - Reserving Segmentation
  - Approval Process
- UAE Business
- Europe Business
- KSA MOFA (Ministry of Foreign Affairs)
- Singapore Branch
- Legacy IG Excluding Singapore Branch
- Kuwait MOFA
- Other OH + Business
- Sensitivity and Key Uncertainties
- Reconciliations Exercises
- Large Claims
- Reinsurance
- Result Summary
- Prior Year Development and Actual Versus Expected
- Material Judgements

The **Executive Summary** chapter summarises the reserves as at 31st December 2021, by region/business (UAE, Europe, KSA MoFA, Singapore Branch, Legacy IE, Other and Kuwait MoFA) and reserve type (Claims Reserve, Large, Reconciliation and Provision for Adverse Development).

In particular this summary cites the favourable prior year development of €4.9m, which suggests that historically reserves have been more than sufficient. Separately I have been provided with a detailed breakdown of this by the AICL Actuarial Function Folder.

The **Overview of Reserving Process** chapter describes the sources of data and data reconciliations. It goes on to discuss the methods used to calculate reserves including Basic Chain Ladder on paid, while considering seasonality and claims inflation. Specifically, here it describes the Provision for Adverse Deviation[8] of 7.5%, which is outside the scope of the PwC review.

This chapter goes on to discuss the **governance** steps of the initial calculations by the actuarial team, the review by the head of reserving, and then the reserve committee (which includes the CFO and the Aetna International Head of Actuarial and Underwriting – HA&U). Specifically, the HA&U reviews all expert judgements with an impact of greater than US$1m (approx. €900k).

The report then goes on to discuss the reserving for the various regions / business as outlined above. And as with the AWP P&C report, where there is not enough information to independently calculate the reserves (which was out of scope), the approach in each instance seems reasonable, which in particular contains what appears to be a prudent approach on the latest months (which given the very short-tail of claims, as discussed in Section 3.2, is material).

In particular the analysis of actuarial versus expected and the prior year development in Chapter 16, showing both metrics having favourable results, provides comfort in the overall adequacy of reserves.

The PwC report also concludes that the basic claims reserves, in particular ignoring the extra provision for adverse development, are sufficient for the major segments it analyses (which made up 86% of reserves).

[8] Traditionally, when actuaries were asked to allow for uncertainty in setting assumptions, the approach would have been to add a margin, or provision for adverse deviation (PAD), to the best estimate assumptions. These PAD's are often judgemental, and effectively act as a margin for prudence, should something unexpected occur.

I have also reviewed the 2022 AICL Revere Review report, and there has been no change in approach versus the 2021. In particular the prior year reserve movement has again been favourable, this year at €8.1m. This once more suggests that historically reserves have been more than sufficient.

In conclusion, there is not enough detail in the report to independently recalculate reserves. However independent recalculation is out of scope for this exercise but there is sufficient detail to enable me to review and management responded to my specific queries. Therefore, I am satisfied based on the details provided on governance and controls, the methodologies employed, the short-term nature of the business, and the favourable actual versus expected and favourable reserve run-off reported, that the reserves appear reasonable at present, and probably contain a margin of prudence. The adjustments to Solvency II from these IFRS reserves also appear reasonable.

I am satisfied with the reserving approach and the overall reserve strength of AWP P&C relative to AICL, and that any difference will not have a materially adverse impact on the transferring AICL business.

6.3 Excess Assets or Own Funds of AWP P&C and AICL

In this section we look at the solvency coverage (Own Funds over SCR) of AICL and AWP P&C, as a typical measure of financial strength. However, in this instance, it is very important to note that this is not a very useful comparison, as AICL is a company in run-off, with very short-tail liabilities. So over the next year or so, if the Scheme does not occur, the claims provisions will reduce very sharply as illustrated in Figure 3.2, and the SCR will also reduce significantly, and excess Own Funds are planned to be paid out as a dividend to the Shareholders. The actual remaining surplus Own Funds will be small in monetary value. This is in contrast to AWP P&C, which has a growing balance sheet, with significant Own Funds, which increase each year, broadly speaking in line with growth.

Specifically, if the Scheme does not progress, AICL has forecast that its own funds will remain at about €21m over the run-off period, leaving a surplus over its SCR/MCR in run-off of approximately €17m over that period.

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 larger balance sheet.

The SCR is calculated using standard formula in both companies though as noted, AWP P&C make use of USPs/ GSPs in the premium risk calculation of the Assistance and Miscellaneous Lines of Business of the SCR calculation as approved by the ACPR. I consider this to be an appropriate measure for the 1 in 200 Solvency II ruin calculation. I note this in Section 4.7.

I consider that the Risk Margin makes an adjustment for the difference between reserving risk over one year that is captured in the SCR and the ultimate reserving risk to which the Companies are exposed - I consider these to have been appropriately calculated. I note this in Section 4.7.

AICL provided us with projected Own Funds as well, assuming the Scheme does not progress. The percentage of Own Funds over the SCR grows, but the actual surplus funds, after payment of planned dividends stabilises at about €17m from year-end 2023. This is quite a small level of Own Funds relative to AWP P&C.

As described in Chapter 4, AWP P&C risk appetite statement and capital management policy specifically references Own Funds coverage of the SCR, and the actions to be normally taken. Where the coverage significantly surpasses 120%, they usually plan to dividend back to shareholders (subject to non-objection from regulators). They have two triggers under this 120%. An alert trigger of 110% where a remediation plan should be prepared. Then an action trigger at 105%, where an action plan should be executed. Therefore provided the Own Funds over SCR is between 110% and 120%, this is regarded by AWP P&C SA to be within risk appetite.

As I set out in Section 4.7, the Solvency coverage of AWP P&C (and summarised in Table 6.1 below) as at year-end 2021 was 138%, with surplus Own Funds of €135m and at year end 2022 was 113%

with surplus Own Funds of €60.2m. The percentage coverage is lower, but the absolute surplus Own Funds is significantly higher than what is planned for the run-off of AICL.

Table 6.1: AWP P&C Solvency Own Funds		
€ m	**2022**	**2021**
Eligible Own Funds to meet the SCR	508.5	493.3
Eligible Own Funds to meet the MCR	508.5	483.5
SCR	448.3	358.4
Solvency II Surplus	60.2	134.9
Ratio of eligible Own Funds to SCR	113%	**138%**
MCR	201.7	161.3
Ratio of eligible Own Funds to MCR	**252%**	**300%**

Source: AWP P&C SFCR 2022 & 2021: Appendix form S23.01.01

AWP P&C note that this coverage ratio has decreased in the year but is still within the AWP P&C risk appetite. A plan to improve the coverage ratio is being implemented during Q1 and Q2 of 2023 to ensure the coverage remains within risk appetite. At the date of my Report, these actions are in progress. Further detail is included in Section 4.7 and will be commented on in more detail in my Supplementary Report.

I set out in Section 6.4 the additional protection afforded by the 100% reinsurance arrangements for the transferring policies.

Scenarios: Balance Sheet of AICL and AWP P&C pre- and post- Scheme

Table 6.2 below shows the effect of the Scheme on AICL's Own Funds, Solvency Capital Requirement and Solvency Ratio at the Effective Date (taken to be as at 31 December 2023 for illustrative purposes).

Table 6.2 AICL proforma solvency position pre/ post the Scheme	Pre Scheme	Post UK Transfer	Post Singapore Transfer
Solvency II Own Funds	21.5	23.7	23.9
Solvency Capital Requirement	7.3	6.0	4.9
Solvency Ratio	295%	392%	485%

Source: AICL and KPMG analysis

If the Scheme is sanctioned (and assuming the Singapore Scheme is also sanctioned), all the non-Singapore Transferring Business of AICL will transfer to AWP P&C (UK Branch). Table 6.2 above illustrates the balance sheet immediately prior to the UK Scheme, the changes as a result of the UK Part VII Scheme, the changes as a result of the parallel Singapore Part VII equivalent process, and the balance sheet remaining after both Schemes. This proforma presentation also includes dividends planned to be paid back to the shareholder in 2023. The Scheme does not have a material impact on AICL as 100% of the liabilities are already reinsured to ALIC.

Post the proposed Scheme, AICL will have no policyholders and once all final pre-elimination matters have been addressed, the entity can be dissolved in an appropriate manner, yet to be determined.

