Summary of the Report of the Independent Expert on the proposed Scheme to transfer a block of life insurance business from Aviva Life & Pensions UK Ltd to Friends First Life Assurance Company DAC.

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Contents

1 Introduction

Background to and purpose of the proposed Scheme

1.1 Aviva Life & Pensions UK Ltd is a private limited insurance company registered in the UK. Previously known as Norwich Union Life and Pensions Ltd, it changed its name to Aviva Life & Pensions UK Ltd ("UKLAP") on 1 June 2009 and is a wholly owned indirect subsidiary of Aviva plc.

1.2 UKLAP has written life insurance and pensions business in various European Economic Area ("EEA") territories including France, Belgium, Germany, Ireland, Iceland and Sweden on both a Freedom of Services[1] basis and a Freedom of Establishment[2] basis under EU regulations (Freedom of Services and Freedom of Establishment are together commonly referred to as "EU passporting rights").

1.3 Friends First Life Assurance Company Designated Activity Company ("FFLAC") is a private limited company incorporated and domiciled in Ireland and is a wholly owned subsidiary of UKLAP.

1.4 FFLAC will be renamed Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC") at the same time that the Scheme (see paragraph 1.6 below) takes effect. Within this document, I will refer to FFLAC as ALPI DAC.

1.5 On 23 June 2016, the UK voted to leave the EU. On 29 March 2017, the UK officially notified the European Commission of its intention to withdraw from the EU ("Brexit"). The UK's withdrawal from the EU is expected to take effect on 29 March 2019. It is anticipated that, as a result of Brexit, UK insurers, including UKLAP, will be unable to continue servicing policies sold under EU passporting rights.

[1] The right to provide business services on a cross-border basis within the EEA. For insurance contracts, this means that the contract can be underwritten in an EEA member state that is different from the member state where the risk is located.

[2] The right of an insurer located in one EEA member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state.

1.6 In anticipation of Brexit, UKLAP proposes to transfer its business written under EU passporting rights ("Transferring Policies") to ALPI DAC. The transfer of business will be carried out using a legal process known as a Part VII Transfer. An insurance transfer scheme, as defined by Part VII of the Financial Services and Markets Act 2000, enables all or part of an insurance business to be transferred to another body. The document that sets out the terms of the transfer is known as "the Scheme". The Scheme will allow the continued legal servicing of the Transferring Policies regardless of the outcome of the Brexit negotiations.

1.7 At the time of writing, the terms of Brexit are still being negotiated. Regardless of the outcome of these negotiations, UKLAP and ALPI DAC intend for the Scheme to proceed.

1.8 If approved by the Court, the Scheme is planned to take effect at 22.59 GMT on 29 March 2019 (the "Effective Time"). For administration and accounting reasons, calculations will be performed as at 31 March 2019, as this coincides with Aviva Group's standard quarterly reporting cycle. This approach is reasonable given the calculation date is only two days after the Effective Time and the markets will largely be closed during this period due to 30 March 2019 being a Saturday and 31 March 2019 being a Sunday.

Purpose of this document

1.9 It is a requirement that when a scheme of transfer of insurance business from one company to another is submitted to the High Court of Justice of England and Wales ("Court") for approval, it must be accompanied by a report from a person who is experienced in insurance matters and is independent of the companies involved (the "Independent Expert").

1.10 I, Tim Roff, have been appointed as the Independent Expert to provide the required report on the proposed Scheme.

1.11 As the Independent Expert, I have considered the effect the proposed transfer (see paragraph 1.15 below) is expected to have on different groups of policyholders in UKLAP and ALPI DAC, and in particular whether or not there are likely to be any material adverse effects for the policyholders who will transfer from UKLAP to ALPI DAC under the Scheme ("Transferring Policyholders"). I have written a report ("Report") setting out my views on the Scheme. The purpose of the Report is to assist the Court in deciding whether to allow the Scheme to go ahead.

1.12 This document (the "Summary Report") sets out a summary of the Scheme together with a summary of my assessment of how the proposed transfer affects various groups of policyholders. My full assessment of the Scheme is set out in the Report. A copy of the Report and a copy of the Scheme are available on the transfer website (https://transfer.aviva.com/life/documents).

1.13 This Summary Report is being sent to all Transferring Policyholders and all policyholders in ALPI DAC before the Effective Time ("Existing Policyholders").

The Independent Expert

1.14 I am a Fellow of the Institute and Faculty of Actuaries and I have over 30 years' experience in the life insurance industry. I am a Partner in the accounting and consultancy firm Grant Thornton UK LLP. I am independent of the companies involved in the Scheme and the Prudential Regulation Authority ("PRA") following consultation with the Financial Conduct Authority ("FCA") has approved my appointment. The PRA and the FCA are responsible for the regulation of UK insurance companies.

Assessment Methodology

1.15 I have considered the impacts of the proposed transfer on a number of different groups of policyholders:

- Transferring Policyholders – the policyholders who, under the Scheme, will transfer from UKLAP to ALPI DAC;
- Remaining Policyholders – policyholders in UKLAP that will not transfer to ALPI DAC; and
- Existing Policyholders – the policyholders of ALPI DAC, prior to the Effective Time.

1.16 I have further divided the Transferring Policyholders into three sub-groups, as the proposed transfer will affect each of these sub-groups differently. The three sub-groups are:

- With-profits Irish Business – all with-profits business transferred into UKLAP under a previous scheme known as the Irish Scheme and all with-profits business written out of the branch of UKLAP in Ireland (the "Irish Branch") excluding CGNU Life business written in Ireland);
- Non-profit Irish Business – all non-profit business[3] previously transferred under the Irish Scheme and all non-profit business written out of the Irish Branch (excluding CGNU Life business written in Ireland); and
- OLAB – all business written in France, Belgium, Germany, Iceland, Sweden and the CGNU Life business written in Ireland under Freedom of Services or Freedom of Establishment rules.

