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.

Prepared by Tim Roff FIA

5 October 2018

Contents

Appendices

1 Introduction

Why is a transfer of business necessary?

1.1 Aviva Life & Pensions UK Ltd ("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 European Union ("EU") regulations (Freedom of Services and Freedom of Establishment are together commonly referred to as "EU passporting rights").

1.2 On 23 June 2016, the United Kingdom (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.

1.3 In anticipation of Brexit, UKLAP proposes to transfer its business written under EU passporting rights ("Transferring Policies") to Friends First Life Assurance Company Designated Activity Company ("FFLAC"), a life assurance company within the Aviva Group, authorised and regulated in the Republic of Ireland by the Central Bank of Ireland ("CBI") (this is referred to throughout as the "Scheme"). 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 ("FSMA"), enables all or part of an insurance business to be transferred to another body. The Scheme will allow the continued legal servicing of the Transferring Policies regardless of the outcome of the Brexit negotiations.

1.4 On 14 November 2017, Aviva Group Holdings Limited ("AGH") announced it had agreed on the terms for the purchase of FFLAC. On 23 May 2018, the regulatory approval for Change of Control was granted. Following the approval, ownership of FFLAC was transferred from AGH to UKLAP on 31 May 2018. Therefore, FFLAC is now a wholly owned subsidiary of UKLAP.

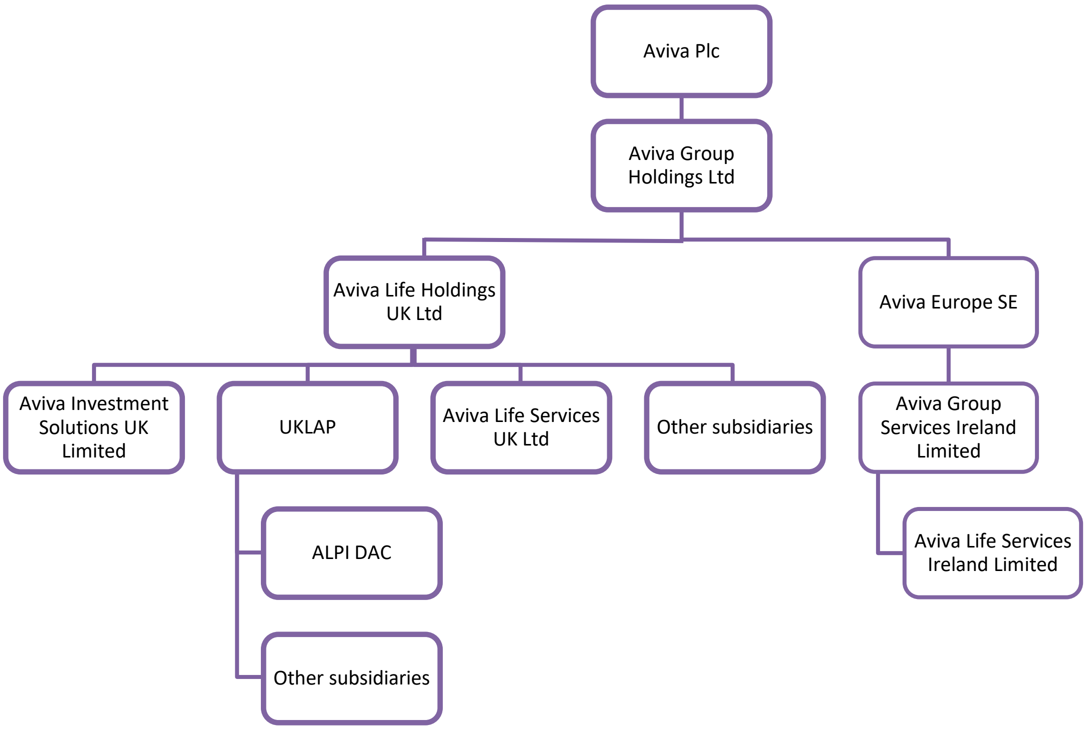
1.5 FFLAC will be renamed Aviva Life & Pensions Ireland Designated Activity Company ("ALPI DAC") on the same day that the Scheme takes effect. Within this report, I will refer to FFLAC as ALPI DAC.

1.6 This report considers the impact of the Scheme on UKLAP and ALPI DAC policyholders after the acquisition by, and Change of Control to, AGH, and once the subsequent transfer from AGH to UKLAP described above has occurred.

[1] The Glossary contains a description of what is meant by Freedom of Services

[2] The Glossary contains a description of what is meant by Freedom of Establishment.

1.7 The figure below provides an abbreviated view of Aviva Group's structure. The diagram illustrates the structure of the entities that are relevant to the Scheme.



1.8 It is uncertain whether UKLAP will continue to benefit from EU passporting rights after 29 March 2019. Following Brexit, UKLAP may no longer be permitted to carry out insurance business in EU countries without the appropriate authorisation from the National Competent Authority(ies) of the Member State(s) where it wishes to operate.

1.9 The purpose of the Scheme is to ensure that UKLAP policyholders in EU Member States are able to receive claims settlement, contract servicing and policy renewal services from Aviva Group even if UKLAP does not benefit from passporting rights after Brexit.

Business being transferred under the Scheme

1.10 UKLAP writes, or has written, business on a Freedom of Establishment basis through branches in Ireland (the "Irish Branch"), Belgium and France and business on a Freedom of Services basis in Germany, Sweden and Iceland. Of these various channels, only the Irish Branch continues to write new business. The Irish Branch comprises the business transferred from Aviva Life & Pensions Ireland Ltd to UKLAP under a previous scheme (the "Irish Scheme") on 1 January 2015, business known as the CGNU Life business and business written directly out of the Irish Branch.

1.11 In this report, I have classified the policyholders that will be transferred to ALPI DAC (referred to hereafter as the "Transferring Policyholders") into three main sub-groups:

- With-profits Irish Business – all with-profits business previously transferred under the Irish Scheme and all with-profits business written out of 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 – the Overseas Life Assurance Business comprising all business (with-profits and non-profit) written in France, Belgium, Germany, Iceland, Sweden and the CGNU Life business written in Ireland under Freedom of Services or Freedom of Establishment rules. This business resides in the following UKLAP funds: NPSF, New WPSF, Old WPSF, FP WPSF, FLAS WPSF and the Belgian WPSF. Details of the fund structure of UKLAP can be found in paragraph 4.11 below.

1.12 As a result of the Scheme all Transferring Policyholders will transfer from UKLAP to ALPI DAC. In addition, at the same time as the Scheme coming into effect, a new reinsurance agreement ("the Brexit Reinsurance") will be put in place to reinsure OLAB from ALPI DAC to UKLAP. Associated with this new reinsurance arrangement, ALPI DAC will enter into an agreement with UKLAP that will give ALPI DAC a floating charge ("the Charge") over the assets of UKLAP. Hereafter I refer to the Scheme together with the Brexit Reinsurance and the Charge as the "Transfer".

1.13 The table below sets out the policy count and Best Estimate Liabilities ("BEL") for the sub-funds within UKLAP, as at 31 December 2017, and indicates the BEL for the Transferring Policies within each fund. The fund structure of UKLAP is described in more detail in paragraph 4.11 below.

	UKLAP		Transferring Policies	Type of Transferring Policies
	Policy count	BEL (£m)	BEL (£m)	
New WPSF	404,179	14,136	116	OLAB
Old WPSF	77,666	2,318	26	OLAB
UKLAP WPSF	354,695	12,191	-	n/a
PMSF	124,909	1,346	-	n/a
Irish WPSF	8,644	731	731	With-profits Irish Business
FLC New WPSF	366,991	3,508	-	n/a
FLC Old WPSF	28,687	911	-	n/a
FLAS WPSF	225,623	3,483	32	OLAB
FP WPSF	623,531	7,498	82	OLAB
FPLAL WPSF	11,609	190	-	n/a
WL WPSF	54,283	537	-	n/a
SGF	15,024	469	-	n/a
NPSF inc. WPSF 5 (Excluding OLAB)	11,847,039	178,791	5,139	Non-profit Irish Business
NPSF inc. WPSF 5 (OLAB)	247,773	782	782	OLAB
Belgian SF	108,995	117	117	OLAB
Total	**14,499,648**	**227,008**	**7,024**	

Purpose of the Report

1.14 Part VII of FSMA sets out that the transfer of an insurance business from one company ("the transferor") to another ("the transferee") requires an application to be made to a relevant court

[3] In this 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.

for an order sanctioning the proposed transfer scheme ("the Order"). Section 107(3)(c) of FSMA specifies that if the transferee is not registered in the UK and does not have its head office there, the application must be made to the court which has jurisdiction in relation to the authorised person (i.e. the transferor) concerned.

1.15 Section 109 of FSMA further sets out that an application in respect of an insurance business transfer scheme must be accompanied by a report on the terms of the scheme ("a scheme report"). The scheme report must be made by a person ("the Independent Expert") appearing to the appropriate regulator to have the necessary skills to enable him to make a proper report.

1.16 UKLAP is a company registered in England (company number 03253947) and authorised by the Prudential Regulation Authority ("PRA") (Financial Services Registered reference number 185896). UKLAP has appointed me, Tim Roff, as the Independent Expert in relation to the proposed Scheme and to provide the scheme report ("the Report") in respect of the Scheme. The PRA has approved my appointment and the form of the Report, in consultation with the Financial Conduct Authority ("FCA"). I address the Report to the High Court in England and Wales (the "Court").

1.17 This Report and any Supplementary Report[4] I may issue (together "the Reports") are prepared for the assistance of the Court in its consideration of whether to sanction the Scheme. If approved, 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 financial markets will largely be closed during this period due to 30 March 2019 being a Saturday and 31 March 2019 being a Sunday.

1.18 The Report describes the impact of the Transfer on the Transferring Policyholders, the likely effect of the Transfer on the non-transferring policyholders of UKLAP ("Remaining Policyholders") and the likely effect of the Transfer on existing policyholders of ALPI DAC ("Existing Policyholders"). In each case, I have considered the security of the benefits, benefit expectations and contractual rights of the policyholders. I have also considered how the Transfer would affect policyholder protection, service levels, governance and the impact of the change in the regulatory regime for each of these areas.

1.19 Additionally, I have considered the impact of the Transfer on the current reinsurers of UKLAP whose treaties cover the risk associated with the policies of the Transferring Policyholders.

1.20 In preparing the Report, I have considered the terms of the Scheme only and have not considered whether any other scheme might provide a more efficient or effective outcome.

1.21 In the preparation of the Report I have followed the FCA's approach to the review of Part VII insurance business transfers (FG18/4). In particular, I have considered whether the Transfer could have an adverse impact on effective competition and to what extent there may be an adverse impact on policyholders. Appendix E details the particular sections of the Report where the FCA's guidance is considered. To determine the impact on policyholders I have analysed:

- whether the Transfer offers sufficient protections to mitigate against possible adverse impacts on policyholders, including compensation;

[4] 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.

- policyholders' communications to ensure they describe all areas of potential change as well as mitigating actions;
- whether the impact on policyholders is material or proportional; and
- whether the description of the Scheme is sufficiently clear, fair, contains enough detail and is sufficiently prominent.

1.22 I have also followed the PRA's approach to insurance business transfers. The Report includes my opinion of the likely effect of the Transfer on policyholders. Appendix D details the particular sections of the Report where the PRA's guidance is addressed.

1.23 I have been assisted in the preparation of this Report by members of my team working under my direct supervision and this accounts for the use of "we" in places in this Report. I can confirm, however, that the opinions expressed are my own.

1.24 To the best of my knowledge, all material facts have been considered when assessing the impact of the Transfer on policyholders and preparing the Report.

Layout of the Report

1.25 The Report is structured as follows:

- Section 1 sets out an introduction to the Transfer and the Report;
- Section 2 provides a summary of the Report;
- Section 3 describes the regulatory background for both countries relevant to the Transfer (UK and Ireland);
- Section 4 and Section 5 describe the background to the entities involved;
- Section 6 describes the purpose and terms of the Scheme;
- Section 7 sets out the reason why the Brexit Reinsurance and the Charge are being put in place alongside the Scheme to ensure that the Scheme does not adversely affect policyholders;
- Section 8 describes a number of operational matters resulting from the Transfer;
- Section 9 describes the operation of the Brexit Reinsurance and the Charge;
- Section 10 sets out my consideration of the security of policyholder benefits;
- Section 11 describes the impact of the Transfer on with-profits Irish Business policyholders;
- Section 12 describes the impact of the Transfer on non-profit Irish Business policyholders;
- Section 13 describes the impact of the Transfer on Overseas Life Assurance Business (OLAB) policyholders;
- Section 14 considers issues affecting all Transferring Policyholders;
- Section 15 describes the impact of the Transfer on the Remaining Policyholders of UKLAP;
- Section 16 describes the impact of the Transfer on the Existing Policyholders of ALPI DAC;
- Section 17 describes the impact of the Transfer on the current reinsurers of UKLAP whose reinsurance treaties cover the risks associated with the policies of the Transferring Policyholders;
- Section 18 sets out a summary of my conclusions; and
- Section 19 sets out the Independent Expert's declaration.

The Independent Expert

1.26 I, Tim Roff, am a Fellow of the Institute and Faculty of Actuaries. I have over 30 years' experience in the life insurance industry. I am a Partner in Grant Thornton UK LLP ("Grant

Thornton"). I joined Grant Thornton as a partner in October 2014. Prior to this, I held senior roles at a number of firms including partner roles at Ernst & Young and KPMG. Appendix A sets out more details of my experience. Appendices B and C are extracts from the work order and change control agreement between Grant Thornton and UKLAP, setting out the agreed scope of my work.

1.27 Costs incurred in connection with my appointment as Independent Expert and preparation of the Report are borne by either the UKLAP Shareholder Fund or UKLAP Non-Profit Sub Fund.

Independence

1.28 I confirm that, in my opinion, I have no conflict of interest that would compromise my ability to assist with this assignment. In reaching this opinion, I have considered the following factors and to the best of my knowledge and belief:

- I am not, and never have been, a director or employee of UKLAP or ALPI DAC;
- I have not provided any consulting services or acted in any advisory capacity to UKLAP or ALPI DAC, subject to the exceptions within paragraph 1.30;
- I have never been a shareholder in UKLAP or ALPI DAC nor acted as a representative of a shareholder nor invested in UKLAP or ALPI DAC through commercial loans or as a policyholder;
- I do not hold any directorships in common with any of the directors or advisers of UKLAP or ALPI DAC; and
- I do not have any family ties with the directors, senior employees or advisers of UKLAP or ALPI DAC.

1.29 I have considered the most recent guidance issued by the Actuarial profession regarding conflicts of interest and have identified no conflict of interest that might compromise my independence. In addition, I confirm that I am of independent character and judgement.

1.30 Grant Thornton is a large accountancy and consultancy firm and has advised UKLAP on various assignments. Grant Thornton has also advised ALPI DAC on a small number of assignments. My involvement in these past assignments has been declared to UKLAP, and to the PRA and FCA (together the "Regulators"). I do not believe that any of the assignments carried out by Grant Thornton for UKLAP or ALPI DAC compromise my independence, create a conflict of interest or compromise my ability to report on the proposed Transfer. These assignments were disclosed to the Regulators prior to my approval as the Independent Expert.

Regulatory and professional guidance

1.31 The Report has been prepared in accordance with guidance contained in Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance ("SUP 18") and the Statement of Policy. The Report also follows the PRA's approach to insurance business transfers, dated April 2015. Appendix D describes how these requirements have been met.

1.32 I have also paid regard to the FCA's finalised guidance FG18/4: "The FCA's approach to the review of Part VII insurance business transfers". Appendix E contains details of how this guidance has been satisfied.

1.33 Additionally, I have taken into consideration the draft paper: "FCA approach to Part VII transfers of insurance business where the purpose is to purely mitigate the loss of passporting rights following Brexit" that was recently shared with UKLAP.

1.34 The Financial Reporting Council ("FRC") has issued standards which apply to certain types of actuarial work. I believe that this Report and the work underlying it meet the requirements of Technical Actuarial Standards TAS 100 (Principles for Technical Actuarial Work) and TAS 200 (Insurance).

1.35 I confirm that I have also complied with the Actuarial Practice Standard X2: Review of actuarial work and considered APS L1: Duties and Responsibilities of Life Assurance Actuaries, issued by the Institute and Faculty of Actuaries.

Legal jurisdiction

1.36 The Report is governed by and should be construed in accordance with English law. The English courts have exclusive jurisdiction in connection with all disputes and differences arising out of, under or in connection with the Report.

Duty to the Court

1.37 In reporting on the Transfer as the Independent Expert, I understand that I owe a duty to the Court to assist on matters within my expertise. This duty overrides any obligation to UKLAP or ALPI DAC. I confirm that I have complied with this duty.

1.38 I confirm that I am aware of the requirements applicable to experts set out in Part 35 of the Civil Procedure Rules: The Practice Direction and Protocol for Instruction of Experts to give Evidence in Civil Claims. As required by Part 35 of the Civil Procedure Rules, I confirm that I have understood my duty to the Court.

Statement of truth

1.39 I confirm that I have made clear which facts and matters referred to in the Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on matters to which they refer.

1.40 The Report has been peer-reviewed by a fellow actuary, Simon Perry, who has over 20 years of experience in the life insurance industry and specialises in reviewing insurance transactions, including in a peer review capacity.

1.41 The Report has been seen by UKLAP and ALPI DAC. Both have confirmed its factual accuracy.

Materiality

1.42 This Report, and the analysis undertaken in order to produce this Report, apply the concept of materiality. The test I have applied is whether the position of any group is, in the round, “materially adversely affected”. This phrase is used in the context of considering policyholder security in SUP 18. For any group of policyholders, there may be some changes for the better and some for the worse. If there are some changes for the worse this does not necessarily mean that the Transfer is unfair or unreasonable, as they might be outweighed by other benefits, or they might be extremely small. The word “material” is not defined in SUP 18, so where there are adverse changes I have attempted to give some context as to their size or likelihood of occurring. If a potential effect is very unlikely to happen and does not have a large impact, or if it is likely to happen but has a very small impact, I do not consider it material.

Reliance

1.43 In preparing this Report I have relied on the accuracy and completeness of data and information provided to me, both written and oral, by UKLAP and ALPI DAC. Reliance has been placed upon, but not limited to, the information detailed in Appendix F. I have reviewed the information for consistency and reasonableness using my knowledge of the UK life insurance industry but have not otherwise verified it.

1.44 I have also relied on tax summaries prepared by UKLAP, which has itself sought external advice on the tax impact on policyholders as a result of the Transfer.

1.45 UKLAP has been separately advised by its own legal advisers in respect of certain matters. I have reviewed some of the advice provided by its legal advisors and, where I have considered it relevant, have relied on that advice to reach my conclusions. For the avoidance of doubt, UKLAP's legal advisors have no liability to me in respect of that advice. Additionally, I have sought the opinion of Independent Counsel on matters relating to the floating charge associated with the reinsurance put in place alongside the Scheme and the Brexit Reinsurance (see Section 9).

1.46 A copy of the Report will be sent to the Regulators and will accompany the Scheme application to the Court.

1.47 This Report is not suitable for any other purpose. No liability is accepted or assumed for any use of this Report for any other purpose other than that set out in paragraphs 1.14 and 1.15 above.

1.48 The Report must be considered in its entirety as individual sections, if considered in isolation, may be misconstrued.

1.49 The findings contained in this Report are based on current data and current financial information. Future results could be impacted by future events which cannot be predicted or controlled including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, changes in management and changes in law or regulation. I accept no responsibility for future results or future events.

Exchange rate

1.50 Throughout the Report, I will refer to numbers measured in pounds sterling and euros with the use of the exchange rate of 1.127 observed on 29 December 2017 (the last working day of the year). The exchange rate is not materially different at the time of writing.

My approach

1.51 My approach to assessing the likely effects of the Transfer on policyholders has been to:

- understand the nature and structure of the Transfer;
- identify the groups of policyholders that could be affected;
- assess the financial positions of the companies involved;
- consider the implications of the Transfer on the level of policyholder benefits;
- consider the implications of the Transfer on the level of security of benefits provided to the affected policyholders;
- consider the potential impact on levels of customer service;
- consider other factors that might affect policyholders; and
- consider the implications of the Transfer on reinsurers.

1.52 For this Report, I have reviewed the information received. This has been supplemented by desktop reviews, face-to-face meetings, challenge and questioning of information and additional research where required. In addition, I have discussed relevant issues with executives within

UKLAP and their legal advisers. I have also consulted with Independent Counsel where required. I have also had discussions with the Head of Actuarial Function ("HoAF") of ALPI DAC.

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

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

1.54 Below I explain why I have considered these factors.

Security of benefits

1.55 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 the target level over a period of time.

1.56 The Scheme will move Transferring Policyholders to ALPI DAC so the security of ALPI DAC is important to this group of policyholders as ALPI DAC will be paying their claims from the Effective Time.

1.57 When analysing the security of ALPI DAC I have considered:

- the impact of the Transfer on the SCR Ratio and how this compares with the target SCR Ratio set by the ALPI DAC Board;
- the impact of the Brexit Reinsurance and the Charge;
- how the target has been set, how it compares to market practice and what actions the ALPI DAC Board has planned if ALPI DAC is above or below the target level in future;
- the risk profile of ALPI DAC and whether this gives any cause for concern; and
- the projected SCR Ratio in a range of adverse scenarios to test the ability of ALPI DAC to withstand adverse conditions.

Discretion

1.58 Discretion is where charges paid by policyholders or claims paid to policyholders are not entirely fixed and the Board of an insurer must exercise some judgement as to the level of these charges or claims. The degree of discretion varies by product type. There is most discretion for with-profits policyholders as the Board must decide on levels of bonus to declare. There is least discretion for non-profit policyholders as most of their benefits are fixed. Unit-linked policyholders are somewhere in the middle as many have variable charges and the Board can change the level of these.

1.59 The Scheme will transfer Transferring Policyholders from UKLAP to ALPI DAC. Therefore, the approach that ALPI DAC takes to discretion is important for this group of policyholders. Additionally, it is important to consider if the ALPI DAC approach to discretion is different from UKLAP. If it is, the differences must be considered in order to understand how this will affect Transferring Policyholders.

1.60 When considering the operation of discretion in ALPI DAC I have reviewed:

- the Board approved policies on discretion for ALPI DAC for each of the three main types of policy, i.e. with-profits, non-profit and unit-linked;
- the governance around exercising discretion such as which Boards, committees or individuals are involved, and whether there is sufficient independence amongst the parties involved to protect policyholders' interests; and
- any differences between the policies and governance of UKLAP and ALPI DAC and what impact these differences could have on the Transferring Policyholders.

Customer service

1.61 Customer service relates to the collection of premiums, payment of claims and other interactions between the insurer and its policyholders. Insurance companies will normally have targets for standards of service and regularly monitor the actual performance against the target. Insurers normally take corrective action if actual standards are below target.

1.62 The Scheme will transfer Transferring Policyholders from UKLAP to ALPI DAC; therefore, it is important to consider if this will lead to any deterioration in standards of service for this group of policyholders.

1.63 When considering customer services in ALPI DAC I have analysed:

- how the target standards of service compare between UKLAP and ALPI DAC;
- if there are any changes in the teams carrying out the servicing which could lead to a temporary disruption in service; and
- how the risks arising from the change process are being mitigated.

Regulation

1.64 The insurance sector is heavily regulated. Regulation provides protection to policyholders through setting minimum standards in areas such as governance, capital adequacy and fair treatment of customers.

1.65 The Scheme will transfer Transferring Policyholders from UKLAP (a UK based insurer) to ALPI DAC (an Irish insurer). The Transferring Policyholders took out policies in a range of EU countries. It is important to consider which regulation applied before the Transfer and which regulation applies after the Transfer. If there are changes, it is important to then consider how these might impact the Transferring Policyholders.

1.66 When considering regulation I have analysed:

- what changes there will be to the regulation of the Transferring Policyholders;
- whether any changes are material; and
- the steps UKLAP and ALPI DAC have taken in order to mitigate material adverse impacts.

Tax and expenses

1.67 For some product types, primarily with-profits, policyholders may share in some elements of profits and losses of the company. Schemes of transfer will normally have some impact on the expenses of the insurer, even if it is just the costs of implementing the scheme. Schemes can also have an impact on the tax paid by a company as legal structures and intergroup agreements change and policyholders are transferred between insurers.

1.68 It is important to consider if some with-profits funds or with-profits policyholders may share in the expense and tax profits or losses caused as a direct consequence of a Scheme. If some policyholders are impacted, then I considered the materiality of the impact and whether it is appropriate.

1.69 When considering expense and tax impacts I have considered the following before reaching a conclusion:

- the impact of the Transfer on the expense and tax base;
- who is meeting any additional tax or expenses; and
- if with-profits funds or with-profits policyholders are meeting some of the costs, then whether the costs are material and whether this is appropriate.

2 Executive summary

2.1 This section of the Report provides a summary of the transfer of business from UKLAP to ALPI DAC and the conclusions of my review of how this transfer will affect policyholders.

2.2 It forms the basis of the Summary Report sent to policyholders to inform them of the Transfer and for this reason repeats some of the background given in Section 1.

Background to and purpose of the proposed Scheme

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

2.4 FFLAC is a private limited company incorporated and domiciled in Ireland and is a wholly-owned subsidiary of UKLAP. On the date of the Effective Time, FFLAC will be renamed Aviva Life & Pensions Ireland Designated Activity Company. Within this Report, I will refer to FFLAC as ALPI DAC.

2.5 UKLAP has written life insurance and pensions business in various EEA territories under EU passporting rights. It is anticipated that, as a result of Brexit, UK insurers, including UKLAP, may be unable to continue servicing policies sold under EU passporting rights.

2.6 ALPI DAC currently has EU passporting rights, as it is incorporated in Ireland (an EU country), and will continue to have these rights regardless of the outcome of the Brexit negotiations. Therefore, Transferring Policies written under EU passporting rights from UKLAP to ALPI DAC will guarantee that the continued servicing of these policies remains legal whatever the outcome of the Brexit negotiations.

Assessment Methodology

2.7 I have considered the impacts of the Transfer on a number of different groups of policyholders:

- Transferring Policyholders – policyholders in UKLAP that will transfer to ALPI DAC
- Remaining Policyholders – policyholders in UKLAP that will not transfer to ALPI DAC
- Existing Policyholders – policyholders in ALPI DAC before the transfer.

2.8 I have further divided the Transferring Policyholders into three sub-groups as each of these sub-groups will be affected differently by the Transfer. The three sub-groups are:

- With-profits Irish Business – all with-profits business previously transferred into UKLAP under a previous Scheme known as the Irish Scheme and all with-profits business written out of the Irish Branch of UKLAP (excluding CGNU Life business written in Ireland);
- Non-profit Irish Business – all non-profit business 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.

2.9 Finally, I have considered the rights of policyholders who wish to object to the Scheme and the impact of the Transfer on the existing reinsurers of the Transferring Policies.

2.10 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.

2.11 For each policyholder type, I have considered how these areas apply for that policyholder group.

Business to be transferred

2.12 The legal process to be followed in order to transfer insurance business from one insurance firm to another is known as a Part VII Transfer. The document that sets out the terms of the transfer is known as the Scheme. The relevant requirements are set out in Part VII of the Financial Services and Markets Act 2000 (as amended) (the "FSMA") in relation to the Scheme which is to be submitted to the Court for approval.

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

2.14 The table below shows the policy count and BEL for the Transferring Policies as of 31 December 2017. The BEL is a measure used by insurance firms to place a value on their policyholder liabilities.

Transferring Policies	Policy type	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	1,155
	Total	**462,278**	**7,024**

Overview of the Scheme

2.15 Under the Scheme, the majority of policies that have been written by UKLAP 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 policies of policyholders who bought a UK product and subsequently relocated to an EEA state, will not be included in the population of Transferring Policies.

2.16 Details of the fund structure of UKLAP before the Scheme and ALPI DAC after the Scheme are set out in Section 5 of the Report. 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, 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 that the Transfer does not result in any material adverse impact on policyholder benefits of the with-profits Irish Business, as discussed in Section 11 of the Report;

- the non-profit Irish Business will be transferred from UKLAP NPSF to the Other Business Fund 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 Transfer does not result in any material adverse impact on policyholder benefits of the non-profit Irish Business, as discussed in Section 12 of the Report; 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 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.

2.17 Following the Transfer, UKLAP will no longer sell policies to residents in any EEA country, 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.

2.18 ALPI DAC will continue to sell business in Ireland (see paragraph 5.15 below) 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 Transfer.

2.19 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. These are outlined below and discussed in more detail in Section 7 of the Report.

Structure of the Transfer

2.20 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 the Brexit Reinsurance; and
- UKLAP and ALPI DAC will enter into a floating charge arrangement ("the Charge") in respect of OLAB that will be reinsured back to UKLAP.

Reasons the Brexit Reinsurance is necessary

2.21 As well as Transferring 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.

2.22 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.

2.23 At the Effective Time, the Brexit Reinsurance will be put in place to reinsure OLAB from ALPI DAC to UKLAP. The aim of the Brexit Reinsurance is to mitigate the need to divide the with-profits funds which contain OLAB and allow holders of OLAB policies ("OLAB Policyholders") to continue to share in the Estate of the with-profits fund they are currently in. The Brexit Reinsurance also mitigates the need to set up new OLAB unit-linked funds in ALPI DAC and ensures that the unit-linked policyholders will have access to the same range of unit-linked funds that they currently have access to.

2.24 I consider the Brexit Reinsurance in more detail in Section 9 of 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 up 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

2.25 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 the 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

2.26 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.

2.27 I consider the Charge in more detail in Section 9 of 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

2.28 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.

2.29 I consider the termination of the Brexit Reinsurance in Section 9 of 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.

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

Issue	Mitigant
Ensure that UKLAP policies sold under EU passporting rights 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, i.e. the Scheme in the absence of the Brexit Reinsurance and the Charge). 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 exposed to the financial position of UKLAP.	The Charge
ALPI DAC policyholders suffer more than UKLAP policyholders 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

Summary of my conclusions in the Report

2.31 I set out below the conclusions contained in the Report.

2.32 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.

2.33 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.

2.34 I have taken into account the loss of Financial Services Compensation Scheme ("FSCS") protection currently given to some of the Transferring Policyholders. 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 were to become insolvent. 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.

2.35 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 reinsurance agreement 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.

2.36 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.

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

Impact of the Transfer on Transferring Policyholders

Security of policyholder benefits

2.38 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 profile of the companies as a result of the Transfer could potentially impact policyholders' security.

2.39 Across the EU, every insurer must satisfy minimum solvency standards by maintaining a minimum level of capital, known as the Solvency Capital Requirement ("SCR"). 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 Transfer 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 detail in this Report. There have been no other material events which would alter my conclusions.

2.40 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. The SCR Ratio is widely used across the insurance industry to assess the financial strength of an insurance firm.

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

2.41 I have reviewed the capital projections of both UKLAP and ALPI DAC, as set out in Section 10 of the Report. 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 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.

2.42 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.

2.43 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.

2.44 I have considered the risk profile of both UKLAP and ALPI DAC before and after the Transfer by reference to risk components of the undiversified 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

2.45 I discuss the risk profiles of UKLAP and ALPI DAC in more detail in Section 10. 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

2.46 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.

2.47 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-Profits Committee of UKLAP (the "WPC") in respect of with-profits policies. As set out in Section 11 of the Report, following the Transfer, the HoAF 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 CBI. 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.

2.48 In my opinion, the Scheme does not result in a material increase to the costs borne by the 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

2.49 Transferring Policyholders will receive 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. A summary of the Report (the "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 the Summary Report will also be available on request and on the transfer website (https://transfer.aviva.com).

2.50 I have reviewed the UKLAP communications strategy and the information that will be provided to policyholders to inform them of the Scheme. The communication packs have 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.

2.51 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.

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

With-profits Irish Business

Policyholders' benefit expectations and contractual rights

2.53 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.

2.54 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.

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

2.56 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

2.57 Based on the information contained in paragraphs 2.38 to 2.45 above, and as set out in more detail in Section 10 of the Report, 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 ALPI DAC SRA 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 in place 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.

2.58 On these bases, I am satisfied that there is no material adverse impact on the security of benefits for with-profits Irish Business policyholders.

FSCS

2.59 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.

2.60 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 were to become insolvent. If UKLAP were to become insolvent, and were 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.

2.61 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. As considered in detail in Section 11 of the Report, 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 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.

Reinsurance

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

Governance

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

2.64 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 and has incorporated the current regulations into the PPFM where necessary.

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

Tax

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

2.67 Overall, in my opinion, the tax implications of the Transfer are not material to the with-profits Irish Business.

Service standards

2.68 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

2.69 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.

2.70 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.

2.71 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

2.72 Based on the information contained in paragraphs 2.38 to 2.45 above, and as set out in more detail in Section 10 of the Report, 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 ALPI DAC SRA 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 profile of UKLAP and ALPI DAC are unlikely to have any material impact on Transferring Policyholders.

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

FSCS

2.74 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.

2.75 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 were 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.

2.76 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. As considered in detail in Section 12 of the Report, 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.

Reinsurance

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

Governance

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

2.79 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.

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

Tax

2.81 In my opinion, the tax implications of the Transfer are not material to the non-profit Irish Business.

Service standards

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

OLAB

Policyholder benefit expectations and contractual rights

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

2.84 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.

2.85 Overall, I am satisfied that there is no material change to the benefit expectations or contractual rights of OLAB Policyholders.

Security of policyholder benefits

2.86 Based on the information contained in paragraphs 2.38 to 2.45 above, and as set out in more detail in Section 10 of the Report, 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 ALPI DAC SRA 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 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.

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

Ombudsman

2.88 The majority of Transferring Policyholders will continue to have access to the same ombudsman service after the Transfer as they did before (as detailed in paragraph 13.20). Transferring Policies written on a Freedom of Services basis (Icelandic, Swedish and German business) will lose access to the Financial Ombudsman Service ("FOS") in the UK in respect of matters arising after the Effective Time, 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. In my opinion, the changes to the ombudsman service as a result of the Scheme are not expected to have a material adverse impact on Transferring Policyholders.

FSCS

2.89 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 were 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.

2.90 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. As considered in detail in Section 13 of the Report, 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.

Reinsurance

2.91 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, as set out in detail in Section 9 of the Report, 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 policyholders will still have access to the funds which they had access to prior to the Transfer.

2.92 If the reinsurance introduced by the Transfer were to be terminated by either UKLAP or ALPI DAC, there is a robust governance framework detailed in the Scheme and reinsurance agreement which must be followed in order to put the termination of the reinsurance arrangement into effect. Given the governance documented in the Brexit Reinsurance regarding the termination of the agreement, and for the reasons set out in paragraphs 9.42 to 9.52 of the Report, I am satisfied that there is enough protection to ensure that the terms of any termination are fair to all policyholder groups.

2.93 UKLAP and ALPI DAC have agreed to enter into a floating charge agreement associated with the reinsurance. The purpose of the floating charge agreement 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 floating charge would work in the intended manner.

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

2.95 In summary, I am satisfied that the reinsurance is a useful tool to allow the continued participation in the with-profits funds in which OLAB Policyholders originally resided, and for the unit-linked OLAB Policyholders to continue to have access to the same unit funds. Additionally, in my opinion, the floating charge associated with the reinsurance works in such a way that the treatment of ALPI DAC will be aligned with the treatment of UKLAP's direct policyholders in the event of UKLAP insolvency.

Governance

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

2.97 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 their policies. The HoAF of ALPI DAC will provide additional oversight and a newly formed Unit Pricing Group within ALPI DAC ("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 which applied before the Transfer.

2.98 Overall, I am satisfied that the governance for OLAB will not be adversely affected by the Transfer.

Tax

2.99 In my opinion, the tax implications of the Transfer are not material to OLAB.

Service standards

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

The impact of the Transfer on the Remaining Policyholders of UKLAP

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

2.102 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.

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

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

2.104 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.

2.105 The Brexit Reinsurance ensures that, in normal circumstances, the management of the with-profits funds of UKLAP will remain unchanged. This is considered further in Section 9 of the Report.

2.106 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 and the Transferring Policyholders. In this event, the robust governance framework established in the Scheme and in the reinsurance agreement should ensure a fair division among all policyholder groups.

2.107 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 of an insolvency of UKLAP, the position of the Remaining Policyholders would remain unchanged.

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

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

2.110 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.

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

2.111 Following the Transfer, the liabilities in respect of the Existing Policyholders will be around 39% of the total liabilities of ALPI DAC.

2.112 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	Policy count	BEL (€m)
Transferring Policyholders	462,278	7,916
Existing Policyholders	159,622	4,514
Total	**621,900**	**12,430**

2.113 Under the terms of the Scheme there will be no change to any of the terms and conditions of the policies of Existing Policyholders of ALPI DAC (the "Existing Policies") and there will be no changes to the way policy benefits are determined.

2.114 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.

2.115 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 SCR Ratio.

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

2.116 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. This is discussed further in Section 16 of the Report. 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.

2.117 In Section 16 of the Report 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 its target SCR Ratio.

2.118 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 capital policy 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 Section 10 of 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.

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

2.120 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.

2.121 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 the summary of the 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.

Rights of policyholders who object to the Scheme

2.122 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

2.123 As described further in Section 17 of the Report, the current reinsurance arrangements covering the Irish Business and OLAB policies will continue as they do now, covering the same risks, except 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.

3 Regulatory background

3.1 In this section I describe the UK and Irish regulatory regimes that govern UKLAP and ALPI DAC, respectively. This section provides the context against which I have assessed the impact of the Transfer.

Overview of the UK regulatory regimes

3.2 In the UK, the financial services industry is regulated by both the PRA and the FCA using a system of dual regulation that covers insurance companies. The FCA is a statutory body set up under the Financial Services Act 2012, while the Bank of England exercises its functions as the PRA through its Prudential Regulation Committee.

3.3 The PRA is part of the Bank of England and is responsible for:

- prudential regulation of banks, building societies and credit unions, insurers and major investment firms;
- promoting the safety and soundness of the firms it regulates, seeking to minimise the adverse effects that they can have on the stability of the UK financial system; and
- contributing to ensuring that insurance policyholders are appropriately protected.

3.4 The FCA is a separate institution with a strategic objective of ensuring that its regulated markets function well and is responsible for:

- conduct regulation of all financial firms; and
- prudential regulation of those financial services firms that are not supervised by the PRA.

3.5 A Memorandum of Understanding has been established between the PRA and the FCA, which sets out the high-level framework under which the two regulatory bodies will coordinate their activities. In particular, the PRA and FCA are required to coordinate with each other in advance of insurance business transfers under Part VII of the FSMA.

Solvency framework overview

3.6 Firms are required to assess solvency under the Solvency II regime, which came into effect from 1 January 2016.

3.7 Solvency II is a European-wide framework which harmonises Solvency requirements across member states of the European Union and sets out an economic risk-based approach for adoption by businesses operating in member states.

3.8 Solvency II is a principles-based regime, based on three pillars:

- under Pillar 1, quantitative requirements define a market consistent framework for valuing the company's assets and liabilities, in addition to determining the SCR and Minimum Capital Requirement ("MCR");
- under Pillar 2, insurers must meet certain standards for their corporate governance and their risk and capital management controls. There is a requirement for permanent internal audit, compliance, risk management and actuarial functions. Insurers must regularly carry out an Own Risk and Solvency Assessment ("ORSA"); and
- under Pillar 3, there are explicit requirements governing disclosures to regulators and public disclosure.

3.9 Under Solvency II, firms may choose to calculate the SCR using a Standard Formula, as defined in the Solvency II rules, or they can choose to develop their own Internal Model. Solvency II also allows firms to calculate the SCR using a mixture of the Standard Formula and the Internal Model, known as a Partial Internal Model. The use of an Internal Model or Partial Internal Model must be approved by the local regulator.

3.10 When using the Standard Formula, the local regulator may require a firm to hold additional capital (known as a capital add-on) to cover certain risks specific to the firm that the local regulator deems not to be adequately captured by the Standard Formula. Further, the local regulator may require a firm using the Standard Formula to develop an Internal Model if deemed necessary.

3.11 Subject to the approval of the local regulator, firms may make a number of adjustments to their Solvency II results. Permitted adjustments include:

- Transitional measures on technical provisions ("TMTP") – In simple terms, this is calculated as the difference between the technical provisions calculated under the previous regulatory regime (Solvency I) and the Solvency II Technical Provisions, and decreases linearly over a 16 year period;
- Transitional measures on the risk-free interest rate – This allows firms to phase in any reduction in the discount rate used under Solvency II compared to that permitted under Solvency I; and
- Matching adjustment ("MA")/volatility adjustment ("VA") – These are adjustments to the risk-free interest rates used to discount insurance obligations. The main difference between the MA and VA adjustments is that the MA is calculated by firms based on a specifically identified portfolio of assets and liabilities whereas the VA is set in accordance with the Solvency II Directive on the basis of technical information published by European Insurance and Occupational Pensions Authority ("EIOPA").

3.12 Under Solvency II Pillar 2, the ORSA captures the insurer's assessment of its risk profile and capital position, which provides a more company-specific assessment compared to the prescribed methods under Pillar 1. As part of an insurer's risk management procedures, firms are required to set a risk appetite, which quantifies the level of risk an insurer is prepared to take. Insurers must also have a capital policy to ensure the company is managed in line with its risk appetite.

Conduct principles

3.13 The FCA is responsible for conduct regulation of all financial firms, including insurers. Rules and guidance for firms are set out in the FCA Handbook. The Handbook includes 11 principles for businesses that all firms regulated by the FCA are expected to follow. These are:

- Integrity – A firm must conduct its business with integrity;
- Skill, care and diligence – A firm must conduct its business with due skill, care and diligence;
- Management and control – A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;
- Financial prudence – A firm must maintain adequate financial resources;
- Market conduct – A firm must observe proper standards of market conduct;
- Customers' interests – A firm must pay due regard to the interests of its customers and treat them fairly;
- Communications with clients – A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading;

- Conflicts of interest – A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;
- Customers: relationships of trust – A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement;
- Clients' assets – A firm must arrange adequate protection for clients' assets when it is responsible for them; and
- Relations with regulators – A firm must deal with its regulators in an open and co-operative way and must disclose to the appropriate regulator appropriately anything relating to the firm of which that Regulator would reasonably expect notice.

Access to independent bodies providing further policyholder protection

3.14 In addition to the PRA's solvency framework and the FCA's conduct principles, policyholders are also protected through the FSCS and the FOS.

FSCS

3.15 The FSCS is a statutory "fund of last resort" which compensates customers in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists 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. For long-term insurance policies, the FSCS will pay 100% of any eligible claim, and this protection applies for the duration of a policy. The FSCS is funded by levies on firms authorised by the PRA and FCA.

FOS

3.16 The FOS is an independent body set up to mediate individual complaints that consumers and financial businesses are not able to resolve themselves. Decisions made by the FOS are only final and binding if they are accepted by the parties involved.

Governance of long-term insurers

3.17 Under usual circumstances, a long-term insurer will have a Board of Directors (the "Board"), which governs the entity. The Board will be responsible for the strategy, culture, day-to-day management and approval of the insurer's financial statements.

3.18 On 7 March 2016, the PRA introduced the Senior Insurance Managers Regime which defines and details the responsibilities of Senior Insurance Management Functions, including:

- SIMF1 – Chief Executive Officer
- SIMF2 – Chief Financial Officer
- SIMF4 – Chief Risk Officer
- SIMF5 – Head of Internal Audit
- SIMF20 – Chief Actuary
- SIMF21 – With-Profits Actuary (only firms containing with-profits business)
- SIMF22 – Chief Underwriting Officer (general insurance firms only).

3.19 Individuals fulfilling each of the above roles must be approved by the PRA and the FCA. This regime aims to ensure that individuals performing the above roles have the required skills and experience to act in that particular capacity.

Risk appetite and capital policy

3.20 The Board is responsible for setting the entity's risk appetite and capital policy, which ultimately manages the entity's exposure to risk.

3.21 It is usual for insurance entities to express their risk appetite in terms of a target capital level, which will be set in excess of the SCR. This helps to ensure that day-to-day fluctuations do not lead to a breach of the regulatory capital requirements. The buffer above the SCR will be set out in the entity's capital policy. This policy will be set by the Board and any changes are subject to Board approval, with consultation with the Regulators also required.