In the unlikely event that the proposed transfer of AICL SB policyholders does not proceed, but the UK Scheme does, then the AICL SB policyholders will remain in AICL after the UK IBT. They will, however, benefit from all the capital remaining in AICL and the existing 100% quota share reinsurance from ALIC will continue in place until their liabilities are extinguished, which provides adequate capital resources for the residual amount of liabilities remaining within this portfolio. As such I am satisfied that the AICL

SB policyholders will not be materially adversely affected by the UK transfer in the unlikely event that the Singapore transfer does not proceed.

If on the other hand the UK Scheme does not proceed, but the Singapore Part VII equivalent does, then the non-Singapore AICL policyholders will remain in AICL after the Singapore transfer. They will, similarly, benefit from all the capital remaining in AICL and the existing 100% quota share reinsurance from ALIC will continue in place until their liabilities are extinguished, which provides adequate capital resources for the residual amount of liabilities remaining within this portfolio. As such I am satisfied that the AICL UK policyholders will not be materially adversely affected by the SB transfer in the unlikely event that the Singapore transfer proceeds but the UK transfer does.

The other two 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.

Table 6.3 below shows the equivalent statistics AWP P&C Solvency II balance sheet before and after the Scheme. As the transferring liabilities are 100% reinsured to ALIC, there is no impact to the AWP solvency coverage ratio as a result of the Scheme.

Table 6.3 AWP P&C proforma solvency position pre/ post the Scheme (after foreseeable Dividends)	Pre Scheme	Post UK Transfer
Solvency II Own Funds	587	587
Solvency Capital Requirement	485	485
Solvency Ratio	121%	121%

Source: AWP P&C and KPMG analysis

Table 6.3 effectively shows the impact of the scheme on the policyholders of AWP P&C should the scheme progress.

If you now consider the policyholders of AICL should the Scheme progress, they move from the Solvency position of AICL to that of AWP, as depicted in table 6.4 below:

Table 6.4 Solvency position for the transferring policyholders pre-and post- Scheme (after foreseeable Dividends)	Transferring Policyholders Pre Scheme	Transferring Policyholders Post Scheme
Solvency II Own Funds	22	587
Solvency Capital Requirement	7	485
Eligible Own Funds	14	102
Solvency Ratio	295%	121%

Source: AICL, AWP P&C and KPMG analysis

In their ORSA, AWP P&C considers what combination of stresses would bring the SCR coverage ratio down to under 100%. This is entitled a reverse stress. The reverse stress described in the ORSA is the following combination:

- An increase of 20% in planned growth from 14% to 17%
- A 1-in-10 underwriting year loss
- An increase in overdue receivables of 5%

The accumulated impact of the above stresses is a drop in own funds of €74m, and an increase in the SCR of €31m, leading to a coverage ratio of the SCR of 100%. It is worth noting that still means there is significant own funds of €587m less €74m i.e. €513m in the company over and above the technical provisions.

The purpose of this ORSA stress is to bring the SCR coverage ratio down to under 100%. Given this approach, I have considered more onerous and extreme scenarios below.

Table 6.5 below compares the SCR of AWP P&C and AICL at year-end 2023, as a good proxy for the transfer date. It can be seen form this table that the main risks in AWP P&C, the portfolio into which the transferring AICL policyholders will reside should the Scheme progress, are Market Risk, Underwriting Risk, Default Risk and Operational Risk.

Table 6.5 Comparison of Balance Sheets and SCRs		
€m	AWP P&C	AICL
Eligible Own Funds (EOF)	***587***	***20.1***
SCR Breakdown		
Market Risk	206	3.6
UW (Underwriting) Risk	296	2.4
Default risk	66	1.9
Diversification	-132	-2.2
BSCR (Basic SCR)	436	5.6
Operational Risk	77	0.9
Deferred Tax Adj	-27	0.0
Ring Fence Singapore Adjustment	0	0.4
Total SCR	486	6.8
EOF/SCR	121%	295%

Source: AICL, AWP P&C and KPMG analysis

With this in mind, I have taken each of these risks, and looked to see what level of stress (on Market, Underwriting, Default and Operational separately) would eliminate the eligible Own Funds on both portfolios, and therefore put future claim payments to the transferring AICL policyholders in doubt. The purpose of this exercise is to test whether the additional risk to which transferring policyholders are exposed creates a material detriment to their likelihood of having their claims paid.

The projected Solvency II balance sheets at year-end 2023 and solvency coverages for the Companies upon which I have based my analysis are as follows:

Table 6.5a Projected Balance Sheets (€m)	AWP P&C		AICL	
	2023	%	2023	%
Bonds	785	40%	0	0%
Participations	493	25%	0	0%
Receivables	364	18%	0	0%
Loans and mortgages	118	6%	0	0%
Cash / Deposits	116	6%	55	56%
Reinsurance Recoverable	77	4%	44	44%
Deferred Tax	0	0%	0	0%
Other	20	1%	0	0%
Derivatives	4	0%	0	0%
Property	8	0%	0	0%
Deposits	0	0%	0	0%
Total	1,985		99	
Total Liabilities	1,300		78	
Of which Best Estimate Liability	760		17	
Own Funds	685		20	
Foreseeable Dividend	98		0	
Eligible OF	587		20	
SCR	486		7	
SCR Coverage Ratio	121%		295%	

Source: AICL, AWP P&C and KPMG analysis

The distribution of assets in AWP P&C differs from that in AICL and can be viewed as being riskier in nature when assessing the impacts for transferring policyholders. In particular this is the case for equity participation, inter-group cash pooling and inter-company lending (loans and mortgages).

Details of these specific assets are set out in Section 4.3 of my Report. I note that the breakdowns are from the 2022 year-end accounts. I note that the totals differ from the projected 2023 totals however after discussions with AWP P&C, I believe the breakdown is representative of the projected year-end 2023 position, so I am comfortable to use the information to guide and explain the risk exposures.

First, Table 6.5 (a) looks at what level of stress to invested assets would eliminate eligible Own Funds.

Table 6.5 (a): Stress 1: Market Risk (€m)

	AWP P&C	AICL
Total Assets	1,985	98.7
Less		
Receivables	364	
Recoverables	77	43.6
Remaining Assets	1,544	55.1
EOF	587	20.1
Stress required to eliminate EOF	38%	37%
1:200 market risk in SCR of	206	3.6
Which would be an asset stress of	13%	6%
Multiple of 1:200 stress	3	6

Source: AICL, AWP P&C and KPMG analysis

The assets would need to drop by similar percentages (38% and 37%) in both AWP P&C and AICL to eliminate eligible Own Funds. This is three times the 1:200 market risk stress in the AWP P&C SCR, and six times the 1:200 market risk stress in the AICL SCR. From the market risk perspective, AWP P&C therefore is a riskier balance sheet, but I believe the prospect of market risk eliminating eligible Own Funds in AWP P&C is very remote for transferring AICL policyholders particularly over the period of their run off. This level of market risk stress has not been experienced by either AWP P&C or AICL based on my discussions with them.

The asset profile (which is summarised in Section 3.3 for AICL and in Section 4.3 for AWP) has been considered in terms of the stress testing I have undertaken. An overall stress of 38% is required before the eligible Own Funds are exhausted, and in such a stress I consider that the foreseeable dividend would not be paid and the overall stress would be 44% before the eligible Own Funds would be exhausted.

At a more detailed level, I have considered a number of more granular stresses looking at the component elements of the balance sheet including different stresses to be applied to the Participation (range of stresses from 55-75%), Bonds, Loans and Mortgages (range of stresses from 20-30%); cash and deposits 10%; all other asset types 20%. I have discussed the range of these stresses with the Companies and with AWP P&C in particular to understand if such stresses have been experienced previously which is not the case.

This yields the following stress for the AWP assets (given the specific riskier components), totalling 38% across all assets.