[3] In this Summary Report, all references to non-profit business should be taken to include unit-linked business. Where there are comments that relate to unit-linked business only, I have made this clear in the Report.

1.17 In order to form my opinions, I have taken into account a number of different areas. These include:

- security of benefits;
- the ability for firms to exercise discretion when determining policy benefits;
- the impact on policyholders' benefit expectations;
- the level of customer service experienced by policyholders;
- the impact of regulations; and
- the impact of taxes and expenses.

1.18 I have considered how each of these areas apply for each policyholder group.

Business to be transferred

1.19 As a result of the Scheme, all Transferring Policyholders will transfer from UKLAP to ALPI DAC.

1.20 The table below shows the policy count and Best Estimate Liabilities ("BEL") for the Transferring Policies at 31 December 2017. The BEL is a measure used by insurance firms to place a value on their policyholder liabilities.

Transferring Policies		Policy Count	BEL (£m)
With-profits Irish Business	With-profits	8,644	731
Non-profit Irish Business	Non-profit	247,773	5,139
OLAB	Non-profit and with-profits	205,861	1,154
Total		462,278	7,024

Overview of the Scheme

1.21 Under the Scheme, the majority of policies that UKLAP has written under EU passporting rights will be transferred to ALPI DAC. All policyholders whose policies were sold on a Freedom of Establishment basis will be transferred. In order to define policies sold on a Freedom of Services basis, UKLAP has used a product-based approach. This means that only policyholders who purchased products that were marketed and sold to individuals in EEA states are treated as being sold on a Freedom of Services basis. Therefore, policies of policyholders who were resident in an EEA state (other than the UK) but purchased a product marketed for the UK market, or policyholders who bought a UK product and subsequently relocated to an EEA state, will not be included in the population of Transferring Policies.

1.22 UKLAP and ALPI DAC each contain a number of different funds. The movement of policies as a result of the Scheme can be summarised as follows:

- the with-profits Irish Business will be transferred from the UKLAP Irish WPSF to a new fund, the ALPI Irish WPF in ALPI DAC, and will be managed in Ireland. This will ensure that these policies can continue to be serviced after Brexit. The Scheme includes provisions to ensure the proposed transfer does not result in any material adverse impact on policyholder benefits of the with-profits Irish Business;

- the non-profit Irish Business will be transferred from UKLAP NPSF to the ALPI DAC Other Business Fund and will be managed in Ireland. This will ensure that these policies can continue to be serviced after Brexit. The Scheme includes provisions to ensure the proposed transfer does not result in any material adverse impact on policyholder benefits of the non-profit Irish Business; and

- OLAB policies will be transferred from UKLAP to ALPI DAC. New funds will be set up in ALPI DAC for the Transferring Policies. These funds will correspond to the with-profits funds in UKLAP from which the OLAB policies are transferred. The OLAB funds that currently reside in the UKLAP NPSF will be transferred to the ALPI DAC Other Business Fund, which is an existing fund.

1.23 Following the proposed transfer, UKLAP will no longer sell policies to residents in any EEA state, other than the UK, and UKLAP's Irish, French and Belgian branches will be closed. UKLAP will cease selling new business in Ireland just prior to the Effective Time.

1.24 ALPI DAC will continue to sell business in Ireland and continue to accept increments on the Transferring Policies in the same way that UKLAP does currently. Increments currently cannot be made on the Belgian business, and this will not be altered by the Scheme. ALPI DAC will set up two branches in France and Belgium, which will not sell new business, but will be set up to mirror the branch structure of UKLAP prior to the proposed transfer.

1.25 As a result of the Scheme, the Transferring Policies will transfer from UKLAP to ALPI DAC. However, there are some issues within the detail of the Scheme (described below) and, in order to mitigate these issues, a new reinsurance agreement and a new floating charge arrangement are being put in place alongside the Scheme. I refer to the Scheme together with the floating charge arrangement and new reinsurance agreement as the "Transfer".

Structure of the Transfer

1.26 At the Effective Time, the following process will occur:

- under the terms of the Scheme the Transferring Policies will transfer from UKLAP to ALPI DAC;
- OLAB policies will be reinsured from ALPI DAC to UKLAP under a new reinsurance agreement ("Brexit Reinsurance"); and
- UKLAP and ALPI DAC will enter into a floating charge arrangement ("the Charge") in respect of the OLAB policies that will be reinsured back to UKLAP.

Reasons why the Brexit Reinsurance is necessary

1.27 As well as a transfer of policies and associated liabilities, a Part VII Transfer usually includes a transfer of assets. These assets reflect an agreed part of the fund to which the corresponding liabilities are associated. For non-profit and unit-linked businesses, it is a relatively straightforward process for the transferee and the transferor to agree which assets to transfer.

1.28 For with-profits business, unless the whole fund is being transferred, this process is not straightforward. The process would need to take account of the Transferring Policyholders' interest in the Estate (that part of the with-profits fund that is not allocated to policyholder liabilities) and the value of any support arrangements, as well as the policy liabilities. Furthermore, the process would need to ensure that the split of the assets was fair to both the Remaining Policyholders and the Transferring Policyholders. The process to determine how to split the assets of a with-profits fund is complex and often involves Court approval. This process may take upwards of 18 months to complete and could not be completed before Brexit.

1.29 At the Effective Time, the Brexit Reinsurance will be put in place to reinsure the OLAB policies from ALPI DAC to UKLAP. The aim of the Brexit Reinsurance is to mitigate the need to divide the with-profits funds that contain OLAB policies and allow OLAB policyholders to continue to share in the Estate of the with-profits fund they are currently allocated to. The Brexit Reinsurance also mitigates the need to set up new OLAB unit-linked funds in ALPI DAC and ensures that the unit-linked OLAB policyholders will continue to have access to the same range of unit-linked funds before and after the Transfer. It also ensures that the OLAB policies continue to be subject to the same support arrangements. The non-profit OLAB policies will also be reinsured back to UKLAP; this is to reduce any operational complications as some individual policyholders hold both unit-linked and non-profit policies.