3.22 In addition, an entity will typically keep a buffer above the regulatory minimum to demonstrate the financial strength of the entity to internal and external shareholders, for example, external credit rating agencies.

Management of with-profits business within the UK

3.23 Section 20 of the Conduct of Business Sourcebook ("COBS") sets out the FCA's rules in relation to managing with-profits businesses, including the governance and management of with-profits funds, treating with-profits customers fairly, the PPFM and communications with with-profits policyholders.

3.24 In particular, Section 20.3 of COBS sets out the requirement for all firms that conduct with-profits business in the UK to define and make publicly available the PPFM applied in the management of their with-profits funds.

3.25 In managing with-profits business firms rely on their use of discretion, particularly in relation to the investment strategy followed and the smoothing and bonus policy used to determine payments to policyholders. The purpose of the PPFM is to explain the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.

3.26 The FCA rules[5] also set out the governance arrangements that must be put in place for with-profits businesses. This includes a requirement to appoint a with-profits committee (where the majority of members are independent of the firm or, where there is an equal number of independent and non-independent members, chaired by an independent member) or a with-profits advisory arrangement.

3.27 Ultimate responsibility for managing a with-profits fund rests with the Board. The role of the with-profits committee or advisory arrangement is, in part, to act in an advisory capacity to inform the decision-making of a firm's governing body. The with-profits committee or advisory arrangement also acts as a means by which the interests of with-profits policyholders are appropriately considered within a firm's governance structures.

3.28 Under the PRA's rules[6], a firm carrying on with-profits business must appoint one or more actuaries to perform the role of with-profits actuary function ("WPA"). The duties of the WPA include a requirement to advise the firm's management, on key aspects of discretion affecting those classes of with-profits insurance business of the firm to which he or she has been appointed. A with-profits committee or advisory arrangement is usually expected to work closely with the WPA and obtain his or her opinion and input, as appropriate.

3.29 When a firm ceases to effect new contracts in a with-profits fund it must submit a run-off plan to the appropriate regulator within three months of closure of the with-profits fund to new business[7]. The run-off plan should include an up-to-date plan to demonstrate how the firm will

[5] FCA Handbook: COBS 20.5.
[6] PRA Rulebook/Solvency II Firms/Actuaries/Appointment of Actuaries/2.2
[7] COBS 20.2.53

ensure a fair distribution of the closed with-profits fund and its inherited Estate (if any). The up-to-date plan must be approved by the firm's governing body.[8]

Management of unit-linked business within the UK

3.30 There are fewer regulations around the management of unit-linked business within the UK compared to those for with-profits business. The main source of regulation for unit-linked business is within COBS.

3.31 Section 21 of COBS sets out the FCA's rules in relation to managing unit-linked business, including the fair and accurate determination of unit values, policyholder notification of a unit fund's risk profile, the use of reinsurance for unit-linked business and restrictions on unit-linked assets.

Overview of the Irish regulatory regimes

3.32 In Ireland, financial services organisations, including insurance companies, are regulated by the CBI.

3.33 The CBI is the regulatory authority for both the authorisation and on-going supervision of insurers. Under the Insurance Act, 1989, the CBI has extensive powers to request a wide range of information from insurers, to carry out investigations of the business of an insurer and of connected persons, as well as powers of intervention where it considers an insurer is or may be unable to meet its liabilities or unable to provide the required level of solvency. In such cases, it can direct the insurer to take such measures as it deems appropriate. Similar powers of intervention arise in other circumstances such as failure to comply with insurance legislation.

3.34 The CBI also requires firms to comply with a range of policies relating to conduct of business, including the Consumer Protection Code 2012, Corporate Governance Code for Insurance Undertakings and the Fitness and Probity Regime. These policies mainly relate to governance arrangements and information to be provided to policyholders at the point of sale.

3.35 The CBI has produced the General Good Requirements for Insurance and Reinsurance Undertakings ("General Good Requirements"), which summarise some of the main requirements that insurers and reinsurers in Ireland must adhere to. Included within these requirements are summaries and details of the:

- Consumer Protection Code;
- Minimum Competency Code; and
- the Industry Funding Levy.

3.36 The CBI has also put in place a set of "Principles of best practice applicable to the distribution of life insurance products on a cross-border basis within the EU or a third country". These principles set out a broad range of standards that firms must follow in respect of product design, distribution, errors and complaints handling and communications with customers.

3.37 Within Ireland, the CBI has a Probability Risk and Impact System ("PRISM"), which is its framework for supervising regulated firms. Depending on the rating awarded to regulated entities, the CBI's guidance with regard to the regulations may differ, and they will be subject to different levels of supervision and regulatory engagement.

[8] COBS 20.2.56

Solvency framework overview

3.38 The solvency framework applicable to insurance entities in Ireland is the same European Solvency II framework as described above.

Conduct principles

3.39 The CBI is responsible for conduct regulation of regulated firms, including insurers. Rules and guidance for firms are set out in the CBI's Consumer Protection Code 2012 (as updated with effect from 1 January 2015) (the "CPC"). This document contains 12 general principles, which require that a regulated firm:

- acts honestly, fairly and professionally in the best interests of its customers and the integrity of the market;
- acts with due skill, care and diligence in the best interests of its customers;
- does not recklessly, negligently or deliberately mislead a customer as to the real or perceived advantages or disadvantages of any product or service;
- has and employs effectively the resources, policies and procedures, systems and control checks, including compliance checks, and staff training that are necessary for compliance with this code;
- seeks from its customers information relevant to the product or service requested;
- makes full disclosure of all relevant material information, including all charges, in a way that seeks to inform the customer;
- seeks to avoid conflicts of interest;
- corrects errors and handles complaints speedily, efficiently and fairly;
- does not exert undue pressure or undue influence on a customer;
- ensures that any outsourced activity complies with the requirements of the code;
- without prejudice to the pursuit of its legitimate commercial aims, does not, through its policies, procedures, or working practices, prevent access to basic financial services; and
- complies with the letter and spirit of the code.

3.40 In addition to the CPC, life insurance firms are also required to comply with the Minimum Competency Code. These are requirements put in place by the CBI which focus on consumer protection and minimum professional standards.

Access to independent bodies providing further policyholder protection

FSCS

3.41 For life insurance business, there is no equivalent to the UK FSCS in Ireland.

Financial Services and Pensions Ombudsman

3.42 The FSPO in Ireland is an independent body funded by levies on financial services providers and by a government grant. It considers unresolved complaints from consumers about their individual dealings with all financial services providers, including insurers. Decisions made by the FSPO are legally binding and can be appealed on points of law only to the High Court in Ireland.

Governance of long-term insurers

3.43 The Board of any insurance entity in Ireland is primarily responsible for corporate governance. However, it is expected that senior management provide governance oversight consistent with Board policy.

3.44 The Board must contain Independent Non-Executive Directors, Non-Executive Directors and Executive Directors. The Board must be led by the Chairman, who must promote effective communication amongst the Board.

3.45 The Board is also responsible for oversight of the committees, which must include an Audit Committee and a Risk Committee (although entities deemed to have a High PRISM rating by the CBI must also establish remuneration and nomination committees), as a minimum.

3.46 In addition to the Board, the CBI expects an insurance entity to appoint appropriate individuals to the following two roles:

- Chief Executive Officer – has ultimate responsibility for the insurance undertaking's operations, compliance and performance. The Chief Executive Officer should not be the Chairman
- Chief Risk Officer – responsible for the risk management function, and for maintaining and monitoring the risk management system.

3.47 The CBI requires entities to have a clear organisational structure, with well-defined lines of responsibility. It is also expected that there are effective processes in place to identify, manage, monitor and report the risks and adequate internal control mechanisms that promote effective risk management.

3.48 In addition, the CBI expects the governance structures that are put in place to be sophisticated enough to ensure effective oversight of the activities of the insurer.

Role of the Head of Actuarial Function

3.49 Insurance and reinsurance entities that are subject to Solvency II and supervised by the CBI are required to appoint a HoAF, which is a pre-approved and controlled function under the CBI's Fitness and Probity regime.

3.50 The HoAF role is defined by the CBI under its "Domestic Actuarial Regime and Related Governance Requirements under Solvency II" document of 2015. The CBI has also issued Guidance for (Re)Insurance Undertakings on the HoAF, which provides an overview of the issues the CBI expects to be considered when completing certain tasks.

3.51 Under Solvency II, the HoAF must:

- prepare an Actuarial Function Report which addresses the following areas:
  - Technical Provisions: co-ordination of the calculation of Technical Provisions, the quality of data, the assumptions and methodology used, a comparison of best estimate versus actual experience and informing the Board of the reliability and adequacy of the calculations;
  - opinions: opinions are required on the underwriting policy and the adequacy of the reinsurance arrangements; and
  - risk management: comment on the risk modelling underlying the Solvency Capital Requirement and Minimum Capital Requirement and contribute to the ORSA.
- provide an opinion on each ORSA process carried out, with the opinion being provided to the Board with the ORSA results; and
- arrange a peer review of the Technical Provisions.

3.52 In addition to the Solvency II requirements, for life insurance companies, the HoAF must also:

- recommend an allocation of the profits for with-profits business;
- provide an opinion where there is any discretion in policy conditions; and
- document the HoAF's interpretation of Policyholders' Reasonable Expectations and how this has been considered in the establishment of the Technical Provisions.

Risk appetite and capital policy

3.53 Similarly to the UK, the Board is responsible for setting the risk appetite and capital policy.

3.54 It is also usual for firms in Ireland to hold assets in excess of the regulatory minimum capital, this helps to ensure that day-to-day fluctuations do not lead to regulatory breaches. The size of this buffer will be set by the Board.

Management of with-profits business within Ireland

3.55 There is no Irish equivalent to the UK regulations around the management of with-profits business.

3.56 In Ireland, the HoAF is responsible for the oversight of the with-profits funds and will advise the Board on any matters relating to such funds.

3.57 In the management of with-profits business, regard must be paid to Policyholders' Reasonable Expectations. This is the responsibility of the Board.

3.58 On 22 June 2018, the CBI released CP122 – Consultation on Changes to the Domestic Actuarial Regime and Related Governance Requirements under Solvency II. This consultation paper proposes further amendments to the actuarial regime in Ireland relating to the governance of with-profits business. In particular, it proposes the following additional requirements relating to with-profits business:

- (re)insurance undertakings will be required to produce a With-Profits Operating Principles ("WPOP") document, which will be available to members of the respective with-profits funds;
- (re)insurance undertakings will be required to send an annual report to with-profits policyholders on the compliance of the fund with the principles of the WPOP;
- the HoAF will be required to report to the Board and with-profits policyholders on the compliance of the with-profits funds with the principles in the WPOP; and
- the HoAF will be required to provide an opinion to the Board on compliance of the Technical Provisions with the WPOP in the Actuarial Report on Technical Provisions.

3.59 It is proposed that these additional requirements will not apply to currently authorised insurers with existing with-profits policies until 1 January 2020. Once these additional requirements come into force, it is expected that they will apply to ALPI DAC.

Management of unit-linked business within Ireland

3.60 Similarly to the UK, the guidelines around the management of unit-linked business within Ireland are limited.

3.61 Actuarial Standard of Practice LA-4 ("ASP LA-4") – Additional Guidance for Appointed Actuaries on Policyholders' Reasonable Expectations is mandatory guidance issued by the Society of Actuaries in Ireland on the management of policyholders reasonable expectations. Section 3.3 of ASP LA-4 states that an Appointed Actuary must have regard to the following when exercising discretion for unit-linked business: determination of fund objectives and investment guidelines, unit pricing, and deductions and adjustments to unit process for actual and contingent tax and other liabilities.

3.62 The Appointed Actuary role as detailed above has since been replaced by that of the HoAF. However, the HoAF is still subject to the same actuarial standards that operated under the Appointed Actuary regime.

Main differences between UK and Irish regulations

3.63 The main differences between UK and Irish regulations are summarised below:

- the conduct of business rules in Ireland are more principles-based than those in the UK;
- there are some differences in the operation and governance of with-profits policies:
  - within the UK it is necessary for firms with with-profits policies to appoint a With-Profits Actuary, this is not a requirement in Ireland;
  - there is no requirement in Ireland for with-profits funds to maintain a PPFM;
  - there is no requirement in Ireland for firms to have a with-profits committee; and
  - there is no requirement in Ireland for firms to have a run-off plan for closed with-profits funds;
- there is no equivalent to the FSCS within Ireland for life insurance business; and
- whilst the FOS and FSPO fulfil similar roles in the UK and Ireland, there are some differences. The main difference between the FOS and the FSPO is that decisions made by the FSPO are legally binding and can only be appealed to the High Court in Ireland on points of law only, whilst decisions made by the FOS are only final and binding if they are accepted by the parties involved.

3.64 As mentioned in paragraph 3.58, the CBI is currently in the process of consulting on amendments to the actuarial regime in Ireland relating to the governance of with-profits business. If the proposed amendments are adopted by the CBI, it would result in the governance of with-profits business in the UK and Ireland being more closely aligned.

3.65 Currently the UK and Ireland follow the same solvency regulations (Solvency II). It is possible that in the future, following Brexit, the UK's solvency regulations may depart from those in Ireland.

4 Background on UKLAP

4.1 Within this section I detail the background of UKLAP, and its current financial position and capital policies. I comment further on these in later sections of this Report.

4.2 UKLAP is a private limited company incorporated and domiciled in the UK. It was formerly known as Norwich Union Life & Pensions Limited. The company changed its name to Aviva Life & Pensions UK Ltd on 1 June 2009. The principal activity of UKLAP is the transaction of long-term insurance business. UKLAP has both non-profit and with-profits funds and primarily writes pensions, bonds and protection business.

History

4.3 The Norwich Union life insurance business was founded in 1808 and sold business in the UK and Ireland, as well as other countries worldwide. In 1997, Norwich Union demutualised under the NULIS Scheme and UKLAP was created as a wholly-owned subsidiary of Norwich Union plc.

4.4 General Accident and Commercial Union, two UK based entities, merged in 1998 to form CGU. General Accident operated in Ireland through a branch of the UK company called The General Life and Fire Assurance Company, and Hibernian Life & Pensions Ltd was the Irish subsidiary of Commercial Union. In 2000, The General Life and Fire Assurance Company was closed to new business, with all future Irish business being sold through Hibernian Life & Pensions Ltd.

4.5 In 2000, CGU merged with Norwich Union to form CGNU plc. During 2001, the Irish subsidiaries of CGNU plc were consolidated into one entity – Hibernian Life & Pensions Ltd, which was subsequently renamed Hibernian Aviva Life and Pensions Ltd and then Aviva Life & Pensions Ireland Ltd.

4.6 UKLAP has evolved following a number of mergers, acquisitions and transfers, including the acquisition of Aviva Life & Pensions Ireland Ltd in 2014 and Friends Life Group ("FLG") in 2015. A more detailed summary of the transactions which form UKLAP's current structure can be found in Appendix H, the list below details previous schemes that are referenced elsewhere in this Report.

- **The NULAP Scheme** – In 2005, the NULAP Scheme restructured the non-profit funds of CGNU plc and business was transferred to UKLAP. The NULAP Scheme superseded and replaced significant elements of the NULIS Scheme.
- **The Reattribution Scheme** - In 2009, the Reattribution Scheme superseded and replaced the NULAP Scheme and the remaining parts of the NULIS Scheme. The Reattribution Scheme involved the transfer of long-term business from CGNU Life Assurance Limited ("CGNU Life"), Commercial Union Life Assurance Company Ltd ("CULAC") and Norwich Union Life (RBS) Ltd ("NUL (RBS)") to UKLAP.
- **The Irish Scheme** - On 31 December 2014, UKLAP purchased Aviva Life & Pensions Ireland Ltd, including the long-term liabilities, which were transferred to UKLAP on 1 January 2015. Following the implementation of the Irish Scheme, the existing Irish Branch of UKLAP has been used to write business in Ireland.
- **The 2017 Scheme** - In April 2015, Aviva plc acquired FLG, making Aviva plc the ultimate holding company of Friends Life Ltd ("FLL") and Friends Life & Pensions Ltd ("FLP"). On 1 October 2017, the long-term businesses of FLL, FLP and the annuity business of Aviva Investors Pensions Ltd ("AIPL") were transferred to UKLAP.

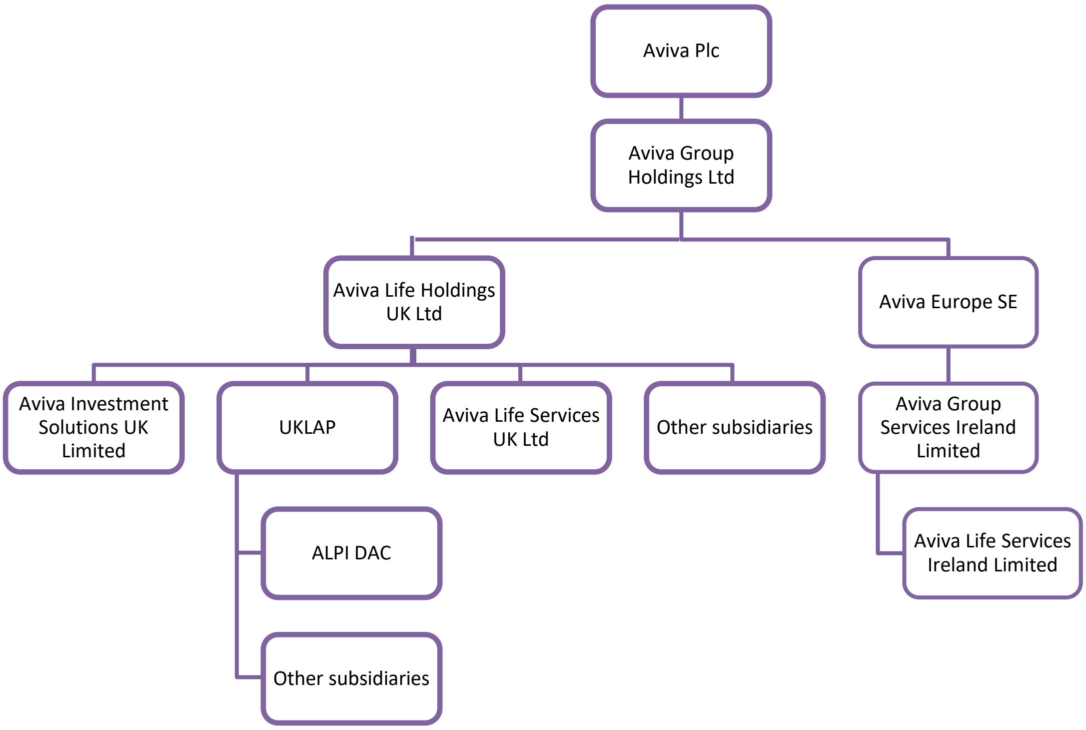
4.7 The provisions of all previous schemes (except the Irish Scheme) were replaced by the 2017 Scheme.

4.8 On 31 May 2018 ALPI DAC became a wholly owned subsidiary of UKLAP.

Structure

Company structure

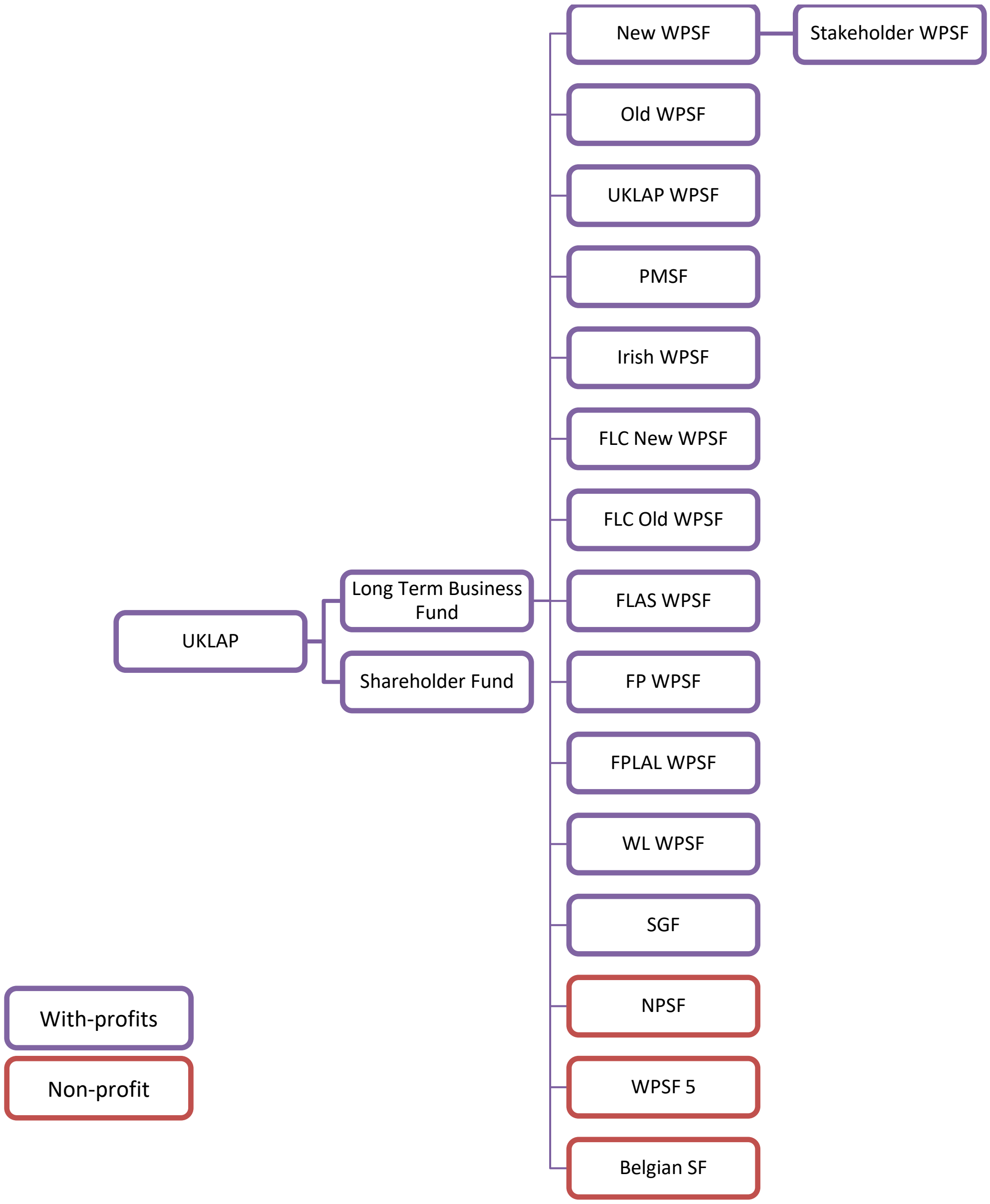
4.9 UKLAP is a fully owned subsidiary of Aviva plc. An abbreviated company structure is shown below. This illustrates the structure of the entities which are of particular interest for the Transfer.



4.10 UKLAP has a number of subsidiaries, shown as 'Other subsidiaries' in the diagram above. The only subsidiary of UKLAP which is of material interest to the Transfer is ALPI DAC, as no others are directly involved in the Transfer, and there is no transfer of policies to or from any subsidiary of UKLAP other than ALPI DAC.

Fund structure

4.11 The diagram below summarises the current fund structure of UKLAP. This shows UKLAP as being subdivided between a Shareholder Fund and a Long-Term Business Fund ("LTBF"). The LTBF contains all the assets and liabilities belonging to policyholders. All assets in the UKLAP Shareholder Fund are attributable to shareholders and may be used to support the LTBF. This reflects the fact that for accounting purposes the shareholder assets are separated from other assets.


UKLAP
Long Term Business Fund
Shareholder Fund
New WPSF
Stakeholder WPSF
Old WPSF
UKLAP WPSF
PMSF
Irish WPSF
FLC New WPSF
FLC Old WPSF
FLAS WPSF
FP WPSF
FPLAL WPSF
WL WPSF
SGF
NPSF
WPSF 5
Belgian SF
With-profits
Non-profit

Summary of business written in UKLAP

4.12 UKLAP has a total of c.14.5m policies and £227bn total BEL as at 31 December 2017. The table below shows the split between each of the funds:

	Policy Count	BEL (£m)
New WPSF	404,179	14,136
Old WPSF	77,666	2,318
UKLAP WPSF	354,695	12,191
PMSF	124,909	1,346
Irish WPSF	8,644	731
FLC New WPSF	366,991	3,508
FLC Old WPSF	28,687	911
FLAS WPSF	225,623	3,483
FP WPSF	623,531	7,498
FPLAL WPSF	11,609	190
WL WPSF	54,283	537
SGF	15,024	469
NPSF inc. WPSF 5	12,094,812	179,573
Belgian SF	108,995	117
Total	**14,499,648**	**227,008**

Types of new business written

4.13 UKLAP is open to new business and is one of the leading providers of unit-linked bonds, unit-linked pension business and protection business in the UK. Protection business comprises both level term assurance and mortgage protection policies, including significant volumes of critical illness benefit. UKLAP also sells significant volumes of whole life business specifically designed for customers over the age of 50, as well as income replacement business through its healthcare unit, group life business and creditor business. The non-profit sub-funds include significant volumes of older annuity business. The with-profits sub-funds of UKLAP continue to write immaterial levels of new with-profits business.

EU business sold under EU passporting rights

4.14 The following table shows the policy count and BEL as of 31 December 2017 for the business sold under EU passporting rights.

Transferring Policies	Type of Transferring Policy	Policy Count	BEL (£m)
With-profits Irish	With-profit	8,644	731
Non-profit Irish Business	Non-profit	247,773	5,139
OLAB	Non-profit and with-profit	205,861	1,155
	Total	**462,278**	**7,024**

4.15 The Irish WPSF contains only the with-profits Irish Business shown in the table above. The NPSF contains all of the non-profit Irish Business. The NPSF also contains some non-profit OLAB.

4.16 The following table shows the policy count and BEL as at 31 December 2017 for OLAB and the fund in UKLAP in which they were written.

		Policy Count	BEL (£m)	NPSF (£m)	New WPSF (£m)	Old WPSF (£m)	Irish WPSF (£m)	FP WPSF (£m)	FLAS WPSF (£m)	Belgian SF[9] (£m)
OLAB – Ireland (the CGNU Life business written in Ireland)	Non-Profit / Unit-linked	534	26	26	0	0				
	With-profit	413	18		12	5				
OLAB – Germany	Non-Profit / Unit-linked	67,810	683	683				80	32	
	With-profit	8,062	116		2	2				
OLAB – France	Non-Profit / Unit-linked	1,333	52		46	6				
	With-profit		65		53	12				
OLAB – Belgium	Non-Profit / Unit-linked	108,995	117							117
OLAB – Sweden	Non-Profit / Unit-linked	2,821	47	47						
	With-profit	1,117	3		3	0				
OLAB – Iceland	Non-Profit / Unit-linked	14,777	25	25						
	With-profit		3					3		
Total		**205,861**	**1,155**	**781**	**116**	**26**	**0**	**83**	**32**	**117**

Note: 0 in the table above represents a number greater than zero but less than 0.5.

4.17 Each of the funds within UKLAP that contains the business sold under EU passporting rights are open to increments only and are not open to new business, with the following two exceptions:

- the NPSF, an open fund in UKLAP, is open to increments only from OLAB policies but is open to all new business from Irish Business; and
- the Belgian SF, which is closed to both new business and increments.

[9] The policies within the Belgian SF are European with-profits style products, but from a UK perspective and for the entirety of this Report are regarded as non-profit.

Capital support arrangements

4.18 Each with-profits fund is generally run as a ring-fenced fund and uses its own resources to distribute the excess surplus among policyholders within the fund. However, there are additional capital support arrangements in place should these be required for some of the funds that are closed to new business and are in run-off.

RIEESA

4.19 The Reattributed Inherited Estate External Support Account ("RIEESA") is an account of the NPSF which belongs to shareholders, although it is managed as if it were part of the New WPSF. It was set up as a result of the Reattribution Scheme and it contains the reattributed Estates of CGNU Life and CULAC. The RIEESA is available to support both the New WPSF and the Old WPSF.

4.20 The assets within the RIEESA cannot be released to the UKLAP Shareholder Fund until certain conditions are met. These conditions relate to the level of assets in excess of the liabilities and the SCR of the New WPSF. As at 31 December 2017, no release from the RIEESA had taken place. However, I have been informed by UKLAP that on 31 May 2018 there was a transfer of £68m from the RIEESA to the UKLAP Shareholder Fund. This was calculated in accordance with the requirements of the Reattribution Scheme. Further releases are expected in future years, which shall also be calculated in accordance with the requirements of the Reattribution Scheme.

With-profits support accounts set-up following the 2017 Scheme

4.21 As part of the 2017 Scheme, a number of support accounts were set up to support the with-profits funds that transferred pursuant to the 2017 Scheme. These are memorandum support accounts, in that there are no ring-fenced assets associated with them. Support accounts exist for the funds listed below. If any of these funds were to require support, the NPSF or UKLAP Shareholder Fund would step in and provide assets up to a specified level. The funds with support accounts that are relevant to the current Scheme are:

- FP WPSF (also supported by the FP Post Demutualisation support accounts); and
- FLAS WPSF.

4.22 As at 31 December 2017, the level of these support accounts is shown in the table below, although currently no funds require this support.

Support account	Amount (£m)
FP WPSF	38.7
FP Post Demutualisation WPSF	19.0
FLAS WPSF	126.0

4.23 All of the with-profits support accounts described above run-off according to schedules within the 2017 Scheme.

Reinsurance arrangements

4.24 As is common across insurance firms, UKLAP makes use of reinsurance to manage its business. A full list of reinsurance treaties held by UKLAP that cover the Transferring Policyholders is included in Appendix G. The Transfer does not impact reinsurance treaties that cover only the risks associated with the Remaining Policyholders of UKLAP.

4.25 There are no internal reinsurance agreements between the funds of UKLAP which are relevant to the Scheme.

Financial position

4.26 UKLAP has prepared its Solvency II results using a Partial Internal Model approach. UKLAP applies an MA to the vast majority (but not all) of its annuity business (in particular, no MA is applied to the annuities that were transferred to UKLAP as part of the Irish Scheme, which are being transferred to ALPI DAC). For lines of business where no MA is applied, except for unit-linked business and policies originally sold by FLP, UKLAP allows for a VA. In addition, UKLAP makes use of the TMTP. The use of a Partial Internal Model, the use of the MA and VA and the use of the TMTP have been approved by the PRA.

Solvency II Pillar 1

4.27 The following table sets out the Solvency II Pillar 1 results as at 31 December 2017, including the SCR, based on restatements and adjusted to reflect the ALPI DAC acquisition. These results have been prepared by UKLAP and have been signed off following the usual governance processes. I have not independently verified these figures.

31 December 2017	£m
Total assets	307,464
Total liabilities	292,196
Excess of assets over liabilities	15,269
Total available Own Funds to meet the SCR	14,154
SCR	9,321
SCR Ratio	152%

4.28 The figures shown in the table above have been prepared in accordance with the method required for published regulatory returns, and restrict surplus from the fully ring-fenced funds on consolidation ("Ring-Fenced Fund Deduction"). The approach adjusts for partially ring-fenced funds using a method consistent with that used for regular statutory reporting.

4.29 In line with Solvency II regulations, assets are classified into different tiers, depending on their quality, with Tier 1 being the categorisation for assets of the highest quality. I note that as at 31 December 2017 all of the assets held in respect of Own Funds are categorised as Tier 1 capital and thus the assets backing the Own Funds of UKLAP are of an appropriate quality.

Key areas of risk

4.30 I have reviewed the components of the SCR calculations carried out by UKLAP and these indicate that the top three undiversified areas of shareholder risk for UKLAP are: longevity risk (policyholders living longer than expected), credit risk (primarily bondholders defaulting on payments or movements in credit spreads on bonds as a result of downgrade of the credit rating of the issuer, or for any other reason) and lapse risk (differences between actual and expected lapse rates).

4.31 Exposure to longevity risk and lapse risk is measured via analysis of experience, capital calculations and stress and scenario testing. UKLAP partially mitigates longevity risk using reinsurance and monitors this risk against external industry data, emerging trends and potential future trends. UKLAP manages lapse risk through monitoring of lapse experience, benchmarking against market information and initiatives to improve policy retention.

4.32 UKLAP uses maximum exposure and credit rating metrics to measure and monitor credit risk exposure. UKLAP sets a maximum exposure limit to the credit risk of financial and reinsurance assets and uses credit ratings as indicators of credit risk to determine investment-related decisions. The majority of UKLAP's credit risk arises from corporate and government bond holdings. Various risk mitigation techniques are used to manage credit risk, including a limit framework, specific risk management committees and a number of asset-specific mitigation techniques.

Solvency II Pillar 2

4.33 UKLAP's Solvency II Pillar 2 results are set out in its ORSA. I have reviewed UKLAP's 2017 ORSA, which was approved by the Board on 23 February 2018. The ORSA is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile. The key risks for UKLAP under the ORSA are similar to those set out in the "Key areas of risk" section above. As part of my review of the ORSA, I have taken into account the range and depth of the analysis contained in the ORSA and the extent to which the key risks have been subject to an appropriate range of stress and scenario tests. Stress and scenario testing is a key part of UKLAP's risk management and business planning process as it helps the company identify, evaluate and manage the key areas of risk.

Stress testing

4.34 I have reviewed the results of stress tests which indicate that the SCR Ratio for UKLAP remains above the target levels under its solvency risk appetite policy under the following stresses: 10% equity fall, 10% property fall (commercial and residential), 100 bps increase/decrease in interest rates, 25 bps increase/decrease in interest rates, 200 bps corporate bond spread widening and 100 bps corporate bond spread widening. The SCR Ratio falls within the 'Amber' risk appetite zone (see paragraph 4.40 below) under the longevity stress, which is modelled as an increase in annuitant mortality improvement rates resulting in an increased life expectancy of one year for a male aged 75. However, this position can be remediated by withholding dividends.

Scenario testing

4.35 The ORSA includes scenario testing for a range of adverse scenarios affecting both UKLAP and the wider Aviva Group. The scenarios cover a diverse range of events including financial, geopolitical, medical and large counterparty failures and are classified as either "Remote", with a likelihood of occurring of between 1 in 10 years and 1 in 200 years, or "Extremely Remote", with a likelihood of occurring less than every 1 in 200 years.

4.36 The majority of scenarios had an adverse impact on the SCR Ratio. However, by implementing management actions, mainly withholding dividends, UKLAP would be able to restore the SCR Ratio to the Green risk appetite zone, as defined in the 'Solvency Risk Appetite' section below.

Economic Capital view

4.37 As well as considering capital required in order to meet regulatory requirements, some firms also consider alternative metrics which are based on an internal measurement of assets and liabilities and their own internal assessment of risk. Such an approach, often referred to as Economic Capital, may be used if the firm considers that the regulatory approach does not appropriately reflect the way they manage their business. UKLAP confirmed it does not use any alternative Economic Capital metrics as it considers its Partial Internal Model to be the most appropriate approach.

Solvency Risk Appetite

4.38 I have been provided with internal management information regarding the risk appetite, risk limits and capital policies within UKLAP that are aimed at safeguarding solvency levels in the future. In the Aviva Group, the capital policy is referred to as its SRA, therefore, hereafter I will refer to the capital policy as the SRA. I have reviewed the SRA which states that UKLAP aims to maintain an appropriate capital buffer above the SCR to protect against the short-term volatility in capital resources and capital requirements. It is necessary for me to review and understand the SRA of UKLAP in order to compare and contrast this to the SRA of ALPI

DAC, this aids my assessment of the likely impacts, if any, of the Transfer on the various policyholder groups.

4.39 UKLAP has a target SCR Ratio which it sets according to there being enough capital to cover (after allowing for the Ring-Fenced Fund Deduction) the SCR following a 1-in-5 year stress event, plus an additional allowance for any other items UKLAP feels it is necessary to incorporate into its target SCR Ratio. Although both UKLAP and ALPI DAC utilise similar methodologies to set their target SCR Ratio, the resulting targets are not the same, for example the target SCR Ratio for ALPI DAC is 150%, this is not the same as the UKLAP target SCR Ratio calculated using a similar method. An SCR Ratio at or above its target SCR Ratio is deemed to be within the 'Green' risk appetite zone. The target SCR Ratio within the SRA is reconsidered on an annual basis, with changes to the SRA policy being subject to appropriate governance.

4.40 Between the regulatory minimum level of capital (i.e. an SCR Ratio of 100%), and the target SCR Ratio there are two further risk appetite zones, 'Red' and 'Amber'. In the event that SCR Ratio falls within the Red or Amber risk appetite zone, the SRA sets out the management actions that will be implemented to restore the target SCR Ratio to the Green zone.

4.41 UKLAP's SCR Ratio at 31 December 2017 was 152% which is in excess of the capital required by UKLAP's SRA. Should the SCR Ratio remain in excess of the target SCR Ratio, subject to the consideration of the capital required to support writing future new business, UKLAP may consider making shareholder distributions to bring the level of SCR Ratio back towards the target SCR Ratio.

Governance arrangements

4.42 Ultimate responsibility for the operation of UKLAP rests with the Board. The Board of UKLAP contains two executives and six independent non-executive directors, one of whom is the chair of the Board. The day to day governance of UKLAP is overseen by five committees of the Board, all of which have an independent chair, as follows:

- Risk Committee – this committee is responsible for assisting the Board in risk oversight, reviewing risk appetite and risk profile, reviewing the effectiveness of the Risk Management Framework, reviewing the methodology used to determine capital requirements, stress testing, ensuring due diligence is performed on significant transactions and monitoring regulatory requirements.
- Conduct Committee – this committee assists the Board in the oversight of conduct issues, including oversight of the conduct framework, the achievement of an appropriate conduct-focused culture and the management of good and influential relationships with the regulators. This committee also sets and reviews conduct and financial crime risk appetite and ensures the exposure to reputational risk is in line with Board-approved levels.
- Investment Committee – this committee is responsible for assessing and approving investment strategy in line with risk appetite, overseeing relationships with investment managers and monitoring investment performance.
- Audit Committee – this committee monitors the integrity of financial statements and the effectiveness of the systems of internal control. This committee is also responsible for monitoring the effectiveness, performance, independence and objectivity of both internal and external auditors.
- With-profits Committee ("WPC") – this committee provides independent oversight and challenge to ensure fairness and that the interests of with-profits policyholders are appropriately considered in governance structures and the decision-making process.

Management of with-profits business

4.43 The with-profits governance arrangements within UKLAP apply to all with-profits funds of UKLAP and are overseen by the WPC.

4.44 Each with-profits fund has its own PPFM which set out how discretion is applied when determining benefits for with-profits policies. It is the responsibility of the Board to ensure that the with-profits funds are managed in line with their respective PPFM. In particular, the Board must ensure that any charges which may be applied to with-profits policies are consistent with the requirements of the PPFM. The Board has appointed a WPA whose role includes the provision of advice on with-profits matters.

Tax on with-profits funds

4.45 Most of the with-profits funds of UKLAP, including all the with-profits funds that contain Transferring Policies, are currently taxed as if they were standalone proprietary entities.

Expenses on with-profits funds

4.46 For the majority of the with-profits funds of UKLAP, the administration expenses charged to each of the with-profits funds are set in accordance with the Management Service Agreements ("MSAs") which UKLAP has in place with the service providers. These MSAs are reviewed periodically, and the charges to the with-profits funds are recalculated on this basis. Between the review periods, the charges to the with-profits funds generally increase with reference to inflation. Any changes to the MSAs requires the approval of the WPC.

4.47 In summary:

- on an annual basis the administration charges applied to the New WPSF, Old WPSF, Irish WPSF, FLAS WPSF and FP WPSF increase with reference to inflation. Any other change to these charges would require an amendment of the MSAs, which would require the approval of the WPC; and
- investment expenses are charged to all the with-profits funds according to the investment management agreements between the investment manager and UKLAP.

4.48 It is also possible for one-off expenses to be charged to the with-profits funds of UKLAP, in addition to the fees described above. Any such fees would be subject to approval by the WPC.

Other expenses

4.49 Within UKLAP, any expenses associated with defined benefit pension schemes of UKLAP are met by the NPSF, except for the FP WPSF which has an additional charge applied for a closed defined-benefit scheme within the fund which currently has a deficit.

4.50 Expenses associated with mis-selling are met by the with-profits funds to which the mis-selling relates. However, the Irish WPSF will only meet the cost of remediation and not any expenses in relation to compensation.

4.51 The with-profits funds will not meet expenses when the fault lies with UKLAP, in which case the costs would be charged directly to the NPSF. In addition, before any expenses associated with mis-selling can be applied to any of the with-profits funds of UKLAP, the approval of the WPC is required.

Vesting annuities

4.52 Annuities vesting in the New WPSF and Old WPSF are retained within those with-profits funds. Annuities vesting in all other with-profits funds of UKLAP, including the Irish WPSF, vest in the NPSF.

4.53 Periodically, a test is performed to ensure that the premiums paid by the with-profits funds for vesting annuities are comparable to those available in the market.

Management of non-profit and unit-linked business

4.54 Generally, the benefits on non-profit policies are fixed. For unit-linked business, the benefits are determined in relation to the value of units. However, there are a number of areas where the policy benefits may be subject to the discretion of UKLAP. These include:

- determination of surrender values;
- changes to annual management charges of unit-linked policies;
- reviewable risk charges or premiums; and
- allowance for transaction costs and future tax in unit pricing.

4.55 The exercise of discretion in relation to unit pricing in unit-linked funds is carried out by the UKLAP Unit Pricing Group ("UKLAP UPG"). All other areas of discretion, with regard to non-profit and unit-linked business, are approved by the Underwriting Product and Pricing Forum ("UPPF"). When applying discretion the UPPF and UKLAP UPG pay regard to policyholder communications, past practices and the Aviva Life Inforce Management Standard. The Aviva Life Inforce Management Standard requires the consideration of regulations relating to the fair treatment of customers and the views of local regulators.

Policy administration

4.56 Policy administration, including for the Transferring Policies, is either carried out internally on behalf of UKLAP or externally by third-party outsourcers. The outsourcing agreements include details of the service levels that the outsourcer is required to meet when responding to customer enquiries. The same service levels also apply to policies administered internally and are documented within the 2018 Customer Experience Standard, the Life Insurance Claims Handling Business Standard and the Conduct Risk Policy.

FSCS cover

4.57 Most policies within UKLAP, including OLAB policies and some of the Irish Business, are covered by the FSCS. Historically, it has been understood by UKLAP that policies which transferred to UKLAP as part of the Irish Scheme are not covered by the FSCS. The remainder of the Irish Business policies, which were sold since the Irish Scheme, are covered by the FSCS.

5 Background on ALPI DAC

5.1 Within this section I detail the background of ALPI DAC, its current financial position and its solvency targets. I comment further on these in later sections of this Report.

5.2 ALPI DAC is a private limited company incorporated and domiciled in Ireland. The principal activity of ALPI DAC is the transaction of long-term insurance business. ALPI DAC has both non-profit and with-profits funds but now primarily writes non-profit protection, unit-linked savings, investment and pensions business within Ireland.

5.3 As noted in paragraph 1.4 above, on 31 May 2018 ALPI DAC became a wholly owned subsidiary of UKLAP.

History

5.4 Friends Provident was set up by the Society of Friends (Quakers) in the UK in 1827. In 1832, the Friends Provident Institution was formed under the Friendly Societies Act to provide life insurance exclusively to the members of the Society of Friends and in 1834 the first branch of the Friends Provident Institution was established in Ireland. In 1915, the Friends Provident Institution was incorporated as a mutual life assurance office and able to sell business to individuals outside of the Society of Friends.

5.5 Separately, the Century Insurance Company Ltd ("Century") was formed in 1885 and sold general insurance with branches in Dublin and Belfast. In 1918, the Friends Provident Institution acquired the Century Insurance Co. Ltd and formed Friends Provident & Century Life Office. In 1972, Friends Provident & Century Life Office split its branches equally between Friends Provident, which sold life insurance in the UK and Ireland, and Century, which sold general insurance in the UK. Subsequently, in 1974, Century was sold and the office was renamed Friends Provident Life Office ("FPLO").

5.6 In 1990, FPLO decided to domesticate its Irish Branch business and so established Friends Provident Life Assurance Company Limited ("FPLAC") in Ireland into which the Irish Branch business was transferred in the equivalent of a Part VII transfer in early 1991. A summary of the transactions which form ALPI DAC's current structure is provided below.