Table 6.5 (a1) Asset Specific Stress	YE Forecast	Stress %	Stress €
Bonds	785	25%	196
Participations	493	70%	345
Loans and mortgages	118	25%	29
Cash / Deposits	116	10%	12
Deferred Tax	0	20%	0
Other	20	20%	4
Derivatives	4	20%	1
Property	8	20%	2
Deposits	0	10%	0
Total	1,544		589
Receivables	364	Considered under default risk	
Reinsurance Recoverables	77	Considered under default risk	

Total Assets	1,985

Source: AWP P&C and KPMG analysis

While I can develop a market risk scenario which would exhaust all eligible Own Funds, I consider any such scenarios to highly remote. In the remote scenarios considered, the eligible Own Funds are just exhausted though valid policyholder claims could still be paid which is my key consideration for transferring AICL policyholders.

Based on my analysis of the components of the asset side of the balance sheet, I consider there is additional risk in the AWP P&C balance sheet for transferring AICL policyholders, but I conclude that the risk of policyholders not being paid valid claims is remote and their interests are not materially impacted.

Next, Table 6.5 (b) looks at what level of stress to the Best Estimate Liabilities (BEL) would eliminate eligible Own Funds.

Table 6.5 (b): Stress 2: UW Risk (€m)		
	AWP P&C	**AICL**
BEL	760	16.9
Eligible Own funds	587	20.1
Stress Required to eliminate EOF	77%	119%
1:200 UW Risk in SCR of	296	2.4
Which would be an UW stress of	39%	14%
Multiple of 1:200 stress	2	8

Source: AICL, AWP P&C and KPMG analysis

The BEL would need to increase 77% in AWP P&C or 119% in AICL to eliminate eligible Own Funds. This is two times the 1:200 underwriting risk stress in the AWP P&C SCR, and eight times the 1:200 underwriting risk stress in the AICL SCR. This is a simplified stress as new business over the period in which AICL policyholders are exposed is not fully incorporated.

I have also previously calculated that if I stressed the 2022 AWP P&C gross incurred claims by incremental inflation of 10%, 30% and 50%, this did not eliminate the eligible Own Funds at year-end 2022 (I recognise that this date is prior to the IBT date but the stress is useful). I have discussed with both AICL and AWP P&C to understand whether such a stress has been experienced previously arising from a deterioration in claims levels. Both companies said no, and also noted that such stresses were multiples of anything they considered as appropriate stresses for the ORSA stresses. Both noted that 30% and 50% (inflation) stresses are far higher than any inflation they've experienced previously.

I do note from Table 4.1/ 4.2(a) in my report, and commentary in section 4.2, that AWP P&C does contain some classes of business (namely appliance protection and automotive motor warranty) which will have a different risk profile to that of AICL. Although these classes in particular can have a duration of up to two years for appliance protection and three to four years for automotive motor warranty, I have seen that the tail of the claims is very short, with 99% settling within 12 months of the incident, on both classes. I do not consider that these different risk types will have a material impact over the period of the AICL claims run-off (the transferring AICL portfolio is expected to predominantly run-off within two years).

Therefore, from an underwriting risk perspective, AWP P&C is a riskier balance sheet, but again I believe the prospect of underwriting risk eliminating eligible Own Funds in AWP P&C very remote for transferring AICL policyholders particularly over the period in which AICL claims are expected to be settled.

Table 6.5 (c) look at what stress to receivables and recoverables would eliminate eligible Own Funds.

Table 6.5 (c): Stress 3: Default Risk (€m)		
	AWP P&C	AICL
Receivables and Recoverables	480	43.6
Eligible Own funds	587	20.1

Stress Required to eliminate EOF	n/a	46%
1:200 Default Risk in SCR of	66	1.9
Which would be a recoverable stress of	14%	4%
Multiple of 1:200 stress	9	11

Source: AICL, AWP P&C and KPMG analysis

Even if all receivables and recoverables in AWP P&C default, this would not eliminate the AWP P&C eligible Own Funds. For AICL, 46% of receivables and recoverables would need to default to eliminate eligible Own Funds. From the Default risk perspective, AICL is in fact the riskier balance sheet. Default risk does not eliminate eligible Own Funds on AWP, but for completeness, I regard the prospect of default risk eliminating EOF on AICL as very remote for transferring AICL policyholders particularly over the period in which AICL claims are expected to be settled.

Finally, Table 6.5 (d) looks at what stress to operational risk would eliminate eligible Own Funds - this considers a mis-selling fine as a good example of an extreme operational risk which involves remediation costs and a fine effectively.

Table 6.5 (c): Stress 4: Operational Risk (€m)

	AWP P&C	AICL
Assume a mis-selling fine for a distribution channel which requires a return of 5% of GWP from 2022		
2022 GWP	1,946	160
5% GWP	97	8
1:200 op risk in SCR	77	1
Eligible Own funds	587	20
Multiple of 1:200 to wipe out EOF	8	22
Multiple of mis-selling fine to wipe out EOF	6	3

Source: AICL, AWP P&C and KPMG analysis

For such an operational risk event, it would require a fine of roughly six times the above fine, or 30% of gross written premium, to eliminate the eligible Own Funds in AWP P&C, but in fact three times to eliminate the eligible Own Funds in AICL. Both these events are however large multiples of the 1:200 risk. From an operational risk perspective, AICL is in fact the riskier balance sheet. However, I regard the prospect of operational risk eliminating eligible Own Funds as very remote for transferring AICL policyholders particularly over the period in which AICL claims are expected to be settled.

The current Solvency Ratio of AWP P&C is 113% as at year-end 2022. The stresses I have performed here are based on the projections in the AWP P&C ORSA which forecasts a solvency ratio of 121% as at year-end 2023. If the solvency ratio is less than this at the time of writing my Supplementary Report, then I will revisit these stresses in that report. However it is worth noting that the above forecast does include a projected dividend payment of €98m in 2023, which provides a further buffer of c20% of SCR against these stresses

Based on the above analyses, should the Scheme proceed, the transferring policyholders will be moving to a much larger, but slightly more risky balance sheet. Although I believe that the risk of default to policy holders is still very remote in AWP P&C.

I am satisfied with the capital coverage of AWP P&C post Scheme relative to AICL pre-Scheme, and that any difference will not have a materially adverse impact on the transferring AICL policyholders or the existing AWP P&C policyholders. This assumes AWP P&C's solvency coverage ratio remains in line with risk appetite ahead of the Effective Date. I am satisfied that while the transferring AICL policyholders are exposed to a higher risk in AWP P&C, I do not consider that this leads to material detriment to these policyholders, as the probability of valid claims not being paid for them remains remote after the transfer.

6.4 Financial Support Arrangements of AWP P&C and AICL

AWP P&C and AICL both confirmed to us that they do not have any parental guarantees in place (which is typical of insurance companies).

However, as noted previously, AICL currently has a 100% quota share reinsurance treaty to its parent company ALIC, effective from 1st Jan 2023. For the policyholders of AICL moving to AWP P&C under the Scheme, they will continue to enjoy the benefit of a 100% quota share reinsurance agreement between AWP P&C onto AWP H&L and from there onto ALIC from the Effective date.

ALIC (regulated by the Connecticut Insurance Department) has strong external credit ratings (Baa2 from Moody's; A- from S&P; A from AM Best), and is well capitalised, with overall available capital and surplus of €5.8bn as at 31st December 2022.

I am satisfied that the continuation of the 100% quota share reinsurance arrangement in place for the transferring policyholders provides them with reinsurance protection over and above the security provided by the AWP P&C SA Balance Sheet. However given the size of the AWP balance sheet, in an extreme scenario, this reinsurance on c€3m will not provide additional security for transferring policyholders.

6.5 The Risk Exposures in AWP P&C post-Scheme compared with that of AICL pre-Scheme.

In relation to the health products underwritten by AWP P&C they are very similar products to those sold by AICL. The AWP P&C portfolio is however larger, and even more diversified than the AICL portfolio. Therefore, I would expect there to be less volatility within AWP P&C as a result of the risk exposures, than there would be if the risk stayed with AICL.

I am satisfied that the difference in Risk Exposure between AWP P&C and AICL will not have a materially adverse impact on the transferring AICL business.

6.6 The policy servicing levels provided by AWP P&C post-Scheme compared with those currently provided by AICL pre-Scheme.

Under the Financial Services and Markets Act 2000 ("FSMA2), the concept of TCF (to be replaced shortly by Consumer Duty, effective 31 July 2023 for open books) must be applied. To help ensure that customers are treated fairly in the future it is necessary to understand how they have been treated in the past. From the policyholders' perspective, the acceptability of the Scheme must be on the basis that it will not have a materially adverse effect on their benefits or fair treatment.