1.30 I consider the Brexit Reinsurance in more detail in the Report. Overall, I am satisfied that the Brexit Reinsurance provides a reasonable approach in the context of the Transfer. This is because:

- the with-profits funds and unit-linked funds can be managed in the same way before and after the Transfer;
- the alternative of splitting the with-profits funds may result in adverse outcomes for OLAB policyholders (due to the new fund they transfer into being considerably smaller than the with-profits funds they are in now) compared to the outcome if the Brexit Reinsurance is put in place; and
- there is not enough time within the Brexit timeline to complete the process required to split the with-profits funds.

Issues associated with Brexit Reinsurance

1.31 As a result of the Brexit Reinsurance, ALPI DAC is exposed to the financial position of UKLAP. Additionally, without further change, ALPI DAC would not be treated in the same way as UKLAP's direct policyholders in the unlikely event of UKLAP becoming insolvent. This is because ALPI DAC would be an unsecured creditor of UKLAP and it would rank behind the direct policyholders of UKLAP, which is a worse position for Transferring Policyholders who rank equally with other direct policyholders of UKLAP before the Transfer. To mitigate this, the Charge will be established.

The Charge

1.32 The means by which ALPI DAC obtains the same ranking as the direct policyholders of UKLAP on UKLAP's insolvency is through the Charge, which is a floating charge over all the assets of UKLAP. The Charge excludes any assets subject to fixed security, or over which UKLAP is prohibited, either absolutely or conditionally, from creating security, including where prior consent would be required.

1.33 I consider the Charge in more detail in the Report. Overall, I am satisfied that the Charge provides a reasonable approach in the context of this Transfer as the provisions within the Charge align the recovery of ALPI DAC with that of the direct UKLAP policyholders.

Termination of the Brexit Reinsurance

1.34 Subject to certain conditions, the Brexit Reinsurance may be terminated at a future date. Neither the Scheme nor the Brexit Reinsurance require either ALPI DAC or UKLAP to notify policyholders regarding the termination of the Brexit Reinsurance. However, if this were to happen, the Scheme and the Brexit Reinsurance set out the methodology to split the with-profits funds and contain provisions to ensure the process that must be followed is fair to all policyholders.

1.35 I consider the termination of the Brexit Reinsurance in the Report. Overall, I am satisfied that the Scheme and the Brexit Reinsurance provide appropriate protection to policyholders in the event that the Brexit Reinsurance is terminated.

1.36 The following table summarises the issues and the mitigants described above.

Issue	Mitigant
Ensure that UKLAP policies sold on a Freedom of Services or Freedom of Establishment basis can continue to be serviced post Brexit	The Scheme
With-profits OLAB loses access to the Estate of the with-profits fund in UKLAP that it transfers out of as a consequence of the Scheme (in isolation) Unit-linked OLAB loses access to the unit funds to which they had access as a consequence of the Scheme (in isolation)	Brexit Reinsurance
ALPI DAC is exposed to the financial position of UKLAP	The Charge
ALPI DAC policyholders and the UKLAP policyholders are not treated equally in the unlikely event of UKLAP insolvency	The Charge
Termination of the Brexit Reinsurance	The Brexit Reinsurance termination terms and specific clauses within the Scheme

2 Summary of my conclusions in the Report

2.1 I set out below a summary of my conclusions in respect of the Transfer, further detail on these can be found in the Report.

2.2 In summary, it is my opinion that the implementation of the proposed Scheme, Brexit Reinsurance and the Charge at the Effective Time will not have a material adverse effect on the security of benefits or the future benefit expectations of any of the Transferring Policyholders, the Remaining Policyholders of UKLAP or the Existing Policyholders of ALPI DAC.

2.3 It is also my opinion that the Transfer will have no material impact on the governance or service standards experienced by any of the Transferring Policyholders, the Remaining Policyholders of UKLAP or the Existing Policyholders of ALPI DAC.

2.4 The Financial Services Compensation Scheme ("FSCS") is a statutory "fund of last resort" in the UK for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) when an insurer is unable to meet fully its liabilities. It protects policyholders for the duration of their policy if a financial services company was to become insolvent. As a result of the Transfer, some of the Transferring Policyholders will no longer be covered by the FSCS. The loss of FSCS protection for these Transferring Policyholders is a result of them being transferred from the UK to another insurance entity in another EU country. However, following Brexit, it may become illegal for UKLAP to continue to administer the Transferring Policies. In my view, the impact of the loss of FSCS protection is significantly less material than the need for certainty that the Aviva Group will be able to legally service the Transferring Policies post-Brexit. Additionally, the FSCS provides protection in an insolvency event, and in my opinion, given that UKLAP and ALPI DAC are well capitalised, the risk of insolvency for these entities is remote, and so the likelihood of any policyholders needing to call upon FSCS is equally remote.

2.5 I have also taken into account the loss of access to the Financial Ombudsman Service ("FOS") for some Transferring Policyholders. FOS is an independent body set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves.

2.6 The majority of Transferring Policies will continue to have access to the same ombudsman service after the Transfer as they did before the Transfer. Transferring Policies written on a Freedom of Services basis (Icelandic, Swedish and German business) will lose access to the FOS in the UK in respect of matters arising after the Effective Time of the Scheme, but will instead have access to the Financial Services and Pensions Ombudsman ("FSPO") in Ireland. Overall, the services provided by the FSPO are in line with those provided by the FOS although there are some differences in relation to the time limits for raising complaints and compensation limits.

2.7 Overall, in my opinion, the changes in access to ombudsman services as a result of the Scheme are not expected to have a material adverse impact on Transferring Policyholders.