- **National Mutual Life Assurance Company** – at the start of 1994, the acquisition of FPLAC by the Eureko holding company completed and Eureko also acquired the Irish subsidiary of National Mutual Life Assurance Company. In 1995, the Irish book of business of National Mutual Life Assurance Company was transferred to FPLAC. To facilitate these and other transactions Eureko established an Irish holding company, Eureko Ireland Holdings Limited;
- **Irish Rebrand** – in 1998, FPLAC was rebranded to FFLAC and Eureko Ireland Holdings Limited became Friends First Holdings Limited;
- **Purchase of FFLAC by AGH** – in late 2017, it was announced that the terms of the purchase of FFLAC by AGH had been agreed. This acquisition completed on 23 May 2018, and at that point AGH owned 100% of the share capital of FFLAC;
- **Purchase of FFLAC by UKLAP** – on 31 May 2018, UKLAP purchased all of the share capital of FFLAC from AGH; and
- **Rebrand to ALPI DAC** – following the acquisition of FFLAC by UKLAP, I understand from UKLAP that it will be rebranded to ALPI DAC, an Aviva Group company. This is expected to occur at the Effective Time. UKLAP is now working with ALPI DAC to harmonise the systems, processes and service standards.

5.7 The various transactions outlined above have ultimately resulted in the current entity, ALPI DAC.

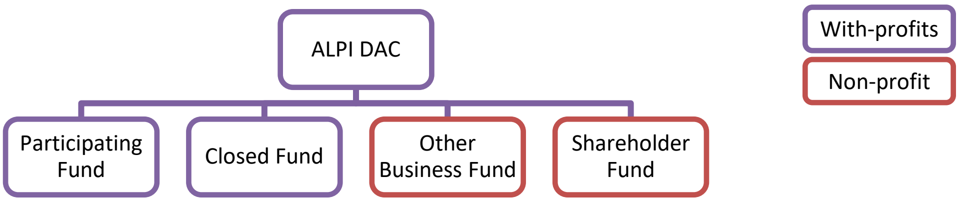
Structure

Company structure

5.8 An abbreviated company structure for Aviva plc showing the ownership of ALPI DAC is shown in paragraph 4.9 above.

Fund structure

5.9 The diagram below summarises the current fund structure of ALPI DAC.



5.10 The Participating Fund contains both life and pension conventional with-profits business and non-profit life insurance and pension business, all of which was written up to March 1996. The Participating Fund also includes the unitised with-profits component of unit-linked policies written in the Other Business Fund. It continues to write immediate annuity business, some group protection business and increments to group life and pensions schemes. The shareholders are liable to meet any shortfall in the Participating Fund and are entitled to transfers of 10% of the annual surplus that is distributed.

5.11 The Closed Fund comprises the conventional business taken over in 1995 from National Mutual Life Assurance Company, including both non-profit and with-profits business. This fund is closed to new business and the shareholders do not have any entitlement to any of its surplus.

5.12 The Other Business Fund contains the conventional non-profit life and pension business, excluding immediate annuities, written since March 1996. It also includes unit-linked business and conventional income protection. The shareholders are entitled to 100% of any surplus arising at each statutory valuation.

5.13 The ALPI DAC Shareholder Fund consists of all of the assets and liabilities not belonging to the Participating Fund, Other Business Fund or Closed Fund.

Summary of business written in ALPI DAC

5.14 ALPI DAC had a total of 159,622 policyholders and €4,514m total BEL as of 31 December 2017, the table below shows the split between each of the funds.

	Participating Fund	Closed Fund	Other Business Fund	Total
Policy count	11,815	2,303	145,504	159,622
BEL (€m)	1,344	68	3,100	4,514

Types of new business written

5.15 ALPI DAC is open to new business. The Other Business Fund mainly writes individual and group income protection, individual mortgage and life insurance protection, group life insurance protection, pensions funding products and savings and investment products. The Participating Fund continues to write immediate annuities, group protection and increments on existing business.

Capital support arrangements

5.16 There are no support accounts within ALPI DAC.

Reinsurance arrangements

Internal reinsurance

5.17 ALPI DAC reinsures the investment element of its unitised with-profits business from the Other Business Fund to the Participating Fund.

External reinsurance

5.18 ALPI DAC has a number of external reinsurance arrangements in place, none of these are material to the Transfer.

Financial position

5.19 ALPI DAC has prepared its Solvency II results in accordance with the Standard Formula. ALPI DAC has provided me with its assessment of the appropriateness of using a Standard Formula approach as opposed to an Internal Model. This assessment has also been reviewed by the CBI. The CBI has not raised any objections to using a Standard Formula approach.

5.20 ALPI DAC makes use of the VA mechanism in calculating its Basic Own Funds under Solvency II. The use of the VA has been approved by the CBI. ALPI DAC does not use an MA or a TMTP.

Solvency II Pillar 1

5.21 The following table sets out the Solvency II Pillar 1 results for ALPI DAC as at 31 December 2017.

31 December 2017	€m
Total assets	4,965
Total liabilities	4,709
Excess of assets over liabilities	256
Total available Own Funds to meet the SCR	253
SCR	160
SCR Ratio	158%

5.22 The figures in the table above have been prepared in accordance with the method required for published regulatory returns and only includes assets backing the liabilities and SCR of any ring-fenced funds[10].

5.23 In line with Solvency II regulations, assets are classified in different tiers depending on their quality, with Tier 1 the categorisation for assets of the highest quality. I note that as at

[10] An immaterial amount of surplus from one with-profits fund (as agreed with CBI) is also included.

31 December 2017 all of the assets held in respect of the Own Funds are categorised as Tier 1 capital and thus the assets backing the Own Funds of ALPI DAC are of an appropriate quality.

Key areas of risk

5.24 I have reviewed the components of the SCR calculations carried out by ALPI DAC and, prior to the Transfer, these indicate that the key areas of shareholder risk, on an undiversified basis, are: morbidity (actual disability and illness rates differing from expected), lapse risk (differences between actual and expected lapse rates) and expense risk (differences between actual and expected expenses).

5.25 Exposure to all of the above risks is measured via analysis of experience, capital calculations and stress and scenario testing. ALPI DAC mitigates these risks by using reinsurance.

Solvency II Pillar 2

5.26 ALPI DAC's Solvency II Pillar 2 results are set out in its ORSA. I have reviewed ALPI DAC's interim ORSA dated February 2018. This includes financial projections and analysis carried out assuming the Scheme is successfully implemented. The key risks, financial projections and stresses to the projections reflect the Board's view of its own risk appetite and risk tolerance. Stress and scenario testing is a key part of ALPI DAC's risk management and business planning process as it helps the company identify, evaluate and manage the key areas of risks. As part of my review of the ORSA, I have taken into account the range and depth of the analysis contained in the ORSA and the extent that the key risks have been subject to an appropriate range of stress and scenario tests.

5.27 The ORSA report was produced on the basis that the Transferring Policies would be subject to VA, and the ORSA report I have reviewed does not include a "without VA scenario". The VA application for the Transferring Policies has since been deferred to 2019, however, on further enquiry, ALPI DAC has provided me with information that shows that the impact of the VA in respect of the Transferring Policies is expected to be small.

Stress testing

5.28 I have reviewed the results of the 1-in-5 year and 1-in-10 year stress tests which indicate that the SCR Ratio for ALPI DAC falls within the amber risk appetite range under its solvency risk appetite policy (as specified in the "Scenario testing" section below) under the following stresses: interest rate, longevity, expenses, lapses and widening of credit spreads. I understand from ALPI DAC that withholding dividends and additional hedging of market risks restores the SCR Ratio back to the target level.

Scenario testing

5.29 The ORSA includes scenario testing for a range of scenarios. The scenarios were chosen taking into account key risk exposures and emerging risks. Whilst ALPI DAC does not assign a set probability to each of the scenarios tested, the more adverse scenarios are considered unlikely. Even in those scenarios with the greatest adverse impact on the SCR Ratio, by implementing management actions, mainly withholding dividends, ALPI DAC was able to restore its capital to a level that would ensure that it could withstand a 1-in-5 year event and continue to meet its regulatory capital requirements, which themselves protect against an extreme scenario (i.e. could restore the SCR Ratio to the Green appetite zone as defined below).

Economic Capital view

5.30 I have discussed with ALPI DAC the metrics they use to manage their business and they have confirmed that they do not currently use any alternative Economic Capital metrics. I note that when assessing the appropriateness of the use of the Standard Formula, ALPI DAC has taken into consideration some of the stresses that would be used under an Internal Model approach.

Solvency Risk Appetite

5.31 I have been provided with internal management information regarding the governance arrangements, risk appetite, risk limits and capital policies within ALPI DAC that are aimed at safeguarding solvency levels in the future. It is necessary for me to review and understand the ALPI DAC SRA in order to compare and contrast this to the UKLAP SRA, this aids my assessment of the likely impacts, if any, of the Transfer on the various policyholder groups.

5.32 In particular, I have reviewed the ALPI DAC SRA which states that ALPI DAC aims to maintain an appropriate capital buffer above the SCR such that, after a 1-in-5 year adverse event, there is still enough capital to at least cover 100% of the SCR. The ALPI DAC SRA is consistent with that followed by UKLAP and the wider Aviva Group. An SCR Ratio that is at or above the capital buffer is deemed to be within the Green risk appetite zone. At the date of the Change of Control of ALPI DAC to AGH, the target SCR Ratio was set at 150%, the current target for ALPI DAC.

5.33 Below the Green risk appetite zone, there are two further risk appetite zones, 'Red' and 'Amber'. In the event that the SCR Ratio falls within the Red or Amber risk appetite zone, the SRA states that management actions will be implemented to restore the target SCR Ratio to the Green zone.

5.34 The SCR Ratio at 31 December 2017 was 158% which is within the Green risk appetite zone.

Governance arrangements

5.35 The Board of ALPI DAC is made up of two Executive Directors, four Group Non-Executive Directors and three Independent Non-Executive Directors; the chair of the Board is one of the three Independent Non-Executive Directors. The Board of ALPI DAC is supported by three sub-committees: the Audit Committee, the Risk Committee and the Nomination Committee, all of which are chaired by an independent non-executive director. The roles and responsibilities of these sub-committees are as follows:

- Audit Committee – this committee assists the Board by monitoring the effectiveness of the internal audit function and the external audit process and the integrity of financial reporting;
- Risk Committee – this committee is responsible for assisting the Board in risk oversight, reviewing risk appetite and risk profile, reviewing the effectiveness of the risk management framework, reviewing the methodology used to determine capital requirements, stress testing, ensuring due diligence is performed on significant transactions and monitoring regulatory requirements; and
- Nomination Committee – this committee is responsible for the balance of skills, knowledge, experience and diversity of the Board, recommending Board and sub-committee appointments to the Board and monitoring succession plans for Executive Directors.

5.36 The governance and risk framework will be confirmed as part of the integration process of ALPI DAC into the Aviva Group. If there are any changes to the governance and risk framework, I will comment on the impact of this in my Supplementary Report.

Management of with-profits business

5.37 The Board of ALPI DAC is responsible for managing the with-profits business and for the setting of bonus rates. The HoAF advises the ALPI DAC Board on matters associated with the with-profits business. This includes advice on any charges which may be allocated to the with-profits funds.

5.38 In addition, despite it not being a requirement of the CBI, both the Participating Fund and Closed Fund have PPFMs which detail how these funds will be run.

5.39 ALPI DAC does not have a with-profits committee or WPA.

Tax on with-profits funds

5.40 Tax is charged to the Closed Fund of ALPI DAC as if it were a mutual life assurance company, whilst the Participating Fund tax charge is calculated as if it were a separate proprietary company. These tax charges are calculated according to the respective PPFMs of the with-profits funds of ALPI DAC.

Expenses on with-profits funds

5.41 Both the Closed Fund and the Participating Fund are charged a share of the actual expenses incurred by ALPI DAC. There is a cap on expenses which can be charged to the Closed Fund.

Other expenses

5.42 Costs relating to mis-selling will be allocated to the with-profits funds to which they relate. The with-profits funds also bear a portion of the expenses associated with the ALPI DAC defined benefit pension scheme, using an activity-based costing model to allocate these expenses.

Management of non-profit and unit-linked business

5.43 Although the benefits on non-profit policies are generally fixed and for unit-linked business are determined in relation to the value of units, there are a number of areas where the policy benefits may be subject to the discretion of ALPI DAC. These include:

- determination of surrender values;
- changes to annual management charges of unit-linked policies;
- reviewable risk charges or premiums; and
- allowance for transaction costs and future tax in unit pricing.

5.44 Decisions relating to unit-pricing must be approved by the ALPI DAC UPG, with all other discretion related decisions being made by the ALPI DAC Conduct Committee (informed by a documented opinion from the ALPI DAC Chief Risk Officer ("ALPI DAC CRO")). When considering the application of discretion the ALPI DAC Investment Oversight Group and the HoAF must consider past practice, and the Aviva Group Life Inforce Management Standard must be considered. The Aviva Group Life Inforce Management Standard states that policyholder communications, regulations regarding the fair treatment of customers and the views of local regulators must also be considered.

Vesting annuities

5.45 Annuities in the Closed Fund and Other Business Fund vest in the Participating Fund. The Participating Fund is paid a premium equal to the corresponding market rate from the Closed Fund and Other Business Fund for these annuities.

Policy administration

5.46 Currently, all ALPI DAC policies are administered directly by ALPI DAC and there is a defined set of service standards.

5.47 As the Change of Control has now been approved, ALPI DAC will look to combine its current administration with that of the Irish Branch of UKLAP. Throughout this process, ALPI DAC will aim to maintain or improve the current processes.

Access to independent bodies providing further policyholder protection

5.48 As ALPI DAC is not a UK based insurer or an EEA branch of a UK based insurer the Existing Policyholders of ALPI DAC are not covered by the FSCS. There is no equivalent scheme in Ireland covering life insurance business.

6 Outline of the proposed Scheme

6.1 Within this section I set out the main details of the proposed Scheme.

Overview of the Scheme

6.2 Under the Scheme, the majority of policies that have been written by UKLAP on a Freedom of Establishment basis or a Freedom of Services basis 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, policyholders who were resident in an EEA state but purchased a product marketed for the UK market, or policyholders who bought a UK product and subsequently relocated to an EEA state, would not be included in the population of Transferring Policies.

6.3 The Transferring Policyholders can be classified into three main sub-groups:

- With-profits Irish Business – all with-profits business previously transferred under the Irish Scheme and all with-profits business written out of the Irish Branch (excluding CGNU Life business written in Ireland);
- Non-profit Irish Business – all non-profit business[11] 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 (with-profits and non-profit) 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. This business resides in the following UKLAP funds: NPSF, New WPSF, Old WPSF, FP WPSF, FLAS WPSF and the Belgian WPSF.

6.4 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, 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 aimed at ensuring that the 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 Other Business Fund 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 aimed at ensuring that the 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 OLAB policies are transferred. However, OLAB invested in the UKLAP NPSF will be transferred to an existing fund of ALPI DAC, the ALPI DAC Other Business Fund.

6.5 Following the Scheme, UKLAP will no longer sell policies into the EU, and the UKLAP's Irish, French and Belgian branches will be closed. UKLAP will cease selling new business in Ireland just prior to the Effective Time.

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

6.6 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 cannot be made on the Belgian business, this will not be altered by the Scheme. ALPI DAC will set up two branches in France and Belgium, these branches will not sell new business but have been set up to mirror the branch structure of UKLAP prior to the Scheme.

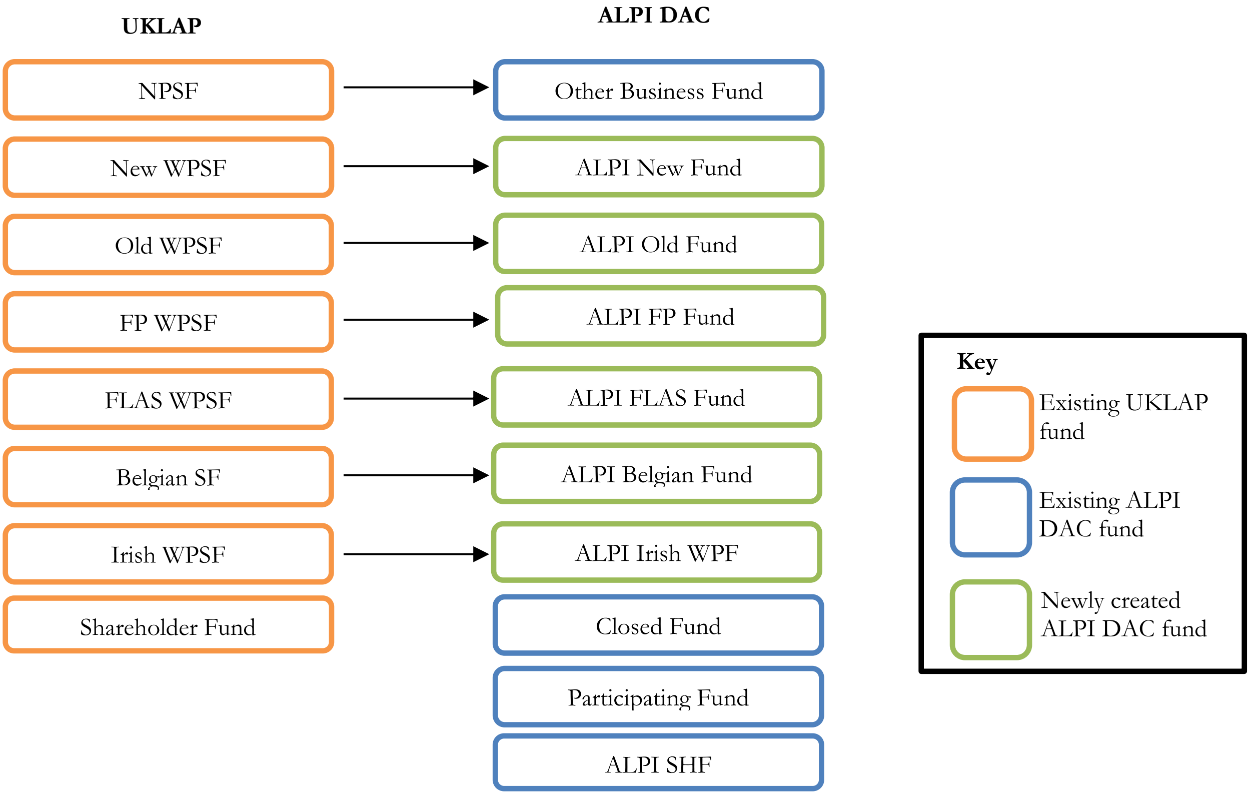
6.7 At the time of writing, the terms of Brexit are still being negotiated. Regardless of the outcome of these negotiations, UKLAP and ALPI DAC intend for the Scheme to proceed.

Business to be transferred

6.8 The table in paragraph 4.14 sets out the policy count and BEL of the business that is to be transferred under the Scheme. All policies that are to transfer under the Scheme were sold under EU passporting rights.

Fund structure of ALPI DAC following the Transfer

6.9 The Transferring Policies will be transferred from UKLAP to ALPI DAC, into both new and existing funds in ALPI DAC. As a result of the Scheme, six new funds will be created within ALPI DAC. The diagram below shows the fund structure of ALPI DAC after the Transfer and the mapping of the Transferring Policies from the funds in UKLAP.



Note: No Transferring Policies will be transferred to the Participating Fund, Closed Fund or ALPI DAC Shareholder Fund.

Allocation of the Transferring Policies following the Transfer

With-profits Irish Business

6.10 The with-profits Irish Business policies will be transferred into a new with-profits fund of ALPI DAC, the ALPI Irish WPF. Any increments on these policies after the Transfer will also be written in this fund.

Non-profit Irish Business

6.11 The non-profit Irish Business policies will be transferred into the existing non-profit fund of ALPI DAC, which is the Other Business Fund. Any new non-profit business that is subsequently written by ALPI DAC will also be written into the Other Business Fund.

OLAB

6.12 Existing OLAB policies that, prior to the Transfer, were invested in the NPSF of UKLAP will be transferred to the Other Business Fund of ALPI DAC.

6.13 Existing OLAB policies that, prior to the Transfer, were invested in existing UKLAP with-profits sub-funds, will be transferred into separate sub-funds in ALPI DAC. These are all newly created funds in ALPI DAC: ALPI New Fund, ALPI Old Fund, ALPI FP Fund and ALPI FLAS Fund.

6.14 The policies in the Belgian SF[12] of UKLAP will be transferred to the newly created ALPI Belgian Fund.

Fund structure of UKLAP following the Transfer

6.15 The fund structure of UKLAP will be unchanged following the implementation of the Scheme, with the exception of the Irish WPSF, which will hold no policies and will be closed after the Transfer.

Policy terms and conditions

6.16 The Scheme does not change any of the terms and conditions of any of the Transferring Policies, except that, as a result of the Scheme, the insurer will change from UKLAP to ALPI DAC.

Capital

6.17 Under the Scheme, UKLAP must transfer sufficient assets to ALPI DAC to ensure that ALPI DAC is initially capitalised to an SCR Ratio of 150%. The capital injection required to capitalise ALPI DAC to this level will be met by the NPSF or the UKLAP Shareholder Fund.

Costs of the Scheme

6.18 The Scheme requires UKLAP to meet one-off costs and expenses that it incurs as a result of the Scheme. These costs will be allocated to the UKLAP Shareholder Fund or the NPSF.

6.19 The Scheme also requires ALPI DAC to meet the one-off costs and expenses that it incurs as a result of the Scheme. These costs will be allocated to the Other Business Fund or the ALPI DAC Shareholder Fund.

6.20 As a result of the Scheme, there will be an increase in the overall ongoing expenses of UKLAP and ALPI DAC. I understand from UKLAP that it has been decided that these additional costs will be borne by the shareholders of UKLAP and ALPI DAC. If any increased ongoing UKLAP costs were to be charged to UKLAP policyholders in the future, approval from the UKLAP Board would be required, and they will need to have taken advice from the UKLAP WPA and consulted with the WPC. Similarly, if charging the ongoing ALPI DAC costs to ALPI DAC policyholders were to be considered in the future, any changes would be subject to the equivalent governance process within ALPI DAC.

[12] The policies within the Belgian SF are European with-profits style products, but from a UK perspective and for the entirety of this Report are regarded as non-profit.

Previous schemes

6.21 As set out in Section 4, the two schemes currently in force within UKLAP are the Irish Scheme and the 2017 Scheme. The relevant provisions of the Irish Scheme have been fully replicated within the Scheme, ensuring that they will continue to be applicable in ALPI DAC, with the exception of the change described in the "Conversion of ALPI Irish WPF policies to non-profit policies" below. Therefore, from the Effective Time, the Irish Scheme will cease to apply as the business to which it relates will have been transferred to ALPI DAC.

6.22 The Scheme does not change any of the provisions of the 2017 Scheme. Any relevant provisions within the 2017 Scheme which relate to OLAB policies are replicated within the Scheme and will therefore continue to apply to OLAB once it has been transferred to ALPI DAC. The 2017 Scheme will continue to apply to the Remaining Policyholders as it does now.

6.23 Detailed below are some of the provisions included within the Scheme. These have been particularly relevant as they either represent additions to the 2017 Scheme or the Irish Scheme governing UKLAP and ALPI DAC, or these schemes are silent on these topics.

Policy re-allocation

6.24 The ability to reallocate policies, as described in the following paragraphs, was introduced as part of the 2017 Scheme and was not present in the Irish Scheme.

6.25 Following the Transfer, the ALPI DAC Board will be permitted to reallocate non-profit policies to any fund within ALPI DAC, except the ALPI Belgian Fund. Additionally, the ALPI DAC Board will be able to reallocate with-profits policies to any fund within ALPI DAC except the Other Business Fund, the ALPI Belgian Fund or the ALPI Irish WPF. If the reallocation involves any of the funds which contain OLAB policies (excluding the Other Business Fund), the policy to be reallocated must be reinsured under the Brexit Reinsurance and the consent of UKLAP is required. Further, in order to perform any reallocation, the ALPI DAC Board must have taken appropriate actuarial advice including, as a minimum, the advice of the HoAF. If the reallocation involves reallocating with-profits policies of the ALPI Irish WPF, or any of the funds which contain OLAB policies (excluding the Other Business Fund) the WPC of UKLAP must also be consulted. In addition, the ALPI DAC Board or the WPC may choose to consult an independent actuarial expert on the matter. Any reallocation must not have a material adverse effect on the policies being reallocated or those in the funds to which the policies are being transferred.

6.26 Where an annuity is payable from the ALPI Irish WPF, ALPI DAC may pass this liability to the Other Business Fund within ALPI DAC. It can also pass this on to another insurance undertaking which may or may not be within the Aviva Group in exchange for an appropriate premium. The premium will be determined in a manner approved by the ALPI DAC Board, having taken appropriate actuarial advice, including that of the HoAF.

Conversion of ALPI Irish WPF policies to non-profit policies

6.27 The Irish Scheme included a clause setting out the rules for converting the with-profits Irish Business policies to non-profit policies. Subject to the change referred to below, this clause has been replicated within the Scheme. Under the terms of the Scheme, if the value of the ALPI Irish WPF falls and remains below €250m at two successive valuation dates, ALPI DAC may convert the fund to non-profit and allocate all policies, property and liabilities then allocated to the ALPI Irish WPF, to the Other Business Fund or such other fund within ALPI DAC as the ALPI DAC Board deems appropriate, having taken appropriate actuarial advice.

6.28 The Scheme removes the clause from the Irish Scheme which required the Irish WPSF to convert to non-profit if the asset value fell below €100m. This change has been made as the requirement of the Irish Scheme could result in the policies within the ALPI Irish WPF converting to a non-profit fund at a time which would not be optimum for the policyholders in the ALPI Irish WPF.

6.29 In order to effect the conversion of the ALPI Irish WPF, ALPI DAC must inform the CBI, having taken appropriate actuarial advice, including consultation with the WPC and the HoAF, and give all impacted policyholders at least three months' written notice. ALPI DAC must also determine and declare a guaranteed future bonus scale setting out a series of bonus allocations, calculated in accordance with a specified methodology, which will take the place of all bonuses that may have otherwise been declared.

Merging of funds

6.30 The schemes that govern the business within ALPI DAC allow for the merger of any sub-funds. For the merger to occur, a report from an independent actuary concluding that the merger is not likely to adversely affect the expectations of policyholders must be submitted to the Board and the CBI. The Scheme proposes to extend the merger provisions to the ALPI Irish WPF so it can also be merged with any of the other funds of ALPI DAC subject to the same requirements, with the additional provision that the WPC must also be consulted. The HoAF must also be consulted ahead of the merging of the ALPI Irish WPF.

6.31 The merger provision within the Scheme does not include those funds containing OLAB policies (except the Other Business Fund).

Intra-group support

6.32 Under the terms of the Scheme, there is an option to effect intra-group support from any fund within ALPI DAC, both existing ALPI DAC funds and those created as part of the Scheme.

6.33 Under the terms of the Scheme, any fund within ALPI DAC, both new and existing, is permitted to make a loan to any member of Aviva Group, provided the ALPI DAC Board is satisfied that:

- such a loan is no less favourable to the fund within ALPI DAC than would have been the case if the loan had been advanced to a party outside of Aviva Group;
- the loan is appropriate for the ALPI DAC fund; and
- there will be no material adverse effect on policyholders, allocated to or internally reinsured to the ALPI DAC fund.

6.34 Prior to the Transfer, a provision such as this did not exist in any of the governing schemes of ALPI DAC. However, there were also no provisions which prohibited the issuance of intra-group loans. This provision was present in both the Irish Scheme and 2017 Scheme for UKLAP.

Confirmation of ongoing compliance with the Scheme

6.35 On an annual basis it is required that the HoAF, having taken appropriate actuarial advice, publishes and provides to the ALPI DAC Board a certificate stating whether the provisions regarding the ongoing maintenance of the Transferring Policies have been complied with since the issue of the last certificate. If there are certain provisions which have not been complied with, then details of these must be provided.

Changes to the Scheme

6.36 Other than the changes listed in paragraph 6.37 below, all proposed changes to the Scheme following the grant of the Order must be approved by the Court. Each such change must also be notified to the CBI and the CBI is entitled to be heard at the Court hearing. If any such changes occur prior to the fifth anniversary of the date of the Order, the Regulators and

UKLAP must also be notified of the change and are also entitled to be heard at the Court hearing. If the change occurs on or after the fifth anniversary of the date of the Order and the Board of ALPI DAC considers that the change could affect the security or reasonable expectations of policyholders of UKLAP, UKLAP and the Regulators must also be notified and be given the right to attend and be heard at the Court hearing.

6.37 The Court is not required to approve changes to the Scheme which are made for any of the following reasons:

- to correct a manifest error;
- which is minor and/or of a technical nature;
- is necessary to ensure the Scheme operates as intended;
- is necessary to reflect a change in ALPI DAC's actuarial practices;
- is required to protect Transferring Policies' rights and expectations; or
- there is a specific provision for the change already in the Scheme which does not require Court approval.

6.38 Each such change, listed in paragraph 6.37, must be notified to the CBI who must not object within three months of the notification. If any such change is required to be made prior to the fifth anniversary of the date of the Order, UKLAP and the Regulators must also be notified and if the Board of ALPI DAC considers the change could affect the security or reasonable expectations of policyholders of UKLAP, UKLAP and the Regulators must not have objected to the change within three months of the notification. If any such change occurs on or after the fifth anniversary of the date of the Order, UKLAP and the Regulators will be notified only if the Board of ALPI DAC considers that the change could affect the security or reasonable expectations of policyholders of UKLAP and must not have objected to the change within three months of the notification.

7 Structure of the Transfer

7.1 Within this section I have set out the main details of certain additional measures that are being put in place alongside the Scheme to ensure no groups of Transferring Policyholders will be materially adversely affected as a result of the Scheme. In this section I have considered the reasons these additional measures are necessary.

7.2 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 will be reinsured from ALPI DAC to UKLAP under the Brexit Reinsurance; and
- UKLAP and ALPI DAC will enter into the Charge in respect of OLAB that is reinsured back to UKLAP.

7.3 In the event that the Brexit Reinsurance is terminated at some future date, this would require the with-profits funds which contain the reinsured OLAB to be split between the Remaining Policyholders and the Transferring Policyholders. The Scheme and the Brexit Reinsurance set out the process that must be followed to ensure that such a split is fair to all policyholders.

The Scheme

7.4 As a result of the Scheme, policies sold under EU passporting rights will transfer from UKLAP to ALPI DAC. This will ensure that these policies can continue to be legally serviced after Brexit.

Reasons the additional measures are necessary

7.5 As well as transferring 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 business it is relatively straightforward for the transferee and the transferor to agree which assets to transfer. For with-profits business, unless the whole fund is being transferred, this process is complex given that it needs 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. Additionally, splitting the funds would result in OLAB with-profits funds which are significantly smaller in size compared to the current with-profits funds in which the OLAB policies reside. This means that the economies of scale associated with larger with-profits funds would be lost, which could lead to increased per policy expenses and constraints on the investment strategy.

7.6 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.

7.7 At the Effective Time of the Scheme, the Brexit Reinsurance will be put in place to reinsure OLAB from ALPI DAC to UKLAP. The aim of the Brexit Reinsurance is to mitigate the need to divide the with-profits funds which contain OLAB, and allow OLAB Policyholders to continue to share in the Estate of the with-profits fund they are currently in. The Brexit Reinsurance also mitigates the need to set up new OLAB unit-linked funds in ALPI DAC, and ensures that unit-linked policyholders will have access to the same range of unit-linked funds to which they currently have access. 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.

7.8 However, as a result of the Brexit Reinsurance, ALPI DAC is exposed to the financial position of UKLAP. Also, ALPI DAC would not be treated in the same way as UKLAP's direct policyholders in the unlikely event of UKLAP becoming insolvent. Therefore, the Charge is to be put in place to largely mitigate any adverse impact on OLAB Policyholders should UKLAP become insolvent and, as far as possible, replicate the position of the Transferring Policyholders, in terms of ranking on insolvency, before the Transfer.

7.9 The Brexit Reinsurance sets out the conditions that must be met in order for the Brexit Reinsurance to be terminated. This is discussed in more detail below. The Scheme states which governance process must be followed to ensure the termination of the Brexit Reinsurance is fair to all policyholders.

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

Issue	Mitigant
Ensure that UKLAP policies sold under EU passporting rights can continue to be serviced post-Brexit.	The Scheme
There is insufficient time before Brexit to split the with-profits funds which contain OLAB policies. 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). Splitting the with-profits funds would result in OLAB with-profits funds which are much smaller than the with-profits funds they are currently invested in which may disadvantage with-profits OLAB. Splitting the with-profits funds may adversely affect the Remaining Policyholders. 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 suffer more than UKLAP policyholders 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

7.11 I now discuss each of these issues in turn and consider the impact on the various groups of policyholders. Where the Scheme is considered "in isolation", this is referring to the Scheme in the absence of the Brexit Reinsurance and the Charge.

Impact of the Scheme in isolation on Transferring Policyholders of UKLAP

Impact of the Scheme in isolation on with-profits Irish Business

7.12 The with-profits Irish Business is all contained within the Irish WPSF and this will transfer to ALPI DAC in its entirety under the Scheme, therefore the issue of dividing the assets of this fund between policyholders does not arise. Transferring the with-profits Irish Business to Ireland will ensure that this business can continue to be administered post-Brexit.

Impact of the Scheme in isolation on non-profit Irish Business

7.13 The non-profit Irish Business will transfer from the NPSF in UKLAP to the Other Business Fund in ALPI DAC. The assets to be transferred in respect of this business are set out in the terms of the Scheme. These assets are easily identifiable, in particular the unit funds will be transferred in their entirety, and therefore no funds require splitting. Transferring the non-profit Irish Business from the UK to Ireland will ensure that this business can continue to be administered post-Brexit.

Impact of the Scheme in isolation on OLAB

7.14 Transferring OLAB from the UK to Ireland will ensure that this business can continue to be administered post-Brexit. However, the Scheme in isolation creates a number of issues which are described below.

7.15 The non-profit and unit-linked OLAB written in the NPSF in UKLAP will transfer to the Other Business Fund in ALPI DAC. The assets to be transferred in respect of this business are set out in the terms of the Scheme. However, most of OLAB currently within the NPSF is unit-linked and these policies are currently able to invest in a specific set of the unit-linked funds available in UKLAP. Setting up the full range of equivalent new unit-linked funds in ALPI DAC would not be practical or cost-effective. Therefore, if the Scheme were to be implemented in isolation, without the Brexit Reinsurance, this may result in a reduced number of unit-linked funds being available to certain Transferring Policyholders.

7.16 The with-profits OLAB that, prior to the Transfer, was written in one of the existing UKLAP with-profits sub-funds, will be transferred into separate sub-funds in ALPI DAC. As noted in paragraph 7.5 above, in order to transfer the assets associated with the with-profits OLAB policies it would ordinarily be necessary to split the with-profits sub-fund that they transfer out of in a fair way for both the OLAB Policyholders and the Remaining Policyholders. This is a complex exercise, involving multiple stakeholders and requiring in-depth analysis to determine a fair split of the estates of the relevant with-profits funds. As there is insufficient time ahead of Brexit to carry out the necessary analysis and obtain agreement from all the relevant stakeholders, an alternative solution is required. The process would also incur significant costs.

7.17 Even if it were possible to split the relevant UKLAP sub-funds ahead of Brexit, there are further potential disadvantages of doing this. OLAB only constitutes a small part of each of the relevant UKLAP WPSFs; therefore, the sub-fund into which it would transfer in ALPI DAC would be much smaller than the sub-fund that it had transferred out of. Small sub-funds do not benefit from the same economies of scale as large funds, which can lead to an increase in per-policy expenses and constraints on investment policy which will in turn reduce investment returns. Smaller sub-funds may also result in the policies being converted from with-profits to non-profit, which may not be in the best interests of OLAB Policyholders.

Impact of the Scheme in isolation on Remaining Policyholders of UKLAP

7.18 I discuss the impact of the Scheme together with the Brexit Reinsurance on the Remaining Policyholders of UKLAP in more detail in Section 15. However, as noted in paragraph 7.5 above, in order to transfer the assets associated with the with-profits OLAB to ALPI DAC, it would ordinarily be necessary to split the with-profits sub-funds that the OLAB with-profits policies transfer out of in a fair way, and this process could not be completed prior to Brexit.

Impact of the Scheme in isolation on Existing Policyholders of ALPI DAC

7.19 I discuss the impact of the Scheme together with the Brexit Reinsurance on the Existing Policyholders of ALPI DAC in more detail in Section 16 below. However, as no policies are being transferred out of the existing with-profits funds of ALPI DAC, there are no issues associated with splitting funds.

Summary

7.20 Based on the discussion in paragraphs 7.5 to 7.10 above, the Scheme alone presents a number of issues for OLAB. In my opinion it is necessary to consider options to mitigate these issues and ensure there is no detriment to policyholders as a result of the Scheme. To this end, UKLAP and ALPI DAC have opted to implement the Brexit Reinsurance, which reinsures all of OLAB transferred to ALPI DAC under the Scheme back to UKLAP. Associated with the Brexit Reinsurance is the Charge.

Brexit Reinsurance

7.21 The Brexit Reinsurance covers OLAB only.

7.22 The primary aim of the Brexit Reinsurance is to mitigate the need to divide the with-profits funds which contain OLAB when OLAB is transferred from UKLAP to ALPI DAC under the Scheme.

7.23 The Brexit Reinsurance will allow the with-profits OLAB policies to continue to benefit from the Estate of the with-profits funds in which they were invested prior to the Transfer. Without the Brexit Reinsurance, the with-profits funds in which OLAB policies were invested would need to be divided between OLAB Policyholders and Remaining Policyholders, which would be a complex and lengthy process which could not be completed prior to Brexit.

7.24 As a result of the Brexit Reinsurance, the unit-linked OLAB will continue to invest in the same unit-linked funds as they did prior to the Transfer. There will be no need to split the unit-linked funds, which can continue to be managed in the same way before and after the Transfer. Non-Profit OLAB Policyholders will not be directly affected by the Brexit Reinsurance as their benefits are generally fixed by the policy terms and conditions.

7.25 I consider the Brexit Reinsurance in more detail in Section 9.

7.26 Overall, I am satisfied that Brexit Reinsurance provides a reasonable approach in the context of this transfer. This is because:

- the with-profits funds and unit-linked funds can be managed in the same way before and after the Transfer;
- unit-linked OLAB Policyholders will have access to the same unit-linked funds before and after the Transfer, and there is no need to set up equivalent new unit-linked funds in ALPI DAC; and
- the alternative would be to split the with-profits funds, this would need to be done in a way that is fair to both the OLAB Policyholders and the Remaining Policyholders to ensure that neither of these groups are disadvantaged and there is insufficient time ahead of Brexit to complete this process.

The Charge

7.27 As a result of the Scheme, the Transferring Policyholders will become direct policyholders of ALPI DAC rather than direct policyholders of UKLAP and, in the event of UKLAP becoming insolvent, ALPI DAC would be treated as an unsecured creditor of UKLAP. Under UK insolvency legislation, when an insurer is declared insolvent, direct policyholders are prioritised ahead of unsecured creditors. However, the Transfer has been structured in such a way that if UKLAP were to be declared insolvent, ALPI DAC would have the same ranking as OLAB Policyholders had prior to the Transfer (i.e. that of a direct policyholder).

7.28 This is achieved by establishing a floating charge over all the assets of UKLAP (the Charge). The Charge does not include any asset subject to fixed security or over which UKLAP is prohibited, either absolutely or conditionally, from creating security, including where prior consent would be required. The Charge mitigates the main additional risk resulting from the Brexit Reinsurance, i.e. ALPI DAC being treated as an unsecured creditor of UKLAP.

7.29 I consider the Charge in more detail in Section 9.

7.30 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 direct UKLAP policyholders.

Termination of the Brexit Reinsurance

7.31 If the Brexit Reinsurance were to be terminated, the with-profits funds in UKLAP that contain OLAB would need to be split. Additionally, new equivalent unit-linked funds in which to invest OLAB policies would need to be set up in ALPI DAC. In order to mitigate the risk that this process is carried out in a way that is detrimental to some groups of policyholders, the Scheme and the Brexit Reinsurance set out the procedures that must be followed prior to the termination of the arrangement. The procedures are discussed in more detail in paragraphs 9.42 to 9.52 below.

7.32 Neither the Scheme nor the Brexit Reinsurance require either ALPI DAC or UKLAP to notify policyholders regarding the termination of the Brexit Reinsurance. However, the provisions of the Scheme and the Brexit Reinsurance ensure the process that is followed is fair to all policyholders.

7.33 Overall, I am satisfied that Scheme and the Brexit Reinsurance provide appropriate protection to policyholders in the event that the Brexit Reinsurance is terminated.

8 Operational matters

8.1 In this section I discuss a number of operational matters which will be impacted either as a result of the Transfer or the Brexit Reinsurance.

Existing reinsurance arrangements

Intra-group reinsurance arrangements

8.2 Currently, UKLAP has intra-group reinsurance arrangements in place with Aviva Re Ltd and Aviva International Insurance Ltd ("AII").

8.3 The reinsurance agreement between UKLAP and Aviva Re Ltd covers some of the Irish Business and will be transferred from UKLAP to ALPI DAC as part of the Scheme. Aviva Re Ltd has been informed of this arrangement and has not raised any objection.

8.4 The reinsurance agreement between UKLAP and AII covers some OLAB policies and some Remaining Policyholders of UKLAP. After the Transfer, and the subsequent reinsurance back to UKLAP of OLAB policies, this reinsurance agreement will remain unchanged. AII has already consented to this arrangement.

External reinsurance – with-profits Irish Business

8.5 There are no external reinsurance arrangements for the with-profits Irish Business.

External reinsurance – non-profit Irish Business

8.6 There are a total of 61 external reinsurance treaties relating to non-profit Irish Business. 60 of these contracts will transfer to ALPI DAC as a result of the Scheme, subject to the consent of the reinsurers.

8.7 One of these external reinsurance arrangements covers both the non-profit Irish Business and the Remaining Policyholders of UKLAP. For this particular reinsurance arrangement, ALPI DAC will enter into a supplemental agreement with the reinsurer, in which the reinsurer commits to reinsuring the Irish Business directly with ALPI DAC, whilst continuing to cover the relevant UKLAP Remaining Policyholders under the existing reinsurance.

8.8 Under the terms of the Scheme, ALPI DAC will be permitted to effect other external reinsurance arrangements with any other company. ALPI DAC will also be permitted to modify or terminate any of the existing external reinsurance arrangements it has in place for its existing business (the "Existing Business").

External reinsurance – OLAB

8.9 There are four external reinsurance treaties relating to OLAB policies. Following the implementation of the Scheme, OLAB policies will be reinsured back to UKLAP and hence all of these treaties will continue as they do now. As the reinsurers whose treaties cover OLAB policies will be covering policies reinsured from ALPI DAC rather than policies directly written by UKLAP, the reinsurers are being asked to explicitly consent to the Scheme.

8.10 One of the external reinsurance treaties which covers OLAB policies (specifically, it covers two OLAB policies) also covers the risks associated with some of the Remaining Policyholders of UKLAP. Therefore, a minor variation to this treaty is required to ensure that the treaty continues to cover both OLAB policies that are reinsured from ALPI DAC and the Remaining Policyholders, who are direct policyholders of UKLAP.

Conduct of business principles

With-profits Irish Business

8.11 For the with-profits Irish Business, prior to the Transfer, UK COBS rules apply. After the Transfer, the Irish General Good rules will apply. Insurers must adhere to these regulations to ensure consumers are adequately protected.

8.12 Under the FCA's COBS 20 rules, firms operating with-profits funds in the UK must have a PPFM, which sets out how the with-profits business is conducted. Prior to the Transfer, the with-profits Irish Business and the with-profits OLAB are invested in UK with-profits funds, which are therefore governed by PPFMs.

8.13 After the Transfer, the CBI's General Good rules will apply to the with-profits Irish Business. The Scheme states that, despite it not being a requirement of the CBI, ALPI DAC must produce a PPFM for the ALPI Irish WPF. I have reviewed the PPFM and confirm that it is not materially different to the PPFM that was previously in place for the Irish WPSF (except for changes made to explicitly include some of the COBS requirements, which the existing PPFM, Scheme provisions or retention of WPC oversight did not adequately address). The Scheme requires the ALPI Irish WPF PPFM to remain in place, unless the Board of ALPI DAC, having consulted with the HoAF, puts in place another form of protection which is materially equivalent to the PPFM.