6.6.1 Policy Administration

Whereas the ultimate Policy administration obligations will be the responsibility of AWP P&C as transferee, the day-to-day Policy administration and claims handling will be carried out by AWP H&L pursuant to outsourcing agreements in place between AWP P&C and AWP H&L.

AWP P&C has provided me with a set of claim handling Key Performance Indicators ("KPIs") (the administration and claims handling has been outsourced to AWP H&L) which demonstrate to me that the service levels at AWP P&C have not been materially adversely impacted by the large volume of AICL renewals offer terms in AWP P&C since July 2022. In fact the KPIs demonstrate that the claims servicing levels have improved in the 12 months to February 2023.

As referenced in Section 5, AWP P&C also provided me with an operations document outlining how claims will be administered arising from the IBT. I outlined the service standards in Chapter 5.

AWP P&C also provided me with a comparison of projected service levels before and after the Scheme as follows. In summary the service levels are the same or better after the Scheme as detailed below:

- 85% of claims will be adjudicated on within 15 days
- 80% of emails will be handled within 2 days
- 100% of complaints will be acknowledged within 5 days100% of complaints will be resolved within 8 weeks

The main points outlined in the operations document are as follows:

- AWP P&C (UK branch) will not load historic members on to administration platform.
- Members will be manually enrolled only at the point of claim.
- Members will be enrolled on to a simplified product (one per legal entity) and AWP P&C will:
    - Notify large loss claims above $80k (approx. €75k) to ALIC / CVS;
    - Claims payments will continue to be available in multiple currencies (sanctioned currencies remain out of scope);
    - Adherence to Privacy by Design principles.
- The document also addresses treating customers fairly as follows:
    - AWP P&C handles each claim with the sensitivity and professionalism their members deserve.
    - AWP P&C processes claims in a fair and consistent way based on the terms and conditions of each applicable plan.
    - AWP P&C monitors its claim settlement ratio in each region to ensure that AWP P&C is consistent with industry standards.
- AWP P&C's streamlined processes for manually reviewed suspended and declined claims provide peace of mind that AWP P&C will do its utmost to provide a consistent and fair decision to members.
- AWP P&C's documented processes are regularly reviewed to ensure compliance with its global policies, regional regulatory standards, and industry best practice.
- AWP P&C is committed to paying all claims promptly and within published or contractual service levels.

I am satisfied that the approach to policy administration will be at least as beneficial to the transferring policyholders as was the approach before the transfer.

6.7 Conclusion for the Policyholders of AICL transferring under the Scheme

I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the Transferring AICL Policyholders.

***I have also considered the* unlikely event that the proposed transfer of AICL SB policyholders does not proceed then the AICL SB policyholders will remain in AICL after the UK IBT. They will, however, benefit from all the capital remaining in AICL and the existing 100% quota share reinsurance from ALIC will continue in place until their liabilities are extinguished, which provides adequate capital resources for the residual amount of liabilities remaining within this portfolio. As such I am satisfied that the AICL SB policyholders will not be materially adversely affected by the UK transfer in the unlikely event that the Singapore transfer does not proceed.**

6.8 Impact of the Scheme on the existing Policyholders of AWP P&C

As outlined previously, the main issues affecting the existing policyholders of AWP P&C as a result of the Scheme are likely to arise from relative differences in:

- The financial strength of AWP P&C pre- and post-Scheme.
- The risk exposures of AWP P&C pre- and post-Scheme.
- The policy servicing levels pre- and post-Scheme.

6.8.1 Financial Strength of AWP P&C post Scheme

First, it is worth noting that the level of claims being transferred is approximately €3.0m, relative to premium income in AWP P&C of €1.2bn. In addition, as all the liabilities of the transferring policyholders are 100% reinsured to ALIC (via AWP H&L), the impact on the existing policyholders is limited to the possibility of default by AWP H&L or ALIC. This is because it is only in the event of default on this reinsurance agreement by AWP H&L or ALIC, that the existing policyholders of AWP P&C SA could be adversely impacted. I note that the exposure is de minimis given the level of transferred liabilities and how quickly the exposure runs off. I note that the counterparty exposure as measured under the Solvency II framework for SCR purposes for the exposure to the reinsurers is not material.

Therefore I have also considered the financial strength of AWP H&L. I have reviewed Solvency II regulatory returns at 31 December 2021 and 31 December 2022 and the ORSA for Allianz Partners which includes the financial projections on the central scenario and a range of stress tests. Per the Regulatory returns, AWP H&L had Own Funds of €414m, SCR of €304m and a Solvency ratio of 136% at 31 December 2021 (the date of the most recent publicly available information). The equivalent figures at 31 December 2022 were Own Funds of €357m, SCR of €314m and a Solvency ratio of 114%. I note that AWP H&L's solvency position has decreased in the last year, but is still within risk appetite level at year end 2022. Based on discussions with AWP H&L, they have a plan to improve the ratio over the first 6 months of 2023 to ensure it remains within risk appetite.

ALIC (regulated by the Connecticut Insurance Department) has external credit ratings (Baa2 Moody's April 2020; A- S&P December 2022; A AM Best March 2023), and is well capitalised, with overall available capital and surplus of €5.8bn as at 31st December 2022. I consider the financial strength to be reasonable in the context of the projected liabilities to be reinsured from outset of €3.0m.

Therefore, I consider it very remote that the Scheme would have any impact on the financial strength of AWP P&C.

6.8.2 The risk exposures of AWP P&C post Scheme

As the transferring business contains only actual or potential liabilities which are 100% reinsured back to ALIC, there is no net change in the risk exposures of AWP P&C.

6.8.3 The policy serving levels pre- and post-scheme

As referenced in Section 5.6, there is no large-scale IT migration project planned for this transfer. Rather claims will be manually entered onto the AWP P&C system as needed.

There will only be a small level of additional claims handling that the Scheme will generate relative to AWP P&C claims volumes.

Therefore, I conclude that the impact on service levels for existing policyholders of AWP P&C will be negligible.

6.9 Conclusion on the impact of the Scheme on the existing Policyholders of AWP P&C

I am satisfied that the proposed Scheme does not affect in a materially adverse way either the security or the policy servicing levels of the existing AWP P&C Policyholders.

7 Other considerations

7.1 Risk and Governance

In assessing the impact of the Scheme, I have considered the Risk and Governance of both AICL and AWP P&C. As would be expected of two large global insurance groups, Risk and Governance appears strong and robust in both organizations.

In my opinion therefore, I do not anticipate that the Scheme will create any material adverse impact with respect to Risk and Governance for the Transferring AICL Policyholders or the current AWP P&C Policyholders.

7.2 Assets of the Various Entities

In assessing the impact of the Scheme, I have considered the nature of the assets within each of AICL and AWP P&C before and after the Scheme occurs. The assets of each company available to meet policyholder obligations can be classified into three broad categories:

- Investments and Cash;
- Reinsurance assets; and
- Premium and Other Debtors.

I have not identified any matter arising from the balance sheet assets held by AICL or AWP P&C that would cause me to perform specific further analysis.

In my opinion, AICL and AWP P&C have sufficiently liquid assets to meet liabilities as they fall due, both before and after the Scheme. As a result, I do not anticipate that the Scheme will create any material adverse impact with respect to liquidity for the Transferring AICL Policyholders or the current AWP P&C Policyholders.

7.3 Operations Issues and Changes in Assets and Liabilities up to the Effective Date

The balance sheets I have reviewed for each of AICL and AWP P&C show amounts as at 31 December 2021 and 31 December 2022. I have chosen this date because it is the latest date for which audited financial information is available.

Further to considering the continuation of planned business, I have discussed with AICL and AWP P&C the possibility of management actions, other than the proposed Scheme that could affect the financial position of AICL and/or AWP P&C. I have been informed by both AICL and AWP P&C that they have no planned activities that would have a material effect on the security of the transferring business under the Scheme or the existing AWP P&C policyholders as at the Effective Date.

I do not consider that any material additional risk to any group of affected policyholders will emerge as a result of the continuation of planned business between 31 December 2022 and the Effective Date.