2.8 The Brexit Reinsurance and the Charge form an important part of this Transfer as they are being put in place to ensure that the Scheme does not result in any material adverse impact on policyholders. I have considered the Brexit Reinsurance and the Charge and it is my opinion that the Brexit Reinsurance allows the with-profits policies continued participation in the funds in which they currently reside and the unit-linked policies to have continued access to the unit-linked funds they are currently able to access. The Charge aligns ALPI DAC's interest with those of the direct policyholders of UKLAP in relation to the distribution of the assets of UKLAP in the event that UKLAP becomes insolvent. Furthermore, in my opinion, the probability of either UKLAP or ALPI DAC becoming insolvent is remote.

2.9 In the event that the Brexit Reinsurance is terminated in the future, I am satisfied that the Scheme provides adequate protection to policyholders to ensure that they will be treated fairly.

2.10 Overall, I am satisfied that the Transfer is equitable to all classes and generations of policyholders of UKLAP and ALPI DAC.

3 The impact of the Transfer on Transferring Policyholders

Security of policyholder benefits

3.1 One of the key parts of my assessment of the impact of the Transfer on policyholders is to consider the security of policyholder benefits. My analysis of the impact of the Transfer on policyholder security considers the level of capital available to UKLAP and ALPI DAC, their ability to satisfy their solvency requirements, their management policies and their internal assessment of their current and projected capital position. Key to these considerations is an understanding of the risk profiles of UKLAP and ALPI DAC, both before and after the Transfer, as any significant change in the risk profiles of the companies as a result of the Transfer could potentially impact policyholders' security.

3.2 Security of benefits is the ability of an insurer to meet claims as they become due. A commonly used measure of security in the insurance industry is the Solvency Capital Requirement Ratio ("SCR Ratio"). This expresses available capital as a percentage of required capital. As this measure is widely used, I have used this in my analysis. Most insurers will have a target SCR Ratio that they wish to maintain. Insurers normally monitor how close the actual level is to the target. They will generally have contingency plans in place so that, if the actual SCR Ratio falls below the target SCR Ratio, they can restore it to target over a period of time.

3.3 Using information provided to me by UKLAP and ALPI DAC, I have reviewed the level of assets and liabilities of both UKLAP and ALPI DAC at 31 December 2017 as well as the expected position had the Scheme been in place at that time. This is the most recent date at which this information was available. The only material event that has occurred since this date is the acquisition of ALPI DAC, which is considered in more detail in the Report. There have been no other material events that would alter my conclusions.

3.4 Under the Scheme, UKLAP is required to make a capital injection to ALPI DAC to ensure ALPI DAC is capitalised to an SCR Ratio of 150% as at the Effective Time. The SCR Ratios before and after the Transfer had the Scheme been put in place as at 31 December 2017 are similar and are set out below;

	UKLAP Before Transfer	ALPI DAC After Transfer
SCR Ratio	152%	150%

3.5 I have reviewed the capital projections of both UKLAP and ALPI DAC. In particular, I have reviewed the stress and scenario tests that UKLAP and ALPI DAC have performed. Overall, I am satisfied that the range and depth of the analysis carried out by UKLAP is appropriate and is consistent with what I have generally seen in other firms that I consider to be in UKLAP's peer group. Based on my review, I am satisfied that both UKLAP and ALPI DAC are sufficiently capitalised to withstand extreme scenarios.

3.6 A firm's solvency position can change over time. This can be due to changes in market conditions that may affect the value of assets and liabilities or it could be due to other factors such as changes in the insurance risks taken by the firm. Firms generally seek to control this by having agreed management policies aimed at safeguarding the solvency cover. This includes having a risk framework and an agreed risk appetite that the firm will operate within. I have been provided with internal management information regarding the governance arrangements, risk appetite, risk limits and capital policy (referred to by UKLAP as its Risk Management Framework). Both UKLAP and ALPI DAC have policies in place to manage capital, which the Aviva Group refer to as its Solvency Risk Appetite ("SRA"). The SRAs of UKLAP and ALPI DAC are in line with those of the Aviva Group. Overall, I am satisfied that these controls represent sensible and comparable approaches to safeguard solvency cover.

3.7 Both entities are capitalised to a level in line with, or above, the SRA and will continue to be capitalised at this level immediately after the Transfer. Overall, I am satisfied that the Transfer is unlikely to have any material adverse impact on the security of benefits of the Transferring Policyholders.

3.8 I have considered the risk profiles of both UKLAP and ALPI DAC before and after the Transfer by reference to risk components of the undiversified Solvency Capital Requirement ("SCR") (the sum of the individual risk components without allowance for any diversification benefit between risks). The top three risks in UKLAP before the Transfer and ALPI DAC after the Transfer are shown in the table below:

UKLAP before the Transfer	ALPI DAC after the Transfer
Longevity	Lapse
Credit	Longevity
Lapse	Morbidity

3.9 I discuss the risk profiles of UKLAP and ALPI DAC in the Report. Overall, I note that the risk profiles of UKLAP and ALPI DAC differ slightly. However, I am satisfied that these differences are not inappropriate or excessive and are unlikely to adversely affect the security of the Transferring Policyholders. Furthermore, the risks that Transferring Policyholders are exposed to within ALPI DAC are typical risks related to the transaction of insurance business. Therefore, ALPI DAC is able to manage these risks in its normal course of business. I am also satisfied that the Charge provides significant protection against the counterparty default risk associated with the Brexit Reinsurance.

Impact of costs of the Scheme on all Transferring Policyholders

3.10 UKLAP and ALPI DAC will meet the one-off costs and expenses of the Scheme. These costs will be borne by the shareholders of the respective entities.

3.11 Any additional on-going expenses resulting from the Scheme will also be met by the shareholders of UKLAP or ALPI DAC. It is possible for this policy to be changed in the future, however, the relevant governance procedures would apply, and this includes consultation with the With-Profit Committee ("WPC") of UKLAP[4] in respect of with-profits policies. Following the Transfer, the Head of Actuarial Function ("HoAF") of ALPI DAC is required to report any issues raised by the WPC to the ALPI DAC Board: the HoAF's report must also be shared with the Central Bank of Ireland (the "CBI"), the Irish regulator. As such, if the WPC were to disagree with any future proposed changes to the allocation of on-going expenses related to the Scheme, there is an appropriate process in place for the WPC to escalate their concerns.