8.14 ALPI DAC does not have a With-Profits Committee, although, after the Transfer, the UKLAP WPC will still continue to provide advice to the HoAF of ALPI DAC on the ALPI Irish WPF. The Scheme describes some of the matters on which the WPC of UKLAP should be consulted in relation to the Transferring Policies, including OLAB policies and the Irish Business. I am satisfied that the matters on which the Scheme requires the WPC of UKLAP to be consulted cover all the areas I would expect, and there are no other areas on which I would expect the WPC of UKLAP to be consulted which the Scheme omits. The Terms of Reference ("ToR") of the WPC have also been updated to clarify in which matters the WPC will advise the HoAF.

Non-profit Irish Business

8.15 For the non-profit Irish Business, prior to the Transfer, UK COBS rules apply. After the Transfer the Irish General Good rules will apply. Insurers must adhere to these regulations to ensure consumers are adequately protected.

OLAB

8.16 The conduct rules applicable to OLAB policies will not be altered as a result of the Transfer. The conduct rules of the country from which the policy was sold will apply before and after the Transfer.

8.17 As OLAB policies are reinsured back to the UKLAP funds from which they have been transferred, they will still be covered by UKLAP governance arrangements. ALPI DAC will provide additional governance, as ALPI DAC will need to have some oversight to ensure that OLAB policies are being treated in an acceptable manner.

8.18 In particular, the with-profits funds of UKLAP, to which OLAB policies are reinsured, will continue to be governed by their current PPFMs. Therefore, the with-profits OLAB policies will be treated in a manner consistent with the relevant PPFM, with the WPC and the HoAF providing oversight and ensuring compliance with the PPFMs.

8.19 If there are any disagreements with regard to the way in which OLAB policies are being treated by UKLAP under the Brexit Reinsurance, there are documented dispute processes that must be followed. For matters concerning the interpretation of the Brexit Reinsurance or calculation under the Brexit Reinsurance, the process is as detailed in paragraph 9.51. Any other matters should be referred to arbitration after being first referred to the Chief Financial Officers of both UKLAP and ALPI DAC.

Policy administration

With-profits Irish Business

8.20 Following the Transfer, the with-profits Irish Business, which was previously administered by Aviva Life Services Ireland Limited ("ALSIL"), will be administered by ALPI DAC. This is not a requirement of the Scheme but a decision that has been agreed between UKLAP and ALPI DAC. The administration team of ALSIL will provide services to ALPI DAC, and therefore there will be no change to the team performing the administration for the with-profits Irish Business.

8.21 The administration teams, processes and systems of ALPI DAC and ALSIL will be brought together using a Best of Both approach ("Best of Both" is an approach whereby the overall customer experience provided by ALSIL and ALPI DAC processes are compared and the best chosen. The Best of Both approach will be used to define the strategy for people, systems and processes). ALPI DAC has set out its integration principles to ensure that there will be no material adverse impact on the services provided to policyholders. ALPI DAC will maintain a continued focus on its policyholders, providing information and quality of service. The impact on policyholders will be a key consideration in any decisions made about the integration of processes.

8.22 Aviva Central Services UK Limited ("ACS") currently provides audit, finance, actuarial and other services to UKLAP in relation to the Irish Business, and, following the Transfer, ACS will provide these same services to ALPI DAC. The cost charged by ACS for these services is not expected to be altered as a result of the Transfer.

Non-profit Irish Business

8.23 Similarly, following the Transfer, the non-profit Irish Business will be administered by ALPI DAC instead of ALSIL. This is not a requirement of the Scheme but a decision that has been agreed between UKLAP and ALPI DAC. As detailed above, ALPI DAC will use a Best of Both approach when merging the administration teams and systems of Aviva Life Services Limited and ALPI DAC. The administration team of ALSIL will be merged with the administration teams of ALPI DAC, and therefore the administration for the non-profit Irish Business is expected to remain largely unchanged.

8.24 ACS will continue to provide the services it currently does in relation to the non-profit Irish Business, although after the Transfer these will be provided to ALPI DAC rather than UKLAP.

OLAB

8.25 The Brexit Reinsurance incorporates a legally binding schedule ("Side Letter") of certain management and administration duties that UKLAP is required to perform in respect of OLAB. Taken together, the Brexit Reinsurance and Side Letter will make UKLAP responsible for the performance of all management and administration duties in respect of OLAB. This will ensure that the OLAB policies and the policies remaining in UKLAP following the Transfer (the "Remaining Policies") are managed and administered in the same way as they were managed and administered before the Transfer.

Remaining Policies

8.26 There will be no change to the way the Remaining Policies of UKLAP will be administered as a result of the Transfer.

Existing Policies of ALPI DAC

8.27 There will be no change to the teams administering the Existing Policies of ALPI DAC as a result of the Transfer. ALPI DAC's current administration processes are being combined with those in place for the Irish Business of UKLAP. ALPI DAC will use a Best of Both approach throughout this consolidation phase.

Communication strategy

8.28 All Transferring Policyholders and all Existing Policyholders of ALPI DAC, except those subject to waivers detailed in paragraph 8.38 below, will be sent a covering letter, a policyholder booklet and a summary of the Report.

8.29 The letter will inform policyholders of the Scheme and signposts where further information on the Scheme can be obtained. The policyholder booklet will contain the following:

- a question and answer section contained within the booklet;
- a Scheme guide which includes a summary of the Scheme; and
- with-profits information and the legal notice.

8.30 The communication packs have been tailored to different groups of policyholders and have been translated into the language which is usually used for communications with them.

8.31 All of the information contained in the policyholder booklet will also be available on a dedicated website (https://transfer.aviva.com/life). The website will also contain:

- a document request form;
- a question form;
- a form whereby individuals can request to receive updates on the Scheme
- copies of the Scheme;
- the Report;
- samples of the letters sent to policyholders;
- the Chief Finance Actuary's Report;
- the WPA's Report;
- the HoAF's Report; and
- the UKLAP and ALPI DAC PPFMs that will be adopted after the Transfer.

8.32 There will be dedicated telephone lines, which will be language specific. Any telephone calls will be handled by a specialised team, who will have received specific training in relation to the Scheme. This ensures a consistent message and accurate data collection.

8.33 Individuals will also be able to write to UKLAP or ALPI DAC regarding the Scheme.

8.34 In my opinion, the communications make it clear that any person who feels they will be negatively affected by the Scheme can object to the Scheme. Objections can be raised online, by telephone or by writing to UKLAP or ALPI DAC.

Dispensations and waivers

Paragraph 3(2)(a)

8.35 Paragraph 3(2)(a) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 requires a notice of the Transfer to be published in:

- the London, Edinburgh and Belfast Gazettes;
- in two national newspapers in the United Kingdom; and
- in certain circumstances, in two national newspapers in certain EEA states other than the United Kingdom.

8.36 The legal notice of the Scheme will be published in the London, Edinburgh and Belfast Gazettes, the Iris Oifigiúil in Ireland and the international edition of the Financial Times. It will also be placed in one national newspaper of every EEA country where there are more than 100 Transferring Policyholders; namely, Belgium, France, Germany, Iceland and Sweden and in two national newspapers in the UK and Ireland.

UKLAP has sought specific dispensations from the Court with regards to the requirement contained in FSMA to publish the legal notice in two national newspapers in each EEA country where a Transferring Policyholder is resident.

Paragraph 3(2)(b)

8.37 Paragraph 3(2)(b) of the Financial Services and Markets Act 2000 (Control of Business Transfers) (Requirements on Applicants) Regulations 2001 requires a notice of the Transfer is sent to every policyholder of both UKLAP and ALPI DAC.

8.38 For various reasons, which are explained further in the relevant policyholder section, UKLAP is to seek a waiver from this requirement in the following circumstances. Any policyholders of UKLAP or ALPI DAC meeting the following criteria will not be mailed:

- insufficient data to identify every policyholder being every person to whom a payment may be contingently due;
- insufficient address data;
- the policyholder is a Remaining Policyholder;
- underlying beneficiaries of policies written in trust. Instead the trustee will be mailed;
- persons entitled to a portion of pension proceeds pursuant to a pension sharing order where they are not the original policyholder. Instead only the original policyholder will be mailed;
- the original policyholder of policies with a current legal assignee, and where the legal assignee's name and address appears on UKLAP's or ALPI DAC's database. In this instance, the current legal assignee only will be mailed;
- the original policyholder of policies where a power of attorney is recorded on UKLAP's or ALPI DAC's database. Instead UKLAP will mail the relevant attorney;
- the second life on joint life policies, where the address held on the database is the same for both lives in respect of a joint life policy. Instead, the first named policyholder will be mailed. Where the addresses are different, both policyholders will be mailed;
- receivers or trustees appointed in bankruptcy cases, and whose addresses are not held on the UKLAP's or ALPI DAC's database. Instead the bankrupt policyholder will be mailed;
- deceased policyholders;
- executors and personal representatives on policies where deaths have been notified;
- policyholders who are resident in a country with a "black" rating according to a list compiled by UKLAP's Financial Crime Team; and
- policyholders who have requested for personal reasons that they do not wish to be mailed at the address held on record, where an alternative address is held the communication pack will be sent to the alternative address.

8.39 I provide my opinion of the communication strategy in respect of the different groups of policyholders in paragraphs 14.20 to 14.25, 15.50 to 15.51 and 16.52 to 16.55 below.

Rights of UKLAP or ALPI DAC policyholders who object to the Scheme

8.40 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 Transfer when I issue my Supplementary Report.

9 The Brexit Reinsurance and the Charge applicable to the OLAB

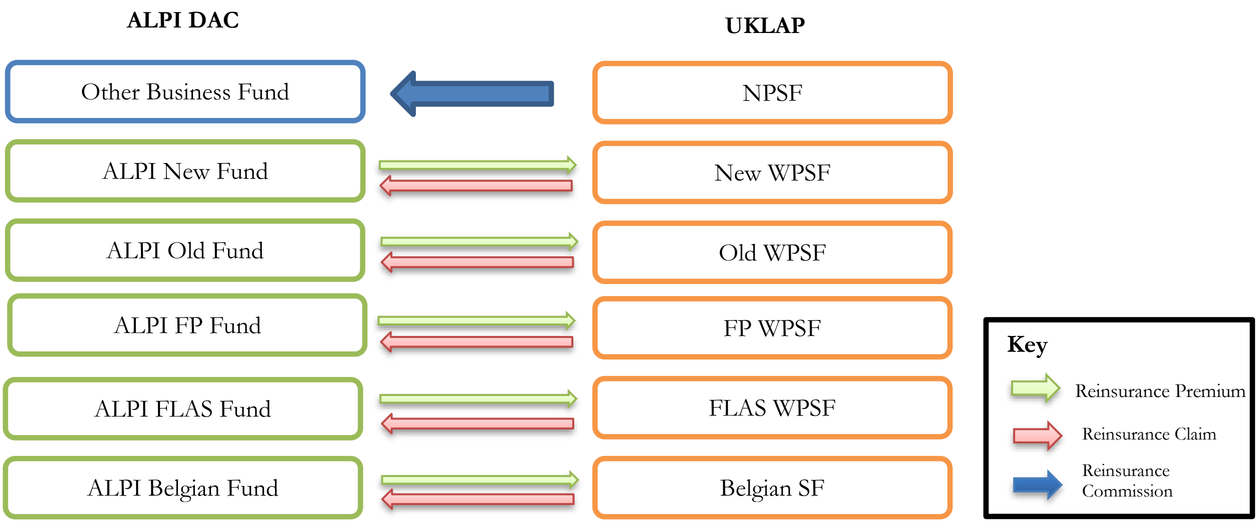
9.1 In this section I outline the operation of the Brexit Reinsurance, including to which funds the OLAB policies will be reinsured, and the ongoing operation in relation to premiums and claims payments.

Brexit Reinsurance

9.2 The Brexit Reinsurance will be put in place such that, at the Effective Time of the Scheme, all of the OLAB policies which are to be transferred to ALPI DAC are immediately 100% reinsured back (on a quota share basis) into the funds of UKLAP from which they were transferred[13].

9.3 Under the terms of the Brexit Reinsurance, any premiums that ALPI DAC receives which relate to OLAB must be paid to UKLAP and allocated to the funds in which that OLAB policy was invested prior to the Transfer. Similarly, any claims payments relating to OLAB policies must be transferred from the UKLAP fund in which the policy is reinsured to ALPI DAC as shown below. This mechanism ensures that the funds of UKLAP from which OLAB policies are transferred continue to operate as they do now.

9.4 Additionally, the UKLAP NPSF will pay ALPI DAC reinsurance commission, on a quarterly basis, with the aim of compensating ALPI DAC for the expenses it incurs in providing oversight to OLAB policies which are reinsured back to UKLAP. The cashflows are illustrated in the diagram and described below.



9.5 The reinsurance premium (the "Total Back Book Premium") will be paid at the Effective Time and is based on the economic value of the liabilities of the policies covered by the Brexit Reinsurance plus either an allowance for the Estate of the with-profits funds where relevant or a percentage increase to reflect a risk premium.

[13] The policies in the Belgian SF of UKLAP will be transferred to the newly created ALPI Belgian Fund, and immediately 100% reinsured back to the Belgian SF of UKLAP. UKLAP will continue with the current reinsurance, outsourcing and loan arrangement that is in place with NN Insurance Belgium SA/NV in respect of this business.

9.6 At the Effective Time, the present value of the reinsurance claims is equal to the BEL associated with the OLAB policies, which is £1,155m (€1,302m). These claims will emerge over time, and will be paid by UKLAP to ALPI DAC.

9.7 The reinsurance commission is an ongoing quarterly payment and is calculated as a percentage of the costs incurred by ALPI DAC in respect of the oversight of the Brexit Reinsurance.

Movement in the ALPI DAC balance sheet at the Effective Time

9.8 The following table sets out a bridge of the ALPI DAC balance sheet, taking account of the impacts of the Transfer. The numbers in the table below have been calculated on a Standard Formula basis, and as elsewhere in the Report, the numbers are presented as they would have been if the Scheme had been put in place on 31 December 2017.

€m	Total Assets	Total Liabilities	Excess of Assets over Liabilities	Total available funds to meet SCR	SCR	SCR Ratio
ALPI DAC before the Transfer	4,965	4,709	256	253	160	158%
Impact of with-profits Irish Business transferred under the Scheme	1,219	1,023	196	56		
Impact of non-profit Irish Business transferred under the Scheme	6,360	6,204	156	156		
Impact of OLAB transferred under the Scheme		1,302	-1,302	-1,302		
Brexit Reinsurance asset	1,302		1,302	1,302		
Capital injection into ALPI DAC	113	0	113	113		
Other	-16*	3*	-16*	-18*		
ALPI DAC after the Transfer	13,942	13,241	701	559	372	150%

* these small differences are a result of the counterparty default reserve, changes in the risk margin basis from Partial Internal Model to Standard Formula and some small changes in deferred tax.

9.9 All assets and liabilities associated with the with-profits and non-profit Irish Business are transferred under the Scheme. This provides ALPI DAC with assets in excess of the BEL, but requires these assets to cover the risk margin and SCR associated with the Irish Business.

9.10 The table above shows the OLAB liabilities transferring to ALPI DAC, and the establishment of a Brexit Reinsurance asset, which offsets these liabilities. No physical assets are transferred in relation to the OLAB liabilities.

9.11 As outlined in the diagram above, the Brexit Reinsurance requires a premium to be paid from ALPI DAC to UKLAP. In practice, this payment is not made as the Scheme allows UKLAP to withhold assets in lieu of this payment. Without this provision the table above would show two offsetting lines: the first a payment of cash to ALPI DAC in respect of the Scheme, an asset equal to €1,302m in the 'Impact of OLAB transferred under the Scheme' line; and the second a payment from ALPI DAC to UKLAP for the same amount.

9.12 Finally, the Scheme requires ALPI DAC is capitalised at 150% of its SCR. If the Scheme had come into effect on 31 December 2017, a capital injection of €113m (or approximately £100m) from UKLAP to ALPI DAC would have been required.

Impact of the Brexit Reinsurance on participation in and management of the with-profits funds of UKLAP

9.13 The Brexit Reinsurance is structured to allow the with-profits OLAB policies to continue to participate in the with-profits funds of UKLAP in which they resided prior to the Transfer. In this subsection, I consider whether the structure of the Brexit Reinsurance achieves this and whether the Brexit Reinsurance alters the management of any of the with-profits funds of UKLAP.

9.14 Following the Transfer, the OLAB policies will be reinsured back to the funds in which they originally resided. The Brexit Reinsurance requires that all premiums associated with OLAB policies are transferred from ALPI DAC to UKLAP and, likewise, all claims payments associated with OLAB policies are paid by UKLAP to ALPI DAC. Specifically, these premiums and claims payments shall be allocated to or made from the fund in which the OLAB policy resided prior to the Transfer. There are exceptions to this, where payments are restricted from being made from certain funds. For example, compensation payments made in relation to mis-selling may be prohibited from being made from with-profits funds under COBS 20.

9.15 The Brexit Reinsurance also states that, where discretion exists, including when declaring bonus rates, ALPI DAC must adopt the approach taken by UKLAP. ALPI DAC is also unable to apply further charges to the benefits receivable by OLAB Policyholders. Therefore, ALPI DAC must pass all benefits on to OLAB Policyholders, without any amendments, which means there is no impact on the bonus prospects or Estate distribution for OLAB Policyholders.

9.16 As OLAB policies will be direct policies of ALPI DAC; ALPI DAC will still need to provide oversight of the management of these policies. There will be an additional cost associated with this oversight role and, therefore, the Brexit Reinsurance states that a reinsurance commission will be paid on a quarterly basis from UKLAP to ALPI DAC to cover these costs. This commission payment will be met by the NPSF or the UKLAP Shareholder Fund to ensure this commission payment does not impact the with-profits funds of UKLAP. In the future UKLAP may consider paying the reinsurance commission from one of its with-profits funds, however this would be subject to governance, and would require consultation with the WPA and WPC. If the WPA or WPC were not to approve the payment of the reinsurance commission, the UKLAP Board could still decide to go ahead and charge the reinsurance commission to the with-profits funds. However, if the UKLAP Board went against the advice of the WPC then the UKLAP Board would be required to inform the FCA that it had not followed the advice of the WPC.

9.17 In summary, the premiums and claims associated with OLAB Policyholders will not be altered as a result of the Scheme. The additional expenses expected to be incurred as a result of the Scheme will not impact the with-profits funds of UKLAP as they are borne either by the NPSF or the UKLAP Shareholder Fund.

9.18 The with-profits funds of UKLAP will continue to be governed by the same PPFMs and their investment strategy, bonus setting and any Estate distribution will not be altered by the Transfer. The governance of the with-profits funds will not be altered as a result of the Transfer. The WPC of UKLAP will continue to provide oversight and challenge on the operation and management of the with-profits OLAB policies. The WPC will advise the Board of UKLAP and the HoAF of its findings in relation to such oversight and challenge. Additionally, the HoAF will advise the Board of ALPI DAC on matters concerning OLAB.

Conclusion

9.19 Overall I am satisfied that the Brexit Reinsurance allows with-profits OLAB Policyholders' interests to be managed materially in the same way after the Transfer as they were before. This is because:

- the claims and premiums associated with OLAB are allocated to the same UKLAP funds before and after the Transfer;
- the additional oversight costs as a result of the Brexit Reinsurance do not impact the relevant with-profits funds of UKLAP as they are met via a commission payment from either the NPSF or the UKLAP Shareholder Fund;
- the UKLAP with-profits funds are governed by the same PPFMs as they were before the Transfer;
- there is no material impact on the bonus prospects or Estate distribution for OLAB Policyholders as a result of the Brexit Reinsurance; and
- the Transfer does not alter the current governance of the UKLAP with-profits funds.

Impact of the Brexit Reinsurance on investment in and management of the non-profit and unit-linked funds of UKLAP

9.20 The Brexit Reinsurance is structured in such a way so as to allow the unit-linked OLAB to continue to invest in the unit-linked funds of UKLAP in which they invested prior to the Transfer. In this subsection, I consider whether the structure of the Brexit Reinsurance achieves this and whether the Brexit Reinsurance alters the management of the unit-linked funds of UKLAP.

9.21 The Brexit Reinsurance also states that ALPI DAC must adopt UKLAP's calculation of the value of units for unit-linked OLAB Policies when allocating units and determining actual or prospective claims. Additionally, ALPI DAC is also unable to apply further charges to the benefits receivable by OLAB Policyholders. Therefore, ALPI DAC must pass all benefits on to OLAB Policyholders, without applying any amendments.

9.22 As the ALPI DAC Board will be ultimately responsible for the governance of the unit-linked OLAB policies, the HoAF will provide additional oversight of the management of the unit-linked policies and the ALPI DAC UPG will also oversee the unit-pricing. This will result in ALPI DAC incurring oversight costs as a result of the Brexit Reinsurance, these will be met in the same manner as described previously. Therefore, these oversight costs will not be borne by the unit-linked OLAB Policyholders.

9.23 In summary, the premiums and claims associated with the unit-linked OLAB policies will not change due to the Scheme. The additional expenses expected to be incurred as a result of the Scheme will not impact the unit-linked OLAB Policyholders.

9.24 The investment strategy of the unit-linked funds of UKLAP will not change and neither will the governance surrounding the unit-linked funds of UKLAP. For example, the committees responsible for areas of discretion related to the unit-linked policies will continue as they do now. However, ALPI DAC will have an oversight role.

9.25 There will be no change to the benefits or governance of the non-profit non-linked business as a result of the Brexit Reinsurance, except that the ALPI DAC Board will become ultimately responsible for the governance, and therefore the HoAF will provide additional oversight of the management of the non-profit policies. ALPI DAC will incur expenses as a result of this additional oversight, however given the nature of the benefits of non-profit policies, the non-profit OLAB policies will be unaffected by these increased expenses.

Conclusion

9.26 Overall, I am satisfied that the Brexit Reinsurance allows non-profit and unit-linked OLAB Policyholders' interests to be managed materially in the same way after the Transfer as they were before. This is because:

- the claims and premiums associated with OLAB are allocated to the same UKLAP funds before and after the Transfer;
- the additional oversight costs as a result of the Brexit Reinsurance do not impact the unit-linked OLAB Policyholders as they are met via a commission payment from either the NPSF or the UKLAP Shareholder Fund;
- the non-profit OLAB Policyholders will be unaffected by the additional oversight costs;
- the investment strategy of the UKLAP unit-linked funds will not change as a result of the Transfer; and
- the Transfer does not alter the current governance of the UKLAP non-profit and unit-linked funds.

The Charge

9.27 In association with the Brexit Reinsurance, UKLAP and ALPI DAC will enter into the Charge agreement. In this section I discuss the reasons the Charge will be put in place, and how it will operate in the event of UKLAP insolvency. I also detail the legal advice I have received in relation to the Charge. The Charge will be placed over all of the assets of UKLAP, except those which are subject to fixed security, or over which UKLAP is prohibited, either absolutely or conditionally, from creating security, including where prior consent would be required. The taking of a floating charge is commonplace when firms negotiate commercial agreements.

9.28 As a result of the Brexit Reinsurance, ALPI DAC will be treated as an unsecured creditor of UKLAP. Under UK insolvency legislation, when an insurer is declared insolvent, direct policyholders are prioritised ahead of unsecured creditors. However, as well as entering into the Brexit Reinsurance, ALPI DAC and UKLAP will enter into the Charge. The Charge has been structured in such a way that if UKLAP were to be declared insolvent, ALPI DAC would have the same ranking as OLAB Policyholders prior to the Transfer (i.e. that of a direct policyholder). Below I describe how the Charge works and analyse whether, in my opinion, it works in the desired manner.

9.29 The Charge is a floating charge over all the assets of UKLAP (excluding any asset subject to fixed security, or over which UKLAP is prohibited, either absolutely or conditionally, from creating security, including where prior consent would be required). The floating charge would crystallise into a fixed charge, should UKLAP become insolvent. As a result of the granting to ALPI DAC of the Charge, ALPI DAC will become a secured creditor of UKLAP and will therefore rank above the direct policyholders of UKLAP.

9.30 However, there are further provisions within the Charge, which limit the amount of recovery ALPI DAC is entitled to on the winding-up of UKLAP to such an amount as ALPI DAC would have been entitled to recover, had ALPI DAC been an ordinary direct policyholder of UKLAP.

9.31 The aim of these provisions within the Charge is to align ALPI DAC and UKLAP's direct policyholders in relation to a distribution of the assets of UKLAP in the event of an insolvency of UKLAP.

Legal advice on the Charge

9.32 I have discussed the Charge and the provisions of the Charge with UKLAP and its legal advisers. I have also consulted with Independent Counsel on the operation of the Charge, its provisions and its effect on the protection offered to ALPI DAC, should the Brexit Reinsurance terminate due to insolvency. Independent Counsel confirmed that, although untested in an insolvency event, they believed the provisions of the Charge would work as intended.

9.33 Therefore, given my own understanding of the Charge and the advice I have received, I am satisfied that the Charge will work as intended.

Negative pledge

9.34 The existence of a negative pledge in a security agreement may prohibit, to a certain extent, UKLAP from granting any further charges over the assets secured by that security agreement. UKLAP previously has given two existing charges which contain negative pledges.

9.35 The Charge associated with the Brexit Reinsurance does not include a negative pledge and therefore does not prohibit any further charges which UKLAP may wish to enter into in the future. Given that the Charge is over all of the assets of UKLAP, except those detailed in paragraph 9.29, a group of assets much larger than OLAB benefits covered by the Brexit Reinsurance, I do not believe the omission of the negative pledge materially adversely affects OLAB Policyholders as their position will not be any different to the position they were in prior to the Transfer.

Conclusion

9.36 Overall I am satisfied that the Charge will work as intended to provide equalisation of the Remaining Policyholders of UKLAP and OLAB Policyholders because:

- the provisions within the Charge align the recovery of ALPI DAC with that of the direct UKLAP policyholders;
- the omission of a negative pledge is not an issue; and
- while the Charge is untested in an actual insolvency event, UKLAP's legal advisers and Independent Counsel concur that it should work as intended.

Impact of the Charge

9.37 Above I described how the Charge will operate and its purpose. In this section I look at the effect of the Charge on the recovery to which ALPI DAC is entitled under the Brexit Reinsurance by considering an example.

9.38 On the insolvency of UKLAP, assuming UKLAP has sufficient assets to pay secured creditors in full but only has sufficient assets to pay direct policyholders of UKLAP 95% of their benefits then, in the absence of the Charge, direct policyholders of UKLAP would recover 95% of their benefits, and there would be no recoverables available for ALPI DAC under the Brexit Reinsurance. However, with the Charge in place, the available assets within UKLAP after paying secured creditors in full would be used to align the amount that ALPI DAC is able to recover with the percentage recovery of direct policyholders, which, given the relative size of the business transferring to ALPI DAC under the terms of the Scheme (the "Transferring Business") to the business remaining in UKLAP following the Transfer (the "Remaining Business"), would result in a recovery only very slightly below 95%.

9.39 I requested UKLAP to provide me, on a confidential basis, the likelihood of a 10% or 5% shortfall occurring. The modelling of such extreme events is highly approximate. However, the modelling indicated that the likelihood of a 5% shortfall was extremely remote and the likelihood of a 10% shortfall was even more remote. A loss of this nature would require UKLAP to have exhausted its SCR (which is sufficient capital to cover a 1 in 200 event) and its risk appetite buffer; therefore, the low probabilities associated with these losses are as expected.

9.40 As outlined in the example above, the inclusion of the Charge substantially increases the amount that ALPI DAC could recover from UKLAP in relation to the Brexit Reinsurance in the unlikely event that UKLAP becomes insolvent. Importantly, it aligns the amount ALPI DAC is able to recover with the percentage recovery of the direct policyholders, meaning the position of both the Remaining Policyholders and the Transferring Policyholders remains unchanged from the position prior to the Transfer. In addition, given the relative size of the Transferring Business to the Remaining Business, the process of aligning the distribution of assets would not have a material adverse impact on Remaining Policyholders.

9.41 Therefore, after the Transfer is put in place, I am satisfied that the Charge aligns the recoveries for ALPI DAC with those of the direct policyholders of UKLAP, and thus ensures that ALPI DAC's position is the same as that held by direct policyholders of UKLAP.

Termination of the Brexit Reinsurance

9.42 There are certain conditions under which the Brexit Reinsurance can be terminated after the Scheme becomes effective. If the Brexit Reinsurance were to be terminated this would necessitate, at the date of the termination, the division of the with-profits funds of UKLAP, to which OLAB policies are reinsured, between the Remaining Policyholders of UKLAP and OLAB Policyholders. New unit-linked funds would need to be set up in ALPI DAC to mirror the unit-linked funds OLAB Policyholders are currently invested in and OLAB Policyholders would also cease to have access to the full range of funds currently available to them. In this section I consider the termination provisions further as well as the governance and process that must be followed in order to terminate the Brexit Reinsurance and calculate the Termination Amount due.

9.43 The Brexit Reinsurance arrangement may be terminated by either ALPI DAC or UKLAP if contractual payments relating to the Brexit Reinsurance are missed, there is a material breach, the agreement becomes unlawful, the other party ceases to have permission to perform its obligations under the agreement or there is fraudulent activity.

9.44 In addition, UKLAP has the right to terminate the Brexit Reinsurance if ALPI DAC transfers a substantial part of its business without the consent of UKLAP. ALPI DAC also has the right to terminate the Brexit Reinsurance if the Board of ALPI DAC considers that the Brexit Reinsurance is no longer necessary to protect the rights and expectations of OLAB Policyholders, either ALPI DAC or UKLAP leaves the Aviva Group, UKLAP becomes insolvent, a holder of security over all or a substantial part of the assets of UKLAP takes steps to enforce its security, or there is a change in tax or law which has a material adverse effect on ALPI DAC or UKLAP's ability to perform its obligations under the Brexit Reinsurance.

9.45 In the event that ALPI DAC or UKLAP decides to terminate the Brexit Reinsurance, subject to a relevant termination condition being met, the Scheme sets out the procedures that must be followed prior to the termination. These include, but are not limited to, the Board of ALPI DAC:

- consulting with and obtaining prior approval of an independent actuary;
- consulting with the WPC; and
- notifying the CBI and ensuring that no objection is received within a certain time period.

9.46 On termination of the Brexit Reinsurance, a Termination Amount must be paid by UKLAP to ALPI DAC. The Termination Amount represents the economic value of OLAB as at the date of termination of the agreement. The methodology to be followed in calculating the Termination Amount is set out in the Brexit Reinsurance. Initially, an Estimated Termination Amount will be paid by UKLAP to ALPI DAC, followed by an adjustment once the Termination Amount has been determined. If the Termination Amount is higher than the Estimated Termination Amount initially paid, this adjustment will consist of a payment from UKLAP to ALPI DAC. Likewise, if the Termination Amount is lower than the Estimated Termination Amount initially paid, this adjustment will consist of a payment from ALPI DAC to UKLAP.

9.47 The Termination Amount takes into account the methodology used to calculate the Back Book Premiums for each fund at the inception date of the Brexit Reinsurance. The Termination Amount also takes into account the Transfer Methodology which is in force at the termination date. The Transfer Methodology is the methodology followed by Aviva Group on inter-business unit transfers, approved by the Aviva Group and as amended from time to time. I have reviewed the Transfer Methodology that is in place at the time of writing the Report. The methodology uses an economic approach based on BEL plus a charge for the cost of capital over the future run-off of the liabilities. I describe the calculation of the Back Book Premiums below.

9.48 For non-profit OLAB in the NPSF and the Belgian SF, the Back Book Premium is calculated as BEL plus an appropriate margin in accordance with Solvency II and the Transfer Methodology in force at the termination date.

9.49 The OLAB in the FLAS WPSF is all unit-linked business. The OLAB in the New WPSF does not share in the Estate and so, for these funds, the Back Book Premium is also calculated as BEL plus an appropriate margin in accordance with Solvency II and the Transfer Methodology in force at the termination date.

9.50 For with-profits OLAB in the Old WPSF and the FP WPSF, the Back Book Premium is calculated as BEL plus an allowance for future distributions of the Estate, taking into account the sustainable Estate distributions at the appropriate time.

9.51 The Estimated Termination Amount and the Termination Amount, will be calculated by UKLAP. If ALPI DAC does not agree with the amounts calculated, then the Brexit Reinsurance sets out a process for resolution, which is as follows:

i the matter shall be referred to the Chief Financial Officers of both UKLAP and ALPI DAC;
ii if no resolution is reached by the Chief Financial Officers of UKLAP and ALPI DAC, the matter shall be referred to the Chief Financial Officer of Aviva Group; then
iii if the matter still remains unresolved, UKLAP and ALPI DAC should jointly appoint an independent actuary and/or lawyer within the Aviva Group. If agreement cannot be reached on an individual to appoint within the Aviva Group, an external independent actuary and/or lawyer should be appointed by the President of the Institute and Faculty of Actuaries or by the President of the Law Society, respectively.

9.52 Additionally, there would be a number of practical steps that would need to be taken to update the operations of ALPI DAC following the termination of the Brexit Reinsurance. The administration of the OLAB policies would need to be considered, and the contracts governing the administration arrangements may need to be renegotiated or new administration arrangements made. The governance of all policies would need to be considered but, in particular, the level of independent governance of the with-profits OLAB policies would need to be considered and it may be necessary to establish a WPC in ALPI DAC.

Impact of termination of the Brexit Reinsurance

9.53 As detailed above, as an alternative to splitting the with-profits funds, the Brexit Reinsurance allows OLAB Policyholders to retain participation in their originating with-profits funds. Therefore, it is important to consider the situations in which the Brexit Reinsurance can be terminated. Particularly whether, upon termination of the agreement, there is appropriate governance to ensure a fair outcome is achieved when partitioning the funds between OLAB Policyholders and the Remaining Policyholders of UKLAP, and whether adequate consideration is given to ensure that the OLAB is managed in a materially consistent way both before and after the termination of the Brexit Reinsurance.

9.54 There are a number of conditions detailed in the Brexit Reinsurance which, if met, would allow the termination of the Brexit Reinsurance (see paragraphs 9.43 and 9.44). I have reviewed these termination conditions, and they are in line with what I would expect to see in an agreement of this type.

9.55 In the event that ALPI DAC or UKLAP decide to terminate the Brexit Reinsurance, subject to a relevant termination conditions being met, the Scheme sets out the procedures that must be followed prior to the termination of the arrangement. These include, but are not limited to, the Board of ALPI DAC:

- consulting with and obtaining prior approval of an independent actuary;
- consulting with the WPC (in respect of the with-profits funds); and
- notifying the CBI, and ensuring no objection is received within 60 days.

9.56 Given the parties that would be involved in the termination of the Brexit Reinsurance, as outlined above, the process for terminating the Brexit Reinsurance contains the key protections of the consultation with, and approval of, an independent actuary, approval of the CBI and in respect of the with-profits funds, consultation with the WPC. The involvement of these parties ensures the management of the OLAB policies before and after the termination of the Brexit Reinsurance will be given sufficient consideration.

9.57 The termination of the Brexit Reinsurance would trigger the calculation of a Termination Amount. I have set out an overview of the methodology to calculate the Termination Amount above. Overall, I am satisfied that this methodology represents an appropriate way to divide the fund and is equitable to both the OLAB Policyholders and Remaining Policyholders as it is based on economic value and includes an allowance for interest in the Estate of the relevant funds, where this is applicable.

9.58 The determination of the Termination Amount under the Brexit Reinsurance contrasts with a Scheme of Arrangement (a Court-approved agreement between a company and its shareholders or creditors) that might be initiated if the with-profits funds were to be partitioned before the Transfer. A Scheme of Arrangement usually requires Court approval. However, both processes require the involvement of the Regulators, the WPC and the consent of an independent actuary which in my view gives sufficient protection to policyholders.

9.59 As outlined in paragraph 9.46, an Estimated Termination Amount will be paid to ALPI DAC prior to the determination of the Termination Amount. Under the terms of the Brexit Reinsurance, the Estimated Termination Amount must be paid by UKLAP to ALPI DAC within three business days of terminating the Brexit Reinsurance. Therefore, during any intervening period between the termination of the Brexit Reinsurance and the payment of the Termination Amount, the payment of the Estimated Termination Amount provides ALPI DAC with a source of funds to meet the payments due to OLAB Policyholders that would have previously been met by the reinsurance cashflows from UKLAP. In the scenario that the Estimated Termination Amount is insufficient to allow ALPI DAC to meet such payments, ALPI DAC will need to have sufficient liquidity to meet the payments via alternative means. ALPI DAC's current liquidity risk appetite requires that at least 85% of non-linked assets are constituted by investments listed on regulated stock markets or held in bank deposits with approved counterparties, and therefore the assets it holds for liquidity purposes are able to be called upon at short notice. ALPI DAC will adopt a short-term and long-term liquidity risk appetite in line with that of UKLAP and the Aviva Group in the first quarter of 2019. UKLAP has a short-term and long-term liquidity risk appetite in place to ensure that it can continue to meet payments under stressed conditions, calibrated to a 1 in 200 year level.

Conclusion

9.60 Overall, I am satisfied that provisions governing the termination of the Brexit Reinsurance provide suitable protection for OLAB Policyholders in the context of their interest in their originating funds. This is because:

- the Brexit Reinsurance specifies the circumstances when it can be terminated and I consider that these circumstances provide adequate protection for OLAB Policyholders;
- if a termination occurs, the with-profits funds in which OLAB resides would need to be split. The governance required by the Brexit Reinsurance relating to the splitting of any with-profits fund requires the notification of the CBI and the involvement of an independent actuary as well as the WPC which, in my view, is sufficient to ensure a fair outcome for OLAB Policyholders and direct policyholders of UKLAP;
- the method for determining the Termination Amount is based on the economic value of the liabilities and allows for the future distribution of the Estate for with-profits business;
- termination of the Brexit Reinsurance requires the CBI to be notified and for no objection to be received within 60 days of notification;
- whilst the termination of the Brexit Reinsurance does not require the views of the Court to be sought, which a Scheme of Arrangement would require, it provides the key elements of a Scheme of Arrangement, that is: approval of an independent actuary and consultation with the Regulators and WPC. This, in my view, provides appropriate policyholder protection in order to lead to a fair outcome; and
- during any intervening period between the termination of the Brexit Reinsurance and the payment of the Termination Amount, the payment of the Estimated Termination Amount enables ALPI DAC to meet payments due to OLAB Policyholders that would previously have been met by the reinsurance cashflows from UKLAP, and if the Estimated Termination Amount is insufficient to allow ALPI DAC to meet such payments, ALPI DAC has appropriate policies in place to ensure it can meet the payments via alternative means.

Side Letter to Brexit Reinsurance

9.61 The Brexit Reinsurance incorporates the Side Letter. Following the Transfer, the Side Letter transfers responsibility for the management and administration of OLAB from ALPI DAC to UKLAP whilst ALPI DAC will provide oversight. This means that the same administration team and systems will continue to be used to administer OLAB policies after the Transfer.

9.62 The Side Letter forms part of the Brexit Reinsurance and hence will automatically be terminated immediately upon the termination of the Brexit Reinsurance. The termination of the Brexit Reinsurance and the Side Letter are subject to rigorous governance, as discussed above. The Side Letter requires UKLAP and ALPI DAC to develop, maintain and implement a plan to facilitate the smooth transition of the performance, the management activities and administration activities from the Reinsurer to the cedant in the event of the termination of the Side Letter.

9.63 The aim of this Side Letter is to ensure that the administration of OLAB is unchanged as a result of the Transfer. I am satisfied that the Side Letter achieves this outcome because:

- there is a robust governance process that must be followed before the termination of the Brexit Reinsurance occurs which ensures a fair outcome for policyholders in terms of the continuation of servicing and service standards;
- the administration of OLAB will be performed by the same administration teams before and after the Transfer;
- the Side Letter is a legally binding document and can only be terminated upon the termination of the Brexit Reinsurance; and
- the Side Letter requires UKLAP and ALPI DAC to develop a handover plan to be applied in the event the Side Letter is terminated.

Requirement for UK Branch of ALPI DAC

9.64 UKLAP and ALPI DAC have considered whether the level and nature of the activities performed on behalf of ALPI DAC from the UK would require ALPI DAC to seek authorisation in the UK as a third country branch post-Brexit, and have sought legal advice on the issue from external advisers. In this section I outline the items considered when determining whether a UK branch of ALPI DAC is required.

9.65 For OLAB policies, which are covered by the Brexit Reinsurance, UKLAP will continue to be responsible for the performance, or the procurement of the performance, of certain activities relating to policy management and administration. This includes activities such as premium collection and claim payments, as well as specified 'back-office' activities such as investment management, product management and complaints governance and oversight. As a general point, UKLAP will not perform these activities itself – performance will be delegated to Aviva Life Services UK Limited ("ALSUK"). The terms governing UKLAP's responsibility for these activities are set out in the Side Letter to the reinsurance agreement, which will be agreed between UKLAP and ALPI DAC.

9.66 Having sought advice on the issue from external counsel, UKLAP and ALPI DAC do not believe there is a legal requirement for ALPI DAC to seek authorisation as a third country branch within the UK in light of the servicing arrangements set out within the Side Letter.

9.67 UKLAP and ALPI DAC have also considered whether its activities under the Side Letter could engage Rule 9.1 of the PRA's 'Conditions Governing Business' (the "Internal Contagion Rule"), which prohibits (re)insurers from carrying on any commercial business other than (re)insurance business and activities directly arising from that business. Having sought advice from external counsel, UKLAP and ALPI DAC do not consider that its performance of the activities under the Side Letter would engage the Internal Contagion Rule.

9.68 In summary, it is the view of UKLAP and ALPI DAC that there is no regulatory requirement for ALPI DAC to seek authorisation as a third country branch within the UK and that UKLAP's activities under the Side Letter would not cause it to breach the Internal Contagion Rule.

9.69 I understand that, at the time of writing the Report, it has been agreed with the FCA that ALPI DAC will continue to monitor the activities provided by UKLAP and keep under review whether any of these activities might require ALPI DAC to seek authorisation for a UK branch.

9.70 In my role as Independent Expert, I am required to consider whether ALPI DAC has properly considered whether it will require UK authorisation in relation to acts done on its behalf by the UK transferor. I highlight that I am not a legal professional and as such, there are limitations on the conclusions I am able to draw in relation to this issue. My analysis has consisted of reviewing the legal advice received by UKLAP and ALPI DAC (which was obtained from a major UK law firm), a discussion with the legal team within UKLAP and consultation with regulatory specialists within Grant Thornton. Overall, I conclude that the scope of the advice received by UKLAP and ALPI DAC appears appropriate and the logic used to arrive at the conclusion appears to be sound and well-reasoned. As such, it is my opinion that ALPI DAC has properly considered whether it will require a UK branch.

10 Security of policyholder benefits

10.1 When discussing whether the Transfer materially adversely affects policyholders, a key part of my consideration is the security of policyholder benefits and the impact of the Transfer on this security.

10.2 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, because any significant change in risk profile as a result of the Transfer potentially has an impact on policyholder security.

10.3 Therefore, in this section I will consider for both UKLAP and ALPI DAC:

- their expected capital position at the Effective Time;
- projections of their capital position under different economic scenarios, allowing for the Transfer; and
- their risk profile before and after the Transfer.

10.4 I have considered the security of Transferring Policyholder benefits by assessing the likelihood of UKLAP and ALPI DAC having sufficient resources to pay benefits when they become due as measured by the level of capital they hold. In my assessment, I have used capital metrics which are widely adopted in the insurance industry as a measure of financial security. As the security of benefits depends on the firms' overall resources, I considered the three groups of Transferring Policyholders I identified together.

10.5 In forming my opinions on the security of Transferring Policyholder benefits before and after the Transfer, I have taken into account the following:

- the methods used for calculating the SCR Ratio;
- the SCR Ratio before and after the Transfer, assuming the Scheme had been effective from 31 December 2017;
- the expected future SCR Ratio before and after the Transfer and a range of stress scenarios;
- the SRA before and after the Transfer; and
- the impact of changes to the risk profile before and after the Transfer.