Before the final Court hearing, I will consider the extent to which actual changes in assets and liabilities have been in line with expectations and hence whether there have been any changes (including those associated with current economic conditions) that would affect my overall opinion, and, if necessary, I will report on these separately.

7.4 Likely Impact of Scheme on Reinsurers

The only outwards reinsurance that AICL currently has (since 1st January 2023) is the 100% Quota Share with ALIC. This will cease on the Effective Date, but the transferring policyholders will enjoy a

100% quota share reinsurance agreement between AWP P&C with ALIC from that date. Thus the existing reinsurer of the transferring business effectively remains in place post the Scheme. As the transferring liabilities will be 100% reinsured to AWP H&L and then onto ALIC, none of these liabilities will be passed to other reinsurers of AWP P&C.

I understand ALIC are fully aware that post the Scheme their counterparty exposure will be to a new entity, AWP H&L rather than AICL. I understand they have not raised any objections.

Consequently, the existing reinsurers of AWP P&C will not be impacted by the transferring liabilities.

7.5 Approach to Communications

Per SUP18.2.42 of the FCA handbook (and also referenced in paragraph 2.49 of the of the PRA's Statement of Policy (the Prudential Regulation Authority's approach to insurance business transfers), *"Under the Financial Services and Markets Act 2000 (Control of Business Transfers)(Requirements on Applicants) Regulations 2001 (SI 2001/3625), unless the court directs otherwise, notice of the application must be sent to all policyholders of the parties and reinsurers (or a person acting on its behalf) any of whose contracts of reinsurance are proposed to be transferred as part of the insurance business transfer scheme."*

I set out my understanding of the AICL's and AWP P&C's proposed approach to communicating the Scheme to affected policyholders below.

The transferring portfolio comprises the following business:

- all insurance policies underwritten by AICL (we are not considering the AICL SB business here), including any endorsements or amendments thereto, under which there is still potential liability for claims (the "Direct Business");
- all inwards reinsurance policies underwritten by AICL in respect of business written by certain fronting insurers (the "Fronted Business");
- the Direct Business and the Fronted Business constituting the "Transferring Policies"; and
- all corresponding insurance provisions and reserves relating to the Direct Business and the Fronted Business.

In addition to the policyholders of the Transferring Policies (the "Transferring Policyholders"), AICL and AWP P&C consider the following classes of person to be interested in the Scheme:

- current policyholders of AWP P&C;
- former policyholders of AICL whose policies will have recently expired by the date of the transfer;
- healthcare providers;
- administrative services providers;
- outwards reinsurers whose contracts of reinsurance (in whole or in part) are to be transferred by the Transfer or persons authorised to act on their behalf (the "Reinsurers");[9] and
- all known brokers with whom AICL (or its affiliates) has had correspondence in relation to the Live Transferring Policies.

With respect to the Direct Business, the Transferring Policies are 12 months in duration, with a six-month claims notification window from the time of treatment.

Pursuant to the Asset Purchase Agreement, AICL stopped underwriting new business as at close of business on 31 October 2022. The contractual window for notifying claims under these policies (assuming a treatment date of the last day of the policy term) will close on 29 April 2024.

[9] AICL noted one reinsurer targeted for commutation. Note this contract has now been commuted as of 22nd March 2023.

Since the onset of Covid, AICL''s normal method of communication with its policyholders has been by email, Therefore, AICL's preferred method of sending the Communication Pack (which is the information required to be shared with all stakeholders including policyholders with an interest in the Scheme) is by email.

In number terms, there are forecast to be 296 transferring policies. Of these 242 are individual policies. AICL has verified email address for 231 of these. It will work on gathering email addresses for the remaining 11 between now and the communication date. Of the remaining 54 policies, all of these are group policies. AICL has contact detail for every one of these group policies (typically a HR department), and in some cases also the individual primary members (employees, as defined below).

Then there are expired policies, which although outside the 6-month contractual period after expiry for making a claim, are within 18 months of that date. There are 1,165 of these. Of these, 663 are individual policies, 640 of which AICL has verified email address for. AICL will work on the remaining 23 between now and the communication date. Of the remaining 502 expired policies, these are all group policies, and like above, AICL has contact detail for every one of these group policies (typically a HR department), and in some cases also the individual primary members (employees).

Additionally AICL performed a test in January on 70% of their verified email address, to double-check these were still valid. This exercise suggested that these are valid for 98% of these verified addresses. AICL will also work to close this gap between now and the communication date.

However, AICL has informed us that there will be some gaps on details for primary members, e.g. employees no longer employed by the corporate policyholder.

Communications with policyholders are customarily conducted in electronic form.

Within the Direct Business, the Transferring Policies may be individual policies or group policies. For the purposes of this Communications Strategy, AICL has distinguished between:

- the **"Named Policyholder"**, being the person in whose name the individual or group policy is held, which may be a company or an individual;
- the **"Primary Member"**, being (i) in respect of a group policy, a primary member of such group policy, for example an employee of a Named Policyholder and (ii) in respect of an individual policy, the primary member of such individual policy, who is likely to be the same person as the Named Policyholder; and
- **"Dependant Members",** being any individuals entitled to claim under the individual or group policy other than the Named Policyholder and the Primary Member

The following paragraphs set out AICL's proposed approach with respect to communicating with policyholders and other interested parties.

AICL Policyholders (including Transferring Policyholders) and its interested parties

Transferring Policyholders – Live Transferring Policies

AICL will send a Communication Pack by email directly to:

- each **Named Policyholder** of a Live Transferring Policy where AICL holds an email address;
- each **Primary Member** of a Live Transferring Policy in respect of whom AICL holds an email address; and
- **Active Brokers** relating to Live Transferring Policies, where relevant
  - AICL will request that the Active Brokers send a Communication Pack to each of the Named Policyholders and Primary Members covered by the relevant Live Transferring Policy;
- In respect of individual policies, AICL will request that the Named Policyholder inform any of their **Dependant Members**;
- In respect of group policies, AICL will request that the Named Policyholders send a Communication Pack to each of the **Primary Members** covered by the relevant Live Transferring Policy for whom it holds contact details, and also request that those Primary Members pass on the Communications Pack to any of their **Dependant Members**.

Transferring Policyholders – Fronting Insurers

AICL will send a Communication Pack by email directly to each Fronting Insurer that has not been commuted at the point communications are sent.

Interested Parties – Recently Expired Policies

AICL will send a Communication Pack by email directly to each Named Policyholder and, where AICL holds their contact details, Primary Member of a Recently Expired Policy for whom it holds contact details.

Non-Transferring Policyholders

AICL SB policyholders are not part of this Scheme but they have an equivalent local process in Singapore. They will not be communicated with as part of this Scheme.

Healthcare Providers

Where AICL holds an email address AICL will send a Communication Pack by email directly to each of the Healthcare Providers.

Health Insurance Administrators

Where AICL holds an email address AICL will send a Communication Pack by email directly to each of the Health Insurance Administrators.

Reinsurers[10]

AICL will send a Communication Pack directly to all Reinsurers by email.

Other Interested Parties

AICL has not identified any other interested parties so they are no interested parties not being communicated based on the plan.

AWP P&C policyholders and its interested parties

Transferee Policyholders

- AWP P&C intends to seek a waiver from the requirement to directly notify its policyholders on the basis that there will be no change to their terms and conditions, or their solvency coverage and there is no material impact for them arising from the Scheme. I concur with this view.

Other Interested Parties

NA

Wider Publication

AICL intends to publish a notice in a form approved by the PRA and stating that an application for the transfer of the Transferring Policies from AICL to AWP P&C (UK Branch) has been made in:

- The Telegraph (UK edition);
- The Financial Times;
- the London, Edinburgh, and Belfast Gazettes;
- The Times (International Edition));
- The HR Director;
- The International Travel & Health Insurance Journal; and
- Health & Protection.

[10] Aetna noted one outwards reinsurer which is being targeted for commutation. This is expected to be resolved before the Directions Hearing. Suggest wording retained in square brackets until confirmation

Pages dedicated to the Transfer will also be hosted on the AI website at www.aetnainternational.com, a link to which will be included on the websites of both Parties. The website will contain all relevant documents, including those contained within the Communication Pack.