[4] The WPC is responsible for the oversight of the management of with-profits business in UKLAP.

3.12 In my opinion, the Scheme does not result in a material increase to the costs borne by the Transferring Policyholders. Additionally, I am satisfied that, if consideration were given to passing additional costs on to the policyholders, there are suitable governance procedures in place to provide adequate protection to the policyholders.

Communications with Transferring Policyholders

3.13 Transferring Policyholders will be sent a communication pack including a covering letter, a booklet containing a set of questions and answers explaining the Scheme, a summary of the Scheme document and the legal notice. This Summary Report will also be sent to Transferring Policyholders. The letter will inform them of the Scheme and of their right to object. The terms of the Scheme, the Report and this Summary Report will also be available on request and on the transfer website (https://transfer.aviva.com/life/documents).

3.14 I have reviewed the UKLAP communications strategy and the information that will be provided to policyholders to inform them of the Scheme. The communication pack has been tailored to different groups of policyholders and will be translated into the language which is usually used for communications with them. I have reviewed the process UKLAP has utilised to translate the policyholder communications and I am satisfied that it ensures the documents are fit for purpose and not misleading.

3.15 I am satisfied that the UKLAP communication strategy is appropriate and I have reviewed the English versions of the communications that will be sent to policyholders. I am satisfied that the communications are appropriate, clearly worded and not misleading. In addition, the communications include the key information that I would expect to see based on my experience of other schemes.

3.16 Below I now consider the impact of the Transfer on different sub-groups of Transferring Policyholders. I consider the impact of the Transfer on the Remaining Policyholders of UKLAP and the Existing Policyholders of ALPI DAC in later sections.

With-profits Irish Business

Policyholders' benefit expectations and contractual rights

3.17 There will be no material changes to any of the terms and conditions of the with-profits Irish Business under the Scheme, except that the insurer will be ALPI DAC rather than UKLAP.

3.18 In particular, there will be no material change to the way in which discretion is applied, and any changes to the discretion policy will have to follow a similar governance process both before and after the Transfer.

3.19 There is no change to the investment strategy of the with-profits Irish Business as a result of the Transfer.

3.20 Overall, I am satisfied that there are no material changes to the benefit expectations or contractual rights of the with-profits Irish Business.

Security of policyholder benefits

3.21 Based on the information contained in the paragraphs above I have concluded that:

- the Scheme does not result in the Transferring Policyholders being moved to an insurer which is materially weaker, as measured by the SCR Ratio, than UKLAP;
- both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios;
- the SRA of ALPI DAC provides a similar level of ongoing protection to the Transferring Policyholders compared to the SRA of UKLAP;
- both UKLAP and ALPI DAC have materially similar SRAs as they both adhere to the Aviva Group risk management framework policy to protect solvency and, in addition, regulators within the UK and Ireland have similar objectives in terms of protecting solvency; and
- the differences in the risk profiles of UKLAP and ALPI DAC are unlikely to have any material impact on Transferring Policyholders.

3.22 Overall, I am satisfied that there that is no material adverse impact on the security of benefits for with-profits Irish Business.

FSCS

3.23 It has historically been understood, by UKLAP, that the with-profits Irish Business that transferred to UKLAP under the Irish Scheme is not covered by the FSCS. This will continue to be the case after the Transfer.

3.24 The with-profits Irish Business sold through the Irish Branch of UKLAP since the Irish Scheme was put in place is currently covered by the FSCS, which is a "fund of last resort" in the UK for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) when an insurer is unable to meet fully its liabilities. It protects policyholders for the duration of their policy if a financial services company was to become insolvent. If UKLAP was to become insolvent, and was unable to pay claims in full to its policyholders, the FSCS would provide compensation for financial loss to protect 100% of the long-term insurance benefit. The FSCS provides protection to policyholders of UK based insurers or EEA branches of UK based insurance companies. After the Scheme is implemented, the policyholders of the with-profits Irish Business sold through the Irish Branch of UKLAP, since the Irish Scheme, will hold policies with an Irish based insurance company, and so will lose entitlement to the FSCS protection. There is no equivalent to the FSCS covering life insurance business in Ireland.

3.25 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. In my view, having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important and, therefore, the loss of FSCS protection is an unavoidable consequence of the Scheme. The FSCS provides protection following an insolvency event. Given that both UKLAP and ALPI DAC are well-capitalised entities that comply with Solvency II[5] regulations, the likelihood of insolvency of these entities is, in my opinion, a remote event. Therefore, the likelihood of this protection being called upon is remote. I am satisfied that the loss of FSCS protection does not materially adversely affect the with-profits Irish Business.

Ombudsman

3.26 Prior to the Transfer, the with-profits Irish Business was covered by the FSPO in Ireland in respect of resolving complaints raised by policyholders against UKLAP. This is because this business is contained in the Irish Branch of UKLAP. After the Transfer, the with-profits Irish Business will continue to be covered by the FSPO.

Reinsurance

3.27 The Brexit Reinsurance does not materially adversely affect the with-profits Irish Business.

Governance

3.28 Both UKLAP and ALPI DAC have governance structures that are in line with the wider Aviva Group governance framework.

[5] A new regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.

3.29 The governance of the with-profits Irish Business transferred to ALPI DAC will largely mirror the governance in place before the Transfer, with the ALPI DAC Board becoming ultimately responsible for the governance of these policies. The current Principles and Practices of Financial Management ("PPFM") will be materially unchanged and the WPC will continue to have oversight of the with-profits Irish Business. Additionally, UKLAP has analysed Section 20 of the Conduct of Business Sourcebook ("COBS") and has incorporated the current regulations into the PPFM where necessary.

3.30 Overall, I am satisfied that the governance of the with-profits Irish Business is not adversely affected by the Transfer.