Standard Formula vs Partial Internal Model

10.6 The table below outlines the different approaches taken by UKLAP and ALPI DAC in calculating their Pillar 1 solvency results:

	UKLAP	ALPI DAC
Model	Partial Internal Model	Standard Formula
Volatility Adjustment	Yes – all business except unit-linked business, ex-FLP business, business using the MA and Transferring Business	Yes
Matching Adjustment	Yes – covers the majority of annuity business	No
TMTP	Yes	No

10.7 Alongside the Scheme, ALPI DAC wase planning to apply to the CBI to extend its VA approval to cover all policies transferring from UKLAP, including the unit-linked business. The figures in the table in paragraph 10.13 below assume that this approval is granted, however the VA application in respect of the Transferring Policies has since been deferred to 2019. The impact of this is low (the benefit of the VA on the surplus of Own Funds above the SCR for ALPI DAC is estimated to be less than £10m). In addition, ALPI DAC would still be initially capitalised to an SCR Ratio of 150%, as this is a requirement of the Scheme.

10.8 ALPI DAC's ORSA considers the appropriateness of the use of the Standard Formula and compares this to UKLAP's Partial Internal Model approach. I have reviewed the qualitative and quantitative analysis within the ORSA regarding this and I note that the results on the two bases are similar, with some differences at individual risk level. For example, the Standard Formula does not consider the credit risk associated with government bonds, as these are deemed to be risk-free, whereas UKLAP's Partial Internal Model does allow for this risk, while the Standard Formula calculation of counterparty default risk is more onerous than it would be if ALPI DAC had utilised an Internal Model.

10.9 A document justifying the appropriateness of the Standard Formula for ALPI DAC has been shared with both the PRA and CBI.

10.10 A full assessment of the Standard Formula appropriateness is performed on an annual basis as part of the ORSA process.

10.11 Following my review of the work done to analyse the appropriateness of the Standard Formula, I am satisfied that, at the Effective Time, the Standard Formula is appropriate as it covers the key risks for ALPI DAC. I have looked at the overall comparison of Standard Formula and Internal Model, which is a common method used to justify the use of the Standard Formula by insurers, and I am satisfied that, overall, the Standard Formula is appropriate. Additionally, I am satisfied that the Standard Formula is appropriate going forward, as after the Transfer the risk profile of ALPI DAC is not expected to considerably change. I note that, on an ongoing basis, analysis will be performed to ensure the Standard Formula remains appropriate.

SCR Ratio

10.12 One method often used to assess the security of policyholder benefits is to consider the SCR Ratio (total available Own Funds expressed as a percentage of SCR). This provides a measure of the financial resources of a firm and gives an indication of the firm's ability to continue to pay claims as they fall due. In order to assess how the Transfer will affect Transferring Policyholders in this area, I have considered the SCR Ratio of ALPI DAC after the Transfer in comparison to the SCR Ratio of UKLAP before the Transfer.

10.13 The table below details the Solvency II Pillar 1 results and SCR Ratio as at 31 December 2017, for UKLAP prior to the Transfer and ALPI DAC after the Transfer, both shown net of reinsurance.

31 December 2017	UKLAP prior to the Transfer £m	ALPI DAC after the Transfer €m
Total assets	307,464	13,942
Total liabilities	292,196	13,241
Excess of assets over liabilities	15,269	702
Total available Own Funds to meet the SCR	14,154	559
SCR	9,321	372
SCR Ratio	152%	150%

10.14 The numbers in the table for ALPI DAC include a capital injection of £100m (or approximately €113m) from UKLAP at the time of the Transfer, which is the estimated amount required to capitalise ALPI DAC to 150%. The SCR for UKLAP is calculated using a Partial Internal Model whereas ALPI DAC's SCR is based on the Standard Formula. I have described the appropriateness of these calculations in 10.11 above. As can be seen from the table above, for the Transferring Policyholders, the SCR Ratio is not materially different as a result of the Transfer. Therefore, in my opinion, the Transfer does not result in the Transferring Policyholders being transferred to an insurer that is materially weaker than UKLAP.

Forward-looking projections on SCR Ratio

10.15 In this section, I review the capital projections of ALPI DAC and UKLAP, and consider how these compare to each other. The ORSA I have reviewed for ALPI DAC has been prepared on the basis that the transfer of OLAB and Irish Business has taken place. More detail of my analysis is outlined below.

Capital projection scenarios

10.16 The ORSAs of ALPI DAC and UKLAP set out a range of capital projections. These include a central capital projection scenario, within which the ALPI DAC ORSA assumes the Scheme is effective in 2019. The UKLAP ORSA has not been altered to take into consideration the Transfer, and I am satisfied with this given the relatively small size of the Transferring Policies to UKLAP. The central capital projection scenario represents the best estimate of future solvency. The other capital projections show the future solvency of ALPI DAC and UKLAP under a range of stress scenarios.

10.17 The central projections show that both UKLAP and ALPI DAC remain within the Green risk appetite ranges (as defined in 4.39 and 5.32, respectively) set out within UKLAP's and ALPI DAC's respective SRAs and dividends are paid annually to return the SCR Ratio to 150%.

ORSA: Stress and Scenario Testing

10.18 The ALPI DAC ORSA indicates that the key undiversified risks for ALPI DAC after the Transfer are exposure to stresses in lapse, longevity and morbidity (the same as those under Pillar 1).

10.19 The UKLAP ORSA indicates that the key undiversified risks for UKLAP are exposure to longevity, credit and lapse.

10.20 As noted in Sections 4 and 5 above, ALPI DAC and UKLAP have carried out a range of appropriate stress tests. The results of the stress tests indicate that both ALPI DAC's and UKLAP's SCR Ratios can withstand all of these adverse impacts. The SCR Ratio falls to the Amber risk appetite under certain scenarios, although it does not breach the regulatory capital requirement of 100% under any of these circumstances. To bring the SCR Ratio back to the Green zone, ALPI DAC and UKLAP will retain dividends, with the period over which the dividends are withheld depending on the impact of the stress test.

10.21 In addition to stressing the individual risks, both UKLAP and ALPI DAC also consider the impact on the SCR Ratio under a range of scenarios. These scenarios range from extreme market scenarios to operational impacts on the business. I have reviewed the scenarios considered and, in my opinion, the scenarios tested are reasonable, are sufficiently strong to adequately assess the robustness of UKLAP's and ALPI DAC's capital positions and are consistent with what I have seen in the industry.

10.22 Both UKLAP and ALPI DAC are able to maintain their respective SCR Ratios within the Green risk appetite zone under most of the scenarios considered.

10.23 The scenario tests for both ALPI DAC and UKLAP, detailed in their respective ORSAs, show that under some of the scenarios the SCR Ratio moves into either the Red or Amber risk appetite zone. In all scenarios where this happens, both ALPI DAC and UKLAP implement management actions, including withholding dividends, which return the SCR Ratio to the Green risk appetite range.

10.24 The results of the scenario tests show that both ALPI DAC and UKLAP can withstand a range of adverse stress events and maintain their SCR well above the regulatory minimum level. Therefore, I am satisfied that both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios over the next five years.

Solvency Risk Appetite

10.25 The Boards of UKLAP and ALPI DAC are responsible for setting the respective SRA policies, and these are set with consideration of the Aviva Group capital policy. The policies of ALPI DAC and UKLAP are not materially different from each other, the basis for both policies is having a capital buffer such that after a 1-in-5 year event, there is sufficient capital left to cover 100% of the SCR. There are then further adjustments made, which are entity specific.

10.26 The Scheme does not change the SRA for ALPI DAC, which is currently 150%, nor the SRA for UKLAP.

10.27 The 2017 Scheme contained a provision that means that UKLAP cannot change its SRA in a way that would constitute a material weakening without following appropriate governance procedures, which include consulting with the WPC, the PRA and the FCA. The definition of material weakening for UKLAP is within its SRA.

10.28 The Scheme introduces a similar provision for ALPI DAC and it specifies the governance that must be followed in order to materially weaken the current SRA policy. This governance process includes:

- taking appropriate actuarial advice, including consulting with the WPC;
- informing the CBI, who have the right to challenge the SRA policy if they feel it is inappropriate; and
- consulting with the HoAF.

10.29 The definition of material weakening of the ALPI DAC SRA policy is contained within the SRA itself and is similar to the UKLAP definition. It allows the ALPI DAC Board to reduce the SRA by up to 5% before the governance detailed above is required. A reduction to the SRA of 5% or less is, in my opinion, not a material adjustment.

10.30 Therefore, as a result of the Scheme, the UKLAP SRA policy is unchanged and the ALPI DAC SRA is strengthened through the additional governance the Scheme puts in place.

10.31 I note that both UKLAP and ALPI DAC are currently capitalised at or above their respective target SCR Ratios. I also note that within both UKLAP and ALPI DAC dividends can only be paid if the target cover ratio is exceeded, which avoids further depletion of the cover ratio when it is in the Red or Amber risk appetite zone.

10.32 I have reviewed both the UKLAP and ALPI DAC SRA policies. These are in line with those I have seen elsewhere in the market and I am satisfied that the ALPI DAC SRA affords the Transferring Policyholders sufficient protection. In addition, the governance process that must be followed before the ALPI DAC SRA can be materially weakened is robust and, as it is an element of the Scheme, must be followed in the future. Additionally, the SRA of ALPI DAC and the governance around changes to the SRA are not materially different to those in UKLAP. Therefore, I am satisfied that the SRA provides a similar level of ongoing protection to the Transferring Policyholders.

Solvency risk management

10.33 In addition to the SRA, I have reviewed the risk policies that are currently in place for UKLAP and ALPI DAC. Both firms have confirmed that no changes will be made to these risk policies as a result of the Scheme. Based on my review of these risk policies, I confirm that both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency. Additionally, the regulators in the UK and Ireland have similar objectives in terms of protecting solvency.

Changes to risk profile

10.34 I have considered the risk profile of both UKLAP and ALPI DAC before and after the Transfer by reference to risk components of the undiversified SCR. 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

10.35 There are similarities between the risk profile of UKLAP and ALPI DAC. For example, both lapse and longevity are in the top three risks for UKLAP before the Transfer and ALPI DAC after the Transfer.

10.36 The level of longevity is driven by the volume of annuities within each of the entities. The main driver of lapse risk is the risk of mass lapse on protection and unit-linked business that both companies are exposed to having relatively large volumes of business of this type.

10.37 There are differences in UKLAP's and ALPI DAC's ranking of credit risk within their risk profiles. This is largely due to the Standard Formula which ALPI DAC uses to calculate its SCR. ALPI DAC's Standard Formula considers government bonds to be risk-free and therefore does not require the company to hold capital against them. However, UKLAP's Partial Internal Model does require UKLAP to hold capital against the risk that the counterparty on government bonds defaults. Additionally, UKLAP has large holdings of commercial mortgages and illiquid assets that it also uses to back its annuities, whereas ALPI DAC uses government bonds, which are deemed to be risk-free under the Standard Formula.

10.38 Morbidity is a more significant risk for ALPI DAC than UKLAP, this is driven by the proportion of healthcare business written by ALPI DAC.

10.39 None of the above risks are excessive and both UKLAP and ALPI DAC are experienced in managing these types of risks through the underwriting process, monitoring and managing experience and through reinsurance of catastrophe exposures. In addition, capital is held within the SCR for these risks.

10.40 Although reinsurance counterparty risk is not a top three risk within ALPI DAC it is proportionally larger in ALPI DAC than in UKLAP. There are two main reasons that counterparty risk is higher in ALPI DAC than in UKLAP, they are:

i. ALPI DAC calculates its SCR on a Standard Formula basis, which is more onerous for counterparty risk than if the SCR were being calculated on an Internal Model basis; and
ii. the Brexit Reinsurance introduced as part of the Transfer increases the capital requirement for counterparty default.

10.41 As discussed in Sections 7 and 9, the Charge provides significant protection against this risk. In addition, the Standard Formula calculation used by ALPI DAC results in more capital being required compared to reporting on an Internal Model basis, which would reduce the counterparty default capital included in the SCR for ALPI DAC. I consider ALPI DAC's counterparty default exposure in the paragraphs below.

10.42 Overall, I note that the risk profiles of UKLAP and ALPI DAC differ slightly, although I am satisfied that these differences are not inappropriate or excessive and are extremely 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 and 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 counterparty default risk exposure on ALPI DAC

10.43 Immediately after the Transfer, ALPI DAC will have counterparty default risk exposure to UKLAP. This is in relation to any shortfall in the amount recoverable under the Brexit Reinsurance following UKLAP's insolvency.

10.44 The Charge does not qualify as a risk mitigant that would meet the relevant requirements to be classified as collateral. Consequently, ALPI DAC must hold an increased amount of capital against the risk of counterparty default.

10.45 Therefore, in addition to the stress and scenario testing contained in the ALPI DAC ORSA (see Section 5 for more information), I requested that additional stresses be layered upon the market volatility scenario, which is an adverse scenario that results in ALPI DAC entering its Red risk appetite zone. I requested the following additional stresses:

- downgrade of UKLAP's credit rating from A to BBB;
- 5% loss on the Termination Amount due to ALPI DAC from UKLAP and ALPI DAC recapturing the risks associated with the OLAB policies; and
- downgrade of UKLAP's credit rating to BB.

10.46 These scenarios all assume that following Brexit the UK's solvency regime is granted Solvency II equivalence, I believe this is a reasonable assumption given that the UK is currently operating under the Solvency II regime. Consideration of these scenarios allows me to assess the potential impact of the counterparty default risk exposure.

Downgrade of UKLAP's credit rating from A to BBB

10.47 Under the first stress scenario – the downgrade of UKLAP's credit rating from A to BBB – ALPI DAC is still able to broadly cover its SCR, although it would result in the SCR Ratio moving further into the Red appetite zone. Following the implementation of management actions, including withholding dividends, ALPI DAC is able to restore its SCR Ratio back to its Green appetite zone.

10.48 If the credit rating of UKLAP were to be downgraded, ALPI DAC would be required to increase its credit default adjustment, risk margin and SCR even though there would be no immediate loss. The amount of capital that Standard Formula firms, such as ALPI DAC, need to hold against counterparty default risk exceeds that calculated on an economic basis. If, instead, ALPI DAC adopted an Internal Model, it would make the impact of any downgrades of UKLAP's credit rating on the Solvency II balance sheet less severe. This is because the Internal Model is better aligned to the economic view.

10.49 Based on Moody's one-year transition matrix, the probability of a downgrade from A to BBB is 5.57%, which means that the risk of downgrade is highly unlikely.

5% loss on the Termination Amount due to ALPI DAC from UKLAP and ALPI DAC recapturing the risks associated with the OLAB policies

10.50 Under the second stress, the 5% loss on the Termination Amount due to ALPI DAC from UKLAP and ALPI DAC recapturing the risks associated with the OLAB policies, ALPI DAC would still be able to cover its SCR, although it would also result in the SCR Ratio moving further into the Red appetite zone. There are a number of management actions that can be taken to restore the SCR Ratio to the Green appetite zone, including withholding dividends.

10.51 This stress would occur on the insolvency of UKLAP, and I have therefore considered the likelihood of this occurring. I note that UKLAP currently has either an A or AA rating (depending on the credit rating agency). For these calculations I have assumed UKLAP has an A rating (as this is prudent). Based on the Moody's one-year transition matrix[14], the probability of an A rated company being in default is 0.21% over the next year. Although there are different reasons why a company may default, insolvency is the main reason. Therefore, I have used the probability of default as a proxy for the probability of insolvency. A probability of 0.21% indicates that the insolvency of UKLAP is a remote event; the probability of a shortfall of 5% is even less likely than UKLAP becoming insolvent, therefore the probability of a 5% shortfall is less than 0.21%.

[14] Moody's one year transition matrix gives the probability, over one year, of a counterparty having a particular credit rating at the end of the year or being in default, given its rating at the start of the year. It is based on the Moody's data from 1985-2016 restricted to the insurance sector. The matrix is adjusted to account for the impact of withdrawn ratings and smoothing is applied to give non-zero probabilities to transitions with no observations (e.g. AAA to BB).

Downgrade of UKLAP's credit rating to BB

10.52 Under the third stress, the downgrade of UKLAP's credit rating to BB, ALPI DAC is not able to cover its SCR but can cover its MCR. I have discussed with ALPI DAC the options available to them in response to such a scenario, and they include:

- conversion of the Charge to a fixed charge, subject to UKLAP's agreement;
- negotiate the recapture of the OLAB policies; and
- apply for Internal Model approval.

10.53 Upon the conversion of the Charge to a fixed charge, the equal ranking of ALPI DAC to direct policyholders of UKLAP would be maintained. The fixed charge would attach to specific assets which UKLAP could not dispose of without ALPI DAC's consent, and therefore, conversion to a fixed charge offers ALPI DAC a degree of influence over the assets attached to the charge. This action is also designed to improve the Solvency II Standard Formula balance sheet for ALPI DAC. Although the conversion of the Charge to a fixed charge requires the agreement of UKLAP, we believe it is reasonable to expect UKLAP to agree to the conversion given that ALPI DAC is a subsidiary of UKLAP and the fixed charge would be over a relatively small proportion of UKLAP's total assets.

10.54 The above actions may take some time to implement and, therefore, consideration would be given to these as the credit rating of UKLAP deteriorated. In my view, these would be reasonable actions to pursue and would result in the SCR Ratio improving, and at least two out of the three management actions detailed above would result in the SCR Ratio returning to the Green appetite range.

10.55 The probability of an insurance firm moving from an A rating to a BB rating within one year, based on Moody's one year transition matrix, is 0.34%.

10.56 As detailed in paragraph 10.46, the analysis above assumes that the UK is granted Solvency II equivalence. I have also discussed with ALPI DAC its anticipated approach if the UK were not to be granted Solvency II equivalence and UKLAP's credit rating were to be downgraded to BB, this would involve the termination of the Brexit Reinsurance. Termination of the Brexit Reinsurance is considered in Section 9. In summary, I am satisfied that ALPI DAC has given this appropriate consideration and has appropriate plans in place should this occur. Furthermore I deem the likelihood of a downgrade of UKLAP to a BB rating combined with UK being deemed non–equivalent under Solvency II to be a remote event.

Conclusion

10.57 Given the information above, I am satisfied that ALPI DAC has sufficient management actions available to ensure that it can withstand counterparty default stresses in addition to an adverse scenario, minimising the impact on Transferring Policyholders and Existing Policyholders.

Run-off of counterparty default risk exposure

10.58 In this section, I consider how the counterparty default risk exposure runs off over time. The Brexit Reinsurance is closed to new business, whereas ALPI DAC continues to write new business. This means that, over time, ALPI DAC's counterparty exposure to UKLAP is forecast to run down relatively quickly as a percentage of ALPI DAC's total liabilities. The table below shows the proportion of OLAB policies as a percentage of the liabilities of ALPI DAC, including anticipated new business.

	2018	2019	2020	2021	2022
BEL of OLAB (€m)	1,212	1,133	1,055	978	906
BEL of ALPI DAC, incl. anticipated new business (€m)	12,651	13,084	13,583	14,105	14,679
BEL of OLAB as a percentage of total ALPI DAC BEL incl. anticipated new business	10%	9%	8%	7%	6%
BEL of ALPI DAC, excl. new business (€m)	11,238	10,102	8,960	7,761	6,531
BEL of OLAB as a percentage of total ALPI DAC BEL excl. new business	11%	11%	12%	13%	14%

10.59 All OLAB policies are reinsured back to UKLAP and, as of 31 December 2017, the BEL for the OLAB policies was valued at €1,264m. This represents approximately 10% of ALPI DAC's total BEL after the Transfer, assuming the Scheme was effective as at 31 December 2017.

10.60 I have reviewed the expected run-off profile of OLAB and this indicates that over the next 10 years the business of OLAB is expected to reduce by 50%, with only a third of the business remaining in force by 2030.

10.61 As can be seen from the table above, in the absence of new business, OLAB will represent an increasing proportion of the business of ALPI DAC over the next five years, meaning that ALPI DAC's counterparty exposure to UKLAP will increase in relative terms. However, it should be noted that ALPI DAC does not intend to close to new business and therefore this scenario would not be expected to occur in practice. In addition, ALPI DAC is aware of its exposure to counterparty default risk and is experienced in monitoring and managing this risk on a day-to-day basis. Finally, the likelihood of UKLAP defaulting on its reinsurance obligations to ALPI DAC is remote.

10.62 Therefore, although ALPI DAC will have a relatively large counterparty default exposure in the first few years, this quite quickly decreases and becomes a much smaller risk for ALPI DAC in the case that ALPI DAC remains open to new business, as it intends to. I also note that the calculation of the SCR takes counterparty default exposure into account. Whilst the counterparty default exposure increases as a proportion of ALPI DAC's business in the scenario that ALPI DAC does not write any new business, the likelihood of UKLAP defaulting is remote and ALPI DAC is able to manage this risk effectively.

11 The impact of the Transfer on with-profits Irish Business

Benefit expectations and contractual rights

11.1 Despite becoming direct policyholders of ALPI DAC rather than of UKLAP, there will be no material change to any of the terms and conditions of any of the with-profits Irish Business and, therefore, no change to their contractual rights.

11.2 The with-profits Irish Business, which currently resides in the Irish WPSF and will be transferred to the ALPI Irish WPF under the Scheme will be retained in full by ALPI DAC. In addition, all assets associated with this business will transfer to the ALPI Irish WPF, a newly created fund within ALPI DAC.

11.3 The PPFM for the Irish WPSF sets out any areas of discretion and the governance concerning the with-profits Irish Business. As discussed in the 'Governance' section below, the PPFM is not materially altered as a result of the Scheme. Therefore, areas of discretion for the with-profits Irish Business are largely unchanged as a result of the Scheme, with the only changes being:

- matters which are currently the responsibility of the WPA will become the responsibility of the HoAF;
- references to COBS will be replaced with references to any regulatory requirements applying in Ireland; and
- where there is Board involvement it will be the involvement of the ALPI DAC Board rather than the UKLAP Board after the Scheme is implemented.

11.4 I am satisfied that the changes detailed above do not represent a material weakening to the governance of the application of discretion for the with-profits Irish Business.

11.5 The WPC of UKLAP will have its ToR updated to ensure they continue to provide oversight of the ALPI Irish WPF.

11.6 The ALPI Irish WPF will follow the same investment and Estate distribution strategy as the Irish WPSF did prior to the Transfer. Any future changes to either of these strategies will be subject to the same governance that currently applies in the Irish WPSF.

11.7 Therefore, the governance structure and PPFM for the with-profits Irish Business largely mirror that which was in place prior to the Transfer. Following the Transfer, the ALPI DAC Board will be ultimately responsible for these policies, and the HoAF will advise the Board of ALPI DAC on matters related to the with-profits Irish Business. In addition, the investment strategy and Estate distribution strategy of the ALPI Irish WPF will be unaltered. Therefore, in my opinion, there will be no change to the benefit expectations for the with-profits Irish Business policyholders.

11.8 Overall, I am satisfied that the Transfer will not have any material adverse impact on the benefit expectations and contractual rights of with-profits Irish Business.

Security of benefits

11.9 In paragraph 10.14, I concluded that the Scheme does not result in the Transferring Policyholders being moved to an insurer that is materially weaker than UKLAP.

11.10 In paragraph 10.24, I concluded that both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios over the next five years.

11.11 In paragraph 10.32, I concluded that the ALPI DAC SRA provides a similar level of ongoing protection to the Transferring Policyholders compared to the SRA of UKLAP.

11.12 In paragraph 10.33, I concluded that both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency and, in addition, that the regulators within the UK and Ireland have similar objectives in terms of protecting solvency.

11.13 In paragraph 10.42, I concluded that the differences in the risk profile of UKLAP and ALPI DAC will not have a material impact on Transferring Policyholders.

11.14 In paragraph 10.57, I concluded that the ALPI DAC counterparty exposure to UKLAP can be managed appropriately and will not give rise to a material adverse impact on ALPI DAC.

11.15 Based on my conclusions set out in paragraphs 11.9 to 11.14 above I am satisfied that there is no material adverse impact on the security of benefits for with-profits Irish Business.

Ombudsman

11.16 Prior to the Transfer, the with-profits Irish Business was covered by the FSPO in Ireland only. 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 only.

FSCS cover

11.17 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.

11.18 The with-profits Irish Business sold through the Irish Branch of UKLAP subsequent to the Irish Scheme is currently covered by the FSCS, this means that in the unlikely event of UKLAP becoming insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance, 100% of the benefits are protected for the duration of the policy. The FSCS provides protection to policyholders of UK based insurance entities, or EEA branches of a UK based insurance company. Following the Transfer, the policyholders of with-profits Irish Business sold through the Irish Branch of UKLAP since the Irish Scheme, will hold policies with an Irish based insurance entity and will therefore no longer be covered by the FSCS. There is no equivalent to the FSCS covering life insurance business in Ireland.

Consideration of loss of FSCS cover

11.19 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. It is my view that having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important and, therefore, that the loss of FSCS protection is an unavoidable consequence of Brexit.

11.20 In addition, the likelihood of either UKLAP or ALPI DAC becoming insolvent, now or in the future, is a remote event. Both UKLAP and ALPI DAC operate within risk-based regulatory regimes and are well capitalised with appropriate SRA policies.

11.21 In the unlikely event that UKLAP were to become insolvent, the Charge under the Brexit Reinsurance ensures that ALPI DAC claims against UKLAP rank alongside the claims of unsecured direct policyholders of UKLAP. This means that the chance of a significant reduction to the Transferring Policyholders benefits is remote.

11.22 There are a limited number of jurisdictions within the EU that have compensation schemes for holders of life insurance policies. Although moving the Transferring Policies into an insurer within such a jurisdiction may have offered some form of protection, it was decided that it was not the most appropriate option for the Transferring Policies.

11.23 UKLAP has also considered if there are any alternative operating models that could be implemented in order to retain FSCS protection whilst ensuring that the servicing of Transferring Policies remains legal. For example, one alternative considered was the establishment of a UK branch of ALPI DAC and transferring the Transferring Policies into this UK branch. I have discussed this option with UKLAP and its legal advisors and understand that there is uncertainty as to whether it is feasible to establish such a sizeable branch, get the required approvals and retain the FSCS protection. This option could add additional cost and complexity, without a certain outcome of FSCS protection being retained post-Brexit. Based on this, I agree with UKLAP that this is not a viable option.

11.24 UKLAP has an existing subsidiary in Ireland with a strong history, and the legal framework, business language and culture in Ireland and UK are very similar. Therefore, Ireland was deemed a more suitable option. In addition, the majority of the Transferring Policies are Irish policyholders and UKLAP already has an Irish subsidiary that contains with-profits business. Given the above, it is my opinion that reallocating the Transferring Policies to an Irish insurer is appropriate.

11.25 It is possible that the outcome of the Brexit negotiations results in a deal between the UK and the EU which means that UKLAP would have been able to continue to service contracts sold under EU passporting rights until the end of the policy term. If this were to be the result of the Brexit negotiations, then certain tranches of the Transferring Policyholders will have lost the FSCS protection that they would have retained had the Scheme not taken place. However, it is my view that in this scenario there was not sufficient time to wait for the results of such negotiations, and that action was required ahead of Brexit to have certainty that the Aviva Group will be able to legally service the Transferring Policies post-Brexit. I will provide an update in my Supplementary Report on the latest relevant negotiations, and the impact of these on my conclusions regarding the loss of FSCS protection for certain Transferring Policyholders.

Brexit Reinsurance

11.26 The Brexit Reinsurance does not cover with-profits Irish Business.

Governance

11.27 For the with-profits Irish Business, which is not reinsured back to UKLAP, ALPI DAC has decided to largely mirror the governance and regulatory oversight that the fund benefitted from as part of UKLAP.

11.28 Although not a requirement in Ireland, ALPI DAC has produced a PPFM for the ALPI Irish WPF. The PPFM for the ALPI Irish WPF will mirror the current PPFM save that references to the WPA are replaced by references to the HoAF. The ultimate responsibility for decisions relating to the ALPI Irish WPF will transfer from the UKLAP Board to the ALPI DAC Board.

11.29 UKLAP has performed a detailed review of the COBS 20 regulations and rules around policyholder protection that were not adequately covered by the existing PPFM or Scheme, and relevant clauses have been added to the ALPI Irish WPF PPFM. I have reviewed this information. Additionally, the PPFM for the ALPI Irish WPF is written in a manner that is compliant with the COBS 20 regulations at the Effective Time.

11.30 The Scheme will require the new PPFM to remain in place unless the Board of ALPI DAC, having consulted with the HoAF, puts in place another form of protection that is materially equivalent to the PPFM.

11.31 Any changes to the principles and practices of the PPFM are subject to governance arrangements, which are specified in the revised PPFM. These governance arrangements are not materially different to what was required under existing UKLAP arrangements, and the WPC would still need to be consulted. Additionally, the HoAF would need to provide advice to the ALPI DAC Board as the UK WPA will no longer have regulatory responsibility for ALPI Irish WPF post-Transfer.

11.32 The HoAF of ALPI DAC will advise the Board on matters relating to the Irish WPSF, and in doing so will have taken advice from the WPC. The HoAF role is defined by the CBI, as detailed in paragraph 3.50. As part of the Scheme, ALPI DAC is to add additional responsibilities to the HoAF's role to broadly replicate the WPA role in the UK, which includes responsibilities in respect of policyholder protection. I have reviewed the updates to the HoAF role and am satisfied that these materially incorporate the responsibilities of the WPA role in the UK. In addition, future changes to the HoAF role will have to be approved by the Board, after consulting with the HoAF, who will have consulted with the WPC.

11.33 Where the views of the WPC and the HoAF diverge, the HoAF must bring these to the attention of the ALPI DAC Board as and when they occur, with an explanation of the reasons for such divergences. Annually, a report is to be prepared summarising all such instances and this report must have prior approval by the WPC. In addition, if the HoAF makes a recommendation to the ALPI DAC Board which materially differs from the advice or recommendation of the WPC, the HoAF must set out his reasons for this difference. The WPC is unable to escalate issues directly to the CBI but can raise issues through the HoAF, who must include these in reports to the ALPI DAC Board, and these are also shared with the CBI.

11.34 The WPC is to have its ToR updated to ensure that it would provide oversight in relation to the ALPI Irish WPF. I have reviewed these updates and confirm they ensure that the WPC retains its current responsibilities with regards to the with-profits Irish Business. Prior to the Transfer, the WPC has the right to notify the FCA or PRA of decisions that the UKLAP Board take which depart from the advice or recommendation of the WPC. Following the Transfer, for the with-profits Irish Business, the WPC will not be able to escalate directly such matters to the CBI. However, a clause has been added to the ToR of the WPC, which means the HoAF must include in his reports to the ALPI DAC Board such matters that the WPC requests be included, and these reports are also shared with the CBI.

11.35 As referred to in paragraph 3.58, the CBI released a consultation paper proposing amendments to the actuarial regime in Ireland relating to the governance of with-profits business, and proposed that additional requirements will apply to currently authorised insurers with existing with-profits policies from 1 January 2020. This will include the requirement to produce a WPOP document and report on the ongoing compliance with the WPOP to with-profits policyholders, thereby expanding on the governance requirements in relation to with-profits business. ALPI DAC has performed an analysis into these additional requirements, which I have reviewed. For the with-profits Irish Business this analysis indicates that there is significant overlap with COBS 20 and therefore many of the requirements will already be met via the ALPI Irish WPF PPFM. For the requirements not met in this way, ALPI DAC will consider the required changes to the ALPI Irish WPF PPFM during 2019 ahead of the requirements coming into effect. Therefore, the additional requirements to be introduced are already largely met in relation to the with-profits Irish Business, and the required changes will be made to ensure that ALPI DAC fully complies with these requirements when they come into effect.

11.36 In my opinion, the proposed with-profits governance in ALPI DAC does not represent a material weakening to the governance that is currently in place and that, consequently, there is no material adverse impact on the with-profits Irish Business policyholders.

External reinsurance

11.37 As mentioned in paragraph 8.8, ALPI DAC will be permitted to effect new reinsurance arrangements and modify or terminate existing reinsurance arrangements. This represents no change to the permissions which UKLAP had prior to the Transfer. Therefore, I am satisfied that this does not materially adversely affect the with-profits Irish Business.

Tax

11.38 All of the with-profits Irish Business policies will transfer from the Irish WPSF of UKLAP to the ALPI Irish WPF of ALPI DAC. As per the PPFM, the ALPI Irish WPF will be taxed as if it were a stand-alone proprietary Irish Company unless the Board of ALPI DAC determines otherwise, subject to having received appropriate actuarial advice, including that of the WPC. This represents no change to the way in which the tax charge was calculated prior to the Transfer, since the associated clause within the Irish Scheme has been replicated within the Scheme.

Expenses and charges

11.39 Before the Transfer, the with-profits Irish Business was administered by ALSIL and was governed by a Memorandum of Understanding ("MoU") between UKLAP and ALSIL, which sets out the charges that apply to the Irish WPSF.

11.40 Following the Transfer, ALPI DAC will enter into a MoU with the ALPI Irish WPF which mirrors the current MoU and which will apply for the lifetime of the ALPI Irish WPF. As the MoU between the ALPI Irish WPF and ALPI DAC mirrors that which was in place between UKLAP and the Irish WPSF, there is no change to the charges or the frequency of review of these charges as a result of the Scheme.

11.41 The MoU will also include a clause that stipulates that the expenses associated with the defined benefit pension scheme of ALPI DAC cannot be borne by the ALPI Irish WPF.

11.42 In order for the MoU to be changed, it must be approved by the Board of ALPI DAC, having obtained actuarial advice from the HoAF, who will consider advice from the WPC. Currently, the increased ongoing expenses are borne by the shareholders. If a change to this policy were to be considered, it would require a change to the MoU and would therefore be subject to the process described above.

11.43 There will be no change to the allocation of mis-selling expenses. Under the Scheme, all mis-selling liabilities in connection with the Irish Business policies transfer from UKLAP to ALPI DAC. The ALPI DAC Irish WPF PPFM will replicate the current policy of UKLAP's Irish WPSF on mis-selling expenses, as set out in paragraph 4.50 above. Consequently, the ALPI DAC Irish WPF will only meet the costs of remediation and not any expenses related to compensation related to mis-selling liabilities (which would be borne by a fund of ALPI DAC that is not a with-profits fund).

Administration and service standards

11.44 Prior to the Transfer, the with-profits Irish Business was administered by ALSIL and was administered in accordance with the MoU that is in place between the Irish WPSF and UKLAP.

11.45 Following the Transfer, the administration of the ALPI Irish WPF will be performed in-house by ALPI DAC in accordance with the MoU. As there are no material differences between the MoU in place in ALPI DAC and that which was in place with the previous service provider, the services will be unchanged by the Scheme.

11.46 In addition, the administration team of ALSIL will provide services to ALPI DAC, and therefore there will be no change to the team performing the administration for the with-profits Irish Business. Therefore, no change to service standards is expected.

11.47 The integration of ALSIL administration services into ALPI DAC will utilise a 'Best of Both' approach. I have reviewed the integration principles, an overview of the integration programme and the governance framework for the integration of ALSIL and ALPI DAC. I am satisfied that these will ensure that the Best of Both approach will be followed, and that therefore, there will be no reduction in the service standards for the with-profits Irish Business.

11.48 This MoU will also be referenced within the PPFM of the ALPI Irish WPF, which states that the MoU will stay in place for the lifetime of the ALPI Irish WPF.

11.49 ACS also provide some services to the with-profits Irish Business. This will be unaltered by the Transfer and ALPI DAC will be added as a party to the current agreement that is in place.

Sunset clauses

11.50 As detailed in paragraphs 6.27 to 6.29, the Scheme removes a clause included in the Irish Scheme that details that the Irish WPSF must convert to a non-profit fund if the asset value falls below €100m. This is because the presence of this clause could force the ALPI Irish WPF to close at a time that is not optimum for the fund.

Conclusion

11.51 It is my opinion that the approach in respect of sunset clauses does not materially adversely affect the with-profits policyholders of the ALPI Irish WPF because:

- the removal of the clause outlined above allows ALPI DAC to exercise judgement around the timing for converting the Irish WPSF to a non-profit fund, rather than being forced to convert the fund at a time that may be sub-optimal for policyholders;
- the clause which allows the ALPI Irish WPF to close if the asset value falls below €250m at two successive valuation dates remains; and
- the governance around the conversion of the ALPI Irish WPF to a non-profit fund is robust and requires informing the CBI and consulting with the WPC.

Conclusion on the effects of the Transfer on with-profits Irish Business

11.52 Based on the foregoing comments, I am satisfied that the Transfer will not have any material adverse effect on the with-profits Irish Business. I have reached this conclusion because:

- the fund containing the with-profits Irish Business will transfer in its entirety and this fund will continue to be managed as a ring-fenced fund;
- the Transfer will not have any material adverse impact of the benefit expectations and contractual rights of with-profits Irish Business;
- there that is no material adverse impact on the security of benefits for with-profits Irish Business;
- the proposed with-profits governance in ALPI DAC does not represent a weakening to the governance which is currently in place, therefore there is no material adverse impact on the with-profits Irish Business policyholders;

- certainty that the Aviva Group will be able to legally service policies post-Brexit is extremely important and the loss of FSCS protection is therefore an unavoidable consequence of Brexit;
- there are no adverse tax consequences which impact Irish with-profits business;
- there is no material change to the expenses that will be charged to Irish with-profits business; and
- there will be no material change to policy administration or service standards for Irish with-profits business.

12 The impact of the Transfer on the non-profit Irish Business

Benefit expectations and contractual rights

12.1 Despite becoming direct policyholders of ALPI DAC rather than UKLAP, there will be no material change to any of the terms and conditions of any of the non-profit Irish Business, and therefore no change to their contractual rights.

12.2 Prior to the Transfer, areas of discretion (see paragraph 4.54 above) for the non-profit Irish Business policies were the responsibility of the UKLAP UPPF.

12.3 Any discretion applied to the non-profit Irish Business, both before and after the Transfer, must consider past practice, policyholder communications and the Aviva Life Inforce Management Standard.

12.4 Following the Transfer, any changes to the existing practice will be approved by the ALPI DAC Conduct Committee, following receipt of a documented opinion from the ALPI DAC CRO. This largely mirrors the governance structure that was in place for non-profit Irish Business before the Transfer and the overarching Aviva Life Inforce Management Standard is an Aviva Group standard that will still be considered going forward.

12.5 The unit-linked funds in which the unit-linked Irish Business is invested will transfer to ALPI DAC as part of the Scheme. The number of units or the value of these units will not change as a result of the Scheme. Additionally, the investment strategy of these funds will not be altered by the Scheme.

12.6 The responsibilities and governance related to unit-linked discretion within ALPI DAC will largely mirror that which is currently in place in UKLAP.

12.7 Based on comments in paragraphs above, overall it is my opinion that there will be no change to the benefit expectations and contractual rights for non-profit Irish Business as a result of the Transfer.

Security of benefits

12.8 In paragraph 10.14, I concluded that the Scheme would not result in the Transferring Policyholders being moved to an insurer that is materially weaker than UKLAP.

12.9 In paragraph 10.24, I concluded that both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios over the next five years.

12.10 In paragraph 10.32, I concluded that the ALPI DAC SRA provides a similar level of ongoing protection to the Transferring Policyholders compared to the SRA of UKLAP.

12.11 In paragraph 10.33, I concluded that both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency and, in addition, that the regulators within the UK and Ireland have similar objectives in terms of protecting solvency.

12.12 In paragraph 10.42, I concluded that the differences in the risk profile of UKLAP and ALPI DAC will not to have any material impact on Transferring Policyholders.

12.13 In paragraph 10.57, I concluded that the ALPI DAC counterparty exposure to UKLAP can be managed appropriately and will not give rise to a material adverse impact on ALPI DAC.

12.14 Based on my conclusions set out in paragraphs 12.8 to 12.13 above I am satisfied that there is no material adverse impact on the security of benefits for non-profit Irish Business.

Ombudsman

12.15 Prior to the Transfer, the non-profit Irish Business was covered by the FSPO in Ireland only. This is because this business is all contained in the Irish Branch of UKLAP. After the Transfer, the non-profit Irish Business will continue to be covered by the FSPO only.

FSCS cover

12.16 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.

12.17 Non-profit Irish Business sold through the Irish Branch of UKLAP subsequent to the Irish Scheme is currently covered by the FSCS, this means that in the unlikely event of UKLAP becoming insolvent, any benefit that would have been claimed from the insurer would be covered under the FSCS. For Long-term insurance, 100% of the benefits are protected for the duration of the policy. The FSCS provides protection to policyholders of UK based insurance entities, or EEA branches of a UK based insurance company. Following the Transfer, the policyholders of non-profit Irish Business sold through the Irish Branch of UKLAP since the Irish Scheme will hold policies with an Irish based insurance entity and will therefore no longer be covered by FSCS. There is no equivalent to the FSCS covering life insurance business in Ireland.

Consideration of loss of FSCS cover

12.18 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. It is my view that having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important, and therefore that the loss of FSCS protection is an unavoidable consequence of Brexit.

12.19 In addition, the likelihood of either UKLAP or ALPI DAC becoming insolvent, now or in the future, is a remote event. Both UKLAP and ALPI DAC operate within risk-based regulatory regimes and are well capitalised with appropriate SRA policies.

12.20 In the unlikely event that UKLAP were to become insolvent, the Charge under the Brexit Reinsurance ensures that ALPI DAC ranks at the same level as the direct policyholders of UKLAP. This means that the chance of a significant reduction to the Transferring Policyholders benefits is remote.

12.21 There are a limited number of jurisdictions within the EU that have compensation schemes for holders of life insurance policies. Although moving the Transferring Policies into an insurer within such a jurisdiction may have offered some form of protection, it was not felt this was the most appropriate option for the Transferring Policies.

12.22 UKLAP has also considered if there are any alternative operating models that could be implemented in order to retain FSCS protection whilst ensuring that the servicing of Transferring Policies remains legal. For example, one alternative considered was the establishment of a UK branch of ALPI DAC, and transferring the Transferring Policies into this UK branch. I have discussed this option with UKLAP and its legal advisors and understand that there is uncertainty as to whether it is feasible to establish such a sizeable branch, get the relevant approvals required and retain the FSCS protection. This option could add additional cost and complexity, without a certain outcome of FSCS protection being retained post-Brexit. Based on this, I agree with UKLAP that this is not a viable option.

12.23 UKLAP has an existing subsidiary in Ireland with a strong history, and the legal framework, business language and culture in Ireland and UK are very similar. Therefore, Ireland was deemed to be a more suitable option. In addition, the majority of the Transferring Policies are Irish policyholders and UKLAP already has an Irish subsidiary which contains with-profits business. Given the above, it is my opinion that reallocating the Transferring Policies to an Irish insurer is appropriate.

12.24 It is possible that the outcome of the Brexit negotiations results in a deal between the UK and the EU which means that UKLAP would have been able to continue to service contracts sold under EU passporting rights until the end of the policy term. If this were to be the result of the Brexit negotiations, then certain tranches of the Transferring Policyholders will have lost the FSCS protection that they would have retained had the Scheme not taken place. However, it is my view that in this scenario there was not sufficient time to wait for the results of such negotiations, and that action was required ahead of Brexit to have certainty that the Aviva Group will be able to legally service the Transferring Policies post-Brexit. I will provide an update in my Supplementary Report on the latest relevant negotiations, and the impact of these on my conclusions regarding the loss of FSCS protection for certain Transferring Policyholders.

Brexit Reinsurance

12.25 The Brexit Reinsurance does not cover non-profit Irish Business.

Governance

12.26 The unit-linked Irish Business will transfer to ALPI DAC. The entirety of any unit-linked funds in which the Irish Business policyholders invest will transfer from UKLAP to ALPI DAC as part of the Scheme. These funds have only ever been accessible to Irish Business policyholders, and these policyholders did not have access to any of the other unit-linked funds within UKLAP.

12.27 After the Transfer, the production of unit prices will be unchanged, being performed by the current outsourcer for certain unit-linked Irish Business, and being performed by UKLAP for the rest of the unit-linked Irish Business, as is currently the case.

12.28 Prior to the Transfer, any areas of discretion related to unit pricing require the approval of the UKLAP UPG, and all other areas are the responsibility of the UPPF.