Communications Materials

As previously stated, a Communication Pack will be sent to (where contact details are available) Named Policyholders, Primary Members, Dependant Members etc. will also be sent to Active Brokers, Fronting Insurers, Reinsurers, Healthcare Providers and Health Insurance Administrators.

The Communication Pack is intended to contain sufficient information to enable the Notified Person to understand the implications of the Transfer and make an informed decision as to whether to object to the Transfer. The Communication Pack will also direct the recipient to where additional information can be found on the Transfer and how to make representations to the Court if the recipient objects to the Transfer. In preparing the Communication Pack, AICL and AWP P&C will comply with the principle of treating customers fairly, having due regard for information needs and managing conflicts of interest.

The Communication Pack will consist of at least the following items:

- a covering letter;
- a frequently asked questions and answers document in respect of the Transfer (the "FAQs");
- the Scheme Summary (in plain language);
- the Independent Expert Report Summary; and
- the Notice, which will also set out the date of the Sanction Hearing.

Return to Sender Process

As noted above, AICL's preferred method of sending the Communication Pack is by email. If an email address is not available, a letter will be sent if a postal address is available. AICL will have a return to sender process in place for use if emails have been unsuccessfully sent (i.e. where a delivery failure notification has been received) or where letters have been returned to sender.

Communication Pack

I have also reviewed the policyholder communication pack including the cover letter (with different covers to policyholders, brokers, fronter, healthcare partners etc), an information document containing a summary of the Scheme document setting out the terms of the proposed Transfer; a summary of the Independent Expert's 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. No material issues arose in my review of the final draft communication pack.

Based on the above, I believe the proposed approach to communication with policyholders and other interested parties as outlined above including the dispensations sought to be both proportionate and reasonable. I believe that the planned communication strategy will allow policyholders to form their own view on the proposed scheme. It is clear how additional information can be found. The proposals appear to consider all interested parties.

I consider the communication pack itself to cover the key matters I would expect to be communicated to policyholders and other interested parties; no material issues arose in my review of the draft communication pack.

My conclusions are based on my own professional judgement and also experience of other IBTs. In making this statement I reiterate that it is for the Court to approve the notification arrangements.

7.6 Compensation and Complaints

After the implementation of the Scheme, as with all other insurance companies with an establishment in the UK, AWP P&C will continue to be required to participate in the FSCS (the compensation fund of last resort for customers of UK authorised financial services firms.). Therefore, to the extent they currently meet the qualifying criteria (for the FSCS), the holders of the Transferring AICL Policies will continue to be protected by the FSCS if the Scheme is sanctioned.

Since both AWP P&C and AICL are subject to the compulsory jurisdiction of the FOS (set up by the UK Parliament, the aim of the Financial Ombudsman Service ("FOS") is to sort out complaints between financial businesses and their customers), the Scheme will have no effect on the eligibility of the holders of Transferring AICL policies to bring complaints under the FOS. If, as described in Section 2, they are currently able to bring complaints to the FOS, this will remain the case after the implementation of the Scheme. If they are currently not eligible to complain to the FOS this will also remain the case after the implementation of the Scheme.

Both AICL and AWP P&C SA have provided me with detail on how they currently handle complaints (this is discussed in 3.9 and 4.9). AICL also explicitly provided me with a joint document entitled "AI & Allianz Operations document summarising the position on Complaints" which outlines in detail the agreed approach to complaints (and legal actions) submitted by transferring policyholders before and after the Effective Date.

I consider that no material additional risk to the transferring policyholders will emerge as a result of complaints hadling of the transferring policyholders after the Effective Date.

7.7 Capital Policy after the Scheme

AICL and AWP P&C are currently required to comply with the capital requirements of Solvency II, a European regulatory framework.

The UK is moving away from Solvency II to their own generally similar version, Solvency UK. So, in the absence of the Scheme, AICL policyholders would transition to Solvency UK. Whereas if the Scheme goes ahead, they will remain under Solvency II as AWP P&C is ultimately subject to Solvency II given that the lead regulator is the French regulator, the ACPR.

Given the nature of the underlying risks, there is not expected to be a material difference between Solvency II and Solvency UK as I assess it that would impact on Own Funds, SCR or policyholder protection.

Therefore, I am satisfied that there will be no material change to policyholder protection based on the regulatory capital regime post the Scheme.

7.8 What would happen were Scheme not to proceed

If the Scheme were not to proceed, AICL will continue to operate, but it will take much longer to close, due to the nature of the claims process. With the Scheme, de-authorisation and entity closure of AICL are assumed to occur in 2024 in this scenario; if the Scheme does not progress, this could not in all likelihood happen until about 2028. Projections have been prepared by AICL to demonstrate that policyholder security is not materially impacted in this scenario.

7.9 Pension Scheme Obligations

This is not relevant as AICL has no employees.

7.10 Cost and Tax Effects of the Scheme

The Cost of the Scheme is to be borne by AICL.

I have been informed that the Scheme is not expected to have tax implications that would affect any of the Companies.

7.11 Other alternatives to the Scheme that were considered

In 2019 the potential divestiture of the shares of AI was pursued by CVS Health, however the transaction was ultimately unsuccessful and therefore disbanded in 2021.

In Q4 2021, the current project was established to explore potential options to fully exit the business. AI management identified exit options available in the relevant territories and conducted a feasibility analysis. The initial high-level feasibility was conducted in December 2021 and CVS Health decided to continue with the current project, and in particular to further explore the potential sale of AI's business to another IPMI provider and options to bring finality (in due course) to the existing AI set up (which is this Scheme).

7.12 Recent Events

Russia and Ukraine Conflict:

After discussions with AICL and AWP P&C, I do not believe the conflict will alter in a materially adverse way either the security of benefits or the service standards of the policyholders of either AICL or AWP P&C. More specifically, AWP P&C and AICL have documented the approach to claims handling etc for the transferring policyholders, and their approach to those impacted by the conflict in Russia and Ukraine is materially the same. In particular, for claimants, if the claimants are actively involved in the war, then claims resulting from this will not be covered in line with policy exclusions.

Covid 19 Pandemic:

As discussed in section 3 (Technical Provision) of the AICL "Report of the Actuarial function for 2022", Covid did not merit any explicit adjustment to claims in 2022, due to the relative stability of claims over this period. As the World Health Organisation has since declared an end to the Covid global health emergency, I do not consider Covid will materially impact the Scheme.

UK Withdrawal from European Union:

All policies, regardless of whether the policyholders are based in the UK or overseas, are underwritten under English Law. They are transferring from a UK authorised entity to another UK authorised entity (with the AWP P&C (UK branch) having been authorised since 12 May 2023). The majority of the transferring policyholders (c.70%) are based in the UK, though a minority of policyholders are based overseas. However, all policies, regardless of whether the policyholders are based in the UK or overseas, are underwritten under English Law, and therefore ought to be capable of being transferred by the Scheme as a matter of English Law. Therefore, I do not consider the withdrawal of the UK from the European Union will impact the Scheme.

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Appendix 1 Information received

The table below sets out a summary of the information provided to me to facilitate preparation of this Report.