Tax

3.31 I consider the tax implications of the Transfer on each of the different policyholder groups in the Report.

3.32 Overall, in my opinion, the tax implications of the Transfer do not materially adversely affect the with-profits Irish Business.

Service standards

3.33 The service standards of the with-profits Irish Business will not be altered by the Transfer.

Non-Profit Irish Business

Policyholder benefit expectations and contractual rights

3.34 There will be no material change to any of the terms and conditions of the non-profit Irish Business under the Scheme, except that the insurer will be ALPI DAC rather than UKLAP.

3.35 In particular, there will be no material change to the way in which discretion is applied, and any changes to the discretion policy will have to follow a similar governance process both before and after the Transfer.

3.36 Overall, I am satisfied that there is no material change to the benefit expectations or contractual rights of the non-profit Irish Business.

Security of policyholder benefits

3.37 Based on the information contained in paragraphs above I have concluded that:

- the Scheme does not result in the Transferring Policyholders being moved to an insurer which is materially weaker, as measured by the SCR Ratio, than UKLAP;

- both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios;

- the SRA of ALPI DAC provides a similar level of ongoing protection to the Transferring Policyholders compared to the SRA of UKLAP;

- both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency and, in addition, regulators in the UK and Ireland have similar objectives in terms of protecting solvency; and

- the differences in the risk profiles of UKLAP and ALPI DAC are unlikely to have any material impact on Transferring Policyholders.

3.38 Overall, I am satisfied that there is no material adverse impact on the security of benefits for the non-profit Irish Business.

FSCS

3.39 It has historically been understood, by UKLAP, that the non-profit Irish Business that transferred to UKLAP under the Irish Scheme is not covered by the FSCS. This will continue to be the case after the Transfer.

3.40 The non-profit Irish Business sold through the Irish Branch of UKLAP since the Irish Scheme became effective is currently covered by the FSCS, which is a "fund of last resort" in the UK for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) when an insurer is unable to meet fully its liabilities. It protects policyholders for the duration of their policy if a financial services company was to become insolvent. If UKLAP was to become insolvent, and was unable to pay claims in full to its policyholders, the FSCS would provide compensation for financial loss to protect 100% of the long-term insurance benefit. The FSCS provides protection to policyholders of UK based insurers or EEA branches of UK based insurance companies. After the Scheme is implemented, the policyholders of the non-profit Irish Business sold through the Irish Branch of UKLAP, since the Irish Scheme, will hold policies with an Irish based insurance company, and so will lose entitlement to the FSCS protection. There is no equivalent to the FSCS covering life insurance business in Ireland.

3.41 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. In my view, having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important and, therefore, the loss of FSCS protection is an unavoidable consequence of the Scheme. The FSCS provides protection following the occurrence of an insolvency event. Given that both UKLAP and ALPI DAC are well-capitalised entities, and comply with Solvency II regulations, the likelihood of insolvency of these entities is, in my opinion, a remote event. Therefore, the likelihood of this protection being called upon is remote. I am satisfied that the loss of FSCS protection does not materially adversely affect the non-profit Irish Business.

Ombudsman

3.42 Prior to the Transfer, the non-profit Irish Business was covered by the FSPO in Ireland in respect of resolving complaints raised by policyholders against UKLAP. This is because this business is contained in the Irish Branch of UKLAP. After the Transfer, the with-profits Irish Business will continue to be covered by the FSPO.

Reinsurance

3.43 The Brexit Reinsurance does not materially adversely affect the non-profit Irish Business.

Governance

3.44 Both UKLAP and ALPI DAC have governance structures that are in line with the wider Aviva Group governance framework.

3.45 The governance of the non-profit Irish Business transferred to ALPI DAC will largely mirror the governance in place before the Transfer, with the ALPI DAC Board becoming ultimately responsible for the governance of these policies.

3.46 Overall, I am satisfied that the governance of the non-profit Irish business will not be adversely affected by the Transfer.

Tax

3.47 In my opinion, the tax implications of the Transfer do not materially adversely affect the non-profit Irish Business.

Service standards

3.48 The service standards of the non-profit Irish Business will not be altered by the Transfer.

OLAB

Policyholder benefit expectations and contractual rights

3.49 There will be no material changes to any of the terms and conditions of the OLAB policies under the Scheme, except that the insurer will be ALPI DAC rather than UKLAP.

3.50 In particular, there will be no material change to the way in which discretion is applied. Any changes to the discretion policy will have to follow a similar governance process both before and after the Transfer.

3.51 Overall, I am satisfied that there are no material changes to the benefit expectations or contractual rights of the OLAB policyholders.

Security of policyholder benefits

3.52 Based on the information contained in paragraphs above I have concluded that:

- the Scheme does not result in the Transferring Policyholders being moved to an insurer which is materially weaker, as measured by the SCR Ratio, than UKLAP;
- both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios;
- the SRA of ALPI DAC provides a similar level of ongoing protection to the Transferring Policyholders to that provided by the SRA of UKLAP;
- both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency, and in addition the regulators within the UK and Ireland have similar objectives in terms of protecting solvency; and
- the differences in the risk profiles of UKLAP and ALPI DAC are unlikely to have any material impact on Transferring Policyholders.

3.53 Overall, I am satisfied that there is no material adverse impact on the security of benefits for OLAB policyholders.

FSCS

3.54 OLAB is currently covered by the FSCS, which is a "fund of last resort" in the UK for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) when an insurer is unable to meet fully its liabilities. It protects policyholders for the duration of their policy if a financial services company was to become insolvent. The FSCS provides protection to policyholders of UK based insurers or EEA branches of UK based insurance companies. After the Scheme is implemented, the policyholders of OLAB will hold policies with an Irish based insurance company, and so will lose entitlement to the FSCS protection. There is no equivalent to the FSCS covering life insurance business in Ireland.