12.29 After the Transfer, ALPI DAC will set up the ALPI DAC UPG that will become responsible for the discretion applied to unit pricing for the unit-linked Irish Business. The ToR of the ALPI DAC UPG will include the same responsibilities that the UKLAP UPG had in relation to the unit-linked Irish Business. All other areas of discretion will become the responsibility of the ALPI DAC Conduct Committee, who will require a documented opinion from the ALPI DAC CRO regarding any proposed changes to the application of discretion (except those in relation to unit pricing).

12.30 The ALPI DAC UPG and the ALPI DAC Conduct Committee will, when exercising discretion in the areas relevant to each committee, consider the same things that the relevant committees in UKLAP considered, namely past practice, policyholder communications and Aviva Life Inforce Management Standard.

12.31 Therefore, in my opinion, the governance for unit-linked Irish Business mirrors the current governance processes that are currently in place, and the same items are considered when decisions regarding the application of discretion are made.

External reinsurance

12.32 As mentioned in paragraph 8.8, ALPI DAC will be permitted to effect new reinsurance arrangements and modify or terminate existing reinsurance arrangements. This represents no change to the permissions which UKLAP had prior to the Transfer. Therefore, I am satisfied that this does not materially adversely affect the non-profit Irish Business.

Tax

12.33 Tax is charged to unit-linked funds according to the unit pricing policy for the respective funds.

12.34 After the Transfer, the unit-linked funds in which the Irish Business invest will transfer from UKLAP to ALPI DAC, and the unit pricing policies will be maintained. The production of unit prices will be unchanged, being performed by the current outsourcer for certain unit-linked Irish Business, and being performed by UKLAP for the rest of the unit-linked Irish Business, as is currently the case.

12.35 The Scheme will alter the way in which investment returns on these unit-funds are taxed, with Irish double tax treaties applying after the Transfer, which differ to the UK rules. The impact of this change in taxation is expected to lead to a reduction in the Irish Business unit-linked investment returns of approximately 0.1%. For example, if the rate of investment returns were 3% p.a., the impact of the tax change detailed above would reduce this to approximately 2.997% p.a. ((1-0.1%) * 3%). In my opinion, this is an unavoidable consequence of the Scheme and is not of material value.

Expenses and charges

12.36 The charges on the unit-linked Irish Business either are fixed or can be altered, subject to appropriate governance. The governance structure around changes to charges are similar to what they were under UKLAP, and will take into account policyholder communications, the CPC and the Aviva Group Life Inforce Management Standard, which is a standard setting out the controls and control objectives for the management of in-force life insurance contracts throughout Aviva Group.

Administration and service standards

12.37 Prior to the Transfer, the non-profit Irish Business is being administered by ALSIL and following the Transfer the non-profit Irish Business will be administered by ALPI DAC. The administration teams of ALSIL and ALPI DAC will be integrated using a Best of Both approach, as detailed in paragraph 8.23, meaning the team which currently performs the administration for these policies will transfer to ALPI DAC.

12.38 The integration of ALSIL administration services into ALPI DAC will utilise a Best of Both approach. I have reviewed the integration principles, an overview of the integration programme and the governance framework for the integration of ALSIL and ALPI DAC. I am satisfied that these will ensure that the Best of Both approach will be followed, and that therefore, there will be no reduction in the service standards for the non-profit Irish Business.

Conclusion on the effects of the Transfer on non-profit Irish Business

12.39 Based on the foregoing comments, I am satisfied that the Transfer will not have any material adverse effect on the non-profit Irish Business. I have reached this conclusion because:

- the Transfer will not have any material adverse impact of the benefit expectations and contractual rights of non-profit Irish Business;
- there that is no material adverse impact on the security of benefits for non-profit Irish Business;

- the proposed governance in ALPI DAC does not represent a weakening to the governance which is currently in place, therefore there is no material adverse impact on the non-profit Irish Business policyholders;
- certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important, and therefore that the loss of FSCS protection is an unavoidable consequence of Brexit;
- there are no adverse tax consequences which impact Irish non-profit business; and
- there will be no material change to policy administration or service standards for Irish non-profit business.

13 The impact of the Transfer on OLAB

Benefit expectations and contractual rights

13.1 Despite becoming direct policyholders of ALPI DAC rather than UKLAP, there will be no material change to any of the terms and conditions applicable to any of the OLAB Policyholders, and therefore no change to their contractual rights.

With-profits policies

13.2 The with-profits OLAB policies are 100% reinsured under the Brexit Reinsurance back into the funds in which they originally resided that is, the New WPSF, Old WPSF, FP WPSF and FLAS WPSF under the Brexit Reinsurance arrangement.

13.3 These policies will continue to be operated in accordance with the same PPFM as they were prior the Transfer. Additionally, the WPC of UKLAP will continue to provide oversight to the funds of UKLAP, including those to which the with-profits OLAB policies are reinsured.

13.4 As outlined in paragraphs 4.18 to 4.23, there are support accounts in place for the New WPSF, FP WPSF and FLAS WPSF within UKLAP. Following the Transfer, the with-profits OLAB policies that are reinsured back into these UKLAP funds will continue to benefit from these support accounts.

13.5 In addition to the above, the Board of ALPI DAC and the HoAF will provide additional oversight, as detailed in paragraphs 13.56 to 13.60. In my opinion, there will be no change to the investment strategy or Estate distribution of the UKLAP with-profits funds as a result of the Transfer. Given this, the benefit expectations of the with-profits OLAB policies should not be altered by the Transfer.

Non-profit policies

13.6 The non-profit OLAB policies will be 100% reinsured back to the UKLAP funds in which they originally resided. Prior to the Transfer, any changes to the application of discretion on these policies had to be approved by the UKLAP UPPF.

13.7 Following the Transfer, the UKLAP UPPF will continue to be responsible for the approval of any areas of discretion but will do so having reviewed a documented opinion from the ALPI DAC CRO. Any associated papers will also be provided to the ALPI DAC Conduct Committee, which will review the governance processes in place within UKLAP in relation to OLAB policies.

13.8 Therefore, the current governance for non-profit policies in UKLAP will continue to apply to unit-linked OLAB policies. Following the Transfer, the ALPI DAC Board will be ultimately responsible for the non-profit OLAB policies, and therefore additional oversight will be provided by ALPI DAC. This will include the ALPI DAC Conduct Committee and the ALPI DAC CRO overseeing the governance surrounding discretion related decisions. Therefore, as the governance process for non-profit OLAB policies is materially unchanged, in my opinion, the Transfer does not alter the benefit expectations of this group of policies.

Unit-linked policies

13.9 The unit-linked OLAB policies are all reinsured back into the funds in which they were originally invested under the Brexit Reinsurance, and there will be no change to the number of units or value of the units as a result of the Transfer. In addition, there will be no change to the investment strategy of the UKLAP unit-linked funds as a result of the Transfer.

13.10 The current governance processes for unit-linked OLAB policies will continue, with additional oversight from ALPI DAC, as detailed in paragraphs 13.61 to 13.67.

13.11 There will be no change to the governance of unit-linked policies in UKLAP as a result of the Transfer, and the Brexit Reinsurance will mean that the unit-linked OLAB policies will continue to benefit from the existing governance. However, after the Transfer, OLAB policies will be direct policyholders of ALPI DAC, so it is the ALPI DAC Board that has ultimate responsibility for these policies. Therefore, ALPI DAC will provide additional oversight to the current governance of the unit-linked OLAB policies, with the ALPI DAC UPG, ALPI DAC Conduct Committee and the ALPI DAC CRO all providing additional oversight. Because of this, the governance of OLAB policies is strengthened. Additionally, there is no change to the funds in which the unit-linked OLAB policies are invested. Considering all of the above, I am satisfied that the benefit expectations of the unit-linked OLAB policies will not change because of the Transfer.

Conclusion

13.12 Based on the foregoing comments, I am satisfied that the Transfer will not have any material impact on the benefit expectations and contractual rights of OLAB. This is because:

- there are no material changes to the policy terms and conditions;
- the investment strategies of the with-profits and unit-linked funds are not altered as a result of the Transfer;
- the governance is largely unchanged and, additionally, ALPI DAC now provides additional oversight; and
- the PPFMs governing the funds in which the with-profits OLAB policies originally resided are unchanged and the role of the WPC of UKLAP is also unchanged in relation to the funds of UKLAP, including those to which OLAB policies will be reinsured.

Security of benefits

13.13 In paragraph 10.14, I concluded that the Transfer does not result in the Transferring Policyholders being moved to an insurer that is materially weaker than UKLAP.

13.14 In paragraph 10.24, I concluded that both ALPI DAC and UKLAP are sufficiently capitalised to withstand extreme scenarios over the next five years.

13.15 In paragraph 10.32, I concluded that the ALPI DAC SRA provides a similar level of ongoing protection to the Transferring Policyholders compared to the SRA of UKLAP.

13.16 In paragraph 10.33, I concluded that both UKLAP and ALPI DAC have materially similar risk management frameworks in place to protect solvency and that the regulators within the UK and Ireland have similar objectives in terms of protecting solvency.

13.17 In paragraph 10.42, I concluded that the differences in the risk profiles of UKLAP and ALPI DAC are unlikely to have any material impact on Transferring Policyholders.

13.18 In paragraph 10.57, I concluded that the ALPI DAC counterparty exposure to UKLAP can be managed appropriately and will not give rise to a material adverse impact on ALPI DAC.

13.19 Based on my conclusions set out in paragraphs 13.13 to 13.18 above, I am satisfied that there is no material adverse impact on the security of benefits for OLAB.

Ombudsman

13.20 Prior to the Transfer, for OLAB policies sold on a Freedom of Establishment basis (in relation to business in Belgium, France and ex-CGNU Ireland business), any complaints that could not be resolved between UKLAP and the policyholder are dealt with by the ombudsman service based in that particular country.

13.21 For OLAB policies sold on a Freedom of Services basis (namely in Iceland and Sweden), policyholders are covered by the FOS in the UK. Finally, 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.

13.22 The only change to the above position as a result of the Transfer is for the Icelandic, Swedish and German business written on a Freedom of Services basis. Following the Transfer, 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.

13.23 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.

13.24 The key differences between the FSPO and the FOS that are applicable to Transferring Policyholders are listed below and detailed in the subsequent paragraphs:

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

Time limits

13.25 Under FOS, consent of the relevant firm is generally required in order to investigate complaints that are made more than six months after the business sending the consumer a final response, or that are made more than six years after the event in question occurred (or three years from when the consumer could reasonably have known they had cause to complain). The FSPO will consider complaints relating to life assurance policies where the event giving rise to the complaint occurred over six years previously if it is considered to be 'just and equitable' by the FSPO. However, the FSPO will not consider complaints relating to policies that terminated more than six years before the complaint is made, nor any complaints relating to conduct prior to 2002.

13.26 The decision to investigate complaints relating to events that occurred over six years previously lies with the relevant firm under FOS in the UK and lies with the FSPO in Ireland. It could therefore be argued that Icelandic and Swedish business will have better protection under FSPO than they currently do under FOS, as the decision to investigate such complaints is made independently by the ombudsman service.

13.27 The FSPO will not consider complaints relating to policies that terminated more than six years ago, whereas FOS will conceivably consider such complaints. As a result, following the Transfer, Icelandic and Swedish policyholders will lose the ability to raise a complaint more than six years after their policy terminated, if this complaint does not relate to the sale of the policy or UKLAP conduct. However, UKLAP has confirmed that the number of complaints from Icelandic and Swedish business was very low over the past few years, and no complaints were referred to the ombudsman. Therefore, the likelihood of such a complaint arising is remote.

13.28 Given that some Swedish business was sold during the 1990s, it is possible that a complaint relating to a Swedish policy could be time-barred and refused by the FSPO. I understand from UKLAP that historically, the number of complaints relating to Swedish business have been very low, and any complaints relating to pre-2002 conduct are likely to be related to the sale of the policy. As detailed in paragraph 13.22, complaints related to the sale of Swedish policies would continue to be covered by the FOS.

Compensation limits

13.29 Under FOS, the maximum compensation that can be awarded is £150,000. Under FSPO, the maximum compensation that can be awarded is €26,000 per annum for complaints relating to annuities and €250,000 for all other complaints. Overall, on current exchange rates, the maximum compensation available under FSPO is higher than the maximum compensation available under FOS. Therefore, Icelandic, Swedish and German business is not disadvantaged as a result of the change in ombudsman service following the Transfer.

Conclusion

13.30 The majority of Transferring Policyholders 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, but will instead have access to the FSPO in Ireland. Overall, the services provided by the FSPO are in line with those provided by the FOS. The differences in compensation limits and time limits under FSPO will not have a detrimental impact on Transferring Policyholders, aside from the two scenarios outlined in paragraphs 13.27 and 13.28. In my opinion, given the low likelihood of these two scenarios, this impact is not deemed material.

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

FSCS cover

13.32 All OLAB currently benefits from FSCS protection, this means that in the unlikely event of UKLAP becoming insolvent, any benefits that would have been claimed from the insurer would be covered under the FSCS. For long-term insurance, 100% of the benefits are protected for the duration of the policy. The FSCS provides protection to policyholders of UK based insurance entities, or EEA branches of a UK based insurance entity. Following the Transfer, the policyholders of OLAB will hold policies with an Irish based insurance entity and will therefore no longer be covered by FSCS. There is no equivalent to the FSCS covering life insurance business in Ireland.

Consideration of loss of FSCS cover

13.33 The purpose of the Scheme is to allow the continued servicing of the Transferring Policies after Brexit. It is my view that having certainty that the Aviva Group will be able to legally service these policies post-Brexit is extremely important, and therefore that the loss of FSCS protection is an unavoidable consequence of Brexit.

13.34 In addition, the likelihood of either UKLAP or ALPI DAC becoming insolvent, now or in the future, is a remote event. Both UKLAP and ALPI DAC operate within risk-based regulatory regimes and are well capitalised with appropriate SRA policies.

13.35 In the unlikely event that UKLAP were to become insolvent, the Charge under the Brexit Reinsurance ensures that ALPI DAC ranks at the same level as the direct policyholders of UKLAP. ALPI DAC would continue to be responsible for policyholder payments, and would therefore be responsible to make good any shortfall under the Brexit Reinsurance, subject to ALPI DAC having sufficient funds available. This means that the chance of a significant reduction to the Transferring Policyholders benefits is remote.

13.36 There are a limited number of jurisdictions within the EU that have compensation schemes for holders of life insurance policies. Although moving the Transferring Policies into an insurer within such a jurisdiction may have offered some form of protection, it was not felt this was the most appropriate option for the Transferring Policies.

13.37 UKLAP has also considered whether there are any alternative operating models that can be implemented in order to retain FSCS protection whilst ensuring that the servicing of Transferring Policies remains legal. For example, one alternative considered was the establishment of a UK branch of ALPI DAC, and transferring the Transferring Policies into this UK branch. I have discussed this option with UKLAP and its legal advisors and understand that there is uncertainty as to whether it is feasible to establish such a sizeable branch, get the relevant approvals required and retain the FSCS protection. This option could add additional cost and complexity, without a certain outcome of FSCS protection being retained post-Brexit. Based on this, I agree with UKLAP that this is not a viable option.

13.38 UKLAP has an existing subsidiary in Ireland with a strong history, and the legal framework, business language and culture in Ireland and UK are very similar. Therefore, Ireland was deemed to be a more suitable option. In addition, the majority of the Transferring Policies are Irish policyholders and UKLAP already has an Irish subsidiary which contains with-profits business. Given the above, it is my opinion, that reallocating the Transferring Policies to an Irish insurer is appropriate.

13.39 It is possible that the outcome of the Brexit negotiations results in a deal between the UK and the EU which means that UKLAP would have been able to continue to service contracts sold under EU passporting rights until the end of the policy term. If this were to be the result of the Brexit negotiations, then certain tranches of the Transferring Policyholders will have lost their FSCS protection which they would have retained had the Transfer not taken place. However, it is my view that in this scenario there was not sufficient time to wait for the results of such negotiations, and that action was required ahead of Brexit to have certainty that the Aviva Group will be able to legally service the Transferring Policies post-Brexit. I will provide an update in my Supplementary Report on the latest relevant negotiations, and the impact of these on my conclusions regarding the loss of FSCS protection for certain Transferring Policyholders.

Conclusion

13.40 Therefore, having considered all of the above, I am satisfied that there is no material adverse impact on policyholder protection because:

- for the majority of OLAB the relevant ombudsman does not change;
- where the ombudsman does change as a result of the Transfer there are no material differences in the services provided before and after the Transfer;

- the certainty of being able to legally service a policy is essential and more valuable than the FSCS cover that is lost;
- the value of the FSCS cover is low since the likelihood of the FSCS being called upon is remote, as UKLAP and ALPI DAC both have appropriate SRA policies, are capitalised at or above their target level and have an appropriate risk management framework in place;
- the solvency regimes in both Ireland and the UK are risk-based, which reduce the possibility of the FSCS being required; and
- there are sound commercial and practical reasons for UKLAP to choose to transfer the Transferring Policies to Ireland, not least because the majority of the Transferring Policies are Irish.

Brexit Reinsurance

13.41 The Brexit Reinsurance has been structured in such a way as to allow the with-profits OLAB policies to continue to participate in the with-profits funds in which they originally resided and the unit-linked policies to continue to invest in the funds in which they were originally invested. (The non-profit OLAB policies will also be reinsured back to the funds in which they originally resided).

13.42 The Brexit Reinsurance states that claims and premiums relating to OLAB must be allocated to/from the funds in which OLAB resided prior to the Transfer.

13.43 In addition, the Scheme ensures that ALPI DAC adopts UKLAP's calculation of the value of units for unit-linked OLAB. ALPI DAC must also adopt UKLAP's application of discretion with respect to the with-profits OLAB, including in respect of bonus rates.

13.44 The Brexit Reinsurance is also structured in such a way that it prohibits ALPI DAC from applying any additional charges to the amounts it receives under the Brexit Reinsurance. This ensures that the benefits to OLAB are not altered as a result of the Transfer.

13.45 In my opinion, the Brexit Reinsurance ensures that the with-profits OLAB continues to participate in the with-profits funds in which they originally resided and that the unit-linked OLAB continues to invest in the funds in which they were originally invested. The non-profit policies will also be reinsured back to the funds in which they originally resided. These things, taken together, allow the relevant funds to be run in the same manner before and after the Transfer.

Ranking on insolvency

13.46 The mechanism of how the Charge works is described in Section 9. As discussed in that section, based on the advice I have received, I am satisfied the Charge will work as intended.

Exposure to financial position of UKLAP and ALPI DAC

13.47 OLAB will be exposed to the financial position of UKLAP via the Brexit Reinsurance, as the insolvency of UKLAP could lead to the Brexit Reinsurance paying out less than it would in the normal course of events. In my view, given the governance arrangements that are in place within UKLAP and the operation of the Solvency II regulations, the likelihood of UKLAP becoming insolvent is remote and the likelihood of ALPI DAC not being able to recover a sufficient amount from the Brexit Reinsurance to pay the benefits of its policyholders is even more remote.

13.48 If ALPI DAC were to become insolvent, the Brexit Reinsurance would not automatically terminate and, prior to termination, UKLAP would be required to fulfil its obligations under the Brexit Reinsurance without diminution. The termination would only be triggered if ALPI

DAC met one of the other conditions, such as loss of authorisation or missed payments, which is fairly likely in an insolvency event.

13.49 In the event that ALPI DAC were to become insolvent and termination of the Brexit Reinsurance is triggered, ALPI DAC would receive the Termination Amount from UKLAP. The Termination Amount would be included within the total assets of ALPI DAC and would therefore be distributed amongst all the policyholder of ALPI DAC, after secured creditors had been paid. The Termination Amount would not be ring-fenced for OLAB Policyholders. However, in my opinion, the probability of ALPI DAC becoming insolvent is remote.

13.50 In my opinion, the Transfer results in Transferring Policies being exposed to the financial position of ALPI DAC as direct policyholders and the Brexit Reinsurance results in ALPI DAC becoming exposed to the financial position of UKLAP. Therefore, the Transferring Policies are exposed to the financial position of UKLAP and ALPI DAC. However, the likelihood of UKLAP becoming insolvent is remote, for the reasons detailed in paragraph 13.47 above and the likelihood of ALPI DAC becoming insolvent is also remote, given its financial position and the governance that is in place within ALPI DAC. Additionally, as detailed in paragraph 13.48, the Brexit Reinsurance arrangement must continue if ALPI DAC were to become insolvent unless another termination event has occurred.

Termination of the Brexit Reinsurance

13.51 In order for the Brexit Reinsurance to be terminated there are rigorous governance procedures, detailed in the Scheme which must be followed (as detailed in Section 9). On termination of the Brexit Reinsurance, a Termination Amount is transferred from UKLAP to ALPI DAC. This amount will need to represent a fair division of the funds, including the Estate, between OLAB Policyholders and the Remaining Policyholders of UKLAP. As discussed in paragraph 9.46, an Estimated Termination Amount is paid initially, providing ALPI DAC with a source of funds to meet any payments due to OLAB Policyholders, and if the Estimated Termination Amount is insufficient to meet such payments, ALPI DAC has appropriate policies in place to ensure that it has sufficient liquidity to meet any shortfall.

13.52 The Estimated Termination Amount and Termination Amount is calculated by UKLAP, and if ALPI DAC does not agree with the amount that has been calculated then there is a dispute resolution process detailed in the Brexit Reinsurance that needs to be followed. Further details can be found in paragraph 9.51. I am satisfied this process ensures that, in a non-insolvency situation, the assets that will be transferred to OLAB under the Brexit Reinsurance represent a fair split of the funds between the OLAB Policyholders and the Remaining Policyholders.

13.53 As part of the termination process consideration will need to be given to ensure that the OLAB policies are managed in a materially consistent way both before and after the termination of the Brexit Reinsurance. The process for terminating the Brexit Reinsurance contains the key protections of the Board of ALPI DAC:

- consulting with and obtaining prior approval of an independent actuary;
- consulting with the WPC (in respect of the with-profits funds); and
- notifying the CBI, and ensuring no objection is received within 60 days.

13.54 I am satisfied that the involvement of these parties ensures the management of the OLAB policies before and after the termination of the Brexit Reinsurance will be given sufficient consideration. Therefore, in my opinion, the governance processes detailed in the Brexit Reinsurance are sufficient to ensure a fair outcome between OLAB Policyholders and UKLAP's direct policyholders and to ensure that there is no material change to the way in which the OLAB policies are managed as a result of the termination of the Brexit Reinsurance.

Conclusion

13.55 In my opinion, the Brexit Reinsurance will work as intended and it is also a practical solution to ensure OLAB Policyholders' expectations are broadly unchanged as a result of the Transfer because:

- the reinsurance means that, in the normal course of events, there is no change in the way the UKLAP funds are run, and therefore OLAB Policyholders expectations are unchanged;
- on termination of the Brexit Reinsurance, outside of an insolvency context, the governance within the Brexit Reinsurance is designed to produce a fair outcome between OLAB Policyholders and UKLAP's direct policyholders;
- if the Brexit Reinsurance were to terminate the governance surrounding the termination ensures the management of the OLAB policies is given appropriate consideration;
- following any insolvency of UKLAP the Charge aligns ALPI DAC with the direct policyholders of UKLAP, in relation to a distribution of the assets of UKLAP; and
- although OLAB Policyholders are exposed to the financial position of both UKLAP and ALPI DAC after the Transfer the likelihood of insolvency of either entity is remote given the robust Solvency Risk Appetite policy of both UKLAP and ALPI DAC, the strong governance and risk frameworks and the risk-based regulatory environments in which both entities operate.

Governance

With-profits policies

13.56 All OLAB with-profits policies will be fully reinsured under the Brexit Reinsurance back to the funds within UKLAP from which they originated. Therefore, they will indirectly benefit from the same regulatory and governance policies of UKLAP, including the oversight of the WPC as the WPC's role in relation to the funds of UKLAP, including those to which OLAB policies are reinsured, will be unaltered as a result of the Transfer.

13.57 In addition to the above, the HoAF of ALPI DAC will also:

- review the annual reports on compliance with the relevant PPFMs and any relevant court schemes;
- attend the WPC meetings where matters involving the funds to which OLAB Policyholders are reinsured are to be discussed; and
- have access to the WPC, the UKLAP WPA and the UKLAP Board to discuss and challenge the management of the relevant with-profits funds, should this be required.

13.58 As OLAB with-profits policyholders will become direct policyholders of ALPI DAC following the Transfer, the ALPI DAC Board is ultimately responsible for these policies. In order to ensure that the ALPI DAC Board has oversight, there are certain matters which the HoAF must report to the ALPI DAC Board on, including key with-profits matters. The HoAF will review the WPC's annual reports on compliance with PPFMs and attend WPC meetings when funds containing OLAB are being discussed. If there are any matters relating to the Brexit Reinsurance which the ALPI DAC Board and the UKLAP Board do not agree upon, the Brexit Reinsurance sets out a process of escalation in order to resolve such matters.

13.59 Therefore, in my opinion, the governance of the with-profits OLAB policies is not adversely affected as a result of the Transfer as they will still be covered by the governance structures currently in place with UKLAP whilst the HoAF and ALPI DAC Board will provide additional oversight.

13.60 As referred to in paragraph 3.58, the CBI released a consultation paper proposing amendments to the actuarial regime in Ireland relating to the governance of with-profits business, and proposed that additional requirements will apply to currently authorised insurers with existing with-profits policies from 1 January 2020. This will include the requirement to produce a WPOP document and report on the ongoing compliance with the WPOP to with-profits policyholders, thereby expanding on the governance requirements in relation to with-profits business. ALPI DAC has performed an analysis into these additional requirements, which I have reviewed. For the with-profits OLAB, it is unclear whether these additional requirements will be applicable, and therefore I understand that ALPI DAC will seek to gain clarity on this matter prior to the requirements coming into effect.

Unit-linked policies

13.61 All unit-linked OLAB Policyholders will be 100% reinsured back to the funds in which they were originally invested. The unit-linked governance that exists within UKLAP will not be altered as a result of the Transfer, and therefore the governance for these policies which are reinsured will also be unchanged.

13.62 Currently, the governance for unit-linked OLAB policies is as described in paragraph 5.44. Following the Transfer, this governance will continue to apply with additional oversight being provided by ALPI DAC.

13.63 The ALPI DAC Board will have ultimate responsibility for the application of discretion, and to this end the newly established ALPI DAC UPG will ensure that ALPI DAC has oversight of the governance processes within the UKLAP UPG, to ensure they are appropriate for OLAB.

13.64 The UKLAP UPPF will continue to oversee the application of discretion in all other areas except unit-pricing, and the ALPI DAC CRO will provide a documented opinion to the UKLAP UPPF on any proposed changes to current discretion practice. The ALPI DAC CRO's documented opinion will also be distributed to the ALPI DAC Conduct Committee.

13.65 All of the committees and individuals involved in decisions related to discretion will pay regard to policyholder communications, past practices and the Aviva Life Inforce Management Standard.

13.66 In addition to the above, none of the unit-linked OLAB will lose access to any unit-linked funds as a result of the Transfer.

13.67 Therefore, I am satisfied that the Transfer does not materially adversely affect the governance of the unit-linked OLAB policies. The current governance which is in place within UKLAP will continue to cover these unit-linked OLAB policies as they are reinsured back to UKLAP, and in addition to this, ALPI DAC will provide further oversight.

Non-profit policies

13.68 All non-profit OLAB Policyholders will be 100% reinsured back to the funds in which they originally resided. The non-profit governance that exists within UKLAP will not be altered as a result of the Transfer, and therefore the governance for these policies which are reinsured will also be unchanged.

13.69 The ALPI DAC Board will have ultimate responsibility for the application of discretion, therefore the ALPI DAC CRO will provide a documented opinion to the UKLAP UPPF on any proposed changes to current discretion practice, and the UKLAP UPPF will continue to oversee the application of discretion for non-profit OLAB policies. The ALPI DAC CRO's documented opinion will also be distributed to the ALPI DAC Conduct Committee.

13.70 Therefore, I am satisfied that the Transfer does not materially adversely affect the governance of the non-profit OLAB policies. The current governance which is in place within UKLAP will continue to cover these non-profit OLAB policies as they are reinsured back to UKLAP, and in addition to this, ALPI DAC will provide further oversight.

Tax

13.71 Following the Transfer, the with-profits OLAB policies will be reinsured back to the UKLAP with-profits funds in which they originally resided. The Transfer will not result in a change to the way in which tax is calculated on the with-profits funds of UKLAP.

13.72 There will be no change to the tax on investment returns of the with-profits funds in which OLAB policies participate.

13.73 Tax is charged to unit-linked funds according to the unit pricing policy of the respective fund.

13.74 OLAB policies will be reinsured back to the unit-linked funds in which they originally resided, and the unit pricing policy for UKLAP unit-linked funds will not be altered as a result of the Transfer.

13.75 Therefore, there will be no change to the tax charged to the unit-linked funds in which OLAB policies invest.

13.76 For the non-profit OLAB policies there will be no tax impact.

Expenses and charges

13.77 UKLAP's policy regarding the charging of expenses to the with-profits funds of UKLAP will not be altered as a result of the Transfer, and the PPFM ensures that it is not possible for ALPI DAC to apply additional expenses to these policies without the appropriate governance process being followed, including consultation with the WPC.

13.78 There will be no change to the allocation of mis-selling or defined benefit expenses. Under the Scheme, all mis-selling liabilities in connection with OLAB policies transfer from UKLAP to ALPI DAC. ALPI DAC is indemnified by UKLAP under the Brexit Reinsurance in relation to all mis-selling liabilities in connection with OLAB policies that transfer to it pursuant to the Scheme. Such expenses will be met within UKLAP in accordance with its current policy as set out in Section 4 above.

13.79 The one-off costs of implementing the Scheme are met by the shareholders of UKLAP and ALPI DAC.

13.80 The ongoing expenses associated with the management of OLAB policies will increase as a result of the Transfer, but the current expectation is not to pass this additional cost to the with-profits policyholders. If, at a later date, a change to this current policy were considered, it would require the relevant governance procedures to be followed, including consultation with the HoAF and WPA.

13.81 All the unit-linked OLAB policies are covered by the Brexit Reinsurance and therefore continue to have access to the same unit-linked funds before and after the Transfer. As the Transfer does not result in any changes to the charges applied to policies in any of the unit-linked funds of UKLAP and the Brexit Reinsurance restricts ALPI DAC from applying additional charges, the charges applied to the unit-linked OLAB policies will be unchanged as a result of the Transfer.

13.82 Due to the nature of non-profit policies, there is no explicit charge for expenses, and this will be unchanged as a result of the Transfer.

Conclusion

13.83 Overall, it is my opinion that any additional costs and charges as a result of the Scheme are appropriately apportioned between OLAB Policyholders and shareholders because:

- all one-off costs as a result of the Scheme are met by shareholders;
- the increased on-going costs are expected to be borne by the shareholders, and if this were to change, it would be subject to the relevant governance procedures; and
- for the most part, the governance around the setting of charges remains unchanged and, therefore, any proposed changes to charges would first require the consideration of the impact on policyholders.

Administration and service standards

13.84 For OLAB policies, a Side Letter to the Brexit Reinsurance is to be put in place which details that UKLAP will continue to administer these policies, with oversight from ALPI DAC. This is set out in more detail in paragraph 8.25 above. There will be no change to the administration, the teams performing the administration or the service standards for these policies.

Conclusion on the effects of the Transfer on OLAB policies

13.85 Based on the foregoing comments, I am satisfied that the Transfer will not have any material adverse effect on OLAB. I have made this conclusion because:

- the with-profits funds containing OLAB will continue to be managed and operated in the same way before and after the Transfer;
- the Transfer will not have any material adverse impact on the benefit expectations and contractual rights of the OLAB Policyholders;
- there is no material adverse impact on the security of benefits for OLAB;
- there will be no material weakening in the governance of OLAB policies;
- certainty that the Aviva Group will be able to service policies post-Brexit is extremely important, and therefore the loss of FSCS protection is an unavoidable consequence of Brexit;
- there are no adverse tax consequences which impact OLAB Policyholders; and
- there will be no material change to policy administration or service standards for OLAB.

14 Consideration of issues affecting all Transferring Policyholders

Identification of Transferring Policies

14.1 The Transferring Policies encompass both policies sold on a Freedom of Services and a Freedom of Establishment basis. It has been relatively straightforward for UKLAP to identify the policies sold on a Freedom of Establishment basis and these will all transfer under the Scheme. It has been more difficult to define the population of policies sold on a Freedom of Services basis.

14.2 As detailed in paragraph 6.2 the policies sold on a Freedom of Services basis have been identified using a product based approach. Using the product based approach, all policyholders who purchased a product that was targeted exclusively at individuals within an EU state would be included in the population of Transferring Policies. I have reviewed the details of the analysis that UKLAP performed in order to identify the policies sold on a Freedom of Services basis, and the other approaches considered, such as the residency of the policyholders at the point of inception. I understand that only the current address of the policyholder is retained on the UKLAP administration system and therefore it is not possible to definitively say where the policyholder resided at inception. An assumption could be made, such as to assume the country of residence for the policyholder has not changed. However, this would risk wrongly including policyholders who resided in the UK at the time of policy inception. In addition, it is not clear that the residency of the policyholders at the point of inception is necessarily determinative in identifying whether or not a policy was sold on a Freedom of Services basis.

Conclusion

14.3 It is my opinion that using the product based approach is the most pragmatic solution that can be achieved in a timeframe which permits the Scheme to be put in place before Brexit.

14.4 I note that there may be some residual regulatory risk if some policyholders are left behind who should have been included in the Scheme.

Tax Implications

Policyholder Tax

14.5 As the Scheme does not result in a material change to the terms and conditions of the Transferring Policies, it is not expected that there will be any changes to policyholder taxation, for the Irish Business or OLAB policies, as a result of the Transfer. I understand that UKLAP is currently in the process of confirming this with the Irish Revenue and I will provide an update on this matter in my Supplementary Report.

Corporation tax and VAT

14.6 The corporation tax impact in the UK and Ireland as a result of the Transfer is expected to be broadly neutral across UKLAP and ALPI DAC, with any corporation tax impact having no impact on policyholders. I understand that UKLAP is currently in the process of confirming this with the relevant tax authorities in the UK and Ireland and obtaining the required clearances.

14.7 Prior to the Transfer, any services provided within the UK to the Irish Business or OLAB policies were not subject to VAT as they were within the UK company or VAT group. Following the Transfer, services provided from the UK to the Transferring Policies may be subject to VAT, as services supplied to Ireland from an overseas territory are potentially liable to VAT.

14.8 Any additional VAT costs will be borne by the shareholders of ALPI DAC. If ALPI DAC considered passing these additional costs on to the Transferring Policyholders, it would need to go through the governance required by the PPFM, including consultation with the WPC and HoAF.

Tax clearances

14.9 UKLAP is in the process of obtaining clearances and confirmations from the relevant tax authorities in the UK and Ireland. I will comment further on the status of these tax clearances in my Supplementary Report.

Conclusion

14.10 In my opinion, the tax implications of the Transfer are likely to be broadly neutral, subject to the receipt of clearances and confirmations from the relevant tax authorities, with the exception of the potential for additional VAT and the impact on investment return referred to in earlier sections. This does not materially impact the Transferring Policyholders because:

- the increase in the tax on investment returns is an unavoidable consequence of the Transfer and is of a non-material value; and
- the increased VAT cost is expected to be borne by the shareholders of ALPI DAC and not the Transferring Policyholders, if this position were to change, the relevant governance procedures would need to be followed.

Vesting annuities

14.11 Vesting annuities for the ALPI Irish WPF will be written in either the Other Business Fund, another non-profit fund within ALPI DAC or transferred to another insurance undertaking.

14.12 For the Irish Business, the Scheme determines that the premium in relation to these shall be determined using a methodology determined by the Board, having taken appropriate actuarial advice. The provision for this was originally in the Irish Scheme and has been incorporated into the Scheme.

14.13 There are no guaranteed rates applicable to OLAB.

14.14 In my opinion, the treatment of vesting annuities for Transferring Policyholders within the ALPI Irish WPF is not materially impacted because:

- Transferring Policyholders will continue to exercise their guaranteed annuity options as they were able to prior to the Transfer; and
- all associated provisions within the Irish Scheme have been incorporated into the Scheme, and therefore no features of the guaranteed annuity options will be lost following the Transfer.

Other changes

Policy reallocation

14.15 The Scheme extends the provisions of the 2017 Scheme regarding reallocation of with-profits and non-profit policies. The Scheme allows the reallocation of with-profits policies to funds within ALPI DAC, except the Other Business Fund, the ALPI Belgian Fund or the ALPI Irish WPF.

Conclusion

14.16 It is my opinion that this does not materially adversely affect Transferring Policyholders because reallocation of policies is only permitted by the Scheme if it does not materially adversely affect the Transferring Policyholders or the Existing Policyholders of the fund to which the policies are being transferred, as determined by the ALPI DAC Board, having taken appropriate actuarial advice.

Merger provisions

14.17 The existing governing scheme within ALPI DAC allows for the merger of any of the existing ALPI DAC with-profits funds which existed prior to the Transfer.

14.18 The Scheme extends the merger provision to the newly established ALPI Irish WPF but does not permit the merger of other mirrored funds under the Transfer. In order for the merging of funds to proceed, the ALPI DAC Board need to have engaged with the CBI. A report by an independent actuary is required to conclude that the merger does not adversely affect the reasonable expectations of policyholders to participate in the profits of the relevant with-profits funds, and the HoAF needs to have been consulted if the merger involves with-profits funds.

Conclusion

14.19 It is my opinion that the merger provision does not materially adversely affect the Transferring Policyholders which will reside in the ALPI Irish WPF as there is a robust governance process regarding the merger of the ALPI Irish WPF with any fund of ALPI DAC. This process includes a requirement for confirmation that any merger does not adversely affect the reasonable expectations of policyholders to participate in the profits of the relevant with-profits funds.

Communications with policyholders

14.20 I have set out a summary of the UKLAP communications strategy in paragraphs 8.28 to 8.34 above. The communications have been tailored to different groups of Transferring Policyholders and will be available in English and a range of European languages. 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.

14.21 I am also satisfied that the communication packs highlight the main items I would expect policyholders to be made aware of. For example, where relevant, the loss of FSCS protection is highlighted.

Conclusion

14.22 I have reviewed the English versions of the communications that will be sent to all Transferring Policyholders and I am satisfied that they 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, including a brief, easy to understand overview of the Scheme, the options available to the policyholders, responses to frequently asked questions, a means for seeking further information if required and the communications set out a policyholder's right to object to the Scheme.

Dispensations and waivers

14.23 As detailed in paragraphs 8.35 to 8.38, UKLAP has applied for certain waivers and dispensations. This means that UKLAP will not send the communication pack to 8,555 Irish Business policyholders and 2,489 OLAB Policyholders, representing 3.5% of all Irish Business policyholders and 1.4% of all OLAB Policyholders (these numbers are as at June 2018). This includes policyholders that UKLAP is currently unable to contact, referred to as "goneaways", and policyholders that meet the other criteria set out in paragraph 8.38.

14.24 Prior to the Transfer, UKLAP will take reasonable steps to trace goneaway policyholders, although there will be no specific tracing exercise. I consider this approach to be appropriate because the percentage of goneaway Irish Business policyholders and OLAB Policyholders is low, and I would expect that the recent tracing exercise on Irish Business prior to the Irish Scheme would have reinstated contact with the Irish Business policyholders who could reasonably be traced.

14.25 I am satisfied that the number of Transferring Policyholders that will not be sent the communication pack is relatively low. I have reviewed the reasons that these dispensation and waivers have been sought in relation to the Transferring Policyholders and understand that, in general, the communications strategy is in line with UKLAP's business as usual mailing strategy. In addition, the transfer website contains the information detailed within the communication pack. It is my opinion therefore, that, in each case, it is appropriate to not send the communication pack to these policyholders.

Scheme implementation

14.26 As outlined in paragraph 1.17, whilst the Scheme is planned to take effect at the Effective Time (i.e. 22.59 GMT on 29 March 2019), 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 financial markets will largely be closed during this period due to 30 March 2019 being a Saturday and 31 March 2019 being a Sunday.

14.27 Under the terms of the Scheme, ALPI DAC is required to be capitalised to an SCR Ratio of 150% as at the Effective Time, and sufficient assets will be transferred from UKLAP to ALPI DAC to ensure this requirement is met.

14.28 I am satisfied that performing calculations as at 31 March 2019 rather than as at the Effective Time will not have a material adverse impact on Transferring Policyholders, as the benefits that these policyholders will receive will not change as a result of this approach. This is because the benefits of non-profit Transferring Policyholders are fixed, the benefits of unit-linked Transferring Policyholders are linked to the value of underlying units and the benefits of with-profits Transferring Policyholders are dependent on the underlying assets within the relevant with-profits fund, and therefore the benefits are not impacted by the date at which calculations for accounting purposes are performed.

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

15.1 Within this section of the Report, I consider the impact of the Transfer on the Remaining Policyholders of UKLAP.

15.2 The Transferring Policies represent only a small proportion of the total number of policies and liabilities of UKLAP. The with-profits Irish Business accounts for around 0.3% of the total BEL of UKLAP, the non-profit Irish Business accounts for around 2.3% of the total BEL of UKLAP and OLAB accounts for around 0.5% of the total BEL of UKLAP.

15.3 The table below shows the proportion of Transferring Policies within each of the funds that contain Transferring Policies.

		% of BEL transferring under the Scheme
Transferred and Remaining in ALPI DAC	NPSF*	3%
	Irish WPSF	100%
Transferred and Reinsured back to UKLAP	New WPSF	1%
	Old WPSF	1%
	FP WPSF	1%
	FLAS WPSF	1%
	Belgian SF	100%

*OLAB transferred into the NPSF is reinsured back to UKLAP. This accounts for 0.4% of the BEL of NPSF, with the balance remaining in ALPI DAC.

15.4 The Irish WPSF is a standalone fund within UKLAP and the transfer of business in this fund to the ALPI Irish WPF will not have a material impact on the Remaining Policyholders of UKLAP.

15.5 As a result of the Brexit Reinsurance, OLAB is reinsured back to the UKLAP funds in which such policies participated prior to the Transfer, and so the operation of those funds is preserved, allowing the Remaining Policyholders of UKLAP to be managed materially as they were before the Transfer.

Policyholder benefits and contractual rights

15.6 The Scheme will not result in any changes to the policy terms and conditions for the Remaining Policyholders of UKLAP. There will be no change to the options and guarantees to which they are currently entitled.

15.7 Benefits of non-profit policies are generally fixed (or variable for unit-linked policies). Benefits of the non-profit policyholders will not be impacted by the Transfer. I understand from UKLAP that the unit-linked policies will continue to be invested in the same unit-linked funds after the Effective Time as they were prior to the Effective Time.

15.8 In addition, the approaches for dealing with any discretion, the investment strategies for the non-profit and unit-linked business and any related governance which currently exist within UKLAP will not be altered as a result of the Transfer.

15.9 As outlined in paragraph 6.17, under the Scheme UKLAP is required to make a capital injection to ALPI DAC, which is currently estimated to be £100m (or approximately €113m), from either the NPSF or the UKLAP Shareholder Fund to ALPI DAC to ensure ALPI DAC is capitalised to an SCR Ratio of 150%. If the capital injection is met by the NPSF then this will not impact the benefits of the Remaining Policyholders, because the policies allocated to the NPSF are either non-profit or unit-linked policies whose benefits are not linked to the amount of excess assets within the fund. Similarly, if the capital injection is met by the UKLAP Shareholder Fund then this will not impact the benefits of Remaining Policyholders, as all assets within the UKLAP Shareholder Fund are attributed to shareholders of UKLAP rather than to policyholders of UKLAP. In addition, as shown in paragraph 15.12 below, after the Transfer the SCR Ratio of UKLAP is expected to remain above the target SCR Ratio. Therefore, the capital injection to be made by UKLAP to ALPI DAC will not have a material impact on the benefits of Remaining Policyholders.

15.10 I have reviewed the terms of the Scheme and understand that apart from the Irish WPSF, which will no longer exist following the Transfer, all the current with-profits funds in UKLAP will continue to be managed materially in exactly the same way as they are currently, with no changes to their PPFMs. As a result of the Brexit Reinsurance they will contain the same assets and liabilities as they do currently. This means there will be no change to any with-profits policyholder benefits after the Transfer compared to what the with-profits policyholder benefits would have likely been had the Transfer not taken place.