Information	
Company	**Document**
AICL / AHICE / AICL SB	Nov 2022 Scheme of operations document in relation to the UK, Singapore and Irish Scheme
	Oct 2022 Regulatory Briefing pack for the PRA and the CBI
	Email confirming consideration paid for Scheme
	Article of Association for AICL and constitution for AHICE
	Compliance view on TCF, Compensation schemes, Regulatory Oversight across all legal entities
	2022 risk appetite statements for AICL, AHICE and AICL SB
	2021 & 2022 Risk Register for AICL (incl. SB) and AHICE
	2021 & 2022 Risk Management Policy for AICL (incl. SB) and AHICE
	2021 & 2022 ORSA Documents for AICL, AICL SB and AHICE
	2021 & 2022 Actuarial Function Report (AFR) including appendices containing IFRS Actuarial review and external PWC review (2021 only) for AICL and AHICE
	2021 AICL SB Actuarial Report
	Email confirming status of litigation issues
	2021 Financial statements AICL (and 2022 for AICL), AICL SB and AHICE
	2021 YE SII Returns AICL (and 2022 for AICL) and AHICE and Singapore Equivalent
	2021 & 2022 SFCR for AICL and AHICE
	Reserve Projection Calculations all Companies
	Selection of Product Literature for AICL, AICL SB and AHICE
	Log of Regulator correspondence for AICL, ACIL SB and AHICE
	Spreadsheet of Regulatory Obligations
	Framework Agreement finalised March 2022
	Communication Plan AICL
	Asset Purchase Agreement
	Board Discussion papers on closure options
	Final Scheme Documents
	AICL and AWP Claims operations document
	AI Complaints and Appeals Policy procedure
	FCA Complaints Return for June and Dec 2021 and 2022
	Emails re regulatory issues, movement in balance sheets pre and post scheme, compensation schemes
	Draft 2022 SFCR AICL
	Draft 202 Financial Statements AICL

Information	
Company	**Document**
AWP P&C	2021 H&L RSR
	2021 and 2022 H&L SFCR
	2021 and 2022 H&L ORSA Extract
	2021 H&L Auditors Report
	2021 and 2020 H&L Actuarial Reserve Report and Actuarial Function Report
	2020 & 2021 AGSE Annual Reports
	2021 AGSE SFCR
	2021 and 2022 AWP P&C Actuarial Reserve Reports
	2022 AGSE ORSA (approved 31st May 2022)
	2021 and 2022 AzP ORSA (incl ORSA for AWP P&C and AWP H&L)
	2021 P&C RSR
	2021 and 2022 H&L and P&C SFCRs
	2021 and 2022 P&C Actuarial function Report
	2021 and 2022 AzP Actuarial Reserve Report
	2021 AzP Actuarial Reserve Report UK Branch
	Monthly complaints June and Dec 2022
	2022 AzP Risk Appetite
	2022 Top Risk Assessment and Risk Register and TRA for UK
	Article of association P&C and H&L
	Email confirming AWP can handle all claims under Scheme
	Claims Op Report confirming improvement in claims service since take-on of APA
	Email outlining interactions with PRA
	Email re Allianz Global Benefits now part of AzP
	Proposed RI arrangement bet AWP H&L and ALIC
	Framework agreement
	Email to PRA re Scheme
	Standard for Sales Document
	Email confirming litigation cases over €2m in AWP P&C and AWP H&L
	Correspondence with ACPR re year end solvency ratio for AWP H&L
	Email re exchanges with PRA on Solvency Ratio for AWP P&C UK Branch
	Reinsurance Agreement between AWP H&L and ALIC
	AWP P&C UK Branch spreadsheet containing details of Assets, TPs and Premiums for 2021 and 2022

Appendix 2 Scope from Engagement Letter

The role of Independent Expert will be to consider and to report to the Court on the proposed transfer of business, primarily from the perspectives of the transferring policyholders of AICL (there are no remaining policyholders) and the existing policyholders of AWP, and to opine as to whether the interests of any of those groups of policyholders could be in any way (either directly or indirectly) materially adversely affected by the proposed transfer.

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

- Understand the business: We form an understanding of the current business and the proposed scheme through meetings with key stakeholders and review of financial statements and key scheme documents. We provide template questionnaires to you that ensure all relevant features of the business are captured for further consideration. This analysis forms the basis from which the impact of the proposed Transfer can be performed. In addition, it provides much of the factual material which will later be included in the Reports.
- Financial statement analysis: We apply straightforward financial analysis to gain a high-level understanding of the relative impact of the scheme and identify areas we would like to investigate further. We have found this to be a very efficient approach to identifying areas where further explanation may be required within the Reports. To the extent we identify more detailed analysis is necessary, we may request further information or analysis from the business, legal advisers or your actuarial and finance functions.
- Analysis of risk based capital: We compare the projected risk based capital position in the event the Transfer proceeds with the existing position from the perspective of each affected policyholder group and seek to understand the factors considered and any potential gaps in the analysis. The key inputs to this analysis are the relevant capital models and actuarial analysis material you have prepared. Where necessary, and subject to further discussion with you, we can perform additional analysis required to support the opinion.
- Scenario analysis: Based on the understanding we have gained from the prior three steps, we select specific scenarios for further analysis. This may require the assistance of the actuarial function and may include performing capital calculations. The objectives of this step are to validate the information we are using, to investigate any areas we have identified as of particular interest, and to create a set of 'plain English' reference points which can be cited in the Report and hence provide a more compelling evidence base
- Policyholder considerations: We will explore the potential effects on policyholders of changes that will be implemented due to the Transfer, for example, to governance arrangements, to changes in levels of implicit or explicit group support, and to the impact of the proposed Transfer on levels of policyholder service. We will also assess in detail the proposed policyholder communications to ensure they are fit for purpose.

Other tasks will include:

- review of the internal actuarial and risk assessments of the proposed transfer;
- review of existing company documentation (in particular, documentation sent to policyholders to ground existing expectations);
- review of the Scheme documentation and, if necessary, suggest amended drafting in order to eliminate any concerns;
- review the application of discretion including claims settlement, dispute resolution;
- liaise and raise issues and questions as necessary with the appropriate persons at the Company; and
- liaise and raise issues and questions as necessary with your advisers, including legal and tax advisers.

Appendix 3 Independent Expert CV

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

Appendix 4 Solvency II

The European Solvency II Directive is a fundamental review of the capital adequacy and solvency supervision regime for the European insurance industry. As Solvency II is an EU initiative it applies in UK (and across Europe) in a harmonised way. Solvency II was implemented on 1 January 2016. As noted in Section 7, the UK are transitioning to their own version of Solvency II, Solvency UK. There is no difference in the overall framework but the differences related to the detailed calculations of risk margin and components of the SCR.

For the purposes of this Report, the respective Head of Actuarial Function of AICL and AWP P&C have prepared the Solvency II figures.

The Solvency II framework is made up of three Pillars.

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

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

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

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

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

The MCR represents the absolute minimum level of capital that must be held, determined using a linear function which considers, amongst other factors, the SCR, capital at risk, the technical provisions, written premiums and administrative expenses. For insurance companies, the MCR has an absolute floor of €3.7m.

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

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

Specifically, in relation to Solvency UK, work is underway to finalise the changes to the Regime. There are expected to be two consultation in 2023 in June and September. However companies are being advised to start peparations as soon as possible, to be ready for the likely implementation date of 31st December 2024. Some details of the areas that might change can be found at UK Solvency II reform - operational impact - KPMG Global

In summary the areas that may change include

- The approach to credit scoring to include "notches" as well as credit rating
- Changes to the Risk Margin calculations
- Possible reduction in reporting requirements
- Simpler process for authorizing internal models

Appendix 5 Glossary

Glossary of company names and other relevant bodies	
Term	**Definition**
ACPR	Authorité de Contrôle Prudential et de Resolution, the French Regulator
AGBUK	Aetna Global Benefits UK, UK company in the CVS Group which is an insurance administrator company
AHICE	Aetna Health International Company of Europe DAC, the Irish Aetna company
AI	Aetna International LLC
AICL	Aetna Insurance company Limited, the UK AETNA company
AICL SB	The Singapore Branch of AICL
AIHK	Aetna International Honk Kong
AL&C	AETNA Life and Casualty Bermuda
ALIC	Aetna Life Insurance Company, incorporated in Connecticut
Allianz Partners	Also known as AzP, registered in France, controls AWP P&C and AWP H&L
Allianz SE	The Allianz Group, the ultimate parent
AWP H&L	AWP Health and Life, a French insurer with a branch in Ireland
AWP P&C SA	AWP Property and Casualty, and French insurance company with a branch in the UK
AZP	Abbreviation for Allianz Partners
Bafin	Bundesanstalt für Finanzdienstleistungsaufsicht, the German regulator
CVS Health	The ultimate parent of the CVS group
CVS Pharmacy	The Subsidiary of ACH health, which bought AI
FCA	Financial Conduct Authority, the JUK regulator for conduct of business
FOS	Financial Ombudsman Scheme (UK)
FSCS	Financial Services Compensation Scheme (UK)
ICOBS FCA	Insurance Conduct of Business Source Book from the FCA
MAS	Money Authority of Singapore, the Singapore Regulator
PRA	Prudential Regulatory Authority, the UK prudential Regulator
SAI	Society of Actuaries in Ireland