3.55 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. In my view, having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important and, therefore, the loss of FSCS protection is an unavoidable consequence of the Scheme. The FSCS provides protection following the occurrence of an insolvency event. Given that both UKLAP and ALPI DAC are well-capitalised entities that comply with Solvency II regulations, the likelihood of insolvency of these entities is, in my opinion, a remote event and therefore the likelihood of this protection being called upon is remote. I am satisfied that the loss of FSCS protection does not materially adversely affect OLAB policyholders.

Ombudsman

3.56 Prior to the Transfer, for OLAB policies sold on a Freedom of Establishment basis, any complaints that could not be resolved between UKLAP and the policyholder are dealt with by the ombudsman service based in the country in which the policy was sold.

3.57 For OLAB policies sold on a Freedom of Services basis in Iceland and Sweden, policyholders are covered by the FOS in the UK. For German OLAB, which was also sold on a Freedom of Services basis, complaints are largely dealt with by the ombudsman service in Germany, although these policyholders also have the right to access the FOS in the UK.

3.58 The only change to the above position as a result of the Scheme is that Icelandic and Swedish business will be covered by the FSPO in Ireland rather than the FOS in the UK for new claims that arise after the Transfer. Following the Transfer, German business will continue to have access to the German ombudsman service, but will also have access to the FSPO rather than the FOS for new claims that arise after the Transfer. There are three situations where FOS will continue to have jurisdiction after the Transfer:

i where claims are in progress at the time of the Transfer, these will continue to be investigated by the FOS;

ii sales complaints will continue to be investigated by the ombudsman in the territory from which the distributor/intermediary sold the product; and

iii the FOS will still investigate complaints relating to the conduct of UKLAP prior to the date of the Transfer.

3.59 There are ongoing discussions with the FCA as to whether OLAB policyholders will be able to raise complaints relating to the conduct of UKLAP's oversight activities after the Effective Time of the Scheme and I will provide any relevant updates on this in my Supplementary Report[6].

3.60 I discuss the key differences between the FSPO and the FOS in more detail in the Report. In summary the differences relate to:

- time limits for raising a complaint; and
- compensation limits.

3.61 Overall, in my opinion, the changes in access to ombudsman services as a result of the Scheme are not expected to have a material adverse impact on OLAB.

[6] If necessary, and in order to reflect any updated financial information or circumstances nearer the date of the Sanction Hearing, I will provide a Supplementary Report in respect of the Scheme.

Reinsurance

3.62 The Brexit Reinsurance enables the with-profits OLAB policyholders to continue to participate in the funds in which they originally invested and the unit-linked OLAB policyholders to continue to invest in the same funds they had access to prior to the Transfer. Having reviewed the Brexit Reinsurance, I am satisfied that it will work in such a manner as to ensure that OLAB policies are able to continue to participate in the with-profits funds in which they currently reside, and that unit-linked OLAB policyholders will still have access to the funds which they had access to prior to the Transfer.

3.63 If the reinsurance introduced by the Scheme were to be terminated by either UKLAP or ALPI DAC, there is a robust governance framework detailed in the Scheme and Brexit Reinsurance that must be followed in order to put the termination of the Brexit Reinsurance into effect. Given the governance documented in the Brexit Reinsurance regarding the termination of the agreement, I am satisfied that there is enough protection to ensure that the terms of any termination are fair to all policyholder groups.

3.64 UKLAP and ALPI DAC have agreed to enter into a floating charge agreement associated with the Brexit Reinsurance. The purpose of the Charge is to align ALPI DAC with UKLAP's direct policyholders' interest in relation to a distribution of the assets of UKLAP in the event that UKLAP becomes insolvent. This broadly replicates the current position of policyholders in the event of a UKLAP insolvency. On this particular point I have sought the advice of independent legal counsel and I am satisfied that upon the insolvency of UKLAP, the Charge would work in the intended manner.

3.65 In addition, UKLAP has a robust risk management framework, an appropriate SRA and is capitalised above its target SRA Ratio. Overall, it is my opinion that the risk of UKLAP's insolvency is remote.

3.66 In summary, I am satisfied that the Brexit Reinsurance is a useful tool to allow with-profits OLAB policyholders to continue to participate in the with-profits funds in which they originally resided, and for the unit-linked OLAB policyholders to continue to have access to the same unit funds. Additionally, in my opinion, the Charge associated with the Brexit Reinsurance works in such a way that the treatment of ALPI DAC will be aligned with the treatment of UKLAP direct policyholders in the event of UKLAP insolvency.

Governance

3.67 Both UKLAP and ALPI DAC have governance structures that are in line with the wider Aviva Group governance framework.

3.68 As the OLAB policyholders will be direct policyholders of ALPI DAC after the Transfer, the Board of ALPI DAC will have ultimate responsibility for the governance of these policies. The HoAF of ALPI DAC will provide additional oversight and a newly formed Unit Pricing Group within ALPI DAC (the "ALPI DAC UPG") will provide further oversight on the unit pricing for unit-linked OLAB policies. In addition, as all OLAB policies will be 100% reinsured back to UKLAP, these policies will still benefit from the same governance that applied before the Transfer.

3.69 Overall, I am satisfied that the governance of the OLAB policies will not be adversely affected by the Transfer.

Tax

3.70 In my opinion, the tax implications of the Transfer do not materially adversely affect the OLAB policies.

Service standards

3.71 The administration of OLAB will not be altered as a result of the Transfer.

4 The impact of the Transfer on the Remaining Policyholders of UKLAP

4.1 The Transferring Policyholders represent a small percentage of UKLAP's total insurance liabilities (approximately 3%).

4.2 Under the terms of the Scheme, there will be no change to any of the terms and conditions of the policies remaining within UKLAP and there will be no change in the way policy benefits are determined.

4.3 There is also no significant impact on the SCR Ratio of UKLAP for the Remaining Policyholders of UKLAP. The SCR Ratios of UKLAP before and after the Transfer as at 31 December 2017 are shown in the table below.