Conclusion

15.11 Overall, I am satisfied that the Transfer will not have a material impact on the policyholder benefits or contractual rights for the Remaining Policyholders of UKLAP. This is because:

- there is no change to the policy terms and conditions for any policies;
- the benefits of non-profit policyholders, including unit-linked policyholders, will not be impacted by the Transfer;
- the approaches for dealing with any discretion for the non-profit business and any related governance around these will be unchanged by the Transfer;
- the investment strategies of the with-profits funds will not be amended as the result of the Transfer;
- the capital injection to be made by UKLAP to ALPI DAC under the Scheme will be met by either the NPSF or the UKLAP Shareholder Fund; and
- the with-profits funds will be managed in the same way before and after the Transfer and will contain the same assets and liabilities before and after the Scheme is effective.

Security of benefits

15.12 The following table compares the UKLAP solo Solvency II, Pillar 1 capital position before and after the policies transfer assuming that the Scheme had taken effect on 31 December 2017.

31 December 2017 £m	Before Transfer	After Transfer
Total assets	307,464	300,911
Total liabilities	292,196	285,808
Excess of assets over liabilities	15,269	15,102
Total available Own Funds to meet the SCR	14,154	14,084
SCR	9,321	9,206
SCR Ratio	152%	153%

15.13 The BEL and backing assets of the with-profits Irish Business transferred to ALPI DAC and the BEL and backing assets of the non-profit Irish Business are not reinsured back to UKLAP and are no longer reflected on UKLAP's balance sheet post the Transfer. These assets and liabilities are included in ALPI DAC's balance sheet. As ALPI DAC is a wholly owned subsidiary of UKLAP, its assets and liabilities are not consolidated on to UKLAP's solo Solvency II balance sheet. ALPI DAC is included as an equity holding in UKLAP's solo balance sheet.

15.14 After the Transfer ALPI DAC will recognise greater provisions for counterparty default risk to reflect its exposure to UKLAP's credit standing from the Brexit Reinsurance. As ALPI DAC is a wholly owned insurance subsidiary of UKLAP this increase in provisions within ALPI DAC reduces the value ALPI DAC contributes to UKLAP's balance sheet.

15.15 The table above shows that there is no significant impact on the SCR Ratio of UKLAP as a result of the Transfer, therefore the change in the SCR Ratio does not materially adversely affect the Remaining Policyholders of UKLAP. This is not surprising given that the Transferring Policies represent a small proportion of the total business of UKLAP and, additionally, given that some of the Transferring Policies are reinsured back to UKLAP and ALPI DAC is a subsidiary of UKLAP.

15.16 UKLAP's SCR is calculated using a Partial Internal Model and includes an allowance for a MA on the majority of UKLAP's annuity business and a VA on all other life business except for unit-linked and ex-FLP business. UKLAP also utilise the TMTP. UKLAP's use of a Partial Internal Model, VA, MA and TMTP have all been approved by the PRA. It is my opinion that the Transferring Policies are unlikely to be material enough to affect any of these approvals or trigger a reset of UKLAP's TMTP as a result of the Transfer.

15.17 OLAB's contribution to the SCR of UKLAP will be calculated using UKLAP's Partial Internal Model and not under ALPI DAC's Standard Formula.

Forward-looking solvency and stress testing

15.18 As the Transferring Policies are a relatively small proportion of UKLAP's total business, the Transfer does not result in any material changes to the projected future solvency position of UKLAP.

Risk profile

15.19 I have reviewed UKLAP's analysis of the change in risk profile following the implementation of the Scheme. This shows that, as the Transferring Policies are a relatively small proportion of UKLAP's total business and as all of the transferring OLAB is reinsured back to UKLAP, the Transfer does not result in any material changes to the risk profile of the Remaining Policyholders of UKLAP.

15.20 Given ALPI DAC is a wholly owned subsidiary of UKLAP, UKLAP retains exposure to the risks of the Transferring Policies under the Scheme.

SRA

15.21 UKLAP has informed me that there will be no change to the SRA policy or the target SCR Ratio level for UKLAP as a result of the Transfer.

Capital Support for ALPI DAC

15.22 The table shown in paragraph 15.12 above includes an allowance for the capital injection of £100m (or approximately €113m) from either the NPSF or the UKLAP Shareholder Fund to ALPI DAC to ensure ALPI DAC is capitalised to an SCR Ratio of 150%, as outlined in paragraph 15.9. The capital injection is to ensure that the SCR Ratio of ALPI DAC reaches its target SCR Ratio immediately following the implementation of the Scheme.

Conclusion

15.23 In my view, there is no material adverse impact on the security of the benefits of the Remaining Policyholders of UKLAP because:

- the SRA policy for UKLAP is unaltered as a result of the Transfer;
- the SCR Ratio is not materially changed as a result of the Transfer;
- the SCR Ratio remains above the target level after the Transfer; and
- there is no material change to the risk profile of UKLAP as a result of the Transfer.

COBS Rules

15.24 The Remaining Policyholders of UKLAP will continue to be covered by the same COBS rules before and after the Scheme becomes effective.

Access to independent bodies providing further policyholder protection

FSCS

15.25 There is no change to the level of protection under the FSCS for the Remaining Policyholders of UKLAP as a result of the Transfer.

FOS

15.26 The Remaining Policyholders of UKLAP will continue to have access to FOS in the event of a dispute regarding their policy, as they did before the Transfer.

Reinsurance

15.27 There will be no material change to the existing external and internal reinsurance agreements for the Remaining Policyholders of UKLAP.

15.28 The operation of the Brexit Reinsurance is structured in such a way as to replicate as closely as possible the pre-Transfer position of OLAB Policyholders so that the with-profits funds of UKLAP can be managed in the same way before and after the Transfer.

15.29 In particular, the reinsurance cashflows are designed to ensure that the surplus arising in the UKLAP with-profits funds is not altered as a result of the Transfer.

15.30 The Transfer does not alter the ranking of the claims of the Remaining Policyholders of UKLAP on winding-up of UKLAP before and after the Transfer.

15.31 As detailed previously, in the unlikely event of UKLAP insolvency, the Charge is structured in such a manner that 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. As a result, in the event of an insolvency of UKLAP, the position of the Remaining Policyholders remains unchanged from the position prior to the Transfer. In addition, given the relative size of the Transferring Business to the Remaining Business, the process of aligning the distribution of assets would not have a material adverse impact on Remaining Policyholders.

15.32 The Brexit Reinsurance can only be terminated subject to certain conditions being met (see Section 9). If the Brexit Reinsurance were to be terminated, the assets within the with-profits funds of UKLAP which contain OLAB Policyholders would need to be split equitably in accordance with the Brexit Reinsurance between OLAB Policyholders and UKLAP's direct policyholders within such funds.

15.33 Therefore, a governance structure is required to ensure that in the event of a termination of the Brexit Reinsurance, the division of these funds, including the Estate, of the with-profits fund is fair to all policyholders. The Scheme sets out the formal governance process which would need to be followed following the termination of the Brexit Reinsurance, these include, but are not limited to the Board of ALPI DAC:

- consulting with and obtaining prior approval of an independent actuary;
- consulting with the WPC (in respect of the with-profits funds); and
- notifying the CBI, and ensuring no objection is received within 60 days.

Conclusion

15.34 Overall I am satisfied that the Brexit Reinsurance arrangement does not materially adversely affect the Remaining Policyholders of UKLAP because:

- the reinsurance is structured in such a way that, in the normal course of events, there is no change to the way in which the UKLAP funds are run, and therefore the expectations of the Remaining Policyholders of UKLAP are unchanged;
- on termination of the Brexit Reinsurance, the governance arrangements around the termination process are robust and should ensure that the assets within the UKLAP with-profits funds containing OLAB would be split fairly; and
- in the event of the insolvency of UKLAP, the Brexit Reinsurance aligns the ranking of ALPI DAC's claims with that of direct policyholders of UKLAP in relation to a distribution of the assets of UKLAP, and therefore the position of the Remaining Policyholders remains unchanged from the position prior to the Transfer. In addition, the relative size of the Transferring Business to the Remaining Business means that the process of aligning the distribution of assets would not have a material adverse impact on Remaining Policyholders.

Governance

15.35 The governance structures that are in place in UKLAP, insofar as they relate to the Remaining Policyholders of UKLAP, are not changed as a result of the Transfer.

15.36 The UKLAP Boards and committees will be unchanged by the Transfer, and the responsibilities of the Boards and most of the committees will also be unchanged. The exception to this is the WPC, which will have their ToR updated. However, the updates only relate to the Transferring Policies, and therefore will not alter the governance the WPC currently provides to the Remaining Policyholders of UKLAP.

Conclusion

15.37 Overall, I am satisfied that the Transfer will not materially impact the governance of the Remaining Business.

Tax

15.38 The tax implications of the Transfer are expected to be broadly neutral, except that services provided from any company within the Aviva Group in the UK to ALPI DAC may potentially be subject to VAT.

15.39 Any increased VAT costs, as a result of the Transfer, will be borne by the shareholders of ALPI DAC, and any change to that approach will need to be approved via the relevant governance process and, amongst other things, will require consultation with the HoAF and WPC.

Conclusion

15.40 Overall, I am satisfied that the tax implications of the Transfer are not expected to result in any material adverse impact on the Remaining Policyholders of UKLAP.

Expenses and charges

15.41 The current expense charging structure and the governance around any changes to the charging structure of UKLAP will not be altered as a result of the Transfer.

15.42 The costs of implementing the Scheme and the management of the Transfer going forward will result in a one-off expense as well as increased ongoing expenses.

15.43 It is a Scheme requirement that the one-off expenses of implementing the Scheme which relate to UKLAP will be borne by either the NPSF or the UKLAP Shareholder Fund and so will not impact the benefits of the Remaining Policyholders of UKLAP or have any material adverse impact on policyholder security.

15.44 UKLAP has confirmed that the increased ongoing expenses of managing the Transfer will be borne by the UKLAP Shareholder Fund. If, at a later date, it were decided that the UKLAP Shareholder Fund should not bear all of the increased ongoing costs, and consideration were to be given to passing a share of these expenses on to the with-profits policyholders, this change would need to be approved via the appropriate governance process, which would include consultation with the WPC.

Conclusion

15.45 Overall I am satisfied that the Transfer will not result in a material change to the charges and expenses allocated to the with-profits funds of UKLAP.

Policy administration and service standards

15.46 I understand from UKLAP that, following the introduction of the Scheme, the policy administration of the Remaining Policyholders of UKLAP will continue as it does now.

15.47 The Transfer is not expected to alter the service standards experienced by the Remaining Policyholders of UKLAP.

15.48 Overall I am satisfied that the Transfer will not have any material adverse impact on the policy administration or service standards of the Remaining Policyholders of UKLAP.

Conclusion on the effects of the Transfer on Remaining Policyholders

15.49 Based on my assessment of the Transfer, I have concluded that there will be no material adverse impact on any class of the Remaining Policyholders of UKLAP as a result of the Transfer.

Communications with policyholders

15.50 I have set out a summary of UKLAP's communications strategy in paragraph 8.28 to 8.34 above.

15.51 On the basis that I have concluded that there is no material adverse effect on the Remaining Policyholders of UKLAP and there will be no change to their policy terms and conditions as a result of the Scheme, I have also concluded that there are no material issues that need to be brought directly to the attention of UKLAP's Remaining Policyholders before the Transfer proceeds. Therefore, I agree with UKLAP's decision to seek dispensation from the Court with regards to the requirement contained in FSMA to notify all policyholders of UKLAP of the transfer of the Irish Business and OLAB. This is because I am satisfied that compliance with this regulation would be disproportionately costly and Transferring Policyholders are being notified individually.

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

16.1 In this section, I consider the impact of the Transfer on the Existing Policyholders of ALPI DAC. I note that, following the introduction of the Scheme, Existing Policyholders of ALPI DAC will account for around 26% of the total number of policies and around 40% of the total BEL (gross of reinsurance) of ALPI DAC.

Policyholder benefits and contractual rights

16.2 The Scheme will not result in any changes to the policy terms and conditions for the Existing Policyholders of ALPI DAC.

16.3 Benefits of the non-profit policies of Existing Policyholders of ALPI DAC are generally fixed and will not be impacted by the Transfer. In addition, ALPI DAC has confirmed to me that the discretion and investment policies for the non-profit and unit-linked business and any related governance which currently exists within ALPI DAC will not be altered as a result of the Transfer.

16.4 The Transfer does not result in any changes to the management or investment policies of the two existing with-profits funds of ALPI DAC, namely the Participating Fund and the Closed Fund. There will be no change to the PPFM of these funds nor changes to the discretion policy as a result of the Transfer. New funds will be created within ALPI DAC for the transferring with-profits business and no business is transferred into the existing ALPI DAC with-profits funds as a result of the Transfer. Therefore, there will be no change to any with-profits policyholder benefits for the Existing Business as a result of the Transfer.

16.5 Overall, in my opinion, there will be no material impact on the policyholder benefits or contractual rights for the Existing Policyholders of ALPI DAC as a result of the Transfer because:

- there is no change to their policy terms and conditions;
- there will be no change to the benefits of the non-profit policies;
- the discretion policies for the non-profit and unit-linked business and the governance around these will be unchanged as a consequence of the Transfer; and
- the investment policies of the with-profits funds will not be amended as a result of the Transfer and they will continue to be managed in accordance with the same PPFMs as separate with-profits funds will be created for the Transferring Policyholders.

Security of benefits

16.6 The following table compares the Solvency II, Pillar 1 capital position of ALPI DAC before and after the Transfer assuming that the Scheme came in to effect on 31 December 2017.

31 December 2017 €m	Before Transfer	After Transfer
Total assets	4,965	13,942
Total liabilities	4,709	13,241
Excess of assets over liabilities	256	702
Total available Own Funds to meet the SCR	253	559
SCR	160	372
SCR Ratio	158%	150%

16.7 As can be seen from the table above, had the Scheme come into effect on 31 December 2017, the SCR Ratio post the implementation of the Scheme would be slightly lower than the SCR Ratio before the Transfer but would still be in line with the SRA of ALPI DAC. The numbers in the table include an allowance for a capital injection from UKLAP in order to capitalise ALPI DAC to an SCR Ratio of 150%, as required under the Scheme.

16.8 The figures in paragraph 16.6 are calculated using the Standard Formula and include an allowance for a VA which covers all of ALPI DAC's life business and all the Transferring Policies except unit-linked business. The allowance for a VA on the Existing Business has been previously approved by the CBI.

16.9 The use of the VA on the Transferring Policies has not yet been approved, and I understand from ALPI DAC that the application for the use of the VA to cover all the Transferring Policies including unit-linked policies has been deferred to 2019. However, I note that under the terms of the Scheme ALPI DAC will be capitalised to achieve an SCR Ratio of 150% (with capital injections provided by UKLAP to maintain this SCR Ratio), regardless of whether the extension to the VA has been approved or not. Therefore, the deferral of the VA application to 2019 does not adversely affect the SCR Ratio of ALPI DAC.

16.10 ALPI DAC does not currently utilise the MA or the TMTP and does not currently intend to apply for these after the Transfer.

16.11 Overall, I am satisfied that the change in the SCR Ratio will not adversely affect the security of policyholders' benefits as it still meets the target level within the SRA.

Forward Looking Projections on SCR Ratio

16.12 I have reviewed the results of the capital projections for ALPI DAC following the implementation of the Scheme (see paragraphs 5.26 to 5.29). More details of the analysis are outlined below.

Central Capital Projection Scenario

16.13 The ORSA and the Business Plan set out a range of capital projections. This includes a central capital projection scenario assuming the Scheme is effective in 2019. This represents ALPI DAC's best estimate of future solvency. There are also a number of additional capital projections which show the future solvency level under a range of stress conditions.

16.14 I have considered the projected base SCR Ratio under the central capital projection scenario. These projections assume a capital injection from UKLAP at the Effective Time in order to ensure ALPI DAC has an SCR Ratio of 150%, as required by the Scheme. The SRA following the introduction of the Scheme requires ALPI DAC to maintain the SCR Ratio at 150%. The projections allow for a dividend payment in each year following the Transfer which will maintain the SCR Ratio at this level.

ORSA: Stress and Scenario Testing

16.15 The ORSA indicates that the key risks for ALPI DAC are exposure to stress in lapse, longevity and morbidity (same as those under Pillar 1). While carrying out the stress testing ALPI DAC has assumed that the risks manifest immediately and the SCR Ratio is calculated following a 1-in-10 year stress event.

16.16 The results of the stress tests indicate that ALPI DAC's SCR Ratio can withstand all of these adverse stress impacts. The SCR Ratio falls to the Amber risk appetite zone within its SRA but is not close to breaching the regulatory capital requirements under any of these circumstances. To bring the SCR Ratio back to the Green zone, as detailed in the ORSA, ALPI DAC states that it will make use of a range of management actions including dividend retention. Therefore, I am satisfied that after the Transfer ALPI DAC is able to withstand stress events and has adequate management actions that it would implement in a stressed situation.

16.17 In addition to stressing the individual risks, ALPI DAC also considers the impact on the SCR Ratio under a range of scenarios. The scenarios considered range from extreme market scenarios to operational impacts on the business including business planning scenarios described in paragraphs 16.19 to 16.22. I have reviewed the scenarios considered and I believe the scenarios tested are reasonable, cover most of the extreme risks and are consistent with what I have seen in the industry.

16.18 ALPI DAC is able to maintain its SCR Ratio within the Green risk appetite zone under several of the scenarios considered. Under some scenarios the SCR Ratio falls within the Amber or Red risk appetite zone. However, following the implementation of management actions, under all scenarios the SCR Ratio returns to the Green risk appetite zone. The results of the scenario tests show that ALPI DAC can withstand extreme stress events and maintain its SCR Ratio comfortably above the required regulatory capital level once the required management actions, including withholding dividends, are implemented.

Business Plan: Scenario Testing

16.19 The Business Plan contains a number of additional scenario tests. These are described below.

16.20 ALPI DAC has tested the balance sheet projection under an optimistic sales scenario under which it assumes an increase in sales volumes of about 20% and a 10% increase in integration synergies. Under this scenario the increase in new business volumes leads to a strain in the capital requirements resulting in a lower SCR Ratio compared to the base scenario. As a result of this the SCR Ratio for each projection year falls within the Amber risk appetite zone under the SRA. By retaining the dividends for 2018 and reducing the dividends for 2019 the SCR Ratio moves into the Green risk appetite zone over the entire projection period.

16.21 A pessimistic scenario assumes 20% lower sales volumes per annum, a lapse shock of 10% and delay in achieving integration synergies and ultimately only achieving half of the planned synergies. The projected SCR Ratio under this scenario falls within the Amber risk appetite zone in each projection year under the SRA. By retaining dividends for 2018 and reducing dividends in 2019 the SCR Ratio moves back into the Green risk appetite zone over the entire projection period.

16.22 ALPI DAC ran a further scenario to test its balance sheet against the negative impacts of both the optimistic and pessimistic scenarios. This additional scenario assumes higher sales volumes, a lapse shock of 10%, a delay in achieving integration synergies and ultimately only achieving half of the planned synergies. The impact on the SCR Ratio is more pronounced under this scenario but still falls within the Amber risk appetite zone under the SRA. The withholding of the dividends over the projection period will bring the SCR Ratio back into the Green risk appetite zone over the entire projection period.

Conclusion

16.23 Overall, I am satisfied that the projected SCR Ratio for ALPI DAC is resilient to changes under a range of stress and scenario tests and therefore the security of the policyholders' benefits is not adversely affected as a consequence of the Transfer.

Changes to risk profile

16.24 I have reviewed the risk components of the SCR before and after the Transfer. The risk exposures to which there is the most significant increase for ALPI DAC because of the Transfer are longevity, interest rate and counterparty default risk.

16.25 The risk profile of ALPI DAC is altered as a result of the Transfer. The relative exposures to longevity risk (due to the type of products being transferred), interest rate risk (due to the types of products being transferred) and counterparty default risk (due to the Brexit Reinsurance) are increased; however, the majority of other risks remain at the same relative level. Both longevity and interest rate risk are common risks for insurers, and therefore ALPI DAC has experience in managing risks of this type. The increase in counterparty default risk is driven by the Brexit Reinsurance put in place as part of this Transfer.

16.26 Overall, I am satisfied that the change in the risk profile of ALPI DAC does not adversely affect the Existing Policyholders. Longevity and interest rate risks are common to insurers, and the counterparty default risk is adequately mitigated by the Charge associated with the Brexit Reinsurance. Additionally, following the Transfer, no single risk dominates.

Solvency Risk Appetite

16.27 The target SRA of ALPI DAC is to maintain the SCR Ratio at 150%. The SRA for ALPI DAC will not be changed as a result of the Transfer. Additionally, the Scheme introduces new governance arrangements that must be followed in order to change the SRA in a way that would constitute a material weakening. This governance process is detailed in paragraph 10.28.

16.28 The definition of material weakening is as described in 10.29.

16.29 Based on my experience, I am of the opinion that the governance process for making changes to the SRA reflects good practice and will represent a strengthening of the governance arrangements for the Existing Policyholders of ALPI DAC.

Conclusion

16.30 I am satisfied that there is no material adverse impact on the security of benefits of the Existing Policyholders of ALPI DAC as a result of the Transfer because:

- the SCR Ratio following the Transfer is within ALPI DAC's SRA;
- the stress and scenario tests show that ALPI DAC can maintain its SCR Ratio under a range of adverse conditions. In cases where the SCR Ratio falls within the Red risk appetite zone there are adequate management actions to restore the ratio back to the target level;
- although the risk profile is altered as a result of the Transfer, ALPI DAC's risk is more diverse post Transfer which means that the impact of any one risk impacting the SCR Ratio is now lower than before the Transfer;
- most of the longevity risk and interest rate risk are common risks for insurers, and ALPI DAC has the relevant experience to manage these;

- the Charge adequately mitigates the exposure to counterparty default risk;
- there is no change to the SRA as a result of the Transfer; and
- there is a robust governance process around making changes to the SRA policy and to the level of the target SCR Ratio.

Access to independent bodies providing further policyholder protection

FSCS

16.31 Prior to the Transfer, the Existing Policyholders of ALPI DAC were not covered by the FSCS as the FSCS only provides protection to policyholders of UK based insurance entities or EEA branches of a UK based insurance company. This is unchanged as a result of the Transfer.

16.32 There is no Irish equivalent to the FSCS for life insurance business.

FSPO

16.33 The Existing Policyholders of ALPI DAC will continue to have access to FSPO in the event of a dispute regarding their policy, as they did before the Transfer.

16.34 Overall, I am satisfied that there is no adverse impact on policyholder protection as a result of the Transfer.

Reinsurance

16.35 As a result of the Brexit Reinsurance some of the Transferring Policies are reinsured back to UKLAP. Hence ALPI DAC is reliant on UKLAP for payments it makes to OLAB Policyholders and bears the risk of UKLAP defaulting on these payments in the event of UKLAP going insolvent. A consequence of this is that the Existing Policyholders of ALPI DAC are exposed to an element of counterparty default risk that they were not exposed to prior to the Transfer.

16.36 I have considered this additional counterparty default exposure in Section 10. For the reasons given there I have concluded that the Brexit Reinsurance arrangement does not materially adversely impact the Existing Policyholders of ALPI DAC.

Governance

16.37 The governance structures that are in place for the Existing Policyholders of ALPI DAC will be unchanged as a result of the Transfer.

Tax

16.38 There is no change to the tax that will be charged to the ALPI DAC with-profits funds as a result of the Transfer. Neither will the Transfer impact the tax paid by Existing Policyholders of ALPI DAC on the benefits arising from their policies. Services provided from any company within the Aviva Group to ALPI DAC may potentially be subject to VAT, and any increased VAT costs resulting from the Transfer will be borne by the shareholders of ALPI DAC.

Expenses and charges

16.39 There is no change to the expenses that will be charged to the ALPI DAC with-profits funds as a result of the Transfer.

16.40 I understand from ALPI DAC that the costs of implementing the Scheme which are attributed to ALPI DAC will be borne by the shareholders of ALPI DAC and not passed on to any of the ALPI DAC policyholders.

16.41 Therefore, overall, I am satisfied that the Transfer will not result in any change to the expenses or charges for the Existing Policyholders of ALPI DAC.

Administration and service standards

16.42 After the Scheme is implemented, the Existing Policies of ALPI DAC will be administered by the same team, in the same location and to the same service standards as is the case prior to the Scheme being implemented.

16.43 The intention is that any changes to integrate the current ALPI DAC administration processes with those currently followed for the Irish Business will aim to maintain or improve on the current processes.

16.44 Therefore, overall I am satisfied that the Transfer is not expected to adversely affect the service standards experienced by the Existing Policyholders of ALPI DAC.

Other changes

Merging of funds

16.45 Currently, ALPI DAC is able to merge sub-funds, subject to the governance detailed in paragraph 6.30. This Scheme extends this merger provision within ALPI DAC to include the ALPI Irish WPF.

16.46 In my view this does not materially adversely affect the Existing Policyholders of ALPI DAC as:

- there is robust governance around the merging of funds; and
- these provisions already existed for the current funds of ALPI DAC.

Intra-group support

16.47 The Scheme includes a provision that intra-group support may be made available from any ALPI DAC fund to any fund within the Aviva Group, as detailed in paragraphs 6.32 to 6.34.

16.48 This provision is subject to certain restrictions, including but not limited to, such support arrangements only being permitted by the Board of ALPI DAC if they do not materially adversely affect the policyholders within the fund offering the support. Furthermore, while this is a new provision, I note that prior to the Transfer the provision of such intra-group support was not explicitly prohibited. Therefore, overall I am satisfied that the inclusion of this new provision does not materially impact the Existing Policyholders of ALPI DAC.

External reinsurance

16.49 As mentioned in paragraph 8.8, ALPI DAC will be permitted to effect new reinsurance arrangements and modify or terminate existing reinsurance arrangements with external reinsurers. This represents no change to the existing permissions of ALPI DAC in relation to external reinsurance arrangements. Therefore, I am satisfied this does not materially adversely affect the Existing Policyholders.

PRISM rating

16.50 The CBI has indicated that ALPI DAC is likely to move from a medium PRISM rating to a high PRISM rating, either in anticipation of the Transfer or as a result of the Transfer. If ALPI DAC were to become a high rated entity, it would likely lead to increased supervision by the CBI. Therefore, the change to the PRISM rating would not result in a weakening of the level of policyholder protection currently provided by the regulatory requirements which ALPI DAC must comply. The change may result in higher expenses, although any increase in expenses is expected to be relatively small. It is my opinion that this change would not adversely affect Existing Policyholders.

Conclusion on the effects of the Transfer on ALPI DAC Existing Policyholders

16.51 Overall, I have concluded that there will be no material adverse impact on any class of the Existing Policyholders of ALPI DAC as a result of the Transfer.

Communication with policyholders

16.52 I have set out a summary of the UKLAP communications strategy in paragraph 8.28 to 8.40 above.

16.53 I have reviewed the communications that will be sent to all Existing Policyholders and I am satisfied that they 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 with other schemes. This includes a brief, easy to understand overview of the Scheme, the options available to the policyholder, responses to frequently asked questions, a means for seeking further information if required and details of their right to object.

Dispensations and waivers

16.54 As detailed in paragraphs 8.35 to 8.38, ALPI DAC has applied for certain waivers and dispensations. This means that ALPI DAC will not send the communication pack to 6,821 Existing Policyholders, representing 4.5% of all Existing Policyholders (these numbers are as at January 2018). This includes policyholders that ALPI DAC is currently unable to contact, referred to as "goneaways", and policyholders that meet the other criteria set out in paragraph 8.38.

16.55 I am satisfied that the number of Existing Policyholders that will not be sent the communication pack is relatively low. I have reviewed the reasons that these dispensation and waivers have been sought in relation to the Existing Policyholders and understand that, in general, the communications strategy is in line with ALPI DAC's business as usual mailing strategy. In addition, the transfer website contains the information detailed within the communication pack. It is my opinion therefore, that, in each case, it is appropriate to not send the communication pack to these policyholders.

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

With-profits Irish Business

17.1 There are no reinsurance arrangements relating to with-profits Irish Business.

Non-profit Irish Business

17.2 The intention is that all reinsurance arrangements relating to the non-profit Irish Business will be transferred from UKLAP to ALPI DAC after the Transfer is in place. I understand from UKLAP that it will contact all affected reinsurers to confirm that they have no objection to changing the ceding company from UKLAP to ALPI DAC, regardless of whether the treaty stipulates that consent is required. It is not expected that any reinsurers will object, however if this were to occur ALPI DAC will seek to put in place a materially equivalent arrangement with an alternative provider. As the reinsurance arrangements will continue to cover the same policies before and after the Transfer it is my opinion that this change of the ceding company is unlikely to have any material impact on the affected reinsurers.

17.3 One of these external reinsurance arrangements covers both the non-profit Irish Business and Remaining Policyholders of UKLAP. In relation to this treaty I understand from UKLAP that ALPI DAC will enter into a supplemental agreement with the reinsurer, in which the reinsurer commits to reinsuring the Irish Business directly with ALPI DAC whilst continuing to cover the UKLAP Remaining Policyholders.

17.4 There is also an intra-group reinsurance arrangement in place between UKLAP and Aviva Re Ltd which covers some of the Irish Business. This will also be transferred to ALPI DAC under the Scheme.

OLAB

17.5 All the transferring OLAB will be 100% reinsured back to UKLAP following the Transfer. I understand from UKLAP that all the reinsurers covering OLAB will be contacted to inform them of the Scheme and it is expected that these four reinsurance arrangements will remain in place after the Scheme is effective. UKLAP will request a variation to the current arrangements so that they continue to cover OLAB once they are transferred to ALPI DAC and reinsured back to UKLAP via the Brexit Reinsurance.

17.6 Varying these reinsurance contracts in this way, will allow the current reinsurance arrangements to continue to provide the same cover before and after the Transfer and hence I am satisfied that there is no material impact on the four reinsurance arrangements covering OLAB.

17.7 Additionally, there is an intra-group reinsurance arrangement between UKLAP and AII, which covers OLAB as well as some other risks associated with Remaining Policyholders. AII has already consented that they will continue to reinsure OLAB after the Transfer.

Conclusion on the effects of the Transfer on reinsurers of Transferring Policies

17.8 It is my opinion that there is no material adverse impact on the reinsurers of the Transferring Policies because:

- the reinsurance treaties relating to OLAB policies will cover the same policies before and after the Transfer, albeit that the policies will be policies reinsured in from ALPI DAC rather than directly written policies in UKLAP; and
- the only change to the reinsurance treaties covering the non-profit Irish Business is that the cedant will be ALPI DAC rather than UKLAP.

18 Summary of conclusions

18.1 In summary, it is my opinion that the implementation of the proposed Transfer will not have a material adverse effect on the security of benefits or the future benefit expectations of either the Transferring Policyholders, the Remaining Policyholders of UKLAP, or the Existing Policyholders of ALPI DAC.

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

18.3 In reaching my opinion, I have considered the effect of the Transfer on the Transferring Policyholders, the Remaining Policyholders of UKLAP and Existing Policyholders of ALPI DAC and the reinsurers of the Transferring Policies. In particular, in respect of Transferring Policyholders, I have concluded the as a result of the Transfer:

- there will be no material change in the security of benefits of Transferring Policyholders;
- there will be no material change to the anticipated profit distribution to the with-profits Transferring Policyholders;
- there will be no material change in the policy terms and conditions of the Transferring Policyholders;
- there will be no material change in the options or benefit expectations of the Transferring Policyholders;
- there will be no material adverse change in the governance of the business of Transferring Policyholders; and
- there will be no material impact on the service standards Transferring Policyholders can expect.

18.4 Additionally, I have taken into account the loss of FSCS protection currently given to some of the Transferring Policyholders. 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. Brexit may result in it becoming 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 impact of the Aviva Group having uncertainty regarding whether the Transferring Policies can be legally serviced post-Brexit.

18.5 I consider the use of the Brexit Reinsurance to be a reasonable approach, allowing policyholders' interests to be managed in materially the same way after the Transfer as they were before and that provisions governing the termination of the Brexit Reinsurance provide suitable protection for OLAB Policyholders in the context of their interest in the originating with-profits funds.

18.6 I am satisfied that the Charge will work as intended to provide equalisation of the Remaining Policyholders of UKLAP and ALPI DAC and that the UKLAP counterparty exposure for policyholders of ALPI DAC is not likely to give rise to a material adverse impact for OLAB Policyholders.

18.7 Furthermore, it is my opinion that the Transfer will have no material adverse effect on the current reinsurers of UKLAP whose treaties cover the risks associated with the Policies of the Transferring Policyholders.

18.8 Overall I am satisfied that the Transfer is equitable to all classes and generations of policyholders of UKLAP and ALPI DAC and I see no reason the Transfer should not go ahead.

19 Independent Expert's Declaration

I, Tim Roff, declare that:

i I understand that my duty in providing written Reports and giving evidence is to help the Court, and that this duty overrides any obligation to the party who has engaged me or the party who has paid or is liable to pay me.

ii I confirm that:

- I understand my duty to the Court and have complied with that duty; and
- I am aware of the requirements of Part 35 of the Civil Procedure Rules, Practice Direction 35 of the Civil Procedure Rules and the Guidance for Instruction of Experts in Civil Claims 2014.

iii I confirm that I have made clear which facts and matters referred to in this Report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

iv I have endeavoured to include in my Report those matters, which I have knowledge of or of which I have been made aware, that might adversely affect the validity of my opinion. I have clearly stated any qualifications to my opinion.

v This Report has been prepared in accordance with the Code of Practice for Experts.

vi I have indicated the sources of all the information I have used.

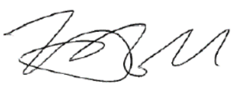
vii I have not, without forming an independent view, included or excluded anything which has been suggested to me by others.

viii I will notify those instructing me immediately and confirm in writing if, for any reason, my existing Report requires any correction or qualification.

ix I understand that:

- my Report, subject to any corrections before swearing as to its correctness, will form the evidence to be given under oath or affirmation;
- I may be cross-examined on my Report by a cross-examiner assisted by an expert; and
- I am likely to be the subject of public adverse criticism by the Judge if the Court concludes that I have not taken reasonable care in trying to meet the standards set out above.

x I confirm that I have not entered into any arrangement where the amount or payment of my fees is in any way dependent on the outcome of the case.



Tim Roff FIA
Partner
Grant Thornton UK LLP

5 October 2018

A Summary CV for Tim Roff

Title

Partner

Experience

Tim is partner and head of actuarial and risk services at Grant Thornton. He has previously held roles as head of global actuarial services at KPMG and Ernst & Young and head of financial reporting at Tillinghast (now Willis Towers Watson).

He is a senior actuary with 20 years of experience operating at partner level. He holds UK practising certificates to act in regulatory actuarial roles.

Tim has significant experience in all aspects of actuarial work – reserving, capital and pricing. He has acted as Chief Actuary for a number of major insurers.

He is an expert in financial reporting including various regulatory systems, IFRS and embedded value. He was senior actuary on the audit of a major insurance firm who report under all these bases.

Tim has worked on a range of transactions, restructuring and portfolio transfers, both sell side and buy side. He was the Reporting Actuary on the Norwich Union demutualisation, the largest in the UK.

He has a range of expert experience including acting as an expert on a scheme to release life company capital and arbitrator on a sale and purchase agreement dispute. He has acted as Skilled Person for the UK regulator on a number of occasions.

Tim has a range of international experience. He has carried out assignments in Belgium, France, Ireland, Morocco, Netherlands, Switzerland and US.

Professional qualifications and membership

- Fellow of the Institute and Faculty of Actuaries

Career outline

- 2014 joined Grant Thornton UK LLP
- Partner, KPMG
- Partner, Ernst & Young
- Partner, Tillinghast

B Extract from work order

Terms of engagement between Aviva Life and Pensions UK Ltd and Grant Thornton UK LLP (the "Agreement")

Background
UKLAP has previously written investments and annuities business in various European territories including France, Belgium, Germany, Ireland and Sweden using passporting rights. Following Brexit, it is expected that the UK will lose single market passporting rights after March 2019. UKLAP is therefore formulating a contingency plan to protect that business.

UKLAP's planned approach for this business is to establish a new Ireland-based company ("NewCo") authorised by the Central Bank of Ireland to write all UKLAP business currently written using passporting rights.

UKLAP will then consolidate and transfer existing business to NewCo using Part VII, s109 of the Financial Services and Markets Act 2000. This requires a Scheme Report from an Independent Expert.

Scope of the Services
UKLAP has appointed the Supplier to provide an Independent Expert to report on the proposed insurance business transfer scheme to transfer the currently-passported business from UKLAP to NewCo (the "Scheme"). The Independent Expert's report will be prepared in accordance with and for the purposed set out in Part VII of the FSMA and for no other purpose. The Supplier has accepted such appointment.

The Independent Expert's analysis and formal report will follow the relevant FSMA requirements and associated supplemental guidance. Such report will consider the Scheme as a whole and its effect on the policyholders of UKLAP and NewCo. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the scheme, namely:
    - the Transferring Policyholders holding various types of policies, including with-profits,
    - the policyholders who remain with UKLAP after the Scheme.

For the avoidance of doubt, there will be no policyholders in NewCo prior to the Scheme;

- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders;
- the fairness of any mechanism implemented at the same time as the Scheme, but not included in the Scheme, intended to improve the security of any policyholders affected by the Scheme;
- any other information required to be included by the FSMA and any guidance issued by the UK's Prudential Regulation Authority ("PRA") or the Financial Conduct Authority ("FCA").

The Supplier will undertake this assignment in the following five phases that will be shaped around UKLAP's high-level timeline that is detailed in the exhibit provided below the next set of bullet points, and that, as of the time of signature of this Work Order is UKLAP's best estimate and may change:

- **Scoping** – In this phase, the Supplier shall hold initial meetings with the key UKLAP stakeholders to agree the operational principles of the project;
- **Analysis** – In this phase, the Supplier shall consider all of the financial and non-financial matters impacting the Scheme in order to assess whether any group of policyholders will be materially disadvantaged by the Scheme;
- **Main Report** – In this phase, the Supplier will produce the main Independent Expert report prior to the Directions Hearing (as defined in the FSMA). Such report will detail the work undertaken and set out the Supplier's findings and conclusions. This will include the Supplier's justified opinion as to whether either of the relevant groups of policyholders might be materially adversely affected by the proposed Part VII transfer;
- **Summary Report** – Prior to the Directions Hearing, the Supplier shall also prepare a summary report to be included in the information provided to policyholders. Such second report will summarise the key conclusions from the main report;
- **Supplementary Report** – Prior to the Sanctions Hearing, the Supplier shall prepare a supplementary report. Such third report will consider any information that has become available since the finalisation of the main report to assess whether this updated information changes the conclusions within the main report. This will include consideration of any policyholder representations and objections.

Aviva Dependencies and/or Obligations

In order to allow the Supplier to perform the Services as effectively as possible, UKLAP shall:

- Provide the reasonably-required data and information;
- Make relevant employees available to speak with the Supplier, to allow the Supplier to understand the business, the Transfer and the information provided in more detail;
- Review and comment on draft reports in a timely manner;
- Answer ad-hoc questions that are likely to arise as the Supplier goes through the process; and
- Provide access to UKLAP's legal advisers.

C Extract from change control to work order

Change control notice for work order between Aviva Life and Pensions UK Ltd and Grant Thornton UK LLP

The parties entered into a Work Order reference "WO_Actuarial_GT_UKLAP_Part VII Transfer IE UKLAP to Newco 170720" dated 22 September 2017 and now wish to amend the Work Order as specified in this Change Control Note ("CCN1"), pursuant to Schedule 6 of the Master Agreement.

The defined terms in the Master Agreement and the Work Order will, unless expressly stated otherwise, have the same meaning in this CCN1 and the terms of the Master Agreement and the Work Order shall be incorporated into this CCN1 in whole unless any terms conflict with the provisions set out below, in which case such terms shall not be incorporated.

In consideration of the mutual covenant and agreements contained in the Master Agreement, the Work Order and this CCN1, it is agreed as follows:

Rationale for Change

Aviva has requested that the scope of the Work Order be amended as the transfer of business will now be to Friends First Life Assurance Company DAC, rather than a newly authorised entity.

Details of Change

The parties wish to vary the Work Order as follows:

1.1 Background

Paragraph 1.1 shall be deleted in its entirety and replaced with the following:

"1.1 UKLAP has previously written investments and annuities business in various European territories including France, Belgium, Germany, Ireland, Sweden and Iceland using passporting rights. Following Brexit, it is expected that the UK will lose single market passporting rights after March 2019. UKLAP is therefore formulating a contingency plan to protect that business.

UKLAP's planned approach for this business is to transfer it to Friends First Life Assurance Company DAC ("FFLAC") an entity authorised by the Central Bank of Ireland, which Aviva is currently in the process of acquiring.

UKLAP will then consolidate and transfer existing business to FFLAC using Part VII, s109 of the Financial Services and Markets Act 2000. This requires a Scheme Report from an Independent Expert."

1.2 Scope of the Services

Paragraphs 1.2.1 and 1.2.2 shall be deleted in its entirety and replaced with the following:

"1.2.1 UKLAP has appointed the Supplier to provide an Independent Expert to report on the proposed insurance business transfer scheme to transfer the currently-passported business from UKLAP to FFLAC (the "Scheme"). The Independent Expert's report will be prepared in accordance with and for the purposed set out in Part VII of the Financial Services and Markets Act 2000 ("FSMA") and for the other purpose. The supplier has accepted such appointment.