Glossary of other terms used in the report	
Term	**Definition**
AA	Appointed Actuary
ABI	Association of British Insurers
AFR	Actuarial Function Report, the actuarial report required under Solvency II
APA	Asset Purchase Agreement, the agreement between AWP H&L and AI which gave exclusive rights to the Allianz Group through its varies entities to offer renewal terms to the relevant AI policies
ASP	Actuarial Standard of Practice of the SAI
B2B2C	Business to Business to Customer
BEL	Best Estimate Liability
Brexit	Term used to refer to the departure of the United Kingdom from the European Union
CBI	Central Bank of Ireland
CCO	Chief Compliance Officer
CEO	Chief Executive Officer

CFO	Chief Financial Officer
CIO	Chief Information Officer
Consumer Duty	The FCA charter that sets the standards of consumer protection across financial services and requires firms to put their customers' needs first.
COO	Chief Operating Officer
CRO	Chief Risk Officer
ECM	Economic Capital Model
EIOPA	European Insurance and Occupational Pensions Authority
ERM	Enterprise Risk Management
EU	European Union
FA	Framework Agreement, to transfer the relevant legacy liabilities from the various AI entities to the varies Allianz entities
FSMA	Financial Services and Markets Act 2000, UK
FSO	Financial Services Ombudsman
FTE	Full Time Equivalents
HoAF	Head of Actuarial Function
IBT	Insurance business transfer
IFRS	International Financial Reporting Standards
IPMI	International private medical insurance
MCR	Minimal Capital Requirement
ORSA	Own Risk and Solvency Assessment
Own Funds	Excess of Assets over Liabilities, both valued on a SII basis
Part VII	The section of the FSMA that deals with insurance business transfers
PCF	Pre-Approval Controlled Function
PRE	Policyholders' Reasonable Expectations
PRSA	Personal Retirement Savings Account
QRT	Quantitative Reporting Template
Quota Share	A reinsurance arrangement that typically transfers a set percentage of claims (and premiums) to a reinsurer.
RAS	Risk Appetite statement
RM	Risk Management
RSR	Regular Supervisory Report
S.I.	Statutory Instrument
SAI	Society of Actuaries in Ireland
Scheme	The legal document that will be presented to the High Court, which details the insurance business transfer.
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SME	Small and Medium Enterprise
Solvency II	Risk based EU wide insurance directive which codifies and harmonises the EU insurance regulation. Discussed further in Appendix 5.
SOO	Scheme of Operations, the document for the regulator that describes how the AICL run-off will be managed, resourced, reserved and capitalised to ensure that AICL conducts the run-off in a robustly controlled manner, efficiently, and with sufficient regulatory capital and liquidity to continue to meet its obligations to policyholders as they fall due for the duration of the run-off period.
TCF	Treating Customers Fairly
TPR	Temporary Permissions Regime
TRA	Top Risk Assessment
TRP	Total Risk Profiling
UK	the United Kingdom
YE	Year Ending

Appendix 6 Compliance with PRA Policy Statement

The table below indicates how I have complied with the provisions of the PRA Policy Statement ("*The Prudential Regulation Authority's approach to insurance business transfers*", dated January 2022, updating April 2015) that pertain to the form of the Report.

PRA Policy statement Reference	Requirement	Scheme Report Paragraph Reference
2.30 (1)	Who appointed the independent expert and who is bearing the costs of that appointment;	1.2
2.30 (2)	confirmation that the independent expert has been approved or nominated by the PRA;	1.2
2.30 (3)	a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.2, Appendix 3
2.30 (4)	whether the independent expert, or their employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence their independence, and details of any such interest;	1.2
2.30 (5)	the scope of the report;	1.3
2.30 (6)	the purpose of the Scheme;	1.1
2.30 (7)	a summary of the terms of the Scheme in so far as they are relevant to the report;	1.1.3, 2.1, Chapter 5
2.30 (8)	what documents, reports and other material information the independent expert has considered in preparing the report, whether they have identified any material issues with the information provided and whether any information that they requested has not been provided;	Appendix 1
2.30 (8A)	any firm-specific information the independent expert considers should be included, where the applicant(s) consider it inappropriate to disclose such information, then the independent expert should explain this and the reasons why disclosure has not been possible;	NA
2.30 (9)	the extent to which the independent expert has relied on: (a) information provided by others; and (b) the judgement of others;	1.4
2.30 (10)	the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	6.2, 6.3 in particular and Chapter 6 more generally
2.30 (11)	their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between: (a) transferring policyholders; (b) policyholders of the transferor whose contracts will not be transferred; (c) policyholders of the transferee; and (d) any other relevant policyholder groupings within the above that the independent expert has identified.	Chapter 6
2.30 (12)	their opinion on the likely effects of the Scheme on any reinsurer of a transferor,	Chapter 7

	whose contracts of reinsurance are to be transferred by the Scheme;	
2.30 (12A)	their definition of ‘material adverse’ effect;	6.1
2.30 (13)	what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders’ consideration of the Scheme;	NA
2.30 (14)	for each opinion and conclusion that the independent expert expresses in the report, an outline of their reasons; and	Chapter 6
2.30 (15)	an outline of permutations if a Scheme has concurrent or linked Schemes, and analysis of the likely effects of the permutations on policyholders.	5.4
2.32 (1)	The summary of the terms of the Scheme should include a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme;	Chapter 5
2.32 (2)	The summary of the terms of the Scheme should include a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	5.4
2.33 (1)	The independent expert’s opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include a comparison of the likely effects if it is or is not implemented;	 7.6
2.33 (2)	The independent expert’s opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should state whether the firm(s) considered alternative arrangements and, if so, what were the arrangements and why were they not proceeded with;	 7.9
2.33 (2A)	The independent expert’s opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should analyse and conclude on how groups of policyholders are affected differently by the Scheme, and whether such effects are material in the independent expert’s opinion. Where the independent expert considers such effects to be material, they should explain how this affects their overall opinion;	 Chapter 6
2.33 (3A)	The independent expert’s opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert’s views on: the likely effect of the Scheme at firm and policyholder level on the ongoing security	 5.4 terms and conditions

	of policyholders' contractual rights, including an assessment of the stress and scenario testing carried out by the firm(s) and of the potentially available management actions that have been considered by the board of the firm(s) and the likelihood and potential effects of the insolvency of the transferor(s) and transferee(s). The independent expert should also consider whether it is necessary to conduct their own stress and scenario testing or to request the firm(s) to conduct further stress and scenario testing;	6.3 NA
2.33 (3AA)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: transferor's and transferee's respective abilities to measure, monitor, and manage risk and to conduct their business prudently. This includes their ability to take corrective action in the even there is a material deterioration of their balance sheets;	Covered in Chapters 3 and 4 in details
2.33 (3AAA)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: the likely effects of the Scheme, in relation to the likelihood of future claims being paid, with consideration of not only the regulatory capital regime, but also any other risks not falling within the regime. This would include those likely to emerge after the first year or that are not fully captured by the regulatory capital requirements;	6.3/6.4/6.5
2.33 (3AAAA)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: whether the transferee'(s') existing (or proposed, where applicable) capital model would remain appropriate following the Scheme;	6.3
2.33 (3B)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: the likely effects of the Scheme on matters such as investment management, capital management, new business strategy,	All covered in Chapter 6

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	claims reserving, administration, claims handling, expense levels and valuation bases for both transferor(s) and transferee(s) in relation to: (i) the security of policyholders' contractual rights, (ii) levels of service provided to policyholders, (iii) for long-term insurance business, the reasonable expectations of policyholders;	Clearly long-term NA
2.33 (3C)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: the likely cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations; and	7.8
2.33 (3D)	The independent expert's opinion of the likely effects of the Scheme should be assessed at both firm and policyholder level and should include the independent expert's views on: the likely effects at firm and policyholder level due to any change in risk profiles and/or exposures resulting from the Scheme or related transactions.	6.6 6.9.2
2.34	The independent expert is not expected to comment on the likely effects on new policyholders, that is those whose contracts are entered into after the effective date of the transfer.	OK
2.35	For Mutual companies	OK
2.36	Long Term business	OK
2.37	If part of a wider chain of events	OK
2.38	If benefits are being reduced	NA
2.39/40	Relates to supplementary report	OK