	UKLAP Before Transfer	UKLAP After Transfer
SCR Ratio	152%	153%

4.4 Both before and after the Transfer, UKLAP is capitalised above its target SCR Ratio. There will be no change in the SRA affecting the Remaining Policyholders of UKLAP and no change to any of the governance arrangements as a result of the Transfer.

4.5 The Brexit Reinsurance ensures that, in normal circumstances, the management of the with-profits funds of UKLAP will remain unchanged.

4.6 If the Brexit Reinsurance were to be terminated, this would require the affected funds of UKLAP (those in which OLAB policies currently reside) to be divided between the Remaining Policyholders of UKLAP and the Transferring Policyholders. In this event, the robust governance framework established in the Scheme and in the Brexit Reinsurance should ensure a fair division among all policyholder groups.

4.7 In addition to the Brexit Reinsurance, UKLAP and ALPI DAC will also enter into the Charge at the Effective Time. This has been structured in such a manner that, in the unlikely event that UKLAP becomes insolvent, the interests of ALPI DAC in relation to the distribution of the assets of UKLAP would be aligned to the position the Transferring Policyholders had before the Transfer to ALPI DAC. This means that, in the event that UKLAP becomes insolvent, the position of the Remaining Policyholders would remain unchanged from the position prior to the Transfer.

4.8 There will be no change to the administration, expense policy or tax applied to the Remaining Policyholders of UKLAP.

4.9 Overall, I am satisfied there will be no material impact on any of the Remaining Policyholders of UKLAP as a result of the Transfer.

Communications with the Remaining Policyholders of UKLAP

4.10 UKLAP has sought dispensation from the Court with regard to the requirement to notify all policyholders of UKLAP regarding the Scheme. As such, the Remaining Policyholders of UKLAP will not be notified of the Scheme. I concluded that there is no material impact on the Remaining Policyholders of UKLAP and therefore I consider that there are no material issues that need to be brought directly to the attention of these policyholders.

5 The impact of the Transfer on the Existing Policyholders of ALPI DAC

5.1 The table below shows the number of policyholders and BEL as at 31 December 2017, split between Existing Policyholders of ALPI DAC and Transferring Policyholders following the Transfer:

ALPI DAC	Number of Policyholders	BEL (€m)
Transferring Policyholders	462,278	7,024
Existing Policyholders	159,622	4,514
Total	**621,900**	**11,538**

5.2 Under the terms of the Scheme, there will be no change to any of the terms and conditions of the policies of Existing Policyholders within ALPI DAC and there will be no changes to the way policy benefits are determined.

5.3 The SRA of ALPI DAC will be unchanged as a result of the Transfer. Following the Transfer, any material changes to the SRA will have to follow a robust governance framework. Therefore, I am satisfied that the introduction of additional governance to the SRA strengthens the current policy.

5.4 The SCR Ratios of ALPI DAC before and after the Transfer as at 31 December 2017 are shown in the table below. After the Transfer, the SCR Ratio remains in line with the target set within the SRA policy.

	ALPI DAC Before Transfer	ALPI DAC After Transfer
SCR Ratio	158%	150%

5.5 As a result of the Transfer, the risk profile of ALPI DAC is altered. However, the majority of risks remain at the same relative level, and there are relative reductions in the exposure to morbidity and catastrophe risk. Overall, I am satisfied that the change in risk profile will not result in any material adverse impact on the Existing Policyholders of ALPI DAC.

5.6 I have also considered the forward-looking solvency of ALPI DAC and the various scenarios and sensitivity tests that have been performed by ALPI DAC. I am satisfied that these tests cover an appropriate range of events and reflect the risks in ALPI DAC. The results of these tests indicate that even under stressed conditions ALPI DAC is able to put in place adequate management actions to ensure that the SCR Ratio returns to the target SCR Ratio, as set out in the ALPI DAC SRA, in a timely manner.

5.7 The Brexit Reinsurance increases the counterparty default risk within the SCR for ALPI DAC as a result of ALPI DAC's exposure to the financial position of UKLAP. However, UKLAP has a robust risk management framework with an appropriate SRA and is capitalised above its target level. Additionally, on an economic basis, the Charge associated with the Brexit Reinsurance largely mitigates the counterparty default exposure. Within the Report I consider ALPI DAC's SCR Ratio under various stresses layered upon the market volatility scenario and I conclude that ALPI DAC has sufficient management actions available to ensure that it can withstand counterparty default stresses in addition to an adverse scenario, limiting the impact of exposure to counterparty default risk on Existing Policyholders of ALPI DAC.

5.8 There will be no changes to the administration, expense policy or tax applied to the Existing Policyholders of ALPI DAC.

5.9 Overall, I am satisfied there will be no material impact on any of the Existing Policyholders of ALPI DAC as a result of the Transfer.

Communications with the Existing Policyholders of ALPI DAC

5.10 The Existing Policyholders of ALPI DAC will be sent a pack, containing a covering letter, a booklet containing a set of questions and answers explaining the Scheme, a summary of the Scheme document and the legal notice. A copy of this Summary Report will also be sent to Existing Policyholders. The letter will inform them of the Scheme and of their right to object. It will also provide notification of the acquisition of ALPI DAC by UKLAP. I am satisfied that the communications are appropriate, clearly worded and not misleading. In addition, the communications include the key information that I would expect to see based on my experience of other schemes.

6 Other matters

Rights of policyholders who object to the Scheme

6.1 Any policyholder who feels they may be adversely affected by the Scheme may put their objections to UKLAP, ALPI DAC and/or the Court. I will consider any such objections when concluding on the appropriateness of the Scheme when I issue my Supplementary Report later in the process.

The impact of the Transfer on the reinsurers of the Transferring Policies

6.2 The current reinsurance arrangements covering the Irish Business and OLAB policies will continue as they do now, covering the same risks, save that the reinsurance treaties covering the Irish Business will transfer to ALPI DAC as a result of the Transfer. Therefore, I am satisfied that there is no material adverse impact on the reinsurers of the Transferring Policies.

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