1.2.2 The Independent Expert's analysis and formal report will follow the relevant FSMA requirements and associated supplemental guidance. Such report will consider the Scheme as a whole and its effect on the policyholders of UKLAP and FFLAC. In particular, it will include, but not be limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the Scheme, namely:
  - the Transferring Policyholders holding various types of policies, including with-profits;
  - the policyholders who remain with UKLAP after the Scheme; and
  - the policyholders of FFLAC, who were policyholders prior to the Scheme.
- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders;
- the fairness of any mechanism implemented at the same time as the Scheme, but not included in the Scheme, intended to improve the security of any policyholders affected by the Scheme;
- any information required to be included by the FSMA and any guidance issued by the UK's Prudential Regulation Authority ("PRA") or the Financial Conduct Authority ("FCA"). "

D PRA's approach to insurance business transfers

The table below cross-references sections of the PRA's approach to business transfers with the relevant sections of this Report:

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	Section 1
(2) confirmation that the independent expert has been approved or nominated by the PRA;	Section 1
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	1.26 and Appendix A
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	Section 1
(5) the scope of the report;	Section 1, Appendix B and Appendix C
(6) the purpose of the Scheme;	Section 1 and 6
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Section 6, 7, 8 and 9.
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Section 1 and Appendix F
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	1.43, 9.32 and 9.33
(b) the judgement of others;	1.43, 9.32, 9.33 and Appendix F
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	1.43, 9.32, 9.33 and Appendix F
(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;	Sections 10, 11, 12, 13 and 14
(b) policyholders of the transferor whose contracts will not be transferred; and	Section 15
(c) policyholders of the transferee;	Section 16
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Section 17

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
(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' considerations of the Scheme; and	No matters.
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Provided throughout.
2.32 The summary of the terms of the Scheme should include:	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	8.2 to 8.10 and Section 17
(2) 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.	Section 9
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if it is or is not implemented;	Section 1
(2) state whether they considered alternative arrangements and, if so, what;	Section 1
(3) where different groups of policyholders are likely to be affected differently by the Scheme, include comment on those differences they consider may be material to the policyholders; and	Sections 10, 11, 12, 13, 14, 15 and 16
(4) include their views on:	
(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Sections 10, 11, 12, 13, 14, 15 and 16
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:	
(i) the security of policyholders' contractual rights;	Sections 10, 11, 12, 13, 14, 15 and 16
(ii) levels of service provided to the policyholders; or	Sections 11, 12, 13, 14, 15 and 16
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Sections 11, 12, 13, 14, 15 and 16
(c) the 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.	Sections 11, 12, 13, 14, 15 and 16
2.35 For any mutual company involved in the scheme, the report should:	
(1) describe the effect of the scheme on the proprietary rights of members of the company, including the significance of any loss or dilution of the rights of these members to secure or prevent further changes which could affect their entitlement as policyholders;	N/A

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
(2) state whether, and to what extent, members will receive compensation under the scheme for any diminution of proprietary rights; and	N/A
(3) comment on the appropriateness of any compensation, paying particular attention to any differences in treatment between members with voting rights and those without.	N/A
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	Sections 11 and 13
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	N/A
(3) describe the likely effect of the Scheme on the approach used to determine:	
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	Sections 11 and 13
(b) the levels of any discretionary charges;	Sections 11, 12, 13 and 14
(4) describe what safeguards are provided by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	Sections 15 and 16
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	Sections 11, 12, 13, 15 and 16
(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and	Sections 11, 12, 13, 14, 15 and 16
(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holders) to ensure that the Scheme operates as presented.	Sections 11, 12, 13, 14, 15 and 16
2.37 Where the transfer forms part of a wider chain of events or corporate restructuring, it may not be appropriate to consider the transfer in isolation and the Independent Expert should seek sufficient explanations on corporate plans to enable them to understand the wider picture. Likewise, the Independent Expert will also need information on the operational plans of the transferee and, if only part of the business of the transferor is transferred, of the transferor. These will need to have sufficient detail to allow them to understand in broad terms how the business will be run.	N/A
2.38 A transfer may provide for benefits to be reduced for some or all of the policies being transferred. This might happen if the transferor is in financial difficulties. If there is such a proposal, the Independent Expert should report on what reductions they consider ought to be made, unless:	

Reference to the PRA's approach to business transfers	Reference to relevant section within this Report
(1) the information required is not available and will not become available in time for his report, for instance it might depend on future events; or	N/A
(2) he is unable to report on this aspect in the time available.	N/A
Under such circumstances, the transfer might be urgent and it might be appropriate for the reduction in benefits to take place after the event, by means of an order under section 112 of FSMA. The PRA considers any such reductions against its statutory objectives. Section 113 of the FSMA allows the court, on application to the PRA, to appoint an independent actuary to report on any such post-transfer reduction in benefits.	N/A

E FCA's approach to insurance business transfers

The table below cross-references sections of the PRA's approach to business transfers with the relevant sections of this Report:

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
Overarching guidance	
6.2 The FCA expects the report to have been constructed in such a way that it is easily readable and understandable by all its users and for the IE to pay attention to the following:	
6.2.1 Technical terms and acronyms should be defined on first use.	Demonstrated throughout this Report
6.2.2 There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions.	Section 2
6.2.3 The business to be transferred should be described early in the report.	1.10 to 1.13
6.2.4 The detail given should be proportionate to the issues being discussed and the materiality of the Transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long.	Demonstrated throughout this Report
6.2.5 IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand.	Not explicitly demonstrable but considered in the writing of this Report
6.3 IE reports should have detailed analysis, critical review and a conclusion. Plus, a sufficient consideration and comparison of:	
6.3.1 Reasonable benefit expectations (including impact of charges)	Sections 11, 12, 13, 15 and 16
6.3.2 Type and level of service (including claims handling)	Sections 11, 12, 13, 15 and 16
6.3.3 Management, administration and governance arrangements	Sections 11, 12, 13, 15 and 16
6.4 IE reports should have good balance between factual description and supporting analysis. In many cases IE reports include a great deal of detail describing the transaction itself and the background but much less analysis of the effect on each Policyholder group's reasonable expectations.	Demonstrated throughout this Report
The level of reliance on the Applicants assessments and assertions	
6.6 In some instances, IEs will rely on assessments carried out by Applicants to reach their own conclusions. In these circumstances we expect the IE to demonstrate that they have questioned the adequacy of those assessments. We may also expect the IE to have	1.51, 1.52, 9.39 and 10.45

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
urged the Applicants to undertake additional work or produce further evidence to support their assertions to ensure that the IE can be satisfied on a particular point.	
6.7 & 6.8 We would also expect the IE to explain the nature of any challenges made to the Applicants and the outcome of these within their report, rather than just stating the final position. We will question and challenge the IE where we feel that an IE has relied on assertions made by the Applicants without sufficient challenge or request for supporting detail or evidence.	1.51 , 1.52, 9.39 and 10.45
6.9 The IE should challenge calculations carried out by the Applicants if there is cause for doubt on review of the Scheme and supporting documents. As a minimum, we will expect the IE to:	
6.9.1 Review the methodology used and any assumptions made to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate	1.51 and 1.52
6.9.2 Challenge the factual accuracy of matters that, on the face of the documents or considering the IE's knowledge and experience, appear inconsistent, confusing or incomplete	1.51 and 1.52
6.10 We would also expect the IE to challenge Applicants where the documents provided contain an insufficient level of detail or analysis.	1.51 , 1.52, 9.39 and 10.45
Sufficient comparative regulatory framework analysis	
6.11 Where the regulatory framework is different for the Transferor and Transferee, the IE should carry out sufficient analysis of the differences including, where appropriate, taking independent advice.	Section 3
6.12 In particular, with cross-border transfers we often see insufficiently detailed analysis of regulatory protections post-transfer. This can include:	
6.12.1 The extent to which existing regulatory requirements and protections continue, including whether there is continued access to the Financial Ombudsman Service and the Financial Services Compensation Scheme.	Sections 11, 12, 13, 14, 15 and 16
6.12.3 & 6.12.4 The comparative regulatory requirements and conduct protections across any relevant jurisdictions, including but not limited to complaints or compensation bodies compared to the UK.	Section 3
6.12.4 Analysis of the likely impacts. For example, the number of Policyholders affected, the size of possible claims and any potential mitigations.	Sections 9, 10, 11, 12, 13, 14, 15 and 16.
6.12.5 Post UK withdrawal, non-UK EEA customers may be subject to local conduct of business rules regime, which may not include FOS or FSCS. In these cases, we are likely to accept firms taking proportionate approaches to compare regimes.	Sections 3, 11, 12, 13 and 14.
6.13 In these instances, we would expect to see a statement describing the two regimes as well as a considered comparison, highlighting points of significant difference that could adversely impact Policyholders. It is for the IE to use their judgement to decide on the level of detail to be included but it needs to be sufficient for the Court to be in a position to be satisfied.	Section 3

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
6.14 If the IE's analysis is inconclusive or there are potential conduct risks due to differences in the regulatory framework, there should be sufficient explanation of how Policyholders may be affected and the Applicant's proposals to mitigate these risks.	Sections 11 to 14 and elsewhere throughout this Report
Balanced judgements and Sufficient Reasoning	
6.15 Where certain features of the Scheme are mentioned to demonstrate the IE's satisfaction with the Scheme we would expect to see evidence and reasoning behind the IE's conclusion.	Demonstrated throughout this Report
6.16 Where the IE states that there will be no material adverse impact the report should make clear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement, but lacks certainty. In these instances, we expect IEs to consider the following:	Demonstrated throughout this Report
6.16.1 Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work the Applicants could undertake to enable the IE to be satisfied to a greater degree.	1.52 and demonstrated throughout the Report
6.16.2 IEs should be able to challenge the Applicants to gain the necessary level of confidence that their report's conclusions are robust. In addition, they will need to consider how any proposed changes/mitigations will impact all Policyholder groups.	1.52 and demonstrated throughout the Report
6.17 We expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available when finalising their report.	1.52 and Appendix F
6.18 If market conditions have changed significantly since the IE's analysis was carried out and they formed their judgement, we would expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the Scheme document has been finalised, the IE should comment in more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged.	I am not aware of any significant changes in market conditions since carrying out the analysis detailed in this Report. I will issue a Supplementary Report based on the most up to date information available to me prior to the second Court hearing.
Sufficient regard to relevant considerations affecting Policyholders	
6.19 We would expect to see IE consideration of all relevant issues for each individual group of Policyholders in both firms, as well as how an issue may impact each group. Our expectations include:	
6.19.1 Current and proposed future position of each Policyholder group	Sections 11, 12, 13, 15 and 16
6.19.2 Potential effects of the transfer on each of the different Policyholder groups	Sections 11, 12, 13, 15 and 16
6.19.3 Potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated	The potential material adverse impacts of the Scheme are explained in detail throughout this Report.

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
6.20 To support this, we expect the IE to consider whether the groups of affected Policyholders have been identified appropriately.	When considering the issues covered in my Report I have given thought to the impact the issues may have on a range of policyholder groups.
6.21 We would also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we would expect the IE to include:	
6.21.1 Consideration of the impact of an outsourcing agreement entered into by the parties before the Part VII process began, where the administration duty 'moved' from the Transferor to the Transferee in preparation for the transfer. Here, we would expect to see a comparison of the pre and post-outsourced administration arrangements so the IE can clearly review and compare any changes to Policyholder positions and service expectations.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.21.2 The IE should consider what might happen if the Transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state.	N/A – There are no such outsourcing agreements in relation to the Scheme.
6.22 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	N/A
6.22.1 Some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed Scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.22.2 If the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, we believe the IE should consider the Scheme as if the reinsurance was not in place.	N/A – There are no such reinsurance arrangements in relation to the Scheme.
6.23 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected.	There are no groups of policyholders that are disadvantaged as a result of the Scheme, other than those that lose FSCS protection, which is discussed in Sections 11, 12, and 13 of this Report.
6.24 & 6.25 We would expect to see IE consideration and analysis of alternatives when a loss is expected for a particular subgroup of Policyholders, even if the IE does not consider this loss to be material. In these circumstances we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.	Sections 11, 12, and 13 on discussion of loss of FSCS protection.

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
We would expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may.	
6.26 & 6.27 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups. As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer: The IE may say they are satisfied that there is no material adverse impact on Policyholders because the Transferee's capital position, and the short term nature of the liabilities, means that it is unlikely the Scheme will fail and Policyholders need recourse to the FSCS as a result. We would not be satisfied with this view without further evidence.	Sections 11, 12, and 13 on discussion of loss of FSCS protection.
Commercially sensitive or confidential information	
6.29 & 6.30 Often the IE will need to consider commercially sensitive or confidential information as part of their decision making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, particularly as this information will not be publicly available. In these situations we expect to see the analysis and the information relied upon. It is also possible that the Court may wish to see that information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court's use and not for public disclosure.	We have set out in Appendix F the key information we have relied upon in our Report.
The level of reliance on the work of other experts	
6.31 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we would still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional's work.	1.43 and 9.32
6.32 We expect the IE to have obtained a copy of any legal advice given to the Applicants. This should be in writing or transcribed, and approved by the advisor. It should also be in a sufficiently final form for the IE to be able to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.	1.45Appendix F
6.33, 6.34 and 6.35 Where the IE refers to factors that are outside their sphere of expertise and relies on advice received by the Applicants, the IE should consider whether or not to obtain their own independent advice on the relevant issue.	On issues which I have felt are outside my sphere of expertise, I have consulted with Independent Counsel. For this Scheme, I have

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
In many cases, the IE's decision to obtain independent legal advice will depend on the significance and materiality of the issue. The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. Depending on how complex the legal issue is, we may challenge IEs who rely on the Applicants' legal advice and merely state that they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers.	consulted with Independent Counsel on the Charge associated with the Brexit Reinsurance.
6.36 In deciding whether to obtain independent legal advice, we would expect the IE to consider, amongst other things, the following: • The significance of the issue and the degree of potential adverse impacts to Policyholders if the position turns out to be different from that considered likely in the legal advice. • How much the IE relies on the legal advice to reach their conclusions and, if they did not rely on the legal advice, would the report contain too little information to justify the view that there is no material adverse impact? • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. • Whether the Applicants have obtained an adequate level of advice. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty.	Not explicitly demonstrable but considered in the undertaking of the work
6.37 Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point.	Throughout this Report I have explained how I have reached the conclusions I have drawn.
6.38 The IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences for Policyholders.	N/A
Ambiguous language or a lack of clarity	
6.45 & 6.46 At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.	1.43 to 1.49
6.47 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:	

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
6.47.1 That the IE has considered and is satisfied about the likely level of impact on a particular point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty as well as any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert.	Demonstrated throughout this Report, including Sections 11, 12, 13, 14, 15 and 16
6.47.2 How has the IE satisfied him or herself about the identified uncertainty and formed an opinion on any potential impact.	N/A
Demonstrating challenge	
6.48 To ensure the IE report is complete and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, particularly where they believe the IE has not fully addressed issues.	UKLAP, ALPI DAC and their legal advisers have all had the opportunity to challenge all aspects of this Report. In order to arrive at my conclusions I have often discussed issues with the management teams of UKLAP and ALPI DAC.
6.49 To ensure effective two-way challenge we would expect the IE to engage with FCA or PRA approved persons of sufficient seniority at the Applicant firm, such as senior actuaries, including possibly the Chief Actuary, the CFO, Senior Underwriters and so on.	As discussed in paragraph 1.52, I have engaged with key subject matter experts from UKLAP and ALPI DAC, including senior actuaries, to gain comfort on the appropriateness of the methodology and conclusions for the most material quantitative aspects of the Scheme.
Technical actuarial guidance	
6.50 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, particularly those for compiling actuarial reports.	1.34
6.51 IEs should be particularly aware that the proposed new versions of the TAS due to come into force during 2017 specifically apply to technical actuarial work to support Part VII Transfers.	1.34
6.52 We draw specific attention to paragraph 5 of TAS 100 which states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'.	Not explicitly demonstrable but considered in the writing of this Report

Reference to the FCA's approach to business transfers	Reference to relevant section within this Report
6.53 Actuarially qualified IEs and peer reviewers should also bear in mind the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries.	1.35

F Information and documents reviewed and relied on

The table below sets out the key documents I have relied on in preparing this Report. Some of this information is company confidential and is not publicly available. In addition to the listed documents, I have also relied on discussions (both orally and electronically) with senior management and staff at UKLAP.

Document	Source
UKLAP – Brexit Scheme (26 September 2018)	Slaughter & May
UKLAP – OLAB reinsurance agreement (14 September 2018)	Slaughter & May
UKLAP – OLAB outsourcing side letter (27 July 2018)	Slaughter & May
Brexit Due Diligence Report – UKLAP (Version 3.0)	UKLAP Legal
Brexit Part VII – UKLAP WPA Report (5 October 2018)	UKLAP With-Profits Actuary
Brexit Part VII – CFA Report (5 October 2018)	UKLAP Chief Finance Actuary
Brexit Part VII – HoAF Report v8.01 (10 September 2018)	ALPI DAC HoAF
ALPI DAC Interim ORSA 2018 9 February 2018	ALPI DAC Chief Risk Officer
Aviva ATNF 2.0 as submitted to the CBI	ALPI DAC Chief Risk Officer
HY17 Brexit Part VII Transfer Impact v2.0	UKLAP Chief Finance Actuary
UKL 2017 ORSA 23 Feb 2018	UKLAP Chief Finance Actuary
UKL Solvency Risk Appetite	UKLAP Chief Actuary
ALPI DAC Risk Appetite Framework	ALPI DAC Chief Risk Officer
Brexit Life scheme guide Baseline 1, Ireland Life policyholder letter v3.7, Ireland Life policyholder letter with-profits Baseline v3.7, Ireland Life Group letter Baseline v3.7, Ireland Life active claimants letter, Ireland Group WP v3.7	UKLAP Legal
UKLAP Deed of Charge (14 September 2018)	Slaughter & May
Transferee Witness Statements of Maeve Ann Sherry and Jason Michael Windsor (27 September 2018)	Slaughter & May

I have checked that the information listed above has been audited or supplied by an Approved Person or by a person appropriately qualified to provide such information and I am satisfied that it is reasonable for me to rely on this information.

G UKLAP reinsurance treaties

This appendix details all the reinsurance treaties that UKLAP has in place as at 31 December 2016 that relate to the Transferring Policies.

Tranche of Transferring Policies covered	Reinsurer	Type business reinsured
OLAB (also covers Remaining Policies)	Munich Re Company (UK Life Branch)	Life and critical illness
OLAB	Swiss Re Europe S.A. (German Branch)	Waiver of premium benefits on German pensions
OLAB	NN Insurance Belgium SA/NV (Belgian Branch)	Life assurance entered into by UKLAP's Belgian branch
OLAB	Aviva International Insurance Limited	A proportion of OLAB
Irish Business	Aviva Re Ltd	Non-linked term and whole of life assurance contracts
Irish Business	Munich Re Co (UK Life Branch)	Covers experience refund of all Munich Re in-force treaties
Irish Business	Munich Re Co (UK Life Branch)	Temporary insurances and serious illness
Irish Business	Munich Re Co (UK Life Branch)	Group life plans
Irish Business	Munich Re Co (UK Life Branch)	Group life and group total disability scheme
Irish Business	Munich Re Co (UK Life Branch)	Non-linked term assurance contracts
Irish Business	Munich Re Co (UK Life Branch)	Regular premium whole of life and endowment agreements
Irish Business	Munich Re Co (UK Life Branch)	Term assurance
Irish Business	Munich Re Co (UK Life Branch)	Hibernian private pension plan, Hibernian extra pension plan, Hibernian executive pension plan, Hibernian pension plan for directors and employees and Hibernian pension plan for self-employed persons
Irish Business	Munich Re Co (UK Life Branch)	Family care / family wise plan and personal care / personal wise plan agreements
Irish Business	Munich Re Co (UK Life Branch)	Group PHI assurance
Irish Business	Munich Re Co (UK Life Branch)	Group PHI agreements
Irish Business	Munich Re Co (UK Life Branch)	Minimum cost whole of life surplus treaty agreement
Irish Business	Partner Reinsurance Europe SE	Guaranteed whole of life agreement
Irish Business	Partner Reinsurance Europe SE	Life and critical illness agreement
Irish Business	Partner Reinsurance Europe SE (France Branch)	Winterthur impaired annuities treaty agreement

Tranche of Transferring Policies covered	Reinsurer	Type business reinsured
Irish Business	RGA International Reinsurance Company Limited (UK Branch)	Facultative life and terminal illness cover agreement
Irish Business	Scor Global Life SE (UK Branch)	Life and critical illness agreement
Irish Business	Scor Global Life SE (UK Branch)	Life and critical illness agreement
Irish Business	Scor Global Life Reinsurance Ireland Ltd	Life and critical illness agreement
Irish Business	Scor Global Life Reinsurance Ireland Ltd	Life and critical illness agreement
Irish Business	Scor Global Life Reinsurance Ireland Ltd	Mortgage, life and critical illness agreement
Irish Business	Scor Global Life Reinsurance Ireland Ltd	Critical illness agreement
Irish Business	Zurich Life Insurance Company Ltd	Dublin bus group agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Century term 100
Irish Business	Swiss Re Europe S.A. (UK Branch)	Life and critical illness benefits for mortgage wise policies
Irish Business	Swiss Re Europe S.A. (UK Branch)	Laser contract agreements
Irish Business	Swiss Re Europe S.A. (UK Branch)	Direct group life assurance
Irish Business	Swiss Re Europe S.A. (UK Branch)	Whole of life and TPD, laser loan, laser-life, laser hi-life inheritance agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Term assurance and critical illness agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Mortgage minder and mortgage PHI agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	In force business at 2003
Irish Business	Swiss Re Europe S.A. (UK Branch)	Protection agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Accelerated and standalone guaranteed serious illness agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Term life assurance and whole of life insurance
Irish Business	Swiss Re Europe S.A. (UK Branch)	Income protection business
Irish Business	Swiss Re Europe S.A. (UK Branch)	Life and critical illness agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Life and critical illness agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	Life and critical illness agreement
Irish Business	Swiss Re Europe S.A. (UK Branch)	NUPEN business (unit-linked pensions)
Irish Business	Swiss Re Europe S.A. (UK Branch)	NUPAS treaty unit-linked
Irish Business	Swiss Re Europe S.A. (UK Branch)	Guaranteed whole of life
Irish Business	Swiss Re Europe S.A. (UK Branch)	All ordinary business
Irish Business	Swiss Re Europe S.A. (UK Branch)	All group life and widows death in service pension benefits
Irish Business	Swiss Re Europe S.A.	Credit life insurances

Tranche of Transferring Policies covered	Reinsurer	Type business reinsured
	(UK Branch)	
Irish Business	Swiss Re Europe S.A. (UK Branch)	All direct ordinary life assurance business in Ireland
Irish Business	Swiss Re Europe S.A. (UK Branch)	Income security plans
Irish Business	Munich Re Co (UK Life Branch)	Regular premium unit-linked whole of life and endowment plans
Irish Business	Partner Reinsurance Europe SE	Medical expenses
Irish Business	Swiss Re Europe S.A. (UK Branch)	N/A
Irish Business	Munich Re Co (UK Life Branch)	Group PHI assurance
Irish Business	Munich Re Co (UK Life Branch)	Original terms basis
Irish Business	Munich Re Co (UK Life Branch)	Death in service
Irish Business	Munich Re Co (UK Life Branch)	Death in service
Irish Business	Munich Re Co (UK Life Branch)	Group Life and group total disability contracts
Irish Business	Munich Re Co (UK Life Branch)	Group life cover
Irish Business	Munich Re Co (UK Life Branch)	Level term assurance, convertible term assurance, mortgage protection plan
Irish Business	Munich Re Co (UK Life Branch)	Hibernian Life Association Staff PHI Scheme
Irish Business	Munich Re Co (UK Life Branch)	Healthwise Critical Illness Plan
Irish Business	Munich Re Co (UK Life Branch)	Level disability benefits
Irish Business	Munich Re Co (UK Life Branch)	Combination of life and critical illness agreements
Irish Business	Munich Re Co (UK Life Branch)	Group life on single premium costed basis

H Summary of transactions that have formed UKLAP

UKLAP has evolved following a number of mergers, acquisitions and transfers, including the acquisition of Aviva Life & Pensions Ireland Ltd in 2014. The list below details some of the previous schemes that together have formed UKLAP.

i **The NULAP Scheme** – In 2005, the NULAP Scheme restructured the non-profit funds of CGNU plc and business was transferred to UKLAP. The NULAP Scheme superseded and replaced significant elements of the NULIS Scheme.

ii **The Reattribution Scheme** – In 2009, the Reattribution Scheme superseded and replaced the NULAP Scheme and the remaining parts of the NULIS Scheme. The Reattribution Scheme involved the transfer of long term business from CGNU Life Assurance Limited ("CGNU Life"), Commercial Union Life Assurance Company Ltd ("CULAC") and Norwich Union Life (RBS) Ltd ("NUL (RBS)") to UKLAP.

iii **The Hamilton Life Schemes** – On 31 December 2009, Hamilton Life Assurance Company Ltd and Hamilton Insurance Company Limited were transferred to UKLAP under the Hamilton Life Schemes.

iv **Aviva Rebrand** – In 2010, Norwich Union plc rebranded to Aviva plc, Norwich Union Life & Pensions Ltd became Aviva Life & Pensions UK Ltd and Norwich Union Annuity Ltd became Aviva Annuity UK Ltd ("UKA").

v **The Peak Scheme** – On 30 September 2011, the long term business of National Westminster Life Assurance Ltd ("NWL") and Royal Scottish Assurance plc ("RSA") was transferred to UKLAP under the Peak Scheme.

vi **The Irish Scheme** – On 31 December 2014, UKLAP purchased Aviva Life & Pensions Ireland Ltd, including the long term liabilities were transferred to UKLAP on 1 January 2015. Following the implementation of the Irish Scheme, the existing Irish Branch of UKLAP has been used to write business in Ireland.

vii **The UKA Scheme** – On 1 January 2017, the existing business of UKA was transferred to UKLAP. This transfer involved moving the entire long term insurance business of UKA, consisting of both non-linked and index-linked annuities, to the UKLAP Non-Profit Sub-Fund.

viii **The 2017 Scheme** – In April 2015, Aviva plc acquired Friends Life Group, making Aviva plc the ultimate holding company of Friends Life Ltd and Friends Life & Pensions Ltd. On 1 October 2017, the long term business of FLL, FLP and the annuity business of Aviva Investors Pensions Ltd was transferred to UKLAP.

ix **Acquisition of Friends First** – On 23 May 2018, Aviva Group Holdings purchased Friends First Life Assurance Company DAC. On 31 May 2018 the purchased share capital of Friends First Life Assurance Company DAC was transferred from Aviva Group Holdings to UKLAP.

I Summary of transactions that have formed FFLAC

In 1990 FPLO decided to domesticate its Irish branch business and so established Friends Provident Life Assurance Company Limited in Ireland into which the Irish branch business was transferred in the equivalent of a Part VII transfer in early 1991. A summary of the transactions which form ALPI DAC's current structure is provided below.

Eureko Alliance – In 1992, FPLO were founding partners of the Eureko Alliance. Although strong in their domestic markets, the purpose of the Eureko Alliance was to enable the founding partners to compete with major European groups. As part of the Alliance process the ownership of all non-domestic subsidiaries of the founding members, including FPLAC, were to be transferred to a Eureko holding company.

National Mutual Life Assurance Company – At the start of 1994 the transfer of FPLAC into the Eureko holding company completed and Eureko also acquired the Irish subsidiary of National Mutual Life Assurance Company. In 1995, the Irish book of business of National Mutual Life Assurance Company was transferred to FPLAC. To facilitate these and other transactions Eureko established an Irish holding company, Eureko Ireland Holdings Limited.

Irish Rebrand – In 1998, FPLAC was rebranded to FFLAC and Eureko Ireland Holdings Limited became Friends First Holdings Limited.

Purchase of Eureko BV – In 2002, Achmea bought EurekoBV and therefore became the ultimate owner of FFLAC.

Designated Activity Company – In 2016, Friends First Holdings, FFLAC and Friends First Managed Pension Funds Limited (a subsidiary of FFLAC) converted to Designated Activity Company form.

Transfer of Friends First Managed Pension Funds DAC – In early 2017, the business of Friends First Managed Pension Funds DAC was transferred into FFLAC. In December 2017 the Irish regulator confirmed the de-regulation of Friends First Managed Pension Fund ("FFMPF") as a life assurance company.

Purchase of FFLAC by AGH – In late 2017, it was announced that the terms of the purchase of FFLAC by AGH had been agreed. This acquisition completed on 23 May 2018, and at that point AGH owned 100% of the share capital of FFLAC.

Purchase of FFLAC by UKLAP – On 31 May 2018, UKLAP purchased all of the share capital of FFLAC from AGH.

Rebrand to ALPI DAC – Following the acquisition of FFLAC by UKLAP, it will be rebranded to ALPI DAC, an Aviva Group company. This is expected to occur at the Effective Time.

J Glossary

Term	Definition
2017 Scheme	The transfer of the long term liabilities of Friends Life Ltd and Friends Life & Pensions Ltd and the annuity business of Aviva Investors Pensions Ltd to Aviva Life & Pensions UK Ltd.
2018 Customer Experience Standard	A document within UKLAP detailing the service standards that apply to policy administration.
ACS	Aviva Central Services UK Limited.
Actuarial Function Report	The HoAF is required to report to the Board on the tasks undertaken by the actuarial function and their results, identifying deficiencies and recommendations for remediation. The report should be prepared on an annual basis.
Actuarial Opinion on Technical Provisions	Formal opinion on the compliance of the technical provisions of the entity with all relevant Solvency II requirements which is produced by the HoAF for the CBI in a prescribed format.
Actuarial Report on Technical Provisions	This is a report to the Board and the CBI (upon their request) on technical provisions and supports the Actuarial Opinion on Technical Provisions. It may be combined with the Actuarial Function Report.
AGH	Aviva Group Holdings Limited.
AII	Aviva International Insurance Limited.
AIPL	Aviva Investors Pensions Ltd.
ALPI Belgian Fund	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the Belgian SF will be transferred.
ALPI DAC	Aviva Life & Pensions Ireland Designated Activity Company, FFLAC is due to be rebranded to Aviva Life & Pensions Ireland Designated Activity Company at the Effective Time.
ALPI DAC Conduct Committee	This is a management committee not a committee of the Board of ALPI DAC. This committee assists the Board in the oversight of conduct issues, including oversight of the conduct framework, the achievement of an appropriate conduct-focused culture and management of good and influential relationships with the regulators. This committee also sets and reviews conduct and financial crime risk appetite and ensures the exposure to reputational risk is in line with Board-approved levels. This committee has an independent chair.
ALPI DAC CRO	The Chief Risk Officer of ALPI DAC.
ALPI DAC Shareholder Fund	Consists of all the assets and liabilities of ALPI DAC which do not belong to the Participating Fund, Other Business Fund or Closed Fund.

ALPI DAC UPG	The Unit Pricing Group of ALPI DAC.
ALPI FLAS Fund	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the FLAS WPSF will be transferred.
ALPI FP Fund	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the FP WPSF will be transferred.
ALPI Irish WPF	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the Irish WPSF will be transferred.
ALPI New Fund	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the New WPSF will be transferred.
ALPI Old Fund	The fund in ALPI DAC to which the Transferring Policyholders that currently reside in the Old WPSF will be transferred.
ALSIL	Aviva Life Services Ireland Limited.
ALSUK	Aviva Life Services UK Limited.
Appointed Actuary	A role which has since been replaced by that of the HoAF.
ASP LA-4	Actuarial Standard of Practice LA-4 - Additional Guidance for Appointed Actuaries on Policyholder's Reasonable Expectations. Mandatory guidance issued by the Society of Actuaries in Ireland on the management of policyholders' reasonable expectations.
Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Audit Committee	This committee monitors the integrity of financial statements and the effectiveness of the systems of internal control. This committee is also responsible for monitoring the effectiveness, performance, independence and objectivity of both internal and external auditors.
Aviva Group	The group of companies in which UKLAP and ALPI DAC sit.
Aviva Life Inforce Management Standard	This is an Aviva Group standard which must be followed by all entities within the Aviva Group managing life insurance business. It sets out the controls and control objectives of such business.
Back Book Premium	Calculated for each UKLAP fund in which the OLAB policies reside. It is calculated at the Effective Time and represents the economic value of the liabilities of the policies covered by the Brexit Reinsurance. For the Old WPSF and the FP WPSF, the Back Book Premium also includes an allowance for future distributions of the Estate.
BEL	Best estimate liabilities under Solvency II.
Belgian SF	A fund of UKLAP containing OLAB policies.
Best of Both	This is an approach to determining whereby the overall customer experience provided by ALSIL and ALPI DAC processes are compared and the best chosen. The Best of Both approach will be used to define the strategy for people, systems and processes.

Board	The Board of Directors of an entity.
Brexit	The term used to describe the UK's exit from the EU, following the vote taken in the EU referendum on 23 June 2016.
Brexit Reinsurance	The reinsurance arrangement put in place as part of the Scheme between UKLAP and ALPI DAC which covers OLAB policies.
Capital requirements	The level of funds that an insurance or reinsurance undertaking is required to hold.
CBI	Central Bank of Ireland.
CCN1	The Change Control Note found in Appendix C.
Century	Century Insurance Company Ltd.
CGNU Life	CGNU Life Assurance Limited.
CGU	Formed by the merger of General Accident and Commercial Union in 1998.
Change of Control	The point at which FFLAC is owned fully by AGH.
Charge	The floating charge over all the assets of UKLPA which is granted to ALPI DAC in association with the Brexit Reinsurance.
Closed Fund	An existing fund of ALPI DAC.
COBS	Conduct of Business Sourcebook.
Court	The High Court of Justice of England and Wales.
CPC	The CBI's Consumer Protection Code 2012 (as updated with effect from 1 January 2015).
Credit rating	An assessment of the financial security of a company provided by a third party agency.
CULAC	Commercial Union Life Assurance Company Ltd.
EEA	European Economic Area.
Effective Time	The point at which the Scheme becomes legally binding, the Scheme is planned to take effect on 22.59 GMT on 29 March 2019.
EIOPA	European Insurance and Occupational Pensions Authority.
Estate	The part of a with-profits fund that is not allocated to policyholder liabilities.
Estimated Termination Amount	The amount paid within three business days following the termination of the Brexit Reinsurance and is an estimate of the Termination Amount.
EU	European Union.
EU passporting rights	The collective term for Freedom of Establishment and Freedom of Services.
Existing Business	The business of ALPI DAC prior to the Transfer.
Existing Policies	The policies of ALPI DAC prior to the Transfer.
Existing Policyholders	The policyholders who have policies with ALPI DAC prior to the Transfer.
FCA	Financial Conduct Authority.
FFLAC	Friends First Life Assurance Company DAC.
Fitness and Probity Regime	Introduced by the CBI under the Central Bank Reform Act 2010, applies to individuals in senior positions, referred to as controlled functions and pre-approval controlled functions within regulated financial service providers in Ireland.
FLAS WPSF	A fund of UKLAP containing OLAB policies.
FLG	Friends Life Group.
FLL	Friends Life Ltd.
FLP	Friends Life & Pensions Ltd

FOS	Financial Ombudsman Service. An independent body set up to deal with individual complaints that consumers and financial businesses are not able to resolve themselves.
FP WPSF	A fund of UKLAP containing OLAB policies.
FPLAC	Friends Provident Life Assurance Company Limited.
FPLO	Friends Provident Life Office.
FRC	Financial Reporting Council.
Freedom of Establishment	The right of an insurer located in one European Economic Area (EEA) member state to underwrite a risk located in another EEA member state by establishing a permanent presence in that EEA member state. This permanent presence can be in the form of a local branch, agency or subsidiary. Freedom of Establishment business is that underwritten under a full binding authority where the coverholder and the risk are located in the same EEA member state outside the UK.
Freedom of Services	The right to provide business services on a cross-border basis within the European Economic Area (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. Freedom of Services business consists of open market business written from the UK (with or without the involvement of a local intermediary), business written under a full binding authority where the coverholder is located in a different member state from where the risk is located and business that is written under a prior submit binding authority agreement. (A prior submit binding authority agreement is one where the coverholder does not have authority to enter into contracts of insurance without first consulting the syndicate that granted the binding authority).
FSCS	Financial Services Compensation Scheme. FSCS is a statutory "fund of last resort" which provides compensation in the event of the insolvency of a financial services firm authorised by the PRA or FCA. Insurance protection exists for private policyholders and small businesses (those with an annual turnover of less than £1,000,000) in the situation when an insurer is unable to meet fully its liabilities. For long term insurance policies, the FSCS will pay 100% of any eligible claim. The FSCS is funded by levies on firms authorised by the PRA and FCA.
FSMA	Financial Services and Markets Act 2000 (as amended).
FSPO	The Financial Services and Pensions Ombudsman. An independent body in Ireland which considers unresolved complaints from consumers about their individual dealings with financial services providers.
General Accident	A UK based insurance entity.
General Good Requirements	This is a document produced by the CBI which details some of the main requirements that insurers and reinsurers operating in Ireland must adhere to.
General Life and Fire Assurance Company	An Irish branch of General Accident.
Grant Thornton	Grant Thornton UK LLP.
Hamilton Life Schemes	The transfer of Hamilton Life Assurance Company Ltd and the transfer of the Hamilton Insurance Company Limited both to Aviva Life & Pensions UK Ltd, dated 10 December 2009.

Hibernian Life & Pensions Ltd	The Irish subsidiary of Commercial Union.
HoAF	Head of Actuarial Function.
Independent Counsel	Gabriel Moss QC.
Independent Expert	In this instance, Tim Roff, who has been appointed by UKLAP to provide the Report.
Industry Funding Levy	This is an annual levy that financial service providers in Ireland must pay to the CBI. The purpose of this levy is to fund approximately 50% of the cost of the annual budget for financial regulation in Ireland.
Internal Contagion Rule	Rule 9.1 of the PRA's 'Conditions Governing Business'.
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either an Internal Model, Partial Internal Model or the Standard Formula.
Irish Branch	The branch of UKLAP through which UKLAP sold business on a Freedom of Establishment basis following the Irish Scheme.
Irish Business	All business transferred from Aviva Life & Pensions Ireland Ltd under the Irish Scheme and all business written out of the Irish Branch of UKLAP (excludes the CGNU Life business written in Ireland).
Irish Revenue	The Irish Revenue assesses the collection of taxes and duties.
Irish Scheme	The transfer of the long term liabilities of Aviva Life & Pensions Ireland Ltd to Aviva Life & Pensions UK Ltd.
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
LTBF	Long Term Business Fund of UKLAP.
MA	Matching adjustment. This is an adjustment to the risk-free interest rates used to discount insurance obligations, calculated by firms based on a specifically identified portfolio of assets and liabilities.
Material adverse impact	A negative change that is considered to have a material impact on policyholders. A material impact is one that could cause a policyholder to take a different view on the future performance of their policy. When considering policyholder security these would include changes to the assets or liabilities of the company such that there was a shift in the probability of a policyholder's claim being paid substantially larger than that which would be observed through the day-to-day fluctuation of the value of assets in company's investment portfolio, or from the reporting of a particularly large but not extreme claim to a company's liabilities. In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the customer response time is probably not material, but if it added a few days then it could be, depending on the type of claim.
MCR	Minimum Capital Requirement. The minimum capital regulatory requirement under the Solvency II regime.
Memorandum of Understanding	An agreement between two or more parties where they express a convergence of will, indicating a common line of action.
MoU	Memorandum of Understanding.
MSA	Management Service Agreement.

New WPSF	A fund of UKLAP containing OLAB policies.
Non-Profit Sub Fund	A fund of UKLAP containing OLAB policies.
NPSF	See Non-Profit Sub Fund.
NUL(RBS)	Norwich Union Life (RBS) Ltd.
NULAP Scheme	The scheme for the transfer of certain long-term insurance business of a number of Aviva subsidiaries to Aviva Life & Pensions UK Ltd, dated 18 November 2004.
NULIS Scheme	The scheme for the transfer of certain long term insurance business of NULIS to Aviva Life & Pensions UK Ltd, among others, dated 25 April 1997.
NWL	National Westminster Life Assurance Ltd.
OLAB	Overseas Life Assurance Business: business written in France, Belgium, Germany, Iceland, Sweden and the CGNU Life business written in Ireland.
OLAB Policyholders	Policyholders covered by the Brexit Reinsurance.
Old WPSF	A fund of UKLAP containing OLAB policies.
Order	An order of the Court sanctioning the Scheme.
ORSA	Own Risk and Solvency Assessment, which is a risk management tool to assess the overall solvency needs of the firm taking into account the firm's own assessment of its specific risk profile.
Other Business Fund	An existing fund of ALPI DAC.
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency II basis.
Part VII Transfer	The term given to the legal process of transferring all or part of an insurance business to another body.
Partial Internal Model	A combination of the Internal Model and Standard Formula used by insurers and reinsurers to calculate the Solvency Capital Requirement under Solvency II.
Participating Fund	An existing fund of ALPI DAC.
Peak Scheme	The transfer of the long term business of National Westminster Life Assurance Ltd and Royal Scottish Assurance plc to Aviva Life & Pensions UK Ltd.
PPFM	Principles and Practices of Financial Management. In managing with-profits business firms rely on their use of discretion. The PPFM explains the nature and extent of discretion available and how this discretion will be applied across different groups and generations of with-profits policyholders.
PRA	Prudential Regulation Authority.
Principles and Practices of Financial Management	See PPFM.
Principles of best practice applicable to the distribution of life insurance products on a cross-border basis within the EU or a third country	A set of principles, put in place by the CBI, setting out a broad range of standards that firms must follow with respect to product design, distribution, errors and complaints handling, and communications with customers.
PRISM	The CBI's Probability Risk and Impact System which is the framework used by the CBI to supervise regulated firms.
Prudential Regulation Committee	The committee through which the Bank of England exercises its functions as the PRA.
Reattribution Scheme	The transfer of the long term business from CGNU Life Assurance Limited, Commercial Union Life Assurance Company

	Ltd and Norwich Union Life (RBS) Ltd to Aviva Life & Pensions UK Ltd.
Regulators	The PRA and the FCA together.
Reinsurance	An arrangement with another insurer or reinsurer whereby risks are shared (or passed on) to the reinsurer.
Remaining Business	The business remaining in Aviva Life & Pensions UK Ltd following the Transfer.
Remaining Policies	The policies remaining in Aviva Life & Pensions UK Ltd following the Transfer.
Remaining Policyholders	The policyholders whose policies are remaining in Aviva Life & Pensions UK Ltd following the Transfer.
Report	The report from the Independent Expert.
Reports	The Report and all supplementary reports collectively.
RIEESA	The Reattributed Inherited Estate External Support Account. Set up as part of the 2017 Scheme to provide support if required to certain with-profits funds.
Risk Committee	This committee is responsible for assisting the Board in risk oversight, reviewing risk appetite and risk profile, reviewing the effectiveness of the Risk Management Framework, reviewing the methodology used to determine capital requirements, stress testing, ensuring due diligence is performed on significant transactions and monitoring regulatory requirements.
Run-off	A line of insurance business or an insurance undertaking that no longer accepts new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on policies that have expired.
Scheme	The transfer of insurance business from Aviva Life & Pensions UK Ltd and Friends First Life Assurance Company DAC.
Scheme of Arrangement	A Court-approved agreement between a company and its shareholders or creditors.
SCR	Solvency Capital Requirement. A capital regulatory requirement under the Solvency II regime.
SCR Ratio	The ratio of Own Funds to SCR.
SGF	A fund of UKLAP, this fund does not contain any Transferring Policyholders.
Side Letter	A legally binding schedule of certain management and administration duties that UKLAP is required to perform in respect of OLAB, which is incorporated by the Brexit Reinsurance.
SIMF	Senior Insurance Management Functions.
Solvency II	A new regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across all EU and EEA countries.
SRA	Solvency Risk Appetite, how the Aviva Group refer to their capital policy.
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency II. All insurers are required to calculate their Solvency Capital Requirement using either the Standard Formula, a Partial Internal Model or an Internal Model.
Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.

Summary Report	A summary of the Report that will be mailed to Transferring Policyholders and Existing Policyholders (except those subject to waivers).
SUP 18	Chapter 18 of the Supervision Manual of the FCA's Handbook of Rules and Guidance.
Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
Termination Amount	The amount due following the termination of the Brexit Reinsurance, calculated using the method detailed within the Brexit Reinsurance.
Terms of Reference	Sets out the scope and limitations of an agreement.
The UKA Scheme	The transfer of business from Aviva Annuity UK Ltd to Aviva Life & Pensions UK Ltd.
Tier 1	Categorisation for assets of the highest quality, in line with Solvency II.
TMTP	Transitional measures on technical provisions. In simple terms, this is calculated as the difference between the technical provisions calculated under the previous regulatory regime (Solvency I) and the Solvency II technical provisions, and decreases linearly over a 16 year period.
ToR	See "Terms of Reference".
Total Back Book Premium	The total amount paid by ALPI DAC to UKLAP at the Effective Time to effect the Brexit Reinsurance, represents the economic value of the liabilities of the policies covered by the Brexit Reinsurance plus either an allowance for the Estate of the with-profits funds where relevant or a percentage increase to reflect a risk premium. It is the sum of the Back Book Premiums associated with each of the UKLAP funds in which OLAB policies reside.
Transfer	The Scheme together with the Brexit Reinsurance and the Charge.
Transfer Methodology	The methodology followed by Aviva Group on inter-business unit transfers.
Transferring Business	The business of Aviva Life & Pensions UK Ltd that will be transferred to Friends First Life Assurance Company DAC as a result of the Scheme.
Transferring Policies	Policies of Aviva Life & Pensions UK Ltd that will be transferred to Friends First Life Assurance Company DAC as a result of the Scheme.
Transferring Policyholders	Policyholders of Aviva Life & Pensions UK Ltd whose policies will be transferred to Friends First Life Assurance Company DAC as a result of the Scheme.
UK	United Kingdom.
UKA	Aviva Annuity UK Ltd.
UKLAP	Aviva Life & Pensions UK Ltd.
UKLAP Shareholder Fund	Consists of all the assets and liabilities of UKLAP that belong to the shareholders of UKLAP.
UKLAP UPG	The Unit Pricing Group of UKLAP.

Undiversified SCR	The sum of the individual risk components without allowance for any diversification benefit.
UPPF	Underwriting Product and Pricing Forum.
VA	Volatility adjustment. This is an adjustment to the risk-free interest rates used to discount insurance obligations, set in accordance with the Solvency II Directives on the basis of technical information published by EIOPA.
WPA	With-profits actuary function. The WPA is responsible for advising the firm's management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the with-profits insurance business of the firm in respect of which he or she has been appointed.
WPC	With-profits Committee of UKLAP.
WPOP	With-Profits Operating Principles.

GrantThornton